

Into the Economic Abyss: Terrorism and Pakistan's Economy (2001-2008)

This paper aims, through the study of economic reports, surveys, and annotations of economists and historians that terrorism posed serious challenges to various aspects/sectors of Pakistan's economy such as trade, Foreign Direct Investment (FDI), and remittances. It also attempts to study foreign aid/loans based unsustainable growth of Pakistan's economy without any notable trickledown effect. The period between 2001 and 2008 is very much relevant to study the impact of terrorism on Pakistan's economy. Terrorism is a plague which has produced many socio-economic problems for the already dwindling economy of Pakistan. It has circumscribed not only Pakistan's politics and civility, but also its economy. Terrorism has a sort of multiplier effect and many other repercussions which accelerated many unbridled social problems such as poverty and unemployment in Pakistan.

Key Words: Terrorism, Economy of Pakistan, Trade, Foreign Direct Investment, Remittances

The impact of terrorism on the world economy in the present times of interdependence is deeply felt in the processes of globalization and liberalization policies. The 9/11 terrorist attacks in the United States of America, were taken as an awakening call to the civilized world to understand terrorism from macro point of view. When talking about the relevance of terrorism and economy, it is easy to find out that terrorism has a negative effect on the economy as it leads people to panic, spending to fall down quickly, and economic growth to slow down or stop. However, in the long run, things seem to get back to normality. But it is not as easy as it seems like. Central banks are well known to affect short run interest rates. The temporary influx of the relatively free money into the consumer-based economies can keep them from sputtering to a halt after the terrorist attacks.

This paper attempts to study the Pakistan's economy under the impact of terrorism. The impact of terrorism was manifold. Various aspects/sectors of economy impacted by terrorism include trade, foreign direct investment including portfolio investment, remittances and foreign aid. The growth rates though rose up to 7.7% in 2007-2008 but it had no trickledown effect. This growth was without development and without employment. It mainly based upon foreign aid and loans. For the data of the variables related to economy, various issues of Pakistan Economic Survey (PES) are consulted. In order to avoid complexities in data and interpretations, the data is taken with respect to the fiscal years starting from Financial Year 2001-2002 to Financial Year 2007-2008. The economy was

studied through the variables like trade, foreign investment, foreign debt, foreign aid, remittances, and soft image or outlook of Pakistan in the world community.

Defining Terrorism

Terrorism is not a new phenomenon. It is used by individuals and organization as a violent method to achieve underlined political and economic objectives. It has become more vital after the incident of September 11, 2001. It is an ambiguous term that is being rigorously used all over the world. But it is a fact that there is no single definition of terrorism that can be accepted by all. One nation's hero becomes another nation's terrorist.¹ Without a basic definition of the term terrorism, the purposes behind the international action cannot be properly understood, and also the academic research towards establishing a reliable theory of terrorism cannot be satisfactorily conducted.² Raphael Perl reported that one definition widely used in U.S. government circles, and incorporated into law, defines international terrorism as terrorism involving the citizens or property of more than one country.³ Since September 2001, America organized a coalition against terrorism and embarked upon an avowed objective of eliminating terrorism from the world. However, America did so without assigning to it the benefits of a definition of terrorism that could lay claim to a consensus in the world, and at the same time maintaining its distinction from struggle for self determination.

On the website of terrorism research, the article "What is Terrorism?" describes that the United States Department of Defence 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".⁴ Within this definition, there are three key elements—violence, fear, and intimidation—and each element produce terror in its victims. The Federal Bureau of Intelligence (FBI) uses this: "terrorism is the unlawful use of force and violence against persons or property to intimidate or coerce a government, the civilian population, or any segment thereof, in furtherance of political or social objectives." The U.S. Department of State defines "terrorism" to be "premeditated politically-motivated violence perpetrated against non-combatant targets by sub-national groups or clandestine agents, usually intended to influence an audience."

Terrorism and Economy: A Complex Interdependence

It is certain that there are some economic reasons that give birth to terrorism. The force of hunger has great potential to transform into a destructive force of anger, directed against the state, with innocent people and institutions being the collateral damage. Terrorism is not only a war between religions, classes or even civilizations but it is also the battle between the haves and the have-nots. Scott Horton reported that "Bush is right when he speaks of hopelessness causing terrorism. He further claimed that in the final (at least economic) analysis, the "war on terror" was a clash between economic systems for dominance, a struggle between East and West that went back to [history](#) far removed from the minds of most Americans".⁵

The incidents of terror in Pakistan not only created fear in the minds of people but also resulted into economic recession, which, in turn, caused loss,

damage, economic backwardness. Expenditure on counter terrorism incurred by the governments diverted the resources of economy to non-productive purposes, which surely curtails the development of the economy in future. Countries, such as Pakistan, Afghanistan and Iraq which remained the victims of terrorism for a long period, had shown negative growth rates.⁶

Terrorism can affect economy in many ways in different sectors of the economy. The main sectors that are almost directly affected by terrorism are capital markets, tourism, Foreign Direct Investment (FDI), international trade, business, and insurance sector. The security situation badly affected the business environment and so the economy. Owing to prevailing law and order situation, trading trend in the shares market remained insipid. The investors are not inclined to go beyond their predetermined limits. Waves of terrorism and suicide attacks proved confidence shattering for the national economy. Security problem is likely to greatly hurt the services sector as people particularly the foreigners avoid to go to public places.⁷

Pakistan has been the front line ally of the USA in the 'war on terror' since September 2001. In case of Pakistan, terrorism made severe impacts on the economy. By diverting bulk of Pakistan resources towards futile war, business, tourism, sports and economy crashed, and flow of investment dried up due to security reasons. He further elaborated that corruption touched new heights governance standards declined.⁸ Tourism in Pakistan also suffered a lot as along with the rest of northern areas, Swat valley, once the most popular tourist destination, turned to a battle ground for terrorists. She claimed a fall in the number of the tourists visiting Pakistan of about 29,000 and the foreign exchange earnings also declined from 228 million in 2007 to 204 million in 2008.⁹

After Pakistan's acceptance to participate in the 'War on Terror', Pakistan gained little and lost much as it got little monetary benefits but suffered through huge losses of lives of its citizens, security conditions of its territorial boundaries, and peaceful life sustaining conditions. These included the value of human lives or injuries, the cost of destroyed and damaged property or infrastructure, and rapid spending on security issues. The main conceptual problem was related to the valuation of the human value, both in terms of loss of life and of injuries. Moreover, terrorism in Pakistan severely affected its economy and the society and terrorism was the greatest hurdle in the way of socio-economic prosperity, political stability, and geo-strategic sustainability as it had halted development activities in different areas.¹⁰

The 9/11 and Pakistan's Economy

The crashing of twin towers in New York on September 11, 2001, deteriorated financial markets across the globe. In this complex economic situation, Pakistan was also emerging from a very tough stabilization programme with the International Monetary Fund (IMF) which was in the course of reducing macroeconomic imbalances. It had 'suffocated' the process of growth.¹¹ The 1998 nuclear test related political and economic sanctions were still in place and domestic and international debt burden was huge.¹² Per capita income had become stagnant and there was a rapid increase in poverty. In 2001 year, Asian Development Bank (ADB) issued a report on Pakistan's economic situation, in

which it was stated that Pakistan was facing a large fiscal deficit which extended the period of budget deficit in the excess of sixty percent of Gross Domestic Product (GDP), left Pakistan with colossal debt, and debt servicing was large in Pakistan's budget. Largely, the budget deficit increased to PRs206.3 billion or 6.5 percent of GDP in 2000, from 6.1 percent in 1999. According to the IMF Programme, Pakistan had agreement to reduce the fiscal deficit to 5.2 percent of GDP in 2001.¹³

By the closing years of 20th century, political instability fanned economic stability and vice versa. Pakistan was poor, heavily populated country, suffering from internal political disputes and terrorism both internally and externally, lack of foreign investment and a costly confrontation with the neighbouring India. Pakistan's economic outlook continued to be marred by its weak foreign exchange position, which relied on international creditors for hard currency inflow. Pervaiz Musharraf's Government (2001-2008) faced twenty one billion dollar foreign debt coming due in 2001-2002, despite having rescheduled nearly two billion dollar in debt with Paris club members.¹⁴ Foreign loans and grants were twenty five percent of government revenue, while debt services obligations were nearly fifty percent of government expenditures. However, overall Pakistan's economic performance remained uncertain; too little had changed despite the new administration's intentions.¹⁵ Moreover, according to the Pak-US Business Council Report (2009), so far the Pakistani economy has suffered irreparable direct and indirect loss of \$35 Billion due to the convulsion in Afghanistan. Due to the unrest and disorder in a neighbouring country, a major part of the food stock was smuggled to Afghanistan, which ultimately led to an acute food grain scarcity within Pakistan.¹⁶

According to Pakistan's Finance Ministry, Pakistan endured a loss of Rs.2080 billion in the war against terrorism from 2004-05 to 2008-09. The estimated cost of war on terrorism to Pakistan was around Rs.484 billion during fiscal year 2007-08 leading to adversity of the socio-economic situation of the country. The costs included both direct and indirect losses on the account of loss of exports, foreign investment, privatization, industrial output, soft image, and tax collection. The report also indicates that the anti-terrorism campaign overstrained Pakistan's budget as allocation for law-enforcement agencies increased significantly, curtailing to funding for development projects since 9/11. Moreover, a Harvard study states that a higher level of terrorism risk was associated with lower level of net FDI, and Pakistan was not an exception. In an integrated world economy where the investors were capable of diversifying their investments, terrorism led to large movements across nations. In Pakistan case, a massive outflow of \$25.058 million of foreign portfolio investment from Pakistan's equity market was witnessed during the week that ended on January 10, 2009.¹⁷

It is pertinent to mentioned that the soft image of is considered indispensable for the economic life of any country. Many experts of developmental economics and international marketing are of the view that soft image is a cashable commodity and it is indeed an important prerequisite for fascinating high ratios of FDI.¹⁸ During 2001-2008, frequent incidents of terrorism, fanaticism, extremism, and fundamentalism had earned bad name for Pakistan in

the international community and markets. It had further spoiled Pakistan soft image in international power politics as well.

Though Pakistan's trade increased but terms of trade declined and thus Pakistan's trade could not earn the required benefits. Pakistan's exports increased but the increase in imports was more than the increase in exports. And the value of total imports increased in more proportion than the value of total exports of Pakistan country since Pakistan joined the 'War on Terror'. This was mainly due to less importance was given to the production sector of the economy as the government was busy in counter-terrorism activities. Moreover, the industrial sector as well as agriculture sector could not get much investment from the foreign investors and domestic investors. High FDI caused the positive effect on the economy but it had to face the energy crisis in the field and therefore it could not earn proper fruits. Portfolio investment declined without any continuous trend because of the uncertainty and security risk throughout the country, especially in the main cities of Karachi, Islamabad and Lahore where the share were traded.

Pakistan economy from 2001 to 2008 was heavily depended upon foreign aid which did not sustain long term economic growth. The economic growth became dependent on the foreign aid and the growth felt back when the foreign aid was cut down. This caused a rise of the foreign debt on the Pakistan. Pakistan was also among these countries and had a huge burden of foreign debt. Curbing terrorism needed much expenditures and Pakistan could not get that much of foreign aid to fight against terrorism. Therefore, Pakistan sorted to new loans and thus the foreign debt increased during 2001-2008. Furthermore, Pakistan economy also depended upon the heavy remittances coming into the country in this period. The remittances increased over the period under study due to certain reasons such as rising insecurity of Pakistani migrants throughout the world especially the USA, the U.K and the Middle East. Due to these structural weaknesses in the economy, it could not get a sustainable economic growth.¹⁹

Pakistan's role to wrestle against terrorism even on its own soil did not reciprocate by the USA in the same identical spirit and the seriousness as shown by Pakistan. Pakistan as a nuclear state was important for world but its support in war against terror proved a disease for its own economy and it also faced many restrictions due to war on terror; western people advised their citizens to not to travel to Pakistan. Pakistan exports were more than fifty per cent with USA and Europeans but after travel restrictions foreign buyers became reluctant to visit Pakistan. Many reputable internal buyers of textile shifted their offices to Hong Kong, Singapore, and India. Despite the inflow of foreign aid, Pakistan faced different problems related to growth of economy.²⁰

In 2003, George Bush, the President of the USA (2001-2009) hosted General Musharaf, the President of Pakistan, at Camp David, Maryland, where he vowed to work with congress on establishing a five year three billion dollar aid package for Pakistan. Annual instalments of six hundred million dollars each, split evenly between military and economic aid, began in fiscal year 2005 to support Pakistan against war on terror. Then again in 108th and 110th Congress deal with issue emerge after 9/11 and US aid to Pakistan. Section 1442 of the act also leads US policies towards Pakistan. He also further discussed Pentagon authority to

spent seventy five million dollars in fiscal year 2007 to improve the capacity of Pakistan's paramilitary Frontier Corps.²¹ Furthermore, it is interesting to note that the Karachi Stock Exchange (KSE) improved after 9/11, due to USA assistance, increase in export quotas for textile to EU and USA, surge in remittances via a formal channel, and debt rescheduling. All these factors not only improved the performance of the economy but also enhanced liquidity and investor's participation in the KSE.²² Fruits of Pakistan economy had no trickle down effects.

Some economists are of the view that not only the incident of 9/11 was responsible for the economic instability but attack on Marriott hotel and the assassination of the former Prime Minister Benazir Bhutto (1953-2007).²³ Shahid Javid Burki stated that after terrorist attacks on Marriott hotel and assassination of Benazir Bhutto, economy of Pakistan totally went into negative conditions. These activities done incalculable damages to the economy that was struggling to recover from deep crises. This situation totally stressed the economic conditions and paralyzed government. There were anecdotal evidences that capital was flowing from Pakistan because investors had no confidence in future and shifted their business to Middle East, especially to Dubai, Bahrain, Abu Dhabi, Doha, and also Malaysia. The GDP growth rate declined to 4.2% from 5.8% in 2007 which was much lower than the average for last six years of about 7%.²⁴ Ian Talboopines "since 2007 poverty has increased as the economy has suffered external shocks and the problems arising from terrorism; food and fuels prices have risen sharply".²⁵ Furthermore, the military operation in Malakand Division 2009, cost on economy in terms of internally displaced people (IDPs), their rehabilitation issues, reconstruction of the areas and resettlements, whereas their number range to 3.4 million people approximately. Also the electricity grids were destroyed, telephone networks were damaged, government offices were looted, and food was stolen by militants.²⁶

Terrorism: Economic Costs and Benefits to Pakistan

Pakistan fight against terrorism accelerated poverty and unemployment in the country. The official papers published by Government of Pakistan's, Finance Division of, on Poverty Reduction Strategy Paper (PRSP-II) (2008) reported that "Pakistan's participation in the anti-terrorism campaign led to massive unemployment in the affected regions. Frequent bombings, worsening law and order situation and displacement of the local population took a toll on the socio-economic fabric of the country".²⁷ Moreover, Human Development Report 2007 indicates that the economic growth in Pakistan was not adequately linked with the human development by efficient redistributive public policy.²⁸

Finance advisor to Prime Minister of Pakistan, Shokat Tarin (2008-2010), said that the economy of Pakistan was largely affected by the war against terrorism, mistrust in market and low foreign investment.²⁹ Involvement in efforts against terrorism led the country to a considerable rise of promised assistance, especially in the variety of grants from the USA. Burki reported in his article "Multiple Costs of War on Militancy" that since the start of American led war against terrorism, Pakistan cumulatively awarded \$12.2 billion funding from the USA.³⁰ This financial assistance or funding constituted reimbursement for the cost incurred by counter-terrorism operations conducted by military. Developmental

assistance was aggregated to \$3.2 billion. The direct and indirect input to the development process in country became limited. However, the total assistance which included the funding of the military operations helped a lot to bring stability in foreign exchange reserves.

The security arrangements became the key concerns of the Government of Pakistan. In order to tackle cross boarder terrorism, the cost on internal security was high because there was a need to place the army for conducting counter-terrorism operations at Afghanistan borders. The security situation gave birth to the development of private security agencies. Burki reported that the sum cost of fighting against terrorism was very high which was estimated Rs.380 billion, in 2007-08.³¹ These higher security expenditures amplified other concern related to the provision of vital social and financially viable services. It left an adverse impact, mainly on the subordinate income groups. For relatively poor and the affected areas experienced the negative repercussion included the loss of property and livelihoods. Moreover, the economic activity related to tourism was dislocated. The human aspect indulged most intensely not only in the failure of living but there also emerged a large number of internally displaced persons.

Impact of Terrorism on Pakistan's Economy

After 9/11 , Pakistan took part in the US led 'War on Terror' as a front line ally and due to highly required intention and resources for this deadly alliance, Pakistan did not actively sustain its economic progress. Pakistan had already very little resources and diversion of these resources from development programs towards the 'War on Terror' caused an economic depression in the country. In such situation, the decision to open up a new horizon of unlimited expenditures was not a right choice. This caused Pakistan's economy to suffer in many ways and helped the dying economy in some other ways too. The major sectors of the economy which affected by terrorism in one or the other way include: foreign trade, foreign direct investment, remittances, foreign aid, foreign debt and liabilities, and outlook or soft image of Pakistan in the international community. These sectors are discussed below with the trends in their changes in the years after September 11, 2001 up to 2008.

Foreign Trade: Impact of Terrorism on Pakistan's Imports³²

During the period 2001-2008, Pakistan's major imports were petroleum and petroleum products, machinery, and chemicals and transport. The following table gives the details of the main imports of Pakistan.

**Table 1 Pakistan's Major Imports
(Percentage Share)**

Commodities	2001- 2002	2002- 2003	2003- 2004	2004- 2005	2005- 2006	2006- 2007	2007- 2008
Machinery	17.1	18.5	17.8	22.5	18	21.9	18.4
Petroleum and Products	27.1	25.1	20.3	19.4	22.3	24	26.5
Chemicals and Transport	15.9	15.1	16.1	15.5	13.4	13	12.4
Equipments	4.8	5.6	5.6	6.2	7.7	7.6	5.7
Edible Oil	3.8	4.8	4.2	3.7	2.7	3.1	4.2
Iron and Steel	3.3	3.3	3.3	4.3	5.1	4.9	3.3
Fertilizer	1.7	2.1	1.8	2	2.4	1.5	2.7
Tea	1.5	1.4	1.2	1.1	0.9	0.7	0.5
Sub-Total	75.2	75.9	70.3	74.7	72.5	76.7	73.7
Others	24.8	24.1	29.7	25.3	27.5	23.3	26.3
Total	100	100	100	100	100	100	100

Source: Pakistan Economic Survey, 2007-2008.

The table 1 shows that Pakistan did not show any considerable change in its import structure. Pakistan did not sufficiently increase its capacity to make machinery for itself as there was an overall increase in imports of machinery by 1.3% during the years between 2001-2002 and 2007-2008. Moreover, petroleum and petroleum products were imported almost at the same level as these were in the year 2001-2002 with only an overall fall of 0.6% up to fiscal year 2007-2008. It also shows that there was no significant progress in research and development to find out new petroleum resources from within the country and to make other related products out of it. Pakistan's import of chemicals and transport decreased by 3.5% during the years under study. Among other imports, there was an overall rise in import share of equipment by 0.9% through the period between fiscal year 2001-2002 and fiscal year 2007-2008, after a rapid increase in the fiscal year 2005-2006 up to 7.7% of the total imports as compared to 4.8% in 2001-2002. Import share of edible oil increased by 0.4%, of iron and steel stayed neutral with little fluctuations in the years in between the fiscal years 2001-2002 and 2007-2008, of fertilizers increased by 1%, of tea decreased by 1% during the years 2001-2002 to 2007-2008. There was a rise in the import percentage of these products in general which shows that Pakistan did not make any progress in industry to fulfil the domestic demand of these commodities.

Composition of Imports

During the period under study (2001-2008), Pakistan's imports were mainly the capital goods and raw material for the consumer goods. This means that Pakistan was insufficiency producing capital goods and the raw material for consumer goods. The import of the raw material for capital goods was very little because of no facility in the country to use the raw material for capital goods and to make capital goods out of it. Pakistan imported very little of the consumer goods because of its capability to use the raw material for the consumer goods to produce the consumer goods at less prices than the prices imported consumer

goods. During 2001 to 2008, Pakistan’s major imports like petroleum and petroleum products came from Saudi Arabia and Kuwait, machinery comes from USA, Germany etc. And transport came from Japan. Only, Japan, Saudi Arabia, Kuwait, Germany, UK, USA and Malaysia made up around 40% of the Pakistani imports. As the intension of Pakistan government diverted from excelling in economic fields towards the ‘War on Terror’, it was not in a position to actively decrease Pakistan imports and to increase Pakistan self sufficiency. Pakistan imports from USA increased by 0.5% from the year 2001-2002 to year 2007-2008 which means an increased dependency on USA. Import share of Japan fell by 0.4%, of Kuwait fell by 1%, of UK fell by 1.6%, of Hong Kong fell by 0.8%, of Dubai fell by 6.3%, of Saudi Arabia fell by 1.9% and of these seven major markets, overall, fell by 10.5%. This was because of Pakistan intentions diverted away from increasing Pakistan trade capacity as there were many factors involved in it such as energy crisis, global recession, political instability, uncertain economic environment, and flight of capital from the country because of security and risk concerns which were main focus for the domestic as well as the foreign investors.³³

Foreign Trade: Impact of Terrorism on Pakistan’s Exports

During 2001 to 2008, Pakistan’s major exports were cotton manufactures, leather, rice, synthetic textiles, and sports goods. The following table gives the details of the main exports of Pakistan during the period under study.

Table 2 Pakistan’s Major Exports(Percentage Share)

Commodity	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008
Cotton							
Manufacturers	59.4	63.3	62.3	57.4	59.4	59.7	54.7
Leather	6.8	6.2	5.4	5.8	6.9	5.2	6.1
Rice	4.9	5	5.2	6.5	7	6.6	7.1
Synthetic							
Textile	4.5	5.1	3.8	2.1	1.2	2.5	2.9
Sports Goods	3.3	3	2.6	2.1	2.1	1.7	1.6
Sub-Total	78.9	82.6	79.3	73.9	76.6	75.7	72.4
Others	21.1	17.4	20.7	26.1	23.4	24.3	27.6
Total	100	100	100	100	100	100	100

Source; Pakistan Economic Survey, 2007-2008

The above table indicates that the exports of Pakistan were mainly consisted on some items like, leather, cotton, rice, sports goods, and synthetic textile. These few items added 72.4% of total exports in the year 2007-2008 whereas it was 78.9% of total exports in the year 2001-2002. Though there was a sudden rise in the export percentage of these major exports in the year 2002-2003. But it declined to 73.9% in the next two years and afterwards it fluctuated around 76% in the next two years. However, the year 2007-2008 saw a fall in it mainly because of the energy crisis. Pakistan could not spend much to enhance its energy resources because of massive spending on the law and order, and tackling

terrorism. An overall decline of export percentage of these main commodities was about 6.5% from the year 2001-2002 to 2007-2008.

Share of cotton manufactures in the total exports declined by 4.7% in the seven years period with both upwards and downwards fluctuations in it. Share of leather exports declined by 0.7% in the tenure of seven years with different trends of fluctuations. However share of rice products in the total exports increased by 2.2% with various fluctuations during the period under consideration. This rise was mainly due to the increased food demand in the international markets but this led to domestic shortage of rice and consequently a price hike in the country. Share of synthetic textiles in the total exports decreased by 1.6% in the overall period of seven years, though it went too down in the fiscal year 2005-2006 with a fall of about 3.3% from the base-year (2001-2002) value of 4.5%. Share of sports goods in the total exports also witnessed a fall by 1.7% from the fiscal year 2001-2002 to 2007-2008. These trends of fluctuations in the share of major exports show that no intention was paid to establish the export sector of Pakistan and this is because of the lack of proper policies to pour more strength in Pakistan exports and earn more foreign exchange. This lack of policies was mainly due to the fact that Pakistan could not pay much intention to its progress in the economic fields due to its involvement in the 'War on Terror' with most of the resources being used to fight against terrorism which now came into the geographical boundaries of the country.

Composition of Exports

The composition of Pakistan's export changed significantly since early 1990s as it moved from primary and semi-manufactured exports to manufactured exports. However, during 2001 to 2008, no considerable change happened in both primary and semi-manufactured exports. Pakistan's exports were highly dependent on the manufactured goods. There was a very slight change in the composition of export commodities in Pakistan during the years under study. The developing countries changed their composition of the export commodities to earn more and more foreign exchange for themselves and shift their exports from primary commodities to semi-manufactured and manufactured goods. Though Pakistan had a large share of the manufactured exports but it heavily depended upon the labour-intensive low value-added commodities. There was no significant change in the composition of exports which means that there was no hope of any significant rise in foreign exchange earnings due to trade. There had been a stage of stagnation in the composition of the exports of Pakistan. Pakistan could not pay its intention in developing or gaining new technologies as Pakistan was suffering from militancy and terrorism, and using its resources to tackle extremism.³⁴

Major Exports Markets

Pakistan's major exports markets were USA, Dubai, and UK. In these markets there was a massive demand for Pakistani cotton manufactures and leather products along with rice. In these markets, Pakistan used to export its major export commodities. As the intension of Pakistan government diverted from excelling in economic fields towards the 'War on Terror', it was not in a position to actively increase Pakistan exports and Pakistan share in the world markets decreased. Pakistan's exports to USA increased by 1.7% from the year 2001-2002 to year

2007-2008 which was not worth mentioning as the USA was claiming to be Pakistan closest ally and also claims to bless Pakistan in every way. Market share of UK fell by 1.6%, and Dubai by 6.3%. This was because of Pakistan intentions diverted away from increasing Pakistan trade capacity as there were many factors involved in it like energy crisis, global recession, political instability, uncertain economic environment, and flight of capital from the country because of security and risk concerns which were main focus for the domestic as well as the foreign investors.

Impact of Terrorism on Pakistan’s Foreign Direct Investment³⁵

Foreign direct investment in its classic form is defined as a company from one country making a physical investment into building a factory in another country. It is the establishment of an enterprise by a foreigner. The table 3 shows the foreign investment inflows to Pakistan in the years between FY 2001-2002 and FY 2008-2009.

Table 3 Foreign Investment Inflows in Pakistan (\$ millions)

YEAR	Greenfield Investment	Privatization Proceeds	Total FDI	Private Portfolio Investment
2001-02	357	128	485	-10
2002-03	622	176	798	22
2003-04	750	199	949	-28
2004-05	1,161	363	1,524.00	153
2005-06	1,981	1,540	3,521.00	351
2006-07	4,873.20	266	5,139.60	1,820
2007-08	5,019.60	133.2	5,152.80	19.3
2008-09	3,719.90	-	3,179.90	-510.30
TOTAL	18,683.80	2,805.20	20,949.40	1,812.50

Source: Board of Investment, Government of Pakistan.

Flow of net Foreign Direct Investment into Pakistan over the period 2001-2008 increased up to FY 2007-2008. However FY 2007-2008 saw not a big change in net FDI as compared to the previous fiscal year (FY 2006-2007). Total FDI started declining in the fiscal year 2008-2009. Pakistan economic survey 2007-2008 indicates that “gross fixed investment by the private sector grew by 9.7% in nominal terms and by marginal 0.9% in the real terms.” In case of portfolio investment, the risky and insecure environment of the country caused uncertain economic environment which caused fluctuations in it without any proper trend. The most favourable year for portfolio investment in Pakistan was FY 2006-2007 as it gone up to \$1820 million in that year. In FY 2007-2008 investment shrank to \$19.3 million and even after that in FY 2008-2009 there was a negative portfolio investment up to \$510.3 million which was a great blow to the economy which was heavily dependent upon foreign investment. Domestic factors such as political instability, weak law and order situations, and the great burden of ‘War on Terror’ on Pakistan’s shoulders were the factors responsible for the

instability of investment inflows to Pakistan whether it is FDI or portfolio investment.

Impact of Terrorism on Pakistan's Remittances³⁶

When the event of 9/11 took place, it created an atmosphere of fear and suspicious among Pakistanis living in the USA, so they sent their money back to Pakistan and benefits back to Pakistan's economy are increasingly notable. In 2001, remittances were a little more than one billion US dollars but since 2002 Pakistan received four billion US dollars in remittances every year.³⁷ Moreover, Ashfaq H Khan in his article "Role of Remittances" proposed that remittances helped Pakistan in many ways in the last decade as remittances rose to a great extent in this period. He offered following reasons for this increase in the remittances. Firstly, migrants lost their jobs in host countries and returned with their savings; hence, jump in remittances flows. Secondly, Saudi Arabia, UAE, and other Gulf Cooperation Council (GCC) countries were major destination for Pakistan migrants. It appears that these countries did not send Pakistani workers back home in large numbers. Thirdly, falling property prices, rising interest rate differentials and a sharp depreciation of exchange rate played an important role in attracting large remittance inflows for investment purposes as opposed to consumption purposes.³⁸

Terrorism in Pakistan and Foreign Debt³⁹

During 2001 to 2008, Pakistan faced serious debt problems and subsequently witnessed deterioration in the macroeconomic environment, leading to deceleration in investment rate and economic growth and the associated rise in the incidence of poverty. The table 4 gives the details of Pakistan's debt during the period from FY 2001-2002 to FY 2007-2008.

Table 4 Pakistan's External Debt and Liabilities

	2001- 2002	2002- 2003	2003- 2004	2004- 2005	2005- 2006	2006- 2007	2007- 2008
I. Public and Publicly Granted Debt	29.2	29.2	29.9	31.1	32.9	35.4	40.7
A. Medium and long term (>1 year)	29.1	29	29.9	30.8	32.7	35.3	40.1
Paris Club	12.6	12.6	13.6	13	12.8	12.7	14.5
Total External Debt and Liabilities (1 through 4)	36.5	35.4	35.3	35.8	37.6	40.5	45.9

(In billions of U.S. dollars) Source; Pakistan Economic Survey, 2007-2008.

The table 4 shows that public and publicly granted debt increased from \$29.2 billions FY 2001-2002 to \$40.7 billions FY 2007-2008. Private non-guaranteed debt fell from \$2.23 billions to \$1.34 in FY 2004-2005 but increased after that up to \$2.49 billions in FY 2007-2008. Pakistan's debt to IMF fell from \$1.94 billions in FY 2001-2002 to \$1.41 in FY 2007-2008. Foreign exchange liabilities fell from \$3.13 billions in FY 2001-2002 to \$1.33 billions in FY 2007-

2008. Total external debt and liabilities rose from \$36.53 billions in FY 2001-2002 up to \$45.93 billions in FY 2007-2008.

Terrorism in Pakistan and Foreign Aid⁴⁰

During 2001 to 2008, Pakistan received foreign aid of various types from various donors. The major sources of foreign economic assistance to Pakistan were Pakistan Consortium (consisting of Paris Club Countries and Multilateral Institutions), Non-Consortium (consisting of Non-Paris Club Countries and Islamic Countries). Pakistan's involvement in the 'War on Terror' was accompanied with large amount of foreign aid coming from USA mainly, but the long term bad impacts on the economy. In terms of low growth rates of GDP were an evident after eight years of the participation of Pakistan in the 'War on Terror', and with that increasing dependency of Pakistan on foreign aid and broadening investment-saving gap. Pakistan did not get the promised amount of foreign aid except in FY 2007-2008. Pakistan had many internal problems (which needed aid to be met well) as well as the participation of Pakistan in the 'War on Terror' put an extra burden on Pakistan's shoulders. Pakistan spent much on the extra law and order needed to coup with terrorism.

Conclusion

While studying the impact of terrorism on Pakistan's economy 2001-2008, it appears that the terrorist acts and counter-terrorism arrangements boosted swiftly, the benefits of 'War on Terror' declined but the costs rose sharply. The higher direct costs incurred on the military and police operations against counter-terrorism of almost Rs.130 billion per annum and the associated increase in acts of terrorism, highlight the futility of the current strategy being followed. Trade significantly impacted by terrorism. Remittances inflows increased appreciably in the time period under study but the reason was unemployment of the migrants and the security risks along with an increased exchange value of US dollars in terms of Pakistani rupee. Pakistan got much military as well as civil aid during this period but this was not up to the required level as Pakistan spent more than the expenditure. Hence the foreign debt of Pakistan rose at an alarming rate. Among them all, foreign investment in Pakistan witnessed a huge fall as per security risks increased and the economic and political environment became more and more uncertain and unreliable during this period. Terrorism and the counter-terrorism efforts caused a considerable awful and appalling image of Pakistan in the international community.

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³² Trade is the activity of buying, selling, or exchanging good or services between people, firms, or countries. International or foreign trade is exchange of capital, goods, and services across international borders or territories.

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³⁵ Its definition can be extended to include investments made to acquire lasting interests in enterprises operating outside of the economy of the investor. The FDI relationship consists of a parent enterprise and a foreign affiliate which together form an international business or multinational corporation (MNC). In order to qualify as FDI the investment must afford the parent enterprise control over its foreign affiliate.

³⁶ A remittance is a transfer of money by a foreign worker to his home country. Money sent home by migrants constitutes the second largest financial inflow for many developing countries, exceeding international aid. Remittances contribute to economic growth and to livelihoods of needy people worldwide.

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³⁹ Foreign debt (or external debt) is that part of total debt in a country that is owed to creditors outside the country. The debtors can be governments, corporations or private households. The debt includes money owed to private commercial banks, other governments, or international financial institutions such as the IMF and the World Bank.

⁴⁰ Aid is a voluntary transfer of resources from one country to another, given at least partly with the object of benefiting the recipient country.