Pahalgam Terrorist Attack- Pakistan's Economic Prism

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Considered in a proper historical and comparative perspective, terrorist attacks in Jammu and Kashmir are neither novel nor unprecedented. But the gory incident of April 22, 2025, which led to the death of 26 persons and injured several persons grievously, marked a new low, an unacceptable flashpoint in the overall environment of relative peace and tranquillity since the abrogation of Article 370. The killing of innocents is on a humungous scale and has shaken the collective conscience of the nation and the world. Such a despicable terror attack cannot, therefore, go unchecked and unabated. As Ram Dhari Singh Dinkar, Hindi's most famous poet, wrote eloquently about a century ago

"क्षमा शोभती उस भुजंग को जिसके पास गरल हो,
उसको क्या जो दंतहीन, विषरहित, विनीत, सरल हो ।"

English translation: Forgiveness is becoming of the serpent that has venom. No one cares for the toothless, poisonless, kind, gentle one.

'Modi Doctrine': Kinetic Response

With Pakistan crossing the red line by its calibrated provocations, the "*Lakshman Rekha*", so to speak, in the pursuit of its avowed objective of "*sustained low-intensity conflicts and proxy warfare*", there is no case for any strategic restraint, not any longer in the context of the transformed international geopolitical architecture. This horrendous, heinous attack assumes greater significance because, as William Shakespeare wrote powerfully in his famous play *Hamlet* about five hundred years ago, "*Something is rotten in the state of Denmark*".

Retaliation and deterrence must constitute integral elements of a broad-spectrum strategy in the post-apocalyptic Kashmir world, a world in which the attackers cannot escape with impunity and there is no silent normalization of violence. Accordingly, the message from India was loud and clear: there would be hell to pay by elements all along the line, viz., the perpetrators, handlers, and planners of this inhuman, ghastly attack. Candle march and condemnation cannot remain a eulogy to the hapless victims of this horrid terrorist attack.

The United Nations Security Council (UNSC) on April 26, 2025, condemned in the "*strongest terms" the April 22 terror strike at Pahalgam in Jammu and Kashmir. A statement from the 15-member Council said, "The members of the Security Council expressed their deepest sympathy and condolences to the families of the victims and to the Government of India and Government of Nepal, and wished a speedy and full recovery to those who were injured*". It also stressed the need to bring the perpetrators and sponsors of the attack to justice.

Measures and Countermeasures

While almost all the political actors in Pakistan closed ranks behind the army and the government, the Pakistani approach was marked by divergent views. Bilawal Bhutto of the Pakistan People's Party (PPP) averred, "*Blood will flow if India stops river waters*," but the Pakistani newspaper *The Express Tribune* featured the story that the former PM Nawaz Sharif had advised his brother, PM Shehbaz Sharif, to resolve the tensions with India diplomatically.

Outrage came swift and loud. But the wheels of justice also have to turn swiftly and effectively. With there being not even the tiniest sliver of hope that Pakistan will mend its ways, India had to display resolve and intent to prevent the recurrence of such shocking attacks. In an unequivocal message that enough was enough, and India meant business reminiscent of the Israeli deadly "*wrath of God*" programme, the first set of measures against Pakistan included:

1. Halting trade with Pakistan.
2. Expelling Pakistani officials from the High Commission.
3. Cancelling visas under the SAARC Visa Exemption Scheme.
4. Suspending the Indus Waters Treaty (IWT). India's decision to suspend the IWT in the aftermath of "*cross-border*" linkages could seriously restrict Pakistan's water supplies. Pakistan has deemed India's suspension of the IWT imperilling its agriculture and energy an "*Act of War and responded with full force".***

In terms of the IWT signed by former Pakistani President Ayub Khan and former Indian PM Jawaharlal Nehru in September 1960, India has access to the waters of the three eastern rivers: the Ravi, Beas, and Sutlej whereas Pakistan has access to the waters of the three western rivers: the Indus, Jhelum and Chenab. India's decision meant that it could, if and when it chooses to, restrict the flow of water from the Indus, Jhelum, and Chenab into Pakistan. But it does not mean that India plans to restrict this flow any time soon. Should India do this, this would hurt Pakistan, where it hurts most because Pakistan is a largely agrarian economy, with agriculture contributing 24 % to the country's GDP and 37.4 % to employment (Source: Pakistan's Economic Survey published in 2024). In view thereof, India’s decision could cause an existential crisis for the Pakistani economy, which is already in tatters but still has an atrocious legacy of terror attacks. As Dinkar ji wrote powerfully,

“जब नाश मनुज पर छाता है, पहले विवेक मर जाता है”

English translation: When doom falls upon a man, his wisdom is the first thing that dies.

This is not a rhetorical flourish, but an objective assessment based on the relative strengths of the two military forces, the yawning chasm between the size of the two economies, and Pakistan’s poor standing in the comity of nations because of its long history of deception, cheating, and deceit. What is not extraordinary is that Osama Bin Laden was tracked and killed by the American forces in Pakistan; what took the cake was that Pakistan took massive American aid of $ 30 billion to locate Osama Bin Laden, while hiding and protecting him. It’s difficult to find a case of greater treachery in the annals of human history.

In retaliation, Pakistan put the Shimla Agreement in abeyance.

Failed State of Pakistan - Economic Impact

The double whammy of ascending economic strains and continuous political instability has discernibly debilitated the macroeconomy of Pakistan and led to a loss of economic sovereignty. This is why Pakistan’s economy is abysmal, irrespective of the criteria adopted.

- In 2025, Pakistan's GDP is projected to be less than one-tenth of India’s $4.2 billion economy, at about $348.72 billion.
- Pakistan's per capita income of $1,300 is not even half of India's per capita income of $3,000.
- Fiscal deficit is at 7.4% of GDP (India’s fiscal deficit is likely to be 4.4% of GDP in FY 26), nearly twice the regional average.
- 1 $ = 280.95 PKR on April 28, 2025 (in India, 1 $ =85.66 ₹).
- Pakistan’s total foreign exchange reserves were precariously placed at $16.04 billion (no way comparable to India's forex reserves of $686.2 billion).
- Projected revenues are not collected, and expenditure on listed items does not occur because there is no money. This makes it necessary to take fresh loans just to repay past loans.

- The banking sector is 80 % foreign-owned, and the telecom sector is 100 % foreign-owned.
- The controlling stake of three major airports will shortly be handed over to foreign powers.
- Repayment dues of over $22 billion in external debt in the financial year 2025, including nearly $13 billion in bilateral deposits (Fitch).
- Stark inequalities in the distribution of income and wealth.

In other words, the asymmetry with the Indian economy could not possibly have been more pronounced.
What worsens matters is the complete collapse of the credibility of Pakistan at all international fora, starkly reflected, for example, in the capture and killing of Osama Bin Laden in Abbottabad, close to their military headquarters.

In September 2024, the International Monetary Fund (IMF) bailed out the ailing economy and approved a $7 billion Extended Fund Facility (EFF) for the beleaguered Pakistani economy. However, even this assistance failed to inject any growth impulse into the tottering Pakistani economy.

Impact of closure of the Indian and Pakistani airspace

Pakistan's ill-conceived decision to close its airspace to Indian carriers will hurt the Indian carriers because they will now be required to take a longer, circuitous route to reach their destinations, leading to significant time and cost overruns. But this myopic decision will hit Pakistan harder. It will severely set back Pakistan’s aviation revenues, with a loss in 'overflight fees' from the world's 3rd largest (and fastest growing) aviation market, running in millions of dollars.

In a retaliatory move following Pakistan’s April 24, 2025, decision to close its airspace to Indian aircraft and suspend bilateral agreements, India issued a Notice to Airmen (NOTAM) restricting its airspace to all aircraft registered, operated, or leased by Pakistan, including commercial airlines and military flights from April 30 to May 23, 2025.
India’s decision to close its airspace will hurt the Pakistan International Airlines (PIA) because it will now be required to take a longer, circuitous route to reach its destination, leading to time and cost overruns. This will lead to longer flight times
delaying many PIA flights by one to two hours, depending on their destination, passenger inconvenience, rescheduling, or reducing the frequency of certain air services,
and higher fuel consumption. Accordingly, this measure will exacerbate the economic pressure on the undersized PIA with a modest fleet of 32 aircraft.

While the impact of this retaliatory measure on the PIA is a function of the number of flights overflying India and the duration of this ban, its impact is likely to be limited since PIA operates only routes to Kuala Lumpur using Indian airspace thrice a week. Hence, this measure must not only be seen in economic terms but also has strategic and military implications.

The Challenge and the Response

Given that terrorism has been an article of faith for successive Pakistan governments, an instrument of derailing the development process in India in general and Jammu and Kashmir in particular, India-Pakistan trade has been down-trending, with the trade volume dipping steeply from almost $ 3 billion in 2018 to around $ 1.2 billion by 2024.

Completely halting trade with Pakistan will hasten Pakistan's economic downward spiral by (a) increasing the time required for getting these goods from other geographies and pushing up the cost of landed goods and (b) reducing the options for export of Pakistani goods. These measures will force Pakistan to explore other export and import destinations to reduce the fundamental disequilibrium in its balance of payments - not an easy task in the best of times; in these days of Trump's tariff whiplash, it could be well-nigh impossible. Should this conflict escalate, Pakistan will find it increasingly difficult to sustain a protracted war, given the fragile state of its economy and strife and hostility in different parts, e.g., Baluchistan, Afghanistan, etc. They will realise the hard way that they have bitten off more than they can chew; sponsoring and financing terror attacks cannot repeatedly go on unimpeded without any retaliation. Raising the costs of such a horrific attack, retribution, and a sense of closure are compellingly needed. Over the long haul, just and enduring peace is a prerequisite to the overall development of the state and the nation.