

The March 2026 Iran War and Its Impact on Pakistan's Economy and Internal Stability

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Abstract

The Iran War of March 2026 has significantly reshaped the geopolitical dynamics of South Asia and the Middle East, creating a complex and multifaceted challenge for Pakistan. As a nation strategically positioned between these regions, Pakistan faces immediate threats to its energy security, economic stability, and infrastructure integrity. With over 80% of its petroleum imports reliant on the Strait of Hormuz, the closure of this vital shipping route would severely disrupt Pakistan's energy supply, triggering inflation and exacerbating its economic vulnerabilities. Additionally, Pakistan's dependency on remittances from the Gulf countries, particularly from Saudi Arabia and the UAE, is at risk of disruption due to potential labor market dislocations and large-scale evacuations in the region. The strategic value of the China-Pakistan Economic Corridor (CPEC), a cornerstone of Pakistan's economic future, is also threatened by regional militarization and instability. Furthermore, the conflict's humanitarian ramifications—particularly the risk of a refugee influx from Iran's Sistan and Baluchestan province—pose significant internal security challenges, potentially heightening ethno-sectarian tensions in Pakistan's own Balochistan province. Through the lens of structural realism, this paper explores how Pakistan's foreign policy choices are shaped by its material capabilities, strategic dependencies, and the imperative of regime survival in an anarchic international system. The analysis demonstrates that Pakistan's options, whether military neutrality, diplomatic mediation, or strategic hedging, are constrained by external power dynamics and internal stability concerns.

1. Introduction

The geopolitical architecture of South Asia and the Middle East fractured dramatically in March 2026 when the US–Israel–Iran conflict metastasized from strategic posturing into full-scale kinetic warfare. What began as surgical Israeli airstrikes on Iranian enrichment facilities rapidly escalated into a theater-wide confrontation, with Iranian Revolutionary Guard Corps (IRGC) retaliations disrupting maritime traffic through the Strait of Hormuz—a chokepoint through which approximately 20 million barrels per day of crude oil and petroleum products transited in 2024, representing roughly 20% of global petroleum liquids consumption (LSE Business Review, 2026) and 25% of world seaborne oil trade (International Energy Agency, 2026). For Pakistan, this conflagration represents not a distant regional crisis but an immediate existential contingency—one that demands urgent recalibration of its foreign policy posture given its 909-kilometer porous border with Iran (Office of the Geographer, 1979) and its pivotal geographic position as the corridor linking Central Asia, the Middle East, and the Indian Ocean rim (LSE Business Review, 2026).

The Middle East's strategic salience to Pakistan operates across three interconnected vectors. First, energy security: despite decades of diversification rhetoric, Islamabad remains structurally dependent on imported petroleum, with over 80% of its crude oil needs met through imports and approximately 80% of these crude imports transiting through the Strait of Hormuz (Discovery Alert, 2026; Kimani, 2026). During the first ten months of FY2025 alone, Pakistan's petroleum product imports exceeded \$12.1 billion (Dawn, 2026), with Saudi Arabia and the United Arab Emirates serving as the largest suppliers—accounting for \$3.75 billion and \$1.7 billion in crude oil imports respectively during FY2024 (Pakistan Bureau of Statistics, 2024). A protracted closure of Hormuz would precipitate an immediate supply-side shock, transmitting inflationary pressures through Pakistan's fragile energy sector; the Pakistan Institute of Development Economics estimates that every \$10 increase in global oil prices raises Pakistan's annual petroleum import bill by approximately \$1.8–\$2.0 billion (Kimani, 2026). Second, economic stabilization: remittance inflows from overseas Pakistanis reached a record \$38.3 billion in fiscal year 2024–25, with Saudi Arabia and the UAE constituting the largest sources (Arab News, 2026). The GCC countries collectively accounted for 54% of remittance inflows in 2019 (Pakistan Institute of Development Economics, 2020), serving as the primary lifeline for Pakistan's current account balance. Any large-scale evacuation or labor market disruption in the Gulf would sever this financial lifeline

precisely when Pakistan requires maximum external liquidity. Third, strategic infrastructure integrity: the China-Pakistan Economic Corridor (CPEC), the flagship project of Beijing's Belt and Road Initiative, depends upon unimpeded access through the Arabian Sea and Gwadar Port, a facility located merely 400 kilometers from the Strait of Hormuz that provides China direct access to the Arabian Sea while bypassing the Malacca Strait. Conflict-induced militarization of regional sea lanes threatens to transform CPEC from an economic artery into a strategic liability, potentially exposing Pakistan to great-power entanglement it has systematically sought to avoid. (Arab News, 2026; Dawn, 2026).

Compounding these pressures is the acute humanitarian risk emanating from Iran's restive Sistan and Baluchestan province, a region already destabilized by Baloch insurgent movements, including groups such as Jaish al-Adl and Jundullah, which Iran claims operate from safe havens in Pakistani Balochistan. The two million largely Sunni Muslim Baluch residing in Iran's Sistan and Baluchestan province have sustained racist persecution and discrimination, fueling popular support for insurgency. A refugee surge from this theater would strain Pakistan's limited absorptive capacity, exacerbate ethno-sectarian tensions in its own Balochistan province, and potentially internationalize domestic security challenges that Islamabad has long sought to contain through bilateral opacity. (Rehman, 2014).

This paper examines Pakistan's strategic dilemma through the lens of structural realism, positing that the state's response options are fundamentally constrained by its position within an anarchic international system characterized by asymmetric power distributions and limited institutional mechanisms for conflict mitigation. Following Kenneth Waltz's foundational articulation, structural realism emphasizes how the distribution of capabilities across states shapes behavioral outcomes independent of unit-level attributes (Waltz, 1979). Rather than assuming policy autonomy, the analysis demonstrates how Pakistan's choices—military neutrality, diplomatic mediation, or hedging alignment—are shaped by material capabilities, alliance dependencies, and the imperatives of regime survival in an environment of heightened uncertainty (Mearsheimer, 2013).

2. Statement of the Problem

The escalation of the US–Israel–Iran conflict in March 2026 has created a complex and multidimensional crisis for Pakistan, exposing deep structural vulnerabilities in its economy and

internal security framework. Although Pakistan is not a direct participant in the conflict, its geographic proximity to Iran, combined with its heavy dependence on Middle Eastern energy imports and remittance inflows, makes it highly susceptible to external shocks. Disruptions in critical maritime routes, particularly the Strait of Hormuz, threaten to trigger severe energy shortages and inflationary pressures, while volatility in Gulf economies risks undermining remittance stability and widening Pakistan's current account deficit. Simultaneously, the possibility of refugee inflows from Iran's border regions, along with heightened sectarian sensitivities and security spillovers, poses serious challenges to domestic stability. The core problem, therefore, lies in Pakistan's limited economic resilience and inadequate policy preparedness to effectively respond to the intertwined impacts of energy insecurity, external sector fragility, and internal security risks generated by the 2026 Iran war, necessitating a comprehensive and integrated policy response to safeguard national stability.

3. Research Questions:

1. How has the Iran war affected Pakistan's economy?
2. What are the implications for Pakistan's internal stability?

4. Objectives:

1. To analyze the economic consequences of the Iran War on Pakistan.
2. To assess the war's impact on Pakistan's internal socio-political stability.

5. Significance of the Research

This study is significant because it highlights Pakistan's vulnerability to external conflicts and examines how such crises can influence the country's economic stability, social structure, political environment, and national security. By exploring these impacts in detail, the research will help policymakers, researchers, and relevant institutions better understand the risks Pakistan faces in an increasingly uncertain global environment. The study also aims to provide practical and actionable insights that can support the development of effective policies, stronger preparedness strategies, and long-term resilience measures. Ultimately, this research will contribute to informed decision-making and help Pakistan respond more effectively to future external shocks and conflicts.

6. Theoretical Framework

This study adopts an integrated theoretical framework to explain how the Iran war of March 2026 can affect Pakistan's economic stability and internal security. This approach is justified because the IMF's March 11, 2026 end-of-mission statement on Pakistan explicitly noted that the Middle East conflict was already affecting Pakistan's economic outlook, balance of payments, and external financing needs through volatile and rising energy prices. In other words, the research problem is not purely military or purely economic; it is a multidimensional shock that moves across international, regional, economic, and domestic security channels. For that reason, the study combines Complex Interdependence Theory, Regional Security Complex Theory, the Geoeconomics and Energy Security perspective, and the State Fragility and Resilience approach. Together, these lenses explain how an external war can be transmitted into domestic inflation, fiscal stress, political tension, and internal security pressure in Pakistan (OECD, 2025).

The first pillar of the framework is Complex Interdependence Theory, developed by Keohane and Nye. This theory argues that relations among states are shaped by multiple channels of interaction, the absence of a fixed hierarchy of issues, and the reduced usefulness of military force as the only policy instrument. For this study, the value of the theory lies in showing that a war involving Iran does not need to target Pakistan directly to produce significant consequences inside Pakistan. External conflict can be transmitted through oil prices, trade expectations, financial conditions, diplomatic pressure, and market confidence. Therefore, the theory provides the basic logic for treating the Iran war as an external geopolitical shock whose consequences can travel through interdependent economic and political systems into Pakistan's domestic sphere (Keohane & Nye, 1977). The second pillar is Regional Security Complex Theory (RSCT), associated with Buzan and Wæver. RSCT holds that most security threats travel more easily over short distances than over long ones, so security interdependence tends to cluster regionally. This is especially relevant for Pakistan because the country is embedded in a wider regional environment linked to Iran, Afghanistan, the Gulf, and South Asia. The theory helps explain why conflict in Iran can generate consequences for Pakistan even without direct military confrontation between the two states. From an RSCT perspective, proximity matters because nearby wars can reshape border calculations, intensify strategic uncertainty, alter patterns of alliance and diplomacy, and increase domestic alertness to spillover risks. In this study, RSCT is therefore used to explain the regional

transmission of insecurity from the Iran conflict to Pakistan's internal environment (Buzan & Wæver, 2003).

The third pillar is the Geoeconomics and Energy Security perspective. Blackwill and Harris frame geoeconomics as the use of economic instruments and economic leverage for geopolitical purposes, while the broader geoeconomic literature highlights how trade routes, energy chokepoints, finance, and supply chains become instruments or channels of strategic pressure. This is particularly important for the present study because the Iran war affects Pakistan primarily through economic exposure, especially through energy prices and external-sector stress. Cherp and Jewell's formulation is highly useful here because they define energy security as the low vulnerability of vital energy systems, and they interpret vulnerability as a function of both exposure to risk and resilience capacity. Applied to Pakistan, this means the study can examine how the Iran war increases exposure through oil-market disruption and regional uncertainty, while Pakistan's domestic resilience depends on its policy buffers, pricing decisions, import dependence, and institutional response. This perspective therefore links the external conflict to specific economic outcomes such as import costs, inflation, exchange-rate pressure, fiscal strain, and wider macroeconomic instability (Cherp & Jewell, 2014).

The fourth pillar is the State Fragility and Resilience approach. Call argues that states should not be reduced to the broad and often misleading label of "failed states"; instead, analysis should focus on distinct gaps in capacity, legitimacy, and security. Similarly, the OECD defines fragility as the combination of exposure to risk and insufficient resilience to manage, absorb, or mitigate that risk, and it assesses fragility across economic, political, security, societal, environmental, and human dimensions. This approach is critical for the current study because the same external shock does not affect every state equally. A regional war becomes more damaging where domestic institutions are already under stress, where fiscal or external buffers are weak, or where public trust and governance capacity are fragile. In the context of Pakistan, this lens helps explain how an external war can widen internal tensions by increasing the burden on economic management, public order, political legitimacy, and state response capacity. It is therefore the key framework for analysing why an international crisis may evolve into a domestic security challenge (Call, 2011).

Taken together, these four perspectives form a coherent analytical model for this study. Complex Interdependence Theory explains how the shock crosses borders; Regional Security Complex

Theory explains why a nearby war matters more than a distant one; the Geoeconomics and Energy Security lens explains the main transmission mechanisms through oil, trade, prices, and external finance; and the State Fragility and Resilience approach explains why these pressures can escalate into domestic insecurity. Based on this integrated framework, the study conceptualises the Iran war of March 2026 as the independent variable, economic instability and internal security stress in Pakistan as the dependent variables, and energy prices, external financing pressure, regional spillover risk, and domestic resilience capacity as the main intervening and moderating factors. This structure is well suited to an article on Pakistan because it allows the study to move beyond a narrow war-impact narrative and instead explain the full pathway through which external geopolitical conflict can generate internal economic and security consequences (IMF, 2026).

7. Pakistan's Economic Structure and Vulnerabilities

Pakistan's economy exhibits a high degree of dependency on energy imports, particularly oil, and remittances from the Gulf countries. This geo-economic reliance creates several vulnerabilities, as fluctuations in global oil prices or disruptions in remittance flows can significantly impact the country's financial stability. One of the primary vulnerabilities is Pakistan's heavy reliance on imported energy, especially crude oil, with over 80% of the country's oil requirements being met through imports from Gulf countries, such as Saudi Arabia and the UAE. The country's energy imports constitute a substantial portion of its total import bill, and any rise in global oil prices puts pressure on Pakistan's fiscal position, leading to a higher trade deficit. As global oil prices fluctuate, Pakistan's energy costs increase, further straining its foreign exchange reserves, which are already under pressure. For instance, the rise in oil prices in early 2026, exacerbated by geopolitical tensions in the Gulf, led to an increase in domestic fuel prices, which not only impacted household costs but also placed further strain on Pakistan's external payments (Reuters, 2026).

In addition to its energy dependency, Pakistan's weak foreign exchange reserves make the country vulnerable to external shocks. The limited reserves available for use reduce Pakistan's ability to absorb sudden economic shocks, particularly those stemming from changes in oil prices. For instance, Pakistan's reserves dipped significantly after repaying a large loan from the UAE, and although efforts are underway to rebuild reserves, this fragility underscores the country's vulnerability to global economic fluctuations (Reuters, 2026). Furthermore, foreign exchange

challenges are compounded by high import bills, especially energy imports, leaving little room for economic resilience.

Another significant vulnerability in Pakistan's economic structure is its dependence on remittances from the Middle East. Remittances from Pakistani expatriates, especially in countries like Saudi Arabia and the UAE, contribute significantly to the country's foreign exchange reserves. In 2021, the Middle East accounted for about 44% of Pakistan's total remittance inflows. These remittances support household consumption and contribute to the stability of Pakistan's balance of payments. However, this heavy reliance poses risks. Any economic slowdown in the Gulf region, often tied to fluctuations in global oil prices or geopolitical instability, can lead to a reduction in remittance inflows. A downturn in Gulf economies, as seen during previous oil price drops, leads to fewer job opportunities for Pakistani workers abroad, directly impacting the remittance flow back home. Therefore, Pakistan's geo-economic vulnerabilities are closely linked to its dependency on oil imports and remittances from the Gulf. These dependencies leave the country exposed to global oil market fluctuations and the economic conditions of the Gulf countries. To mitigate these risks, Pakistan must focus on diversifying its energy sources, reducing its reliance on imported energy, and finding ways to stabilize and diversify its remittance inflows from a broader range of countries (INP, 2026).

8. Economic Impact of the Iran War on Pakistan

8.1 Energy Crisis and Inflation

The escalation of the 2026 Iran war, highlighted by the blockade of the Strait of Hormuz, has led to an unprecedented energy crisis in Pakistan. Global Brent crude prices surged from \$100 to \$120 per barrel due to the conflict, triggering a massive supply shock that significantly increased domestic fuel prices (Profit by Pakistan Today, 2026). Consequently, petrol prices in Pakistan reached an all-time high of PKR 458.40 per liter, while diesel prices exceeded PKR 520.35 per liter, causing financial hardship for low-income households and students (SpotMV, 2026). Further compounding the issue, Pakistan faced a severe liquefied natural gas (LNG) shortage after Qatar, its primary supplier, declared force majeure due to the maritime blockade (Al Jazeera, 2026). This surge in energy costs led to severe cost-push inflation, which spread across the economy, causing higher transportation, freight, and industrial production costs. As a result, basic necessities have become increasingly unaffordable for many (Business Recorder, 2026).

8.2 Trade Disruptions

The war-induced suspension of critical shipping routes has severely disrupted Pakistan's international trade. The blockade of the Strait of Hormuz, a key passage for 20% of global seaborne crude oil and LNG supplies, combined with commercial vessels avoiding the Red Sea, has created significant supply chain bottlenecks (Wikipedia, 2026). Since Pakistan imports about 90% of its oil from the Gulf region, the government had to launch "Operation Muhafiz-ul-Bahr," deploying naval assets to safeguard merchant vessels and ensure energy supplies to Karachi (Wikipedia, 2026). However, prolonged transit times, rising freight insurance premiums, and airspace disruptions have significantly hampered exports and inflated import costs, negatively impacting trade revenues (Business Recorder, 2026).

8.3 Balance of Payments Crisis

Pakistan's balance of payments has come under intense pressure due to the soaring cost of energy. Economic assessments show that maintaining global oil prices above \$100 per barrel adds around \$300 million per month to the country's oil import bill. This has pushed the projected current account deficit toward \$2 billion for the fiscal year (Profit by Pakistan Today, 2026). This external shock threatens the State Bank of Pakistan's reserve targets, complicating efforts to stabilize the country's macroeconomic situation (Business Recorder, 2026). Furthermore, the International Monetary Fund (IMF) has raised concerns, urging Pakistan to quickly eliminate petroleum subsidies that were temporarily introduced to shield consumers from the price hikes, as these subsidies undermine fiscal targets set in ongoing agreements (Dawn, 2026a).

8.4 Decline in Remittances

Pakistan's financial stability relies heavily on remittances, which are increasingly vulnerable due to economic instability in the Gulf Cooperation Council (GCC) states. Remittances from Arab countries make up over 53% of Pakistan's total foreign inflows, with millions of Pakistanis employed in Saudi Arabia and the UAE (Dawn, 2026b). Initially, the government projected strong remittance inflows of up to \$43 billion this fiscal year, but analysts warn that a prolonged war could lead to layoffs in the Gulf. Additionally, escalating inflation and a "grocery supply emergency" in the blockaded Gulf states could reduce the disposable income of overseas workers, leading to a potential decline in remittances (Profit by Pakistan Today, 2026; Dawn, 2026b).

8.5 Financial and Market Instability

The convergence of geopolitical and economic shocks has led to financial instability in Pakistan. The war triggered global bond market sell-offs and stock market volatility, creating heightened uncertainty about Pakistan's economic future (Business Recorder, 2026). In response, the federal government implemented emergency austerity measures, including restricted workweeks for civil servants and the closure of educational institutions, to conserve rapidly depleting fuel reserves. The depreciation of the Pakistani rupee, combined with rising global commodity prices, has narrowed the political window for essential structural reforms, leaving the government struggling to maintain momentum for economic recovery in such a volatile external environment (Business Recorder, 2026).

9. Impact on Pakistan's Internal Stability

9.1 Socio-Economic Instability

The drastic rise in fuel prices during the 2026 conflict has severely shaken Pakistan's socio-economic foundation. In response to fiscal pressures, the government withdrew the Price Differential Claim (PDC) subsidy, which resulted in unprecedented increases in petroleum prices. Petrol prices skyrocketed to PKR 458.40 per liter, while diesel prices surged to PKR 520.35 per liter (Business Recorder, 2026). The Federation of Pakistan Chambers of Commerce and Industry (FPCCI) explicitly warned that this 55% increase in diesel prices would cripple manufacturing sectors, diminish export competitiveness, and potentially lead to mass bankruptcies and massive job losses (Business Recorder, 2026). The economic strain has led to a cost-of-living crisis that has deeply affected the working class. In response, consumers have resorted to desperate measures, such as shifting to electric bikes, in an attempt to survive amidst fears of societal breakdown and an impending economic depression (Terzyan, 2026).

9.2 Political Instability

The geopolitical crisis has greatly exacerbated domestic political instability and anti-government sentiment. Following the assassination of Iranian Supreme Leader Ayatollah Ali Khamenei on February 28, 2026, large-scale protests erupted across Pakistan, driven by anti-American sentiment and accusations that the Pakistani government was too closely aligned with Washington D.C. (Wikipedia, 2026a). The government has struggled to manage the political fallout of its austerity

measures while attempting to balance International Monetary Fund (IMF) fiscal targets with the urgent need for public relief. In a desperate bid to ease public discontent, the government implemented measures like a four-day workweek for civil servants and the closure of educational institutions for two weeks, which severely challenged its legitimacy (Wikipedia, 2026b). Political dissent has been met with increasing crackdowns, and media commentators have highlighted the rising pressure on religious scholars and political opposition figures as the government seeks to control the volatile political narrative (Shakir & Khan, 2026).

9.3 Security Challenges

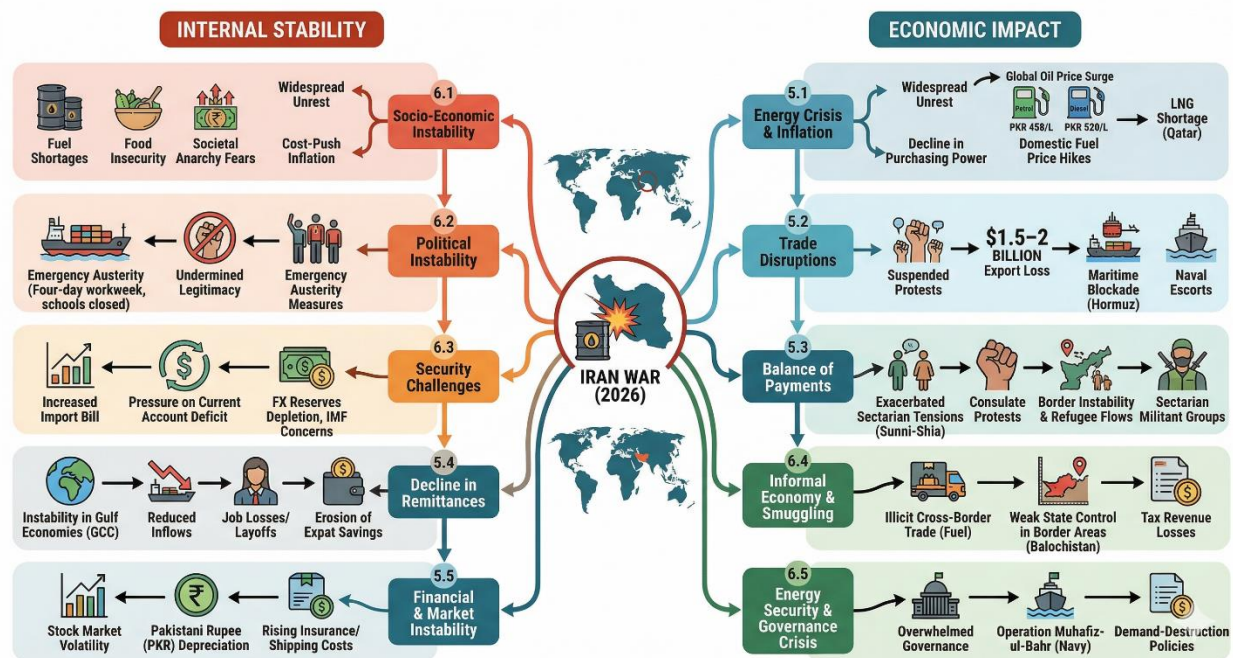
The conflict has intensified security challenges within Pakistan, particularly by exacerbating sectarian tensions. On March 1, 2026, Shia protests in Karachi, sparked by Khamenei's assassination, culminated in a violent attempt to storm the United States Consulate General. U.S. Marine security guards were forced to open fire, killing at least 10 to 16 protesters and injuring over 60 others (Wikipedia, 2026a). Beyond urban unrest, intelligence analysts have warned of worsening instability along the Iran-Pakistan border, with an influx of refugees and the increased mobilization of sectarian militant groups such as the Zainabiyoun Brigade (Wikipedia, 2026b). These growing threats prompted the United States to temporarily close all diplomatic facilities across Pakistan, highlighting the rapidly deteriorating internal security environment (Wikipedia, 2026a).

9.4 Informal Economy and Smuggling

The disruption of formal supply chains and the astronomical rise in fuel prices have led to a sharp expansion of the informal economy, particularly in the border regions. The historic reliance on smuggled Iranian fuel in Balochistan has been significantly affected by the conflict and border militarization. However, with formal state imports from the Gulf region blocked by the Strait of Hormuz blockade and domestic prices artificially inflated by over PKR 265 per liter in local taxes and levies, the incentives for illicit cross-border trade and black-market hoarding have skyrocketed (Business Recorder, 2026). This thriving informal economy undermines state control, particularly in the restive Balochistan province, while depriving the federal government of much-needed tax revenues during a critical fiscal crisis.

9.5 Energy Security and Governance Crisis

Pakistan's energy security has reached a breaking point, exacerbating a systemic governance crisis. With the country relying on the Gulf region for approximately 90% of its oil imports, the government was forced to launch "Operation Muhafiz-ul-Bahr" on March 9, 2026, deploying the Pakistan Navy to escort oil tankers and secure merchant shipping lanes (Wikipedia, 2026b). However, these naval escorts have not resolved the underlying supply shortages, forcing the government to adopt emergency demand-reduction policies. Measures like restrictions on non-essential energy use and the reduction of operational days for federal institutions illustrate how the governance structure is overwhelmed by the crisis (Wikipedia, 2026b). The government's inability to shield its industrial base from the energy shock has exposed deep institutional weaknesses, pushing the government toward a breaking point as it struggles to maintain basic economic functionality (Business Recorder, 2026).



The generated infographic functions as a comprehensive cause-and-effect system diagram, designed to illustrate how a singular geopolitical catalyst—the 2026 Iran War—radiates outward to fracture both Pakistan's economy and its domestic peace. At the center of the visual lies the primary conflict, which immediately diverges into two distinct yet deeply interconnected tracks. One side of the diagram maps out the immediate macroeconomic shocks, while the other side demonstrates how these financial and logistical disruptions translate into profound societal and

political breakdowns on the ground. By tracing the flow lines outward from the epicenter, you can observe the direct trajectory from global events to localized crises within Pakistan.

On the economic front, the visual traces the immediate financial devastation triggered by the conflict. The flowchart illustrates how the sudden surge in global oil prices directly forces domestic petrol to reach extreme highs of PKR 458 per liter, while simultaneously causing severe liquefied natural gas shortages. This energy crisis flows seamlessly into the trade disruption sector, where maritime blockades in the Strait of Hormuz lead to a projected \$1.5 to \$2 billion in export losses, necessitating emergency naval escorts. You can also follow the flow to see how these inflated energy import bills rapidly deplete foreign exchange reserves, triggering a balance of payments crisis and mounting pressure from the International Monetary Fund. Furthermore, the diagram connects the broader instability in Gulf economies to the precarious situation of Pakistani expatriates, showing how regional economic slowdowns result in job losses and a devastating decline in crucial foreign remittances, all of which culminate in extreme financial market volatility and the rapid depreciation of the Pakistani Rupee.

Transitioning to the internal stability track, the visual maps how these overwhelming macroeconomic pressures crush the domestic socio-political landscape. The severe cost-push inflation and fuel shortages shown on the economic side are directly linked to a massive decline in public purchasing power, inevitably breeding widespread socio-economic unrest and deep fears of societal anarchy. As the government is forced to implement harsh fiscal austerity measures, such as shortened workweeks and the removal of fuel subsidies to appease international lenders, the diagram shows how these actions spark political instability, leading to mass protests and a severe erosion of state legitimacy. Additionally, the flowchart highlights the severe security challenges spilling over from the conflict, connecting the geopolitical war to inflamed sectarian tensions, volatile borders, and a dangerous influx of refugees.

Finally, the infographic captures the compounding systemic failures and the emergence of a dangerous feedback loop between the economic and domestic sectors. It visualizes an economic paradox where heavily taxed and unaffordable formal fuel actively incentivizes illicit cross-border smuggling in Balochistan, thereby weakening state control and causing massive tax revenue losses. This culminates in a severe governance crisis, as the state, overwhelmed by energy scarcity, is forced to enact extreme demand-destruction policies to conserve resources. Ultimately, the

diagram demonstrates that these two spheres do not exist in isolation; the severe trade and energy disruptions continuously fuel socio-economic unrest, while the resulting political chaos actively prevents the government from executing the very structural reforms needed to stabilize the collapsing economy.

10. Pakistan's Policy Responses

10.1 Economic Measures

In response to the severe macroeconomic shocks triggered by the 2026 Iran war, the Pakistani government and the State Bank of Pakistan (SBP) implemented a series of aggressive economic and austerity measures aimed at curbing runaway inflation and managing rapidly depleting foreign exchange reserves. The federal government introduced a nationwide four-day workweek for public servants and initiated widespread temporary closures of educational institutions to reduce commuter traffic and fuel consumption. This measure was intended to address the fuel crisis, as petrol prices surged to PKR 458/liter (Dawn, 2026c). To combat Pakistan's overwhelming dependence on imported oil and liquefied natural gas (LNG) from the Gulf region, the Ministry of Energy accelerated the "Green Pivot" strategy. By temporarily slashing import duties on solar photovoltaics and wind turbines, the government sought to encourage a rapid shift towards renewable energy in both domestic and commercial sectors. This initiative was aimed at building long-term energy resilience amidst the immediate crisis (Sustainable Development Policy Institute (SDPI, 2026). Simultaneously, the SBP tightened monetary policy to historic highs to curb the inflationary pressures caused by the rising cost of imports and to stabilize the depreciating rupee. However, these measures had the unintended consequence of further stifling domestic industrial growth, highlighting the delicate balance between fiscal stabilization and economic expansion (State Bank of Pakistan, 2026).

10.2 Diplomatic Initiatives

In the midst of a volatile geopolitical landscape, Pakistan adopted a strategy of cautious neutrality and active mediation to manage regional tensions and protect its vital strategic partnerships. Maintaining complex ties with both Washington and Tehran, Pakistan positioned itself as a critical diplomatic intermediary in the 2026 conflict. Instead of aligning directly with the U.S.-led coalition or openly endorsing Iranian retaliation, Pakistan's Foreign Office utilized its membership

in the Organization of Islamic Cooperation (OIC) to advocate for an immediate ceasefire. The country emphasized the importance of preserving territorial sovereignty and non-intervention, seeking to mitigate the risks of further regional escalation (Express Tribune, 2026). This delicate diplomatic balancing act was critical not only for managing domestic anti-American sentiments, which were evident in the fatal protests in Karachi, but also for ensuring that crucial financial assistance from Western-backed institutions like the IMF, as well as strategic support from Gulf states, remained intact (Wikipedia, 2026). Pakistan's ability to navigate this diplomatic minefield has been central to maintaining both regional stability and access to necessary economic lifelines.

10.3 Strategic Alternatives

With traditional maritime trade via the Strait of Hormuz severely disrupted by the conflict, Pakistan has increasingly relied on the China-Pakistan Economic Corridor (CPEC) as a vital economic and logistical buffer. Gwadar Port, located just outside the immediate conflict zone of the Persian Gulf, has become a crucial alternative transit hub for essential imports. Islamabad and Beijing expedited emergency maritime protocols to ensure that the port could facilitate the flow of goods, providing Pakistan with a strategic alternative to the blocked shipping lanes of the Gulf (Sultan & Hanif, 2026). While the commercial interest rates associated with legacy CPEC energy projects continue to strain Pakistan's external debt, the physical infrastructure of CPEC—specifically the overland highways and rail routes connecting to Western China—has provided a lifeline for maintaining baseline industrial supply chains. These routes have helped mitigate the collapse of vital industries under the Red Sea blockades, underscoring the dual-use commercial nature of the CPEC initiative. This strategic pivot highlights how Chinese infrastructural support acts as a crucial geopolitical buffer during times of acute regional isolation (Research Institute for Strategic Studies, 2026).

11. Comparative Analysis

A comparative analysis of the 2026 Iran war with previous external shocks, such as the 1990 Gulf War and the 2022 Russia-Ukraine conflict, reveals a consistent and troubling pattern regarding Pakistan's structural economic fragility. Similar to the 2022 Ukraine crisis, which pushed Pakistan to the brink of default due to soaring LNG prices, the 2026 conflict exposed Pakistan's dangerous over-reliance on imported fossil fuels (Ahmed, 2026). However, the current crisis is significantly more severe because it directly interrupts Pakistan's primary energy supply lines in the Gulf, whereas the Ukraine crisis primarily involved price disruptions without a physical blockade of key

trade routes (Institute of Strategic Studies Islamabad (ISSI, 2026). Moreover, akin to the remittance crisis during the 1990 Gulf War, the instability within Gulf Cooperation Council (GCC) economies now threatens Pakistan's vital remittance lifeline. The remittance inflows from expatriates in the GCC countries have long been a crucial source of foreign exchange, and their decline due to economic instability could further strain Pakistan's balance of payments (Dawn, 2026d).

Ultimately, this analysis highlights that despite decades of recurring global crises, Pakistan's failure to develop energy independence, diversify its export base, and reduce reliance on foreign capital continues to leave it vulnerable to the cascading effects of global geopolitical volatility. This vulnerability underscores the need for comprehensive long-term reforms to build economic resilience in an increasingly unstable world (Ahmed, 2026).

12. Results and Discussion

12.1 Results: Economic Impacts of the Iran War

The findings of this analysis indicate that the 2026 Iran war has severely compromised Pakistan's macroeconomic stability, primarily through an unprecedented energy shock and severe supply chain blockades. The conflict's most immediate economic impact was the surge in global Brent crude prices past \$100 per barrel and the subsequent declaration of *force majeure* by key liquefied natural gas (LNG) suppliers (Al Jazeera, 2026). This resulted in historic domestic fuel price hikes, with petrol reaching PKR 458.40 per liter, which subsequently triggered aggressive cost-push inflation across all sectors (SpotMV, 2026). Furthermore, the blockade of the Strait of Hormuz suspended critical maritime trade routes, leading to an estimated \$1.5 to \$2 billion in export losses and a drastically inflated energy import bill (Business Recorder, 2026). These disruptions, coupled with a projected decline in foreign remittances from destabilized Gulf economies, have pushed Pakistan toward a severe balance of payments crisis, depleting foreign exchange reserves and complicating compliance with International Monetary Fund (IMF) stabilization targets (Dawn, 2026a).

12.2 Results: Implications for Internal Stability

The economic devastation caused by the geopolitical conflict has directly translated into profound internal instability, confirming that macroeconomic shocks in Pakistan rapidly become domestic security crises. The astronomical rise in the cost of living and acute fuel shortages have decimated

the purchasing power of the working class, leading to widespread socio-economic unrest and fears of societal breakdown (Terzyan, 2026). Politically, the state's legitimacy has been severely undermined as the government was forced to implement highly unpopular austerity measures, including the removal of fuel subsidies, shortened workweeks, and institutional closures, sparking mass public protests (Wikipedia, 2026b). Moreover, the war has inflamed domestic security fault lines, triggering deadly sectarian clashes—such as the fatal protests at the U.S. Consulate in Karachi—and incentivizing illicit cross-border smuggling in restive regions like Balochistan. These cascading pressures have culminated in a systemic governance crisis, overwhelming the state's capacity to maintain basic civil and economic order (Wikipedia, 2026a; Business Recorder, 2026).

12.3 Discussion: A Fragile State Under External Stress

This research highlights the deep, cyclical interconnection between exogenous economic shocks and internal political stability, with Pakistan currently facing compounding crises in both arenas. The cascading effects of the 2026 Iran war demonstrate that Pakistan's high vulnerability is not solely a product of the current geopolitical environment, but rather the result of deeply entrenched structural weaknesses within its own economic model (Ahmed, 2026). Decades of reliance on imported fossil fuels, failure to diversify export industries, and an overdependence on foreign remittances and IMF bailouts have stripped the country of vital economic buffers (Institute of Strategic Studies Islamabad [ISSI], 2026). Consequently, when global supply chains are disrupted, the state lacks the fiscal space to shield its population from the fallout. This systemic inability to absorb external shocks ultimately confirms that Pakistan operates as a “fragile state under external stress,” where localized border conflicts or global commodity price surges inevitably threaten the foundational survival of its domestic governance and societal peace (Ahmed, 2026; Sultan & Hanif, 2026).

14. Conclusion

The March 2026 Iran War has dramatically altered the geopolitical landscape, directly affecting Pakistan's economy and internal stability. With the conflict in the Middle East escalating, Pakistan finds itself at the crossroads of multiple strategic challenges. Geopolitically, Pakistan's energy security, economic stabilization, and strategic infrastructure integrity are now under severe threat. Its reliance on oil imports, predominantly through the Strait of Hormuz, exposes it to severe

supply-side shocks, with potential increases in oil prices further straining its fragile economy. Pakistan's dependence on remittances from the Gulf countries, particularly Saudi Arabia and the UAE, makes it vulnerable to any disruption in the region, further exacerbating its economic vulnerability.

Furthermore, the strategic importance of the China-Pakistan Economic Corridor (CPEC), a key component of Pakistan's future development, is threatened by potential regional militarization and conflict. The proximity of Gwadar Port to the Strait of Hormuz positions it as a strategic asset that could be impacted by ongoing conflict in the Arabian Sea. The disruption of maritime traffic would not only impede economic flows but also expose Pakistan to the risk of being entangled in a broader geopolitical conflict. Adding to the complexity is the humanitarian risk from the volatile Sistan and Baluchestan province in Iran, which could trigger a refugee crisis, exacerbating Pakistan's internal security and ethnic tensions. The Baloch insurgency in the region, coupled with the potential influx of refugees, could destabilize Pakistan's already fragile Balochistan province, drawing the state into more complex security dynamics.

Through the lens of structural realism, this paper underscores the limited policy options available to Pakistan in the face of such overwhelming external and internal pressures. The state's response is constrained by its position within the international system, where its military and economic capabilities are outmatched by greater powers. Pakistan's survival hinges on its ability to balance these competing demands—military neutrality, strategic hedging, and diplomatic mediation—while navigating an increasingly uncertain and volatile geopolitical environment. This analysis reveals how, rather than being autonomous, Pakistan's policy choices are dictated by external material capabilities, alliance dependencies, and the imperatives of regime survival.

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