

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 could not be picked up as planned. Investment outflow and negative trends of outsourcing 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, the estimates for FY15 has been prepared in consultation with all relevant Ministries / Departments / Provincial Governments / Autonomous bodies etc. Summary of year wise losses is presented in Table -1.

S.No	Organization	Years		Total
		2013-14	2014-15*	
1.	Exports	0.53	0.73	1.26
2.	Compensation to Affectees	0.04	0.01	0.05
3.	Physical Infrastructure	0.42	0.50	0.92
4.	Foreign Investment	2.01	0.09	2.10
5.	Privatization	0.00	0.00	0.00
6.	Industrial Output	0.03	0.02	0.05
7.	Tax Collection	2.52	2.00	4.52
8.	Cost of Uncertainty	0.07	0.002	0.07
9.	Expenditure Over run	0.29	0.62	0.91
10.	Others	0.72	0.55	1.27
Total Losses		6.63	4.53	11.16

*: 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 14 years, the direct and indirect cost incurred by Pakistan due to incidents of terrorism amounted to US\$ 106.98 billion equivalent to Rs. 8,702.75 billion. Detail is given in Table-2.

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. After adoption of National Action Plan by the All Parties Conference (APC) and its subsequent implementation which is overseen by the apex committees of the provinces. There have been improvements in the overall security situation in Pakistan in the recent months as a result of concerted actions by the Government of Pakistan. However, peace and stability in Afghanistan and the region are vital for the complete revival of Pakistan's economy and to keep stability in the system.

Table-2: Estimated Losses- (2001-2015)

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	6.63	681.68	-33.5
2014-15*	4.53	457.93	-31.7
Total	106.98	8702.75	

* Estimated on the basis of 9 months actual data

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