



# Supply Chain Shifts and Pakistan's Economic Future

In the recent past the global supply chain has been considered as a simple economic system but in the current scenario it emerges as a geopolitical strategy for countries. In the newly developed situation due to the recent war, specially in the Red Sea and the Strait of Hormuz it gives a huge shock to international trade networks. In Pakistan's perspective it is not only external shocks but it hurts the economy because it is heavily dependent on imports, especially for its energy needs. We try to find out how this recent war can affect Pakistan's economic situation, including its supply chain, inflation, exchange rate and most importantly industrial production.

Pakistan depends heavily on imports to sustain the smooth functioning of its economy, with energy imports constituting a significant share. At the same time, its narrow export base and weak infrastructure remain major structural weaknesses. It is clear that unless Pakistan reorients its policies toward resilience, it will remain vulnerable to similar shocks in the future, which could further undermine its fragile economy. Over the past decade, international supply chains have undergone major transformations that were not easy to fully comprehend, and it would be fair to say that only a limited number of policymakers truly understood their significance.

What were once regarded as merely technical and logistical arrangements are now having a profound impact on geopolitical realities. Developments in the Strait of Hormuz, escalating tensions in the Middle East, and changes in the Red Sea region have made it evident that international trade routes are no longer as stable and accessible as they once were. This is especially concerning for a country like Pakistan, whose economy depends heavily on imports, particularly for its energy needs. Whenever the international supply chain is disrupted, its effects are felt immediately and clearly, leading to higher fuel prices, rising inflation, and increased pressure on foreign exchange reserves.

## Maritime Routes and Trade Risk

The recent disruption in the Red Sea has compelled most shipping lines to change their routes and divert via the Cape of Good Hope. This shift increases transit time significantly, by around 10 to 14 days, which ultimately raises transportation costs. Passing shipments through war affected areas has significantly increased insurance costs, which are ultimately passed on to end consumers in the form of higher prices.

The Strait of Hormuz is one of the world's most sensitive transportation choke points, as around 20 percent of global oil supplies pass through it. Even a slight disturbance in this area can disrupt energy supply chains and increase costs. In the recent past, the US China trade and tariff conflict has already changed global manufacturing channels. The world is already facing rising cost pressures due to tariff hikes, and now another serious issue is emerging on the horizon: a possible US Iran war in the Middle East. Because of this conflict, countries are focusing more on the secure supply of their goods rather than low cost. This newly emerging scenario is entirely changing the dynamics of developing economies, particularly in the case of Pakistan, as it does not have sufficient industrial capacity or diversified supply chain channels to absorb these shocks.



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## External Vulnerability of Pakistan

Due to the structure of Pakistan's economy, it is clear that any disturbance in the global supply chain will directly hurt Pakistan's economy. Pakistan is heavily dependent on import of oil for its energy needs. If we look into the import bill, it almost reached USD 16 to 17 billion in fiscal year 2023–24, and Pakistan imports 85 to 90 percent of its oil requirements for petroleum needs. Any fluctuation in the global supply chain of oil has a very devastating impact on its economy.

On the other hand, internally Pakistan faces issues such as port congestion, delays in customs clearance, and logistics costs that are higher compared to neighbouring countries. All these issues increase prices and slow down economic processing. Pakistan's exports also show a challenging situation because a large chunk of exports comes from the textile sector, accounting for more than half of total exports.

Due to heavy reliance on a single sector, it becomes difficult for the economy to absorb external shocks, which immediately translates into inflationary pressure.

### Impact of Geopolitical Shocks on Pakistan

In the current scenario which has arisen due to the war in the Middle East, the negative impacts of the war affect Pakistan's economy. In the shape of a hike in oil prices, domestic fuel prices go up, which pushes transportation and electricity prices up by many folds and ultimately increases inflation. When import costs go up, it increases the demand for dollars, which puts pressure on the Pakistani rupee and leads to currency devaluation, making imports more costly.

Due to this, Pakistan's economy is trapped in a vicious cycle. The textile sector depends on imported raw material for its finished goods, due to which the industry fails to complete international orders and does not meet export deadlines, resulting in financial losses for exporters. When these kinds of situations occur, the shocks faced by economies like Pakistan are not sector specific but are interconnected across multiple sectors. From a policy point of view, it requires proper policy measures.

### Sectoral Impacts

- 1) Energy Sector:** In Pakistan's perspective, the energy sector is heavily dependent on imports. A slight increase in energy prices directly increases the cost of domestic electricity and fuel, which badly affects government financing projects, households, and industries.
- 2) Manufacturing Sector:** Developing countries like Pakistan, whose industries are heavily dependent on imported raw materials, face serious disruption when supply chains are disturbed. Production processes break down, the cost of production increases, competitiveness in international markets declines, and exports decrease.
- 3) Agriculture Sector:** Pakistan's economy is an agriculture-based economy. This sector is also badly affected by increases in energy costs and input prices such as fertilizers and pesticides, which further increases food inflation.

### Emerging Risks and Outlook

The world's economic dynamics are rapidly changing, and it seems difficult that these dynamics will return to their previous position. Now regional trade blocks and newly emerging alliances play a vital role in reshaping global economic structures.

In this emerging scenario, it is difficult for developing economies to adjust their direction, particularly for Pakistan, which is heavily dependent on imported energy. In every difficult situation, there is also a hidden opportunity, and it is the responsibility of policymakers to identify and utilize these opportunities to turn the situation in their favour.

In the current scenario, Pakistan must grasp the opportunity to regain its economic direction and become a regional trade hub by effectively utilizing CPEC projects and reducing dependence on vulnerable channels. However, such shifts require proper planning, policy continuity, and investment, and unfortunately Pakistan is lacking in these areas. The top priority for policymakers is to consider diversification of supply chains and trade routes because heavy dependence on limited partners and routes exposes the economy to repeated shocks. Pakistan must expand and diversify its supply chain channels and trading partners in the region, which can provide relief in such scenarios.

On the other hand, Pakistan must enhance its reserves of essential commodities such as oil, gas, and food to remain economically stable during shocks. Due to financial constraints, this must be done gradually, but policy continuity remains essential, following the principle of "slow and steady wins the race."

Another serious concern that must be addressed on a war footing basis is industrial development. Providing protection to all industries is not viable; policymakers should focus on key industries such as petrochemicals, fertilizers, and import substitution industries to reduce dependency on imports.

The government should also focus on logistics and trade facilitation by improving customs processes, speeding up port operations, and enhancing logistics infrastructure, which can reduce trade costs and provide relief to the public. Pakistan must focus on regional trade, particularly with Central Asian countries and China, which can provide breathing space to an economy dependent on fragile supply chains. Macroeconomic management should be streamlined, exchange rates stabilized, and foreign exchange allocation improved for better outcomes.

The rapid political changes in the region send warning signals for developing economies like Pakistan. If preventive measures are not taken and policies are not adopted to reduce dependence on imported energy and raw materials, such crises will continue to recur. This is the right time for Pakistan to transform this challenging situation into an opportunity to achieve a stronger regional position. Because in today's world, economic strength is no longer defined by efficiency alone. It is defined by resilience.

**About the Author: Mr. Farhan Nasim** is an economics and finance professional with extensive experience in corporate leadership, policy coordination, and organizational management. He is currently serving as Deputy Secretary General at the Federation of Pakistan Chambers of Commerce and Industry (FPCCI), where he has held multiple senior roles since 2014. He holds an M.Phil. in Economics and Finance, a Master's degree in Economics, and is currently pursuing a PhD in Economics from the Applied Economics Research Centre, University of Karachi. His research interests include economic growth, trade policy, and investment efficiency, with published work in these areas.