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Structural Shocks and Strategic Recalibration:

An Exhaustive Analysis of US-Iran War Impact on Pakistan

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Framing the Study within the Context of Global Structural Shocks

The outbreak of full-scale military hostilities against the Islamic Republic of Iran initiated in February 2026 by the US and Israel resulted in an unprecedented structural shock to the global economic and geopolitical architecture. What began as a managed escalation and a campaign of surgical strikes following the June 2025 ‘Twelve-Day War’ has metamorphosed into a systemic, multi-theater conflict involving targeted decapitation strikes, the weaponization of maritime choke points, and the severe disruption of global energy supply chains (Masterson, 2026; RAND Corporation, 2026). For the Islamic Republic of Pakistan, navigating the multifarious dimensions of this crisis requires an extraordinarily acute geopolitical and macroeconomic balancing act. Positioned geographically alongside Iran, structurally dependent on the Gulf Cooperation Council (GCC) states for energy imports and diaspora remittances, and strategically partnered with the People's Republic of China, Pakistan is situated precisely at the epicenter of the resulting shock waves (Brohi, 2026).

This study provides an exhaustive, multi-disciplinary analysis of the US-Iran war's profound impact on Pakistan's internal and external environment. By synthesizing real-time macroeconomic data, energy security metrics, and geopolitical developments as of April 2026, the analysis moves beyond immediate damage assessment to explore critical second- and third-order implications. The ongoing conflict must be evaluated not only as a temporary regional disruption, but also as a definitive forcing function accelerating long-term structural transformations within the international system. Chief among these are the accelerated decline of petrodollar recycling mechanism, the immediate imperative for green energy self-sufficiency amidst fossil fuel market failures, and the rapid realignment of Eurasian overland trade corridors (Stuenkel, 2026; Spiro, 1999).

Operating within the theoretical frameworks of neoclassical realism and international political economy, this study examines how Pakistan’s policy apparatus is attempting to insulate the state from the destabilizing vectors of the conflict. It systematically addresses Pakistan's strategic ambiguity, external account vulnerabilities, energy transmission failures, monetary realignments, and the resulting domestic socioeconomic distress, culminating in a detailed policy roadmap designed to ensure long-term state resilience.

Contents

1. Geopolitical Realignment: Strategic Positioning and Regional Pressures

Neutrality Dilemma and Regional Cross-Pressures

Pakistan's strategic positioning in the context of 2026 US-Iran war is fundamentally characterized by an intricate neutrality dilemma. The military conflict, initiated by the United States and Israel (Institute for Economics and Peace, 2026) under the official designations "Epic Fury" and "Roaring Lion," has targeted Iranian nuclear facilities and military infrastructure with the explicit strategic objective of dismantling its deterrent capabilities (Barrie, 2026). Against this existential threat, Iran has adopted an asymmetric warfare doctrine, leveraging its extensive proxy networks across the Levant and disrupting the Strait of Hormuz to export the staggering economic costs of the war to the global community (Yacoubian, 2026). For Islamabad, the resultant geopolitical environment creates extreme and conflicting cross-pressures. On the one side, Pakistan maintains a deep, structural strategic and economic reliance on Saudi Arabia and the United Arab Emirates. This reliance was formalized further by a September 2025 mutual defense agreement with Riyadh, which theoretically binds Pakistan to the defense of the Saudi state (Ahmad et al. 2023; Khan, 2026). On the other side, Pakistan shares a volatile and highly porous 900-kilometer border with Iran where spillover from militant proxies in Balochistan region poses an immediate and existential internal security threat to the Pakistani state (Brohi, 2026).

The risk of spillover effect of the conflict is particularly acute given the historical presence of cross-border insurgencies and transnational militant networks. Active military or logistical support for the US-led coalition would virtually guarantee severe Iranian retaliation. Such retaliation could manifest either through direct ballistic missile strikes like those executed during the tit-for-tat exchanges of early 2024, or by activating proxy elements to systematically destabilize Balochistan (Flesch & Smyth, 2026; Khan, 2026). Conversely, abandoning its historical Gulf allies would jeopardize billions of dollars in vital financial lifelines. The critical nature of this dependency was

starkly illustrated in April 2026, when Pakistan required a $3 billion emergency deposit from Saudi Arabia to avert a sovereign default on impending debt repayments to the UAE (Aurangzeb, 2026; TRT World, 2026). Consequently, Pakistan has rigorously enforced a doctrine of strategic ambiguity, refusing to allow its airspace or territorial waters to be utilized for operations against Iran, while simultaneously deploying diplomatic missions to reassure Gulf partners of its unwavering commitment to their territorial defense (Khan, 2026; New Lines Institute, 2026).

Nuclear Signaling, Deterrence and Mediation Imperative

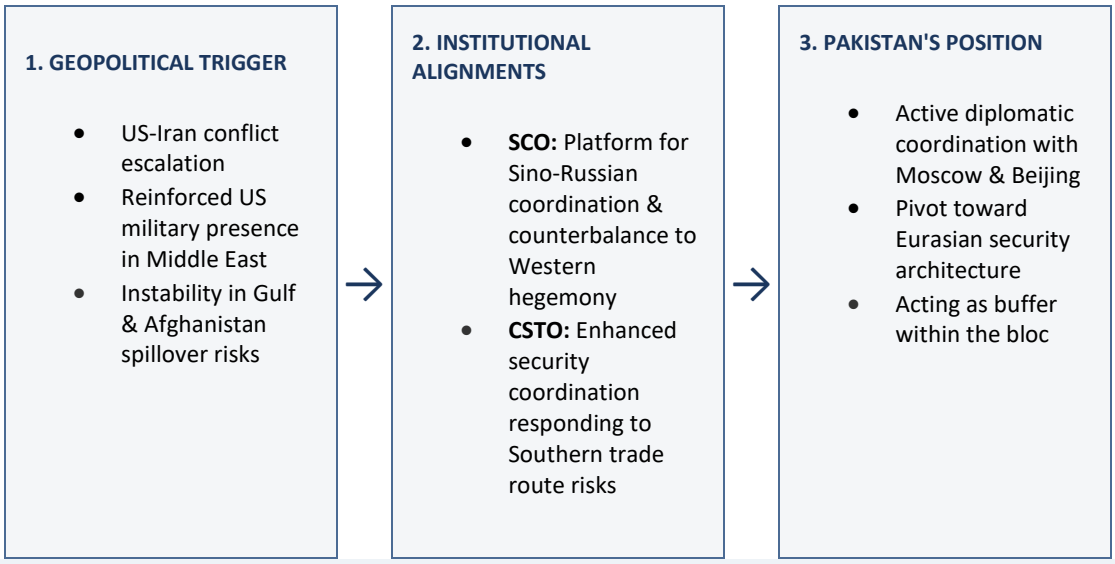
The conflict has profoundly altered the regional and global understanding of strategic stability and nuclear deterrence theory. The June 2025 Twelve-Day War vividly demonstrated a phenomenon that defense theorists have termed ‘nuclear opportunism’. In this paradigm, a state possessing an undeclared nuclear monopoly (Israel) utilized its strategic ceiling to conduct high-intensity conventional strikes against a non-nuclear adversary without fear of an existential, annihilating retaliation (Bell, 2025). Iran's subsequent pivot toward unconstrained asymmetric escalation in the February 2026 war highlights the fragility and ultimate failure of this unipolar deterrence paradigm (Senn, 2026). As the conflict escalates and firebreaks between conventional and nuclear doctrines erode, non-nuclear states in the Middle East face immense security pressures, prompting acute concerns within the international community regarding a new wave of regional nuclear proliferation (Chyba, 2026).

In this highly volatile and escalatory environment, Pakistan has deliberately positioned itself as a primary mediator, leveraging its status as the Islamic world's sole declared nuclear power. In April 2026, Islamabad hosted marathon diplomatic negotiations involving high-level delegations, including US Vice President JD Vance, Iranian Foreign Minister Abbas Araghchi and Ali Larijani (Hafiz, 2026; Nizami, 2026). Although these 21-hour talks concluded without a formal handshake or a durable ceasefire, they provided profound strategic clarity. The negotiations failed largely due to Washington's uncompromising demand for the total, verifiable dismantlement of Iran's nuclear infrastructure, juxtaposed against Iran's absolute insistence on regime survival, the lifting of all economic sanctions, and continued control over the Strait of Hormuz (Eisenstadt, 2026; Washington Examiner, 2026). Despite the lack of a breakthrough, Pakistan's proactive role in hosting these summits has temporarily elevated its diplomatic standing. By facilitating direct dialogue, Islamabad successfully deflects persistent demands from Western and Gulf actors for military alignment, thereby buying crucial time to insulate its domestic economy from the geopolitical fallout (Baig, 2026; Anadolu Agency, 2026).

Institutional Alignments: SCO and CSTO Dynamics

The sheer scale of the US-Iran conflict has also accelerated Pakistan's strategic alignment with Eurasian multilateral institutions, most notably the Shanghai Cooperation Organisation (SCO) and the Collective Security Treaty Organization (CSTO). As the Persian Gulf transforms into a highly volatile kinetic theater, Islamabad is systematically shedding its historical reliance on maritime-dependent Western architectures in favour of continental integration. With the United States' military presence in the Middle East heavily reinforced to secure its immediate geopolitical interests, the People's Republic of China and the Russian Federation have increasingly utilized the SCO to consolidate a systemic counterbalance to Western hegemony (Alvandi, 2026). This institutional evolution represents a profound geostrategic metamorphosis; under Beijing and Moscow’s joint stewardship, the SCO is rapidly transitioning from a consultative diplomatic forum into a hardened geoeconomic fortress. By actively prioritizing bilateral currency swaps, decentralized financial plumbing, and aggressive de-dollarization, this Sino-Russian architecture aims to permanently insulate its member states from the weaponization of the global financial system and the ensuing macroeconomic shock waves of Middle Eastern supply blockades.

PAKISTAN'S STRATEGIC PIVOT: EURASIAN INSTITUTIONAL ALIGNMENT



Strategic Outcome: Emergence of a semi-insulated Eurasian geoeconomic bloc capable of weathering oceanic disruptions and reducing vulnerability to Western pressure.

Within this shifting tectonic reality, Central Asian Republics (CARs), deeply concerned by the lingering "Afghanistan factor" and the potential destabilization of their southern trade routes due to the Gulf conflict, have heightened their security coordination through the CSTO framework (Ordabayev, 2026). This regional anxiety is far from theoretical. The compounding volatility of a choked Strait of Hormuz, coupled with persistent, low-intensity cross-border friction with Kabul, has forced a radical logistical recalibration. In a decisive operational maneuver, Pakistan and CARs have already begun circumventing the unpredictable Afghan transit corridors, officially activating alternative, China-linked trade routes through the high-altitude Khunjerab Pass and the Sost Dry Port.

Pakistan's active participation in these regional forums, supported by explicit diplomatic coordination with Moscow and Beijing, signals a calculated, long-term strategic pivot towards a Sino-Russian security architecture. This institutional alignment provides Islamabad with a necessary diplomatic buffer against Western pressure and reinforces the conceptual development of an insulated Eurasian geoeconomic bloc capable of weathering oceanic disruptions (Lavrov, 2026). Moving from geopolitical diagnosis to practical policy implementation, Pakistan must urgently institutionalize this pivot to prevent it from remaining a mere theoretical ambition. The Ministry of Commerce, in tandem with the National Logistics Corporation, must prioritize the rapid expansion of freight capacity at northern dry ports, harmonize customs protocols with CSTO members, and anchor its energy security deeply within Sino-Russian supply grids.

2. Petrodollar Shock, Remittances, Gulf Dependency and Fiscal Vulnerability

Diaspora Remittances and External Account Pressures

Compounding the geopolitical vulnerabilities analyzed in the preceding section, the US-Iran war fault lines would not merely graze Pakistan; they would trigger a twin-engine macroeconomic failure, systematically dismantling the country's balance of payments architecture. For decades, Pakistan's economic survival has been predicated on a precarious equilibrium, importing expensive energy while exporting cheap labour. A kinetic conflict in the Persian Gulf, inevitably choking the Strait of Hormuz, transforms this equilibrium into a structural shock of unprecedented magnitude. Pakistan would find itself caught in the crosshairs of a devastating petrodollar centrifuge, facing a parabolic spike in its energy import bill precisely at a time when its primary non-debt-creating foreign exchange lifeline faces an existential threat.

The arithmetic of Pakistan's Gulf dependency is stark and unforgiving. Pakistan relies on a vast diaspora of over nine million overseas workers, heavily concentrated in the Gulf Cooperation Council (GCC) states. Despite the rapidly escalating regional conflict, recent inflows have shown a fragile resilience; in January 2026, total remittances stood at $3.46 billion, maintaining a robust upward trajectory to average over $3.38 billion monthly over the preceding twelve-month period (Hanif, 2026). However, as evidenced by the granular March 2026 data, the Middle East remains the overwhelming anchor of Pakistan's financial stability, contributing nearly two-thirds (64.7%) of total major corridor remittances. Out of the $2.68 billion injected into the economy through these primary channels in a single month, Saudi Arabia alone accounted for $918.40 million, with the United Arab Emirates following closely at $823.67 million.

These funds do not merely supplement the economy; they are the fundamental macroeconomic buffer that papers over Pakistan's structural trade deficits. The US-Iran war poses an immediate,

multi-vector threat to the physical security, employment stability, and economic viability of this expatriate workforce. Any significant expansion of Iranian asymmetric attacks, such as drone or missile strikes on Gulf energy infrastructure, desalination plants, or urban commercial centers, could trigger a mass exodus of expatriate labour or severe local economic contractions (Yacoubian, 2026). The resulting evaporation of these hyper-concentrated Gulf inflows would not only be a temporary cyclical dip, but also a structural collapse.

PAKISTAN'S REMITTANCE SOURCE REGIONS: MARCH 2026 INFLOWS

Remittance Source Region	March 2026 Inflow (USD Million)	Percentage of Total	Trend & Risk Assessment
Saudi Arabia	$918.40	34.1%	High Exposure; tied to mutual defense pacts and host-country security.
United Arab Emirates	$823.67	30.6%	Extreme Exposure; highly vulnerable to asymmetric urban/infrastructure strikes.
United Kingdom	$587.27	21.8%	Stable Alternative; growing but insufficient to cover Gulf deficits.
United States	$359.34	13.4%	Declining slightly due to trade-related tariff and policy adjustments.
Total Major Corridors	**$2,688.68**	**100.0%**	**64.7% sourced from Middle East** (Saudi Arabia & UAE combined).

Key Takeaway & Insight: The Middle East remains the single point of failure for Pakistan's balance of payments, anchoring **64.7% of major remittance corridors**. Any kinetic disruption to GCC economic hubs instantly threatens default on sovereign obligations. *Data sourced from State Bank of Pakistan (SBP) EasyData Archive, April 2026.*

Compounding this catastrophic loss of capital is the simultaneous shock to the import ledger. Pakistan’s petroleum import bill routinely consumes over a fifth of its total import expenditure, a baseline that is inherently unsustainable. A supply-side shock in the Strait of Hormuz could easily double global crude prices, inflating Pakistan’s energy bill precisely when its dollar reservoirs are running dry. While Pakistan's foreign exchange reserves had strengthened to $16.4 billion by early April 2026, they remain entirely insufficient to absorb a sustained dual shock of collapsing

remittances and skyrocketing energy import bills (Aurangzeb, 2026). The Ministry of Finance and the State Bank of Pakistan (SBP) would be thrust into a fiscal quicksand. The immediate consequence would be a devastating balance of payments crisis, forcing a brutal depreciation of the Pakistani Rupee (Hanif, 2026). In Pakistan's import-dependent economy, this devaluation serves primarily as a transmission mechanism for hyperinflation, crushing household purchasing power and widening the fiscal deficit as debt servicing costs spiral out of control.

This crisis lays bare the strategic folly of relying on a highly volatile region to subsidize domestic consumption. Moving from diagnosis to recommendation, strategic recalibration requires immediate, aggressive institutional reform to diversify diaspora capital. The March 2026 data highlights the critical scaffolding of alternative corridors: the United Kingdom provided a robust $587.27 million, and the United States contributed $359.34 million (State Bank of Pakistan, 2026). While inflows from European Union countries and Western economies have demonstrated robust growth, compensating marginally for a tariff-related drop in US remittances, they fundamentally lack the volume to offset a systemic, prolonged shock to the Gulf corridor. Therefore, the SBP and the Ministry of Overseas Pakistanis must radically accelerate the expansion of these Western corridors through targeted, high-yield diaspora bonds and optimized banking channels. Furthermore, the state must deliberately transition its labour export model away from low-skill, geopolitically vulnerable GCC construction jobs and pivot aggressively towards globally decentralized, high-skill digital and remote services.

Ultimately, the verdict is unequivocal: Pakistan can no longer afford to outsource its macroeconomic stability to the Persian Gulf. A US-Iran conflict would act as a ruthless stress test on an already fragile economy, exposing the lethal risk of sourcing over 60% of its total financial lifelines from a single, combustible geography. Surviving this reality demands that Islamabad abandon its reactive, crisis-to-crisis management in favour of sovereign energy hedging, aggressive domestic renewable integration, and a wholesale geographic restructuring of its foreign exchange acquisition strategy. Without these practical policy shifts, the petrodollar shock will inevitably catalyze a sovereign default.

Macroeconomic Outlook and IMF Program Stress-Testing

With Gulf remittances under acute pressure and the import bill surging, the macroeconomic stabilization framework itself is now at risk. The Gulf conflict intersects dangerously with Pakistan's ongoing macroeconomic stabilization efforts governed by the IMF's Extended Fund Facility (EFF). The IMF's World Economic Outlook published in April 2026 provides baseline estimates for Pakistan, projecting real GDP growth at 3.6% and average consumer price inflation at 7.2% for the year, alongside an implied purchasing power parity conversion rate of 70.83 (International Monetary Fund, 2026). However, as noted by the World Bank's Middle East, North Africa, Afghanistan, and Pakistan (MENAAP) Economic Update, these baseline projections are highly sensitive to exogenous geopolitical shocks and are currently undergoing severe stress-testing (World Bank, 2026).

Primarily, the transmission mechanism for this macroeconomic shock is the intense volatility of global commodity prices, specifically crude oil and refined petroleum products. The pass-through effect of elevated crude prices directly and immediately inflates Pakistan's import bill, exacerbating the current account deficit, triggering imported inflation, and applying severe downward pressure on the Pakistani Rupee (Kilian et al. 2026). Furthermore, Pakistan faces an aggressive and inflexible external debt repayment schedule. The Ministry of Finance reports that total external debt and liabilities stand at approximately $138 billion, of which $92 billion constitutes External Public Debt (Finance Ministry, 2026; State Bank of Pakistan, 2026). While the government notes that the overall average cost of this public debt is relatively low at 4%, the sheer volume of principal maturities is daunting (Ministry of Finance, 2026).

PAKISTAN MACROECONOMIC OUTLOOK: PRE-WAR BASELINE VS. CONFLICT STRESS SCENARIO

Macroeconomic Indicator	2025 Baseline	2026 Projected (Pre-War)	Conflict Stress Scenario Estimates	Trend Vector
Real GDP Growth (%)	3.0%	3.6%	< 1.5%	**Severe Drop**
Inflation (CPI, %)	23.4%	7.2%	> 15.0%	**Sharp Rise**
Current Account Balance ($B)	-$0.43B	$1.93B	-$3.50B	**Deep Deficit**
External Debt & Liabilities ($B)	$138.0B	$138.0B	$142.0B+	**Expanding**
Unemployment Rate (%)	7.1%	6.9%	> 8.5%	**Sharp Rise**

Stress-Testing Insights:

- **Exogenous Shock Pass-Through:** The conflict stress scenario reflects heightened geopolitical tensions, energy supply shocks, and severe external financing constraints.
- **Source Data:** Compiled from IMF World Economic Outlook (April 2026), World Bank MENAAP updates, and Pakistan Bureau of Statistics.

Under the IMF schedule, external debt amortizations are projected to rise to $12.8 billion (equivalent to 2.9% of GDP) in FY2026 (Fitch Ratings, 2026). A stark manifestation of this acute vulnerability occurred in April 2026, when the conflict triggered a $3.5 billion repayment shock. To settle this maturing debt to the UAE without triggering a sovereign default, Pakistan was forced to secure a $3 billion emergency injection from Saudi Arabia, effectively swapping one bilateral liability for another (Aurangzeb, 2026; TRT World, 2026). The IMF GRA Repurchase schedule indicates relentless pressure, with massive tranches due in January and April 2027 (International Monetary Fund, 2026). If the global petrodollar recycling mechanism unwinds, a highly probable scenario if Iranian blockades persist, the traditional avenues for rolling over commercial debt and securing syndicated loans will severely contract, pushing Pakistan perilously close to the precipice of default (Spiro, 2026).

3. Energy Security and Strait of Hormuz Risk, Import Dependence and Supply Disruption

Choke Point: Strait of Hormuz and LNG Vulnerability

Underpinning the fiscal vulnerabilities outlined above, the energy supply shock represents the most direct transmission channel of the conflict into Pakistan’s domestic economy. The tactical closure and extensive mining of the Strait of Hormuz by Iranian naval and Islamic Revolutionary Guard Corps (IRGC) forces represent the most profound and systemic threat to global energy security since the 1973 OPEC oil embargo (Shechter, 2026; Yacoubian, 2026). Approximately 20% of the world's Liquefied Natural Gas (LNG) supply and 15 to 20 million barrels per day of crude oil and condensates transit through this narrow, 21-mile-wide waterway (International Energy Agency, 2026; Ahmed, 2026). For Pakistan, the implications of this maritime blockade are nothing short of catastrophic. According to comprehensive data from energy analytics firm Kpler, Qatar and the United Arab Emirates together supply an overwhelming 99% of Pakistan's LNG imports (Ahmed, 2026).

Prior to the military escalation, Pakistan's energy security was anchored by two long-term government-to-government supply agreements with Qatar (spanning 10 and 15 years), which ensured the reliable delivery of up to nine LNG shipments per month (Gupta, 2026). In January 2026, Pakistan received 12 LNG cargoes, resulting in a temporary domestic surplus with average plant utilization falling below minimum threshold levels (Ahmed, 2026). However, this buffer evaporated instantly. By March 2026, following direct military strikes on energy infrastructure across the Gulf, including Qatar's vital Ras Laffan liquefaction facility, which subsequently declared force majeure, only two shipments successfully navigated to Pakistani ports (Ahmed, 2026; Gupta, 2026).

Consequently, procurement costs experienced an unprecedented surge. The average cost of state-procured cargoes spiked by 19% in a single month to $12.49 per MMBtu, with market projections pushing spot LNG prices well above $20/MMBtu as panicking South Asian buyers scramble to secure replacement volumes in a fundamentally broken market (Gupta, 2026).

NEPRA PROJECTED POWER PURCHASE PRICE BY TECHNOLOGY: CY 2026

Source	Generation (Min Units)	Fuel Cost (Rs/kWh)	Capacity Charges (Min Rs)	Capacity Charges (Rs/kWh)	PPP (Rs/kWh)
Bagasse	669	11.27	3,203	4.79	17.66
Gas	9,505	10.81	25,883	2.72	14.51
Hydel	40,601	—	478,153	11.78	12.00
Imported Coal	11,575	11.86	389,856	33.68	45.94
Thar Coal	17,778	11.28	241,401	13.58	25.27
Nuclear	23,648	2.50	433,855	18.35	20.85
RLNG	17,675	20.33	140,453	7.95	**28.95**
RFO	2,730	35.47	23,128	8.47	45.97
Solar	814	—	32,681	40.15	40.15

Source	Generation (Min Units)	Fuel Cost (Rs/kWh)	Capacity Charges (Min Rs)	Capacity Charges (Rs/kWh)	PPP (Rs/kWh)
Wind	4,027	—	151,086	37.52	37.52
Import	424	24.25	3,618	8.54	32.79
Grand Total	**125,822**	**7.74**	**2,163,316**	**17.19**	**25.32**

Key Takeaways: Power Purchase Price (PPP)

- **RLNG Exposure:** RLNG remains a disproportionate cost driver. At Rs 28.95/kWh PPP, it is significantly costlier than local bagasse, local gas, hydel, and nuclear options.
- **Imported Coal & RFO Risk:** Imported Coal (Rs 45.94/kWh) and RFO (Rs 45.97/kWh) reflect extreme vulnerability to volatile international fuel shipping lanes.
- **Capacity Charge Lock-In:** Out of the Grand Total PPP of Rs 25.32/kWh, Capacity Charges constitute Rs 17.19/kWh (67.9%), leaving the system highly exposed to supply failures.

Source: National Electric Power Regulatory Authority (NEPRA), Projected Power Purchase Price for CY 2026.

Table below presents the NEPRA Projected Power Purchase Price (PPP) for the Calendar Year 2026 disaggregated by generation technology (Scenario-I assumptions: 1% demand growth, PKR/USD at 282/285, KIBOR at 10.7%/10.5%). The data illuminates the singular cost exposure created by RLNG dependency: although RLNG contributes only 17,675 million units of generation, representing 13.7% of the national dispatched volume, it accounts for Rs 359.28 billion or 36.9% of the total national fuel bill at a unit fuel cost of Rs 20.33/kWh, the second highest among all thermal technologies. The Grand Total Power Purchase Price reaches Rs 3,185.98 billion, of which fixed capacity charges alone constitute Rs 2,163.32 billion (67.9%), a structural lock-in that renders the variable cost of RLNG supply disruption additionally acute (NEPRA, 2026).

NEPRA PROJECTED MONTHLY POWER PURCHASE PRICE, CY 2026

Month	Sold to DISCOs (Min Units)	Fuel Cost (Rs/kWh)	Capacity Charges (Min Rs)	PP Price (Rs/kWh)	PPP (Min Rs)	PPP (Rs/kWh)
Jan-26	7,771	10.40	158,158	20.35	241,984	**31.14**

Month	Sold to DISCOs (Min Units)	Fuel Cost (Rs/kWh)	Capacity Charges (Min Rs)	PP Price (Rs/kWh)	PPP (Min Rs)	PPP (Rs/kWh)
Feb-26	6,635	6.73	157,541	23.74	204,188	**30.77**
Mar-26	8,169	8.00	156,575	19.17	224,768	27.51
Apr-26	10,220	8.25	160,875	15.74	248,992	24.36
May-26	12,589	8.43	160,493	12.75	272,649	21.68
Jun-26	13,814	7.71	161,807	11.71	274,430	**19.87**
Jul-26	14,073	7.09	165,025	11.73	270,516	**19.22**
Aug-26	14,063	7.10	164,111	11.67	269,415	**19.16**
Sep-26	12,723	7.46	163,183	12.83	263,072	20.68
Oct-26	10,360	7.87	160,730	15.51	246,662	23.81
Nov-26	7,783	6.24	159,316	20.47	210,265	27.02
Dec-26	7,621	8.02	155,501	20.41	219,040	28.74

Month	Sold to DISCOs (Min Units)	Fuel Cost (Rs/kWh)	Capacity Charges (Min Rs)	PP Price (Rs/kWh)	PPP (Min Rs)	PPP (Rs/kWh)
Grand Total	**125,822**	**7.74**	**1,923,316**	**15.29**	**2,945,979**	**23.41**

Monthly Pricing Mechanics:

- **Seasonal Dynamics:** Power prices are heavily seasonal. Winter months (Jan–Mar, Nov–Dec) see much higher per-unit capacity charges (peaking at Rs 31.14/kWh in Jan) due to low dispatch volume against fixed-capacity-payment baselines.
- **Summer Risks:** Lowest PPP is achieved in summer (Jun–Aug) ranging between Rs 19.16 to Rs 19.87/kWh. An RLNG disruption during this peak-demand cooling window would force expensive fuel substitution, triggering blackouts and grid instability.

Table below disaggregates the same PPP across calendar months, revealing a pronounced seasonal structure. Summer months (June–August) record the highest dispatch volumes exceeding 14,000 million units per month, driven by peak cooling demand, yet benefit from relatively lower per-unit capacity charges as the fixed cost is spread across greater output. Conversely, winter months (January, February, December) carry the highest Rs/kWh burden, peaking at Rs 31.14/kWh in January, reflecting suppressed dispatch against an unyielding fixed-capacity-payment base. Any Strait of Hormuz-induced RLNG supply disruption during the June–August peak-demand window would therefore simultaneously trigger the most severe physical shortfall and the most economically costly substitution scenario, given that no fuel can replace RLNG at comparable cost within a six-month operational horizon (NEPRA, 2026; International Energy Agency, 2026).

ENERGY SHOCK IMPACT ASSESSMENT: PRE-WAR BASELINE VS. CONFLICT PERIOD

Critical Metric	Energy Component	Pre-War Average (2025)	Conflict Period (March-April 2026)	Strategic Macroeconomic Impact
LNG Received	Maritime Cargoes	8 to 12 cargoes per month	2 cargoes per month *(Purchasing 3 at high spot prices)*	**Severe power sector rationing; localized rolling blackouts across industrial zones.**
LNG Procurement Cost	Import Ledger	~$10.47 per MMBtu	>$12.49 per MMBtu *(Spot market prices >$20)*	**Exponential surge in power-sector circular debt and**

Critical Metric	Energy Component	Pre-War Average (2025)	Conflict Period (March-April 2026)	Strategic Macroeconomic Impact
				consumer retail tariffs.
Industrial Gas Supply	Fertilizers/Textiles	Full Contractual Allocation	78 MMCFD suspended	**Fertilizer/Textile output drop; imminent agricultural cost inflation.**
Regasification Rate	LNG Terminals	500 MMCFD	100 MMCFD	**Grid instability; baseload generation shortfalls.**

Strategic Takeaway: The conflict has triggered a multi-dimensional energy shock — slashing LNG inflows, escalating costs, curtailing industrial supply, and destabilizing the power sector with severe macroeconomic consequences. *Source: Data compiled and synthesized from PRIED, Wood Mackenzie, and internal Ministry of Energy reports.*

In immediate response to this profound supply shock, Pakistan's energy ministry was forced to enact emergency gas management protocols to prevent a total systemic collapse. Industrial supply was heavily curtailed; approximately 78 million cubic feet per day (mmcfd) of critical LNG supply directed to the fertilizer sector was suspended to prioritize residential consumers and core power generation (Ahmed, 2026). Furthermore, the regasification rate at the nation's two primary LNG terminal facilities was violently slashed from 500 mmcfd to a mere 100 mmcfd to stretch existing physical reserves through the duration of the crisis (Ahmed, 2026). To offset this deficit, the government brought 350 mmcfd of previously curtailed domestic gas back online (Ahmed, 2026). While Pakistan's Strategic Petroleum Reserve (SPR) and state-owned entities maintain roughly 28 days of finished petroleum stocks, this operational buffer is demonstrably insufficient for a protracted, multi-quarter conflict scenario, exposing the industrial base to imminent paralysis (Discovery Alert, 2026).

Informal Economy: Iranian Fuel

Beyond the formal LNG market, the disruption to informal fuel supply channels creates an equally severe, and politically explosive secondary crisis. An often overlooked but structurally vital dimension of Pakistan's energy matrix is the massive informal economy surrounding the illicit importation of Iranian petroleum products. Driven by international sanctions on Iranian crude and steep fuel price differentials, this smuggling network provides a critical economic lifeline to border communities. Prior to strict border enforcement initiatives, an estimated 15-16 million liters of Iranian diesel and petrol were smuggled into Pakistan daily, accounting for a staggering 14% of Pakistan's total annual petrol consumption (Kiani, 2026).

By early 2026, heightened border security and physical disruptions caused by the war itself reduced this volume drastically to 5-6 million liters per day. This illicit trade, which utilizes a shadow fleet of approximately 2,000 modified vehicles, is valued at roughly $1 billion annually (Kiani, 2026). The formal state views this as a profound fiscal hemorrhage, estimating a tax and duty shortfall of $820 million to $1 billion for the Federal Board of Revenue (FBR) and placing immense commercial pressure on the five domestic refineries operating under the Oil Companies Advisory Council (OCAC) (Kiani, 2026).

However, the sudden, conflict-induced scarcity of this artificially cheap fuel has inflicted immediate and severe economic hardship on the impoverished border province of Balochistan. The evaporation of this illicit supply has triggered localized hyperinflation, crippled informal transportation networks, and fomented civil unrest against federal law enforcement agencies (Kiani, 2026). This crisis underscores a monumental structural failure of state policy: the long-delayed Iran-Pakistan (IP) gas pipeline, which was paralyzed for over a decade by the fear of US secondary sanctions, could have formalized this trade, generated transit revenues, and ensured domestic energy security. Instead, the pipeline remains a permanent casualty of the geopolitical standoff, leaving Pakistan to suffer the consequences of an unmanaged, volatile border economy (Gul, 2026; Modern Diplomacy, 2026).

4. Decline of Petrodollar, De-dollarization, Renminbi Trade and Monetary Realignment

Weaponization of the Strait and Currency Coercion

The fiscal and energy shocks traced in the preceding sections are inseparable from a deeper restructuring of the global monetary order. The 2026 US-Iran war has catalyzed a historic, tectonic shift in international monetary policy, violently accelerating global fatigue over the weaponization of the US dollar. For half a century, the petrodollar system, a geopolitical architecture wherein Gulf oil exporters agreed to price crude exclusively in US dollars and recycle the massive trade surpluses into US Treasury bonds, served as the fundamental bedrock of American global monetary hegemony (Spiro, 1999). By imposing a de facto blockade on the Strait of Hormuz and demanding a "Tehran toll" (reported at $1 per barrel or $2 million per supertanker) payable exclusively in Chinese Yuan (RMB), algorithmic stablecoins, or Iranian Rials, the Islamic Revolutionary Guard Corps (IRGC) has introduced an unprecedented and radical form of "currency coercion" to the global energy markets (Spiro, 1999; Pan, 2026).

This severing of physical oil flow inevitably and instantly disrupts the financial recycling of petrodollars. Without the uninterrupted sale of Gulf oil, the surplus dollars required to purchase American debt simply do not exist in the required volumes. The immediate financial fallout was stark: foreign central banks aggressively sold off $82 billion in US Treasury bonds in March 2026 alone, driving total foreign holdings at the Federal Reserve Bank of New York to their absolute lowest levels since 2012 (Pan, 2026). This profound structural opening has empowered the People's Republic of China to negotiate long-term energy settlements in its own sovereign currency, definitively cementing a shift towards monetary multipolarity among Global South states that view the dollar-centric system as a strategic liability (Asialink, 2026).

Project mBridge and Pakistan's Calibrated Monetary Hedging

The technological and institutional infrastructure facilitating this rapid de-dollarization is Project mBridge. Originally incubated under the Bank for International Settlements (BIS) Innovation Hub, this cross-border wholesale Central Bank Digital Currency (CBDC) platform securely connects the central banks of China, the UAE, Saudi Arabia, Hong Kong, and Thailand (Chhangani, 2026). Following the BIS's strategic departure from the project's governance in late 2024, transaction volumes on the decentralized ledger exploded. By the first quarter of 2026, mBridge had successfully processed over 4,000 real-value corporate and state transactions worth an astonishing $55.49 billion, with China's digital yuan (e-CNY) commanding 95.3% of the total settlement volume (Asialink, 2026).

For Pakistan, integration into this emerging alternative financial architecture is no longer merely theoretical; it is a matter of sovereign economic survival. Pakistan's Finance Minister, Muhammad Aurangzeb, confirmed during the April 2026 World Bank-IMF Spring Meetings in Washington that nearly a quarter of all bilateral trade with China is now settled directly in Renminbi, supported by rapidly expanding currency swap arrangements between the SBP and the People's Bank of China (PBOC) (The Daily CPEC, 2026). The deep integration of the Gulf states, particularly the UAE and Saudi Arabia, into the mBridge platform means that Pakistan could theoretically settle its massive energy imports and receive diaspora remittances using digital Yuan or digital Dirhams, completely bypassing traditional SWIFT vulnerabilities, exorbitant Western correspondent banking fees, and the ever-present threat of secondary sanctions (Chhangani, 2026).

However, premature or uncalibrated de-dollarization remains exceptionally risky for Pakistan. The nation is bound by $138 billion in external debt and liabilities, the vast majority of which are strictly denominated in US dollars and owed to Western-dominated multilateral institutions like the IMF and World Bank (Ministry of Finance, Government of Pakistan, 2026). An abrupt abandonment of the greenback would instantly trigger a sovereign default cascade. Consequently, the SBP and Ministry of Finance must execute a highly calibrated hedging strategy. This requires retaining sufficient dollar liquidity to diligently service IMF and multilateral obligations, while simultaneously utilizing the RMB and digital ledger (Asialink, 2026) technologies to insulate regional trade, secure Gulf energy imports, and finance CPEC Phase II industrial investments from the immediate geopolitical fallout (Zhang, 2026).

Beyond Project mBridge, the academic and policy literature identifies a tiered architecture of proven, institutionally grounded alternatives to petrodollar dependency that Pakistan should formally integrate into its monetary hedging strategy. At the multilateral level, the International Monetary Fund's Special Drawing Rights (SDRs), a composite reserve asset comprising the US dollar, euro, Chinese renminbi, Japanese yen, and British pound, represent the most widely endorsed supranational liquidity instrument for countries seeking to reduce bilateral dollar exposure while maintaining multilateral legitimacy (Williamson, 2009; Stiglitz, 2010; Zhou, 2009). Pakistan's expanded SDR allocation of approximately $2.75 billion following the IMF's 2021 general allocation provides a liquid, non-dollar reserve buffer that the State Bank of Pakistan can deploy for import financing without triggering exchange rate volatility associated with dollar-denominated transactions (International Monetary Fund, 2021). The BIS Innovation Hub's ongoing multi-CBDC research under Project Dunbar, which established the technical feasibility of real-time cross-border settlement using central bank digital currencies across heterogeneous monetary regimes, further validates the institutional pathway that mBridge is attempting to commercialise (Bank for International Settlements, 2022).

At the bilateral and regional level, the BRICS New Development Bank (NDB), now expanded to include Saudi Arabia, the UAE, Egypt, Ethiopia, Iran, and Argentina, has operationalized local currency loan disbursements, with approximately 30% of its 2024 portfolio denominated in non-dollar currencies (NDB, 2024). Pakistan's status as a prospective BRICS partner country creates a credible pathway to access NDB infrastructure financing in renminbi or rupees, directly reducing

the dollar-denominated debt service burden that the petrodollar disruption has rendered acutely dangerous. Concurrently, the Pakistan-China bilateral currency swap agreement, extended in 2023 to RMB 30 billion (approximately $4.2 billion), provides a direct renminbi liquidity facility that the SBP can activate to settle energy and trade payments outside the SWIFT-dollar corridor (State Bank of Pakistan, 2023). Historical precedent for commodity-backed barter arrangements further exists: Pakistan's existing framework for barter trade with Russia and Iran that covers wheat, rice, and textile exports in exchange for petroleum products, represents a de-dollarized trade channel that warrants aggressive formalisation and scaling under the current crisis conditions (Ahmed, 2026; Modern Diplomacy, 2026).

5. Green Energy Imperative: Turning Crisis into Structural Transformation

Consumer-led Solar Revolution and Grid Defection

Paralleling the monetary realignments driven by petrodollar erosion, the most profound and rapidly accelerating structural transformation occurring within Pakistan's domestic economy is the consumer-driven transition to distributed renewable energy. Historically plagued by chronic power outages, massive transmission and distribution (T&D) losses, and exorbitant, unpayable consumer tariffs, the Pakistani populace has responded to the fossil-fuel import crisis not with protests, but by deploying distributed solar photovoltaic (PV) generation at a staggering, unprecedented pace (Amjad, 2026; REN21, 2025). Over the past five years, culminating in the data available for early 2026, Pakistan imported an astonishing 50 gigawatts (GW) of Chinese solar panels. To contextualize this figure, it effectively matches and potentially exceeds the entire installed thermal and hydro generation capacity of the national grid (46.6 GW) (Sayed, 2026).

This phenomenon, which was termed "solar supernova" by energy analysts, was catalyzed by a complete collapse in global module prices, which plummeted to historic lows of $0.07–$0.09 per watt due to Chinese manufacturing overcapacity, coupled with deeply punitive domestic electricity tariffs designed to recover IMF-mandated circular debt payments (Sayed, 2026). By the first quarter of 2026, the Power Planning and Monitoring Company (PPMC) estimated that approximately 7,000 MW of net-metered solar capacity was formally connected to the national grid. More critically, a massive 13,000 to 14,000 MW of solar capacity is now operating completely off-grid, powering industrial units, agricultural tube wells, and affluent residential clusters independently of the state apparatus (NEPRA, 2026). Consequently, solar generation provided over 25.3% of Pakistan's total utility electricity between January and April 2026, fundamentally shielding the broader economy from the absolute worst impacts of the LNG supply collapse and the Hormuz blockade (Farooq, 2026).

PAKISTAN SOLAR SECTOR OUTLOOK: CAPACITY & IMPACT ASSESSMENT

National Solar Capacity Metrics	2022–2023 Baseline	2025–2026 Status	Growth / Impact	Key Implication
Cumulative PV Module Imports	~3.0 GW	**~50.0 GW**	~16x Increase	Reflects rapid, unregulated scale-up in consumer solar adoption.
Grid-Connected (Net-Metered)	<1.0 GW	**7.0 GW**	Severe Revenue Loss	Growing impact on DISCOs' financial sustainability and capacity recovery.
Independent Off-Grid Installations	Negligible	**13.0 – 14.0 GW**	Mass Grid Defection	Affluent consumers exiting the public grid entirely to avoid circular debt charges.
Solar Share of Utility Power Mix	<5.0%	**~25.3%**	**Transformative Shift**	Solar has emerged as a major baseload shielding the economy from fuel blockades.

Key Takeaway: Consumer-led decentralized solar has outpaced public energy planning, effectively creating a parallel generation system. This shields the private sector but leaves the state grid in a fiscal tailspin. *Source: Data compiled from Ember Analytics, TransitionZero satellite imagery analysis, NEPRA, and SDPI reports.*

Regulatory Pushback, Systemic Risk, and Green CPEC

This consumer-driven solar surge, transformative as it is, has simultaneously revealed the structural fragility of a power sector still anchored to fossil-fuel capacity payments. However, the uncontrolled proliferation of distributed solar has precipitated a severe, existential revenue crisis for the state-owned distribution companies (DISCOs). As affluent urban consumers and commercial entities defect from the grid, the fixed dollar-indexed capacity payments owed to thermal Independent Power Producers (IPPs) are disproportionately pushed onto lower-income consumers who cannot afford capital-intensive solar installations, vastly exacerbating socio-economic inequality and the national circular debt (REN21, 2025).

In April 2026, the National Electric Power Regulatory Authority (NEPRA) intervened decisively, effectively penalizing the clean energy transition to save the state's balance sheet. NEPRA abruptly abolished the favourable ‘one unit for one unit’ net-metering regime for new consumers, instituting a highly regressive "net billing" model. The buyback rate for surplus solar electricity sold to the grid was slashed by over 60%, dropping from Rs 25.32 to a mere Rs 8.13 per unit, and the

contract validity period was reduced from seven to five years (NEPRA, 2026). While intended to stabilize the collapsing economics of the national grid, energy experts universally warn this regulatory hostility will inevitably backfire, merely accelerating total grid defection as consumers pair cheap solar panels with increasingly affordable lithium-ion battery storage systems to achieve total energy autarky (NEPRA, 2026).

Simultaneously, the geopolitical flagship of the nation, the China-Pakistan Economic Corridor (CPEC), has undergone a fundamental forced pivot. The initial phase of CPEC was heavily and dangerously carbon-intensive, with a massive 28% of all energy investments directed towards imported coal infrastructure (Sustainable Development Policy Institute, 2026). Recognizing the terminal vulnerabilities of maritime fossil fuel supply chains, starkly highlighted by the ongoing Hormuz blockade, and aligning strictly with President Xi Jinping's 2021 moratorium on overseas coal financing, the strategic focus has shifted entirely to "Green CPEC" (CPEC Phase II) (Farooq, 2026; Sustainable Development Policy Institute, 2026). Initiatives formalized at the March 2026 regional Green CPEC Alliance conference aim to permanently transition Pakistan from a mere importer of Chinese solar modules to an integrated regional manufacturing hub. Chinese industrial behemoths, such as the Hebei Juhang Energy Technology Group, have committed to establishing vast Special Economic Zones (SEZs) in Sindh and the Punjab dedicated entirely to solar PV assembly, battery storage, and electric vehicle (EV) manufacturing (specifically BYD assembly plants slated for late 2026) (Farooq, 2026). This industrial pivot aligns perfectly with Pakistan's Nationally Determined Contributions (NDCs 3.0), which legally mandate a transition to 60% renewable energy by 2030 and an aggressive, binding phaseout of imported coal (Sustainable Development Policy Institute, 2026).

The solar revolution, however, remains structurally incomplete without co-deployed Battery Energy Storage Systems (BESS) to address the fundamental intermittency challenge. IRENA's 2024 global energy storage analysis establishes that solar photovoltaic systems paired with BESS at a storage-to-generation ratio of 0.3–0.5 kWh per kW-peak can achieve grid-parity dispatchability, transforming an inherently variable resource into a firm capacity equivalent (IRENA, 2024). For Pakistan, where rooftop solar penetration has already exceeded 14 gigawatts of installed capacity, the integration of residential and utility-scale BESS represents not merely a technical upgrade but a strategic imperative: it would resolve the grid defection crisis by enabling solar prosumers to consume their own stored energy during peak evening hours rather than feeding surplus generation into a transmission system unable to absorb it, thereby reducing the structural revenue shortfall that has driven the NEPRA net-billing transition (Pakistan Institute of Development Economics, 2026; TransitionZero, 2026). At the utility scale, BESS facilities collocated with planned solar parks in the Punjab and Sindh, with capacities in the range of 100–500 MWh per installation, would provide the spinning reserve and frequency regulation services currently supplied almost exclusively by RLNG-fired open-cycle gas turbines, directly displacing the most expensive and geopolitically exposed generation technology in the national merit order (International Energy Agency, 2026).

The manufacturing dimension of this energy transition represents an equally compelling strategic opportunity. Pakistan's nine operational Special Economic Zones (SEZs) developed under CPEC Phase II, including Rashakai Economic Zone (KP), Allama Iqbal Industrial City (Punjab), Dhabeji SEZ (Sindh), and Bostan Industrial Zone (Balochistan), possess the land, grid connections, and Chinese industrial partnership frameworks required to host indigenous solar photovoltaic module manufacturing at industrial scale (Manohar Parrikar Institute for Defence Studies and Analyses, 2026; Sustainable Development Policy Institute, 2026). China's dominant global position in PV module manufacturing, supplying approximately 80% of global module output and having driven the price collapse from $0.38/W in 2022 to below $0.10/W by 2025, creates a technology transfer and joint-venture opportunity that is uniquely accessible to Pakistan through CPEC institutional channels (REN21, 2025; Farooq, 2026). A domestically manufactured solar module supply chain, even at an initial capacity of 1–2 GW per annum, would simultaneously reduce Pakistan's annual module import expenditure (currently estimated at $800 million to $1.2 billion per year), generate

skilled industrial employment across the SEZ host communities, and position Pakistan as a regional export hub for South and Central Asian solar markets, consistent with the Uraan Pakistan 5Es export-led growth paradigm (Ministry of Planning, Development and Special Initiatives, 2026a).

Battery manufacturing, particularly the rapidly commercializing sodium-ion chemistry, offers an equally transformative industrial pathway. Unlike lithium-ion batteries, which depend on lithium, cobalt, and nickel supply chains concentrated in geopolitically sensitive territories, sodium-ion cells utilise abundant, low-cost precursors, sodium carbonate (soda ash), iron, and manganese, that are available domestically or through established regional supply chains (Faradion, 2023; CATL, 2023). CATL's first-generation sodium-ion cell, commercialized in 2023 at an energy density of 160 Wh/kg and a cycle life exceeding 3,000 full cycles, has demonstrated cost parity with lithium iron phosphate (LFP) cells at the system level for stationary storage applications, the precise application profile required for Pakistan's BESS integration agenda (CATL, 2023; IEA, 2024). BYD's second-generation sodium-ion platform, deployed in the EV segment from 2024, further validates the technology's maturation trajectory. A CPEC-anchored joint venture between a Pakistani industrial partner and a Chinese battery manufacturer, potentially sited within the Rashakai or Allama Iqbal SEZ, to produce sodium-ion BESS units at a targeted initial capacity of 500 MWh per annum would address three structural vulnerabilities simultaneously: it would supply the BESS units required for grid stabilisation at domestically manufactured cost, create a high-value manufacturing sector immune to petrodollar volatility, and establish a technology base for Pakistan's participation in the global battery supply chain at a moment when that supply chain is being actively diversified away from exclusive Chinese or Korean concentration (IRENA, 2024; NDB, 2024).

6. Trade Routes, CPEC Resilience and Reconfiguration of Regional Connectivity

Gabd-Rimdan Corridor and Bypass of Maritime Choke Points

Just as the energy crisis has accelerated Pakistan's domestic renewable transition, it has simultaneously compelled a radical rethinking of physical trade logistics. The devastating economic fallout of the US-Iran war has violently underscored the extreme fragility of maritime trade, particularly routes wholly dependent on the geopolitical stability of the Strait of Hormuz, the Bab al-Mandab Strait, and the Suez Canal. To insulate its export-oriented industries from oceanic blockades and skyrocketing maritime insurance premiums, Pakistan has rapidly and aggressively accelerated the operationalization of secure overland trade corridors into Eurasia (Nizami, 2026; Flesch & Smyth, 2026).

TRANSIT ROUTE REALIGNMENT: GABD-RIMDAN & WAKHAN BYPASS

MARITIME VULNERABILITY

- Karachi/Gwadar Ports
- Persian Gulf & Strait of Hormuz choke point
- War blockade & high maritime insurance costs

→

GABD-RIMDAN TIR CORRIDOR

- Karachi/Gwadar SEZs overland road link
- Gabd-Rimdan Terminal & Iran road transit

→

WAKHAN CORRIDOR BYPASS

- Gilgit-Baltistan northern high-altitude highway
- Wakhan panhandle direct corridor
- Sino-Central Asian safe transport loop

A landmark strategic achievement occurred in early April 2026 with the formal activation and integration of the Gabd-Rimdan border terminal, which is located just 70 kilometers west of the Gwadar deep-sea port in Balochistan province (Aaj TV, 2026). Formally designated as a TIR (Transports Internationaux Routiers) crossing by the International Road Transport Union following intense lobbying by the IRT Chamber, the Gabd-Rimdan corridor allows sealed containerized cargo to move seamlessly from the industrial hubs of Karachi and Gwadar, directly through Iranian territory, to the lucrative, landlocked markets of the Central Asian Republics (CARs), specifically Uzbekistan (Khan, 2026; Aaj TV, 2026).

The inaugural commercial shipment, consisting of frozen meat dispatched to Tashkent in mid-April 2026, marked a fundamental strategic breakthrough in regional logistics (Anadolu Agency, 2026). By legally utilizing Iranian land routes under the TIR convention, Pakistan entirely mitigates its historical reliance on the politically unstable and heavily contested Afghan transit corridors (Chitral Today, 2026) while simultaneously circumventing the severe maritime risks in the Persian Gulf and Arabian Sea. This corridor integrates synergistically with the Gwadar Special Economic Zone, fundamentally elevating the port's status. Gwadar is no longer merely a vulnerable maritime outlet; it is now actively functioning as a multimodal transshipment nexus for deep Eurasian economic integration (The Express Tribune, 2026).

Wakhan Corridor: A Neutral Artery for Eurasian Commerce

Looking further north toward the high-altitude frontiers, military logistics planners and trade economists increasingly focused on the untapped potential of the Wakhan Corridor, a narrow, forbidding 13–16 kilometer geographical panhandle connecting northeastern Afghanistan to China's Xinjiang province, and effectively separating Pakistan's Gilgit-Baltistan region from Tajikistan (Nizami, 2026).

Geopolitical analysts strongly argue that transforming this geographic anomaly into a politically insulated, neutral trade artery could revolutionize South-Central Asian connectivity, providing a secondary failsafe against maritime disruptions (Nizami, 2026). Much like the Suez or Panama canals function as globally protected waterways, a rules-based, demilitarized Wakhan route could guarantee uninterrupted overland commerce regardless of bilateral diplomatic tensions or localized security disruptions (Nizami, 2026). When coupled with the existing infrastructure of the Karakoram Highway (KKH) and CPEC's northern nodes, this bypass creates a secure, "war-proof" supply chain loop. Economic modeling suggests this route could generate an estimated $450 million annual trade surplus and save the national exchequer upwards of $240 million in energy transmission costs via the integration of the CASA-1000 electricity project (Modern Diplomacy, 2026). The aggressive expansion and modernization of these land-based networks are essential for building long-term macroeconomic resilience against future oceanic blockades and naval warfare.

7. Domestic Political Economy, Inflation, Inequality and Social Stress

Cost of Living Crisis, Poverty Trap and Human Development Failures

While the preceding sections have mapped Pakistan's external vulnerabilities and strategic repositioning, the conflict's most immediate human cost is felt at the household level. The profound macroeconomic shocks generated by the conflict, transmitted via energy markets and currency depreciation, are rapidly filtering down to Pakistan's domestic political economy, resulting in acute, widespread social stress. The disruption in global supply chains, exponentially rising freight costs, and energy price volatility have entrenched a severe, potentially destabilizing cost-of-living crisis.

The scale of deprivation is staggering. According to the World Bank's updated global poverty assessment, around 44.7% of Pakistan's population now lives below the international poverty line, set at $4.20 per person per day for lower-middle-income countries, meaning more than 107 million people earn less than the equivalent of Rs1,200 a day (World Bank, 2026). Extreme poverty, now measured at the revised threshold of $3 per person per day, has surged to 16.5% of the population — up from 4.9% under the previous $2.15 benchmark, placing more than 39.8 million Pakistanis in the extreme poverty category. Critically, the World Bank's March 2026 update to the Poverty and Inequality Platform incorporated new survey data from Pakistan, triggering a significant upward revision in the extreme poverty rate for the Middle East, North Africa, Afghanistan, and Pakistan region — the only region in the world where extreme poverty has increased in recent years, adding an estimated 21 million people to the poverty count. At the national poverty line, the picture has shown some modest improvement: the estimated national poverty rate declined from 25.3% in FY24 to 22.5% in FY25, reflecting lower food inflation and a modest recovery in real GDP growth to 3% in FY25. However, this stabilization remains fragile. Downside risks persist due

to constrained fiscal space, high external financing needs, modest foreign reserves, and policy uncertainty, with structural reforms remaining critical for a return to durable poverty reduction.

This pervasive economic distress draws alarming historical parallels to the social upheaval witnessed during the 1973 OPEC oil shock (Shechter, 2026; Flesch & Smyth, 2026). Small and Medium Enterprises (SMEs), which form the backbone of the domestic employment sector, face an existential threat. High borrowing costs, combined with disrupted supply chains and unreliable grid power, have triggered widespread insolvencies within the light manufacturing and textile sectors (Fitch Ratings, 2026). The agricultural sector, vital for national food security, is similarly squeezed by suspended fertilizer production due to the diversion of LNG, threatening future crop yields and guaranteeing sustained food inflation (Ahmed, 2026). Across the broader MENAAP region, sustained increases in energy prices are generating inflationary pressures through higher production costs and rising food prices, with effects extending well beyond the direct conflict zone.

The State of Pakistan's Economy 2025–26 report, authored by the Center for Business and Economic Research at the Institute of Business Administration (CBER-IBA), categorizes the government's current policy orientation as a tragic "missed opportunity" (Zafar et al. 2025). The report highlights a critical failure in human capital investment: Pakistan's Human Development Index (HDI) remains stagnant at a "Low" score of 0.544, significantly below the South Asian average of 0.672 (Zafar et al. 2025). Mean years of schooling sit at a dismal 4.3 years (Zafar et al. 2025). A recent World Bank assessment similarly warns that Pakistan's growth model has proven insufficient to sustain poverty reduction, with perverse institutional incentives and elite capture limiting the country's productive capacity and crowding out investments needed to equitably distribute the benefits of economic growth. Alarmingly, financial losses accumulated by inefficient State-Owned Enterprises totaling PKR 772.4 billion in FY24 dwarf the entire national budget allocated to the Benazir Income Support Programme (BISP), highlighting a systemic misallocation of state resources that favours elite capture over poverty alleviation (Zafar et al. 2025).

Circular Debt and 5Es Paradigm of 'Uraan Pakistan'

The most intractable and fiscally dangerous domestic challenge remains the power sector's systemic circular debt. As of February 2026, the Ministry of Energy's Power Division officially reported the circular debt stock at Rs 1.837 trillion, claiming a temporary reduction of Rs 780 billion (Business Recorder, 2026a). However, independent assessments and NEPRA data suggest the broader, unfunded systemic burden is significantly higher, hovering near Rs 2.4 trillion (State Bank of Pakistan, 2025). The relentless accumulation of this debt is driven by systemic T&D inefficiencies, rampant electricity theft, unbudgeted political subsidies, and the crushing weight of dollar-indexed capacity payments guaranteed to IPPs (Pakistan Institute of Development Economics, 2026). Under strict IMF directives, the government is legally mandated to execute a Circular Debt Management Plan by July 2026, requiring the phase-out of un-targeted subsidies and the imposition of stringent, full-cost recovery tariffs, which will inevitably place an even heavier, potentially unsustainable burden on the rapidly shrinking middle class (Pakistan Institute of Development Economics, 2026).

5ES PILLAR: CORE 2026–2035 STRATEGIC OBJECTIVES & QUANTITATIVE TARGETS

5Es Pillar	Core 2026–2035 Strategic Objectives & Quantitative Targets	Primary Performance Metrics
🌐 **Exports**	Aggressively double national exports to **$60 billion** annually by 2029; structural shift from low-value textiles to precision manufacturing, IT services, and the blue economy (Bukhari, 2026).	Export value expansion; reduction of the trade deficit.
💻 **E-Pakistan**	Target **$25 billion** in standalone IT exports; achieve near-complete digitalization of federal and provincial public services and governance (Bukhari, 2026).	IT service exports; transaction tracking on e-governance portals.
🌿 **Environment**	Implement NDCs 3.0 framework; construct infrastructure for **10 million acre-feet** of new water storage; achieve **50% absolute GHG emission reduction** (Ministry of Planning, Development and Special Initiatives, 2026).	Emissions tracking; new reservoir storage volume metrics.
⚡ **Energy**	Transition to **60% renewables** in the power mix; legally phase out imported coal usage; permanently eliminate power sector circular debt flows (Business Recorder, 2026a).	Percentage of renewables on the grid; circular debt flow reduction.
🤝 **Equity**	Generate **1.5 million formal jobs** annually; aggressively reduce the national poverty rate by **13%**; integrate **26.3 million** out-of-school children into the education system (Bukhari, 2026).	Poverty census; out-of-school child registration indexes.

Strategic Assessment Note: Achieving these targets requires an annual GDP growth rate of **9.8%**, a target deemed mathematically impossible under current debt-and-import constraints without painful structural reforms (Bukhari, 2026). *Source: Data synthesized from the National Economic Transformation Plan (Uraan Pakistan) and Ministry of Planning directives.*

To theoretically counter this trajectory of economic decay, the Ministry of Planning, Development & Special Initiatives officially launched the "Uraan Pakistan" (Flight Pakistan) framework, predicated on the 5Es National Economic Transformation Plan: Exports, E-Pakistan, Environment, Energy, and Equity (Iqbal, 2026; Ministry of Planning, Development and Special Initiatives, 2026).

While the "Uraan Pakistan" blueprint provides a highly comprehensive, theoretical architecture for elevating Pakistan to a $1 trillion economy by 2035, objective economic appraisals view it with profound skepticism (Bukhari, 2026). Critics correctly note that achieving the requisite 9.8% annual

compound growth rate is mathematically and structurally impossible without profound, politically painful reforms that eradicate the traditional, debt-fueled "boom-and-bust" consumption cycle (Ministry of Planning, Development and Special Initiatives, 2026). Bridging the massive chasm between the planner's ambitious vision and the politician's willingness to execute structural reform remains the ultimate hurdle for state survival (Bukhari, 2026).

8. Policy Roadmap, Navigating Crisis and Building Long-Term Resilience

The diagnostic analysis across the preceding seven sections leads to a single urgent imperative as well as a coherent sequenced policy response calibrated to both the crisis timeline and Pakistan's structural constraints. The 2026 US-Iran war is not a transient localized geopolitical event; it is a violent catalyst for permanent global realignment. The destruction of energy infrastructure, the weaponization of the Strait of Hormuz, and the fracturing of the petrodollar system demand an immediate, systemic response. To survive the immediate macroeconomic shock and subsequently thrive in the emerging multipolar order, the Government of Pakistan must implement a calibrated uncompromising three-tiered policy roadmap.

Immediate Stabilization Measures (0-6 Months)

- **Diplomatic Insulation and Strategic Neutrality:** Pakistan must maintain its doctrine of strict military neutrality regarding the US-Israel-Iran conflict. The ongoing, high-level mediation efforts in Islamabad must be leveraged exclusively to secure explicit exemptions from US secondary sanctions and ensure the unhindered flow of humanitarian supplies, essential energy, and agricultural trade. Avoiding military entanglement preserves critical relations with both Riyadh and Tehran, preventing the importation of the conflict into Balochistan (Khan, 2026).
- **Emergency Forex and Remittance Defense:** The SBP must implement emergency zero-friction facilitation channels to secure and expedite diaspora remittances from the Gulf states. High-level contingency agreements with the UAE and Saudi Arabia are essential to guarantee the physical safety and employment status of Pakistani workers during hostilities. Furthermore, rolling over all bilateral debt obligations must be prioritized to

defend the fragile $16.4 billion reserve buffer against volatile surging energy import bills (TRT World, 2026).

- **Energy Conservation:** The Ministry of Energy must rigorously enforce nationwide energy conservation protocols. While the LNG shortage persists, domestic gas fields must be fully monetized and brought to maximum capacity. Non-essential industrial gas supplies must be temporarily, but ruthlessly, reallocated to core power generation and fertilizer production to prevent total grid collapse and impending food insecurity (Ahmed, 2026).

Medium-Term Reforms (6-24 Months)

Building on emergency stabilization, the medium-term agenda converts crisis adaptations into durable structural reforms.

1. **Scaling Overland Eurasian Trade:** The operational Gabd-Rimdan TIR corridor must be aggressively scaled from a pilot route into a primary logistics artery. Customs harmonization, tariff reductions, and IRU digital pre-declaration systems must be deeply integrated with Iranian and Central Asian authorities to create a high-volume maritime-independent trade network that bypasses the Persian Gulf entirely (Aaj TV, 2026).
2. **Restructuring Power Sector Economics:** NEPRA's punitive transition from net-metering to net-billing is a counterproductive stopgap. Instead, the regulatory framework must pivot towards comprehensive grid modernization and the integration of utility-scale battery storage. To prevent total grid defection by affluent industrial and residential consumers, the state must implement strict performance-linked subsidy caps for DISCOs (Sustainable Development Policy Institute, 2025) and shift the historical unpayable circular debt burden to sovereign fiscal accounts rather than penalizing active consumers.
3. **Calibrated Currency Hedging via mBridge:** The State Bank of Pakistan should formally accelerate its integration into the Project mBridge wholesale CBDC platform and establish robust, bilateral digital Yuan clearing mechanisms. Settling CPEC Phase II obligations and broader Eurasian trade in RMB will systematically de-risk the Pakistani economy from petrodollar volatility, US interest rate shocks, and the ever-present threat of Western secondary sanctions (Asialink, 2026).

Long-Term Structural Shifts (2-10 Years)

Emergency and medium-term interventions buy time; the long-term agenda determines whether Pakistan emerges permanently strengthened.

- **Green Industrial Transition (CPEC 2.0):** Pakistan must capitalize aggressively on the Green CPEC framework to transition from a passive consumer of imported Chinese solar technology to an integrated, regional manufacturing hub (Farooq, 2026). Establishing domestic PV assembly and battery manufacturing SEZs will generate mass employment, permanently reduce the fossil-fuel import bill, and ensure compliance with the NDC 3.0 mandate of 60% clean energy by 2030 (Sustainable Development Policy Institute, 2026).
- **Executing 5Es Framework:** The "Uraan Pakistan" vision must transition from theoretical rhetoric to binding, non-partisan legislation. Export diversification away from low-value textiles and into precision manufacturing, AI-integrated IT services, and the blue economy is the only mathematically viable mechanism to generate the $60 billion in annual exports required to break the cycle of perpetual IMF dependency (Bukhari, 2026).
- **Radical Human Capital Investment:** Economic resilience is fundamentally and inextricably tied to human development. The fiscal space created by the phase-out of fossil fuel subsidies and the restructuring of IPP contracts must be aggressively reallocated towards foundational education, technical upskilling, and the BISP social

protection programs. Reversing the expanding Gini coefficient and elevating the populace out of the current 43.5% poverty trap is not merely a moral imperative; it is the absolute prerequisite for sustainable state security (World Bank, 2026).

Taken together, these three horizons form a coherent strategic architecture that moves Pakistan from crisis management to structural resilience. The 2026 US-Iran war demonstrates unequivocally that the old global order, defined by unchallenged maritime shipping routes, unquestioned petrodollar hegemony, and reliance on fossil fuel imports, is irrevocably fracturing. For Pakistan, this systemic crisis presents extreme, immediate peril, but it simultaneously offers a narrow, historic window of opportunity to execute the profound structural transformations that have been delayed by political expediency for decades. The survival and future prosperity of the state depend entirely on the swift, uncompromising execution of this strategic recalibration.

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