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## Iran and Pakistan: Back to Business

**In the wake of the nuclear deal, the two countries get ready to do business.**

By Arif Rafiq  
August 19, 2015

Last Thursday, Iranian Foreign Minister Javad Zarif visited Pakistan as part of a multi-country tour to explore opportunities for greater economic and security cooperation in the region following the landmark nuclear deal with the P5+1.

The July nuclear deal likely clears the way for the completion of sanctions-delayed energy projects between Islamabad and Tehran, bringing relief to energy-starved Pakistan. It also creates an opportunity for cooperation between Iran and Pakistan to promote peace in their respective Balochistan regions, creating a virtuous cycle of economic growth and improved security.

However, while Pakistan stands to be a major beneficiary of the nuclear deal, other countries, including Pakistan's archrival India, will also gain from Iran's opening to the outside world. Nonetheless, speculation of an Indian-Iranian entente, perhaps even including the United States, is overblown. The India-Iran relationship will continue to grow, but with China's big bet on Pakistan – in the tens of billions of dollars – and Pakistan's distancing itself from the regional sectarian war, Iran appears keen to partner with Pakistan rather than playing an antagonistic role in the country.

## **The First Order of Business is Business**

The eventual lifting of U.S. and international sanctions on Iran will allow for the Islamabad-Tehran relationship to be increasingly driven by economic and geographic realities, rather than the interests of exogenous actors. Pakistan and Iran are neighbors. Pakistan is a net-energy importer. Iran is a net-energy exporter.

In anticipation of the lifting of sanctions on Iran, Islamabad and Tehran are moving forward with two major energy projects: a natural gas pipeline and an electricity transmission line. Together, both projects will alleviate Pakistan's crippling shortages in both electricity and vehicle fuel.

Pakistan and Iran signed a \$1.5 billion natural gas pipeline deal in 2013. The project has been in limbo as a result of international sanctions on Iran.

In signing the agreement, Islamabad not only defied pressure from the West and Gulf Arab states, it also put itself in a vulnerable position vis-à-vis Tehran. The accord stipulates that Pakistan would be fined up to \$3 million a day if it failed to complete construction of the pipeline by the end of 2014. While Iran has essentially completed its portion of the pipeline, Pakistan has not. In fact, construction of the Pakistan portion did not begin until this summer.

## **The China Factor**

Importantly, Iran has not opted to exercise the gas deal's penalty clause, indicating its keenness to become an energy partner with Pakistan. China may have also been a factor motivating Iran's restraint.

With a population of close to 200 million, Pakistan is a large and growing energy and economic market. But China is even bigger. And for southern Iran, Pakistan is a land-based gateway to China.

Beijing is financing and constructing a \$46 billion economic corridor that will connect Pakistan's Arabian Sea port of Gwadar, located close to Persian Gulf shipping lanes, to China's landlocked and economically underdeveloped Xinjiang province.

Iran's ambassador to China has expressed interest in eventually extending the Pakistan gas pipeline to China. Tehran may also be keen to exploit future land and rail routes connecting Gwadar to Xinjiang. Already, Iran is connected to Pakistan's Gwadar by road; and a freight rail connection between Pakistani and Iranian Balochistan has been restored.

## **Shared Stability in Balochistan**

Much like Pakistani Balochistan, Iran's Sistan-Baluchestan province has faced periodic uprisings by segments of its Baloch community, which feels deprived by its central government. Prior to the 1979 Islamic revolution, Iran and Pakistan collaborated to subdue Baloch separatism. That cooperation subsequently waned as relations between the two countries soured post-1979.

After the U.S. invasion of Afghanistan, a shadowy Iranian Sunni Baloch insurgent group, Jundullah, emerged onto the scene, engaging in several spectacular attacks on Iranian government officials and security personnel. Jundullah and its successor groups are believed to

have operated from Pakistan. Similarly, after the U.S. invasion of Afghanistan, the insurgency in Pakistan's Balochistan renewed. Baloch insurgents combating Pakistan benefited from safe havens in Afghanistan; and some militant leaders, like Allah Nazar Baloch, have been rumored to be aided by Iran.

India has also provided support to Baloch separatists. And Pakistan has alleged in the past that some of this assistance has come from the Indian consulate in the Iranian Balochistan city of Zahedan. The Iran-Pakistan border, much like the Afghanistan-Pakistan border, is porous, with overlapping populations and high levels of illicit activity, including smuggling.

The Baloch insurgency in Pakistan is now fractured and waning. And there is indication that Iran is revising its approach toward Pakistani Balochistan by reverting to its pre-revolution policy of partnership with Islamabad to stabilize their respective Balochistans.

Last week, Zarif linked the fates of Iranian and Pakistani Balochistan, saying: "We believe economic development both in Pakistan's Balochistan province and Iran's Sistan[-Balochistan] are fundamental to fight poverty and extremism."

Behind the scenes, there may be some bilateral security coordination. In March, Pakistan arrested Abdul Sattar Rigi, an Iranian Sunni Baloch insurgent leader. And some time this year, a Pakistani Baloch gang leader, Baba Ladla, wanted by Pakistani security forces, was reportedly killed by Iranian security personnel.

Building trust between the Iranian and Pakistani security establishments is an uphill task, especially given Iran's deep ties with India and Pakistan's partnership with Saudi Arabia. But Islamabad-Tehran relations benefit from the absence of other complications common to the region; Iran and Pakistan have an established border that neither contest, in contrast to Pakistan's borders with Afghanistan and India.

In addition to the gas pipeline, Tehran is making additional investments in the stability of Pakistani Balochistan. Iran and Pakistan are close to finalizing a 1000MW electricity transmission deal that would supply the country's Balochistan province, which faces the most severe electricity blackouts in Pakistan. To truly have an impact, Pakistan would have to broaden the last mile of its electricity grid, connecting more homes in Balochistan, and improve its customer bill collections rate.

Iran, which presently supplies Pakistani Balochistan with at least 75MW of electricity, has expressed interest in expanding the soon-to-be-agreed-upon 1000MW supply to 3000MW.

### **Avoiding Entanglements: The India and Saudi Factors**

In the 1990s, in the aftermath of the Iran-Iraq war and the Soviet withdrawal from Afghanistan, Pakistan was aligned with Saudi Arabia and India with Iran. The two axes supported opposing sides in the Afghan civil war; and Iran and Saudi Arabia patronized Sunni and Shia sectarian proxies in Pakistan.

A similar regional context exists today. The United States has all but vacated Afghanistan. Sunni militants – some of whom are expressly anti-Shia – are filling the vacuum. And against that

backdrop, there is yet another Iran-Saudi Arabia proxy war being fought in Iraq, Syria, and Yemen.

But Pakistan has managed to insulate itself from the regional sectarian war. Sectarian violence and terrorism overall rose from 2007 to 2013. But since last year, as a result of military operations in North Waziristan and nationwide counterterrorism operations, terrorism, including sectarian violence, has plummeted.

With the reduction in deaths of Shia civilians at the hands of Sunni extremists, the prospects for Iranian meddling in Pakistan are reduced. Pakistan's decision not to play an active combat role in the Saudi-led Yemen war has, and will continue to have, the same mitigating effect on Iran.

On top of all this, there is an alignment in how Iran and Pakistan view stability in Afghanistan. Iran has expressed support for the Pakistan-backed (and now stalled) reconciliation process in Afghanistan. Tehran has hosted multiple Afghan Taliban negotiations. And at the same time both Iran and Pakistan see the so-called Islamic State, which has an embryonic presence in South Asia, as a threat.

As trade between Iran and Pakistan grows, New Delhi and Tehran aim to push forward the laggard Chabahar port project, which has been portrayed as a competitor to Gwadar and a means through which India can access Afghanistan and Central Asia without using the Pakistan-based land route. India and Iran also also looking to push forward rail and road projects connecting Chabahar to Afghanistan.

But expectations of what New Delhi and Tehran can achieve together should be tempered by reality: Indian contractors are inefficient, and the bureaucracies of both countries are bloated, notoriously difficult to negotiate with, and move at a glacial pace.

Even if India and Iran are able to do magic in Afghanistan and Central Asia, the region is moving away from zero-sum games and hard alliances. In fact, Zarif has said that Iran has no objections to Gwadar port and emphasized that no country, including India, could undermine Pakistan's importance for Iran.

A reversion to the hard Iran-India and Pakistan-Saudi Arabia alliances of the 1990s is unlikely. Iran-Pakistan relations are increasingly defined by economic realism – and that will produce dividends for the internal security of both countries.