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# **Pakistan: A Surface-Level Analysis of Pakistan's International Economic Agreements and their Strangulatory Impact on the Economy**

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## **Abstract**

The international economic system that evolved after WWII, which was conceived by and rolled out on behalf of Global North states, essentially stood on a tripod of international economic agreements (IEAs), that is, International Investment Agreements (IIAs), Double Taxation Agreements (DTAs), and International Trade Agreements (ITAs). The ostensible purpose of these IEAs was to (a) facilitate cross-border deployment of surplus investible capital, (b) export of finished and capital goods, and (c) allocate favorably taxing rights between on various incomes earned by multinational enterprises (MNEs) in overseas jurisdictions. Intuitively, when these IEAs are signed by and between states at par level of economic development, their resultant economic outcomes would be equal or near-equal. But when such agreements are signed in asymmetrical bilateral economic settings, that is, between a developed and a developing country, the resultant economic outcomes would most likely be lopsided and inimical to the economic interests of weaker partner in the equation. From the Global South perspective, these IEAs expose developing countries to international arbitration on account of suits filed by investors, erode their tax base by allowing MNEs to enter aggressive tax planning ploys, and undermine their export competitiveness vis-à-vis stronger economies. The paper premises that developing countries that signed more of these IEAs, would find themselves in a deeper trouble than those which signed less of them, and that countries that signed the IEAs in a quicker span of time, got into trouble quicker, too. In this connection, Pakistan is brought in to undertake a surface-level time-series analysis of its signing IEAs and the corresponding trajectory of select economic indicators over the past seven decades.

## **Key Words**

Free Trade Agreements; Bilateral Investment Treaties; Double Taxation Conventions; International Investment Agreements; Global South

**JEL Classification** – F0; F1; F3; F5 & F6

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## Section 1 Introduction

The international economic system that evolved post WWII, was sustained structurally by the Bretton Woods institutional framework, intellectually by neo-liberal economic theorists, and politically by advanced developed countries. This economic system was underpinned by a comprehensive legal infrastructure, which essentially stood on a tripod of international economic agreements (IEAs), that is, International Investment Agreements (IIAs), Double Taxation Agreements (DTAs), and International Trade Agreements (ITAs). The purpose of these legal frameworks was to (a) facilitate cross-border deployment of surplus investible capital, (b) export of finished and capital goods, and (c) allocate favorably taxing rights between on various incomes earned by multinational enterprises (MNEs) in overseas jurisdictions. It is understandable that when these agreements are signed by and between states at par level of economic development, their resultant economic outcomes would be equal or near-equal. However, where such agreements are signed in asymmetrical bilateral economic settings, that is, between a developed and a developing country, the resultant economic outcomes would most likely be lopsided and inimical to the economic interest of weaker partners in the equation. It is premised that developing countries that signed more of these IEAs, would find themselves in a deeper hole than those which signed less of them, and that countries that signed the IEAs in a quicker span of time, got into trouble sooner, too.

### 1.1. IEAs Landscape

Internationally, there are currently more than 2,500 IIAs in force, including over 300 bilateral and plurilateral treaties that may have a broader operation but also include investment provisions.<sup>2</sup> Likewise, there are presently 3,206 DTCs in force out of which 535 are between two developed countries, 1,093 between two developing countries, but most importantly, 1,578 are between a developed and developing country.<sup>3</sup> Then there are a large number of ITAs which underpin the international trade system. Of late, scholars of international financial architecture, particularly those working on it from the Global South's lens, have tended to agree and argue that these binding sovereign IEAs being cogs in the wheel of neo-colonialism, have effectively strangulated developing countries financially and economically over the past half century. These IEAs, without being monocausal, could be reckoned to be an embedded cause of Global South states' persistently rigid under-development.

### 1.2. Literature Review

Lately, though a substantial scholarship has been created on the subject, one finds only a handful which treats the matter from a developing country perspective in the broader domain of economic development. Henisz, Zelner, and Guillen explore the adoption of market-oriented reforms by various countries to exhibit that international pressures of coercion, normative emulation, and competitive mimicry strongly influence domestic economic policy adoption – particularly in developing countries.<sup>4</sup> Likewise, it has been argued that integration into the comity of nations through exposure to a globalized economy impacts development of

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<sup>2</sup> Alain Castonguay, "The Treatment of Taxation in International Investment Agreements: Issues Raised and Possible Policy Responses," in *UN Tax Committee* (New York: UN Department of Economic & Social Affairs, 2022).

<sup>3</sup> Muhammad Ashfaq Ahmed, "U.N. Model Tax Convention: The Albatross around Developing Countries' Neck - Time for a Tectonic Reset," *Manchester Journal of International Economic Law* 20, no. 2 (2023).

<sup>4</sup> Witold J. Henisz, Bennet A. Zelner, and Mauro F. Guillen, "The Worldwide Diffusion of Market-Oriented Infrastructure Reform, 1977–1999," *American Sociological Review* 70, no. 6 (2005).

independent financial institutions, specifically central banks across countries.<sup>5</sup> In the same vein, Lim and Tsutsui show that ties to world culture predict whether corporations adopt corporate social responsibility initiatives differently for developing countries that often pursue ceremonial commitments as compared to developed countries, which generally engage in substantive commitment to these policies.<sup>6</sup> Studies have also been undertaken to analyse global development from the angle of its relationship to and its impact on the environment.<sup>7</sup> There is, however, no scholarship available yet which looks at the cumulative impact of IIAs, DTAs and ITAs on overall performance of a developing country on a longer time horizon – least with reference to Pakistan; hence this paper.

### 1.3. Pakistan's Case Study

In this connection, Pakistan may be an appropriate case study as during the 1980s, 1990s, 2000s, and 2010s, these IEAs were signed and enforced at rather a frantic pace. In fact, Pakistan has the unique distinction of having signed the ever-first IIA (with Germany) in 1959. Likewise, Pakistan happens to be one of the first, if not the first, developing country which ended up signing a DTA with UK in 1955, and with USA in 1959. Coincidentally, US's DTA with Pakistan was its very first that it was able to pull through with a developing country.<sup>8</sup> It is believed that both the US and UK were closely monitoring each other's outward capital investments and were in a kind of rat race to sign DTAs with post-colonial states, and Pakistan turned out to be an easy prey sticking out its neck rather eagerly.<sup>9</sup> Pakistan did not take long to rush into start signing ITAs, when they got into vogue towards the turn of the century. Pakistan is believed to have lost, because of these IEAs, its export competitiveness, upto 8 percent of its gross domestic product (GDP) to MNEs in tax base loss, tax evasion, and illicit financial flows (IFFs), and finds itself at the receiving end of international investor state dispute settlement (ISDS) suits. It is further premised that the IEAs have operated on Pakistan's polity as a pull-back factor and adversely affected its performance on most critical macroeconomic indicators – paradoxically, which were only expected to improve on the strength of the new economic linkages. It is now widely believed that Pakistan, much like most other developing countries, did not walk into these IEAs after doing rigorous cost-benefit analysis, nor were they embedded into or stemmed from the overall macro-economic framework.

### 1.4. Scheme of the Paper

This paper is intended to seminally undertake a surface-level analysis of the effects of Pakistan's IEAs on its macroeconomic indicators. The paper is divided into five sections. Section 1 surveys the IEAs framework, contextualizes them in the overall theoretical design and briefly discusses their main features that can have a strangulatory effect on developing countries as well as their touted advantages and on-ground disadvantages. Section II stock takes Pakistan's IEAs landscape alongside the timeline of their signing and operationalization.

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<sup>5</sup> Simone Polillo and Mauro F. Guillén, "Globalization, Pressures and the State: The Worldwide Spread of Central Bank Independence," *American Journal of Sociology* 110, no. 6 (2005).

<sup>6</sup> Alwyn Lim and Kiyoteru Tsutsui, "Globalization and Commitment in Corporate Social Responsibility: Cross-National Analyses of Institutional and Political-Economy Effects," *American Sociological Review* 77, no. 1 (2012).

<sup>7</sup> Wesley Longhofer and Andrew Jorgenson, "Decoupling Reconsidered: Does World Society Integration Influence the Relationship between the Environment and Economic Development?," *Social Science Review* 65 (2017).

<sup>8</sup> Patrick L. Kelley, "Tax Treaties between the United States and Developing Countries: The Need for a New U.S. Initiative," *The American Journal of International Law* 65, no. 1 (1971).

<sup>9</sup> Nikki Teo, *The United Nations in Global Tax Coordination: Hidden History and Politics* Cambridge Tax Law Series (London: Cambridge University Press, 2023).

Section III explores the impact of Pakistan's IEAs on its select eight critical macroeconomic indicators. Section V summarizes the debate with some policy pointations.

## Section 2 International Economic Agreements

The IEAs that constitute the paper's universe are IIAs, DTAs, and ITAs, which effectively undergrid the extant international economic system. The IEAs trace their theoretical moorings in economic neoliberalism which broadly hinges on market-determined low but positive (in real terms) interest rate, trade liberalization, (with focus on eliminating tariff and non-tariff restrictions), free movement of capital, privatization of state-owned enterprises, and deregulation. It would be advisable to explore each IEA type at some length.

### 2.1. IIAs

#### 2.1.1. Defining IIAs

An IIA is an agreement between sovereign states that looks to address issues concerning liberalization, promotion, and protection of cross-border investments. The United Nations Conference on Trade and Development (UNCTAD) defines IIAs as "agreements between two countries for the reciprocal encouragement, promotion and protection of investments in each other's territories by companies based in either country."<sup>10</sup> The IIAs are undergrid by the public international law, which can broadly be defined as internationally accepted practices and principles that normatively governs "the relationship between foreign investors and their host states and the protection of foreign investments."<sup>11</sup>

#### 2.1.2. IIAs – Historical Context

The emergence of the international investment framework can be divided into two distinct eras. **The first era** – from 1945 to 1989 – was characterized by disagreements among countries about the degree of protection that international law should offer to foreign investment and trade. While developed countries argued that foreign investors should be entitled to a minimum standard of protection in any host economy, the developing, post-colonial, and socialist states contended that foreign investors could not be accorded a preferential treatment, which was markedly different from the one extended to national firms. In 1965, the Convention for the Settlement of Investment Disputes between States and Nationals of other States was opened to countries for signature. The rationale was to establish ICSID as an institution, which could facilitate the arbitration of investor-State disputes.

**The second era** – from 1989 onwards – marks a substantial increase in the number of IIAs being signed and enforced. The mid-1990s particularly saw the creation of three multilateral agreements that touched upon investment issues as part of Uruguay Round of trade negotiations and creation of World Trade Organization (WTO). These were the (a) General Agreement on Trade in Services (GATS), (b) Agreement on Trade-Related Investment Measures (TRIMS), and (c) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The IIAs appear to be entering a new era as regional agreements, such as the European Union, North American Free Trade Agreement, and others are set to supplant traditional bilateral agreements. It is generally believed that internationalization and

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<sup>10</sup> N. Bandelj and A. Tester, "Amplified Decoupling in the Global Economy: The Case of Bilateral Investment Treaties," *Socius* 6 (2020).

<sup>11</sup> Sarah Alshahrani, "What Should We Know About the Origins of International Investment Law?," *International Journal of Legal Information* 48, no. 3 (2021).

regionalization of bilateral IIAs has led to enhancement of complexity, and adversely affected their operability – often referred to a “spaghetti bowl.” The current visible tendency among developing countries to sign IIAs with other developing countries may be due to a perception of being able to be an exporter of capital due to development levels attained, competitive mimicry, and a herd mentality.

### 2.1.3. IIAs – Rationale

In fact, the approach of signing treaties to attract trade and commerce can be traced further back in time to the twelfth century.<sup>12</sup> During the Fatimid Caliphate and Mamluk Sultanate period, commercial privileges and fiscal exemptions were granted to non-Muslim foreigners. These privileges were given to foreign traders with the aim of making the Mediterranean an attractive region for trade.<sup>13</sup> Salacuse believes that post-WWI, “the United States’ treaties of friendship, commerce, and navigation increasingly dealt with investment abroad by securing agreement with other states on the treatment to be accorded to U.S. nationals with respect to the establishment of businesses, the protection of American-owned property from arbitrary or discriminatory action.”<sup>14</sup> Historically, since FDI in essence involved relationship between “foreign investors and host States,” it was considered a subject to be dealt with under the national laws of the host state.<sup>15</sup> International law, on the contrary, kicked in only in exceptional situations treatment of the property of aliens by the host State, responsibility of States against acting in violation of international law, and the respect for diplomatic protection.<sup>16</sup>

### 2.1.4. IIAs – Coverage

The IIAs tend to cover both foreign direct investment (FDI) and foreign portfolio investment (FPI), but a particular IIA could straddle on either of the investment types depending upon the negotiating partner state’s needs. Most common types of IIAs are bilateral investment treaties (BITs), and preferential trade and investment agreements (PTIAs). In some respects, DTAs are also considered as IIAs as taxation can be an important variable in the investor’s decision-making equation and the destination choice. The investment risk management on account of an IIA is attributable to encouraging MNEs and other economic actors to invest in an IIA-partner state. Likewise, allowing foreign investors to settle their disputes via international arbitration instead of through host state’s domestic commercial justice system only is projected to have positive correlation with foreign investment. Moreover, the non-discrimination standard incorporated into an IIA ensures that a foreign investor is treated in a host state at par with its own nationals as well as nationals of other states in terms of guarantees against losses incurred by foreign investors due to expropriation on account of war, contract non-enforcement or civil strife, as well as assurances as regards repatriation of capital and profits. Of late, matters pertaining to purely domestic public policy – security, health, environmental protection, and safety – are also included in IIAs, which are generally believed to be arbitrarily used to promote economic agenda by developed countries unilaterally.<sup>17</sup>

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<sup>12</sup> Ibid.

<sup>13</sup> Ibid.

<sup>14</sup> Jeswald W. Salacuse, "B.I.T. By B.I.T.: The Growth of Bilateral Investment Treaties and Their Impact on Foreign Investment in Developing Countries," *International Lawyer* 24, no. 3 (1990).

<sup>15</sup> Castonguay, "The Treatment of Taxation in International Investment Agreements: Issues Raised and Possible Policy Responses."

<sup>16</sup> U.N.C.T.A.D, *International Investment Agreements: Key Issues*, vol. I (New York: United Nations, 2004).

<sup>17</sup> Castonguay, "The Treatment of Taxation in International Investment Agreements: Issues Raised and Possible Policy Responses."

There are currently more than 2,500 IIAs in force, including over 300 bilateral and plurilateral treaties that may have a broader operation but also include investment provisions.<sup>18</sup> This may be relevant to point out that the first IIA with a non-binding investor-state dispute resolution mechanism (ISDS) was signed between Germany and Pakistan in 1959, and the first IIA with ISDS mechanism was signed between the Netherlands and Indonesia in 1968. Host states, by implication, developing countries, are increasingly feeling coercive impact of IIAs since those generally tend to apply to all measures of a party, with the term “measures” being interpreted liberally to cover a wide range of laws, regulations, and administrative practices. This perceived sense of coercion stems from the way IIAs’ operations have panned out over the past couple of decades dragging developing countries into international disputes.<sup>19</sup>

The number of arbitral cases has ballooned up over the past couple of decades. In fact, since 1990, 1,100 cases have been lodged against 124 sovereign states, out of which 740 have even been decided. Ignoring cases that were dismissed for lack of jurisdiction, among cases decided on merit, about 57 per cent were decided in favour of investors and resulted in monetary damages being awarded to them.<sup>20</sup> Likewise, the amounts of damages awarded to successful claimants has grown significantly since 2000.<sup>21</sup> It has been reported that investors that were successful, on average claimed some US\$ 1.2 billion, and were awarded US\$ 438 million each.<sup>22</sup> These amounts could be good enough to send external sectors of some fragile developing economies into a tailspin.

## 2.2. DTAs

### 2.2.1. Defining DTAs

A DTA is an agreement signed between and by two countries to avoid or mitigate double taxation on incomes earned by economic actors inside each other’s territorial borders. DTAs may cover an array of taxes such as income taxes, inheritance taxes, value added taxes that are levied at various tiers of government. A DTA is essentially a bilateral phenomenon though there are instances of signing of multilateral DTAs, too.

### 2.2.2. Historical Context

In clear contrast to IIAs and ITAs, which emerged in the post WWII scenario, DTAs trace their origins against the backdrop of WWI, that is, under the league of Nations (LN) framework. The LN sponsored 1920, 1923, 1925, and 1927 reports which led to the release of LN MTC 1935. The work on refining the LN MTC continued as developing countries were not satisfied with the fairness of the allocative principles in most cross-border incomes. The strains on the distributive rules so exerted resulted in LN MTC 1943 (Mexico Model), which was purportedly more favourable to developing countries and the LN MTC 1945 (London Model), which was more favourable to developed countries. In the post WWI period, initially the Organization for European Economic Cooperation (OEEC), and then the Organization for Economic Cooperation and Development (OECD) undertook major improvement work on the LN MTC 1945, and rolled OECD MTC 1963. The UN vide ECOSOC Resolution 1273/1967 stepped into the arena of international taxes and established the Ad Hoc Group of Tax Experts (AHG) in 1968. The AHG took over a decade before UN MTC 1980 was unveiled. The OECD MTC

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<sup>18</sup> Ibid.

<sup>19</sup> W. Rodney, *How Europe Underdeveloped Africa* (East African Educational Publishers, 1989).

<sup>20</sup> Castonguay, "The Treatment of Taxation in International Investment Agreements: Issues Raised and Possible Policy Responses."

<sup>21</sup> Ibid.

<sup>22</sup> Ibid.

1963 was revised in 1977, and then in 1992, 1994, 1995, 1997, 2000, 2002, 2005, 2008, 2010, 2014, and finally 2017. The UN MTC, since its inception in 1980, has undergone modifications in 1999, 2001, 2007, 2011, 2017, and finally in 2021.

### **2.2.3. DTAs – Coverage**

Although, the goals of signing DTAs vary from country to country, both in essence and structure, they tend to be quite identical and do contain a number of standard provisions. The DTAs, inter alia (a) define the taxes that are to be covered; (b) describe as to who is a “resident” and eligible for benefits; (c) prescribe limits on the amount of tax to be withheld from interest, dividends, and royalties paid by a resident of source state to that of the residence state; (e) put conditions under business incomes of MNEs that can be taxed in the source state ; (f) elaborate circumstances in which individuals of one state could be taxed in the other state – salary, service incomes, pension, and other remuneration; (g) provide for exemption of certain types of organizations or individuals; and (h) lay out procedural frameworks for enforcement and dispute resolution.<sup>23</sup>

### **2.2.4. DTAs – Rationale**

The ostensible objectives of entering a DTA often include reduction of double taxation, elimination of tax evasion, and incentivization of cross-border trade and investment. It is generally believed that DTAs improve certainty for taxpayers and tax authorities in their international dealings. There are currently two dominant model tax conventions (MTCs), that is, UN MTC and OECD MTC. While developed countries utilize OECD MTC, developing countries resort to the UN MTC as a boilerplate draft. Although, it is generally made out that UN MTC is more favourable to developing countries’ fiscal interests, it has convincingly been argued that it is no good even for developing countries.<sup>24</sup>

Likewise, there are currently 3,206 DTAs in force out of which 535 are between two developed countries, 1093 between two developing countries, and more importantly, 1578 are between a developed and developing countries.<sup>25</sup> A plethora of scholarship has recently emerged on the horizon to argue that the “spaghetti bowl” of DTAs undermine developing countries’ tax base, exert pressure on their balance of payments and operate as a pull-back factor on their economic development.

## **2.3. ITAs**

### **2.3.1. Defining ITAs**

An international trade agreement (ITA) is a wide-ranging international instrument covering tariff, non-tariff, tax, and investment aspects of formal international trade between two or more signatory states/parties. The IIAs explicitly put out agreed upon terms and conditions of trade and the punitive regime for any breaches and deviations from them. Thus, ITAs are projected to breed common understating on issues of importance to the economic actors of one signatory state vis-à-vis their interaction with those of the other signatory state thereby enhancing diversification and quality of mutual trade.

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<sup>23</sup> Marynchak Yevhen, "The Financial Nexus between an Individual and a State," in *Public Finance: Legal Aspects* (Riga: Baltija Publishing, 2019).

<sup>24</sup> Ahmed, "U.N. Model Tax Convention: The Albatross around Developing Countries' Neck - Time for a Tectonic Reset."

<sup>25</sup> Ibid.

### 2.3.2. ITAs – Historical Context

The World Trade Organization (WTO) under the Bretton Woods institutional framework was established on January 1, 1995, with the primary objective to regulate international trade and operate as a depository and sponsor of ITAs in most situations. The ITAs signed within the WTO framework automatically apply to all WTO members meaning thereby that terms agreed bilaterally with one trading partner will apply also to the rest of the WTO members. However, the ITAs signed outside the WTO framework that grant any additional benefits beyond the WTO most-favoured nation (MFN) level, and applicable only between the signatories and not to other countries, are dubbed by WTO as *preferential* ITAs in nature. The ITAs make misunderstandings less likely, breed confidence, put cost on cheating and open vistas for international trade and investment.

### 2.3.3. ITAs – Coverage

Thematically, ITAs are of two types, that is, preferential trade agreements (PTAs), and free trade agreements (FTAs), which seek to reduce or eliminate tariffs, taxes, quotas, and sundry restrictions on goods and services traded between countries. Generally, ITAs can be both bilateral and multilateral in scope and coverage. A bilateral trade agreement (BTA) is signed between two parties which could be either a state, a customs union, a trading bloc, or a group of countries or customs territories. A multilateral trade agreement (MTA), on the other hand, is signed between more than two parties, which could be states, customs unions, trading bloc or groups of countries.

ITAs tend to be politically contentious and sensitive as they can change and disturb the economic status quo potentially benefitting certain economic actors at the expense of and harming certain others – and possibly inside all signatory state parties. ITAs also spur interest group activity, and *groupnessization* in the polity, which results in enhanced pressure on the decision-making structures. Illustratively, ITAs have been used by nicotine- and alcohol-industry lobbyists to block, delay, and weaken public health measures like health warning labels.<sup>26</sup> Likewise, ITAs have also been leveraged to regulate internet use, strengthen legal monopolies, and change laws pertaining to privacy, healthcare, labour, and environmental. Of late, concerns have been expressed about the growing expansion of ITAs' web internationally. Lamy remarks that the proliferation of ITAs "...is breeding concern – concern about incoherence, confusion, exponential increase of costs for business, unpredictability and even unfairness in trade relations."<sup>27</sup> The international civil society per se opposes ITAs, but some of them – green parties – demand equitable trade and a fairer trade regime that can alleviate harmful impact for the marginalized peoples and contribute to the sustainability of planet earth. In particular, ITAs effect developing countries in a variety of ways depending upon their relative economic strengths and weaknesses.

The coercive implications of ITAs for developing countries emanate from a strangulatory architecture that they lay out. The ITA architecture generally follows that of other international treaties, and include a description of object and its scope, definitions of key terms, country obligations, that is, national treatment (NT), most favoured nation treatment (MFN), fair and equitable treatment (FET), minimum standard of treatment (MST), the prohibition of unlawful

<sup>26</sup> Paula O'Brien et al., "Commentary on 'Communicating Messages About Drinking': Using the 'Big Legal Guns' to Block Alcohol Health Warning Labels," *Alcohol and Alcoholism* 53, no. 3 (2018).

<sup>27</sup> Pascal Lamy, "Proliferation of Regional Trade Agreements 'Breeding Concern'," in *WTO News* (Geneva: World Trade Organization - September 10, 2007).

expropriation, rules governing the transfer of funds, the prohibition of certain performance requirements associated with investment, and requirements regarding transparency.<sup>28</sup>

#### 2.3.4. IEAs – Touted Advantages

The IEAs both severally and collectively are touted to yield several benefits to partner states, including but not limited to, stronger economic growth, competitive innovation, improved industrial efficiency, enhanced competitiveness, promotion of fairness, enhancement of freedom, job creation, greater market access, greater global cooperation, and improved governance. There could be countries whose international trade that might have attained a spur from ITAs, but generally their impact for developing countries is taken as stressful.

#### 2.5. Summation

The IEAs, particularly those signed in asymmetrical bilateral settings, are essentially lopsided in that they underwrite and focus only protection and not promotion of FDI and FPI's ignoring balance of trade, equitable taxation, and transfer of technology on fairer terms. The IEAs, particularly those with in-built international dispute settlement mechanisms induce perverse behavior on part of MNEs as well as on part of international tax, trade, and investment lawyers, accountants, and arbitrators who perversely tend to drag developing host states into excessive litigation. Since IEAs are based on the principle of reciprocity, which generally is not backed up by a requisite economic capacity, the flow of benefits is often unidirectional. Although apparently the IEAs are separate instruments and cover different dimensions of economic life, yet they operate like a well-oiled machine producing organic outcomes, for developed countries, that is, earning business profits and passive incomes, trade surpluses in developing countries, and then remitting them back in foreign exchange – at minimal cost. The IEAs' adverse implications for developing countries get heightened by the fact that they, as per the international law, avail primacy over the domestic legal infrastructure and yield above par benefits to MNEs, which are not available to purely domestic MNEs and firms. Importantly, if governments enter IEAs with general development goals in mind, these agreements usually per se do not directly deal with the problem of economic development. Khan et al have remarked that Pakistan's IIA network "has created vulnerability to regulate the national interests of the state."<sup>29</sup> Eberhardt et al. have also "questioned the very integrity of the functioning of the system of international arbitration,"<sup>30</sup> and the way it affects the developing world.

### Section 3

#### Pakistan – IEAs Landscape

In comparison with other developing countries, Pakistan may have by now bagged an above par tally of IEAs, but this could be a topic of separate study. In fact, Pakistan happens to be a signatory to the first-ever IIA with Germany in 1959, and one of the first developing country with which USA could sign a DTA in 1959. Why Pakistan has stuck its neck out before anyone else might warrant another separate inquiry but sustained political instability and the ruling elites' overtures to seek legitimacy from external stakeholders,<sup>31</sup> could be the inducing factors

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<sup>28</sup> Castonguay, "The Treatment of Taxation in International Investment Agreements: Issues Raised and Possible Policy Responses."

<sup>29</sup> Ali Nawaz Khan, Bakht Munir, and Naveed Ahmad, "Critical Analysis of Bilateral Investment Treaties in Pakistan," *Journal of Research Society of Pakistan* 57, no. 2 (2020).

<sup>30</sup> Eberhardt, Pia and Olivet, Cecilia, *Profiting from Injustice - How Law Firms, Arbitrators and Financiers are Fuelling an Investment Arbitration Boom*. Corporate Europe Observatory and the Transnational Institute, Brussels and Amsterdam, November 2012.

<sup>31</sup> See, for a detailed analysis, Muhammad Ashfaq Ahmed, "Pakistan: Extraction, Elites and State Autonomy: A Theoretical Configuration," *Pakistan Development Review* 56, no. II (2017).

for such an intense propensity. This section briefly summarizes Pakistan's dateline with IEAs – providing a snapshot rundown.

### 3.1. Pakistan's IEAs

#### 3.1.1. IIAs

Table I below contains the list of countries with which Pakistan has signed IIAs duly showing the date of their signing and ratification.

**Table I<sup>32</sup>**  
**Pakistan's IIAs – Year of Signing & Ratification<sup>33</sup>**

#	Country	Date Signed	Date Ratified	#	Country	Date Signed	Date Ratified
01	Australia	07.01.1998	14.10.1998 <sup>15</sup>	25	Singapore	08.03.1995	04.05.1995 <sup>15</sup>
02	France	01.06.1983	14.12.1984 <sup>10</sup>	26	Syria	25.04.1996	04.11.1997 <sup>10</sup>
03	Sweden	12.03.1981	14.06.1981 <sup>20</sup>	27	Iran	08.11.1995	27.06.1998 <sup>10</sup>
04	Korea	25.05.1988	15.04.1990 <sup>10</sup>	28	Tunisia	18.04.1996	Not Known <sup>10</sup>
05	Netherlands	04.10.1988	01.10.1989 <sup>15</sup>	29	Mauritius	03.04.1997	03.04.1997 <sup>10</sup>
06	China	12.02.1989	30.09.1990 <sup>10</sup>	30	Oman	09.11.1997	14.05.1998 <sup>10</sup>
07	Uzbekistan	13.08.1992	15.02.2006 <sup>10</sup>	31	Sri Lanka	20.12.1997	05.01.2000 <sup>10</sup>
08	Azerbaijan	09.10.1995	Not Known <sup>10</sup>	32	Laos	23.04.2004	19.03.2007 <sup>10</sup>
09	Spain	15.09.1994	24.04.1996 <sup>10</sup>	33	UAE	05.11.1995	02.12.1997 <sup>30</sup>
10	UK	30.11.1994	30.11.1994 <sup>10</sup>	34	Qatar	06.04.1999	Not Known <sup>10</sup>
11	Portugal	17.04.1995	14.12.1996 <sup>10</sup>	35	Philippines	23.04.1999	Not Known <sup>15</sup>
12	Switzerland	11.07.1995	06.05.1995 <sup>10</sup>	36	C Republic	07.05.1999	Not Known <sup>10</sup>
13	Kyrgyzstan	23.08.1995	Not Known <sup>10</sup>	37	Egypt	16.04.2000	Not Known <sup>10</sup>
14	Bangladesh	24.04.1995 <sup>10</sup>	Not Ratified	38	Lebanon	09.01.2001	28.03.2003 <sup>10</sup>
15	Indonesia	08.03.1996	03.12.1996 <sup>10</sup>	39	Bosnia	04.09.2001	14.05.2010 <sup>10</sup>
16	Malaysia	07.07.1995	30.09.1995 <sup>10</sup>	40	Morocco	16.04.2001	Not Known <sup>10</sup>
17	Belarus	22.01.1997	Not Known <sup>10</sup>	41	Bulgaria	12.02.2002	Not Known <sup>10</sup>
18	Bahrain	18.03.2014	07.10.2015 <sup>10</sup>	42	Kazakhstan	08.12.2003	07.12.2009 <sup>10</sup>
19	Kuwait	17.03.1983	15.03.1986 <sup>10</sup>	43	Cambodia	27.04.2004	Not Known <sup>10</sup>
20	Italy	19.07.1997	22.06.2021 <sup>15</sup>	44	Tajikistan	13.05.2004	29.07.2009 <sup>Ind</sup>
21	Japan	10.03.1998	20.05.2002 <sup>10</sup>	45	Germany	25.11.1959	15.03.1962 <sup>10</sup>
22	Romania	10.07.1995	08.08.1996 <sup>10</sup>	46	Turkey	16.03.1995	03.09.1997 <sup>10</sup>
23	Yemen	11.05.1999	Not Known <sup>15</sup>	47	Luxemburg	23.04.1998	07.08.2015 <sup>10</sup>
24	Turkmenistan	26.10.1994	Not Known <sup>10</sup>	48	Denmark	18.07.1996	25.09.1996 <sup>10</sup>

After signing IIA with Germany, Pakistan appears to have signaled its willingness to other countries. Thus, having been engaged in negotiations throughout 1960s, and 1970s, Sweden, France, Kuwait, Netherlands, and China were able to clinch the deal with Pakistan in 1981, 1983, 1988, 1988, and 1989, respectively. There appears to have been undertaken no evaluation as to the outcomes of the pre-existing IIAs and the need for more of them. Table II shows decade-wise data of IIAs signed and operative.

<sup>32</sup> Source: Board of Investment, Islamabad

<sup>33</sup> The IIAs with Germany, Kuwait, and Turkey have since been renegotiated in 2009, 2011, and 2012, respectively.

\* Where Instrument of Ratification, the dates of ratification have been taken from UNCTAD website. \* Most IIAs have an initial expiry period, after which those do not expire and rather are given tacit renewal for another term until repealed by either contracting state. \* Pakistan-Tajikistan IIA is apparently for an indefinite period of time.

**Table II<sup>34</sup>**  
**Decade-Wise Data of Pakistan's IIAs – Signed & Operative**

Decade	Total IIAs	
	Signed	Operative <sup>35</sup>
1950s	1	1
1960s	0	1
1970s	0	1
1980s	5	6
1990s	31	37
2000s	10	47
2010s	1	48
<b>Total</b>	<b>48</b>	<b>48</b>

It would be seen that after signing the first IIA in 1959, there remains a lull during 1960s and 1970s. In 1980s, Pakistan ends up signing 5 more IIAs but the real flourish is seen in 1990s when an astounding number of 31 IIAs are negotiated, followed by 10 in 2000s. But when it comes to IIAs being operative one observes that while an IIA was operative in 1960s, and 1970s, 37 were operative in 1990s, 47 in 2000s, and 48 in 2010s, and onwards. This is a substantial tally keeping in view Pakistan's economic integration both regionally and globally.<sup>36/37</sup> The next section would trace time-series linkages between IIAs signed and the inflows of FDI and FPI overtime.

### 3.1.2. DTAs

Pakistan identically rushed into signing DTAs inside 1950s, that is, with US in 1957, and UK in 1958. It led to building up pressure by other developed countries for a similar arrangement. Intuitively, it is logical to presume that Pakistan's DTAs would have been leveraged by developed powers to create a peer pressure on other developing countries to [sign](#) similar agreements. The 1960s was a decade of hiatus. However, Pakistan started to cave in under pressure towards the onset of 1970s. Table III contains decade-wise data of DTAs signed by Pakistan, which have been operative, too.

**Table III<sup>38</sup>**  
**Decade-Wise Data of Pakistan's DTAs – Signed & Operative**

Decade	Total DTAs	
	Signed	Operative
1950s	1	2
1960s	0	2
1970s	4	7
1980s	16	22
1990s	20	42
2000s	19	61
2010s	5	66
<b>Total</b>	<b>65</b>	<b>66</b>

<sup>34</sup> Source: Board of Investment, Islamabad

<sup>35</sup> Out of the 48 IIAs inked by Pakistan, 42 IIAs had a built-in life-span of 10 years; 3 IIAs 15 years; 1 IIAs 20 years; 1 IIA 30 years; and 1 IIA indefinite one. Intriguingly, after reaching the initial expiry date, a IIA is does not expired; it rather gets a tacit renewal for another lease of life - unless terminated by either party.

<sup>36</sup> U.N., "World Investment Report 2022," (New York: U.N.C.T.A.D, 2022).

<sup>37</sup> Khan, Munir, and Ahmad, "Critical Analysis of Bilateral Investment Treaties in Pakistan."

<sup>38</sup> Source: Federal Board of Revenue, Islamabad

After signing a couple, none, and 4 in 1950s, 1960s and 1970s, Pakistan hits the peak by inking 16, 20, and 19 during 1980s, 1990s, and 2000s, respectively. The trend appears to have steamed out in 2010s, when only 5 DTAs were signed. However, the figures of operative DTAs at 2, 2, 6, 21, 41, 60, 66 during 1950s, 1960s, 1970s, 1980s, 1990s, 2000s, and 2010s constitute an oppressive reality telling on the polity.<sup>39</sup> It has been argued that developing countries were wheedled into signing DTAs rather recklessly only after UNMTC 1980 had been unveiled.<sup>40/41</sup>

### 3.1.3. ITAs

Unlike, IIAs and DTAs, which were hurried into by Pakistan post-independence, ITAs are relatively a more recent phenomenon. Pakistan entered into South Asian Free Trade Area (SAFTA) signed by Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka, in 2004. This was followed by Pakistan-Sri Lanka FTA going operational from June 12, 2005. Pakistan-Iran PTA was operationalized w.e.f. September 1, 2006. Likewise, Pakistan-Mauritius PTA was signed on July 30, 2007, which was immediately followed by Pakistan-Malaysia PTA on November 8, 2007. Simultaneously, negotiations for Pakistan-China FTA remained underway which culminated into the signing of first phase of Pakistan-China FTA on July 7, 2007. Pakistan-Indonesia PTA was signed on February 3, 2012. Table IV summarizes decade-wise data of ITAs signed by Pakistan and operationalized.

**Table IV<sup>42</sup>**  
**Decade-Wise Data of Pakistan's ITAs – Signed & Operative**

Decade	Total ITAs	
	Signed	Operative
2000s	06	06
2010s	02	08
<b>Total</b>	<b>08</b>	<b>08</b>

Out of the 8 ITAs that Pakistan has signed so far, 6 were signed during 2000s and 2 in 2010, which makes 8 ITAs currently operational. The number of ITAs may not be exorbitant as compared with a number of other developing countries, but even this paltry number is enough to rattle Pakistan's export competitiveness, having been signed with economically relevant unneighborly countries, and without assessing or boosting its capacity to export.

### 3.2. IEAs' Timeline

Considering that IIAs, DTAs and ITAs are all key cogs in the wheel of complex international economic system, which perform specialized functions, all of them can be analyzed in collectivity for a wholesome comprehensive analysis. Figure I plots decade-wise data of IIAs, DTAs and ITAs in a segregated manner duly showing a spike in their signing during 1980s, 1990s, and 2010s. At some level, this trend is not much different from the overall international trends.

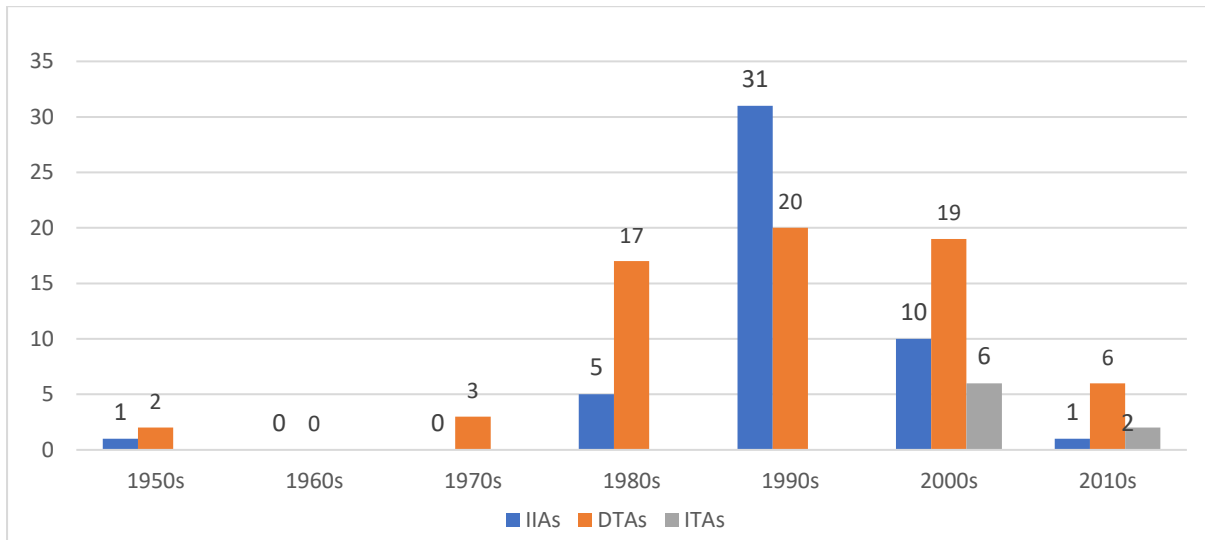
<sup>39</sup> Muhammad Ashfaq Ahmed, Na Li, and Peter Mellor, "China-Pakistan Double Taxation Agreement and China-Pakistan Economic Corridor," *Bulletin for International Taxation* 72, no. 8 (2018).

<sup>40</sup> Muhammad Ashfaq Ahmed, "International Tax Cooperation: A Coercive Reality Telling on Global South – African Group Resolution for New U.N. Tax Compact – Quick Shuffle from Convention to Cooperation," *Journal of Taxation and Regulatory Framework* 5, no. 1 (2022).

<sup>41</sup> "U.N. Model Tax Convention: The Albatross around Developing Countries' Neck - Time for a Tectonic Reset."

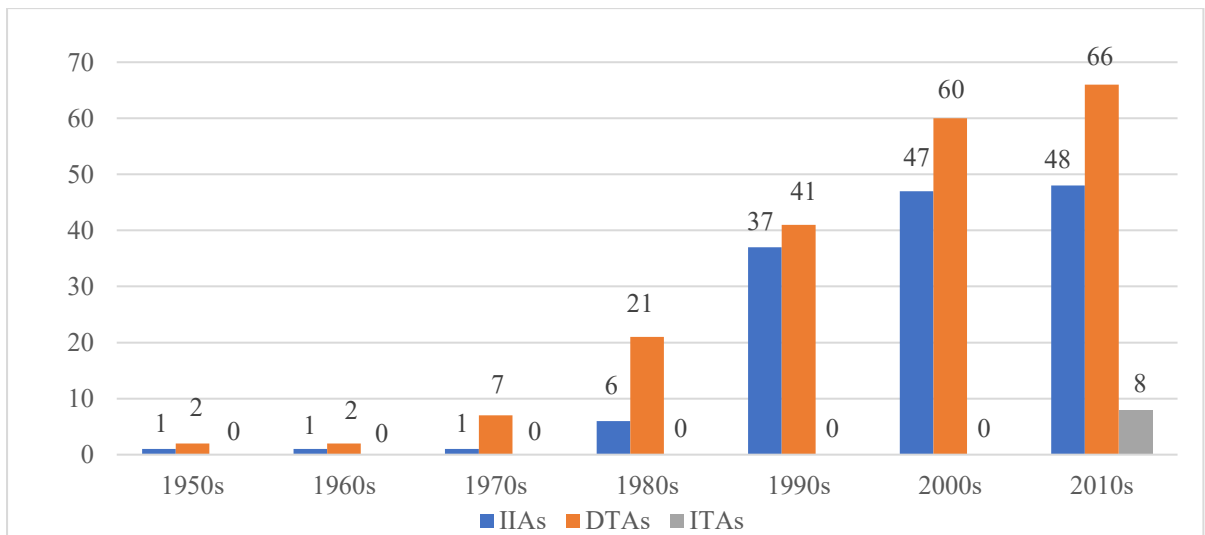
<sup>42</sup> Source: Ministry of Commerce, Islamabad

**Figure I**  
**Decade-Wise Signing of IEAs**  
 (IIAs, DTAs, & ITAs)



During 1990s, the political system suffered from instability as five regimes changed. With political leadership all over the place, the economic policy makers appear to have grabbed greater space to commit the state into binding economic treaties for an indefinite period of time. Figure II showcases decade-wise data of operative IEAs cumulatively. It is observed that though there is a visible decline in the signing of the IEAs during 2010s as shown in Figure I, the number of operative IEAs is consistently rising touching the ever-highest figure of 122 during 2010s and onwards.

**Figure II**  
**Decade-Wise Data of Signed & Operative IEAs**



**Figure III**  
**Decade-Wise Cumulative Data of IEAs – Signed & Operative**

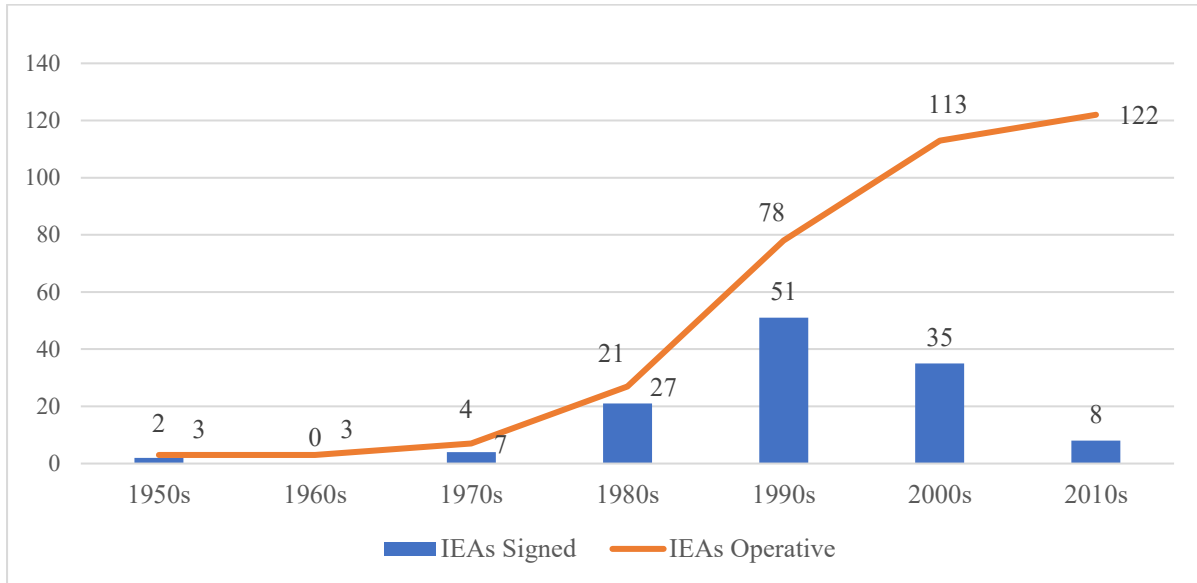


Figure III plots both the data sets of Figure I and II to galvanize the understanding and heighten the impact. In particular, the wedge between the two trendlines widens of late, which is an indication of the fact that Pakistan, like most other developed countries, may already have signed most of the relevant IEAs, and now bracing for impact.

### 3.4. Summation

Pakistan has probably above par number of IEAs as compared to similarity-circumstanced other developing countries but may be lesser. However, Pakistan's ITAs may be on a lower side but those are economically and geographically quite relevant – particularly the one with China. It is plausible to presume that some developing countries' economies may have performed better in consequence to the IEAs-induced economic liberalization, but apparently not in the case of Pakistan – as would be analysed in the succeeding section.

## Section 4

### Pakistan – IEAs & Macroeconomic Indicators

While in section II the IEA's conceptual framework was surveyed, and in section III Pakistan's dateline with IEAs was explored, this section – the *raison d'être* of the paper – seeks to undertake a surface-level analysis of the historical trend of signing IEAs and the parallel movement of Pakistan's key macroeconomic variables. The eight critical economic variables being analyzed are gross domestic product (GDP), exports, imports, current account deficit (CAD), foreign direct investment (FDI), tax collection, government expenditure, and public debt. Except GDP all the variables are brought in as a percentage of GDP, which would help maintain standardization across the full spectrum. There are several other variables, which could be considered analytically relevant to the IEAS covered or any subset of them, but the present study confines itself to exploring the relationship only of these very eight variables. Similarly, there could be an argument for a deeper and more rigorous analysis of each of these variables by controlling other variables but then that also falls out of the scope of the paper. The underlying aim is to examine the correlation between the signing of the IEAs over the past

six decades (1960s to 2020s) and the movement of critical macroeconomic indicators of Pakistan economy, and the changes in their trajectory, if any, unless constrained by data availability. In fact, it is intended to be a surface-level analysis of select macroeconomic indicators portraying to the naked eye the movement of signing IEAs by Pakistan, and the parallel movement of its key macroeconomic variable, part purpose being to open new vistas for more rigorous research.

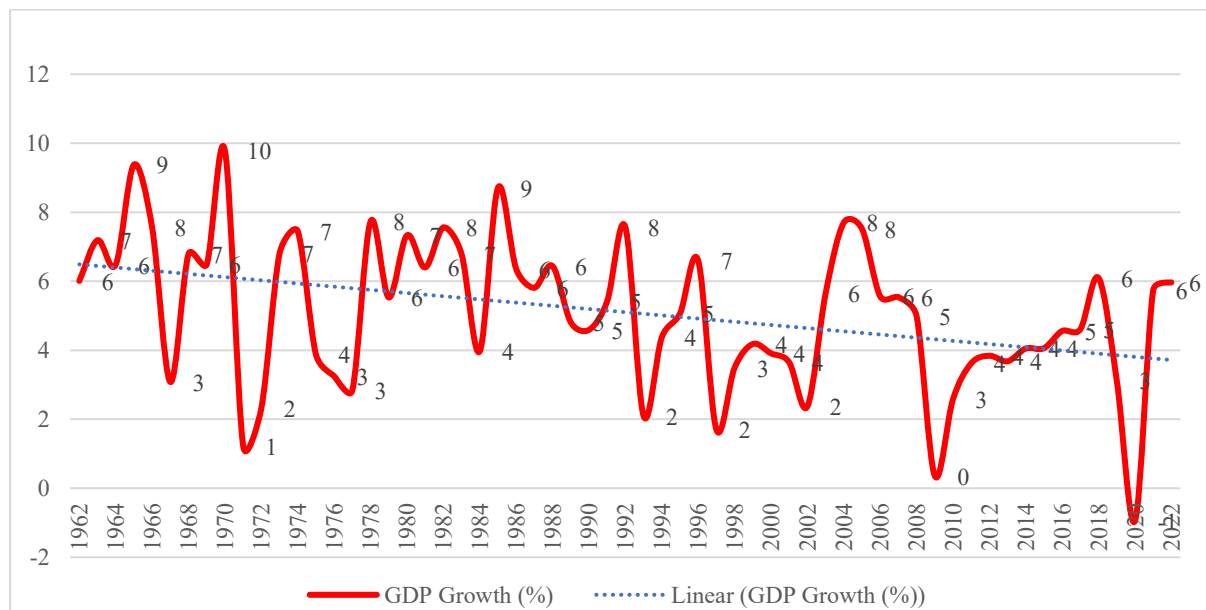
#### 4.1. Critical Macroeconomic Variables

This sub-section undertakes variable-wise justification of its selection, its predicted movement in consequence to IEAs-induced economic linkages and the variables' actual movement generated by the actual time-series data.

##### 4.1.1. Gross Domestic Product (GDP)

The GDP is the overall measure of an economy, and the signing of IEAs can easily be predicted to have a halcyon impact on its rate and quantum. Since GDP growth rate is not a function of time, it conveniently avoids the risk of showing a spurious correlation with time trending cumulative number of IEAs that Pakistan has signed. Figure IV contains the GDP trendlines for the period 1962 to 2022.

**Figure IV<sup>43</sup>**  
**GDP Growth Rate**



Even a cursory look at the trendlines of GDP growth rate and the IEAs counter-intuitively paints a negative correlation between the two, arguing implying that Pakistan's IEAs probably produced no positive impact on its economy, which could have more than compensated the negative impact executed by other covariates to say the least in the absence of other controls. In fact, up until 1980s, when Pakistan had only a few IEAs – 27 in all as shown in Figure III – its GDP growth rate line not only hovered mostly above 6 percent, but also that it suffered lesser volatility. At the onset of 1990s, when the reckless agreementization of the state starts to pick up pace, and the number of operative IEAs starts to rise, the GDP growth rate curve

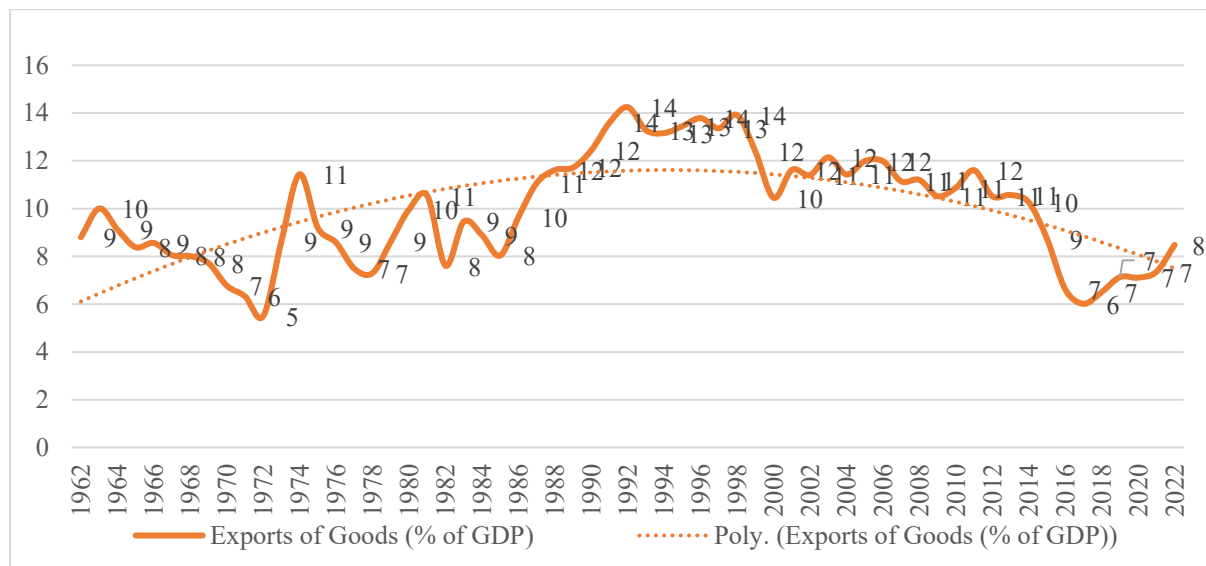
<sup>43</sup> Source: Ministry of Finance, Islamabad

also appears to come under stress, and slowly dwindles down to hover around 4-5 percent, and with enhanced volatility. Predictably, the correlation may not be statistically significant, but it could still be meaningful to infer that large number of IEAs did not generate any halcyon impact on economic growth of Pakistan.

#### 4.1.2. Exports/GDP Ratio

A country's ability to be competitive and export is indicative of its good health and robustness. Exports are generally considered a function of trade liberalization, economic integration, and elimination or reduction of tariff and non-tariff barriers. Therefore, exports can be expected to increase in direct consequence of IEAs – particularly ITAs, and IIAs to a definite degree otherwise countries would not wire themselves into these binding frameworks. Ideally, even IEAs in economic terms, should enhance a signatory state's exports enough to compensate an increase in its imports to have a positive impact on the current account deficit. However, If the signing of IEAs (particularly ITAs), results in a decrease in exports over time and increase in imports, understandably IEAs' impact on the economy would be reckoned as negative. Figure V contains the data of Pakistan's exports as percent of GDP from 1962 to 2022.

**Figure V<sup>44</sup>**  
**Exports/GDP Ratio**



It is noted that Pakistan's exports showed a relatively volatile but steadily ascending curve hovering at around 14 percent until the turn of century.<sup>45</sup> Thereafter, it attains steadiness but trends to settle at a lower range of 11-12 percent before falling to abysmal 6-7 percent in 2018. Although, the curve appears reascending, yet it is struggling and facing challenging. By way of an aside, Pakistan's exports to GDP ratio for countries with which ITAs have been signed, also shows a negatively trending slope.<sup>46</sup> This simply means that in the absence of ITAs, Pakistan's exports could have shown a more positive trend.

<sup>44</sup> Source: Ministry of Finance, Islamabad

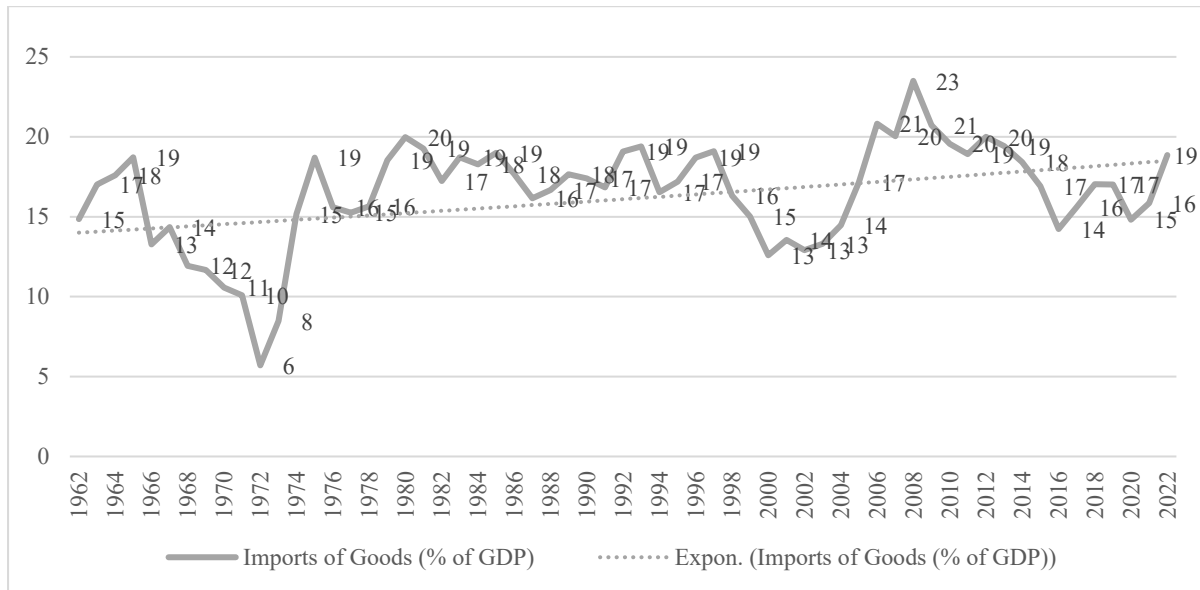
<sup>45</sup> Lubna Uzair and Ahmad Nawaz, "The Epoch of Free Trade Agreements in Pakistan and Predominance of China," *The Chinese Economy* 53, no. 5 (2020).

<sup>46</sup> Farhat Mahmood and Juthathip Jongwanich, "Export-Enhancing Effects of Free Trade Agreements in South Asia: Evidence from Pakistan," *Journal of South Asian Development* 13, no. 1 (2018).

### 4.1.3. Import/GDP Ratio

Conversely, imports are logically pitted to have a negative relationship with signing of IEAs, even if exports are majorly dependent on imported raw materials. This is particularly true of developing economies pursuing import substitution and incentivise foreign investment in order to attain self-sufficiency. Figure VI plots data of Pakistan's imports as percent of GDP from 1962 to 2022.

**Figure VI<sup>47</sup>**  
**Imports/GDP Ratio**



Pakistan's imports appear to hover in the range of 19-20 percent except in the late 1960s and early 1970s, when they fell to 6-7 percent, and again in 2016, 2017, and 2018 when they again came down to 14 percent. Pakistan's exports and imports were neck-to-neck until 2002, and then suddenly imports start to balloon up. Coincidentally, that is the time Pakistan starts to sign FTA with other countries – particularly China.<sup>48</sup> Thus, what one could infer is that in the absence of IEAs (particularly ITAs), there would have been less imports, more exports, and a lower CAD with other things remaining the same.<sup>49</sup>

### 4.1.4. CAD/GDP Ratio

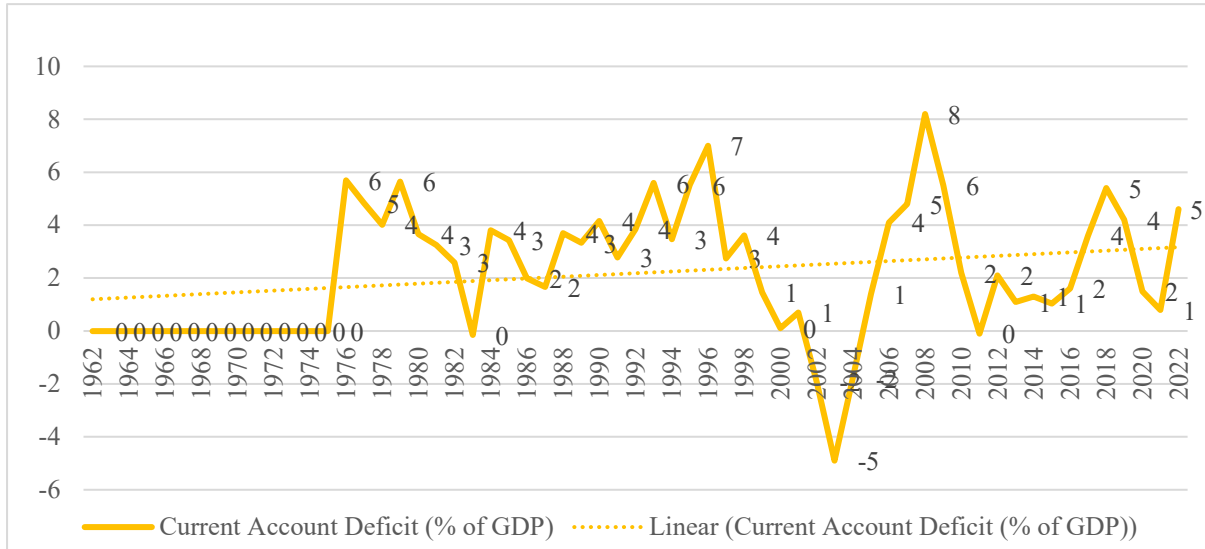
Predictably, the signing of so many IEAs and in such a short time, should have boosted exports, curtailed imports, which, in turn, would have logically resulted in a CAD cut as a percentage of GDP overtime. This theoretically based prediction could be analyzed in terms of Pakistan's CAD data. Figure VII contains Pakistan's CAD figures as percent of GDP from 1974 to 2022.

<sup>47</sup> Source: Ministry of Finance, Islamabad

<sup>48</sup> Farhat Mahmood, "Impact of Free Trade Agreements on Imports: Evidence from Pakistan," *Thailand and The World Economy* 37, no. 1 (2019).

<sup>49</sup> Ibid.

**Figure VII<sup>50</sup>**  
**CAD (% of GDP)**

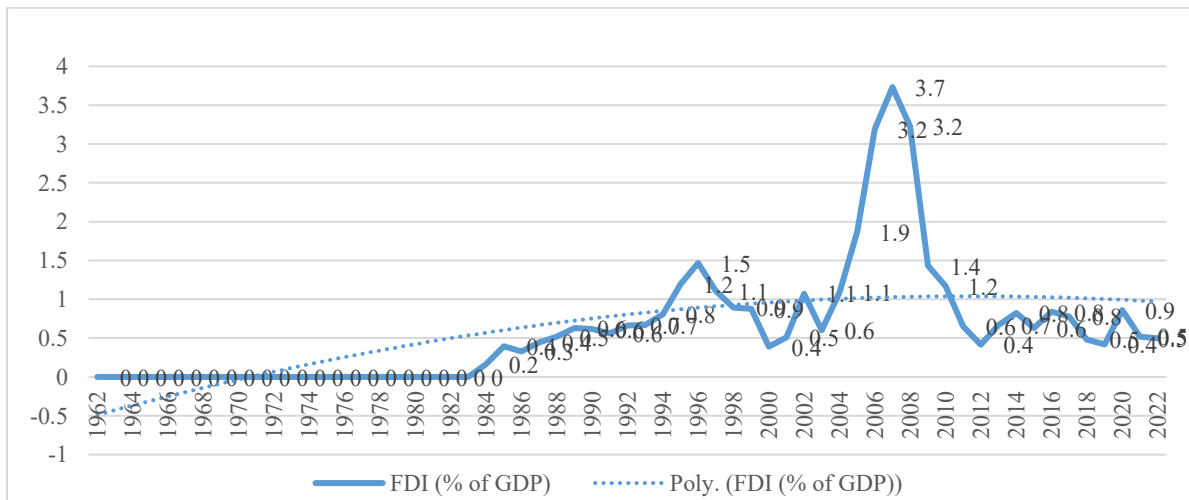


Pakistan’s CAD has traditionally remained between 4 and 6 percent of GDP except in 1983 when it fell to zero and in 2003 when it turned positive hitting decent 5 percent of GDP. Of late, it came down to touch the 1 percent mark in 2022 but it was the result of both announced and unannounced clamp down on imports enforced under compulsion of dearth of hard currency in economy. An indicator which reflects how well a country is doing in terms of its exports to be able to pay for its imports is the “terms of trade.” Even Pakistan’s “terms of trade” have deteriorated more for countries with which Pakistan has signed trade treaties as compared to overall terms of trade, which provides clear evidence against benefits of ITAs to Pakistan.

**4.1.5. FDI/GDP Ratio**

Predictably, FDI should thrive on the back of IEAs as it would not only have protection against discriminatory and expropriatory treatment by the host state, but under most circumstances would also enjoy a favourable tax regime. Figure VIII plots data of FDI into Pakistan since 1984 till 2022.

**Figure VIII<sup>51</sup>**  
**FDI (as % of GDP)**



<sup>50</sup> Source: Ministry of Finance, Islamabad

<sup>51</sup> Source: Ministry of Finance, Islamabad

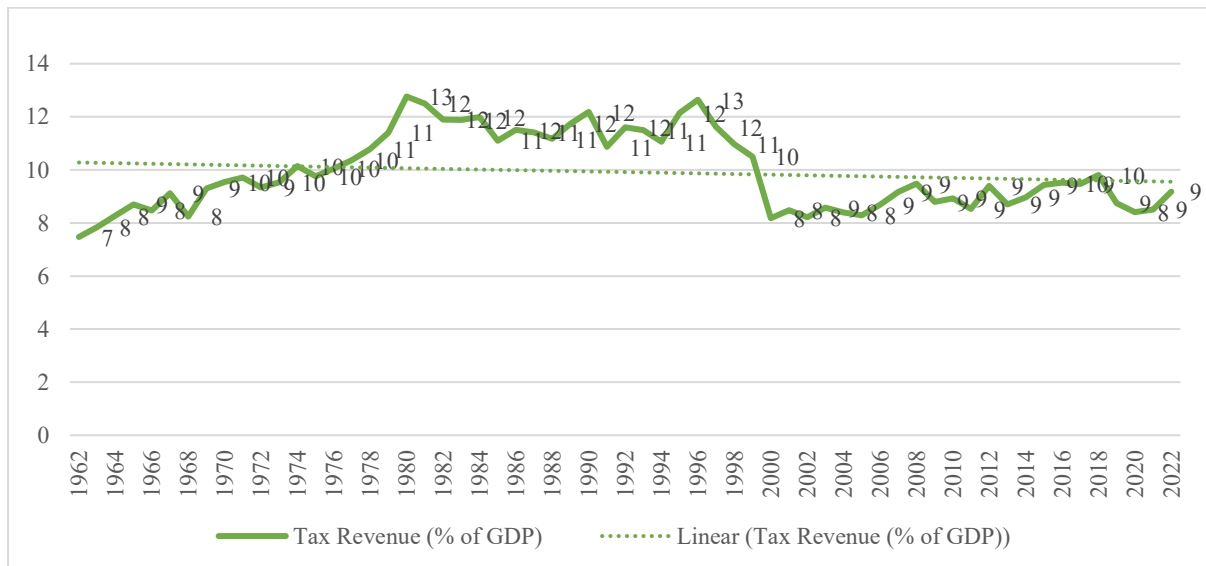
What the figure shows is that Pakistan’s FDI as percent of GDP has historically hovered under 1 percent except in 1998, 1999, and 2000 when it clocked 1.5 and 1.2, and 1.1 percent, respectively. The real outlier years are 2008, 2009, and 2010, when it hit the highest ever figure of 3.7, 3.2 and 3.2 percent of GDP, respectively, before steeply coming down to 1.4 and 1.2 percent, in 2011 and 2012, respectively, and stabilizing at its historical mean of below 1 percent. Pakistan's abysmal performance on attracting FDI immediately brings the recklessly signed large tally of IEAs in negative shade.

Even a backend analysis of FDI for countries with which IIAs have been signed versus all countries depicts no positive impact on FDI and FPI over time. A comparison of capital outflows to all countries versus those countries with which IIAs are in place reflects that the flows to treaty countries have a slightly higher positive slope, although both slopes are statistically insignificant. However, it certainly reflects no evidence in support of any positive economic impact of investment agreements. A comparison of capital inflows from all countries versus from those with which IIAs have been signed reflects that Pakistan would have received more capital from abroad in the absence of treaties as the positive slope of inflows is steeper for all countries than that for those with which IIAs are in place.

**5.1.6. Tax/GDP Ratio**

Theoretically, revenue collection ought to have a positive correlation with additional number of IEAs signed and operative. This is simply because IEAs should generate more economic activity, which should result in additional revenues. The data of tax revenue as a percent of GDP collected during 1962 to 2022, are plotted in Figure IX. Pakistan’s tax/GDP ratio has consistently run below 10% up until 1977 when it rises above to touch 13 percent and stays there until the turn of the century to settle at its historical trajectory.

**Figure IX<sup>52</sup>**  
**Tax Revenue (as % of GDP)**



Unpredictably, an analysis of tax as percent of GDP versus additional number of IEAs signed depicts a negative correlation implying that an additional IEA signed lowers tax collection as a percent of GDP. The correlation would not be statistically significant, but it would still be

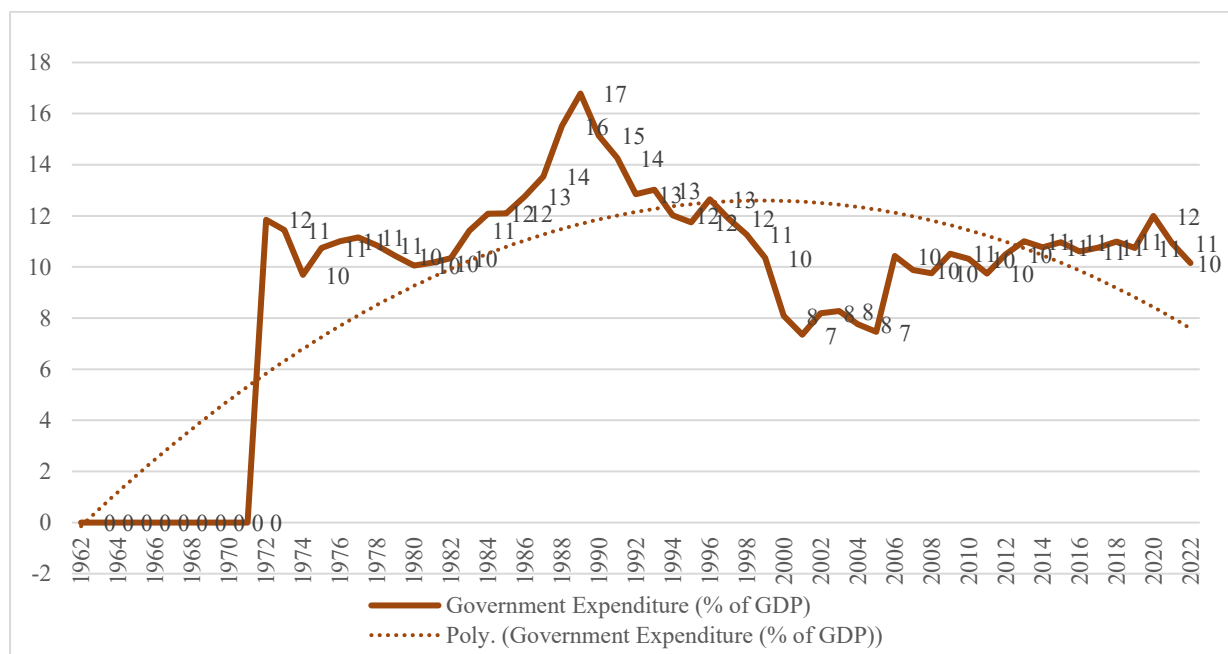
<sup>52</sup> Source: Ministry of Finance, Islamabad

meaningful enough to infer that IIAs have not created any positive impact on revenue growth in Pakistan. It has been pertinently remarked that “[h]ost countries would lose out on tax revenues without the compensating investment-attraction benefit,” and that “pre-existing old-generation IIAs, of the type predominantly in force in many developing countries, are likely to be particularly problematic.”<sup>53</sup>

### 5.1.7. Expenditure/GDP Ratio

Theoretically, as already also posited, IEAs should liberalize the economy, triggering economic growth leading to increase in tax revenue, which in turn, should create fiscal space for the government to be able to strengthen its expenditure function and spend more on its people and development projects. Figure X contains data of Pakistan’s public expenditure for 1972-2022.

**Figure X<sup>54</sup>**  
**Expenditure (as % of GDP)**



The data reveal that Pakistan’s expenditure/GDP ratio has historically run between 10-12 percent except between 1988-1992 when it rose to 14,17,16, and 14 percent. It also sees its low during 2000-2005 when it ran between 7 to 8 percent. However, since IEAs did not positively impact other critical macroeconomic variables they had, at best, a neutral relationship with expenditure function as far as Pakistan is concerned. Even otherwise, Pakistan’s public expenditure is more of a function of the government’s borrowing than its ability to muster health extraction.

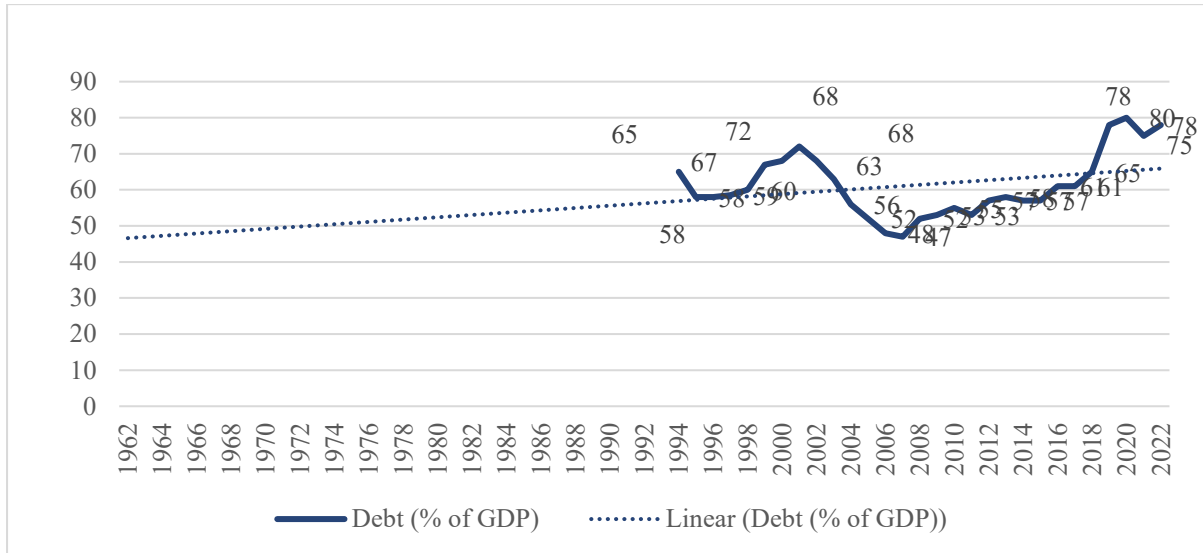
<sup>53</sup> U.N.C.T.A.D, "World Investment Report 2022," in *International Tax Reforms and Sustainable Investment* (New York: United Nations, 2022), xv.

<sup>54</sup> Source: Ministry of Finance, Islamabad

### 5.1.8. Debt/GDP Ratio

In the same vein, when an economy opens and liberalizes itself in consequence to IEAs-anchored international economic integration. Figure XI plots the data of Pakistan's debt/GDP ratio for the years 1992-2022.

**Figure XI<sup>55</sup>**  
**Debt (% of GDP)**



Pakistan's debt curve which starts off at 67 percent in 1992, touches the high mark of 72 percent then slowly recedes to under 50 percent before picking up again during 2000s and touching peak figure of 80 percent of GDP, lately. Particularly, the trendlines in both Figure III and Figure XI produce identical trajectories conveniently helping one to conclude that the propensity of signing IEAs and the tendency of picking up debt (including the purpose of servicing old debt) have a direct correlation which speaks volumes about the efficacy of IEAs and a country's tendency to recklessly put IEAs in place, and their efficacy.

### 4.2. Summation

A more rigorous statistical analysis incorporating various covariates altogether could estimate the correlation of macroeconomic indicators with signing of IEA's with more accuracy in terms of confidence intervals on the basis of robust inference techniques, however, no major economic factors causing both the signing of IEA's and the negative impact on macroeconomic indicators selected in this article have been left out, which may contribute to revert the sign of correlation between cumulative number of operative IEA's and the macroeconomic variables in more sophisticated statistical modeling by adding more controls to avoid the risk of endogeneity. It is clear that Pakistan's 122 IEAs signed recklessly with a lot of fanfare have not contributed any positively towards the improvement of its key macroeconomic variables. To what extent the IEAs might have negatively impacted Pakistan's economy is a topic of further sophisticated rigorous research, which is needed in abundance.

<sup>55</sup> Source: Ministry of Finance, Islamabad

## Section 5 Conclusion

There are six crisp conclusions that can be drawn out of the preceding debate. One, Pakistan's IEAs, most if not all, were signed rather recklessly and without evaluating all their pros and cons. Two, the implications for the economy of signing IEAs in a hurry and flurry have been substantial to put it mildly.<sup>56</sup> Three, no appraisal has ever been undertaken of the IEAs as to their advantages and disadvantages, keeping in view the ever-changing economic realities nor has any appraisal mechanism been put in place for the purpose. Four, as evidenced in the preceding section, the IEAs have generated spurious economic impact on the country. Four, and the most chilling, there is no cognition or realization at any level in the polity that the reckless agreementization needs serious stocktaking, critical appraisal, and even a reset. Six, if not adequately contemplated and a given a comprehensive shake-up, the massive tally of IEAs would continue to exert growing stress on the economy constraining its policy choices in the years and decades ahead.

### Policy Pointations

The foregoing conclusions induce a few policy recommendations, as follows: -

- I. Pakistan would need to establish a new Ministry of International Economic Diplomacy, or at least, re-organize the Economic Affairs Division to have created four robust wings, that is, (a) Trade Diplomacy Wing; (b) Tax Diplomacy Wing; (c) Investment Diplomacy Wing; and (d) Economic Lawfare Wing operating as an organic whole and well-oiled machine. These wings could be staffed with career civil servants and professionals hired from the market. Most importantly, each IEA type would have to be taken as an integrated part of the overall IEA framework, and negotiated (and interpreted) jointly, and not seen in isolation of one another.
- II. A full-fledged bipartisan Parliamentary Commission be set up to evaluate the efficacy, relevance, and need of every IEA that Pakistan has entered so far. The Commission should, in addition to the complete support of the Executive, be able to hire the expertise of both national and international consultants' firms to help arrive at informed decisions. The Commission, in a time-bound fashion, should come up with specific recommendations as to the IEAs that need to be retained, modified (and extent of modification), or eliminated, alongside recommending a course of action for the future.
- III. Pakistan's treaty procedure needs re-streamlining through an act of the Parliament or an overhauling of the Rules of Business, 1973, to substantially de-bureaucratize it, and by giving an active frontal role to Parliament across the full spectrum.
- IV. Pakistan would have to muster courage as a sovereign State to be able to eliminate most of the harmful IEAs and modify the ones that need tweaking to render them at least bilaterally beneficial. To stave off international and diplomatic pressure, ploys like Parliamentary resolutions, superior judiciary's decisions, think tank opinions, and media's astroturfing could be leveraged. It may not be out of place to mention that it is already an era of termination of IEAs as in 2021, countries signed 13 IIAs and effectively terminated 86 of them, making it second year in the row when the number

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<sup>56</sup> For an in-depth and broad spectrum analysis, see Jeswald W. Salacuse and Nicholas P. Sullivan, "Do B.I.Ts Really Work? An Evaluation of Bilateral Investment Treaties and Thier Grand Design," *Harvard International Law Journal* 46 (2005).

of terminated IIAs far exceeded the newly signed ones.<sup>57</sup> Particularly, in the investment world, trends are changing whereby large-scale terminations of old-generation bilateral investment agreements are giving way to new-generation mega-regional economic agreements.

- V. Pakistan needs to realize and remember that since it has to operate in a complex international economic system, it must raise a corps of professionals who can defend its economic frontiers by investing generously in its raising, capacity building and retention – even by putting a premium on them.

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