The Shahid Javed Burki Institute of Public Policy at NetSol - Lahore - BIPP

Policy Brief # PB-109-2026

August 12th, 2026

How Can Pakistan Sustain the Dividends It Gained from the Mediation Between the United States and Iran?

Maryam Awan

Research Intern

How Can Pakistan Sustain the Dividends It Gained from the Mediation Between the United States and Iran?

by

Maryam Awan

Introduction

For over more than four decades the relation between Iran and United States have been hostile. Since the hostage crises of 1979 and the emergence of an anti-American regime in Iran, this relation is followed by a series of sanctions, and political mistrust. Beyond this, disagreements over Iran' nuclear programme, regional influence, and security issues have kept the two countries at odds. Pakistan, however, has made diplomatic ties with both the United States and Iran. The United States have long been an economic and security partner of Pakistan, while Iran is Pakistan' immediate neighbour, sharing religious, economic, and cultural ties.

Pakistan's ability to bridge between these two rival states has brought Pakistan at the cusp of economic and diplomatic transformation. In the recent escalation between Iran and United States, Pakistan has played the role of a mediator, enhancing its diplomatic image, increasing its regional importance, and create opportunities to strengthen relations with both sides. The real challenge now is how Pakistan will sustain these diplomatic dividends and translate them into long term political, economic, and strategic benefits.

Several analysts have compared the current situation of Pakistan to post-9/11, where Pakistan received similar advantages but it was unable to sustain them. The reason behind that was Pakistan's deep-rooted structural problems including a narrow tax base, weak exports, and chronic current account pressures. But, one crucial difference between these two is; that moment came at the start of a long ruinous war in which

Pakistan had to play a frontline role, while this time Pakistan is playing the role of a diplomat. That distinction means Pakistan's leverage this time comes from being useful to multiple sides simultaneously.

Although, Pakistan brought both Iran and US to sign an agreement which is not a peace treaty, it is an interim framework with a 60-day window to negotiate sanction relief, nuclear restrictions, and regional security, the real significance of this moment for Pakistan goes beyond the agreement itself. It lies in what this brief identifies as three aspects: a geopolitical aspect, where Pakistan has positioned itself as a trusted channel between two countries with great animosity rather than being a problem that needs to be solved; a geostrategic aspect, where its strategic location and infrastructure potential through Gwadar and CPEC could translate into long term regional relevance; and a geo-economic aspect, where Pakistan has an opportunities related to trade, investment, and energy which it can avail to its benefit if it chooses to pursue them.

This policy brief discusses the problems that are being faced by Pakistan and how can it solve these problems to sustain the benefits it gained from this mediation. Additionally, it also highlights how Pakistan can use this opportunity for peace and economic growth rather that use this use this diplomatic success for International Monetary Fund (IMF) loans and bailouts.

Potential Gains

Beyond the immediate diplomatic success, Pakistan's mediation carries great significance that can extend into regional relationships, long term strategic positioning, and economic opportunity. Given the current situation, it seems that Pakistan can secure more regional dividends than economic concessions. For instance, sanction relief on Iran can reopen trade between Pakistan and Iran, especially along the Baluchistan border. Both the countries share an approximately 909km long border and the sanction reliefs could facilitate the completion of the Iran-Pakistan Gas pipeline that has long been stalled.

Pakistan's geography can also play an important role in in regional connectivity. The Gwadar port sits at the interjection of maritime and overland corridors, which is close to Iran's Southeast region. This advantage can result in the natural opening of Iranian trade, logistics, and warehouse. Another positive outcome can be achieved through China Pakistan Economic Corridor (CPEC), as it could extend westward into Iran.

CPEC could open up economically through energy exchange, logistics hubs, and industrial processing linking Pakistan, Iran, and Central Asia.

However, Pakistan did not enter in this conflict out of altruism, it had its own reasons. A regional war would have affected Pakistan's security environment and economic stability. The security dividends will most likely reduce pressure on Pakistan's western frontiers, decrease the likelihood of regional instability, and lessen the prospects of energy disruptions that can lead to an economic crisis. Particularly, seen in the recent closure of Strait of Hormuz, which pushed the country into taking austerity measures.

This conflict also disrupted a commercial relationship between Iran and UAE particularly Dubai, which was Iran's principle commercial gateway to international markets. The restrictions imposed by UAE on Iranian business and banks operating on its territory has given Pakistan an opportunity to form trade relations with Iran.

Pakistan's meteoric rise as a mediator is a combination of necessity and structural constraints as Pakistan is highly vulnerable to any escalation between Iran and United States. Alongside these Iran facing gains, Pakistan's mediation has also opened a separate set of opportunities with the United States as well. Pakistan has especially pushed for cooperation in three sectors; cryptocurrency, counterterrorism, and critical measures. These are often referred as the 3'Cs. Beyond the 3C's some analyst note that Pakistan's peacemaker status could help it secure defense related cooperation with US and Gulf states, which value stability and are more willing to fund a partner that has proven useful in de-escalating regional crises. This type of security partnership matters to Pakistan, particularly given its ongoing rivalry with India.

Moreover, these dividends also involve attracting investment into people, infrastructure, technology, and future growth sectors. This has also resulted in a perception shift as Pakistan is no longer seen as a problem to be managed but as channel through which a problem could be addressed.

Constraints and Vulnerabilities

While the previous section outlined what Pakistan can potentially gain, these potential dividends face several risks that could prevent them from being realized or sustained. Pakistan's history with moments of external leverage suggest that such opportunities are as durable as the structural and institutional foundations behind them. In the current situation a vulnerability is Pakistan's inability to gain enough leverage to pressure both the sides into concessions. To some extent Pakistan has been successful in bringing both the states on the same page, but the entrenched mistrust between the two countries is too great to be overcome through mere third-party negotiations.

Since the onset of the conflict, Pakistan's military establishment has taken the lead it conducting these negotiations. This centrality highlights a deeper institutional problem, which can lead to the militarization of foreign policy and erosion of civilian democratic control over strategic decisions. This mediation rest on a personal relationship between American president Donald Trump and Pakistan's Field Marshal, but Trump's presidency is a fixed time window. Once his tenure is over, this personal relationship will dissolve alongside the potential dividends. Personal relationship diplomacy skips internal review, civilian scrutiny, and democratic accountability. This possesses a substantial hurdle in sustaining the dividends.

Another primary constraint is whether the economic gains actually reach Baluchistan. It is directly relevant because Baluchistan sits on the exact route of Iran-Pakistan gas pipeline. The province most likely to benefit on paper is also the one that has historically been left out on similar projects such as CPEC and Gwadar. If the current situation follows the same pattern as investment and trade flowing through Baluchistan's geography but not into Baluchistan's economy, it doesn't just fail to help the region, it actively deepens the sense of exclusion that already fuels unrest there. This success depends on deliberate policy choices, not just geography.

Finally, it is important to recognize that Pakistan's default response to any external opportunity has historically been to convert it into more borrowing rather than structural reforms, and it's currently in its 25^{th} IMF programme, a track record that shows this isn't a one-time issue but a repeating pattern, this can undermine the long-term impact of dividends. Taken together, these risks show that Pakistan's mediation has created an opportunity, not a guarantee. The fragility of ceasefire, the reliance of personal relationships, and Pakistan's long standing structural shortcomings all point to the same underlying problem that dividends are not sustained automatically, they have to be proactively secured.

Policy Recommendations

The challenges above are not inevitable, each can be addressed through specific, actionable steps. Pakistan should resist short term financial concessions and seek productivity-based support instead. The post- 9/11 experience shows that quick financial relief, aid loans, and debt rescheduling doesn't fix the underlying problem that caused the dividends to disappear it the first half. So, instead of repeating this pattern Pakistan should negotiate for things that build long term capacity such as, academic exchange and scholarships, preferential market access for textiles and IT services, technology transfer, and green investment frameworks. However, this recommendation has its limitations. In the past, Pakistan's government have preferred quick financial assistance because of urgent fiscal needs. Therefore, this approach can only succeed if there is strong political commitment to prioritize long term economic reforms over short term financial relief.

Furthermore, Pakistan must not convert diplomatic success into more IMF loans and should diversify its trade and energy partnerships instead. Energy cooperation with Iran and deeper trade, technology, and investment ties with gulf states and turkey can be of great opportunity for Pakistan rather than negotiating a 26th IMF programme. This is more achievable than it sounds, but the real risk is that any of these relationships could be disrupted again if the ceasefire fully collapses. This recommendation can only be accomplished if the US-Iran framework survives.

Domestically, Pakistan must address social inequality, especially in sensitive regions such as Baluchistan. Directing a specific, trackable share of investment into local infrastructure, education, and employment turns a passive trade corridor into an actual regional benefit. The credibility of this recommendation depends entirely on whether Pakistan build in transparent tracking mechanisms, not just another announcement of intent.

There's also a need to build a parliamentary oversight into major diplomatic and investment issue. If the military remain the sole driver of foreign policy and economic diplomacy, the gains will remain fragile and unaccountable. A parliamentary committee empowered to review major agreements would create institutional continuity that survives changes in military leadership. But, military's involvement in foreign policy is not incidental, instead it is structural and long standing in Pakistan. This is a long term, aspirational reform rather than something achievable in the next year or two.

Much of the current diplomatic progress depends on the personal rapport. However, personal relationships are temporary and they do not automatically transfer goodwill associated to one leader to future administrations. To preserve these diplomatic gains, Pakistan must seek to formalize important understandings through written agreements and other institutional agreements. This would ensure that cooperation continues beyond individual leaders. However, these recommendations alone cannot guarantee success, but together they can help Pakistan in sustaining the opportunities and plan them in a strategic way.

The long-term success of Pakistan's mediation effort will depend not only on its role in facilitating dialogue between US and Iran, but also on how effectively it will implement these recommendations. If Pakistan follows through with consistent policies and strong political commitment, it can convert its current diplomatic gains into lasting economic and strategic benefits.

Conclusion

Pakistan's mediation between United States and Iran has created a genuine diplomatic opening, one that carries geopolitical, geostrategic, and geo-economic significance. Pakistan has repositioned from a country that was seen as a problem to be managed into one seen as a channel through which problems can be addressed. This has opened possibilities ranging from Iran border trade to cooperation with America on the 3C's. Yet, as recent events have shown, this opportunity remains fragile. The interim framework was never a peace treaty, and the collapse of the ceasefire in July 2026 confirms the risks that this brief identified.

A similar situation was faced by Pakistan at the time of 9\11, alignment with United States produced real economic benefits that were ultimately lost to structural weaknesses that were never fixed. The danger is not that Pakistan will fail to secure a diplomatic opportunity, but it will repeat the same pattern of letting that opportunity slip away. To make the best out of these dividends, Pakistan must ensure that short-term financial relief is resisted in favor of long-term productivity, the gains must be allowed to reach the neglected regions like Baluchistan, civilian institutions are brought into decisions currently dominated by military, and personal diplomatic ties must be converted into lasting institutional agreements before they expire.

Ultimately, this brief argues that Pakistan's dividends from this mediation are not something it can simply hold on. It is something that must be actively built, protected, and reinforced through deliberate policy choices in the months and years to come ahead. The mediation created an opportunity. What Pakistan does next will determine whether it becomes a lasting achievement or another missed opportunity.

Bibliography

Al Jazeera. (2026, May 18). Pakistan's mediation faces limits as Iran-US tensions deepen. Al Jazeera. https://www.aljazeera.com/news/2026/5/18/pakistans-mediation-faces-limits-as-iran-us-tensions-deepen

Al Jazeera. (2026, June 24). What does Pakistan stand to gain from helping broker the US-Iran deal? Al Jazeera. https://www.aljazeera.com/news/2026/6/24/what-does-pakistan-stand-to-gain-from-helping-broker-the-us-iran-deal

Chatham House. (2026, April 21). What does Pakistan gain from its Iran–US diplomacy? Chatham House. https://www.chathamhouse.org/2026/04/what-does-pakistan-gain-its-iran-us-diplomacy

Christian Science Monitor. (2026, June 12). As US-Iran deal inches closer, what has playing mediator cost Pakistan? CSMonitor.com. https://www.csmonitor.com/World/Asia-South-Central/2026/0612/As-US-Iran-deal-inches-closer-what-has-playing-mediator-cost-Pakistan

Dawn. (2026, June 20). Pakistan successfully brokered peace between the US and Iran. Can it now reap the dividend? DAWN.COM. https://www.dawn.com/news/2009462/pakistan-successfully-brokered-peace-between-the-us-and-iran-can-it-now-reap-the-dividend

Geo News. (2026, June). Pakistan has opportunity to gain economic dividend from US-Iran mediation: Analysts. Geo.tv. https://www.geo.tv/latest/670039-pakistan-has-opportunity-to-gain-economic-dividend-from-us-iran-mediation-analysts

Hussain, S. (2026). Economic and business opportunities in Asia and the Gulf after a Pakistan-mediated U.S.–Iran ceasefire. Dialogue Social Science Review, 4(4), 67–79. https://dialoguesreview.com/index.php/2/article/download/1604/1531/4593

Khan, S. (2026, June 23). Can Pakistan turn its Iran peace role into an economic dividend? Modern Diplomacy. https://moderndiplomacy.eu/2026/06/23/can-pakistan-turn-its-iran-peace-role-into-an-economic-dividend/

Stimson Center. (2026, April 28). The motives and constraints behind Pakistan's mediation between the US and Iran. Stimson Center. https://www.stimson.org/2026/the-motives-and-constraints-behind-pakistans-mediation-between-the-us-and-iran/

The Express Tribune. (2026, June). Can Pakistan's peacekeeping role in Iran war give it an economic dividend? The Express Tribune. https://tribune.com.pk/story/2614705/can-pakistans-peacekeeping-role-in-iran-war-give-it-an-economic-dividend