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Securing Pakistan's Trade and Energy Interests Amid Regional Uproar

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Executive Summary

The dual shocks of Pakistan-Afghanistan conflict and the Middle East conflict have hit Pakistan equally as other countries worldwide. Tensions along the border are affecting Pakistan's border security, trade flows, lives & livelihood and macro-economic factors. Labor class dependent on bilateral and transit trade activities, gets affected when violence flares. These disruptions are happening at the same time when there is a conflict going on in the Middle East, involving the United States, Israel and Iran. Escalating tensions in Middle East have contributed to higher oil prices, disrupted supply chains, high business costs and reduced purchasing power of households in Pakistan as well as internationally. These combined shocks pose a risk to Pakistan's role as a regional trade gateway by undermining trade continuity, energy security, and regional connectivity. Pakistan needs an immediate policy action to protect trade, energy security and regional connectivity.

Dual external shocks of Pakistan-Afghanistan conflict and the Middle East conflict are affecting Pakistan economy simultaneously while reducing trade flows, energy security, and household's income by hitting oil prices. Each $10 oil price increase may impact Pakistan petroleum import bill[1], while repeated border closure with Afghanistan also costs millions of dollars in trade and livelihood. To maintain Pakistan's economic resilience, immediate policy coordination is required.

Introduction:

Pakistan - Afghanistan border tensions and Middle East instability appear like distant geopolitical events, but they are effecting Pakistan's security, micro economy (households, consumers) and macro economy (markets, supply chains, trade corridors, oil price hikes, inflation). Pakistan needs to safeguard its position to avoid crisis hurting it's economy, employment and households. As argued by Naurin (2026) "every $10 per barrel rise in the price of oil increases Pakistan's annual oil import bill by almost $1.8–2.0 billion". The estimate is based on Pakistan's annual petroleum import volume and the pass through of international crude oil prices to the import bill. The conflict has become a source of rising oil prices, affecting business, disturbing supply chains, troubling purchasing power of a large population in Pakistan (BISI, 2026a)[2] as well as internationally (BISI, 2026b)[3]. These shocks are a threat to Pakistan's role as a regional trade gateway. Its time when, in Pakistan protection of security, trade flows and energy issue direly needs urgent attention. This policy viewpoint examines how the simultaneous shocks of Pakistan-Afghanistan border tensions and The Middle East shock affecting Pakistan's trade flows, energy security and regional connection. It draws attention towards dual geopolitical shocks is its energy-import dependence combined with fragile transit trade system and propose measures to strengthen the system. There is an opportunity as the Gwadar port is already established under CPEC, and accordingly the further opportunities may emerge. Pakistan's utmost vulnerability under dual geopolitical shocks is its energy import dependence, risk of exports decline combined with interrupted transit trade system, where low short-run elasticity of oil demand and high sensitivity of trade flows to border disruptions magnify the economic consequences of regional instability.

Box 1: Dual external shocks & statistical facts

- Strait of Hormuz Oil Share About 20% of Global Supply (UNCTAD, 2026)
Daily ship transit through Strait of Hormuz droped by 97% in March 2026 (UNCTAD, 2026), 90%-95% mentioned in Lloyd's list.
- Shipping cost - War risk insurance premium doubled currently ($ 50,000 cost per voyage)-(UNCTAD, 2026) , During crisis risk premium $50,000-$ 100 million-claimed previously by (WEST, 2019).
- Pakistan's annual exports to Afghanistan , value approximately USD 1.5 billion , losses of nearly USD 375 million for Pakistani exporters (CRSS, 2026).
- Pakistan-Afghanistan cost of war trippled as in (2001-14) it was $102.5 billion, (calculated by M/o Finance, M/o Interior, M/o Foreign Affairs Joint Ministerial Group) - reflects prolonged instability.

A-Transit Trade Matters (Pakistan-Afghanistan Conflict)

Transit trade is more than statistics. It generates economic activity for transporters, customs, warehouses and businesses. It also supports Pakistan economy in terms of employment (drivers, loaders, warehouse workers, customs officials) and encourage local businesses. Under the Afghanistan-Pakistan Transit Trade Agreement (APTTA), Pakistan provides Afghanistan with access to global markets[4] (Owais et al. 2018) and Pakistan is responsible to maintain uninterrupted transit trade under agreed process[5]. Current border tensions are causing trade disruption and adding to unemployment. Pakistan's exports to Afghanistan are valued at approximately USD 1.5 billion (2024)[6] annually, making Afghanistan one of Pakistan's important regional export destinations. Border closure disrupts cargo movement, delays deliveries, raise transportation costs, and reduce business confidence. Such disruptions adversely affect exporters, transporters, warehouse operators, laborers who earn livelihood from uninterrupted border trade. Repeated interruptions are impacting efforts of connecting with central Asia through Afghanistan. Each disruption at the border is felt in homes and markets across Pakistan. Almost 40,000–45,000 Afghan transit containers pass through Karachi annually. Transit trade generates approximately US$160 million annually in transport, terminal handling, port, clearing and forwarding services. Around 10,000 transit containers were reportedly stranded in Pakistan between October 2025 and April 2026. Stranded containers incurred approximately US$120 per container per day in demurrage/detention charges. The disruption therefore affected transporters, clearing agents, terminal operators, warehouse-related businesses and customs-linked services (PAJCCI, 2026).

As reported by (Khan & Iqbal, 2025) there are some more challenges as smuggling, diversion of goods, and poor coordination between agencies not only reduce government revenue but also hurt communities relying on legitimate trade. Pakistan is a part of CPEC agreement phase 2 where regional instability may reduce investor's confidence and may delay connectivity associated with it. Similarly, CAREC transport corridor frameworks seeks for stable transit arrangements towards central Asian states through Afghanistan and secure regional connectivity (ADB,2026).

1.Pakistan's petroleum import bill reflects nearly proportional to global oil price increases, signifying high vulnerability to sustained price shocks.

2.https://bisi.org.uk/reports/from-border-disputes-to-trade-opportunities-the-economic-implications-of-the-afghanistan-pakistan-escalation, Bloomsbury Intelligence and Security Institute

3.https://bisi.org.uk/reports/hormuz-under-pressure-energy-supply-chains-and-maritime-logistics-at-risk

4.https://www.commerce.gov.pk/wp-content/uploads/pdf/APTTA.pdf

5.Article 3. Clause is "There shall be freedom of transit through the territory of each contracting party, via the pre-settled routes most convenient for international transit, for traffic in transit to or from the territory of other contracting party."

6.https://oec.world/en/profile/bilateral-country/pak/partner/afg

B-Regional Security Matters (The Middle East Conflict)

Middle East tensions, particularly involving the US, Israel, and Iran, are affecting the international oil prices, global energy market disturbance, affecting inflation, interest rates, lower investments at one side while reducing citizen's purchasing power. A PIDE study by Ahsan and Nawaz (2026) stated "the shock affects more than just pump prices; it raises the petroleum import bill[7], weakens the current account, and limits policy options". According to International Energy Agency estimates, almost 20 million barrels per day contribute to oil flows through strait of Hormuz[8]. With the closure of passage, Government of Pakistan increased petrol price as 21% and diesel price as 19% (OGRA Notifications, S&P Global, 2026). Current statistics show CPI as 6.2% (Pakistan Economic Survey, 2026) and change in CPI is 9.09% in August 2026 (PBS, 2026)[9]. According to the IMF World Economic Outlook (April 2026): Energy commodity prices are projected to rise by 19 percent in 2026, while oil prices are expected to increase by 21.4 percent, averaging around US $ 82 per barrel, amid supply disruptions in the Middle East. This clearly reflects, Pakistan is affected by the middle East tensions. Moreover, according to United Nations Convention on the Law of the Sea, (UNCLOS) Part III, straits used for international navigation are subject to a regime of transit passage. Article 38 recognizes the right of transit passage for ships and aircraft through qualifying international straits, while Article 44 requires states bordering such straits not to hamper transit passage"[10] Hence, the Strait of Hormuz must be used for maintaining uninterrupted energy flows. The economic implications are beyond fuel prices. Nearly one quarter of global seaborne oil trade passes through the Strait of Hormuz, making disruptions in the region a concern for oil-importing economies (UNCTAD,2026). Rising freight rates, insurance premiums and transportation costs increase import costs and contribute to inflationary pressures. This can impact Pakistan's inflationary and external sector effects of an oil price shock.

Challenges

- Oil price hikes, energy security and regional unrest: The major challenge going on is rising oil price that is a threat to energy security. It has slowed down economic activity in country and become a sources of inflated prices. Household and businesses both are affected. Both conflicts are responsible for price hikes (reported as 7.3% increase in PBS,2026) , energy security and regional unrest.

- Lost opportunities, unemployment, disrupted supply chains: The transit trade for Afghanistan is also a source of employment in Pakistan. During border conflict, international borders like Torkhum, Chamman are critical cross boarder points and previous CAREC (2019) report has also documented delays at these points. During tensions such delays become more severe adding to lost opportunities, businesses, unemployment and supply chain disruptions.

- Security concerns reduce Investments: Security concerns impact domestic peace and investments (13.8% as percentage of GDP, reported by Finance division). Being in the Asian region, currently Pakistan is at the edge of crisis and facing consequences of both conflicts. The country is also facing decreased market share in bilateral trade with Afghanistan.

- Access to central Asia trade becomes difficult: Pakistan was looking forward to expand its exports towards central Asia for which are routed through Afghanistan (PBC,2026). The country was connected with SCO countries and efforts were observed to carry on meetings, negotiations with some states.

A-Recommendations for Pakistan Afghanistan Issue

Short Term

- Establish improved coordination mechanism for Pakistan-Afghanistan Trade: There is a need to establish permanent coordination mechanism for Pakistan and Afghanistan to prevent closure of border and ensuring smooth trade flows.

- Reformulate Border Management Strategies: Afghanistan is a landlocked country. Because of this dependence, border disruptions usually hurt Afghanistan and Pakistan, although both sides incur losses around $225 from Jan-August 2026[11]. Despite fluctuations, Afghanistan remains one of Pakistan's important regional export markets (ranked 12th in 2026) and an important partner in transit trade and informal cross-border commerce point. A good border management strategy will benefit both countries.

Medium Term

- Getting benefit of natural advantages and linking transit trade with CPEC benefits: Due to the geographic location, Pakistan and Afghanistan both have a natural advantage. Whether that advantage is preserved or gradually eroded will depend on how effectively both countries manage bilateral trade, transit trade and regional diplomacy in the years ahead. Linking transit trade with CPEC benefits can be a good option. Pakistan's regional connectivity strategy includes routes linking Afghanistan and Central Asia with Pakistani seaports. CAREC "Corridor 5" connects Afghanistan, Pakistan and Central Asian countries and provides a potential route to Karachi and Gwadar. Disruptions along the Afghanistan–Pakistan segment therefore have implications beyond bilateral trade. Pakistan can leverage logistic related infrastructure, especially Gwadar port to facilitate transit trade with Afghanistan and enhance regional connections with Asia. This will improve trade efficiency, reduce logistic costs, and strengthen Pakistan's role as regional gateway.

B-Recommendations for The Middle East Conflict

Short Term

- Rapid policy response & governance: Immediate, digital coordinated policy action and governance is needed to protect trade, energy security, and regional connectivity. The recommendation is consistent with Ahsan and Nawaz (2026). Investment in renewable energy will be a good option. From medium to long term, accelerating renewable energy and electrification of transport can reduce Pakistan's exposure to imported fossil-fuel price shocks. However, because transport and industrial fuel substitution cannot occur immediately, renewable investment should complement rather than replace short-term petroleum contingency measures. Pakistan must establish a "Trade and Energy Risk Monitoring Cell" by involving Ministry of Commerce, Ministry of Energy, Ministry of Finance, SBP, FBR Customs, PBS and the Ministry of Foreign Affairs. During the high risk time, the Cell should weekly monitor international oil prices, petroleum import volumes and values, freight and insurance costs, exchange-rate movements, border closures, cargo clearance and trade flows. Its aim should be to provide real-time assessment of oil market volatility, border disruptions and regional trade risks to strengthen policy coordination, timely decision-making and for improvement of resilience to future geopolitical shocks.

- Facilitation of peace dialogue & availing new opportunities: Pakistan has facilitated US–Iran diplomatic dialogue, hosting the earlier rounds of talks in the Islamabad Memorandum of Understanding in June 2026. Pakistan should continue to support dialogue and de-escalation as part of its broader regional economic and security interests.

7.PAJCCI senior vice-president and chairman of the Dry Port/Railway Standing Committee of the Sarhad Chamber of Commerce and Industry (SCCI), said Pakistani exporters had incurred losses amounting to around $225 million during because of restrictions and blockades affecting transit trade.

Long Term

- Dealing with trade volatility: Trade flows remain exposed to border disruptions, exchange-rate volatility and regional political uncertainty, which can affect the cost and reliability of cross-border transactions. Pakistan should strengthen existing transit arrangements with Afghanistan and Central Asian partners while developing alternative routes through CAREC corridors and Pakistani seaports. The Ministry of Commerce, NLC, FBR Customs and relevant transport authorities should jointly identify priority routes and establish measurable targets for clearance time, cargo reliability and logistics costs.

- Leverage mutual benefits and stable arrangements: Countries must come on mutual benefits of stable arrangements to encourage peace and healthy business environment in the middle east and South Asian region. Pakistan must modernize its ports[12] and take advantage of transshipment by providing intermediate destination facility.

Implementing these recommendations will reduce trade disruptions, uncertainty and improve transparency at Pak-Afghan border, while some policy measures will enhance regional connectivity, energy security and macroeconomic stability.

Policy Action and Expected Outcome

Issues due to Pakistan-Afghanistan conflict	Policy Action	Expected Outcome
• Border closure is frequent • Trade disruptions, informal trade and smuggling • Security Issues, conflict and loss of locational advantage	• Establish trade coordination mechanism and focus on single window • Reformulate border management strategies with well-defined priorities to avoid conflict • Link transit trade with CPEC benefits • Ministry of Commerce, FBR, Customs, PSW, NLC and border authorities should jointly come up with action plan.	• Reduced border related delays • Lower cargo clearance time • Building/improving transparency & trust environment

Issues due to Middle East conflict (US-Israel and Iran war)	Policy Action	Expected Outcome
• Trade route disruption due to war zone • Shooting oil prices, inflation and disturbed macro indicators	• Coordinated policy arrangements & mediation role of Pakistan between US-Iran • Trade diversification and import bans on luxury goods should be an immediate priority[13] • Finding alternate markets to import oil (100% alternate crude cannot be processed on local refineries)[14] [15]	• Reduced trade disruption • Improved monitoring of energy and trade risks, faster policy response • Improved preparedness • Lower external-sector vulnerability

Conclusion

Pakistan is facing two conflicting situations and simultaneous shocks from border tensions with Afghanistan and Middle East situation. Both are threatening for Pakistan's trade flows, energy stability and economic wellbeing. Strengthening border coordination, diversifying energy and trade routes, improving port and customs efficiency, and establishing a Trade and Energy Risk Monitoring Cell can reduce these vulnerabilities. The objective is not to eliminate geopolitical risk but to improve preparedness, maintain trade continuation and limit the external-sector and inflationary costs of any shocks in future. The stakes are not just about economy, they are about livelihoods, economic wellbeing and the future of Pakistan's regional diplomacy.

8.https://www.iea.org/about/oil-security-and-emergency-response/strait-of-hormuz

9.Source: https://www.pbs.gov.pk/detail-info/ (Accessed on August 24th 2026).

10.UNCLOS Articles 37–44 establish this framework, with Article 38 specifically addressing the right of transit passage and Article 44 the duties of states bordering straits.

11.PAJCCI senior vice-president and chairman of the Dry Port/Railway Standing Committee of the Sarhad Chamber of Commerce and Industry (SCCI), said Pakistani exporters had incurred losses amounting to around $225 million during because of restrictions and blockades affecting transit trade.

12.Total capacity potential: Karachi Port 2.651 million twenty-foot equivalent units (KPT,2026). https://kpt.gov.pk/pages/21/port-statistics .(Accessed on August , 21, 2026), Port Qasim up to 7, Gwadar 400 potential (Hassan ,2026) . For turnaround time there is inconsistent reporting.

13.During a severe external shock, Pakistan may consider temporary and targeted demand-management measures for non-essential imports, subject to their fiscal, trade and legal implications. These measures need to be evaluated against their potential effects on domestic production, revenue and trading partners fairly before adopting.

14.Local refineries require an option where alternate crude is mixed with Arabian Light up to a maximum limit of 30% to 35% (Arab News, 2026).

15.Shorter maritime distances from GCC result in low, predictable shipping costs.

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