



Landscape of Iran-Pakistan relations



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The Peace Pipeline, still hindered by US sanctions, has remained a major concern for Iran and Pakistan over the past decade. The long-term gas pipeline project is deemed essential for enhancing ties between the two neighbors. A landmark visit by Iranian President Ebrahim Raisi to Pakistan last week once again put the spotlight on stalled gas supply deal. Recent border tensions, which were judiciously resolved by authorities on both sides, underscored the importance of cooperation.

Currently, the two nations are involved in bilateral trade exceeding \$2 billion, with a mutual commitment to elevate it to \$10 billion annually following Raisi's two-day visit.

Pakistan, as a developing country, has been enduring decades of internal political disputes, low levels of foreign investment, and costly and continuous confrontations with its eastern neighbor, India. Due to foreign aid provided by the International Monetary Fund, Pakistan's access to global markets strengthened since the early 21st century. Moreover, economic policy reforms such as energy sector reforms have led to improvements in its macroeconomic indicators.

Leading international economic organizations have pictured a positive and rather ambitious outlook for Pakistan's economy and ranked Iran's eastern neighbor as the sixth largest economy in the world by 2075. The forecast is not unrealistic considering the average economic growth of 4% from 2012 to 2022 and an average inflation rate of 8% during that period. As per World Bank data in 2022, Pakistan's Gross Domestic Product (GDP) per capita stood at \$1696, with a total GDP of \$375 billion, 6.4% unemployment, an inflation rate of 19.8%, and the government's overall debt reaching \$274 billion (73% of the country's GDP).

The United Nations, in its World Economic Situation report, predicts a 2% GDP growth for Pakistan in 2024, rising to 2.3% in 2025. Exports have dwindled since the military ousted Imran Khan's government. Remittances hit a three-year low in June 2023, with a 6.8% decrease to \$13.4 billion in the first six months of FY24.

Iran-China economic corridor

Pakistan can also be considered as a key country to the Iran-China trade corridor. China's ambitious plans and its huge impact on the global economy have led to the establishment of programs aimed at boosting commodity transit. One remarkable program is the Belt and Road Initiative (BRI), which involves a massive investment of \$1 trillion from the world's second-largest economy. China started the BRI in 2013, with the participation of about 150 countries, including Iran.

In recent years, discussions have focused on reevaluating the China-Iran road corridors. Other international transit projects, such as Pakistan's port of Gwadar, have been proposed as an alternative corridor for Iran's Chabahar Port. Gwadar has also been considered as a substitute destination for the ports of Jabal Ali and Fujairah in the United Arab Emirates and the port of "Um Al-Qasr" in Iraq. It is natural that countries involved in the BRI route

act in their own interests, seeking to activate their desired corridors. Given the importance of Pakistan as a key country in the economic corridor between Iran and China, it is crucial also for Iran to take into account the significance of the Chabahar Port in the southeast.

Raisi's visit of great importance

The Iranian president's recent visit to Pakistan, the first in eight years, is of great importance for several reasons, particularly in light of Iran's retaliatory strike against Israel and terrorism threat at the borders in past months.

Opening a new chapter in Iran-Pakistan relations, Raisi's two-day visit concluded with the two countries announcing plans to raise the volume of bilateral trade to \$10 billion annually over the next five years, up from the current \$2 billion.

The two sides reiterated the importance of cooperation in the energy domain, including trade in electric-

ity, power transmission lines and the Iran-Pakistan (IP) gas pipeline project.

The delegations signed eight accords on various subjects to enhance cooperation in the different fields including trade, science technology, agriculture, health, culture, and judicial matters. The establishment of free trade zones at border crossings, cooperation in the cinema and media sector, security, legal and judicial assistance in civil and commercial affairs were among main issues of the documents they signed.

Raisi also put the spotlight on the gas pipeline deal which has faced delays due to geopolitical issues and international sanctions.

Pakistan faces a difficult decision: Penalties for failing to lay the pipeline to receive Iran natural gas, or US sanctions for building it. Iran can take Pakistan to an international court and fine the country. Local media has reported that Pakistan can be fined up to \$18 billion for not holding up its half of the agreement.



The completion of the Peace Pipeline and improvement of economic relations between Iran and Pakistan will not only increase the Iran's foreign exchange income but also potentially thwart US policies aimed at removing Iran from the oil and gas market.

