



Pakistan's Trade Exposure under Energy and Geopolitical Pressures



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Pakistan's external sector showed a steady but notable improvement during FY2024-2025, with exports reflecting a gradual expansion of USD 1.33 billion. The sector operates under stress resulting from limited export diversification, an unfavourable trade balance and extensive reliance on imported energy. The country remains import-dependent, particularly in petroleum products and industrial inputs, reflecting the inelastic nature of these imports. However, this upward trend in exports also indicates the resilience and underlying potential of Pakistan's export sector.

In the current geopolitical tensions, vulnerabilities have been intensified in Pakistan's trade architecture, especially in the Middle East region. A key source of this exposure lies in Pakistan's relationship with the Gulf Cooperation Council (GCC), where imports are largely energy-driven while exports account for roughly 9–10% (as per Pakistan Chamber of Commerce).

Indicator	FY2024	FY2025	Absolute Change	% Change
Exports (USD bn)	30.67	32.00	+1.33	+4.34%
Imports (USD bn)	54.78	58.38	+3.60	+6.57%
Trade Deficit (USD bn)	24.10	26.27	+2.17	+9.00%

Source: Compiled from Pakistan Bureau of Statistics, national trade data and reported in ProPakistani

Trade Structure

Pakistan is the 5th most populous country in the world and ranks 67th in terms of global export share. In contrast, Pakistan ranks 51st in terms of global import share (OECD, 2026).

Pakistan's trade deficit rose by 9 percent from \$24.104 billion in FY24 to hit \$26.27 billion during the outgoing fiscal year i.e. FY25, according to data issued by the Pakistan Bureau of Statistics. Exports during FY25 stood at \$32 billion, up 4.7 percent over exports of \$30.67 billion recorded in FY24. Imports surged 6.6 percent to reach \$58.38 billion in FY25 compared to imports of \$54.78 billion recorded in FY24 [ProPakistani, Published Jul 1, 2025].

Pakistan's export base remains narrow and heavily concentrated:

- Textiles and Leather (which contribute over 60 percent of the exports), key products include knitwear, ready-made garments, bedwear and leather products.
- Agriculture-based exports and livestock products such as rice, fruits (particularly citrus), seafood and meat (largely dependent on crop yields, catch volumes and livestock population).
- Low-to-mid value manufactured goods.

This limited product mix exposes Pakistan to global price and demand fluctuations. The Government of Pakistan has been consistently encouraging exporters to diversify both products and markets, with a particular focus on non-traditional goods such as IT and digital services and non-traditional markets. The country aims to reduce its reliance on a narrow export base and tap new avenues of growth through incentive policies and institutional support.

On the import side, the country remains deeply dependent on a few key partners who collectively supply nearly 50% of total imports, particularly concentrated in the GCC countries.

The imports are dominated by petroleum and energy products, machinery and industrial inputs, and chemicals and intermediate goods.

"Pakistan's heavy reliance on LNG from Qatar and the UAE means any shock to supplies through the Strait of Hormuz would be felt very quickly," the Financial Times reported, quoting market analytics. — Dawn, April 28, 2026

GCC Trade Dynamics

Pakistan's trade relationship with the GCC countries reflects a significant imbalance. Pakistan's exports to the GCC are relatively low in volume, while imports, primarily oil and gas, are significantly higher.

As per different sources, Pakistan exports to the GCC in the range of \$2–3 billion while imports exceed \$15–17 billion, creating a large trade deficit. In a recent period, imports from the GCC exceeded \$4 billion in a single quarter, significantly surpassing exports. In this, the UAE alone accounts for a significant portion of exports (around \$1.7–1.8 billion). This imbalance is driven by energy dependency. (Sources: Pakistan Bureau of Statistics (PBS), International Trade Centre, State Bank of Pakistan)

Energy and Competitiveness

One of the most underappreciated risks in Pakistan's trade exposure is the direct link between energy costs and export competitiveness.

Rising energy costs increase production costs, which are a major input in textile manufacturing, fertilizer and agriculture, and industrial processing. As oil prices rise, electricity and gas tariffs increase, directly impacting production costs across export sectors. Given that Pakistan competes in price-sensitive global markets, even marginal cost increases can erode competitiveness.

Geopolitical shocks amplify energy price volatility and recent tensions in the Middle East have already disrupted oil supply chains. These disruptions have forced the rerouting of oil supplies, as Pakistan relies heavily on shipping routes through the Strait of Hormuz and the Red Sea. Such disruptions result in higher freight and insurance costs; delays in supply chains; and increased landed cost of energy.

Export margins are now under extreme pressure due to rising energy costs and exporters face shrinking margins while competing countries gain a relative advantage, and Pakistani exporters risk losing market share. The increase in energy prices directly contributes to rising inflation in Pakistan. This inflation, in turn, leads to an increase in the policy rate, which adversely affects the competitiveness of exports by raising the financial costs for exporters.

While the Government of Pakistan has historically supported exporters through subsidized financing schemes, these facilities are now linked to the policy rate and access to them is limited. Consequently, higher financing costs have become a key factor in reducing export competitiveness.

Currency depreciation and cost pass-through have created compounding economic obstacles, as the theoretical export advantage is nullified by rising costs of imported energy and raw materials, ultimately widening the trade gap and fuelling domestic inflation.

As per Arab News on 6th April 2026, there is a strategic dimension to consider beyond just prices. Pakistan's high dependence on Gulf energy imports leaves it particularly vulnerable to external shocks, as it has limited buffers to absorb sudden disruptions, unlike larger economies that maintain diversified energy sources and substantial strategic reserves. This lack of resilience magnifies the impact of every geopolitical event in the region.

Pakistan maintains an active presence in the GCC through liaison offices in Dubai and Abu Dhabi, covering textiles, food and services, particularly in the IT sector. These hubs act as critical pivots for marketing, business-to-business (B2B) networking and regulatory facilitation in the Gulf. This creates indirect vulnerabilities, as disruptions in the GCC can affect export operations and may impact trade orders and export proceeds.

Geopolitical Risks

The escalating tensions in the Middle East are impacting shipping routes, specifically the Strait of Hormuz and the Red Sea. The uncertainties and security concerns along these shipping routes are causing significant delays and rising insurance premiums. As Pakistan relies significantly on the GCC for its energy imports, this regional conflict threatens the consistent supply of oil and LNG.

"The crisis threatened Pakistan's external sector and can potentially decrease Pakistan's 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 Middle East Crisis Impact on Pakistan's Trade, Policy View Point: NO.56:2026 PIDE

Pakistan's trade balance with the GCC remains highly skewed, with exports to the region remaining low or declining and imports remaining high due to energy needs, further widening the trade deficit. Exports to the Middle East dropped by over 6% in the first half of FY26. Furthermore, instability in the Gulf poses risks to remittance inflows, which constituted about 54.5% of total remittances in early 2026, putting pressure on foreign exchange reserves.

"Remittances account for nearly 10% of Pakistan's GDP and help stabilize foreign reserves. Out of \$38.3 billion in remittances Pakistan received in 2025 (Shujaat, 2026), nearly \$20.89 billion (54.5 per cent of the 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. A decrease in remittances can exacerbate Pakistan's financial vulnerabilities and can push it to rely on external debt, which would be tantamount to a loss of fiscal control." — Friday Times, 23 April 2026

Import payments in Pakistan predominantly depend on export proceeds and workers' remittances. A significant portion of these remittances originates from the GCC countries. Any disruption in these inflows would not only affect import payment settlements but also place stress on the local currency, potentially leading to depreciation of the Pakistani Rupee and making imports more expensive. At the same time, the cost of exports may also rise as imported inputs become more expensive, thereby affecting overall export competitiveness.

Economic Strategy

Pakistan is gradually shifting its economic focus, with key emphasis on expanding its footprint in IT and digital services exports, engineering goods and value-added manufacturing. The IT exports of Pakistan reached a historic high of \$3.8 billion in FY25 and this performance underscores the increasing importance of IT and the growing global demand for digital services. However, export expansion remains closely linked to energy imports, creating the need to expand renewable energy to reduce reliance on imported fuels and lower energy costs. As per the World Economic Forum on August 19, 2025, Pakistan is experiencing a transformation in the energy sector as households and businesses are adopting renewable energy sources, and the Government of Pakistan is also actively pursuing large-scale renewable energy investments to achieve its clean energy goals.

In addition, Pakistan is also working on logistics and infrastructure by improving ports and trade facilitation systems, as regional connectivity initiatives gain importance. Pakistan's twin ports can be a game changer, as noted by the Centre for Strategic and Contemporary Research, CSCR on April 22, 2026:

"The twin ports of Gwadar and Chabahar rather than being symbols of regional competition, could mark the foundation of a new era of integration spanning South, Central and West Asia."

Conclusion

The security of the Gulf region underpins Pakistan's export channels, energy sector and remittances. In this regard, Pakistan is actively working to protect its external sector from further disruption by advocating peace talks, maintaining balanced relations across the Middle East and reinforcing trust with its economic partners. The country has the potential to transform its external sector from a source of vulnerability into a driver of sustainable economic growth through consistent policy execution, institutional strengthening and infrastructure development.

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