

The Pakistan Policy Symposium



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Pakistan's Path to Competitiveness

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Last year, **Pathways to Change – Pakistan Policy Symposium**, a two-day event jointly organized by the Wilson Center and INDUS, convened expert scholars, academics, and practitioners from the United States and Pakistan to explore Pakistan's recent achievements in economic, political, and foreign affairs as well as its opportunities to address current and future challenges. Speakers and panelists focused on identifying practical, innovative, and above all actionable policy solutions. The following series of policy briefs, which draw on discussions from the symposium, will be of interest to the academic and scholarly communities; diaspora audiences; business and policy circles; and any general audiences interested in Pakistan, U.S.-Pakistan relations, or international relations on the whole.



It is genuinely difficult to speak about Pakistan without dwelling on sordid history.

Terrorism. Proliferation. Coups. Partition. It is a country that has been used by greater powers, and that has been a dangerous foil for its neighbors. It has also been a hindrance to its own national development.

Many in Pakistan see the China-Pakistan Economic Corridor (CPEC), and the reported surge of resources it represents, as the centerpiece of an effort to change its troubled trajectory. It is true that an increase in outside investment may have beneficial effects on production, job creation, and livelihoods. Over the five years of CPEC to date, China and Pakistan have achieved implementation on about \$20 billion in projects. That is rare good news for Pakistan's economy.

In December 2018, Prime Minister Imran Khan told a *Washington Post* reporter that “[Pakistan’s] relationship with China is not one-dimensional. It’s a trade between two countries.” He expressed a desire to shift the U.S.-Pakistan relationship more toward trade—in other words, in his frame, to make U.S.-Pakistan ties more similar to China-Pakistan relations.

In fact, Mr. Khan’s framing is the opposite of reality. According to United Nations data, the United States remains the largest bilateral purchaser of Pakistani exports, accounting for \$3.6 billion in 2017 or about 15 percent. Pakistan enjoys a trade surplus with the United States (like many other developing states). The opposite situation is true with regards to China. Even in the context of a free trade agreement between the two sides (in effect since 2006), Pakistan imported 10 times (\$15 billion) the amount of goods from China it exported back (\$1.5 billion) in 2017.

Furthermore, since the start of CPEC, Pakistan’s imports from China have doubled even while Pakistan’s exports to China have declined by almost a third. This data does not reveal the multi-dimensional partnership Prime Minister Khan boasted about, but rather more the one-sided, predatory relationship that critiques of China’s Belt and Road Initiative have warned against.

In reality, Pakistan’s renaissance is not going to occur because of outsiders. Investments do not necessarily produce exports or growth, just as new infrastructure does not necessarily presage economic transformation. Rather, it’s process that matters. And quality. Not to mention rule of law.

On its current trajectory, CPEC alone will not get Pakistan out of its malaise. More attention needs to be placed on improving Pakistan’s competitiveness, including its economic governance. Pakistan’s export competitiveness has collapsed to its lowest point in four decades, accounting for just 12 percent of GDP. The World Economic Forum Global Competitiveness Report ranked Pakistan 107th of 130 measured states in 2018, meaning that Pakistan is in the bottom fifth of economic performers. The same underinvestment that spawned Pakistan’s energy, education, and health crises has also spawned its economic malaise. The country is now in the midst of the latest of a series of self-inflicted balance of payments crises that, if ignored, threaten to turn into a full-blown financial crisis that would make an already precarious situation even worse.

What Khan’s critique is right about is that a positive economic frame could contribute to improved U.S.-Pakistan relations, which are currently mired in their latest period of strain. It is fueled by a continuation of that

historical parade of horrors: Pakistan's active acquiescence in the presence of terrorist and militant groups that continue to attack its neighbors, and its concomitant effort to grow a multifaceted nuclear capability to serve as a deterrent against blowback from its terrorist proxies.

The bottom line is that when most people in the United States think about Pakistan today, it is for these negative reasons.

Some may take a hopeful, deterministic view of the current situation, saying that what goes down will inevitably come back up again. To a degree, that may be true; the emotional saliency of grievances will fade over time. Still, U.S.-Pakistan relations would benefit greatly from Pakistan's re-emergence as a competitive market. A Pakistan that is once again competitive for international business would be a more stable country, and pose less risk to itself, its neighbors, and U.S. and international security.

The irony is that if CPEC is well utilized, it could serve as Pakistan's bridge to global competitiveness. Prime Minister Khan's government has stated that it plans to shift CPEC toward more local job creation, particularly in the agriculture sector, and to focus on social welfare and livelihoods. These shifts are welcome, but insufficient.

The additional element must be a real focus on market-enabling reforms, including a more predictable regulatory and legal framework. This would not only help China's venture to succeed in financial terms. It would also position Pakistan to be a real participant, once again, in international commerce. And it would position Pakistan to be a constructive potential partner once again for the United States.

Ultimately, a more open Pakistan that is more involved in the global economy would be a more attractive partner than the vulnerable, dangerous state that it has become.

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