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ANALYSIS OF WAR ON TERROR INTENSIFICATION YEARS IN PAKISTAN (2007-2009)

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Preface

The years 2007-2009 have been one of the more volatile years in Pakistan's recent political history. The regime of President Musharraf in 2007 was faced with many domestic challenges that included a wave of terrorism across Pakistan as an after math of Lal Mosque incident where state of Pakistan dealt with voices of dissent with force. Lal Mosque incident became the pre cursor for President Musharraf's ouster in 2008 as his government became weaker when a nationwide movement of dissent over took the street popularly known as Lawyers movement. In 2008, Pakistan returned to a democratic state when Pakistan People's Party was elected. However, the events of 2007 still haunted Pakistani economy and the echo of terrorism lasted for some time. Whereas the clamp down on extremist elements were also intensified as a state response. Pakistan was at War with extremism and the War on Terror that started in Afghanistan in 2002 had found its way into Pakistan. Pakistan army was instrumental in waging the fight against extremism that witnessed unprecedented violence in the country during (2007-2009). Nevertheless, these years' mark events that suggest that there was a network of Al Qaida within the borders of Pakistan capable of working independently in the country. These War on Terror intensification years reversed most of the economic gains and economic achievements of Musharraf regime. Pakistan became a security state even after its return to democracy in 2008. The travel advisories for Pakistan recommended foreigners to avoid visiting the country. Pakistan was further isolated internationally. External sector suffered significantly when exports witnessed a deep plunge. The economic growth rates halted to less than 1 percent of GDP from as high as 7 percent. This books in detail covers the events of terrorism in Pakistan in 2007 to 2009 period to give readers a comprehensive picture of how bad the situation had become in War on Terror intensification years. Then a detailed discussion is also carried out on Pakistan's economy so that readers have detailed view of the economic costs that was born by Pakistani nation for their participation in War on Terror. These costs or not limited to loss of property but it also include loss of many precious lives including the life of former Prime Minister of Pakistan Benazir Bhutto.

Mamoon & Hisham

May, 2019

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1 Introduction

Current collapse of Pakistan's economic growth rates challenge the economic prosperity achieved during 2003-2006 period. In Pakistan's case, it was rather clear. With intensification of WOT post 2006, Pakistan is currently witnessing yet more challenging economic circumstances. Though, the exogenous factors which relate to current economic situation are generally associated with rise in oil prices, energy crises, global financial crises and commodity price hike, there is need also to include factors like WOT into the paradigm. Armed conflict within a country also affects the economic potential of the country.

It has been nearly a decade now that Pakistan had been participating in the WOT as a front line ally. The conflict has deepened the structural problems within different sectors of Pakistan's economy. Recently there has been some efforts made in the international literature to associate global shocks like oil price shock, financial meltdown in USA, sub prime mortgage crises in USA, and global recession to WOT -

especially armed conflict initiated by USA in Iraq which was an extension of WOT in Afghanistan. Likewise, there is a need to revisit the reasons for Pakistan's current economic downturn and asses the role played by the ongoing WOT. In recent years Pakistan's participation in WOT has deepened with more visible armed action in Pakistani Northern provinces. So much so that Pakistan ranks close to Sri Lanka and Nepal in incurring costs of terrorism while both the later countries have precedence of armed conflict and civil war spanning decades.

Table 1.1. *Costs of Terrorism*

	Rank					
Costs	Pakistan	India	China	Bangladesh	Sri Lanka	Nepal
The incidence of violence (1= imposes significant cost on business, 7= does not impose significant costs on business), 2007, 2008	99 (3.7)	47 (5.2)	50 (5.1)	93 (3.9)	84 (4.2)	109 (3.2)
Business costs of terrorism (1=imposes significant costs to businesses, 7= does not impose significant costs to businesses), 2007, 2008	118 (3.7)	94 (5.0)	79 (5.3)	102 (4.6)	120 (3.0)	119 (3.0)

Source: The Global Enabling Trade Report 2009.

Incidents of terrorism, political violence and insurgency continued to haunt peace and stability in South Asian region. The militant related casualties, including dead and injured rose from 23, 098 in 2008 to 61,142 in 2009. The double fold increase in casualties in South Asia was due to Pakistan's three major military operations in FATA and NWFP during 2009. Pakistan suffered maximum number of casualties followed by Sri Lanka as is shown in table 1.2.

Table 1.2. *Militancy Related Casualties*

Country	Militancy-related Casualties
Pakistan	25,447
Sri Lanka	23,309
Afghanistan	8,812
India	3,364
Nepal	210
Total	61,142

Source: Pakistan Security Report, 2009.

Intensification of WOT: A Post 2007 Scenario

Following kidnapping of civilians and foreigners in the heart of Islamabad, it was on July 3, 2007 that the Lal Mosque students tried to snatch arms and wireless sets from the security forces deployed around the mosque and attacked them. The operation launched afterwards by the security forces on Lal Mosque left 134 people dead and 200 others injured. The incident was followed by two violent suicide attacks in the capital, killing at least 34 persons including 8 policemen and wounding another 125 persons. This was the start of the intensification of WOT in Pakistan as by the end of 2007 there were already 6 suicide attacks in Islamabad and neighboring Rawalpindi targeting Pakistani security forces and civilians. Alongside Maulana Fazlullah representing Pakistan Tehrik Taliban (PTT) in Swat took control of the district through a volunteer force and established his own Shariat court. TTP has been known to have close cross border ties with other terrorist networks, including Al-Qaeda and Taliban in Afghanistan. Violence by TTP has lead to another concentrated operation by security forces in Swat district. Resultantly, security forces were frequently targeted and kidnapped in NWFP and FATA.

Years 2008 and 2009 are marked with increased terrorist attacks in the country as well as active armed action against the militants in multiple regions. Military operations in Malakand region, South Waziristan, Khyber and other parts of FATA are more notable ones. While terrorist attacks on military's General Headquarter in Rawalpindi, Sri Lankan cricket team and Manawan Police Training Center in Lahore revealed the growing ability of terrorists to strike any target at will. Militants' network in South Punjab, drone attacks in Tribal areas, killing of Baitullah Mehsud, chief of the Tehrik-e-Taliban Pakistan, a surge in the number of NATO and US troops in Afghanistan are other highlights of WOT in Pakistan. Overall there has been a phenomenal rise in terrorist attacks in Pakistan since 2007 as can be seen in Table 1.3.

Table 1.3. *Terrorist Attacks in Pakistan*

Year	Total Attacks	Annual Increase since 2006	Killed	Injured
2006	675		907	1,543
2007	1,503	123 %	3,448	5,353
2008	2,577	282 %	7,997	9,670
2009	3,816	465 %	12,632	12,815

Source: Pakistan Security Report, 2009

Terrorists have used various violent means to attack. They comprise of suicide attacks, rocket attacks, beheadings, remote–control bombs, kidnappings, landmines, shootings, sabotage, targeted killings, bomb blasts, hand grenades and improvised explosive devices. The incidence of target killings and attacks through hand grenades have more than doubled in 2009 when compared to 2008. Suicide attacks, kidnappings and remote control bomb blasts have also seen remarkable increase in the span of last one year.

Table 1.4. *Attack types*

Tactic	No. of Incidents		
	2008	2009	Growth (%)
Suicide attacks	63	87	38.09
Rocket attacks	381	422	10.76
Beheadings	46	49	6.52
Remote controlled bombs	112	189	68.75
Kidnappings	116	174	50
Landmines	110	111	0.90

Shooting/firing	451	568	25.94
Sabotage/fire/torched	116	89	-23.27
Targeted Killing	26	82	215.38
Bomb blasts	298	341	14.42
Hand grenades	82	219	167.07
Improvised explosive devices (IEDs)	373	355	-4.82

Source: Pakistan Security Report, 2009

Suicide Attacks: A Major Terror Tactic

Suicide attacks have been increasingly used by terrorists as a major terror tactic. In 2009, there is a steep rise of suicide attacks all over Pakistan. The major concentration of attacks in 2007 was in NWFP. In 2009, NWFP remained the worst hit region with total number of suicide attacks reaching to 52, whereas Punjab/Islamabad also witnessed a sharp increase in attacks counting to hefty number of 23. Out of 23, 8 attacks occurred only in the capital city of Islamabad. These suicide attacks targeted civilians as well as security personnel. Table 1.6 in at the end of the section gives detailed summary of the targets of suicide attacks. In 2009, most suicide attacks were targeted towards the security forces comprising of either police or army personnel. Attacks were also carried out on NATO supplies.

Table 1.5. *Province Wise Suicide Attacks*

Administrative Entity	No. of Suicide Attacks	
	2007	2009
NWFP	33	52
Punjab/Islamabad	11	23
FATA	11	7
Balochistan	4	2
Azad Kashmir	-	2
Sindh	1	1
Total	60	87

Source: Pakistan Security Report, 2007 and 2009

Date	Place	Target
	NWFP	
4 January	D.I. khan	Policemen and government collage
23 January	Swat	Check post
5 February	Mingora , Swat	Police station
9 February	Bannu	Police and FC check post
20 february	D.I.Khan	Funeral Procession of the care taker of an Imambargah (mosque of Shia community)
23 February	Bannu	DSP office
11 march	Peshawar	ANP minister Bashir Bilour
26 March	Jandola Tank	Peace community of Turkistan
30 March	Bannu	Army convoy
15 April	Charsadda	Police check post
18 April	Hangu	Army check point and convoy
5 May	Bera Qadeem, Peshawar	FC check post
11 May	Dera Adam Khel, Kohat	FC check post
21 May	Jandola Tank	FC fort
28 May	Matni, Peshawar	Police check post
28 May	D.I.Khan	Security check post
5 June	Dir Upper	Friday prayers in a mosque
9 June	Peshawar	PC hotel
11 June	Peshawar	Police
12 June	Nowshera	Military mosque
22 June	Battgram, Mardan	Police check post
25 July	Laki Marwat	Police convoy
15 August	Khwazakhela, Swat	Check post
22 August	Kanju, Swat	Security forces
23 August	Momin Town, Peshawar	Ansar-ul-Islam leader's house
30 August	Mingora Swat	Police training
12 September	Doaba, Hangu	Police station
18 September	Kohat	Shia community
19 Spetember	Dara Adam Khel, Kohat	Security check post
26 September	Sadar, Peshawar	Askari bank
26 September	Bannu	Police station
28 September	Bannu	Leader of a peace community
9 October	Khyber bazaar, Peshawar	Civilian
12 October	Shangla	Army convoy
15 October	Kohat	Police station
16 October	Peshawar	CIA office
28 October	Pepal-mandi, Peshawar	Civilian
3 November	Lachi, Kohat	PF firing range building
8 November	Cattle market in Adezai area, Peshawar	Civilian
9 November	Ring road, Peshawar	Police
10 November	Farooq-i-Azam Chowk, Charsadda	Civilian
13 November	Khyber road, Peshawar	ISI's regional headquarters
13 november	Bakakhel, Bannu	Police station

14 November	Pishtakhara intersection, Peshawar	Police check post
16 November	Peshawar	Police station
19 November	Peshawar	Judicial complex
1 December	Kabal, Swat	Awami National party's (ANP) provincial meeting
7 December	Peshawar	Session court
17 December	Isakhel village, Lakki Marwat	District Nazim's hujra
18 December	Timergara, Lower Dir	Police lines mosque
22 December	Peshawar	Press club
24 December	Arbab road, Sadar, Peshawar	Police check post
	Tribal Areas	
6 February	Jamrud, Khyber Agency	NATO supply trucks
12 February	Landi Kotal	Charbagh
27 March	Jamrud, Khyber Agency	Mosque? Friday prayers and Khasadar force
4 April	Miranshah, North Waziristan	Security Forces' convoy
28 July	Miranshah, North Waziristan	Khasadar check post
18 August	Miranshah, North Waziristan	Security check post
27 August	Torkham, Khyber Agency	Khasadar security post
	Balochistan	
2 March	Killi Karbala Pashin	JUI (F) provincial leadership
30 june	Qalat	NATO containers
	Punjab	
5 February	D.G Khan	Procession at Imambargah
16 March	Pirwadhai, Rawal pindi	Civilain
5 April	Chawal	Imamabargah
27 May	Lahore	Police/ ISI
12 june	Lahore	Dr. Sarfraz Naeemi
2 July	Choorh Chowk, Rawalpindi	Bus of Kahuta Research Laboratory (KRL)
23 October	Kamra, Attock	Pakistan Airforce (PAF) Complex
24 October	Lillah, Kalarkahar, Rawalpindi	Officer of an Intelligence agency
2 November	Babu Sabu interchange, Lahore	Check post
4 December	Parade lane, Rawalpindi	Army Mosque
7 December	Moon market Iqbal town, Lahore (two attacks)	Civilian
8 December	Bela Qasim Cantonment area, Multan	ISI building
15 December	Khosa market, D.G. Khan	Senior Adviser to Punjab Chief Minister
	Sindh/ Karachi	
27 December	Orangi Town, Karachi	Muharram Procession
	Azad Kashmir	

26 June	Muzaffarabad	Army Barracks
27 December	Muzaffarabad	Muharram procession

Islamabad		
23 March	Sitara Market, Islamabad	Police station
4 April	Margala Road, E-7, Islamabad	FC check post
6 June	G-8/4, Islamabad	Rescue 15
5 October	F-7, islamabad	UNWFP office
20 October	H-10, Islamabad (two attacks)	International Islamic University
2 December	E-8 Sector, Islamabad	Pakistan naval Complex
24 December	Shakrial, Islamabad	Imamabargah

Drone Strikes and Attacks on NATO supplies

51 US drone attacks were reported in 2009, which killed 667 people and injured 310. The major concentration of attacks were in South and North Waziristan targeting key Al-Qaeda and Taliban commanders which include Baitullah Mehsud, chief of TTP, Hakimullah Mehsud, chief of TTP after Baitullah Mehsud, Tahir Yuldushev, chief of Islamic Movement of Uzbekistan, Nazimuddin Zalallov alias Yahyo and Usama Al-Kini of Al Qaeda. However, many civilians have also been killed in these attacks. A total of 25 attacks were recorded on NATO forces out of which 15 took place in the NWFP and 10 in FATA. Most of the attacks were reported along the Jamrud-Torkhum highway border area and the outskirts of Peshawar.

Table 1.7. *Attacks on NATO supplies in FATA and NWFP*

Month	Attacks in NWFP	Attacks in FATA
January	3	0
February	1	3
March	1	2
April	4	0
May	2	1
June	0	0
July	1	3
August	1	2
September	0	1
October	1	0
November	1	0
December	0	0
Total	15	12

Attacks on Schools

Despite recent rise in terrorist attacks, the intensification of armed action by security forces against militants in Pakistan was supported by the masses because Taliban not only waged war against the state but also Pakistani society at large and women in particular. For instance, incidents of Taliban militants torching girls' schools grew as Taliban banned girls' education altogether. Initially, militants warned against sending girls to schools but later resorted to directly attacking girls' schools especially in NWFP and FATA where they destroyed around 100 schools. Only in 2008, Taliban targeted 119 educational institutions, out of which 111 were girls'. In 2009, Taliban targeted both boys' and girls' schools more intensely in NWFP and FATA where 54 girl's schools and colleges were destroyed while 86 boy's schools were attacked.

Table 1.8. *Attacks on Schools and Colleges in NWFP and FATA (2009)*

	NWFP		FATA	
	Girls	Boys	Girls	Boys
Attacks	40	52	14	34

Source: Pakistan Security Report, 2009.

Internally Displaced Persons (IDPs)

Continued violence and increased terrorist activities and attacks on civilians resulted in mass displacement of populations in FATA and NWFP.

Table 1.9. *Costs of IDP's*

Persons Migrated	310,000
Relief Camps Established	12
No. of IDPs Living in Camps	61,180
Houses destroyed / damaged	38,750
Approximate cost of repair	Rs 500,000 per house
Daily expenditure per head on food & facilities	US$ 1.875
Total Cost of Rebuilding	US$ 232 Million
Daily Cost of IDPs	US$ 114.7 Million
Cost of Enhanced Security Infrastructure	US$ 6.1 Billion

Source: Ministry of Planning Estimates (2009)

Disaster Management

Provincial Disaster Management Authority (PDMA) has been active to cater to the increased demand of resources to mitigate negative fallout of the conflict in NWFP and FATA. A US$ 1 billion fund has been created by PDMA for this purpose, which in addition to other sectors also injects needed resources for the housing, education, health, social protection of displaced population.

Table 1.10. *Disaster Management Fund*

Sector	Overall (NWFP + FATA)	
	PKR (M)	US$ (M)
Social Sectors		
Livelihood & Social Protection	15,360	192
Housing	6,580	82
Education	5,436	68
Health	1,527	19
Physical Infrastructure		
Transport	19,651	246
Water & Sanitation	313	4
Energy	1,866	23
Productive Sectors		
Industry, Tourism, Private assets	917	12
Agriculture, Livestock & Irrigation	22,681	284
Cross Cutting Themes		
Environment	4,800	60
Governance	7,787	97
Grand Total	86,918	1,087

Source: Provincial Disaster Management Authority (PDMA), 2009.

2 Slow down of Pakistan Economy in Post WOT Intensification Period

Post 2007 WOT intensification relates to more active action of Pakistani state against Taliban and Al Qaeda. This has fluxed into a steep rise in terrorist activities and attacks against civilians and security apparatus in the country. The armed conflict has deep political, social and economic ramifications. As Pakistan faced increased involvement in armed conflict against terrorists, Pakistan's larger economic landscape presented a bleak picture. GDP growth rate Post 2007 is averaged at merely 3 percent. Fiscal deficit has enlarged while development budgets are squeezed. The economic turmoil has many dimensions. Last three years have witnessed many exogenous shocks to local economies. Financial meltdown, rising oil prices and commodity price hike had already weakened states all over the globe. Sluggish economic activity all round the world have reduced fiscal space as current account deficits ballooned while investments dried up. Nevertheless

Pakistan's neighbors like China and India have largely continued with their progress with sustained growth rates even under global recession. Pakistan may have also followed the footsteps of China and India had it not been for adverse security situation within the country. Global recession has hit the country hard because country's social, institutional, political and economic structures were weakened by WOT. Low intensity conflict had already started in FATA during 2001-06 periods in Pakistan. Political upheaval in the country against President Musharraf regime was also attributed to Pakistan's pro active involvement in WOT post 9/11 which then lacked political consensus. Domestically, the dictatorial regime of President Musharraf remained unpopular for its involvement in US lead Afghan conflict despite his efforts to initiate a compromise in favor of armed action against militants/ terrorists. It is only recently that a political consensus has been established within the country against Taliban as Pakistan moved towards democracy with general elections in early 2008. The current democratic government has provided much needed legitimacy to WOT. This makes WOT intensification period rather more pronounced in its potential to curb terrorism emanating from this region. The more challenges Pakistan face would hamper international reconstruction efforts in War torn Afghanistan.

Table 2.1. *Slow down in the Economy*

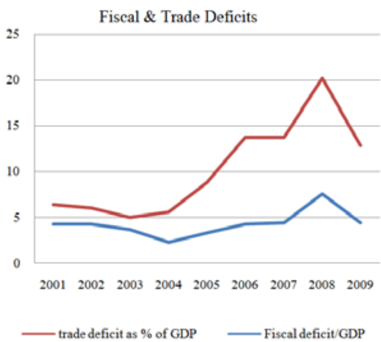
	GDP growth	Fiscal Deficit/GDP	Development Exp Growth (real)	FDI growth (real)	Poverty (Head count)
WOT (2001-06)	5.56	3.80	23.07	74.27	26.90
WOT Intensification (2007-09)	3.05	6.00	-8.55	15.70	17.13

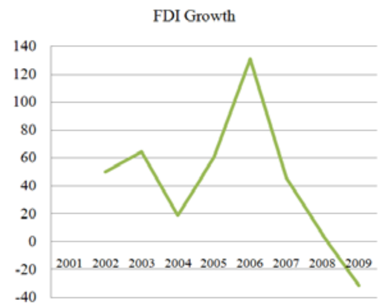
Source: Economic Survey of Pakistan, 2009.

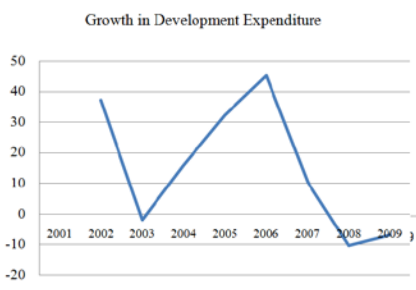
Trends in Macro Economic Indicators

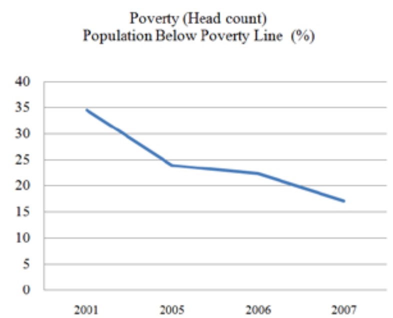
The slowdown in Pakistan's GDP growth rate started in 2006 but it was still above 6% mark but by 2008 the rate plummeted to less than 4 percent and slumped to 2% by end of 2009.

Pakistan's exporting sector also slowed down by 2007 with negative growth rates in 2009 suggesting an overall decline in Pakistan's exports. Despite low exports, Pakistan's trade deficit declined suggesting overall sluggish performance of external sector where both imports and exports have declined at their levels. With a slow down in the economy fiscal deficits have increased and settled at 6 % of the GDP as an average of last three years of WOT intensification period when compared to 2001-06 average of 3.8 %. More sharp fall has been observed in foreign direct investments (FDI) which witnessed a negative growth by end of 2009.









With a falling fiscal space, development expenditures also witnessed decreasing trends with a negative growth rate in 2009. Large displacements of civilians in NWFP and FATA, higher budgetary constraints, low levels of investment in development sector have negative implication for poverty trends. Due to healthy growth trends till 2007, Pakistan has performed well on poverty front with poverty falling to 17 % in 2007. However these trends have to be revised upwards in current scenario. First, with low growth rates, number of people living below poverty line is expected to rise which would be a major set back to state's capability in winning mass support for WOT. If poverty number rises, WOT would become increasingly unpopular among the masses. Programs like Benazir support fund may become ineffective in the longer run as more people find themselves below poverty line while the state finds itself under resource crunch amid decline in larger economic activity.

Missing the budgeted targets

A 10 % increase is observed between budgeted and actual current expenditure for fiscal year 2008-09 with a total gap of Rs 156 billion. The main contributors to the rise in gap between actual and budgeted current expenditures are general public services, defense affairs and services, public order and safety affairs, recreational, culture and religion and social protection. In order to balance the negative fallout of WOT; Pakistan invested more in education, social protection, public safety, defense as well as religion than what was planned in the budget.

Table 2.2. *Current Expenditure (2008-09)*

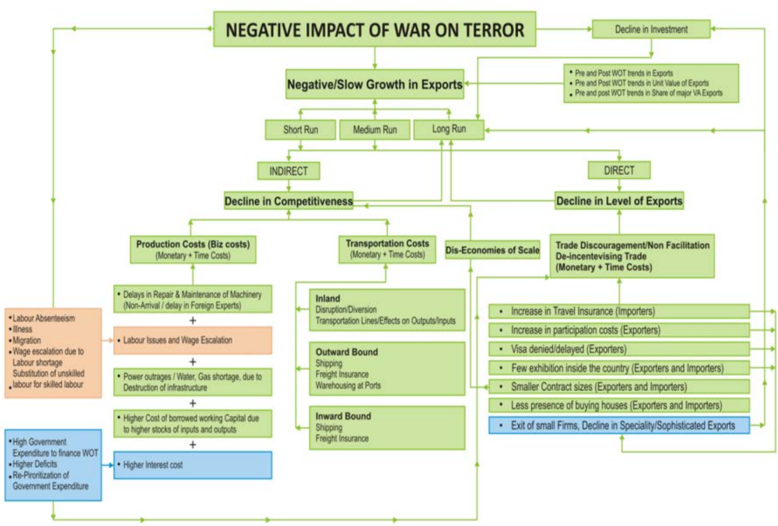
	Budget	Actual	Growth Rate
General Public Services	929,522	1,132,5950	21.84
Defence Affairs and Services	296,077	311,303	5.14
Public Order and Safety Affairs	26,770	27,343	2.14
Economic Affairs	201,151	136,678	-32.05
Environment Protection	210	210	0
Housing and Community Amenities	1,359	1,359	0
Health Affairs and Services	5,490	5,490	0
Recreational, Culture and Religion	3,191	4,564	43.02
Education Affairs and Services	24,622	24,640	0.07
Social Protection	4,791	5,042	5.23
	1,493,183	1,649,224	10.45

Source: Federal Budget Brief, 2009-10

WOT related deficit in the budget

National economic council has approved Rs 334 billion for Public Sector Development Program (PSDP) for fiscal year 2008-09. However, only Rs 211 billion were made available which is only 63% of the actual amount provided. For 2009-10 fiscal year a hefty amount of Rs 419 billion was made available but by October 2009, only 10 % of the total amount has been released showing a steep fall in state's capacity to promote pro poor economic activity in the country.

In fiscal year 2009-10 unbudgeted burden is Rs 310 billion, out of which Rs 170 billion is WOT related additional security expenditure. The unbudgeted burden would be financed through rationalizing of the PSDP, or by Benazir Income Support Program or through State Bank of Pakistan (SBP) profits which are totaled at Rs 230 billion. This means that unbudgeted increase in budget deficit is Rs 80 billion which is 0.4 % of the GDP. Budget deficit is expected to rise to 5.3 % of GDP as against the targeted 4.9%.



3 Identification of Rising Costs in the Export Cycle

The terrorist attacks that were carried out in USA on 11th September, 2001, have had significant and far-reaching effects on the global economy. Since then Pakistan's participation in the international campaign against terrorism has caused uncertainty in the country, as it had already been suffering from political and economic instability. The impact of war on terror on the economy is multidimensional, ranging from disruption in production to decline in exports and ultimately leading to sluggish economic growth.

There is some plausible correlation between WOT and export cycles in Pakistan. The larger economy of Pakistan has suffered with the intensification of war. Pakistan's growth rate witnessed a steep plunge from 6.8 % in 2006/07 fiscal year to mere 2 % in 2008/09 fiscal year. Pakistan's current economic downturn and steep fall of export growth during the intensification period suggests that cost of terrorism in last couple of years have been high in Pakistan.

Figure 3.1 elaborates war on terror related costs on the exporting sector of Pakistan.

In order to obtain an in-depth understanding of how the war on terror has impacted the overall costs of exporting extensive consultations were carried out with relevant stakeholders. It was found that exporters are facing problems in terms of visa issuance, increased cost of participation in International Trade Fairs, loss of confidence of buyers, increased logistical costs and loss of export orders etc.

Table 3.1. *List of Stakeholders Consulted*

CATEGORY	ORGANIZATION CONTACTED
Exporters	Lahore, Faisalabad, Karachi, Sialkot, Islamabad, Peshawar
Port / Terminal Operators	KICTL, QICT, PICT
Logistics Operators	Agility Logistics
Clearing and Forwarding Agents	Cargo Linkers, Karachi Expert Clearing and Forwarding Agents
Freight Forwarders and Shipping Agents	Freight Logistics (Private) Limited, Karachi
Buying House	GAP Buying House, Lahore
Trade Associations	SMEDA, PTA (Pakistan Tanners Association) Islamabad Women Chambers of Commerce
Govt Organizations	MoC, TDAP, BoI, Interior Ministry, Commercial Counsellors
Travel Agents	In Islamabad, Karachi
Insurance Co's	NIC International insurance companies

Marketing Costs

Negative travel advisories against Pakistan by several foreign governments have discouraged foreign buyers from visiting Pakistan. As a result the following cost components of marketing have increased in the Post War Intensification period:

Rising cost of Insurance for travelling to Pakistan

Higher cost of insurance to travel to Pakistan
Inability to attract foreign buyers to attend exhibitions in Pakistan
Due to reluctance on the part of foreign buyers to visit Pakistan, local companies have increased foreign visits to make up for this vacuum
Increased cost of participating in international fairs

Travel advisories have negatively impacted Pakistan's exports in many ways. Negative travel advisories discourage travelling to Pakistan, which has heightened the risk factor. This has caused the higher business travel insurance premiums. However, some insurance policies do not even cover travel to vulnerable countries like Pakistan, Iraq and Afghanistan.

> "A review of travel insurance premiums charged by major international insurance groups[1] for Pakistan over the past ten years reveals that Pakistan has been categorized as a "high risk" zone and, depending on the type of insurance policy, the rates have been increased by approximately three times"

According to the National Insurance Company, exorbitant premium rates under the provision of 'Terrorism Cover' are being charged, which are 50% - 200% higher than the normal travel insurance cover rates[1]. The high insurance cost coupled with the risk of loss of life or kidnapping results in foreign buyers refraining from travelling to Pakistan.

History of Travel Advisories to Pakistan

2002
All major foreign governments issue travel advisories against Pakistan after suicide attack on French Engineers in Karachi
2003
US State Department issues Travel Warning on Pakistan due to increased tensions in the region and continued high security concerns in Pakistan. The Department of State authorized the departure on a voluntary basis of non-emergency personnel at the U.S. Embassy in Islamabad and the U.S. Consulates in Lahore and Peshawar.
2004

[1] National Insurance Company Limited "Implementation of Trade Policy 2009-10" Doc NICL/ICBusiness/43-09

Travel advisory by EU against travel to Pakistan
2005
UK Foreign Office relaxes travel advisory for its nationals after improvement in the security situation in Pakistan.
2006
South Korean Government issues travel advisory against Pakistan citing sectarian violence.
2007
US State Department issues Travel Alert on Pakistan
2008
US State Department issues fresh Travel Alerts in Jan 2008 following the assassination of Benazir Bhutto.
This Travel Alert is renewed in March 2008.
In November the State Department issues a Travel warning on Pakistan following the attack on Marriott Islamabad
2009
The US State Department issues Travel warnings in February 2009 and June 2009 following the attacks on the Sri Lankan cricket team and Manawa police station.

Inability to Attract Foreign Buyers / Technical Experts

In addition to foreign buyers and their associates not travelling to Pakistan, the negative impact of travel advisories is that technical experts, especially from USA & EU, are also refraining from offering their services in Pakistan which has resulted in delays and production losses.

> Pakistan Carpet Manufacturers and Exporters Association was of the view that hand knotted carpets were a unique product and so buyers place orders after inspecting every piece of the carpet. Since buyers are now reluctant to travel to Pakistan and transporting carpet samples to other countries is a costly undertaking, as a result exports have almost halved.

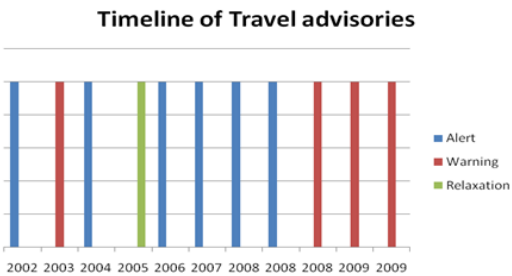


Figure. 3.2. *Travel Advisories Against Travel to Pakistan by USA2*

First time the travel advisories issued the highest caution against travelling to Pakistan was in 2003 (see figure 3.2). Soon after, the negative impact of travel advisories on exports began to unfold. Exporters and business representatives allayed their fears to government authorities on this issue. It was due to the gravity of the matter that on every subsequent foreign visit by the President or Prime Minister the removal of travel advisories was vociferously articulated at the highest level[3].

According to the CEO of a call centre: "USA buys 80 per cent of global Business Process Outsourcing' (BPO) services but the customers are not willing to come to Pakistan due to the US State Department's travel advisories against Pakistan. He further stated that Customers' trainers need to come and train the BPO and call centre employees before they start their campaign. However, he said, in presence of travel advisories the customers' trainers cannot come to Pakistan to

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[2] (Many governments make a distinction between long- and short-term travel advisories. The U.S. State Department issues travel warnings for "long-term, protracted conditions that make a country dangerous or unstable," while travel alerts cover temporary problems such as natural disasters or election-related demonstrations. These warnings/alerts, no matter how strongly worded, are purely advisory and do not prohibit citizens from traveling to the listed countries.)

[3] Archive of speeches/ addresses made by President, PM and senior Government officials on foreign visits.

train the workers. Therefore they take their business elsewhere.”

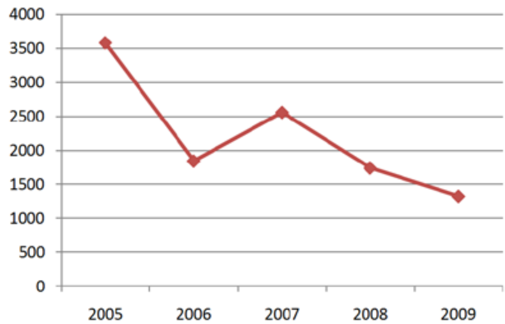

Figure 3.3. *Issuance of Business Visa to Japanese Businessmen*

There has been a declining trend in the number of visits of foreign business men to Pakistan. Figure 3.3 shows that the number of business visas issued to Japanese business men has reduced drastically since 2007 which is the post war intensification period.

Due to security concerns, foreign buyers and exhibitors are not coming to Pakistan to attend trade fairs. TDAP Expo Secretariat officials in Karachi reported that the response of international buyers and exhibitors to participate in the upcoming event of EXPO 2010 was disappointing despite facilitation by TDAP, in terms of subsidized air tickets etc.

Expo 2009 was cancelled following the heightened security situation which result in Interior Ministry failing to give security clearance to the event. They feared that Expo 2010 due to be held from 26-28 February 2010 might also be cancelled due to fresh security concerns after the 9th Moharram blast and riots in Karachi.

The underlying dilemma is that some large scale manufacturers can still manage to visit international trade fairs, but for small scale manufacturers local trade fairs used to be the main forum for marketing their products. In the absence of local trade fairs, smaller firms lose the most.

Increased Foreign visits of Pakistani Exporters

The negative impact of travel advisories has been strongly felt in textiles which is Pakistan's largest exporting sector. Since travel advisories are keeping potential buyers away from Pakistan, textile exporters have to send their representatives to negotiate and deal with buyers abroad.

Leading textile exporters stated that the number of foreign visits for marketing purposes has shot up to 300 percent, eroding their competitiveness in international markets. Apart from the costs, the entire process is cumbersome and requires much time and effort. For example, previously, buyers used to come directly, do the sampling, approve and sign off the sample for production. Now, the absence of this direct link has forced exporters to take on additional costs by travelling more frequently to make up for the loss of buyer's visits. The second alternative is introducing a buying house into the process, and forgoing a percentage of their profit margin.

The adverse security environment has led to the closure of foreign buyers' liaison offices in Pakistan. In comparison Bangladesh, which is not a victim of the War on Terror, has more than 1000 buying houses compared to a negligible few in Pakistan. Closure of liaison offices has added to the marketing costs of Pakistani exporters as not only do they have to travel abroad more frequently but exporters also have to open their own liaison offices and display centers in major markets like US and Germany.

In an interview with S. M Khalid, GAP Buying House it was found that…

> "EU and USA buyers no longer feel safe coming to Pakistan. Before the WOT, importers would visit factories in search of reliable outsourcing partners. They would place orders and when satisfied, they would divert their orders from other countries towards Pakistan, but after WOT, they now place orders with India, Bangladesh, etc. While placing a

huge order, the stakes are high and so it is an important consideration that the factory should be easily and frequently visited and inspected"

"Many foreign buying houses closed down in Pakistan after the WOT, as there is no point in maintaining them if company executives cannot visit. This has resulted in loss of exports for Pakistan and a gain for other countries."

"Pakistan has been USA's key ally in the WOT, but USA imposes a tariff rate of 19% on garments from Pakistan, whereas only 16% on Indian garments"

Decline in Participation in International Trade Fairs

The absence of foreign buyers has meant that exporters now have to travel more often to international trade fairs, which charge a hefty participation fee. According to TDAP, the primary agency responsible for taking trade delegations abroad, exporters participate in international trade fairs through either TDAP, Chambers of Commerce or at their own expense which is more costly for an exporter. The war on terror has caused decline in participation in international trade fairs because of the following reason:

Budgetary constraints of TDAP

The war on terror has resulted in fiscal imbalances and a shift in resources away from other sectors. The major reason for increase in participation costs has been the withdrawal of subsidies for participating in trade fairs as TDAP does not have enough funding to subsidize this activity anymore mainly due to the falling Export Development Fund (EDF). This is evidenced by the fact that in 1997 TDAP took delegations to over 100 trade fairs abroad whereas in 2009 it only took about 50 delegations[4].

[4] Interview with TDAP sources

Denial and delay in issuance of visas to Pakistani business travelers

Issuance of visas was not a problem until a few years ago. Due to the current security situation, many countries have placed *stringent visa requirements* on Pakistani travelers. This has resulted in an increase in psychological, monetary and time costs for Pakistani exporters.

Major international trade shows which attract Pakistani exporters are held in Germany and USA. Both these countries have tightened their visa regulations for Pakistani travelers. For example, Germany which falls in the Schengen zone requires at least 3 months for visa processing. Exporters do not have enough time to apply for visas, due to the short deadlines for registration in trade fairs.

The British High Commission transferred the processing of Pakistani visa applications from Islamabad to Abu Dhabi in 2008. This has resulted in an increase in the time for processing visas to 60 days and an increase in visa processing costs of Rs 10,000.

Previously TDAP or the Foreign Office used to issue a recommendation document about the delegates selected for participation and the concerned embassies granted visas. Now the candidates who are endorsed are no longer being entertained by embassies who process each visa on a case by case basis now.

Exporters said that problems and delays in obtaining visas caused many of them to miss out on scheduled meetings and participation in international exhibitions resulting in loss of potential business.

Logistics Costs

The increase in global production sharing, the shortening of product life cycles, and the intensification of global competition all highlight logistics as a strategic source of competitive advantage. Efficiency of the supply chain in

Pakistan has been affected due to heightened security concerns which has lead to higher logistics cost specifically for the exporters. High logistics cost to exporters are eventually transformed to higher export prices, thus reducing the competitiveness level of export commodities.

Performance in key Logistics Indices

In the ever increasing race of achieving high level of competitiveness among countries, the quality of logistics can have a major impact on a firm's decisions about which country to locate in, which suppliers to buy from, and which consumer markets to enter. High logistics costs and more particularly low levels of services are a barrier to trade, foreign direct investment and economic growth. Countries with higher overall logistics costs are more likely to face deteriorating sectoral as well as overall competitiveness

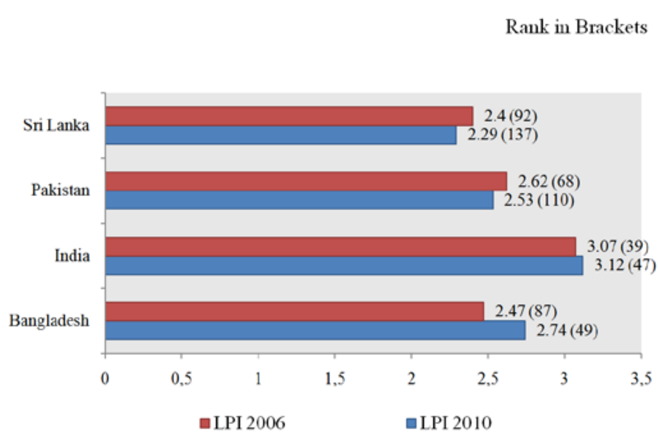

Figure 3.4. *Logistics Performance Index and Ranks of South Asian Countries*

Source: World Trade indicators 2007-2010

Logistics Performance Index (LPI) provides an in-depth cross-country assessment of the logistics gaps and constraints facing countries. It elaborates on several areas of performance, such as logistics competence, infrastructure, shipping connectivity, cost to exports etc, based on a 1 to 5 scale (lowest to highest performance, respectively). Looking at the LPI of South Asian countries in 2006 and 2010 (See Figure 3.4), Pakistan's rank has fallen from 68 to 110. Pakistan is placed behind Bangladesh, a key competitor, in the 2010 LPI.

Table 3.2. *Disaggregated LPI*

Country	Customs	Infrastructure	Logistics Competence	Tracking / Tracing	Timeliness
India (2006)	2.69 (47)	2.9 (42)	3.27 (31)	3.03 (42)	3.47 (47)
India (2010)	2.7 (52)	2.91 (47)	3.13 (46)	3.16 (40)	3.14 (52)
Pak. (2006)	2.41 (69)	2.37 (71)	2.71 (63)	2.57 (76)	2.93 (88)
Pak. (2010)	2.05 (134)	2.08 (120)	2.91 (66)	2.28 (120)	2.64 (93)
Sri. (2006)	2.25 (89)	2.13 (105)	2.45 (84)	2.58 (75)	2.69 (113)
Sri. (2010)	1.96 (143)	1.88 (138)	2.48 (117)	2.09 (142)	2.23 (142)
Bang. (2006)	2 (126)	2.29 (82)	2.33 (101)	2.46 (87)	3.33 (54)
Bang. (2010)	2.33 (90)	2.49 (72)	2.99 (61)	2.44 (96)	2.64 (92)

Source: World Trade Indicators (2007 & 2010).

A comparison of Pakistan's logistics indices vis-à-vis its competitors in South Asia reveals the Pakistan's efficiency of customs and other border procedures, quality of transport and IT infrastructure for logistics, logistics competence, tracking/tracing and timeliness of shipment has deteriorated significantly in 2010. Pakistan's ranking is now lower than Bangladesh's when compared to 2006 (see table 3.2). This clearly depicts that the logistics cost and performance have changed with intensification of WOT from 2007 onwards.

Pakistan's increasing inefficiencies in logistics is bound to translate in to higher logistics costs and indicative of the excessive pressure of delays in shipment faced by exporters.

Increasing Logistics Cost

The issues and performance of logistics in Pakistan is immensely being affected because of current security situation in the country. The stakeholders interviewed said that the logistics costs have increased due to war on terror and exports have been affected. However, small and medium exporters have been affected more when compared to the larger ones.

It was found that the disaggregated logistics costs affecting the exporters are transportation cost, port/terminal charges, insurance cost, freight charges and delays in shipment. The way these costs have impacted logistics is discussed as follows:

Transportation Costs Increased & Capacity Severely Stretched

The long waiting and traveling times, high costs and low reliability are hindering the country's economic growth. These factors reduce the competitiveness of the country's exports and constrain Pakistan's ability to integrate into global supply chains, which require just-in-time delivery. The war on terror is impacting the transportation sector of Pakistan by increasing the:

- Higher charges due to higher risks
- Risks of damage/disruption involved in transporting
- Non-availability of transport due to Diversion to Afghan Transit Trade (ATT), NATO, ISAF
- Financial Impact of NATO/ISAF freight on Transit Routes
- Rush due to strikes
- One day closure of business activity causes rush the next day further raising the cost

After carrying out stakeholder consultations it was found that transportation costs have gone up significantly and they fluctuate on daily bases depending on the current security situation in the country. The Exporters and freight forwarders interviewed raised similar concerns on the fact that transporters charge more due to risk associated with traveling, which rises with every terrorist activity. The average truck transport rates between Lahore and Karachi as presented in the World Bank logistics study compared to the current prevailing rates are as follows:

Table 3.3. *Fluctuating Transport rates*

From Lahore to Karachi	
World Bank Logistics study (2006)	Rs 14,000 per 20′ container
Current prevailing rates[5]	Rs 35,000-45000 per 20′ container. On the day of strike or terrorist activity the rates shoot up to Rs 60,000

The transport rates have also increased after the Afghan transit as the limited transport capacity of Pakistan has been diverted to carrying US cargo, resulting in limited transport available for exporters. This leads to a reduction in the bargaining ability of the exporter and sometimes trucks are not available, which causes delays in shipment. This problem is more frequently faced by exporters in Up country. If business closes due to strike for one day the rates go up the next working day due to backlog as well.

Most of the good quality trucks are used for Afghan Transit Trade, which remain engaged for atleast 15 days. For ATT 4800-5000 containers/month are being transported. It means approx 1800-2000 trucks are employed. For US Operations in Afghanistan 5500-7000 containers/month are being transported. It means approx 2000-2200 trucks remain engaged. Hence, 4200 good quality trucks are unavailable for traders.

[5] These estimates are taken on average from the information provided by freight forwarders.

Freight charges

The global recession has led to a fall in international freight charges world wide but the case for Pakistan has been entirely opposite because of security issues intensifying in the past 2 to 3 years. All the exporters interviewed have put forth there concern over high freight charges. The freight forwarders6 justify the high charges due to higher risks of delays arising from strikes which increase the detention charges on the transport hired. Thus they have increased their overheads.

In Pakistan Freight forwarders charge higher overhead due to risk and possibility of delays because of random terrorists attacks, which confounds the already poor shipping connectivity of Pakistan.

Insurance Costs

The risks arising from the security situation due to war on terror has affected the insurance cost. According to freight forwarders the inland transit insurance charges fluctuate on daily basis and even increase by 400% due to the higher risk resulting from a bomb blast or any other terrorist activity. Sometimes the insurance companies even refuse or are not willing to cover up the entire insurance. This shows that insurance cost are highly sensitive to the current security risk. Shipping charges have also increased due to the fact that Pakistan's ports have remained in the red zone which increased the insurance cost of vessels.

Shipping companies in order to cover up the high insurance cost have introduced the War Risk Surcharge which on average is $50 per container and increases as the security concerns heightened within the country

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[6] Freight forwarders and express carriers are in a privileged position to assess how countries perform on logistics. They manage operations from factory and warehouse to port, from port to overland transit, and through one or more borders to destination, with each link testing a country's logistics infrastructure performance

Delays in Shipment

Pakistan's major export commodity is textile which is seasonal in nature. According to a few textile exporters interviewed.

"Buyers are not placing their orders in the prevailing uncertain environment. They doubt the timely supply of goods from Pakistan. As a result our exports are affected badly, where as exports serve as one of the major source for earning foreign exchange. Unfortunately the growth of this important sector of the economy is in a continuous jeopardy."

The timely export of goods doesn't remain possible many a times because of war on terror and the prevailing social unrest/hazards. The different channels through which war on terror is causing delays in shipments, identified from stakeholders' experiences are given as follows:

- High security risk for inland transportation
- One day close-down of port costs Rs 4 billion to the economy [FBR estimates]
- Frequent port (and entry points) close-downs
    - Off days, followed by rush (further delays)
    - Vessels missed + delay/ detention charges on export containers starting from $5 per day demurrage and import container $7 per day as well as $40 per day detention charges.

- Shipment shut-outs due to stricter scrutiny at port/terminals
    - Karachi International Container terminal alone reported 5,842
      Shut-out Teus in 2009
    - Special checking & scanning and increased cost of compliance for US bound cargo

- Port Congestion faced by both exporters and importers
    - Rush experienced when business activity is resumed after a strike or terrorists attack
    - Afghan bound cargo dwell time is 16 days (with 14 days free time resulting in excessive usage of port as a warehouse) compared to 4 days for exports and 10 days for imports.

The rising issue of delays in shipment can worsen in the coming years. The delays in shipment is closely associated with war on terror, therefore a favorable trade environment is most vital for reducing these bottlenecks.

Loss of Business

Since Pakistan's active participation in the WoT, an uncertain environment has led to political and economic instabilities, increased law and order concerns, etc. These events have resulted in negative repercussions for the businesses due to declining consumer confidence, translating into weak economic performance coupled with inflationary climate, the global financial crisis etc. Pakistan's manufacturing output, foreign investment and exports have experienced a downfall. The shrinking economic activities need to be addressed immediately as declines in output, investment, exports, result in unemployment and increased incidence of poverty.

> "Pakistan is a developing country and is not a diversified economy – its dependence on just a few sectors makes the economy extremely vulnerable to terrorist attacks and threats from terrorism. Developed economies are found to be more resilient when faced with terrorism."

During the fiscal year 2007-08, the manufacturing sector of Pakistan experienced the weakest growth in a decade.

Large-scale manufacturing which accounts for 69.5% of overall manufacturing evidenced a growth of only 4.8% in 2007-08 and -8.2% in 2008-09 against growth of 8.6% in 2006-07. Clearly, the manufacturing sector of Pakistan has been hurt badly since the intensification of the war. In 2004-05, large-scale manufacturing reached the highest growth rate of 19.9%.

Export performance of Major sectors in Pre & Post War Intensification period

Export performance of important sectors of Pakistan has been deteriorating rapidly since war intensification. The two most important sectors of Pakistan, i.e. leather and textiles, have suffered immensely.

Agha Saiddain Chairman (2008-09), Tanning Industry, North Region, Pakistan Tanning Association (PTA) in an interview stated that,

> "There has been a 27% decline in export of leather products during July – November 2009, while India's exports increased by 30% over the same period. Power outages, government negligence of the sector, and most significantly disruption in the supply chain, raw materials for the industry coming from Balochistan, due to WoT have resulted in huge losses for this sector.
>
> Leather sector of Pakistan is the hardest hit since the supply chains of raw materials from Afghanistan, NWFP and Baluchistan have been disrupted, leading to a loss of competitiveness in the international market for leather. Imported raw materials are now subject to higher insurance rates for Pakistan.
>
> The result of the WoT is the alarming deterioration in the image/perception of Pakistan, and poor image of the goods it exports to the extent that clients have requested to have either no label on the products or a 'Made in India' label!

Major trading partners of Pakistan have been given travel advice to avoid travelling to Pakistan. Pakistanis also face the problem of visa and hence find it difficult to make deals and promote and market their products. The cost of doing business has also increased because of insurance which has become a pre-requisite to apply for a visa.

Lost revenue from exports because of decrease in contract sizes, and diversification of products and transfer of knowledge are no longer possible since clients do not come anymore. They would bring in new chemicals and formulas and then place orders. But now they have reduced their contract sizes and refused to place bulk orders. Reduction in contract sizes mean more frequent change of colors and wash of tannery. This has translated into loss of economies of scale that the companies were enjoying before the WoT. Pakistan's tanneries are now lesser competitive than before".

*Big retail outlets and brands preferred to import from Pakistan as compared to India before WoT since Pakistan had an advantage of supplying hides and skins not only from cattle that died a natural death but also the slaughtered ones a well. The slaughtered cattle hides and skins are of a better quality.

*Pakistan has not been able to take advantage of certain situations due to WoT. USA and EU have imposed anti-dumping duties on China and this led to a shift of leather imports from China to other countries such as India and Vietnam.

Table 3.4. *Month-wise Export Figures of Leather, Leather Apparel & Clothing, Leather Gloves, Leather Footwear and other Leather Manufactures (2007 and 2008)*

Month	Export Value ($ millions)	Month	Export Value ($ millions)
July 07	96.805	July 08	107.804
August 07	88.393	August 08	90.654
September 07	90.403	September 08	103.540
October 07	83.323	October 08	70.203
November 07	127.252	November 08	93.901
December 07	114.655	December 08	69.239
January 08	77.750	January 09	78.082
February 08	100.628	February 09	65.720
March 08	125.018	March 09	65.261
April 08	96.967	April 09	63.927
May 08	109.200	May 09	72.978
June 08	109.727	June 09	77.837
TOTAL	1220.121	TOTAL	959.146

Export earnings from textile sector have decreased by 5.6% in 2008-09 (see table 3.5), whereas export earnings from non-textile manufacturing goods declined by 5%. The textile sector's share in total exports is 50% whereas for other manufacturing sectors, the share is 23%. Therefore, export earnings from textile sector have decreased by $578 million while from non-textile manufacturing sectors by $236 million as compared to the previous year, 2007-08.

Table 3.5. *Export Earning of Textile sector*

	Share in total exports	Decrease over previous year in export earnings	
		Amount ($ million)	Decrease (%)
Textiles	50	578	5.6
Readymade garments	6	221	18.3
Cotton yarn	6	179	15.3
Other textile products	3	111	18.8
Knitwear	10	80	3.7
Cotton carded	1	75	35.6
Cotton cloth	10	66	12.9
Manufactures (excl. textiles)	23	236	5.0
Petroleum	4	95	13.2

products			
Solid fuel	3	252	41.5
Leather tanned	3	80	15.4
Carpets and rugs	1	70	29.3
Footballs	1	55	25.3
Molasses	0.3	49	93.6
Total exports	-	20.4	5.9

Source: State Bank of Pakistan, Economic Data website; [Retrieved from].

The Hard Hit Small and Medium Enterprises (SME's)

SME sector is critical to inclusive economic growth and employment. Large corporations can engage with SMEs and localize the creation of value, and in this way, large corporations build the capacity of SMEs leading to economic development (WBCSD).

Pakistan's SME businesses have been adversely affected by the WoT. The negative consequences to the trading activities of SMEs are mainly attributed to the WoT and to a lesser extent to the global financial and energy crises. The negative consequences of global financial crisis are not as great for Pakistan as compared to other countries because the financial sector of Pakistan is inadequately linked with global markets (Ali 2009). Also, according to the IMF (2009a), Pakistan has not been adversely affected by the global financial crisis due to non-integration of the domestic financial sector with the global financial sector. The government has not been able to deal with the energy crisis because its attention and resources have been diverted towards the WoT.

Fayyaz Riaz Head, Industrial Support Program SMEDA highlighted that

New businesses that are small have been harmed as they are not considered credible. They cannot get customers as easily as the established ones. Both new and old firms have lost many business opportunities as it is harder to make new customers. New businesses have gone to competitors.

No government assistance to any size of firm. Post quota era subsidy for R&D support, which encompassed that 6% of export value subsidy was given to all exporters is no longer there. It was eliminated in June 2007 or 2008. Sales tax refund on exports, the policy has changed for that as well. It was 100% sales tax refund.

In an interview with a stakeholder, Saima Fazal, Islamabad Women Chamber of Commerce, the negative repercussion on inclusive growth can also be inferred since according to her, women entrepreneurs have suffered more than male entrepreneurs as most women are new in business and are unable to face losses at the initial stages of their businesses. Saima replied in response to a question, 'Businesses are running into loss since the intensification of the war (2007-08) and not before this period'.

4 Post GSP+ Impact on Pakistan's Exporting Industry

European Union (EU) remains Pakistan's largest trading partner receiving USD 4.9 billion (about 25%) of Pakistan's exports in 2008. Trade between the EU and Pakistan was worth approximately USD 11 billion in the year 2008 with a trade deficit of USD 0.5 billion. Pakistan imports from EU have increased over the period 2004-2008. However, exports have declined over the past four years. Pakistan's share in EU market has decreased from 0.33% in 2003 to 0.20% in 2008.

EU and Pakistan agreed in May 2007 to set up a Sub-Group on trade under the auspices of the EU-Pakistan Joint Economic Commission. EU has granted GSP to some Pakistani exports due to which almost 20% of Pakistan's exports enter the EU at zero tariff and more than 70% at a preferential rate. Despite being a beneficiary of the EUs Generalized System of Preferences (GSP) Scheme, products of main export interest of Pakistan i.e. textile and clothing face high tariffs in the EU market. For textiles average GSP tariff is 6.4% and for clothing average GSP tariff is 9.6%.

Pakistan was offered GSP + status on its exports to European Union during the GSP Regime of 2003 – 05 (until June that year). The GSP Plus advantage was offered on account of combating drug control. India challenged EU's decision in Dispute Settlement Body and ruling was passed in India' favor. EU withdrew the GSP Plus status from Pakistan in June 2005. Textiles and clothing dominate Pakistan's exports and still account for about 72.34% of Pakistan's exports to the EU.

Sri Lanka and Bangladesh continue to have duty free access in EU market under GSP Plus and EBA (Everything but Arms) respectively.

Gains and Losses – A Pre and Post GSP+ Analysis

The report focuses on Pakistan's textile sector and its exports to EU in pre and post GSP + periods. We only consider main EU countries that can represent EU regime in Pre GSP + in addition to during and post GSP +. The commodities which are exported to EU are cotton (HS52), articles of apparel and clothing (HS61), articles of apparel and clothing (HS62), made up textile articles (HS 63) and bed linen.

Table 4.1. *Trading Commodities with EU-15*

EU-15 Countries	Commodities
Austria Belgium Denmark Finland France Germany Greece Ireland Italy Luxembourg Netherlands Portugal Spain Sweden United Kingdom	• **HS 52**: COTTON, INCLUDING YARNS & WOVEN FABRICS THEREOF • **HS 61**: ARTICLES OF APPAREL & CLOTHING ACCESSORIES-KNITTED OR CROCHETED *(KNITTED)* • **HS 62**: ARTICLES OF APPAREL & CLOTHING ACCESSORIES - NOT KNITTED OR CROCHETED (*WOVEN*) • **HS 63**: MADE-UP TEXTILE ARTICLES NESOI, NEEDLECRAFT SETS, WORN CLOTHING, RAGS • **Bed Linen**: HS 6302.10 to 6302.39

Data Source
- UN COMTRADE

Pakistan - EU Bilateral Trade

Average of EU imports from the rest of the world has more than doubled since 1999-02. Pakistan's exports to EU doubled in GSP + regime since 1999-02 period. However the Pakistan's market share declined Post GSP + from 0.14 % to 0.10 %. If Pakistan continued with GSP+ regime, our exports could reach more than USD 6 billion mark as against USD 4.6 billion currently, with an estimated gain of 2.06 billion. Pakistan has clearly benefitted from the GSP + regime. Pakistan's poor performance in exports to EU is attributed to the loss of GSP + regime in 2005.

Table 4.2. *Pak-EU Bilateral Trade Pre- & Post – GSP-PLUS*

PERIOD	Average of PK exports to EU	Average of EU Global Imports	Share of PK in EU Market (%)	Potential Exports ***	(Loss) / Gain
Pre - GSP+	2.76	2,335.75	0.118	-	-
GSP+	4.92	3,489.42	0.141	-	-
Post GSP+	4.65	4,758.07	0.098	6.708	(2.06)

As far as cotton, Inc (HS 52) is concerned, Pakistan has gained in market share. However cotton exports only make up a small part of Pakistan's total exports which makes the gains relatively limited in nature. EU demand for cotton has remained relatively stagnant over the years.

Table 4.3. *HS 52: Cotton, Inc. Yarns & Woven Fabric Thereof*

PERIOD	Average of EU Global Imports of HS 52	Average of PK exports of HS 52 to EU	Share of PK in EU Market (%)	Potential Exports***	(Loss)/ Gain
Pre - GSP+	6.728	0.402	5.980		
GSP+	6.853	0.575	8.391		
Post GSP+	6.882	0.739	10.731	0.577	0.161

For HS 61 Pakistan has lost its market share post GSP+ when compared to GSP + regime. Pakistan's actual exports during 2006-08 were USD 1.63 billion. If Pakistan continued with GSP+ the export number could rise to USD 2.1 billion with a estimated gain of USD 476 million.

Table 4.4. *HS 61: Articles of Apparel & Clothing Accessories-Knitted or Crocheted*

PERIOD	Average of EU Global Imports of HS 61	Average of PK exports of HS 61 to EU	Share of PK in EU Market (%)	Potential Exports***	(Loss) / Gain
Pre - GSP+	165.318	1.671	1.011		
GSP+	95.197	1.085	1.140		
Post GSP+	184.670	1.629	0.882	2.105	(0.476)

For HS 62, Pakistan has gained in post GSP + period as its share in EU imports from rest of the world has been increasing steadily. Pakistan's exports to EU for HS 62 has risen more sharply that EU demand for the commodity from rest of the world. The net gain post GSP+ for HS 62 stands at USD 241 million.

Table 4.5. *HS 62: Articles of Apparel & Clothing Accessories-Not Knitted or Crocheted*

PERIOD	Average of EU Global Imports of HS 62	Average of PK exports of HS 62 to EU	Share of PK in EU Market (%)	Potential Exports***	(Loss) / Gain
Pre - GSP+	212.499	1.776	0.836		
GSP+	117.088	1.013	0.865		
Post GSP+	215.864	2.109	0.977	1.868	0.241

Table 4.6. *HS 63: Made-Up Textile Articles Nesoi, Needlecraft Sets, Worn Clothing, Rags*

PERIOD	Average of EU Global Imports of HS 63	Average of PK exports of HS 63 to EU	Share of PK in EU Market (%)	Potential Exports***	Loss / Gain
Pre - GSP+	36.115	2.931	8.114		
GSP+	21.767	1.980	9.095		
Post GSP+	41.176	3.277	7.958	3.745	(0.468)

For HS 63 commodities, Pakistan's exports to EU post GSP + have witnessed a steep increase. However the demand for the product in EU increased much steeper lowering the overall share of Pakistan in EU imports. If Pakistan continued with GSP+ in 2006-08 period, Pakistan exports would reach up to USD 3.745 billion as against USD 3.277 billion, with a net gain of USD 468 million.

Table 4.7. *Bed Linen (HS 6302.10 to 6302.39)*

PERIOD	Average of PK exports of Bed Linen to EU	Average of EU Global Imports of Bed Linen	Share of PK in EU Market (%)	Potential Exports***	(Loss) / Gain
Pre - GSP+	1.993	8.588	23.205		
GSP+	1.305	5.277	24.729		
Post GSP+	2.279	9.618	23.697	2.378	(0.099)

Bed linen exports have also suffered due to Pakistan's exclusion from GSP +. Pakistan lost its market share in bed linen post GSP + which has resulted in the net loss of USD 99 million. The Post GSP + per annum net loss to Pakistani exports in commodities (HS 51, 61, 62, 63) is USD 542 million.

Table 4.8. *Share in Regional Exports with EU*

Ch. 52	Pre GSP+ Growth Avg. (1999 - 2002)	GSP+ Growth Avg. (2003 - 2005)	Post GSP Growth Avg. (2006 - 2008)
Pakistan	6.7%	22.4%	7.6%
India	3.4%	1.4%	2.0%
Bangladesh	76.5%	11.3%	42.8%
Sri Lanka	-19.0%	4.4%	-4.9%
Ch. 61			
Pakistan	5.8%	25.2%	3.3%
India	23.1%	21.0%	9.7%
Bangladesh	9.2%	39.5%	18.5%
Sri Lanka	-0.3%	11.4%	22.3%
Ch. 62			
Pakistan	10.6%	16.3%	8.0%
India	2.4%	23.7%	9.3%
Bangladesh	-4.7%	12.0%	14.0%
Sri Lanka	-0.8%	13.8%	11.0%
Ch. 63			
Pakistan	12.0%	19.1%	2.9%
India	-4.3%	30.0%	-1.0%
Bangladesh	19.8%	40.0%	27.4%
Sri Lanka	-25.9%	2.8%	35.6%

Post GSP + Era: Implications for Pakistan & Its Competitors

Textile being a tariff sensitive sector, table 4.8 shows that a dramatic decline in growth rates is observed for Pakistan as compared to the performance of its regional competitors in the Post GSP+ era (2006-2008). Withdrawal of GSP+, War on Terror (WoT) and global recession are the main reasons for falling growth rates. Had Pakistan been a GSP+ recipient during 2006-08 periods, the impact of last two factors would have been limited.

No secular decline observed for Pakistan's competitors in all categories and countries during 2006-2008 period. Thus financial meltdown had differential impact on product lines as well for competing countries. Bangladesh, India and Sri Lanka have gained (trade diversion, caused by withdrawal of GSP+ and WoT) at the expense of Pakistan in post GSP+ regime.

In South Asia, Sri Lanka has advantage of GSP Plus whereas Bangladesh has GSP Plus preference under EBA. Growth figures of 2006-8 and their comparison with EU-15's own growth and regional exporting countries demonstrates that Pakistan experienced fast erosion in its competitiveness to post slower growth during 2006-8. Had the GSP Plus advantage been available, Pakistan would have posted growth figures comparable with EU-15's import growth and other regional competing countries.

Table 4.9. *Employment in Textiles*

	Spinning	*Weaving*	*Processing*	*Hosiery*	*Garments*	*Bed Wear*	*Embroider*	*Towel*	*Syntheti*
1999-2002	0.295	0.208	0.340	0.022	0.680	0.226	0.013	0.013	0.009
2003-2005	0.407	0.244	0.378	0.032	0.967	0.328	0.018	0.018	0.011
Growth Rates	38.05*	17.03*	11.28*	41.39*	42.12*	44.66*	35.95*	35.95*	25.07*
2006-2008	0.473	0.239	0.354	0.032	1.072	0.393	0.021	0.02	0.01
Growth Rates	16.29**	-1.82**	-6.55**	0.44**	10.86**	19.91**	16.32*	10.92**	-4.90**

Sources: Textile Commissioner Karachi, Labor Force Surveys 1999-2008, PITAD own calculations

Loss of Employment in Textile Sector

Slow down in Pakistan's textile exports to EU have direct implications for the employment in the sector. Overall, with the exception of weaving, processing and synthetic all categories of textile sector has witnessed an over all increase in employment over the periods of Pre GSP + (1999-02), during GSP + (2003-05) and Post GSP + (2006-08). Nevertheless, the growth rates in employment Post GSP + periods have declined all across the board. Garments are the most important category of textiles as its share in employment is the highest. The employment share of garments in over all textile has increased from 0.96 million to 1.07 million but employment growth has declined from 42.12 % during 2003-05 to 10.86 % during 2006-08. Assuming Pakistan continued with GSP + during 2006-08 period and subsequently garments industry continued with its growth rates of 42.12 % observed during 2003-05, the over all employment would be 1.38 million instead of 1.07 million, with a gain of 0.30 million new employed labor. Similarly in most of the other categories of textiles, if GSP + growth rates in employment were retained during 2006-08 periods, the total gain would be 0.61 million new employment opportunities in textiles sector (see table 4.10).

Table 4.10. *Gains in Employment*

Post GSP (2006-2008) Average Employment in Textiles (millions)			
	Actual	Potential*	loss
Spinning	0.473775	0.562196	0.088421
Weaving	0.239937	0.285952	0.046015
Processing	0.354099	0.421676	0.067577
Hosiery	0.032238	0.045381	0.013143
Garments	1.072953	1.375491	0.302539
Bed Wear	0.393788	0.475041	0.081252
Embroidery	0.02154	0.025174	0.003634
Towel	0.020539	0.025174	0.004635
Synthetic	0.010799	0.014203	0.003404
		Average Total Loss in Employment (millions)	0.610619

Notes: *Potential employment is derived by applying the respective growth rate on base employment of GSP+ Period *(see table 4.9).*

Employment, Income and Poverty

Given the relationship that every 1 million increase in textile employment leads to an increase of real per capita income of Rs.5455 at a country level, It is estimated that withdrawal of GSP+ has translated into loss of 0.6 million jobs. This implies a loss of Rs.3273 in per capita income. This constitutes 10 % lower per capita income in 2007-08, than possible under GSP+

Given a unitary elasticity of poverty headcount to increase in per capita income, a 9.5 %loss in per capita income implies that poverty headcount could have been lower by 9.5 % in a GSP+ regime.

Assuming a poverty headcount of 17 % in 2007-08, the poverty headcount could have been 15.3 % in the event of GSP+. If one assumes a poverty level of 30 % in 2007-08 (GoP estimates), the poverty headcount could have been 27 % in the counterfactual situation.

Giving GSP + to Pakistan

Pakistan is facing a challenging situation where Pakistan is key western ally on WOT. Over the years WOT has intensified and lead to an active armed conflict in Pakistan with Taliban in FATA and NWFP region. The repercussions of the conflict are felt all over the country as terrorists have increased their activities in other parts of the country. Success in the conflict depends on country's preparedness not only in terms of its defense capabilities but also in terms of its political, socio and macro economic strength which would decide country's sustained resolve against extremism.

In these testing times Pakistan needs continued support of the West in terms of bilateral aid and economic programs. GSP + has been good for Pakistani economy as it boosted country's exporting industry which also employs a significant part of the labor force. Loosing GSP + has put Pakistan at a greater risk of further economic slowdown which may hamper the potential for socio-economic development. As a consequence of losing out in GSP +, social development is at a greater risk which has also jeopardized the national drive against poverty.

The gains to GSP + are clear from the above analysis which makes a strong case for Pakistan to be extended the bilateral trade agreement for coming years so that Pakistan can boost its growth potential through the export sector. This may have far reaching and favorable socio economic consequences which in turn would enable the country to continue with its current resolve in WOT and bear the costs of the conflict more indigenously.

5 Conclusions and Policy Note

War on Terror has significantly affected Pakistan's economy through many direct and indirect costs. Pakistan became an equal partner to this war in 2001 after 9/11 terrorist attacks in USA. Some fringe benefits for Pakistan's cooperation and participation were accrued by the country during the regime of President Musharraf. However with time WOT and its effects deepened in the country as Pakistani army engulfed in low intensity armed conflict with the extremists in its Northern borders with Afghanistan. Last few years have seen major terrorist attacks in major cities of Pakistan namely Peshawar, Islamabad, Lahore, Karachi and Quetta so much so that since 2007 the whole country is at the war footing. Today Islamabad, the capital city, gives an impression of a fortified fortress where many main roads have been blocked permanently and others are obstructed with security check points.

Only going by perceptions, Pakistan is a brand name tarnished with events of violence emanating from WOT. Locally businesses have shut down. Internationally Pakistan is in the negative list of travel advisories. Since, commerce is at the heart of any county's economic development, this is bad news for economic development of the country. WOT is a conflict with international dimensions where NATO and allied forces are engulfed in a battle against extremists in neighboring Afghanistan while there are often warnings of terrorist attacks in several parts of the world, especially USA and England. It is not only Pakistan which has to bear the costs of this conflict spanning 8 years of this decade, but there are international stakeholders like many in developed countries. WOT has already caused high military budgeting in USA, while attentions have been diverted from other social and economic risks. For example, the global recession has deepened partly because of WOT.

Despite high costs of WOT in Pakistan, it has not shared its due attention among the policy circles of the country as well as the extent of damage has not been conveyed to international stake holders. The general understanding is that current economic turmoil in Pakistan is due to lack of democratic precedent in the country and usual lack of preparedness by its economic, social, legal and political institutions. According to international stakeholders, the major issues the country faces is an outcome of structural weakness of Pakistan's economic reform process which exposes it to the higher risk of economic collapse. Though the concerns are valid, the fact cannot be negated that the country is at war.

Today Pakistan ranks equal to Nepal and Sri Lanka where both countries have precedence of decades' long armed conflict and civil insurgencies. Though costs of doing business in Pakistan are medium in nature, Pakistan has been continuously losing its competitiveness in international markets especially in last 3 years. It is evident that armed conflict with extremist elements by actively participating in WOT has taken its toll on Pakistan and its economic and social structures. The disruption of the conflict has hampered local businesses all across the board but especially targeting Pakistan's export sector. According to perceptions of exporters, fall in Pakistan's exports in years 2007, 2008 and 2009 are due to:

1. Travel advisories put Pakistan as an unfavorable destination
2. Foreign clients and importers are reluctant to do business with Pakistan because consignments from the country involve higher risks
3. Pakistani brand name is not sellable in international markets because it has been tarnished due to perceptions that Pakistan is country representing extremism (This is despite Pakistan's pro active participation in WOT)
4. Foreign experts are not available to upgrade or train Pakistani exporting industry
5. Due to delay in shipments, labor days are lost increasing cost of business

Despite high costs of WOT, Pakistan's economic cooperation with the West is reduced in recent years. Pakistan has significantly lost its share of exports in USA, UK and EU markets. Loss of market shares are due to falling competitiveness of Pakistan's exporting industry which does not entirely refer to structural issues but also encompass WOT related costs. Further more bilateral agreements like GSP +, which have boosted Pakistan's export sector during 2003-05 period, are not available to the country anymore.

The close partners in war are weak partners in economy. Pakistan deserves reinvigorating efforts by the West to cooperate with the country in bearing costs of the conflict. In the short run, that may come through provision of arrangements where Pakistan get more market access for its exports. In the longer run, a strategy of economic, social and political cooperation needs to be charted out so that Pakistan can sustain itself through WOT and comes out as a winner against extremism.

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