



BNU Center for Policy
Research

THE POLICYBEACON

005

SETTING FUTURE AGENDA OF PAKISTAN-US
RELATIONS AROUND TRADE, INVESTMENT
AND CLIMATE CHANGE
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About BNU Center for Policy Research

In recognition of the growing need to continue contributing to the stock of knowledge through enquiry, research, and interaction, Beaconhouse National University (BNU) set up the Center for Policy Research (BCPR) as the hub for policy-oriented research. Originally focused on applied socio-economic areas, the Center's remit has been expanded to include the entire spectrum of disciplines and fields of inquiry studied at BNU.

BCPR seeks to foster a culture of rigorous, policy-relevant research and analysis. In keeping with the interdisciplinary approach of BNU, the center explores new avenues by taking an integrated view of Pakistan's policy issues in the context of our economic, political, and social realities, their changing dynamics, and global developments. It is also a platform for interacting with organizations, academia, think tanks, and related institutions in Pakistan and abroad.

Thriving under the patronage of eminent personalities, including the Center's Director, Dr. Hafiz A. Pasha, BCPR is in a strategic position to benefit the policy research and practice communities from the unique experience of its diverse faculty. The BNU community has already been contributing extensively to the policy debate in the country, and their counsel has been regularly sought by successive governments in their respective disciplines, both through formal institutional structures and informal exchanges.

Using cutting-edge analytical and critical thinking techniques, often developed indigenously by our experts over the years, BCPR shall furnish evidence-based research to develop specific proposals and recommendations to all relevant stakeholders for informed and inclusive policy-making in Pakistan.

BCPR envisions formulating its recommendations from the lens of its likely beneficiaries, making them primary stakeholders in policy-making exercises. It aims to elicit research to contribute to the ever-evolving narrative for human development and sustainable growth, eventually benefiting the citizens of Pakistan.

“ The Policy Beacon is BCPR's Policy Brief series in which authors analyze contemporary challenges and present recommendations for decision-makers. The series covers all disciplines taught at BNU. ”

Abstract

Pakistan-US relations are marked by a unique paradox; both countries have been allies in key situations in the Cold War as well as the Post-Cold War eras, yet serious mistrust and misperceptions continue to prevail on both sides. While Pakistan immensely benefitted from economic, educational and scientific cooperation with the US during the early years after independence, in the later years relationship gradually became transactional particularly during Afghan Jihad in 1980s and more recently during the US/NATO presence in Afghanistan from 2001-2021. Pakistan's lingering political instability, structural flaws in economy and civil- military equation have also impacted the relations negatively. As the two countries remain closely engaged in steering bilateral relations following the US/NATO withdrawal from Afghanistan, there is a need for the two sides to work together on setting the future agenda around trade, investment and climate while continuing cooperation on peace and security issues. The cooperation in the areas of economy and climate change would be useful for Pakistan in staging economic recovery and making progress towards sustainable socio- economic development in the country. For the US, a stable Pakistan would be more helpful in terms of supporting efforts for combating terrorism and promoting peace and stability in the broader region. This Policy Paper makes concrete recommendations on deepening cooperation in prioritizing bilateral trade and investment and addressing climate-related challenges.

A. Overview of the relations

Since Pakistan's independence in 1947, Pakistan-United States relations have continued to reflect contrasting trends. On the one hand, the relations have been marked by substantive bilateral cooperation in various fields while on the other hand the negative perceptions have continued to prevail in both the countries at the level of policy makers as well as general public, hindering harmony and growth of the relations.

The leadership of Pakistan's Movement espousing the United States as a symbol of freedom and justice¹ became an inspiration for Pakistan to be a US ally in its formative years. Consequently, Pakistan not only established strong linkages with the United States for bilateral cooperation in various fields such as education, institution building, agriculture and industrial development, but it also became part of the US-led anti-Soviet alliances namely SEATO and CENTO in 1950s,

¹ Akbar Ahmed, OP-ED, " Thomas Jefferson and Muhammad Ali Jinnah: Dreams form two founding fathers, Brookings, July 04,2010

<https://www.brookings.edu/articles/thomas-jefferson-and-mohammed-ali-jinnah-dreams-from-two-founding-fathers/>
(Accessed on 14 February 2024)

Afghan Jihad in 1980s and a non-NATO ally during the US/NATO military campaign in Afghanistan from 2001-2021.

The US cooperation played an important role in setting up modern institutions of higher learning in Pakistan such as Institute of Business Administration and Jinnah Post-graduate Medical Center in Karachi, the then capital of Pakistan. Projects such as the Indus Basin, Faisalabad Agriculture Institute and other such initiatives laid the foundation of green revolution in Pakistan. In 1960s and 1970s, the United States was a major donor and facilitator with the World Bank in construction of two major dams – Mangla and Tarbela – that continued to be main source for meeting Pakistan’s electric power needs for many years to come. In 1990s, the US also helped establish Guddu Thermal Power Station in Sindh and Lahore University of Management Sciences, which hitherto remains a top-ranked business school in the country².

In the past seven decades, cumulatively the US has been the single largest donor of Pakistan as well as a leading development partner. In addition, the United States has remained as a preferred destination for Pakistani students in professional and technical fields. Apart from being a major supplier of arms and weapons to Pakistan, the United States has also continued to be the main source of modern technology and collaboration for Pakistan in the areas of research and innovation.

However, despite being close allies for over past seven decades, deep cleavages or mistrust emanating from divergent perceptions and perspectives have continued to exist in the relationship. There has been rage and frustration in Pakistan initially for Washington’s continued support of Indian stance on Kashmir and now on its deepening strategic partnership with India. The US intelligentsia, however, denotes it as “mismatched expectations” and “Washington’s preference for India as an ally of choice”³.

Retrospectively, the US involvement in Afghanistan since late 1970s has been a key factor in exacerbating the fissures in the bilateral relationship. During the Afghan Jihad in 1980s, the US-Pakistan cooperation in supporting the Mujahideen was seamless. However, in 1990s the change in geo-politics after collapse of Soviet Union as an opposing pole, the civil war in Afghanis

² The USAID, History, <https://www.usaid.gov/pakistan/history> (Accessed on 14 February 2024)

³ Adam Weinstein, “Normalizing U.S.-Pakistan Relations”, Quincy Institute, QI brief#44, 31 August 2024, <https://quincyinst.org/research/normalizing-u-s-pakistan-relations/> (Accessed on 14 February 2024)

tan leading to appearance of the Taliban and terrorism emerging as a global threat progressively expanded mutual differences affecting the cooperative approaches of the past. Amidst the increasing divergence between the two countries, the nuclear explosions by India and Pakistan in 1998 initially resulted into sanctions on both countries but within next few years culminated towards the US-India Strategic Partnership Agreement further disgruntled Pakistan faced with mounting internal and external challenges. Dr. Shahid Bukhari articulating firmly held perception in Pakistan about 'overwhelming US tilt towards India' writes:

The Indo-US Strategic Partnership is also an expression of such power politics. Signed during President George W. Bush's visit to India in 2006, the partnership agreement aimed at substantially enhancing Indo-US cooperation in almost every field of strategic importance ranging from defence cooperation to nuclear trade. The overwhelming US tilt towards India is due to rise of China as a major economic and military power which poses a potential threat to US hegemony in world politics.⁴

During the presence of the US/NATO forces in Afghanistan from 2001 to 2021, Washington's misgivings about Pakistan's role in Afghanistan and its perceived support for the Taliban and Pakistan's concerns regarding India being allowed to have increasing leverages in Afghan security and intelligence institutions caused the widening of mutual distrust. The remarks of the then Chairman of the US Joint Chiefs of Staff Admiral Michael Mullen at the peak of the US military operations in Afghanistan in September 2011 reflect the underlying tensions in the relationship:

In choosing to use export of violent extremism as an instrument of policy, the Government of Pakistan and most especially Pakistan Army and the ISI jeopardizes not only the prospect of our strategic partnership but Pakistan's opportunity to be a respected nation with legitimate regional influence.

While the US exit from, and the Taliban take-over of Afghanistan, took place following Pakistan's supportive role in Doha peace process, the withdrawal of the US and NATO forces and particularly messy images of evacuation of expatriates and Afghans going to the US public and media in real time became embarrassing for Washington and its NATO allies. Short of public criticism the policy

⁴ Dr. Syed Shahid Hussain Bukhari, Assistant Prof. Bahauddin Zakariya University, Multan, Pakistan, "Indo-US Strategic Partnership and Pakistan's Security: A theoretical Evaluation", Institute of Strategic Studies Islamabad (ISSI), May 2016, https://www.issi.org.pk/wp-content/uploads/2016/05/Dr._Syed_Shahid_Vol.35_No.3_2015.pdf

quarters in the US and its allies squarely blamed Pakistan for this fiasco⁵. However, in the past over two years Pakistan's mounting tensions with the Taliban regime in the post-US Afghanistan over the TTP issue and continuing intransigence on bringing inclusivity and respecting human rights, has served towards reducing the US-Pakistan divergences and developing understanding for a collaborative approach in the area of counter-terrorism in the coming years.

Another key factor affecting meaningful Pakistan-US engagement is the worsening political and systemic dysfunction in Pakistan. In the view of observers of Pakistan's politics, over the past 15 years the country's governance system has acquired characteristics of a 'hybrid regime'⁶ with increasing influence of military, disarray among political parties, defective electoral machinery, deviations from rule of law, judicial imprudence, increasing restrictions on civil liberties and media. The February 8 elections have produced a highly fractured mandate in an already intensely polarized political scene. Whether it is issues such as cypher controversy or the need for the US support in getting IMF programmes through, the relations with the US remain an active part of political debate in Pakistan.

While undoubtedly the US-Pakistan relations during past three decades have immensely suffered due to negative perceptions and narratives, currently there is an opportunity to resurrect the relationship in a constructive and mutually beneficial way. This is in the interest of both sides. Pakistan with its lingering uncertainties already touching the lowest ebb would need to transition to a phase of political stability and much-needed economic revival. The United States also stands to benefit from a stable Pakistan with a capacity to play an effective role in regional power balance and connectivity. This transformation will require the two countries to work together to expand the agenda of engagement which for past over two decades has remained centered on security and counter-terrorism towards the themes of trade, investment, regional connectivity and climate change. This indeed would be a harbinger of paradigm shift in the relations.

B. Prioritizing bilateral trade and investments

The economic and commercial dimensions of the relations with the US bear immense significance for Pakistan. Since independence, Pakistan's economy has been connected closely to the US and its Western allies in trade and economic interaction. While in recent years

⁵ Madiha Afzal, "An uneasy limbo for US-Pakistan relations amidst the withdrawal from Afghanistan", Brookings, August 06, 2021, <https://www.brookings.edu/articles/an-uneasy-limbo-for-us-pakistan-relations-amidst-the-withdrawal-from-afghanistan/> (Accessed on 15 February)

⁶ Ian Talbot, Chapter "Pakistan's Hybrid regime: Growing democratization on increasing authoritarianism", Book: 'Routledge Handbook of Autocratization in South Asia', 2021, <https://www.taylorfrancis.com/chapters/https://www.taylorfrancis.com/chapters/oa-edit/10.4324/9781003042211-15/pakistan-hybrid-regime-ian-talbot>

China has become Pakistan's leading trade partner, the United States continues to be the largest destination for Pakistan's exports. In 2022, in the total bilateral trade of USD 9.15 billion, Pakistan exported goods and services worth USD 6 billion to the United States⁷.

In addition, for past several decades apart from trade and investments, the US foreign assistance has continued to play a crucial role in Pakistan's economic survivability. In 1980s, Pakistan had received lavish US funding in support of the Afghan Jihad which was an important instrument of the US global strategy in combating the Soviet Union. But more recently between 2001 and 2016 (President Bush and President Obama's terms), Pakistan received the US foreign assistance amounting to USD 11 billion for economic development and humanitarian aid and USD 8 billion in security related assistance. During this period, Pakistan also separately received around USD 14.6 billion from the Pentagon as reimbursements for logistical support for the US military campaign in Afghanistan. Subsequently 2017-onwards, the inflow of the US assistance to Pakistan significantly reduced, which is reflected in broad terrorism related security-aid suspension continuing to date. However, the years 2022 and 2023 have witnessed a marginal increase in the US economic and development assistance while funds were also committed by the US Administration for relief and reconstruction of the areas affected by devastating floods in 2022⁸.

Ironically this magnitude of bilateral trade with the US does not correspond to either the potential of Pakistan's economy or that of the relationship particularly when Pakistan has extended important strategic cooperation to the US in its war against terrorism and two decades long military campaign in Afghanistan.

In comparison, in recent years many other countries such as Bangladesh, Indonesia and Vietnam with a relatively lesser profile of relations with the US than Pakistan have nurtured much stronger trade and investment partnerships with the United States. In 2022, Bangladesh's trade with the US stood at USD 14.2 billion dollars with Bangladeshi exports at USD 11.2 billion⁹. Indonesia, an Asian Muslim country of comparable size of Pakistan, in 2022 registered a trade of USD 47.5 billion including exports of over USD 35 billion to the US. During the past several years, Vietnam has been most successful in achieving growth and sustainable momentum in trade and economic interaction with the US. In 2022, Vietnam and the US trade in goods and services was worth USD 142.2 billion with

⁷ Official Website of the International Trade Administration, "Pakistan country commercial Guide", <https://www.trade.gov/country-commercial-guides/pakistan-market-overview> (accessed on 5 March 2024)

⁸ Congressional Research Service (CRS), "Pakistan and Pakistan-US relations", May 22, 2023, <https://sgp.fas.org/crs/row/R47565.pdf> (Accessed on 5 March 2024)

⁹ Office of the United States Trade Representative, "Bangladesh", <https://ustr.gov/countries-regions/south-central-asia/bangladesh#:~:text=Bangladesh%20Trade%20%26%20Investment%20Summary,up%20127%20percent%20from%202012> (Accessed on 5 March 2024)

Vietnam's export soaring upto USD 128.4 billion¹⁰.

In view of Pakistan's prevailing low volumes of trade particularly exports, the country has continued to struggle in attracting much needed Foreign Direct Investment (FDI) for providing a boost to the economy. According to the data released by the State Bank of Pakistan, in 2022 Pakistan attracted FDI flow of only USD 1.86 billion¹¹. Comparison with the same group of countries for the year 2022 shows that the FDI flows into Bangladesh were at USD 3.48 billion while Vietnam proved itself as a highly lucrative investment destination receiving an FDI of USD 17.9 billion during the same year¹².

The primary reason for stagnation of Pakistan's trade and investment linkages with the world (including with the United States) is rooted in the continuing and worsening with time domestic political turmoil and deep-rooted structural flaws in the economic and governance framework. Pakistan has been faced with chronic fiscal and monetary crises. "An economic crisis comes around every few years in Pakistan, borne out of an economy that doesn't produce enough, and spends too much, and is thus reliant on external debt"¹³. This is reflected in Pakistan's economy needing 23 IMF programmes and 11 since 1991.

The IMF's latest report released on 11 January 2024 disbursing the final tranche of USD 700 million¹⁴ to complete a USD 3 billion Stand-By Arrangement approved in July 2023 acknowledged measures of the Caretaker government for improving the fiscal performance, but categorically noted that "Despite this welcome progress the outlook is still challenging and downside risks remain exceptionally high". Even the last federal budget has failed to broaden the tax net in a 'progressive way'.

¹⁰ Office of the United States Trade Representative, "Vietnam", <https://ustr.gov/countries-regions/southeast-asia-pacific/vietnam#:~:text=Vietnam%20Trade%20%26%20Investment%20Summary&text=Exports%20were%20%2413.8%20billion%3B%20imports,up%20146%20percent%20from%202012>

¹¹ Lloyd Bank, "Pakistan: Investing in Pakistan", December 2023, <https://sgp.fas.org/crs/row/R47565.pdf> (Accessed on 5 March 2024)

¹² Statista Research Department, "Foreign direct investment inflows in Vietnam from 2013 to 2022", 7 November 2023, <https://www.statista.com/statistics/607983/vietnam-foreign-direct-investment-net-inflows/> (Accessed on 6 March 2023)

¹³ The Economic Times, "Tough love – Pak has gone to IMF for bailouts 23 times in 75 years", 26 February 2023, <https://economictimes.indiatimes.com/news/international/world-news/tough-love-pak-has-gone-to-imf-for-bailouts-23-times-in-75-years/articleshow/98247038.cms?from=mdr> (Accessed on 6 March 2024)

¹⁴ IMF Country Report No.24/17, "Pakistan-First Review Under the Stand-By Arrangement", January 2024, <https://www.imf.org/-/media/Files/Publications/CR/2024/English/1PAKEA2024001.ashx> (Accessed on 7 March 2024)

Pakistan's Tax to GDP ratio has continued to decline in recent years – from 10.3 percent in 2021¹⁵ to 5.8 percent in 2023 and averaging around 4.6 percent between 2000 and 2023¹⁶, significantly below Asia and Pacific average of 19.8 percent and the OECD average of 34.1 percent.

The State-Owned Enterprises (SOEs) have been causing substantial drain of national revenues. The country has also accumulated huge debt liabilities caused by continuing heavy borrowings for meeting balance of payments deficits as well as substantial power and infrastructure loans (including circular debts). Of the USD 128.1 billion debt in September 2023, USD 99.1 is owed by Pakistan government and SOEs. The newly elected government, already facing a charged political environment due to questions relating to the 8 th February general elections, will have to negotiate rescheduling foreign debt payments with many different stakeholders. Many business circles contend that IMF's estimate of USD 25 billion regarding Pakistan's debt service requirements for 2023-24 is on the conservative side as it does not account for the debt owed to Chinese power sector IPPs¹⁷. With Pakistan is required to pay back over USD 80 billion in the next three years in debt-servicing, the government continues to struggle whether to continue with the existing model of more borrowing to pay its liabilities or opt for re-profiling the outstanding debt to ease debt-payments in short term and focus on the much-needed economic reforms¹⁸.

Whatever approach the government chooses for macroeconomic stability, immediate focus on structural reforms is vital for prioritizing growth of business and investments in manufacturing as well as trade of goods and services. For at least a decade if not more, the impediments for business in Pakistan have increased significantly preventing Pakistan generally from increasing its exports to the world and particularly from tapping the potential of investment and trade exchanges offered by a continuing US economic boom.

At the moment, in the United States too there is a lack of clarity with regard to focusing on a substantive economic partnership with Pakistan. Ostensibly, Pakistan lacks priority in the US

¹⁵ OECD, "Revenue Statistics in Asia and the Pacific 2023 – Pakistan", 2023, <https://www.oecd.org/tax/tax-policy/revenue-statistics-asia-and-pacific-pakistan.pdf> (Accessed on 7 March 2024)

¹⁶ CEIC Data, "Pakistan Tax Revenue: % of GDP", 2000-2023 – yearly, <https://www.ceicdata.com/en/indicator/pakistan/tax-revenue--of-gdp#:~:text=Key%20information%20about%20Pakistan%20Tax,to%202023%2C%20with%202024%20observations> (Accessed on 7 March 2024)

¹⁷ Pierre Van der Eng, EastAsiaForum, "Foreign debt will be Pakistan's economic touchstone in 2024", 5 March 2024, <https://eastasiaforum.org/2024/03/05/foreign-debt-will-be-pakistans-economic-touchstone-in-2024/> (Accessed on 7 March 2024)

¹⁸ Salman Siddiqui, The Express Tribune, "Pakistan to repay foreign debt with \$ 22 billion in 12 months", 8 February 23, <https://tribune.com.pk/story/2400012/pakistan-to-repay-foreign-debt-worth-22-billion-in-12-months#> (Accessed on 7 March 2024)

decision-making following withdrawal of the US and NATO forces from Afghanistan and the China containment which, in the US perspective, requires wooing India bilaterally as well as in Quad-like fora. The prolonged Russia-Ukraine war also remains a distracting factor. So far, the Biden Administration in recent years has not shown an appetite for a broad reset in deepening engagement with Pakistan. President Joe Biden has not directly engaged with a Pakistani Prime Minister in his first term and remains content with a “modest, pragmatic relationship between the US and Pakistan, one not based in exaggerated expectations on both sides¹⁹”.

However, with the important changes in the wider regional situation, some rethinking is emerging in Washington-based analysts²⁰ in the need for a broader reset in the relations between the two countries. It is argued by many experts that the US strategic interests in a partnership with Pakistan include balancing as well as rapprochement with China, managing tensions or a hostile situation with India, combating religious extremism and terrorism especially in Pakistan-Afghanistan border region (Daesh, Al-Qaeda, TTP and other such outfits), preventing escalation/disruptions in Afghanistan and for promoting regional economic integration and connectivity between South Asia and Central Asia through Afghanistan²¹. Such a reset will become meaningful if the two countries transform the agenda of their partnership from the exclusive but narrow security-based relations to a more comprehensive interaction also including a focus on trade, investment and social exchanges. As the US is gearing towards a Presidential election in November 2024, the current phase could be used as an opportunity by both sides to undertake some groundwork on inculcating a qualitative change in the relations.

In Pakistan, the trading and business communities, including those closely engaged in commercial interaction with the United States, have continued to echo their serious concerns regarding lack of facilitative environment for promoting trade and economic interaction with the US in a meaningful manner. The members of the American Business Council and the American Business Forum – the two key platforms based in Lahore, Pakistan have been emphasizing on “changing the thought processes for engaging the US businesses for exploring Pakistan’s markets which offer substantial business prospects”.

¹⁹ Congressional Research Service (CRS), “Pakistan and Pakistan-US relations”, May 22, 2023, <https://sgp.fas.org/crs/row/R47565.pdf> (Accessed on 7 March 2024)

²⁰ Syed Mohammad Ali, Middle East Institute, “Managing US Relations with Pakistan in Uncertain Times: Opportunities and Obstacles”, December 2023, <https://www.mei.edu/publications/managing-us-relations-pakistan-uncertain-times-opportunities-and-obstacles> (Accessed on 7 March 2023)

²¹ Adam Weinstein, Quincy Institute for Responsible Statecraft, “Normalizing US-Pakistan Relations”, 31 August 2023, <https://quincyinst.org/research/normalizing-u-s-pakistan-relations/> (Accessed on 7 March 2023)

In order to promote trade and investments in realistic terms, liberalization of policies for addressing the following key impediments and concerns of the business community is of fundamental importance for enhancing the commercial interaction with the US in practical terms²²:

Ease of Doing Business: Regulatory mechanisms in Pakistan governing trade and commercial exchanges with foreign entities are excessively retrogressive and prohibitive. The companies as well as individuals involved in business transactions with Pakistan face problems in managing bank accounts and repatriation of profits as well as remittances due to tough foreign exchange regulations. Difficult procedures for sending remittances abroad are major hinderance in setting up businesses in Pakistan by many leading American companies. This aspect particularly restricts the growth and expansion of E-commerce in Pakistan. Pakistan's competitors offer higher degree of facilitation and lower regulatory controls to foreign investors and traders resulting in attracting many US firms to their countries, which otherwise would be more interested in investing in Pakistani markets from profit considerations. Many foreign investors actually face hurdles in opening and managing dollar accounts for conducting business transactions. In view of such restrictive practices, Pakistan in recent years has witnessed a unique phenomenon of disinvestment²³. It's important for Pakistan to work on improving its rank on the ease of doing business from 108 out of 190 countries to be an attractive destination for investment capital.

Increasing Cost of Doing Business: The cost of doing business in Pakistan has continued to rise in recent years making it difficult for domestic and foreign investors to undertake profitable ventures. The interest rates in Pakistan at around 19 percent are highest in the region due to which the cost of borrowing working capital becomes hard. The gas and electricity tariffs have also been increasing at a fast rate. The higher inflation rates particularly leading to especially higher prices of food items also result in declining purchasing power of then customers²⁴. Though cheaper costs of hiring labour in Pakistan can partially offset the cost of other factors, the overall increasing costs of business is regarded as a major impediment to investment climate in the country and declining production in key export sectors. The government will have to work with the private sector and relevant regulatory agencies for making Pakistan more competitive in the coming years in terms of doing business.

²² Outcome of the Round Table, BeaconHouse Center for Policy Research, "Exploring Opportunities for Increasing US-Pakistan Engagement in Trade, Economy and Investments", 4 March 2024

²³ Interview with Vaseem Anwar, President American Business Forum, Lahore, 29 February 2024

²⁴ Aamir Shafaat Khan, Dawn, "Pakistan haunted by rising cost of production", 3 July 2022, <https://www.dawn.com/news/1697918> (Accessed on 7 March 2024)

Export-Led Growth Strategy: Pakistan's existing export composition is static. Pakistan's three largest exports – textiles (mainly cotton-based), leather and rice – account for over 70 percent of Pakistan's total exports during past years and decades²⁵ with just the textiles continuing at over 60 percent of total exports²⁶. Pakistan's manufacturing and export sectors in past two or three decades have not invested in diversification of export products. Many other developing economies during this period have instituted liberal investment regimes and export-oriented focus to harness technology transfer and productivity enhancement. This is vital for transition from low value-added textile-based products to higher value-added products such as electronics, automobiles and spare parts, smartphones, ICs and chips, solar and wind energy components, batteries and a wide range of other such products. For instance, following an efficient Export Led Growth Strategy, Vietnam, regarded as a late-comer in emerging economies, in the past three decades has been able to achieve an exports to GDP ratio to exceptionally high figure of over 93 percent in 2021. In addition, in recent years such liberal strategy has also helped Vietnam in emerging as a destination to relocate production of sophisticated hi-tech items such as chips due to escalating US-China dynamics. It is important to point out that a primarily export-based strategy also leads to increase of imports in raw materials and machinery from various countries including China, the US, Japan, South Korea and Europe but in the longer-term growth of exports yields much higher commercial and development benefits for the country²⁷.

Agricultural production: The agriculture sector in Pakistan contributes to 26 percent of the GDP and caters for the livelihood of 67 percent of the total population of the country, yet agricultural yield remains low compared to contemporary international standards due to primitive cultivation methods and techniques. It is estimated that Pakistan will have to increase its food production by 40 percent

²⁵ Australian Aid & World Bank Group, "Pakistan Trade Strategy Development – Modernizing Trade in Pakistan: A Policy Roadmap", January 2020, <https://documents1.worldbank.org/curated/en/855261578376618421/pdf/Modernizing-Trade-in-Pakistan-A-Policy-Roadmap.pdf> (Accessed on 1 March 2024)

²⁶ IFC (World Bank Group), Board of Investment, "Textile (Value Addition) Sector Profile Pakistan", 2021, https://invest.gov.pk/sites/default/files/inline-files/Profile%20-%20Textile%20Sector_new.pdf?gtranslate=en#:~:text=Textile%20exports%20account%20for%20approx,new%20record%20of%20%2417.67%20billion.

²⁷ Ai Kawamura, Mitsui & Co Global Strategic Studies Institute, "Vietnam's Trade Structure and Challenges for Sustainable Growth", Monthly Report July 2023, https://www.mitsui.com/mgssi/en/report/detail/_icsFiles/afieldfile/2023/09/05/2307h_kawamura_e.pdf (Accessed on 8 March 2024)

by 2025 to achieve national food security. In addition, increasing agricultural yield and production would be crucial for producing raw material for the industry and boosting overseas trade. The agriculture sector in Pakistan has continued to suffer from a non-scientific approach and inadequate inputs including High Yield Variety seeds, chemical fertilizers, herbicides/pesticides, mechanized implements and efficient watering methods²⁸.

During the past half century while agriculture sector has been revolutionized and large-scale commercial or corporate farming is now prevalent in Europe, North America and many other parts of the world, in Pakistan farming has been predominantly in the hands of small family farmers, or operated by tenants under supervision of non-technical managers. It was reported last year that the government was planning to acquire about 100,000 acres of land in Punjab and Sindh for corporate sector farming. This measure if implemented in a transparent and objective manner can boost food processing, textile, leather and several other industrial products to significantly increase Pakistan's exports to the US as well as other countries. However, so far there are no indications about whether there is any concrete decision or plan to move forward, and if so, how transparently it would be implemented to attract genuine corporate investors²⁹.

Deepening cooperation and linkages with the US can entail huge economic benefits for Pakistan as the US is amongst the most dominant and influential agricultural producers in the world. Not only that the US in the past two centuries has modernized and revolutionized agricultural and food production/processing on scientific grounds, it has also developed sound financial models to assist farmers and strengthen their potential to export commodities and products. As a result, agriculture contributes a trillion USD to the country's GDP while it accounted for over ten percent of total US employment³⁰.

²⁸ Imtiaz Khan et al, "Pakistan journal of Biotechnology", December 2022,
<http://doi.org/10.34016/pjbt.2022.19.2.73>

²⁹ Daud Khan/Ghasharib Shoukat, The Express Tribune, "Corporate Farming in Pakistan – Opportunities and Pitfalls", 18 December 2023,
<https://tribune.com.pk/story/2450321/corporate-farming-in-pakistan-opportunities-and-pitfalls> (Accessed on 8 March 2024)

³⁰ Community West Bank, "The importance of Agriculture to the United States' Economy", 30 March 2022,
<https://www.communitywestbank.com/blog/the-importance-of-agriculture-to-the-united-states-economy.php> (Accessed on 25 March 2024)

Tourism and Aviation: In the past, Pakistan has not focused on tapping the potential of the US tourists given the fact that the US was a leading nation in terms of tourism spending. In 2022, the US tourists spent over USD 1.2 trillion on tourism. It is estimated that annually around 100 million Americans visit abroad. Although most of the Americans prefer traveling to established tourist destinations in Europe, Japan, Middle East and Southeast Asia, in the coming years Pakistan can make efforts for progressively increasing number of the US tourists to Pakistan. However, this will require measures to develop Pakistan's exclusive tourist destinations, targeting the appropriate US states for promotion of Pakistan's tourism potential and making tourism a priority sector in Pakistan's national policy-making processes³¹.

Aviation is another sector in Pakistan where growth has been limited despite immense potential in both passenger and cargo categories. Due to poor air services and airport management, the passenger airline business has remained stagnant for past many years. The state-owned Pakistan International Airlines (PIA) after incurring huge and unsustainable losses is likely to be privatized soon. In view of highly regulatory mechanisms, the new airlines are also not showing any enthusiasm for harvesting the available business on existing and new domestic or international routes. Pakistan also entails lucrative commercial returns for investments in the field of freight and cargo services within the country as well as developing air to air and air to land cargo links with the regional market, particularly Afghanistan and Central Asia. The US has a robust aviation market with a portfolio of over USD 82 billion in 2024 which is likely to grow to USD 105 billion by 2030³². The United States' technological edge and the state-of-the-art equipment and facilities being used in its aviation sector provide significant scope for investment partnerships with Pakistan in this field. However, for channeling meaningful interest and investments from the US aviation sector in the airfreight logistics business in Pakistan, the government and the relevant regulatory agencies will need to evolve a business-facilitative framework and development of required facilities for the growth of aviation industry.

IT/ITeS, Digital Economy and E-Commerce: The US is a leader in development of digital economy and fast-happening innovations in IT and its emerging fields of Artificial Intelligence (AI) and robotics. The IT sector in Pakistan has continued to make growth despite key constraints at the policy as well as operational levels. The Venture Capitals continue to seek greater protection systems for sustainable growth. The restrictive procedures for inbound and outbound remittances remains a major hinderance for fostering business environment for IT-based enterprises particularly those involved in the E-Commerce. As a result, many businesses are compelled to resort to use third

³¹ Travelperk, "100 US tourism statistics (2024 Update)", 5 December 2023, <https://www.travelperk.com/blog/us-travel-tourism-statistics/> (Accessed on 8 March 2024)

³² Modor Intelligence, "US Aviation Market Size & Share Analysis – Growth Trends and Forecasts for 2030", <https://www.mordorintelligence.com/industry-reports/us-aviation-market> (Accessed on 8 March 2024)

country approach for channeling their products and services to their intended destinations.

The lack of skill development in IT fields is also restraining Pakistan to achieve exponential growth in digitization of the economy. There remains lack of focus on concrete measures such as developing knowledge corridors with the US and other leading economies and promoting collaboration with the US universities and educational institutions particularly in IT and AI, which has the potential to be a game changer for Pakistan. Apart from boosting Pakistan's IT/ITeS business, it can also help in export of trained and internationally certified human resource to the developing countries' markets having high demands with substantial increase in the country's foreign exchange earning in the coming years. It is estimated that government support and facilitation can enhance IT/ITeS exports of Pakistan to USD 10-18 billion in next 5-6 years³³, from the current level of USD 3.5 billion³⁴. The delays in launch of an AI policy framework for the government is impeding start-ups keen to explore business in this prospective sector. To appreciate the immense margin of expansion available in the IT/ITeS sector exports, it's important to underline the quantum of growth being registered by many emerging and developing economies annually in this field, for instance, Malaysia alone recorded exports worth USD 78.9 billion in Integrated Circuits during 2022³⁵.

The Regional Connectivity Landscape: The regional connectivity offers vast opportunities for the US firms to effectively participate in the projects particularly in infrastructure and energy sectors. To stage an economic recovery after prolonged crises that resulted from first the COVID-19 pandemic and then the ensuing political instability, Pakistan will have to embark on projects in infrastructure development, power generation, agriculture and manufacturing. The possible sources for investment for these projects could be diverse such as China, the US, Middle Eastern countries (mainly Saudi Arabia, UAE, Qatar) and IFIs – the World Bank, Asian Development Bank and Asian Infrastructure Investment Bank (AIIB). Gradually in the coming years, as the efforts for normalization of Afghanistan make progress, a wider connectivity drive linking South Asia with Afghanistan and Central Asia may start gaining momentum. It would give fresh impetus to the long-pending mega trans-Afghan projects such as TAPI, CASA-1000 and Turkmenistan-Afghanistan-Pakistan (TAP) power transmission line and the comparatively more recent Trans-Afghan Railways project between Pakistan, Afghanistan and Uzbekistan.

³³ Ministry of Information Technology & Telecom, government of Pakistan, "Unlocking Pakistan IT Potential – A Roadmap for IT/ITeS Export Growth", 2023, <https://moitt.gov.pk/SiteImage/Misc/files/Roadmap%20for%20IT%20ITeS%20Growth.pdf> (Accessed on 9 March 2024)

³⁴ International Trade Administration, "Pakistan Country Commercial Guide – Computer Software Overview", 12 January 2024, <https://www.trade.gov/country-commercial-guides/pakistan-computer-software#:~:text=Between%20July%202022%20and%20March,%243.5%20billion%20in%20FY%202024> (Accessed on 9 March 2024)

³⁵ OEC, "Malaysia", 2022, <https://oec.world/en/profile/country/mys> (Accessed on 9 March 2024)

The collaboration between the US and Pakistan to move forward on the regional connectivity landscape will be mutually beneficial for both countries. It would also create a common ground for the US and China to participate in the regional economic integration and for management of differences in their respective perspectives.

C: Strengthening Cooperation on Climate Change

Climate change is one of the prospective areas of cooperation on the bilateral agenda. In recent years there has been increasing awareness about the impact of global climate change on Pakistan posing a serious challenge to social, environmental and economic development in the country, which is also causing migrations within and across national borders. The negative effects of global climate change on Pakistan are already evident in the form of growing frequency of droughts, cyclic flooding, occasional flash floods, uncertain weather behaviour, changes in agriculture patterns, reduction in fresh water supply and the loss of biodiversity³⁶.

Pakistan's share in global Green House Gas (GHG) emissions is an insignificant 0.93 percent. However, as the country embarks on economic recovery and manufacturing gets into momentum in the coming years, the country's excessive reliance of fossil fuels can cause a steep rise in the GHG emissions, if adequate measures are not instituted for moving to clean energy technologies. Pakistan's national Climate Change Policy updated in 2021 has set a cumulative ambitious conditional target of over 50 percent reduction of its projected emissions by 2030 with a 15 percent reduction from its own resources and 35 percent reduction subject to international financing. To reach the target, Pakistan will have to shift to 60 percent renewable energy and 30 percent electric vehicles by 2030 and ban coal import as well as expand nature-based solutions. The updated Nationally Determined Contributions (NDCs) envisage a broader approach to adaptation, addressing adaptation needs in several sectors and stressing the loss and damage component.³⁷

Pakistan's climate vulnerability increased following the historic floods in 2022 causing loss of 1700 lives and estimated USD 30 billion to economy and Pakistan appealed to the international community and particularly to the major donors for 'climate justice'³⁸ through financial assistance for recovery and reconstruction. While the US pledged USD 200 million in financial assistance and 500

³⁶ Ministry of Climate Change, Government of Pakistan, "National Climate Change Policy", October 2021 (Updated), <https://mocc.gov.pk/SiteImage/Policy/NCCP%20Report.pdf> (Accessed on 9 March 2024)

³⁷ UNDP Climate Promise, "Pakistan", Updated 24 November 2023, <https://climatepromise.undp.org/what-we-do/where-we-work/pakistan> (Accessed on 9 March 2024)

³⁸ Joint Press Conference by Pakistan's Foreign Minister Bilawal Bhutto Zardari and UN Secretary General Antonio Guterres, New York, 23 September 2022, <https://webtv.un.org/en/asset/k18/k180pjdz9z> (Accessed 9 March 2024)

scholarships for the students affected by the floods, most of other contributions came to Pakistan in the form of loans adding to the country's debt burden while many pledges have not yet been materialized.

Pakistan's environmental issues arise from a number of fundamental challenges requiring a comprehensive approach combining stringent domestic policies/plan of action and international cooperation. The most serious of the challenges is Pakistan's fast increasing population, which according to the 2023 Census has reached 242 million, registering an increase of 33.1 million since 2017. The unprecedented increase in the population has led to uneven demographics and constantly increasing urbanization process which is manifesting in the rise of residential dwellings, commercial plazas and industrial units without conforming to internationally acceptable environmental standards.

A major contributor to environmental degradation is air pollution which in addition to industries is caused by constantly increasing number of vehicles emitting high level of hazardous gases due to use of substandard fuels and absence of decent public transport systems. The trend of electrification of automobiles remains extremely slow and without many incentives. Rivers, wetlands, and aquifers in Pakistan are also heavily polluted receiving untreated sewage and industrial effluent. The poor environmental conditions create multiple public health hazards.

The climate experts further project that rising temperatures will add to the already growing demand for water, pushing it to a projected 60 percent increase by 2047, with the largest volumetric rise coming from agricultural water demand. It is predicted that there will be a 3°C temperature rise by 2040 and by the end of the century temperatures are predicted to rise by 5-6°C in Asia. Such an effect can cause wheat to lose 50% of its productivity. The climate's adverse impact on Pakistan is projected to escalate with forecasts suggesting that climate-related events, environmental degradation and air pollution may cause Pakistan's GDP to shrink by 18-20 percent by 2050³⁹.

The US itself has been among the countries being affected by increasing climate-related disasters. For instance, just last year the United States experienced a record 28 climate-connected disasters that each exceeded USD one billion in damage and killed nearly five hundred Americans combined.

³⁹ Juan D. Baron & Saher Asad, World Bank Blogs, "Turning Concern into Action: Understanding, Climate Change Attitudes in Pakistan", 19 December 2023, <https://blogs.worldbank.org/en/endpovertyinsouthasia/turning-concern-action-understanding-climate-change-attitudes-pakistan> (Accessed on 19 March 2024)

While the US Administration has already taken some significant measures such as passage of the landmark legislation 'Inflation Reduction Act'⁴⁰ for reducing demand of fossil fuels, the pressure from within the country is increasing for also taking matching measures to curb production of fossil fuels⁴¹.

As Pakistan-US relations transgress in the years following the US/NATO withdrawal from Afghanistan, there is immense scope for growing convergence and cooperation between the two countries in mitigating the impact of climate change which also remains at the center of foreign and domestic policies in the US. The US Administration has a 'bold vision for tackling climate crisis' towards building clean energy economy. It entails that by 2030, the US would reduce emissions by 50-52 percent compared to 2005 levels, reaching 100 percent carbon-free electricity by 2035 and achieving a net-zero emissions economy by 2050. Towards achieving these targets, the US government is implementing a plan for enacting relevant legislations and investing massively in clean energy manufacturing facilities in industrial production, electric vehicles and batteries and power generation⁴².

The United States had helped Pakistan in the years following its independence in undertaking green revolution in agriculture and production of environmentally clean Hydel power for propelling industrial and economic growth. Recently, the two countries established a US-Pakistan Climate and Environment Working Group in 2021 for imparting fresh stimulus to increasing bilateral cooperation in climate mitigation and adaptation measures⁴³. The second meeting of the Working Group held in Islamabad on 16 March 2023 outlined important decisions for developing a more detailed programme of cooperation in the coming years under the 'Green Alliance Framework'. In agriculture, the two sides discussed cooperation in adopting modern farming practices and innovative seed varieties to bolster resilience against climate change.

⁴⁰ The White House, "Inflation Reduction Act Guidebook", Updated 21 September 2023, <https://www.whitehouse.gov/cleanenergy/inflation-reduction-act-guidebook/> (Accessed 23 March 2024)

⁴¹ Dan Lashof, World Resources Institute, "The US cannot be a Climate Leader and the World's Largest Oil and Gas Producer", 22 January 2024, <https://www.wri.org/insights/us-cannot-be-climate-leader-and-worlds-largest-oil-and-gas-producer> (Accessed on 23 March 2024)

⁴² The White House, "President Biden's Historic Climate Agenda", 27 January 2021, <https://www.whitehouse.gov/climate/#:~:text=As%20part%20of%20that%20vision,zero%20emissions%20economy%20by%202050> (Accessed on 11 March 2024)

⁴³ US Embassy and Consulates in Pakistan, "United States and Pakistan Hold Inaugural Meeting of Climate and Environment Working Group", 21 September 2021, <https://pk.usembassy.gov/united-states-and-pakistan-hold-inaugural-meeting-of-climate-environment-working-group/> (Accessed on 11 March 2024)

In water management, both countries agreed on technical assistance in water efficiency mechanisms while the US expressed support for Pakistan's "Living Indus" initiative to restore the ecological health of Indus River basin⁴⁴.

Currently as the bilateral relationship is treading through a defining or a re-setting phase after exclusive focus on security and terrorism-related dimensions in the past four to five decades, deepening substantive cooperation in the field of climate change and cleaner environment aligns with the evolving interests of the two countries. Pakistan's efforts for revival of its economy entailing resurrection of industries and increasing development and commercial activity through growth of services and agriculture sectors are crucial in the quest of the country for achieving its deserved place in the world. The United States on the other hand is among the leaders in technology as well as the Research and Development (R&D) that plays a vital role in development. Therefore, fostering meaningful cooperation between the two countries involving interaction in the field of clean and green environment through promoting business, transfer of technology and R&D would be mutually beneficial for the two sides in steering their relations in the coming years as well as a contribution to the larger goal of mitigating global climate change.

Towards achieving this objective, both sides need to strengthen institutional basis of their cooperation in the field of climate change and environment. The bilateral Climate and Environment Working Group established in recent years provides a useful institutional platform for building tangible cooperation in relevant areas, which should be further strengthened. There exists immense potential for enhancing interaction in industry and business in a manner that supports climate friendly technologies, industrialization and power generation to meet the goals set for mitigating adverse impact of climate change.

⁴⁴ US Embassy and Consulates in Pakistan, "Joint Statement on US-Pakistan Climate and Environment Working Group", 16 March 2023,

<https://pk.usembassy.gov/joint-statement-on-u-s-pakistan-climate-and-environment-working-group/#:~:text=On%20March%2016%2C%202023%2C%20the,Environment%20Working%20Group%20in%20Islamabad> (Accessed on 18 March 2024)

Conclusion

Since Pakistan's independence, relations with the US have been through many varying phases. These include US assistance to Pakistan in institution building and academic and scientific linkages strengthening Pakistan's capacity for survival and sustenance in the initial decades to the relationship becoming mainly focused on helping the US missions in Afghanistan during Soviet era or the presence of the US and NATO military forces in Afghanistan from 2001 to 2021. Pakistan's internal political instability especially the civil- military dis-equilibrium has also been among the impediments to the growth of relations in social and economic fields conforming to the potential of the two countries. In the present scenario marked by increasing polarization at the global and regional level, there is an opportunity as well as a pressing need for Pakistan and the US to strengthen bilateral relations for pursuing durable peace and stability in the region. This requires deepening regular institutional engagement in areas of mutual interest particularly in sectors such as economy, trade, education, health, science and technology, Information technology, climate change etc. The two sides are seemingly emitting signals of realization of this need and engage constructively to re-organize and re-craft the relationship towards an agenda of trade, investment and climate change for promoting socio-economic development and mutual harmony. Practical steps, however, will be needed by both sides for laying a strong institutional foundation in the relationship in the coming years.

Recommendations

1. Pakistan on its part first of all needs to focus on creating a friendly and facilitative environment for business. It is vital that the restrictive practices in the name of regulatory control as well as excessive powers of trade, commerce and investment related authorities to impose undue checks on business activities/organizations may be addressed on priority basis.
2. Proactive measures for facilitation must be introduced by the government in collaboration with business organizations for enhancing ease of doing business in accordance with the international standards and best practices.
3. The government's economic policies should entail concrete measures for macro- economic stability and export-led strategy with defined short, medium and long-term goals.
4. Pakistan and the US should ensure that their Trade and Investment Facilitation Agreement (TIFA) Council meeting should be held on a regular interval preferable on annual basis. To avoid the TIFA meetings from becoming mere talk shops, each meeting should take stock of the progress on decisions taken in the previous meetings and identify ways to make necessary adjustments in the future course. In this way, a matrix of cooperation/exchanges should be developed showing linkages with the output.
5. Pakistan and the US may commence active cooperation in agriculture sector either by establishing a separate working group or as a part of the TIFA council. The focus should be on modernizing agricultural methods and tools in Pakistan in the light of the US experiences. Pakistan may explore special facilitation for the US investors in the field of commercial and corporate farming, food processing, water usage technologies and pesticides/herbicides' management.
6. Tourism may be identified as one of the sectors for increasing economic cooperation within the TIFA framework. The two sides can look into avenues for investment in development of specialized tourist destinations and resorts and the ways for attracting foreign/US tourists to these destinations in Pakistan. This will, however, also need supportive security and safety arrangements.

7. Pakistan and the US may explore the ways for practically engaging the US aviation and logistics companies for partnering with local firms here to tap the immense potential in the field of air transport for both passenger and cargo traffics. As the region in the coming years is likely to open up in South Asia-Central/West Asia connectivity, immense economic opportunities are likely to arise in this area.

8. The two countries may discuss establishing framework for engagement between the IT/ITeS companies and AI ventures. Pakistan's vast youth human resource can greatly benefit from the US excellence in this field through training and capacity building programmes. The framework may also be designed to yield opportunities for Pakistan to effectively learn from the US experiences in the past decades in areas such as software parks development, improving internet access through committed bandwidth/fiber optics, advancements in generative AI and quantum computing. Focused and meaningful bilateral cooperation in the fields of IT and AI can be instrumental in assisting Pakistan staging its economic recovery in the short and medium term.

9. Pakistan and the US may consider establishing a group for fostering cooperation in regional connectivity. The group may provide opportunity for the two sides to maintain close engagement on efforts for promoting harmony and stability in the region, inclusive participation of all interested countries including the US in projects particularly in the areas of infrastructure and power generation and transmission networks. The deliberations should also aim at reducing tensions due to clashing perspectives of global and regional powers or regional peace, stability and connectivity.

10. The Pakistan-US Climate and Environment Working Group needs to meet more regularly preferably on an annual basis. More importantly, the group should evolve a more proactive agenda identifying practical.

11. While the short-term focus in the past two years has been on the US assistance for areas affected by 2022 floods, it is imperative to broaden the focus of bilateral cooperation on initiatives for reducing GHG emissions, technology transfer of environmentally clean technologies, combating solid waste, land, air and water-based pollution in a sustainable manner.

12. Either within the scope of Climate and Environment Working Group or through TIFA Council, Pakistan and the US may work on investment by the US firms in electrification technologies particularly production of electric vehicles, batteries and other associated parts. Pakistan on its part should ensure a liberal and facilitative policy framework for attracting investors in this field.

13. Both in the areas of trade and investments and climate and environment, priority has to be attached to training and capacity building as well as collaboration in Research and Development (R&D). Linkages between Universities and relevant institutions should be strengthened and possibility of increase in scholarships for Pakistani students in the US universities in these fields would constitute formidable steps.



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