

The Economic Impact of an India-Pakistan War: Historical Patterns and Contemporary Analysis

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Abstract

This paper analyzes the potential economic impact of a renewed India-Pakistan war by synthesizing historical data from previous conflicts and examining current economic vulnerabilities in both countries. Drawing on past wars, including the 1971 and Kargil conflicts, it quantifies direct military costs, opportunity costs, and the long-term consequences for development and human capital. The research highlights the disproportionate burden on Pakistan's fragile economy, which is heavily reliant on external financing and IMF support, in contrast to India's more robust and diversified economic structure. The study also considers the risks of nuclear escalation and its catastrophic global implications. Findings indicate that while both nations would suffer severe economic setbacks, Pakistan would face a greater risk of fiscal crisis and developmental regression. The paper concludes that the economic logic overwhelmingly favors de-escalation and peaceful coexistence, as continued conflict diverts critical resources from social and economic development and threatens regional stability.

Keywords

India-Pakistan War, Economic Impact, Military Expenditure, South Asia Conflict Costs, Nuclear Escalation, Pakistan Economy, India Economy, Opportunity Cost, Regional Stability

1. Introduction

The longstanding conflict between India and Pakistan has been characterized by multiple wars, persistent tensions, and periodic escalations with significant economic consequences for both nations. While the human toll has been the most tragic aspect of these confrontations, the economic burden has been substantial and far-reaching. This research paper examines the potential economic impact of

an India-Pakistan war using historical data from past conflicts and an analysis of current economic conditions. As tensions between these nuclear-armed neighbors periodically flare, understanding the economic stakes becomes increasingly critical for policymakers, economists, and the international community.

2. Direct Costs of Previous Wars

The history of India-Pakistan relations has been punctuated by several major military confrontations, each imposing substantial economic burdens. The 1971 war, which resulted in the creation of Bangladesh, cost approximately Rs 200 crore per week (equivalent to a total of \$600 million) (FAF, 2025). This conflict represents one of the most significant military engagements between the two nations, with devastating economic consequences, particularly for Pakistan, which lost approximately half its population and a significant portion of its economy.

The 1999 Kargil War imposed a financial burden of approximately Rs 10,000 crore on India, with air strike operations accounting for 40% of these expenses (HW News). Even limited military standoffs have proven extremely costly. Following the 2001 attack on India's Parliament, the military mobilization along the border cost India \$600 million and Pakistan \$400 million between December 2001 and January 2002 alone (Strategic Foresight Group, 2004). Estimates suggest that the total cost of this confrontation, which included the looming threat of nuclear escalation, exceeded \$3 billion ("2001-2002 India-Pakistan Standoff", 2025).

2.1. Military Expenditure Patterns

Both nations have consistently allocated substantial portions of their national budgets to defense. India's defense spending for 2025-26 stands at 681,210 crore (US\$81 billion), representing approximately 1.9% of its projected GDP ("Military Budget of India"). This reflects a 9.5% increase from the previous year, with significant allocations directed toward salaries, pensions, domestic procurement, and modernization initiatives.

Historical data shows that India's military expenditure as a percentage of GDP has fluctuated over time, from highs of nearly 2.9% in 2009 to around 1.9% in recent years ("Military Budget of India", 2025). In absolute terms, however, India's defense budget has grown substantially due to its expanding economy.

Pakistan's military expenditure as a percentage of GDP has consistently been higher than India's. At independence, defense spending accounted for approximately 85% of Pakistan's central government revenues and has consistently outpaced development spending (Strategic Foresight Group, 2004). The Strategic Foresight Group reported that Pakistan's per capita military spending is almost twice that of India, rising from Rs 1060 in 2003 to Rs 1161 in 2007 (Strategic Foresight Group, 2004). This disproportionate allocation reflects the centrality of security concerns in Pakistan's national priorities, often at the expense of social and economic development.

2.2. Economic Opportunity Costs

Beyond direct military expenditures, the persistent conflict has imposed significant opportunity costs on both economies. According to the Strategic Foresight Group, the India-Pakistan conflict has squeezed out approximately 3% of India's economic potential (Strategic Foresight Group, 2004). For Pakistan, the economic impact has been even more severe, with estimates suggesting that dealing with international conflicts and internal terror costs Pakistan around 10.6% of its GDP (approximately Rs 424 billion in 2004) (Strategic Foresight Group, 2004).

A reduction in defense spending could potentially release 1% of GDP for developmental purposes in India and nearly 2.5% for Pakistan (Strategic Foresight Group, 2004). These resources could otherwise be directed toward critical areas such as education, healthcare, infrastructure development, and poverty alleviation programs.

3. Current Economic Vulnerabilities

3.1. India's Economic Position

India currently stands as the world's fifth-largest economy and is projected to maintain its position as the fastest-growing major economy with an estimated growth rate of 6.2% in 2025 (IMF, 2025). The country benefits from a diversified economic structure with substantial contributions from technology, services, and manufacturing sectors. Robust domestic demand, a growing middle class, and increasing foreign direct investment have been key drivers of India's economic growth.

Despite these strengths, India faces several economic challenges, including youth unemployment, relatively low per capita income despite high aggregate GDP, and subdued private investment (IMF, 2025). These vulnerabilities could be exacerbated by a military conflict, potentially derailing India's growth trajectory and developmental goals.

3.2. Pakistan's Economic Fragility

Pakistan's economic position is considerably more precarious than India's. The country is forecast to grow at a modest 2.7% - 3.2% in 2025, significantly below India's pace (Moody's, 2025). Pakistan's economy relies heavily on agriculture and faces persistent challenges including a narrow tax base, energy shortages, currency instability, and critical dependence on external financing.

Most notably, Pakistan holds the dubious distinction of having received 24 IMF bailouts since 1958, more than any other country in the world (Moody's, 2025). Its most recent bailout package, worth \$7 billion, was approved just eight months ago. This extreme dependence on external financial support highlights Pakistan's economic vulnerability and limited fiscal space to absorb the shock of a military conflict.

According to Moody's Ratings, Pakistan is in no position to engage in a conflict with India. A May 2025 report stated: "Sustained escalation in tensions with India

would likely weigh on Pakistan's growth and hamper the government's ongoing fiscal consolidation, setting back Pakistan's progress in achieving macroeconomic stability" (Moody's, 2025). The ratings agency warned that the first casualties of a conflict with India would be Pakistan's economy, with growth slowing further, debt pressure rising, and foreign funding potentially drying up (Moody's, 2025).

3.3. India's Vulnerabilities

While Pakistan's economic fragility is acute, India faces significant challenges that a conflict could exacerbate. Despite being the world's fifth-largest economy, India's defense spending (681,210 crore for 2025-26) remains constrained by competing priorities: 72% of its military budget is allocated to salaries, pensions, and maintenance, leaving limited funds for modernization or strategic investments (Military Budget of India, 2025). Infrastructure deficits in transportation and energy, critical for economic resilience, persist, with India importing 40% of its primary energy needs, leaving it vulnerable to global price shocks (*Indian Express*). Youth unemployment, which hovers near 20%, and a low labor force participation rate (53%) could worsen under wartime resource diversion, destabilizing domestic consumption and growth (IMF, 2025). Regional disparities are equally concerning: states like Bihar and Uttar Pradesh, with poverty rates exceeding 30%, risk further marginalization if conflict redirects funds from welfare programs (*World Bank*). These structural weaknesses underscore that India, while economically robust compared to Pakistan, is not insulated from cascading wartime disruptions.

4. Potential Economic Impact of a New Conflict

4.1. Immediate Economic Consequences

A new India-Pakistan war would trigger immediate and severe economic consequences for both nations, though the impact would be asymmetric given the disparity in economic size and resilience.

For India, the immediate costs would include increased military expenditures, potential disruption of trade routes, market volatility, and a likely depreciation of the rupee (FAF, 2025). However, given India's larger and more diversified economy, it would be better positioned to absorb these shocks. As Moody's noted in its May 2025 report, India's economy would remain relatively stable even in the event of a conflict with Pakistan (Moody's, 2025).

For Pakistan, the economic consequences would be far more severe. With limited fiscal space, heavy dependence on external financing, and an already fragile economy, Pakistan would struggle to finance a sustained military conflict (Moody's, 2025). The diversion of resources toward military operations would exacerbate existing economic challenges and potentially lead to a balance of payments crisis. Furthermore, Pakistan's heavy reliance on IMF support would be jeopardized, as conflict conditions could complicate compliance with IMF program requirements (Moody's, 2025).

4.2. Trade and Investment Disruptions

A war would significantly disrupt regional trade and investment flows. While direct trade between India and Pakistan is limited due to existing tensions, both countries are integrated into broader regional and global supply chains that would be affected by conflict.

Foreign direct investment would likely decline in both countries, with investors adopting a wait-and-see approach or redirecting capital to more stable markets (FAF, 2025). Pakistan, which already struggles to attract foreign investment due to security concerns and economic instability, would be particularly hard hit. India might experience a temporary slowdown in investment, but its larger market size and stronger economic fundamentals would likely facilitate a faster recovery once hostilities ceased (FAF, 2025).

4.3. Long-Term Economic Consequences

The long-term economic impact of an India-Pakistan war would extend well beyond the duration of active hostilities. Post-war reconstruction costs would strain national budgets, particularly for Pakistan (Strategic Foresight Group, 2004). Infrastructure damage, disruption of economic activities, and the diversion of resources from productive investments would impede economic growth for years following the conflict.

Additionally, both countries would likely increase their military spending in the aftermath of a war, further constraining fiscal resources for development (Strategic Foresight Group, 2004). This arms race dynamic has been evident following previous conflicts and has contributed to the persistent underdevelopment in parts of the region.

5. Economic Impact through Multiple Dimensions

5.1. Post-War Final Economic Damage Simulator Approach

Research on the economic dimensions of warfare, such as the Post-War Final Economic Damage Simulator (PFEDS) described in the literature, attempts to estimate the heterogeneous macroeconomic effects of potential military conflicts (FAF, 2025). This approach considers multiple dimensions of economic damage:

- 1) Warfare losses ($-\pi$): Direct destruction of physical capital, infrastructure, and productive assets.
- 2) Warfare economic leaking ($-\Psi$): Disruption of economic flows and activities during conflict.
- 3) Warfare economic desgrowth ($-\delta w$): Reduction in economic growth rates due to conflict.
- 4) Post-war economic damage ($-\Pi$): Lasting economic impairments following cessation of hostilities.

Applying this framework to an India-Pakistan conflict scenario suggests that the economic damage would be substantial and multifaceted, with effects persisting long after active combat ended (FAF, 2025).

5.2. Human Capital Losses

Past India-Pakistan conflicts have resulted in significant human casualties. During the 1971 war, approximately 3843 Indian soldiers and 8000 Pakistani soldiers died (Strategic Foresight Group, 2004). A contemporary conflict, potentially involving more advanced weaponry and possibly nuclear dimensions, could result in far greater casualties.

Beyond the immeasurable human tragedy, these losses represent a significant economic cost in terms of lost productivity, reduced workforce, and long-term care requirements for injured personnel and civilians (Strategic Foresight Group, 2004). The Strategic Foresight Group estimated that at least 100,000 families suffered direct human costs as a result of the four wars between India and Pakistan (Strategic Foresight Group, 2004).

5.3. Nuclear Dimension

The nuclear dimension adds an entirely new level of potential economic devastation. Both India and Pakistan possess nuclear weapons, and a full-scale conventional war carries the risk of nuclear escalation (FAF, 2025). An analysis cited by IndiaSpend suggests that a nuclear conflict between India and Pakistan could result in over 21 million casualties, destruction of half the ozone layer, and potential “nuclear winter” effects that would impact global agriculture and rainfall patterns (FAF, 2025).

The economic consequences of such a scenario would be catastrophic and global in scale, extending far beyond the borders of the two countries (FAF, 2025). Recovery from such a conflict would take decades, if it were possible at all, and would require massive international assistance.

6. Regional and Global Economic Implications

6.1. Impact on South Asian Economic Integration

A major India-Pakistan conflict would severely undermine economic integration efforts in South Asia, which is already one of the least economically integrated regions in the world (FAF, 2025). Initiatives such as the South Asian Association for Regional Cooperation (SAARC) have struggled to achieve meaningful economic cooperation due to persistent India-Pakistan tensions. A war would further set back these efforts and deprive the region of potential economic benefits from increased intra-regional trade and investment.

6.2. Global Economic Reverberations

While the direct economic impact would be concentrated in South Asia, a major India-Pakistan conflict would have global economic implications (FAF, 2025). Disruptions to supply chains, potential refugee crises, and the diversion of international aid resources would affect economies beyond the immediate region.

Moreover, India’s growing importance in the global economy means that any significant disruption to its economic activities would have broader international

repercussions (IMF, 2025). As the fifth-largest global economy with extensive trade and investment links worldwide, economic shocks to India would transmit to partners across multiple continents.

6.3. Alternative Pathways to Conflict Resolution

Beyond military escalation, diplomatic and economic tools offer viable pathways to de-escalation. Confidence-building measures (CBMs), such as the 2003 ceasefire agreement and the Kartarpur Corridor initiative, demonstrate historical success in reducing tensions (Council on Foreign Relations, 2025). Goeconomic cooperation, including normalized trade relations, could generate \$37 billion annually for both nations by tapping into complementarities-India's manufacturing capacity and Pakistan's agricultural exports (World Bank). Third-party mediation, exemplified by the UAE's role in brokering the 2021 ceasefire, remains a critical lever, particularly given the IMF's recent warning that bilateral tensions jeopardize Pakistan's bailout compliance (IMF, 2025). India's "deterrence by exhaustion" strategy, which combines calibrated military responses with economic pressure, has also shown promise in curbing cross-border terrorism without full-scale war (Observer Research Foundation). These alternatives highlight that conflict is not inevitable, and systemic risks can be mitigated through multilateral engagement.

6.4. Economic Dividend of Peace

A sustained peace dividend could transform South Asia's economic trajectory. Reducing military expenditures by 1% of GDP in India and 2.5% in Pakistan would free 1.7 trillion and 1.2 trillion, respectively, for social spending-enough to fund universal healthcare in Pakistan and India's National Education Mission (*Strategic Foresight Group*). Trade normalization could boost regional GDP by 8% annually, with supply chain integration creating 15 million jobs by 2030 (*Asian Development Bank*). Joint infrastructure projects, such as the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline or cross-border renewable energy grids, would enhance energy security while reducing emissions (*Brookings Institution*). Tourism collaboration, leveraging shared heritage sites like Lahore Fort and the Taj Mahal, could generate \$12 billion in annual revenue (*World Travel & Tourism Council*). These opportunities underscore that cooperation, not conflict, aligns with both nations' developmental aspirations.

6.5. Lessons from Recent Conflicts

The economic impacts of recent conflicts, such as the Russia-Ukraine war and the Israel-Palestine conflict, provide relevant parallels for understanding the potential consequences of an India-Pakistan war (FAF, 2025). These conflicts have demonstrated how military hostilities can trigger cascading economic effects, including energy price volatility, food security challenges, supply chain disruptions, and refugee crises with associated economic costs.

7. Conclusion

The economic costs of an India-Pakistan war would be profound, asymmetric, and long-lasting. While both countries would suffer, Pakistan's more fragile economic position means it would bear disproportionate consequences (Moody's). As Moody's and other analysts have emphasized, Pakistan simply cannot afford a war with India, given its current economic vulnerabilities and dependence on external financial support (Moody's, 2025).

For India, though better positioned to absorb economic shocks, a war would nonetheless threaten its growth trajectory and development goals (IMF). The diversion of resources from productive investments to military expenditures would undermine efforts to address persistent development challenges.

Beyond the bilateral impact, a major India-Pakistan conflict would have significant regional and potentially global economic repercussions (FAF, 2025). The nuclear dimension adds a catastrophic risk factor that would multiply the economic damage many times over if realized.

Historical patterns and current economic realities suggest that the economic logic heavily favors conflict avoidance and de-escalation (Strategic Foresight Group). The resources currently directed toward military preparedness could, if redirected toward development priorities, yield substantial economic and social benefits for both countries. As the Strategic Foresight Group noted, defense budget cuts could release 1% of GDP for India and nearly 2.5% for Pakistan for developmental purposes (Strategic Foresight Group, 2004).

Ultimately, the economic analysis underscores a simple but powerful conclusion: neither India nor Pakistan, but especially Pakistan, can afford the economic costs of war (Moody's, 2025). The path of peaceful coexistence and gradual normalization of relations, challenging though it may be, represents the only economically rational choice for both nations.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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