



A double-blind, peer-reviewed, open-access, and an HEC-recognized Y-category Journal

Research Journal of Human and Social Aspects

Web link: <https://rjhsa.cclll.org>

P-ISSN: [3006-9696](https://doi.org/10.71085/rjhsa.04.04.154), E-ISSN: [3006-970X](https://doi.org/10.71085/rjhsa.04.04.154)

Volume 4 Issue 4, 2026, Page Range: 281-290



Formalizing Cross-Border Trade Along the Pakistan–Iran Border: A Policy Framework for Sustainable Economic Development in Balochistan

Dil Jan¹

¹ MPhil Scholar, Department of Political Science University of Turbat, Balochistan, Pakistan.

Correspondence Author: dilbaloch006@gmail.com

Article information

Article History:

Received: 2026-08-19

Received in revised form:
2026-09-22

Accepted: 2026-09-27

Published Online: 2026-10-20

Keywords:

Border Trade; Geopolitics;
Economics; Geostrategy;
Informal Trade; Balochistan.

ABSTRACT

Balochistan is one of Pakistan's largest provinces in terms territory and possesses significant economic potential. It plays a central role in Pakistan's bilateral border trade and transit, sharing borders with Iran and Afghanistan and thus connecting the country to Central Asia and the Middle East. The province is also hosting country's largest coastal belt, which remains open for trade through out of year. Balochistan shares a 909-kilometre-long border with Iran and a 1,464-kilometre-long border with Afghanistan. Out of its 41 districts, 14 lie along these boundary lines nine bordering Afghanistan and five bordering Iran. While communities residing on both sides share language, culture, and history. On the basis of these similarities, they have made cross-border trade as a primary source for the sustenance of their livelihood. This trade, however, remains mainly informal which results in revenue losses, weak infrastructure, limited customs capacity, sanctions, and security concerns. The absence of a formal regulatory framework has resulted in deep-rooted informal networks which functions outside legal structures, nurturing smuggling, tax evasion, and governance gaps. This study examines the dynamics of informal trade in Balochistan, identifying factors sustaining informality, and suggests policy measures toward sustainable development. Using a qualitative approach, it draws on interviews with local traders and community representatives, accompanied by policy documents, academic literature, and trade reports. Findings indicate that informal trade is not merely a survival mechanism but a socio-political reality tangled to underdevelopment, unemployment, and weak governance.



© 2026 by the Author. Jan. This article is an open-access distributed under the terms and conditions of the Creative Commons Attribution-ShareAlike 4.0 International (CC BY-SA 4.0) License <https://creativecommons.org/licenses/by-sa/4.0/>

Problem Statement

Balochistan is the largest of Pakistan's provinces by territory, strategically positioned, and rich in mineral resources. Situated at the crossroads of Iran and Afghanistan, it is a natural site of cross-border exchange, most of which is conducted through informal channels surrounded by numerous hindrances. For local residents, this trade is not purely an economic activity but a matter of life and death: it is often the only source of employment, food security, and affordable goods in the remote parts of the province where formal economic opportunities are largely absent (Sadiq et al., 2025). While conducting field visits to border towns, after interacting with native population respondents described various problems which they are facing. They remain depended on informal cross-border trade for generations and for them it is the only means to sustain their lives. Such dependence on informal trade indicates deep gapes in governance mechanism' which includes weak regulatory enforcement, lack of unified control and the governments inefficiency to integrate informal trade into formal economy. Perpetual informality causes far-reaching effects on Pakistan's economy and national security. As smuggling deprives the state of considerable revenue, while unregulated cross border movements can encourage trafficking, militancy and instability in an already existing volatile security environment (Sadiq et al., 2025). At the same time, local traders face a token-based permit regime, loss of economic autonomy, upsetting inspections, inadequate infrastructure, restrictions on inter-provincial movement, and limited market access. Because the trade is informal, it results in significant revenue losses and the effective privatization of tax collection. The problem is therefore a paradox: informal trade sustains livelihoods while simultaneously generating economic instability and insecurity. The problem on the other hand remains under-researched and largely absent from formal policy discourse. The lack of evidence-based inquiry specific to Balochistan's informal trade limits policymakers' ability to design inclusive, effective, and sustainable reforms.

Research Questions

This paper is guided by three questions. First, how can the formalization of cross-border trade along the Pakistan–Iran border contribute to sustainable economic development in Balochistan without displacing the livelihoods that currently depend on informal trade? Second, what factors sustain informal trade despite recent formalization efforts? Third, what is the current status of formal and informal cross-border trade in Balochistan?

Introduction

Historical and Contemporary Context

Due to its strategic position as a frontier province bordering Afghanistan and Iran, Balochistan shares a long history of border trade that precedes the formation of modern nation-states and can be followed back to the primeval civilizations of the region. Traditionally, communities were involved in barter trade including livestock, agricultural produce, and handicrafts across what are now international borderlines (Zeb & Javaid, 2020). During the colonial era, with the demarcation of new borderlines which includes the Goldsmith Line and the Durand Line, divided communities that had common languages, culture, history and territory, leaving cross-border trade as one of the few lasting lifelines. These informal trade networks remained functional and were deepened after the creation of Pakistan and India (Ali, 2022).

Formal trade relations between Pakistan and Iran established through the Regional Cooperation for Development, later reorganized as the Economic Cooperation Organization (ECO), which led towards in an era of mutual cooperation, bilateral trade agreements, and collaboration in business and education (Zeb & Javaid, 2020). To administer bilateral relations, the two countries established a Joint Economic Commission in 1986, to provide an institutional mechanism for identifying significant industries and regions for trade and investment. Over the succeeding decades, Pakistan and Iran signed a series of instruments to bolster economic ties, including Preferential Trade Agreements (PTA), Bilateral Investment Treaties (BIT), Free Trade Agreements (FTA), border trade

agreements, and several memoranda of understanding ("Cross-Border Trade," n.d.).

Subsequently, in April 2002, Pakistan's Ministry of Commerce issued a notification authorizing public and private-sector investors to import and export products under a barter-trade mechanism, alongside both governments expressing a desire to raise annual bilateral trade to USD 5 billion by 2023 ("Cross-Border Trade," n.d.). However, progress was constantly disrupted by United States-led sanctions on Iran. Despite these sanctions, in June 2023 the Ministry of Commerce issued an order permitting barter trade in specific commodities, including oil and natural gas, under an import-followed-by-export arrangement designed to ensure that exports counterbalance the value of imports. Under this trade arrangement, Pakistani exporters dispatched 26 categories of commodities to Iran among them milk, eggs, cereals, meat, fish, fruit, vegetables, salt, rice, pharmaceuticals, steel, and footwear while importing petroleum, oil, fertilizer, chemicals, and metals from Iran ("Cross-Border Trade," n.d.).

Pakistan-Iran Trade Composition

At present, goods from both the agricultural and non-agricultural sectors are exchanged formally and informally across the Pakistan, Iran and Afghanistan borders through numerous crossing points. Fuel smuggling remains among the most prominent activities in several border regions, where entire communities depend on inexpensive Iranian petrol and diesel, transported by tanker convoys into other provinces as well (Salman, 2025). The Makran division comprising Panjgur, Kech, and Gwadar districts, have equally evolved into a hub for the large-scale transport of fuel and everyday consumer goods, which now institute people's primary source of income. Research on the Jiwani Iran border discovered that local communities regard informal trade as fortunately, defining it as built on generations of gathered knowledge, and reported that their economies are largely based on informally imported rationed food, gasoline, diesel, and other essential products (Raheem, 2021).

More recent studies on border trade along the Pakistan-Iran border classifies four categories of exchange occurring at major trading points: formal and documented, formal but undocumented, informal but documented, and informal and undocumented (Pakistan Institute of Development Economics [PIDE], n.d.-a). Field surveys conducted for this study likewise found that most residents of border towns consider border trade to be their principal source of income and the basis of their local economy. This study's assessment of labor-force involvement in the fuel trade alone found that 31% of the population of Washuk district, 21% in Gwadar, 16% in Panjgur, 13% in Chaghi, and around 8% in Kech are directly involved in importing petroleum from Iran. Similar patterns were observed on the Afghanistan borderline: survey of Chaman and Spin Boldak borderlines discovered that 81% of respondents said their livelihoods depended mainly on cross-border trade, and 65% said their families' well-being depended on it completely (PIDE, n.d.-a). This dependance is not limited to the border regions; Balochistan's wider economy remains significantly dependent on cross-border trade with both Iran and Afghanistan.

Steps Toward Formalization: Current Developments

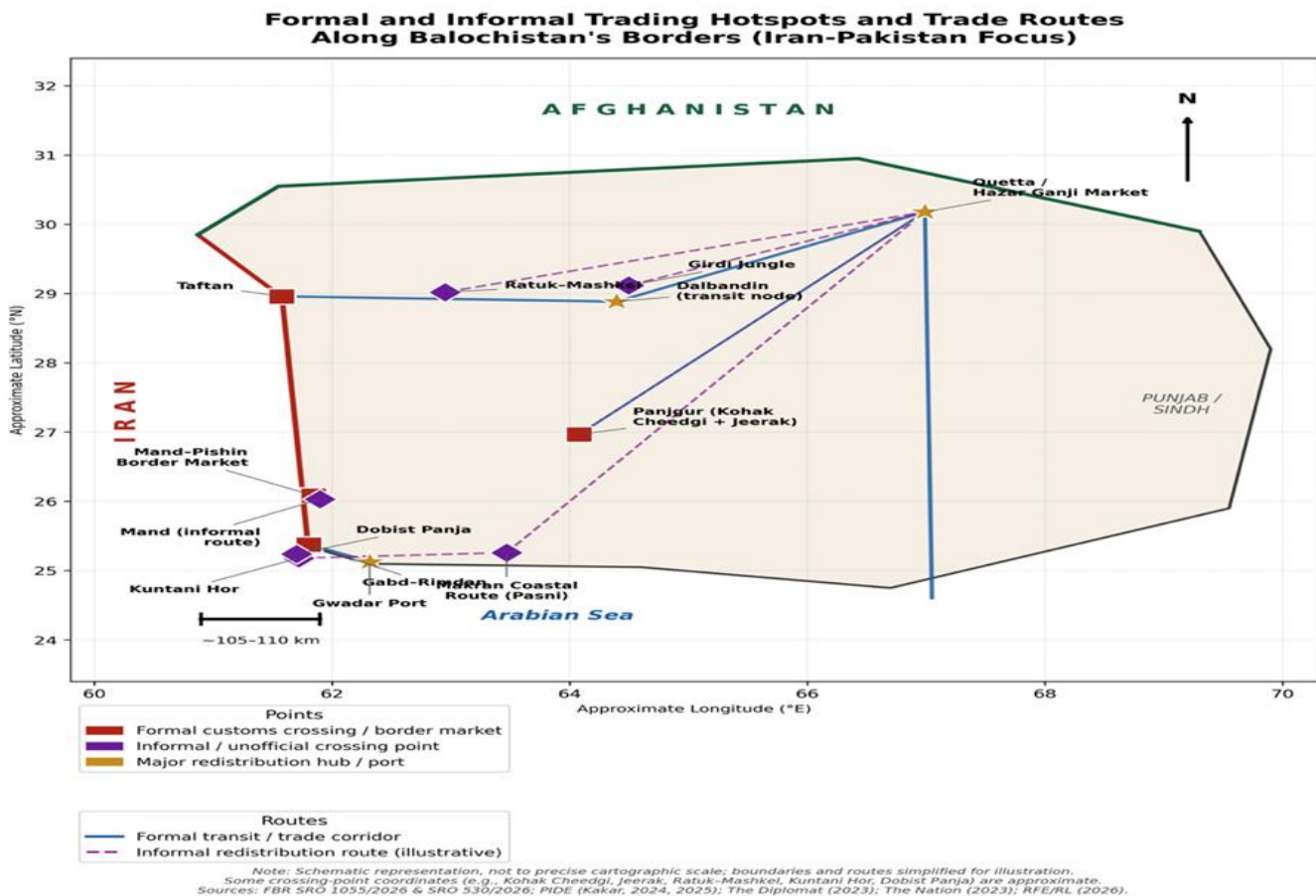
Currently, Pakistan's and Iran's efforts for trade have resulted in accomplishing 39 memoranda of understanding through a joint border-trade committee, reflecting their joint resolved to formalize commercial relations (Shahid, 07:44:28+05:00). The Ministry of Commerce has continued to pursue preferential and free trade agreements, whereas chambers of commerce on both sides have pushed for prolonged bilateral trade through legal channels. In April 2026, the Ministry of Commerce issued SRO 691(I)/2026, the Transit of Goods through the Territory of Pakistan. Designating six overland routes for third-country cargo destined for Iran via Pakistani territory: Gwadar to Gabd, Karachi Port, Qasim port to Ormara, Pasni and Gabd, Karachi/Port Qasim to Khuzdar, Dalbandin, Taftan, and related corridors linking Gwadar, Turbat, Panjgur, Quetta, and Taftan (Kiani, 2026). This notification re-

established, a bilateral road transport agreement which had remained in active for more than two decades. Which connects the ports of Karachi, port Qasim and Gwadar port to the Iranian border crossing points at Gabd and Taftan through roads networks in Balochistan.

As depicted in the Figure 1.1, the five border crossing points along the borders of Balochistan differ in their level of formalization. Some operate under customs oversight and are subject to revenue collection and documentation, namely Taftan, the Mand-Pishin border market, Gabd-Rimdan, and Panjgur (Kohak Cheedgi-Jeerak). The

remaining crossings function largely outside formal regulatory frameworks; the most prominent among these are Kuntani Hor, the Makran coastal route at Pasni, the informal route at Mand, and the Ratuk-Mashkel crossing. This divergence is driven primarily by remote terrain and inadequate road and border infrastructure, which together push the majority of cross-border movement outside formal channels. Although many of such crossing points functions outside the legal channels and largely remain unchecked by the authorities, and operates outside legal scrutiny, which is one of the primary cases to hurdle formalization of trade.

Figure 1.1



Under these arrangements, the government also allowed the export of a range of items to Iran by land without recourse to formal banking mechanisms, an exemption primarily granted for three months and successively renewed in three-to-six-month in order to facilitate the flow of vital commodities. Pakistan and Iran have also

expanded formal customs infrastructure along the border, opening new stations intended to mark the start of formal trading relationship (*New Border Crossing with Iran to Boost Legal Trade and Curb Smuggling, Pakistan Says, 2025*).

The need behind these measures intensified largely following the 2026 Strait of Hormuz crisis,

in which Iranian forces restricted commercial navigation through the strait and the United States enforced a naval blockade on Iranian ports beginning in mid-April 2026 (Hussain, 2026). With more than 3,000 Iran-bound containers stranded at Karachi port, Pakistan activated the Gwadar-Gabd corridor and similar land routes as a sanctions-resilient substitute to maritime shipment (Hussain, 2026). This suggests that recent formalization has been propelled extensively by outward tremors rather than by measured national policy design, a distinction with significant implications for the durability of these measures.

Analysis

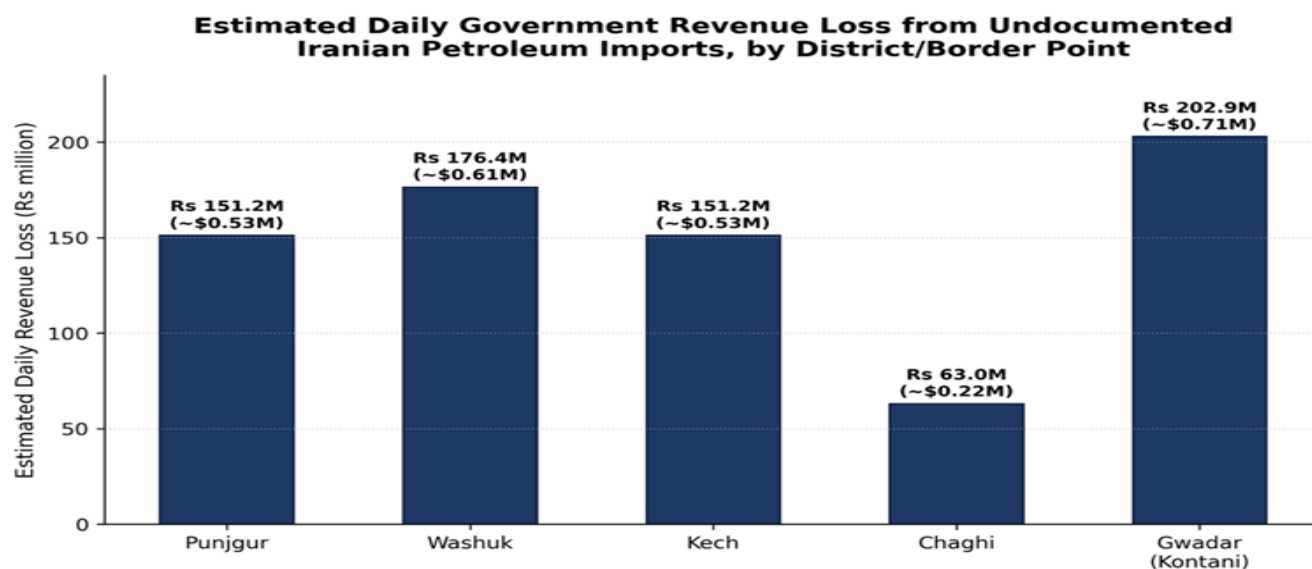
Formal cross-border trade has substantial capacity to uplift the socio-economic conditions of people of Balochistan. The World Bank has expressed that trade functions as an instrument of progress that generates better jobs, reduces poverty, and multiplies economic opportunity (World Bank, n.d.). The United Nations' 2030 Agenda for Sustainable Development equally acknowledges cross border trade as a means of inclusive economic empowerment, poverty reduction, and progress toward the Sustainable Development Goals (Zhan & UNCTAD, 2017). Balochistan remains Pakistan's poorest province with its bordering districts including Chaghi and Washuk, listed among the country's highest rates of multidimensional poverty (United Nations Development Programme [UNDP], n.d.). Formalizing border trade could thus serve as a successful means for poverty reduction.

Informal trade causes considerable revenue damages at both the national and provincial levels and essentially privatizes what would else be

public tax revenue, while also limiting sustainable economic growth. Even trade that is informal but documented is estimated to cost Pakistan approximately USD 2.6 million per day in lost revenue (PIDE, n.d.-a), and the true cost including totally undocumented trade volume is almost certainly much higher. In border districts, the attractiveness of quick profits from informal trade and lack of quality education encourages university students to abandon their studies to pursue it, contributing to a loss of human capital that deepens revenue losses and results in unstable, informal livelihoods. While formalization would support in creating documented employment, attracting investment, and supporting small and medium enterprises. It could also help expand Pakistan's energy-heavy import basket from Iran while strengthening Balochistan's livestock and meat exports, an area of comparative advantage.

As illustrated in Figure 1.2, the volume of legal, documented cross-border trade remains comparatively low, while actual revenue loss to the state is substantially higher. The figure captures losses attributable to undocumented petroleum trade alone; the value of other undocumented goods which is considerably larger remains largely unrecorded and falls outside the scope of this estimate. The estimated daily revenue loss at level of districts ranges from Rs. 63 million in Chaghi alone and Rs. 202.9 million at Gwadar district in Kontani. The combined losses on a daily bases across all the five districts are more than \$2.6 million dollar. These figures emphasize the need for measures to formalize cross-border trade to recover lost revenue and to enhance the region's broader economic well-being and achieve sustainable economic development.

Figure 1.2



Source: Kakar, A. (2024). Border trade in Balochistan. Pakistan Institute of Development Economics (PIDE). USD figures are illustrative conversions at the exchange rate cited in the source and may not reflect current rates.

The primary constraint towards full formalization is the outcome of United States-led sanctions on Iran. Which discourages Pakistani banks from formal arrangements; officials have acknowledged that full formalization is not yet possible, leaving barter arrangements and banking exemptions as temporary workarounds (Barrech, 2026). Additional impediments include the token permit system, loss of economic self-sufficiency, inadequate infrastructure, inter-provincial restrictions, limited customs capacity, and persistent security concerns, all of which help describe why the border economy remains structured around informality (Sadiq et al., 2025). Such a trade pattern is not only limited to Balochistan: comparative research on informal cross-border trade in Africa equally uncovers that weak infrastructure, restrictive regulation, and exclusion from formal markets maintain informality even where it institutes the primary source of livelihood for millions of border populations, and endorses formalization frameworks that protect rather than exclude these livelihoods (Dzawanda et al., 2026).

As represented in figure 1.3 the causes and impacts of informal cross-border trade in Balochistan are concerned, these are not separated occurrences but constitute an integrated and self-sustaining system. From a causal perspective, United States

led sanctions on Iran have restricted formal banking channels from cross-border transactions, while absence of customs enforcement and a very small number of legally designated border crossing points leave most of the border region outside of state surveillance system. These structural hinderances are heightened by the regions volatile socioeconomic conditions. For example, the absence of formal economic opportunities and deep rooted kinship networks across the border, as well as substantial gaps in Iran-Pak fuel prices, which makes informal petroleum trade profitable for local populations, further perpetuated by the quota based Zamyad vehicle token regime introduced during 2020 ("Border Trade Woes & Way Forward," n.d.).

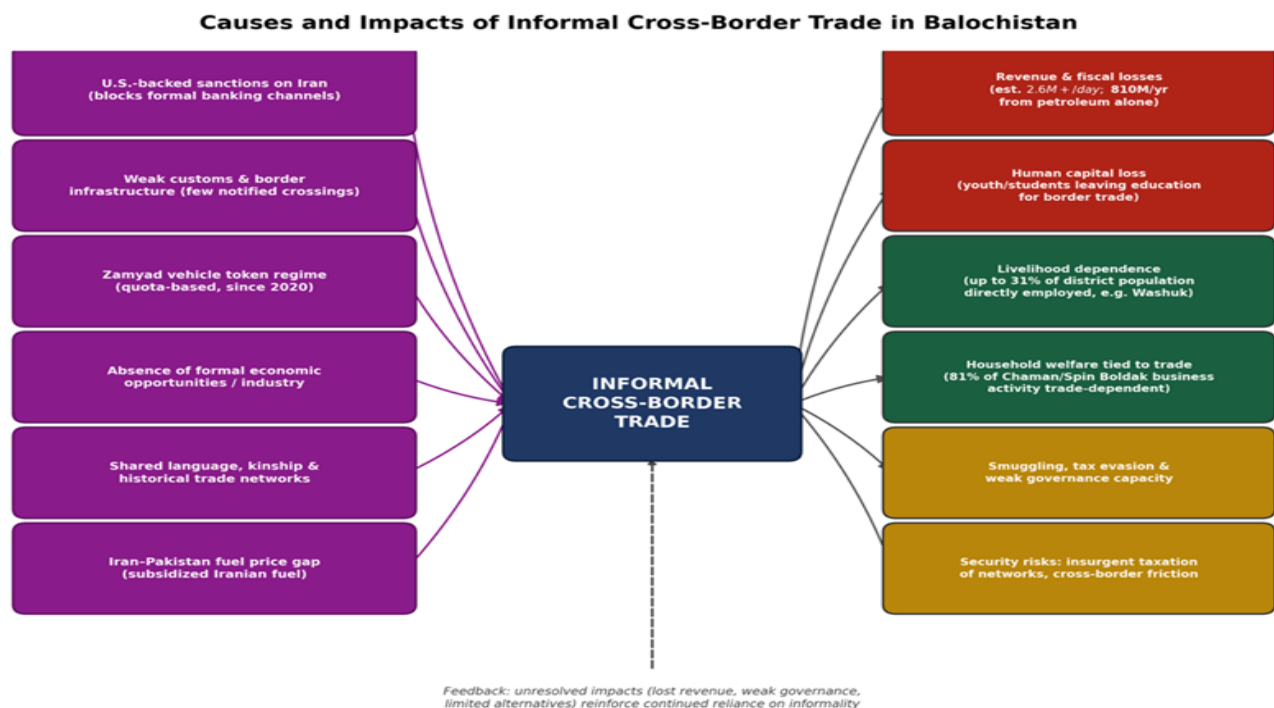
These causes produce impacts that, in turn, sustain the causes themselves. The state loses an estimated Rs 2.6 million or more per day over Rs 810 million annually from petroleum trade alone while entire districts become structurally dependent on informal trade for survival: up to 31 percent of Washuk's population is directly employed in it, and roughly 81 percent of business activity in Chaman and Spin Boldak is trade-dependent. This dependence is reinforced by human capital loss, as youth and students forgo education in favor of border trade, and by the erosion of state authority, as smuggling and tax evasion normalize non-

compliance and insurgent networks extract informal "taxation" from trade routes, creating security risks that further deter formal investment.

The relationship between these causes and impacts therefore forms a vicious cycle rather than sequential or linear. As clearly shown in figure 1.3, through its feedback cycle, unresolved impacts such as revenue loss, weak governance capacity and the absence of formidable formal incentives. Does not simply result from informal trade, they actually reproduce them, since neither the state institutions nor the local populace has sufficient alternatives to shift towards formalization. Disrupting this vicious cycle will require overcoming the causes and impacts at the same time. Establishing formal alternatives in an environment where informal way of livelihoods has thrived, cannot succeed without equivalent investment in customs enforcement, and infrastructure investment alone will not change

trade patterns if the underlying economic incentives such as fuel price gaps and sanctions driven banking restrictions are not addressed. In Balochistan the major obstacles towards formalization of trade are lack of suitable infrastructure such as roads, joint border markets and customs facilities. As most of the border crossing points are not legally notified, therefore such points lack basic infrastructure, which results in huge transportation costs, delaying consignments increasing the risk of fatal accidents which remain frequent and as well as damaging fresh goods. Thus declining overall trade efficiency and profitability. Given the current geopolitical tensions in the region, formalizing Pakistan–Iran trade appears to represent an indisputably common opportunity, which is capable of transforming existing economic insecurity into more inclusive and sustainable growth for both states.

Figure 1.3



Note: Conceptual/illustrative diagram, not drawn to statistical scale. Compiled from research cited in this paper (Kakar, 2024, 2025; Raheem, Badshah & Arshed, 2021; field-survey findings).

Key Findings

Balochistan possesses considerable unrealized trade potential owing to its geography, with numerous active trading hubs alongside the

Iranian border; the proximity of Gwadar to the Gabd crossing offers Iran a viable route around the Hormuz blockade while strengthening regional connectivity.

Recent efforts towards formalization including the designation of six formal crossing points under the 2026 transit order indicate that formalization is already started.

Fragile transport infrastructure and limited institutional coordination continue to undermine effectiveness of cross-border trade even where formal crossings exist.

People residing in border areas, comprising fuel resellers and small traders, have livelihoods surrounded by informality; immediate formalization risks harming a province with Pakistan's lowest per-capita income.

Policy Recommendations

Formalize and regulate border trade. Permanent border-crossing points and economic corridors should be established in each of Balochistan's bordering districts, accompanied by joint border markets and economic zones.

Investing in infrastructure and facilitation of trade. The need for establishing new and upgraded road networks is essential along the trade corridors. Along with banking and cold storage facilities to preserve perishable exports such as meat, fruit and vegetables. In order to further simplify trade digital documentation system and easier and faster customs clearance as well as internet connectivity remain essential.

Diversifying the means of livelihoods in border towns. Government shall initiate different skills development programs, in order to educate locals in different fields, to reduce their dependence on informal trade and integrate them into the formal sectors. State institutions shall promote inclusiveness, encouraging professionalism and specialization. Special initiatives and programs shall be launched in different areas for example, investing in Gwadar's coastal assets for tourism and building district Kech as a regional hub for medical.

Seeking preferential and free trade accords with Iran. In order to enhance mutual trust Pakistan and Iran should broaden market access through revised trade agreements to ease tariffs on priority

products while remaining committed to long-term formalization.

Streamlining inter-institutional collaboration. Various concerned institution such as the Ministry of Commerce, customs authorities, security agencies and the Balochistan Board of investment should coordinate policies to regulate crossing points and border markets within a steady and well-regulated trade environment.

Following a phased framework to formalization. Initially large-scale commercial and transit trade shall be formalized, while small scale subsistence trade in fuel and groceries shall remain continued without harming the most economically deprived populace in the region.

Conclusion

Due to its geo-strategic location, Balochistan's 909 km long border with Iran is currently operated through five formal crossing points and an increasingly active land corridor passing through Gwadar and Gd. Which emphasizes the position of province as more than a peripheral region but as an emerging hub for regional connectivity. On the other hand, as this study has established, that the province's border economy remains locked into two legitimate but challenging obligations. One the one hand is the state's fiscal and security interests in mainstreaming trade through documented and regulated systems. While on the other hand, people's permanent dependence on informal trade for food security, employment and basic livelihoods under sanctions have made full formalization so far unfeasible.

Conceptualizing the challenge in this way, formalization is not only an economic reform but a governance problem, which requires sustained infrastructure investment as well as coordinated customs administration. As well as decisive protection of basic level trade during the transition process. Rather than abrupt formalization could deepen the very underdevelopment which it aims to resolve. If this approach is pursued deliberately, Balochistan's border districts will emerge as catalyst for sustainable economic growth. It could result in reinforcing Pakistan's larger strategic

goals of interconnectedness with China, Iran and Central Asia.

Declaration of Conflicting Interest

The author declared no potential conflicts of interest with respect to research.

Funding Statement

No funding is received for this project.

References

- Barrech, D. (2026, July 1). Balochistan after Iran sanctions. Pakistan Observer. <https://pakobserver.net/balochistan-after-iran-sanctions/>
- Dzawanda, B., Matsa, M. M., Gumbo, E. B., Runokunda, J. C., & Nicolau, M. D. (2026). A systematic review of informal cross-border trade in African economies towards vision 2030. *Discover Sustainability*, 7(1), Article 84. <https://doi.org/10.1007/s43621-025-02443-8>
- Hussain, A. (2026, April 30). Pakistan opens up road trade routes into Iran amid Hormuz blockade. Al Jazeera. <https://www.aljazeera.com/news/2026/4/30/pakistan-opens-up-road-trade-routes-into-iran-amid-hormuz-blockade>
- Kiani, K. (2026, April 26). Pakistan notifies 6 land routes for transportation of goods to Iran amid blockade of Hormuz, Iranian ports. Dawn. <https://www.dawn.com/news/1995253>
- Pakistan Institute of Development Economics. (n.d.-a). Border trade woes & way forward. Retrieved July 18, 2026, from <https://pide.org.pk/research/border-trade-woes-way-forward/>
- Pakistan Institute of Development Economics. (n.d.-b). Cross-border trade: Challenges and prospects. A case study of Pakistan–Iran borders [Thesis]. Retrieved July 19, 2026, from <https://thesis.pide.org.pk/thesis/cross-border-trade-challenges-and-prospects-a-case-study-of-pakistan-iran-borders/>
- Raheem, A. (2021). Political economy of smuggling: The living source for the natives (A case study of Jiwani-Iran border, Baluchistan). *Journal of Development and Social Sciences*, 2(4). [https://doi.org/10.47205/jdss.2021\(2-IV\)66](https://doi.org/10.47205/jdss.2021(2-IV)66)
- Sadiq, W., Ali, S., Aslam, A., & Khan, K. (2025). Border economies, informal trade, and governance gaps: The case of Balochistan. *Center for Management Science Research*, 3(6), 92–104.
- 2026 Strait of Hormuz crisis. (n.d.). In Wikipedia. Retrieved July 22, 2026, from https://en.wikipedia.org/wiki/2026_Strait_of_Hormuz_crisis
- United Nations Development Programme. (n.d.). Multidimensional poverty in Pakistan. Retrieved July 22, 2026, from <https://www.undp.org/pakistan/publications/multidimensional-poverty-pakistan>
- World Bank. (n.d.). Trade Facilitation Support Program (TFSP). Retrieved July 22, 2026, from <https://www.worldbank.org/en/programs/trade-facilitation-support-program>
- Zeb, R. A., & Javaid, U. (2020). Pak-Iran trade ties in the 21st century and future prospects

for strong relationships. [Journal name not specified], (57).

Zhan, J. X., & UNCTAD (Eds.). (2017). World investment report 2017: Investment and the digital economy. United Nations Publication.

Ali, R. (2022). The Politics of Energy Trade Between Iran and Pakistan. *Forman Journal of Social Sciences*, 02(01), 1–21. <https://doi.org/10.32368/FJSS.20220206>

Border Trade Woes & Way Forward. (n.d.). <https://Pide.Org.Pk/>. Retrieved July 22, 2026, from <https://pide.org.pk/research/border-trade-woes-way-forward/>

New border crossing with Iran to boost legal trade and curb smuggling, Pakistan says.

(2025, January 14). Arab News. <https://arab.news/npfzw>

Salman, D. A. (2025, June 27). Determinants of Undocumented Oil Trade in Pakistan: A Multinomial Logit Approach. *IPRI - Islamabad Policy Research Institute*. <https://ipripak.org/determinants-of-undocumented-oil-trade-in-pakistan-a-multinomial-logit-approach/>

Shahid, S. (07:44:28+05:00). *Pakistan, Iran sign 39 MoUs to boost trade*. Dawn. <https://www.dawn.com/news/1732058>