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Issue Brief

CPEC: Prospects for Pak-Iran economic relations

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May 18, 2016

The China-Pakistan Economic Corridor (CPEC) is rapidly becoming a source of national integration, economic prosperity and regional stability. The corridor is poised to play a vital role in the development of least developed areas in Pakistan and in promoting regional connectivity.

The benefits of China-Pakistan Economic Corridor therefore extends beyond the two countries' interests. It will benefit the whole region, especially Pakistan, and particularly, Iran, as regional expansion of the CPEC can help Pakistan to strengthen its economic ties with Iran. The relations between Pakistan and Iran have remained very cordial. Both have very close affiliations, but at this time the volume of trade between two is extremely low. In 2014, the volume of bilateral trade decreased to US\$ 229 million.¹ At this stage, CPEC is an opportunity for Pakistan and Iran to enhance their economic ties because Pakistan's Gawadar port and Iran's Chabahar port both have a unique geostrategic and geopolitical importance. Both ports can be considered as sister ports. These ports provide a direct entrance into the Persian Gulf through the Strait of Hormuz. If CPEC is linked to Chabahar, it will further boost economic connectivity and cooperation between Pakistan and Iran.

Iran has re-entered into the active international economic fold after the lifting of all sanctions by the US and the International Community following the successful nuclear deal with the P5+1 in July 2015. At this moment, it is an excellent opportunity for Iran to exploit its economic relations with the entire world, and regional countries. Pakistan also wants to avail this opportunity by increasing its collaboration with Iran. Pakistan had been reluctant to cooperate with Iran on any megaproject, but after the removal of sanctions on September 2, 2015, Pakistan and Iran agreed to work in partnership. During a meeting of the Pak-Iran Joint Working Group and Technical Committee on Trade in August 2015, the two countries had discussed trade and investment-related issues and to frame a five-year strategic plan to enhance bilateral trade. They agreed on the need for implementing the bilateral Preferential Trade Agreement (PTA) and converting it into a Free Trade Agreement (FTA) in the coming years. In November 2015, trade between Pakistan and Iran was estimated to be around US\$ 893 million which will increase in future.²

The recent visit of Iranian President Hassan Rouhani to Pakistan in March 2016 has helped to set a new direction for reinforcement of the economic ties with Pakistan. One of the main focal points of the Presidential visit was on Iran-Pakistan gas pipeline. During the meeting between President Hassan Rouhani and Prime Minister Nawaz Sharif, both nations agreed to bolster their bilateral relations mainly in areas of trade, economy and energy. The two leaders also held a one-on-one meeting and delegation-

level talks during which a wide range of discussions on bilateral, as well as regional and international issues of mutual interest took place. After the talks, the two signed six Memorandum of Understanding (MoUs), and a “Five-Year Strategic Trade Cooperation Plan.”³

Partnership with Iran on the CPEC project will give relief to Pakistan in a number of ways. Pakistan is an energy-deficient country and is continuously trying to find cheap energy from different sources. Iran will be another option for Pakistan in a trilateral arrangement between Pakistan, Iran and China, especially for development of Baluchistan which shares the border with Iran. Provision of electricity and gas from across the border with Iran will be extremely cost effective and may find a willing partner in China who may also invest in such cooperation. In this regard, it is important that agreements that have been delayed due to sanctions are implemented. Projects like rail links planned between Gwadar and Chabahar, a new shipping service, and now that China is constricting an airport at Gwadar, an air link between Gwadar to Iranian cities must be explored as soon as possible.

It is widely believed that the location of the Gwadar port can easily swamp the strategic gains of Chabahar for India. Once the Gwadar port gets to be operational with full capacity, the significance of Chabahar may lessen. Therefore, there are many ways to benefit from the CPEC. Inviting Iran to join the CPEC will be a win-win situation for all the parties as they can give a new life line to Pakistan and Iran cooperation. It is the least costly, yet safe way for Iran and for Pakistan to move their attention to markets beyond the Persian Gulf and into Central Asian all the way up into Eastern Europe.

Notes and References:

¹ Salim Ahmed, “Call for Promoting-Pakistan-Iran Bilateral Trade Relations”. Pak Observer, February 21, 2016.

² Ahmed Rashid Malik, “CPEC and The Region”. Pakistan Today, November 11, 2015.

³ “Pakistan cosies up to Iran as Rouhani visits”. Pakistan Today, March 26, 2016.