

IDE Research Bulletin

Research Summary based on papers prepared for publication
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Impact of political protest: A case study of Bangladesh

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March 2018

IDE-JETRO

IDE Research Bulletin

Impact of Political Protests: A case study on Bangladesh.

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Brief overview or summary of the projects:

Political protests in the form of strikes, locally known as *hartals*, remain quite common in the former Indian subcontinent countries. Such a form of protest is associated with a mass movement intended to cause a total shutdown of economic activities and closure of educational institutes, and often results in coercion, violence, and damage to public and private properties. *Hartals* have been instrumental in strengthening the democratic progress in sub-continent during and after the anti-colonial struggles. However, even long after the post-colonial periods had ended and democracy restored, *hartals* remain a prominent part of political culture for this part of the world. Along with Bangladesh, both India and Nepal still face a concerning number of *hartals* on a yearly basis, and their occurrence have risen quite sharply over the years (Rudolph and Rudolph 1987).

The objective of this study is to understand the impact of political protest in the form *hartal* and systematically analyzing the impact on the economy. Since hartal negatively impacts outputs, inputs and supply chains, we use a host of indicators -- namely stock price as an output indicators and movement of domestic price of essentials as a supply chain indicator - in such a way that these variables encompass all the potential effects on these two aspects of production process. Since occurrence of '*hartals*' is a high frequency variable (i.e., daily) hence, in order to have a cleaner identification strategy for its impact, particular attention has been paid to those variables where high frequency data is available.

Paper 1: Political Instability and Stock Market Returns: Evidence from Firm-level Panel data of Securities in Bangladesh

Conflict, political uncertainty and its impact on stock market has been a subject of interest in the literature. However, no study has yet explored the impact of political strikes on stock market outcomes. Political strike -- locally known as *Hartal* in Bangladesh -- is a different form of conflict than war or street protest, which is recurrent in nature. Using Dhaka Stock Exchange daily trading data of firms for the period 2005–2015 and controlling for a host of variables such as day, month, year, day-of-year trend and firm fixed effects, we find that political strike has a negative and statistically significant impact on stock market return. Our results show that, on the day of a political strike, stock market return drops about 0.14% which is economically sizable. This effect gets pronounced as the frequency of strike increases, based on week, month or year count of occurrences. Impact heterogeneity reveals that large firms are affected more from *hartals* compared to smaller firms.

Paper 2: Distributional Impact of Political Violence: Evidence from Differential Impacts on Commodity Price

The economic cost of political violence is well documented, studying its effect on a myriad of economic indicators such as manufacturing productivity, export performance, comparative advantage, cost of production, etc. While these are very important issues capturing largely long run effect of the political violence, short run welfare loss of the citizen due to political instability is mostly absent from the literature. One salient channel

through which political instability impacts welfare is the price of essential food items. Our study uses political strikes of Bangladesh to examine its impact on rice price. We particularly use three types of rice - fine, medium and coarse to capture how the impact varies with the quality of rice and thus different income groups of buyers. We use daily retail and weekly wholesale price data of each district from Department of Agricultural Marketing (DAM) for the period 2010–2016 and pair them up with the incidence of strike data compiled by Ahsan and Iqbal (2016). The richness of this high frequency data allows us to control for all types of time and district invariant confounders using fixed effects. The results show that on the day of strike, rice price increases and this increase is higher for coarse rice. It indicates that the political strikes is costly for the ordinary citizen and the cost is disproportionately large on the poor more, who are the consumers of lower quality rice.