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Special Section

Cost of War on Terror for Pakistan Economy

Pakistan's economy is under pressure of the War on Terror intensifying for last four years in Afghanistan. Since 2006, the War has spread like a contagion into settled areas of Pakistan that has so far, cost the country more than 35,000 citizens, 3500 security personnel, destruction of infrastructure, internal migration of millions of people from parts of northwestern Pakistan, erosions of investment climate, nose diving of production and growing unemployment and above all brought economic activity to a virtual standstill in many part of the country. Pakistan had never witnessed such devastating social and economic upheaval in its industry, even after dismemberment of the country by direct war.

After 9/11 Pakistan had to assume the role of a frontline state in the War against Terror. The onset of the War disrupted Pakistan's normal trading activities, as the cost of trading increased substantially because of higher insurance cover. Consequently, economic growth slowed demands for imports reduced with consequential decline in tax collection and inflows of foreign investment were naturally adversely affected, accentuated by the travel bans issued by western governments to its entrepreneurs.

While the economic situation was worsening, a new elected government took power in 2008 and the Ministry of Foreign Affairs constituted an inter-ministerial committee to assess the direct and indirect cost of the War on Terror on Pakistan. The Ministries of Finance, Interior, Commerce and some other relevant government departments plus the representatives of two provinces bordering turbulent Afghanistan participated in these deliberations. After few sessions and valuable inputs from all sides, the committee estimated the cost of War on Terror and its impact on Pakistan's economy and society.

The conclusion was that the War not only caused serious damage to the economy, but also to the social fabrics of Pakistan. Obviously, continuity of War will continue to bleed the economy and society of Pakistan.

At the start of the War, the cost of it to Pakistan was estimated at \$ 2.669 billion in fiscal year 2001-02. This calculation was based on the assumptions that: (i) The War in Afghanistan that begun on October 7, 2001 will end swiftly by December 2001; (ii) normalcy will resume from January 2002; (iii) the Taliban government will be ousted and some low intensity fight will continue but life in Pakistan will remain normal; and (iv) the additional increase in freight cargo and war risk premium will be removed. The above-mentioned assumptions were not materialized and instead the war on terror continued to gain momentum and became more precarious for the entire region in general and Pakistan in particular as it shifted to its settled areas to disrupt all kind of investment and economic activity. Pakistan became more insecure in its efforts to make the world a safer place to live.

Pakistan continued to pay a heavy price in terms of both the economic and security terms. A large portion of its resources, both men and material are being consumed by this war for the last several years. The economy was subjected to enormous **direct and indirect costs** which continued to rise from \$ 2.669 billion in 2001-02 to \$ 13.6 billion by 2009-10, projected to rise to \$ 17.8 billion in the current financial year (2010-11) and moving forward, the direct and indirect costs to the economy is most likely to rise further. The comparison of cost for 2001-02 and 2010-11 is given in Table-1 and the year-wise cost of war on terror is documented in Table-2:

Table 1: Cost of War Estimate in 2001-02 and 2010-11(\$ Billion)

	2001-02	2010-11 (Est.)
Exports	1.40	2.90
Compensation to Affectees	0.00	0.80
Physical infrastructure	0.00	1.72
Foreign Investment	0.15	2.10
Privatization	0.50	1.10
Industrial output	0.11	1.70
Tax Collection	0.25	2.10
Cost of Uncertainty	0.10	2.90
Expenditure Over run	0.11	1.60
Others	0.10	0.90
Total:	2.72	17.82

Source: Ministry of Finance

Table-2: Cost of War (2001-2011)

Years	Billion \$	Billion Rs.	% Change
2001-02	2.669	163.9	-
2002-03	2.749	160.8	3.0
2003-04	2.932	168.8	6.7
2004-05	3.410	202.4	16.3
2005-06	3.986	238.6	16.9
2006-07	4.670	283.2	17.2
2007-08	6.940	434.1	48.6
2008-09	9.180	720.6	32.3
2009-10	13.560	1136.4	47.7
2010-11*	17.830	1528.0	31.5
Total:	67.926	5036.8	

* Estimated on the basis of 8 months actual data

Source: MoF, M/o Foreign Affairs Joint Ministerial Group

During the last 10 years the **direct and indirect cost** of war on terror incurred by Pakistan

amounted to **\$ 67.93 billion** or **Rs.5037 billion**. The events that transpired after 9/11 in Afghanistan worsened the security environment in the country. As a result, the western countries including the United States continued to impose travel ban for their citizen (*investor, importers etc.*) to visit Pakistan. This has affected Pakistan's exports, prevented the inflows of foreign investment, affected the pace of privatization program, slowed the overall economic activity, reduced import demand, reduced tax collection, expenditure over-run on additional security spending, domestic tourism industry suffered badly, hundreds; and thousands of jobs could have been created had economic activity not slowed as well as thousands of jobs were lost because of the destruction of domestic/foreign tourism industry; destruction of physical infrastructure (military and civil) massive surge in security related spending; migration of thousands of people from war affected areas and the associated rise in expenditure to support internally displaced persons.

Pakistan's investment-to-GDP ratio has nosedived from 22.5 percent in 2006-07 to 13.4 percent in 2010-11 with serious consequences for job creating ability of the economy. Going forward, Pakistan needs enormous resources to enhance productive capacity of the economy. The security situation will be the key determinant of the future flow of the investment. Pakistan economy needs an early end to this war.