



July 15, 2019

## Pakistan-U.S. Relations

### Overview

Since 2001, U.S. policy has broadly been to assist the creation of a more stable, democratic, and prosperous Pakistan that actively combats religious militancy. Congress has taken keen interest in U.S. relations with Pakistan, especially as related to counterterrorism and U.S. foreign assistance. A key U.S. ally in combatting terrorism after 9/11, Pakistan had been a leading recipient of U.S. assistance, receiving more than \$30 billion in aid and military reimbursements since 2001.

U.S. officials say vital U.S. interests are at stake in Pakistan related to terrorism, Afghanistan, nuclear proliferation, India, democratization and human rights, and economic development. In January 2019, the U.S. Director of National Intelligence told a Senate panel of “Pakistan’s recalcitrance in dealing with militant groups,” and predicted Pakistan will continue to threaten U.S. interests “by deploying new nuclear weapons capabilities, maintaining its ties to militants, restricting counterterrorism cooperation, and drawing closer to China.”

Pakistan is a haven for numerous Islamist extremist and terrorist groups, and successive Pakistani governments are widely believed to have tolerated and even supported some of these as proxies in Islamabad’s historical conflicts with its neighbors. The 2011 revelation that Al Qaeda leader Osama bin Laden had enjoyed years-long refuge in Pakistan led to intensive U.S. government scrutiny of the bilateral relationship, and sparked congressional questioning of the wisdom of providing significant aid to a nation that may not have the intention or capacity to be an effective partner.

The Trump Administration has taken a harder line on Pakistan than its predecessors, sharply cutting assistance and suspending security-related aid. The United States continues to press for “decisive and irreversible action” against “externally-focused militant groups and UN-designated terrorist organizations operating from its territory.” Pending such action, security assistance will remain suspended.

During a September 2018 visit to Islamabad amidst talk of a “reset” of bilateral ties, Secretary of State Michael Pompeo expressed hope that the United States can find common ground with Pakistan’s new leadership (Prime Minister Imran Khan took office in August 2018), but mutual distrust is seen to be pervasive in the relationship and American leverage is much reduced.

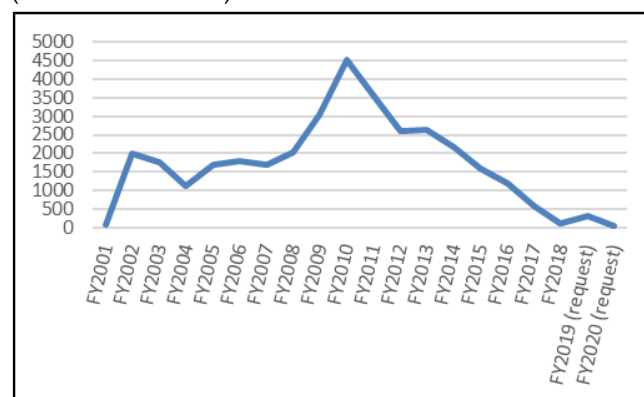
### Trump Administration Strategy and Policy

President Trump’s South Asia strategy, unveiled in 2017, emphasized the threats posed by Islamist militancy in the Afghanistan-Pakistan region, contending that, “We can no

longer be silent about Pakistan’s safe havens for terrorist organizations, the Taliban, and other groups that pose a threat to the region and beyond.” According to a December 2018 Pentagon report, “Cross-border cooperation between Afghanistan and Pakistan is essential” and the border region “remains a sanctuary for various groups.” Islamabad warned that U.S. sanctions are counterproductive. In December 2018, President Trump sent a letter to Prime Minister Khan requesting Islamabad’s assistance in facilitating U.S. talks with the Taliban. In March 2019 the outgoing commander of the U.S. Central Command told Congress, “We’ve seen Pakistan play a more helpful role in helping to bring Taliban representatives into negotiations.”

**Figure 1. U.S. Aid Appropriations for and Military Reimbursements to Pakistan, FY2001-FY2020**

(in millions of dollars)



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

### Domestic Politics

Elections to seat Pakistan’s 15<sup>th</sup> National Assembly (NA, the lower house of its bicameral legislature) and the country’s four provincial assemblies took place in July 2018, marking the country’s second-ever democratic transfer of power. The relatively young Pakistan Tehreek-e-Insaf (PTI or Movement for Justice) party swept a large plurality of NA seats, and party founder and leader Imran Khan became prime minister. Many analysts contended that Pakistan’s security services covertly manipulated the country’s domestic politics before and during the election to favor Khan. The PTI-led government has been criticized for unsteadiness and an inability to defy Pakistan’s military or to resolve the country’s fiscal crisis. Pakistan also faces a new and unprecedented protest movement among its ethnic Pashtun minority. The Pashtun Tahafuz Movement (PTM) campaigns against extrajudicial killings and enforced disappearances; some PTM leaders have been arrested.

## Economy and Fiscal Crisis

Pakistan remains a poor country with high rates of inflation and unemployment, and sometimes acute food, water, and energy shortages. The economy's growth has been solid in recent years, but is well below that needed to keep pace with population growth. A 3.3% expansion in the fiscal year ending June 2019 was a decrease from 5.8% the previous year. Trade with the United States reached a record \$6.6 billion in 2018, but foreign investment remains weak. Corruption is a major obstacle to Pakistan's economic development, and the country has one of the lowest tax-to-GDP ratios in the world.

The United States is Pakistan's largest export destination, while China is Pakistan's largest import partner. Despite security and macroeconomic concerns, Pakistan can be an attractive market for U.S. firms due to favorable demographics, English language skills, low labor costs, and natural resources; however, trade and investment barriers limit the ability of U.S. companies to enter the market.

For more than a year Pakistan's government has teetered on the edge of a debt and balance of payments crisis. China, Saudi Arabia, and the United Arab Emirates have each provided multi-billion-dollar loans but in May 2019, the government was forced to arrange a three-year, \$6 billion bailout from the International Monetary Fund (IMF), adding to the \$5.8 billion Pakistan already owed to that body. This is Pakistan's 13<sup>th</sup> such loan in 30 years and will require what the IMF calls "very stringent measures" on structural economic reform and expansion of the tax base.

## China and CPEC

Pakistan and China have enjoyed what both call an "all-weather friendship" for more than four decades. Beijing is Pakistan's primary arms supplier, and Chinese investments, companies, and workers are increasingly present in Pakistan. China built a major new port at Gwadar, Pakistan, and is working to connect that to the western Chinese province of Xinjiang. These and other infrastructure and energy initiatives are part of the China-Pakistan Economic Corridor (CPEC) formally launched in 2014 and entailing as much as \$60 billion worth of Chinese investment in Pakistan. This makes Pakistan the "flagship" of Beijing's Belt and Road Initiative. The Trump Administration has noted Pakistan's growing debt to China and expressed opposition to any bailout that would go to reducing such debt. Pakistan's Finance Ministry denies that IMF funds would be used to repay Chinese debt, and it is seeking to renegotiate aspects of CPEC to reduce long-term debt.

## Pakistan-India Relations

Pakistan's continued conflict and rivalry with India is unabated, with attendant international fears about the possibility of war between two nuclear-armed powers. In February 2019, a suicide bombing in the Kashmir Valley killed 40 Indian paramilitary troops and was blamed on a Pakistan-based terrorist group. A retaliatory Indian airstrike on Pakistani territory and a brief air battle elicited new concerns about escalation, but the crisis ended without further major conflict. Still, Pakistan seeks to raise the issue of Kashmiri rights internationally, while India rejects any

high-level peace negotiations pending decisive Pakistani action against anti-India militants inside Pakistan.

## Domestic Militancy and Terrorism Financing

Numerous indigenous terrorist groups operate on or from Pakistani territory, many designated as Foreign Terrorist Organizations under U.S. law. Incidents of domestic terrorism are much decreased since the Pakistan Army launched major operations in 2014. However, some externally-oriented terrorist groups such as Lashkar-e-Taiba continue to operate, by some accounts supported by state elements. Al Qaeda and Islamic State networks are also present in Pakistan.

Terrorist financing networks in Pakistan have come under scrutiny. In early 2018, the United States joined Britain in urging other members of the Paris-based Financial Action Task Force (FATF) to return Pakistan to its list of countries found to be insufficiently combating money laundering and terrorism financing, where it had been from 2012 to 2015. In mid-2018, FATF formally added Pakistan to this "Gray List." Islamabad has until the end of September 2019 to demonstrate compliance with the FATF action plan in order to avoid falling onto a "Black List" of "non-cooperative countries" that would damage Pakistan's standing internationally and abrogate the most recent IMF package.

## Human Rights Issues

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

## U.S. Foreign Assistance and Security Aid Suspension

Since 2007 Congress has imposed both broader and more stringent conditions on all non-humanitarian aid transfers, as well as military reimbursements, to Pakistan. From 2008 to 2016, U.S. Presidents exercised authorities to waive those conditions in the interests of national security, even as annual aid and reimbursement levels steadily decline from an FY2010 peak total of about \$4.5 billion. In mid-2017, the Administration announced that it would "pause" disbursement of \$255 million in Foreign Military Financing (FMF) and announced a broader security aid suspension in January 2018. According to the State Department, about \$790 million in unobligated FMF dating back to FY2001 is affected. Pakistani politicians and analysts of all stripes decried what they perceived as an effort to scapegoat their country for U.S. policy failures in Afghanistan. The Administration's FY2020 budget request for assistance to Pakistan totals about \$70 million, including \$48 million for economic and development aid.

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