



INSIGHT

ISSN-L: 2958-5732

Institute for Strategic Studies, Research and Analysis
National Defence University, Islamabad



Number: G&RS-13

July 27, 2023

NEED FOR REALIGNMENT OF GEO-ECONOMICS OF PAKISTAN TO MEET THE GEO-POLITICAL CHALLENGES

Author(s):

Namra Naseer
(Research Associate)

Edited by:

Amb (R) Fauzia M. Sana

States have a natural tendency to align their geoeconomic and geopolitical interests. Such an alignment is convenient and straightforward for some countries, as their geoeconomic and geopolitical goals are aligned with other countries that share broader objectives. The UK, for example, is a traditional ally and partner of the US and its geoeconomic and geopolitical interests have remained aligned with the US. For other countries, however, this alignment is not natural, and they pursue different strategies to diversify their geoeconomics, giving them more geopolitical space to manoeuvre. India, Türkiye, Iran and Saudi Arabia are all examples of countries adopting this approach.

Diversifying geoeconomic options gives countries more flexibility in pursuing their geopolitical goals. It can be an asset and position in a world where geopolitical competition is becoming increasingly complex. Countries can use economic diversification to achieve various objectives such as economic development, protecting national security and advancing their geopolitical interests. To illustrate this argument further, let us observe the trends (given below) in trade relations of India, Türkiye, Iran and Saudi Arabia with all major economic players, i.e., US, UK, EU, China and

Russia, from pre- and post-Cold War period and current period.

During the Cold War, India had stated its non-aligned status, though there was a noticeable tilt towards the Soviets. However, the posturing helped India diversify its economy and sought diplomatic and economic relations with different countries. In the post-Cold War, India's trade relations with the West, especially the US, grew immensely. At the same time, India retained its ties with Russia and also strengthened its trade with China. This balanced approach early on allowed India greater geopolitical freedom and autonomy than it practices today.

In the case of Türkiye, the historical positioning towards NATO countries during the Cold War has now evolved into a more balanced approach, fostering growing trade relations with China and Russia in the post-Cold War era. Türkiye now maintains significant trade partnerships with the US, UK, EU, China and Russia, which reflects its flexible approach and openness to diverse economic ties.

When we observe Iran's example, the country's trade relations with the US and Western countries suffered a great deal due to sanctions. However, Iran found new momentum with China due to

Country	Time Period	US	UK	EU	China	Russia
India	Pre-Cold War ¹	\$1.5 bn	\$2.2 bn	\$3.6 bn	\$0.3 bn	\$1.8 bn
	Post-Cold War ²	\$20.7 bn	\$10.2 bn	\$17.2 bn	\$5.3 bn	\$5.2 bn
	2020-2022 ³	\$150.6 bn	\$28.3 bn	\$117.3 bn	\$135.98 bn	\$39.8 bn
Türkiye ⁴	Pre-Cold War	\$1.3 bn	\$1.1 bn	\$2.6 bn	\$0.2 bn	\$1.2 bn
	Post-Cold War	\$10.1 bn	\$6.3 bn	\$14.2 bn	\$3.1 bn	\$6.4 bn
	2020-2022	\$30.2 bn	\$15.1 bn	\$51.2 bn	\$38.1 bn	\$28.1 bn
Iran ⁵	Pre-Cold War	\$5.5 bn	\$1.2 bn	\$5.3 bn	\$0.2 bn	\$1.5 bn
	Post-Cold War	\$0.0 bn	\$0.8 bn	\$1.9 bn	\$1.7 bn	\$1.9 bn
	2020-2022	\$0.0 bn	\$0.3 bn	\$2.0 bn	\$24.4 bn	\$12.0 bn
Saudi Arabia ⁶	Pre-Cold War	\$1.6 bn	\$1.7 bn	\$3.0 bn	\$0.3 bn	\$0.2 bn
	Post-Cold War	\$17.7 bn	\$10.3 bn	\$23.3 bn	\$4.9 bn	\$2.4 bn
	2020-2022	\$37.3 bn	\$16.2 bn	\$48.1 bn	\$28.7 bn	\$10.7 bn

Disclaimer

The views expressed in this Insight are of the author(s) alone and do not necessarily reflect policy of the NDU.

Available at <http://issra.ndu.edu.pk/issra/insight/>.

For Feedback, please contact us at feedback.issra@ndu.edu.pk.

© Institute for Strategic Studies, Research and Analysis (2023)

China's increasing economic influence and willingness to engage. Interestingly, Iran also still maintains trade relations with the EU.

The latest example is Saudi Arabia, which has gradually shifted its economic focus from the Western world to China and Russia, leading to a significant boost in trade potential with all these countries. China stands as Saudi Arabia's largest trading partner, followed by the US, EU and Russia.

The trend in all these countries has been acknowledging China's economic rise and seeking more geopolitical space to secure their national interest vis-à-vis the ensuing great power competition between the US and China. These countries not only find themselves in a favourable position but also have more economic and diplomatic autonomy in their relations with other countries.

For greater geopolitical liberty of action, it is essential to maintain a diverse geoeconomic posture.

For Pakistan, however, during the Cold War, there was no conflict in aligning geoeconomic and geopolitical interests as Pakistan was in close cooperation with the US and its allies. It was also true for some years post-Cold War. However, for the past two decades, Pakistan's geoeconomic alignment with the West seems intact, while its geopolitical alignment has significantly shifted towards China. The table shows pre- and post-Cold War and current data for Pakistan's trade with the US, UK, EU, China, Russia, Gulf countries, Africa, and others:⁷

Country	Pre-Cold War	Post-Cold War	Current (2020-2022)
US	\$1.2 bn	\$5.6 bn	\$12.4 bn
UK	\$0.9 bn	\$3.0 bn	\$5.2 bn
EU	\$1.8 bn	\$6.8 bn	\$12.7 bn
China	\$0.2 bn	\$2.5 bn	\$21.8 bn (in deficit)
Russia	\$0.3 bn	\$1.8 bn	\$7.4 bn
Gulf Countries	\$0.01 bn	\$0.7 bn	\$1.3 bn
Africa	\$0.05 bn	\$0.2 bn	\$0.3 bn
Others	\$0.2 bn	\$0.4 bn	\$0.5 bn

Let us also observe the trend in exports and imports of Pakistan:

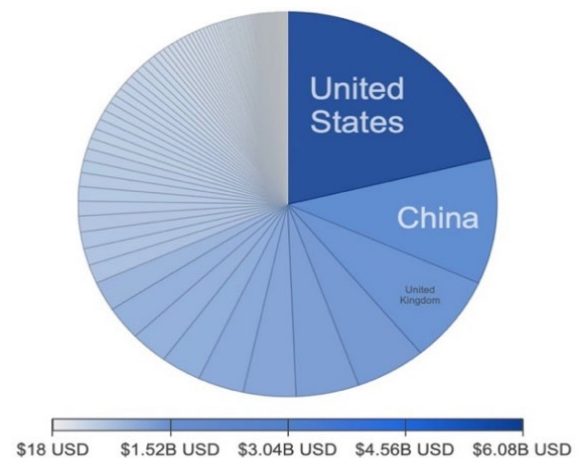


Figure 1-Pakistan Exports by Country in U.S. dollars, according to the United Nations COMTRADE database on international trade.

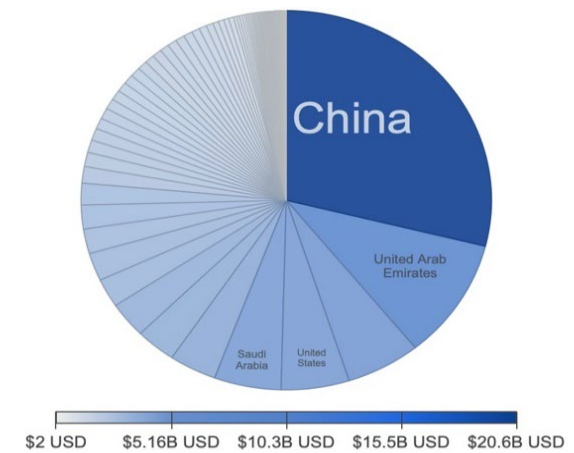


Figure 2 - Pakistan Imports by Country in U.S. dollars, according to the United Nations COMTRADE database on international trade.

With a bilateral trade volume of \$12 billion and a share of 21%, the US continues to be Pakistan's largest trading partner and export destination, while China has a share of 11%, UK 7.3% and Germany 5.4%.⁸ Regarding the imports list, China is at the top with a share of 29%, followed by the UAE 10%, the US 5.5%, and Saudi Arabia 5.4%.⁹

Furthermore, remittances from Pakistani living abroad have frequently covered a major portion of Pakistan's trade gap. Pakistan receives \$2.2 to \$2.8 billion every month. The top five countries sending remittances are Saudi Arabia (\$570.5 Mn), UAE (\$427 Mn), and the UK (\$278.8 Mn), followed by the GCC countries (\$258.3 Mn) and the US (\$253.1 Mn). Saudi Arabia houses the highest number of Pakistani diaspora, followed by the UK and the UAE.¹⁰ It is important to consider that Gulf countries, especially Saudi Arabia, have also traditionally remained allied to the West.

For greater geopolitical liberty of action, it is essential to maintain a diverse geoeconomic posture. Presently, Pakistan's geopolitical interests are more aligned with China, but its geoeconomic interests are still anchored with the US-led West. This lopsided strategic equation adversely affects Pakistan's space to manoeuvre in the geopolitical arena. Hence, we see issues like growing political and economic instability in the country, internal law and order problems (terrorism), issues related to FATF, IMF, etc. Pakistan must bring a balance and re-align its geoeconomic interests where its geopolitical interests rest.

Trends in Pakistan's trade and economic ties show an overreliance on the US and Western markets and, overall, limited economic activity and investment with other potential partners. The low volume of Pakistan-China bilateral trade, despite the geopolitical closeness, with the trade balance grossly in favour of China, also does not reflect their strong diplomatic and strategic relations, indicating an untapped trade potential in both countries.¹¹ Even with CPEC, its geostrategic and geopolitical dimension surpasses its economic advantages for Pakistan.¹² This misalignment has had negative consequences for Pakistan's economy and diplomatic sovereignty.

It is important to approach the contemporary geopolitical environment shaped by great power competition from a perspective of opportunity rather than fear. By reassessing its reliance on Western markets, strengthening ties with emerging economies, and strategically aligning itself with the multipolar world order, Pakistan can unlock its untapped potential for sustained economic growth and stability. A comprehensive foreign policy that harmonises its geopolitical and geoeconomic objectives will enable Pakistan to navigate the era of great power competition successfully.

Moving forward, Pakistan needs to focus on improving its business environment to attract and facilitate Foreign Direct Investments (FDIs) for sustainable economic growth. A new economic paradigm and cooperation model may be adopted that strongly emphasises regional development and integration, technological innovation, human capital development and entrepreneurship.¹³ While maintaining economic and technological ties with the West, Pakistan should seek project-based collaborations with other partners, including but not limited to Russia, China, and countries in Pakistan's Western neighbourhood, Southeast Asia, and Africa regions.

References

¹ World Bank, "India Trade Statistics" (1960-1989).

² World Bank, "India Trade Statistics" (1990-2019).

³ World Bank, "India Trade Statistics" (2020-2022).

⁴ World Bank, "Turkey Trade Statistics".

⁵ World Bank, "Iran Trade Statistics".

⁶ World Bank, "Saudi Arabia Trade Statistics."

⁷ World Bank, "Pakistan Trade Statistics."

⁸ Anwar Iqbal, "Pakistan Committed to Expanding Trade Ties with US," DAWN.COM, 07:03:41+05:00, <https://www.dawn.com/news/1739896>.

⁹ "Annual Analytical Report on External Trade Statistics of Pakistan FY 2021-22," January 2023.

¹⁰ Pakistan Percent of World Exports - Data, Chart." TheGlobalEconomy.com, www.theglobaleconomy.com/Pakistan/share_world_exports/.

¹¹ Junaid Kamal, "Dynamics of Pakistan's Trade Balance with China," October 2017.

¹² Minhas Majeed Khan et al., *China-Pakistan Economic Corridor A Game Changer*, 2017, https://issi.org.pk/wp-content/uploads/2017/04/CPEC_Book_2016.pdf.

¹³ Dr Muhammad, "Pakistan's Alternate Economic Paradigm Based upon Regional Trade and Connectivity," 2023.