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From Aid Dependence to Economic Sovereignty: Evaluating Pakistan–USA Economic Relations in the War on Terror Era

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Abstract

Following the terrorist attacks of 11th September 2001, Pakistan positioned itself as a pivotal partner in the United States-led War on Terror, standing at the crossroads of strategic security cooperation and economic engagement. This study interrogates the evolution of that partnership, concentrating on the ways in which security-centred collaboration shaped macroeconomic policy choices, external assistance inflows, commercial patterns, and Pakistan's wider development trajectory. Employing a qualitative design grounded in governmental archives, policy reports, and peer-reviewed scholarship, the analysis reveals that financial transfers from Washington provided important short-term support yet simultaneously entrenched a reliance on external aid, thereby intensifying pre-existing structural vulnerabilities. Bilateral trade remained markedly uneven, characterised by narrow product concentration and persistent obstacles to Pakistani market entry. Moreover, conditionalities embedded within United States assistance packages constrained economic sovereignty, influencing domestic governance practices and reform agendas. The investigation also situates the relationship within a shifting geopolitical environment marked by the ascent of the People's Republic of China and Islamabad's gradual reorientation toward regional affiliations, developments that began to recalibrate conventional Pakistan–United States economic parameters. The findings underscore an urgent need for Pakistan to recalibrate away from a dependence-oriented model toward one anchored in reciprocal trade and productive investment. Such a shift would better align national development objectives with contemporary geopolitical realities, fostering a partnership with the United States that is more balanced, sustainable, and conducive to long-run economic resilience. Achieving this transformation demands a coherent industrial policy, diversified export bases, and transparent governance to attract stable foreign capital flows.

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1. INTRODUCTION

Over the decades, the economic relationship between Pakistan and the United States has gone through considerable transformation, often mirroring the geopolitical situation and strategic imperatives prevailing at any given time in either country. Beginning with the early post-independence time through the Cold War and up to post-9/11, the dynamics of this relationship have been oscillating between close cooperation and episodes of tension, largely responding to global and regional security concerns (Zaidi et al., 2022; Siddiqui, 2019). The economic engagement between these two countries has embraced several dimensions, including heavy economic assistance, bilateral trade, and foreign direct investment. All these have been instrumental in shaping Pakistan's economic policies, development strategies, and the broader orientation of its foreign policy (Ali et al., 2023; Ahmed & Bhatnagar, 2020; Ali & Naeem, 2017; Ahmad et al., 2018; Khalil et al., 2022). In

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its founding years, the United States established itself as Pakistan's leading economic partner, providing large aid packages for infrastructure development, economic stabilization, and support of Pakistan's alignment with Western interests during the Cold War (Rizvi, 2017; Zaidi et al., 2022). Such economic assistance was thus pivotal for Pakistan's nascent economy to undertake early industrialization and modernization efforts but at the same time was coupled with a dependency syndrome whereby Pakistan adopted a pattern of consistently looking to external sources for support against fiscal deficits and balance of payment problems (Ali et al., 2023; Andreou, 2021; Sun & Chang, 2020; Malik & Kugelman, 2018; Cizakca, 2024). Over time, this relationship based on aid got intermingled with wider security considerations due to Pakistan's geostrategic importance waxing and waning vis-à-vis changing U.S. foreign policy priorities, especially during times of increased tension in South Asia or concerning the global war on terror (Siddiqui, 2019; Arshad & Mukhtar, 2019; Naik, 2020; Ahmed & Bhatnagar, 2020; Mealli, 2021). As a result, the economic partnership between Pakistan and the United States has not only shaped Pakistan's economic trajectory but has also been a critical factor in the evolution of its external relations, influencing both the direction and depth of bilateral cooperation across multiple decades.

In the aftermath of the September 11, 2001, terrorist attacks, Pakistan emerged as a principal ally of the United States in the global campaign against terrorism. This new geopolitical alignment ushered in a period characterized not only by heightened military collaboration but also by expanded economic and strategic engagement between the two nations. The government of Pakistan received substantial financial support from the United States under the pretext of counterterrorism efforts, channelled through a combination of military assistance and economic aid packages. While the immediate objective of these funds was to provide short-term fiscal stability and bolster Pakistan's security apparatus, they were also intended to address the root causes of extremism and support long-term strategies aimed at reducing the likelihood of future terrorist activities (Fair, 2011). Over time, however, the inflow of external assistance began to shape Pakistan's domestic policy landscape, exerting significant influence over both political decision-making and economic management. Critics have argued that the reliance on foreign aid raised questions regarding governance standards, transparency, and the sovereignty of state institutions, as international donors often imposed conditions that impacted national priorities (Rashid, 2012; Mordecai & Akinsola, 2021). Despite the considerable volume of financial transfers, these resources did not translate into enduring, stable relations between Pakistan and the United States. The relationship remained transactional, punctuated by periods of mutual suspicion and unmet expectations.

One of the most persistent challenges has been the underdevelopment of bilateral trade relations, which have lagged behind the scale of financial assistance exchanged between the two countries. Although the United States consistently positioned itself as the primary external partner in Pakistan's fight against terrorism, cooperation in the realms of commerce and industry did not reach a comparable level of maturity. In particular, Pakistan's exports—especially textiles and agricultural products—faced numerous barriers to entry in American markets. The structure of bilateral trade continued to suffer from limited diversification, persistent market access constraints for Pakistani goods, and a lack of long-term investment in manufacturing and value-added sectors (Naseem & Islam, 2020). United States investments in Pakistan remained heavily concentrated in sectors such as energy production and services, with comparatively little attention paid to agriculture, technology, or small and medium-sized enterprises. As a consequence, large segments of the Pakistani economy remained untapped by foreign investors, perpetuating structural imbalances and limiting the potential for broader-based development. These dynamics underscore the complexities of Pakistan-United States engagement in the post-September 11 era, where security imperatives have often overshadowed the pursuit of equitable and sustainable economic partnership (Iqbal et al., 2021).

The China-Pakistan Economic Corridor extends a new dimension of power dynamics within the region involving China and Pakistan, as well as the United States, in which the strategic terrain is complicated. China has emerged as the pre-eminent contender for the superpower slot in what is an increasingly competitive global race. An immensely valuable partnership with Pakistan, however, raises new prospects and challenges for regional integration and development. The China-Pakistan Economic Corridor has fostered advanced economic interdependence and joint ventures in infrastructure, energy, and connectivity that would synchronize, in the long term, the socioeconomic objectives of both countries-Wolf, 2019; Hwang & Lee, 2019; Irfan & Sohail, 2021. Pakistan has also been forced to reexamine its conventional ties with the US and its other immediate neighbors for the sake of national stability and continued economic advancement. As such, it's within this context that Pakistan has sought strategic diversification through ventures that create economic, trade-oriented bonds coupled with those that promote collaborative policymaking of larger regional concerns. Such alliances are envisaged to enable Pakistan's influence in the regional affairs and platforms for multilateral lobbying around issues that border security, trade facilitation, and infrastructure investment (Small, 2020; Alzahrani & Salah, 2020; Marc, 2024; Rodriguez, 2024). With the developing proximity between Pakistan and China, these have opened up new horizons to gain benefits for both countries, but at the same time, laid the ground for recalibrating Pakistan's approach towards outside players, including the US.

Recognizing the limitations of a foreign policy heavily dependent on short-term aid, Pakistan increasingly emphasizes the importance of forging enduring partnerships with both developing and developed nations. This strategic realignment is viewed as essential for attaining long-term economic sustainability, strengthening diplomatic ties, and fostering genuine economic empowerment at both the regional and global levels (Hussain & Khan, 2022; Sial, 2023; Farhadi & Zhao, 2024; Alvi & Mudassar, 2025). Reducing reliance on external assistance is perceived as a crucial step toward achieving

autonomous development, while robust engagement with neighboring countries and influential global actors is expected to provide new opportunities for investment, trade expansion, and technological transfer. The period from 2001 to 2020 signified a phase of profound transformation in Pakistan's relations with the United States, as the intersection of security imperatives and economic interests reshaped the bilateral agenda. In the aftermath of the terrorist attacks on September 11, 2001, Pakistan's geopolitical importance was magnified, situating the country at the heart of international counterterrorism efforts. The relationship during this period was predominantly shaped by security considerations, marked by significant cooperation between the governments, militaries, and civil societies of both countries (Markey, 2013). Nevertheless, this collaboration was often transactional in nature and subject to fluctuation due to shifting priorities and perceptions of mutual benefit. As Pakistan navigates an increasingly multipolar world, the ability to balance its relationships with major powers—such as China and the United States—while maintaining constructive ties with neighboring countries will be critical for ensuring sustainable economic growth and regional stability. Achieving such strategic alignment will demand comprehensive policy planning, a clear focus on national development objectives, and a willingness to engage in mutually advantageous partnerships with a diverse range of stakeholders (Ali et al., 2023).

2. GEOPOLITICAL ALIGNMENT AND STRATEGIC COOPERATION

Following the terrorist attacks on September 11, 2001, the priorities and strategies of the United States underwent a significant transformation, shifting from targeting individual states to addressing the broader challenge of global terrorism. This reorientation brought countries such as Pakistan into the international spotlight, making their roles in counterterrorism highly scrutinized and widely discussed within diplomatic and academic circles. Pakistan rapidly assumed a central position among Asian nations, becoming a key partner in international efforts aimed at combating extremism and restoring stability in the region (Fair, 2014). Research carried out by the Indo-Pakistan and the role of Afghanistan brought forth the fact that, for decades beyond now, these three countries have been essentially a part of a very broad network of cooperation for achieving peace, development, and regional security. This accession was viewed largely as a turning point in South and Central Asia's new geopolitics, halfway through an era of collaborative security measures, and economic partnerships that have gained unparalleled thrust (Kronstadt, 2018; Skhirtladze & Nurboja, 2019; Porro & Gia, 2021; Ibrahim & Simian, 2023; Hanvravongchai & Paweenawat, 2025). Millions of dollars were spent on various peacebuilding initiatives, such as strengthening institutional capacities and supporting stabilization efforts, though their mechanisms are yet to be established in practice. Among them, the Coalition Support Fund establishment by the United States has been termed a significant instrument for reimbursing countries, including Pakistan, for operational costs incurred during their counterterrorism operations against non-state militant groups (Schaffer et al., 2018; Weber, 2022; Kumar & Wu, 2025). Yet despite such efforts and assortments of money and military collaboration, debate continues about its long-term effects. Really, these supports helped build Pakistan's military and security infrastructure. However, a shadow remained about even larger social and political implications, such as governance, transparency, and sustainability in peacebuilding measures (Iqbal et al., 2019). It was largely this that laid the groundwork for further discussion on the best way to reduce the threats of global terrorism without neglecting sustainable regional partnerships.

3. ECONOMIC ASSISTANCE AND DEPENDENCY

Foreign Policy has had a complicated relationship with Pakistan in the years after the September 11 assault; periods of close cooperation intermixed with intervals of mutual mistrust. Financial assistance from the United States went to underpin Pakistan's counter-terrorism efforts; reception of that aid, however, was not uniform within Pakistan. The leadership of the country and its military establishment usually perceived such assistance as critical for improving the security capabilities of the country, but a sizeable portion of the populace continued to be sour about the motivation for such aid from the US (Rizvi, 2012). Dual roles of acting by the government and military-internal balancing act with external ties- led to frequent criticism, as many citizens perceived such arrangements as compromising national sovereignty and falling favorably with Western interests. Along this line, US financial support was also generally coupled with conditions relating to policy reforms, governance standards, and strategic priorities, the precise nature of which was often neither well known nor communicated to the broader public over the mind space, where understanding was created, therefore inflaming suspicion among the ordinary citizens (Kronstadt, 2018). Policy-contingent stipulations stirred tensions in Pakistani society, especially religious and political groups that question the alignment of foreign aid with the interests of the country and its social values. The issue was so important that it dominated much of parliamentary discussion as well as public debate. The question of whether foreign aid should shape its influence on domestic policy and economic direction was one of the issues that became prominent around that time. To further complicate the picture, most economic assistance packages were, by nature, short-term and reactive. US aid would be contributing to resuscitation during a period of crisis, whether caused by economic malaise or security threats; seldom does it wrangle with the underlying causes of instability or affect sustainable development. Scholars have argued that this approach often resulted in unresolved structural issues, leaving Pakistan's social and economic challenges largely unmitigated (Akhtar, 2018). More broadly, support available under such conditions fostered a vicious cycle of dependency precluding independent policymaking and limiting long-term growth.

4. TRADE RELATIONS AND ASYMMETRY

Throughout this phase, trade relations between the U.S. and Pakistan had short-term needs and naturally fell in favor of American economic interests rather than mutual benefit for the two. While the two have been trading partners, actual commercial exchanges have had somewhat negligible short-term and long-lasting impacts on either economy. The structure of trade oftentimes upholds uneven consequences, whereby Pakistan is locked into a severe instability of its balance payments with very little growth possible in exports (Ahmed et al., 2017). This came as part of the larger paradigm of economic cooperation that has always been tied to asymmetries, benefiting the U.S. owing to its earlier strength in negotiating power and greater space of economic opportunities. The situation was, however, even more adverse for Pakistan in terms of availing a solid base of never-ending support from the U.S., particularly for its fight against terrorism. The assistance that was provided often came with stringent policy requirements and was frequently tied to short-term objectives rather than longer-term developmental goals. As a result, Pakistan's efforts to promote economic stability and address underlying security concerns remained constrained, highlighting the limitations of a partnership that prioritized immediate strategic interests over comprehensive, long-term engagement (Sial, 2023). The absence of durable economic collaboration further underscored the need for Pakistan to diversify its international partnerships and develop self-reliant growth strategies to achieve lasting national security and prosperity.

5. SHIFTING GEOPOLITICAL REALITIES

China has rapidly established itself as a dominant economic power, achieving extraordinary rates of economic growth and technological advancement over the past several decades. Against this backdrop, the development of the China-Pakistan Economic Corridor has emerged as a flagship initiative, widely regarded as a transformative opportunity for regional integration and future economic expansion. The China-Pakistan Economic Corridor has captured global attention not only due to its potential to stimulate economic growth within Pakistan and China but also because of its broader implications for the strategic relationships among these two nations and the United States (Wolf, 2019). For the economic corridor, we expect improved connectivity, infrastructure upliftment, and opening up new avenues for social and economic progress within the region. On the continued rise of China within South Asia, the U.S. has appropriately reassessed and demonstrably changed its foreign policy posture across the region. Such realignment is seen as a larger exercise in American strategic interest balancing against the challenges raised by China's growing economic and political power. Hence, the unfolding of the China-Pakistan Economic Corridor adds further layers of complexity to the relationship between Pakistan and the United States, as both find themselves maneuvering for their interests in the changing power dynamics (Small, 2020). Nevertheless, within this changing paradigm regarding China, Pakistan, and the United States still share some common interests like regional security and economic stability.

6. US RELATIONS AFTER 9/11

Since 2001, the strategy of the United States has been directed towards creating much more stable and democratic governance and economic prosperity in Pakistan, with special emphasis on reducing the hold of religious militancy and extremism. To increase its engagement with Pakistan immediately after the terrorist attacks carried out on September 11, it recognized Pakistan, now the fifth most populous nation, as one of the most significant actors in regional counterterrorism efforts and international security policy (Kronstadt, 2018). Pakistan's geographical proximity to Afghanistan and the significance of efforts being undertaken to stabilize the region contributed to the substantial U.S. foreign assistance provided to Pakistan over the years following that. This assistance made Pakistan one of the top beneficiaries of U.S. foreign aid in the past years after September 11, essentially based on its crucial role in supporting operations in Afghanistan and fighting against networks of extremism. Financial assistance and development funding reached their peak in 2010, reflecting the high priority placed on Pakistan by American policymakers during that period (Markey, 2013). However, these aid levels have steadily declined over the past decade, hitting their lowest point in two decades during the administrations that followed, and signifying a shift in United States foreign policy priorities. The bilateral relationship between the United States and Pakistan has further deteriorated in recent years, especially after a series of incidents that undermined trust on both sides. One of the most significant turning points occurred in 2011, when it was revealed that Osama bin Laden, the founder of Al Qaeda, had resided undetected in Pakistan for several years before he died in a United States military operation. This event severely damaged the diplomatic relationship, deepening suspicions and reducing the level of strategic cooperation between the two nations (Rizvi, 2012). In the decade since, Pakistan's position as a focal point of United States foreign policy has diminished, and the country is no longer regarded as a top priority in Washington's strategic calculations. These developments highlight the evolving nature of the relationship, as both countries reassess their interests and roles in a changing global context (Sattar, 2022).

Historically, the United States sought to maintain a delicate equilibrium in its diplomatic engagement with both Pakistan and India, two countries whose longstanding rivalry has been a defining feature of South Asian geopolitics. However, the recent intensification of strategic competition between the United States and China, coupled with the withdrawal of United States military forces from Afghanistan, has fundamentally altered the established security-centric framework that characterized United States–Pakistan relations since 2001 (Small, 2020). The growing influence of China in the region has prompted American policymakers to place greater emphasis on multilateral security initiatives, such as the Quadrilateral

Security Dialogue, which is primarily aimed at counterbalancing China's ascendancy in Asia. This strategic realignment has raised concerns among Pakistani leaders and analysts, who worry that the country's importance to Washington may diminish and that its relationship with the United States will increasingly be viewed through the lens of its close ties with Beijing. Despite these apprehensions, the United States continues to highlight its diverse engagement with Pakistan, noting that it remains one of the leading sources of foreign direct investment in Pakistan and the country's largest export destination. Bilateral cooperation continues in a number of critical areas, including regional stability, counterterrorism, and the development of Pakistan's energy sector (Kugelman, 2022).

In response to these changing dynamics, policymakers and observers in Pakistan have advocated for a fundamental recalibration—or "reset"—of the bilateral relationship. They argue for a shift away from a predominantly security-oriented agenda toward a more comprehensive partnership encompassing economic, technological, and social dimensions. The emphasis on "geo-economics" reflects Pakistan's aspiration to leverage regional integration and investment in sectors such as information technology, agriculture, healthcare, energy, and climate change, positioning itself as an attractive partner for broader economic cooperation (Sial, 2023). Despite these aspirations, concrete steps toward such a reset have been limited, and high-level political engagement between the leadership of both countries has not kept pace with changing policy imperatives. The evolving strategic environment thus underscores the challenges and opportunities facing United States–Pakistan relations as both nations navigate an increasingly complex regional and global landscape (Rizvi, 2021).

7. EDUCATION SECTOR

Among the various development initiatives pursued in Pakistan, reforming the national education system has been identified by the United States Agency for International Development as a top priority. In July 2002, the United States Agency for International Development committed over one hundred million dollars to a comprehensive five-year school reform program, designed to transform multiple dimensions of education in Pakistan. In close partnership with the Ministry of Education, the United States Agency for International Development has worked to advance improvements in policy formulation and planning, elevate standards of teacher training, and expand both adult and youth literacy programs. The collaboration also emphasizes the importance of fostering partnerships between the public and private sectors, recognizing that cross-sectoral cooperation is vital for sustainable progress (Burki, 2021).

The range of projects funded under this initiative includes not only teacher preparation and the creation of high-quality educational resources but also significant investments in school infrastructure, particularly in regions such as the formerly federally administered tribal areas. The United States Agency for International Development has facilitated professional development by enabling Pakistani educators to participate in training programs in the United States and by supporting curricula that promote democratic values among both students and teachers (Zaidi, 2019). To be truly effective, these reforms must be implemented nationally, with careful attention to local contexts, avoiding top-down approaches that fail to account for Pakistan's social and cultural realities. Despite these targeted investments, the overall volume of United States aid for education is viewed by many observers as insufficient relative to the scale of the challenge. Analyses have suggested that existing funding levels should be substantially increased in order to achieve transformational impact (Andrabi et al., 2022). Furthermore, skepticism persists regarding the capacity of Pakistan's governmental structures to deliver on ambitious reform goals. This has prompted the exploration of alternative mechanisms for implementing educational change, notably the involvement of nongovernmental organizations. However, exclusive reliance on nongovernmental organizations has its drawbacks; in Pakistan, many such organizations are perceived as elitist and disconnected from grassroots needs, unlike their counterparts in Bangladesh, which have demonstrated a greater sense of public responsibility (Lall, 2020).

Civil society development is widely recognized as a crucial complement to educational reform in Pakistan. International support should prioritize both strengthening civil society and advancing education to foster more inclusive development. In recent years, government authorities have increased the education budget, enhanced educator salaries, expanded school facilities, and modernized curricula by introducing new subjects such as science and English, as well as establishing computer laboratories in schools (Mahmood, 2022). Despite these reforms, religious seminaries—commonly referred to as madrasahs—remain hesitant to adopt state-led changes. While increased funding may provide a temporary boost, lasting integration of religious seminaries into the mainstream education system requires a more gradual and comprehensive approach. Sustainable progress is likely to be achieved by raising the quality and accessibility of public education, thereby reducing the need for parallel educational tracks over time.

8. DEVELOPMENT AND HUMANITARIAN ASSISTANCE

Before 2007, financial assistance from the United States to Pakistan represented just over eleven percent of the total recorded United States foreign aid directed to the country. Concerns have been raised in various reports and analyses regarding the potential misuse of a portion of these funds, with allegations that some United States taxpayer dollars may have inadvertently contributed to systemic corruption within Pakistan (Zaidi, 2019). Nevertheless, the majority of the financial assistance has been directed toward a range of development goals, including support for electoral processes, early childhood development programs, improvements in basic healthcare services, food relief initiatives, and broader efforts to promote democratic governance. Typically, direct financial transfers to the Pakistani military are routed through official channels such as the United States Agency for International Development, unless exceptional circumstances arise, such as

during the emergency response to the 2005 earthquake in Pakistan, which necessitated a more direct allocation of resources (Kronstadt, 2018). In recent years, the United States launched a substantial development strategy for the frontier regions of Pakistan, allocating seven hundred and fifty million dollars to support the government's broader nine billion dollar initiative aimed at the sustainable development of the tribal areas.

The underlying rationale for this investment is the recognition that a long-term and effective strategy to counter violent extremism must include fostering stronger connections between the tribal populations and the central government. The development plan thus prioritizes enhancing planning and coordination between civilian and security agencies, as well as building the capacity of local authorities to manage and implement development aid programs in the region (Fair, 2014). Additionally, the strategy includes measures to improve security in the tribal areas, which is widely regarded as a prerequisite for the success of any development initiative.

Collaboration with the Pakistani government has facilitated the expansion and modernization of three major law enforcement agencies operating in the tribal belt. These agencies, which draw heavily from the local Pashtun population, have played an important role in maintaining order and combating violent extremist groups such as the Taliban and al-Qaeda, especially in areas like the Swat Valley in the Northwest Frontier Province. Many observers consider these facets of United States assistance to Pakistan to be essential components of the broader effort to achieve a lasting resolution to the threat of terrorism in the region (Rizvi, 2012). By supporting both security and development, United States aid seeks to address the root causes of instability and lay the groundwork for a more peaceful and prosperous future in Pakistan's tribal areas.

9. SECURITY MILITARY ASSISTANT

According to testimony delivered by Richard Boucher, a senior representative of the United States Department of State, the lengthy and rigorous reporting protocols governing United States security assistance to Pakistan were designed to ensure comprehensive oversight and transparency. Rather than relying solely on procedural mechanisms, oversight was anchored in formal agreements negotiated between the United States and Pakistan, which defined the scope and implementation of aid programs. During his appearance before the Congressional Committee tasked with examining the administration of United States assistance, Boucher explained that the Director of Foreign Assistance within the United States Department of State held principal responsibility for coordinating the distribution of financial and military support to Pakistan (Kronstadt, 2018).

Guidance for these programs was provided by the United States Department of State, with the Bureau of Political-Military Affairs serving as the key liaison between the Department of Defense and the Department of State. The Bureau was key in monitoring the management and execution of security cooperation programs, ensuring that decisions were in line with military needs and the overarching objectives of American foreign policy. The Bureau exercised oversight in a collaborative manner involving numerous agencies and stakeholders not only in Washington, D.C., but also with the United States ambassador and senior military commanders in Pakistan who were charged with the oversight of assistance programs, end-use monitoring to verify agreement compliance, and human rights vetting to preserve moral standing (Rana, 2015). Coordination between United States ambassadors and field commanders was key to synchronizing assistance programs with the operational needs of our Pakistani partners and the broader strategic objectives of the United States, Boucher noted. Within this framework, joint planning processes were established to align military assistance with the needs, but with the consideration that all will be in agreement with U.S. diplomatic priorities. The Department of State and the Defense Security Cooperation Agency further worked in tandem to avoid any unintended consequences of exacerbating regional tensions or giving rise to an arms race from equipment and resource transfers. Strict monitoring procedures were imposed to verify that all military supply was used following the agreed terms, thereby on the one hand enhancing accountability and, on the other, minimizing opportunities for misuse (Fair, 2014).

In the years after September 11, the bulk of U.S. financial assistance to Pakistan was delivered as direct transfers that were subsequently treated as part of Pakistan's sovereign resources. Once the funds were transferred to Pakistan's fiscal system, the U.S. far payment ceased to monitor applications of such funds. The sheer absence of oversight machinery rendered the American authority even unable to request or access the national record of aid in question concerning its various allocations and expenditures (Zaidi, 2019). Over time, this arrangement became entrenched in the administrative psyche, giving rise to an increasingly positive attitude among Pakistani bureaucrats toward mostly unconditioned foreign aid and politicizing later attempts to impose more stringent conditions or accountability requirements.

Cases of high-profile financial misconduct have rendered additional layers of obfuscation and a lack of accountability. Reports have emerged alleging that the Ministry of Finance suspected that much of the aid specifically for security and military-related checks and balances was being diverted to various unrelated expenditures. Some estimates suggest that up to seventy percent of these funds may have been misused, fueling concerns about the efficacy and impact of such aid flows (Rizvi, 2012). In this context, stakeholders who resist imposing new conditions on future United States assistance must consider the long-term consequences of perpetuating a system in which aid is perceived not as support for specific development or security objectives, but rather as an entitlement with minimal oversight.

At the same time, arguments persist that meaningful progress in countering extremism, including reforms to educational curricula and measures to curb militancy, is unlikely to be successful without continued engagement and cooperation

between the United States and Pakistan. Critics of strict conditionality sometimes conflate legitimate accountability with micromanagement, but there is a substantive difference between ensuring the effective use of aid and attempting to dictate all aspects of a partner country's internal policy. Tensions between congressional oversight in Washington and the preferences of the Pakistani government illustrate these differing interpretations (Kugelman, 2022). Finally, analysts such as Ahmed Rashid have cautioned that imposing excessive conditions on aid packages may undermine the political viability of such assistance within Pakistan, potentially jeopardizing bilateral cooperation. Nevertheless, the political landscape in Pakistan is itself evolving. Recent efforts by military leadership—such as those initiated by General Kayani to improve transparency and civilian oversight of defense spending—signal a gradual, albeit limited, shift toward greater accountability and civilian control over military budgets (Fair, 2014). These developments highlight both the opportunities and challenges associated with the future direction of United States-Pakistan relations.

To appreciate the concerns voiced by Defense Secretary Robert Gates and Chairman of the Joint Chiefs of Staff Admiral Michael Mullen regarding the adaptability of Pakistan's military, it is crucial to examine the broader strategic environment. From 2001 to 2009, Pakistan's military campaign against terrorism yielded only limited and incremental progress. While a degree of operational flexibility is necessary in counterinsurgency efforts, excessive leniency can compromise the effectiveness of United States foreign policy objectives, particularly in the areas of security and nonproliferation (Tellis, 2014).

A specific area of concern for the United States has been the global effort to halt the production of weapons-grade nuclear material. Despite international initiatives led by President Barack Obama to minimize the manufacture and proliferation of nuclear materials, Pakistan has increased its stockpile of fissile material and expanded its capacity for plutonium separation in recent years (Kerr & Nikitin, 2016). These developments have occurred against a backdrop of fiscal constraints, weak tax collection, and persistent allegations of military corruption within Pakistan. Given these factors, there are credible concerns that American financial assistance may have indirectly facilitated aspects of this nuclear build-up, inadvertently running counter to stated United States nonproliferation objectives. Furthermore, research by scholars such as Christine Fair underscores that limiting American aid solely to security assistance does not guarantee that these resources will be used exclusively for counterterrorism operations. Historically, Pakistan has redirected aid toward acquiring conventional military equipment, some of which has been deployed in the context of its rivalry with India, a close United States partner (Fair, 2014). This ambiguity raises questions about the adequacy of existing legislative safeguards and whether additional conditionality is required to ensure that aid genuinely supports shared security goals.

Fair contends that overly rigid restrictions may prove counterproductive, as Pakistan is unlikely to accept conditions it perceives as infringements on its sovereignty. She recommends a more collaborative approach, where Pakistani authorities are involved in defining objectives, benchmarks, and outcomes. Demonstrating consistent resolve—such as suspending aid in response to misuse—would send a clear message that further support is contingent upon measurable progress (Fair, 2014). Such conditionality is not punitive but rather intended to foster mutual accountability and enhance the impact of bilateral cooperation. Conditionality is also essential for the effective delivery of humanitarian and development assistance. American policymakers increasingly recognize that investments in secular education and comprehensive curricula can help mitigate the growth of extremism among Pakistani youth. However, the effectiveness of such aid has been undermined by persistent challenges, including security threats, reliance on foreign contractors, and an excessive emphasis on physical infrastructure over improvements in teaching quality (Zaidi, 2019). To maximize impact, non-military aid must be allocated consistently and monitored carefully, ensuring that it reaches intended beneficiaries and addresses underlying drivers of instability. This is less a matter of imposing preconditions than of ensuring that international support serves its fundamental purpose.

10. CONCLUSIONS

The present study delved into the terrain of evolution in Pakistan–United States economic relations during the War on Terror, and unfolding the strategic tangle between security cooperation and economic engagement. It will attempt to draw insights from official archives, scholarly literature, and policy reports to arrive at the conclusion that although providing short-term stabilization for Pakistan, US financial support has simultaneously entrenched patterns of aid dependency and constrained economic sovereignty. Conditions thus imposed on assistance indirectly shaped domestic policy agendas, constrained the government's room for maneuver for economic governance, and created conditions for accountability in transparency and accountability to democracy. Pakistan had a pivotal geopolitical position concerning the War on Terror, yet bilateral trade remained underdeveloped, characterized by structural asymmetries, diversity limitations, and market access limitations for Pakistani exports. The imbalance in commercial engagement underscores a missed opportunity to build a reciprocal economic partnership meant to complement strategic cooperation with sustainable economic outcomes. Furthermore, US aid prescribed mainly reactive and transactional response behavior, failing to address Pakistan's long-term requirements in development and augmenting fiscal vulnerability and institutional inertia instead of promoting structural reforms. With the changing geostrategies in the region, especially with China's rise and the deepening of the China-Pakistan Economic Corridor, Pakistan's relations with the United States are being overhauled strategically. Islamabad's gradual shift toward regional partnerships is indicative of a rebalancing of external relations towards economic resilience and political autonomy in the future. In this changing context, the clear imperative for Pakistan is to transform external reliance into

equitable trade, diversified investment, along with coherent industrial policy. Such a transformation will demand more than restructuring the economy. It will require institutional reforms to increase transparency, broaden the tax base, and create domestic sources of capital. Meanwhile, strategic engagement with the US should go beyond security concerns to deeper cooperation in technology, education, healthcare, and climate resilience. Through this recalibrated relationship, bilateralism would then have the opportunity to morph itself into one defined by mutual benefit and not asymmetrical dependence. He certainly believed that for Pakistan to achieve its developmental aspirations and gain a larger voice in shaping its economic future that a balanced approach is required, recognizing the realities of geopolitics but insistent on pushing national economic priorities through diversified partnerships and accountable governance.

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