Assessing the Economic Implications of the Present Political Shocks: The Economics of ‘Hartal’ in Bangladesh!

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Abstract

The authors are grateful to Ms. Umme Salma, Ms. Umme Shefa Rezbana and Ms. Dwitiya Jawher Neethi for their valuable contribution in the preparation of the ongoing draft.
The current paper aims at disentangling the economics of ‘Hartals’ in Bangladesh. Although political impasse is not a distinguishing phenomenon as compared to the rest of the world, but the nature and frequency of violating this democratic agenda is very different when it comes to the case of Bangladesh. The paper starts off with international experiences of political unrest and comparing such incidences with that of Bangladesh’s history of ‘Hartals’. Keeping in mind that the run up to the national elections in early 2014 saw a gargantuan emergence of ‘Hartals’ in both national and regional levels, a detailed overview of ‘Hartals’ have been analysed particularly, the historical trend of ‘Hartals’, the number of people killed in violence and identifying economic and political reasoning of ‘Hartals’. The ‘fifth year impasse’ of respective political regimes (initiating from the establishment of democratic institution in Bangladesh) have been discussed with the aid of a range of macro-economic indicators. It is observed that economic drivers are, more often than not, on a depressed state as compared to the immediate year preceding the fifth year of every government. Taking cue from the latest round of ‘Hartals’ in 2013 and early 2014, the growth-investment scenario of the economy has been assessed with in recent times. Volatility is evident in the indicators together with signals that respective sectors were hampered as a result of the political crisis. The paper also conceptualises the transmission channel of the political shocks pertaining to the Bangladeshi economy. Primary, secondary intermediate and tertiary intermediate channels have been identified (short run and long run linkages have also been established). Considering selected sectors, an ad-hoc estimation of economic losses arising from ‘Hartals’ have also been carried out.
1. Backdrop

Hartal, originally a Gujarati expression, was popularized by Mahatma Gandhi in the 1920s and 1930s when the national leader institutionalized the term by categorizing a series of anti-British movement under the given name ‘Hartal’. In the 21st century, Bangladesh still continues the legacy of ‘Hartal’, which has become a “constitutionally recognized political method for articulating any political demand” (Banglapedia, n.d.).

Speaking from a theoretical point of view, every society should be given the opportunity of some means or the other to express their burdensome demand communally. Historically, this has been the case where every normative society has the means to circulate its objection and grievances collectively. However, the modalities of such collective actions can have very different impacts from society to society and from assemblage to grouping. Additionally, collective protests also diverge with the respective mode of governance. Whatever the underlying principle for the imposition of ‘Hartal’ may be, the fact that ‘Hartal’ can be economically harmful, if applied in the wrong context, cannot be ignored.

Protests are not a new phenomenon, by any standards, in the Bengal society. Looking back, protests have been there from the time of the Zamindars. Protests, in the form of ‘Hartals’, have played imaginative roles in the Bangladesh economy, while at other times, have also caused the economy solemn agony. On the positive marker, the politics of ‘Hartal’ played an influential role in the war of liberation in 1971. On the other hand, ‘Hartal’ became a recurrent phenomenon the years following the liberation war, where ‘Hartal’ has been used by each and every political party to express their demands in the form of economic agitation. (Banglapedia, n.d.).

Focusing on the present context of the Bangladesh scenario regarding the ‘Hartal’ crisis, ongoing political unrest is creating unfavorable environment in the economy. The transmission channels of ‘Hartal’ mechanism are widespread, with effects ranging from a street vendor's loss in daily sales to the cancellation of business trips. With uncertainties anticipated by the Centre for Policy Dialogue (CPD) during the run to the
national elections, the organization stated that “the government has settled ... with moderated economic growth, investment and employment prospects. Regrettably, even this modest ambition could come under serious challenge in view of the looming uncertainties in the political front.” (CPD, 2013). Stating in line with CPD's views in the early half of 2013, Mr. David Cowen, the outgoing IMF mission chief for Bangladesh, and Mr. Rodrigo Cubero, the incoming mission chief stated that “Unrest in recent months is affecting economic activity, with real GDP growth now expected to moderate to below 6 percent in fiscal year (FY) 2013” (IMF, 2013). Also, the Asian Development Outlook (2013) highlighted that “Political instability in the run-up to elections is a risk.” Moody's pointed out that “While official statistics are unavailable, the increased frequency of strikes with their more common occurrences of violence, are detrimental to Bangladesh’s economic stability” (The Daily Star, 2013).

Coming to a more recent scenario, it is the case that the situation deteriorated from early 2013, with not only higher intensity of ‘Hartals’, but also higher concentration of casualties. Regardless of the series of ‘Hartals’ concerning different economic and political agendas, the business environment has definitely suffered, with identical suffering in the consumer front. Political instability would definitely contribute as a detrimental factor to GDP in the current fiscal, with the target GDP growth of 7.2 per cent already going out of the window. Yet still, the Government of Bangladesh (GoB) is hopeful that a growth rate of 6.4 per cent will be achievable in the current fiscal. Different agencies, both local and foreign, appear to agree to the fact that GDP growth rate in FY2014 will not meet its far-fetched target of 7.2 per cent. In this respect, Bangladesh Bank projected growth of FY2014 to be 5.7-6.0 per cent (September, 2013), World Bank stated 5.7 per cent (October, 2013), 5.5 per cent (December, 2013) is projected by the International Monetary Fund (IMF) and the Asian Development Bank (ADB) forecasts 5.8 per cent (December, 2013). CPD, in a recent outlet, has stated that the figure will linger between 5.6-5.8 per cent for the current fiscal.

Taking reference from the abovementioned discussion, the present study aims to pursue an analytical framework regarding the political unrest arising due to ‘Hartals’ in Bangladesh. Although other categories of political shocks also persist in the economy, but the current paper would only concentrate on ‘Hartals’ and its implications on the
economy. In this respect, Section 2 presents an overview of some of international experiences regarding political unrest, drawing heavily on the more recent Arab Spring. Section 3 gives a detailed overview of the Bangladesh experience regarding the imposition of ‘Hartals’. This section also builds on the last year problem of the democratic regimes of Bangladesh. Moving on, Section 4 presents the growth-investment scenario in FY2013-14 to depict an overall macroeconomic situation of the country in the current ‘Hartal’ fiasco. Section 5 presents an analytical framework encompassing the transmission channels of ‘Hartals’ from a macroeconomic perspective. Section 6 concludes the paper with future outlook.

2. International Experience

Political unrest has been a cause of concern for many countries around the globe, irrespective of the governmental regime or the developmental state. Starting from the very primitive colonies set up centuries ago, political instability has been in attendance. Hence, the current section focuses on selected economies incidental of political turmoil.

Aisen and Veiga (2011), in a study of 169 countries and using 5-year periods from 1960 to 2004, find that escalated levels of political instability are associated with lower levels of GPD growth rates. More importantly, the authors determine lower rates of growth of productivity and less significant physical and human capital accumulation as the transmission channels. Alesina et al. (1996) concluded that countries which having high tendencies of government collapse are significantly associated with lower growth rates than otherwise. On a sector-wise assessment, Alesina and Perotti (1993) deduce socio-political instability affecting investment on an adverse note. A high degree of political instability leads to higher inflation in developing countries (Aisen and Veiga, 2006). Additionally, Aisen and Veiga (2010) find that political instability worsens production growth and the rate of physical and human capital accumulation. The fact that productivity growth would enhance the short-run likelihood of a democratic regime change was established by Burke and Leigh (2010).

Using econometric methodology, Ali (2001) finds that the effect of political stability on economic growth is ambiguous. Most of the proxies employed for political instability
failed to explain the growth difference between the considered countries. Additionally, the study also established that the instability of political regimes entails no considerable impact on the amount or accumulation of capital. Exploring four dimensions of political instability, namely, “mass civil protest”, “politically motivated aggression”, “instability within the political regime” and “instability of the political regime”, Pin (2006) show that different dimensions of political instability affects economic growth in a very different manner (study of 98 countries in the 1984-2003 period).

Domestic conflicts often push countries into a fragile state. Fragile and conflict countries do not have the ability to develop mutually constructive relations within their societies and often face a weak capacity to undertake governance functions (OECD, 2012). More vulnerable to internal and external shocks as a result, instability is further aggravated. Discussing about international experience in the political instability amphitheatre, it is worthwhile to consider the Arab Spring which swept across the Middle East and North African (MENA) region at the start of the ongoing decade. A recent study by Khandelwal and Roitman (2013) analyzed different macroeconomic indicators of selected 11 countries of the MENA region. Reaching the conclusion that political instability caused a sharp deterioration in macroeconomic outcomes, the authors stated that political instability coincided with a large decline in output and real GDP growth rate in the MENA region. The authors also reached the consensus that output generally remains below potential for four years after initial dip, taking around 5 years to recuperate regardless of the level of fall of the actual growth rates. The scenario can also be depicted in the case of unemployment rates, taking between four to five years to reach back to the pre-crisis level. Taking reference from the Arab spring, it can be observed that the countries in transition with greater political instability (Egypt, Tunisia and Yemen) experienced significant declines in real GDP in 2011.

3. Overview of Bangladesh Experience

In connection to a number of entrenched political conflicts, Bangladesh currently experienced a series of ‘Hartals’, arresting serious shocks to the economy. ‘Hartal’, widely a political weapon in the socio-political arena, has increased in intensity together with the causalities associated with it. Additionally, the nature and characteristics of
‘Hartals’ have also evolved with an apprehensive visage. This section crunches numbers regarding the current political unrest, specifically ‘Hartals’, and also focuses on the 5th year problem of democratic regimes in the Bangladesh economy.

3.1 ‘Hartal’ statistics

Graph 1 shows the average occurrence of ‘Hartals’² per year from 1947 through 2013. The graph has been divided according to regimes – pre-liberation (1947-1990), post-liberation (1971-1982), presidential regime (1983-1990) and the democratic regime (1991-2013). It is evident from the graph that the ‘Hartals’ per year have been significantly higher (49.26 per year) during the present democratic system in comparison to the previous autocratic regimes and periods before independence.

Source: Sangbadpatre Hartalchitra by Ajoy Dasgupta; Ahmed, Imtiaz (2011); Odhikar; ASK and CPD
Graph 1: Incidence of ‘Hartals’ per year

Looking back at history, it should have been the case that the liberation period and the presidential regime should have had the higher count of ‘Hartals’. But it seems to be the case that democracy in Bangladesh has allowed full freedom to call ‘Hartals’ or other similar blockades. Hence, ‘Hartals’ have become a concurrent phenomenon in the Bangladesh economy, and the intricacies surrounding ‘Hartal’ operations have started to significantly deviate from historical picture. In addition to the amplification of the frequency of the ‘Hartals’, other newly emerging stylized facts have also surfaced.

² Statistics of 2013 incorporate both ‘Hatrals’ and blockades
Firstly, causalities and violence in ‘Hartals’ have been more severe in recent times. Secondly, the intensity of deaths among the law enforcing agencies have become a new phenomenon. The third facet of recent ‘Hartals’ is that ‘Hartal’-opposing parties are active during the ‘Hartal’ periods. Fourthly, more decentralized ‘Hartals’ have emerged. The fifth feature incorporates new actors entering the ‘Hartal’ arena in addition to the formers and the fact that ‘Hartals’ have spread during non-official working days (weekends) would make the sixth feature.

As a government’s tenure move towards the end, (starting from the democratic regime in Bangladesh in 1991), it has been observed that increase in political violence cause greater casualties (FY96, FY02 and FY07). On a similar and more vigorous note, the intensity and vicious nature of recent ‘Hartals’ have taken a toll on people’s lives and belongings. With the subsequent increase in the number of ‘Hartals’ in the recent past, number of causalities have elevated significantly in the current situation. Graph 2 displays the number of people killed in political violence in the 2010-2013 period. It can be observed that the number kept to below 100 persons in the years 2010, 2011 and 2012; but 2013 saw a massive upraise in the figure of 507\(^3\). 110 people have died in political violence, compared to 84 in 2012 and 58 in 2011 (including blockades). A disaggregate figure of the staggering figure indicates that 236 people were killed in political clashes not involving ‘Hartals’, 86 people were killed as a result of blockades and 185 died as a result of the occurrence of ‘Hartals’.

\[\text{Source: ASK and CPD}\]

\(^3\)It should be noted that the figure of 507 represents people killed in political violence and not ‘Hartals’ or blockades only.
Graph 2: Number of people killed in political violence

This brings the discussion to the point where it can be pondered whether ‘Hartals’ are called for political reasons or for economic and other pressing issues in the economy. The pie-charts depicted in Graph 3 demonstrate that ‘Hartals’ are rarely called for economic reasons. This is not only the case in recent times, but has been the circumstance from the birth of the independent nation. From 1975-1990, 7 per cent of the ‘Hartals’ were called for economic reasons, while the rest of the ‘Hartals’ were called for political reasons. The case has further deteriorated in the 1991-2000 period, when only 4 per cent of the ‘Hartals’ were called for economic purposes. An exact proportion is followed in 2013, when only 6 of the 143 ‘Hartals’ (4 per cent) were called for economic motives. Although ‘Hartals’ usually have a significant impact on economic performance, however, as the charts demonstrate, hardly any ‘Hartals’ have been called for the pursuance of economic advances.

Source: Sangbadpatre Hartalchitra by Ajoy Dasgupta; ASK, Daily Star and CPD

Graph 3: ‘Hartals’ differentiated as regards economic and political agendas

4 Including national and district-wise ‘Hartals’, not taking into consideration Upazila level ‘Hartals’
3.2 The fifth year impasse

Political instability in Bangladesh, particularly in the run up to the national parliamentary elections, is not uncommon. Historical experience suggests that 'Hartals' in Bangladesh are more frequent during the last year of an elected government’s tenure (FY96, FY02 and FY07). In the previous occasions regarding parliamentary elections since the 1990s, significant impacts can be observed as regards to a number of macroeconomic indicators. It is observed that economic performances in the respective years tend to be worse compared to their respective benchmarks. This exercise has been taken up in the current section for real GDP growth, growth in the manufacturing sector’s share in GDP, total investment’s share in GDP, private investment’s share in GDP, domestic savings as a percentage of GDP, ADP implementation, export earnings and illicit financial flows.

Graph 4 presents the real GDP growth in Bangladesh in the years concerning the national parliamentary elections. As can be observed from the table, the last year of each of the democratic government’s tenure has yielded in lower real GDP growth, with the decline in growth rate ranging from 0.2-0.9 percentage points. Taking the recent case of FY2013, it can be observed that FY2013 has followed the historic trend, with 0.3 percentage point decline in real GDP growth as propos to FY2012. Declining real GDP growth in FY2014 would be the nail in the coffin if the realized real GDP growth is less than 6.0 per cent. With GDP growth forecasted at approximately 7.0 per cent at the start of the fiscal (according to the Sixth Five Year Plan), the recent turmoil in the economy has obligated economists and policy-makers (including international organizations) alike to agree that the GDP growth rate in FY2014 will not meet its target. In fact, it is estimated that the figures would less than 6.0 per cent. It is the case that provisional GDP estimates by incumbent governments during the election year were later revised downward in all previous occasions (since 1990s) [from 5.1 to 4.9 per cent in FY1995, from 6.0 to 5.3 per cent in FY2001 and from 6.7 to 6.3 per cent in FY2006.

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5 Taking into considering the democratic regimes only
6 It should be noted that the current study considers FY2013 as a reference point for FY2014 – the year of the latest parliamentary elections.
With the manufacturing sector’s share in GDP on a continual increasing trend\(^7\), it becomes necessary to revise the manufacturing sector’s growth in the last year of a democratic regime’s tenure in Bangladesh. Similar to that of the real GDP growth, manufacturing sector’s growth have also been affected by political turmoil in the last incident year of a government’s tenure (Graph 4). With the sector affected mostly in FY1996, the loss has comparatively decreased at latter instances. With 4.1 percentage point deviation in FY1996, the deviation in growth came down to 1.2 and 1.1 percentage points in FY2002 and FY2007 respectively. The decrease in growth of the manufacturing sector further decreased to 0.1 percentage point in FY2013. Hence, it can be deduced that the manufacturing sector has ascertained innovative measures to avert losses arising as a result of the increasing trend of ‘Hartal’ occurrences in the economy. However, full recovery would never be the case and it can be firmly assumed that the manufacturing sector would have performed in a much healthier manner given the avoidance of political commotions like ‘Hartals’.

Concurrently, private investment (as a share of GDP) does not follow an analogous trend. It can be observed from Graph 5 that private investment has been high in FY1996, FY2002 and FY2007 in comparison to the respective previous fiscals (FY1995, FY2001 and FY2006). However, this trend is reversed in the latest case where private investment (as a share of GDP) in FY2013 is lower than that of the investment in

\(^7\) Manufacturing sector’s share in GDP in FY2013 was 18.88 per cent, while the same ratio stood at 12.18 per cent in FY1990.
FY2012. The second diagram in Graph 5 presents total investment (as a share of GDP). It can be observed that total investment has lingered at about the same level in the election years as compared to the years preceding the national elections. With the exception of FY1996, overall investment remained stagnant during election years. It can either be the case that investment was actually lethargic in the preceding election years or that the disincentive in investment would be reflected at latter periods (investment generally have a lag effect).

Graph 5: Private investment (as percentage of GDP) and total investment (as percentage of GDP) in FY1996 (compared to FY1995), FY2002 (compared to FY2001), FY2007 (compared to FY2006) and FY2013 (compared to FY2012)

Graph 6 exhibits domestic savings (as a percentage of GDP). If FY1996 is not taken into the purview, it can be observed that domestic savings kept to the same level during election years. The stagnation of domestic savings during election years can be attributed to people’s expectation of turmoil in the election periods. It can either be the case that people do not observe election periods as potential investment phases or cannot save more portions of their disposable income with higher costs of essentials during the political impasses.

Source: Bangladesh Bureau of Statistics (BBS), various years
Graph 6: Domestic savings (as percentage of GDP) in FY1996 (compared to FY1995), FY2002 (compared to FY2001), FY2007 (compared to FY2006) and FY2013 (compared to FY2012)

Graph 7 concerns Annual Development Programme (ADP) implementation in similar timeframes to that of the previous indicators. Specifically, expenditure as percentage of original ADP, expenditure of Taka component as percentage of original ADP and expenditure of project aid component as percentage of original ADP has been presented. It appears that ADP implementation in all election years were lower than their respective counterparts, with the only exception being FY2013. This trend exactly follows opposite to private investment (as percentage of GDP) depicted in Graph 5. The sharp contrast of the trend depicted by increase in public expenditure in FY2013 can be attributed to the government in attempting to lift the overall investment scenario as a result of dwindling private investment in FY2013. Nevertheless, the government should be appreciated in in spending as much as 91 per cent of the original ADP allocation. Furthermore, it should also be taken into cognisance that the election years are generally divided into two fiscals, and commenting on one of the fiscals would always be lacking, not representing the full scenario.
Graph 7: Total ADP expenditure as percentage of original ADP, expenditure of taka component and project aid component as percentages of GDP FY1996 (compared to FY1995), FY2002 (compared to FY2001), FY2007 (compared to FY2006) and FY2013 (compared to FY2012)

It is perhaps the export-oriented industry which is amongst one of the most affected sectors during unstable political episodes. Graph 8 shows that deviations in growth of export-oriented industries have been the most prevalent in comparison to the other indicators considered in the study. Transmission mechanisms affecting the export industry would include interrupted transportation of export goods, disturbance of plant operations as a result of interrupted transportation of factory workers and most importantly, the cancellation of export orders due to the prevalence of uncertainty in the economy. Growth deviations have ranged from 5.9 percentage points to 25.2 percentage points in FY1996, FY2002 and FY2007. But strikingly, export growth in FY2013 have no decreased, but instead increased by 5.2 percentage points. The robust performance of the export sector despite political turmoil in FY2013 shows that the export-oriented industries have become more resilient to political shocks and have possibly devised innovative ways to perform their operations accommodating gaps during the unrests.
Graph 8: Growth of export in FY1996 (compared to FY1995), FY2002 (compared to FY2001), FY2007 (compared to FY2006) and FY2013 (compared to FY2012)

Graph 9 presents illicit financial flows\(^8\) from the Bangladesh economy. Capital flight, in any case, deprives local economies of a considerable portion of the resources that would otherwise have been employed for development financing. Capital flight undermines domestic investment, ultimately hindering long-term economic growth. It can be observed that the Bangladesh economy was confronted with huge illicit financial outflows during the time of political transitions in 2006 and 2007 (preceding the national elections in 2008), with the corresponding figures being USD 2,648 million and USD 2,583 million respectively. The figure of USD 636 million during 2002 elections was low as compared to 2006 and 2007. Nevertheless, a large descent in capital outflow in 2008 was followed by an ever-increasing trend up to 2011, with the figure USD 2,805 million being the highest figure recorded over the last decade. Promulgation of anti-money laundering acts and related measures over the years have not been able to hold back illicit financial outflows from the country.

\(^8\) Kar and LeBlanc (2013)
4. Growth-Investment Scenario in FY2013-14

With the mobilisation of investment being one of the primary drivers of economic growth, this section will look at the growth-investment nexus in the on-going fiscal FY2013-14 in the backdrop of the on-going political impasse. In this respect, respective indicators would be compared to outgoing fiscals accompanied by most recent data of FY2013-14. Additionally, month-on-month are also presented for some of the indicators for which data are available.

Graph 10 plots monthly ADP expenditure (as a share of original ADP) together with month-on-month expenditure of Taka component and project aid component of monthly ADP. In the context of the on-going fiscal, ADP implementation was low as compared to the corresponding period in FY2013 in Jul-Nov period, but ADP expenditure picked up in December, 2013 (7 per cent of ADP expenditure was made in December, 2013, while the figure for December, 2012 was 5 per cent). This was largely accompanied by project aid implementation, which started to pick up from November, 2013. Despite ADP expenditure improvement in recent months, an inclusive observation of ADP expenditure (as percentage of allocation) in the Jul-Dec period shows that FY2014 expenditure is lagging by 3 percentage points at the current juncture (expenditure for FY2014 was 27 per cent and for FY2013 was 30 per cent).
Private investment has been a matter of concern for quite some time now, and this subject is depicted partially in graph 11. Looking through the lens of the growth of industrial term loans, it can be observed that growth term loans growth maintained a steady rate from last quarter (Apr-Jun 2012) of FY2012 till the third quarter (Jan-Mar 2013) of FY2013. But industrial term loan growth to 2.9 per cent in FY2013 last quarter, before registering a negative growth of 59.5 per cent in the first quarter of FY2014 (Jul-Sep 2013). This raises serious concerns for private sector investment and credit and correspondingly, a potential slowdown of the economy in the days to come as a result of political instability. In addition to political instability, some of the ‘economy-stabilising’ policies taken by the government could also be held partially responsible for the slowdown in private sector investment.
Moreover, when growth of credit to the private sector stood at 11.04 per cent in FY2013 (as compared to FY2012), the percentage for the Jul-Dec period of FY2014 is 5.88 per cent (the figure was 6.13 in FY2013 for the corresponding period). A more disaggregated picture of private sector credit growth is presented in graph 12. It can be seen that the growth of private sector credit has been following a declining trend as far as July, 2011. More importantly, the growth has continued to fall even sharply in recent months. The growth rate as of December 2013 is indeed the lowest monthly growth of private sector credit since September 2009. As of December 2013, growth rate of the private sector credit stood at 10.6 per cent, which stands well below the MPS target (ceiling) for June 2014 (16.5 per cent). Henceforth, the investment situation in FY2014 and outlook for FY2015 does not look promising.
Amidst low private sector credit, a silver lining is provided by graph 13, which shows that L/C opening for capital machinery imports have been increasing each consecutive year (Jul-Dec period for FY2012, FY2013 and FY2014). L/C opening of capital machineries scooted to USD 1826 million in FY2014 (Jul-Dec), while the figure was USD 1092 in the corresponding period of FY2013. Curiously, L/C settlement has not increased as much as L/C opening in FY2014 (increased by USD 163 million). This has been true for FY2013 (Jul-Dec) as well when L/C opening decreased to USD 981 million from USD 1286 million in FY2012 (Jul-Dec). In this regard, it should be noticed that political instability has had the businessmen thinking regarding the import of capital machineries during the political turmoil which continued throughout the whole of 2013. This is also noticeable from the sharp difference (drop) between capital machinery L/C opening and settlement of the first half of FY2014.

![Graph 13: LCs for capital machinery import](image)

Source: Bangladesh Bank (BB), various years
Graph 13: LCs for capital machinery import

Regrettably, foreign aid inflow (net) has been on the downside for the first four months (graph 14) of the ongoing fiscal (as compared to FY2013). Jul-Oct period of FY2014 recorded only USD 605 million foreign aid, while the figure was USD 810 in the preceding fiscal. But a jump in the trend came about in November, 2013 when foreign aid inflow of USD 362 million was recorded (the figure was USD 140 million in November, 2012). It may be apprehended that the pace of improvement in foreign aid inflow is a one-off shock and might not continue in coming months.
Graph 14: Foreign aid inflow

Graph 15 gives a representation of the growth of major commodity imports in the Bangladesh economy in July-December period of FY2014. With only food grains and imports by EPZ having a positive growth in the respective period, all the other commodities had a negative or negligible positive growth. While every commodity affects the economy in either a mild or a strong note, what is noteworthy is the negative growth of capital machinery.

Graph 15: Growth of merchandise imports

With private sector credit following a downward trend for quite some time now, excess liquidity in the banking system is on the rise since October, 2012 which has pushed call money rate downwards in recent months. The increasing trend of excess liquidity position has been furthered in recent months (graph 16). Over the last six months the excess liquidity increased by more than 13 per cent as it reached to Taka 90.2 thousand
crore in November, 2013. These indicators further signify the slowdown of private sector investment.

Source: Bangladesh Bank (BB), various years
Graph 16: Excess liquidity position

While it was seen in the previous section that export growth of FY2013 was 5.2 percentage point higher than FY2012, graph 17 depicts a more and recent disaggregated monthly export performance of the first seven months of FY2014. While the month-on-month export growth (as compared to similar months of the previous fiscal) is not following any pattern, but it can be observed that the cumulative growth of export (total exports up to and including the latest month as compared to previous fiscal's corresponding period) has been following a somewhat steady downward trend. Although the impact of political instability would be felt by the export industries at a lagged period, but a decelerating growth raises severe concerns.

Source: Export Promotion Bureau (EPB), 2014
Graph 17: Growth of export in recent times
To achieve the target set at the initiation of the fiscal, a 10.1 per cent growth is required during the last five months of FY2014 (graph 18). Graph 18 shows that RMG (including knit and woven) have surpassed growth target of FY2014 by very large margins. A 5.3 percent growth in RMG, 0.6 per cent growth in knit and 9.6 per cent growth in woven is required to meet the current fiscal’s growth targets. It is the non-RMG sectors which grew by only 4.9 per cent in the Jul-Jan period, requiring a growth of 29.2 per cent in the Feb-Jun period to meet the FY2014 growth target. Disregarding the target scenario, it can be stated that the export performance of RMG is reasonably impressive given the global and domestic circumstances. Nevertheless, the export performance has been largely determined by ‘3-6 months old orders’. IT remains to be seen as to how the performance of the export sector turns out to be regarding orders placed at the time of political uncertainty.

Source: Export Promotion Bureau (EPB), 2014
Graph 18: Growth of export in recent times compared with growth targets

5. Assessing the Economic Implications

The incidence of ‘Hartal’ and blockades impinges on every sector of the economy. Although the implications of ‘Hartals’ can be defined in a purely non-economic arena, but the fact that ‘Hartals’ affect the domestic economy from a purely economic agenda cannot be ignored under any setting. According to the Economic Survey of Bangladesh estimates, it is assumed that approximately 50 per cent of the GDP fabricating economy is not affected by the ‘Hartal’ situation, and could be easily recuperated in non-‘Hartal’ periods and/or with extended working hours. Having said this, it is also true that
‘Hartals’ have intense impacts on the economy, with the extent of losses varying in accordance with each sub-sector within the economy.

5.1 Conceptual framework of political shocks

This section attempts to identify the transmission channels through which political unrest/’Hartal’/strike affects the GDP of the Bangladesh economy. The flow-chart depicted in Chart 01 encapsulates the diverse macro-economic channels of transmission regarding the impact of ‘Hartals’ on the economy. The framework is divided into primary channels, secondary intermediary channels and tertiary intermediary channels.

Chart 01: The transmission channels of political shocks
Primary Channels

To begin with, three primary channels can be made out for the commotion of economic activities:

- Transport disruption
- Damage of public/private property
- Uncertainty

Transport disruption: Due to political unrest ('Hartal'/blockade), transport is characteristically one of the most directly affected sectors. Typically, political unrest takes a heavy toll on the sector in the form of torching, vandalizing and blocking transports. Eventually, attack on goods-carrying trucks and other vehicles develop fear of attack among transport owners, which ultimately disrupts the movement of vehicles. This is applicable for rail and water modes of transportation as well (encompassing the Chittagong and the Mongla ports). Disruption of the transport system inflicts a chain of negative consequences on other sectors of the economy because of the interconnectedness of the transport sector with other counterparts. Specifically, the overall value chain (both backward and forward linkage) is largely disconnected due to transport interruption. Even partial dysfunctionality of the transport sector as a consequence of vandalism literally disconnects the central/urban and rural markets, making the village economies more vulnerable.

Damage of public/private property: Damage of public/private property has unfortunately become one of the immediate occurrences, that is, primary channels of transmitting impacts of political shocks on the economy. Public property in the form of roads, public transportation, cutting down of trees (of the forest department) and losses incurred by the state-owned enterprises are only some of the damages incurred by the government as a result of the political shocks. In similar genre, private properties which are vandalised include private vehicles (both personal and business), defacement of offices and the like. Most importantly, the physical wounds (or death in the worst case) that the people have to suffer as a result of the political conflicts, including both the law enforcement officers, the picketers and the general civilians, are the greatest price that political unrest can incur.
Uncertainty: The last primary channel is uncertainty, depicting uncertainty among both the local and foreign counterparts. Investors (both local and foreign) would be sceptical about investing at the time when political unrest would be existent. On the other hand, people would be uncertain about getting out of their houses, attending offices and businesses and carry on their regular chores. Political instability, by large, creates uncertainty amongst each and every type of economic agents – for general citizens, entrepreneurs and enterprises alike.

Secondary Intermediary channels

The secondary transmission channels would include:

- Supply chain disruption
- Disruption in ADP implementation
- Underutilization of production capacity and lower capital formation
- Lower inflow of FDI
- Adverse impact on tourism
- Erosion of export competitiveness
- Interruption in transportation of goods
- Disrupted health and education sector

Supply chain disruption: Supply chain of goods and services gets interrupted, mainly due to transport interruption. Suppliers cannot transfer their goods to destinations (ports in the case of exports or to retailers in the case of consumer goods) and hence, they face losses in the form of unsold goods and/or wasted perishable goods, higher freight costs (exporters having to meet their deadlines) and accumulation of imported goods at ports. Particularly, small entrepreneurs are affected the most as their survival is based on daily operational income. On the whole, operations in the economy remain far below optimum and production capacities are underutilized due to the dysfunctionality of the transport sector and uncertainty.

Disruption in ADP implementation: ADP implementation has been traditionally sluggish during the election years. Sectors such as agriculture, rural development,
transportation, housing, education, social welfare (safety net programmes) and public administration are the most affected sectors of the curriculum. Regarding the implementation of ADP during the recent national elections, the implementation rate was unsatisfactory in the first half of FY2013-14 (this is true for both the foreign and local components).

**Underutilization of production capacity and lower capital formation:** Generally, production capacity would be underutilised if there is not enough demand to meet the supply schedule. This traditional theory of economics is a precisely active phenomenon given the input of political unrest in the Bangladeshi equation. During times of political turmoil, there are substantial deviations of both the demand and supply schedules because both the demanders and the suppliers are sceptical about future outcomes, adjusting their expenditure accordingly. Hence, the other ‘invisible hand’, other than the one proposed by Adam Smith, disrupts production schedules at times of political unrest. Similarly, investors would also be sceptical about making fresh investments. Hence, capital formation would be low during politically unstable regimes – a fact which is evident from the declining private sector investment and private sector credit growth in the last couple of fiscals in the Bangladesh economy.

**Lower inflow of FDI:** The fact that political instability adversely impacts FDI flow has been analysed and stamped over and over again (Mian and Alam, 2006; Kafi et al., 2007). Mondal (2003) finds that political instability is one of the determining factors of FDI in Bangladesh. Musila and Sigue (2006) state that it is imperative for a country to maintain a sound political and macroeconomic stability to successfully attract large volumes of investment. It is only rational that investors would like to avoid investing in a climate plagued with shutdowns and violent turmoil, coupled with the fact that there exists substantial infrastructural weaknesses. If not lower inflow, the execution of inward FDI has been one of the challenges of the current political impasse.

**Adverse impact on tourism:** Home to the longest sea beach in the world, shutdowns and blockades have driven the hospitality industry of Bangladesh to a dire state. Let alone foreign tourists, domestic travellers were not able to make leisure trips within the country as a result of immobility of each and every mode of transportation. Additionally,
corporate trips and meeting also had to be rescheduled and shelved as a result of insecurity and transport rigidity. It was reported that occupancy rate at hotels and restaurants of tourist destinations have been almost nil during the political turmoil in the run up to the national elections. With the tourism industry contributing around 2.1 per cent to GDP in 2012 for Bangladesh, it is not only the businessmen (tour operators, hoteliers, travel agents and others) counting losses, the government also lost out on huge foreign exchange earnings.

Erosion of export competitiveness: The export-oriented industries lose heavily due to political instability hampering their operations. It is not only the ongoing losses (major hurdles include meeting deadlines – and in the process incurring losses by the means of wrecked transports and escalated freight costs) that the export-industries have to incur as a result of the political turmoil, but forthcoming losses as a result of image-degradation of the country bears more serious implications for the export sector. Uncertainty due to the political shocks results in lower export order, higher cost of production, lower inflow of tourism which eventually worsens the export competitiveness. Even the functions of major service sectors party get blocked. Keeping in mind that Bangladesh is transforming into an export-oriented economy, continual political unrest and increasing cost of business of the export industries will have a macroeconomic impact leading to hampering of the GDP.

Interruption in transportation of goods: As mentioned earlier, the transport arrangement is affected heavily during political unrest, which ultimately shrugs onto other sectors. Political instability takes the economy by its artery affecting the transportation of goods (and services too), with the brunt of transport immobility ranging from exportable and public goods to area-wise hawkers.

Disrupted health and education sector: Final consumers have to pay higher costs on days of political turbulence, specifically health and education sector consumers are very affected. Students cannot getting to examination venues and exams getting deferred without proper notice are only the material difficulties. If only could the tension and trauma be quantified, then only can the full-size effect of political instability on the education sector be realised. Needless to mention that the young mind would go on to
form the backbone of the country, it is imperative that this issue is taken up by as the earliest.

A graver problem arises when medical emergencies cannot be attended by doctors as a result of the patients not being able to reach the doctors or vice versa. Several cases have been reported in the political turmoil which occurred very recently as a result of dissatisfaction of the opposition regarding the national elections. Delayed treatment aggravates diseases, which eventually increases treatment period and costs. Moreover, going without treatment may raise serious health risks for the acute diseases. On the supply side, the supply of medical equipment gets disrupted with the unavailability of doctors and nurses. In this respect, it can be said that the democratic rights of the political parties are curbing the human rights of the commoners.

_Tertiary Intermediary channels_

Tertiary intermediate channels include:

- ✔ Lower domestic demand
- ✔ Adverse investment
- ✔ Obstructed trade
- ✔ Escalating social costs
- ✔ Rise in unprecedented government expenditure

_Lower domestic demand_

With the subsequent disruption of the general transport sector, domestic demand incorporating both the demand of necessary goods and that of the luxury commodities would fall. Fear of insecurity amongst the citizens generates a lack of spirit which again, affects the domestic demand. People are sceptical about the future, which in turn makes them spend less, invest in risk-free ventures and save for the uncertainty that they anticipate. Prices of essentials, especially which of vegetables, meat and fish increase in the short run at the time of frequent ‘Hartals’ due to the disruption of the supply chain. For instance, prices of essentials increased by 9-10 per cent on the first day of the 48-
hour countrywide Hartal on 18th March, 2013. Bangladesh Edible Oil incurred a loss of Taka 17-18 crore due to fall in sales of Soyabean oil. Above all, the slowdown of the economic activities also result in lower domestic demand. Regrettably, in absence of retail sales index in Bangladesh it is difficult to estimate the slowdown of private sector consumption demand in the Bangladesh context. But it can be said without hesitation that lower private consumption occurs as a result of political instability.

Adverse investment

As mentioned earlier, there is substantial impact on the supply chain (both forward and backward linkage) due to transport disruption and the fear of damage to private property. Regardless of public and/or private, investment is bound to suffer at times of political unrest, including Foreign Direct Investment (FDI), foreign loans and grants. FDI would decline as a result of a pessimistic portrayal of the image of the country, since investors prefer a stable environment to operate. Inputs like raw materials and labour gets disrupted due to both transport blockade and the fear of insecurity. The political instability may also cause disinvestment - BGMEA claimed that the cancellation of orders and the return of buyers in early 2013 have caused 270 RMG factories to declare themselves as ‘sick’. As a result, unutilized production capacity with subsequent decline in capital formation is an inevitable outcome in the arena of the investment climate.

Obstructed trade

Suspension of production at factories and interrupted port cargo delivery are only two of the mechanisms affecting trade as a result of political unrest. Consignments are found to be stuck at ports during ‘Hartals’. Goods face uncertainty of shipping in the ports (both ship and air) together with stock-lot reaching staggering heights. With the constraint of 45 days of shipment from Bangladesh as compared to 15-25 days in China, Vietnam and Cambodia, and shipment process taking longer than usual in the ‘Hartal’ periods, buyers getting aggravated would not be out of the box. Along with buyers

9 http://www.thefinancialexpress-bd.com/index.php?ref=MjBfMDNfMTlfMTlfMV8yXzE2MzcyOQ==
11 http://banglanews24.com/detailsnews.php?nssl=27b3a9ea1b3d44bc20e12d7cea2148d2&nttl=20130410051720188100
cancelling their orders, trade would be affected through the mechanism of rising costs of production and the interruption of the delivery of goods, either to or from the source of production. Furthermore, air-shipment of consignments, after missing the pre-determined deadlines incurs a lot of elevated costing for businessmen.

It is apprehended that due to the political turmoil which took place throughout 2013, export orders will decline for the next fiscal year. International buyers have been losing their interest in Bangladeshi RMG products for the turmoil, which is creating a negative impact on the key exporting sector.\textsuperscript{14} It has been reported that Bangladeshi buyers have been shifting to other destinations due to the political unrest and instability in the economy\textsuperscript{15}. Bangladesh should earnestly avoid losing the competitive edge which we currently enjoy in a lot of the export industries.

\textit{Escalating social costs}

Social costs, involving the education and health sectors amongst others, are very high at the instance of ‘Hartals’. Examples can be drawn from the cancellation of nationwide examinations and the immobile traffic situation in the case of medical emergencies.

\textit{Rise in unprecedented government expenditure}

During ‘Hartal’ or any other political violence, the government has to incur unplanned non-developmental, which are thoroughly non-productive expenditures in nature. Although the aggregate amount could be insignificant in terms of total economic loss, nevertheless, it is definitely a wastage of public resources.

Although the framework mentions transmission channels regarding the impact of ‘Hartals’, it should however be noted that not all of the channels have been covered. This is due to the fact that it would be very challenging to incorporate each and every transmission mechanism because of the interrelatedness of economic activities.

\textsuperscript{14} \url{http://www.thefinancialexpress-bd.com/index.php?ref=MjBfMDRfMDRfMTNfMV85MF8xNjUzNDk=}

\textsuperscript{15} \url{http://www.thenewnationbd.com/newsdetails.aspx?newsid=67216}
5.2 An estimation of economic losses (considering selected sectors)

With a view to generate an assessment about the magnitude of the political violence-related economic loss, a meticulous scan of the print media was undertaken to collate the reported numbers. The focus of the media scan was on four major sectors, namely export-oriented clothing and textiles, agriculture and agro-based industries (vegetables, agro processors, poultry, frozen food, agro machineries, jute etc.), land transport (rail and road), and tourism. The reported losses included loss of assets, operational and income person-days of work. The present exercise attempted to estimate the monetary value of the foregone capital and income for these four sectors.

Rationale of taking account four selected sectors: The previous section details the transmission channels (primary, secondary intermediate and tertiary intermediary) of political shocks on the economy. Observing the conceptual description of the transmission channel, we would get to know that a number of primary and intermediary channels are interconnected through which the absolute impact is materialised.

It is to be noted that it is a rigorous task to take into account each and every channel in our calculation, which demands a separate study. As there are heaps of sectors associated with the economy, considering the scope of our study, we have taken into account the four sectors namely export-oriented clothing and textiles, agriculture and agro-based industries land transport and tourism. The following table (table 1) relates these sectors to the flow-chart mentioned beforehand.

Table 1: Transmission channels of the four selected sectors

<table>
<thead>
<tr>
<th>Category of Transmission Channels</th>
<th>Name of transmission Channel</th>
<th>Corresponding sector considered in estimating loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary channel</td>
<td>Transport disruption</td>
<td>Transport sector</td>
</tr>
<tr>
<td>Secondary intermediary channel</td>
<td>Supply chain disruption</td>
<td>Agriculture and agro based industries</td>
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<tr>
<td></td>
<td>(backward and forward linkage)</td>
<td></td>
</tr>
<tr>
<td>Secondary intermediary channel</td>
<td>Less inflow of tourism</td>
<td>Tourism sector</td>
</tr>
<tr>
<td>Secondary intermediary channel</td>
<td>Erosion of export</td>
<td>Export-oriented clothing</td>
</tr>
</tbody>
</table>
Transport sector: As per police headquarters, at least 479 transports were torched and 392 were vandalized in a span of one month (25 Nov 2013 to - Dec 18 2013) only. Partial dysfunctionality of transport sector due to this vandalism literally disconnected the central/urban and rural markets; for example, number of trucks laden with various goods entering the central 'kitchen' market from rural areas declined to 30-50 from 220-250 per blockade/’Hartal’16. With respect to attacks on the rail system, the Bangladesh Railway incurred a loss of Taka 13.8 crore only in February and March of 201317. Additionally, the Bangladesh Railway lost approximately Taka 5 crore due to passengers refunding tickets and others fearing violence.

Agriculture and agro based industries sector: The agriculture sector is another sector which is very hardly hit during political setbacks. Transport disruption get into the way of connecting urban ‘kitchen’ market and rural market and for every single blockade and/or ‘Hartal’, around 40,000 tonnes of vegetables are being wasted as per Bangladesh Agricultural Research Institute (BARI)18. Another report points that vegetables farmers incur loss amounting to about Taka 600 million per ‘Hartal’ or blockade19. Particularly, poultry sector (one of the sub sector of agriculture) was hit badly. 15,000 tonnes of broiler chicken and around 3.15 crore eggs were being left unsold every week during ‘Hartals’/blockades of last quarter of 2013 (according to the convener of the Bangladesh Poultry Industries Coordination Committee)20. Not only production but processing and distribution of every sub sector of agriculture and agro based industries are disrupted during periods of political turmoil. Disruption also results in paying higher price from consumers end. For instance, prices of some essentials increased by 9-10 per cent on the first day of the 48-hour countrywide ‘Hartal’ on 18th March, 201321.

Tourism sector: Political unrest fosters apprehension among the tourists which results in calling off their trips and falling occupancy in the tourist based hotels. A source

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18 [http://www.thefinancialexpress-bd.com/2013/12/31/11499](http://www.thefinancialexpress-bd.com/2013/12/31/11499)
reports that hotel occupancy fell to less than 20 per cent during the political turmoil even in tourist pockets like Sylhet and Cox's Bazar. Moreover, people associated with tourism also lose their job as a result of political turmoil. To give an estimate of the extent of losses, it can be cited that 500 tourists could not be attended because of the ‘Hartal’ situation in the month of March, 2013. Consequently, an estimated loss of Taka 60-70 lakhs was incurred in the form of revenue due to ‘Hartals’.

*Export oriented clothing and textile sector:* Export oriented clothing and textile sector are affected due to the political unrest in the form of order cancellation, forced air shipments, deferred payment etc. As per BGMEA, this sector incurred losses amounting to Taka 2000 crore in the months of October to November of 2013. On a different note, RMG goods worth USD 8 million were facing uncertainty of shipping in the Chittagong port on April 8, 2013.

*Estimated Loss:* The estimate shows that due to 55 ‘Hartals’/blockades (from July 2013 to January 2014), the land transport sector incurred the highest amount of loss (Taka 16,688.65 crore), followed by the agriculture and agro-based industries (Taka 15,829 crore), export-oriented clothing and textiles (Taka 13,750 crore) and tourism (Taka 2,750 crore). The total amount of loss is estimated to be Taka 49,017.92 crore, equivalent to 4.7 per cent of FY2013 GDP.

*Limitation of the estimation:* It is acknowledged that the estimated figure was partial and uncorroborated. We need to be mindful that the estimated loss does not indicate net loss as some of the losses are recouped through various adjustment measures overtime. However they do provide some insights about the magnitude and sectoral concentration of the incurred losses during the recent spate of political violence. Another significant sector which was hit hard by the political impasse is the small production and business sectors. Regrettably, we could not acquire sufficient data to capture losses encountered by these sectors.

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23 http://banglanews24.com/detailsnews.php?nssl=47871f41d3d7c2f07ab05161bef6b102&nttl=09042013187750

24 http://www.bssnews.net/newsDetails.php?cat=0&id=376475&date=2013-12-12

6. Concluding Observations

A principal-agent problem can be duplicated regarding democracy in this context. Since democracy is supposed to be a representation of the people’s voice, it is the political parties who should be carrying the ‘agent’ tag while the counterpart carrying the tag of ‘principal’. But it is generally the other way round in the democracies of the less-developed nations like Bangladesh with the political parties taking up the role of ‘principal’, being not accountable for their actions.

It is evident from the discussion that ‘Hartals’ have adverse impacts on the economic engine. While some of the indicators might show only marginal deviations from the ‘business-as-usual’ scenario, but it should be taken into cognisance that there exists lag, which would only come into effect at a delayed period. Nevertheless, numerous transmission channels are utilised by political impasses to harm GDP growth.

Given the adverse implications of the political shocks to the country’s economy, two specific questions may be posed:

- How to protect the economy from the political shocks within the current political parameters?
- How to resolve the root problem of the current political impasse to support the potential growth prospects of Bangladesh economy?

Regarding the first question, there are a number adjustment measures already deployed by both government and non-government agents. One needs to recognise the fact that effective policy space is extremely limited in this context. Indeed, macroeconomic policy instruments are inadequate as institutions remain paralysed due to political agitations. As regards the second agenda immediate cessation should be brought about of all destructive and subversive activities which are affecting lives, properties and growth potential. An enabling environment for political dialogue should be created together with the engagement of stakeholders from all walks of life, who can have their problems flagged and their voices heard.
References


