

## **Evolving Geo-economic Landscape: Opportunity for Deeper Economic Ties between Iran and Pakistan**

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Pakistan and Iran enjoy historical, cultural, and religious linkages. Unfortunately, the two sides have been unable to build upon these foundations in terms of bilateral economic cooperation. The countries share a 959 kilometers long border, but various factors have hampered efforts to boost the cross border flow of goods. Iran has made repeated efforts to raise its economic and political influence in the region with the aim of bolstering regional economic integration. Pakistan itself recognizes the need of promoting cross-border trade and is hopeful that the evolving geo-economic situation in the region would be beneficial for its stressed economy. Iran is enriched with large reserves of natural resources and continues to be a key player in global markets. However, international sanctions limited its capacity to exploit these resources but growing Chinese interest in the country is an opportunity for the entire region.

Pakistan has always regarded Iran as a vital regional partner and both Islamabad and Tehran have made efforts to enhance their economic engagement. Along with Turkey, both countries formed the [Regional Co-operation for Development](#) (RCD) in 1964 to accelerate development through mutual socioeconomic cooperation and improve transportation linkages. It coincided with the time Pakistan was making giant strides on the economic front. Unfortunately, the political and security environment in the member countries deteriorated which resultantly made the forum lose its momentum. RCD's successor, the Economic Cooperation Organization (ECO), was launched in 1985 and had a broader agenda. It [focused](#) on facilitating transit trade, integration of landlocked countries and cooperation in various fields to boost inter-regional economic activity. The newly independent Central Asian Republics (CARs) were attracted to this forum along with countries like Azerbaijan and Afghanistan. The increased membership brought greater diversity and economic benefits. For Iran, such mechanisms provided an opportunity to build on its economic and military stature, exploit its geographical position and to form regional alliances to counter US pressure.

Despite all its efforts, geopolitics has been unfavorable to Iran and has severely dented its regional ambitions. The international sanctions against the country cut short its economic cooperation with countries within and beyond the region. On the other hand, the growing clout of its traditional rival Saudi Arabia also proved to be a predicament. Members of regional forums have been put in difficult circumstances as the West has continued its strategy to isolate Iran. India's withdrawal from the Iran-Pakistan-India gas pipeline further dented Iran's prospects of enhancing its regional influence.

Economic relations between Pakistan and Iran have not been smooth either. Both offer vital sea access to landlocked CARs and thus, there has always been competition between the two sides to get a larger chunk of transit trade. As Pakistan received Chinese investment for the development of the Gwadar Port, another contentious situation emerged as Iran and India devised plans to build the Chabahar Port.

While there are plenty of political differences between Tehran and Islamabad, officials on both sides have always stressed the need to enhance bilateral trade. During a meeting in Islamabad in 2016, former Iranian President [Dr Rouhani](#) said that 'Border markets, connecting roads,

creating the groundwork for reaching free trade and active cooperation between Gwadar and Chabahar ports should be strengthened.’ He posited that trade between the two sides should reach USD 5 billion annually.

The US withdrawal from Afghanistan is an opportunity for greater cooperation between regional countries. The new government in Kabul has already invited China to help in building infrastructure, while both Pakistan and Iran are also keen to strengthen economic ties with Afghanistan. Participating in a panel discussion during the Raisina Dialogue in April 2021, the Iranian Foreign Minister [Javad Zarif](#) said that Chabahar was not against China and Gwadar, rather ‘a place where we can all come together in order to help Afghanistan, to help development and prosperity in the region.’

More recently, Iran was accepted as a full member of the Shanghai Cooperation Organisation (SCO) which will help Tehran overcome its international isolation. Iran’s membership of SCO is also a signal of growing ties between Tehran and Beijing. China’s military and economic support to Iran has been crucial in soothing the consequences of US-led sanctions. Iran has been attempting to improve its ties with Europe and solidify itself as a hub Eurasian economic activity, but it has been left frustrated by [European countries](#) who have failed to honor their commitments due to US pressure.

In March 2021, Iran and China signed [a 25-year agreement](#) which will enhance Chinese investment in infrastructure and services sector while receiving a steady and discounted supply of Iranian oil. On the signing of this agreement, [Javad Zarif](#) hailed China as a ‘friend for hard times,’ – echoing the sentiments of Iran’s Eastern neighbor, Pakistan.

The evolving geo-economic landscape has enhanced the potential of Pakistan-Iran economic cooperation. At [USD 359 million](#), the present volume of trade between Pakistan and Iran is far below its potential. However, there have been plenty of positive developments that can bolster the exchange of goods. China is both countries’ largest trading partner so growing Chinese presence in the region will encourage the Iranian and Pakistani leadership to strengthen their economic ties and benefit from regionalism.

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