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**POLITICAL INSTABILITY A MAJOR OBSTACLE TO ECONOMIC  
GROWTH IN BANGLADESH**

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## ABSTRACT

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<p>This article examined the relationship of political instability and Economic growth of Bangladesh. Political stability plays a crucial role in economic development, integration of economic modes and in maintaining natural development in the national economy. An unstable political environment can be detrimental to the speed of economic development for any country of the world. Any kinds of lingering inactivity can be barrier to international or domestic trade. That can cause an obstruction for commercial organizations that import or export perishable goods. Opposition political parties and interest groups in Bangladesh organize hartals, one kind of strikes as a form of protest against the ruling parties that last an entire working day though the duration could either be shorter or even longer. Hartal has a history of civil disobedience against colonialism in South Asian countries, but that is increased dramatically in Bangladesh in last decades.</p> <p>It is observed carefully at various forms of political instability, such as, civil-war onset, social unrest, coups d'état, and transitions to and from democracy and its connection to economic growth. The effect on different arena of economy like Export, Price level, Activity of port, Tourism sector, Human right etc. is considered as well. This paper provided strong evidences of substantial productivity loss by firms when multiple hartals occur in a week. Though it has been found that firms re-optimize in response to political strikes, they became able to substitute among factors inputs, mostly by decreasing costs on wages and capital consumptions. Obviously small firms suffer the most due to <i>hartal</i> because it is harder for them to re-optimize those factors to reduce the expenditures in the short-run. Another disappointing fact that hartal imposes a large cost on the whole economy. It has the negative impacts on GDP, revenue collection and some other crucial economic factors. These findings suggest that the relationship between economic growth and political stability are more complex than is widely presumed.</p>		

### Key words

Economic instability, Economic development, Hartals, Bangladesh Economy

## **ABSTRACT**

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## **1 INTRODUCTION**

The political parties of any country are supposed to remain dedicated on working for the social and economic development of their countries. This how they should be attempting to please the general people and earn their support. Their steps and political activities are expected to be for the betterment of condition of the country and the people, but things like this do not always happen in the desired way. When the political parties of a country take very hostile positions towards each other, then political instability grows in the country. And it hampers the desired economic development of the country.

Economic growth and political stability are strongly related. The uncertainty associated with an unsteadfast political environment may decrease investment and the speed of economic development. Moreover, weak economic performance may lead to government fall down and political instability. The history of political protests has been instrumental during the anti-colonial struggles of the subcontinent and later in strengthening the democratic progress in South Asia. However, even long after post-colonial periods and democracy restoration, political instabilities are still unappeasable part of the political culture of South Asia. Along with Bangladesh, India and Nepal still face a concerning number of political incidents on a yearly basis, and its occurrence is rising quite sharply over the years (Rudolph, 1987).

Nowadays political instability has been a cause of concern for many countries around the world, irrespective of the state of development or their political regime. Previous experiences tell us that political conflicts can have a disastrous impact on an economy. On the other hand, domestic conflicts under certain conditions can turn a country into a fragile state status. Fragile and conflict ridden countries usually lose the ability to develop constructive relationships within their societies and often suffer from a weak ability to undertake governance functions (Shonchoy & Tsubota, 2014). These countries are more vulnerable to internal and external shocks, and in turn face instability. Arguably, given the dominance of informal sector in economies like Bangladesh, the adverse impact of political instabilities could be lower when compared with more developed countries. Some other studies which have adopted a notion of political instability similar to ours have found effects of instability on inflation (Cukierman, Edwards & Tabellini (1992)).

## 1.1 Objective of the Study

The instability of government, a weak political culture and inefficiency of political parties causes a politically instable state. Political instability has become a serious problem especially for the developing and underdeveloped countries. This problem is associated with a series of problems in various fields. The problem of political instability generates more serious for a society which is multi ethnic, having people of diverse cultural attributes. In a politically stable state all sections of society get their due shares and are satisfied being a part of a multi ethnic society which ultimately leads towards the nation-building. In stable conditions people are empowered and exert their energies for the development of nation. (Memon, Memon, Shaikh & Memon, 2011) In case of instability the case is vice versa, people feel unsatisfied and powerless, lose their trust on institutions and they prefer their own interest in front of state and ultimately society leads to split.

This study investigates why empirical studies have given such diverging results. By using several different measures both of socio-economic inequality, political instability and economic development it examines whether differences in methods and measurement can explain the variation in previous findings. It is revealed that the effect of socio-economic inequality upon political instability is dependent on which measures are used, and that the effect of instability upon economic development varies between different analytical models. The study thus shows that conclusions about the relationship between these phenomena are not robust to alternative measurement. A possible explanation of why previous empirical studies have reported such diverging findings is therefore that socio-economic inequality and political instability have been measured in different ways, or that different analytical models have been used (Giskemo, 2012).

Among other objectives of the study it can be mentioned about collecting, sorting, reviewing, assessing and analyzing secondary information relating to history of political instabilities of the country. It is also tried gathering, synchronizing and investing secondary information connecting to the impact of hartal on different economic sector. Another objective was analyzing and suggesting how political stability could be ensured in Bangladesh.

## **1.2 Limitations**

As our research is focused on economic condition of a developing country, it is very hard to collect important historical data. Most of them are preserved in some inaccessible government controlled offices. Hence it requires a great deal of endurance to go in an accurate conclusion where time is limited. Another thing should be mentioned. Very few researcher put attention on this topic so far. Lack of prior research studies on the topic made it critical.

## 2 THEORY ON POLITICS AND ECONOMICAL GROWTH

We can start discussing the literature review by asking a simple question, which is ‘Does political instability affect economic growth?’ The first step toward answering this question is a definition of what it is meant by “political instability”. In this paper, “political instability” is defined as the propensity of a change in the executive, either by “constitutional” or “unconstitutional” means. Thus, we study whether a high propensity of an executive collapse leads to a reduction of growth. Political instability has become a threatening and serious problem especially in developing and underdeveloped countries. It is creating major problems & hindering the development in these countries. The theme of this paper revolves around the problem of political stability in context of identity and legitimacy crisis in Bangladesh. Political stability definitely plays an important role in keeping society integrated & in maintaining legitimacy within the state. It is a prerequisite for the economic development, social integration, and supremacy of law in a state. The stability of political system has direct effects on the processes of nation and state building. These both require stable political systems for their growth & flourishing. The development of a nation & state without firm & organized system of politics is not possible & government becomes only a tug of war amongst various interest groups. In sum, article endeavors to explore the possible causes and effects of political instability in Bangladesh (Bhattacharya, 2013).

A related issue is whether democratic institutions are harmful or conducive to growth. A rather popular argument is that democratic institutions may be harmful to growth. The basic idea underlying this view is that policy makers in democratic government are subject to the pressures of interests groups, and thus short-sighted follow opportunistic policies to enhance their chances of reelection instead of policies that enhance long term growth. The widespread phenomenon of political (and policy) instability in several countries across time and its negative effects on their economic performance has arisen the interest of several economists. As such, the profession produced an ample literature documenting the negative effects of political instability on a wide range of macroeconomic variables including, among others, GDP growth, private investment, and inflation (Roy & Hossain, 2013).

This paper revisits the relationship between political instability and GDP growth. This is because we believe that, so far, the profession was unable to tackle some fundamental questions behind the negative relationship between political instability and GDP growth. What are the main transmission channels from political instability to economic growth? How quantitatively important are the effects of political instability on the main drivers of growth, namely, total factor productivity and physical and human capital accumulation? This paper addresses these important questions providing estimates from

panel data regressions using system-GMM3 on a dataset of up to 169 countries for the period 1960 to 2004. The results are strikingly conclusive: in line with results previously documented, political instability reduces GDP growth rates significantly (Rashid, 2012).

The biggest impact of political unrest is the loss of human lives, injuries and long-term sufferings incurred by the families; however, estimating such impact in monetary term is nearly impossible. Apart from these irreplaceable losses, political instabilities have significant negative aftermaths on the economy by increasing the price of necessary consumption goods. Moreover, some sectors are more prone to political instabilities than others, namely transportation and retail sector, as these get directly interrupted. political instabilities also affect the manufacturing sector, though indirectly, by increasing the cost of production (increased input cost due to interrupted transportation link or using more night shifts on politically stable days that increase labor cost and the energy use, for example) or by decreasing the total production (due to missing labor input) which eventually have a long-term adverse consequence on the overall business situation of the sector (Shonchoy & Tsubota, 2014).

Political stability is vitally important for the attainment of nation building, such as political development and national integration, which has direct influence on formation of political parties. The development in states-modern or modernizing, takes place due to the varying degree of political stability. "It can be regarded as important to maintain peace, harmony, enduring constitutional contentment's, maintenance of government institutions and possession of civic order" (Michael, 1971). It is often used to refer to democratic political stability. There are, of course, other kinds of regimes which have relatively stable political set-ups such as in China, Egypt, Czech Republic and so on (Memon, Memon, Shaikh & Memon, 2011).

Political instabilities continue to be seen as an almost legitimate political scenario in Bangladesh; however, it is hard to ignore the growing violence. Furthermore, the resulting closure of shops, interruption of traffic, destruction of property, and general sense of uncertainty has clearly taken a toll on the economy. In this report, we assess the impact of political instability on the economy and Bangladesh's business community. When comparing different paths of causation, Perotti (1996a) found that the mechanism linking inequality to growth that received the strongest result from empirical investigation was that of political instability. Indeed, many empirical studies support this expectation, while some researchers find that socio-economic inequality does not affect the level of political instability, or that the relationship is negative. Macculloch (2005) thus concludes that two decades of empirical research and over 3 dozen studies on the relation between inequality and conflict has



produced a diverse and contradictory array of findings, and thus that the impact of inequality on conflict is still being debated.

The political history of independent Bangladesh has seen many ups and down in last four and a half decades. Bangladesh's journey towards democratization started with great expectations. Immediately after getting freedom, it adopted the Constitution with four major principles of nationalism, democracy, socialism, and secularism. The Constitution had all the ideals essential for the democratic practice such as elections on the basis of universal adult franchise, a unitary and parliamentary form of government, fundamental rights, multiple parties, and freedom of the judiciary. But after a few years in 1975, the government amended the Constitution to make one party presidential form of government instead of multi-party system and put restrictions on the judiciary and the freedom of the press. That was a first major blow to the Constitutional history or democratic journey of Bangladesh. Not to mention again, it also was not the last. And like that, the stability in the political issues has never existed. The people of Bangladesh have never seen or experienced any stable condition among the political parties in their history.

An important argument about the relation between political instability and economic growth had been suggested by Grossman's (1991) analysis of revolutions. If the rulers of a country are relatively weak then the probability of revolutions is relatively higher and the peoples of the country have strong incentives to engage in revolutionary activities rather than engaging in productive market activities. A strong government or ruler who makes a revolution unlikely to succeed, discourages revolutionary activities in favor of market activities. The research by Murphy, Shleifer and Vishny (1991) put importance on the negative effects of rent-seeking activities on economic growth. A weaker ruler or government constantly under threat of losing power may be particularly sensitive to the need of satisfying pressure groups and lobbyists.

Political instability has negative effect on economic development for at least two reasons. First, it disturbs market activities and labor relations, which have a direct adverse effect on productivity (Perotti 1996). Second, political instability decreases economic growth because it affects investment negatively. Attempted or successful revolutions, collective violence, and coups indicate a propensity to occur anarchy and that create a threat to established property rights (Alesina & Perotti 1996). From the previous experience we know, the probability of the government being overthrown is relatively higher when unrest in a society is widespread. Obviously, this makes the future economic policy and the protection of property rights more uncertain and eventually cause disincentive to invest. According

to economist Simon Kuznets, some minimum of political stability is necessary if members of the economic society are to plan ahead and be assured of a relatively stable relation between their contribution to economic activity and their rewards (Kuznets 1966).

If the current rulers or the government is corrupt or incompetent then a high tendency of a government change may be viewed favorably by economic agents and its possible successors reviewed as an improvement. On the other hand, if the propensity of government change is huge, an increase of it may actually reduce political uncertainty, since it becomes more certain that the current government will collapse. However, if the characteristics of the successor of the incumbent government are not known with certainty, an increase of the propensity of a political change may lead to an increase in policy uncertainty (Alesina, Ozler, Roubini & Swagel 1992).

From a policy perspective, it is crucial to measure how such conflict within and between countries affects a country's economic growth. Because political conflicts have not stopped, the relevance of this question persists. Interstate conflict decreases economic growth by .18 to 2.77 percentage points, while intrastate conflict decreases economic growth by .01 to .13 percentage points. Such negative growth intensifies with conflict severity. Furthermore, conflict reduces economic growth the most in the short run, whereas in the long run economies recover from the adverse effects of these conflicts among political parties (Polachek & Sebastianova, 2010). It is possible that, the political instability in a country may lead them towards civil wars and the result can be more devastating. Some studies adopt growth theory to examine the economic effects of civil wars, but to date none to our knowledge adequately incorporate international wars. War also causes uncertainty and disrupts in daily market activity. Surprisingly, in long run models, studies find weak effects of civil wars on growth (Polachek & Sebastianova, 2010).

### **3 POLITICAL INSTABILITY AND DEVELOPMENT IN BANGLADESH**

Since its birth in 1971, Bangladesh has suffered from the troubles of nation-building, sharpening ideological & religious contradictions. It has been exacerbated particularly during & after the 1990s with making of inroads by certain authorities involving donors & Brettonwoods Institutions in terms of their growing involvement in the political governance of the state. It is because, onset of globalization or communication revolution could not bring much coveted development in the country; on the contrary, the dogma of free market had resulted in lack of prudential opening in market, and corruption at an unprecedented rate. Rather adoption of privatization or trade liberalization efforts offered the opportunities to the rulers for designing the policies in a manner that could help creating their political support base at grass root. However, it is also true that even the state led development three programs, which the country experienced during 1972-1975, was no exception in this regard. As a result, corruption and as a spin off, money laundering and a distorted nature of the market economy have their repercussion on democratization process of Bangladesh, irrespective of any political party in power since the independence of the country (Khan, 2006).

#### **3.1 Political Instability in Bangladesh**

In its entire history Bangladesh has hardly seen or experienced any stability in its political matters. Over the decades many economists and other specialists have urged the political parties to maintain the stability but it has all went in vain. The instable politics of Bangladesh has shown us many sorts of violent, meaningless, destructive methods been used by the political parties. But the method which most frequently used to oppose the ruling party by the opposition party is known as ‘hartal’. This method has a very long history behind its back in the sub continent. More than 100 years have passed the world’s first hartal was staged. It took place in South Africa and was lead by the person who conceived the idea, Mohandas K. Gandhi, to protest the Black Act in 1906 (Roy and Hossain, 2013). Political protests in the form of strikes are still quite common in the former Indian subcontinent countries, initiated through Mohandas K. Gandhi’s movement of civil disobedience against colonialism. Locally, such political protest is known as “hartal” originated from a Gujarati word meaning “closing down shops and warehouses”. Typically hartal is associated with a mass protest of a total shutdown of economic activities and voluntary closing of educational institutes.

Though Gandhi’s non-cooperative movement was strictly non-violent demonstration of political protests, however, from the 1930s, it was often the case that coercion, violence and damage of public

and private properties occurred during hartals (Shonchoy & Tsubota) 2014. The first hartal in former East Pakistan (now Bangladesh) was called on March 11, 1948 by Tamaddun Majlish together with the East Pakistan Muslim Student League. They were then demanding the recognition of Bangla as a state language. Several other hartals were called during the course of the Language Movement. 29 hartals were called during the period when what is now Bangladesh was part of Pakistan) Rahman, 2013). These hartals are still unappeasable part of the political culture of South Asia. Along with Bangladesh, India and Nepal still face a concerning number of hartals on a yearly basis, and its occurrence is rising quite sharply over the years.

With the independence of Bangladesh, the number of hartals decreased. But it increased again from 1979 when Ershad was president. Over 100 hartals were called between 1979 and 1986. But this number dramatically shot up between 1999 and 2002, when 332 hartals were called. Due to the frequency of hartals and the disruption they caused to normal life, one Khondokar Modarresh Elahi filed a writ petition against the government before the High Court under Article 102 of the Constitution in 1999. The learned Court issued a Rule Nisi asking the government to give reasons as to why hartal should not be declared as violation of the fundamental rights as embodied in the constitution and therefore illegal. The petitioner had also stated that hartals are generally not peaceful in nature. Citizens are physically prevented from attending to their daily responsibilities. Vandalism often takes place, which causes loss to private and public properties. Law enforcement authorities are not able to provide the level of protection necessary and so citizens, out of fear, per force remain indoors. What in fact happens is that the rights of the citizens are infringed by the right of the political parties) Rahman, 2013).

Historical evidence shows that during the present democratic system initiated in 1991, the average number of Hartals per year has been more than three times higher (46 per year) compared to earlier regime. As such hartals are not a new subject to Bangladesh. What has changed is their frequency and destructiveness. While in 1947-58 period, the average number of hartal per year including local hartals was 1.5 days, in 1967-70 period 12.7 days, 1971-74 period 12 days, it became 14.4 days in 1975-86 period, 81.6 days during 1987-90 period, 72 days during 1991-94 period, 93 days during 1995-98 period, 110.6 days during 1999-2000 period. During 2001-2006 period a total of 173 days of nationwide hartals were enforced, while we could not yet collect the number of local hartals during that period. Preliminary estimate tells us, from early 2009 till date there has been 15/20 days of nationwide hartals (Rashid, 2012).

Ajoy Dasgupta had piled the information regarding number of hartals in the history of Bangladesh in Sangbadpotre Hartalchitra. This is shown in TABLE 1

TABLE 1. Number of hartals in the history of Bangladesh

Period	No. of Hartal	Period	No. of Hartal
1947-1950	1	1979-1982	48
1951-1954	5	1983-1986	52
1955-1958	16	1987-1990	245
1959-1962	1	1991-1994	216
1963-1966	6	1995-1998	279
1967-1970	38	1999-2002	332
1971-1974	36	2003-2006	86
1975-1978	1	2007-2009	1

Hartals continue to be seen as a legitimate democratic tool of protest in Bangladesh; however, it is hard to ignore the growing violence. Furthermore, the resulting closure of shops, interruption of traffic, destruction of property, and general sense of uncertainty has clearly taken a toll on the economy. In this report, we assess the impact of political instability on the economy and Bangladesh's business community (Sabet & Tazreen, 2013).

Hartal takes a significant part of this discussion because it is the most influential and devastating tool of political instability in Bangladesh. The right to call 'a hartal' -- a particular form of protest used in Bangladesh and in other parts of South Asia -- could be viewed as a legitimate democratic right. However when this right impinges on the rights of individuals to earn a living and to go about their daily lives in peace and security, a situation of 'conflict of competing rights' arises. Hartals are often called in 'the name of the people', but it is ordinary people whose movements are restricted, property endangered, and progress curbed. Children miss school, the sick miss treatment, and business miss targets. In addition, as the chapter on 'The Anatomy of Hartals' points out, the reality in Bangladesh is that the success of hartals often rests on coercion, or even the use of payment to 'hired hands' by hartal organizers to mobilize support. At the same time, hartals can also be viewed as a 'symptom' of the frustration of opposition parties at the lack of space for them to play a constructive role in democratic dialogue and the 'winner takes all' style of successive Governments. In this respect, promoting a more

constructive role for opposition in Parliament, and enabling greater freedom of expression through peaceful demonstrations and through the media could take away much of the impetus for hartals.

As an instrument of political protest, ‘hartal’ or strike has been practiced in the political arena of Bangladesh and is aggravating the economic condition. Growing pressures from the economic actors are increasingly being exerted on both the major parties to find out other alternatives. Constitutional support in favor of hartal is questionable. The politics of agitation and confrontation is 21 perhaps the single-most important factor that explains the lack investor confidence. Despite these factors political parties are still relying on hartal and have become an effective political weapon for the opposition (Khan, 2006).

Hartals of opposition party have harmed our local govt. since 5th November, 2012. They attacked the police team, government office, thana, educational institution, houses, transport, shop and cut the trees. According to government calculation, local govt. loss of six divisions of our country is about thirty crore taka. In 25 Upazila, 35 govt. offices have been attacked by them. And gross loss is about 10 Crore taka. Beside this, to set up a barricade in the road they had cut down many trees. The loss for cutting the tree is about 20 crore taka. Secretary of local govt. Abu Alam Mohammad Shahid Khan said, —It is only the govt. calculation. Many private organizations have been depreciated (Roy & Hossain, 2013). In the following chapters we will be discussing more about the economic losses caused by these hartals.

Hartal had a very or somewhat negative impact on education. Hartal prevent student from attending classes, creating increased pressure on them later on their studies and at exam time. The major impact of hartal is the postponement of exams resulting in delays in finishing school session. Hartal delayed education, which can have severe long term effects on younger people's future prospects. Education Minister Nurul Islam Nahid earlier urged the political parties not to throw any harmful programs during the ongoing Secondary School Certificate (SSC) and equivalent examinations. But no effect is seen among the political parties. Many experts on the field of education have blamed the politics of hartal for mass unsatisfactory result found in the Higher Secondary Certificate exam in 2015. In the year 2014, a lot of candidates and families of candidates were burnt to death or suffered severe injuries while travelling to attend the university entrance exams held in different towns of Bangladesh. The regular schedule of classes and exams in schools, colleges, universities are hampered because of hartals. To recover the damage, some school, colleges and universities are taking classes during the holiday. But that's not enough. Teachers fear that, students’ syllabus is not complete in the scheduled time. The education system of Bangladesh has broken down for continuous hartal declared by the

opposition party and deadly violence occurring almost everywhere in the country. This week there is only one active hartal free day. For that, every exams of SSC, National University and also other exams postponed again and again during those weeks. School authorities do not endorse these activities but appear to be helpless, because locally influential politicians exert pressure on them (Helal & Hossain, 2013).

Sometimes the political instability puts more disastrous pressure on students as in many instances students are induced or coerced to participate in demonstrations, rallies, picketing and agitation, making them vulnerable to violence and arrest by the authorities. Pro-ruling party student groups put pressure on their fellow students to resist hartals, while their opponents pressure them to join their efforts in imposing them. First year students are more prone to these pressures as they need a space in the dormitories, which expressing loyalty to student parties helps them secure (Abrar, 2005). Pursuing alternative ways of channeling political protest in Bangladesh other than hartals could allow the delayed generation to catch up.

### **3.2 Economic Development in Bangladesh**

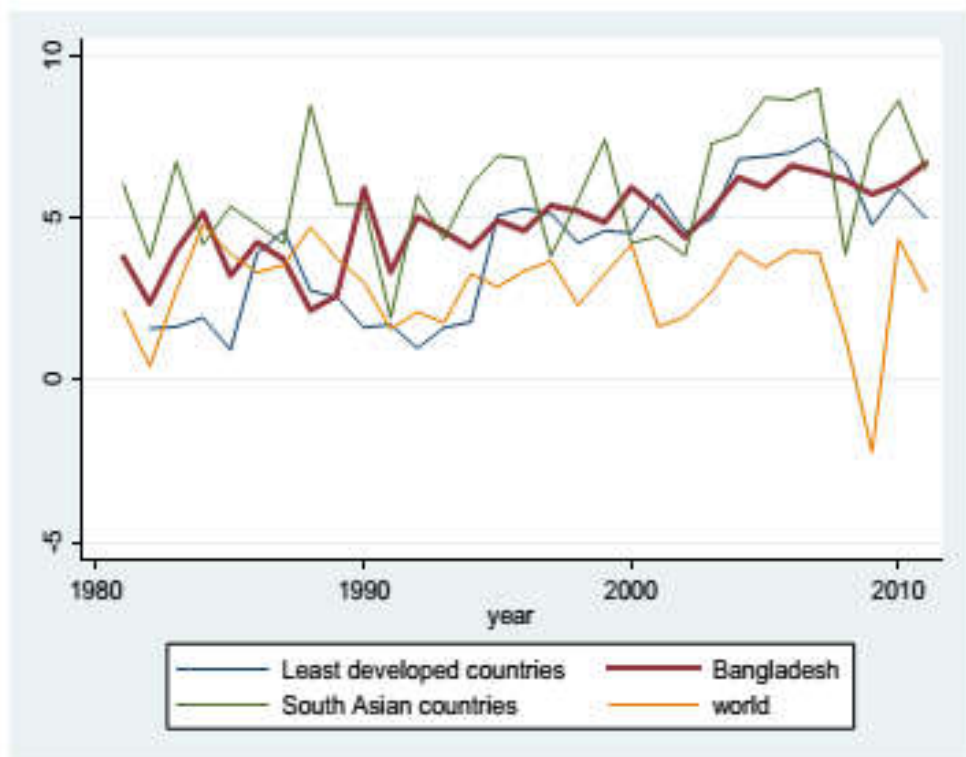
If we were to make attempt for making some kind of overview on the economy of Bangladesh, we will see it as a developing country which is classified as one of the Next Eleven emerging market. According to an opinion poll, this country is enriched with the second most pro-capitalist population in the developing world. The area of Bangladesh is 147,570 square kilometers and the population of it is more than 160 million. Bangladesh has maintained her GDP growth rate of 6 per cent from 2005 to 2014. This economy is largely led by export-oriented industrialization. The textile industry of Bangladesh is the second-largest in the whole world. Other major sectors include pharmaceuticals, shipbuilding, ceramics, leather goods & electronics. Because it is located in one of the most fertile zone on Earth, agriculture sector also plays a key role. The principal cash crops include rice, jute, tea, wheat, cotton & sugarcane. Bangladesh is in fifth position in the global production of fishes and sea foods. Remittances from the Bangladeshi Diaspora also provide vital foreign exchange in the country. In 2015, the per-capita income was USD 1,314 (World Economic Outlook, April 2015, IMF).

As part of a long term project, the present government has put emphasis on the software development and other hi-tech industries under a scheme known as Digital Bangladesh. The country has handful reserves of natural gas & coal. Many of the international oil companies are conducting production & exploration tasks in the Bay of Bengal. Neighboring countries like India & other countries are very

enthusiastic to use Bangladeshi ports as well as railways for making transshipment. Because it is situated at the crossroads of SAARC, the ASEAN, BIMSTEC, and the Indian Ocean, this country holds potentials for emerging as regional economic & logistics hub.

GDP is seen radical change since the independence. GDP and per capita had increased from USD 200 in the 1970s to USD 1900 in 2011 in terms of purchasing power parity (PPP). It has been possible because of the growth in GDP over the period. GDP growth which was around 2 per cent had increased to 3.5 per cent in the 1980s. With other development being made a change was visible when growth was spotted in case of stabilization since the 1990s (Helal & Hossain, 2013).

The GDP growth rate had jumped to 4.5 per cent in the first half of the decade and it was 5 per cent in the later half. Throughout the following decade it was standing on 6 per cent. A commendable increase of 4.5 per cent in the per capita was made as the population growth was kept officially under 1.5 per cent. The growth rate is expected to reach to 7 or 8 per cent which would certify Bangladesh as mid developed country (Helal & Hossain, 2013). Bangladesh has more stable GDP growth rate than most of the least developed countries. The following chart shows the trend of GDP growth of Bangladesh comparing with other developing and least developed countries.



GRAPH 1. Trend of GDP growth of Bangladesh



This country is the most densely populated country in the world. And more and more lands are being occupied for establishing houses, rails, roads and other factories and offices. Despite these factors Bangladesh has been viewing satisfactory growth rate in food productions. The crop production growth rate is stayed higher than the total population growth in past few years. (Helal & Hossain, 2013)

Since its independence Bangladesh has been successful in reducing the poverty as it was once thought to one of the poorest countries with poorest of people. The rate of poverty was officially stated as 82.9 per cent in 1973/74 and it started to decline since the latter half (Abrar, 2005). Along with government, efforts from local entrepreneurs and non government organizations have also helped to reduce the poverty.

As a result, the proportion of population living below the upper poverty line declined by 44 per cent between 1991 and 2010. The amount of extreme poor (per capita consumption below the lower poverty line) had come down to 17.6 per cent of the population in 2010 which was 41.1 per cent in 1991/92. Moreover, Bangladesh is staying well on track to achieve the goal to reduce poverty below 29 per cent by 2016. (Helal & Hossain, 2013)

Remittances sent by non-resident Bangladeshis are one of the reason behind this success.. Remittances sent by the overseas migrants have increased from US\$ 23.7 million in 1976 to US\$ 12.84 billion in 2012 (Bangladesh bank, 2013). The growth in remittance earning has been possible by a rapid increase in human resource exporting and overseas migration. It is important to reduce unemployment at home & accumulate valuable foreign exchange for stimulating economic growth. Bangladesh government has seen a huge progress in exporting human resources in past decade. A total number of 8.30 million labors were exported till the end of 2012. TABLE 2 shows us the statistics of remittances received by this country in past eight years.

TABLE 2. Remittances received by this country

<b>Fiscal Years</b>	<b>Foreign Remittance Earnings</b>
2007–2008	\$8.9b
2008–2009	\$9.68b
2009–2010	\$10.87b
2010–2011	\$11.65b
2011–2012	\$12.85b
2012–2013	\$14.4b
2013–2014	\$14.2b
2014–2015	\$14.23b

Bangladesh had always held a economic commercial deficit in case of exports and imports. Bangladesh has made more imports than exports. In last eight years, the picture can be cleared in the following chart

TABLE 3: Import and export in several years

<b>Fiscal Years</b>	<b>Total Import</b>	<b>Total Export</b>
2007–2008	\$25.205b	\$14.11b
2008–2009	\$22.00b+	\$15.56b
2009–2010	~\$24b	\$16.7b
2010-2011	\$32b	\$22.93b
2011-2012	\$35.92b	\$24.30b
2012-2013		
2013-2014	\$29.37b	\$30.10b
2014-2015	\$40.69b	\$31.2b

Bangladesh maintains a system that for any FDI, the investors have to register themselves with either the Bangladesh Export Processing Zone Authority (BEPZA) or by the Board of Investment (BOI). By these the investors can be provided with the help by the governments and to overcome any problems to deal with any public industry.

No estimates are reliable in calculating the FDI in Bangladesh. Different policies are maintained in the accounting by Board of Investments, Investment Corporation of Bangladesh and Bangladesh bank. The BOI has a tendency to inflate the figure of investment; meanwhile FDI flow remains underreported in the BOP statement of the Bangladesh Bank. This often does not fully record capital machineries brought in, reinvested earnings or inter-company loans under appropriate heads. The current BOP does not even keep record of investments and transactions made in the EPZs. However, using the IMF methodology the central bank remains the final authority to confirm FDI estimates (Rayhan, 2009).

### 3.3 Political instability and business development

It has been discussed in earlier chapters about the political instability in Bangladesh and the economic development of Bangladesh in previous decades. Now, is discussed about the relationship between these two factors. We can see that, these two are deeply related but inversely. This means political instability has adverse effects on economic and business development of an economy. After talking to several business leaders and businessmen of various sizes of business in Bangladesh, It can be easily said that the impact political instability is huge.

Political instability affects the business differently based on the size, type and modes of the business organizations. Such as, large garments companies have to keep their business open to deal with their international customers during hartals which is not applicable in case of smaller firms. The transport sector and small retail shops are hit very hard during these political strikes. From January 17 to March 30 of 2013, CES and Sirius had carried out a survey of 530 managing directors and chief operating officers across three industries. These are real estate development, furniture manufacturing and information technology (IT). As shown in TABLE 4, majority of business leaders (62 per cent) reported that they were “very concerned” about any political instability, which is the extreme value on one to seven scale. Industries like the furniture industry are also affected greatly in these instabilities. As shown in TABLE 5, a higher percentage of furniture companies (58.8 per cent) report being very affected, as compared with Real Estate (41.4 per cent) and IT (44.3 per cent) firms (Sabet & Tazreen, 2013).

TABLE 4. Level of concern about political instability, where 7 is very affected

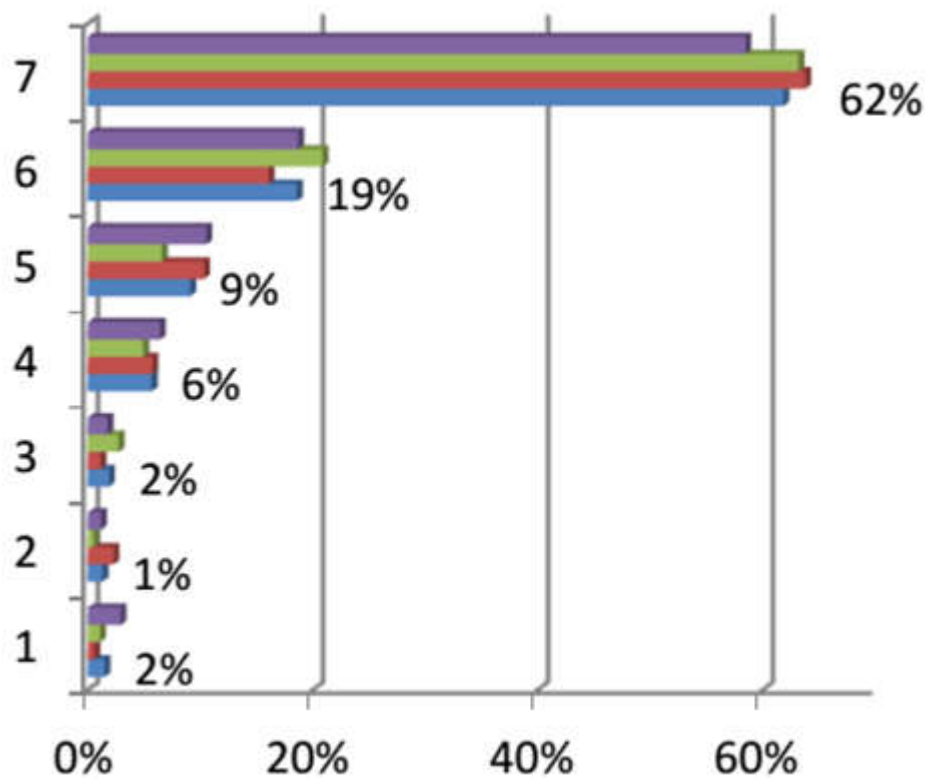
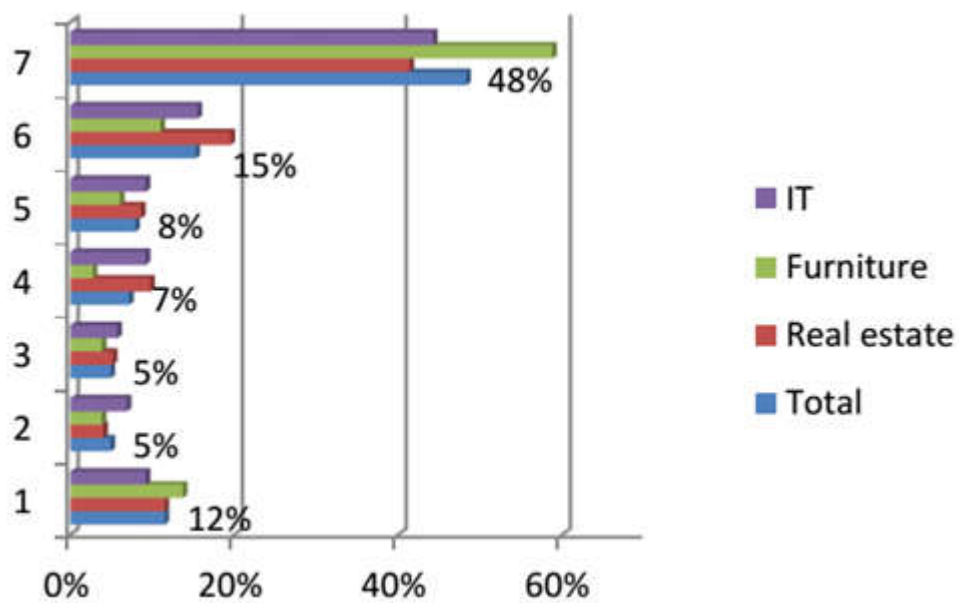


TABLE 5. Extent to which business has been affected by hartals, where 7 is very affected



Small and medium enterprise (SME) is also affected by the political instabilities. Like other scenarios, hartal is responsible in most of these cases. The small businessmen were expressing their concern and fear as the political condition may turn bad and make some violent outcome throughout the country. The business in the shopping malls were also hit hard and they saw their business not moving because only few shops in the malls were kept open in few areas. As the supply chain of key commodities was disturbed many small shop owners had to stop their business in the hartal days. Even if the shop owners wanted to keep their shop open many other probes were coming. The salespersons were absent. Customers were also coming in very small numbers. (Roy & Borsha, 2013). Many small businesses had decided to stop running business and go back to village to cultivate lands. According to UNDP research, strike had led to 3-4 per cent GDP losses during the 1990s. There were about 611 strikes from 1995 to 2002. Immense burden were created on the business sector as many shops were vandalized in hartal days (Beyond Hartal, 2005). According to Mr. S. A. Quader kiron, the secretary general of Bangladesh Shop Owners Association, an organization of 2.6 million shop owners across the country, the worst sufferers of hartal activities are them (22th April, 2012; The Financial Express).

Most of the shops also mentioned that they had to pay higher transport fees in the hartal days to carry their goods. Obviously, the impact was greater during continuous hartals, they had to pay higher price to purchase their goods from suppliers with resulting crises in terms of available working capital, and defaults on payments to creditors and suppliers. These affected the profitability of businesses. Workers faced delays in payments of wages & salaries and losses in bonus payments. In Banani, a well-to-do residential area, a slightly different picture emerged. 60 to 70 per cent reduction in sales were faced by shops in the government market, since the market stay officially closed. Other shops mentioned that, since they are located in a richer area and most of their customers normally travel by car, and do not shop during hartal hours. Cement & hardware stores, which are more dependent on transports, were affected with greater extent. Small grocery shops, however, were also more or less insulated from the effects of these hartals. Coping strategies for keeping shops open for longer hours or on holidays or spending slack time collecting orders & finishing other work by defaulting on loan payments or workers' salaries also caused crises in the working capital and capital loss (Jamaluddin, 2012).

Chittagong port, which plays a large part in the national economy were also harmed just like other commercial organizations. According to commissioner of Chittagong Custom house, Mr. Masud Malik, 8 billion taka worth of loss were made in the month of March 2013. The chairman of FBCCI (Federation of Bangladesh Chamber of Commerce and Industries) Kazi Akram Uddin Ahmed has conveyed hartal had caused stagnation in production. Lack of security is also the main reason of less clearing up. The imported goods & raw material cannot reach to the destiny safely and timely.

Businessmen fail to pay the bank loans because businesses are stopped. On an average every container carries products worth of 2.5 to 3.2 million taka according to customs officials. According to port secretary of carrying and forward unit, almost 60 billion taka worth of products stay inside the 19 thousand containers (Roy & Borsha, 2013).

The busiest land port of Bangladesh, the Benapol port has also failed to fulfill its target for collecting revenue in 2013. Where the target was Tk. 19200000000, it had only managed to collect Tk. 151300000000. This means, the deficit was Tk. 4070000000. (The Daily Prothom alo 3.4.2013). 4.07 billion taka was less collected as revenues than targeted amount in first nine months of the fiscal year 2012 to 2013. Related official claim that hartal, blocks and labor unrest are most liable for this situation. Benapol custom house has reported that 19.2 billion taka had been determined as revenue target from July 2012 to March 2013. But only 15.13 billion taka were collected. Normally 110 million taka were to be collected normally in Benapol Custom house daily. Political strikes have resulted that, less than 100 million taka were collected (The Daily Prothom alo 3.4.2013).

The tourism industry of Bangladesh has also been harmed by political instabilities. The nascent tourism industry of Bangladesh had to face long lasting damages because of civil unrest in the forms of frequent hartals and almost total inaction from government for helping the helpless tour operators. Ongoing civil unrests, hartals, associated violence; road blocks etc had jeopardized everything in the business. There were huge financial loss in total from inbound tours, domestic tours, tourists from overseas and hotel management business. The loss and harm in the industry is already colossal and would have gone beyond repair if the scenario happened to be any longer. The whole tourism industry would have ended right away. The tourism industry in Cox's Bazar was going through many hard times due to the political unrest & frequent hartals since February 28, 2013. Almost all the hotels in the town were vacant in one of the peak season of the year, the said hoteliers in Cox's Bazar. Huge amount of investments were made by all the old and new hotel businessmen for that peak season. But it all turned out to be a loss. Humayun Kabir, General manager of hotel The Cox Today had informed that, they had already faced a loss of 50-60 million taka that year. Now we can imagine what would be the figure if we had counted all the hotels in Cox's bazar.

We will now look at the export sector. First, we will see the garments sector which holds about 76 per cent of all exports done by Bangladesh. Data from BGMEA on the yearly value of woven and knit wear garment exports allows us to calculate the daily value of exports. The factories have developed different strategies to cope with and by which they had been successful to limit the potential loss. Though, unreliable market and unrest political environment can always keep any business at risk.

The pricing of products and services are also affected by the hartals caused by political parties. The rate of inflation under 2005-2006 base year had surged to 7.4 per cent in December on point to point basis & the non food inflation were at 10.03 per cent in the same month. Prices of vegetable, egg, and meat soared due to political strikes. Frequent shutdown has snapped the supply chains of the business. All items were becoming costlier. President of Karwan bazaar cooperative agency had said that transport authorities had declined to carry food products from and to different parts of the country. Which had caused a huge shortage in the supply chain (Roy & Borsha, 2013). The changes of price can be cleared via the following chart

TABLE 6. Change of prices

Item	Price (Tk per KG on 02-02-2013)	Price (Tk per KG on 02-03-2013)
Local Onion	32 to 35	40
Imported Onion	35 to 38	50
Local Garlic	70	90
Imported Garlic	130	140
Green Chilli	100	110

**Source:** (New Age, March 4, 2013 By Staff Correspondent)

Sales of consumer goods were reduced by 20 per cent (Jamaluddin, 2012). There is a reciprocal relationship between price & purchasing power. High price creates inflation in the economy, the value of taka had shrunk, that is our purchasing power was also going from being able to buy lot to being able to buy a little. It means the political instability had also reduced the purchasing powers of people of Bangladesh.

### **3.4 Political instability and economic development**

Political instability can directly hurt a country's economy by affecting the investment decisions of the firms. It takes time to make the investment decisions by the firms especially by the manufacturing firms. In instable political environment it is very difficult to determine the Net present value of an investment as there are many uncertainties regarding social conditions which make it impossible to count the rate of return. Further, the expectations on the future policy and financial return depend very much on general, socio and macro economic conditions. If the expectation is dim in future then the development in economic sector is almost impossible for any country.

The political instability always stays a prime concern in any country and always has effect in any kind of investment analysis to be made. In the earlier chapter it is showed that how the political instabilities have hampered the business environment in Bangladesh, how it has jeopardized the commercial conditions in this country. Not to mention that, the economy of a country heavily depends on how many investments are made within that economy. For the reason which makes the investment environment in Bangladesh unpleasant can also be the same reason which would hamper the economic development of the same economy. Now it is also shown the impact of political instabilities on the economic development of Bangladesh.

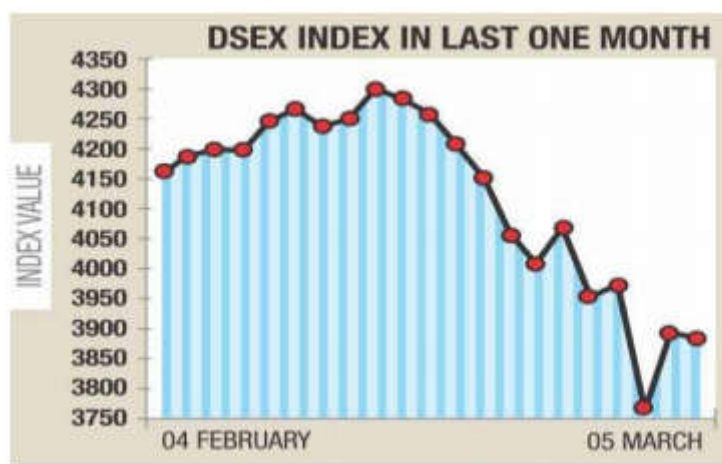
The year 2013 had been one of the most disturbing years for Bangladesh in the recent past in terms of domestic political instability caused by hartals, oborodhs and deadly violence for months. As a result, the economy had to bear the brunt in many ways. The World Bank International Monetary Fund, Bangladesh Bank (BB) and many experts have projected the gross domestic product (GDP) to be lower than 6 per cent, which is much below the target of 7.2 per cent for FY2014. Some even project that it would be lower than 5 per cent. It would have been a blow to the growth momentum though it was considered to be a paradigm in the international economy by other countries. During the last three decades, this country had obtained a 1 per cent growth per decade Which means it would be very hard to maintain this 1 per cent growth rate in the decade if we fail to reach the 7 per cent annual growth mark. This negative growth will have ramifications in every parts of economy of Bangladesh and will also hamper the goal of poverty reduction (Helal & Hossain, 2013).

It was thought that, because of historical factors, political parties would not make any instable movements in the month March but it did not happen. Total of nine days were lost in the month. The loss for each of those days was about 250 million dollar. The political instability has also made evident effect in the economy. As a result the economy was struggling to make even thirty per cent of the targeted GDP growth. Private, foreign and other domestic investments had stayed low even though



public investments were made. The long term political unrest would make it worse. Banks were sitting idle with liquidity as credit in the private business were very slow. Because investments were not being made in July-September 2012, the industrial loan movement was negative. Low number of investment show less employment and which would be a barrier in reduction of poverty (Roy & Borsha, 2013)..

The political instabilities have harmed the financial markets of Bangladesh also. Political unrestness gloomed the stock market right after it had passed out the liquidity crisis In February, 2013 Dhaka Stock Exchange (DSE), Chittagong Stock Exchange (CSE) and Bangladesh Securities and Exchange Commission (BSEC) had taken some measures for boosting the market. And as part of these, institutional investors had given scopes to overcome losses. When daily turnover went more than 500 million taka, many investors were interested. When the market was about to be cured, the political instability struck and investors went away from the markets and refrained themselves from investments. As a result the index came low. Due to hartal, companies had faced losses because of reduction in productions. As a result the share prices of the companies had gone down. Like the rest of the country, the stock market were also doomed with the political instability (Roy & Borsha, 2013).



**Figure: Index of Dhaka Stock Exchange, 2013.**

GRAPH 2: Index of Dhaka Stock Exchange, 2013

The country had passed 11 days in hartal from 4<sup>th</sup> February, 2013 to 5<sup>th</sup> March, 2013 and the DSEX lost 6.07 per cent. (the daily star). The Dhaka Stock Exchange general index had fallen to new lows which is because, according to analysts, political unrest had undermined investors' confidence. Only nine

regular working days were available in March, which made buyers and investors think reasonably to invest their business and investment dollars elsewhere. According to US Ambassador Dan Mozina- this is not how to build an Asian tiger.

The National Board of Revenue also failed to collect the taxes, Vat and other duties in these months to their expected level. The political unrestness, sluggish investment conditions were the reason behind this.

TABLE 7. Revenue Collection Amount

Sectors	Revenue Collection Amount	Target	Deficit
Custom Duties	Tk. 209.85 Billion	Tk 223.77 billion	Tk 13.92 billion
VAT	Tk. 231.10 billion	Tk 252.57 billion	Tk 21.47 billion
Other Sources	Tk 3.88 billion	Tk 6.38 billion	Tk 2.5 billion

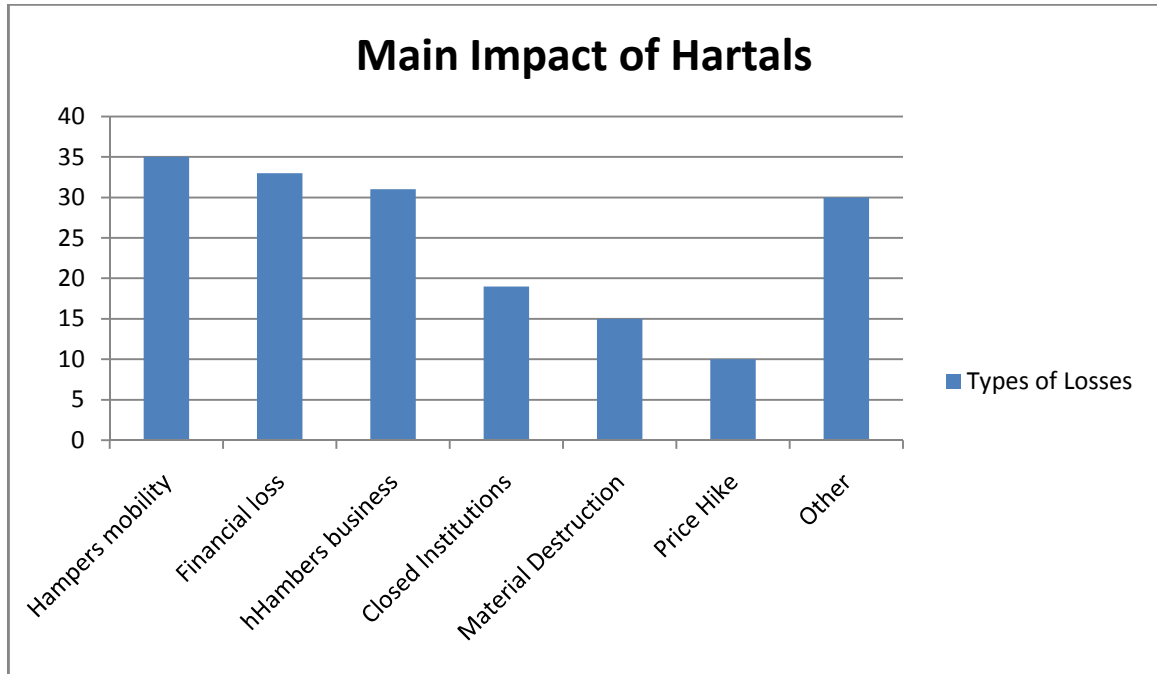
Such a huge deficit makes the revenue board officials apprehended about the achieving the target of collecting Tk 112259 crore in the current fiscal year set by the NBR (28<sup>th</sup> March, 2013, New Age).

The GDP of the country also decreased because of all these political instable activities. In a survey conducted by DCCI (Dhaka Chamber of Commerce and Industries) it was found that a total of 6.5 per cent GDP had been lost in one year. The DCCI chief accused that most of the political movements were done in economically and commercially important spots in the city. This was halting the commercial activities and hampering the economy. (Bhattacharya, 2013).

Economists used to make positive and clearer forecast on Bangladesh economy. But on February of 2015, the GED had lowered the country's forecast on economic growth under the Perspective Plan 2010-2020. In the next financial year (FY) 2015-16, the forecast was cut from 8.3 per cent to 6.6 per cent. The revision had been attributed to the slower growth in the last couple of years (2013 and again in 2015), as a result of the ensuing political instability (Amit, 2015). For February 2015, the remittance had fallen short by USD 1.18 billion, which was even lower by USD 64.62 million compared to the estimated for January. Hard-working Bangladeshi migrants become even reluctant to send money home in these event of a prolonged crisis.

#### 4 COMPARISONS OF THEORY AND SITUATION IN BANGLADESH

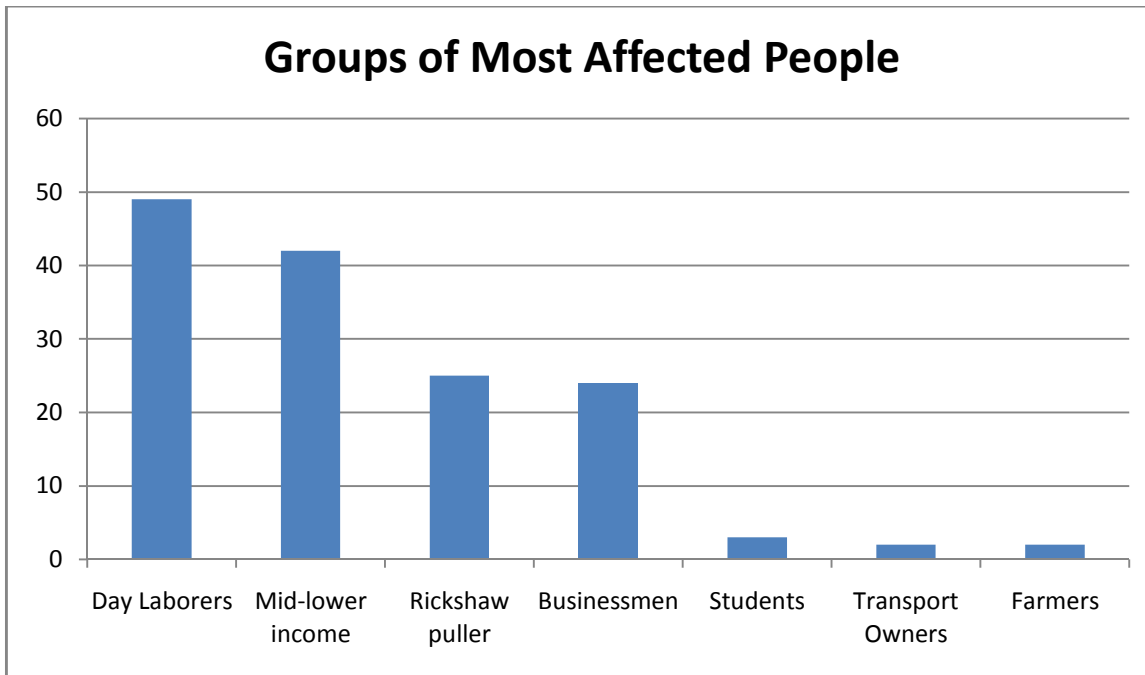
One of the key objectives of this paper is finding out the economic and social costs which this country has to bear on regular basis. And to do that, I have collected data on that issue for past few decades



GRAPH 3: Main impacts of hartals

On one hand, industries across very diverse types are very concerned about the present instability and many businesses are being stopped and bearing the costs of suspended operations. Furthermore, even when the operations continue, firms also have problems in transporting their goods; they can suffer direct attacks; and they also risk lost investment because of the poor business climate.

Another analysis was made to find out which types of people are most harmed by these political instabilities like hartals. The result is given in GRAPH 4.



GRAPH 4: Group of most affected people by political instability

Over 80 per cent of the people in Bangladesh think that this country sees more hartals than any other country in the world. And most of them think that there are many constructive and useful ways to prevent the hartals from happening. Non-violent political protests are most favored way to show protest against government among general people. They also wish that these political parties would sit together to discuss the political issues and find a peaceful solution. This indicates a clear desire to resolve conflict through dialogue and non-coercive peaceful protests rather than resorting to hartals (Amit 2015).

The empirical results are showing that a growth in public compensation is tending to reduce the growth, which makes us to point up the major ineffectiveness of public expenses that does not seem to hit productive field. In fact, to exemplify the harmful impact to public ingesting, we could refer to economic literature which might consider the public consumption might positively affect the growth in long run. A different elucidation is needed for why a lack of economic growth does not spur political unpredictability. This sort of relationship has been accepted in several studies as referred to in the literature review, but does not seem to exist in Bangladesh. Looking at the 18 coups d'état, 4 of which are enclosed in the possibility of this study, none of them had an understandable economic explanation. The coups were not results of unsatisfactory economic growth, but rather of political motives and power scraps (Bhattacharya 2013).

Theories of provocative politics often discern between civil protests on one hand & civil violence on the other, disagreeing that these forms of communal strokes involve assorted kinds of actors, might have unlike causes, and that each can also cause the other. In some cases, a single event could represent more than one of these forms of instability; for example, a changeover from democracy to autocracy can occur by martial coup (Bhattacharya 2013).

It is useful to keep the effort moving to decide cases of “major” government changes or other modes of partisan instability from “routine” turnovers of leadership with no important changes in the conceptual alignment of governments. The efforts have been, so far, sensibly successful in the sense that the fallouts using our new mutable improve, on some estates, relative to those gotten with the other variable. By discounting such reshufflings, one miscalculates the quantity of political improbability. In other cases minor combination reshufflings do not infer any noteworthy amount of real political improbability and unpredictability. But, in case of Bangladesh it cannot be said in that way; since most of the political turbulences are caused by political parties working against the ruling party (Bhattacharya 2013).

Few previous studies have inspected the relationship between economic growth and small-scale acts of civil violence. In the proportional democratization prose, it is measured nearly axiomatic that the forecasts for a democratic changeover improve during financial crises and deterioration during boom times (Amit 2015).

The consequences help elucidate why development in monocracies is analogous in mean but more variable than in democracies. The consequence driven economic cycles in democracies, commands that characteristically institutionalize both parallel and perpendicular answerability are much slighter than the consequence driven economic series in autocracies, which often lack both answerability mechanisms.

## 5 CONCLUSIONS AND RECOMMENDATION

An extensive literature discovers how command type, dichotomized as democracy and autocracy, affects political stability and hence economic growth. Political stability has a vigorous and noteworthy total effect but a trivial direct effect on growth. The results recommend that political constancy affects economic development circuitously by its stimulus on particular overruling variables. From the secondary reckonings we see that political solidity is a momentous predictor both speculation rates as well as public spending. In this segment we inspect how short- and long-run attentions help us refine our reference point results. It has been investigated the effects of postulating wrapped values of the casual instability measures instead and we have determined that this does not affect our main outcomes.

Though it is not literally impossible but eradicating political instability from Bangladesh is an extremely difficult task. Given that, political instabilities and events like hartals will be happening in Bangladesh, the firms need to take more precautions and take strategies on how to deal with situations like these. Following measures might come handy here ;

- **Identifying the Risk:** In this first stage, risk managers identify the main political risks by geography. The key question at this stage is: “How can political actors or conditions directly affect our objectives?” Risk managers can develop an inventory of political risk types, ranging from capital controls to increased taxation to strikes and protests to wars and terrorism, to scan the horizon for potential risks.
- **Avoiding Political Risk with Control Procedures:** Companies need to be practical and avoid states with overt party-political risk. The large companies use urbane scoring systems to appraise political risk in areas.
- **Dealing with Risk as Ongoing Procedure:** Sometimes it’s tough to avoid partisan risk, so politicians need to come to terms with the fact that they won't be able to recognize every political danger.
- **Understanding Political Risk Movement:** Firms need to accept the macro and a micro political jeopardy environment. Micro level risks affect industries or missions; macro level jeopardies affect the whole economy. .
- **Diversify Political risks:** Politicians need to expand their partisan risks: companies that have premeditated business units in numerous topographies need to recognize their cost base.
- **For Insurance Companies:** Many profitable or other establishments or persons may have their insurances as a backup for the losses. But by this procedure, the insurance companies would

have to face huge amount of damages. The insurance companies also have to alter the policies concerning political violence.

Political instability has a significant indirect effect on economic growth through its positive effect on investment rates. The results also suggests that, counter to theory if political stability increases by one unit, government spending will increase. However it is important to note that this negative effect that political stability has over government spending rates is more than compensated for by the positive effect this variable has on investment rates. The non-linear relationship between democracy and growth does not seem to exist when the sample is limited to developing countries like Bangladesh. Government effectiveness did have a significant direct effect on economic growth but proved to have little effect on the intervening variables.

Political instabilities are harmful through its adverse effects on total factor productivity growth by discouraging physical and human capital accumulation. The main channels of transmission from political instability to economic growth by identifying and quantitatively determining, this paper contributes to a better understanding on how politics affects economic performance.

If we do the similar analysis using daily or monthly data instead to find out the effect of political instability on economic growth might have a more short-term or temporary significance. Of course, future research and studies should focus on the relationship between political instability, economic growth and financial development in a panel of developing countries. Obviously, the data requirements are very essential, with most developing countries lacking historical data even on key figures, such as per capita GDP.

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