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**Iran-Pakistan Relations: Strategic Transition from Geopolitics to Geo-Economics**

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**Abstract**

Pakistan and Iran share a long-standing relationship shaped by historical, cultural and religious ties. However, their bilateral relations have been influenced by complex geopolitical and geo-economic dynamics. This study examines the shift from geopolitics to geo-economics in Pakistan-Iran relations post-2008, assessing its key impacts and underlying challenges. Utilizing a neoliberal framework, the research explores how economic interdependence, trade and investment have redefined their diplomatic engagement. The study highlights the strategic significance of economic cooperation between the two nations, particularly in energy trade, border markets and joint infrastructure projects. The Iran-Pakistan gas pipeline remains a crucial yet contentious issue due to U.S. sanctions and financial constraints. Despite external pressures, economic diplomacy has emerged as a dominant feature in their bilateral engagement, with trade volume exceeding \$2 billion in 2022 and plans to expand further. The research also identifies constraints such as regional rivalries, security concerns and political mistrust that hinder deeper collaboration. By analyzing Pakistan-Iran relations particularly with regards to geo-economics, this study underscores the potential for economic integration to enhance regional stability. It suggests that pragmatic economic policies, supported by multilateral cooperation, can help both nations overcome geopolitical barriers and foster a sustainable partnership.

**Keywords:** Pakistan, Iran, Neoliberalism, Economic Cooperation, Challenges, Opportunities

**1. Introduction**

The border between Pakistan and Iran extends 909 kilometers along with multiple cultural and religious traditions uniting both nations. The Republic of Iran became the first nation to recognize Pakistan on August 22, 1947, while Pakistan was among the first countries to accept Iran following its revolution of 1979 (Embassy of Pakistan, Tehran. n.d.). The two countries engaged for their mutual interests in geopolitics and geo-economics after their establishment. Likewise, both states used their diplomatic influence to give mutual support in United Nations (UN) and Organization of Islamic Conference (OIC) organizations. Yet, the countries had been facing complex relations at times due to various reasons and mistrust (Czulda, 2023). Since 2008, Pakistan and Iran established numerous economic and security agreements within their political alliances albeit geo-economic strategic partnership grew stronger (Jahanzaib & Khan, 2024). Hence, the study poses questions as follows: How has the shift from geopolitics to geo-economics influenced Iran-Pakistan relations post-2008 with its key impacts? How

do geopolitics and geo-economics interplay in shaping Pakistan's imperatives, constraints and potentials in its relations with Iran? The study addresses these essential concerns both theoretically and empirically. The study uses the neo-liberal theory to understand geo-economic relations alongside geo-political aspects (Keohane and Nye, 2011). A detailed examination with the lens of neo-liberalism explains the diplomatic relations between Pakistan and Iran. Contemporary economic growth plans and diplomatic relationships for these countries emerged from free market foundations along with privatization policies and reduced state involvement. Neoliberal ideas enabled Pakistan and Iran to establish friendly commercial ties by permitting enhanced economic activities that let better financial and trading capabilities (Jahanzaib, 2024). These countries have been seen to prioritize geo-economics as they aim to build their soft power through financial measures and diplomatic discussions at both domestic and international levels. Neo-liberal principles power economic partnerships that countries utilize as diplomatic bridges for developing economic trade and political arrangements in their region (Harvey, 2007). The research analyzed diplomatic relations between Pakistan and Iran through evaluating their adoption of neo-liberal economic frameworks as well as their geo-political aspects. The research purpose focused on understanding how geo-economics prioritization affects trade and investment relations to create better partnership opportunities. The research sought to determine both the advantages and obstacles that their collaboration structure presents.

## **2. Literature review**

The increase in global diplomacy mainly rests upon geo-economic trends and technology whose progression is also evident in Iran-Pakistan relations. The literature reviews the effects that geo-politics and geo-economics has drawn on Iran-Pakistan intergovernmental cooperation. The enduring friendship between Iran and Pakistan developed from their common religious roots as well as mutual heritage and, cultural background and shared historical ties (Embassy of Pakistan, Tehran. n.d.). The mutual bond between Iran and Pakistan evolved from geopolitical factors and economic requirements together with security-related elements. Albeit, religious and cultural bonds between the two nations at times failed to bridge their optimum partnership because of security threats as well as economic constraints alongside international sanctions (Czulda, 2023). The potential of Iran to provide energy resources to Pakistan is substantial in development of economic ties between the nations, but, US sanctions have limited Iran-Pakistan trading activities hence the Iran-Pakistan gas pipeline project remained halted (Ali, 2022). Literature review demonstrates that the public opinion of Pakistan emphasizes Iran-related ties to improve (Shah, 2023). Changes in regional factors along with China's expanding influence and Iran-Pakistan strategic partnership potential has indicated positive prospects (Yousafzai & Shah, 2022). External forces and political distrust between Pakistan and Iran hindered the relationship from reaching its maximum potential. Pakistan shifted its focus away from geopolitics towards geo-economics because international patterns demonstrate integration while economic diplomacy and globalization trends lead the way. The Pakistan's government has shifted the direction of its foreign policy towards economic priorities which integrate trade, investment support and business alliances (Jahanzaib & Khan, 2024). Through the China-Pakistan Economic Corridor (CPEC) Pakistan experienced geo-economic evolution which mirrors in all its international ties as well as its relations with Iran (Jahanzaib & Ahmed, 2024). Political barriers limit Pakistan's ability to achieve total economic development. Recent studies indicate that Pakistan needs to unite economic development and geopolitical enhancements in a balanced manner to reach its complete strategic alliance potential. Economic diplomacy in Pakistan showed increasing strength according to Jahanzaib (2025) but the cost-to-benefit distribution requires enhancement to gain better economic outcomes according to Gul et al (2021). The two states preferred economic diversification diplomacy to shape their relationships with foreign countries in a geo-economic framework according to existing scholarly research. Iran has opted her economic strategy to reduce energy dependency simultaneously while developing other economic capabilities (Nawaz, Mohsin, &

Naeem, 2024). Likewise, Pakistan to enhance its territorial benefit along with market connections in the region Pakistan has executed initiatives to draw economic opportunities (Jahanzaib & Khan, 2024). Multiple evidence exists that Pakistan and Iran evolved from geo-political toward geo-economic ties yet more research must analyze operational functions related to their bilateral relations and their operational impacts together with their limitations and potential for growth.

### **3. Theoretical Framework**

This paper evaluates diplomatic and economic ties between Pakistan and Iran through the neo-liberal lens. This part shed light on the vital components from neo-liberalist theory that serves as the foundational theory in this research paper. Neoliberalism champions free market capitalism, privatization, deregulation and a reduced role for the state in economic activities. Such economic ideas are known as the guidance for worldwide national policy making and global financial operations alongside international trade structures. Through minimal state intervention neoliberalism establishes market systems that enable maximum resource utilization and creative activities which stimulate economic growth (Bessner & Guilhot, 2015). The geo-political aspects of neo-liberalism explain the economic-driven soft aspects of power. According to Harvey (2007) complex interdependence stands as a key component of neoliberalism which describes the dynamic network of state-to-state relations and market-to-market exchanges along with non-state actor interactions. Thereby economic, political and social influences create joint dependencies that break away from established power structures while fostering collaboration yet creating openness to worldwide destabilizing forces. Through neoliberal principles International Financial Institutions (IFIs) operate both as economic channels as well as geopolitical tools for international economic cooperation and political influence. The International Monetary Fund (IMF) and Islamic Development Bank (IDB) and World Bank along with regional development banks offer financial aid and their expertise to world nations through their financial programs. Civil society organizations including Non-Government Organizations (NGOs), Multi-National Companies (MNCs) and advocacy groups have acquired stronger positions in global economic structures by delivering their attention to human rights protection while maintaining environmental safeguards and fair trade principles. These groups exercise governance influence across global economics leading to effects on both government agencies and international institutions (Keohane, 2011). Free trade and open markets together with national economic procedures that enable global capital operations have become the essential framework for economic diplomacy and international relations according to neoliberal ideas. Since its foundation by the World Trade Organization the neoliberal doctrine created region-specific trade relationships designed to lower obstacles for trade operations that resulted in international economic union. Economic diplomacy enables states to deploy neoliberal ideas which draw Foreign Direct Investments (FDIs) while forming international partnerships to achieve market competitiveness worldwide (Jahanzaib, 2024). Through the framework of neoliberalism states develop enhanced opportunities to investigate joint business ventures including Free Trade Agreements (FTAs) combined with sector-level partnerships (Harvey, 2007). The economic relations between Iran and Pakistan portrays the successful application of neoliberal theoretical analysis for the examination of their trade programs, energy initiatives and investment ambitions. The development of market systems and the minimal state intervention encouraged by neoliberalism aligns with diplomatic practices implemented by Iran and Pakistan. Under the Belt and Road Initiative (BRI) framework, in collaboration with China and other nations including Iran the Pakistani government has reinforced bilateral relations (Jahanzaib & Ahmed, 2024). The strategic partnership of these nations to construct regional economic strength fits correctly within the framework of neo-liberalism along with its geopolitical interactions between them. International platforms enable multiple countries to demonstrate their rising international alliances by generating economic partnerships and security framework collaborations within modern interconnected societies (Macdonald, 2014). Pakistan and Iran

have established a fresh diplomatic bond since 2008 which allows them to forge immediate trading relationships as well as multi-dimensional bilateral relationships. Economic market-oriented incentives allow these countries to pursue foreign investments under the framework of neoliberal principles.

#### **4. Methodology**

This research is conducted with the realms of qualitative methods examining government sources, trade agreements and diplomatic activities between Pakistan and Iran. The research utilizes statistical and economic indicator analyses on financial data and economic activities. This research utilizes Qualitative Research Methodology to study economic development patterns through document-based research of vital themes between two nations. The analysis conducts fundamental research using neoliberal economic assessment techniques that examine economic relationships and geo-political dynamics according to Moravcsik (1997). Official governmental documents from Pakistan and Iran along with their official press releases form the base of primary data have been used in this investigation. Multiple sources such as academic literature and international reports along with media news feed into the exploration of research questions within this study. Fundamental analysis of historical documents with supporting secondary evidence creates appropriate data set for capturing all important elements in Pakistan-Iran bilateral relations. The research assesses economic data by conducting observations that examine trade volumes as well as balance of trade and multiple macroeconomic indicators. The study interprets post-2008 data to clarify both geo-economic shifts away from politics and current economic barriers along with future opportunities (Ide & Mello, 2022).

#### **5. Iran-Pakistan: Geo-Economics and Geo-Politics**

This section analyzed geo-economics together with geopolitical characteristics to understand Iran-Pakistan diplomatic ties following 2008. The geographic neighborhood together with similar regional security needs allow Iran and Pakistan to benefit from their political, economic and cultural connections (Awan, 2018). Both geopolitical and geo-economic dimensions have experienced changes in bilateral relations between Pakistan and Iran. Bimodal relations received their conceptual design by integrating essential geo-economic factors which included commerce together with energy cooperation and investment (Czulda, 2023). Economic integration according to the neo-liberal approach led to decreased armed conflicts based on the analysis done. Since 2008, Pakistan-Iran relationship has seen its most important geo-economic interaction through the Iran-Pakistan gas pipeline project (Ali et al., 2022). The energy security framework of Pakistan places this project at the top of its priority list despite financial restrictions and United States-imposed sanctions on Iran (Ali, 2022). The two nations identified trading between Pakistan and Iran as their main priority to reach optimal economic levels. The overall progress demonstrated success even though it encountered many obstacles as both countries worked together toward growing their economic ties (Khan & Waseem, 2019). Following 2008, geopolitical factors between the countries led to positive interactions between Pakistan and Iran. The Iranian nuclear program established itself as the essential foundation which governing regional and global powers needed to consider. Since its inception Pakistan has presented a balanced position in all discussions pertaining to Iranian nuclear technology. The Pakistani government endorsed Iranian nuclear technology utilization for peaceful objectives but maintained continuous dialogue with Iran regarding the nuclear problems (MoFA, n.d). The principles of neo-liberalism support diplomatic approaches with full responsibility during international conflict resolutions (Harvey, 2007). Major states influenced the Pakistan-Iran relationship, in which the United States and Saudi Arabia lead particularly strongly. Iran continuously expressed concerns about Pakistani-US relations as well as Pakistan joining the Saudi Arabian alliance. The Pakistani government maintained friendly ties both with Iran and Saudi Arabia and the United States at the same time (Shah & Ismail, 2023). The complicated geopolitical dynamics led Pakistan and Iran to face challenges in creating independent foreign policies at times. Geopolitical

relations between Pakistan and Iran experienced consequences from the instabilities present in Afghanistan alongside the Middle East. The two nations have expressed their willingness to collaborate against terrorism and to stop extremist activities across the region (Shah & Ismail, 2023). The intention of Pakistan and Iran to stabilize the region provided them with another possibility for partnership. The development of shifting regional policies brought ongoing complications to the evolving diplomatic relations between Pakistan and Iran. Because of the involvement in the Yemen conflict, Iran and Saudi Arabia escalated their rivalry and this power struggle created additional tension for Pakistan to choose between the two sides (Khan & Sajjad, 2023). Albeit, through Muslim-cooperation Pakistan has functioned as a proactive agent which seeks diplomatically acceptable solutions for regional problems (Ali & Ahmad, 2021). The proposed peace strategy demonstrates neo-liberal principles because it favors diplomatic approaches and multilateral solutions for conflict resolution (Harvey, 2007). The increased importance of Iran inside CPEC established new networks for regional connectivity and commercial interactions (Jahanzaib & Ahmed, 2024). According to neo-liberalism, economic interconnectedness has provided Pakistan and Iran with an exclusive chance to advance their regional economic collaboration (Keohane & Nye, 2011). Later, section will portray more evidence of this geo-economic prioritization. Since 2008, Pakistan-Iran relations have been influenced by complex geo-economics and geopolitical forces that linked them through an interconnected network. The pursuit of economic development between Pakistan and Iran experienced intermittent interference when important geopolitical decisions and the influence of powerful nations became significant factors. Neo-liberals state economic stability along with consistent diplomatic relations form the cornerstones that sustain enduring cooperation and stability. Regional developments brought opportunities to Pakistan-Iran relations but also created various points of concern. Both Pakistan and Iran made efforts toward geo-economic collaboration since 2008.

## **6. Impact of Geo-Economic Re-orientation**

The mutual relationship between Iran and Pakistan investigated their evolving geo-strategic and economic dynamics similar to other nations that show a shift toward geo-economic priorities. The two countries maintain their economic partnership with ongoing development even through periods of political discord and random disruptions (Keohane & Nye, 2011). The bilateral relationship between Pakistan and Iran existed mainly through their trading activities where \$2 billion dollars in trade took place in 2022 (Khan, 2023). Iran and its trading partners maintain continuous business activities particularly agricultural goods along with textiles and pharmaceuticals despite her sanctioned markets (ibid). The history of Pakistan-Iran economic relations saw its first expressed trade exceeding \$2 billion during a meeting which took place at the Ministry of Economic Affairs in 2023 between Ambassador of the Islamic Republic of Iran to Pakistan, Syed Mohammad Ali Hosseini and Federal Minister for Economic Affairs, Sardar Ayaz Sadiq. During the farewell meeting the ambassador praised the economic achievement of Ministry of Economic Affairs at the 21st Pakistan-Iran Joint Economic Commission (JEC) session. The ambassador noted that Pakistan and Iran had almost completed their negotiations about transportation, customs and commerce procedures which would be finalized soon (Recorder Report, 2023). Trade activities under the Joint Comprehensive Plan of Action (JCPOA) create potential solutions for Balochistan and Afghanistan and CPEC problems (MoFA, n.d.-a). As witnessed in April 2024, Iran's President Ebrahim Raisi and Pakistan's Prime Minister Shehbaz Sharif pledged to set an annual trade target of \$10 billion which they wanted to reach within five years according to Reuters (2024). Both governments agreed to accelerate the FTA implementation process and schedule the upcoming meetings of Annual Bilateral Political Consultations (BPC) together with Joint Business Trade Committee (JBTC) and Joint Economic Commission (JEC) 22nd Round Negotiations (MoFA, 2024-a). The two countries made understanding to let economic and technical specialists and Chambers of Commerce delegations' to enhance cooperation in order to boost their economic relations (MoFA,

n.d.-a). The value of Iranian imports bound for Pakistan rose above \$1 billion during the financial year of 2024 while demonstrating an 18% growth compared to 2023 data. The major factors behind Pakistan's increasing economic relationship with Iran stem from energy and petroleum imports in spite of regional tensions (ProPK Staff, 2024). Moreover, an international border crossing status has been instituted at the 'Reemdan border point' according to their agreement which would enable operations of the remaining two border sustenance markets (MoFA, 2024-a). These markets serve to legalize trade while reducing smuggling practices which increases border region economic development (MoFA, n.d.-a). The local economies benefit substantially from this initiative while strengthening economic ties in a practical way between the two nations. All this evidence strongly supports the shift toward geo-economics within the framework of neoliberalism. Eight Memorandums of Understanding which Pakistan and Iran signed represented their commitment to boost comprehensive bilateral cooperation (Syed 2024). Economic ties between Pakistan and Iran thrived because both countries had resilient private sector interests which supported these active exchanges (Robinson, 2023). The participating members understood that the Shanghai Cooperation Organization (SCO) served a vital role in securing and developing the region while it presented opportunities for economic gains and connectivity development. The countries showed satisfaction with their SCO collaboration programs and stated their priority to restore the SCO-Afghanistan Contact Group. The economic potential of the Economic Cooperation Organization (ECO) region led to calls for active cooperation between all members of the organization. The members held that SCO-ECO joint efforts would create major improvements for regional development and advancement. (MoFA, 2024-a). These major events disseminated support for the shift to geo-economics while demonstrating regional opportunities to progress and develop through neo-liberal doctrines (Keohane & Nye, 2011). International bodies have exerted significant impact on the growth patterns between Pakistan and Iran. Several countries including Pakistan have to navigate the impact of the International Monetary Fund on Iran because IMF requirements often involve backing Iran sanctions (Ali, 2022). The Iran-Pakistan (IP) gas pipeline project served as an imperative example of geo-economic cooperation because it has been revived to provide Pakistan with daily gas volumes totaling 21.5 million cubic meters. Pakistan would benefit from filling its energy gap through this pipeline which demonstrates why economics matters in determining foreign policy decisions (Subohi, 2024). The completion of this project will advance geo-economic relations together with intensified economic integration. Geo-political elements also contribute for evaluation of holistic oversight and cannot be disregarded completely at all. The partnership between Iran and Pakistan faced various complications because Iran has regional influence goals while Saudi Arabia (a Pakistan ally) remained alienated state and non-State actors challenge the relationship (Siddiq, 2023). U.S. sanctions against Iran limited the economic potential of the two countries by preventing the completion of IP gas pipeline project (Singh & Lewis, 2024). Pakistan and Iran benefitted from geo-economic prioritization which favor their partnership progress through joint ventures mainly through trade and energy sectors. Through the neo-liberal analysis the study highlighted how economic relationships and cooperation function as stability factors between these two countries. The political disputes demonstrate that geopolitical and economic factors produced intricate relationships which require a thorough approach to practical foreign policy strategies.

## **7. Imperatives, Constraints and Potentials**

The bond between Pakistan and Iran has gone through various historical commitments and regional strategic dynamics along with potential economic opportunities. Both states experienced cooperation together with conflicts along their border as they serve as neighboring countries (Czulda, 2023). By applying the neo-liberal framework this section better grasp these relationships because they demonstrate cooperative possibilities and common norms as well as openings for multilateral partnerships (Keohane & Nye, 2011). The imperative for Pakistan to integrate Iran into its foreign policy

structure is essential due to multiple compelling grounds. The reasons, Iran is located in a nearby position to Pakistan it becomes essential to work together for maintaining stable regional security measures (Neighbors can never be changed). The need for energy supply requires Pakistan to sustain diplomatic relations with Iran because it represents one of its key energy providers (Ali, 2022). Most Pakistani public and particularly, a large Shia population in Pakistan requires peaceful relations with Iran because Iran is a major Shia state to maintain domestic stability (Khan & Sajjad, 2023). Despite the imperatives, several constraints impede Pakistan's optimal engagement with Iran. The ongoing U.S.-Iran tension proves to be a major obstacle that requires Pakistan to establish equilibrium in its dual diplomatic relations (Kumar, 2008). The Pakistani support of Saudi Arabia has created difficulties within its relations with Iran since both countries function as regional adversaries (Khan & Sajjad, 2023). The continued presence of security obstacles such as militant operations alongside drug trafficking activities creates ongoing barriers between Pakistan and Iran (Fair, 2014). Likewise, Iran and India growing relationship also acts as a major competition for taking ideal benefits for Pakistan. Pakistan has multiple avenues and potentials for mutual advantage with Iran in their diplomatic relations. The operationalization of the Iran-Pakistan gas pipeline will create major positive impacts on the resolution of Pakistan's energy problems (Ali, 2022). Enhanced trade opportunities exist between these two countries because Iran holds valuable natural resources while Pakistan develops its markets. The establishment of a stable Iran-Pakistan relationship will serve as a foundation for regional peace which Pakistan needs for its security development (Khan & Waseem, 2019). China's and Russia's expanding influence and the potential for multilateral economic collaboration can be utilized optimally for better relations of Iran and Pakistan. Pakistan should progress in its geopolitical and geo-economic relationship with Iran through handling limitations while seizing advantageous opportunities to achieve national priorities. The neo-liberal paradigm suggests specific approaches that Pakistan and Iran can apply to strengthen their bilateral ties through joint work and mutual principles and multilateral cooperation (Harvey, 2007). Geopolitical realms require increased diplomatic exchange for promoting better outcomes. The problems of terrorism and regional security represent mutual concerns between the two nations which can establish a foundation for productive talks according to Karim (2023). When political adversaries relax their restrictions diplomatic partners can initiate multiple diplomatic levels that advance mutual peaceful living and work together towards these goals. The historical relationships between Pakistan and Iran alongside their shared cultural and religious ties could be strengthened through cultural diplomacy according to Awan (2018). The geo-economic area offers significant possibilities for trade and investments. While there is potential for trade between Pakistan and Iran, historically, trade has been negligible. This is mainly due to economic sanctions placed on Iran (Wasi, 2023). There is a need for both countries to try and look for trade opportunities under the framework of Preferential Trade Agreement and the ECO objectives (MoCom, n.d.). The IP scenario is a critical case of the potential within the energy area (Subohi, 2024). In addition, enhancing the infrastructure at the borders coupled with increasing the level of interconnectivity can also strengthen economic relations between the two countries. The dynamics of the Iranian and Pakistani relations could indeed be considered a real world test of the neo-liberal theory with particular focus on complex interdependence (Keohane & Nye, 2011). While the framework explains that boosting neo-liberal ideas would be more helpful for nurturing a positive and beneficial relationship, external geopolitical factors at times have obstructed norms of cooperation, collective action and bilateralism (Khan & Sajjad, 2023). To manage this profoundly dense geopolitical and geo-economic landscape between Pakistan and Iran and with other powers, careful trade-offs will have to be made on interests and goals.

## **9. Conclusions**

The evolution of Pakistan-Iran relations from a predominantly geopolitical framework to a geo-economic orientation reflects broader global and regional trends. While both countries share deep

historical, cultural and religious ties, their bilateral relationship has been shaped by a complex interplay of strategic interests, security concerns and economic opportunities. Since 2008, Pakistan has increasingly prioritized geo-economics in its foreign policy, aligning with global neoliberal economic trends that emphasize trade, investment, and regional connectivity. Economic cooperation, particularly in energy trade and infrastructure development has emerged as a significant driver of bilateral engagement. The Iran-Pakistan gas pipeline remains a focal point of their economic partnership, though external factors such as U.S. sanctions and financial constraints have delayed its full implementation. Despite these challenges, both nations have taken steps to enhance trade, with bilateral trade volume surpassing \$2 billion in 2022 and ambitious plans to reach \$10 billion in the coming years. The establishment of border markets and the expansion of trade agreements highlight a growing commitment to economic diplomacy. However, geopolitical constraints continue to influence the relationship. Pakistan's strategic ties with Saudi Arabia and the United States, coupled with Iran's regional ambitions with India, have at times created diplomatic friction. Security concerns, particularly in border regions, also pose challenges to deeper economic integration. Nonetheless, both countries recognize the need for a stable and cooperative relationship, particularly in light of shifting regional dynamics, China's and Russia's expanding influence and the potential for multilateral economic collaboration. Moving forward, Pakistan and Iran must adopt a balanced approach that harmonizes their economic interests with geopolitical realities. Strengthening economic diplomacy, fostering regional connectivity and mitigating external pressures will be crucial in unlocking the full potential of their partnership. A pragmatic and cooperative engagement, guided by neoliberal economic principles, can ensure long-term stability and mutual prosperity.

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