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## **Iran Pakistan Relations: Convergences and Divergences in Present Political and Economic Developments**

### **Abstract**

*This research explores the possibilities for Pakistan in current economy-centered foreign relations with Iran. Recent developments related to CPEC, Gwadar and Chabahar port projects have the potential for both positive and adverse effects on political and economic interests of Pakistan and Iran. Pak-Iran relations in the past, though mostly remained cordial, yet were also subject to external variables like situation in Middle East, Afghanistan or Sectarianism etc. The Current situation, however, involves economic interests as well as security concerns for Pakistan because of Indian involvement in Chabahar Port. The article argues that there are political and economic paradoxes along with economic developmental opportunities. India and China see each other as potential regional economic and political rivals. Both intend to advance their interests in the region through economic, strategic and business activities. Pakistan and Iran both can gain economic and political benefits by cooperating through CPEC and Chabahar and by improving security, transparency, better law and order, improved trading facilities along with encouraging and promoting their respective private sectors.*

**Keywords:** CPEC, Chabahar, Iran-Pak relations, TPP, BRI, Trade between Iran-Pak, IPI Gas Pipeline

### **Introduction**

Iran and Pakistan have historically considered each other as friends. There are gains and risks for Pakistan connected to new developments in Trans-border energy and business routes in the region, especially associated to the development of trans-regional routes in Iran and Pakistan. However, difference in economic interests and in partnerships can affect their mutual relations and regional balance of power. This article is divided into three sections. The first section discusses significance of the debated situation, and points out the research problem with research question. The second section discusses the non-state and state elements which can influence Pak-Iran relations. The third and the last section provide suggestions, and proposals to be taken by Pakistan to get benefit from the bilateral relationship.

Iran is the fourth largest oil producer and the second largest natural gas producer and the 18<sup>th</sup> largest economy in the world<sup>1</sup>. There is a huge potential to develop its energy sector. Its energy sector provides 1/5 of total GDP of the country. To export its oil and gas to EU and Asia it needs to develop modern infrastructure.

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Long time sanctions from USA and Western nations has barred investors from investing in its economy. In 2016, however, some of the sanctions were removed from Iran. India and China are trying to make energy transport related agreements with Iran. It is acceptable to Iran to allow India and China to invest and develop its energy sector and infrastructure. India is planning to invest in Farzad-B which is Iran's largest Gas field<sup>2</sup>.

The war against terrorism in Afghanistan is almost in its last phase. This region has become a major ground for actions by regional powers like China and India which are using BRI principle in their foreign policy. Pakistan also needs to reactivate its relations with Iran to reap maximum benefits from new energy projects.

Though the world has not completely overcome coercive conflicts, yet with the continuous efforts of idealist school and growth of media as well as representative governments, the focus of states has turned toward economic progress instead of growing political or physical power. Provision of improved services and welfare activities have increased demand for tax money in every state. As the principles of political systems are almost decided<sup>3</sup>, the focus is on the economic prosperity to fulfill promises made by politicians for political support. This doctrine is getting strength with the China becoming a world power. European Union foreign minister Josep Borel said in his address during Conference of Diplomats in Germany that China was taking the place as a world power instead of the US. He said that scholars were predicting the 'century of Asia' which has come with the advent of covid-19. The US has failed to provide leadership to the world at this crucial time. He said "experts were talking about since long the end of American World Order and coming of Asian Century' the pressure on us (European Union) is increasing to choose one side".

Access to modern technology has enabled developing states to make and prosecute ambitious plans of trans-regional connections through development of cost-effective and swift routes for movement of energy and commodities. Trans Pacific Partnership Agreement (TPP) among Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and USA in 2016, China Pakistan Economic Corridor (CPEC) and Chabahar Project, all are examples of such thinking<sup>4</sup>.

## **Section I**

### **Statement and Significance of the Problem**

Pakistan and Iran have been successful in keeping close friendship in spite of having huge differences in their international inclinations and policies in the past. There have been conflicts between the both over some matters like trans-border terrorism, sectarian crimes, Afghanistan, Arab policy etc. However, at present economic interests is getting priority over ideological or political issues.

Pakistan is situated in an important geo-political zone with Russia, China and India included in its neighborhood. Now days, trade-liberalism is making its place among countries. China has adopted Belt and Road Initiative (BRI) as an

important part of its foreign policy. China signed with Pakistan CPEC in 2015, to develop the port of Gwadar at the coastline of Makran, while India at once reacted and signed Chabahar Project with Iran in the next year. It was thought that both ports will compete with each other as rivals. However, not only Pakistan and Iran both denied such intentions, but also China too<sup>5</sup>.

India Pakistan conflict on Kashmir is long standing and well-known. India also sees itself as a potential regional power and is eager to play the part as such. Indian relation with China is marked with conflict and controversies, recently during a border clash in Galwan Valley of Ladakh, tens of soldiers were killed from both sides (Jang, June 17, 2020). It is often predicted that the presence of both China and India in the Arabian Sea through Gwadar and Chabahar can create a new game of power for both countries. Both are rapidly growing as economic powers in the region. The situation for Pakistan has become unique; as the conflict in east with India, and in West, with Afghanistan left it with a little choice for an unfriendly Iran. Pakistan has to improve its economic, political and cultural ties with Iran, so that India may not have a chance to snatch up a friend from Pakistan.

Pakistan's Gwadar, and Iran's Chabahar are neighboring ports and both give access to Arabian sea. There is a great geo-strategic significance of these ports. A competition between these ports based on enmity can harm the interest of Pakistan thus it has to do its best to strengthen its ties with Iran.

### **Research Question**

This article tries to answer first, what possibilities are created for Pakistan through Gwadar and Chabahar port projects? Second, it will explore, what variables can influence the Pak-Iran relations in positive and negative directions? And finally, which course of action can assist Pakistan in a position to obtain maximum economic and political benefit from relationship with Iran? To get the answer to these questions learning some historical background is important.

### **Literature Review**

Many scholars have discussed Pak-Iran political relations<sup>678</sup>.

They have mainly divided the relations in four periods with some differences i.e. the Cold war period (1947 to 1970), Bhutto's Arab inclination period (1970 to 1979), Diverting the Path period, when Pakistan was an ally to the USA in Afghan war (1980 to 2002) and reviving efforts and hurdles period with more focus on sectarian and cross border terror activities (2002 to 2014).

During these time periods mutual relations between Pakistan and Iran faced many glitches and twists, yet the governments and public opinion resolved to keep their friendship at any cost. Interestingly bilateral relations were more prone to an external factor rather than from inside of any party, such as sectarian terrorism to international politics<sup>91011</sup>. Some Major shifts in Iranian policies were seen after its Islamic revolution in 1979. Iran and USA terminated their diplomatic ties after the American embassy conflict in 1979. America and western nations put sanctions and embargo on Iran. Pakistan during this period was a major actor in American proxy war against the Russians in Afghanistan. Both the countries decided to keep

their mutual relation normal and did not connect them with American factor, though America pressurized Pakistan to quit many projects with Iran<sup>1213</sup>.

During the Afghan war, Pakistan and Iran had differences over Taliban government and its anti-Shia policies, along with terrorism in Sistan-Baluchistan area of Iran. A number of studies related to Afghan and Taliban factor and its effects on Pak-Iran relation were made such as "Pakistan: Regional Rivalries Local Impact"<sup>14</sup> which thoroughly covered the Afghanistan as a factor in Iran-Pak relations. Nadeem<sup>15</sup> and Hassan<sup>16</sup> provided comprehensive analysis of damage made by sectarian activities during 1990's upon Pak-Iran relations. Zahra also discussed the external variables which shaped the Iran-Pakistan relations.

After the incident of 9/11 political situation changed radically in south-west Asian region. American President George Bush reprimanded Iran along with Taliban government and created a difficult situation for Pakistan, who had decided to ally with the America in its so-called war against terrorism<sup>17</sup>. Nevertheless, Pakistan and Iran cooperated each other to encounter non-state actors probing terrorism on both states<sup>18</sup>. After 2010 when China began to emerge as a world economic power, the world order began to focus on international politics through economic activities. China's Belt and Road Initiative in its foreign policy impressed developing states too. China offered Pakistan the CPEC project, which quickly caught Indian attention. India saw it as an expansion and intervention of China toward south Asia. A lot of literature was produced on CPEC and its pros and cons. Shortly after, India reacted and offered Iran to develop the port of Chabahar to encounter CPEC.

Though a lot of literature is available on challenges for Pakistan related to CPEC and Chabahar, but a thorough study which analyses the effects of Indian and Chinese involvement in Iran-Pak relation is lacking, especially where economic interest is involved. The instant study will try to provide an analysis on the factors important to reinforce Pak-Iran relations.

### **Background of Pak-Iran Relations**

Societal and cultural influence of Persian civilization had a profound impact on Muslims even before making of Pakistan. The tradition of Sufism, Mughal civilization, Persian language are part of Pakistani culture. Iran and Iranian culture are revered profoundly by educated classes in Pakistan.

Iran, unlike Afghanistan, welcomed the birth of Pakistan and readily recognized it on August 22, 1947. The feelings of religious fraternity were sincerely expressed from both sides. The Shah of Iran was the first foreign ruler who visited Pakistan in 1950. Quaid-e-Azam and the elite political leadership considered relations with Iran important and vowed to keep them friendly. Persian language was taught in schools and colleges. Iranian culture has strong effects over Pakistani culture and was considered more sophisticated and refined. Liaqat Ali Khan as Prime Minister of Pakistan also signed a Treaty of Friendship with Iran<sup>19</sup>.

The economic relations were neither too significant nor negligible. Iran has been providing petroleum products to Pakistan. Trade for oil, dry-fruits, and other products from Iran came to Pakistan. However, this trade was mostly made by the pilgrims who went to Iran for the purpose of visiting holy places or religious

education in Shia seminaries. The early political cooperation was seen between both the states under American initiative of Baghdad Pact and Central Treaty Organization (CENTO) during cold war era. Ironically both Iran and Pakistan had no direct threat from communism<sup>20</sup>.

President General Ayub Khan said that Pakistan joined CENTO because Iran had joined it, further it would be helpful for security and economic gains (Khan M.A, 1967). In 1964 Turkey, Iran and Pakistan setup Regional Cooperation for Development (RCD) with its Headquarter in Tehran. This organization aimed at regional economic development which went in low profile after political changes in Iran and Pakistan; however in 1985 again RCD was converted into Economic Cooperation Organization (ECO) by extending its membership to Afghanistan and Central Asian states<sup>21</sup>.

During the civil war (1969-71) in East Pakistan, Iran always supported Pakistan and condemned Indian interference in East Pakistan. However, when Bhutto held Islamic Summit Conference in 1973 at Lahore, Shah of Iran did not attend the Conference. Many theories were presented for Iran's not attending the conference; one reason was that Shah did not like Qaddafi of Libya, second was that he was not contented with Bhutto's actions like anti-American, and pro-Arab and pro-Communist tendency. The Shah also perceived him as a challenge in leadership and not as a supporter. However, when Pakistan confronted problems in Baluchistan, Iran helped Pakistani government against Baloch insurgents in 1973.

In 1980 both Pakistan and Iran saw radical changes in their governments and Ideology. The Shah was replaced with an Islamic Revolution by Imam Ayatollah Khomeini in 1979 and Pakistan had a military leader General Zia ul Haq who overthrew Zulfikar Ali Bhutto's government. Again, the American factor was present behind political change in both the states but in opposite direction, this time, Pakistan allied with Americans completely in Afghan war, while Iran declared America as '*Buzurg Satan*' and openly opposed America. A group of radical Students occupied American embassy in Tehran and made diplomats their hostage, consequently America implemented sanctions on Iran and froze its investments in the USA and the West. The next year, in 1980, Iraq invaded Iran but Pakistan did not join anti Iran group and supported Iran in Shat-ul-Arab (1980-88). Both countries remain good neighbours. Pakistani embassy in Washington D.C serves Iranian interests since 1979, since the time when Iran and USA severed diplomatic ties. Imam Ayatollah Khomeini visited Pakistan in 1986, and was received with the utmost respect.

With the introduction of Jihad through Taliban in Afghanistan, radicals from many Arab and central Asian countries came to Pakistan. They were educated in Sunni/ Wahhabi seminaries, which majorly contradict with Shia School of thought. Illegal weapons and money promoted worst type of sectarianism in Pakistan, which resulted in hideous Shia/Sunni violence during 1990s. Many so-called Jihadi groups involved in sectarianism such as Sipah-e-Sahaba, and Jesh-e-Muhammad came into existence. Many Iranians were targeted in Pakistan by sectarian violence. Constraints were observed and both the states wisely refrained from directly blaming each other.

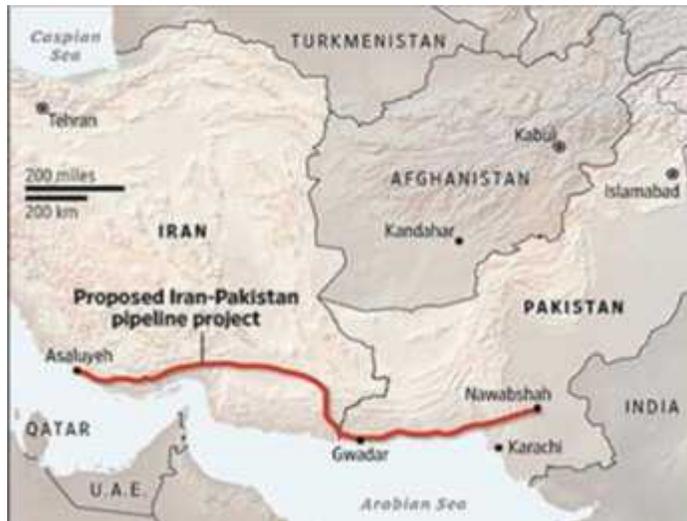
Pakistan and Iran decided to cooperate when Soviet Russia sent its troops to help communist regime in Afghanistan. However, later, differences arose over cooperation with Afghani factions fighting against communist government. Iran and Pakistan supported different sections of Afghani leadership. When in 2002 Taliban government ended in Afghanistan and Pakistan also took a back step, Iranian delegates visited Pakistan, and once again strained relations began to normalize. Both the governments declared that they would rejuvenate their mutual relations which had slowed down by sectarian activities. Both countries decided to focus on economic cooperation after learning from the past.

There is immense opportunity for Pakistan to initiate and improve economic activities with Iran in which both countries can be benefited. Pakistan needs investments, infrastructure, and employments for its growing population. Economic cooperation with Iran can be both cost-effective and politically beneficial. Iran has supported Pakistan on internal and international issues especially on Kashmir, though India is a major investor in its energy and port sectors, as well as main buyer of petroleum products. Following are some major projects in which Pakistan can obtain Iranian cooperation which could be a game changer for its economy. Pakistan can also decrease its dependency on China.

#### **Iran Pakistan India Gas Pipeline (IPI Pipeline)**

Growing population in Pakistan has resulted into constant demand for energy and strained the available resources. To solve the energy problem, in 1994 Pakistani Prime Minister Benazir Bhutto and Iranian President Hashemi Rafsanjani signed a deal to build a gas pipeline from Iran to Pakistan, later Iran proposed to extend this line to India in 1999 as this pipeline concept was contrived by an Indian. The length of this pipeline was to be 2775 kilometers. Iran agreed to provide a loan of \$500 million to build this pipeline which was to be returned in twenty years. Pakistan was pressurized by USA and Saudi Arabia to quit the project. However, India quitted this project in 2008 after the terrorist incident of Mumbai and making a nuclear deal with USA<sup>22</sup>. In 2009 Pakistan again signed to continue this project despite American and Saudi pressure. India has re-entered the project and China and Bangladesh are also interested in this energy export project. The part of pipeline in Iranian part is complete while progress over the project is hardly seen in Pakistan.

#### **Figure 1: Iran Pakistan gas pipeline plan**



Source: <https://www.globalsecurity.org/military/world/pakistan/ip-gas.htm#>

### **Gwadar/ Chabahar Cooperation**

Seaports in present economic activities have always been important. International trade, manufacturing and internal trade mainly depend on the sea trade, for example 50% of Pakistan's GDP is contributed through Karachi port. Ports are not only engines of growth through shipment and cargo but also a great source of cultural, information and norms which serve as an import base to shape the urban life of a state. Pakistan's decision of developing Gwadar port along the Makran coast is a blessing for both Baluchistan and Pakistan.

Pakistan is developing Gwadar Port with the cooperation of China, while 75 kilometers from it, Iran is Developing Chabahar Port with the help of India under the Tripartite Preferential Trade Agreement (PTA) between Afghanistan India and Iran signed in May 23, 2016. Both seaports are situated at the crossway of energy route which transports about 70% of oil through shipments. Besides, these ports can handle the export of mineral resources from Pak-Baluchistan and Sistan-Baluchistan of Iran.

It was predicted that both ports will compete with each other because of India Pakistan and China India rivalry, however, Iran and Pakistan denied such prospects and stated that they intend to cooperate through these ports than competing with each other. CPEC is a huge investment plan between China and Pakistan<sup>23</sup>. Pakistan, through it, can become a trading hub between south Asia, Middle East and the Central Asian states. In the beginning Iran took CPEC as a threat to its trade and signed agreements with India to develop its port of Chabahar. When in 2016 America lifted sanctions, Iranian President Hasan Rouhani expressed his wish to cooperate between CPEC and Chabahar, and indicated his inclination for cooperation. Iran's involvement in CPEC can help the gas pipeline project as well<sup>24</sup>.

Gwadar is a deep sea port and can operate throughout the whole year. It can transport all kinds of energy to and from Gulf countries. It is also ideal for trans-shipment facilities and is nearer to sea-lines of communication with the infrastructure to handle efficiently liquid and gas types of energies. This port has been given to China Overseas Port Holding Corporation (COPHC) on a 40-year lease. From this port access to south Asia, China, Central Asia and Iran is easy and profitable. Trade from it can easily target Middle East and Africa while Chabahar is less deep and closer to the Bandar-Abbas Port. Unlike Gwadar it is not totally on lease. Iran itself controls it though it has been established with the help of Indian investment. It has its market in Afghanistan and Central Asia. Moreover, Gwadar port has shortened the route to Africa for Chinese and Central Asian products.

**Pak-Iran Trade Collaboration**

The total volume of trade between the two countries has gradually dropped. It reached its peak during the period 2008 to 2010 when each year their mutual trade volume had crossed the magical figure of \$1 billion dollars. The total volume of trade between Pakistan and Iran in the year 2018 was \$392.08 million, out of which share of Pakistan was \$22.86 million while Iranian share was \$369.23 million. Pakistan exports rice, meat, paper, chemicals, textiles, fruits and vegetables to Iran whereas imports are Petroleum and petrochemical products, iron ores, raw hides, fruits, nuts, carpets etc. Both the countries have given each other the status of Most Favored Nation (MFN). Iran has lesser population than Pakistan but has a larger economy, infrastructure and natural resources. It has world’s largest natural gas reservoirs after Russia, and is fourth largest Oil producing country in the world.

Pakistan imports electricity from Iran on daily basis. Tehran has invested about \$60 million to construct electricity transmission lines to provide electricity to Pakistan in 2009. In 2010 Iran offered Pakistan to construct a motorway from Iranian province to Baluchistan. The following table shows that the bilateral volume of trade between the two countries is far less than their actual potential.

Table No. 1

Pakistan’s Bilateral Trade position with Iran as of 2016

	Imports (‘000 US\$)	Exports (‘000 US\$)	Trade Balance (‘000 US\$)	Share in Total Imports (%)	Share in Total Exports (%)
IRAN	323,086	35,562	-287,524	0.69	0.17

Source:<https://www.pbc.org.pk/research/pakistans-trade-with-its-regional-partners-india-iran-afghan/>

Table No. 2

Pakistan's Trade with Iran (Million USD)

<b>Year</b>	<b>Import</b>	<b>Export</b>
2009	922	400
2010	962	260
2011	572	162
2012	153	153
2013	168	98
2014	164	53

Source: "Pakistan Bureau of Statistics" in Pak-Iran Trade (2016)

## **Section II**

Although Pakistan has been working to improve the situation, but still improvements are needed to sustain cordial relations between the two countries. During the last three decades Pak-Iran relation were badly affected by the following factors:

### **Trans-Border Illegal Activities**

Smuggling of diesel is common for quite some time in the past due to availability and cheap price in Iran. Other commodities like blankets, dry fruits are also transported without any duty or tax. Illegal immigrants from Afghanistan, Pakistan, India and Bangladesh to Europe also go through Pakistani Baluchistan to Iran and then to Turkey. Many Young men have been killed during this adventure while many are kidnapped by Kurds living in border areas of Iran and Turkey for ransom. Heroin is produced in Afghanistan which is an important financial source for them. They smuggled it through Baluchistan province of Pakistan to Iranian border and from there it could go to Europe and Middle East. Some Afghan regimes supported smugglers with illicit trade of weapon and drugs.

### **Sectarianism & Terrorism**

Iran-Pakistan relations saw an involvement of non-state entities during Zia era as well as after the Islamic Revolution in Iran. Many foreign jihadis with Arab background came to Pakistan to fight in Afghanistan. Saudi Arabia also helped, financially, the religious schools of Taliban. This situation developed an anti-Shia group in Pakistan. Many terrorist activities targeted Shia as well as Sunni Muslims on sectarian grounds during 1990s, murdering innocent citizens. Five trainee cadets from Iran were killed in Karachi in 1997. Iran was often displeased for not acting against anti-Iran insurgent groups in Pakistani Baluchistan. However Pakistani authorities worked hard to target terrorists and sectarian groups. Many organizations were banned when Iranian officials reported about them.

In May 2014 Iran-Pak heads of governments met and signed mutual agreements. The agenda of these meetings was mainly related to deal sectarian activists, illicit smuggling of drugs and weapons. A bilateral agreement was made for countering terrorism by establishing a High-level Border Commission to prevent money laundering and financial support for terrorist groups. This commission also agreed to exchange of reports on money laundering<sup>25</sup>.

In 2003 a terrorist group "Jundullah" was setup by Abdullah Malik Rigi an ex-student of Taliban Madrasa to support separatist Sunnis in Iranian Sistan-Baluchistan. His group was involved in activities against border police of Iran and inside Sistan-Baluchistan of Iran. Jundullah killed many Iranian policemen on border areas as well as inside Pakistan. Iran even chased him inside Pakistani border to arrest him. Later in 2010 he was hanged. His younger brother Abul Rauf Rigi was arrested by Pakistani security in December 2010 and was handed over to Iranian authorities.

However, these efforts from Pakistani security authorities were not enough, on February 2014, another terrorist group named Jaish-ul-Adl kidnapped five Iranian Border Guards from Sistan-Baluchistan. Iran declared that it would setup 120 new border posts to guard the Pak-Iran Border. Pakistan-Iran security authorities have agreed to establish a hotline between Pakistani Frontier Corps and Iranian border security forces to control trans-border Militancy<sup>26</sup>.

Indian involvement in Chabahar Port helped Indian secret agency RAW to send spies and terrorists to work against interests and integration of Pakistan. RAW helped terrorists and separatists in Baluchistan to attack on Pakistani forces and civilians. In March 2016, a high-profile Raw Officer Kulbhushan Jadve was arrested by Pakistani Officials in Mashkel near Iranian border. He confessed to have established terrorist camps to encourage Baloch separatists, and install other spy activities against integrity of Pakistan. He also provided evidence of sabotaging Gwadar project<sup>27</sup>. The terrorist activities still continuing in Baluchistan is a proof of the presence of Indian spies and their network there.

### **Iran-USA Conflict**

Another problem for Iran-Pakistan smooth interaction is American factor, though Pakistan and Iran both tried to recognize it as a compulsion and did not react negatively. As mentioned earlier, Iran and USA were the closest allies during early cold war era i.e. 1950 to the end of 1970s, but turned into bitter enemies afterwards<sup>28</sup>.

The role of USA in Saudi-Iran enmity is obvious. After the Iranian revolution Saudi- American alliance against Iran was easy. The American presence in the Middle East is openly resented and condemned by Iran. USA has put embargo against Iran, and still many Iranian funds lay frozen in American and Western Banks.

### **Iran`s Nuclear Program**

Iran started its nuclear program in 1950 with the help of USA. France, Holland and Germany were also assisting it in this process. This cooperation from USA and European countries came to an end after the Islamic Revolution of Iran in

1979. However, Iran continued working, though slowly, on program of enriching Uranium. In 1970 Iran ratified NPT, according to it IAEA could have access to its nuclear program. In 2007 IAEA began to monitor and report regularly about the Iranian nuclear developments. American agencies blamed Pakistan for helping Iran in its nuclear program in 2015<sup>29</sup>.

The p5+1 talks came as a relief for Iran because after these talks Western countries removed some of their sanctions from Iran<sup>30</sup>. Obama government and other five countries agreed to make deal with Iran irrespective of criticism from Israel and Saudi Arabia. This deal allowed Iran to obtain its 150 billion Dollars which were frozen in 1979.

### **Indian Factor**

In past, India Iran relation have been constrained due to unjust Indian treatment to Pakistan. Iran had declared Indian control of Kashmir unjust and supported Pakistan in 1965 and 1971 wars<sup>31</sup>. However, when CPEC was signed, Iran took it as a competition, and India took the opportunity to get close to Iran<sup>32</sup>.

India reacted to CPEC with offering Iran to develop its port of Chabahar to enhance its influence in the south Asian region. It expresses a strategic competition between China and India. It also depicts Indian geo-strategic ambitions. India obviously wanted to compete China in the region. India through Chabahar wanted to connect Mumbai to Milak border of Afghanistan with its 950 kilometers track. It is said that Iran and India wanted to reduce their dependency over Suez Canal for their exports to Europe. Chabahar Port gives India access to Afghanistan without entering Pakistan. After quitting IPI pipeline project in 2009, India planned an undersea gas pipeline from Chabahar port to Gujarat coast<sup>33</sup>.

India has signed an agreement with Afghanistan and Iran for trade export to Afghanistan through Iran in 2016. In May, 2016 Prime Minister Modi visited Iran and signed the project to develop two ports of Chabahar in four years. It meant that India would get a chance to have connection with central Asian region which share borders with Afghanistan. India invested \$85 million and annual expenditures to the tune of \$23 million were to be borne, in return India would have obtained a lease of the port for ten years in the first stage of the program.

India has helped Iran to develop the port of Chabahar to trade with Afghanistan. It is a modern multi-transport network in the Iranian city of Chabahar only about seventy-two kilometers away from Pakistani port of Gwadar and the project of CPEC. It was to reduce influence of China and increase Indian status in the region<sup>34</sup>. India transported wheat to Afghanistan through Chabahar port in October 2017. Hasan Rouhani inaugurated the port in December 17, 2017. The port was completed in 2018. India is building a free-trade area around this port. A railway line from Chabahar to Zahedan near Afghan border is in the plan/pipeline.

Iranian President Hasan Rouhani visited India in 2018 and signed an eighteen months leasing agreement with India. According to this agreement Iran will allow India to use port of Shahid Beheshti for eighteen months. Indian company called Indian Ports Global Private Limited (IPGPL) has been working in Iranian ports since 1990 in the city of Chabahar. At Chabahar, two ports are working; Shahid

Kalantari, and Shahid Beheshti. Trade due to these two complexes has increased annually to \$8 million and it is estimated that it will increase up to \$20 million in future. Iran has signed many agreements of developing Free Trade Zones (FTZ) and Industrial Zones. To attract more investment, a Foreign Investment Promotion and Protection Act (FIPPA) has been made to provide foreign investment protection according to WTO rules and regulations.

### **Afghanistan**

The relationship of Pakistan with Afghanistan did not start at an amicable note. Afghanistan had not recognized Pakistan at its birth and began to demand re-demarcation of Durand Line. Afghanistan often tried to interfere in NWFP of Pakistan and laid claim at some territories of Pakistan. In 1979 Iran was also against Soviet invasion of Afghanistan, when Pakistan backed Sunni Taliban and India favored Northern Alliance. In 1996 Taliban government was established and Iran distanced itself from Afghan and Pakistan governments because most factions of Taliban were anti-Shia and were involved in sectarian violence against Shia Muslims. Afghanistan during war against pro-communist regime became a hub of many terrorist organizations like al-Qaida, Islamic Movement of Uzbekistan, Pak Baloch Liberation Army, Jundullah, Chechen freedom fighters etc. The Hazara community in KPK and Baluchistan were Shias of Mongol origin and were targeted and killed by terrorists. Iran used to help them financially in business and trade.

Being landlocked Afghan trade is made through Karachi port since pre-independence. Afghanistan officials often state that they do not want to depend only on Karachi for transit trade and want to reduce Pakistani factor from important to normal in its foreign policy. India who is already a larger business partner to Afghanistan wanted to participate in rebuilding projects of Afghanistan. Chabahar port has provided it with another chance.

### **China's Role**

China is the largest exporter to Iran and imports Iranian Oil. The plus point in Iranian view is China's American-neutral status. After lifting of western sanctions, China signed 500-billion-dollar deal under seventeen accords with Iran in 2016 when Chinese President Xi Jinping, in January, visited Iran. China's National Petroleum Corporation agreed to build Pakistan's share of IPI gas pipeline from Gwadar to Nawabshah under CPEC initiative. The recent exposure of the terms of a proposed Sino-Iran deal of hundreds of billions of dollars has also created ripples in the region. China's role and influence in the region is increasing which may result in reduction of the US influence. Chinese economic and political stakes in Iran and Pakistan are increasing which will definitely help both of them come closer to each other.

### **Middle East & Iraq**

Iran and Iraq both have predominant Shia Muslim population but in Iraq government of Saddam Hussain was Sunni. In 1980 Iraq invaded Iran with support from KSA and USA on border conflict, while Iran demanded dethronement of Saddam Hussain. This war continued till 1988, killing thousands from both sides. Later on, both the states had to fight against ISIS. When in 2015 Pakistani

parliament decided that Pakistan would remain neutral in Yemen crisis and would not send its forces to Iraq, the decision was hailed by Iran. However, Pakistan took a neutral stance and also condemned drone attack on Riyadh by Houthis of Yemen.

### **Saudi Arabia**

There has been a cold war between both Saudi Arabia and Iran since Iranian Islamic Revolution. They are regional leaders of two main sects of Islam i.e. Saudi Arabia for Sunni Muslims and Iran for Shia Muslims. Their differences are both ideological and economic ones. Iran opposed Saudi Dynastic government and proposes an Islamic Jurist regime especially at the holy cities of Makkah and Madinah. Often clashes during Hajj days have heightened the tensions between the two states. Both states are large oil exporters and compete each other. Other conflicts include Iraq-Iran war, when KSA supported Iraq during its war with Iran, their relations worsened. Presently both the countries support the opposing belligerents in Syria. The situation in Yemen, Bahrain, Egypt can also explain the nature of their mutual relations. KSA supported and helped Sunni groups while Iran supported and helped Shia groups.

Pakistan adopted a neutral policy regarding the conflicts between the two. However, when in 1979 Pakistan began to help Americans in war of Afghanistan, Jihadists, along with money for Taliban madrasas began to come from Arabian region and a strong pro-Saudi support developed in Pakistan<sup>35</sup>. Sectarian violence took place in Pakistan during 1990s by both Sunni and Shia extremist groups. Religious scholars, mosques, Imam Bargahs, Iranians envoys in Pakistan, and other civilians were killed by religious extremists. However, governments of Pakistan and Iran cooperated and acted against these groups.

Emergence of ISIS terrorist group in Middle East has also been heightening the tensions between both the countries. This group especially targeted Shias in the beginning, later it also began to threaten Saudi government too. Iran fought with ISIS alongside USA and sent many drones through Iraqi territory to destroy terrorist hideouts. Iran and Saudi Arabia also have conflict over recent Syrian and Yemen crisis.

Pakistan cannot afford to lose any of these friends and allies. Iran is an important venerated neighbor while Saudi Arabia is a tested friend and is close to the heart of majority of Pakistanis. A huge number of Pakistanis work in Saudi Arab. There is a \$3.5 Billion trade between Pakistan and Saudi Arabia though balance is in favor of KSA. However huge foreign exchange also comes from Pakistani workers there. Saudi Arabia has regularly helped Pakistani governments with generous loans and aids. Saudi Arabia enquires military assistance from Pakistan. Prince Salman declared to invest \$20 billion in Pakistan during his visit to Pakistan in 2019.

### **Section III**

This part of the article analyzes the whole scenario and provides some solutions and recommendations for policy makers in Pakistan to help them advance its ties with Iran to gain a win-win situation in this neo-liberal era where economic advances lead political interests. Pakistan and Iran have to strengthen their

bilateral relations, separating them from extraneous factors to gain better economic opportunities for their people<sup>36</sup>. It is in the Interest of both Pakistan and Iran to collaborate on CPEC and Chabahar following international trend of trans-national border cooperation. It would be counterproductive to deny the power and ability of China and India in the region. The best policy is to carefully move with them towards mutual benefits, as no nation can afford to slow its economic development.

### **Recommendations**

The best choice for Pakistan is to improve and enhance bilateral relations with Iran by keeping in view the international and regional politico-economic conditions and all above mentioned factors. Following are some suggestions which if acted upon can help Pakistan to strengthen healthy relations with Iran.

Pakistan cannot afford to stay neutral or unfriend Iran, when it still has an insecure western border with Afghanistan, and conflict on Kashmir issue with India. Despite US led sanctions Iran is still a stable economy with a solid GDP, per capita income, and natural resources with much to offer to Pakistan especially energy resources, trade routes and political support in international forums. Pakistan lacks funds for development projects. It can obtain a lot of benefits, both formally and informally, from Iran. Pakistan needs effective planning to be benefited to the full extent from this neighbor, otherwise in this age of economic gains and priorities India can win favors from Iran. Pakistan and Iran have maintained friendly relations for the last 73 years but the quantum of their mutual trade and business is negligible. Economic development also requires more than government initiatives.

One of the keys to success is the involvement of 'Private Business Sector' through provision of ease of doing business, with fair and clear guidelines, loans, and incentives to do business with Iran. Facilities like banking, infrastructure, and security can help far more than the direct intervention of the government itself. The border of Iran-Pakistan can be converted into resorts and visiting areas for tourists by developing the border areas. Shopping Malls, and play areas can be developed by private entrepreneurs. Iranian offer to build a motorway up to Baluchistan also holds weightage.

Iran has a strict import policy for Pakistan by implementing 100% tariff on its clothing and accessories. Pakistan sustains an annual loss of about sixty billion Rupees only due to illegal Oil smuggling. Both countries have signed, in 2004, a treaty of Preferential Trade Agreement (PTA) and reduced duty on 647 items. However, Pakistan uses PTA facility on only 12 items while Iran uses it on 22 items at present. In 2018 both decided to merge this PTA into FTA. Lack of Banking facility is one of the major causes of small scale of trade. Pakistan should negotiate with Iran to decrease tariff on its exports for a given period, so that Pakistan could achieve some balance in mutual trade. In addition, low tariffs can also discourage smuggling.

Gwadar and Chabahar ports can work together as complements to each other and more partners in CPEC would also mean less monopoly of China. Business development will also provide jobs and revenue to Pakistan. The officials in Iran and Pakistan have admitted that their bilateral volume of trade does not match with

the real potential of their trade and economic relationship especially in agriculture, food products and pharmaceuticals<sup>37</sup>. Regional organizations like ECO and OIC can only work well with ambitious and able leadership. Private entrepreneurs should be involved in this organization to search new markets in the west and the north. Pakistan do not have the resources to carry out huge plans for infrastructures like Islamabad-Tehran-Istanbul (ITI) container Rail Road Corridor of 6500 kilometers to link Europe and Central Asian states. It needs to take pragmatic approach and obtain collaboration from resourceful countries to effectuate these plans as soon as possible to improve its economy.

Another major task is to secure and create good control on borders. The International border between both the countries is about 959 kilometers. This border commences from Koh-i-Malik Salih Mountain of Afghanistan and goes straight to southeast. In its way there are seasonal streams and Rivers and further in south a beautiful lake Hamun-e-Mashkel. Then there is River Nahang which goes from mountains and ends at Bay of Gwadar and Gulf of Oman. Pakistan can generate revenue and tax by constructing resorts and gardens, hiking tracks, and Hunting areas around these beautiful lakes and rivers. Residential and construction companies can also work privately there.

Pakistan needs to get control and implement its writ in border areas promptly by cooperating with Iran to build mutual border security force which would prevent every type of illegal activity; from smuggling to trans-border terrorism. Pakistan and Iran had already started to act on this plan. But it needs more attention and cooperation. Building custom check posts can not only lower border crimes but can also end the loss of tax revenues due to smuggling? Pakistan can save millions of dollars annually by controlling border smuggling. Bilateral trade and commerce can be drastically improved by reduction of smuggling and undocumented trade.

The next task to improve is the strict suppression of sectarian violence. Sectarian activities have badly affected every sphere of life in Pakistan and the business was obviously a major victim due to insecurity, blackmailing, kidnapping, and ransom crimes. Pakistan has already been working to purge sectarianism. In 2003 a terrorist group named Jundullah setup by Abdullah Malik Rigi was involved in activities against border police of Iran inside Sistan-Baluchistan. Pakistan helped Iran in doing away with this group. But, complete control of sectarian and terrorist activities has not yet been achieved. Pakistan-Iran security authorities agreed to establish a hotline between Pakistani Frontier Corps and Iranian border security forces to control trans-border Militancy. . Another important option is to hold discourses between leaders of both Shia and Sunni Muslim sects and encourage them to reach a practical guideline which may provide a tolerant and sectarian-free mutual co-existence.

A balanced foreign policy and relationship with both Iran and Saudi Arabia can lower the complaints and suspicions of both. A clear, pragmatic, and just policy from Pakistan over middle East will be the best policy for Pakistan. Sectarian hatred, and activities should be monitored effectively and a guideline must be developed by government with the help of Ulema from both schools of Muslim thoughts i.e. Shia and Sunni and every one should follow it strictly. Religious seminaries should be made to avoid spreading hatred against other sects. There

should be seminars in educational institutions and school syllabus should be made to promote religious harmony. Pakistan has already played the role of mediator between the two Muslim powers; same course of action can be continued.

Pakistan cannot force Iran or any other Arab country to avoid having relationship with India. India has a strong private business sector to offer lucrative businesses to these countries. Only increased levels of education and skills can compete effectively in the era of free market economy. However, Pakistan cannot allow India to use Iranian soil to perform hostilities against Pakistani interests.

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