

### **Who will foot the bill?**

WE are not out of the woods yet. But with the de-escalation of tension between the two nuclear-powered countries, the threat of annihilation has subsided. There is, however, no way for both hostile nations to escape the burden of economic and financial cost that cross-border military manoeuvres entail.

It is important, therefore, to bury the hatchet and initiate the tedious task of estimating the price of the military operations, while the next logical step would be to appropriate the cost of these forays.

Forget the intangible negative impact of the skirmishes and their medium-term economic cost, the immediate financial cost runs into millions of dollars if not more.

While India's actions remain shrouded in mystery, in Pakistan as yet no exercise has yet been initiated to project the additional defence bill or explore possible avenues for financing new security related demands. Arif Khan, the federal finance secretary hopes that the armed forces can manage affairs on their own while staying within the confines of the budget already at their disposal.

"We will look into the matter when it is presented. So far we have not received any demand for additional resources from the armed forces," he responded over phone from Islamabad when questioned about the estimate cost incurred so far and the possible options to cover it.

The officer, already grappling with the high fiscal deficit in wake of the Federal Board of Revenue's underperformance, cringed at the suggestion of initiating an exercise to deal with a demand that has not yet been made.

'While the galloping Indian economy may lose momentum and grow at a rate lower than projected, the already sagging Pakistani economy may crumble if not managed intelligently'

Attempts were made to reach Defence Minister Pervez Khattak to ascertain the cost incurred so far but his response did not reach Dawn within the deadline.

A federal secretary who wished anonymity did not agree with the finance secretary's stance.

"An extraordinary situation begs for an extraordinary response. We need to try to tackle issues when they are still manageable. In my opinion all economic ministries, and not just the ministries of defence and finance, should initiate internal exercises to deal with the possible fallout of the current lingering situation. It will make their participation in policy making forums more productive," he told Dawn from Islamabad over phone.

Another federal secretary was full of praise for Finance Minister Asad Umar but was critical of his policy of delay in entering the International Monetary Fund (IMF) programme. It has compromised the state's capacity to financially deal with unforeseen events.

"The effort to stabilise the economy through devaluing the rupee, curbing imports and incentivising exports did not deliver on the scale required. Inflation is climbing despite a tight monetary policy.

"Economic drivers expect a fresh cycle of adjustments under the IMF. They prefer to defer key business decisions. The economic slowdown and instability does not serve security goals well. I think we would have

been in a better position, or may already have turned the corner, had the decision to join the IMF been taken six months back,” he added.

A member of the inner circle of the government hinted at a financial contingency plan already in place to deal with any eventuality at the national or sub-national level. He did not share any details.

A senior officer of the planning ministry mocked the members’ assertion and mentioned a recent meeting of businesspersons with the prime minister.

“I don’t understand whom are they fooling. Instead of asking for the help of resourceful people in this time of need, the participants of the huddle discussed abstract themes, growth strategies and an overseas investment conference. A disconnect with the ground reality was near perfect,” he moaned.

Razak Dawood, advisor to the prime minister for commerce, textile, industry and production, and investment confirmed to Dawn that the issue of financing an additional defence budget has not been debated. “No, this was not discussed at all,” he wrote responding to a Dawn query regarding the government’s meeting with private sector representatives in Islamabad.

Shazia Syed, CEO Unilever Pakistan and president Overseas Investors Chamber of Commerce and Industry, who flew to Islamabad to attend the meeting said: “The meeting with the prime minister was more around facilitating businesses so they may prosper in Pakistan.”

Yunus Makda, another participant, stressed the need to act responsibly in a crisis situation: “It is very important to ignore rumour mongers who spread panic. I am positive that we can brave any crisis collectively.”

While there can be a debate on the severity of impact on both countries’ economies, each will incur a human, financial and economic cost. The loss to life and infrastructure in border skirmishes is direct and obvious while the additional defence cost is related to troop mobilisation and weapon procurement.

The economic toll includes the implicit and explicit costs that insecurity and uncertainty generate. Besides the financial price of war it takes into account the opportunity cost which may or may not be tangible — such as investment sentiments or the price of diverting precious public resources from development schemes.

“While the galloping Indian economy may lose momentum and grow at a rate lower than projected, the already sagging Pakistani economy may actually crumble if not managed intelligently,” remarked an economist.

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