

REFRAMING PAKISTAN'S FOREIGN POLICY

Pakistan's new governing coalition is confronted with a complex array of longstanding foreign policy challenges. To navigate these mounting problems, it must engage in high-stakes statecraft and chart a strategic course. Central to its efforts should be the stabilization of the crisis-stricken economy, ensuring that diplomacy effectively complements the strategy for tackling it.

As the new government acclimates, it faces a daunting economic landscape characterized by high inflation, depleting foreign currency reserves, and a ballooning fiscal deficit.⁸⁹ The emergency bailout package from the International Monetary Fund (IMF) is nearing its expiration in early April.⁹⁰ Within weeks, the Pakistani leadership must negotiate a new multi-year agreement with the global lender. This task involves not only securing the next bailout facility but also establishing a trust-based relationship with the IMF, a lender familiar with Pakistan as a consistent, albeit underperforming, client. Islamabad must prove its commitment to meaningful reforms and present a long-term economic plan that satisfies not only the IMF but also essential bilateral partners such as the United States, China, and the Gulf

nations, highlighting the critical link between economic recovery and foreign policy.

This situation necessitates the formulation of a new external strategy that considers the interests of both Pakistan and its bilateral partners. Successive Pakistani leaders have claimed that Pakistan's economic stability is of mutual interest to all key external partners. However, the diverse constraints faced by each partner introduce complexities. It then becomes the task of Pakistani policymakers to navigate these differences and bridge them to advance Pakistan's economic interests. This requires not only specialized knowledge of the economic trajectories of bilateral partners but also a nuanced understanding of global economic trends, which influence key nations like China and the U.S. This broader context also affects their perspective towards Pakistan. Consequently, Pakistani foreign policy makers and planners need to adapt to changing realities, where Pakistan's own economic compulsions limit the country's foreign policy choices.⁹¹

This dynamic is evident in Pakistan's effort to navigate the intensifying

⁸⁹ Kamran Yousaf, "New government and the challenges," *The Express Tribune*, March 04, 2024, <https://tribune.com.pk/story/2458267/new-government-and-the-challenges>.

⁹⁰ Ayaz Gul, "IMF, Pakistan Strike Preliminary Deal for Final Bailout Payment," *Voice of America*, March 20, 2024, <https://www.voanews.com/a/imf->

[pakistan-strike-preliminary-deal-for-final-bailout-payment/7535020.html](https://tribune.com.pk/story/2458267/new-government-and-the-challenges)

⁹¹ Shamshad Ahmad, "Pakistan's foreign policy — an agonising reappraisal," *The Express Tribune*, December 25, 2014, <https://tribune.com.pk/story/812138/pakistans-foreign-policy-an-agonising-reappraisal>.

strategic competition between China and the U.S. Both Beijing and Washington are valued partners of Pakistan, albeit with different types of relationships. Pakistan faces the challenge of maintaining and expanding engagement with both, without delving into contentious issues crucial to either. In recent years, successive governments – initially the Pakistan Tehreek-i-Insaf (PTI) and later the Pakistan Democratic Movement (PDM) – have indicated that Islamabad rejects the concept of 'camp politics,' aiming instead for cooperation with both superpowers.⁹² This is essential for Pakistan's economic security. Meanwhile, Pakistan's regional security interests require a pragmatic approach, where the country pursues its own interests without appearing to favor one great power over another.

In navigating the strategic competition between the U.S. and China, Pakistani policymakers are tasked with revitalizing ties with the U.S. while deepening cooperation with China. Historically, engagement with Washington has been transactional, with shifting geopolitics influencing the relationship's trajectory. America's efforts to compete with China and limit its influence have led Washington to enhance its political, economic, and security cooperation with India, thereby affecting Pakistan's interests. Islamabad must therefore reassess its policy

towards America, prioritizing the pursuit of its regional interests. The recent visit of Army Chief Gen Asim Munir to Washington aimed to shift the Pakistan-U.S. relationship from being security-driven to one focused on broader economic cooperation. As both sides navigate the regional environment and work to advance regional stability, consistent engagement across economic and security domains is required.

In the immediate term, the focus on Pakistan-US ties will likely diminish in 2024 as the presidential campaign gains momentum across the US. During this period, Pakistan needs to assess how to deal with a potential second Trump administration, should it materialize in early 2025. Pakistan's aim with the US is to advocate for a balanced approach towards South Asia, one that does not prioritize one country over others but respects the interests of all regional countries and focuses on achieving stability in South Asia and the Indian Ocean Region. For decades, Washington has consistently advocated for improved India-Pakistan relations through dialogue, and the next administration should actively engage with New Delhi to realize this goal. A functional Islamabad-New Delhi relationship could unlock economic benefits not just for India and Pakistan, but for the entire region.

⁹² Anwar Iqbal, "Pakistan won't be pushed to choose between China, US: Khar," *Dawn*, June 22, 2023, <https://www.dawn.com/news/1761069>.

Economically, continued US support for a new IMF program is crucial for Pakistan's future. The need for economic and security assistance from the US remains, while bilateral trade and investment ties alone cannot fulfill all of Pakistan's needs. Pakistani policymakers note that the US is Pakistan's largest export market⁹³, which they intend to preserve. This requires maintaining a smooth relationship with Washington, especially as Pakistan has lost significant bargaining power following the departure of US troops from Afghanistan. The strategic significance of Pakistan's geography has lessened for American policymakers, as their focus has shifted towards the Russia-Ukraine conflict and strategic competition with China across East Asia and the Western Pacific.

Meanwhile, Pakistan's longstanding relationship with China is vital for both economic and security interests. The significant defense cooperation and the China-Pakistan Economic Corridor (CPEC) mean that Pakistan cannot afford to distance itself from China. However, Islamabad faces the dual challenge of expanding cooperation with China and insulating it from US pressures. Although Chinese policymakers are understanding of Pakistan's limitations, domestic challenges in Pakistan could

potentially weaken bilateral ties. These challenges include increasing security concerns in Beijing regarding the safety of Chinese citizens after several attacks⁹⁴ in recent years, Islamabad's slow processing of financial payments to Chinese power companies, and the stagnation of CPEC's potential after a decade. Furthermore, Pakistan's growing reliance on critical Chinese financial support to avoid default places China in a delicate position.

The new government must start by conducting a comprehensive review of the Pakistan-China relationship across diplomatic, economic, and defense domains. Cooperation in these areas must align with the broader goal of strengthening ties. It is crucial that such a review occurs before the new Prime Minister's customary first international visit to China in the coming months. Pakistan should prepare an actionable proposal for operationalizing Special Economic Zones (SEZs) to attract Chinese manufacturing units to Pakistan, marking the focus of CPEC's Phase-II. Moreover, Islamabad needs to enhance engagement and coordination with Beijing to address issues in Pakistan-Afghanistan and Pakistan-Iran relations. China has a significant interest in maintaining peace and stability along Pakistan's western borders and should

⁹³ Nuzhat Nazar, "21.5pc of total volume: US largest export market for Pakistan: COAS," *Business Recorder*, December 16, 2023, <https://www.brecorder.com/news/40278963/215pc-of-total-volume-us-largest-export-market-for-pakistan-coas>.

⁹⁴ Kamran Haider and Ismail Dilawar, "Six Killed in Latest Pakistan Militant Attack on China Interests," *Bloomberg*, March 27, 2024, <https://www.bloomberg.com/news/articles/2024-03-27/six-killed-in-latest-pakistan-militant-attack-on-china-interests>.

play a proactive role in building trust between Pakistan and both Afghanistan and Iran.

Regionally, managing the stagnant relationship with India is expected to be a key focus for the new government. With India approaching general elections and Prime Minister Modi anticipated to secure a third term⁹⁵, prospects for a near-term thaw in relations appear slim. Over the medium term, Pakistan needs to develop a strategy to overcome the current stalemate without compromising its core interests and the boundaries set following India's unilateral actions on August 5, 2019. As an interim measure, Pakistan could grant provisional provincial status to Gilgit-Baltistan—a region over which India has renewed its claim—through a constitutional amendment. This step would allow Pakistan to advocate for the people of Kashmir while seeking a balance with India on the Kashmir dispute. Without such action, attempts to engage politically and restore trade are unlikely to yield the anticipated results.

Running a fragile coalition government, the PML-N leadership must seek a broader national consensus on future India policy through an All-Stakeholders Conference (APC) that besides political leaders should include representatives from the military and diplomatic corps. Only with a wide-ranging national

consensus—bolstered by the support of military leadership and diplomatic efforts—can the government address domestic concerns regarding the impact of engagement with India on the Kashmir issue. In the meantime, however, backchannel engagement must continue to manage tensions and prevent future crises. Both Track-II and Track 1.5 engagements, facilitated through various platforms, are encouraged as they would allow Pakistan to communicate its non-negotiable positions and gauge India's strategic intentions regarding Kashmir and its stance towards Pakistan. The ultimate goal is to foster a less confrontational relationship with India, enabling Pakistan to concentrate on boosting its economic productivity.

Along the western borders, the new government's external engagements will focus on managing tensions with the Taliban-led Afghanistan and resetting ties with Iran. The relationship with Afghanistan is characterized by hostility, as attacks from the Tehreek-i-Taliban Pakistan (TTP), now based in Afghanistan, continue unabated. The TTP continues to target military and police installations with the aim of undermining the security forces in Khyber Pakhtunkhwa. In response, last September, Pakistan retaliated by enforcing the repatriation of Afghan refugees and establishing a mandatory visa regime to exert pressure on the

⁹⁵ YP Rajesh, "Inflation hurting Modi, but still likely to win India's 2024 polls, survey shows," *Reuters*, August 25, 2023,

<https://www.reuters.com/world/india/inflation-hurting-modi-still-likely-win-indias-2024-polls-survey-2023-08-25/>.

Taliban regime. Additionally, cross-border trade has suffered in recent months. While the international community, particularly European countries and the US, has urged Pakistan to reconsider its approach on humanitarian grounds, Islamabad has remained firm. A direct result was the Afghan Taliban's pressure on the TTP to curb its activities in Pakistan, leading to a decrease in major attacks. However, post-elections, attacks on military installations have intensified. The opportunity for diplomatic engagement with the Taliban regime is constrained by the military's firm stance, further complicated by the PTI government in the KP province, which has a strained relationship with the military. In this context, it is a test of skill for the incoming government, especially the Prime Minister and the Foreign Minister, in how they can expand diplomatic avenues to engage with the Taliban regime and secure outcomes that address Pakistan's concerns regarding the TTP. Otherwise, the current deadlock is likely to continue, with Pakistan responding to escalations in violence by increasing pressure through airstrikes, closing borders, and forcibly repatriating the remaining Afghan nationals in the country.

With Iran, Pakistan's southwestern neighbor, an unprecedented spike in tensions rattled the bilateral relationship

in January 2024⁹⁶. This surge highlights the simmering mistrust between the two countries in the border regions, despite a facade of diplomatic engagement at the political level. Over the past decade, bilateral communication has expanded from the political and diplomatic levels to regular visits by top military commanders and meetings between security officials from both sides. Notably, the navies of the two countries have conducted joint exercises in the Persian Gulf and the Strait of Hormuz. Despite these extensive military and diplomatic channels of communication, an Iranian missile struck inside Pakistan, taking Islamabad by surprise. Pakistan retaliated in kind, and then diplomacy prevailed. The core issue stems from violence by various militant groups along the border, targeting both Iranian and Pakistani security forces. As insurgency persists in Balochistan, mutual suspicions and grievances have widened the rift between the two sides. While the recent escalation was defused through intense diplomatic efforts by Turkey, it has significantly impacted the trajectory of their bilateral relationship. The new government must shield Islamabad-Tehran ties from the evolving geopolitical environment and seek to expand trade while enhancing communication and coordination between the security managers on both sides.

⁹⁶ Muhammad Faisal, "The skies are quiet, but the Iran-Pakistan strikes left lasting diplomatic damage," *The Atlantic Council*, January 25, 2024,

<https://www.atlanticcouncil.org/blogs/new-atlanticist/the-skies-are-quiet-but-the-iran-pakistan-strikes-left-lasting-diplomatic-damage/>.

Beyond security concerns, informal trade with Iran is a vital component of Balochistan's economy. Moreover, Iran is a major LNG supplier to Pakistan, making the advancement of this relationship a critical economic interest for Pakistan. Here, Pakistan must diplomatically engage with the Iranian leadership to resolve the deadlock over the Iran-Pakistan gas pipeline project, where delays on the Pakistani side have led Tehran to threaten the initiation of penalty proceedings under the 2009 agreement. Tehran estimates the penalty at about US\$18 billion, while Pakistan has been hesitant to proceed with the project due to the threat of US sanctions⁹⁷. This scenario presents a challenging diplomatic act for the new government, navigating the competing interests of Iran and the US while advancing Pakistan's interests.

In addition to relations with neighbors, engagement with Gulf nations will define Pakistan's foreign policy over the next 3-5 years. Due to Pakistan's financial constraints, Gulf states—especially Qatar, Saudi Arabia, and the United Arab Emirates (UAE)—have become central to Pakistan's financial and energy security. To channel this support toward long-term and sustainable economic ties, Pakistan agreed last year to identify projects and state-owned enterprises for

investment by Gulf states. The coalition government—with the active support of the military—must expedite administrative and regulatory processes via the Special Investment Facilitation Council (SIFC) to build confidence among Gulf partners, thereby boosting the national economy. Furthermore, the new government should explore new avenues for exporting human capital to the Gulf states⁹⁸, which could quickly increase remittances.

As the Gulf's role in Pakistan's economic stability grows, Abu Dhabi and Riyadh have been advocating for normalization between India and Pakistan. In recent years, economic cooperation between India and both the UAE and Saudi Arabia has increased. In 2021, the UAE also facilitated backchannel talks between India and Pakistan, leading to the restoration of the ceasefire along the Line of Control and Working Boundary. Following elections in India, Gulf leaders could encourage both Pakistani and Indian leaderships to seek a thaw in relations, potentially leading to gradual normalization.

These immediate external challenges facing Pakistan are intricately linked to domestic politics and the country's economic health. Currently, the foreign policy space is constrained more by

⁹⁷ Kanishka Singh and Simon Lewis, "US says it doesn't support Pakistan-Iran gas pipeline project going forward," *Reuters*, March 27, 2024, <https://www.reuters.com/world/us-says-it-doesnt-support-pakistan-iran-gas-pipeline-project-going-forward-2024-03-26/>.

⁹⁸ Faraz Ahmed, "Capitalising on human capital," *The Express Tribune*, October 02, 2023, <https://tribune.com.pk/story/2438726/capitalising-on-human-capital>.

Pakistan's economic landscape than by any other external challenge. Navigating the changing global and regional environment requires adept handling of key external relationships, with the aim of minimizing frictions and optimizing opportunities for Pakistan's economic revival. This necessitates empowering the Foreign Office to lead the execution of Pakistan's foreign policy. Most importantly, the Foreign Office also needs to adapt to the changing requirements of Pakistan's foreign relations, where economic imperatives now take precedence over other considerations. The Foreign Office should take the lead in developing a national consensus among the

government, military, and political parties on the strategic direction of foreign policy. In tandem, the Foreign Office needs to enhance its capacity by inducting international trade specialists, development economists, and country experts on the national economies of Pakistan's crucial bilateral partners to incorporate their insights and advice in charting optimal options for Pakistani decision-makers.

This chapter was authored by the Islamabad Policy Institute research team, drawing upon consultations with foreign policy practitioners.