



PAKISTAN-IRAN TRADE RELATIONS

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Pakistan and Iran share extensive historical, linguistic, cultural, religious, and geographical ties.¹ Iran was the first country to recognise Pakistan soon after Pakistan's independence. Both states have maintained friendly and cordial relations, notwithstanding divergent views like Iran's support for Northern Alliance and Pakistan's pro-Taliban stance after Soviet withdrawal from Afghanistan. The leadership of the two states are convinced that relations between the two neighbours should be strengthened further. Pakistan's Foreign Minister, Bilawal Bhutto Zardari, reiterated during his visit to Iran on June 14, 2022 that Iran is a very important neighbour of Pakistan² and expressed Pakistan's willingness to enhance economic cooperation with Iran.³ Iran's Ambassador Seyed Mohammad Ali Hosseini while talking to business leaders at the Quetta Chamber of Commerce and Industry (QCCI) also expressed similar views that Iran "wants to have free trade with Pakistan".⁴

The 900kms border, which is largely peaceful, is an opportunity for bilateral trade and connectivity,⁵ enhance commercial engagement and expand markets between the two states.⁶ However, bilateral trade has been heavily in favour of Iran as exports from Pakistan to Iran have gradually shrunk as shown (Table 1) in the Observatory of Economic Complexity (OEC) data from 2011 to 2020.⁷

Pakistan's exports to Iran have decreased drastically from \$219 million exports in 2011 to \$3.2 thousand in 2020 while Iran's exports to Pakistan in the same period ranged from \$568 million to \$352 million. In 2018 Iran's exports to Pakistan crossed \$1 billion. Exports from Pakistan include metal working machine parts, rice, paper, meat, chemicals, textiles, vegetables, and fruits while it imports petroleum, gas, iron ore, hide and skins and chemical products.⁸

The Preferential Trade Agreement (PTA) signed in 2004 (operational in 2006)⁹ has not led to expected rise in trade as high import taxes by Iran on goods like fruit, vegetables, cereals, leather, and footwear, hamper Pakistan's exports. Iran removed some goods included in its import ban list for trade with Pakistan in December 2021.¹⁰ Consul General of Iran Mehran Movahedfar while talking to business community at Lahore Chamber of Commerce and Industry (LCCI) stressed the need of making Preferential Trade Agreement (PTA) effective.¹¹

Year	Exports from Pakistan to Iran	Exports from Iran to Pakistan
2020	\$3.2 thousand	\$352 million
2019	\$4.68 million	\$502 million
2018	\$124 million	\$1.08 billion
2017	\$162 million	\$856 million
2016	\$201 million	\$815 million
2015	\$103 million	\$663 million
2014	\$128 million	\$909 million
2013	\$185 million	\$637 million
2012	\$142 million	\$110 million
2011	\$219 million	\$568 million

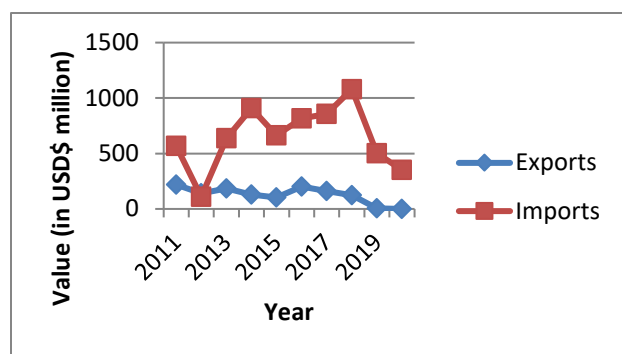


Figure 1 - Graph of Pakistan-Iran trade 2011-2020
(Sourced: OEC)

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The absence of banks in each other's capitals has a negative impact on trade. Iran does not allow Pakistani banks to operate in Iran. While Pakistan has acceded to Iran's request to open a branch in Karachi, but there has not been a final decision on the matter as Iran wants the minimum amount of paid-up capital to be reduced.¹²

To comprehend Iran-Pakistan trade relations, one must consider Iran-US relations.¹³ Iran has been sanctioned because of its nuclear power programme and other geopolitical reasons. As a result of US sanctions on Iran and US pressure on Pakistan to scale down trade ties with Iran, Pakistan has delayed construction of its part of Iran-Pakistan gas pipeline. Iran has decided to demand a penalty of \$18bn if the project is not completed by March 2024.¹⁴ Being an energy deficient country, Pakistan imported refined and crude oil worth \$6.462 billion in 2020,¹⁵ and expensive LNG from around the world worth \$3.4 billion in 2021,¹⁶ mostly from Qatar. Pakistan can import cheaper gas from Iran rather than expensive LNG from Qatar.¹⁷ But for that, completion of IP gas pipeline construction would have to be prioritised. In a meeting between Pakistan and Iran delegations on the sidelines of Shanghai Cooperation Summit (SCO) in September 2022, Ambassador Ali Hosseini reiterated Tehran's willingness to offer cheap supplies of gasoline, power, and natural gas to Pakistan to deal with the deteriorating energy situation.¹⁸

Pakistan and Iran are two neighbours and enjoy extensive historical, cultural, and political bonds. But bilateral relations need to be underpinned with trade and commercial ties.

In the backdrop of Pakistan's policy emphasis to geo-economics, Pakistan's trade relations with Iran should graduate from MOUs, trade agreements towards prioritizing the operationalization and devising mechanisms to overcome impact of US sanctions on their trade potential.¹⁹ Apart from energy imports, Pakistan and Iran have potential to diversify their trade. Both states are working on different aspects to enhance bilateral trade and have set \$5 billion trading volume target.²⁰ Value-added textiles and grains are possible industries where they can expand trade. Iran is one of the main consumers of denim in the area, and there is a sizable market for Pakistani rice in Iran. Multan's tiles & ceramics and Bahawalpur's embroidery and artificial jewellery will find ready markets in Iran. Pakistan's pharmaceutical industry has a huge opportunity to expand its exports by entering the Iranian

market.²¹ On January 15, 2023 at the end of a two-day meeting of the joint border trade committee, 39 Memorandums of Understanding between Pakistan and Iran have been signed to ensure collaboration in several areas like travel, tourism, fisheries, mining, and minerals.²²

In view of US sanctions against Iran, Pakistan's commercial banks are hesitant to conduct financial activities with Iranian banks. The business communities in both countries face hurdles as lack of a payment mechanism is a significant impediment. These hurdles further lead to illegal, undocumented trade and smuggling across borders.²³ Absence of banking facilities impedes trade.²⁴ Pakistan and Iran should establish commercial banking channels especially in their capitals and the border cities on either side. Given sanctions on Iran, it is important to explore currency swap arrangements.

Iran is already utilising facilities of currency swap and barter trade with other countries. Pakistan needs to also consider barter trade between the two countries, and utilisation of local currencies for trade.²⁵ More border trade markets like Taftan-Mirjaveh, Mand-Pishin, and Gabd-Rimdan will enhance border trade across borders.²⁶

The customs procedures at the borders are cumbersome and lead to inordinate delays. They need to be streamlined through mutual cooperation and discussion between relevant agencies of Pakistan and Iran to facilitate transportation across the borders.²⁷ The introduction of e-TIR convention is a positive step²⁸ and electronic exchange of customs data and improvement of customs procedures will prevent waste of time due to delays at customs checkpoints.

A Free trade agreement (FTA) would be useful to spur trade between the two countries.²⁹ The role of business community and private sectors need to be strengthened through visits to explore markets for Pakistan's exports to Iran.

Pakistan and Iran are two neighbours and enjoy extensive historical, cultural, and political bonds. But bilateral relations need to be underpinned with trade and commercial ties. Iran offers a big market for Pakistan's exports and for transit trade to Türkiye, Azerbaijan and onwards to Europe through land routes. The two countries may have experienced mistrust in the past, but the fact that they share a long and friction free border provides many opportunities to enhance and strengthen bilateral trade and connectivity. While the G2G relations help facilitate commercial ties, the private sector in Pakistan needs to be incentivised to explore the Iranian market for exports.

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