

Pakistan-Iran Relations: Prospects for Trade

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Abstract:

Being a neighbor, Iran is the only country with which Pakistan has “had age-old relations, characterized by common historical, cultural, economic affinities and spiritual links”. After independence of Pakistan these ties were further strengthened. However, the Islamic Revolution in Iran (1979) and the Soviet-Afghan war (1979-89) were two watershed developments that defined the renewed geostrategic positions of Pakistan and Iran in the emerging regional and global political and strategic alliances. However, since 2001, when Pakistan became a frontline ally in the U.S.-led coalition and war against the Taliban in Afghanistan, the two states have successfully managed to maintain relatively normal relations, despite some persisting irritants at the bilateral and regional levels. During the recent few-years both the countries have come closer to each other and are cooperating in the industrial, energy, cultural and economic sectors. Both the countries have the potential to cater for the demands of each other and trade in the products which are being imported from rest of the world.

Keywords: Taliban, Afghanistan, Terrorism, Alliance, Border, Energy, Economic, Irritants, Co-operation.

Introduction:

Iran is situated in the west of Pakistan and shares almost 900 kilometers of border with Pakistan. Being a neighbor, Iran is the only country with which Pakistan has “had age-old relations, characterized by common historical, cultural, economic affinities and spiritual links”. The affinities of sentiment, policy and stand between the two countries are reflected in there working

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hand in hand in the organizations of the Islamic conference, United Nations, the Non Aligned Movement and ECO.

Close ties between the Muslims of the sub-continent and the people of Iran exist since centuries. After independence of Pakistan these ties were further strengthened. However, the Islamic Revolution in Iran (1979) and the Soviet-Afghan war (1979-89) were two watershed developments that defined the renewed geostrategic positions of Pakistan and Iran in the emerging regional and global political and strategic alliances. During the Afghan war in the 1980s Pakistan and Iran supported their favorite mujahidin groups in Afghanistan. This trend continued in subsequent years. Iranian support for the anti-Taliban Northern Alliance and Pakistan's for the Taliban regime in Afghanistan in the 1990s further affected the two countries' relations. However, since 2001, when Pakistan became a frontline ally in the U.S.-led coalition and war against the Taliban in Afghanistan, the two states have successfully managed to maintain relatively normal relations, despite some persisting irritants at the bilateral and regional levels.

Although, the economic ties between Pakistan and Iran date back to centuries, the progress achieved in this respect remain marginal because of different political and economic reasons.¹ Both the countries have the potential to cater for the demands of each other and trade in the products which are being imported from rest of the world.² In July 2015, Pakistan welcomed the nuclear deal between Iran and the six major powers hoping that with the lifting of sanctions on Iran following the deal, there will be increased opportunities for both Pakistan and Iran to expand their bilateral political and economic relations.³ The eventual lifting of sanctions on Iran will allow for the Islamabad-Tehran relationship to be increasingly driven by economic and geographic realities, rather than the interests of exogenous actors.⁴

Purpose of the Study:

The present paper is an effort to bring to light the factors working as obstacles in the way of exhausting the inherent potential of bilateral trade between the two countries. Moreover, it deals with the new opportunities for both the countries that are now available in terms of bilateral trade as

¹ Sialkot Chamber of Commerce, "Pak-Iran Trade Relation". Retrieved from: [file:///C:/Users/DG/Downloads/scci%20\(1\).pdf](file:///C:/Users/DG/Downloads/scci%20(1).pdf)

² Ibid.

³ Najam Rafique, "Prospects of Pakistan-Iran Relations: Post Nuclear Deal". Retrieved from: <http://www.issi.org.pk/prospects-of-pakistan-iran-relations-post-nuclear-deal/>

⁴ Ibid.

well as the prospects presented by the development of the CPEC and lifting of sanctions on Iran. Before concluding some viable recommendations were also proposed for adoptions have been endorsed for the policy makers.

Background:

Iran was the first country to recognize Pakistan as an independent and sovereign state after Pakistan's independence on August 14th 1947. Strong alliances with the U.S. over geostrategic interests tied Pakistan and Iran together and both remained in the capitalist block after signing the Central Treaty Organization treaty in the early 1950s and the Regional Cooperation for Development agreement in the 1960s.¹

As time passed, Pakistan-Iran relations progressed well in the 1950s and 1960s, but watershed changes; first the success of the Islamic Revolution in Iran in 1979, followed by the Soviet Occupation of Afghanistan; put a strain on the bilateral relationship. Beyond the geopolitical to-and-fro and great games, both countries share some other issues such as, the use of Iranian and Pakistani territory for illicit drug trade, human trafficking, weapon smuggling and militancy. Moreover, both the countries have porous borders with Afghanistan which makes it difficult to have effective control over the borders. For a broader and deep understanding of the bonds which are tying together Pakistan and Iran in diplomatic, political, security and cultural domains; the narrative of Pakistan-Iran relations are divided in three phases: 1947-1979, 1979-2000 and post-9/11.

Era of Harmony (1947-1979):

After emergence as an independent State on August 14, 1947, the deep-rooted historic bonds became even more significant when Iran established its diplomatic relations with Pakistan in May 1948.² Pakistan's Prime Minister Liaquat Ali Khan visited Iran in May 1949 and the Shah of Iran was the first head of State to pay an official visit to Pakistan in March 1950.³ The foundations of relations between the two countries were laid down in the Pakistan-Iran Friendship Treaty signed in May 1950.⁴ Throughout the 1950s, the relations grew closer as the two countries signed a cultural agreement in March 1956, an air travel agreement in 1957, and a border agreement in February 1958.⁵ The high-level contacts which blossomed

¹ N. U. Din & M. Naseer. 2013. "Pak-Iran relations: views of political and religious parties", *Conflict and Peace Studies*, 5(1), 2013. Pp. 85-102.

² "Pakistan - Iran Relations: Challenges and Prospects", Roundtable Report VII, Foreign Policy Series FPS.IR.1, June, 2014. Retrieved from: <http://cpakgulf.org/wp-content/uploads/2014/11/Pakistan-Iran-Roundtable.pdf>

³ Ibid.

⁴ Najam Rafique, "Prospects of Pakistan-Iran Relations: Post Nuclear Deal". Retrieved from: <http://www.issi.org.pk/prospects-of-pakistan-iran-relations-post-nuclear-deal/>

⁵ Ibid.

over 1950s and the 1960s, were cemented even further with the signing of the US-led Baghdad Pact in 1954 between Pakistan, Iran and Turkey, renamed as CENTO in 1955.¹ Despite the fluctuations in political and strategic relations, economics continued to hold sway in the bilateral relations which got further impetus with the signing of the Regional Cooperation for Development (RCD) in July 1964 between Pakistan, Iran and Turkey in order to strengthen their socio-economic development.²

However, the ties were further strengthened by both the countries' gaining membership in the Organization of the Islamic Conference (OIC) comprising 57 Muslim States and Economic Cooperation Organization (ECO) formed by six Central Asian States, Afghanistan, Pakistan, Iran and Turkey for promoting trade and cooperation for sustainability of socio-economic development.³ The ECO has replaced the RCD in January 1985. The two countries also coordinate their policies in the frameworks of the Organizations of the Islamic Conference (OIC), the United Nations (UN) and the Non-Aligned Movement (NAM).⁴

Diverging Geopolitical and Ideological Interest (1980's and 1990's):

Pakistan-Iran relations have been influenced by regional and global changing alliances. During the Cold War, their relations were strongly influenced by superpower rivalry.⁵ American hostility towards Iran since the 1979 Islamic Revolution continued, while its ties with Pakistan as a strategic partner declined after Soviet withdrawal from Afghanistan.⁶ Neither Pakistan nor Iran had stood to gain from this Soviet southward expansion through its occupation of Afghanistan. Therefore, they had worked together to support the Afghan fighters (Mujahedeen, as they were then called) against the Soviets.⁷ However, Pakistan's anti-USSR efforts were heavily supported by Saudi Arabia, Kuwait and the U.S., which did not sit well with Iran. Subsequently, the Soviet military withdrawal from Afghanistan emerged as a bone of contention between Iran and Pakistan over their respective influence in Afghanistan.⁸

¹ Ibid.

² Ibid.

³ "Pakistan - Iran Relations: Challenges and Prospects", Roundtable Report VII, Foreign Policy Series FPS.IR.1, June, 2014. Retrieved from: <http://cpakgulf.org/wp-content/uploads/2014/11/Pakistan-Iran-Roundtable.pdf>

⁴ Ibid.

⁵ Ibid.

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

The 1990's was an unequal patch in the bilateral relations due to some competing and diverging geopolitical and ideological interests.¹ The Taliban government in most parts of Afghanistan was established which further deteriorated the relations between Iran and Pakistan and a climate of mistrust emerged.² Due to this unease, Iran felt insecure and perceived it a serious threat to its national security. Thus, in retaliation, Iran adopted a proactive policy towards Afghanistan. It started supporting the Shiite parties and the Northern Alliance.³ To counter the Taliban regime in Kabul, Iran became close to Russia, India and the Central Asian countries.⁴

9/11, U.S., Pakistan, Afghanistan and Iran:

The 9/11 terrorist outrage transformed the world once again. Subsequent to the 9/11 terrorist attacks in the United States and NATO forces invaded Afghanistan, both Pakistan and Iran extended their support to the campaign.⁵ The Taliban had been a source of sectarian violence and a major source of tension in the Iran-Pakistan relationship. The NATO offensive in Afghanistan brought Pakistan and Iran close to a single agenda: the elimination of the Taliban regime.⁶ In fact, in 2001, the two States also created the Pakistan-Iran Joint Ministerial Commission on Security to further cooperation and collaboration against terrorism, drug and human trafficking, arms smuggling and sectarian violence.⁷

The fall of the Taliban provided the golden opportunity to Pakistan and Iran to revisit and improve their bilateral relations. The dominant position acquired by the Western countries in Afghanistan had the effect of eliminating Pakistan-Iran rivalry for influence in Afghanistan.⁸

The year of 2002 also saw the first visit of an Iranian president since 1992 when Iranian president Mohammad Khatam visited Pakistan. The president was associated with high profile officials in the Iranian government and their posture suggested that Iran is very serious to strengthen its diplomatic ties with Pakistan.⁹ The objective of the visit was to overlook the past

¹ Ibid.

² Ibid.

³ Ibid.

⁴ Ibid.

⁵ Ibid.

⁶ Ibid.

⁷ Ibid.

⁸ S. Kumar, "Pakistan-Iran Relations: The US Factor", *Strategic Analysis*, 2008. Pp. 44-123.

⁹ Zahir Shah and Ijaz Khalid, "Pakistan-Iran Relations in the Changing Global Scenario Post 9/11", *Journal of Applied Environmental and Biological Sciences* (J. Appl. Environ.

experiences and work for the beginning of new relationship between Pakistan and Iran.¹ To respond positively, Pakistani premier Zafar ullah Jamali also visited Iran in 2003. The purpose of his visit was to hold negotiations with his counterpart regarding economic ties, regional security and improvement the Pak-Iran relations in general. Pakistan also supported Iran's principle stand on its nuclear program; the right to develop nuclear program for peaceful purposes granted by the NPT. However Pakistan also asked Iran to fully cooperate with the IAEA regarding its investigation about Iran's possible activities to build nuclear bomb.²

While sectarian violence and terrorism rose between 2007 and 2013 in Afghanistan, Pakistan has managed to insulate itself from the regional sectarian war following the launch of the Operation Zarb-e-Azb by the Pakistan Army in June 2014 in North Waziristan, which served as a safe haven for the anti-state TTP and a medley of other sectarian, regional and transnational jihadist groups.³ The current government has also begun a comprehensive, nationwide crackdown on Tehreek-e Taliban Pakistan (TTP) and its expressive anti-Shia partners, Lashkar-e Jhangvi, which has weakened their ability to target Shia Muslims.⁴ Consequently, sectarian terrorists, now, find far less operating space inside the country than before. Since the beginning of 2016 sectarian terrorism continues to decrease in frequency following the elimination of several hardcore sectarian terrorist leaders including Usman Kurd, the leader of the Balochistan wing of prime anti-Shia terrorist group, Lashkar-e Jhangvi, and Malik Ishaq and Ghulam Rasool Shah, the prime Ahle Sunnat Wal Jammāt (ASWJ) militants in Punjab.⁵ There is now an unprecedented intelligence sharing and coordination between the civilian and military security agencies in Balochistan and Karachi, where most of the sectarian violence has taken place in recent years.⁶ Since the launch of counterterrorism military operations by Pakistan in North Waziristan and nationwide, the incident of

Biol. Sci., 5(6)206-212, 2015) Retrieved from:
[http://textroad.com/pdf/JAEBS/J.%20Appl.%20Environ.%20Biol.%20Sci.,%205\(6\)206-212,%202015.pdf](http://textroad.com/pdf/JAEBS/J.%20Appl.%20Environ.%20Biol.%20Sci.,%205(6)206-212,%202015.pdf)

¹ K. Barzegar, "Iran's foreign policy in post-invasion Iraq", *Middle East Policy*, 2008. PP. 47-58.

² N. Hussain, "Pak-Iran Relations in Post-9/11 Period: Regional and Global Impact", *Regional Studies Islamabad*, 2002. Pp. 33-45.

³ Najam Rafique, "Prospects of Pakistan-Iran Relations: Post Nuclear Deal", Retrieved from: <http://www.issi.org.pk/prospects-of-pakistan-iran-relations-post-nuclear-deal/>

⁴ Ibid.

⁵ Ibid.

⁶ Ibid.

terrorism, including sectarian violence, has dropped to a considerable extent.¹

Iran has serious concerns over Iranian Sunni militant groups seeking protection in and operating from Pakistan's border areas. It is said that Iranian Baluchi insurgent groups, including Jundullah and its breakaway factions JaishulAdl and Jaishul Nasr, are based in the Sistan-Baluchistan province of Iran and have developed a substantial presence in the Pakistani-Iranian border belt of Pakistan's Baluchistan province.² Jundullah, a nationalist sectarian group, emerged in Iran's Sistan-Baluchistan province in 2003 and launched an extensive campaign of violence mainly against Iranian security forces in subsequent years. Iran executed Jundullah's founder leader, Abdul Malik Rigi, in June 2010. Some reports suggested that the Pakistani authorities had handed him over to Iran after being picked up in Dubai in an operation launched by Pakistan's Inter-Services Intelligence.³ Pakistan's ambassador to Tehran, Muhammad Abbasi, also claimed that "Rigi's arrest could not have happened without Pakistan's help".⁴ On August 28th 2014 Rigi's younger brother, Abdul Rauf Rigi,⁵ was shot dead in Quetta, in Pakistani Baluchistan. He had been arrested by the Pakistani authorities in December 2010 and was supposed to be handed over to the Iranian authorities.⁶ Iran blames Pakistan for the latter's alleged failure to check the presence of Iranian insurgent groups on Pakistani soil and their free cross-border movement. The Iranian government threatened to send its troops into Pakistani territory after Jaishul Adl militants

¹ "New Walls Rise After Iron Curtain Falls", Radio *Free Europe Radio Liberty*, <http://www.rferl.org/content/new-walls-rise-in-europe-iron-curtain-/27214403.html>

² A. Mir, "Mystery murder of Iranian rebel raises questions." *The News*, September 6th, 2014.

<<http://www.thenews.com.pk/TodaysPrintDetail.aspx?ID=271307&Cat=2&dt=9/6/2014>>

³ Z. U. Rehman, "The Baluch Insurgency: Linking Iran to Pakistan", *NOREF Report*, May, 2014.

<http://www.peacebuilding.no/var/ezflow_site/storage/original/application/31c68a20991b5a98b0dece4fd929c9c8.pdf>

⁴ Ibid.

⁵ Rauf Rigi was the founder of the Iranian insurgent group Jaishul Nasr, which he launched in early 2014 after leaving another militant group, Jaishul Adl. He had succeeded his elder brother, Abdul Malik Rigi, as head of Jundallah after the latter's execution in Iran in 2010.

⁶ The Iranian government had demanded that he be handed over on December 25th 2010, saying: "Abdul Rauf Rigi's arrest reflects the decisive resolve of the Pakistan government to confront terrorism." A. Mir, "Mystery murder of Iranian rebel raises questions." *The News*, September 6th, 2014. <<http://www.thenews.com.pk/TodaysPrintDetail.aspx?ID=271307&Cat=2&dt=9/6/2014>>

reportedly kidnapped five Iranian guards on February 6th 2014 in the Iranian province of Sistan-Baluchistan and took them across the border to Pakistan.¹ After this incident, in late March Iran announced a decision to construct 120 new army posts along its border with Pakistan to prevent militants' cross-border movements.²

Iranian border security concerns are also related to the smuggling of drugs and arms from Afghanistan and Pakistan. Part of this concern arises from the fact that anti-Iranian militant groups such as Jundullah are largely financed by drugs and arms smuggling. Therefore, the two countries, on May 6th, 2014, agreed to establish a hotline between the Frontier Corps in Pakistani Baluchistan and the Iranian border security forces to counter cross-border militancy.³ A considerable number of the nine bilateral cooperation agreements signed between Pakistan and Iran in Tehran during the Pakistani prime minister's visit in May 2014 included provisions for countering terrorism and enhancing border security, such as one for the establishment of a High Border Commission; one for the prevention of money laundering and financial support for terrorist groups; two more for the exchange of financial information on money laundering; and one for the exchange of prisoners.⁴ Earlier, in February 2013, the two countries had signed a very comprehensive bilateral security agreement to combat and prevent cross-border terrorism and organised crime; smuggling and illicit trade, including of drugs and weapons; and activities posing threats to the security of either country.⁵

The long, remote and sparsely populated border with Iran poses a number of problems for both sides. Over the years, both Pakistan and Iran have urged the other to do more to secure the frontier, curb smuggling and human trafficking, and crackdown on dissidents operating on either side of the border.⁶ Moreover, the recent decision by Pakistan to formally participate in the Saudi-led Islamic Military Alliance, allow former army chief Gen

¹ Four of the kidnapped Iranian border guards and the body of the fifth whom the militants said they had killed were handed over by JaishulAdl militants to Iranian representatives in Pakistan in April 2014.

² "Islamabad", *Express* (Urdu), April 1, 2014.

³ I. A. Khan, "FC, Iranian border security force to set up hotline", *Dawn*, May 7, 2014.

⁴ "Iran, Pakistan sign MoUs, agreements", IRNA, May 12, 2014. <http://www.irna.ir/en/News/2685178/Politic/Iran,_Pakistan_sign_MoUs,_agreements>

⁵ "Accord on security signed with Iran", *Dawn*, February 20, 2013. <<http://www.dawn.com/news/787317/accord-onsecurity-signed-with-iran>>

⁶ "[Pak-Iran diplomacy](#)", *Dawn (Editorial)*, May 5, 2017. Retrieved from: <https://www.dawn.com/news/1331062/pak-iran-diplomacy>

Raheel Sharif to lead the IMA and revisit allegations of Iranian interference in Balochistan following the conviction of Indian spy Kulbhushan Jadhav appears to have contributed to a fierce initial response by Iran after the Jaishul Adl attack.¹ The 11 deaths in recent attack by Jaishul Adl, a Sunni militant group active in Sistan-Baluchistan, Iran, was both a particularly serious incident and took place at a time of heightened Pak-Iran tensions.² The attack further exacerbated Iranian-Pakistani relations that have become increasingly strained after Pakistan allowed recently retired chief of staff of its military, General Raheel Sharif, to become commander of a Saudi-led, 41-nation military alliance that Iran sees as a Sunni Muslim force established to confront the Islamic republic. However, diplomacy appears to have prevailed and the credit must go to both sides. Following meetings with Prime Minister Nawaz Sharif, army chief Gen Qamar Bajwa and Interior Minister Nisar Ali Khan, the Iranian foreign minister Javad Zarif appears to have received a number of assurances from Pakistan that the state is both willing and able to address Iran's security concerns.³ Both sides had agreed to ramp up border cooperation while Pakistan has pledged to send more troops to the boundary to help fight cross-border smuggling, crime and militancy.

Pakistan and Iran have vital stakes in peace and stability in Afghanistan. An insecure and unstable Afghanistan after the drawdown of the International Security Assistance Force could have serious implications for the internal security of the countries in the region – mainly Pakistan, India and Iran, which have been competing in Afghanistan in terms of geopolitical, economic and national security interests since the Soviet-Afghan war. While Pakistan and Saudi Arabia backed the Taliban regime in Afghanistan in the 1990s, Iran and India supported the anti-Taliban Northern Alliance. Later, when Pakistan became part of the U.S.-led alliance against the Afghan Taliban, Pakistani relations with Iran started to improve. In recent years there has been a growing convergence of trilateral interests among Pakistan, Iran and Afghanistan, such as in the areas of counterterrorism, border security, preventing drug trafficking, etc. Also, Iran's grievances vis-à-vis Pakistan's support for the Taliban in the past have been addressed to a considerable extent in recent times. While Pakistan does not support the Taliban's return to power, it has also tried to reach out to non-Pashtun communities in Afghanistan and has repeatedly said that it has no "favorites" there. After the Pakistani Taliban attacked a school in Peshawar

¹ Ibid.

² Ibid.

³ Ibid.

in December 2014 Pakistan took a sterner position against militants of all hues and colors operating in Pakistan, including those of Afghan origin. Pakistan's decision to ban the Haqqani network following U.S. secretary of state John Kerry's visit to the country early this year,¹ coupled with Pakistan's current efforts to revive the Afghan government's talks with the Afghan Taliban, indicates its growing commitment to help achieve peace in Afghanistan. At the same time both Iran and Pakistan see the so-called Islamic State, which has an embryonic presence in South Asia, as a threat. The IS factor poses a threat to all the countries in the region, including Iran, in terms of its anti-Shia violence and terrorism. Although there is only small likelihood of IS itself coming to Pakistan or Afghanistan, the region runs the danger of some IS-inspired or -associated militants forging alliances and concentrating in Afghanistan or Pakistani-Afghan border areas. If Afghanistan achieves some sort of reconciliation with the Afghan Taliban, hardline factions or commanders among the Taliban who do not believe in political reconciliation and their Pakistani associates could try to link up under the IS umbrella. While the violent Pakistani Sunni sectarian groups will be more than ready to join such an alliance, the possibility of Iranian Sunni insurgent groups joining such an alliance, or at least developing a nexus with it, cannot be ruled out.

Pakistani-Saudi relations is seen by some analysts as a critical irritant in Pakistan's relations with Iran. Pakistan has a history of cooperation with Saudi Arabia against Tehran's interests in Afghanistan. Pakistan, Iran and Saudi Arabia, therefore, make a complicated triangle. Pakistan, keeping in view the international dynamics of Shia-Sunni schism, faces the dilemma of balancing between Iran and Saudi Arabia. Saudi efforts to strengthen ties with Pakistan mainly entailed military or security and political objectives. Although the persisting Sunni-Shia sectarian violence in Pakistan is not exclusively linked to external factors, it has implications for the country's relations with Iran and Saudi Arabia. Experts believe that balanced Pakistani relations with the two countries are imperative to improve sectarian harmony in the country. The continued terrorist attacks by Sunni sectarian militant groups, mainly Lashkar-e-Jhagvi, on the Shia community in Pakistan "resonate negatively in Iran and are viewed as an indicator of a proxy war being carried out in the region".² However, given

¹ "Pakistan bans Haqqani network after security talks with Kerry", *Dawn*, January 16, 2015. <<http://www.dawn.com/news/1157425>>

² S. Aftab, "Pakistan: overview of sources of tension with regional implications, 2014", *Barcelona Centre for International Affairs*, December, 2014. <<http://www.cidob.org/en/>>

the changing dynamics of its relations in the present context, it cannot afford to embroil itself directly in the most sensitive aspect of Iran-Saudi cold war. Pakistan's decision not to play an active combat role in the Saudi-led Yemen war was, in fact, the test of its diplomatic skills that have proved successful in keeping Pakistan out of the Iran-Saudi tussle. It has urged restraint in the current Iran-Arab tensions and has opposed any military action. Balancing Iran-Arab relations will be a difficult and uphill task for Pakistan, especially when Pakistani guest workers are employed in the Gulf and it is mostly their remittances that keep the country's economy afloat. Notwithstanding these difficult circumstances, Pakistan will have to remain neutral and alert against the import of toxic ideology of fresh violence at home.

Pakistan could play a mediator in improving relations between the two countries – crucial to increasing stability in West Asia.¹ Pakistan is in no mood to jeopardize relations with Iran and is keen to continue cordial ties with Saudi Arabia. Improved Iranian-Saudi relations would be conducive for Pakistan in balancing relations with both as well as to isolate Israel.² The region's leaders must tread carefully in balancing ties with Iran. This is particularly true for Pakistan, considering India's already high trade volume with Saudi Arabia and Iran.³

After speculation that Pakistan was changing its Middle East policy under Saudi pressure, the PML-N government took immediate steps to balance its ties with Saudi Arabia and Iran. Firstly, Prime Minister Sharif paid a visit to Iran in May 2014 that helped reduce the mounting trust deficit between the two countries. Secondly, the government convened a conference⁴ of Pakistani diplomats in the Middle East and the Gulf in Islamabad on May 6th 2014 ahead of the prime minister's visit to Iran. Sharif told participants that Pakistan would maintain its policy of non-interference in the Middle East, remain neutral and pursue an independent policy of "economic

publications/stap_rp/policy_research_papers/Pakistan_
overview_of_sources_of_tension_with_regional_implications_2014>

¹ **Ghoshal Debalina**, "Pakistan Keen to Keep Ties with Iran and Saudi Arabia – Analysis", *Delhi Policy Group, New Delhi, India*. Retrieved from: <http://www.eurasiareview.com/02102015-pakistan-keen-to-keep-ties-with-iran-and-saudi-arabia-analysis/>

² Ibid.

³ Ibid.

⁴ The three-day conference was attended by Pakistan's ambassadors in Saudi Arabia, Iran, Syria, Yemen, Qatar, the UAE and other countries of the region.

diplomacy” with countries in the region.¹ In a way, the incumbent Pakistani government has been successful in reviving the country’s traditional policy of non-interference in Middle East, which has also helped to normalize its relations with Iran. Pakistani media, intelligentsia and civil society also played a role by criticizing the government’s growing tilt towards Saudi Arabia in early 2014.

Although, there are growing prospects of increased economic cooperation and connectivity between Pakistan and Iran, the growing Indian influence and ties with Iran may present obstacles as India pushes ahead in its relations with Iran, particularly in the context of developing the Iranian port of Chabahar, both as a competitor to Gwadar and a means through which India can access Afghanistan and Central Asia.² The construction of the Zaranj-Dilaram road link to the Iranian port of Bander Abbas, Iran, in conjunction with India, is also building a road and railway system to link western Afghanistan with the Iranian port of Chabahar to compete with the Pakistani port of Gwadar. Because Pakistan thinks that India is using Afghan soil to support the Baluch nationalist insurgency in Pakistan’s Baluchistan province and anti-Pakistan Taliban militants in Pakistan’s tribal areas, Iranian cooperation with India in Afghanistan could serve as a major irritant in Pakistani-Iranian ties. Chabahar port, which is a symbol of Indo-Iran economic and strategic cooperation, will give India access to Afghanistan, bypassing Pakistan entirely. Although India’s presence in Iran is substantial, however, after the lifting of sanctions, it is bound to lose the advantage it gained over the sanctions period to the other trading partners of Iran including Pakistan and China.

Iran must be disturbed by Islamabad’s closeness to Riyadh. By the same coin, Islamabad must be perturbed by Tehran’s closeness to Delhi. “Because Pakistan thinks that India is using Afghan soil to support the Baloch nationalist insurgency in Pakistan’s Balochistan province and anti-Pakistan Taliban militants in Pakistan’s tribal areas, Iranian cooperation with India in Afghanistan could serve as a major irritant in Pakistani-Iranian ties.” However, both Iran and Pakistan need to understand that for a peaceful region, their cooperation and commitment to attain the goal is important. Both need to address the concerns felt by both in all sincerity.

¹ K. Yousaf, “Nawaz Sharif says ties with one country will not be at the expense of another”, *Express Tribune*, May 7, 2014.

² Najam Rafique, “Prospects of Pakistan-Iran Relations: Post Nuclear Deal”, Retrieved from: <http://www.issi.org.pk/prospects-of-pakistan-iran-relations-post-nuclear-deal/>

Following the landmark nuclear deal between Iran and the six major powers (P5+1), the Iranian Foreign Minister, Javad Zarif visited Pakistan in August 2015 to explore opportunities for greater economic and security cooperation in the region.¹ In extended meetings between Sartaj Aziz, Advisor to the Prime Minister on Foreign Affairs and the Iranian Foreign Minister Javad Zarif, both the countries agreed to expand mutually beneficial cooperation on a number of issues including expansion of economic linkages, enhancing bilateral collaboration in the energy sector, progress on the Iran-Pakistan gas pipeline, increasing regional cooperation, and carrying out joint efforts in the fight against extremism and terrorism.² Both the countries agreed that economic integration and connectivity within the region should be improved in order to achieve better economic and commercial activity not just between Iran and Pakistan, but among all the neighboring countries.³ In February 2016, Pakistan decided to revive economic and commercial relations with Iran including trade, investment, technology, banking, finance, energy.⁴ Moreover, in March 2016, Prime Minister Nawaz Sharif welcomed the Iranian President Hassan Rouhani to Islamabad, which set the course of future relations between the two countries.⁵

The two neighbors have struggled to come up with a mechanism to effectively deal with the cross border issues.⁶ Both Islamabad and Tehran decided at the 20th joint border commission meeting in the Iranian port city of Chahbahar in Feb 27, 2017 to set up three more immigration offices at the border between the two countries. In the said meeting they also decided to establish more markets at the border to generate economic activity for people living on both sides of the border.⁷ Moreover, Prime Minister Nawaz Sharif and Iranian President Hassan Rouhani, in a bilateral meeting on the sidelines of the Economic Cooperation Organization's summit, 2017, had reaffirmed their "mutual desire to strengthen bilateral relations".⁸

¹ Ibid.

² Ibid.

³ "Iran wants expanded relations with Pakistan: Zarif," *Dawn*, August 14, 2015, <http://www.dawn.com/news/1200373>

⁴ "Pakistan lifts sanctions against Iran," *Dawn*, February 19, 2016. Retrieved from: <http://www.dawn.com/news/1240603>

⁵ "PM, Iranian president hold delegation-level talks in Islamabad," *Express Tribune*, March 25, 2016, <http://tribune.com.pk/story/1072617/iranian-president-hasan-rowhani-arrives-in-islamabad/>

⁶ "[Stronger Pak-Iran defence ties to serve regional peace: Bajwa](#)," *Dawn*, March 5th, 2017. Retrieved from: <https://www.dawn.com/news/1318523>

⁷ Ibid.

⁸ Ibid.

Economic and Trade Relations:

Although the economic ties between Pakistan and Iran date back to centuries, the progress achieved in this respect remains marginal because of different political and economic reasons.

The two countries established the Pakistan-Iran Joint Economic Commission (JEC) in 1986, an institutional mechanism to identify and promote economic and trade cooperation. But Pakistan's strong politico-economic and geostrategic alignment with the U.S. and Saudi Arabia in subsequent years offered negligible promises for Pakistani-Iranian bilateral cooperation, including in terms of trade and the economy. The JEC is still operational and its 19th session was held in Islamabad in December 2014, when both countries signed five agreements related to the establishment of a Joint Investment Committee, cooperation between Pakistan's Small and Medium Enterprises Development Authority and Iran's Small Industries, and the establishment of a sister-port relationship between the ports of Karachi and Chabahar, in addition to cooperation in the field of investment, and economic and technical assistance.¹ Trading centers along the Iran-Pakistan border were also identified that could be used as common markets to sell goods at concessional rates of customs and other duties in order to control illegal cross border trade.² However, the implementation of these and other similar agreements such as for the construction of the Iran-Pakistan (IP) gas pipeline has remained under question, partly due to external factors such as Saudi and U.S. pressure on Pakistan and international sanctions on Iran, and partly due to Pakistan's lack of clear foreign policy priorities in terms of trade and the economy, as well as policy inconsistency.

An agreement, Economic Cooperation Organization Trade Agreement (ECOTA) was signed between Pakistan, Iran, Turkey, Afghanistan and Tajikistan in 2003, which envisaged the establishment of a free trade area that represents another framework that holds the potential of bringing Pakistan and Iran closer. However, this agreement has not been implemented yet, due to different interpretations of the articles of the agreement on tariff.

¹ "Pakistan, Iran sign 5 MoUs to enhance bilateral cooperation", *Pakistan Today*, December 9, 2014.

<<http://www.pakistantoday.com.pk/2014/12/09/business/pakistan-iran-sign-5-mous-to-enhance-bilateral-cooperation>>

² Ibid.

Pakistan and Iran signed a Preferential Trade Agreement (PTA) in Islamabad on March 4, 2004. Under the PTA, both the countries agreed to reduce customs duty on 647 tradable items. Pakistan will give duty concession on 338 items to Iran. In return, Tehran will give duty concession on 309 items to Islamabad. Officials have said that the agreement would be finally converted into a Free Trade Agreement (FTA). The purpose of the agreement is to strengthen economic and political relations between the two countries and to promote a more secure environment for sustainable growth of trade and expand mutual trade by exploring new areas of cooperation. The trade embargo on Iran was another reason why PTA could not achieve its full potential. Also, a substantial amount of trade had to be routed through a third country – Dubai and the UAE in this instance – despite that fact that Pakistan, Iran and Turkey have established the Istanbul-Islamabad-Tehran railway network proposed in the 18th Regional Planning Council of the ECO held in Islamabad in 2008. This 6,500 km long rail network is one of the major projects of ECO with the aim of connecting Central Asia with Europe. While Pakistan Railways is now running freight operations between Zahidan in Iran and Quetta in Pakistan, the decision for the revival of the „Gul Train“ – an Islamabad-Istanbul via Tehran freight train – is still pending.

Under the ECO framework, Pakistan, Iran and Turkey have also established a number of initiatives including the ECO Trade and Development Bank headquartered in Turkey and representative office in Karachi. A comprehensive Transit Transport Framework Agreement (TTFA) – an ECO Fund for the implementation of the TTFA has already been established, and the joint ECO Secretariat and Islamic Development Bank (IDB) regional project for the implementation of TTFA is in its final stages of implementation.¹ Moreover, an ECO truck caravan initiative was launched in 2010 in Islamabad under TTFA besides the establishment of ECO Reinsurance Company for the purpose of promoting regional linkages and to support economic development. Unfortunately, all these initiatives have yet to achieve the goal of increasing trade within the ECO member countries.

In April 2015, both Pakistan and Iran agreed on a five-year trade facilitation plan to enhance bilateral trade to \$5 billion, and an early elimination of all non-tariff barriers under the 2006 Preferential Trade Agreement to fulfill the shared vision of Prime Minister Sharif and President Rouhani to

¹ “Trade with Iran,” *Criterion Quarterly*, vol. 10, no. 4, February 1, 2016.

increase bilateral trade from \$1b to \$5bn. Both the sides also agreed to form a working group to suggest widening of the 2006 Pakistan-Iran Preferential Trade Agreement.¹

In 2014, overall trade with Iran was US\$217 million out of which exports from Pakistan amounted to US \$53. The key export items of Iran to Pakistan included: iron ore, iron scrap, dates, detergents, transformers, chemicals, bitumen, polyethylene, propylene, etc. while export items of Pakistan to Iran include rice, fresh fruits, meat cloth and mechanical machinery.

Energy Cooperation:

The eventual lifting of sanctions on Iran in January 2016 will allow for the Islamabad-Tehran relationship to be increasingly driven by economic and geographic realities, rather than the interests of exogenous actors. In anticipation of the lifting of sanctions on Iran, Islamabad and Tehran are moving forward with the two major energy projects: a natural gas pipeline and an electricity transmission line. Together, both the projects will help alleviate Pakistan's crippling shortages of both electricity and vehicle fuel.

i. Gas Pipeline:

The agreement on the export of Iranian natural gas to Pakistan called "IP pipeline" was signed in 2009, and its legal and supplementary annexes were concluded between the two countries in 2010, which is scheduled to be commissioned in the year 2014. The Iran-Pakistan gas pipeline project is perhaps the most important initiative. Gas from Iran is the best possible way of meeting our pressing energy requirements. There is no third country involved in the Iran-Pakistan gas pipeline project, unlike the Turkmenistan-Afghanistan-Pakistan-India gas pipeline which would of course have to go through Afghanistan.

The project envisaged delivery of gas from Pars gas field to Pakistan through a 1,150 km pipeline on the Iranian side, and a 781 km pipeline on the Pakistan side of the border to be joined eventually to the domestic pipeline network in Pakistan. In March 2013, Pakistani president Asif Ali Zardari and his Iranian counterpart, Mahmoud Ahmadinejad, officially inaugurated the construction of the 780-kilometre pipeline from Iran to Pakistan² in the Iranian border city of Chabahar. The construction of the pipeline was scheduled to be

¹ "Pakistan, Iran eye trade at \$5 billion," *Dawn*, April 23, 2015, www.dawn.com/news/1177635

² Starting from the Iranian border, the Pakistani section of the gas pipeline will pass through Sindh and Baluchistan provinces to reach Multan in southern Punjab.

completed by December 31, 2014. However, while Iran has almost completed the portion of the pipeline on its side of the border, the pipeline on the Pakistani side of the border could not be completed because of the lack of funds and the sanctions on Iran. It is said that the cost of the Pakistan-Iran gas pipeline is also an impediment between the two sides. The gas pipeline could meet 25 per cent of our energy needs.

Pakistan also runs the risk of paying penalties to Iran over falling behind schedule in the construction of its section of the pipeline. In May 2014 Iran turned down Pakistan's request to invoke the force majeure clause because of U.S. sanctions imposed on Iran and defer the penalties for not completing the pipeline.¹ Some believe that it is more a matter of Pakistan's lack of political will and strategic priorities than U.S. sanctions that is delaying the completion of the pipeline. Pakistan could prepare a strong case to convince the U.S. that the Gas Purchase Agreement for the project was signed before the latest sanctions on Iran came into force.² The Pakistani government's recent efforts to explore alternative options³ to meet its immediate energy needs suggest that the IP pipeline might not materialise in the near future, at least until a clear outcome emerges from the international community's engagement with Iran on the latter's nuclear programme. The American fear is that if the Iran-Pakistan gas pipeline project materializes, it will be extended to China. Although the Pakistan Muslim League-Nawaz (PML-N) government announced after coming into power in the May 2013 elections that it will complete the pipeline project,⁴ it did not allocate

¹ K. Mustafa, "Iran rejects Pakistan's demand to defer penalty", *The News*, July 17, 2014. <<http://www.thenews.com.pk/TodaysPrintDetail.aspx?ID=31650&Cat=13&dt=7/17/2014>>

² "Iran's energy overtures", *Dawn*, February 12, 2015. <<http://www.dawn.com/news/1163009>>

³ During a meeting of the Cabinet Committee on Energy chaired by Prime Minister Sharif held on February 12th 2015 it was decided to start negotiations with Malaysia, China, Algeria, Nigeria and Trinidad for the import of liquefied natural gas and also to take immediate steps for an early start to the 1,680-kilometre Turkmenistan-Afghanistan-Pakistan-India gas pipeline.

⁴ Z. Bhutta, "Annual plan 2013-14: government will not scrap Iran gas pipeline project", *Express Tribune*, June 13, 2013. <<http://tribune.com.pk/story/562558/annual-plan-2013-14-govt-will-not-scrap-iran-gas-pipeline-project>>

any funds for the project in the federal budget for 2013-14.¹ At the same time the government has reportedly been under U.S. and Saudi pressure to abandon the project.

ii. **Electricity Transmission:**

Iran, which presently supplies Pakistani Balochistan with at least 75MW of electricity, has expressed interest in expanding the 1000MW supply to 3000 MW.² In 2002, Pakistan and Iran signed an agreement for import of 74 MW of electricity from Iran. This project was postponed due to the sanctions on banking transactions with Iran. Pakistan signed a Memorandum of Understanding (MoU) in 2012 to import 1000 MW of electricity from Iran, and according to the National Electricity and Power Regulatory Authority (NEPRA) of Pakistan imported 31.3GWh of electricity from Iran in December 2014. The transmission of electricity was carried out through a 132KV transmission line from Iran to Pakistan.³ In March 2015, Iranian company Tavanir and the National Transmission and Dispatch Company (NTDC) approved the feasibility report on 1,000 MW electricity supply from Iran to Pakistan for which a 500 kV Iran-Balochistan line will be laid at a cost of US\$700 million.⁴ In August 2015, Iran also offered to export 3000 MW of electricity to Pakistan.⁵

The July nuclear deal likely clears the way for the completion of sanctions-delayed energy projects between Islamabad and Tehran, bringing relief to energy-starved Pakistan. It also creates an opportunity for cooperation between Iran and Pakistan to promote peace in their respective Balochistan regions, creating a virtuous cycle of economic growth and improved security. However, while

¹ “Pakistan may miss Pak-Iran gas pipeline deadline”, *The News*, September 28, 2013. <<http://www.thenews.com.pk/Todays-News-13-25719-Pakistan-may-miss-Pak-Iran-gaspipeline-deadline>>

² “Iran can export 3,000 MW electricity to Pakistan,” *Express Tribune*, January 2, 2016. <http://tribune.com.pk/story/1020529/senate-question-hour-iran-can-export-3000mw-electricity-to-pakistan/>

³ “Power Supply from Iran to Balochistan,” *Pakistan Economist*, July 2009. <http://www.pakistaneconomist.com/pagesearch/Search-Engine2009/S.E506.php>.

⁴ “Nepra approves purchase of 1000 megawatts power from Iran,” *News Channel*, March 11, 2015, <http://www.pakissan.com/english/news/newsDetail.php?newsid=28438>

⁵ “Iran again offers 3,000 MW electricity to Pakistan,” *News International*, August 11, 2015, <http://www.thenews.com.pk/print/14040-iran-again-offers-3000mw-electricity-to-pakistan>)

Pakistan stands to be a major beneficiary of the nuclear deal, other countries, including Pakistan's archrival India, will also gain from Iran's opening to the outside world. Nonetheless, speculation of an Indian-Iranian entente, perhaps even including the United States, is overblown. The India-Iran relationship will continue to grow, but with China's big bet on Pakistan – in the tens of billions of dollars – and Pakistan's distancing itself from the regional sectarian war, Iran appears keen to partner with Pakistan rather than playing an antagonistic role in the country.

Main Irritants/Obstacles in Pak-Iran Trade Relations:

Despite the signing of a preferential trade agreement on March 4th 2004 – which became operational on September 1st 2006 – the volume of trade between the two countries in subsequent years remained much lower than its potential. Iran is a potential country for Pakistani exports but only one tenth of the bilateral trade potential is being exhausted between Pakistan and Iran. This low level of trade is not indicative of a paucity of opportunities, but rather a reflection of several trade-inhibiting factors, which must be overcome before both countries have a chance of expanding its trade with Iran to a meaningful level. Following are the various constrain/reasons for low trade volumes include:

For most of the imports, Iranian importers are being advised by the Iranian Bank to seek 'usance'. Previously, one year's (360 days) 'usance' @ 4.8% interest per annum (p.a) was acceptable but now 'usance' for two year's (720 days) with 5.5% interest p.a. is being insisted.¹ While the usance rate is unattractive, the State Bank of Pakistan does not allow 'usance' period beyond 120 days. Therefore, Pakistani exporters are unable to supply goods to Iran on 'usance' (two year's credit basis). This has adversely affected Pakistan's export of cotton yarn and fabric cloth to Iran.

Iran was facing a difficult economic situation partly because of US sanctions against Iran and mostly because of their foreign exchange problems, which have aggravated due to decrease in their non-oil exports and repayment of foreign debts.² In order to support their currency, the Iranian government has taken the following "non-tariff" measures, which

¹ A country report of Ministry of Commerce Govt. of Pakistan, Pak-Iran Trade (1997), pp.1.2.3.4.5.

² Jahangir Achakzai, "Pak-Iran Trade Expansion: The Irritants & Policy Challenges", *Journal Central Asia No. 67, Winter 2010*. Retrieved from http://www.asc-centralasia.edu.pk/Issue_67/05_Jahangir_Achakzai.html

have reduced Iran's imports.¹ Imports of all type of commercial and industrial goods except essential food-items (i.e. rice, wheat, cooking oil and sugar) require the approval of the Ministry of Commerce and in some cases of two to three other Ministries.² The procedure for obtaining approval for non-essential food items is quite cumbersome. Moreover, import has also been linked with export of oil as the National Iranian Oil Co. is facing problems in marketing the oil, which was previously being imported by the American companies.³

The stringent Iranian visa procedures is also one the main reasons that caused the low volume of trade between the two countries. The repeated presence of the applicant and medical requirements discourage Pakistani businessmen and lorry drivers. Iranian's charge Rs 6,000/- for attestation of commercial invoices. Pakistan has raised this issue with the Iranians but not yet resolved to mutual satisfaction.

Business transactions between the two countries are conducted through the Asian Clearing Union (ACU). The ACU transactions take more time than normal L/Cs. Iran's nuclear issue has made opening of L/Cs difficult. UN restrictions on Iranian Banks (Milli, Sepah, Sedarat and Mellat) have affected Pakistani exports.

The Iran's import policy presently is very strict.⁴ This is adversely affecting Pakistan's exports to Iran in spite of the fact that Iran is a potential market for our non-traditional items. But rigidity of Iran's trade policies⁵ is hampering the flexible and smooth way of trade relations between the two countries e.g.

- 100% tariff on Articles of apparels, accessories etc.
- 45.3% or more tariff on raw hides and skins (other than fur skin) and leather etc.
- 42.7% maximum tariff on surgical goods.

Moreover, the stringent quarantine requirements hinder export of fruits like kinnow & mango through normal channels and encourage traders on both sides to employ informal trade.

¹ Ibid.

² Ibid.

³ Ibid.

⁴ [Sialkot Chamber of Commerce](file:///C:/Users/DG/Downloads/scci%20(1).pdf), "Pak-Iran Trade Relation". Retrieved from: [file:///C:/Users/DG/Downloads/scci%20\(1\).pdf](file:///C:/Users/DG/Downloads/scci%20(1).pdf)

⁵ Ibid.

The activities of the IS group, along with drug and gasoline smuggling led Iran to build one of the world's most fortified barriers including a new fence and a 700 km long and three meters high concrete wall including deep ditches, barbed wire and watchtowers.¹ As militant sectarianism grew as a phenomenon on the border with Pakistan, the menace became a headache for both Pakistan and Iran.

The Iranian Government had proposed to set-up a Common Border Market (CBM) between Iran and Pakistan at Mirjaveh.² Establishing common border markets with various neighboring countries is a part of Iranian national policy to curb smuggling. However, the site proposed for the said market on Pak-Iran border is not suitable for Pakistan, as it is located in the area of rugged terrain of mountains, desert with low population density and lack of communication facilities especially on Pakistani side. On Iranian insistence the proposed site was inspected but not found a feasible proposition. The Government of Baluchistan and the Quetta Chamber of Commerce & Industry have also not supported the Iranian proposal for the above-mentioned reason. The matter is still under consideration and is likely to be discussed with Iran during the meeting of the Bilateral Trade Committee.

Way Forward/Recommendations:

There exists a great potential in the economic domain of Pak-Iran relations. Both countries can get immense benefit by increasing their bilateral trade. The scope of the potential trade is very vast but unfortunately both states have been unable to fully utilize the opportunity to enhance the scope of their bilateral trade. The important factor to build a relationship of friendship and tolerance is the unity of geography and the continuing interaction between people who share a common religion, cultural heritage, history and language. To further strengthen the historical ties, it is very important to understand each other's fundamental interests. Following are the vital steps/ factors that could promote shared perceptions and enhance cooperation as well as increase bilateral trade between the two states:

1. The Iran's import policy presently is very strict. This is adversely affecting Pakistan's exports to Iran in spite of the fact that Iran is a fairly good market for our non-traditional items. The reciprocal export credit of US/\$ 50 million signed between the two countries to increase the export of non-traditional items could not be utilized.

¹ "New Walls Rise After Iron Curtain Falls," *Radio Free Europe Radio Liberty*, <http://www.rferl.org/content/new-walls-rise-in-europe-iron-curtain-/27214403.html>

² A country report of Ministry of Commerce Govt. of Pakistan, Pak-Iran Trade (1997), pp.1.2.3.4.5.

The main reason for under-utilization of this credit is non-tariff barriers imposed by the Iranian government. To make proper use of this credit, it is proposed that Iranian side may be pursued to sign a bilateral agreement with Pakistan listing the exportable items, which may be traded from both sides under this credit, and there should be no restriction on the import of the same. Such arrangement is must to ensure the import of non-traditional items from Pakistan by the Iranian businessmen from private sector. At present Bank Markazi of Iran is not encouraging their private sector to make use of this credit.

2. The Iranian government may be asked to issue necessary instructions to their Central Bank not to insist on 'usance' credit beyond 120 days for imports from Pakistan. Such an action on the part of Iran would greatly help the Pakistani exporters to increase their exports to Iran. They have agreed to 180 days 'usance' for Sri Lanka as compared to 360 days.
3. The Ministry of Commerce may consider the Iranian proposal for establishment of common border market at Mirjaveh or any other mutually agreed place at Pak-Iran border as the same will help in reducing the volume of informal trade which presently exists between the two countries. Government of Baluchistan may be advised to start planning for providing infrastructure i.e. roads to Mirjaveh/Taftan and Turbat so that Common Border Markets (CBMs) may be set up. In this connection the following steps need to be taken;
4. In CBMs only 'Made in Pakistan' and 'Made in Iran' products should be traded.
5. A mechanism should be developed so that smuggling should be curbed and the items freely moving to and from Pakistan to Iran should be traded through CBM.
6. Government of Pakistan has got no proper infrastructure up to Border Areas. Since the Iranian Government has shown its willingness to provide electricity, water, gas etc., it has to be built on the Pakistan side of the border, Pakistan Government may avail of this offer.
7. In order to reduce its trade imbalance with Pakistan, Iran may be persuaded to import more rice from Pakistan on long-term basis. Iran has doubled import duty on Pakistani rice as a result, the rice

exporters may lose a big market share in Iran.¹ The Chairman Rice Exporters Association of Pakistanis met Iranian Consul General in Karachi to share his concerns regarding Pakistani rice exporters' problems in the wake of duty increase by Iranian government.²

8. Inadequate information on trade-related laws, regulations and procedures apart, their complexity serves as a deterrent to expanded trade. Hence, simplification and standardization of import-export licensing and clearance procedure, quality control and pre-shipment goods inspection procedures, port and shipping formalities, tender documents, Performa invoices handing, transport and insurance documents, procedures for opening of letters of credit and bank documentation, etc. may boost trade.
9. Closer cooperation between public and private sector institutions dealing with regional trade and commerce issues, with a view to identifying and eradicating the impediments to intra-regional trade, is essential for expanding Pakistan's trade with Iran. Moreover, Private sector may be encouraged by both the countries to come forward and invest in joint venture schemes.
10. Multiple entry visa valid for six months may be issued to the Iranian/Pakistani businessmen on reciprocal basis on the recommendation of respective Chamber of Commerce and Industry.³ Moreover, efforts should be made to increase the visits of Iranian and Pakistani businessmen between the two countries. More investment opportunities must be created and businessmen from both sides must be facilitated to freely plan their visits for better business relations by simplifying the visa process.
11. Tariff and non-tariff barriers work as a stumbling block in the expansion of bilateral trade. There still exist a number of tariff and non-tariff barriers in the case of Pak-Iran bilateral trade mostly imposed by the Iranian government. Iran may be asked to remove these tariff and non-tariff trade barriers in order to achieve the inherent potential of trade between the two countries.

¹ Jahangir Achakzai, "Pak-Iran Trade Expansion: The Irritants & Policy Challenges", *Journal Central Asia No. 67, Winter 2010*. Retrieved from http://www.asc-centralasia.edu.pk/Issue_67/05_Jahangir_Achakzai.html

² Ibid.

³ Ibid.

12. Both countries should try to divert informal trade to legal channels by combating smuggling, revision of trade policies and reduction of tariff and non-tariff barriers.¹ It is difficult to control smuggling through administrative measures. The best way is through elimination or reduction of tariff and non-tariff barriers to ease legal trade. The government of Baluchistan has to take strict measures and tighten vigilance to stop smuggling of petrol from Iran, which is causing a huge loss to country. Steps must be taken for developing a legal mechanism for the transportation of petroleum products by road from Iran to Pakistan. Moreover, Iran may be requested for the provision of crude oil to Pakistan on the basis of three to four months' interest free deferred payment to resolve the problem of shortage of oil in Pakistan. As an additional step forward, both the countries must extend trade relations by arranging trade fairs and exhibitions.
13. Both the countries have been granting tariff concessions on 650 items under preferential trade Agreement (PTA). The items enjoying tariff concessions may be increased to expand bilateral trade. Moreover, Iranian products have larger demand in Pakistan as large numbers of these were already sold and many other are still finding their way in the local markets, through smuggling. If these products were exported to Pakistan through proper channels, the quantum of trade would have risen to a level equally beneficial for the local traders involved in the import export business.
14. Both countries have agreed to open bank branches and currency swap to promote trade but the issues are still inconclusive.² Iran had offered that Iran's Bank Milli and Pakistan's National Bank could open branches on reciprocal basis but this process is taking time and remain pending. In the past KASB Bank, Pakistan was facilitating the direct payments but it has been banned, now the mode of business transactions is through the Asian Clearing Union (ACU), which is more time consuming than a normal letter of credit (LC).³ Opening a letter of credit through Iran's sister companies in Dubai

¹ [Sialkot Chamber of Commerce](file:///C:/Users/DG/Downloads/scci%20(1).pdf), "Pak-Iran Trade Relation". Retrieved from: [file:///C:/Users/DG/Downloads/scci%20\(1\).pdf](file:///C:/Users/DG/Downloads/scci%20(1).pdf)

² Ibid.

³ Ibid.

also adds to the cost, and benefits only Dubai banks. It would be far more profitable if trade is permitted in local currencies instead of dollars.

15. Starting of direct flights from Quetta to Mashhad and Karachi to Tehran is the long time demand of the exporters of Pakistan. The issue should be resolved in the interest of the business communities of both the countries. Special attention may be paid by Pakistan Government to improve the infrastructure like roads, railways etc. moreover, Air and road links needs to be established and strengthened for people contacts and cargo transportation with necessary security measures. Moreover, projects like Gul Train which is a connection to Pakistan Iran and Turkey, must be given importance as it can prove to be a positive step for boosting trade between the two countries.
16. Pakistan should play the role of a bridge between Iran and the Middle Eastern countries.¹ The two countries need to have a comprehensive dialogue on how to help develop better understanding on Afghanistan. That would help resolve internal and external problems of Afghanistan.
17. Pakistan and Iran should make joint counter-terrorism team to counter the anti-Iran and anti-Pakistan elements and secure their border.²
18. Iran has huge reserve of gas and Pakistan can overcome its energy needs through taking further strengthening measures on IP Gas Pipeline agreement.³
19. A student exchange programme with Iran should be started. People-to-people contacts need to be promoted.⁴ Duo need to engage in expertise with each other and to establish close linkages. There are hardly any persons in Iran and Pakistan who are experts on each

¹ "Pakistan - Iran Relations: Challenges and Prospects", Roundtable Report VII, Foreign Policy Series FPS.IR.1, June, 2014. Retrieved from: <http://cpakgulf.org/wp-content/uploads/2014/11/Pakistan-Iran-Roundtable.pdf>

² Ibid.

³ Ibid.

⁴ Ibid.

other's country. There is a need to increase market penetration. Trade transaction gap needs to be filled.

20. The ongoing security issues such as smuggling, drug trafficking and encroachment of non-state actors along the border areas need to be handled through positive cooperative efforts including joint security exercises both on land and sea on a regular basis. To this end, border control technologies need to be incorporated in manning cross-border check posts and streamlining rules against smuggling and illegal cross-border traffic. The construction of walls to seal illegal movements or smuggling is no longer an enduring solution. When border trade and development takes place in enough quantum and frequency, the issues of insurgency would subside, if not totally ceased. At least it would provide lesser temptation to outsiders in meddling or acting as spoilers.

Conclusion:

The geo-political situation is undergoing a remarkable paradigm shift. Iran has become a prominent player in this new configuration. Pakistan's increasing cooperation with Russia, the efforts for reconciliation in Afghanistan, and the expanding economic ties with China call for an inclusive approach. Pakistan and Iran have to become major players in the region. The goalposts have moved, but the bond of brotherhood, cooperation, and economic survival still remains firm. History is being created in the neighborhood of Pakistan and Iran, and now that the menacing albatross of economic sanctions has been removed, the two countries must move swiftly to ensure that it favors the future of not only both the countries but the larger regions connected to them.

The times for Pakistan and Iran are challenging, but they equally provide the opportunity to close their ranks. In order to achieve the objective, the two sides need to develop a joint strategy to secure their land and maritime interests. Even as the two countries move to improve and upgrade their transportation and communication linkages, those trying to create differences between them are creating a negative impression of presenting the Gwadar Port in Pakistan and Iran's Chabahar as rival international trade ports. The joint waterways have more than enough real and potential trade volume. Viewed through the lens of cooperation, both the ports present an opportunity that must be tapped by opening up discussions on building links between Chabahar and Gwadar, as well as enhanced road links between Iran, Pakistan and Iran.

Pakistan and Iran need to have sustained diplomatic engagement to address the range of issues that could be causing friction. From the Kulbushan Jadhav incident to Pakistan's participation in the Saudi-led Islamic Military Alliance to helping stabilize an increasingly precarious Afghan state, there is much that needs to be addressed by both sides. Moreover, long-term projects, such as the Pak-Iran pipeline or electricity transfers, offer the opportunity to bring economic stability to a tense security relationship. Indeed, if truly creative solutions are wanted, the ports in Chabahar and Gwadar could greatly complement one another. Surely, whatever the path chosen, it must lead to stable, productive ties.

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