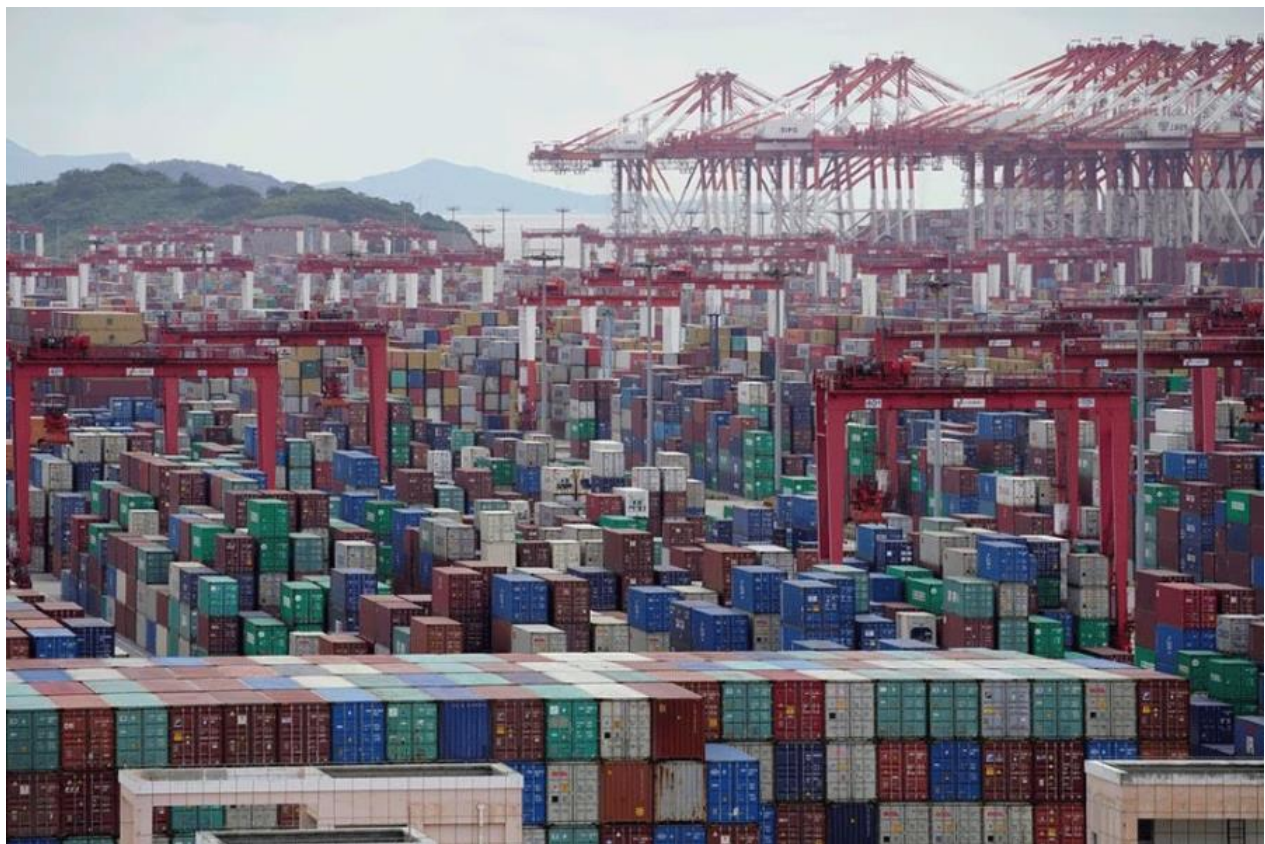


# **New trade order: aligning policy with geopolitical realities**

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Uzma Zia | 19<sup>th</sup> June, 2025



**The global landscape of goods trade is currently undergoing a significant transformation. The established flows of commerce are being reshaped by economic, political, and technological forces. Since 2000s, this change and global trade imbalances have become more prominent.**

Four key metrics now define this shifting landscape: trade intensity, geographic distance, import concentration, and a newly prominent factor “geopolitical distance”. Together, these indicators reveal how deeply the global trade map is being redrawn and why developing countries like Pakistan must adapt urgently.

### **The new coordinates of global trade**

Trade Intensity remained a key indicator of globalization but is no longer that effective. Although trade continues to grow in volume, its share relative to GDP has stagnated in many regions. Countries are focusing more on domestic value addition, digital services, and sustainability over absolute trade volumes.

Geographic Distance seemed to matter less in an interconnected world but now is reasserting its relevance. As countries seek to shorten supply chains in response to disruptions like the COVID-19 pandemic and the Russia-Ukraine war, proximity is gaining importance. Nearshoring and regional production hubs are becoming more attractive than distant low-cost manufacturing.

Import Concentration is now seen as a vulnerability. Reliance on a few countries for critical goods (e.g., semiconductors, energy, or pharmaceutical) can quickly turn into a strategic liability in times of crisis. Many countries are diversifying supply sources to build resilience.

Geopolitical Distance is a novel and powerful concept in today’s world. Countries are strategizing and recalibrating trade ties based not only on cost and efficiency but also on political trust. The US-China decoupling, Trump’s tariffs, sanctions regimes, and realignment of global blocs are the evidence that trade is shaped by diplomacy not by demand.

## **A realignment in process**

Global trade is in process of realigning. According to the World Bank, global trade observed at 61% of world GDP in 2008 but then declined to 52% by 2023, indicating a shift toward domestic resilience and services. Cross-border B2C e-commerce reached \$2.5 trillion by 2025, growing at a CAGR of 27%, driven by e-platforms (Alibaba, Amazon).

A survey by McKinsey found that 67% of global manufacturers are planning to relocate their supply chains closer to home (nearshoring). Likewise, the presence of RCEP agreement (with 30.5% share of global GDP) in Asia-Pacific countries, expansion of South-South trade, the rise of digital platforms, and the growth of services trade are all driving a new kind of globalization.

E-commerce has blurred physical boundaries, and countries are increasingly forming regional blocs to mitigate global uncertainties. The global trade order is becoming more fragmented but also more diversified. During 2017 and 2023, US imports from China deteriorated (20 percent) while US imports from Vietnam and Mexico surged (30 percent), reflecting supply chain shifts.

Amid this change, resilience and adaptability have become the bases of successful trade strategies. While developed economies focus on strategic autonomy, emerging economies must watch rising protectionism, changing consumer preferences, and digital transformation.

## **Strategic directions for Pakistan in a shifting landscape**

For Pakistan, being a developing country, the stakes are high. As a trade-dependent economy with limited fiscal space and a narrow export base, adapting to global shifts is essential.

Despite globalization and adopting liberalization policies, Pakistan's top 5 export destinations account for over 60% of total exports, showing a lack of diversification (PBS, 2023<sup>1</sup>, URAAN, 2024<sup>2</sup>).

Moreover, Pakistan's intraregional trade within South Asia covers only 5 per cent of the region's total trade and makes it the least economically integrated country within the region (Qaisar. S, 2023)<sup>3</sup>. In new trade order, Vietnam has emerged as a top alternative to China for US imports, Bangladesh's and India's economies are expanding while Pakistan's export diversification remains limited. Hence, new strategic directions are direly needed. The moment calls for vision and significant action. Here's how Pakistan can respond:

### **Strategic alignment with global trends**

Pakistan's trade policy must be forward-looking and aligned with global developments. This means understanding shifting geopolitical alliances, embracing digital trade, and integrating climate considerations. A trade strategy informed by data and international benchmarks is needed.

### **Build resilience and shock absorbing policy**

Pakistan must develop a trade framework that can withstand shocks (pandemics, wars, or climate events). This requires improved coordination between government ministries, the private sector, and research institutions to ensure rapid policy response and long-term resilience.

### **Diversify exports**

Pakistan must move beyond low-value exports like raw textiles. Promising sectors include IT services & other services, agri-processed goods, and high-end textile products. Equally important is branding and then exploring new markets in Africa, Central Asia, and the Middle East, rather than relying solely on traditional partners like the US and EU. Logistical inefficiencies and regulatory hurdles cost Pakistan billions in trade.

Urgent investments in port infrastructure, customs automation, regulatory reforms and implementation of URAAN initiative will be essential.

### **Strengthen institutions and regional integration**

A strong institutional framework is important for managing trade policy. Pakistan should also deepen ties with regional blocs such as SCO, and the GCC, which offer significant trade and investment potential. Bilateral and multilateral engagement can open new avenues for development.

### **Gripping the digital economy & maintaining sovereignty**

Pakistan must encourage and enable SMEs to use e-commerce platforms for global outreach while ensuring data protection and compliance with global digital trade standards. Digital infrastructure development should be prioritized under the national trade strategy and laws should be made to maintain country's sovereignty.

***In a nutshell, the global trade order is evolving and Pakistan stands at a crossroads. The country must embrace innovation, integration, and reform. With the right mix of strategy and execution, Pakistan has the potential to adapt to the new geometry of trade and connect with new coordinates of global trade.***

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