

PAKISTAN'S FOREIGN AND PUBLIC POLICY TOWARDS USA: A CASE OF BUSINESS IMPLICATIONS (2000 TO ONWARDS)

Dr. Saira Akram

Assistant Professor, Department of Political Science, Bahauddin Zakariya University Multan, Pakistan.

Email ID: saira.akram29@yahoo.com

Dr. Noraiz Arshad

Assistant Professor, Department of Political Science, Bahauddin Zakariya University Multan, Pakistan.

Corresponding Email ID: noraizarshad@bzu.edu.pk

Muhammad Imran

MS Scholar in Business Administration (Finance), Department of Business Administration, NUML Multan Campus, Punjab, Pakistan.

Email ID: Imran.khakhi@gmail.com

Mehdi Hussain

M.Phil. Scholar, Department of Business Administration, NUML Multan Campus, Punjab, Pakistan. Email ID: mehdihussain51214@gmail.com

Abstract

Pakistan's foreign policy toward the United States (USA) reflects a strategic balancing act, shaped by shifting global power dynamics and domestic economic imperatives. While Pakistan's alliance with the USA has largely revolved around counterterrorism, military aid, and security cooperation post-9/11, this relationship has been marred by trust deficits and conditional assistance. This study examines Pakistan's foreign and public policy towards the United States from 2000 to onwards, with a focus on its economic and business implications. The analysis delves into the bilateral relationship shaped by counterterrorism efforts, strategic alliances, and shifting geopolitical priorities. It highlights the economic impacts of U.S. aid, trade agreements, and diplomatic engagements on Pakistan's economy while addressing the challenges of dependency, policy contradictions, and public perceptions. The research underscores the interplay between economic policies and broader geopolitical strategies, offering insights into the complexities of Pakistan's foreign relations and economic outcomes in a globalized context.

Keywords: Pakistan, foreign policy, public policy, United States, Business, economic implications, bilateral relations, U.S. aid, geopolitical strategy, counterterrorism, trade agreements

Introduction

The United States is a vast country in North America, bordered by Canada to the north and Mexico to the south, with coastlines on the Atlantic and Pacific Oceans. It features diverse landscapes, including mountains, plains, deserts, and major rivers like the Mississippi.



Source: <https://www.britannica.com/place/United-States>

On the other side, Pakistan is located in South Asia, bordered by India to the east, Afghanistan and Iran to the west, and China to the north, with a coastline along the Arabian Sea. Its geography includes mountains, plateaus, plains, and the Indus River system.

Pakistan one of the most significant partner of US due its geographical importance and after 9/11 incident the US provided financial aid to Pakistan as part of its global War on Terror, recognizing the country's strategic role in combating terrorism. Between 2002 and 2018, Pakistan received over \$33 billion in assistance, including \$14.6 billion under the Coalition Support Funds (CSF) to reimburse military operations against terrorist groups. Abbas et al, (2024)



Source: <https://www.worldatlas.com/upload/1c/76/b0/pk-01.jpg>

Pakistan's foreign and public policy towards the United States has undergone significant shifts since 2000, driven by global geopolitical developments, regional security concerns, and economic imperatives. The period marked the resurgence of Pakistan-U.S. relations in the wake of the 9/11 terrorist attacks, which positioned Pakistan as a critical ally in the U.S.-led "War on Terror." This partnership, though strategic in nature, has had profound implications for Pakistan's domestic policies, public opinion, and economic landscape. Javaid & Fatima (2012)

Economically, Pakistan has received substantial U.S. financial aid, including military and non-military assistance, as part of its cooperation against terrorism. This aid has supported Pakistan's economy during critical junctures, aiding infrastructure development, energy projects, and social programs. However, the relationship has also been marked by challenges, including over-reliance on external assistance, fluctuating trade dynamics, and periodic policy divergences between the two nations. The economic ties, though significant, have often been overshadowed by strategic and security concerns, limiting their long-term potential for sustainable growth. Abbas et al, (2024)

After 9/11, Pakistan and the U.S. collaborated through key agreements to address regional security and counterterrorism. The Coalition Support Funds (CSF) Agreement provided financial reimbursements to Pakistan for its logistical and military support in the U.S.-led War on Terror, including deploying troops and conducting counterinsurgency operations. Despite its financial scale, the arrangement drew criticism over transparency and accountability. The Strategic Partnership Dialogue (SPD), initiated in 2006 and reactivated in 2010, created a formal platform to enhance bilateral cooperation in defense, counterterrorism, trade, and education, though it often faced setbacks during strained relations. The Enhanced Partnership with Pakistan Act (Kerry-Lugar-Berman Act) of 2009 sought to strengthen civilian governance and socio-economic development by providing \$1.5 billion annually in non-military aid for five years. While ambitious, it sparked controversy in Pakistan due to perceived conditionalities affecting national sovereignty. Together, these agreements highlighted the complex, often fraught, but critical partnership between the two nations in the post-9/11 era. Bakht&Ejaz (2023)

Public sentiment in Pakistan has also played a pivotal role in shaping policy outcomes. While the partnership with the U.S. has brought economic benefits, public perceptions have been influenced by broader issues, including U.S. actions in the region, drone strikes, and domestic political narratives. These factors have, at times, constrained Pakistan's ability to fully leverage its foreign relations for economic development.

The **Pakistan-U.S. E-Administration initiatives** focus on leveraging technology to enhance governance, transparency, and service delivery in Pakistan. Through partnerships like USAID-funded programs, the U.S. has supported Pakistan in digitizing public services, improving data management systems, and fostering e-governance capabilities. These efforts aim to strengthen institutional capacity, combat corruption, and improve citizen access to essential services, particularly in sectors like education, healthcare, and public administration. This collaboration underscores the role of technology in fostering accountability and governance reform in Pakistan.

This study aims to explore the intricate relationship between Pakistan's foreign and public policy towards the U.S. and its economic implications since 2000. By examining the bilateral ties through the lens of economic outcomes, the research sheds light on how policy decisions have influenced Pakistan's growth trajectory, highlighting opportunities, challenges, and lessons for the future.

Since 2001, the United States has pursued a policy of assisting in the establishment of a more stable, democratic, and prosperous Pakistan that vigorously combats religious militancy and extremism. Following the September 11, 2001 attacks, Congress took a significant interest in the United States' relations with Pakistan, the world's fifth most populous country, particularly in connection to counterterrorism and U.S. foreign assistance. Pakistan was one of the world's

largest receivers of U.S. foreign aid following 9/11, but the number reached a peak in 2010 and has progressively decreased subsequently, reaching a 20-year low during the Bush Administration (Ali & Anwar, 2023).

Leaders in Pakistan and a large number of independent observers have pushed for bilateral relations with the Bush Administration, in order to replace a long-dominant security focus with a more comprehensive approach to bilateral relations. Sheikh et al, (2024) as part of this, Pakistan would promote regional integration in order to achieve the collective aim of sustainable development, with a particular emphasis on "geo-economics." Located in Pakistan's capital city, Islamabad portrays itself as a viable economic partner based on development and investment, with involvement in vital industries such as information technology, agriculture, health, energy, and environmental protection.

Pakistan's greatest export market is the United States, which has been a major recipient of FDI from Pakistan. The United States government is helping to foster expanding trade and investment links between the two countries by facilitating business-to-business trade delegations, offering technical assistance, and publicizing commercial prospects for American firms in Pakistan. Khan (2011)

U.S. policymakers' jobs are made more difficult by the deteriorating economic conditions, volatile political climate, and dangerous security situation in Pakistan. Crisis after crisis is eroding Pakistan's new civilian government's economic alternatives and fueling popular discontent. When President Musharraf resigned, the unusual ruling coalition he had formed with Pakistan's two leading mainstream parties fell apart almost quickly, with no major reforms having been implemented. Multiple armed Islamist insurgencies are taking place in Pakistan, some of which cross the Afghan border and contribute to the instability of that nation.

Education

The most critical ongoing development endeavor in Pakistan, according to USAID, is reforming the country's educational system. A five-year school reform initiative was funded with more than \$100 million in July 2002. Working with Pakistan's Ministry of Education, USAID is working to strengthen (1) policy and planning, (2) teacher training, (3) adult and youth literacy programmes (4) partnership creation and building between the private and public sectors. Projects funded by USAID include initiatives aimed at enhancing teacher preparation and developing educational materials, as well as constructing and equipping schools in federally administered tribal areas, bringing Pakistani educators to the United States for training, and promoting democratic values among students and teachers. In order to achieve their goals, these significant efforts must be executed across the country and stress local solutions rather than imposing impractical or culturally insensitive solutions from outside of the country. The existing levels of US aid allocation for educational reforms look to be insufficient and may need to be quadrupled, at the very least. Shahzad et al, (2020)

Moreover The United States' skepticism of Pakistan's bureaucracy is justified, given the difficulties already recognized with Pakistan's leadership. Alternative mechanisms for enacting educational reform have been sought in the United States, including nongovernmental organizations (NGOs). An unquestioning reliance in non-governmental organizations (NGOs) is also a problem because many are themselves the result of a self-serving and elitist system. Bangladesh's grass-roots NGOs have a better sense of public duty, and Pakistan should be encouraged to follow suit. Civil society is Pakistan's second-most important institution to

establish after education. The United States should assist Pakistan in doing so. Educator salaries in Pakistan have been raised, new schools have been opened, and the curriculum has been modernized, according to Pakistan's education minister. The government has substantially increased the budget of his ministry. According to the money allocated to him by the government, he would be able to introduce science topics and English language instruction into madrassah curriculum, set up computer labs in schools, and otherwise improve their physical infrastructure. For the time being, the madrassahs are reluctant to embrace such government interference in order to reform themselves. Such approaches, however, may actually reinforce the madrassahs rather than reforming them. Reform will only provide them with a short-term boost in funding. If public education is improved and expanded, madrassah schools will eventually go out of business. Bailouts should be avoided in favor of a more gradual integration into the mainstream educational system.

U.S. donations to Pakistan amounted for just over 11 percent of the total recorded U.S. aid to Pakistan prior to 2007. A total of 11 US taxpayer dollars have been used to fund Pakistani corruption. The funds primarily assist elections while also supporting early childhood development, basic health care, food relief, and democracy and government. Unless there are extraordinary circumstances, all transfers to the Pakistani military are routed through USAID (such as the Pakistani earthquake of 2005).

It is reproduced in this chart the CSIS report's breakdown of these monies (up until 2007):

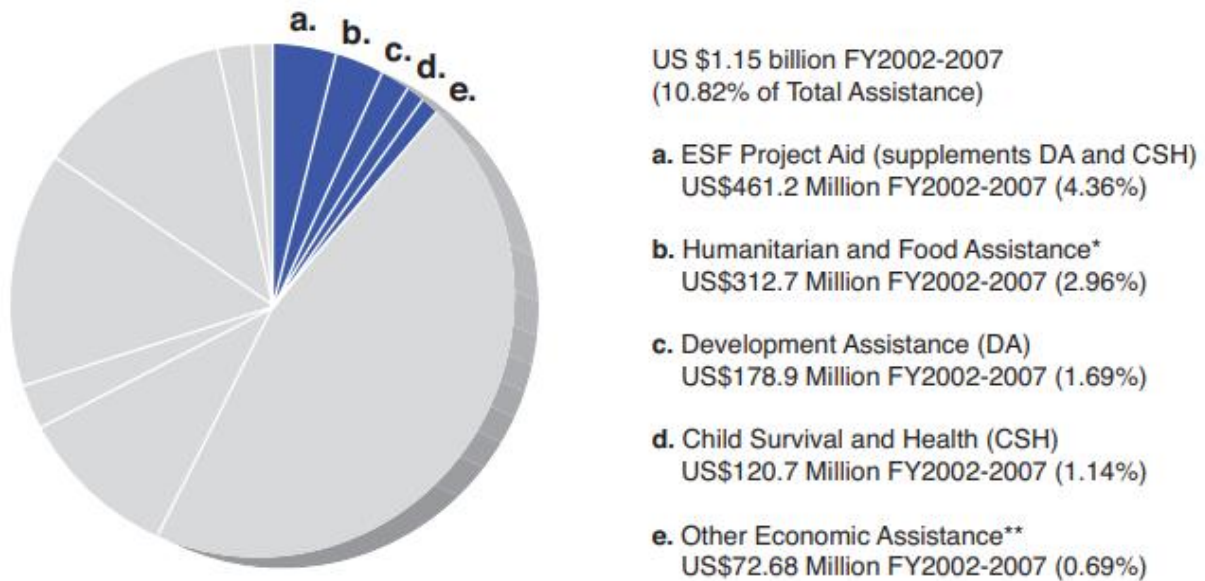


Figure 3.7 Development and Humanitarian Assistance to Pakistan

A \$750 million development strategy for Pakistan's frontier region has just been launched by the United States, which supports the Pakistani federal budget for a \$9 billion initiative for the sustainable development of tribal areas. In order to effectively and long-term fight violent extremism, the inhabitants of tribal areas need a greater link to their central government. Plans to improve planning and coordination between civilian and security agencies, as well as strengthen

the capacity of tribal area authorities to organize and manage development aid programmes, are the goals of this strategy.

In addition, the plan aims to improve security in the tribal areas, which is essential for a successful development strategy. With the help of the Pakistani government, we've been able to expand and improve the capacities of three law enforcement agencies that have long had a presence in the tribal areas and are largely made up of ethnic Pashtuns recruited from within those areas. These aspects of U.S. assistance to Pakistan are, in my opinion, critical to the fight against terrorism's victorious outcome. It is these forces that are waging war in parts of the Northwest Frontier Province like Swat against the Taliban, al-Qaeda and other violent extremist groups.

Significance of the Study

The significance of studying *Pak-US relations and their economic implications (2000 onwards)* lies in understanding the complex interplay between foreign policy and economic development. This period, marked by Pakistan's frontline role in the War on Terror, highlights how strategic alliances influence aid, trade, and investment flows. Analyzing this relationship sheds light on the benefits and challenges of dependency on foreign assistance and its impact on sustainable growth. Additionally, the study provides insights into the broader economic consequences of geopolitical shifts, such as the pivot towards China. By examining these dynamics, policymakers can formulate strategies to balance foreign relations while ensuring economic resilience and autonomy.

Literature Review

Yaseen et al, (2021) explores that business relationship between the United States and Pakistan has been shaped by trade, investment, and geopolitical dynamics. The U.S. is one of Pakistan's largest trading partners, with key exports including textiles and apparel, while imports primarily consist of agricultural goods and machinery. U.S. foreign direct investment has historically focused on energy, technology, and consumer goods, though challenges such as political instability, regulatory uncertainty, and infrastructure deficits in Pakistan have hindered growth. Geopolitical considerations, particularly post-9/11, have often overshadowed purely economic engagements, intertwining business with strategic and security interests

Iqbal et al, (2022) highlighted that business relationship between Pakistan and the United States significantly influences Pakistan's stock exchange, reflecting the impact of trade, investment, and economic cooperation. U.S. foreign direct investment, particularly in sectors like energy, technology, and consumer goods, plays a critical role in boosting investor confidence and market stability. Studies highlight that major geopolitical or trade developments between the two nations often trigger volatility in Pakistan's stock exchange, as investors respond to changes in economic and strategic ties.

Bahmani et al, (2016) explores that commodity trade between Pakistan and the United States plays a significant role in Pakistan's economy, with textiles, apparel, and agricultural products forming the bulk of Pakistan's exports, while imports from the U.S. include machinery, chemicals, and agricultural goods. This trade not only generates foreign exchange but also supports key industries like textiles, which are vital for employment and economic stability. However, trade imbalances and dependency on a limited range of exports pose challenges to sustainable growth. Studies suggest that enhancing value-added exports and diversifying trade

portfolios could further strengthen Pakistan's economic resilience and its trade relationship with the U.S.

Bakht & Ejaz (2023) mentioned that Kerry-Lugar Bill, enacted in 2009, significantly boosted Pakistan's business and trade by providing \$7.5 billion in non-military aid over five years, aimed at supporting economic development, energy projects, and infrastructure. This infusion of aid enhanced trade opportunities by improving key sectors, including agriculture and energy, which are critical to Pakistan's export capacity.

Hussain (2017) discusses that Pak-US relations have historically been shaped by strategic interests, oscillating between periods of close cooperation and tension. During the early 2000s, post-9/11, Pakistan became a frontline ally in the US-led War on Terror. This partnership resulted in significant military and economic aid, but also brought challenges such as increased security expenditures and internal instability. The dynamics of this alliance have had lasting implications on Pakistan's economy and socio-political landscape.

Khan (2019) mentioned that following Pakistan's alliance with the US after 9/11, substantial financial aid flowed into the country, primarily in the form of Coalition Support Funds (CSF). While this inflow provided temporary relief to Pakistan's economy, critics argue that it fostered a dependency on foreign aid rather than promoting sustainable economic growth. The inconsistent disbursement of funds further exacerbated economic uncertainties.

Yaseen et, al (2021) The relationship with the US significantly influenced Pakistan's trade policies and exports. During periods of cooperation, Pakistan benefitted from preferential trade agreements and increased access to US markets. However, political and strategic rifts often led to disruptions, reducing trade benefits and creating uncertainty in Pakistan's export-dependent sectors.

Imran et al, (2022) the US alliance during the War on Terror compelled Pakistan to allocate substantial resources to military operations, counter-terrorism efforts, and internal security. This shift in priorities diverted funds from essential development sectors such as education, healthcare, and infrastructure, undermining long-term economic growth.

Saleem et al, (2021) points out that US relation have also influenced foreign direct investment in Pakistan. While periods of stable Pak-US relations attracted foreign investors, especially in energy and telecommunications, political instability and strained ties discouraged investment. This volatility has impacted Pakistan's ability to create a conducive environment for sustained FDI growth.

Sarfraz et al, (2022) Pakistan's alignment with the US has often shaped the terms and conditions of loans from international financial institutions like the IMF and the World Bank. While these financial packages provided short-term economic relief, they imposed strict austerity measures that often led to inflation, unemployment, and reduced public spending, negatively impacting the economy.

Asad (2022) the US's influence on Pakistan's domestic politics has often been controversial, leading to anti-American sentiments among the population. This mistrust has contributed to political instability, adversely affecting investor confidence and economic stability. The perception of Pakistan as a "client state" of the US has further complicated governance and economic reforms.

Iqbal & Javaid (2020) discusses that US-Pakistan relations faced challenges, particularly post-2011 (after events like the Osama Bin Laden raid), Pakistan pivoted towards strengthening ties

with China. This shift, particularly with the launch of the China-Pakistan Economic Corridor (CPEC), marked a reorientation of economic priorities. However, balancing US and Chinese interests has added complexity to Pakistan's foreign policy and economic planning.

Conclusion

Pakistan's foreign and public policy towards the United States reflects a dynamic yet complex relationship, heavily influenced by geopolitical shifts, security concerns, and economic dependencies. The post-9/11 era marked a significant realignment of Pakistan's priorities to align with the U.S.-led War on Terror. While this cooperation brought substantial financial aid and development assistance, it also created economic vulnerabilities, as heavy reliance on external funding weakened efforts toward sustainable domestic growth. Moreover, the transactional nature of the partnership led to inconsistent policy outcomes, with economic benefits often tied to Pakistan's strategic utility rather than long-term developmental goals.

The treaties and administrative collaborations between Pakistan and the U.S., including the Coalition Support Funds (CSF), Strategic Partnership Dialogue (SPD), and Kerry-Lugar-Berman Act, have significantly impacted Pakistan's economy by providing financial aid, boosting counterterrorism efforts, and supporting socio-economic development. However, these agreements often came with conditionalities, fostering dependency and occasional strains on sovereignty. While U.S. support enhanced infrastructure and governance reforms, inconsistent relations and mistrust sometimes hindered long-term economic stability and self-reliance in Pakistan.

In recent years, as U.S. interests have pivoted toward countering China's influence, Pakistan has increasingly sought to diversify its economic partnerships, particularly through the China-Pakistan Economic Corridor (CPEC). However, this shift highlights the challenges of balancing relations with competing global powers while addressing domestic economic needs. Moving forward, Pakistan's policymakers must craft a foreign policy that prioritizes economic self-reliance, leverages regional trade opportunities, and fosters sustainable partnerships based on mutual respect and shared economic interests, ensuring a stable and prosperous future for the country.

The majority of U.S. aid to Pakistan after 9/11 was in the form of financial transfers. There was no longer any U.S. monitoring of these funds because they had become Pakistani sovereign funds. No records of how this money is spent can be obtained or requested by the United States. The Pakistani administration has become accustomed to this state of affairs. This status quo change is a major factor in the unfavorable reaction that any conditionality would elicit. Given the high-profile corruption incidents, such as the Ministry of Finance diverting the majority of the money designated for military use, and estimates that 70% of the funds have been spent illegally, the status quo itself is inadequate. Those who oppose the imposition of limits on the use of any future US money must consider the perspective of a dependent country that has come to regard aid with no or few conditions as a right.

There is no way to oppose militants and extremist curriculum if the United States does not work with Pakistan, which is one of the arguments that Congress is seeking to micromanage U.S. policy towards Pakistan. Irrational to give Pakistan aid for a certain purpose without requiring that it be used for that purpose; this does not equate to micromanaging. However, Congress and the Pakistani government may have reasonable differences over what constitutes micromanagement.

According to Richard Boucher, the State Department's representative, the long reporting chain ensured thorough oversight of U.S. financial and security assistance in Pakistan by referencing agreements between the United States and Pakistan rather than a process in and of itself, as he testified before the Congressional Committee investigating aid to the country.

He claimed that the State Department's Director of Foreign Assistance has overall responsibility for the programme of distributing funds to Pakistan. The United States Department of State provided guidance. Because the Bureau of Political-Military Affairs is "the major contact between the Defense and State Departments," it was responsible for the program's management. The judgments were backed by a large number of people and organizations. A key part of the responsibility of the United States ambassador is to provide "oversight on the execution of programmes including end-use monitoring and human rights vetting." US Ambassadors and Combatant Commanders in the field worked together "closely" to design "plans that closely match the military demands of our partners to the larger aims of US foreign policy," according to a joint statement from the two organizations. State Department and Defense Security Cooperation Agency cooperated to guarantee that the supplies would not create an arms race in the region and that the weapons were being used as agreed.

References

- Abbas, S. A., Syed, S. H., Campbell, N., & Kumar, K. (2024). A dynamic modelling of the regional and international political economy of US aid to Pakistan. *Journal of the Asia Pacific Economy*, 1-22.
- Ali, I., & Anwar, M. F. (2023). Pak-US Relations: An Overview in Historical Perspective (1947-2021). *Pakistan Journal of Humanities and Social Sciences*, 11(4), 4659-4673.
- Asad, M. (2022). Historical Timeline of United States-Pakistan Relations 1947-2020. *International Research Journal of Social Sciences and Humanities*, 1(1), 91-111.
- Bahmani-Oskooee, M., Iqbal, J., & Nosheen, M. (2016). Commodity trade between Pakistan and the US: is there evidence of the J-curve?. *Applied Economics*, 48(11), 957-965.
- Bakht, A., & Ejaz, A. (2023). The Kerry-Lugar Bill: Dilemma of Trust and Mistrust between Pakistan and USA. *Annals of Human and Social Sciences*, 4(3), 157-166.
- <https://www.britannica.com/place/United-States>
- <https://www.worldatlas.com/upload/1c/76/b0/pk-01.jpg>
- Hussain, M. (2017). Impact of India-United States civil nuclear deal on China-Pakistan strategic partnership. *Journal of South Asian Studies*, 5(1), 13-25.
- Imran, A., Hashmi, S. R., & Anwar, M. F. (2022). US-Pakistan Alliances in Afghanistan: Policies, Costs and Implications. *Pakistan Journal of Humanities and Social Sciences*, 10(1), 180-190.
- Iqbal, J., Aziz, S., & Nosheen, M. (2022). The asymmetric effects of exchange rate volatility on US-Pakistan trade flows: new evidence from nonlinear ARDL approach. *Economic Change and Restructuring*, 1-31.
- Iqbal, N., & Javaid, U. (2020). CPEC: The US Stance and its Impact on Pakistan-US Relations. *Global Political Review*, 5(1), 145-154.
- Javaid, U., & Fatima, Q. (2012). US foreign policy parameters towards Pakistan and India (2001-2008). *J. Pol. Stud.*, 19, 21.
- Khan, M. (2019). Pakistan-US Relations. *Strategic Studies*, 39(4), 55-72.

- Khan, M. A. (2011). Foreign direct investment in Pakistan: The role of international political relations. *University of Oxford, Department of International Development, ISSN*, 2045-5119.
- Saleem, H., Shabbir, M. S., Khan, B., Aziz, S., MdHusin, M., &Abbasi, B. A. (2021). Estimating the key determinants of foreign direct investment flows in Pakistan: New insights into the co-integration relationship. *South Asian Journal of Business Studies*, 10(1), 91-108.
- Sarfraz, Z. (2022). Impact of Pak-IMF Bailout Arrangement on Economic Growth. *Journal of Public Policy Practitioners*, 1(1), 165-200.
- Shahzad, U., Sarwar, S., Farooq, M. U., & Qin, F. (2020). USAID, official development assistance and counter terrorism efforts: Pre and post 9/11 analysis for South Asia. *Socio-Economic Planning Sciences*, 69, 100716.
- Sheikh, Z., Saeed, A., &Elahi, A. (2024). The United States and Pakistan's Bilateral Relations. *International Peace and SDGs Perspectives*, 1(001), 1-25.
- Yaseen, Z., Maqsood, F., & Muzaffar, M. (2021). Pak-US Economic Relations: Impacts on Pakistan's Economy. *Journal of Development and Social Sciences*, 2(1), 34-46.