

“Pak-Iran Trade Relation”



Introduction

Iran is situated in the west of Pakistan and is characterized by common historical, cultural and economic affinities. It is not only geographical proximity that binds the two countries, but the legacy of their shared faith and belief in the eternal values of Islam. The affinity in sentiment, policy and stand between the two countries is reflected by their joint working in organizations of the Islamic Conference, United Nations and the Non Aligned Movement. Since centuries, close ties existed between Muslims of the sub-continent and the people of Iran which extended after the independence of Pakistan. Iran lent its full, unconditional moral and material support to Pakistan, and also stood by its side in the hours of need. This deep-rooted bond of friendship between the two countries should remain stable and grow in volumes.

Pak-Iran trade Relations

Pakistan and Iran share a primitive trade relation. Both the neighboring countries had been trading with each other on the basis of barter trade. As part of their actions to develop trade relations, both the countries have been examining the opportunities of special trade agreements. In order to achieve the objective, in 1964 Regional Cooperation for Development (RCD) was created. Under this treaty several projects have been completed. Later on, the regional integration was further strengthened by converting RCD into ECO (Economic Cooperation Organization). This step proved as a source for institutionalizing the centuries old relations. Under ECO several bilateral trade agreements have been signed which will increase the size of trade between these two brotherly nations in past years. 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. 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. In the financial year 2013 Pakistan's export to Iran was 69 million US Dollars whereas Iran's import from rest of the world stood 54 billion US Dollars leaving Pakistan's share to mere 0.2% of the total imports. Furthermore, Pak-Iran trade faced a serious decline of around 26% from FY-2012 to FY-2013.

Obstacles in Pak-Iran Trade relations

- 1: There is a lot of room for trade and business dealings between Pakistan and Iran but it has always been hampered by political issues between the two countries.
- 2: Many projects have been initiated in the past but they couldn't be successful due to lack of cooperation between both the countries e.g. gas pipeline project etc. therefore the trade between both the countries held back.
- 3: There is weak banking connection between the two countries.
 - Both countries have agreed to open bank branches and currency swap to promote trade but the issues are still inconclusive.
 - 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). Opening a letter

of credit through Iran's sister companies in Dubai 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.

- 4: Another sensitivity that prevails between the two countries relates to the ongoing security issues such as smuggling, drug trafficking and encroachment of non-state actors along the border areas which can be handled through a cooperative positive efforts between both sides.
- 5: Pakistan needs to have a joint Chamber of Commerce with Iran. It will facilitate greater connection between the private sectors of the two countries. There is wide communication gap between private sectors of the two countries.
- 6: 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 potential market for our non-traditional items. But rigidity of Iran's trade policies 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.**
- 7: Limited products are being exported to Iran. There is a need to increase market penetration.
- 8: There is lack of communication and data sharing, despite the presence of facilitating bodies on both sides effective linkages have not been established. Trade transaction gap needs to be filled.
- 9: Enthusiasm has been shown by both the countries to extend trade relations by arranging Trade Fairs and Exhibitions but no practical efforts have been made.

Recommendations:

1. There is a need for policy revision on both sides of the border to enhance our trade capacity.
2. Both the countries must establish strong banking relations to make smooth and speedy trade connections.
3. In the past the two countries have been successfully engaged in the barter trade, but unfortunately it is not being practiced, so policies needs to be revised to facilitate barter trade.
4. 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. 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.
5. There should be no embargo on Pakistan-Iran trade as other countries in the world are also engaged in trade with Iran.
6. Some strategic plans should be developed to form Joint Economic Zones which would have the necessary facilities to attract investment. This could maintain through the positive and active response of both the countries e.g. Gawadar-Chahbahar Joint Economic Zone which has the potential to grow immensely.

7. Both sides must develop better data exchange systems to improve coordination.
8. 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.
9. Iran needs to review its policies for Pakistan. Over half a decade (2009-2013) India's export to Iran has experienced an increase of 23% on the other hand Pakistan's export to Iran suffered a decline of 26%. Iran should prioritize Pakistan as it has more strategic importance and its brotherly relations with Iran dates back to the independence of Pakistan.
10. 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.
11. Pakistan and Iran should share trade delegations on industrial products in order to increase business matchmaking and open new avenues of cooperation.
12. Air and road links needs to be established and strengthened for people contacts and cargo transportation with necessary security measures
13. Diplomatic channels needs to be strengthened to prompt the importance of trade between two neighboring countries that it is in the interest of the regional and mutual harmony.
14. Bold steps needs to be taken by the two government to strengthen the trade relations.

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