

# The Middle East Crisis Impact on Pakistan's Trade



Author

- — **Dr. Syed Hasanat Shah**  
Professor of Economics, PIDE
- — **Wajid Islam**  
Research Economist, PIDE

## EXECUTIVE SUMMARY

The ongoing confrontation between the US-Israel and Iran in the Mideast has evolved from a regional political dispute into a global economic crisis. The conflict has destabilized the Mideast and thus has disrupted Pakistan direct and indirect trade to the GCC countries and other regions. The crisis threatened Pakistan external sector and can potentially decrease Pakistan direct export to the GCC countries by \$1.5 to \$2 billion depending on the closure of the Strait of Hormuz while decline in Pakistan imports from the GCC countries, predominantly energy, could drop by \$3 billion. The latter could destabilize Pakistan local production and global exports. At the same time, high energy prices will increase Pakistan import bill by \$4.5 billion and will increase Pakistan current account deficit and external debt. The crisis could also worsen Pakistan's balance of payments position by reducing export earnings and remittance inflows and thus the pressure on reserves could once again become unsustainable. Furthermore, the border trade situation with neighboring countries is already strained, and the ongoing war in the Middle East will decrease Pakistan border trade with Iran. Higher oil prices also imply a return to double-digit inflation, reversing the stabilization achieved during FY25. To mitigate these risks and maintain robust energy supply, the study suggest that Pakistan must reroute oil imports to Yanbu port in the Red Sea. Pakistan also needs to diversify oil imports and should leverage CPEC 2.0 to as a robust alternate trade market. These measures are important to absorb external shocks. This crisis is a test case for producers in rapidly changing global landscape; where the survival will count more on competitiveness, innovation and efficiency rather than on external support.

## Crisis at the Strait: The Impact of Middle East Instability on Pakistan's Trade

### The Economic Shock

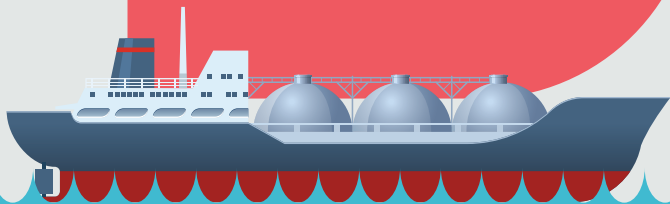
#### \$2 Billion Export Risk

Long-term closure of the Strait of Hormuz could plunge GCC exports by \$2 billion.

Critical Energy Vulnerability

**81.6%**

of Pakistan's energy imports transit through the volatile Strait of Hormuz.



**21 Days**

Strategic Oil Reserve  
(Leaves Pakistan far more exposed).

Pakistan



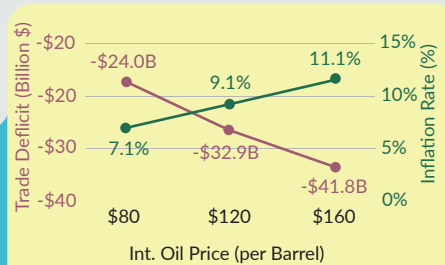
**230 Days**

Strategic Oil Reserve.

China

### Rising Global Oil Prices & Trade Impact

Demonstrates how rising global oil prices directly worsen Pakistan's trade deficit and inflation.



### Strategic Mitigation & Resilience



#### Reroute to Yanbu Port

Transition oil imports to the Red Sea to bypass the Hormuz flash-point.



#### Leverage CPEC 2.0

Use the corridor to diversify trade routes toward China and Central Asia.



#### Diversify Energy Sources

Shift toward indigenous renewables and alternate oil suppliers like Russia and Nigeria.

## 1. Introduction

The closure of significant trade routes and sudden rise in the energy prices has turned the US-Israel-Iran conflict in the Middle East into a global economic crisis. The ongoing war in the Middle East has not only halted international trade in the Gulf region but it also disrupted the global energy supply chain. Therefore, we consider that the crisis will adversely and disproportionately affect countries like Pakistan. The crisis has potential to compound external sector disconcerts of developing countries if it lasts longer.

Literature on trade and development suggests that international trade plays a significant role in promoting growth and development by increasing allocation efficiency and by providing consumers with greater choice<sup>1</sup> (Elliot, 2009). International trade also facilitates development by encouraging foreign investment and by helping technology transfer (Shah et al., 2022) and thus it paves a way for rapid economic development (Dollar and Kraay, 2004; Rodrik, 2001; Shahid and Amna, 2023). Policy maker in Pakistan employed international trade as a mean to achieve the end goal of development but a number of factors such as economic instability, expensive energy, lack of skilled labor, poor governance and policy inconsistency did not allow the country to fully reap the benefits of international trade. Therefore, these structural vulnerabilities exposed Pakistan trade to external shocks on a number of occasions such as in 2008 demand driven energy crisis and in Covid-19 led supply chain disruption. The current Middle East crisis is an addition to the long list of external shocks and it is going to test Pakistan external sector on many fronts.

US and Israel attacked Iran on February 28, 2026 and in response, Iran attacked Israel and the US bases in the UAE, Bahrain, Qatar and in Saudi Arabia. Iran also closed the Strait of Hormuz to pressurize the US and her allies and thus choked 20 percent of the global energy supply and a significant portion of merchandise trade. Currently, Pakistan trade heavily relies on the Middle East. Therefore, the Strait closure brought Pakistan export to the GCC (Gulf Cooperation Council) countries to a standstill and her imports, especially of oil and LNG, sharply declined.

In the last few decades, Pakistan trade increased but not in a balanced manner. Pakistan imports registered strong growth and reached to \$60 billion in 2025 while Pakistan exports remained lackluster and hovered around \$32 billion at the same period of time. As a result, Pakistan trade deficit increased and it became unmanageable. The ongoing crisis can put pressure on Pakistan trade deficit and can distort her external sector balances. Therefore, this study tries to understand how the crisis in the Middle East is going to affect Pakistan's trade and external sector and what measures Pakistan needs to take in order to curtail the adverse impact of the crisis on Pakistan export, import and trade deficit.

## 2. Nature and Structure of Pakistan Trade

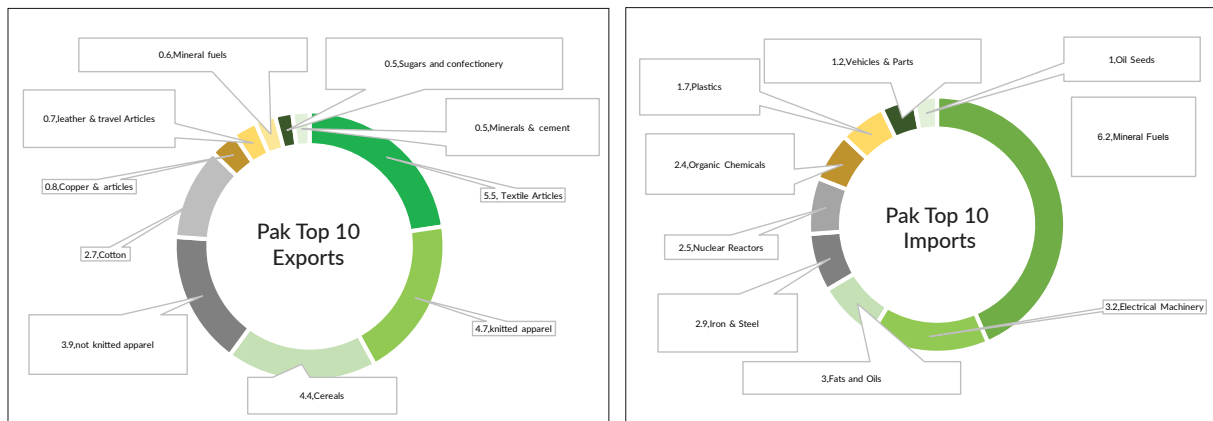
To understand Pakistan's international trade, one must look at its struggle between a rigid import structure (dominated by energy and electronic equipment) and a narrow export base (dominated by textiles and agri products). Pakistan exports diversity is low and its elasticity is high while Pakistan imports are relatively diverse and inelastic in nature. Despite a number of efforts, such as a shift from 'Import Substitution' to 'Export-Led Growth', Pakistan exports still struggle with a weak base, where 90% of export goes to the US and the EU, China, the UAE and Saudi Arabia. Pakistan global merchandise exports share is 0.14 percent compared to 1.8 percent in Vietnam and 0.22% in Bangladesh. Pakistan, the fifth most populous country in the

---

1.<https://www.imf.org/en/publications/fandd/issues/series/back-to-basics/trade>

world, stands at 67th position in terms of global export share. On the other hand, Pakistan ranks 51st in terms of global import share (OECD, 2026). Pakistan import profile remains heavily skewed toward energy, electric equipment and industrial inputs. Though energy accounts 31.5 percent of Pakistan import bill, but it is the most crucial and sensitive item on the import list. Pakistan is energy scarce country; hence energy prices and supply can make or break its economy. Pakistan imports around 81.6 percent energy from the Middle East through the Strait of Hormuz.

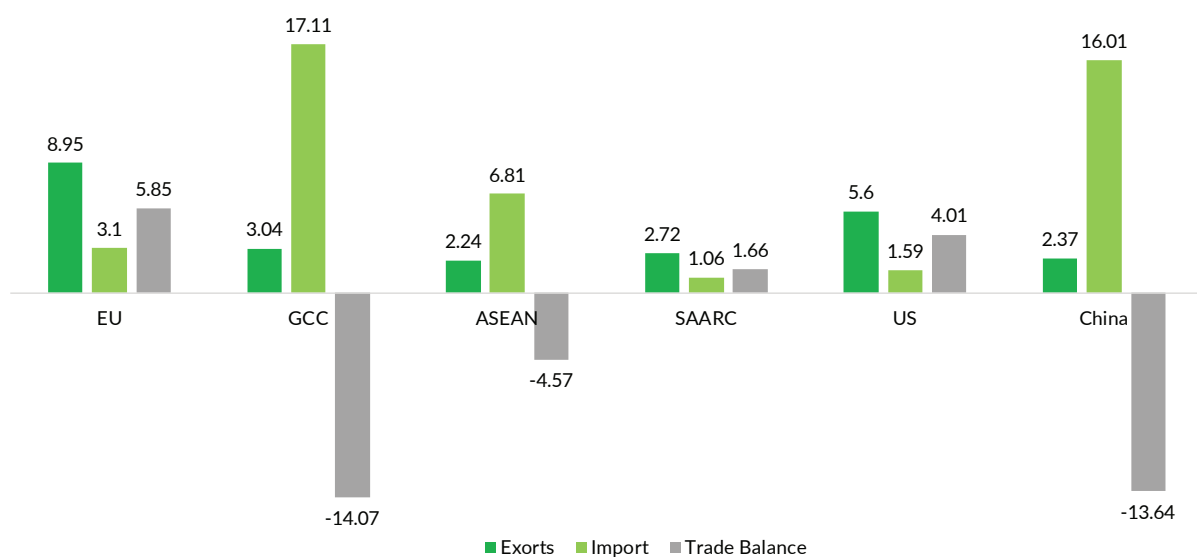
**Figure 1. Pakistan Top 10 Exports and Imports (\$ Billions)**



Source: Author's formation from ITC trade map Data

Pakistan exports, though hovers around \$32 billion, has the potential to reach \$60 billion if prudent policies and measures are adopted. Currently, Pakistan exports are at sub-optimal level while its imports (\$60 billion) are beyond its means and hence the gap between imports and exports has expanded. Pakistan filled this gap by debt and remittances predominantly coming from the Middle East. Figure 2 depict Pakistan exports, imports and trade deficit across regions and it shows that 60 percent of the country imports originate from the GCC countries and China while its export to these regions is only 16 percent. Trade deficit with the GCC and China account for around 90 percent of Pakistan total trade deficit (ITC Trademap, 2026).

**Figure 2: Pakistan Export, Import and Trade Deficit Across Regions (\$ Billions)**



Source: Author's formation from ITC trade map Data

### 3. Middle East Crisis Impact on Pakistan's Trade

Pakistan has experienced perennial trade deficit since its inception except in 1953 and 1972. By 2003, Pakistan demand for energy exploded and energy production at home remained stagnant. In order to satisfy local demand, Pakistan secured energy from the international markets and thus Pakistan trade deficit got expanded. Though Pakistan trade was not in balance but it was relatively stable. Pakistan filled the deficit by remittances and debt. However, the current Middle East crisis challenged this status quo by disrupting international trade and energy supply. Therefore, following we analyze the impact of the US-Israel and Iran war in the Middle East on Pakistan's external sector.

#### 3.1. The Crisis Impact on Pakistan Export to the Middle East

In the last few years, Pakistan's total exports to the Middle East (primarily to the GCC countries) have seen steady growth, driven by food, textiles, and IT services. Within the GCC, Pakistan exported \$1.76 billion worth of goods to the UAE in 2024 while Pakistan export to Saudi Arabia was \$700 million at the same period of time. This made the two countries i.e. the UAE and Saudi Arabia, Pakistan's 5th and 7th largest global export destinations (ITC Trademap, 2026). Though Pakistan current trade with the GCC countries is around \$3 billion but keeping in view the ongoing reforms in Saudi Arabia and the rise of the region, Pakistani government was optimistic that it could double exports to the GCC countries in a few years. Unfortunately, the current Middle East crisis not only shattered Pakistan's ambitious goal to double its export to the GCC countries but it also put the country current \$3 billion worth exports to the GCC countries at stake. The US-Israel and Iran conflict halted Pakistan export to the UAE, Saudi Arabia, Qatar and Bahrain. Keeping in view Pakistan's monthly export volume to the GCC countries and possible rigidities in re-entering the GCC market, this study report that Pakistan export to the GCC countries will plunge by \$1.5 to \$2 billion if the Strait of Hormuz remains closed for 5 to 6 months (see Table 1).

Pakistan exports will not go unscathed even if trade across the Strait is restored immediately. A month long closure of the Strait can decrease Pakistan exports to the GCC countries by \$0.5 billion given that the ports are not congested and the products are ready for shipment while long term halt of export to the GCC market does not only means a loss of export earning but a permanent damage to the supply chain. Thus re-entry to the GCC market will not be an easy task for Pakistani exporters in the long run. Therefore, the crisis in the Middle East can have a long lasting and diverse negative impact on Pakistan's exports.

Table 1 also reports the possible impact of sluggish economic growth and destabilization in the GCC countries can adversely affect Pakistan trade with the GCC countries. A 10 percent decrease in the demand in the GCC countries can translate into 30 to 40 percent decline in demand for Pakistani products. This means that sluggish GCC economies can reduce Pakistan exports to the GCC by \$500 to \$1.5 billion in the short and long run, respectively (see Table 1). Pakistan imports \$17.5 billion energy products from the GCC. The Strait closure for less than 3 months will wipe worth \$4 billion imports from the GCC countries while in the long run instability in the Strait of Hormuz and halt of energy production in GCC can drop Pakistan imports from the region by \$9 billion.

**Table 1: Crisis Impact on Pakistan Trade with the GCC countries**

Scenarios	Export Reaction		Import Reaction	
	Short <3months (-)	Long >6 months (-)	Short <3months (-)	Long >6 months (-)
<b>Iran keep The Strait of Hormuz closed</b>	\$ 700 million to \$ 1 billion	\$ 1.5 to \$ 2 billion	3 billion	8 billion
<b>War destabilizes GCC economies</b>	\$500 million to \$800 million	\$1 to \$1.5 billion	4 billion	9 billion

Source: Author's Calculations

### 3.2 The Crisis Impact on the Pakistan Energy Import from the Middle East

Energy is the most crucial input in the process of agriculture and industrial production. Pakistan's transport, agriculture and industrial production (including electricity production) are more vulnerable to the oil supply and price shocks. The Middle East, a comparatively energy abundant region, provided 50% of global energy output. Pakistan's 80 percent petroleum and 100 percent LNG imports originates from the Middle East. Therefore, the ongoing Middle East crisis, and especially the closure of the Strait of Hormuz is a serious threat to Pakistan's energy supply line. The crisis has not only halted the flow of energy across the Hormuz but it also crippled energy production at the GCC. As a result, Brent crude oil prices spiked from \$71 per barrel on February 27, 2026 (a day before the US-Israel attack on Iran) to \$119 per barrel on March 9, 2026. This is the third highest price oil fetched after \$147.50 per barrel in 2008 and \$120 per barrel in 2022. The latter two were not abnormal situations. Therefore, keeping in view the abnormality i.e. oil supply disruption, halt of its production and the closure of Hormuz for long time, can potentially push oil prices closer to the historical high of \$147.50 or to a new peak of \$170 to \$200 per barrel<sup>2</sup>, the worst case scenario for developing countries like Pakistan mainly because Pakistan has limited financial and fiscal space to bear the burden of unprecedented increase in oil prices.

According to a recently published data by the State Bank of Pakistan (2026)<sup>3</sup>, the country's energy imports in fiscal year 2025 accounted for nearly 26% of total imports. Therefore, any sustained increase in global oil prices could significantly bulge Pakistan current account and trade deficit. In addition, higher energy prices has already increased the prices of essential goods and services in Pakistan (Abida Naureen, 2026; Satti ad Naeem, 2026). Energy demand in Pakistan is inelastic in nature and therefore, any increase in international oil and energy prices is going to increase Pakistan import bill on one hand and will reduce Pakistan export competitiveness on the other. A number of intensive energy dependent factories in Pakistan, such as urea, has already shutdown production while transportation cost increased. Pakistan financial fragility, stagnant exports, structural issues and domestic socioeconomic imperatives will not allow it to sustain the impact of expensive energy for long and as a consequence, energy imports will become a significant hurdle in Pakistan's trade and production equations. In Table 2, we report that an increase in oil import bill, trade deficit and inflation in Pakistan based on price elasticity and different scenarios of oil prices in the international market<sup>4</sup>.

2. Removal of the US sanction on Russian oil and release of strategic reserves by IEA can change the scenario.

3. [https://www.sbp.org.pk/ecodata/Import\\_Payments\\_by\\_all\\_Commodities.pdf](https://www.sbp.org.pk/ecodata/Import_Payments_by_all_Commodities.pdf)

4. Pakistan has only 10 days of oil reserves compared to 230 days with China and 50 days with Vietnam.

**Table 2: Increasing Energy Price Impact on Pakistan Economy**

International Oil Market	Oil bill (Billion \$)	Import bill (Billion \$)	Trade Deficit ((billion \$)	Inflation% <sup>5</sup>
<b>(Base scenario) \$80</b>	17.80	56.5	-24	7.1
<b>\$100</b>	22.25	61.4	-28.4	8.1
<b>\$120</b>	26.70	65.4	-32.9	9.1
<b>\$140</b>	31.15	69.8	-37.3	10.1
<b>\$160</b>	35.60	74.3	-41.8	11.1

Source: Author's Calculations

### 3.3 Risk Premiums Impact on Trade

A bulk of international trade passes through the Strait of Hormuz in the Persian Gulf or through Bab-al-Mandab in the Red Sea. These two routes are crucial for an intact global supply chain. Iran closed the Strait of Hormuz on 1st March, 2026 in response to the US-Israel aggression and since then trade shocks are felt across the globe. Freight costs increased by many folds, oil supply stopped and its prices spiked, export halted and global trading system got fractured. These events are going to increase war premia. War escalation and its expansion to the Red Sea could completely devastate the global supply chains and can further increase maritime freight costs. Pakistan's export sector, especially the textile industry, which accounts for approximately 60% of Pakistan total exports, is already grappling with high operational and freight costs. Thus, war premium will make it difficult for vessels to dock in Karachi and Gawadar, and this can bring Pakistan exports to stand still.

We consider that Pakistani producers will bear the cost of war risk premium (invisible tax) in the short run but it is highly unlikely for the business in Pakistan to adjust cost and maintain their competitiveness in the long run. In addition, increase in freight cost and insurance will affect domestic production and will increase prices of electronics, pharmaceuticals, and food items. Increase in sea freight could potentially widen Pakistan trade deficit and can slow down Pakistan's overall economic growth.

### 3.4 Exchange Rate and Remittances Impact on Trade

The combination of rising costs of energy imports and raw materials and a potential slowdown in exports has disrupted the Balance of Payments position of Pakistan; ultimately straining Pakistan fiscal and financial position. Keeping in view the meagre foreign exchange reserves and limited export earnings, Pakistan is not in a position to protect its exchange rate or control its volatility in a rapidly changing world. Previous literature suggests that Pakistan export basket is less diverse while its import basket is inelastic, therefore, devaluation (or depreciation in this case) cannot correct trade balances in Pakistan<sup>6</sup> (Hina, 2021). Therefore, depreciation is less likely to increase Pakistan exports and decrease imports (see Table 3). Rather, historical fact confirms that currency depreciation generally increases Pakistan imports bill and squeeze her export earnings. Currency depreciation normally pushes the country to a vicious cycle of Balance of Payment crisis and exchange rate depreciation.

Remittances are a critical source of foreign exchange that not only fill the import and export gap but also help in breaking vicious cycle of BoP and exchange rate. Remittances account for nearly 10% of Pakistan's GDP and help stabilize foreign reserves. Out of \$38.3 billion remittances Pakistan received in 2025 (Shujaat 2026), nearly \$20.89 billion (54.5 percent of total) originated from the GCC countries such as Saudi Arabia, the UAE, and Qatar (SBP, 2026). The ongoing instability in the Gulf region, particularly the uncertainty surrounding the future of labor markets, may affect the inflow of remittances and thus would significantly impact Pakistan's

ability to maintain its external balance and foreign exchange reserves. Decrease in remittances can exacerbate Pakistan financial vulnerabilities and can push her to rely on external debt - a loss of fiscal control.

**Table 3: Pakistan Trade Elasticity Profile**

Type	Estimated Value	Economic Implication
<b>Import Price Elasticity</b>	<b>-0.45 (Inelastic)</b>	Devaluation fails to significantly curb imports; "Imported Inflation" is high.
<b>Import Income Elasticity</b>	<b>1.50 (Elastic)</b>	Economic growth automatically triggers a Trade Deficit ("Overheating").
<b>Export Price Elasticity</b>	<b>1.10 (Elastic)</b>	High sensitivity to energy costs; fragile competitive edge.
<b>Export Income Elasticity</b>	<b>0.60 (Inelastic)</b>	Global recovery doesn't boost Pakistani exports as much as peer nations.

Source: Baluch & Bukhari, (2012). SBP

### 3.5 The Crisis Impact on Border Trade

Though Pakistan formal trade with Iran was not high but informally<sup>7</sup>, Pakistan had around \$3 billion cross border trade with Iran through porous border. A significant portion of goods traded includes agricultural products, textiles, and petroleum derivatives. The Pakistani border areas of Baluchistan were more connected with Iran for energy, essential items and for livelihood. Pakistani goods were also transported into Iran.

We consider that the US-Israel attacks on Iran have negative impact on local industrial and agricultural production in Iran and thus it gives way to two possible scenarios for Pakistan cross border trade with Iran. In the first scenario, Iran production is intact and therefore, more oil and good from Iran will cross border into Pakistan while in the second scenario, Pakistan will send more item to Iran and to the border areas of Baluchistan in face of decline and disruption of local production in Iran. Another scenario is that the ongoing conflict halt Pakistan overland trade with Iran. These scenarios suggest that Pakistan trade with Iran will change course after the Middle East crisis. There is a likely chance that Pakistan exports to Iran will increase if the war prolongs.

### 3.6 Energy Shock Disproportionate Impact on Trade

Generally international oil prices increase has equal monetary impact on every country but its actual impact on a country varies depending on the elasticity of oil import, its domestic production, market diversification and the size of reserves stock. For example, China has 230 days of oil reserves, Vietnam has 50 days and India has 40 days of oil reserves, therefore, the adverse impact of oil prices on China is small. On the other hand, Pakistan oil reserves could last only for 21 days. China and India bought oil from different sources in South America, Africa and the Middle East while Pakistan imported almost 80 from the GCC countries and the rest is produced locally. That's why China and India did not panic nor they increased domestic oil prices after the crisis. On the other hand, oil prices in Pakistan were increased by Rs. 55 (20.66 percent) soon after the closure of the Strait of Hormuz (see Table 4). Chinese and Indian leve-

5. <https://www.reuters.com/world/asia-pacific/pakistan-central-bank-seen-holding-rates-steady-oil-rally-clouds-inflation-2026-03-05/> (\$10 increase bring 0.5% inflation)

6. Marshal Lerner Condition fails in case of Pakistan

7. To bypass banking restrictions, the two countries rely heavily on a specialized Barter Trade Mechanism and border-sustained markets mainly run by smugglers.

rage to their firms will give them policy and competitive advantage over firms in other countries where oil prices reported a sharp increase. Policy inconsistency and expensive inputs after Middle East crisis will have adverse impact on trade, especially on exports, in Pakistan.

**Table 4: Domestic Oil Prices Trend in Selected Countries**

Country	Oil Price Before / L	7 March, 2026 Price	Amount Change	% increase	Strategic Stock (days)	Trend
<b>Pakistan</b>	266 PKR	321 PKR	55 PKR	20.6	21	Increase
<b>China</b>	7.70 CNY	7.70 CNY	0.00 CNY	0.00	230	Stable
<b>India</b>	94.77 INR	94.77 INR	0.00 INR	0.00	45	Stable
<b>Sri Lanka</b>	365 LKR	370 LKR	5 LKR	1.37	30	Increase
<b>Bangladesh</b>	125 BDT	130 BDT	5 BDT	4	20	Increase
<b>Saudi Arabia</b>	0.62 USD	0.66 USD	0.04 USD	4.2	>150	Increase
<b>USA</b>	0.85 USD	0.90 USD	0.05 USD	5.8	150	Increase
<b>Vietnam</b>	0.75 USD	1.13 USD	0.38 USD	50	50	Increase

Source: Author's compilation from various sources

#### 4. Conclusion and Policy Recommendation

In the contemporary global economy, the trade vulnerabilities of the Global South are increasingly dictated by geopolitical volatility rather than mere market mechanics. For nations like Pakistan, the intersection of energy dependency and regional instability creates a precarious environment where external shocks can rapidly transition from liquidity constraints to systemic insolvency. Understanding these dynamics is essential for developing resilient policy frameworks in emerging markets that remain tethered to the traditional maritime trade routes of the Middle East.

The recent crisis in the Middle East has exposed Pakistan external sector weaknesses. It seems the ongoing crisis in the Middle East will erode the base of Pakistan trade, especially export and will imply the adverse impact of poor governance, lack of innovation and foreign investment on international trade. The current crisis is a test case that has exposed weaknesses of Pakistan external sector. Pakistan needs to take urgent short and long terms measure to divert the adverse impact of the Middle East crisis on her trade and external sector balance.

In order to keep the oil supply intact in short run, Pakistan should negotiate rerouting oil import from the Saudi and the UAE ports in the Persian Gulf to the Yanbu port of Saudi Arabia in the Red Sea. Yanbu port is away from the main flash point, the Strait of Hormuz, in the Persian Gulf. In the long run Pakistan should diversify its oil import market and needs to include Russia, the US and Nigeria as alternate sources to satisfy domestic energy demands. The diversity will keep Pakistan safe in a lawless and uncertain world.

The China-Pakistan Economic Corridor (CPEC) has entered a new phase under CPEC 2.0, shifting focus from early-harvest infrastructure projects toward industrial cooperation, economic diversification, and sustainable growth. Energy security formed the backbone of the

first phase of CPEC where it addressed critical supply shortages and stabilized industrial productivity. With the transition of CPEC into Phase-II, the strategic focus has reduced from large-scale infrastructure development toward industrial cooperation, regional integration, and private sector-led growth and to convert physical corridors into commercially vibrant economic ecosystems. Pakistan can use CPEC 2.0 as a medium to secure alternate energy and trade routes and diversify its trade. Pakistan can utilize CPEC 2.0 to promote export to China and to Central and East Asia and thus can diversify external sector risks.

Energy is not the only an input in Pakistan export but it is an external sector liability. Pakistan needs to expedite oil exploration to meet energy needs from the local market. Pakistan should work on renewable indigenous resources. Harness hydro, solar and wind energy is the call of the day. These measures can address energy crisis and can reduce pressure on fiscal and financial standing of Pakistan. Otherwise, international instability will constantly and continuously haunt Pakistan trade.

Pakistan should not increase oil prices in short run and should keep supply chain intact despite fiscal imbalances mainly because exiting the supply chain and re-entering into global or regional market is not an easy task. Government policies should increase rather than decrease export competitiveness of the local firms.

The current crisis is dangerous but a good opportunity to fix the house and kick the inefficient producers out of the market. Current policies often protect inefficient domestic industries. This discourages innovation and thus leaving Pakistan stuck in a low-value segments (e.g., selling raw cotton yarn instead of high-fashion branded apparel). This structure is difficult to change in the short run but it needs attention in the long run. By encouraging efficiency, Pakistan can easily realize its \$60 billion export potential.

These measures are crucial for Pakistan to survive and thrive in a rapidly changing world. Pakistan export is going to face a major challenge from India and other peers. The recently concluded EU-India deal required the same sort of measures even if the Middle East crisis did not exist. With proper policy measures and efficient allocation of resources, Pakistan can divert the danger of the Middle East into a new opportunity for trade and investment by unleashing productivity and by export and import diversity.

## References

- Baluch, K. A., & Bukhari, S. K. H. (2012). Price and income elasticity of imports: The case of Pakistan (No. 48). State Bank of Pakistan, Research Department.
- Dollar, D. and Kraay, A. (2004). Trade, Growth, and Poverty, *The Economic Journal*, 114: F22-F49. <https://doi.org/10.1111/j.0013-0133.2004.00186.x>
- Elliott, K Ann, (2009). Opening Markets for Poor Countries: Are We There Yet? Center for Global Development Working Paper 184 (Washington).
- Haq, A. u., & Nawaz, S. M. N. (2026). Pakistan's exposure to a Strait of Hormuz shock: Fuel pricing, inflation, and external vulnerability (PIDE Working Paper No. 2026:02). Pakistan Institute of Development Economics (PIDE).
- Hafsa Hina, (2021). What do we know of trade elasticities? <https://pide.org.pk/research/what-do-we-know-of-trade-elasticities/>
- ITC TRADEMAP, (2026). [https://www.trademap.org/Country\\_SelProductCountry](https://www.trademap.org/Country_SelProductCountry)
- Naurin, A. (2026). World oil price volatility, Middle East geopolitics, and Pakistan's inflation dynamics, *Policy Viewpoint* No. 53:2026. Pakistan Institute of Development Economics (PIDE).
- Rodrik, Dani, (2001). The Global Governance of Trade as if Development Really Mattered, <https://digitallibrary.un.org/record/450251?ln=en>
- Shah Syed Hasanat, Muhammad A. Kamal, Da L. Yu, 2022. "Did China-Pakistan free trade agreement promote trade and development in Pakistan?," *International Journal of Finance & Economics*, vol. 27(3): 3459-3474. <https://doi.org/10.1002/ijfe.2331>
- Shahid Sattar and Amina Urooj, 2023, Beyond Import Substitution: Charting Pakistan's Future with Export-led Growth. <https://pide.org.pk/research/beyond-import-substitution-charting-pakistans-future-with-export-led-growth/>
- Shujaat Farooq (2026). The Middle East Conflict and Its Implications for Pakistani Migrant Workers, *Policy Point View* No. 54. Pakistan Institute of Development Economics (PIDE).
- The Observatory of Economic Complexity. <https://oecd.world/en/profile/country/pak>

## Appendix

(Calculation of Table 2 )

### 1. Notation and Base Values

- $P$  = International oil price per barrel (scenario price)
- $P_0$  = Base oil price = \$80
- $OB_0$  = Base oil import bill (Pakistan Imports) = 17.80 billion USD
- $IB_0$  = Base total import bill = 56.5 billion USD
- $TD_0$  = Base trade deficit = -24 billion USD
- $INF_0$  = Base inflation rate = 7.1%

### 2. Oil Bill Calculation

$$OB_t = OB_0 \times \left(\frac{P_t}{P_0}\right)$$

### 3. Additional Oil Burden

$$\Delta OB_t = OB_t - OB_0$$

### 4. Total Import Bill Calculation

$$IB_t = IB_0 + \Delta OB_t$$

### 5. Trade Deficit Calculation

$$TD_t = TD_0 - \Delta OB_t$$

### 6. Inflation Calculation

$$INF_t = INF_0 + \left(\frac{P_t - P_0}{20}\right)$$

## Follow us



PIDEpk



PIDE Islamabad



PIDE Official

## Visit our Website

[pide.org.pk](http://pide.org.pk)