PAKISTAN'S GEOECONOMIC PIVOT:

STRATEGIES, OPPORTUNITIES, AND CHALLENGES

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FRIEDRICH EBERT STIFTUNG
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October 2023

Imprint

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The authors express their sincere gratitude to Ejaz Haider, Ali Zia Jaffery, and Aizaz Buledi for their invaluable contributions to research and writing. Their profound insights have played a crucial role in shaping this document.

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Printed by: FES-Pakistan

ISBN: 978-969-9675-62-1

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Introduction

On December 28, 2021, Pakistan's federal cabinet approved the country's first National Security Policy (NSP) document. The Policy addresses a broad spectrum of non-traditional and traditional security threats under the concept of "comprehensive national security." Centered on the idea that the ultimate objective of national security is to ensure the "safety, security, dignity, and prosperity"[1] of all citizens, the Policy broadens the horizon of national security – addressing a longstanding concern that Pakistan's approach has been too narrowly skewed in favor of hard security. Moving away from the conventional guns versus butter debate, the Policy highlights the need to augment economic security to achieve improved human and traditional security outcomes. In articulating economic security as a central pillar, it emphasizes the geoeconomic paradigm as one of the avenues to strengthen the country's economic muscle and supplement its efforts to address its geopolitical challenges.

This report looks at the concept of geoeconomics in Pakistan's context, the broadening of the definition of national security, and two essential factors, namely connectivity and development partnerships, that underpin the idea of geoeconomics as articulated and presented by the Policy. Taking the NSP as a mere starting point, we seek to unpack the concept to generate a nuanced discourse on geoeconomics and what it may mean for Pakistan going forward.

The report is divided into four sections. The first section deals with the concept of geoeconomics. In doing so, it refers to how the term has evolved in the West and how the NSP employs it. The second section deals with the idea of connectivity and why it is crucial in generating cross-border linkages to actualize Pakistan's geographical potential. The third section highlights the importance of development partnerships, an idea that signals an intent to move away from overwhelming dependence on foreign loans and handouts as a national survival strategy. The final section lays down recommendations for the way forward.

1. National Security Policy of Pakistan (2022-26), Government of Pakistan.

I. Unpacking Geoeconomics

The concept of geoeconomics, as envisioned in the NSP, has met with some critique. Commentaries on the document have noted that other than alluding to connectivity, which is and should be the natural consequence of Pakistan's strategic geographical location, the NSP does not offer the minutiae on how the concept of geoeconomics can be actualized and how it would intersect with geopolitics. Some have challenged the concept of geoeconomics as a substitute for Pakistan's traditional emphasis on geopolitics and raised concerns that Pakistan's internal realities and external tensions do not allow it to divert attention from hard security considerations, implying that a move towards geoeconomics may create even greater challenges for Pakistan.

It is true that the NSP falls short of crystallizing the concept of geoeconomics. However, it does clearly present geoeconomics as a supplement – not a substitute – to geopolitics and highlights the areas that must be targeted to benefit from a geoeconomic paradigm. Still, the introduction of geoeconomics in the NSP deserves greater attention because Pakistan's envisioned path diverges from the typical use of the term in Western literature. Moreover, if pursued in earnest, it would amount to a significant departure in how Pakistan perceives its own utility for the world and how it prioritizes its various foreign policy choices abroad and economic investments at home.

The Concept of Geoeconomics

The term "geoeconomics" was introduced into the lexicon of global politics in 1990 by the American author Edward Luttwak. In an article written a year before the breakup of the Soviet Union, Luttwak presented the term as an "admixture of the logic of conflict with the methods of commerce."[2] Geoeconomics was seen as an extension of geopolitics – a way to use economic means to pursue geopolitical

2. Edward N. Luttwak, "From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce," The National Interest, no. 20 (1990): 17–23.

goals. Nearly a quarter century after Luttwak argued for his neologism, Robert D. Blackwill and Jennifer M. Harris further explained the concept as the "use of economic instruments to promote and defend national interests, and to produce beneficial geopolitical results; and the effects of other nations' economic actions on a country's geopolitical goals."[3] The authors drew a distinction between geoeconomics and geopolitics — while geopolitics predicts state power with reference to a set of geographic factors, geoeconomics does the same in the context of a bevy of economic elements.

Most recently, the growing sense that neoliberal commercial relations are under strain, with states moving towards economic nationalism and bloc politics, this Western outlook on geoeconomics is gaining fresh traction. Pointing to the concerns about geoeconomic disruptions and challenges in the wake of great power competition between China and the U.S., commentators like Marc Saxer have highlighted the growing importance of geopolitical factors in investment decisions, which promises to further accentuate tensions at the world stage. As national economies and private sector enterprises face increasing pressure from the U.S. and China, "market access, infrastructure projects, trade agreements, energy supplies, and technology transfers are more and more being evaluated from a geopolitical point of view."[4] Especially in the high-tech sector, a "technology wall" is being erected, which could ultimately lead to distinct economic blocs, with serious consequences for global economic integration. At the same time, however, as developed countries seek to diversify their economic dependencies, essentially diluting China's influence over their economies, there will also be fresh opportunities for multiple developing countries to benefit from the relocation of manufacturing and services. Regardless, as Saxer says, "It is not only companies that have to rethink their business models - entire national economies need to adapt their development models in order to be able to survive in a rapidly changing global economy."[5]

3. Robert D. Blackwill and Jennifer M. Harris, "War by Other Means: Geoeconomics and Statecraft" (Cambridge, MA: Belknap Press: An Imprint of Harvard University Press, 2016).

4. Marc Saxer, "A Geoeconomic Tsunami, A geoeconomic tsunami–Economy and ecology," IPS Journal, February 27, 2023, https://www.ips-journal.eu/topics/economy-and-ecology/a-geoeconomic-tsunami-6538/.

5. Ibid.

The various conceptions of geoeconomics aside, all commentators accept the intertwined and overlapping nature of the concept with geopolitics. Pakistan's conception of how to employ geoeconomics differs in terms of the utility of geoeconomics as a competitive tool of statecraft used to exploit a country's economic leverage for geopolitical gains. In Pakistan's case, such a competitive lens would be self-defeating, given its weak economic fundamentals and the far greater ability of its adversaries to utilize their economic muscle to challenge Pakistan's moves. For Islamabad, the objective must be to use geoeconomics as a cooperative, win-win paradigm rather than a bloc-politics weapon.

As laid out in the NSP, geoeconomics is one of the tools to achieve "sustainable and inclusive economic growth… needed to expand our national resource pie. This will, in turn, allow greater availability of resources to bolster traditional and human security."[6] The focus on geoeconomics constitutes both an internal endeavor for reforms that boost economic activity and development and a reach out to other states through economic diplomacy – *in addition to* its traditional approaches that will continue to focus on political diplomacy. Pakistan's vision does not ignore the potential for geopolitical gains from a geoeconomic pivot. The intrinsic linkage with geopolitics is intact. However, it is seen primarily as a vehicle for expanding resource availability while simultaneously creating an environment where hard security challenges and requirements can be offset through an approach that ties in the positive interests of other countries with Pakistan's economic security and internal stability. This is what also provides the most viable "strategic depth" to Pakistan, a concept that has traditionally been wrongly considered as spatial.

Why Geoeconomics?: The Problem with Pakistan's Business-as-Usual Approach

Located at the crossroads of Central, South, and West Asia, Pakistan has always seen its geography as an asset and marketed it as such. Its strategically important location has unsurprisingly elicited the attention of global powers. However, the thrust of this fixation, both for Pakistani leaders and outsiders, has been driven by geopolitical

6. National Security Policy of Pakistan (2022-26).

considerations. Pakistan's security concerns vis-a-vis India, its major external security threat, led Pakistan to offer a security partnership to the U.S. during the Cold War and simultaneously solicit China's support given Beijing's own confrontational ties with New Delhi. The U.S. interest in Pakistan was driven by its own geostrategic compulsions, which had less to do with India and more to do with outcompeting the Soviet Union in South Asia. Pakistan's location was put at the forefront when the Soviet Union invaded Afghanistan in 1979. A decade-long war in which the U.S. and Pakistan worked together to train and support an Islamist resistance led to a Soviet defeat and withdrawal. Post-9/11, Pakistan again partnered with the U.S. to facilitate its military campaign in Afghanistan against Al Qaeda and the Taliban, though this time, relations remained tense, with some in the U.S. describing Pakistan as a "frenemy."[7] For Pakistan, these windows, and the partnership with the West and China in general, offered an opportunity to offset India's power differential and curtail its ability to threaten Pakistan existentially.

One often under-appreciated aspect of Pakistan's external partnerships was how deeply intertwined the country's economic model was with its geostrategic importance. Throughout history, Pakistani leaders saw the country's utility as a net security provider to the West, a strategic neighbor for China, and a partner to key Middle Eastern countries like Saudi Arabia as a means of soliciting foreign economic support. They were successful, as is evident from the handsome assistance inflows from the West and support from other partners, especially in periods of great geostrategic importance. Unfortunately, the model was structurally flawed.

First, and perhaps most damaging, this approach generated a psychological orientation towards constantly seeking assistance and successful bailouts from the West, China, and Gulf allies. It allowed Pakistani decision-makers to continue delaying the structural reforms needed to gradually wean the economy off assistance. Second, because the model was centered on external inflows driven by the security compulsions of others, external patrons were not inclined to maintain vigilance over the downstream distribution of resources. Over time, the inflows reinforced an elite capture of the Pakistani economy,

7. Ashley J. Tellis, "Managing Frenemies: What Should the United States Do About Pakistan?" Centre d'études et de recherches internationales, CERI-Sciences Po/CNRS, CERI Strategy, Paper 13, 2011.

leading to resources being channeled to unproductive sectors, massive tax evasion, and a parallel informal economy. Economic growth was generated through elite-led, import-based consumption rather than genuine productivity and export diversification. Third, while the immediate strategic importance of Pakistan's location was bound to ebb and flow, the economic model seemed to have assumed the country's permanent ability to keep extracting financial assistance. Over time, as India's strategic clout and economic might have grown, Pakistan has found its international relevance overshadowed by its eastern neighbor. Yet, the mindset that Pakistan is too big to be ignored and too useful in the security realm – and will continue to be bailed out by external patrons – has persisted.

The end result is an economy that has been caught in perpetual boom and bust cycles. Macroeconomic growth has been impressive in spurts, often coinciding with Pakistan's geostrategic importance at any given point in time, but the economy has run into recurring crises. Unsurprisingly, Pakistan has ended up knocking on the IMF's door 23 times since it first approached the Fund in 1958, receiving a positive nod every time partly because of its geostrategic relevance.[8] However, the economy has retained its structural deficiencies. Despite a reasonable average GDP growth rate of over 5 percent over the past seven decades, Pakistan is not only severely indebted, with the country's external debt and liabilities amounting to USD 124.3 billion as of June 2023,[9] but the country also ranks abysmally across virtually all benchmarks of a healthy economy and society. It is placed at 161 out of 192 countries on the Human Development Index.[10]

The weak economy and human security have naturally dented Pakistan's geopolitical clout and forced it to remain highly indebted, with its attendant effects on its ability to exercise foreign policy independently. In effect, Pakistan's use of its geostrategic relevance, with its location being a vital cog of importance, while keeping the economy afloat, has left it more vulnerable over time in terms of the maneuvering room to protect its geostrategic interests.

8. Khaleeq Kiani, "Dar Blames 'geopolitics' for Stalled IMF Loan," Dawn, June 16, 2023, https://www.dawn.com/news/1759987/.

9. State Bank of Pakistan.https://www.sbp.org.pk/ecodata/index2.asp.

10. Report 2021/2022 - Human Development Reports, https://hdr.undp.org/system/files/documents/global-report-document/hdr2021-22pdf_1.pdf.

Geoeconomics to Offset the New Geopolitics

In 2021, then-Prime Minister Imran Khan argued that Pakistan attaches great importance to geoeconomics, which is a central plank of its development policy.[11] Former Prime Minister Shahbaz Sharif has also stated that "comprehensive national security revolves around economic security and that sovereignty or dignity comes under stress without self-sufficiency and economic independence."[12] These statements across the two governments are a reflection of the realization among Pakistani policy-making circles that business-as-usual is no longer a tenable proposition for the country.

Indeed, the fact is that Pakistan's once valuable geostrategic approach has been overshadowed by unfolding events. Weak economic fundamentals have placed resource constraints across all sectors, further eroding Pakistan's power dynamics in comparison to its peers. Apart from China, most of Pakistan's traditional partners have shifted their focus towards India. This has left Pakistan with limited options for alignment, unlike the Cold War era. Furthermore, Pakistan's negative perception in the Western world hampers prospective economic endeavors involving nations and private investors.

More recently, the post-9/11 evolution of international politics has placed Pakistan in a delicate geopolitical quandary. The intensifying contestation between the U.S. and China has put multiple countries in a bind. Virtually all countries seeking to avoid a clean break from great power competition are facing a serious challenge, both qualitatively different and more difficult to handle than that of countries seeking to avoid getting caught in the superpower bloc politics during the Cold War. At the time, a group of countries, the so-called "non-aligned movement," signaled their intent to stay out of bloc politics by disengaging and opting out of active alignment politics. However, globalization and the extent of economic integration today imply that pulling back is not a viable strategy. Instead, the most successful

11. "Imran Khan's Geo-Economic Vision Making Way to Central Asia through Peaceful Afghanistan," Daily Times, August 2, 2021, https://dailytimes.com.pk/800216/imran-khans-geo-economic-vision-making-way-to-central-asia-through-peaceful-afghanistan/.

12. "Peace Non-Negotiable, Pakistan Will Adopt 'Zero Tolerance' Policy for Militants - PM Sharif," Arab News PK, January 3, 2023, https://www.arabnews.pk/node/2225941/pakistan/.

"third bloc" countries in the next phase of great power competition will almost certainly be those that are able to make an attractive case for constructive multi-alignment. Proactive economic and/or strategic integration that offers both the US and China real or perceived benefits without crossing either's red line is likely to be the most assured way for these third bloc countries to avoid becoming a casualty of twenty-first-century great power contestation. This is easier said than done. In Pakistan's case, the challenge is even starker. Not only is Pakistan contiguous to China, but it also finds itself sandwiched between three of the four principal theatres of great power competition in the world today: the Asia-Pacific, the Middle East, and Russia's Central Asian backyard down to Afghanistan (the fourth theatre being Eastern Europe).

Pakistan's geography dictates that it cannot avoid getting affected by the evolving geopolitical landscape around it. The South and Central Asian regions will remain geostrategically critical for global powers, and Pakistan's broader neighborhood could easily become one of the proxy battlegrounds for Sino-American contestation if the great power rivalry is not handled prudently by regional actors. Washington's "Indo-Pacific" Strategy is avowedly focused on countering China, and Washington is committed to bolstering New Delhi as a net security provider in the region.[13] Islamabad cannot ignore the effects of this approach. Another challenge is Pakistan's location as an Indian Ocean littoral state. The vital ocean has important strategic chokepoints and currently accounts for "one-third of the world's bulk cargo traffic and two-thirds of the world's oil shipments."[14] This places Pakistan in a critical geostrategic and geoeconomics position. Moreover, it is not lost on the West that through the China-Pakistan Economic Corridor (CPEC), Pakistan will be opening pathways for China's economic push towards West Asia, Africa, and beyond. Western watchers of China are very skeptical and apprehensive of China's ambitions in the Indian Ocean and have repeatedly raised alarm. Termed the litmus test for Chinese President Xi's Belt and Road Initiative, CPEC has already elicited formal opposition from India and created unease in some Western

13. "Indo-Pacific Strategy of The United States," The White House, February 2022, https://www.whitehouse.gov/wp-content/uploads/2022/02/U.S.-Indo-Pacific-Strategy.pdf/.

14. Darshana M. Baruah, Nitya Labh, and Jessica Greely, "Mapping the Indian Ocean Region," Carnegie Endowment for International Peace, June 15, 2023, https://carnegieendowment.org/2023/06/15/mapping-indian-ocean-region-pub-89971.

capitals. The geopolitical fault lines have impacted Pakistan, with Chinese citizens being directly targeted through terrorist attacks. In response, the government of Pakistan has recently deployed a Special Security Division for the protection of Chinese employees working on CPEC projects.[15] Indeed, as great power contestation heats up, there will be greater incentives for countries like India to undermine the Pakistan-China partnership as long as instability in Pakistan is seen as a low-cost proposition for its adversaries. Unfortunately, Pakistan's marginal presence in the global economy, its negative perception in most Western capitals, and the West's conception of India as a counterweight to China, imply that partnering with Pakistan economically or strategically is no longer a global priority.

On the other hand, Pakistan is also not in a position to align completely with China, given that Pakistan's economy is still fundamentally integrated with the West. Pakistan's "no camp" political mantra in the wake of the NSP would not have gone unnoticed in Beijing. In fact, China remains concerned that Pakistan's elite still prizes their affinity with the West over the country's partnership with Beijing and may demand greater tangible steps to prove its commitment to CPEC. There is also intense competition for influence in Central Asia between China, Russia, and the U.S. because of energy, trade, and security reasons. This is certain to affect decisions about the feasibility, pace, and routes of energy and land connectivity between the Central Asian Republics (CARs) and the Indian Ocean through Afghanistan and Pakistan.

In sum, Pakistan and the region are located at the geostrategic crossroads. For now, regional countries continue to approach interstate relations from a geostrategic lens. This means they would compete at the behest of larger powers rather than seek ways to integrate economically. These ongoing and prospective competitions not only threaten to catch Pakistan in the geopolitical crossfire but also mar the prospects of regional connectivity and integration that could offer an alternative win-win for peoples of the broader South Asian neighborhood. A more-of-the-same approach will further reinforce the curse of Pakistan's (and its neighbors') location rather than the region benefiting collectively from the opportunity it offers.

15. M Iqbal, "Pakistan Army's Commitment toward CPEC," Daily Times, November 23, 2022, https://dailytimes.com.pk/1031170/pakistan-armys-commitment-toward-cpec/.

Against this backdrop, the NSP's orientation towards proactively repositioning Pakistan with an altered balance between geopolitics and geoeconomics points to the correct realization that a passive, status quo approach is likely to be unviable. The NSP hints at a multifaceted economic and foreign policy response that seeks to turn this challenge into an opportunity. Geoeconomics is just one of the tools identified to position Pakistan in pursuit of this objective.

The geoeconomic paradigm looks to reconceptualize the utility of Pakistan's strategic location by focusing on (i) connectivity and (ii) development partnerships with the world. To achieve this, Pakistan would have to act as the trade, transit, and production hub by connecting West, Central, and South Asia and gradually move away from primarily assistance-based relationships to prioritizing trade and investment relationships with countries across geopolitical fault lines. The objective would be to create positive interdependence with a multitude of partners as well as countries that otherwise may not be strategically aligned with Islamabad, thereby raising everyone's cost of an unstable Pakistan. Policies that promote domestic and regional peace, a prerequisite for this vision to succeed, would be reinforced if partners and adversaries alike begin to extract dividends from Pakistan's geoeconomic pivot and stand to lose if Pakistan destabilizes. Prioritization of productive economic relationships would also reduce natural constraints on independent foreign policy decision-making that come with recurring needs to seek bailouts under duress. Cooperative geoeconomics would, over time, therefore, also help Pakistan ward off some geopolitical headwinds. The gains in terms of economic security could, in turn, be redistributed to human and traditional security needs, thereby ensuring enhanced spending on society and hard security while potentially reducing traditional security threats and the security dilemma that has traditionally fueled a hard-security-first approach.

A Realist Approach

To be sure, the envisioned pivot towards geoeconomics is not altruistic. Nor is it sufficient to secure the country from the reverberations of great power competition in South Asia. It is a compulsion, given the geopolitical headwinds coming the country's way. But it also amounts to one small piece of the policy puzzle Pakistani decision-makers must resolve. The framers of the NSP must be clear that this is a herculean task and unlikely to be achieved in the short to medium term. The recalibration will face multiple hurdles. The current state of the region is anything but conducive for connectivity. Afghanistan and Iran, Pakistan's two Western neighbors, are both internationally sanctioned and isolated and have a complicated relationship with Islamabad. India is the perennial adversary. China is the only immediate neighbor with which Pakistan enjoys a positive relationship. However, the closer Pakistan gets to China, the more uneasy some Western capitals will become.

In terms of development partnerships, the principal challenge lies in Pakistan's domestic economic distortions. Interdependent trade and investment partnerships require productivity, competitiveness, deep integration in the global value chain, a positive investment climate, and domestic peace and stability, none of which Pakistan can claim to have at the moment. Moreover, the envisioned direction is sure to meet resistance from vested interests at home and external actors whose geostrategic interests clash with an economically and militarily stronger Pakistan or a connected South and Central Asia. It will also require capacity building and psychological reorientation of the country's public and private sectors towards economic diplomacy and competitiveness in a largely unprotected economy.

Indeed, geoeconomics is neither the panacea for Pakistan's national problems nor an approach that offers any outright gains. And yet, the popular contention that a geoeconomic pivot is unrealistic because the context is not ripe for the move towards geoeconomics, and therefore, that Pakistan needs to put its house in order before considering the paradigm, is misplaced. This report makes the opposite case. The geoeconomic pivot, with a focus on connectivity and development partnerships at its core, as defined in the paper, is actually one of the prerequisites for Pakistan to put its house in order. It is precisely the country's weak economic fundamentals that leave Pakistan no choice but to pursue this paradigm in earnest in the hope of reversing its economic fortunes.

II. Strengthening Regional Connectivity: Options and Challenges for Pakistan

Pakistan's geoeconomic approach should be focused on creating interdependencies, solidifying economic partnerships, and bolstering regional connectivity. Connectivity could potentially offer a multiplier effect in terms of economic and strategic gains. Recognizing this, Pakistan's Vision 2025 identifies regional connectivity as one of the pillars of growth,[16] while the NSP places it at the center of Pakistan's national security vision. The NSP pins its hopes on Pakistan's location to enable the country to become a connector of regional and extra-regional economic interests. This neatly dovetails with Pakistan's bid to project itself as one of the potential hubs of trade and investment. This section looks at how the country can use its location to physically and digitally connect the region in terms of trade, transport, and transit.

Pakistan's Potential as a Connectivity Hub

South Asia's cooperative economic potential has been stymied by geopolitical exigencies. Connectivity initiatives have been seen through a competitive prism. For example, Pakistan's and China's rivals see CPEC as a strategic gambit that must be countered and undermined. Similarly, Pakistan's efforts to expand its economic footprints in the CARs have been marred not only by rising instability in Afghanistan but by Afghanistan's traditional insistence that Pakistan allow Indian goods overland access to Afghanistan. Additionally, India has systemically excluded Pakistan from its connectivity web. Western sanctions on Iran have stalled projects like the Iran-Pakistan (IP) gas pipeline. Equally, as one of the primary littoral states in the Indian Ocean Region, Pakistan occupies a central position in the evolving geopolitics there and is affected by events in the Greater Middle East.

16. Ministry of Planning, Development and Reform. Planning Commission, rep., "Pakistan 2025: One Nation – One Vision" (Govt. of Pakistan, 2014), https://www.pc.gov.pk/uploads/vision2025/Pakistan-Vision-2025.pdf/.

Contentious geopolitics in the region has forced state actors to subvert connectivity initiatives that could favor adversaries. In this game, Pakistan has been forced both to act and react through a traditional security-first approach. Resultantly, its prized location has become a bane. And yet, the benefits of regional connectivity are enormous. With more than 33 percent of people living in extreme poverty in South Asia,[17] the opportunity costs of ignoring regional connectivity are prohibitive. Besides, South Asia's colossal food security and human development challenges, as also the pressing climate challenges, cannot be mitigated without coordinated actions and responses. Indeed, connectivity is critical not only for Pakistan but the entire region. According to a report published by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), enhanced levels of regional connectivity would allow South Asia to emerge as an "important hub of trade between Europe and Central Asia, on the one hand, and South-East and East Asia, on the other, thereby contributing to broader regionalism in Asia and the Pacific."[18] With China in the north, India's large market in the east, energy and resource-rich countries in Iran and Afghanistan, and proximity to the CARs through Afghanistan, Pakistan is ideally placed to offer multidirectional connectivity if South Asia were to embody cooperative geoeconomics.

Pakistan's Neighbors

Afghanistan:

Pakistan shares a 2,620-kilometer-long border with Afghanistan. Two of Pakistan's western provinces, Balochistan and Khyber Pakhtunkhwa, border Afghanistan, adding depth to the religious, ethnic, and cultural linkages between the two countries. Bilateral issues between the two countries and continued mayhem in Afghanistan have kept both from establishing vibrant, strategic relations. Perennial instability in

17. Makena Roberts, "Efforts to Mitigate Poverty in South Asia," The Borgen Project, January 12, 2022, https://borgenproject.org/mitigate-poverty-in-south-asia/.
18. "Unlocking the Potential of Regional Economic Cooperation and Integration in South Asia Potential, Challenges and the Way Forward," United Nations Economic and Social Commission for Asia and the Pacific, September 2018, https://www.unescap.org/sites/default/files/publications/UNESCAP_RECI%20Report_0_Sep2018.pdf/.

Afghanistan has made it a fertile ground for non-state actors and proscribed organizations. Previous Afghan governments, on the other hand, blamed Pakistan for supporting the Taliban in the post-9/11 war. This destabilizing phenomenon has created misperceptions between Islamabad and Kabul. In reality, both countries' relations should have been an exemplar of economic interdependence. As a landlocked country, Afghanistan is dependent on Pakistan and Iran for access to the sea and international markets. Pakistan remains Afghanistan's most natural gateway to the world.

Both countries have signed two transit trade agreements since the establishment of mutual diplomatic relations. The Afghan Transit Trade Agreement (ATTA), signed in 1965, was upgraded and replaced by the Afghanistan-Pakistan Transit Trade Agreement (APTTA) in 2010. A new agreement is pending formalization. These agreements give Afghanistan access to Pakistani ports while allowing Pakistan access to the CARs.[19] Pakistan realizes that Afghanistan's stability is critical to enabling it to become an economic actor in Central Asia. It has sought a mutually beneficial corridor of connectivity through Afghanistan. After years of a virtual hiatus, road connectivity is now established and operational, although much more still needs to be done to make the transit process smooth and reduce the cost of doing business.

More broadly, a recent conversation about CPEC's extension to Afghanistan and China's interest in the same is highly encouraging as it will not only cement Chinese interests in Afghanistan but also create greater incentives for Afghanistan to benefit from Chinese investments and a dependable outlet for its mines and minerals. Since the transit route will pass through Pakistan, it will create precisely the kind of economic interdependence between Pakistan, Afghanistan, and China envisioned by the NSP. The incentive for the Taliban to avoid disruptions on the Pakistan-Afghanistan border will naturally increase. Moreover, the infrastructure developed due to CPEC's extension will be available to any country or private sector entity interested in investing in Afghanistan.

19. Shoaib Rahim, "Afghanistan's Dependence on Pakistan: Trade, Transit and the Cost of Being Landlocked," Kardan Journal of Economics and Management Sciences 1, no. 4 (October 2018): 1–21.

The Central Asian Republics (CARs):

The CARs are directly relevant to the conversation about connectivity through Afghanistan and important to the realization of Pakistan's geoeconomic goals. The abundance of energy resources in the Republics and their keen interest in gaining access to Pakistan's warm waters, given their landlocked geographies, make connectivity a mutually beneficial proposition. While this engagement has traditionally been marred because of instability in Afghanistan, Pakistan now has a bilateral transit trade agreement with Uzbekistan and has been negotiating similar arrangements with Kazakhstan and Tajikistan to accord the CARs' access to Pakistani ports and promise mutual trade enhancement. Successful efforts have also resulted in expanded direct air connectivity between Pakistan and the CARs. In another promising development, trucks from the CARs and Pakistan have begun to deliver consignments using the Afghanistan route under the International Road Transporters (TIR) convention. TIR operations in Central Asia are offering a one-window solution, highly beneficial to traders as it eliminates multiple intermediaries, simplifies documentation, and reduces transit time. Rail connectivity, discussed shortly, would be another game changer. Moreover, Pakistan being part of initiatives like the Economic Cooperation Organization (ECO), Shanghai Cooperation Organization (SCO), and the Central Asian Regional Cooperation (CAREC) gives it more options to strengthen its relations with the Republics.

Connectivity with the CARs also fits neatly with creating positive interdependence with both great power camps. The CARs have been included in China's BRI. As part of the BRI, "Chinese investments and contracts within the BRI in 2013-20 period were USD 755.17 billion of which USD 297 billion was in the energy sector, USD 185.34 billion in transport, and USD 73.22 billion in real estate."[20] Moreover, CARs would benefit tremendously from infrastructure development under CPEC's extension to Afghanistan, and it would tie them in with the Chinese interest of ensuring peace and seeking economic returns from Afghanistan. Like China, they are already deeply concerned about the export of terrorism from Afghanistan and share an intrinsic interest in preventing it.

20. "China Global Investment Tracker," American Enterprise Institute, https://www.aei.org/china-global-investment-tracker/.

Meanwhile, the U.S. and its Western allies should welcome the CAR's connectivity to Pakistan as a means of reducing their dependence on Russia as their only outlet to the world. Türkiye and European countries have shown eagerness to establish and streamline transportation and transit corridors with the CARs. However, the CARs need to strike a balance between reducing their dependence on Russia and ensuring that their economic and political relations with the country remain formidable. In all this, Pakistan has an opportunity. The potential solution for the CARs lies in the port city of Gwadar. Gwadar boasts a unique geographical advantage as it lies at the mouth of the Persian Gulf, just outside the strategic Strait of Hormuz. This offers Pakistan unparalleled access to the world's oceans, making it an attractive option for international shipping companies. Moreover, Gwadar links up with China's Kashgar, which shares borders with Kazakhstan, Kyrgyzstan, and Tajikistan. An integrated Kashgar could help these three Republics benefit from direct access to the Indian Ocean Region (IOR). Additionally, with Kashgar already connected to Kazakhstan's Khorgos Dry Port, the CARs could accelerate their trade in the region and beyond.[21]The deficiency here thus far has been Pakistan's inability to develop Gwadar's capacity with foresight and at a pace required to excite potential partners like the CARs.

China and the Promise of CPEC:

Pakistan fits in perfectly with China's vision of regional connectivity. China's quest to protect its energy supplies and expand trade underscores Pakistan's geographic importance. Beijing knows that the connectivity part of CPEC will greatly shorten trade routes to the Middle East, Africa, and Europe.[22]It is no coincidence that one phase of the multi-billion dollar project aims to connect Pakistan's Gwadar port with China's Xinjiang region.

Pakistan, for its part, sees CPEC as a propellant for its industrial capacity and economic revival. The project has three phases, which point to the development streams preferred by Beijing and Islamabad.

21. Muhammad Rafiq, "Quenching Central Asia's Quest for Warm Waters," Daily Times, July 4, 2021, https://dailytimes.com.pk/784696/quenching-central-asias-quest-for-warm-waters/.

22. Mari Izuyama and Masahiro Kurita, "Security in the Indian Ocean Region: Regional Responses to China's Growing Influence," The East Asian Strategic Review, 2017.

The first phase focused on energy projects and the development of the Gwadar port. The second phase aims to shore up Pakistan's industrial, agricultural, and technology sectors. The third and final phase will further spread a network of roads, pipelines, and railways, to expand regional connectivity.

Currently, CPEC is in its second phase, deemed critical for boosting Pakistan's industrial landscape through the establishment of Special Economic Zones (SEZs). Evidence from other countries, not least China, suggests that SEZs can increase production, employment, and investments. According to one study, four of the nine SEZs that are part of CPEC could create 575,000 direct and one million indirect jobs."[23] SEZs could also attract investments from the Gulf countries as well as the West depending on the incentives Pakistan is able to offer. In fact, there is no reason why Chinese investment cannot pair up with Western technologies in SEZ projects, as has been witnessed already in some existing energy projects. Similarly, in the agricultural sector, investment from China and Gulf countries could be brought together to address their common food security concerns. However, to turn these possibilities into an actual success story, Pakistan has to commit to carrying out a number of long-overdue structural reforms. Progress on the second phase is slow, and the country's energy crisis has also plagued the SEZs. There are other critical issues like the non-provision of sewerage systems and seamless water, power, and electricity supplies. Chinese officials have raised concerns about policy inconsistencies in Pakistan, which deter sustained Chinese public and private sector investments. This is a problem that Pakistan must address if it wants to leverage SEZs and other CPEC-driven initiatives for greater gains.

All said, for Pakistan, China's economic support is crucial, be it through CPEC's different phases or other Foreign Direct Investment (FDI). Beijing remains Islamabad's biggest source of FDI and creditor.[24] With China also needing Pakistan to connect it to West Asia and beyond, the degree of interdependence between the two will only

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23. "Pakistan's SEZs to Create 575,000 Employment Opportunities," Daily Times, December 16, 2022, https://dailytimes.com.pk/1039698/pakistans-sezs-to-create-575000-employment-opportunities/.

24. Salman Siddiqui, "Foreign investment contracts 29%," The Express Tribune, June 18, 2022, https://tribune.com.pk/story/2362092/foreign-investment-contracts-29/.

increase going forward. China wants to stabilize its restive Xinjiang region through economic development. Pakistan shares a border with Xinjiang and is thus in a position to help stabilize the region by precipitating economic connectivity. This will add to the strategic and economic importance of the Karakoram Highway (KKH). Therefore, the importance of CPEC in China's Western Development Strategy should not be underestimated.

India:

India, Pakistan's eastern neighbor, is a big market and the fifth-largest economy in the world. Normalized political relations in South Asia could create conditions for India and Pakistan to consolidate economic integration.[25] It would unlock the potential of the east-west axis in South Asia, leading to comprehensive regional connectivity that operates in both the east-west and north-south directions.

Mutual access to overland routes would not only improve trade relations between the two countries but also make the whole region more connected. Through overland routes, India and Pakistan will be able to connect with markets in Central Asia and East Asia. Both regions are very important for the two countries; gaining access to East Asian markets will help Pakistan diversify its exports and actualize its Vision East Asia Policy. As for India, it needs to make greater inroads in Central Asia, to get access to energy resources.[26]

Unfortunately, the promise of a connected South Asia is stalled. India's actions in Kashmir on and since August 2019 have been rejected by Pakistan, but India has refused to reverse the situation to the status quo ante. From Pakistan's perspective, the current Indian government has used anti-Pakistan posturing for domestic political gains. A conducive environment, which is imperative for establishing two-way connectivity between the countries, is therefore missing. However, the status quo in the India-Pakistan relationship creates a paradox

25. Constantino Xavier , "Sambandh as Strategy: India's New Approach to Regional Connectivity," Brookings India, https://www.brookings.edu/wp-content/uploads/2020/01/Sambandh-as-Strategy-Indias-regional-connectivity-initiative.pdf/.

26. "Peace with Pakistan will give India direct access to Central Asia: PM Khan," Business Standard, March 17, 2021, https://www.business-standard.com/article/international/peace-with-pakistan-will-give-india-direct-access-to-central-asia-pm-khan-121031700738_1.html/.

for Pakistan since maintaining it will perpetuate India's economic dominance, intensifying the existing power imbalance. This Pakistani predicament possibly explains India's lack of urgency to pursue a conciliatory path at the moment.

Iran:

Owing to historical, religious, and cultural linkages and proximity to strategic chokepoints, Iran carries a lot of value for Pakistan. The potential of connecting with Iran, however, is hobbled by U.S. and Western sanctions against Tehran. For example, U.S. sanctions have dealt a severe blow to the completion of the Iran-Pakistan gas pipeline. In fact, in March 2023, Iran informed Pakistan that in case of a termination of the agreement, Pakistan would have to pay a hefty USD 18 billion fine.[27] Though economic relations between the two countries remain meager, with a large proportion of the trade happening informally and the two sides being forced to limit initiatives to specific sectors or improvised initiatives like border markets, there is potential to revitalize them if and when sanctions are lifted, especially in the field of energy. The most recent accord of reviving diplomatic ties between Iran and Saudi Arabia leaves a glimmer of hope. Just 72 kilometers away from each other, the Gwadar and Chabahar ports have the potential to complement each other, especially as China seems poised to play a bigger strategic and mediatory role in the Middle East. China's partnership with Iran, evidenced by the 25-year Comprehensive Strategic Partnership Pact, significant investments in Iran's economy, and the recent launch of a direct shipping line in the Chabahar port, can improve trade connectivity and establish a link with BRI through Gwadar. Pervaiz Asghar, a former Pakistan Navy officer, argues that Gwadar and Chabahar can be "seamlessly interconnected with the broader regional rail network spread out across Central Asia and the Middle East, and beyond to Europe, China, and Russia," adding that "Gwadar can blend in by either linking up with Chabahar or with Kandahar via Chaman or both."[28]

27. Muhammad Faisal Kaleem, "$18b Penalty If Pakistan Terminates Iran Gas Pipeline Agreement," Daily Times, March 2, 2023, https://dailytimes.com.pk/1068278/18b-penalty-if-pakistan-terminates-iran-gas-pipeline-agreement/.

28. Pervaiz Asghar, "The Sister Ports of Gwadar and Chabahar in a Cooperative and Competitive Environment." Independently published, 2021.

Regional Connectivity Projects

Despite the preeminence of realpolitik in South Asia, the region is not devoid of efforts to develop major infrastructure linkages. Over the years, Pakistan has entered into various partnerships with a view to linking up with regional countries. Some of these multi-country megaprojects are extremely attractive not only commercially but also because their operationalization could reverse the geostrategic calculus of regional countries from competition to cooperation. While these projects are unlikely to progress until Afghanistan and Iran break out of their international isolation and will not be optimized without Pakistan and India's involvement, when they do, they will prove to be real game changers in terms of the economic and strategic future of the South and Central Asian regions. Each of these would contribute to Pakistan's vision of being the geoeconomic melting pot for its broader neighborhood.

The Trans-Afghan Railway Project:

Uzbekistan proposed and started this much-needed connectivity project, which aims to augment road connectivity and give Uzbekistan direct access to Pakistani seaports via Afghanistan. From the Afghanistan-Uzbekistan border, the railway line will extend to Mazar-e-Sharif and Kabul before entering Peshawar via Torkham. A 75-kilometer stretch that links Hairatan, an Afghan city bordering Uzbekistan, to Mazar-e-Sharif, was completed in 2011. Linking Mazar-e-Sharif to Torkham in Pakistan's Khyber District has remained elusive. However, in January 2023, Uzbekistan shared a detailed feasibility study with Pakistan, according to which a 783-kilometer-long railway track between the two locations will be laid at a cost of USD 8 billion. In December 2020, Pakistan, Uzbekistan, and Afghanistan signed a joint letter asking international agencies to finance the project.[29] While bodies like the World Bank have expressed their keenness, funding continues to remain a concern. All three countries involved in the project remain committed, however.

29. "Support Efforts to Get Loan for Railway to Uzbekistan via Afghanistan-PM Khan," Arab News, December 30, 2020, https://www.arabnews.pk/node/1785001/pakistan/.

The Turkmenistan-Afghanistan-Pakistan-India (TAPI) Gas Pipeline:

The Turkmenistan-Afghanistan-Pakistan-India (TAPI) Gas Pipeline is one of the most ambitious connectivity initiatives between Central and South Asia. Through TAPI, natural gas from Turkmenistan will be transported via a 1,800-kilometer-long route. It will pass through Afghanistan's Herat and Kandahar provinces, Pakistan's city of Multan, and end at India's city of Fazilka. Once completed, TAPI will transport 33 billion cubic meters of natural gas from Turkmenistan to Afghanistan, Pakistan, and India for 30 years.[30] A fiber optic line will run alongside TAPI from Turkmenistan to Pakistan. There are, however, two problems as far as securing the pipeline is concerned. First, because it passes through restive areas in Afghanistan, it could be susceptible to terrorist attacks. Second, hostilities between India and Pakistan resulted in the former's non-participation in the project. Thus, there are chances that TAPI could become TAP, which will take away a vital aspect of creating regional interdependence and functional ties between Pakistan and India. It is, therefore, important that all parties to the agreement work to convince India to be a part of the project.

Regardless, Pakistan must complete its portion of the pipeline while also constructively engaging with Afghanistan. Pakistan will benefit from the pipeline, receiving 13.8 billion cubic meters[31] of gas seasonally, which will help it meet its growing energy demands, in addition to earning transit fees should India remain part of the initiative.

The Central Asia-South Asia Electricity Transmission and Trade Project (CASA-1000):

The CASA-1000 is a momentous energy connectivity project that aims to facilitate the transmission of Tajikistan's and Kyrgyzstan's surplus energy production to Afghanistan and Pakistan. Kyrgyzstan's and Tajikistan's surplus energy outputs from May until September would be transmitted to Pakistan. These are peak utilization months, where

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30. Asian Development Bank, "TAPI Pipeline to Help Address Energy Shortages in Pakistan." Asian Development Bank. April 7, 2016, https://www.adb.org/news/tapi-pipeline-help-address-energy-shortages-pakistan.

31. Ibid.

the injection of 1,000 megawatts of electricity from the Republics will benefit Pakistan's industry tremendously.[32] However, as with other projects, political developments have stalled the project. As a result of the Taliban takeover in Afghanistan, the World Bank and other U.S. donors have stopped funding it.[33] Like with the other projects, if CASA-1000 is to get back on track, Western countries, not least the U.S., will have to show some flexibility towards Afghanistan and the Taliban. While this seems unlikely, the U.S. and its Western partners do stand to gain by facilitating connectivity that allows the CARs new sources of foreign exchange, thereby reducing their economic dependence on Russia.

The Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan Power Interconnection Project (TUTAP-500):

The TUTAP-500 power interconnection project aims to connect the Central Asian energy infrastructure to Afghanistan's evolving electricity grid and a further provision of re-export to Pakistan. The project has the potential to provide electricity to 10 million Afghans. A framework agreement has already been signed among Turkmenistan, Afghanistan, and Pakistan to extend the power transmission infrastructure to Pakistan.

According to a World Bank analysis, the economic benefits of improving connectivity and expanding electricity trade in the CARs could go up to USD 6.4 billion (in discounted terms) between 2020-2030 through multiple measures. Specifically, the operationalization of TUTAP and CASA-1000 could add another USD 2.6 billion to these gross benefits for increasing Central Asian trade with Afghanistan and Pakistan.[34]

32. Saleem, Ali Haider. "Central and South Asian Energy Projects." Strategic Studies 38, no. 3 (2018): 58.

33. Mushtaq Ghumman, "CASA-1000: WB, USAID withdraw funding," Business Recorder, February 20, 2023, https://www.brecorder.com/news/40227335/.

34. "Central Asia Electricity Trade Brings Economic Growth and Fosters Regional Cooperation," World Bank, October 20, 2020, https://www.worldbank.org/en/news/feature/2020/10/20/central-asia-electricity-trade-brings-economic-growth-and-fosters-regional-cooperation.

Pakistan and its Digital Connectivity Potential:

At a time when technology is shaping multiple global phenomena, the digitization of markets and economies is not only becoming impactful but also necessary. Regional cooperation on cross-border connectivity and data infrastructure, cross-border data flows, and cross-border payment systems can enable greater access to markets, improve knowledge, capital, and innovation, and help countries achieve development goals.[35] While not immune to geopolitical roadblocks, digital connectivity does have the inherent advantage of being able to overcome the physical barriers to economic engagement employed by states. Through virtual engagement, economically beneficial interaction can proceed and mature over time.

China is alive to these advantages given that it has, as part of the BRI, launched the Digital Silk Road in 2015. The Road aims to extend digital connectivity through Chinese investments in digital infrastructure abroad, including "next-generation cellular networks, fiber optic cables, and data centers."[36]

With reference to geoeconomics, the Road is important because it aims to promote e-commerce through digital free trade zones. As one of the main actors in the BRI, Pakistan could gain a lot from traversing the Digital Silk Road. Over the years, Pakistan has tried to reap benefits from China's forward-looking connectivity framework. The biggest example of this is the China-Pakistan Fiber Optic Project, which is aimed at streamlining Pakistan's internet traffic across the three routes of CPEC. One of the main objectives of the project is to become an "international gateway route for the voice/data traffic by providing connectivity between China and the Central Asian States with the Middle East, Africa, Europe and beyond, also linking neighboring countries through direct connectivity."[37] This puts

35. "South Asia's Digital Opportunity: Accelerating Growth, Transforming Lives," World Bank, March 29, 2022.

36. Clayton Cheney, "China's Digital Silk Road: Strategic Technological Competition and Exporting Political Illiberalism," Council on Foreign Relations, September 19, 2019, https://www.cfr.org/blog/chinas-digital-silk-road-strategic-technological-competition-and-exporting-political/.

37. Tahir Amin, "Rs38bn Pak-China OFC Phase II project: Delay in execution to result in escalation of cost," Business Recorder, November 9, 2021, https://www.brecorder.com/news/40132139/.

Pakistan right at the center of multidirectional digital connectivity. Former Pakistani ambassador, Ali Jehangir Siddiqui has emphasized that other than the country's current landing stations, the planned completion of the Orient Express and PEACE (Pakistan & East Africa Connecting Europe) submarine fiber-optic cables will increase digital connectivity.[38] Through enhanced cooperation on the Digital Silk Road, Pakistan can go on to provide another route to Central Asia to digitally connect with the world. Laying digital routes along with physical ones between Pakistan and the CARs will be hugely transformative. Luckily, this is already planned for TAP and CASA. Better communications in the region will make citizens more connected, not to mention the benefits of digital connectivity to security and public service delivery.

There is also great interest among some Gulf countries looking to diversify their options for digital connectivity. The Digital Cooperation Organization (DCO), for instance, was co-founded by Pakistan with a mission to accelerate the advancement of the digital economy.[39] By collaborating with the GCC nations, the organization seeks to unlock the full potential of digital technologies and create opportunities for shared growth and progress. The DCO is currently undertaking its Digital Foreign Direct Investment Initiative (DFDII), which aims to facilitate and attract FDI.

There is unquestionable potential for connectivity in the digital realm. However, even here, the region leaves much to be desired, and without a concerted effort and sustained investment from countries like China and the Gulf (and India), it is difficult to see regional countries being able to benefit from the digital ecosystem.

To sum up, it is true that South Asia's regional context and Pakistan's economic and political weakness put it at a disadvantage in pursuing regional connectivity in earnest. Still, given the broader geopolitical contours, Pakistan has no option but to continue pushing for regional

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38. Ali Jehangir Siddiqui, "Pakistan: The Next Great Infrastructure Connector," Atlantic Council, March 28, 2022, https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/pakistan-the-next-great-infrastructure-connector/.

39. "IT Ministry, DCO Agree To Enhance Cooperation In IT & Telecom Field Between Member Countries," Ministry of Information Technology & Telecommunication, November 26,2020, https://moitt.gov.pk/NewsDetail/ZGZjM2VlNmUtM2U5MC00YTk1LTkzNzItZWI3NGQxZTE0MTQ1#:~:text=The%20DCO%2C%20consisting%20of%207,from%20their%20collective%20populations %20of.

connectivity as a process. The geopolitical constraints will frustrate progress, but they also reinforce the need to find avenues to expand the connectivity net. Interdependence among economies will have to be built up gradually. However, once it starts creating genuine interests in collaboration, it will not only lead to economic gains but will inevitably help ease security dilemmas that hold back connectivity in the first place. The immediate way forward is to prioritize what might be doable and not let avenues that are closed for now undermine progress, even in areas where progress may be permissible.

III. Development Partnerships

Simply put, development partnerships refer to trade and investment-based relationships that gradually begin to reduce the primacy of foreign loans and grants as a cornerstone of Pakistan's international economic engagement. This cannot only be a long-term process as it requires downstream reforms to rid the economy of massive distortions that have prevented Pakistan from becoming globally competitive.

Pakistan's Traditional Reliance on Foreign Assistance

Most literature on foreign aid and its impact on economic development concludes that aid has a positive role in the economic growth of a country. However, the benefits of foreign inflows are short-lived if the resources are not channeled wisely. Pakistan's failure to establish a sustainable growth model presents an apt case study of the failure to do so. The country's decision-makers over decades were unable to utilize foreign aid to bring in reforms for sustainable economic growth. Instead, one could reasonably argue that foreign aid in Pakistan has served the vested interests of a small elite who have constantly found ways to prevent the required structural reforms. On the contrary, countries like South Korea, which also benefited from assistance driven by their geostrategic significance, managed to utilize these inflows to turn their country into an economic powerhouse.

Given Pakistan's earlier-described approach to geopolitics, its international economic relations have been skewed in favor of assistance rather than trade and investment. Pakistan has been a significant recipient of foreign economic assistance, starting from the 1950s when it agreed to be a part of the anti-communist bloc. Aid inflows again peaked in the 1980s and then the 2000s, first because of the Soviet Union's invasion of Afghanistan and then due to the U.S.-led War on Terror. Assistance during these periods, and otherwise, has not been limited to the U.S. Islamabad has also received handsome economic assistance from China, Gulf Countries, Japan, and Europe.

Pakistani leaders tend to celebrate these inflows as a reaffirmation of its geostrategic importance.

Aid to Pakistan has included development and commercial assistance as well as handsome amounts as military support. Although these numbers are vociferously contested, according to one estimate, between 2001-2023, Pakistan received nearly USD 17 billion from the U.S. in a mix of security and development aid, making it one of the world's highest recipients of U.S. foreign assistance.[40]

Table 1: Total Official Development Assistance received by Pakistan (1947-2020)

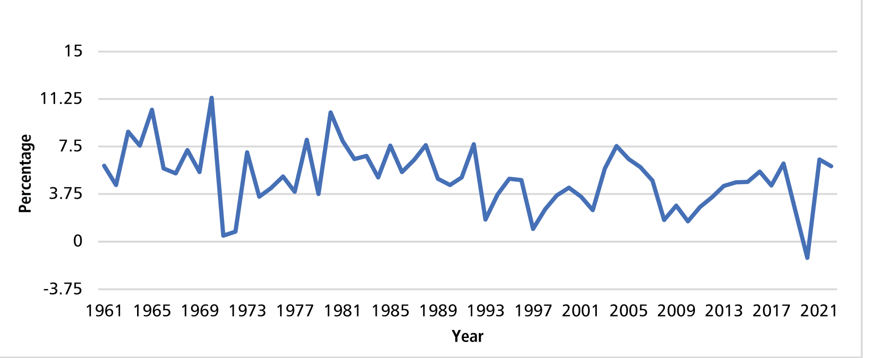
No.	Country	(USD Billion)
1	United States	36.6
2	European Union	10.9
3	Japan	5.8
4	United Kingdom	5.6
5	China	4.8
6	Saudi Arabia	3.3
7	Others	5.6

Source: OECD, "ODA Disbursements to Countries and Regions," Organisation for Economic Co-operation and Development, https://stats.oecd.org/Index.aspx?QueryId=62944#.

The concern here is certainly not Pakistan's ability to attract foreign assistance per se. Rather, it is the fact that handsome amounts of aid have not been used transparently to ensure sustainable economic growth that would allow for adequate spending on human security. The economy has suffered from regular boom and bust cycles. Figure 1 shows the highly varied GDP growth rate of Pakistan, which has resulted in frequent fiscal and current account imbalances.

40. Hussain Nadim, "In Aid, Politics and the War of Narratives in the US-Pakistan Relations: A Case Study of Kerry Lugar Berman Act," Routledge, 2023, 30.

Figure 1: Pakistan's Impressive but Erratic GDP Growth Pattern



Source: "GDP Growth (Annual %) – Pakistan." World Bank Open Data. https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=PK

Current Account Deficits (CAD) have, in particular, led the country to recurring exchange rate crises. CADs have persisted because the country's exports have remained relatively low, with little diversification in either the export basket or the trading partners. The country's exports in 1948 mainly consisted of raw materials and partly manufactured goods, including jute, cotton, wool, hides and skins, sports goods, bones, and surgical items.[41] The basket is not dissimilar today. Pakistan's top exports are textile products, cotton, leather and animal gut articles, copper, and fruits.[42] Even in terms of trading partners, the primary recipients of Pakistan's exports in 1948 were the U.S., the UK, India, Belgium, Germany, France, China, and Italy.[43] In 2021, the list remains similar, although Spain, UAE, and Afghanistan have been added as major trading partners and countries like India have dropped off the list..[44]

In contrast, imports have grown substantially. As a percentage of GDP, imports accounted for 8.6 percent in 1972; in 2021, they had gone up to 18 percent.[45] There are two unmistakable characteristics of the

41. S. M. Huda, "Pakistan's Foreign Trade," Pakistan Horizon 2, no. 3 (1949), 146.

42. Daniel Workman, "Pakistan's Top 10 Exports," Pakistan's Top Exports 2022, https://www.worldstopexports.com/pakistans-top-10-exports/.

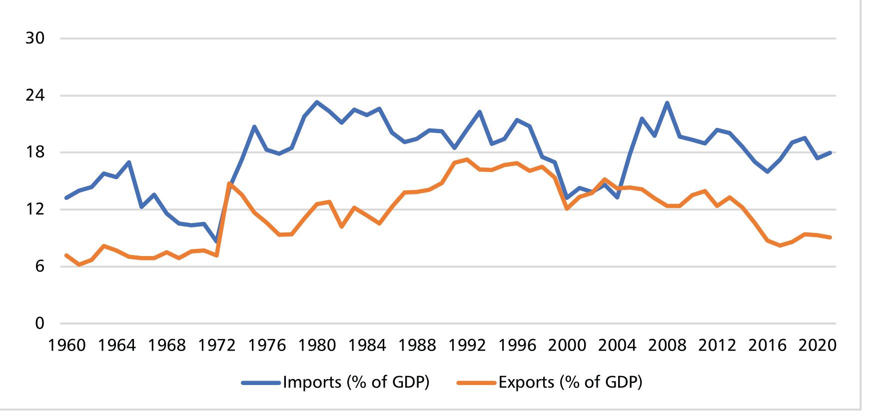
43. S. M. Huda, "Pakistan's Foreign Trade," Pakistan Horizon 2, no. 3 (1949), 150.

44. "Pakistan (PAK) Exports, Imports, and Trade Partners," Observatory of Economic Complexity (OEC), https://oec.world/en/profile/country/pak/.

45. "Imports of Goods and Services (% of GDP)," World Bank, https://data.worldbank.org/indicator/NE.IMP.GNFS.ZS?locations=PK/.

import makeup: Pakistan has hardly attempted to reduce its reliance on the items it imports through funds received as foreign assistance; secondly, a large proportion (with the exception of oil and petroleum) are items required by industry because Pakistan has not developed its own manufacturing capacity for these products, and consumer goods catering to largely the elite of the country.

Figure 2: Pakistan's International Trade



Source: "Imports (% of GDP) and Exports (% of GDP) – Pakistan." World Bank Open Data.

The economy's boom-bust cycles could have been prevented if Pakistan had undertaken reforms during periods of high foreign exchange inflows — reducing reliance on imports while expanding and diversifying the export base and developing partnerships with regional and extra-regional states. The country would have avoided the perennial problem of low foreign exchange reserves that have periodically triggered balance of payments crises. Unfortunately, the country's economic managers have failed to effectively use the cushion provided by repeated IMF support to turn the economy around sustainably. Instead, Pakistan's debt burden has continued to balloon. Today, the country's total debt and liabilities amount to USD 257.2 billion, or 89.3 percent of GDP, while the external debt and liabilities make up USD 124.3 billion.[46]

Going forward, the only sustainable way for Pakistan to tip the balance from debt to non-debt-raising sources of foreign exchange is to focus

46. State Bank of Pakistan. https://www.sbp.org.pk/ecodata/index2.asp.

on an export, FDI, and remittance-led growth model. This is where the shift towards development partnerships becomes critical. To do so, Pakistan needs to alter its orientation from political to economic diplomacy and work to shore up its exports, attract FDI for export promotion and import substitution, and target manpower export. The following discussion unpacks these options.

Prioritizing Development Partnerships

Exports:

Pakistan's export performance has been mixed over the years, with periods of growth and decline. Exports tend to be at the lower end of the value chain. The export basket relies heavily on textiles and clothing. A limited basket with low competitiveness exposes Pakistan to external fluctuations and shocks in global demand and leaves it dependent on inclusion in special development schemes like the EU's GSP-Plus. This has been a lifeline for Pakistani exports to Europe for several years but ought not to be taken for granted. Secondly, poor infrastructure, particularly in the transport and energy sectors, makes exports expensive and less competitive in international markets. Moreover, lack of access to adequate financial services hinders the ability to invest in technology, innovation, and expansion. Inefficient and inconsistent trade policies have also limited the potential for export growth and created uncertainty for businesses. Political instability in the country is yet another impediment for foreign investors to have confidence in establishing long-term business relationships in Pakistan. Pakistan also has much work to do in terms of establishing viable banking relationships and digital banking channels, evolving its policy on equity investment abroad, codifying intellectual property rights, and increasing its focus on research and development and academia-industry linkages.

Pakistan's Strategic Trade Policy Framework 2020-25 sets an export target of USD 57.03 billion by 2024-25.[47] Pakistan has the potential to increase exports further, particularly in value-added textiles, processed

47. "Strategic Trade Policy Framework (STPF) 2020-25," Trade and Development Authority of Pakistan, 2021, https://tdap.gov.pk/wp-content/uploads/2022/01/STPF-2020-25-1.pdf/.

and unprocessed food and beverages, and leather, and if done right, it could even surpass the suggested targets.[48] To do so, however, Pakistan must also strategically target new geographical markets that offer fresh opportunities. Geographies of interest include Central Asia, Africa, South America, and South East Asia.[49] Pakistan can also help China and the Middle East combat their prevailing food insecurity if it can benefit from CPEC's Phase II investment in enhancing agricultural productivity. Pakistan has started exporting meat to China and it can also export meat and related products to East and South-East Asia, particularly Japan, South Korea, Indonesia, and Malaysia, as well as to Latin American countries. The GCC countries, Europe, and the U.S. are already huge markets for Pakistani exports, especially textiles and food, but with increased value addition and rebranding, Pakistan can increase export earnings further. New openings are also possible in the services sectors, not only IT, where Pakistan has the potential to leapfrog in a short period of time, but also sectors like medical tourism. The government of Pakistan identified the potential to attract medical tourists in significant numbers from developing African and other states where healthcare is more expensive. Nonetheless, as of now, Pakistan has failed to benefit from this opportunity primarily because of a lack of awareness of Pakistan's medical facilities, inefficient banking and cash management facilities, and cumbersome travel accessibility.

Pakistan's Untapped Potential for Regional Trade:

The elephant in the room in terms of trade enhancement, once again, is Pakistan's neighborhood. No matter how promising extra-regional opportunities may be, experience from around the world has proven that they cannot substitute for the multiplier effect of intra-regional trade.

Unfortunately, South Asia remains the least integrated region in the world.[50] Intra-regional trade in South Asia is less than 5 percent, while

48. Ibid.

49. Ibid.

50. "The Potential of Intra-Regional Trade for South Asia," World Bank, May 24, 2016, https://www.worldbank.org/en/news/infographic/2016/05/24/the-potential-of-intra-regional-trade-for-south-asia/.

East Asia and Europe are at 35 percent and 60 percent respectively.[51] Even conservative estimates suggest that trade in South Asia can potentially rise from USD 23 billion to USD 67 billion if trade barriers are removed.[52] The World Bank estimates the annual trade potential between India and Pakistan to be USD 37 billion, compared to the existing volume of USD 2 billion.[53] As per the report, "85 percent of the unrealized regional potential trade for Pakistan is with India…"[54] Formal trade ties between the two are all but completely stalled at the moment, but informal trade has continued to thrive and is projected to be around USD 4.71 billion; goods are shipped through Dubai, Iran, and Afghanistan.[55]

Pakistan's trade volume with Iran is also minuscule, in this case, largely because of global sanctions on Iran. Iran exports 144MW of electricity to Pakistan, though the potential is far greater. Even in Iran's case, there is thriving informal cross-border trade in oil, gas, and consumables. Likewise, in Afghanistan, despite serious efforts to promote legal trade, informal trade remains a primary concern. The true trade potential between the two countries is projected at above USD 5 billion despite Afghanistan's economic challenges. Nonetheless, informal trade is believed to be higher than formal trade at this point. The high cost of doing business, rampant misuse of the transit trade facility offered to Afghanistan by Pakistan, and rent-seeking allow informal trade to thrive. Difficulty in the trading regime with Afghanistan means that the Pakistan-CARs trade has been severely affected as well. Pakistan's trade with the Republics was USD 1.5 billion over the last decade, whereas the potential is 15-fold greater.[56]

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51. Ibid.
52. World Bank Group, "Pakistan's Trade with South Asia Can Rise by Eight-Fold – A New World Bank Report," World Bank, December 5, 2018, https://www.worldbank.org/en/news/press-release/2018/12/05/pakistan-could-boost-trade-with-south-asia-eight-fold/.
53. Ibid.
54. World Bank Group, "Pakistan@100 Regional Connectivity," World Bank, March 2019, https://openknowledge.worldbank.org/server/api/core/bitstreams/ddb936ac-9cb0-57a9-b707-6928125662df/content/.
55. Nisha Taneja and Samridhi Bimal, "India's Informal Trade with Pakistan," Indian Council For Research on International Economic Relations, July 2016.
56. Chris Devonshire-Ellis, "Pakistan Looking for Huge Increases in Central Asian Trade," Silk Road Briefing, May 12, 2021, https://www.silkroadbriefing.com/news/2021/05/12/pakistan-looking-for-huge-increases-in-central-asian-trade/.

China stands out as the only exception where trade volumes are significant. However, even in this case, they are well below potential, and the trade balance is heavily skewed in China's favor. As with other trading partners, Pakistan exports raw or low-value-added products to China: cotton, textiles, and rice account for 80 percent of exports. On the other hand, imports by Pakistan have increased sharply relative to exports, further increasing Pakistan's dependency on China.

Table 2: Pakistan's Trade with Neighboring Countries and CARs (2022-23)

Country	Exports (USD Million)	Imports (USD Million)	Total Trade (USD Million)	Trade Balance (USD Million)
Afghanistan	968.4	893.2	1861.6	75.2
China	2614.9	11702.4	14317.3	-9087.1
India	-	276.3	276.3	-276.3
Iran	804.0	880.5	1684.5	-76.5
Kazakhstan	132.7	5.6	138.3	127.1
Kyrgyzstan	11.0	0.3	11.2	10.7
Tajikistan	23.6	1.1	24.7	22.5
Turkmenistan	2.2	6.2	8.4	-4
Uzbekistan	88.2	37.9	126.1	50.3

Source: Official Government of Pakistan (Multiple Sources)

Competitive geopolitics also lies at the heart of this abysmal regional trade performance. However, the story is incomplete without acknowledging Pakistan's inability to compete with its two largest neighbors, China and India, and at times even with the rest of the South Asian and Central Asian countries. Unless all measures – read, deep reforms – required to truly shift to an export-led growth model are implemented, the country will continue to fall further behind its peers.

Failure to Benefit from Trade Groupings and Agreements

The other binding constraint on Pakistan's ability to leapfrog in exports is its low integration with the global value chain and inability to become part of some of the most vibrant regional associations. Although Pakistan is a member of SAFTA, SCO, and ECO and enjoys friendly ties with the GCC and the EU, it is missing from powerhouses like ASEAN and groups like the Regional Comprehensive Economic Partnership, the Indian Ocean Rim Association, and BIMSTECH, among others. Often times, India's clout and active lobbying have prevented Pakistan's accession to these groups, with the result that Pakistan is unable to get preferential treatment to break through in these markets.

Likewise, in terms of bilateral FTAs, a number of issues persist. For one, governments in Pakistan lack the capacity to negotiate and implement FTAs effectively and have failed to establish coordinated mechanisms within to ensure that the private sector is able to take advantage of these arrangements. There is also a lack of transparency in the negotiations of FTAs, and it is never clear whether trade objectives are fully assessed by evaluating sectors and industries that would gain from increased market access and reduced trade barriers before deciding on these agreements. Extensive research is also needed on existing FTAs to align them to national trade objectives, including the scope of market access, tariff reduction schedules, rules of origin, investment protection provisions, intellectual property rights, and dispute settlement mechanisms. Moreover, identifying potential FTA partners based on factors like geographic proximity and economic complementarity is crucial. All this requires bureaucratic capacity to understand these complex arrangements and avoid losses to the country by prioritizing substance of the agreements over their number. Perhaps the starkest example of such incompetence has been Pakistan's track record of signing Bilateral Investment Treaties without any clear vision, ultimately incurring huge losses due to recurring legal claims.

Foreign Direct Investment:

FDI offers capital to generate positive externalities such as employment, technology transfer, managerial skills, productivity gains, research and development, and innovation in production. It also encourages domestic investors to re-invest and compete with their foreign counterparts in the country. Pakistan's FDI has a two-pronged story: one, the FDI levels have been low; two, whatever FDI Pakistan attracts is largely targeted towards consumption. Moving towards forging global development partnerships would imply a dedicated effort to attract higher amounts of FDI focused on export-led sectors. Unfortunately, there is no other way to increase export volumes considerably.

Both India and Pakistan had similar levels of FDI in 1970, but the gap has consistently widened, especially since India's economic liberalization in 1991-92. Pakistan's all-time high inflow was USD 5.59 billion in 2007,[57] while India attained its highest inflow in 2020 with USD 64.36 billion.[58] Pakistan has attracted FDI mainly from China and the West. The country receives FDI largely in the sectors of power, oil and gas, financial businesses, and communications (IT and Telecom). These sectors tend to have a high ratio of repatriation of profits. To offset that, at times of low foreign exchange reserves, Pakistan has, on numerous occasions, imposed artificial curbs on repatriation, thereby undermining the overall investment climate and deterring fresh investment. India and China, on the other hand, attract FDI primarily in the sectors of computer software and hardware, the services sector (finance, banking, insurance), automobile, trading, and construction.

Pakistan has a fairly liberal investment regime on paper. However, the country's policy inconsistencies and Pakistan's bureaucratic red tape deter investors. Bureaucrats tasked to facilitate investors tend to focus more on identifying lacunas to disqualify investors rather than encouraging them. Overlapping federal-provincial jurisdictions, cumbersome clearance and screening processes for foreign investors, weak legal regimes to protect foreign investors, frequent arbitration claims because of poorly understood and drafted investment and commercial contracts and investment concessions, failure to create constructive information sharing and feedback loops with investors to inform them of any policy or regulatory changes, and lack of proper aftercare services for investment retention, besides poor connectivity infrastructure, energy crises, an unstable security environment, and an overall negative perception in the West all exacerbate the problem.

CPEC has shifted Pakistan's focus to develop SEZs and encourage investments by providing incentives like tax rebates, infrastructure, energy, and a positive business environment. SEZs could become a forcing mechanism for reform and a potential game-changer, not only for the country's FDI and exports but also to create positive interdependence by inviting other regional and Western countries

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57. "Foreign Direct Investment, Net Inflows (BOP, Current US$) - Pakistan," World Bank Open Data, https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=PK.
58. "Foreign Direct Investment, Net Inflows (BOP, Current US$) - India," World Bank Open Data, https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=IN.

to invest. However, Pakistan still has a long way to go to create an investment climate conducive for sufficient investment, even in its SEZs.

Specifically, facilitating Western investments remains crucial for Pakistan not only due to obvious economic benefits but also to offset any Western concerns about Pakistan falling squarely in China's orbit. For Western companies to invest in Pakistan's SEZs, challenges hindering the creation of an enabling environment must be addressed. SEZs should operate independently from weak governance and general business challenges, necessitating the establishment of an efficient one-window operation or one-stop-shop (OSS). The current OSS in Pakistan faces issues pertaining to overlapping responsibilities between provincial and federal governments, lacking policy integration. Pakistan must streamline the OSS system to align with international best practices and instill confidence in potential Western investors.

Weak contract enforcement is an especially acute pain point for Western investors. This can be addressed if the jurisdiction for disputes among SEZ-related parties is granted to the newly established Commercial Courts. Moreover, the introduction of international commercial courts with robust arbitration rules for SEZs can boost the confidence of foreign investors.Reassessing these dynamics and implementing targeted reforms can improve the business environment within SEZs and make them more appealing to Western companies considering investments in Pakistan. Going even further, just like CPEC SEZs, Pakistan should consider special arrangements for Western investors and create incentives for them to use Pakistan as a reexport hub for the broader region. Pakistan recently made such a proposal to the U.S.

Remittances:

In the wake of the unproductive use of foreign assistance, limited exports, and low levels of foreign investments, remittances from overseas Pakistanis have cushioned Pakistan's foreign exchange reserves. Remittances are the second-largest source of foreign exchange earnings in Pakistan. Between 1976 and 2001, remittances accounted for a significant 5.32 percent of the country's GDP on average.[59] The number stood at 8.7 percent and 9 percent in 2020 and 2021, respectively, before dropping to 7.9 percent in 2022.[60]

Pakistan earns remittances mainly from Saudi Arabia, the United Arab Emirates, the UK, other Gulf countries (Bahrain, Qatar, Kuwait, Oman), Europe, and the U.S. Even though remittances contribute handsomely to Pakistan's economy, the full potential is yet to be realized. A majority of Pakistanis living abroad are employed as semi-skilled or unskilled workers. Most did not emigrate under any thought-out and targeted government strategy. There has been no effort to speak of to work on skilled and semi-skilled manpower export to aging markets that could fetch far greater per capita earnings and, in turn, remittances. Going forward, there is an urgent need to identify target markets, especially those with an aging population, and work to develop commensurate skill sets. There is great potential for Pakistan to send its people to countries like Kuwait, Germany, and Japan, where there is a huge demand for experts in medicine, engineering, and information technology.

Pakistan's remittances can be further increased if a market-based exchange rate could ensure the closing of the gap between formal and informal markets and further incentivize remitters to use banking channels while penalizing hundi/hawala channels strictly.[61]

Needless to say, remittances are a double-edged sword, for it implies the emigration of a large number of Pakistanis and the consequent brain drain. However, the fix lies not in artificially preventing people from emigrating – an impossible task given Pakistan's economic conditions – but in improving the education system and massive expansion in the vocational training sector to ensure an adequate supply of skilled labor to satisfy domestic demand. That said, while meeting targets for international markets, to prevent brain drain, policy measures in the short term ought to incentivize labor export in sectors where the domestic need is low or fulfilled.

59. "Personal Remittances, Received (% of GDP)," World Bank Open Data, https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS?locations=PK.

60. Ibid.

61. Khurshid Ahmed, "Statistics Reveal Pakistan Received More than 54% Remittances from Gulf Region in 2022," Arab News PK, December 23, 2022, https://www.arabnews.pk/node/2220841/pakistan/.

IV. The Way Forward

The preceding sections of this paper have explained the concept of geoeconomics and presented connectivity and development partnerships as the plinth on which to erect this edifice. But questions remain about how to overcome the impediments discussed in detail in the foregoing sections.

It must be conceded at the outset that Pakistan is not well-positioned to convert the geoeconomic vision laid out in this paper into reality in the short to medium term. Dedicated policy attention and action is needed across multiple domains to affect gradual change in the desired direction. And yet, there is no option but to begin this journey in earnest if Pakistan is to reverse its economic bind and avoid getting trapped in great power competition.

Getting the Basics Right

- The first change has to be psychological. The fact that the NSP places economic security at the heart of national security and espouses a pivot to geoeconomics confirms the recognition at the decision-making level of the need for and the utility of accepting that imperative. However, the state's commitment to the NSP across the political aisle remains unclear. The NSP was never meant to be a political document linked to any one government and came about with complete buy-in from the federal and provincial governments as well as the military leadership of the time. Decision makers over the last year have also encouragingly continued to back the broad direction of the document without mentioning it. Yet, it is important that Pakistan reaffirms its commitment to the country's move towards an economic security paradigm that prizes connectivity and development partnerships.
- Perhaps one of the biggest challenges in any major strategic policy intervention is to ensure continuity — i.e., that decision-

makers, regardless of the change of government, must stay the course. Adopting the comprehensive security paradigm in earnest would require consistent policy actions in line with the NSP's implementation plan (not available publicly) over the coming years despite inevitable resistance from status quo powers within and outside the system. Unfortunately, neither the NSP nor the National Security Committee (NSC), which was to monitor the progress of its implementation, have any constitutional standing or mandate. There is, therefore, a need to develop a political consensus on implementing the geoeconomic pivot as part of the economic security paradigm. Meanwhile, the National Security Division, as the institution responsible for coordination and monitoring the implementation of the NSP, needs to continue doing so diligently and report back to the NSC and the Prime Minister regularly. The Prime Minister's office should have a mechanism to follow up on aspects of the NSP implementation plan that hit roadblocks.

Peace as a Prerequisite

- Domestic and regional peace and stability are prerequisites for effective geoeconomics. Despite being in an extremely troubled and difficult region, Pakistani decision-makers wish for a no-conflict policy in the neighborhood. To reinforce this resolve, and without compromising on Pakistan's hard security capability and defense, efforts should be made to create positive momentum to achieve interdependence with regional economies over time, such that the cost of conflict and instability in Pakistan becomes prohibitive for countries within and outside the region. At home, the state will ensure continued zero tolerance for any form of radicalism, extremism, and terrorism.

Foreign Policy: Direction and Execution

- The foremost requirement for a successful geoeconomic pivot is an internal strategic analysis of Pakistan's international options and scenario-building to determine the pros and cons of each option. If the 'no camp politics' mantra is real, and it must be given Pakistan's strategic and economic dependence on the West and China, a coherent strategy on how to position Pakistan in terms of policy choices and how best to communicate each choice has to be developed. This is necessary to prevent repeated ad hoc, abrupt changes in foreign policy decisions that leave a sense that Pakistan continues to waver between the great power camps. The strategic direction should be clear to all internally, and individual policy decisions should all add up to promote the agreed direction – which in itself should be informed by the need to attain comprehensive national security – irrespective of changes in the government.

- Accompanying a consensus on a strategic foreign policy vision has to be a potent communication strategy aimed at the people of Pakistan, and the international community must be taken into confidence on Pakistan's vision for geoeconomics and peace, explained in the lexicon of state interests, to ensure that all important countries see genuine benefits in facilitating Pakistan's pivot. Too often, Pakistan's approach to the world is informed by our culture that prizes individual relationships, emotive affinities, and history of relations rather than how Pakistan's actions affect the other state's interests and how we may be willing to incentivize their investment in a stable Pakistan.
- Pakistan's foreign policy orientation would also have to be recalibrated in favor of economic diplomacy. The modern concept of economic diplomacy, at least in theory, promotes the idea as a cooperative, win-win for all sides. Economic diplomacy is diplomacy in the service of economics and envisages an interactive relationship between the two.

  Pakistan's outreach to the world has been geared towards political diplomacy in line with the traditional model that linked geostrategic importance to economic inflows. While issues like Kashmir must remain paramount and in no way be compromised due to the economic focus, Pakistan's diplomatic endeavors should simultaneously strive to develop and implement a well-coordinated strategy to garner support for the geoeconomic vision. There is no inherent contradiction between the two, although the manner and pace at which the pivot is implemented will be informed by the regional context at any given point in time.

- For this emphasis to be effectively operationalized, the concept of modern economic diplomacy needs to be socialized across all relevant entities within the federal and provincial governments. It has to be clearly understood that diplomacy is not any one ministry's domain but instead requires active, enhanced coordination among various stakeholders. Currently, such coordination does not exist, nor do different ministries fully appreciate their roles in furthering economic diplomacy. The desires to protect institutional turf and to operate in silos to maintain status quo privileges remain intense.

  Efficient economic diplomacy would require the federal ministries of Commerce, Finance, Informational Technology, Industries and Production, together with the Board of Investment, and the Economic Affairs Division, , among others, to work with the Foreign Office, the latter being the first among equals and acting as an umbrella to coalesce this effort. Similarly, corresponding provincial ministries of devolved subjects must be brought into the loop. The federal government needs to consider creating a special mechanism for coordination on economic diplomacy, perhaps as part of an enlarged National Economic Council or within the Prime Minister's office, to set clear goals and targets for each specific aspect of economic diplomacy and monitor progress.

Becoming the Connectivity Hub

- In terms of connectivity projects, Pakistan should prioritize those most realistic or likely to have a multiplier effect and focus on negotiating and advocating these as part of the economic diplomacy portfolio. CPEC remains a critical lifeline for Pakistan, and any hurdles in the effective implementation of phase II of the program must be removed. However, rather than constantly creating hype about CPEC as BRI's litmus test, Pakistan's effort should focus on explaining to other countries that the infrastructure developed due to CPEC is now available for anyone to utilize for investment in the SEZs or elsewhere in the country. Attractive incentives for third countries, starting with Pakistan's partners in the Gulf who have already shown interest, should be created to invest in new projects. Their presence should, in turn, be used to leverage Western partners, including the private sector, through innovative incentives that would allow them to benefit from CPEC-induced and other opportunities. This is the only way to turn Pakistan's "melting pot" approach into a reality.

- Special attention should be paid to the Gwadar port. Ensuring that projects in Gwadar do not get delayed further will require close coordination between Pakistan and China. Besides giving Beijing quicker access to the world west of Pakistan, the Gwadar port will help Pakistan offer a well-prepared transit facility right on the cusp of the Strait of Hormuz to its landlocked neighbors. However, its location has also raised concerns in the West, with some seeing it as a geostrategic rather than a commercial port. Pakistan has to ensure that the commercial intent of the venture is clear to all besides proactively creating investment opportunities and genuine stakes for Western MNCs. Pakistan should also actively seek win-win partnerships with sister ports in the region to create incentives for these countries to facilitate Gwadar's commercial success.
- In terms of other connectivity initiatives, regional energy projects may be the strongest candidates in terms of creating positive interdependence, but they are difficult to execute in the current geopolitical environment. Better rail and road connectivity between Afghanistan and Pakistan and Iran and Pakistan may be more achievable and could still help open up Central Asia and West Asia to Pakistan in the medium term. CPEC's extension to Afghanistan would also be a win-win for the three countries, and direct Chinese investment in rail and road infrastructure in Afghanistan could circumvent international financing hurdles and fast-track the process. Pakistan must also strengthen its existing border trade and transit infrastructure with all its neighbors, especially Afghanistan, to reduce the cost of doing business on the borders (and ports). Moreover, digital connectivity has multiple unexplored opportunities and could be a clear winner both in terms of doability and as a force multiplier.
- All this requires analysis and planning to identify the right opportunities. The state's economic machinery should focus on these, including downstream interventions that will improve the

ease of doing business and the investment climate. The private sector has to be an intrinsic part of these efforts; the onus will be on the public sector to facilitate rather than regulate their activities to achieve the desired goals.

- We should also be clear on what is not possible for now and accept the reality that outcomes on some fronts will remain suboptimal. For instance, India's lack of willingness and urgency to create an enabling environment desired by Pakistan all but ensures that this space is likely to remain closed. Pakistan should, therefore, prioritize the other connectivity initiatives while never losing sight of our stated desire to live as peaceful neighbors.

Focusing on Development Partnerships

- Of course, as the international marketing arm of the state, diplomacy can be only as good as the product to be marketed. In this regard, Pakistani diplomats dealing with the country's commercial ties have been in an increasingly unenviable position in recent years. Not only does the country suffer from a perception deficit, it has a very small and low value-added manufacturing sector and is only marginally integrated into global and regional supply and value chains. Pakistan's trade and investment competitiveness has declined over time, and even the ability to produce export surpluses in key export sectors is debatable. Reversing this requires an entire overhaul that focuses on productivity enhancement, efficiency, revamping tax and other incentives for producers and service providers, a move away from consumption-based imports, exhibiting fiscal discipline, securing adequate cost-effective energy supplies, upskilling the labor force to compete globally, and focusing on education, research, and emerging technologies. While working on the longer-term objective of reviving industrial production and expanding the services export sector, in the short run, Pakistan needs a targeted approach that focuses on a handful of key goods and services sectors most likely to allow the country to leapfrog. A mapping of the international market demand should be undertaken to identify the priority sectors, and a roadmap should be developed with targets set along with timelines and roles and responsibilities of various public sector stakeholders. The Strategic Trade Policy Framework offers a start in this regard. One critical task will be to prioritize relationships to open up access to lucrative regional trade and economic groupings as well as pursue more meaningful bilateral trade and investment arrangements with key countries around the world. Moreover, all energies of the state should be expended to facilitate the private sector to help achieve these targets.

- A similar approach is needed to attract FDI for export-oriented sectors and import substitution, international government-to-government and private-sector investment partnerships that enhance connectivity and tie in multiple countries in joint projects, and the relocation of targeted industries from countries like China. Moreover, the state needs to pursue training, equipping, and exporting of semi-skilled and skilled manpower to select countries with aging populations. This would help meet their demand over the coming years for skillsets Pakistan can produce with relative ease. Meanwhile, the much-touted education emergency should be declared for the next few years, and national attention be paid to revamping education to ensure a constant supply of a skilled workforce.

Ensuring the Implementation of the Vision

- A private-sector-oriented culture of measuring performance against Key Performance Indicators (KPIs) needs to be introduced for the civil bureaucracy to ensure collectively-agreed targets are pursued in earnest. This effort has been made in the past and unsurprisingly resisted by the system from within, which continues to prefer broad, activity-based performance measures rather than output and outcome-based indicators. KPIs should aim to measure outcomes, not process, and reward implementers accordingly.
- New induction processes are also required for the envisioned geoeconomic repivot. For instance, Pakistan still follows archaic recruitment processes for commercial counselors who are principally responsible for marketing Pakistan's trade and investment opportunities. While hiring from the private sector is permissible on paper, the overwhelming majority of counselors are selected from among civil servants who lack the skillset or

experience to perform these highly specialized jobs. There is a need to hire specialists, individuals or specialized companies from Pakistan or in target countries, and retain them on the basis of performance. In fact, decision-makers ought to consider privatizing the entire FDI model, whereby Pakistani or international firms would be solicited to identify and secure investment opportunities in priority sectors. In today's age, where countries must compete ferociously for trade and investment, having generalists market the country in specialized commercial fields is a failing strategy.

- Fresh training and capacity building of diplomats to orient them towards economic diplomacy is also required. This process must begin at the early stages of the civil service career and must include all officers with any possible relevance to economic diplomacy. The Foreign Service and Civil Service academies must create special modules on economic diplomacy and run them for officers from across departments to create a common lexicon and ethos in pursuit of a coherent, prioritized approach towards economic diplomacy. The National School of Public Policy should also consider making institutional coordination around economic diplomacy a key aspect of their instruction.
- To be sure, as noted above, none of what is espoused here is possible in the current environment of domestic political and economic uncertainty. Without continued political consensus on the envisioned pivot, all else is rather irrelevant. Pakistan is in dire need of political maturity that will allow for basic policy frameworks, let alone a significant move towards geoeconomics, to be operationalized. Much of what has been discussed here can only be pursued in earnest after this most fundamental condition is met.

Conclusion

It is time Pakistani policy-makers move past a debate about whether to own the NSP's conception of geoeconomics that is wedded to cooperation rather than competition if Pakistan is serious about achieving positive comprehensive national security outcomes. The real question is how and at what pace can this paradigm be mainstreamed. The authors of this report believe that, combined with many other broader policy reforms, the geoeconomic pivot offers Pakistan the best chance to achieve the "safety, security, dignity, and prosperity" of its citizens while ensuring its traditional security needs are adequately met.

Appendix 1

Interviews Conducted

1. Afridi, Faisal (President, Haier JW)
2. Azhar, Hammad (Former Minister, Finance and Energy)
3. Burki, Shahid Javed (Former Finance Minister and Chairman, Burki Institute of Public Policy)
4. Dawood, Razak (Former Advisor to the Prime Minister on Commerce, Industries, and Production)
5. Butt, Dr. Hassan Daud (CEO, KP-Board of Investment and Trade & Special Economic Zones Authority)
6. Dr. Mahmood, Zafaruddin (Former Special Assistant to the Prime Minister)
7. Farooqui, Ayesha (Additional Secretary/ Pakistan Coordinator, Shanghai Cooperation Organization, Ministry of Foreign Affairs, Islamabad)
8. Hassan, Javed (Former Chairman, National Vocational and Technical Training Commission)
9. Ikram, Tariq (Former Chairman, Trade Development Authority)
10. Lodhi, Lt. Gen. Naeem Khalid (Former Corps Commander, Pakistan Army)
11. Riaz, Lt. Gen. Aamer (Former Corps Commander, Pakistan Army)
12. Malik, Ehsan (CEO, Pakistan Business Council)
13. Malik, Taimur (Lawyer)
14. Naqvi, Feisal (Lawyer)
15. Naseem, Farooq (Chairman and CEO, DWP Group)
16. Sharif, Haroon (Former Chairman, Board of Investments)

Appendix 2

The project was also informed by invaluable inputs from leading Pakistani experts, scholars, and practitioners at three roundtable discussions conducted at the Center for Security, Strategy and Policy Research (CSSPR) roundtable at the University of Lahore, Lahore; the Research Society of International Law (RSIL), Islamabad; and the Millennium Institute of Technology and Entrepreneurship (MITE) roundtable in Karachi.

List of Participants at CSSPR roundtable at the University of Lahore

1. Aman, Saima (Senior Research Officer, Center for International Strategic Studies)
2. Ambassador (Ret) Khan, Shamshad Ahmed (Former Foreign Secretary and Pakistan's Ambassador and Permanent Representative to the United Nations)
3. Ayub, Fatima (Participant/Notetaker)
4. Dr. Ali, Fahd (Assistant Professor, Information Technology University)
5. Dr. Hasanain, Ali (Associate Professor, Lahore University of Management Sciences)
6. Dr. Najam, Shahid (Vice Chairman, Burki Institute of Public Policy)
7. Dr. Sandhu, Ejaz (Director, Burki Institute of Public Policy)
8. Dr. Shafqat, Saeed (Director, Center for Public Policy and Governance, Forman Christian College University)
9. Gen. Arshad, Waheed (Chairman, Hussain Bibi Trust)
10. Haider, Ejaz (Journalist, Columnist)
11. Hussain, Aizaz (Participant/Report Compiler/Notetaker)
12. Jaffery, Ali Zia (Participant/Report Compiler/Notetaker)
13. Mansoor, Athar (Innovation and Technology Policy Researcher
14. Noorani, Tasneem (Former Commerce Secretary)
15. Raoof, Awais (Chairman, University of Lahore)
16. Shamsher, Mahmood (Country Representative, Alif Bank)

List of Participants at the CSSPR-RSIL roundtable in Islamabad

1. Ahmed, Vaqar (Joint Executive Director, Sustainable Development Policy Institute)
2. Akbar, Hassan (Senior Policy Specialist, National Security Division)
3. Anwar, Oves (Director Research, RSIL)
4. Aziz, Jamal (Executive Director, RSIL)
5. Chatha, Jawad Ali (Director, Economic Diplomacy, Ministry of Foreign Affairs)
6. Chohan, Usman (Director, Center for Aerospace and Security Studies)
7. Dr. Zahoor, Saadia (Policy Expert, National Security Division)
8. Durrani, Ammara (Assistant Resident Representative, United Nations Development Programme)
9. Gohar, Wasim (Secretary, Special Committee on Agriculture, National Assembly of Pakistan)
10. Hashmi, Naghmana (Former Ambassador, Ministry of Foreign Affairs)
11. Khan, Sajid Ullah (Assistant Director, Economic Diplomacy, Ministry of Foreign Affairs)
12. Rafiq, Adnan (Country Director, United States Institute of Peace)
13. Shah, Asad Ali (Former Member, Planning Commission)
14. Zaidi, Mosharraf (Senior Fellow and Founder, TABADLAB)

List of Participants at MITE roundtable in Karachi

1. Ali, Shahnaz Wazir (President, SZABIST, and Former Minister of State for Education)
2. Ambassador (Ret.) Khalilullah, Qazi Mohammad (Executive Director Center for International Strategic Studies Sindh)
3. Dr. Afzal, Aqdas (Program Director, Social Development & Policy Program, School of Arts & Social Sciences, Habib University)
4. Dr. Junaid, Ahmad (Associate Professor, KSBL)
5. Dr. Mubarik, Muhammad Shujaat (Professor and Dean, College of Business Management)

6. Dr. Mujahid, Nooreen (Chairperson and Associate Professor, University of Karachi)
7. Dr. Nakhoda, Aadil (Assistant Professor, Institute of Business Administration and Member of the Economic Advisory Group)
8. Dr. Shirazi, Sarina (Head of Department, The Millennium Universal College)
9. Prof. Dr. Ghaus, Khalida (Scholar and Former Managing Director, Social Policy Development Center)
10. Sehgal, Ikram (Defence analyst, Security expert, and Chairman, Pathfinder Group Pakistan)
11. Senator (Ret.) Jabbar, Javed (Author, filmmaker, and a former senator and federal minister)

About the authors

Moeed W. Yusuf is the Vice Chancellor of Beaconhouse National University, Pakistan's first not-for-profit liberal arts college. He is one of the youngest individuals to have headed a university in Pakistan. Yusuf previously served as National Security Adviser (NSA)/Special Assistant to the Prime Minister of Pakistan with the rank of Federal Minister. He was Pakistan's youngest NSA and is credited with leading the process of formulating the country's first-ever National Security Policy. As NSA, Yusuf was responsible for advising the Pakistani leadership on all aspects of national security and was engaged in conducting national security dialogues with counterparts around the world.

Prof. Dr. Rabia Akhtar is Dean Social Sciences, University of Lahore. She is also the founding Director of the Center for Security, Strategy and Policy Research and the founding Director of the School of Integrated Social Sciences, University of Lahore. She holds a PhD in Security Studies from Kansas State University. She is a Fulbright alumna (2010-2015). Dr. Akhtar received her Master's in International Relations from Quaid-i-Azam University Islamabad and Master's in Political Science from Eastern Illinois University, USA. She's a Non-resident Senior Fellow at the South Asia Program, Atlantic Council, USA.

Imprint

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1st Floor, 66-W, Junaid Plaza, Jinnah Avenue,
Blue Area, P.O Box 1289, Islamabad, Pakistan

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Printed by: FES-Pakistan

ISBN: 978-969-9675-62-1

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