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PAKISTAN –IRAN ECONOMIC RELATIONS: THE CASE STUDY OF ENERGY AND GAS PIPELINES PROJECT

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Abstract
This study analyzes the economic interactions between Pakistan and Iran, emphasizing energy cooperation and the Iran-Pakistan Gas Pipeline (IPGP) initiative. It analyzes the evolution of bilateral relations, the importance of regional energy geopolitics, and the impact of other players such as the United States, China, and the Gulf States on the situation. The research employs a qualitative methodology to assess policy documents, official agreements, and expert interviews, aiming to clarify the obstacles, delays, and strategic ramifications of bilateral energy initiatives. The findings indicate that the IPGP had significant potential to enhance Pakistan's energy security and Iran's ability to export commodities; nevertheless, its execution has been obstructed by financial constraints, US sanctions, and evolving geopolitical relationships. The paper emphasizes the significance of international cooperation, regional integration, and strategic autonomy in revitalizing and sustaining essential initiatives. This suggests that Pakistan and Iran may cooperate on energy initiatives that enhance regional connectivity and contribute to long-term economic stability.

INTRODUCTION

Regional diplomacy in South and West Asia has gained significance due to energy security and economic connectivity. Pakistan and Iran, two neighboring countries with profound historical, cultural, religious, and linguistic connections, have intermittently engaged in discussions on economic collaboration, particularly in the oil sector. Considering Pakistan's persistent energy requirements and Iran's status as the holder of the world's second-largest natural gas reserves, energy collaboration appears to be both strategically advantageous and economically beneficial for both countries (BP Statistical Review, 2023).

Notwithstanding their significance, these initiatives have progressed slowly and have been impeded by the intricacies of the political, economic, and geopolitical environments. Delays in the IPGP have been attributed to several factors, including international sanctions on Iran, global governmental pressure, particularly from the United States, and the evolving domestic energy policy of Pakistan. Considering the evolving geopolitical landscape, characterized by the escalating tensions between the United States and Iran, Pakistan's intent to diversify its energy sources, and Iran's strengthening relations with China, it is essential to assess the economic implications of this alliance.

In the 1990s and early 2000s, bilateral commerce had a modest expansion, particularly in sectors such as petroleum products, energy, and food. However, the complete potential of this relationship remains unfulfilled because to several obstacles, including divergent views on issues such as the Taliban in Afghanistan, sectarian strife, and conflicting regional

allegiances (Ramay, 2017). Pakistan's collaboration with China via the China-Pakistan Economic Corridor (CPEC) and Iran's increasing alignment with China, with its pivot towards East Asian markets through initiatives like the Belt and Road Initiative (BRI), create new opportunities for partnership. Since 1994, Iran and Pakistan have engaged in discussions on the IP Gas Pipeline plan. In 1995, Iran and Pakistan reached a fundamental deal. In February 1999, Iran entered into a first agreement with India and suggested expanding the pipeline from Pakistan to India. Numerous analysts have designated the Iran-Pakistan-India (IPI) Gas Pipeline initiative as the "Peace and Prosperity Gas Pipeline." After prolonged discussions, Iran, India, and Pakistan ultimately reached an agreement on price and other significant matters.

In April 2008, Iran expressed interest in collaborating with the People's Republic of China on the program. In August 2010, Iran extended an invitation to Bangladesh to partake in the project (Kabir). Notwithstanding the signing of a nuclear deal with the United States in 2008, India retracted from the initiative the subsequent year due to financial and security concerns (Haider, 2010). In March 2010, India suggested that Iran and Pakistan conduct trilateral discussions in Tehran in May 2010. Farshad gohar (2013) states that the United States requested Pakistan to terminate the pipeline project in January 2010. Should the project be deferred, the United States will assist Pakistan in constructing a liquefied natural gas terminal and facilitate energy imports from Tajikistan through Afghanistan's Wakhan Corridor.

On March 16, 2010, Pakistan and Iran finalized the deal for the IP Gas Pipeline during a summit in Ankara. The accord mandated that each nation complete its segment of the pipeline by the conclusion of 2014 (Anwar, 2012). On January 30, 2013, the Pakistani government sanctioned an intellectual property initiative agreement with Iran. Iran would incur a daily penalty of $1 million if Islamabad does not fulfill its obligations under the project by the conclusion of 2014, as stipulated in the bilateral agreement (The Nation, March 13, 2013). In July 2011, Iran said that the construction on their share was ongoing. On March 13, 2012, Pakistan's finance minister indicated that the government could have to pursue government-to-government deals with China, Russia, and Iran to construct the pipeline or impose consumer taxes, owing to insufficient interest from private investors (gohar, 2013).

On March 11, 2013, the presidents of Iran and Pakistan officially inaugurated the Pakistani segment of the initiative. Iran and Pakistan are evidently dedicated to this initiative and have rejected US efforts to suppress it. Tadbir, an Iranian enterprise, has pledged to invest Rs. 190 million per mile in the construction of a two-kilometer pipeline daily in Pakistan. The construction of a pipeline on Iranian territory is finished. The 781 km of 42-inch-diameter gas pipelines from Gabd, situated near the Pakistan-Iran border, will be completed in 15 months. On May 1, 2012, Pakistan's foreign minister asserted that the initiative served the nation's best interests and that Islamabad would reject US demands. The Minister of Petroleum and Natural Resources of Pakistan announced that the Gas Sale and Purchase Agreement with Iran stipulate the importation of 750 million cubic feet per day (mcfd) of natural gas, with the potential to escalate this volume to one billion cubic feet per day following the execution of the sovereign guarantee agreement. It was anticipated that Pakistan will get the gas by the conclusion of 2014. The gas provision from Iran's South Pars gas resources in the Persian Gulf is anticipated to last for 25 years. Sui Southern Gas Company will provide gas to Pakistan's transmission and distribution systems. Iran has consented to contribute $500 million to the total expenditure of $1.5 billion for the construction of the 781-kilometer pipeline segment in Pakistan. Notwithstanding many assurances and executed contracts, Pakistan has had difficulties in finalizing its pipeline because to apprehensions over US sanctions under the Countering America's Adversaries Through Sanctions Act (CAATSA) and domestic political hesitance to oppose Western influence (Kugelman, 2019). Security issues, a scarcity of international investors, and financial obstacles along the Balochistan pipeline route all contribute to the project's postponement.

This paper address the following questions,

1) How have Pakistan and Iran cooperated in the energy sector historically?, Why is the Iran-Pakistan gas pipeline important for both

countries? ,What are the main challenges delaying the gas pipelines project?

Literature Review

The bilateral relationship between Iran and Pakistan is defined by a complex interaction of political, cultural, historical, and economic factors. Owing to its geographical closeness, shared cultural heritage, and geopolitical interests, Iran was among the initial countries to recognise Pakistan's independence in 1947 and to establish diplomatic relations (Rizvi, 2008). Both nations supported Western countries throughout the Cold War, establishing security alliances like as CENTO and SEATO to enhance military and political collaboration while reinforcing their relationships.

Energy is essential for domestic applications, as well as for industrial and agricultural operations. Natural gas is the energy source seeing the most rapid increase globally. From 2002 to 2025, natural gas consumption is anticipated to increase by over 70%, with emerging countries seeing the most rapid expansion. Global natural gas consumption is anticipated to increase at an average rate of 2.3 percent per annum from 2002 to 2025, in contrast to the forecast annual growth rates of 1.9 percent for oil and 2.0 percent for coal. Nearly fifty percent of the incremental increase in worldwide natural gas consumption throughout the forecast period is ascribed to electricity production. With a population of 1.3 billion and a rapidly increasing energy demand, South Asia is assuming a more significant role in global energy markets. India, Pakistan, and Bangladesh are the subsequent three largest South Asian nations in these categories (Munir, 2006).

The energy collaboration between Iran and Pakistan is regarded as a natural and strategic need given these complementary circumstances. Nevertheless, the energy sector in the area is significantly influenced by sanctions policies, divergent alliances, and global stakeholders. The United States' stringent sanctions have curtailed Iran's ability to sell oil and attract international investment (Kugelman, 2019). One of the objectives of Pakistan's energy policy is to secure energy from diverse sources while maintaining diplomatic relations with the United States and Gulf nations, particularly Saudi Arabia, which is sometimes perceived as Iran's regional adversary (Rashid, 2018). Pakistan's need to align its energy imports with Western sanctions, while addressing its urgent demands, has impeded the advancement of projects such as the Iran-Pakistan Gas Pipeline.

The Iran-Pakistan-India (IPI) pipeline was first established to transport natural gas from Iran's South Pars field to South Asia, particularly India and Pakistan, in response to the increasing energy demand (Pant, 2011). The strategy was acclaimed for its potential to be transformative and to foster economic integration and regional collaboration. However, geopolitical problems made things more problematic later on. India pulled out of the project in 2009 because of pressure from the US and worries about the security of the pipeline via Pakistan (Pant, 2011). Political, financial, and security problems made it hard for Pakistan and Iran to work on the project together, which slowed progress

Research Gap

Limited study has directly investigated the economic dimensions of Pakistan-Iran energy collaboration, particularly the Iran-Pakistan Gas Pipeline, but other studies have analyzed regional energy initiatives and the political relations between the two nations. Contemporary research sometimes neglects the cumulative effect of internal challenges, sanctions, and geopolitical limitations on project success. This paper seeks to address the information gap by delivering a concentrated examination of the influence of these factors on the economic relations between the Pakistani and Iranian energy economic sector.

Theoretical Framework

This paper examines the dynamics, causes, and challenges of economic contacts between Pakistan and Iran, concentrating on energy cooperation, particularly gas pipeline initiatives, using the frameworks of realism and energy security theory. These ideas give us a complete way to look at the reasons behind state actions and the strategic necessity of working together on energy issues to build regional and bilateral ties.

One of the most important ideas in international relations is realist philosophy. States behave in their own national interest to stay alive, strong, and safe, which makes them the most important players in

anarchic international systems (Morgenthau, 1948; Waltz, 1979). Realists contend that cooperation is limited and often transient, due to evaluations of relative gains and strategic advantages.

Relevance to the Area of Research:

In the realm of Pakistan-Iran energy relations, realism elucidates the factors behind each country's constraints and incentives in their interactions. Gas pipeline initiatives, such as the Iran-Pakistan (IP) pipeline, may be regarded as strategic tools utilized by both governments to further their respective national

Objectives:

In light of persistent energy shortages, Pakistan is seeking alternative energy sources to provide energy security and stable its economy. Collaboration with Iran is perceived as a method for providing a dependable and cost-effective energy source.

Exporting natural gas through the IP pipeline enables Iran to bolster its economic position and escape international isolation, especially in light of Western sanctions. Realism also reveals the external causes that hinder collaboration. The United States' opposition to the IP pipeline affects Pakistan's decision-making, compelling it to reconcile its strategic partnership with the US and its energy needs, influenced by geopolitical and security factors, including sanctions on Iran. Iran and Pakistan operate within a context marked by power conflicts.

These rivalry influence their bilateral interactions, simultaneously facilitating the success of cooperative economic initiatives.

Consequently, realism provides a valuable framework for understanding how power dynamics, geopolitical factors, and security concerns influence Pakistan-Iran energy collaboration.

Energy Security Theory

Energy Security Theory posits that national security and development are significantly contingent upon the availability, affordability, accessibility, and sustainability of energy resources (Yergin, 2006; Cherp & Jewell, 2011). Through the diversification of energy sources, the maintenance of stable supply chains, and the reduction of external dependence, nations are perceived as rational actors striving to mitigate energy vulnerability.

Application to the Research Topic:

Given both Iran and Pakistan priorities energy security, this hypothesis is highly relevant to the evaluation of gas pipeline projects.

Pakistan is now facing an energy crisis due to significant electricity shortages, heightened fuel imports, and escalating demand. The IP pipeline is considered a viable alternative, as natural gas is more economical than importing LNG from foreign countries.

Pakistan's energy policy is compromised by delays in pipeline expansion, necessitating reliance on expensive alternatives.

Iran seeks to leverage pipeline diplomacy to exploit its substantial natural gas reserves, among the largest globally.

The theory of energy security examines the impact of geopolitical factors on the safeguarding of energy supply lines. This corresponds with Iran's primary objective of enhancing energy exports across the region, particularly due to sanctions that limit commerce with Western nations. US sanctions on Iran and political pressure on Pakistan to terminate the project exemplify external impediments to energy collaboration.

Moreover, internal impediments to pipeline construction and safety arise from regional security issues, particularly the turmoil in Balochistan, through which a segment of the pipeline would traverse.

Utilizing Energy Security Theory, the research will uncover physical and geopolitical impediments to the implementation of collaborative energy projects and critically evaluate how energy demands foster collaboration.

Research Methodology

Research Approach

This research employs qualitative research to furnish readers with a comprehensive understanding of the complex energy collaboration between Iran and Pakistan. This issue is ideal for qualitative research as it seeks to reveal underlying reasons, policy decisions, historical contexts, and stakeholder perspectives, which cannot be adequately captured by numerical data alone.

The political and historical context of Pakistan-Iran energy relations, the strategic interests of both nations in gas pipeline initiatives, the impact of external factors such as US sanctions and regional geopolitics, and expert analyses regarding the viability, delays, and prospects of the IP pipeline can all be examined through qualitative methods.

Research Design

The objective of the exploratory and descriptive study method is to ascertain the influence of oil and gas pipeline diplomacy on the broader economic relationship between Iran and Pakistan. The research utilizes primary qualitative data and secondary sources, using expert interviews and document analysis.

Methods of Data Collection

Secondary data

The study's supplementary resources comprise books and academic papers about pipeline diplomacy, Pakistan-Iran relations, and energy geopolitics. Documents from global energy groups, official governmental publications, and policy information.

• Publications from think tanks and news pieces; research studies from institutions such as the Strategic Studies Centre Tehran, the Institute of Strategic Studies Islamabad (ISSI), and others.

These materials provide essential background knowledge and facilitate comprehension of the evolution of Pakistan-Iran energy ties across time.

The data collected from documents and interviews will be analyzed using theme analysis.

Historical and Political Context of Pakistan- Iran Economic Relation

Historical evolution of Bilateral Relations

Pakistan and Iran maintain strong economic relations due to their shared terrain, culture, and religion. Pakistan was one of the initial countries to acknowledge Iran after the Islamic Revolution in 1979. The two nations have consistently articulated their mutual support in regional forums. Nonetheless, their relationship has seen several phases of collaboration and disengagement, primarily due to regional political fluctuations.

The two nations maintained strong relations from the 1950s to the 1970s, under the tenure of the Shah of Iran and Pakistan's initial civilian and military governments. Both were participants in Western-aligned security alliances, including the Central Treaty Organization (CENTO), with the United States endorsing their cooperation within the broader framework of the Cold War.

Iran's Islamic Revolution in 1979 changed the way the two countries interacted with each other in a big way. The new Islamic Republic pushed a Shia ideological framework, which made Sunni-majority Pakistan nervous. Despite their differing views, the two countries were able to have good ties, notably during the Soviet invasion of Afghanistan in the 1980s, when they took in millions of Afghan refugees and helped the Afghan Mujahideen.

In the 1990s, things got worse because of sectarian bloodshed in Pakistan, which was blamed on the rivalry between Saudi Arabia and Iran. Still, they spoke about working together on economic issues. Many agreements were made for commerce and energy cooperation, but they were seldom put into action.

In the early 2000s, there was a new push for energy cooperation, which led to the signing of the Iran-Pakistan (IP) Gas Pipeline Agreement in 2010. The "Peace Pipeline" was built to move 750 million cubic feet of natural gas from Iran's South Pars field to Pakistan every day. The goal was to meet Pakistan's growing energy needs. But the project took a long time to finish due of money problems and outside influences, mostly from the United States.

Regional and Geopolitical Dynamics

The geopolitical situation in South and West Asia has had a big effect on Pakistan's trade ties with Iran. Iran is a Gulf country with a lot of energy reserves, whereas Pakistan offers a way to go to Central Asia and China by crossing the Arabian Sea.

The China-Pakistan Economic Corridor (CPEC) was built in 2015 as part of China's Belt and Road Initiative (BRI). It was one of the most substantial changes in the area. The China-Pakistan Economic Corridor (CPEC) is largely a project between China and Pakistan, although Iran wants to connect its Chabahar Port to Gwadar to make the area's economy bigger. Still, the competition between Chabahar (financed for by India) and Gwadar (backed by China) has made it harder for them to work together more

closely.
The instability in Afghanistan has made it harder for both countries to trade and invest in each other. Iran and Pakistan have always backed opposing factions in Afghanistan, notwithstanding their mutual apprehensions over the country. This has often led to issues in their relationship.
India's expanding influence in Iran, notably via Chabahar Port and oil imports, has heightened regional competitiveness. Conversely, Iran has adopted a balanced strategy, engaging in collaboration with both India and Pakistan.
The tight relationship between Pakistan and Saudi Arabia, Iran's regional rival, has complicated commercial interactions between the two countries. Saudi Arabia's influence caused Pakistan to waver in its commitment to energy accords with Iran due to apprehensions of potential actions from the Gulf Cooperation Council (GCC) members.

The Influence of External Actors (USA, China, GCC, etc.)

The United States of America

The United States has been a significant external force shaping the energy collaboration between Iran and Pakistan. Pakistan had a challenging predicament due to Iran's nuclear advancements and the ensuing US sanctions. Although Pakistan needed affordable energy, the US consistently urged against the advancement of the Iran-Pakistan gas pipeline project. This resulted from the Iran Sanctions Act (ISA), succeeded by the Countering America's Adversaries Through Sanctions Act (CAATSA) of 2017.
In 2013, Asif Ali Zardari, the current president of Pakistan, visited Iran to start the construction of the pipeline on the Pakistani side. Pakistan suspended the project, although the completion of the Iranian segment, owing to US pressure, the prospect of financial penalties, and insufficient money.

China

China has become a vital balancing force in the area. China's investment over $60 billion in CPEC has bolstered its economic standing in Pakistan. China has robust connections with both Pakistan and Iran; yet, it has exercised caution about direct involvement in Iran-Pakistan energy initiatives, owing to its global energy affiliations and apprehensions regarding US sanctions.
The 25-year cooperation deal between China and Iran, valued at over $400 billion, may facilitate new opportunities for trilateral collaboration in energy, transit, and infrastructure initiatives. For instance, it may link Chabahar to Gwadar.

The Gulf Cooperation Council (GCC) nations,
including Saudi Arabia and the UAE, significant investors in Pakistan and friends of the United States, have sought to inhibit strong cooperation between Iran and Pakistan, especially in the energy industry. To deter Pakistan from collaborating with Iran, Saudi Arabia has suggested alternative energy arrangements, including deferred payment for oil.

The Effects of Sanctions on Iran and Their Implications for Other Nations

Since 2006, sanctions imposed by the United States and other countries have severely hindered Iran's involvement in regional energy initiatives. The sanctions focused on Iran's financial sector, oil exports, and infrastructure development. The Joint Comprehensive Plan of Action (JCPOA) was executed in 2015, resulting in a temporary suspension of sanctions. This instilled renewed hope for the IP pipeline. Nevertheless, with the Trump administration's withdrawal from the JCPOA in 2018 and the reimposition of sanctions under the "maximum pressure" campaign, Iran was once more excluded from the global economy.

Consequences disseminated over Pakistan: Delay and Suspension of Pipeline:

Pakistan has been unable to get financing for the construction of the pipeline on its own territory due to apprehensions that participating banks and enterprises may incur secondary penalties.

Investment Obstacles:

Foreign investors and enterprises have refrained from engaging in energy initiatives between Pakistan and Iran.
Pakistan continues to have energy shortages, seeing daily gas shortfalls of 1.5 billion cubic feet during the winter months. This is mostly due to efforts like the IP pipeline being suspended.

Legal Ramifications: Iran has threatened to initiate legal action against Pakistan for non-compliance with the pipeline deal. Reports from 2024 indicate that Iran may pursue international arbitration. Notwithstanding several challenges, Pakistan persists in receiving electricity from Iran, especially in the border areas of Balochistan. This indicates that energy cooperation persists, but at a constrained level.

Overview of the Iran-Pakistan Gas Pipeline and Energy Projects

Overview of the Iran-Pakistan Gas Pipeline (IPGP)

The Iran-Pakistan Gas Pipeline (IPGP), often known as the "Peace Pipeline," is a key bilateral energy venture that aims to assist Pakistan in meeting its growing energy needs while also allowing Iran to tap into its vast natural gas reserves. The goal is to transport natural gas from Iran's South Pars gas field, located in the Persian Gulf and acknowledged as the world's largest natural gas resource, to the southern part of Balochistan in Pakistan, and subsequently to other industrial hubs.

The pipeline was originally envisioned as a three-nation effort in 1995; however, India withdrew in 2009 due to security concerns and political pressures, reducing it to a two-nation project. The planned pipeline will measure roughly 2,775 kilometers, comprising 1,172 kilometers in Iran and 785 kilometers in Pakistan. It will have the capacity to carry 750 million cubic feet of gas to Pakistan daily. The project is crucial for Pakistan due to the persistent demand for gas exceeding supply. By 2024, Pakistan is projected to experience an energy deficit of 1.5 billion cubic feet per day, predominantly during the winter months. The IP pipeline is essential for guaranteeing sufficient gas supply, facilitating corporate operations, and diminishing the reliance on imported LNG and furnace oil.

Timeline and Development Phases

1995: Iran and Pakistan establish a first agreement for gas collaboration.

In 2004, substantive negotiations started for a tri-nation pipeline linking Iran, Pakistan, and India (IPI). India officially withdrew from the project in 2009, but Iran and Pakistan maintained their collaboration. In March 2010, Iran and Pakistan established an agreement to construct a pipeline anticipated to be finished by 2014.

Iran finished its part of the pipeline from Asalouyeh to the Pakistani border in the Sistan-Balochistan area between 2011 and 2013.

The ceremony to start work on Pakistan's part of the project took place in March 2013 in Chabahar. Asif Ali Zardari, the President of Pakistan, and Mahmoud Ahmadinejad, the President of Iran, were also there.

2014–2024: Pakistan doesn't start building on its side because it doesn't have enough money and is afraid of possible US sanctions.

Main Agreements and Memoranda of Understanding (MoUs)

Over time, a number of important legal and diplomatic instruments have made it possible for the IPGP to exist:

The 2010 Framework Agreement spelled out the details of the project, such as the price of gas, the schedule for delivery, and the date by which it would be finished.

The Gas Sales and Purchase Agreement (GSPA), which was signed in June 2009, says that Pakistan would get 750 MMcfd of gas for the next 25 years.

The 2013 Intergovernmental Cooperation Agreement delineated the responsibilities of each nation. Iran pledged to finance a segment of Pakistan's pipeline development; however, this commitment was not realized owing to fiscal constraints. Pakistan has not fulfilled the majority of the commitments it proposed. Shifts in administrations and external pressures from other nations have influenced this pattern.

Challenges and Postponements.

Technical challenges

Numerous complications exist regarding the technical installation of the pipeline in Pakistan. The project is challenging to initiate and finalize due to Balochistan's inhospitable terrain, security threats from terrorist groups, and antiquated pipeline infrastructure. Pakistan has sufficient indigenous pipeline-laying capacity and hence requires help from foreign engineers and expertise.

Financial difficulties

Numerous estimates have been made on the cost of the Pakistani segment of the pipeline. The initial estimate was $1.65 billion; however, costs have escalated owing to delays and inflation. Pakistan requested financial support from China and Russia; but, none was inclined to finance a project that may potentially implicate the United States in controversy. Moreover, due to sanctions imposed on Iran, domestic banks and international financial institutions have declared their unwillingness to engage.

Challenges in geopolitics

The United States has vigorously opposed the IP pipeline throughout many administrations. In 2010, Hillary Clinton, the then-US Secretary of State, cautioned Pakistan that establishing energy agreements with Iran would yield "detrimental consequences". Pressure escalated under Trump, especially with the US withdrawal from the JCPOA in 2018 and the implementation of "maximum pressure" sanctions. Pakistan was compelled to suspend the project because to geopolitical factors, despite the worsening energy situation.

Legal issues and sanctions

Pakistan is legally obligated to fulfill its segment of the pipeline as stipulated in the 2009 GSPA. If this is not executed, Iran may seek arbitration or financial compensation. In 2024, Iran officially notified Pakistan of its intention to initiate international arbitration. Iran may pursue fines of up to $18 billion for breaches of contract. Pakistan has requested a waiver and a new accord, asserting that US sanctions constitute a case of force majeure.

Alternative Methods of Energy Collaboration

Notwithstanding the difficulties associated with the gas pipeline, Iran and Pakistan have partnered on other energy initiatives.

Electricity trade.

Iran persists in supplying electricity to the border regions of Pakistan, especially Balochistan. In 2023, Iran supplies 104 megawatts of electricity to Pakistan. Recent agreements stipulate an increase of this value to 200 MW. In May 2023, Iranian President Ebrahim Raisi and Pakistani Prime Minister Shehbaz Sharif officially opened the Polan-Gabd power transmission line. The network aims to enable global energy exchange.

The energy imports are essential for the isolated Makran coastline region and other areas of Balochistan that have less electricity and inadequate grid infrastructure.

Oil and fuel Supply

Iran has traditionally conveyed oil and processed petroleum products to Pakistan, mostly via clandestine trade networks along the Balochistan border. Nonetheless, official oil commerce has not occurred due to limitations in Iran's energy sector and Pakistan's dependence on Gulf nations for oil procurement.

In the aftermath of the Russia-Ukraine conflict, which led to a surge in global oil prices in 2022 and 2023, discussions resumed on the exchange of oil between Iran and Pakistan for rice and other goods. These agreements are currently under negotiation owing to complications with banking rules and customs enforcement.

Economic and Strategic Implications

The planned Iran-Pakistan Gas Pipeline (IPGP) and other energy cooperation projects between the two countries would have big effects on both their economies and their politics. This chapter looks at how these projects help the economies of both countries, make the region's energy security stronger, and deal with geopolitical problems. It also talks about what the future could hold and what might stop it.

Economic Advantages for Pakistan and Iran. For Pakistan.

Pakistan is confronting an increasingly severe energy crisis, which is affecting the country's economy. As of 2023, the country has an average energy gap of 5,000 to 7,000 MW during peak seasons, with natural gas demand surpassing supply by more than 1.5 billion cubic feet per day (bcfd). This is imposing a lot of strain on both industrial production and family consumption. Energy shortages have caused: Between FY2022 and FY2023, industrial production declined by 6.3%, mainly in the large-scale manufacturing sector.

GDP growth is modest (only 1.5% in FY2023). Pakistan spent more than $3 billion on imported liquefied natural gas (LNG) in fiscal year 2022, which is becoming increasingly necessary.
If the IPGP is finished, Pakistan will be able to import up to 750 million cubic feet per day (MMcfd) of gas at a cheaper cost than international LNG. This will save a lot of money on foreign exchange, eliminate circular debt in the energy business (which is already more than Rs. 2.6 trillion), and make electricity supply more stable for both industrial and power generating purposes.

Iran

Iran boasts the world's second-largest natural gas reserves, totaling around 1,200 trillion cubic feet. It perceives Pakistan as a lucrative and readily accessible market. Due to US-led sanctions hindering Iran's oil and gas exports, gas exports to neighboring Pakistan represent a crucial cash stream for Iran. The IPGP accords with Iran's "Look East" strategy, which prioritizes commerce with neighboring countries while isolating the West from Iran.
The pipeline might yield billions in export revenue for Iran over the next 25 years, enhance commercial relations, and augment Iran's regional power.

Energy Security in Pakistan

Pakistan's energy security is contingent upon: Utilizing various energy sources.
Minimizing our dependence on LNG and furnace oil.
Ensuring that supply remains cost-effective and sufficiently stable to satisfy the anticipated growth in demand, projected to rise by 4-6% annually.
The IPGP offers a sustainable, terrestrial, and economical substitute to the fluctuating global LNG markets. Gas from Iran will be supplied through long-term contracts at a set price, unlike imported LNG, which is sometimes acquired on the spot market at variable prices.
Moreover, local energy security bolsters national security. A multitude of individuals have expressed grievances over recurrent power outages and gas shortages, adversely affecting small and medium-sized firms. Dependable gas from Iran would provide a stable supply for power plants, CNG stations, and fertilizer companies. This would alleviate social and economic challenges.

Regional Connections and Integration

The energy corridor between Iran and Pakistan is an integral component of a broader initiative to enhance regional cohesion. It illustrates the objectives that international frameworks such as this one strive to accomplish.
The Economic Cooperation Organization (ECO), founded in 1985, aims to enhance commerce and communication among its member nations. ECO aims to integrate energy and transportation, and the IPGP is well-suited for this purpose.
Iran and Pakistan are integral members of the Shanghai Cooperation Organisation (SCO). Iran is set to participate in 2023. Energy security and regional infrastructure are two essential elements of SCO collaboration.
The pipeline would facilitate greater ties between Iran and Pakistan, and it may possibly extend to India or be incorporated into China's Belt and Road Initiative (BRI). This would enhance the interdependence of South and Central Asia. It may also function as a crucial energy corridor linking the China-Pakistan Economic Corridor (CPEC) to Iran's energy infrastructure, traversing east-west.

Strategic Autonomy in Response to External Pressure

The IPGP and other energy alliances are advantageous for all stakeholders, although they also situate Pakistan in a challenging geopolitical context.

The United States is use coercion and penalties

Since 2010, the United States has advised Pakistan against advancing the IPGP owing to the Iran Sanctions Act and its ramifications for multinational entities. In 2024, Iran cautioned Pakistan that failure to adhere to the Gas Sales and Purchase Agreement (GSPA) established in 2009 might result in international arbitration and financial penalties. Due to the potential for sanctions and its reliance on Western financing and IMF programs, Islamabad has been unable to advocate for the pipeline as vigorously as desired.

Strategic Autonomy

Pakistan's endeavors to enhance energy ties with Iran also challenge the nation's foreign policy autonomy. In recent years, Pakistan has endeavored to sustain a

balanced regional strategy by engaging concurrently with Iran, Saudi Arabia, China, and the United States. Completion of the pipeline will signify a regional turn towards economic pragmatism, valuing national interests over international political affiliations.

Potential Future Alternatives

The relationship between Iran and the China-Pakistan Economic Corridor (CPEC)

Iran has demonstrated significant interest in participating in the Belt and Road Initiative (BRI) and the China-Pakistan Economic Corridor. In February 2023, Iranian Foreign Minister Hossein Amir-Abdollahian visited Islamabad and reaffirmed Iran's intention to link its Chabahar Port with Pakistan's Gwadar Port. This might result in a transnational energy and trade corridor.
Incorporating Iran into the China-Pakistan Economic Corridor (CPEC) would:
Broaden energy commerce and infrastructure. Iran functions as a nexus between South and Central Asia.
Enhance the economic viability of Gwadar and Chabahar by fostering complementary development. Nonetheless, this necessitates surmounting US sanctions and illustrating to China that such accords will provide enduring political and economic stability.
Regional groups like ECO promote transnational energy facilities like pipelines. It has promoted the ECO Energy Strategy, which instructs member nations to develop energy infrastructure that is compatible with both their own and other countries.
In 2023, Iran will attain full membership in the SCO, so creating new avenues for energy diplomacy and initiatives independent of the Western-dominated financial system.
SAARC, albeit now less active, might enhance the region's energy security if Pakistan and India reestablish collaboration.
Alternative Energy Solutions for Pakistan: The TAPI Pipeline (Turkmenistan, Afghanistan, Pakistan, and India) There are concerns regarding security and financing; nonetheless, it may still remain a contender.
LNG imports are the paramount element of short-term energy strategy, notwithstanding the significant price volatility observed globally. The government has committed to elevating the proportion of renewable energy to 30% by 2030; however, inadequate investments and infrastructure hinder this objective.

Data Analysis and Findings

This provides a detailed review of data gathered through qualitative research methods such as expert interviews, document analysis, policy papers, and secondary sources. The data has been thematically analyzed to discover patterns and insights on Pakistan-Iran economic ties, with a focus on energy and gas pipeline efforts such as the Iran-Pakistan Gas Pipeline (IPGP).

Topical Analysis of Interviews

A thematic analysis of expert interviews with energy sector experts, foreign policy professionals, and regional economists revealed several significant themes that capture the realities, problems, and ambitions surrounding the Pakistan-Iran energy collaboration.

Theme 1: Common Strategic Interests and Diplomatic Caution

The majority of respondents stated that Pakistan and Iran appreciate the IPGP's shared benefits. According to interviewees, Iranian officials completed the 900-kilometer stretch of the pipeline in 2013, costing around $2 billion. Pakistan, however, has postponed its 781-kilometer leg because to external pressures and insufficient money. Participants often mentioned US sanctions and the possibility of punitive actions as significant barriers.

Theme 2: Pakistan's Prolonged Dependency and Energy Deficiency

Officials from Pakistan's Ministry of Energy have said that the nation is experiencing a deficiency of natural gas, especially during the winter months. The demand for 1.5 to 2 billion cubic feet per day (bcfd) surpasses the supply. The IPGP might fulfill 20-25% of Pakistan's domestic energy requirements, therefore stabilizing the energy system and enhancing industrial efficiency.

Theme 3: Transcending Geopolitical Constraints.

Think tanks like the Islamabad Policy Research

Institute (IPRI) and Tehran's Strategic Research Center indicate that Pakistan is reluctant to engage in energy partnerships with Iran due to U.S. secondary sanctions, the rivalry between Saudi Arabia and Iran, and pressure from Gulf Cooperation Council (GCC) states.

Theme 4: The Necessity for Regional Integration and Multinational Collaboration

Consensus emerged that multilateral engagement via entities like the Shanghai Cooperation Organization (SCO) and the Economic Cooperation Organization (ECO) could facilitate the advancement of the IPGP within a regional framework by offering necessary diplomatic protection and technical assistance, thereby enhancing the security of bilateral relationships.

Principal Trends and Patterns of Economic Collaboration

A. Altering the volume of commerce between two nations.

Historically, trade between Pakistan and Iran has been lackluster, particularly in light of their untapped potential. Bilateral commerce reached its zenith in 2008, exceeding $1.5 billion. Banking limitations, sanctions, and political issues diminished it to under $400 million by 2013. Bilateral commerce reached a valuation of $2 billion in 2023, mostly due to smuggling and informal cross-border trafficking.
Iran supplies Pakistan with LPG, oil, power, and construction materials.
Pakistan feeds Iran with crops, apparel, medical provisions, and fruits.
Energy exports persist in an informal state due to the absence of recognized financial mechanisms. Diesel smuggling is prevalent along the porous border of Balochistan.

B. Collaborating on electrical matters.

Since 2003, Iran has supplied electricity to Pakistan's Balochistan province via bilateral agreements. In 2023, the supply was 104 MW, and in May 2023, agreements were established to augment this by an additional 100 MW through the Polan-Gwadar transmission line. The Rs. 18 billion electricity procurement arrangement illustrates that cross-border energy commerce may operate despite limitations.

C. Schedule for the Iran-Pakistan Gas Pipeline (IPGP).

Year: Notable Transformation.

In 1995, the initiative was first designated as the Iran-Pakistan-India Pipeline (IPI).
India withdrew in 2008 because to concerns over cost and safety.
In 2009, Pakistan and Iran inked the Gas Sales and Purchase Agreement (GSPA).
Iran finished its segment of the pipeline in 2013.
Sanctions and budgetary constraints have extended Pakistan's timetable from 2014 to 2024.
Iran issues a threat of international arbitration and directs Pakistan to commence construction in 2024.
Pakistan is soliciting aid from other countries via the ECO/SCO summits.

A Comparative Analysis of Alternative Regional Energy Initiatives

A comparative analysis situates the IPGP within the wider regional framework of energy diplomacy.

The TAPI pipeline links Turkmenistan with Afghanistan, Pakistan, and India.
Distance: 1,814 kilometers
Projected expenditure: $10 billion.
Status: Delayed due to the instability in Afghanistan.
The United States and Gulf nations endorse TAPI; yet, it is deficient in on-site security. Conversely, IPGP is more suited to the terrain and possesses superior equipment, however it encounters difficulties in diplomacy.

The China-Pakistan Economic Corridor (CPEC) consists of many energy initiatives.
Investment in energy: over $20 billion
Completed projects encompass the Port Qasim Power Plant and the Sahiwal Coal Plant.
The China-Pakistan Economic Corridor (CPEC) illustrates China's commitment to investing in Pakistan's energy infrastructure. Incorporating Iran into further phases of CPEC might potentially alleviate the challenges associated with IPGP finance and execution.

The Iran-Turkey Gas Pipeline measures 2,577 kilometers in length.
Utilized since 2001.
Volume: up to 10 billion cubic meters annually
The comparison illustrates that Iran is capable of fulfilling its long-term gas supply commitments to neighboring nations, so countering claims of its unreliability.

Conclusion

This research thoroughly analyzed the complexities of economic relations between Pakistan and Iran, with a focus on energy cooperation and the Iran-Pakistan Gas Pipeline (IPGP). The study revealed that both nations have significant mutual interests in enhancing energy collaboration; nevertheless, several geopolitical, economic, legal, and diplomatic obstacles have hindered the full realization of this potential. Pakistan and Iran have deep historical, cultural, and religious ties that have helped their relationship grow. Since it became independent in 1947, Pakistan has considered Iran as a key friend in the region. Iran was the first country to recognize Pakistan and helped a lot when it was trying to make diplomatic ties. Despite political problems and changes in regional alliances over the years, both countries have kept diplomatic ties and a small amount of trade, mostly in the oil business.

The Iran-Pakistan Gas Pipeline (IPGP) is a very important project for connecting the two nations' energy systems. The idea for the pipeline came up in the 1990s, and the Gas Sales and Purchase Agreement (GSPA) made it official in 2009. It was expected to give Pakistan 750 million cubic feet of natural gas every day. Iran finished its 900-kilometer part in 2013, but Pakistan hasn't been able to start building its part yet because of US sanctions and a lack of money. The project's situation shows how hard it is for two countries to work together when there are big problems in international politics.
Transnational power exchange and other forms of energy cooperation have been shown to be more effective. Iran now sends about 104 megawatts of power to the Balochistan area of Pakistan. New steps have been taken to make this energy commerce more official and increase it, such as the 2023 agreement to improve supplies to Gwadar.
Our research indicates that external factors, particularly the United States, profoundly affect the energy partnership between Pakistan and Iran. The United States' sanctions on Iran, which include secondary penalties against anybody who does business with Iranian oil, have made it hard for Pakistan to do business and follow the law. These restrictions have not only slowed down the IPGP, but they have also made people less likely to invest and do business with one other.
Also, Pakistan's efforts to keep a fragile balance have been made harder by the conflict between Saudi Arabia and Iran. Pakistan's geopolitical, economic, and religious links to Saudi Arabia and other Gulf Cooperation Council (GCC) members may make it hard for Pakistan to work more closely with Iran on energy concerns.
A comparative analysis of regional energy projects, including the TAPI pipeline, CPEC energy initiatives, and Iran-Turkey energy corridors, reveals that the IPGP is technically feasible and strategically advantageous; however, it lacks the necessary multilateral support and institutional infrastructure for implementation given the current geopolitical constraints.
Chinese investment, a commitment from both governments, and protection from US sanctions have made the Belt and Road Initiative (BRI) and China-Pakistan Economic Corridor (CPEC) projects very successful in Pakistan. If Iran takes part in later phases of CPEC, the IPGP may be brought back into the larger regional infrastructure. This might lessen Pakistan's reliance on LNG imports and other expensive options.
Pakistan continues to face significant challenges with energy security. The country suffers a lot of gas shortages, especially in the winter, which makes people uncomfortable and slows down industrial activity. The IPGP might be a long-term solution to these problems. Pakistan is no longer strategically independent since it relies on international financial institutions like the IMF for money and has to follow the foreign policy rules set by the United States. As Iran becomes more isolated from the rest of the world, the pipeline will become more important for gas exports. As demand in Europe goes down and interest shifts to Asia, Iran sees Pakistan as both a market and a way to get to South and East Asia.

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