

## Conceptualizing the Cost of Radicalization in Pakistan

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### Abstract

*Religious extremism, fundamentalism and radicalization are most often considered as the synonyms. The cost of radicalization is measured from different angles around the globe. The immediate cost of radicalization is the loss of human lives, damage of property and infrastructure etc. The rise religious extremism in Pakistan has weakened the economy of the country at a greater scale. Schools, hospitals and road infrastructure have been seriously damaged by terrorist activities. Besides, terrorism has affected the tourism industry, investment and capital inflow of the country. The value of the currency has also depreciated which has caused inflation and unemployment in the country. The growth rate of GNP is declining and budget deficit is also increasing due to the gap in balance of payments. The study in hand presents the glimpse of the macroeconomic variables that are fluctuating due to this phenomenon and are affecting the economy. Historical background of exchange rate is discussed while descriptive statistics is used to analyze the economic cost that Pakistan has to pay or suffer because of the rise of this phenomenon. Moreover the theoretical link of terrorism and macroeconomic variables is also presented. Some suggestions are also given at the end to prevent the economy from further damages due to this phenomenon.*

**Keywords:** Macroeconomic Cost, Radicalization, Pakistan

**JEL Classification:** E31, E32, E39, E40, E44

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## Introduction

The phenomenon of religious extremism and radicalization has turned itself into very bad shape and has become a great global threat. 9/11 was the major tragic activity that brought this phenomenon into limelight. Despite serious efforts to curb it worldwide through the utilization of each and every resource, terrorist groups organized themselves on modern lines and developed the links to each other for exchanging illegal weapons, trainings and information and kept on doing illegal activities. Pakistan is also one of the major victims of these terroristic acts that have changed the social, political and economic scenario of the country. The economy of Pakistan is suffering a great loss because of this phenomenon. War in 21<sup>st</sup> century has become economic instead of weapons. Extremist groups are doing activities in different parts of the country destroying the infrastructure and creating threats and insecurities. All these activities have worse and negative effect on the economy of the country. This paper highlights how the phenomenon of radicalization has weakened the economy of country. Pakistan is paying the direct and indirect costs because of this phenomenon and it has become the major obstacle against sustainable development of the country.

## Literature Review

Arize (1996) suggests that uncertainty in exchange rate reduces the volume of trade. Due to high volatility in exchange rate, growth of trade flows becomes slow down due to uncertainty about future profits. He concludes that fluctuations in exchange rate adversely affect the international trade. It is because of the fluctuations in exchange rate may disturb other major macroeconomic variables and the whole economy as well.

Zhou (1996) concludes that interest rate is one of the major factors which causes volatility in exchange rate. He says that the investors prefer to invest in those countries in which there is high interest rate with almost zero or near to zero inflation. Due to illusion of money people are less conscious about the real interest rate. So high interest rate or rate of return can prevent the investment to fly from the country, it makes the currency and exchange rate stable in the economy.

Baak et. al. (2002) conclude that exchange rate has a significant role in economic development of the country and due to volatility in exchange rate imports and exports of the country adversely effect.

Aizenman (2007) analyzes that exchange rate can affect the rate of return on assets because due to depreciation in currency real rate of return may be reduced. Consequently, investors avoid investing in such countries in which exchange rate fluctuations are common.

Jincai (2007) analyses that macro economic variables are so closely correlated to each other that a swing in one variable disturb the all others. Sometimes, it becomes difficult to find out that which cause is disturbing the other. However, exchange rate is a sensitive and significant variable that can cause disequilibrium. A little flux in exchange rate makes the people conscious and their trust on economy tremble. He concludes that people are much sensitive towards their interest. And volatility in exchange rate can cut the interest rate that leads to decrease in investment.

## **Objectives**

- To find out the economic cost of extremist acts by terrorist groups in Pakistan
- To find out the effect of religious extremism on macroeconomic variables (Exchange Rate, Inflation, Investment, Capital Inflow and Out Flow, Net Exports, GNP)
- To suggest future implications

## **Problem Statement**

The phenomenon of radicalization has not only affected the infrastructure but also has weakened the other macroeconomic variables of economy like Exchange Rate, Inflation, Investment, Capital Inflow and Out Flow, Net Exports and GNP of the country. All these variables have strong association to economy. In this paper it is highlighted that how radicalization in Pakistan is affecting these variables and hence to economy of the country. Pakistan may save billion of dollars annually if peace is maintained in the country.

## **Hypothesis**

H0: Terrorism in Pakistan has no effect on macroeconomic variables of the country

H1: Terrorism has great effect on macroeconomic variables of the country.

## **Islam & Terrorism**

Islam as a religion is not only for the Muslims but also for the whole mankind. Islam teaches us to respect the beliefs of others. There is no space of terrorism or extremism in Islam.

As in Qur'an ALLAH Almighty says:

“if any one slew a person - unless it be for murder or for spreading mischief in the land - it would be as if he slew the whole people: and if any one saved a life, it would be as if he saved the life of the whole people” (Al-Ma'idah 5: 32)

The Holy Prophet (PBUH) said:

“Do not kill any child, any woman, or any elder or sick person.” (Sunan Abu Dawud)

“Do not practice treachery or mutilation. Do not uproot or burn palms or cut down fruitful trees. Do not slaughter a sheep or a cow or a camel, except for food.” (Al-Muwatta)

“Do not kill the monks in monasteries, and do not kill those sitting in places of worship. (Musnad Ahmad Ibn Hanbal)

“Do not destroy the villages and towns, do not spoil the cultivated fields and gardens, and do not slaughter the cattle.” (Sahih Bukhari; Sunan Abu Dawud)

The Quranic Injunctions and the Sunnah/Hadiths<sup>2</sup> of the Holy Prophet (PBUH) completely negate the concept of violent Islam. It is clear stated that Islam does not allow aggression or violence. It is the religion of peace and justice and believes in equality, patience and tolerance.

### **Economy of Pakistan and the Phenomenon of Radicalization**

Economy of Pakistan is adversely affected by the rise of extremism in the country. The major effect is on inflation, capital flight, investment, money demand & supply etc. These are the major variables that are considered the life of the economy. GDP and GNP ratio is also affected because currency is being depreciated every year. Graph of GDP growth rate is given below which indicates that growth rate in the country remains in consistent. Future growth is forecast by applying the forecasting model on the basis of certain assumptions like no war or emergency condition in the country.

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<sup>2</sup> *Hadith or Sunnah: It is the second major source of Islamic Law after Quran which is the first and foremost source*

Figure No.1



Source: <http://www.tradingeconomics.com/pakistan/gdp-growth>

Figure. No.2

According to Worldwide Governance Indicators (WGI) report highly Terrorism affected Economies are as follows.

RANK	COUNTRY	GTI SCORE
1	Iraq	9.56
2	Pakistan	9.05
3	Afghanistan	8.67
4	India	8.15
5	Yemen	7.30
6	Somalia	7.24
7	Nigeria	7.24
8	Thailand	7.09
9	Russia	7.07
10	Philippines	6.80

Source: <http://reliefweb.int/sites/reliefweb.int/files/resources/2012-Global-Terrorism-Index-Report>.

Pakistan is a part of war on terror since 2001. Despite Pakistan’s active participation against extremism and a major ally of War on Terror almost 20076 citizens and 6076 security personnel have lost their lives so far. Apart from destruction of infrastructure \$67.93 billion direct economic lose is estimated. Millions of people displaced due to military operations against these groups.<sup>3</sup>

This phenomenon in religious garb has spoiled the soft image of the country in the world. Investors are afraid and not ready to invest in Pakistan. To fulfill the expenditures government is borrowing from different international agencies and resultantly putting the nation into more debts. Much intense effect of radicalization results the following:

- Decline in Foreign Investments
- Internal Displaced People (IDP)

<sup>3</sup> <http://www.satp.org/satporgtp/countries/pakistan/database/casualties.htm>

- Raise in Unemployment
- Decline in Stock Exchange
- Increase in Smuggling

## **Effect of radicalization on Macroeconomic Variables (Theoretical Framework)**

### **1. Exchange Rate:**

The phenomenon of radicalization is adversely affecting the money demand. As prices are increasing due to the high cost of production that result in rise in inflation and demand for money. Inflation also causes the depreciation due to which exports become cheaper and imports become expensive. Expected return in deposits also reduces which discourages the savings. At the other hand to fulfill the expenditure government prints new currency notes, then money supply increases in the market that also results in depreciation of currency i.e., increase in exchange rate.

### **2. Inflation:**

The phenomenon of radicalization leads towards rise in inflation and if the inflation in a country increases it leads to depreciation in currency and vice versa. Inflation has inverse or indirect relationship with the value of the currency. Decrease in investments leads to lesser output that results in increase in prices. Inflation also curtails the expected return on the deposit domestic currency that is a major source of investment.

### **3. Investment:**

Investment decreases due to the fear of insecurity in a country. Fear of losing investment prevents the investor to invest. Less investment leads to less employment, which leads to decrease in wages hence aggregate demand and living standard of the people.

### **4. Capital Inflow and Outflow**

Foreign Direct Investment (FDI) is also a considered as a strong factor of economy that creates mutual benefits, sharing knowledge, skills and innovations. Due to terrorism foreign capital flees, inflow also decreases due to fear of loss of capital. Portfolio investment is also decreasing which leads to decrease in the value of domestic currency in terms of foreign currency.

### **5. Net Export**

Difference of imports and exports is called net exports. Due to religious extremism and radicalization that leads to terrorism, imports of Pakistan have become expensive while exports are cheap. Due to which deficit in balance of payments is increasing. To fulfill the

crises devaluation of currency may take place. This fear never lets the investors to invest in such a country.

## **6. GNP:**

Market value of all final goods and services produced by the citizen of the country is called GNP. Instability is also a major factor that is created by this phenomenon. People have psychological pressures and depression that reduces the productivity of the workers. Due to which GNP declines. But in Pakistan GNP is not declining because due to the inflation market value of goods and services is increasing. Therefore it is said that GNP is not a good economic measure as it ignores the happiness, well-being and prosperity of the people.

## **Conclusion**

Above discussion concludes that militancy by extremist groups is badly affecting the whole nation. Economy of the state is getting weaker and weaker with the passage of time consequently posing big threat to every citizen of the country in terms of poverty, food insecurity and unemployment. Moreover, different psychological problems are also arising which are causing disharmony, frustration and disturbance in the society. If the terrorism in the country is not curbed or stopped, the situation will be more vulnerable in coming years. It is the responsibility of the government particularly and all the citizens as well to contribute for pulling out the country from this termite in the form of terrorism that is shallowing the roots of the state of the Pakistan.

## **Suggestions**

- Government should employ a participatory approach by including all the segments of the society and reach to some conclusion to carry out some strategic activity against these groups.
- Government should start negotiation with non-state actors for the peace process and prosperity in the country.
- Government should provide security to foreign investor.
- Government should stop the depreciation of domestic currency in foreign exchange market through sterilization.
- Deficit in balance of payment may be curtailed by exporting final goods instead of raw material.
- Peace seminar and workshops may be conducted in areas that are the major victim of these violent and extremist acts by the terrorists.

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