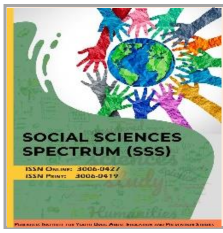

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Pak–US Economic Relations: Evolution and Sectoral Impacts on Pakistan's Economy

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Abstract

The research looks into the changing economic relations between Pakistan and the United States (US), which has been influenced by the geopolitical scenario, security measures, and aid. It points out the role of the economy in bilateral relations, notwithstanding the political ties, where the areas of trade, foreign aid, foreign direct investment, and the role of international financial institutions are highlighted. The study indicates that the US economic presence has brought about short-term growth, department development, and skill enhancement, especially when the countries were going through their strategic phases together. On the other hand, it has also pointed out some restrictions like inconsistency in support, unbalanced trade, and no significant change in the industry over the long haul. The conclusion arrived at is that a new kind of economic cooperation based on trade, development, and proportional sharing of benefits is indispensable for long-term engagement that is mutually beneficial.

Keywords: Pak–US Relations, Economic Cooperation, Foreign Aid, Trade Relations, Development Assistance.

Introduction

Since its establishment in 1947, economic relations between Pakistan (Pak) and the US have been a major factor in their bilateral communication. The US was one of the first countries that entered into economic relations with Pakistan, helping it with development aid, opening its markets, and providing institutional support during the state-building process. Even though security and strategic matters have mostly overshadowed the Pak–US relations, economic cooperation has played the role of both a stabilizing factor and an effective tool of influence (Hussain, 2012).

The economic relations between the US and Pakistan have always been dependent on the geopolitical situation. Throughout the years, the US-Pakistan partnership in various forms—like during the Cold War, the Afghan jihad of the 1980s, and the post-9/11 War on Terror—have not only resulted in increased economic support but also in more favorable interactions. Conversely, differences and sanctions caused drastic reductions in aid and investment (Haqqani, 2013). The principal pattern thus formed, has been of Aid-Dependency and episodic economic relations rather than consistent development-oriented partnership.

Though there has been a great deal of scholarly work done on Pak-US security relations, the economic aspect and its long-term consequences for Pakistan's economy have been considered only to a small extent. The present study aims to fill this gap by examining the evolution, mechanisms, and economic impacts of Pak-US relations. The main goal of the research is to evaluate the extent to which trade and aid, investment, and multilateral financial involvement have affected Pakistan's economic performance and development path.

Historical Evolution of Pak–US Economic Relations

Early Engagement and Cold War Period (1947–1971): In the initial years following independence, Pakistan picked US-led Western bloc as its partner, joining security pacts like Southeast Asia Treaty Organization (SEATO) and Central Treaty Organization (CENTO) in the process. Pakistan's political stability and economic capacity were among the major considerations of the US, which henceforth accorded Pakistan very high priority through substantial economic and military assistance (Sattar, 2017). US aid in this period was primarily directed towards infrastructure development, agriculture, and institutional capacity-building. Among the programs that aided agricultural productivity and food security were PL-480 food aid and technical assistance initiatives which were particularly during the early development plans of Pakistan (Burki, 2011). However, the very nature of economic cooperation being highly aid-driven, there were no incentives for domestic industrial diversification.

Sanctions and Strategic Realignment (1971–1989): The war of 1971 in the, and later the nuclear program of the Pakistan, which the US tried to deter through sanctions, led to a sharp decline in Pak-US economic relations. Politically conditioned assistance exposed Pakistan's vulnerability. The disengagement lasted until the Soviet Union invaded Afghanistan in 1979, when Pakistan's strategic importance brought about the renewal of US military and economic aid. Long-term fiscal relief was the main benefit of the US assistance but it also made Pakistan more dependent on foreign resources and less inclined to develop sustainable economic reforms.

Post-9/11 Economic Engagement (2001–2011): After the September 11 terrorist attacks, one of the most active periods in the economic partnership between Pakistan and the United States took place. Pakistan being the foremost ally in the War on Terror got huge economic assistance, debt rescheduling, and development funds. The Kerry-Lugar-Berman Act (2009) extended civilian aid focusing on education, energy, health, and governance reforms (USAID, 2010). Such actions were good for both social sector development and overall economic stability but incurred problems related to the effectiveness, transparency, and sustainability of the aid (Hanif, 2013).

Declining Engagement and Economic Reorientation (2011–Present): The economic relationship between Pakistan and the United States has been on a declining trend since 2011 and is now mostly restricted to a few areas because of shifting US regional priorities, political distrust, and Pakistan's increasing economic ties with China. Trade is still ongoing but American development aid is considerably reduced thus constraining cooperation in the economy (Fair, 2015).

Material and Methods

The present study utilizes a qualitative-dominant mixed-methods research design in order to investigate the economic relations between Pakistan and the US and their resulting effects on Pakistan's economy. As a part of the process, qualitative policy analysis is combined with the quantitative investigation of economic indicators to achieve analytical triangulation and methodological reliability (Hirose & Creswell, 2023).

The theoretical framework is based on economic interdependence theory, aid dependency theory, and political economy analysis. Economic interdependence theory presents a basis for measuring the volume of trade between the two countries, the inflow of investments and the outlet of their products, at the same time reflecting the inequalities between rich and poor nations (Keohane & Nye, 2001). Aid dependency theory is used to ascertain the long-term developmental consequences of US economic support to Pakistan, especially in regard to its impact on policy autonomy and institutional capacity (Moyo, 2009). Political economy analysis puts economic interactions into a broader context of geopolitics and strategy, and thus gives priority to security alliances, sanctions, and regional considerations as the determinants of economic collaboration (Gilpin, 2001).

The research completely depends on secondary data sources. The qualitative materials comprise bilateral agreements, government policy documents, United States Agency for International Development (USAID) reports, and peer-reviewed academic literature. On the other hand, the quantitative data are sourced from the World Bank, International Monetary Fund (IMF), United Nations Conference on Trade and Development**.**

UNCTAD, Pakistan Bureau of Statistics, and US trade and aid databases, which have all been recognized as reliable. The data are sorted and shown through tables and figures in a systematic manner. The quantitative tables provide an overview of the trends in trade volumes, foreign direct investment, aid inflows, and major macroeconomic indicators. The qualitative data are presented in the form of thematic tables that focus on policy categories and institutional arrangements and this helps to perform comparative analysis.

Results and Discussion

Results

Economic ties between Pakistan and the US have brought about positive economic changes for Pakistan in the short run that can be quantified. The United States has been a key partner in export growth which happened primarily in textiles, generating jobs and foreign exchange for the country (World Bank, 2022). Besides, US economic aid has played a major role in keeping Pakistan's economy afloat through the fiscal crises, in the country's social sectors, and in the capacity of educational and health institutions.

Table 1: *US-Pakistan Trade, Investment, and Aid (Approximate Data)*

Year	Trade (Exports + Imports, US$ Million)	Investment (US$ Million)	Economic Aid (US$ Million)	Welfare Aid (US$ Million)	Military Aid (US$ Million)
1975	350	50	200	50	100
1980	600	100	500	100	1200
1985	750	150	400	80	900
1990	900	200	350	50	700
1995	1200	250	300	40	500
2000	1500	300	350	50	450
2005	2000	400	400	60	450
2010	2500	500	500	70	1000
2015	2800	600	400	80	900
2020	3000	700	350	70	800
2025 (estimated)	3200	800	400	80	850

Source: *Developed by the author based on Ministry of Commerce Pakistan (2023), SBP (2023), UNCTAD (2022), UNIDO (2023), USAID (2023), and World Bank (2025).*

The trade interactions between the United States and Pakistan show a clear line of asymmetry and dependence. The US has been exporting more and more of its goods to Pakistan over time, with the total value going up to around $4-5 billion in the last few years. In contrast, Pakistan's exports to the US have had their ups and downs, yet still, the majority of them were textile and garment exports. The gap in trade implies that Pakistan is still in a very weak situation regarding the diversification of its exports, which again, makes it very dependent on the US market and policy changes such as trade preferences or tariff exemptions. The trade volumes between the two countries have increased, but mainly in a few sectors, which is indicative of the prevailing structural weaknesses in the export economy of Pakistan.

Over the years, US foreign direct investment (FDI) and portfolio inflows in Pakistan have been minimal and very particular about the sectors. The sectors of energy, pharmaceuticals, and small and medium enterprises (SMEs) have been the main areas of investment, which indicate investors' selection of profitability rather than the generation of widespread economic development.

The small amount of FDI that flows into the country is a clear indication of the presence of structural constraints that include complicated regulations, high taxes, and political instability. In addition, the global trend of investments shows a preference for developed markets, which further limits Pakistan’s ability to attract large amounts of US capital. This investment policy that favors a few sectors while not necessarily leading to overall economic growth, is still an issue that does not bring about the desired impact.

US companies’ foreign direct investment has brought about the change in the technological as well as in the service sector growth primarily in telecommunications and energy. Furthermore, US's leverage over international financial bodies has made it easier for Pakistan to avail itself of IMF and World Bank programs, thus avoiding the situations of balance-of-payments crises during the critical times (Riedel, 2013).

Nonetheless, the findings also point out major shortcomings. The economic uplift has been very different, mostly located in specific sectors, and heavily influenced by the standing of the countries involved in the trade. The regions have not moved much in the area of trade diversification or industrial upgrading and the aid given has not led to the flourishing of productivity and competitiveness in the export markets for the specific region.

The US financial and welfare support has historically reached its highest point during the times when the US and the Union of Soviet Socialist Republics (USSR) were getting along, e.g., during the Afghan war of the 1980s and the post-September 11 era. Recently, however, this aid has been allocated mainly to specific development programs in the areas of health, education, and renewable energy, which is a more strategic and conditional approach. On the one hand, this aid contributes to the social welfare and economic activities; on the other hand, it is still small compared to the needs of Pakistan's development and the reliance on US aid exposes the weaknesses in fiscal and development planning.

The US has also provided military assistance according to the priorities of the moment rather than according to the objectives of development. The military aid peaks in the 1980s and early 2000s corresponded to the concentration of US geopolitical interests, thus underlining the conditionality of this support. The dependence on military aid can lead to a distortion of the national budget priorities, usually to the detriment of economic or social investments in favor of defense expenditures. Moreover, the US shows influence over the internal political situation in Pakistan via military aid by reducing or suspending it from time to time.

Salim et al. (2020) conclude by saying that the US-Pakistan relations in economic and strategic terms have been a cycle that depended on the geopolitical conditions. The imbalance in trade, selective investments, conditional aids, and targeted military assistance are all signs of a relationship that is more concerned with strategic alignment than a consistent economic partnership. In order to achieve a sustainable growth, Pakistan has to resort to diversification in exports, attracting wider investments, and reduction of dependence on US aid and military assistance while simultaneously strengthening the institutions of the domestic economy.

Importance of Foreign Direct Investment

The 1997 Asian currency crisis, triggered by Thailand, which later on affected countries like Indonesia, South Korea, and Malaysia, exposed the weaknesses of financial markets in developing countries (Radelet & Sachs, 1998). Although the investments in short-term securities accelerated the crisis, the flow of foreign direct investment (FDI) was the least affected pointing to its significance for countries like Pakistan, which are dealing with the problems of limited liquidity and small financial markets (OECD, 2000; Lloyds Bank Trade, 2024).

Recently, the foreign reserves of Pakistan went below US$1.3 billion, and the short-term debt as a proportion of total debt increased from 12% to 20% (SBP, 2023). FDI which is a long-term engagement is critical along with multilateral and bilateral support (UNCTAD, 2022). FDI not only brings in capital but also technology, management skill, and market access, and it is usually preferred to invest in sectors that have comparative advantages, resulting in productivity increase, and thereby building up the confidence of the investors (Chen, 1992; Sheikh et al., 2022). Even so, Pakistan only attracted a small amount of FDI during 1997 which was mainly in the power sector, thus proving the importance of judicious sectoral allocation (Chughtai, 2014).

Private Investment of US in Pakistan: US private investments in Pakistan did not surpass the $109 million mark and prior to the sending of the 1983 OPIC mission the entire amount was mainly directed towards the oil sector and pharmaceuticals which was the only US Department of Commerce (1984) report on the subject. On the other hand, the USAID-backed Pakistan Private Sector Energy program has also been a great contributor to the country's energy sector by encouraging private investments in the renewable energy area which has already added 3,900 MW to the national grid starting from 2010 and more than US$2.3 billion as private investment was mobilized (UNIDO, 2023; USAID, 2023).

Bilateral Investment Agreements and Taxation Treaties: Pakistan boasts a total of 49 BITs (27 of which are active) and international trade pacts with nations like Malaysia and China. The country is also involved in South Asian Free Trade Area Agreement (SAFTA) and Afghanistan–Pakistan Transit Trade Agreement (APTTA) and it has made arrangements to avoid double taxation with 63 different nations. The investors still find it difficult to deal with complicated tax laws comprising 34 different taxes that they have to pay in a year (World Bank, 2020; Ministry of Commerce Pakistan, 2023).

All Three Funds under USAID's Pakistan Private Investment Initiative Making Investments: USAID, through the Pakistan Private Investment Initiative (PPII), extended an amount of rupees 15.6 billion via three funds (Abraaj Pakistan Fund, Pakistan Catalyst Fund, Boltoro Growth Fund) into SMEs, thus, supporting employment, GDP growth, and long-term development (USAID, 2023).

Net Inflow of Capital from the US: Foreign portfolio investment from the US to Pakistan has grown, yet it is still small when compared to the investments made in other developing countries (US Department of Commerce, 1984). A large chunk of the global private investment, around three-fourths, is directed to the developed markets, hence Pakistan is banking on joint ventures and technical collaboration to bring in the capital (LloydsBankTrade, 2024).

Discussion

The relationship between the US and Pakistan in terms of economic and strategy is quite complicated as it consists of a mixture of trade, investment, and aid patterns that are influenced by international interests and local economic conditions to a certain extent. The economic weakness of Pakistan which was clearly visible during the Asian financial crisis of 1997 was one of the factors that growing importance of FDI as one of the stable sources of long-term capital. Unlike investment in securities which are quite volatile, FDI guarantees not only cash but also transfers of technology, management know-how, and opening up of markets, especially in sectors where the country has comparative advantages like energy, manufacturing, and infrastructure (Chen, 1992). Despite the challenges, Pakistan has not been able to attract diversified FDI flows and thus its energy sector continues to be the main destination of FDI causing difficulties in balance of payments due to high import requirements for capital goods and limited foreign exchange earnings from exports.

Historically, US investment in Pakistan has been characterized by its modesty and a focus on specific sectors. Up to 1983, the total US private investment remained stagnant at $109 million, primarily in oil exploration and pharmaceuticals. Recently launched projects like the Pakistan Private Sector Energy project supported by USAID and the Pakistan Private Investment Initiative

(PPII) seek to create private investment opportunities in SMEs and renewable energy, thereby mobilizing billions of rupees and improving the local economic capacity. Nevertheless, the inflow of US funds is still low in comparison with other developing nations, this is due to the fact that there are regulatory issues, complicated tax regimes, and the fact that Pakistan does not compare well with its regional competitors in terms of attractiveness.

The trading activities of the two nations are characterized by a noticeable asymmetry that has been in place for quite some time, where the US exports to Pakistan are constantly rising while the latter's exports are mainly composed of textiles and other low-value items. Such a situation indicates the underlying defects in Pakistan's economy and its reliance on a few sectors for getting foreign exchange. There has always been a considerable gap, and that is where multilateral and bilateral assistance come into play, but the patterns imply a transition to concentrated welfare aid, which will cover health, education, and renewable energy as the focus of development financing will be thus drawn off from the latter areas. US military aid, equally, has been very strategically conditional and the time of its peak has coincided with the alignment of geopolitical interests, such as the Afghan war of the 1980s and operations post-9/11, thus illustrating the ascendancy of foreign policy over economic priorities.

To put it in nutshell, the US-Pakistan economic and strategic partnership is one of selective engagement where US geopolitical interests and sectoral economic gains are placed above comprehensive and well-balanced development. Pakistan's dependence on limited FDI, targeted aid and conditional military assistance is another pointer to the structural weaknesses of its trade, investment and fiscal management. To achieve sustainable economic growth and stability, Pakistan's aperture for attracting FDI inflows from diverse sources, developing its export base, and fortifying its domestic financial institutions should all intensify simultaneously with the reduction of its dependence on external aid through the alignment of foreign investment strategies with national development priorities.

Conclusion

To sum up everything, direct foreign investment, bilateral and multilateral assistances, and geopolitics are the pivotal factors that extremely affect the economic route and the strategic spot of Pakistan. The research points out that, for Pakistan, FDI is the most important factor contributing to the economic growth that can be sustained in the long term, particularly in developing countries where the financial markets are not very robust. On the one hand, FDI offers long-term capital, technology transfer, and investor confidence, while on the other, the concentration of FDI in the energy sector signifies the risks of sectoral imbalance and consequently worsening foreign exchange vulnerabilities. The US has been at times very selective but at the same time quite instrumental in incorporating Pakistan economically and strategically through trade, investment, welfare assistance, and military support which portrays the impact of foreign policy on economic flows. However, the extensive dependency on US investments and aid that are highly concentrated, along with the economic frailties of the country, highlight the pressing necessity for Pakistan to modernize its financial institutions, broaden its exports and attract more participation from the private sector.

The USA and China are among the foreign partners that Pakistan is engaging with, and from a geopolitical viewpoint, this shows the economic advantages and strategic independence that the country has to weigh. It is crucial for Pakistan to incorporate the foreign investment plans with the national development programs and at the same time, the country should utilize the strategic partnerships for achieving economic stability and sustained growth. The conclusion reached is in line with the research aims of investigating the effects of external collaboration, capital inflows, and strategic alliances on both regional and domestic economic dynamics.

Recommendations

For Pakistan to derive maximum financial benefits from the USA, it is not sufficient to merely claim their rightful share of US investments in the energy and agriculture sectors, but it should also start laying the groundwork in the high-tech, manufacturing, and service sectors. The measures like institutional transparency, tax rules simplification, and foreign investment legal protections will help in establishing an atmosphere that is welcoming to investors. The formation of public-private partnerships among SMEs could be a significant step in attracting increasing amounts of both USAID and private equity investment. Pakistan should continually advocate for the signing of bilateral investment treaties, utilize the benefits of trade agreements like TIFA, and be a participant in multilateral agreements for acquiring long-term concessional loans and grants. Besides, linking the strategic economic projects with the US development priorities such as clean energy and digital infrastructure will not only attract private funding but also support from government-backed financial resources.

Conflict of Interest

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