



Impact of War in Afghanistan and Ensuing Terrorism on Pakistan's Economy

The conflict and instability in Afghanistan in the aftermath of 9/11 attacks and their regional implications had very negative repercussions for the years following the US invasion of Afghanistan not only saw a huge influx of Afghan refugees across the border into Pakistan but also witnessed a sudden spike in the frequency and scale of terrorist attacks in Pakistan. The cumulative impact of these developments adversely impacted the overall growth rate in all major sectors of the economy. Pakistan continues to pay a heavy price both in the economic and security terms due to this situation and a substantial portion of precious national resources both men and material, have been diverted to address the emerging security challenges for the last several years. The rise of violent extremism and increase in terrorism in Pakistan due to instability in Afghanistan not only caused serious damage to Pakistan's economy but has also been responsible for wide-spread human suffering due to indiscriminate attacks against the civilian population.

This situation disrupted Pakistan's normal economic and trading activities which not only resulted in higher costs of business but also created disruptions in the production cycles, resulting in significant

delays in meeting the export orders around the globe. As a result, Pakistani products have gradually lost their market share to their competitors. Consequently, economic growth slowed down, demand for imports reduced with declined tax collection and inflows of foreign investment. Investment outflow and negative trends of out sourcing of capital in Pakistan has further added to the woes of dwindling performance of the export oriented industry.

In order to assess the impact of the incidents of terrorism on the economy of Pakistan during the past several years, Finance Minister constituted a committee under the chairmanship of Adviser to Finance with Economic Adviser as Secretary/Member and also members from Ministries of Interior, Foreign Affairs, Commerce and Inter-Provincial Coordination. Ministries of Interior, Foreign Affairs, Finance, Commerce and other relevant departments have estimated the impact of conflict in Afghanistan and the ensuing terrorism on exports, foreign investment, privatization, industrial output, tax collection etc. and updated the estimates for FY12, FY13 and FY14. Summary of year wise losses is presented in Table -1.

S.No	Organization	Years			Total
		2011-12	2012-13	2013-14*	
1.	Exports	1237.00	730.00	323.13	2290.13
2.	Compensation to Affectees	24.28	20.96	13.97	59.21
3.	Physical Infrastructure	1266.18	766.99	437.36	2470.53
4.	Foreign Investment	4597.00	210.00	3260.00	8067.00
5.	Privatization	277.00	4719.46	0.00	4996.46
6.	Industrial Output	331.69	308.49	129.61	769.79
7.	Tax Collection	2431.76	2315.79	1732.39	6479.94
8.	Cost of Uncertainty	121.83	50.34	32.61	204.78
9.	Expenditure Over run	111.96	324.58	207.98	644.52
10.	Others	1398.88	522.00	556.65	2477.53
Total Losses		11797.58	9968.61	6693.70	28459.89

*Estimated on the basis of 9 months actual data (July-March)

Source: M/o Finance, M/o Interior, M/o Foreign Affairs, Joint Ministerial Group

During the last 13 years, the direct and indirect cost incurred by Pakistan due to incidents of terrorism

amounted to US\$ 102.51 billion equivalent to Rs. 8,264.40 billion. Detail is given in Table-2.

Table-2: Cost of War (2001-2014)

Years	\$ Billion	Rs. Billion	% Change
2001-02	2.67	163.90	-
2002-03	2.75	160.80	3.0
2003-04	2.93	168.80	6.7
2004-05	3.41	202.40	16.3
2005-06	3.99	238.60	16.9
2006-07	4.67	283.20	17.2
2007-08	6.94	434.10	48.6
2008-09	9.18	720.60	32.3
2009-10	13.56	1136.40	47.7
2010-11	23.77	2037.33	75.3
2011-12	11.98	1052.77	-49.6
2012-13	9.97	964.24	-16.8
2013-14*	6.69	701.26	-32.9
	102.51	8264.40	

* Estimated on the basis of 9 months actual data (Jul-Mar)

Source: M/o Finance, M/o Interior M/o Foreign Affairs
Joint Ministerial Group

Pakistan needs enormous resources to enhance productive capacity of the economy by repairing damaged infrastructure and to create a favorable investment climate. The security situation will be the key determinant of future flow of the investment. Pakistan's economy needs an early end to the conflict in Afghanistan as well as its negative impact over regions bordering Afghanistan in the form of violent extremism and terrorism for revival of the economy and to keep stability in the system.