

# ECONOMIC COOPERATION BETWEEN RUSSIA AND PAKISTAN: PROSPECTS AND PROBLEMS

**Saleem Mandviwala**

*The Government of the Islamic Republic of Pakistan*

**Anita Shaikh**

**Kamilla Shaikh**

*MGIMO University*

## **Abstract**

---

Historically, relations between Russia and Pakistan have not always been easy. However, even during the years of greatest tension, Moscow and Islamabad attempted to cooperate in one form or another. Now the two countries are conducting a substantive dialogue in various fields, while trade and economic cooperation is one of the key areas of interaction between Moscow and Islamabad. In the current state of affairs, these relations have good prospects for future development, although they face a number of challenges. Thus, this article explores the bilateral trade and economic relations between Russia and Pakistan, aiming at analysing prospects for cooperation and identifying the existing problems for further development of Russia-Pakistan economic interaction.

---

## **Keywords**

Economic cooperation, trade, Russia, Pakistan.



## INTRODUCTION

---

Diplomatic relations between Russia and Pakistan were established on May 1, 1948, but historically remained tense for a long period of time due to Russia's close ties with India as well as Pakistani support for the Mujahideen during the Soviet occupation of Afghanistan. Furthermore, after becoming independent from British India, Pakistan started collaborating with the United States in military-political and economic domains, which largely predetermined the cool relations between Russia and Pakistan during the Cold War.

Nevertheless, even during the years of the highest tensions, Moscow and Islamabad attempted to cooperate in one form or another. Thus, back in the mid-1970s, the Soviet Union built a metallurgical plant in Karachi and the largest thermal power plants in Muzaffargarh, Multan-II and Guddu. The USSR also contributed to the creation of the Oil and Gas Development Company Ltd. (OGDCL) and the development of agriculture in Pakistan [2].

The Intergovernmental Agreement on Trade and Economic Cooperation of 1999 became the basis for strengthening commercial ties between the two countries. A year later, the Russian-Pakistani Intergovernmental Commission on Trade, Economic, Scientific and Technical Cooperation was established, aimed at promoting joint projects in the fields of energy, natural resources, and agriculture.

A new impetus to bilateral relations between Russia and Pakistan was given by Pakistan's accession to the Shanghai Cooperation Organization (SCO) as a full member in June 2017.

Moreover, the State Bank of Pakistan and the Central Bank of the Russian Federation signed a memorandum on bilateral banking cooperation in 2018, which was followed by an increase in the volume of bilateral trade and a rise in business activity in the private sector of both countries [3].

Now, trade and economic cooperation are two of the key areas of interaction between Moscow and Islamabad. In the current state of affairs, these relations have good prospects for future development, although they face a number of challenges.

## PROSPECTS

---

Trade and economic relations between Russia and Pakistan are actively gaining momentum. The main Russian products exported to Pakistan include food products and agricultural raw materials (61,29% of Russia's total exports to Pakistan); metals (15,46%); mineral products (8,52%); products of the chemical industry (5,77%); wood and pulp and paper products (5,17%); machinery, equipment, and vehicles (3,57%).

Russia's imports consist of textiles and footwear (54,83% of Russia's total imports from Pakistan); food products and agricultural raw materials (23,89%); products of the chemical industry (4,66%); machines, equipment, and vehicles (1,91%); metals (1,15%); and mineral products (1,03%) [4].

Among the most promising areas for economic cooperation between Moscow and Islamabad is the energy sector. As a major exporter of natural gas and the second largest exporter of oil, Russia intends to expand its markets, while in Pakistan, gas shortages are rapidly growing. One of the major steps so far was the agreement on the construction of the North-South gas pipeline (renamed the «Pakistan Stream Gas Pipeline») in 2015, which should stretch from the port of Karachi in the South to Lahore in the North for 1,1 thousand kilometres [5]. Negotiations on the practical implementation of the project are still going on.

The construction of the pipeline can make a significant contribution to Pakistan's energy security. According to the experts, amidst growing gas consumption in Pakistan, the new pipeline can decrease the price of electricity for the population, ensuring economic growth and reducing social tensions [6].

Furthermore, Moscow and Islamabad have recently agreed on Russian oil supplies. In April 2023, Pakistan placed an order for trial shipment of Russian oil, which it paid for in dollars, and announced its plans to conclude a long-term agreement with Russia on the purchase of oil in Yuan [7].

Thus, energy cooperation could offer the biggest opportunities in the future as this could include not only oil export from Russia to Pakistan but also LNG supply in the medium term and piped gas in the long run.

Trade in weapons and military equipment between Moscow and Islamabad is another crucial and continuously growing aspect of their relations. Russia first delivered Mi-17 military transport helicopters to Pakistan in 1996. A milestone in defence ties between the two countries was the signing of a military cooperation agreement in 2017, which outlines the future directions of cooperation. Subsequently, Pakistan received four Mi-35 attack helicopters and sent IL-78 refueler aircraft and RD-93 engines for overhaul to Russia [8].

While Russia expands its arms exports, Pakistan benefits from diversifying its arms procurement and reducing its dependence on Western suppliers. Moreover, Russia's weapons are often cheaper than their Western counterparts, making them more attractive to countries with limited budgets like Pakistan. Apart from arms sales, Russia and Pakistan also engage in joint military exercises, exchange military delegations, and cooperate in counter-terrorism efforts.

In addition, Russia is interested in resuming cooperation in the

field of metallurgical production with Pakistan after a long break. Russian companies are planning to undertake significant infrastructure projects in Pakistan, such as the modernization of the Pakistan Steel Mills Corporation in Karachi [9]. There are also discussions about providing and supplying Russian metal for the mobile sector in Pakistan.

Furthermore, negotiations are ongoing to establish infrastructure cooperation between Pakistani railway companies and Russian Railways. On November 16, 2022, Russia and Pakistan signed an Intergovernmental Agreement on International Road Transport, which will expand the geography of cargo transportation along the North-South international transport corridor, including access to Pakistan through Iran [10].

## **PROBLEMS**

---

Despite promising prospects, economic cooperation between Russia and Pakistan faces a number of problems that significantly complicate the work between the states.

Despite the fact that trust between the two countries has vastly expanded as reflected in strong political relations, the unfamiliarity of the commercial elites with each other remains one of the factors that inhibit the expansion of commercial relations. This is particularly glaring in the area of banking. Since not much trade has taken place, the banks on both sides remain cautious. The recent western sanctions have added to this challenge. Moreover, there is always a risk of spreading false information and negative propaganda, which cannot only slow down the decision-making process but also impede cooperation between the parties.

In addition, the economic difficulties experienced by both states complicate the implementation of joint economic projects. Moscow continues to be subjected to harsh Western sanctions, making any further commercial activity difficult. Pakistan, due to its reliance on loans from international financial institutions, has an external debt that, as of December 2022, is 126,3 billion dollars [11]. This raises questions about Pakistan's solvency.

The security issues also impact the development of economic relations between Moscow and Islamabad. Events in Ukraine and the deterioration of Russia's relations with NATO are seriously undermining the security situation. In Pakistan, an acute political crisis is unfolding after the change of government and the arrest of former Prime Minister Imran Khan. Moreover, the country is still recovering from the consequences of the terrible floods of 2022.

Complicated logistics is another challenge. After the collapse of the USSR, direct flights to either Islamabad or Karachi have not yet been restored due to the lack of demand for this direction. However, the new focus on Eurasian connectivity offers a new vision of strong economic relations. Already trucks from Pakistan are coming to Russia through



Afghanistan and Central Asia. More importantly, the North-South corridor provides another great opportunity.

The underdeveloped legal and regulatory framework for economic interaction is another obstacle to sustainable and robust trade and economic cooperation between Russia and Pakistan.

Moreover, the relations of Russia and Pakistan with other countries affect their bilateral interaction. The growing military cooperation between the two countries has raised concerns in India, which is Pakistan's regional rival and has traditionally been a major buyer of Russian weapons. However, Russia maintains that its military cooperation with Pakistan is not aimed at any third country and is based on mutual interests and respect for each other's sovereignty. In addition, in the case of the strengthening of military and economic cooperation between Russia and Pakistan, the United States is able to put economic and diplomatic pressure on Islamabad as well as impose sanctions against Russia. The factor of competition for economic projects in Pakistan also hinders the perspectives for cooperation. For example, China, which has a good lobby in Pakistan, is also interested in implementing the «North-South» gas pipeline project.

## CONCLUSION

---

Overall, Russia and Pakistan are working towards strengthening their economic ties, and there is good potential for further cooperation in various sectors. However, the successful implementation of any major joint projects requires the political will of both countries to cooperate and to overcome existing obstacles in their relations. The current political realities can result in additional pressure on both parties, creating new challenges for bilateral interaction.

To develop strong mutually beneficial cooperative relations between Russia and Pakistan, Moscow should convince Pakistan that it is not building a tactical alliance with Islamabad for its immediate benefit but is willing to create a long-standing partnership. Pakistan, in turn, should demonstrate its independence in decision-making and reliance as a partner for cooperation.

## REFERENCES

---

1. L. Turayanova, Ambassador of Pakistan to Russia: Sanctions Will Not Be Able To Change Our Course in Relations with Moscow, TASS Interview, available at: <https://tass.ru/interviews/16071999?ysclid=lhjarbwsfz120839740> (Accessed 13 March 2023).

2. Embassy of Pakistan, Pakistan-Russia Relations, Moscow, available at: <http://parepmoscow.com/en/pakistan-russia-relations/> (Accessed 27 March 2023).

3. C. Chia, Z. Haiqi, Russia-Pakistan Economic Relations: Energy



Partnership and the China Factor, ISAS, available at: <https://www.isas.nus.edu.sg/papers/russia-pakistan-economic-relations-energy-partnership-and-the-china-factor/> (Accessed 30 March 2023).

4. RIA Novosti, Interstate Relations between Russia and Pakistan, available at: <https://ria.ru/20220224/otnosheniya-1774309936.html> (Accessed 01 April 2023).

5. M. Kotlyar, T. Dzyadko, RBC, Russia Will Build The Pakistan Stream Gas Pipeline, available at: <https://www.rbc.ru/economics/28/05/2021/60b0faac9a79475096628733> (Accessed 03 April 2023).

6. O. Barabanov, Valdai International Discussion Club, Prospects for Cooperation between Russia and Pakistan, available at: <https://ru.valdaiclub.com/a/highlights/perspektivy-sotrudnichestva-rossii-i-pakistana/> (Accessed 17 April 2023).

7. The Times of India, Pakistan Keen to Pay for Russian Oil Imports with Chinese Yuan - Times of India, available at: <https://timesofindia.indiatimes.com/business/international-business/pakistan-keen-to-pay-for-russian-oil-imports-with-chinese-yuan/articleshow/100125210.cms?from=mdr> (Accessed 10 May 2023).

8. RIA Novosti, Interstate Relations between Russia and Pakistan, available at: <https://ria.ru/20220915/diplomatiya-1816736215.html?ysclid=lhivthh9st857359667> (Accessed 13 May 2023).

9. O. Lazareva, Russian Companies Are Interested in The Modernization of a Metallurgical Plant in Pakistan, Economic News Agency, available at: <https://www.myeconomy.ru/biznes/rossijskie-kompanii-zainteresovala-modernizatsiya-metallurgicheskogo-zavoda-v-pakistane/> (Accessed 15 May 2023).

10. The Ministry of Transport of the Russian Federation, Russia and Pakistan Expand Cooperation in the Field of Road Cargo Transportation, available at: <https://mintrans.gov.ru/transport-news/10499?ysclid=lhja6q13hi253572797> (Accessed 16 May 2023).

11. S. Rana, United States Institute of Peace, Pakistan's Existential Economic Crisis, available at: <https://www.usip.org/publications/2023/04/pakistans-existential-economic-crisis#:~:text=Pakistan's%20Debt%20Composition%20%E2%80%94%20and%20the,and%20liabilities%20of%20%24126.3%20billion> (Accessed 18 May 2023).

**About the authors:**

**Saleem Mandviwala** - Senator, Chairman of Senate Finance Committee, The Government of the Islamic Republic of Pakistan, Islamabad, The Islamic Republic of Pakistan, 44000.

**Anita Shaikh** - MGIMO University. 76, av. Vernadsky, Moscow, Russia, 119454.

**Kamilla Shaikh** - MGIMO University. 76, av. Vernadsky, Moscow, Russia, 119454.

**Conflict of interest:** the authors report no conflict of interest.

**Funding:** the study was not sponsored.

**For citation:** Saleem Mandviwala, Anita Shaikh, Kamilla Shaikh (2023). Economic cooperation between Russia and Pakistan: prospects and problems, 3(3), pp. 86-91

Submitted for publication: 30.05.2023

Accepted for publication: 05.06.2023