

PAKISTAN STRATEGY

US-Pak ties take a turn for the better

- Political transitions remain flashpoints for Pak-US ties, where the current occupant of the White House has a unique, overtly transactional approach to foreign relations (USMCA negotiations, US-China relations, Khashoggi incident) which seem to be turning favorable towards Pakistan
- Awaiting clarity on key measures undertaken for improved relations, we see a range of pro-Pakistan statements from US policymakers comingled with developing security dynamics on the ground in Afghanistan, where President Trump has set out to fulfil a campaign promise, US troop withdrawal from Afghanistan (longest US deployment in history)
- Detailing a timeline of the fluid dynamics prevailing in Pak-US ties since the Trump presidency which senior US administration officials and the President have employed in dealing with Pakistan, where we believe our regional clout (improving ties with Iran, Russia, Afghanistan, China) makes us increasingly relevant in maintaining status quo
- Investors are likely to disregard rhetorical developments (from both sides) in favor of concrete actions, where key litmus tests include developments surrounding the IMF, FATF and any possible Washington-Islamabad summit delivering additional catalysts for FDI, FPI, and non-binding arrangements

US & Pakistan; disenchanted allies?: Historically, the change of regimes in the White House have dictated economic and geostrategic relations between the US and Pakistan, which Donald Trump's (at times temperamental) presidency has raised to a purely transactional nature (trade-offs, clear political motives). From late 2018 and into 2019, a slew of positive statements from US policy makers have intertwined with the dynamics on the ground in Afghanistan, where the 10,000 strong US troop presence under NATO command are set to be pulled out (a core Trump election promise), and negotiations with the Taliban occupy center stage. Pakistan is considered a stabilizing force in the region (post Zarb-e-Azab operation), where close ties with the Taliban, membership in China-backed peace quartet negotiation, bilateral relations with Russia, Iran and Afghanistan (though bouts of criticisms and accusatory rhetoric) and the largest land border with the landlocked nation further make its role significant.

Trump talks tough and carries a big stick: Detailing the fluid dynamics prevailing in Pak-US ties since the Trump presidency, we map out a timeline of statements, actions and other 'arm-twisting measures', which senior US administration officials and the President have employed against Pakistan (acceptability into IMF program, FATF formalities, bar on CSF fund payments, inclusion in religious intolerance list) which could be on the cards, going forward. Following a shift in stance to a more accommodative tone from the US, we believe possible road-blocks placed against Pakistan, with the aim of pressuring leadership may be softened going forward.

Outlook: Although it is premature to speculate on possible outcomes of negotiations with the US, investors are likely to disregard rhetorical developments (from both sides) in favor of concrete actions, where key checkpoints also include the Afghan national polls (scheduled for April) and Indian national polls, where our neighbor enjoys strong ties with the US. Additionally, the US economy seems to be heading into a slowdown with foreign funding slashed significantly making direct funding support highly improbable. Even so, a nod of approval from American leadership will deliver broader support. Developments surrounding the IMF program negotiations (expected formalization by late Jan'19) and FATF (plenary meeting in May'19) and any possible Washington D.C. summit between PM Khan and President Trump could deliver additional catalysts for FDI, FPI and non-binding arrangements (US holds 16.5% voting interest on IMF executive board, FATF membership).

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US softens its stance towards Pakistan

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| Jan'18 | US President accuses Pakistan of harboring |
| Jun'18 | FATF places Pakistan on Grey-list after US lobbying |
| Jul'18 | Mike Pompeo opposes IMF bailout for Pakistan to repay Chinese debt |
| Aug'18 | US asks Pakistan to take decisive action against terrorist outfits. |
| Sep'18 | Mike Pompeo visits Pakistan in a bid to reset strained relations |
| Nov'18 | US President stops US\$1.3bn aid to Pakistan |
| Dec'18 | US adds Pakistan on blacklist for religious freedom violations but withdrawing it immediately. |
| Dec'18 | US seeks Pakistan's help on Afghan peace negotiations |
| Jan'19 | US Senator proposes FTA with Pakistan for pushing Taliban talks |
| Jan'19 | US President shows willingness to meet new political setup to foster US-Pak relationship |

Source: News Report & AKD Research



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US - China trade negotiations could be a sticking point: An additional layer of complexity revolves around the wider US-China trade negotiations, where any leniency shown by the US surrounding its points of contention (intellectual property, majority ownership, capital controls) could have positive spill-over for Pakistan (Chinese economic revival furthers CPEC's value). Any deterioration, on the other hand, would be detrimental as global supply chains re-align away from Chinese the mainland and related interests, driving capital to alternative geographies.

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| Neutral | > 13% to < 19% expected total return |
| Sell | < 13% expected total return (Rf: 13%) |

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|------------|---|
| Buy | > 20% upside potential |
| Accumulate | > 5% to < 20% upside potential |
| Neutral | < 5% to > -5% potential |
| Reduce | < -5% to > -20% downside potential |
| Sell | < -20% downside potential |
| Not Rated | No investment opinion or recommendation |

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