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Pakistan-U.S. Relations

Overview

Since 2001, U.S. policy has broadly been to assist the creation of a more stable, democratic, and prosperous Pakistan that actively combats religious militancy. Congress took keen interest in U.S. relations with Pakistan, the world's fifth most populous nation, following the 9/11 attacks, especially as related to counterterrorism and U.S. foreign assistance. Seen as key in efforts to stabilize neighboring Afghanistan, Pakistan was among the world's leading recipients of U.S. foreign aid after 9/11, but the level peaked in FY2010 and has steadily declined since, reaching a 20-year nadir under the Trump Administration.

U.S. ties with Pakistan have cooled considerably over the past decade. Washington tends to view Pakistan largely in the context of perceived U.S. interests in relations with India and Afghanistan, and the relationship has not recovered from a nadir reached in 2011, when it was revealed that Al Qaeda founder Osama bin Laden had received years of haven inside Pakistan. A decade later, Pakistan appears to have lost its status as a foreign policy priority for Washington. While the United States previously seemed to balance its relations with Pakistan and its archrival, India, it now appears to favor ties with India.

The security- and terrorism-oriented framework that dominated U.S.-Pakistan relations since 2001 is being altered by two significant shifts: increasing enmity between the United States and China, Pakistan's key ally, and U.S. military withdrawal from Afghanistan. The Biden Administration's early focus on the Quadrilateral Security Dialogue, or "Quad" (which brings together the United States, India, Japan, and Australia) and on countering China—combined with an end to the 20-year U.S. military presence in Afghanistan—leaves Pakistani leaders anxious that their country's salience to Washington will be both diminished and colored by perceptions that Islamabad has fallen into Beijing's geopolitical "camp." Still, the United States conveys that it works "closely with Pakistan on a wide array of issues ranging from Afghanistan stabilization efforts to counterterrorism to energy to trade and investment," and notes that the United States has been one of the largest sources of foreign direct investment in Pakistan and remains Pakistan's largest export market.

Pakistani leaders and many independent analysts have argued for a "reset" of bilateral ties with the Biden Administration to replace a long-dominant security orientation with more comprehensive relations. This is conceived as a focus on "geoeconomics" in which Pakistan would pursue regional integration toward the collective goal of sustainable development. Islamabad presents itself as a prospective economic partner based on development and investment, with engagement in key sectors such as IT,

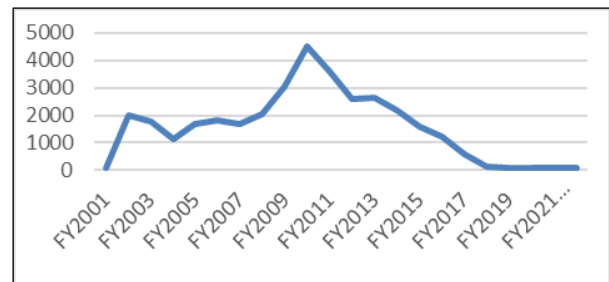
agriculture, health, energy, and climate change. To date, the Biden Administration has shown few signs that a reset is in store, and President Biden himself has yet to interact with Pakistani Prime Minister Imran Khan.

Pakistan and Afghanistan

In late 2018, President Trump requested Islamabad's assistance in facilitating U.S. talks with the Afghan Taliban, and the U.S. government credits Islamabad for this role. Yet Pakistan's alleged "double game" of simultaneously supporting U.S.-Taliban talks while continuing to provide sanctuary to Taliban elements has not ended. Pakistani leaders maintain that they do not wish to see a Taliban military victory in Afghanistan; they also seek to prevent the emergence of a pro-Indian government in Afghanistan.

Figure 1. U.S. Aid Appropriations for and Military Reimbursements to Pakistan, FY2001-FY2022

(in millions of dollars)



Source: CRS calculations based on U.S. government data.

Domestic Politics

Elections to seat Pakistan's 15th National Assembly (NA, the lower house of its bicameral legislature) and the country's four provincial assemblies took place in mid-2018, the country's second-ever democratic transfer of power. The relatively young Pakistan Tehreek-e-Insaf (PTI or Movement for Justice) party swept a large plurality of NA seats, and party founder and leader Imran Khan became prime minister. Many analysts contended that Pakistan's security services covertly manipulated the country's domestic politics to favor Khan. The PTI-led government has been criticized for unsteadiness and an inability to defy Pakistan's military or to resolve the country's fiscal crisis.

Economy and Fiscal Crisis

Pakistan remains a poor country with high rates of inflation and unemployment, and sometimes acute food, water, and energy shortages. The economy's growth has been steady in recent years (with a small contraction in 2020), but is well below that needed to keep pace with population growth. Economic growth is expected to rebound above 2% in the 2021/22 fiscal year, but is likely to be constrained by government efforts to consolidate the fiscal account.

Corruption and one of the world's lowest tax-to-GDP ratios are major obstacles to Pakistan's economic development.

The United States is Pakistan's largest export destination, while China is Pakistan's largest import partner. Trade with the United States reached a record \$6.8 billion in 2020, but overall foreign investment remains weak. Pakistan can be an attractive market due to favorable demographics, English language skills, low labor costs, and natural resources, but trade and investment barriers, as well as security concerns, limit the ability of U.S. companies to enter the market.

For several years Pakistan has teetered on the edge of debt and balance of payments crises. China, Saudi Arabia, and the United Arab Emirates have each provided multi-billion-dollar loans, but in mid-2019 the government arranged a three-year, \$6 billion bailout from the International Monetary Fund (IMF), adding to the \$5.8 billion Pakistan already owed to that body. This was Pakistan's 13th such loan in 30 years. Pakistani officials continue to seek adjustments to what they call the IMF's "tough conditions" on structural reform and expansion of the tax base.

China and CPEC

Pakistan and China have enjoyed what both call an "all-weather friendship" for more than four decades. Beijing is Pakistan's primary international benefactor and arms supplier, and Chinese investments, companies, and workers are increasingly present in Pakistan. China built a major new port at Gwadar, Pakistan, and is working to connect that to western China. These and other infrastructure and energy initiatives are part of the China-Pakistan Economic Corridor (CPEC) launched in 2014 and entailing more than \$30 billion worth of Chinese investment in Pakistan to date. This makes Pakistan the "flagship" of Beijing's expansive Belt and Road Initiative. CPEC came under criticism from the Trump Administration as being opaque, cost inefficient, and reliant on Chinese labor, and for burdening Pakistan with enormous debt.

Pakistan-India Relations

Pakistan's decades-long conflict and rivalry with India continues, with attendant international fears about the possibility of war between two nuclear-armed powers. Pakistan and India have fought four wars since 1948, three of them over Kashmir, the most recent in 1999. Bilateral engagement was largely cut off following an early 2019 terrorist attack in Pulwama, Kashmir, that India blamed on Jaish-e-Mohammed (JeM), a Pakistan-based terrorist group, and a subsequent Indian airstrike on a suspected militant camp inside Pakistan. Islamabad then strenuously objected to "unilateral" administrative changes Delhi made in Indian-held Kashmir in August 2019. Pakistan continues to highlight India's alleged repression of the Kashmir Valley's Muslim-majority, while India continues to blame Pakistan for supporting cross-border anti-India militancy.

In early 2021, the Pakistani and Indian militaries issued a surprise Joint Statement reaffirming a mutual commitment to the cease-fire agreement at the Kashmir Line of Control originally made in 2003, and agreeing "to address each other's core issues and concerns which have propensity to disturb peace and lead to violence." Despite limited signs of

rapprochement since, the potential for further conflict remains high, according to U.S. intelligence assessments.

Domestic Militancy and Terrorism Financing

Pakistan remains a haven for numerous Islamist extremist and terrorist groups, many designated as Foreign Terrorist Organizations under U.S. law. Pakistani governments have tolerated and even supported some of these as proxies in Islamabad's historical tensions and conflicts with its neighbors, according to U.S. government reporting. The United States continues to urge Pakistan to take "decisive and irreversible action" against "externally-focused militant groups and UN-designated terrorist organizations operating from its territory." Incidents of domestic terrorism are much decreased since the Pakistan Army launched major operations in 2014. However, externally-oriented terrorist groups such as Lashkar-e-Taiba and JeM continue to operate, by some accounts supported by state elements. Analysts also warn of a local resurgence of the Pakistani Taliban (aka the Tehrik-i-Taliban Pakistan), as well as new recruitment by Al Qaeda and Islamic State networks.

Terrorist financing networks in Pakistan have come under scrutiny. In mid-2018, the Paris-based Financial Action Task Force (FATF) returned Pakistan to its "Gray List" of countries found to have "strategic deficiencies" in countering money laundering and terrorist financing, where it had been from 2012 to 2015. The status blemishes the country's international financial standing. In June 2021, FATF assessed that Pakistan had met 26 of 27 "action item" conditions while leaving the country's status unchanged.

Human Rights Issues

Pakistan is the site of numerous reported human rights abuses, some of them perpetrated and/or sanctioned by the state. According to the State Department, the most serious of these problems have been extrajudicial and targeted killings, disappearances, torture, lack of rule of law, and sectarian violence. Watchdog groups often rank Pakistan among the world's most dangerous countries for both women and journalists. The State Department contends that Pakistan's constitution and other laws and policies officially restrict religious freedom and, in practice, the government enforces many of these restrictions. In 2018, the State Department downgraded Pakistan to the status of "Country of Particular Concern" under the 1998 International Religious Freedom Act.

U.S. Foreign Assistance and Security Aid Suspension

Since 2007 Congress has imposed conditions on all nonhumanitarian aid transfers, as well as military reimbursements, to Pakistan. After 2011, Congress acted to both broaden and increase the stringency of such conditions, mostly as related to Pakistan's efforts to counter militancy and extremism. From 2008 to 2016, U.S. Presidents exercised authorities to waive these conditions in the interests of national security, even as annual aid and reimbursement levels steadily declined from an FY2010 peak total of about \$4.5 billion. The Biden Administration's FY2022 budget request for assistance to Pakistan totals about \$89 million, including \$66 million for economic, development, and pandemic-related aid.

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