

## PAK-US RELATIONS: A CASE OF ECONOMIC IMPLICATIONS FOR PAKISTAN (2008-2022)

**Muhammad Irfan,**

PhD Scholar (Political Science), The Islamia University of Bahawalpur

Email: [irfanbhatti.iub@gmail.com](mailto:irfanbhatti.iub@gmail.com)

**Dr. Ahsan Riaz**

(Assistant Professor, Department of Political Science, The Islamia University of Bahawalpur)

### Abstract

*The evolving dynamics of Pak-US relations from 2008 to 2022 have been a defining factor in shaping Pakistan's economic trajectory. This period, marked by geopolitical shifts, strategic alliances, and mutual dependencies, underscores the complex interplay between foreign policy and economic stability. The bilateral relationship transitioned through phases of cooperation and divergence, particularly influenced by global counterterrorism efforts, the war in Afghanistan, and Pakistan's economic challenges. Key events, including US aid packages under the Kerry-Lugar-Berman Act and economic assistance tied to military cooperation, initially strengthened Pakistan's fiscal position. However, fluctuations in US support, especially after the withdrawal of NATO forces from Afghanistan, exposed Pakistan's economic vulnerabilities. Trade imbalances, conditional foreign assistance, and reduced foreign direct investment (FDI) highlighted the fragility of economic ties. Simultaneously, growing US concerns over Pakistan's alleged support for non-state actors led to stricter aid conditions and sanctions, further impacting economic stability. This study critically examines the economic implications of Pak-US relations during these critical years, exploring themes such as aid dependency, trade imbalances, policy shifts, and their broader impact on Pakistan's economic sovereignty. It emphasizes the need for Pakistan to adopt a balanced foreign policy that leverages its strategic importance while reducing economic reliance on external powers.*

**Keywords:** Pak-US relations, economic implications, aid dependency, trade imbalances, strategic alliances, foreign policy, economic stability, Kerry-Lugar-Berman Act, China-Pakistan Economic Corridor (CPEC), geopolitical shifts.

### Introduction

The bilateral relationship between Pakistan and the United States has been one of strategic complexity and economic significance, particularly in the period from 2008 to 2022. Rooted in mutual interests and occasional divergences, Pak-US relations have oscillated between periods of close collaboration and heightened tensions. This era was shaped by significant global and regional developments, including the global war on terror, the withdrawal of US forces from Afghanistan, and Pakistan's growing economic reliance on external powers like China. The interplay of these factors profoundly influenced Pakistan's economic landscape, revealing both opportunities and vulnerabilities tied to its dependence on the United States. Khan (2020)

After 2008, the immense counter-terrorism activities with regional stability as the Obama administration led to several economic and military profits for Pakistan, especially under the Kerry-Lugar-Berman Act of civilian and security aid. These inflows remains acted as sort of fiscal aid to Pakistan by helping it in its developmental and infrastructural activities. This aid, however given, was conditional and constrained the policy freedom of Pakistan, which is a usual case of economic entrapment that developing nations face. This resulted in a phenomenon, which experts refer to as the 'onBindViewHolder' in nature of the: US-South Asia relations; As the US reinvented its South Asia strategy, especially after the Abbottabad raid that killed Bin Laden in the summer of 2011, the relations became a little more tense, and hence, the level of-economic interactions fluctuates. Yaseen et al, (2021)

The annexed Trump administration brought another shift as America shifted to a transactional diplomacy style. Lack of space, problems in Afghanistan, and cut down in US aid and mounting concerns over the support of Pakistan to non-state actors led the country to face the flaws of its trade dependence on USA that formed the major part of its economy. This change happened at a time as the country strengthened its economic relations with China especially through the China-Pakistan Economic Corridor (CPEC) although this source of economic cooperation offered debt accumulation challenges. Shaiq & Yasmin (2023)

The period was ending with Biden leaving Afghanistan in awkward conditions in 2021 showing diminishing role of Pak-USA foreign policy. The economic effects of this change are decreased FDI, lack of export growth, increased trade deficit. Still, the United States did not diversify its strategic interests completely; Pakistan was an important economic partner for American financial support, as well as a customer for Pakistani exports, and through the Pakistan diaspora in America. Iqbal & Khwaja (2023)

Economic consequences of the Pak-US relations during this transitional period are the focus of this paper. As the paper explores the impact of aid, trade and cooperation on the Pakistan's economy, the role of aid, changing trends in exports and imports, and oscillation of allies on the independent growth of Pakistan economy are discussed in detail. In understanding these dynamics, this study underscores the imperativeness of an efficient and effective foreign policy strategy that do not expose a country to vices and at the same time harness on optimal strategic partnerships for. Yaseen et al, (2021)

### **Significance of the Study**

This study holds significant importance as it sheds light on the economic ramifications of Pak-US relations during a critical period marked by shifting geopolitical and regional dynamics. By examining the economic implications of aid dependency, trade imbalances, and strategic realignments, it offers valuable insights into how external factors have shaped Pakistan's fiscal policies and development trajectory. The findings contribute to understanding the challenges of relying on foreign assistance while highlighting the need for strategic diversification to achieve economic stability and autonomy. Moreover, the study provides policymakers and scholars with a framework to assess the broader impact of international relations on domestic economic resilience.

### **Research Questions**

1. How did Pak-US relations between 2008 and 2022 influence Pakistan's economic stability and development trajectory?
2. What were the key economic vulnerabilities and opportunities created by the shifts in US foreign aid and trade policies toward Pakistan during this period?

### **Research Objectives**

1. To analyze the economic implications of Pak-US relations on Pakistan's fiscal policies, trade patterns, and aid dependency from 2008 to 2022.
2. To assess the impact of changing US foreign policy priorities on Pakistan's economic sovereignty and its efforts to diversify strategic partnerships.

### **Review of Literature**

Hussain (2016) study discusses that Pakistan and USA are associated as strategic partners and foes as well. Founded in 1947, relations strengthened during the Cold War as Pakistan allied with the United States in grouping such as SEATO and CENTO for fighting Soviet's aggression. Pakistan was formally involved during the Afghan-Soviet War of the 1980s as a frontline state, thus strengthening the partnership. But the relations soured with the start of the 1990s due to American sanctions over Pakistan's nuclear threat. After 9/11 the alliance

was reestablished when Pakistan was a crucial partner in the process of the War on Terror and this country was receiving considerable assistance. However, political trust has deteriorated for some of the motives such as counterterrorism policies, regional approaches, and shifting focus towards India. Nevertheless, it is still a crucial partnership resulting from similar concerns as security in the region, commercial exchange as well as combating terrorism.

Sulaiman et al, (2023) study presents the key issues constituting the organization of relations between Pakistan and the United States of America throughout the years. It reflects the Cold War convergence, the emerging entente during the Afghan-Soviet conflict, and the post-September 11 partnership built on counterterrorism. The narrative also outlines the issues, particularly those connected with Pakistan's nuclear weapons program as well as with Pakistan-India and Pakistan-China relations which hamper partnership between the USA and Pakistan. These dynamics, as seen changing over the course of the past years, show that both countries must constantly respond and navigate in this way to serve their interests during insecurity. This overview also provides a clear understanding of how security factor, strategic partnership, and regional factors have defined the dynamics of bilateral relationship.

Akhtar (2012) mentioned that the economic relations as existing between Pakistan together with the United States involves dealing with dynamic based on trade, aid, and investment, with both times of synergism and conflict. The relation of the US and Pakistan offers the support of economic and military aid, especially in important world conflicts like Cold War and War on Terror for Pakistan. Bilateral trade is defined by Pakistan's exports of textile and apparels while United States imports oil and gas, technology, agricultural and energy investment in Pakistan.

McCartney (2011) study explore that Pakistan's economical vulnerability is rooted in the fact the country relies on foreign funded Schaumburg, 2002 Other Sources of economical vulnerability have to do with Pakistan growing and relying heavily on external funding from trading partners and on foreign workers' remittances. Foreign aid has always played an important role in the Pakistani economy, especially during a crisis, the U.S, Multilateral institutions including IMF and World Bank and some regional partners. This dependence arise due mainly to structural problems such as a poorly diversified export profile, which is dominated by textiles, an albatross of external liabilities, and a worst of all a fiscal deficit.

Hussain (2004) discusses that revenues support its economy has over the years made America a strategic partner for Pakistan and vice in this aspect. The U.S has offered Pakistan significant foreign aid in the form of military aid, economic development monies and via multilateral organizations such as the Interpol and World Bank mostly in view of geopolitical interests. This relationship has always been witnessed during the major world power conflict including the cold war, the Afghan-soviet war and the post 9/11 war on terror when Pakistan became a frontline partner Along side, the fiscal problem has always been evident in Pakistan which can be solved with the help of US aids needed for the sectors including education, health and infrastructure etc.

Waheed (2017) research bowing heavily to the United States, economic dependence has shaped the social relationship between Pakistan and United States through aid, trade and cooperation. In the decades, USA has indeed paid billions of dollars to Pakistan for assistance during which many years were important for geopolitics including cold war, Afghan-Soviet war, and post 9/11 period. This has been complimented by aid and trade ties – export of Pakistani textiles and apparels to America which has been the mainstay of this economic relationship.

Jabeen et al, (2010) study first type of ties represent the Pakistan ministry of commerce reflects Pakistan-U.S. economic relations that have both opportunities and threats. Pakistan is the 24th largest U.S. trading partner, and major Pakistani exports to the U.S. consist of textiles, garment and agricultural products while the U.S import to Pakistan include machinery, chemical and agriculture products. However, in this vibrant trade relationship, asymmetries remain, with Pakistan seeking to broaden its export mix, while the U.S. seeks better access to Pakistan markets and better protection for drugs patents. Bilateral communications to boost foreign commerce have been held and forums and other trilateral dialogues such as the United States Pakistan Trade and Investment Framework Agreement or TIFA.

Kronstadt (2012) studies on economic imbalances have been a persistent issue in Pakistan-U.S. relations, characterized by trade deficits and unequal dependency dynamics. Pakistan relies heavily on exports of textiles and agricultural products to the U.S., while importing high-value machinery, technology, and chemicals, leading to a trade imbalance in favor of the U.S. Furthermore, Pakistan's dependence on U.S. financial aid and loans has further skewed the economic relationship, creating vulnerabilities in its fiscal stability. This imbalance is exacerbated by Pakistan's limited export diversification and structural economic challenges, which hinder its ability to fully capitalize on U.S. market opportunities.

Khan et al, (2024) discusses factor has been that the relations share an unequal economic exchange with Pakistan being the importer and the US being the exporter with a large number of trade deficits. Most of the products exported by Pakistan to the U.S. are textiles and agricultural products, while it imports high value machinery, technology, chemicals and so on, which has resulted in a trade deficit and a high degree to which it is dependent on the U.S aid and loans. This imbalance has been further magnified by issues of export diversification and structural economic problems inhibiting Pakistan's capability to exploit all avenues in the US market.

Saez (2012) paper determine how this partnership affects the socio-economic development of the region by analyzing the goals of the south Asian partnership in light of U.S current strategic, economic and security interests. India is at the core of the US regional policy as it has been recognized as the emerging strategic partner in the steps like the Indo-Pacific Strategy to contain China's momentum. Over the years, the main pillars of the bilateral relationship between Pakistan and the United States are counter-terrorism cooperation and security but trade and investment, regional security are also domains of cooperation.

Sohrab & Choudary (2012) mentioned that future of Pakistan-US relations depends on the ability to move away from this largely security based dictated relationship towards engagement of multiple dimensions of both countries bilateral relationship. Old concerns like counter terrorism, regional security, and stability will continue to matter, but the relationship has to evolve its focus to accommodate new domains of concern and cooperation as climate change, uses of technologies, and development. Amidst pragmatic interests, deepening trade and investment relations and focusing on education and culture exchange and cooperation, as well as in the framework of sustainable development could transform the relationship on more balanced and prospective course.

Jabeen et al, (2010) highlights that political landscape of the Pakistan and U.S bilateral relations has many problems which arise with the historical tension, the difference of strategic visions of the two countries and the changing regional context. Some of these are: there are disagreed stances on counter-terrorism, most specially, US apprehensions regarding Pakistan's policies on terrorism and regional security. Its increasing closeness with China, evident in the China-Pakistan Economic Corridor (CPEC), is somewhat at odds with US



attempts to limit China's activities internationally. Trade deficits, the Pakistan's economic liberalization and recent policies discontinuity, and the American focus on standardization, the enforcement of intellectual property rights, and regulations add pressure on the economic relations.

Kronstadt (2012) discusses that stakeholders involved in the relations between Pakistan and United States are many and diverse as the relationship itself because it covers and includes governmental, corporate and even civil society organizations. On the United States side, many State Department, Department of Defense, USAID and trade representatives are involved in policies particularly in security, economic foreign assistance and trade. In Pakistan, the management of relations is largely done by the Ministry of Foreign Affairs, the military senior command and other related institutional players such as the Ministry of Commerce and the Board of Investment.

According to Gilani (2006) trade is the key component of the Pakistan US economic relations but it also encompasses aid, investment and economic cooperation. The United States is amongst the biggest purchasers and sellers to Pakistan; textile and agricultural produce are some of the most imported products from the country. However,, it is still in negative territory and it signifies that Pakistan needs to diversify the exports portfolio and also need to work on market access. AID, particularly USAID has over the years offered economic aid toward sectors such as health, education, and infrastructure in Pakistan, this aid is normally given with political and strategic.

Akhtar (2011) mentioned that several economic issues have been identified; these include trade deficit, policies and regulation and lastly Pakistan being a recipient of aid. Being one of the largest trading partners, the US trade imbalance continues to be evident, with Pakistan doing a relatively little job in diversification of exportable items, mainly relying on textiles and agriculture products. American investors fear doing business in Pakistan owing to perceived unfriendly regulatory system, bureaucracy and inconsistent policies which has partly restrained FDI thus, perverting Pakistan from achieving its economic growth. Furthermore, Pakistan's projection as a supplicant of US foreign aid for development and military purposes despite being a piece of strategic importance has often been associated with sources of income insecurity and thus limited prospects for sustained economic growth.

Gill (2010) point out that there have chronic misfortune of fiscal deficits, a fairly restricted export diversification of textiles, and a very large informal economy which constrains tax revenue mobilization and government non-oil revenues. The persistent problems of high inflation rates, devaluation of national currency, and the ongoing external debts reels have remained critical challenges to attaining a stable macro economy.

## Conclusion

The trajectory of Pak-US relations from 2008 to 2022 reveals a complex interplay of strategic interests and economic dependencies that shaped Pakistan's economic landscape. This period was marked by significant geopolitical shifts, including the global war on terror, the US withdrawal from Afghanistan, and Pakistan's evolving alliances. While the United States provided Pakistan with substantial economic and military assistance, particularly during the Obama administration, these inflows were often tied to stringent conditions that constrained Pakistan's policy autonomy. The aid served as a double-edged sword, offering immediate fiscal relief but exposing Pakistan to vulnerabilities associated with external dependence.

The lessening quantity and volatility of American donations as well as the shift in the country's priorities different under Trump and Biden presidencies demonstrated Pakistan's delicate dependency on foreign support. Trade relations, although a significant aspect of the

relationship between Pakistan and the US were relatively unequal with Pakistan continuing to export substantially less goods to the US than it imported from the US. At the same time, the change of economic and strategic orientations through the development projects such as China-Pakistan Economic Corridor raised new issues of debts and relations with the creditor. However, the economic relationship between Pakistan and United States continued and the U.S continued to being an important export market, remittance destination, and source of aid. The period also stressed on the importance of Pakistan to diversify its economic and strategic ties because it was bending excessively on one country. The ups and downs of the 'relationship' made it a litmus test to understand the impacts of global geopolitics for Pakistan's domestic economy and development narratives.

Therefore, this work brings in to focus the necessity of an effective and moderate Pakistan foreign policy. Through carefully choosing the position on the map and developing various economic relationships, Pakistan can never stay vulnerable and it can constantly pursue sustainable economic growth. The findings from this period are useful for understanding the present and future policy challenges and possibilities of an increasingly 'polycentric' world.

### References

- Akhtar, N. (2011). Pakistan and US partnership: cost or benefit?. *International journal on world peace*, 7-31.
- Akhtar, N. (2011). Pakistan and US partnership: cost or benefit?. *International journal on world peace*, 7-31.
- Akhtar, S. (2012). Dynamics of USA-Pakistan relations in the post 9/11 period: Hurdles and future prospects. *International Journal of Humanities and Social Science*, 2(11), 205-213.
- Akhtar, S. (2012). Dynamics of USA-Pakistan relations in the post 9/11 period: Hurdles and future prospects. *International Journal of Humanities and Social Science*, 2(11), 205-213.
- Gilani, T. (2006). US-Pakistan Relations: The Way Forward. *The US Army War College Quarterly: Parameters*, 36(4), 4.
- Gill, J. (2010). Political instability and economic development: Pakistan time-series analysis. *International Research Journal of Finance and Economics*, 56, 179-192.
- Gill, J. (2010). Political instability and economic development: Pakistan time-series analysis. *International Research Journal of Finance and Economics*, 56, 179-192.
- Husain, I. (2004). Economy of Pakistan: Past, present and future. *IBA Karachi, Pakistan*.
- Husain, I. (2004). Economy of Pakistan: Past, present and future. *IBA Karachi, Pakistan*.
- Hussain, M. (2016). Pak-US relations: An historical overview. *Pakistan Journal of History and Culture*, 37(2), 61-76.
- Hussain, M. (2016). Pak-US relations: An historical overview. *Pakistan Journal of History and Culture*, 37(2), 61-76.
- Iqbal, N., & Khawaja, A. (2023). Historical Analysis of Pak-US Diplomatic Relationship and Kashmir Case (1947-2000). *Pakistan Research Journal of Social Sciences*, 2(3).
- Jabeen, M., Mazhar, M. S., & Goraya, N. S. (2010). Trends and challenges in Pak-US relations: Post September 11. *South Asian Studies*, 25(02), 185-198.
- Jabeen, M., Mazhar, M. S., & Goraya, N. S. (2010). Trends and challenges in Pak-US relations: Post September 11. *South Asian Studies*, 25(02), 185-198.
- Jabeen, M., Mazhar, M. S., & Goraya, N. S. (2010). Trends and challenges in Pak-US relations: Post September 11. *South Asian Studies*, 25(02), 185-198.

- Jabeen, M., Mazhar, M. S., & Goraya, N. S. (2010). Trends and challenges in Pak-US relations: Post September 11. *South Asian Studies*, 25(02), 185-198.
- Khan, H. U. (2020). China, the emerging economic power: options and repercussions for Pak-US relations. *International Politics*, 1-26.
- Khan, K., Uddin, I., & Maghfoor Ullah, M. A. PAK-CHINA STRATEGIC PARTNERSHIP AND ITS IMPACT ON REGIONAL POWER STRUCTURE.
- Khan, K., Uddin, I., & Maghfoor Ullah, M. A. PAK-CHINA STRATEGIC PARTNERSHIP AND ITS IMPACT ON REGIONAL POWER STRUCTURE.
- Kronstadt, K. A. (2012). *Pakistan-US relations*. Washington, DC: Congressional research service.
- Kronstadt, K. A. (2012). *Pakistan-US relations*. Washington, DC: Congressional research service.
- Kronstadt, K. A. (2012). *Pakistan-US relations*. Washington, DC: Congressional research service.
- Kronstadt, K. A. (2012). *Pakistan-US relations*. Washington, DC: Congressional research service.
- McCartney, M. (2011). Pakistan, growth, dependency, and crisis.
- McCartney, M. (2011). Pakistan, growth, dependency, and crisis.
- Saez, L. (2012). *The South Asian association for regional cooperation (SAARC): An emerging collaboration architecture*. Routledge.
- Saez, L. (2012). *The South Asian association for regional cooperation (SAARC): An emerging collaboration architecture*. Routledge.
- Shafiq, F., & Yasmin, R. (2023) Challenges to Pak-US Relations in the Post-CPEC Era: Navigating a Complex Geopolitical Landscape.
- Sohrab, W., & Choudhry, I. A. (2012). Pak-US Relations in 21st Century: Challenges and Opportunities for Pakistan. *Berkeley Journal of Social Sciences*, 2(3), 1-16.
- Sohrab, W., & Choudhry, I. A. (2012). Pak-US Relations in 21st Century: Challenges and Opportunities for Pakistan. *Berkeley Journal of Social Sciences*, 2(3), 1-16.
- Ullah, A., Sulaiman, S., & Bukhari, S. A. A. S. (2023). The dynamics of Pakistan-US relations after US withdrawal from Afghanistan: challenges and prospects. *Liberal Arts and Social Sciences International Journal (LASSIJ)*, 7(2), 1-23.
- Ullah, A., Sulaiman, S., & Bukhari, S. A. A. S. (2023). The dynamics of Pakistan-US relations after US withdrawal from Afghanistan: challenges and prospects. *Liberal Arts and Social Sciences International Journal (LASSIJ)*, 7(2), 1-23.
- Waheed, A. W. (2017). Pakistan's Dependence and US Patronage: The Politics of 'Limited Influence'. *Journal of Asian Security and International Affairs*, 4(1), 69-94.
- Waheed, A. W. (2017). Pakistan's Dependence and US Patronage: The Politics of 'Limited Influence'. *Journal of Asian Security and International Affairs*, 4(1), 69-94.
- 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.
- 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.