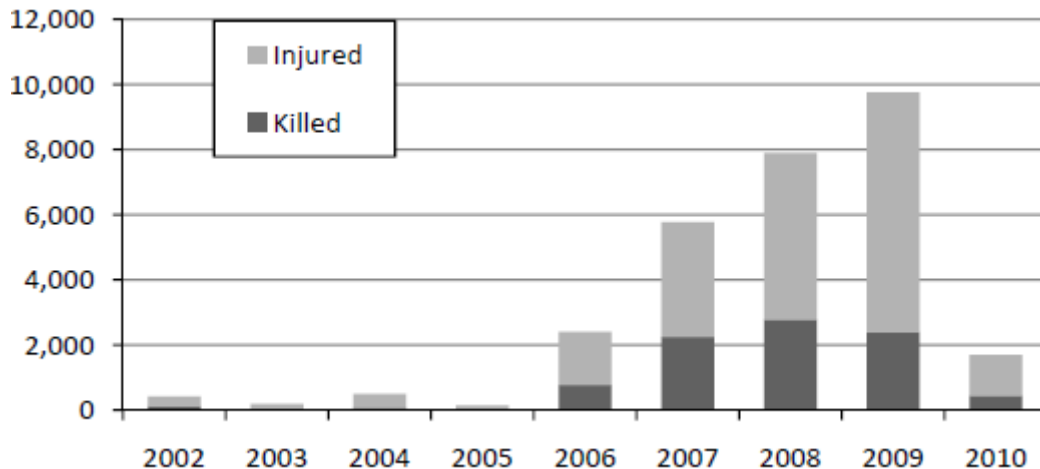


EMBASSY OF PAKISTAN ECONOMIC DIVISION

IMPACT OF “CAMPAIGN AGAINST TERRORISM” ON PAKISTAN’S ECONOMY

Since **9/11**, Pakistan has been at the epicenter of the global “campaign against Terrorism”. Between 2002 and end-April 2010, a total of **8,141 incidents** of terrorism have occurred on Pakistan’s soil, resulting in **8,875** deaths of both civilians as well as personnel of law enforcement agencies (LEAs), and injuries to a further 20,675 people.

No of Incidents and Human Losses since 2002



Impact on the Economy

Since 2007-08, the “campaign against terrorism” has moved to a qualitatively different phase, with the Pakistan Army mobilizing and undertaking large scale military operations in the country’s North West (in Malakand/Swat, and the Agencies of South Waziristan, Bajuar, Mohmand, Khyber, and lately, Kurram and Orakzai). It not only displaced over 3 million people but has greatly increased negative effects on the economy have greatly increased. It is officially estimated that Pakistan’s economy has been impacted to the extent of over US\$ 51.3 billion between 2001 and 2010.

Estimated Loss to Economy since 2002

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010*	Cumulative 2005-10
Direct Cost				67	78	83	109	114	262	712
Indirect Cost				192	223	278	376	564	707	2,340
Total				259	301	361	484	678	969	3,052
In US \$ bn	2.7	2.8	2.8	4.4	5.0	6.0	7.7	8.6	11.5	51.3
* July-April										Economic Survey of Pakistan

A brief list of the areas that have been impacted includes the following:

- Decline in GDP growth
- Reduction in foreign and domestic investment
- Loss of Exports
- Damaged/destroyed Physical Infrastructure
- Loss of Employment and Incomes
- Diversion of Budgetary Resources to military and security-related spending
- Cutbacks in Public Sector Development Spending
- Capital, and Human Capital, Flight
- Reduction in Capital + Wealth Stock
- Exchange Rate Depreciation and Inflation
- Damage to tourism industry, domestic and foreign
- Huge social and environment costs

As an illustration of the magnitude of the direct costs, the additional expenditure incurred on security related and civil relief operations since July 2007 has amounted to an estimated US\$ 4 billion (2.4 percent of average GDP). In addition, the cost of the humanitarian crisis spawned by this conflict has been the displacement of over 3 million people, at its peak, resulting in a budgetary outlay of US\$ 600 million for the current fiscal year alone for relief and rehabilitation of the IDP population. Largely as a result of the negative effects of the War on Terror, growth and investment have stalled. Pakistan's economy grew 1.2 percent in 2008/09, with large-scale manufacturing (LSM) contracting -8.2 percent for the year.

The export sector, with a contribution of 12 percent to GDP, and a substantial employment base, has faced the brunt of the fall out. The

adverse impact on the export sector has manifested itself in the following ways:

- Loss of export orders / trade diversion to competitors
- “Permanent” removal of Pakistan from global production and marketing chain of international brands/large buying houses
- Relegation to low value-added commodity products
- A substantial decline in price/unit value for products
- Increase in cost of doing business;
- Loss of design and technological transfer
- Loss of entrepreneurial capital due to capital flight and brain drain
- Higher shipment, insurance and security costs
- Loss of income, new investment and jobs