

The Social, Political and Economic Effects of the War on Terror: Pakistan 2009 To 2011

Mr. Tariq Khan¹

Abstract

Pakistan has been fighting the war on terror, as a front line state, since September 2001. So far, the war has brought huge destruction to Pakistan by slowing down the economic growth, devastating the social structure, and harming the country politically. This paper attempts to study the social, political, and economic effects of the war on terror on Pakistan from 2009 to 2011. During this period, intensity of the war increased and it spread into the settled areas of Pakistan. Federally Administered Tribal Areas (FATA) and Khyber Pakhtunkhwa (KPK) suffered the most. This qualitative paper shows a significant negative relationship between terrorist activities and economic growth, social progress, and political advancement.

¹ Mr. Tariq Mehmood holds master's degree in Public Policy from National Graduate Institute for Policy Studies (GRIPS), Tokyo, Japan. He is a member of the Provincial Civil Service of Khyber Pakhtunkhwa.

Introduction

Terrorism means harassment, destruction, suicide attack and killing of innocent people on no reasons.¹ Terrorism disturbs the inhabitants, damage infrastructure, cause a decline in economic well-being, bring political instability, and break the social fabric of the society. Terrorism affects the economic growth of a country by lowering foreign direct investment, capital formation, investment and increases risk perception. When we look around the world from a historical perspective, we see that war affected countries, whether in Africa, Asia, Europe or any other region have suffered alike. More terrorist attacks at private citizens, property, transport and airports are related to lower capital formation and low GDP per capita growth.² The International Monetary Fund (2001) estimated the direct costs of September 11, 2001 attacks on US as equal to \$21.4 billion while, Navarro and Spencer (2001) found that the loss of capital stock was \$50 billion to \$53 billion.³

Pakistan has been fighting the war on terror since September 2001. So far, the war has cost the country the lives of more than 35,000 citizens and 3,500 security personnel, besides destruction of infrastructure and \$67.93 billion direct economic loss.⁴ Pakistan is facing terrorist attacks including suicide bombing which has deteriorated law and order situation and the foreign investors are reluctant to invest in Pakistan. The military operations against the terrorists displaced millions of people from Swat district of KPK and FATA. Terrorist activities also shattered Pakistan image in the international community.⁵ Terrorism has threatened the peace, stability and well-being of Pakistani society.⁶

The topic is significant because it has substantial policy implications for the country as the period of the war on terror is

getting longer and Pakistan's economic, political and social setup is being devastated with each passing day. Pakistan is a low-income country and the war on terror has further intensified her economic problems. Due to low economic growth, foreign borrowings have increased while Pakistani exports, capital formation and private investment have decreased. Terrorists have challenged the writ of the state and thus the soft image of Pakistan has been tarnished.⁷ Though researchers like Pasha (2010) have endeavored to study the effects of war on terror on Pakistan, recent papers on the subject are not available particularly from 2009 onwards.⁸ The purpose of this paper is to identify the social, political and economic effects of the war on terror on Pakistan and to address the knowledge gap from 2009 to 2011.

The specific research question is as follow: What are the social, political and economic effects of the war on terror for Pakistan for 2009 to 2011?

Theoretical Considerations and Methodology

Charles Townshend (2002) defined terrorism as “the calculated use or threat of violence to inculcate fear, intended to coerce or intimidate governments or societies” (P.5).⁹ In the same way terrorism means to impose ones owns interpretation of religious doctrines, political culture, social values and economic system upon the society through violence and fear. Michael (2007) defined terrorism as “public harassment, wave of agitation, protest against the government, damage to public and private property in order to draw the attention of the authorities” (P.37).¹⁰ He further found that terrorism is contrary to the peaceful political setup and destroys the political structure of a society. Terrorism inhibits economic growth and capital formation. From 1970 to 2005 the world witnessed

nearly 20,000 terrorist incidents which resulted in more than 90,000 casualties or injuries. It ranged from the hostage takeover during the 1972 Munich Olympics to the 2002 and 2005 tourist bombings in Bali. They further found that terrorism is indeed associated with adverse economic effects.¹¹

League of Nations Convention defined terrorism in 1937 as “all criminal acts directed against a state and intended or calculated to create a state of terror in the minds of particular persons or a group of persons or the general public”(Article 1(2)).¹² The United States Department of Defense defines terrorism as “the calculated use of unlawful violence or threat of unlawful violence to inculcate fear, intended to coerce or to intimidate governments or societies in the pursuit of goals that are generally political, religious, or ideological”. Further, the British Government defined terrorism in 1974 as “...the use of violence for political ends, and includes any use of violence for the purpose of putting the public or any section of the public in fear”. Moreover, the United Nations defined terrorism in 1992 as “an anxiety-inspiring method of repeated violent action, employed by (semi-) clandestine individual, group or state actors, for idiosyncratic, criminal or political reasons, whereby - in contrast to assassination - the direct targets of violence are not the main targets”.

The existing literature shows that there is no officially or universally agreed upon definition of terrorism. It is believed that one man’s terrorist is another man’s freedom fighter. For example, a fighter in Palestine is a terrorist for United States and Israel but he is a freedom fighter for the Palestinians, the Arab world and their supporters. In short, terrorism means spreading violence, killing

innocent people, destroying property and inculcating fear among the inhabitants through coercive means.

This qualitative paper will analyze the connection between terrorism and economy of Pakistan by analyzing its impact on agriculture, manufacturing, tourism sector, foreign direct investment, increased defense expenditures and stock market. These are the primary sectors of Pakistan economy and any terrorist activity has a negative impact on these sectors. Pakistan is an agrarian economy and 45 percent of the population depends on agriculture for earning livelihood. During 2009 to 2011 the imposition of frequent curfews, shelling and firing destroyed fruits and other agriculture commodities in Swat valley. It had a negative impact on the local economy and also caused unemployment. From 2009 to 2011 foreign direct investment decreased as terrorism spread fear among the people and foreigners were reluctant to invest in Pakistan. Stock market also suffered due to high profile killings like that of Benazir Bhutto, ex-premier of Pakistan. Due to large scale military operations against the militants, defense expenditures increased manifold which ultimately decreased the development budget. Annual budget for the police force also increased significantly. Similarly, terrorism also affected tourism and manufacturing sectors.

This paper will further look into the impact of the terrorist activities on social sector. Pakistan lost more than fifty thousand citizens and military personnel. Terrorists destroyed a number of schools in KPK and FATA which also spread fear among the school going children. Due to terrorist attacks on the private property people lost their businesses and unemployment increased. Military operations against the militants uprooted millions of people in KPK

and FATA which brought economic, social and psychological sufferings to them. Moreover, this paper also focuses on the political impact of the war and analyzes the domestic, regional and international impact of the war on terror on Pakistan.

It is difficult to calculate the exact number of economic losses due to war on terror. Though the Ministry of Finance, government of Pakistan has proclaimed the economic loss of the country, due to war on terror, as \$67 billion but it did not mention how the cost was calculated. It is important to mention that besides war on terror there were other vital factors like international financial crisis in 2008, energy crisis and high floods of 2010 etc. which also negatively affected the economy of Pakistan. It is difficult to separate the effects of war on terror from the effects of other factors. It should not be assumed that war on terror was the only factor which negatively affected the economy of Pakistan.

Moreover, not much research has been done on the subject in Pakistan. I reviewed the available relevant literature from international journals, research papers, the World Bank, Ministry of Finance and Pakistan Bureau of Statistics. This paper will ultimately show that there is negative connection between terrorism and economic, political and social growth. Terrorism is a real threat to the existence of Pakistan and it must be taken seriously by the policymakers.

Impact Analysis of the War on Terror on Pakistan

The ongoing war on terror has left deep negative social, political, economic, and psychological implications for Pakistan. Details of the impact can be seen in Table 1.

Table1: Impact of Terrorism

Sectors	Impact of terrorism
Economy	Negative impact on earnings, consumption, tourism, foreign direct investment, security expenditures etc.
Political impact	Negative impact on the country's image at the local, regional and international level
Social impact	Negative impact on employment, poverty, infrastructure and has high human cost
Psychological well-being	Negative impact on human health and causes traumas, stress and headache

Source: Ali (2010), Barth et al. (2006), Bari (2009) & Michael (2007)

Social Impact of the War

Incidence of Terrorism and Human Cost: The intensity of terrorism increased in Pakistan in 2009 as the country experienced mega terrorist's attacks on the General Headquarters of Pakistan Army, Sri Lankan cricket team in Lahore and on Manawa Police Training Center, Lahore.¹³ PIPS data also shows that fifty four political leaders and activists were assassinated in FATA and KPK. In FATA, 559 terrorist attacks took place which killed 644 people and injured 1046. In KPK, in 1137 attacks 1438 people were killed. Further, in 2010, 459 attacks killed 836 people in KPK. In FATA, 904 people were killed and army convoys check posts and pro - government elders were frequently attacked. PIPS data shows that in 2012, 1577 terrorist attacks killed 2050 people. In KPK, 456 attacks killed 401 people while in FATA, 388 terrorist attacks killed 631 people. Frequent terrorist attacks brought negative economic, political, social and psychological consequences for Pakistan by

destruction of property, infrastructure and sluggish economic growth.¹⁴

Rate of Unemployment: In 2007, Greenbaum, Dugan & LaFree examined the impact of terrorism on employment and business outcomes in Italy from 1985 to 1997 and found that terrorist attacks decrease employment opportunities.¹⁵ Employment is more of a social issue than an economic one as it affects the lives of all people alike. In Pakistan unemployment increased from 3.12 million in 2009-10 to 3.40 million in 2010-11.¹⁶ Table 2 shows that due to increased terrorist activities in the urban areas of Khyber Pakhtunkhwa, unemployment increased from 0.10 million in 2009-10 to 0.12 million 2010-2011. However, the data for FATA is not available. It can be easily predicted, from the intensity of terrorism, that thousands of people would have become jobless in FATA.

Table 2: Rate of Unemployment in Pakistan and Khyber Pakhtunkhwa from 2009 to 2011

Region	Unemployed in millions					
	2009-2010			2010-2011		
	Total	Male	Female	Total	Male	Female
Pakistan	3.12	1.91	1.21	3.40	2.22	1.18
Rural	1.89	1.12	0.77	1.85	1.14	0.71
Urban	1.23	0.79	0.44	1.55	1.08	0.47
KPK	0.55	0.35	0.20	0.53	0.32	0.21
Rural	0.45	0.29	0.16	0.41	0.25	0.16
Urban	0.10	0.06	0.04	0.12	0.07	0.05

Source: Labor Force Survey, Pakistan Bureau of Statistics

Military operations against the insurgents in Swat valley displaced 3 million people which ultimately dislocated the economic activity of the local residents.¹⁷ Due to terrorism, Khyber

Pakhtunkhwa economy remained 3 percentage points less than the national economy, which remained less than 3 percent in 2007-08.¹⁸ He further found that the counter terrorism campaigns led to massive unemployment in Khyber Pakhtunkhwa and FATA during 2009 to 2011.

Impact on Education

Education is the key to progress for any nation of the world. Militants attacked and destroyed a number of boys and girls schools in FATA and KPK as a strategy to imbue the youth of the area with militant values. Militants attacked 119 schools in 2008; 188 in 2009; 129 in 2010 and 142 in 2011. In 2011, 79 attacks were witnessed in KPK and 56 in FATA. Girls' schools suffered 62 attacks against 51 attacks on boys' schools. Militants destroyed almost 1,000 schools, mostly girls' schools, in FATA and KPK. Only in Swat valley, 401 schools were destroyed in 2010-11.¹⁹

According to KPK Education Department, militants destroyed a total of 758 schools in various parts of the province including 640 schools in Malakand division.²⁰ Militants destroyed local culture, banned listening to music and recreational activities.²¹

Displacement and its Impact: Pakistan Institute of Peace Studies found that due to military operations in various parts of the KPK and FATA, 2.7 million to 3.5 million people were displaced which is considered as the largest displacement in the history of Pakistan. The displaced people left their homes for safety and security and went to the urban areas of the country to support their families. Largest displacement took place in South Waziristan Agency in FATA where approximately 4, 28,000 people were displaced. In Orakzai Agency, 4, 00,000 people and in Malakand division 3, 83,190 people were uprooted out of which 3, 82,950

returned home while 20,777 are still in the camps. In Khyber Agency, between 84,000 and 100,000 people were uprooted while the number of people who fled Mohmand and Bajaur agencies is estimated as 7, 50,000.²² Due to increased militancy and subsequent military operations, the local residents, particularly women and children, of the conflict areas suffered from physical and psychological abuse and traumas. The fear of death and feelings of helplessness further traumatized their lives.²³

Political Impact of the War

High incidents of terrorism lead to increased political instability in a country.²⁴ Similarly, war on terror has left significant political impact on Pakistan at domestic, regional and international level. Militants destroyed the local social, political and judicial structures in FATA and Malakand division. The tribal areas of Pakistan are governed by Frontier Crime Regulation (FCR) and local disputes are settled in Jirgas that work in collaboration with political agents, appointed by the federal government. During crisis, militants killed hundreds of local elders which disturbed the political balance in FATA.²⁵ She further found, “The presence of the military in FATA in post 9/11 scenario also undermined the authority of political agents. The power of the jirga and political agents has been assumed by Taliban commanders” (P-41). This also reduced the influence of political parties in FATA and Malakand division. Women politicians were harassed and an active women councilor from Dir district of KPK was murdered. Pakistan decision to join war on terror has weakened the federation as the fighting is getting longer. This has also created gap between the masses and the Pakistan military as the pro-Taliban section of the people opine that Pakistan army is fighting a war of US while pro-US section of people say that

Pakistan military is the biggest hurdle in eliminating terrorism and supporting militants in Afghanistan.²⁶

War on terror suffered Pakistan politically at regional and international level. After the fall of Taliban regime in 2001, Northern Alliance dominated government was installed in Kabul which is anti-Pakistan and pro India. Taking advantage of this, India opened more than thirty consulates and missions alongside the Pakistani border. India gained three major advantages out of this situation. It declared Kashmiri freedom fighters as terrorists. Second, it obtained access to civil nuclear energy from various countries including United States. Third, India increased her role in Afghanistan by supporting Northern Alliance government. At international level Pakistani citizens have been denied US visas and subjected to humiliation at American airports through special search and screening. Pakistan has been captioned as a failing state and maps are published showing its balkanization. Further, regular anti Pakistan sessions are held in US Congress with Indian cooperation.²⁷

Economic Impact of the War

Government of Pakistan Estimates of the War on Terror: Poverty Reduction Strategy Paper (PRSP-II) of the Ministry of Finance, Government of Pakistan has identified five indirect costs of the war on terror, in addition to the direct costs. The first one is the slowing down of domestic economic activity. It means that foreign direct investment, industrial output, tax collection and exports decreased. Overall GDP growth suffered due to intensive terrorism. The second one is the increase in the credit risk of the country which means that Pakistan suffered from the financial losses by failing to repay the loans it obtained from

financial organizations especially IMF. The third indirect cost is the enormous increase in unemployment in terrorism affected areas like KPK and FATA. Due to losses to agriculture sector, damage to businesses and tourist resorts thousands of people lost their jobs. The fourth one is the heavy costs of displacement of local population. Due to insurgency and counter military operations, millions of people were displaced from Malakand division and FATA. In the fifth place, due to frequent terrorist attacks implementation of development projects got delayed in KPK & FATA. This delay increased the cost of the projects manifold.²⁸ With the increase in terrorism the benefits of participation in the war fell as in 2007-08, the United States assisted Pakistan with \$1.9 billion, whereas the cost of the war was over three times higher at \$ 6 billion.²⁹

The cumulative cost of the war on terror from 2001-2002 to 2010-2011 is \$ 67.9 billion.³⁰ Table 3 shows that in 2004-05 the direct cost of war on terror for Pakistan was Rs 67 billion which increased to Rs 78 billion in 2005-06 and to Rs 262 billion in 2009-10. Similarly, the indirect cost increased from Rs 192 billion in 2004-05 to Rs 707 billion in 2009-2010.

Table 3: Estimated Direct and Indirect Losses to Pakistan Economy Due to War on Terror from 2004-2010

RS. Billion	2004 -05	2005- 06	2006- 07	2007- 08	2008- 09	2009- 10	Cumulative 2005-2010
Direct Cost	67	78	83	109	114	262	712
Indirect cost	192	223	278	376	564	707	2340
Total	259	301	361	484	678	969	3052
US \$ bn	4.4	5.0	6.0	7.7	8.6	11.5	43.0

Source: Economic Survey of Pakistan, 2009-10

According to table 4 the actual cost of the war on terror increased considerably from \$ 2.669 billion in 2001-02 to \$ 13.6 billion by 2009-10 and to \$ 17.8 billion in the financial year 2010-11. However, it is not clear that how these costs were calculated. On October 3, 2008 the Prime Minister of Pakistan announced a compensation package to the affected families of Walibagh suicide attack as Rs. 3, 00,000 per deceased and Rs. 100,000 per injured person.³¹ Keeping in view this formula, the total potential compensation cost for the year 2009, for the people killed and injured (details of casualties under social impact of the war on terror) is estimated as above Rs 5 billion. He further found that no systematic data regarding damage to property and infrastructure is available. The comprehensive technical statement of the total cost is lacking and it is difficult to judge the reliability of government estimate of the magnitude of the costs.

Table4: Actual Cost of War on Terror for Pakistan from 2001-2011

Years	Billion \$	Billion Rs.	% Change
2001-2002	2.669	163.9	-
2002-2003	2.749	160.8	3.0
2003-2004	2.932	168.8	6.7
2004-2005	3.410	202.4	16.3
2005-2006	3.986	238.6	16.9
2006-2007	4.670	283.2	17.2
2007-2008	6.940	434.1	48.6
2008-2009	9.180	720.6	32.3
2009-2010	13.560	1136.4	47.7
2010-2011	17.830	1528.0	31.5

Total	67.926	5036.8	
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Source: Economic Survey of Pakistan 2010-2011

Table 5 shows the area specific cost of war on terror in 2001-02 and 2010-2011. In 2001-02 the cost of the war on terror to Pakistani exports was \$1.40 billion which increased to \$2.90 billion in 2010-2011. Similarly, the cost of compensation to the affected people was nil in 2001-02 but in 2010-11 it increased to \$0.80 billion. The cost of foreign investment was \$0.15 billion in 2001-02 which increased to \$2.10 billion in 2010-11. Thus, the cost of war increased manifold in 2010-11 as compared to 2001-02.

**Table 5: Area Specific Cost of the War on Terror in
2001-02 and 2010-11 in \$ Billion**

Areas	2001-02	2010-11
Exports	1.40	2.90
Compensation to affected people	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

Source: Economic Survey of Pakistan 2010-11

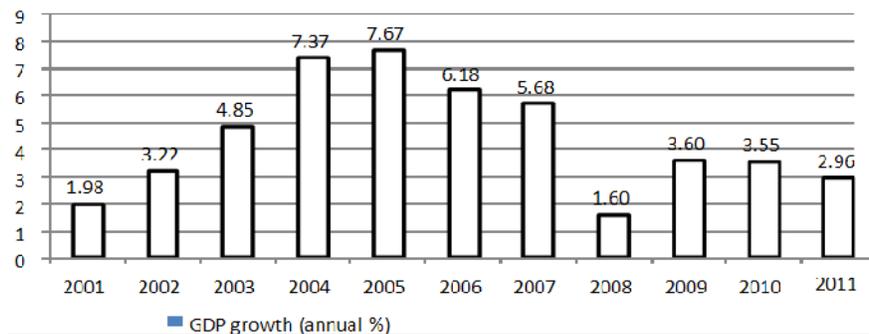
It is important to mention that Pakistan has received \$15 billion, on account of over \$10 billion in shape of Coalition Support Fund (CSF), compared to official losses of \$68 billion till fiscal year 2010-11. This indicates that Pakistan received only 14 percent losses as reimbursed by the United States.³²

- *Impact of the War on GDP and Various Sectors of Pakistan Economy*

Terrorism has an adverse effect on overall economic activity of a country. For example, in 2001, Israel had 47 terrorist incidents per million people and observed a 4 percentage point drop in real GDP per capita growth. Similarly, in 2003, Russia had 0.97 terrorist incidents per million populations and faced a 0.08 percentage point decline in real GDP per capita growth.³³ However, Tavares in 2003 studied the determinants and costs of terrorism at the aggregate level, determined by GDP growth and suggested that the economic cost of terrorism is less severe in those countries which have better developed institutions.³⁴

During the period in question, Pakistan GDP growth fluctuated considerably.³⁵ Figure 2 shows that in 2009, GDP increased by two percent to 3.60 percent as compared to 1.60 percent in 2008 and decreased by 0.5 percent in 2010. It further decreased to 2.96 percent in 2011. In 2009 and 2010 GDP growth was a positive rising but it decreased again in 2011.

Figure 2. GDP Growth in Pakistan (2001-2011)



Source: World Bank

The economy of Pakistan remained under stress from 2008 to 2011 due to both unfriendly domestic and international factors. At

domestic level intensified terrorism caused low economic growth. It was due to increased terrorist activities in the urban areas, rehabilitation of half a million internally displaced persons from Swat valley and knock-on effect of terrorism on investment inflows and market confidence.³⁶

It is important to keep in mind, however, that war on terror was not the only constituent factor which affected the economy, but also there were other factors which had a negative impact on the economy. According to Economic Survey of Pakistan, it includes energy crisis which estimated a loss of approximately 2.0 to 2.5 percent of GDP in the same year on account of energy supply constraint, the devastating floods in 2010, the global financial meltdown in 2008, increased oil prices in 2010 and the European debt crisis.

Foreign Direct Investment

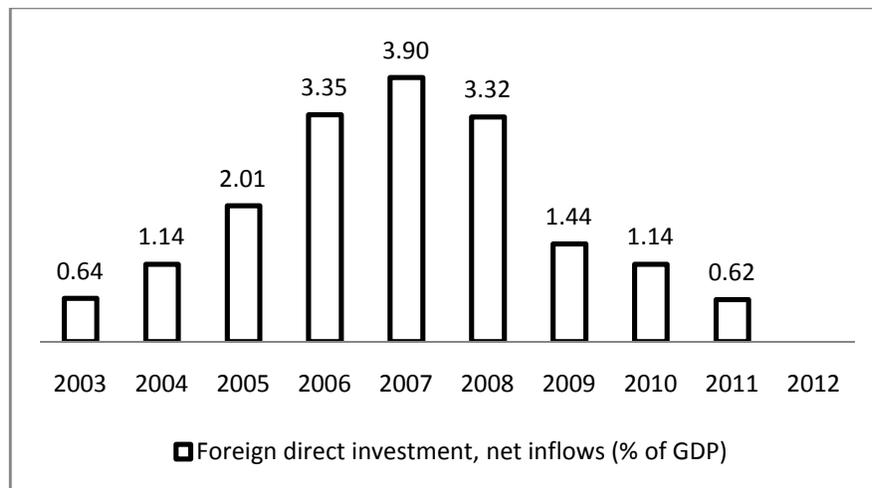
In 2007, Abadie and Gardeazabal examined the impact of terrorism on foreign direct investment (FDI) and concluded that one standard deviation increase in terrorism leads to a decrease in the ratio of net FDI to GDP of between 4.16 and 6.54 percentage points.³⁷ Further, Enders and Sandler studied the impact of terrorism on FDI in Greece and Spain and found a higher adverse impact of terrorism on FDI. They found a negative 13.5 percent impact on FDI in Spain from 1976 to 1991 and a negative 11.9 percentage point impact on FDI in Greece from 1975 to 1991.³⁸

Investors always look for a safe and secure environment to invest their money. The peaceful countries of the world receive high foreign investment as compared to troubled areas. According to Economic Survey of Pakistan, foreign direct investment has emerged as a major source of private external flows for Pakistan

which helps to bridge its widening saving investment gap, prevents from ill-effects of development exploding debt accumulation to finance its development needs and thus enables exchange rate stability.

Figure 3 shows that FDI had sharp rising from 2003-2007 and started declining from 2008 onwards. It rose from 0.64 percent of GDP in 2003 to 3.90 percent of GDP in 2007. However, it started declining from 3.32 percent in 2008 to 1.44 percent in 2009 to 1.14 percent in 2010. It further decreased to 0.62 percent in 2011.

Figure 3. Foreign Direct Investment in Pakistan, 2003-2011



Source: World Bank

FDI decreased from \$ 3719.1 million in 2008 to \$3205.4 million in 2009 and further declined to \$1292.9 million in 2010 and to \$666.7 million in 2011. Total investment declined from 22.5 percent of GDP in 2006-07 to 13.4 percent of GDP in 2010-11. This decline was due to increased terrorist attacks, increased credit risk, high floods, high oil prices and euro zone crisis.³⁹ FDI was adversely

affected by the terrorist activities in FATA and KPK where most of the terrorist attacks took place.⁴⁰

Agriculture

Agriculture sector is the source of employment for 44.7 percent of labor force in Pakistan, contributes 21.8 percent to GDP and has large impact in balance of payment.⁴¹ Agriculture is the main source of revenue for the people in the terrorism affected areas like the FATA and KPK. Only Swat district has arable land of 98,100 hectares and agriculture is the primary source of livelihood for almost 80 percent of the population. From 2007- 2009, in Swat valley the loss to agriculture has been amounted to Rs.35 billion and 55 to 70 percent of the total fruit produced was wasted. This was the result of various hostilities, artillery shelling, blowing of bridges in bomb blasts and imposition of frequent curfews by the army. As a result of the precarious law and order situation of the area the local farmers, landowners and dealers had to face losses of billions of rupees.⁴²

Table 6 shows that, in Pakistan, agriculture growth was 6.5 percent in 2004-05 which decreased to 6.3 percent in 2005-06 and further decreased to 4.1 percent in 2006-07. In 2007-08, it sharply declined to 1.0 percent and it rose to 4.0 percent in 2008-09. In 2009-10, it showed 0.6 percent growth and increased to 1.2 percent in 2010-2011. However, this decline in agriculture was not only due to terrorism but also due to other factors like devastating floods in 2010. Terrorism mainly affected agriculture in Swat valley of KPK and FATA.

**Table 6: Agriculture Growth Rate Percentage in Pakistan
2004-2011**

Year	Agriculture Growth (%)	Major Crops	Minor Crops	Livestock	Fishery	Forestry
2004-05	6.5	17.7	1.5	2.3	0.6	-32.4
2005-06	6.3	-3.9	0.4	15.8	20.8	-1.1
2006-07	4.1	7.7	-1.0	2.8	15.4	-5.1
2007-08	1.0	-6.4	10.9	4.2	9.2	-13.0
2008-09	4.0	7.8	-1.2	3.1	2.3	-3.0
2009-10	0.6	-2.4	-7.8	4.3	1.4	2.2
2010-11	1.2	-4.0	4.8	3.7	1.9	-0.4

Source: Economic Survey of Pakistan

Tourism sector

A number of studies have sought to calculate the impact of terrorism on tourism industry and found that it has negative impact on the economy of a country. In 1991, Enders and Sandler using monthly data from 1970 to 1988 found that a single terrorist attack in Spain decreases the number of tourists by 140,000.⁴³ In 1992, Enders, Sandler and Parise studied the impact of terrorism on tourism industry and found that between 1974 and 1988 Austria suffered \$4.5 billion, Italy lost \$1.1 billion and Greece lost \$0.8 billion in lost revenue. They also found that continental Europe as a whole suffered losses of \$16.1 billion.⁴⁴

There is a high correlation between terrorism and decline of tourism. One study has concluded that due to terrorism Israel also faced sharp decline in foreign tourist activities from 2000 to 2003 period. People like to visit those places which are safe and secure.⁴⁵ In Pakistan, the attractive tourist places are located in the northern part and there was significant decrease in the number of tourists visiting Pakistan due to intense acts of terrorism after 2007-08. Pakistan Hotels Association in 2008 indicated a sharp decrease in hotel occupancy rates especially after the bombing of Marriot hotel

Islamabad. The security threat also led to decrease in the hotel events like marriages and conventions etc. The occupancy rates in 2007-08 declined from 60 percent to almost 40 percent. The indirect cost of less travel to Pakistan and downstream activities was about Rs10 billion.⁴⁶

Swat valley alone suffered a loss of Rs 60 billion from 2007 to 2009. In 2009, Pakistan ranked 113 out of 130 countries due to intense terrorism. In 2010, after the area was cleared from terrorists, the hotel association offered the tourists 10 day free stay in hotels in Swat. It is likely that thousands of people associated with tourism industry became jobless in war affected areas of FATA and KPK.⁴⁷

Defense Expenditures

In 2007-08, when militancy increased and terrorists started getting control of settled districts of Pakistan like Swat district, the Pakistan army conducted military operations against the terrorists to flush them out. For security and civil relief operations up to US \$ 4 billion (2.4 percent of average GDP) additional expenditures incurred on the annual budget. More than 3 million people were displaced which resulted in a budgetary outlay of US \$ 600 million in fiscal year 2009 alone for relief and rehabilitation process of the internally displaced persons. Cumulatively, the potential GDP loss due to terrorism for the period 2008-09 has been estimated as US \$ 11.7 billion. During this period, Pakistan also suffered diversion of development funds to the security budget, capital flight and brain drain.⁴⁸

In 2008-09, defense budget was 3, 11,303 million and in 2009-10 it increased to 3, 42,914 million. In 2008-09 25,421 million budget was allocated to the police and in 2009-10 it increased to

32,169 million. This allocation was higher by 28.5 percent as compared with the budget estimates of 2008-09. In 2008-09 total budget for public order and safety affairs (including police) was 27,343 million which was increased to 34,641 million in 2009-10.⁴⁹

Summary and Conclusion

The above discussion shows that Pakistan has suffered a great deal due to the ongoing war on terror and is still paying a heavy price in the form of low economic growth, sacrificing citizens and destruction of infrastructure. War on terror has also shattered the soft image of Pakistan in the international world. The above data show that GDP growth declined, defense expenditures increased manifold, tourism sector suffered, stock exchange experienced low performance and foreign direct investment also decreased significantly. It is important to mention that besides terrorism other related factors like energy supply shortages, global financial crisis of 2008 and heavy floods of 2010 also played significant role in negatively affecting Pakistan economy.

Here the question arises is how to minimize the negative effects of war on terror on the social, political and economic sectors of Pakistan. One possible step is to develop a comprehensive strategy as how to fight this war.⁵⁰ Government may review its strategy because the present strategy is not workable. In spite of the fact that defense budget, including Police, has increased manifold in the past four years but the acts of terrorism, instead of decreasing, are increasing day by day. The political leadership, military, religious leaders and all other stake holders need to sit together and work out a possible strategy either to resolve the issue through dialogue or by eliminating the terrorists. Pakistan also needs to take the regional countries into confidence in resolving the issue of terrorism.

However, keeping in view the overall scenario, it will not be an easy task to create consensus among all the stake holders.

Second, government may consider building the destroyed infrastructure, including schools, roads, and bridges in FATA and KPK. Government may establish Opportunity Zones in the militancy hit areas.⁵¹ The youth and the internally displaced persons may be provided skills and financial help for establishing their own businesses. This will help to resolve the menace of militancy to a great extent by decreasing unemployment.

Another possible step is to give preferential access to Pakistani exports, especially textiles and agriculture products, by United States, Japan and European Union to their markets.

This will help Pakistan to boost its exports. In short, it is essential for the future of Pakistan to make an end to this war at the earliest.

Endnotes

¹ Ayaz Ahmed Chachar, Aftab Ahmed Mangi, Zareen Abbasi and Zubair Ahmed Chachar, "Impact of terrorism on the psychology of working women in Pakistan: A case study of Sindh," *International Journal of Science and Research*, 2, no. 2 (2013): 462-465.

² James R. Barth, Tong Li, Don McCarthy, Triphon Phumiwasana, and Glenn Yago, "Economic impacts of global terrorism: from Munich to Bali," http://www.milkeninstitute.org/pdf/econ_impact_terrorism.pdf (accessed 3 June, 2013).

³ International Monetary Fund, "How has September 11 influenced the global economy", www.imf.org/external/pubs/ft/weo/2001/03/pdf/chapter2.pdf (accessed June 12, 2013).

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