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Geo-Politics and Geo-Economics: Analyzing the Israel/ US–Iran Conflict and Its Implications for Pakistan

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Abstract

The 2026 Israel/ United States–Iran conflict represents a critical intersection of geo-politics and geo-economics, reshaping power dynamics in the Middle East and beyond. Triggered by coordinated military strikes on Iran and subsequent retaliatory actions, the conflict has disrupted regional stability and intensified global strategic competition. Central to the crisis is the strategic importance of the Strait of Hormuz, through which a significant share of global energy supplies flows, making it a focal point of economic vulnerability and geo-political leverage. The resulting volatility in oil markets, supply chain disruptions, and heightened security risks have transformed the conflict into a global economic shock. The implications are profound and multidimensional. As an energy-import dependent economy, Pakistan faces rising inflation, balance-of-payments pressures, and fiscal instability due to fluctuating oil prices and disrupted trade routes. Simultaneously, its geopolitical position has elevated its role as a mediator, reflecting a delicate balancing act between strategic partners, including the United States, Iran, and Gulf states. This study argues that the conflict underscores Pakistan's dual challenge of managing economic vulnerability while leveraging diplomatic engagement to safeguard national and regional stability.

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Introduction

The geo-political rivalry between Iran, Israel, and the United States has remained a defining feature of Middle Eastern politics for decades. The conflict is driven by ideological differences, regional hegemonic ambitions, nuclear proliferation concerns, and strategic military competition. The United States has historically maintained strong strategic and military relations with Israel, while Iran has positioned itself as a leading force against Western influence and Israeli dominance in the region. These tensions have repeatedly escalated into military confrontations, sanctions regimes, cyber warfare, and proxy conflicts across the Middle East. In recent years, the conflict has entered a more dangerous phase with direct military exchanges, intensified sanctions, and growing regional polarization. The Strait of Hormuz, a vital global energy chokepoint, has become central to the conflict because a significant portion of the world's oil supply passes through it. Any disruption in this maritime route directly affects global energy markets and international economic stability. The

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geo-political dimension of the conflict revolves around regional power competition. Israel perceives Iran’s nuclear and missile capabilities as existential threats, while the United States seeks to maintain its strategic dominance in the Middle East. Iran, on the other hand, views American military presence and Israeli policies as threats to its sovereignty and regional influence. Consequently, the region has witnessed proxy wars, strategic alliances, and military deployments that have transformed the security environment (Jahangir, et, al, 2024).

The geo-economic dimension is equally significant. Economic sanctions imposed on Iran have affected global oil markets, regional trade networks, and economic cooperation across Asia and the Middle East. Rising oil prices, disruptions in maritime trade, and uncertainty in energy markets have created economic vulnerabilities for developing countries, particularly energy-importing states such as Pakistan. Pakistan occupies a strategically important position in this evolving regional environment. Sharing a border with Iran while maintaining close security relations with the United States and strategic partnerships with Gulf States, Pakistan faces complex diplomatic and economic challenges. The conflict directly impacts Pakistan through energy insecurity, inflationary pressures, regional instability, and potential refugee crises. Simultaneously, Pakistan has attempted to maintain a balanced diplomatic stance by promoting dialogue and regional stability (Ahmed, 2026).

Research Methodology

This study uses a qualitative research methodology based on secondary data analysis. Data has been collected from academic journals, policy briefs, international reports, newspapers, and strategic studies publications. The research employs descriptive and analytical methods to examine geopolitical developments, economic consequences, and Pakistan’s strategic position.

Theoretical Framework

This study is based on the Realist Theory of International Relations. Realism argues that states pursue national interests, security, and power in an anarchic international system. According to realism, conflicts emerge due to power competition, security dilemmas, and strategic rivalries. The Israel/US–Iran conflict reflects realist assumptions where states prioritize survival and strategic dominance. Israel seeks to prevent Iran from acquiring regional supremacy, while Iran attempts to resist Western influence and enhance its strategic position. The United States supports Israel to maintain regional influence and protect its economic and strategic interests. Additionally, the concept of Geo-economics complements realism by explaining how states use economic tools such as sanctions, energy politics, and trade policies to achieve geopolitical objectives (Hussain, 2026).

Geo-Political Dimensions of the Conflict

The Israel/US–Iran conflict is fundamentally geopolitical in nature. The struggle for regional dominance in the Middle East lies at the core of the rivalry. Israel seeks to prevent Iran from acquiring nuclear weapons and expanding its regional influence through allied groups in Lebanon, Syria, Iraq, and Yemen. Meanwhile, the United States aims to preserve its strategic dominance and protect its allies in the Gulf region. Iran views itself as a resistance power against Western intervention and Israeli influence. Consequently, Tehran has strengthened its missile programs and regional alliances to enhance deterrence capabilities. This strategic competition has transformed the Middle East into an arena of military build-up and proxy warfare. The conflict also reflects broader global power rivalries involving China and Russia. Both powers have criticized unilateral military interventions and supported diplomatic engagement with Iran. The evolving strategic environment demonstrates the transition toward a multipolar international system (Hameed, 2025).

Historical Background

The historical roots of the conflict between Iran, Israel, and the United States can be traced to the 1979 Iranian Revolution, which transformed Iran from a pro-Western monarchy under Shah Mohammad Reza Pahlavi into an Islamic Republic led by Ayatollah Ruhollah Khomeini. Prior to the revolution, Iran maintained close diplomatic and military relations with both the United States and Israel. However, the revolutionary leadership adopted an anti-Western and anti-Israel ideology, accusing the United States of political interference and Israel of occupying Palestinian territories. The seizure of the U.S. Embassy in Tehran in 1979 and the hostage crisis severely damaged Iran–US relations and laid the foundation for decades of political hostility and economic sanctions. Since then, the United States has viewed Iran as a challenge to its strategic interests in the Middle East, while Iran has portrayed itself as a force of resistance against Western dominance (Byman, 2020).

The relationship between Israel and Iran further deteriorated during the 1980s and 1990s as Iran expanded its influence across the Middle East through support for groups such as Hezbollah in Lebanon and later Hamas in Palestine. Israel increasingly perceived Iran as a direct security threat due to its missile development, nuclear ambitions, and anti-Israel rhetoric. The issue intensified after revelations regarding Iran's nuclear program in the early 2000s. Israel consistently argued that Iran's nuclear activities could lead to the development of nuclear weapons, whereas Iran insisted that its program was intended for peaceful energy purposes. The United States supported Israel's concerns and imposed severe economic sanctions on Iran, particularly after withdrawing from the Joint Comprehensive Plan of Action (JCPOA) in 2018 under the administration of President Donald Trump (Parsi, 2017).

In recent years, the conflict has evolved beyond direct diplomatic tensions into a broader geopolitical and geo-economic confrontation involving proxy wars, cyber operations, military strikes, and economic pressure. Iran has strengthened strategic partnerships with Russia and China while expanding its regional influence in Syria, Iraq, Yemen, and Lebanon. Meanwhile, the United States has reinforced military alliances with Israel and Gulf Arab states to contain Iranian influence in the region. Escalations in Gaza, attacks on maritime trade routes, and tensions in the Strait of Hormuz have further increased regional instability and global economic uncertainty. For Pakistan, these developments carry major strategic implications due to its geographic proximity to Iran, dependence on Middle Eastern energy supplies, and balancing role in regional diplomacy (Ehteshami & Hinnebusch, 2019).

Nuclear Issue and Security Concerns

The nuclear issue remains one of the central causes of tension between Iran, Israel, and the United States. Iran's nuclear program began during the 1950s under the "Atoms for Peace" initiative supported by the United States. However, after the 1979 Islamic Revolution, Western countries became increasingly suspicious of Iran's nuclear ambitions. Iran consistently argues that its nuclear activities are designed for peaceful purposes such as energy production, scientific research, and medical advancement. In contrast, Israel and the United States believe that Iran seeks the capability to develop nuclear weapons, which they view as a major threat to regional and international security. Israel, in particular, considers a nuclear-capable Iran an existential danger due to Iran's anti-Israel rhetoric and support for armed groups in the Middle East (Fitzpatrick, 2019).

The security concerns surrounding Iran's nuclear program intensified after the discovery of undeclared nuclear facilities in Natanz and Fordow during the early 2000s. These revelations led the International Atomic Energy Agency (IAEA) and Western powers to increase monitoring and pressure on Tehran. In response, the United Nations and the United States imposed extensive economic sanctions targeting Iran's banking, energy, and defense sectors. Diplomatic efforts eventually resulted in the Joint Comprehensive Plan of Action (JCPOA) in 2015 between Iran and world powers, including the United States, China, Russia, France, Germany, and the United Kingdom. Under the agreement, Iran agreed to limit uranium enrichment and allow international inspections in exchange for sanctions relief. However, the United States withdrew from the agreement in 2018, arguing that the deal failed to restrict Iran's regional influence and missile development, thereby reviving tensions and increasing regional insecurity (Katzman, 2021).

The ongoing nuclear dispute has significantly affected the strategic environment of the Middle East. Israel has repeatedly warned that it may take unilateral military action to prevent Iran from acquiring nuclear weapons capability. This has led to cyber warfare, covert operations, assassinations of Iranian nuclear scientists, and military strikes targeting Iranian-linked facilities in Syria and elsewhere. The conflict has also encouraged regional militarization, with Gulf states increasing defense spending and strengthening security partnerships with the United States. For Pakistan, the nuclear tensions carry important implications because instability in the Middle East can affect regional security, energy supplies, and diplomatic relations. Pakistan must carefully balance its relations with Iran, Saudi Arabia, China, and the United States while avoiding involvement in regional rivalries and maintaining strategic neutrality (Cordesman, 2020).

Proxy Warfare

Proxy warfare has become one of the defining features of the conflict between Iran, Israel, and the United States in the Middle East. Instead of engaging in direct large-scale military confrontation, regional powers increasingly support non-state actors, militias, and armed groups to advance their strategic objectives. Iran has developed a network of allied groups across the region, often referred to as the "Axis of Resistance," which includes Hezbollah in Lebanon, Hamas and Islamic Jihad in Palestine, the Houthis in Yemen, and various Shiite militias in Iraq and Syria. Through financial assistance, military training, intelligence sharing, and weapons support, Iran seeks to expand its regional influence and counter Israeli and American dominance in the Middle East. These proxy relationships enable Iran to project power while avoiding direct conventional war with stronger military powers (Byman, 2018).

Israel and the United States perceive Iran's proxy network as a serious threat to regional security and stability. Israel has repeatedly accused Iran of using proxy groups to launch attacks against Israeli territory and interests, particularly through Hezbollah and Hamas. In response, Israel has conducted numerous airstrikes against Iranian-linked military installations in Syria and targeted weapons transfers intended for Hezbollah in Lebanon. Similarly, the United States has maintained military operations against Iran-backed militias in Iraq and Syria, arguing that these groups threaten American forces and allies in the region. Proxy warfare has therefore transformed local conflicts in Syria, Yemen, Iraq, and Gaza into broader arenas of geopolitical competition among regional and global powers (Wehrey, 2019).

The continuation of proxy warfare has intensified instability across the Middle East and created significant humanitarian, political, and economic consequences. These conflicts have contributed to civilian casualties, refugee crises, infrastructure destruction, and economic decline in several states. Moreover, proxy warfare increases the risk of broader regional escalation because attacks by non-state actors can provoke direct retaliation between states. For Pakistan, the rise of proxy conflicts in the Middle East presents important security and diplomatic challenges. Sectarian divisions, cross-border militancy, and regional polarization could negatively affect Pakistan's internal stability and foreign relations. Therefore, Pakistan must adopt a cautious and balanced policy that avoids alignment with competing regional blocs while supporting diplomatic efforts for peaceful conflict resolution (Gause, 2020).

Role of Great Powers

The conflict between Iran, Israel, and the United States has increasingly attracted the involvement of major global powers, transforming the crisis into a broader geopolitical competition. The United States has historically played the most influential role in the Middle East through military presence, economic influence, and strategic alliances. Washington considers Israel a key strategic ally and has consistently provided military aid, diplomatic support, and advanced defense technology to ensure Israel's security. At the same time, the United States has pursued policies aimed at containing Iran's regional influence through economic sanctions, military deployments, and international diplomatic pressure. American involvement is largely driven by strategic interests such as securing energy routes, protecting allies, combating terrorism, and maintaining regional dominance (Mearsheimer & Walt, 2007).

Russia and China have also expanded their influence in the Middle East, particularly through closer cooperation with Iran. Russia has strengthened military and political ties with Tehran, especially in the Syrian conflict where both countries supported the government of Bashar al-Assad. Moscow views Iran as an important regional partner in challenging Western influence and promoting a multipolar international order. Similarly, China has increased economic engagement with Iran through trade agreements, energy cooperation, and infrastructure investments linked to the Belt and Road Initiative (BRI). China's long-term strategic partnership with Iran reflects Beijing's interest in securing stable energy supplies and expanding its geopolitical influence in West Asia. Both Russia and China have criticized unilateral American sanctions against Iran and supported diplomatic negotiations regarding the nuclear issue (Calabrese, 2021).

The involvement of great powers has significantly complicated the regional security environment and intensified global geopolitical rivalries. The Middle East has become an arena where strategic competition among the United States, China, and Russia intersects with regional conflicts and energy politics. This rivalry influences global trade routes, military alliances, and international diplomatic alignments. For Pakistan, the role of great powers presents both opportunities and challenges. Pakistan maintains strategic relations with China, cooperative security ties with the United States, and neighboring relations with Iran. Therefore, Islamabad must carefully balance its foreign policy to avoid becoming entangled in major power rivalries while protecting its economic and security interests. A balanced and pragmatic diplomatic approach remains essential for Pakistan in navigating the shifting geopolitical order of the Middle East (Pant, 2020).

Geo-Economic Dimensions of the Conflict

Oil Politics and Energy Security

The Middle East occupies a central position in global energy politics because it possesses some of the world's largest proven oil and natural gas reserves. Countries such as Saudi Arabia, Iran, Iraq, Kuwait, and the United Arab Emirates play a major role in supplying energy to international markets. Due to this strategic importance, political instability and military conflicts in the region often have immediate global economic consequences. Energy resources have long shaped the foreign policies of major powers, particularly the United States, which seeks to ensure uninterrupted access to oil supplies and protect strategic trade routes. Consequently, the Israel/US–Iran conflict has implications far beyond the Middle East, influencing global energy prices, economic growth, and international trade patterns (Yergin, 2020).

One of the most strategically important waterways in the world is the Strait of Hormuz, located between Iran and Oman. This narrow maritime passage serves as the primary route for transporting oil from the Persian Gulf to global markets. A substantial portion of the world's daily oil exports passes through the Strait, making it highly vulnerable to geopolitical tensions and military confrontations. Iran has repeatedly warned that it could restrict or block the Strait in response to economic sanctions or military threats from the United States and Israel. Any disruption in the flow of oil through this route can trigger sharp increases in global oil prices, fuel inflation, and create uncertainty in international financial markets. Such instability affects both developed and developing economies, especially countries heavily dependent on imported energy resources (Klare, 2019).

For Pakistan, oil politics and energy security are particularly significant because the country relies heavily on imported petroleum products from the Middle East. Rising oil prices resulting from regional tensions increase Pakistan's import bill, widen the trade deficit, and place additional pressure on foreign exchange reserves. Energy insecurity also contributes to inflation, electricity shortages, and economic instability within the country. Moreover, disruptions in maritime trade routes could negatively affect Pakistan's commercial activities and industrial production. Therefore, Pakistan must adopt policies aimed at diversifying energy sources, investing in renewable energy, and strengthening regional economic cooperation to reduce vulnerability to external geopolitical shocks. Maintaining balanced diplomatic relations with Middle Eastern states is also essential for ensuring long-term energy security and economic stability (Shaikh, 2021).

Economic Sanctions

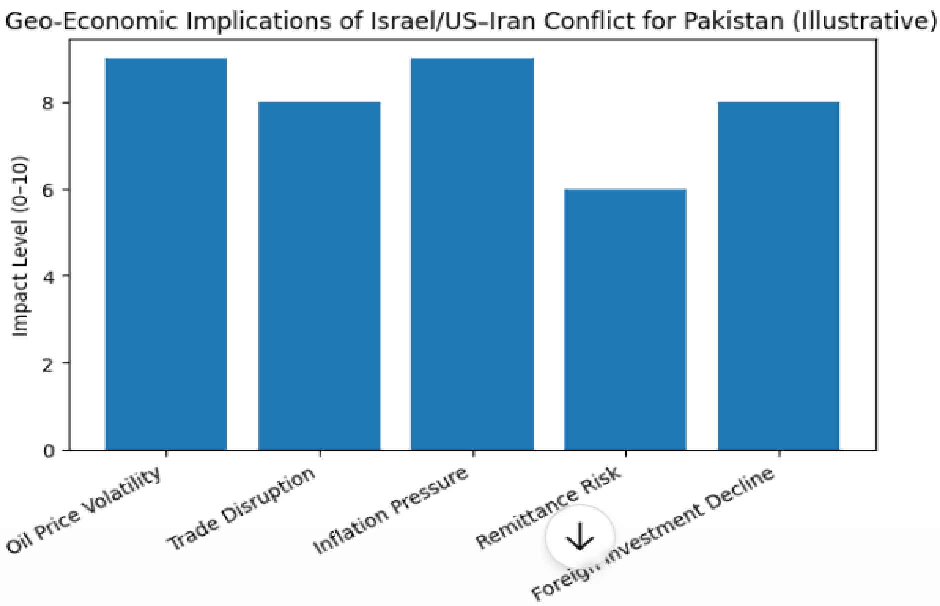
Economic sanctions have been one of the primary instruments used by the United States and its allies to pressure Iran politically, economically, and strategically. Since the 1979 Iranian Revolution, Washington has imposed various sanctions on Iran in response to issues such as the hostage crisis, support for militant groups, missile development, and nuclear activities. These sanctions intensified significantly during the 2000s when concerns about Iran's nuclear program increased. The sanctions targeted major sectors of the Iranian economy, including oil exports, banking systems, shipping, trade, and foreign investment. The primary objective of these measures has been to weaken Iran's economic capabilities and compel Tehran to alter its foreign and nuclear policies through economic pressure rather than direct military confrontation (Nephew, 2018).

The impact of sanctions on Iran's economy has been severe and far-reaching. Restrictions on oil exports significantly reduced government revenues because Iran heavily depends on energy exports for economic stability. International banking sanctions limited Iran's access to global financial systems, causing inflation, currency depreciation, unemployment, and declining foreign investment. Additionally, sanctions affected ordinary citizens through rising prices, shortages of imported goods, and declining living standards. Despite these economic hardships, Iran has attempted to resist external pressure by strengthening domestic industries, increasing regional trade partnerships, and deepening economic cooperation with countries such as China and Russia. Many scholars argue that sanctions have not completely achieved their political objectives but have instead intensified regional tensions and anti-Western sentiments within Iran (Torbat, 2020).

Geo-Economic Implications

The conflict has major geo-economic consequences, especially in energy markets. Any military confrontation near the Strait of Hormuz disrupts global oil supply chains and increases energy prices. Since Pakistan imports a large proportion of its energy requirements, rising oil prices contribute to inflation, trade deficits, and currency depreciation. Economic sanctions on Iran also reduce regional trade opportunities and limit connectivity projects involving Pakistan and Iran. The instability discourages foreign investment and increases uncertainty in financial markets. Studies indicate that fluctuations in oil prices significantly affect the Pakistan Stock Exchange and industrial production. The conflict further affects maritime trade routes and regional economic integration initiatives. Shipping disruptions increase transportation costs and negatively impact international trade flows. Countries dependent on Gulf energy exports experience greater economic vulnerability during periods of regional instability.

Geo-Economic Implications of Israel/US- Iran conflict for Pakistan



Overview of Geo-Economic Implications (Israel/US–Iran Conflict for Pakistan)

The geo-economic implications of the Israel/US–Iran conflict for Pakistan mainly revolve around energy security, trade stability, inflation, and overall economic vulnerability. The most significant impact comes from oil price volatility**,** as any escalation in the Middle East—especially near the Strait of Hormuz—directly increases global crude oil prices. Since Pakistan is heavily dependent on imported oil, this leads to higher fuel costs, electricity prices, and inflation in domestic markets. Another major effect is trade disruption**,** where regional instability raises shipping costs and creates uncertainty in international supply chains. This reduces Pakistan's export competitiveness and increases import bills. Similarly, inflationary pressure rises due to expensive energy and transportation costs, affecting household purchasing power and slowing economic growth ((Ismail, 2024).

The conflict also impacts foreign investment flows, as geopolitical instability discourages investors from entering emerging markets like Pakistan. In addition, remittance risks exist because Pakistani workers in Gulf countries may face economic instability or employment uncertainty during regional crises. Overall, the conflict creates a chain reaction of economic challenges for Pakistan, making energy diversification, trade resilience, and diplomatic stability essential for minimizing long-term damage.

Implications for Pakistan

Economic Implications

Pakistan's economy is highly sensitive to geopolitical instability in the Middle East due to its dependence on imported energy and strong financial linkages with Gulf countries. The Israel/US–Iran conflict contributes to volatility in global oil markets, which directly affects Pakistan's macroeconomic stability. When tensions escalate in the region, uncertainty in the Strait of Hormuz and broader Gulf energy routes often leads to fluctuations in crude oil prices. Since Pakistan imports a large share of its petroleum products, even small increases in global oil prices significantly raise the country's import bill, widen the current account deficit, and place pressure on foreign exchange reserves. This creates fiscal stress for the government, which is already managing structural economic challenges (Khan, 2021).

Rising energy costs also have a direct inflationary impact within Pakistan. Higher fuel prices increase transportation and production costs, which in turn raise the prices of essential goods and services. Electricity generation in Pakistan is also heavily dependent on imported fuel, meaning that energy price shocks quickly translate into higher electricity tariffs and increased cost of living for households. This inflationary pressure reduces purchasing power, slows down economic growth, and disproportionately affects low- and middle-income groups. Additionally, fiscal subsidies on energy products further strain government budgets, limiting public investment in infrastructure, education, and health sectors (World Bank, 2023).

Another important economic implication is the impact on remittances and overseas employment, particularly in Gulf Cooperation Council (GCC) countries. A large number of Pakistani workers are employed in Saudi Arabia, the United Arab Emirates, Qatar, and other Middle Eastern states. Any regional instability or economic slowdown in these countries can affect labor demand, wage levels, and remittance inflows to Pakistan. Since remittances are a key source of foreign exchange earnings and household income support in Pakistan, disruptions can negatively influence both external accounts and domestic consumption patterns. Therefore, the Israel/US–Iran conflict indirectly affects Pakistan's labor market stability and household economic security through its influence on Gulf economies (Asian Development Bank, 2022).

Security Implications

Pakistan's security environment is highly sensitive to instability in the Middle East due to its geographic proximity to Iran and its broader regional linkages. A major escalation in the Israel/US–Iran conflict could produce direct and indirect spillover effects for Pakistan, particularly along its western border with Iran, which spans approximately 900 kilometers. This border region, especially in Baluchistan, is already vulnerable due to difficult terrain, weak governance structures, and existing security challenges. Any deterioration in Iran's internal stability or intensification of external conflict could increase cross-border insecurity, smuggling networks, and militant mobility, thereby complicating Pakistan's border management and internal security situation ().

In addition, militant networks operating across the Iran–Pakistan border present a persistent security challenge. Groups engaged in separatist or sectarian militancy can exploit porous borders and regional instability to expand their operations. While Pakistan and Iran have occasionally cooperated on border security, tensions and mistrust can undermine joint efforts to control such groups. Furthermore, heightened military tensions in the Gulf region—particularly involving naval forces, missile strikes, or disruptions in the Strait of Hormuz—can indirectly affect Pakistan's strategic environment by increasing regional militarization and forcing Islamabad to adopt a more cautious diplomatic and defense posture. Overall, the Israel/US–Iran conflict significantly raises Pakistan's security risks by amplifying border instability, internal sectarian pressures, and broader regional uncertainty

Diplomatic Implications

Pakistan's diplomatic position in the context of the Israel/US–Iran conflict is highly complex due to its strategic relationships with multiple regional and global actors. Islamabad maintains important bilateral ties with Iran, Saudi Arabia, China, and the United States, each of which plays a significant role in Pakistan's economic development, energy security, and regional stability. Iran shares a long border with Pakistan and is a key partner in border security and potential energy cooperation, while Saudi Arabia remains a major source of financial assistance, oil supplies, and labor opportunities for Pakistani workers. Meanwhile, China is Pakistan's closest strategic partner through the China–Pakistan Economic Corridor (CPEC), and the United States remains influential in terms of financial institutions, military cooperation, and global diplomacy. This overlapping network of relationships makes Pakistan's foreign policy particularly sensitive to shifts in Middle Eastern geopolitics (Khan, 2022).

In this context, openly supporting any single side in the Israel/US–Iran conflict could seriously damage Pakistan's strategic interests. A pro-Iran stance could strain relations with the United States and Gulf Arab states, potentially affecting aid, trade, and remittances from Gulf-based Pakistani workers. Conversely, overt alignment with the United States or Israel could harm Pakistan's relations with Iran and create security risks along its western border. Saudi Arabia also remains a critical economic partner, and any diplomatic misalignment could impact energy supplies and financial assistance. Therefore, Pakistan faces a classic foreign policy dilemma where balancing competing interests is essential for maintaining regional stability and safeguarding national interests (Ali & Qazi, 2021).

As a result, Pakistan has largely adopted a policy of diplomatic neutrality, cautious engagement, and mediation-oriented diplomacy. In recent regional crises, Islamabad has positioned itself as a potential facilitator of dialogue between conflicting parties, leveraging its unique relationships with both Western and Middle Eastern states. This approach reflects a broader shift in Pakistan's foreign policy toward geo-economic pragmatism and conflict avoidance rather than bloc-based alignment. Recent developments also indicate that Pakistan's diplomatic efforts are increasingly recognized as part of broader mediation initiatives in regional conflicts. However, maintaining this balancing act requires continuous diplomatic flexibility, strong institutional capacity, and careful management of external pressures from competing powers (USIP, 2026; Chatham House, 2026).

Strategic Opportunities

Despite the significant geopolitical and economic challenges arising from the Israel/US–Iran conflict, Pakistan also finds important strategic opportunities within this complex regional environment. One of the most notable opportunities lies in Pakistan's potential role as a diplomatic mediator. Due to its historically balanced relations with Iran, Saudi Arabia, China, and the United States, Pakistan occupies a relatively unique position that allows it to maintain communication channels with competing regional actors. This diplomatic flexibility enhances Pakistan's credibility as a potential facilitator of dialogue, confidence-building measures, and indirect negotiations between conflicting parties. In an increasingly fragmented Middle East, such middle-power mediation roles are becoming more valuable in preventing escalation and promoting regional stability (Hussain, 2021).

Another strategic opportunity for Pakistan is the enhancement of its geo-economic relevance. As global powers increasingly prioritize economic connectivity and energy security over traditional military alliances, Pakistan can leverage its geographic location as a transit and connectivity hub. Initiatives such as the China–Pakistan Economic Corridor (CPEC) position Pakistan as a key node in regional trade and energy networks linking the Middle East, Central Asia, and China. In this context, regional instability can also create incentives for external powers to engage Pakistan more deeply in economic cooperation, infrastructure investment, and energy diversification projects. If managed effectively, Pakistan can transform regional uncertainty into opportunities for economic integration and long-term development (Ali & Fatima, 2022).

Furthermore, Pakistan's diplomatic engagement in conflict-prone regions can enhance its international image as a responsible and constructive actor in global affairs. By advocating peaceful resolution, non-interference, and multilateral diplomacy, Pakistan can strengthen its soft power and increase its influence in international forums such as the United Nations and the Organization of Islamic Cooperation (OIC). However, to fully capitalize on these opportunities, Pakistan must maintain internal political stability, strengthen its diplomatic institutions, and pursue consistent foreign policy strategies. In doing so, Pakistan can transition from a reactive to a proactive regional actor, contributing not only to its own national interests but also to broader regional peace and stability (Rizvi, 2020).

Discussion

The Israel/US–Iran conflict illustrates a clear shift in contemporary international relations where geopolitics and geo-economics are deeply intertwined. What was traditionally understood as a military and strategic rivalry has now evolved into a complex system in which energy markets, trade routes, financial stability, and inflation dynamics are directly influenced by geopolitical tensions. For countries like Pakistan, which are structurally dependent on imported energy and external financing, the implications are particularly significant. The following discussion explains these dynamics in detail.

Firstly, the conflict has made global energy markets highly volatile. The Strait of Hormuz, through which a significant share of global oil trade flows, becomes a strategic chokepoint during periods of tension. Even the possibility of disruption leads to sharp fluctuations in oil prices, affecting import-dependent economies. Pakistan, which imports the majority of its petroleum needs, faces immediate cost pressures whenever global crude prices rise.

Secondly, rising oil prices translate directly into higher inflation in Pakistan. Fuel costs affect transportation, electricity generation, and industrial production. As energy becomes more expensive, the overall cost of living increases, reducing household purchasing power and placing additional pressure on already fragile economic conditions. This creates a chain reaction from global geopolitics to domestic economic hardship.

Thirdly, Pakistan's trade balance becomes more vulnerable under such conditions. Higher import bills for oil widen the current account deficit, forcing the country to rely more on external borrowing or financial assistance. This dependence increases exposure to international financial institutions and donor conditionality's, reducing policy flexibility in domestic economic planning.

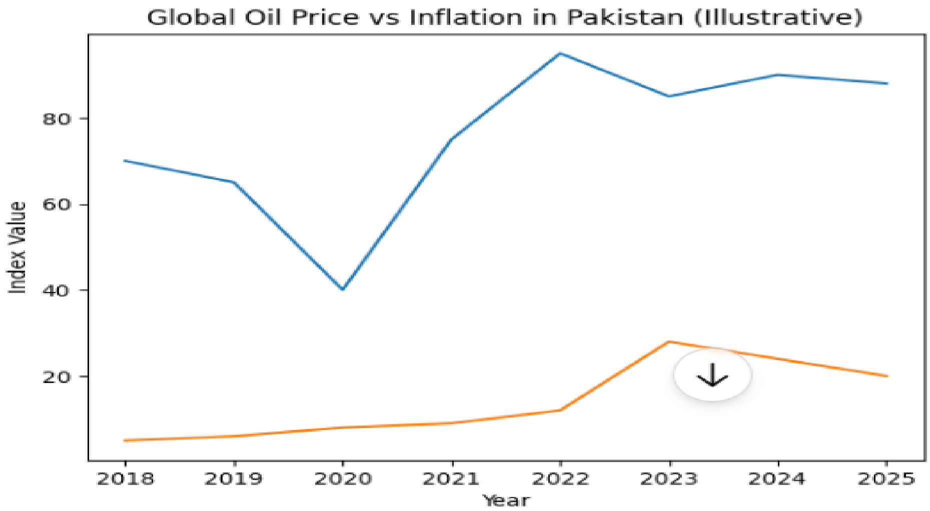
Fourthly, the conflict affects foreign exchange stability. As energy import costs rise, demand for US dollars increases in Pakistan's economy. This puts pressure on the Pakistani rupee, often leading to depreciation. Currency instability further increases the cost of imported goods, reinforcing inflationary cycles.

Fifthly, global investor sentiment is also influenced by geopolitical instability. Uncertainty in the Middle East often leads to capital flight from emerging markets. For Pakistan, this can result in reduced foreign investment inflows, weaker stock market performance, and limited access to international capital markets at favorable rates. Sixthly, the situation highlights Pakistan's structural energy insecurity. Heavy dependence on imported fossil fuels means that external geopolitical shocks are quickly transmitted into the domestic economy. Limited strategic petroleum reserves and slow diversification toward renewable energy further increase vulnerability.

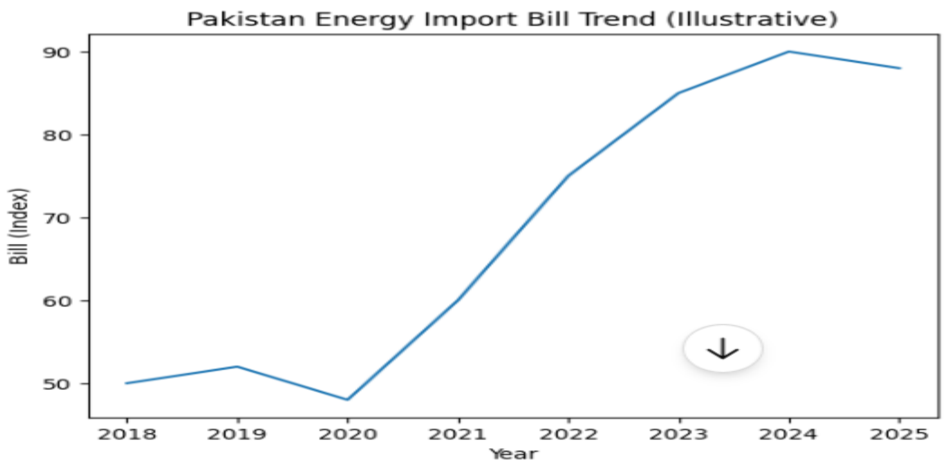
Seventhly, the crisis also exposes the importance of energy diversification. Countries with diversified energy sources—such as renewables, domestic production, and alternative suppliers—are better insulated from geopolitical shocks. Pakistan's slow transition in this direction increases long-term risk exposure. The eighthly, geopolitical tensions reshape regional trade routes and logistics. Any disruption in Gulf shipping lanes increases transportation and insurance costs for oil shipments. These additional costs eventually filter down to importing countries like Pakistan, increasing overall energy expenditure. Ninthly, despite these challenges, the crisis also creates strategic opportunities. Pakistan's geographic position allows it to engage in regional diplomacy and potentially act as a bridge between competing powers. Neutral diplomatic engagement can help maintain trade relations with multiple energy suppliers and reduce overdependence on any single bloc.

Finally, the overall situation underscores a broader transformation in global politics: economic instruments such as energy pricing, trade flows, and financial markets are now as influential as military power. For Pakistan, understanding and adapting to this geo-economic reality is essential for long-term economic stability and energy security. The Israel/US–Iran conflict demonstrates that modern geopolitics operates through economic channels as much as military ones. For Pakistan, the key implication is structural vulnerability due to energy dependence, making it essential to pursue diversification, strengthen foreign exchange stability, and develop long-term energy security strategies.

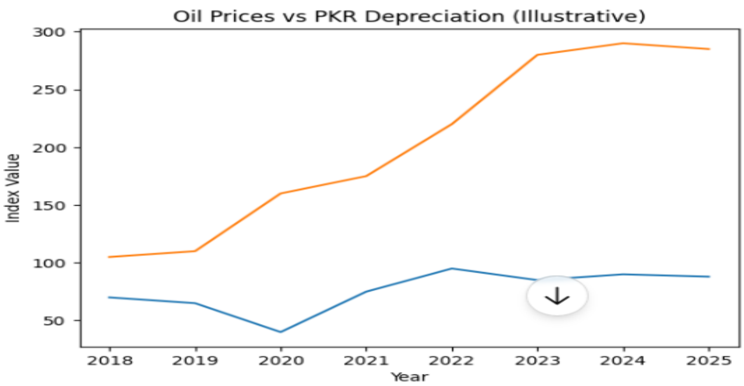
Graph -1



Graphy-2



Graph -3



The graphs illustrate the geo-economic impact of global geopolitical tensions—particularly the Israel/US–Iran conflict—on Pakistan's economy through energy markets, inflation, trade balance, and currency stability.

The first graph shows the relationship between global oil prices and inflation in Pakistan. It highlights a clear pattern: whenever oil prices rise due to international instability, inflation in Pakistan also increases. This reflects Pakistan's heavy dependence on imported fuel, where external shocks are quickly transmitted into domestic price levels, affecting food, transport, and industrial costs. The second graph presents the trend of Pakistan's energy import bill. It shows a steady upward trajectory, especially after periods of global oil price surges. This indicates that Pakistan's foreign exchange spending on energy has been consistently increasing, widening the current account deficit and putting pressure on external financial stability.

The third graph compares oil prices with the depreciation of the Pakistani rupee. It demonstrates a strong correlation between rising oil prices and currency weakening. As energy import costs increase, demand for US dollars rises, leading to rupee depreciation. This further increases import costs and reinforces inflationary pressures. Overall, the visual analysis confirms a key geo-economic reality: geopolitical tensions in the Middle East directly affect Pakistan's macroeconomic stability. Rising oil prices act as a transmission channel through which external conflicts influence inflation, trade deficits, and currency instability. This reinforces Pakistan's structural vulnerability due to its heavy reliance on imported energy and limited economic diversification.

Conclusion

The Israel/US–Iran conflict represents one of the most complex and enduring geopolitical rivalries in the contemporary international system. It is not limited to bilateral hostility but has evolved into a multidimensional struggle involving regional security dynamics, ideological competition, military confrontation, and global power politics. The conflict is deeply rooted in historical mistrust, particularly after the 1979 Iranian Revolution, which fundamentally altered Iran's relations with the United States and Israel. Over time, this rivalry has expanded into broader geopolitical competition involving proxy warfare, nuclear tensions, economic sanctions, and strategic alliances. The conflict is its transformation from traditional geopolitics into geo-economics. Economic instruments such as sanctions, trade restrictions, and energy leverage have become central tools of statecraft. The United States has extensively used sanctions to limit Iran's economic and military capabilities, while Iran has sought to circumvent these pressures through alternative trade partnerships and regional cooperation. This shift demonstrates how economic power is increasingly being used to achieve strategic and political objectives in the international system.

Proxy warfare has further complicated the conflict by extending it across multiple regional theaters, including Syria, Yemen, Iraq, Lebanon, and Gaza. Through support for allied non-state actors, Iran and its adversaries have engaged in indirect confrontations that have intensified regional instability. This form of warfare has increased humanitarian crises, weakened state institutions in conflict zones, and created long-term challenges for regional peacebuilding. The involvement of great powers such as the United States, China, and Russia has transformed the conflict into a broader global power struggle. While the United States continues to support Israel and maintain its regional influence, China and Russia have expanded their strategic cooperation with Iran. This multipolar engagement has increased the complexity of conflict resolution and reduced the likelihood of a unified international approach to peacebuilding in the region.

From Pakistan's perspective, the conflict presents both significant challenges and strategic considerations. Pakistan's geographic proximity to Iran and its economic dependence on Middle Eastern energy markets make it vulnerable to regional instability. Rising oil prices, refugee pressures, and border security risks directly affect Pakistan's internal stability and economic performance. At the same time, Pakistan's relationships with multiple stakeholders position it as a potentially important diplomatic actor in regional affairs. The economically, the conflict contributes to inflationary pressures, fiscal deficits, and energy insecurity in Pakistan. Fluctuations in global oil prices significantly impact Pakistan's import costs and macroeconomic stability. Additionally, disruptions in Gulf economies affect remittance inflows, which are a critical source of foreign exchange for Pakistan. These economic vulnerabilities highlight the indirect but significant impact of Middle Eastern geopolitics on Pakistan's development trajectory.

Security concerns also remain central to Pakistan's policy considerations. The risk of cross-border instability, sectarian tensions, and militant spillover from regional conflicts poses challenges to Pakistan's internal security environment. Managing these risks requires strong border control, intelligence cooperation, and a careful approach to regional engagement. Pakistan must avoid becoming entangled in external conflicts while safeguarding its internal stability. Diplomatically, Pakistan faces a delicate balancing act between Iran, Saudi Arabia, China, and the United States. Maintaining neutrality and strategic flexibility is essential to preserving Pakistan's economic and security interests. Open alignment with any single bloc could undermine Pakistan's relations with other key partners and reduce its diplomatic space in international affairs. Despite these challenges, the conflict also creates strategic opportunities for Pakistan. Its balanced foreign relations allow it to play a potential mediatory role in regional disputes. By promoting dialogue, supporting diplomatic engagement, and encouraging peaceful resolution of conflicts, Pakistan can enhance its international standing and contribute to regional stability. This role aligns with Pakistan's broader interest in a peaceful and economically integrated regional order.

The Israel/US–Iran conflict is a defining feature of contemporary global geopolitics with far-reaching implications for regional and international stability. For Pakistan, the conflict is both a source of risk and opportunity. The key to navigating this complex environment lies in maintaining a balanced foreign policy, strengthening economic resilience, and promoting proactive diplomacy. By doing so, Pakistan can protect its national interests while contributing constructively to peace and stability in the broader region.

Policy Recommendations

In light of the complex geopolitical and geo-economic dynamics of the Israel/US–Iran conflict and its multidimensional implications for Pakistan, a well-structured policy framework is essential. Pakistan must adopt a pragmatic, balanced, and forward-looking foreign policy that protects national interests while minimizing exposure to regional instability. The following policy recommendations are proposed.

First, Pakistan should maintain a strict policy of strategic neutrality in the Israel/US–Iran conflict. Open alignment with any side could jeopardize Pakistan's relations with other key partners, including Iran, Saudi Arabia, China, and the United States. Neutrality does not imply passivity; rather, it requires active diplomatic engagement with all stakeholders to preserve Pakistan's credibility as a balanced regional actor.

Second, Pakistan should strengthen its role in regional diplomacy and mediation**.** Given its communication channels with multiple regional and global actors, Pakistan can position itself as a facilitator of dialogue and conflict de-escalation. Institutionalizing diplomatic initiatives through platforms such as the United Nations and the Organization of Islamic Cooperation (OIC) can enhance Pakistan's international standing and contribute to regional peacebuilding. Third, there is a need to prioritize energy security and diversification policies. Since Pakistan is highly dependent on imported oil from the Middle East, it must invest in alternative energy sources such as hydropower, solar, wind, and nuclear energy. Strengthening long-term energy agreements and exploring diversified supply routes will reduce vulnerability to external shocks caused by regional conflicts.

Fourth, Pakistan should enhance economic resilience and macroeconomic stability**.** This includes expanding foreign exchange reserves, improving fiscal discipline, and reducing dependency on volatile energy imports. Strengthening trade diversification and boosting exports can help mitigate the inflationary impact of global oil price fluctuations triggered by Middle Eastern instability. Fifth, Pakistan must improve border security and internal stability**,** particularly along its western frontier with Iran. Strengthening surveillance systems, enhancing intelligence-sharing mechanisms, and improving coordination between federal and provincial security institutions are essential to prevent cross-border militancy and smuggling networks from exploiting regional instability. Sixth, Pakistan should adopt a proactive approach toward countering sectarian polarization**.** Since regional conflicts often have sectarian dimensions, internal cohesion must be protected through religious harmony initiatives, strict action against extremist groups, and promotion of inclusive national narratives. This is critical to preventing external conflicts from spilling into domestic unrest.

Seventh, Pakistan should deepen its engagement in geo-economic integration projects**,** particularly the China–Pakistan Economic Corridor (CPEC). Expanding connectivity with Central Asia and the

Middle East can help Pakistan transform its geographic position into an economic advantage. Regional trade integration will also enhance Pakistan's relevance in evolving global supply chains. Eighth, Pakistan must strengthen its diplomatic capacity and institutional coordination. Foreign policy decision-making should be supported by robust research institutions, think tanks, and strategic analysis units that can provide timely assessments of regional developments. A coordinated approach between civilian and military leadership is also essential for policy consistency.

Ninth, Pakistan should actively engage in multilateral diplomacy to avoid isolation in major power rivalries. Strengthening participation in the United Nations, Shanghai Cooperation Organization (SCO), and other regional forums can help Pakistan maintain balanced relations and influence global discussions on peace and security. Finally, Pakistan must adopt a long-term vision focused on peace, stability, and economic development. Instead of reacting to crises, Pakistan should develop anticipatory strategies that align foreign policy with domestic economic priorities. Sustainable development, energy independence, and diplomatic neutrality should remain central pillars of national strategy.

The effective policy responses require Pakistan to carefully balance geopolitical realities with domestic priorities. By pursuing neutrality, strengthening diplomacy, enhancing economic resilience, and improving internal security, Pakistan can successfully navigate the challenges posed by the Israel/US–Iran conflict while also transforming certain aspects of the crisis into strategic opportunities for national growth and regional influence.

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