

ENHANCING PAKISTAN-IRAN ECONOMIC RELATIONS: EXPLORING PROSPECTS IN TRADE AND CONNECTIVITY

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On May 18, 2023, Prime Minister Shehbaz Sharif and Iranian President Ebrahim Raisi inaugurated the first border market at the Mand-Pishin crossing-point of the Pakistan-Iran border, marking a significant milestone in their joint efforts to enhance cross-border trade and strengthen the overall economic relationship. This is one of the six border markets to be constructed along the Pakistan-Iran common border. Additionally, the two leaders launched the Polan-Gabd Electricity Transmission Line, expected to transmit an additional 100MW of electricity from Iran to Pakistan. This transmission line serves as a supplement to the electricity obtained from Iran for the broader Makran region through the 132 KV Makran Division electricity transmission line.¹ The availability of this extra 100MW of electricity from Polan-Gabd will help alleviate the energy needs of households and businesses in Balochistan.

¹ "Border projects: Pakistan, Iran inaugurate Polan-Gabd electricity transmission line," *Business Recorder*, May 18, 2023. <https://www.brecorder.com/news/40242845>



Apart from attending the inauguration ceremony, President Raisi and Prime Minister Shehbaz Sharif conferred on a wide range of bilateral matters and reiterated their commitment to bolster economic cooperation between the two countries. They also agreed to expedite efforts to finalize Free Trade Agreement (FTA) on a priority basis.² In a statement issued by Pakistan's Ministry of Foreign Affairs, the joint inauguration was hailed as a testament to the strong commitment of both countries to improve the welfare of residents in the neighboring provinces of Balochistan and Sistan-o-Baluchestan, respectively.³ Indeed, this event illustrates a significant stride forward in the bilateral relationship.

Pishin, a border region situated in the northwestern part of the 904km long Pakistan-Iran border, is of crucial importance in promoting trade and connectivity between the two sides. According to Pakistan Commerce Minister, Naveed Qamar, a total of 12 border markets had been proposed by the two countries to increase the volume of bilateral trade, out of which nine had been mutually approved.⁴ The Pakistani government has been diligently working to facilitate legal channels to enhance bilateral trade with Iran, thereby discouraging the influx of illicit goods. The opening of the Pishin Border for legal trade is expected to have an appreciable impact on the economies of both countries, generating employment opportunities, and contributing to regional stability. Several informal crossings along the Pakistan-Iran border are exploited by smugglers for illegal transportation of goods such as oil and food items. This border crossing predominantly facilitates trade in fresh fruits and vegetables, and the legalization of trade at the Pishin border is anticipated to curtail the flow of illicit goods, fostering legitimate bilateral trade.

² "Pakistan, Iran agree to accelerate work on Free Trade Agreement," *Ministry of Information and Broadcasting Pakistan*, May 18, 2023.

<http://moib.gov.pk/News/53342>

³ "Pakistan, Iran open new chapter in relations," *The Nation*, May 19, 2023.

<https://www.nation.com.pk/19-May-2023/pakistan-iran-open-new-chapter-in-relations>

⁴ "Pak-Iran Pishin border market likely to open next month — commerce minister," September 16, 2022.

<https://www.arabnews.pk/node/2163596/business>

Pakistan and Iran share a firm foundation for their long-standing ties, with Iran being the first country to recognize Pakistan in 1947. Their interests converge on a wide range of issues, including the situation in Afghanistan, counter-terrorism efforts, and their respective relationships with China. The two countries are also members of various regional and international fora such as the Economic Cooperation Organization (ECO) and the Organization of Islamic Cooperation (OIC). Iran's forthcoming full membership in the Shanghai Cooperation Organization (SCO) further facilitates expanded interaction and collaboration between Pakistan and Iran.



Despite the existing potential, trade between Pakistan and Iran stands at \$2 billion annually, falling short of the anticipated \$5 billion per year.⁵ In January 2023, the signing of 39 Memoranda of Understanding (MoUs) paved the way for achieving this target, if effectively implemented. Furthermore, efforts to enhance road and rail connectivity are underway, exemplified by the revival of the Islamabad-Tehran-Istanbul (ITI) cargo train service in 2022 after a decade-long hiatus. Presently, Iran exports over 200MW of electricity to Pakistan, with the potential to increase it to 500MW.⁶ Both countries have established three border crossing points—Taftan-Mirjaveh, Mand-Pishin, and Gabd-Rimdan—to facilitate the movement of those travelling by road, including a large number of approximately 800,000 Pakistani Zaireen who visit Iran annually.

Pakistan also has a substantial stake in the recent rapprochement between Iran and Saudi Arabia, brokered by China, as it would contribute to regional peace and security, and offer significant trade and energy prospects. The normalization of relations between these two nations presents opportunities for increased economic cooperation with Pakistan. Iran has consistently served as a vital trading partner for Pakistan, given their shared border; while Saudi Arabia holds immense economic importance due to huge oil imports and a large Pakistani diaspora that contributes significantly to home remittances. Capitalizing on this opportunity could yield substantial benefits

⁵ "Pakistan-Iran trade volume exceeds \$2bn mark," *Business Recorder*, April 19, 2023. <https://www.brecorder.com/news/40237981>

⁶ "Pakistan, Iran register \$2.2b in terms of trade volume: Iranian envoy," *Daily Times*, April 29, 2023. <https://dailytimes.com.pk/1088106/pakistan-iran-register-2-2b-in-terms-of-trade-volume-iranian-envoy/>

for Pakistan, particularly with Iran, with streamlining of trade processes, simplifying customs procedures, and creating a conducive environment for bilateral trade. It can also encourage the development of joint projects, investments, and business ventures involving Iran, Saudi Arabia, and Pakistan, further boosting trade among these countries. The prospects of Saudi investments in energy and infrastructure projects in Gwadar as well as in CPEC SEZs can be effectively realized.

On June 2, 2023, the Pakistan government endorsed the implementation of the "Business-to-Business (B2B) Barter Trade Mechanism, 2023," thereby permitting barter trade with Iran, Afghanistan, and Russia. This mechanism allows Pakistan to engage in the exchange of goods and services with Afghanistan, Iran and Russia, thereby reducing reliance on foreign currencies for transactions. This initiative has the potential to augment Pakistan's overall trade with regional countries by offering a more efficient mode of exchanging goods and services without the need for cash transactions. Additionally, it enables Pakistan to overcome barriers arising from the absence of banking relationships with Iran and Russia.⁷

However, several challenges must be addressed to strengthen Pakistan-Iran economic relations comprehensively. Foremost, it is essential to continue to build and further upgrade trust and to resolve issues that cause mutual concerns. Furthermore, the impact of sanctions, a palpable reality, calls for the exploration of alternative means to mitigate their effects. Infrastructure improvements are crucial to facilitate increased barter trade, while the issue of high tariffs from the Iranian side and the absence of credible payment mechanisms need to be resolved. Additionally, close collaboration between Gwadar and Chabahar ports would leverage their existing complementarities. Notably, the participation of both Pakistan and Iran in the Belt and Road Initiative (BRI), with Iran becoming an official member in March 2021, offers further impetus for joint projects, particularly in terms of connectivity and economic integration. Fruitful collaboration between Gwadar and Chabahar should be promoted, given that they have a 'sister ports' relationship.



⁷ "Russia, Iran: B2B barter trade comes into effect," *Business Recorder*, June 2, 2023. <https://www.brecorder.com/news/40245582>

Acknowledging the reality of sanctions, Pakistan and Iran must navigate their relationship sustainably rather than becoming hostage to global concerns. Moving forward, fostering deeper people-to-people exchanges and cooperation in science and technology will be pivotal. For instance, Shiraz houses the world's first liver transplant center, Abu-Ali Sina Hospital, highlighting the potential for collaborations in fields such as medicine and technology. In terms of border security, the agreed mechanisms between the two countries should be activated and fully operationalized. This would help effectively curb smuggling, human trafficking, and undesirable activities along the border.



Moreover, concerted efforts should be made to complete the Iran-Pakistan (IP) Pipeline, which Iran completed on its side many years ago. Failure to meet the pipeline completion deadline in 2024 could result in possible negative fallout. The Pakistan Foreign Office reaffirmed its commitment to the project on May 11, 2023, emphasizing its significance as a symbol of friendship between the two countries.⁸

In conclusion, the deepening relationship between Pakistan and Iran offers substantial opportunities for mutual growth and cooperation. The improving regional environment in the wake of the Iran-KSA rapprochement is another important favourable factor. The inauguration of the border market and the launch of the Polan-Gabd Electricity Transmission Line signify notable achievements in trade and energy collaboration. With concerted efforts to build mutual trust and address challenges such as

⁸ "Pakistan committed to IP project, says FO," *Express Tribune*, May 19, 2023.
<https://tribune.com.pk/story/2417536/pakistan-committed-to-ip-project-says-fo>

sanctions, infrastructure limitations, and high tariffs, Pakistan and Iran can unlock the full potential of their historical relationship. Strengthening people-to-people exchanges, cooperation in science and technology, and resolving border security issues will further fortify bilateral relations. The completion of the Iran-Pakistan gas pipeline project stands as a crucial milestone that underscores the commitment of both countries to long-term, mutually-beneficial collaboration that would help strengthen Pakistan's energy security. By harnessing these opportunities and effectively addressing challenges, Pakistan and Iran can forge a transformative and sustainable partnership in the years to come.