

Situation Report:

India– Pakistan Escalation



Supply Chain Situation Report: India–Pakistan Escalation (May 2025)

1. High-Level Conflict Overview

Tensions between India and Pakistan have sharply escalated in late April 2025. This follows a militant attack on tourists in the Indian-administered Kashmir that killed 26 people. India accused Pakistan-based militants of orchestrating the **April 22 Pahalgam attack** and vowed to retaliate, while Pakistan denied involvement and warned of an Indian military strike.

In the past days, both nations have undertaken unprecedented measures, usually seen only in wartime. India launched limited “focused” strikes on alleged militant camps across the Line of Control (LoC) (codenamed Operation Sindoor), while Pakistan claimed to have downed several Indian fighter jets in the fiercest exchanges in over two decades. Troops, armor, and air units were put on high alert along the border as skirmishes and artillery shelling flared nightly along the Kashmir frontier.

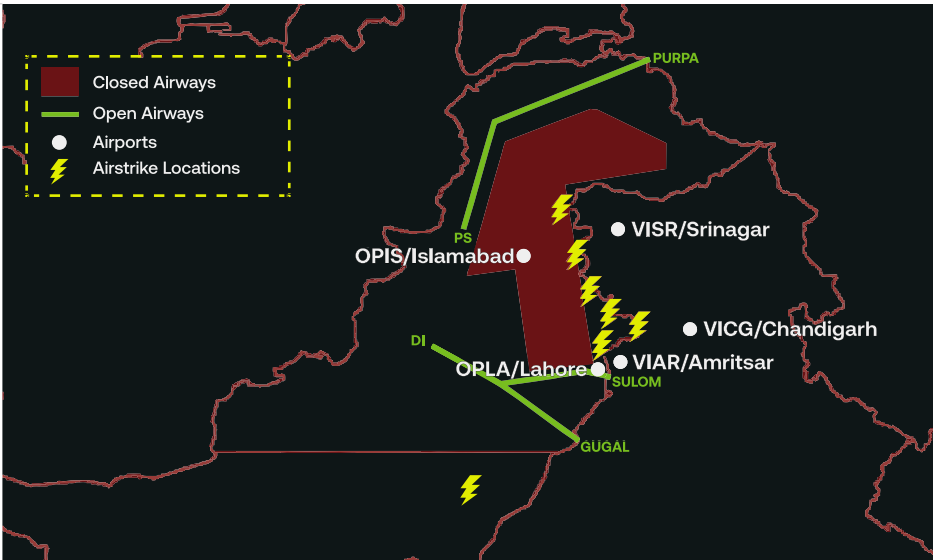
Diplomatically, the situation has deteriorated rapidly. India **suspended the Indus Waters Treaty**, a key 1960 water-sharing agreement, and expelled Pakistani diplomatic staff. Simultaneously, New Delhi **banned all imports from Pakistan**, including goods routed via third countries, and barred Pakistani vessels from Indian ports. Islamabad retaliated by **halting all cross-border trade**, closing its airspace to Indian aircraft, and expelling Indian diplomats.

By May 7, 2025, virtually all direct links – trade, travel, transport, and communication – between the two nuclear-armed neighbors have been severed as each side adopts a war footing. Global powers and the UN have urged “maximum restraint” and offered to mediate, reflecting grave international concern. This standoff, unfolding in one of the world’s most populous regions, carries significant implications for international supply chains and business operations, given India’s role as a major emerging market and Pakistan’s strategic position in South Asia.

2. Immediate Supply Chain Disruption

The immediate impact of the crisis is highly **localized to key cross-border nodes and sensitive regions**, though ripple effects extend globally. The map below highlights critical locations where military or policy actions directly disrupt logistics, production, or trade:

Source: <https://safeairspace.net/pakistan/>



- **Attari–Wagah Border (Punjab)**

- This is the main land trade gateway between India and Pakistan. Its **closure** has suspended the movement of goods by road. Dozens of trucks carrying commodities (including Afghan transit goods) are stuck at the border, forced to turn back. Perishable imports like **dry fruits and nuts from Afghanistan** can no longer transit Pakistan to India, causing Indian market prices for almonds, raisins, and pistachios to jump 10–25% almost immediately. The local border economy (porters, warehouses, transporters) is at a standstill. Companies that used this route for quick overland shipments must now seek longer sea or air routes.

- **Kashmir Region (LoC)**

- In the disputed Jammu & Kashmir area, military operations and curfews are disrupting normal commerce. The Pahalgam tourist district is under lockdown after the attack. Highways connecting Srinagar and Jammu have been intermittently closed for troop movements, impacting the flow of essentials into the Kashmir Valley. Industrial production in Jammu & Kashmir (e.g. handicrafts, horticulture exports) is slowed by security checkpoints and communication blackouts. **Power grid stability** is also a concern if skirmishes damage transmission lines in border areas. Neighboring Punjab and Himachal Pradesh states are on alert, which could disrupt regional trucking routes that pass near the border.

- **Karachi Port and Arabian Sea Lanes**

- Pakistan's principal seaport, Karachi, and nearby Port Qasim are under potential threat as naval forces posture in the Arabian Sea. The Indian Navy has deployed warships (including its aircraft carrier) near the region, and Pakistan's Navy has conducted live-fire exercises off Karachi's coast. While no blockade is officially in effect, **shipping lanes in the Arabian Sea** are now a conflict zone. Many shipping lines have issued advisories or rerouted vessels farther from the Pakistan coast. Insurance premiums for voyages into Karachi have spiked due to war risk. Historically, India imposed a naval blockade on Karachi during past conflicts (e.g. the 1971 and 1999 wars), causing severe fuel and supply shortages in Pakistan. A similar move is **likely if hostilities deepen**, effectively freezing Pakistan's maritime trade. Global maritime trade through the broader Indian Ocean is also on watch, as any significant conflict could disrupt routes between Asia and the Middle East, though major detours are not yet necessary.

- **Lahore and Punjab Industrial Belt**

- The metro region of Lahore (Pakistan) lies just 25 km from the border and is experiencing logistic paralysis. Cross-border rail and truck trade via Wagah has ceased, hurting industries that relied on Indian inputs (chemicals, dyes, cotton) which are now cut off. Factories in Pakistan's Punjab province (textiles in Faisalabad, surgical goods in Sialkot, etc.) face delays in imported raw materials and occasional power outages as authorities divert electricity to defense installations. On the Indian side, Punjab's border districts are under heightened security; commercial traffic towards border roads has been rerouted. **Rail freight wagons** that used to exchange goods weekly at Wagah are idle. The suspension of rail and road links also affects **Afghanistan's trade**, which depends on Karachi and Wagah routes for overland access to India.

• **Gujarat and Rajasthan (Western India)**

- These Indian states border Pakistan and host significant industries (textiles in Gujarat, minerals in Rajasthan). Impact so far has been **indirect**: Gujarat’s ports (Kandla, Mundra) have increased security but remain operational. However, they may see higher volume if carriers divert cargo from Karachi to Indian ports. The land border trade at Gujarat’s Munabao–Khokhrapar rail crossing (Thar Express) was already minimal and is now completely suspended. Companies in special economic zones in Gujarat report contingency plans in place in case of any hostilities (e.g. securing backup generators and reviewing evacuation plans for expatriate staff), but no disruptions yet. Airspace closure has slightly lengthened flight paths from Mumbai/Ahmedabad to West Asia (routing around Pakistan), impacting air cargo transit times marginally.

• **Hyderabad and Indian Interior Hubs**

- Key inland industrial hubs like Hyderabad (Telangana, India) – a major pharmaceutical and IT center – are far from the border and **operating normally**. However, these hubs are on high alert for cyber attacks or supply hiccups. In Hyderabad’s pharma industry, firms are monitoring the availability of certain **active pharmaceutical ingredients (APIs)** imported from global sources, anticipating that any broad conflict or sanctions could tighten global logistics. So far, **Indian internal supply chains are intact**, but companies are conducting scenario planning for potential fuel shortages or transit bottlenecks if the conflict expands. Hyderabad (Pakistan), an industrial city in Sindh, faces indirect effects such as fuel rationing fears (if Karachi supply lines are cut) and business sentiment decline.

In summary, the conflict’s immediate supply chain disruptions are concentrated at **border chokepoints (land crossings, airspace, and sea lanes)** and within **border-proximate industrial regions**. These localized disruptions, however, are triggering broader ripple effects on industries and trade flows, detailed in the next section.

3. Industry-by-Industry Risk Impact Assessment

The India–Pakistan escalation impacts industries unevenly. This assessment analyses current disruptions, high-risk ripple effects, dependency exposures, and early signs of mitigation on a sector-by-sector basis:

Industry	Current Disruptions & Exposures	Risk Level (short Term)
Pharmaceuticals	<p>Cross-border supply severed: India’s ban halts its ~\$500 million annual pharma exports to Pakistan. Pakistan’s pharmaceutical sector, heavily dependent on Indian generic drugs, faces acute shortages and rising costs. Indian pharma firms see minimal direct impact (Pakistan was <1% of exports), and domestic production continues normally. However, heightened demand in Pakistan may strain alternative suppliers (China, Bangladesh) in coming weeks. Some Indian API chemical imports via Karachi are being rerouted as precaution.</p> <p>Mitigation: Pakistan is expediting alternate import channels and tapping strategic medicine stockpiles; India’s pharma hubs are increasing output to fill any regional gaps.</p>	<p>High (Pakistan healthcare impact)</p> <p>Low (Global/India)</p>

Industry	Current Disruptions & Exposures	Risk Level (short Term)
Automotive	<p>Production largely unaffected so far: Neither country is a key supplier of auto parts to the other, so direct trade disruption is negligible. Major Indian auto plants (in Gurgaon, Gujarat, Tamil Nadu) operate normally with domestic supply chains.</p> <p>Indirect risks: Multinational automakers in India have paused employee travel to border areas and enhanced factory security. If tensions persist, components coming via Pakistan or Middle East (e.g. some specialty metals) could see slight delays due to re-routing. Pakistan's small automotive assembly sector (import-dependent CKD kits) could suffer if a prolonged crisis impedes sea shipments.</p> <p>Mitigation: Firms are boosting on-site inventory of critical parts and reviewing logistics routes.</p>	<p>Low (current) <i>Medium if escalation occurs</i></p>
Apparel & Textiles	<p>Pakistan's textile exports at risk: Pakistan's \$20+ billion apparel industry faces order cancellations as buyers worry about port closures. Shipments are still leaving Karachi, but insurers have raised premiums for cargo. Factories report normal operations, but cotton supplies are tightening – Pakistan can no longer import Indian cotton (previously via Wagah in shortages), and domestic cotton yields are threatened by potential water curbs.</p> <p>India's textile sector (e.g. in Gujarat, Tamil Nadu) has minimal direct exposure to Pakistan. Operations continue uninterrupted, and Indian exporters may even see <i>diversion of orders</i> from cautious global buyers away from Pakistan.</p> <p>Mitigation: Pakistani firms are seeking logistics alternatives (e.g. shipping via Oman), and buyers are considering Bangladesh or India as substitutes. In India, cotton procurement is being secured domestically to avoid any border-region farming disruptions.</p>	<p>High (Pakistan exports) Low (India/Global)</p>
Agriculture & Food	<p>Trade and output disruptions emerging: The Attari–Wagah closure has stopped India's import of Afghan dried fruits and Pakistan's import of Indian farm products, pushing up regional food prices. Pakistani farmers fear water shortages as India's suspension of the Indus treaty could reduce flows for the upcoming growing season. Pakistan's agriculture (22.7% of GDP) is highly water-sensitive; a prolonged cut could slash its crop exports by an estimated \$4.8 B annually. In India, there is little reliance on Pakistan for staples, so domestic markets are stable aside from niche items (e.g. some spices or dry fruits). However, border states are bracing for potential farm labor displacement if fighting escalates.</p> <p>Ripple effects: Global cotton and rice markets are monitoring the situation, since both nations are major exporters – any war could prompt export bans to protect food security.</p> <p>Mitigation: India is increasing supplies from alternate import partners for dry fruits (Iran, Central Asia) to stabilize prices. International agencies quietly prepare food aid plans for Afghanistan and Pakistan in case regional food shortages worsen.</p>	<p>Medium (localized shortages & price volatility)</p>

Industry	Current Disruptions & Exposures	Risk Level (short Term)
Energy & Logistics	<p>Fuel and freight in flux: Heightened tensions have nudged up global oil prices as markets price in war risk. India, which imports ~83% of its crude oil, faces higher input costs and potential <i>margin pressure in refining and transport</i> if prices spike further. For Pakistan, the stakes are higher – any disruption at Karachi port would choke off fuel imports within weeks. Already, Pakistan has warned that an Indian attempt to block its oil supply would be an act of war.</p> <p>Air logistics: Pakistan’s airspace closure to Indian flights forces carriers (Air India, Air France, Emirates) to detour hundreds of miles, raising fuel costs and transit times (global airlines face an estimated +\$600 M in annual costs from rerouting). Air cargo on India–Europe routes now takes longer as well.</p> <p>Shipping: Warship deployments in the Arabian Sea and naval live-fire exercises have effectively created an unofficial exclusion zone near Pakistan’s coast. Commercial shipping is still moving, but with caution – some vessels are rerouting to avoid the area. If conflict escalates, maritime insurers may declare the Northern Arabian Sea a war risk zone, dramatically increasing freight costs or halting service.</p> <p>Mitigation: Indian refiners are securing contingency stock and alternative routes (east coast ports). Logistics providers are reallocating air freight to southern corridors and using longer maritime routes (via Sri Lanka) to keep goods moving.</p>	<p>Medium (global oil & transit costs up)</p> <p>High (Pakistan energy security)</p>

Key Dependency Exposures: The conflict has laid bare certain dependencies. Pakistan’s **essential imports (pharmaceuticals, fuel, specialty chemicals)** were reliant on Indian or Indian-routed sources, now cut off, while India’s exposure to Pakistan’s economy is minimal (bilateral trade was <0.5% of India’s trade). Both countries do share reliance on common regional infrastructure – e.g. the Indus River system, and air corridors – which are now weaponized as pressure points.

Multinational companies with operations in Pakistan are confronting the fragility of supply lines that run through a single major port (Karachi) and are hastening diversification of entry points. Meanwhile, firms operating in India are watching for second-order effects (global investor sentiment, commodity prices) rather than direct supply shocks from Pakistan, given India’s diversified trade portfolio.

4. Scenario Foresight and Strategic Guidance

Given the volatile situation, we outline three plausible short-term scenarios – **De-escalation**, **Protracted Tit-for-Tat**, and **Escalation into Open Conflict** – and analyze the supply chain implications of each. For each scenario, we also provide actionable contingency recommendations for companies with operations or sourcing in the affected region.

Scenario 1: Diplomatic De-escalation

- **Outlook:** Intense international pressure and back-channel diplomacy lead to a cooling of tensions in the coming weeks. There are no further major attacks or military strikes. Both sides stop short of full war and gradually step back from forward deployment. Some punitive measures (like import bans) remain formally in place but are not expanded.

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- **Supply Chain Implications:** Under de-escalation, the current disruptions would **plateau and begin to ease**. Cross-border links may partially reopen for essential goods after a cooling-off period – for instance, limited Wagah border trade for humanitarian supplies could resume, and Pakistan might quietly lift airspace restrictions once immediate hostilities fade.

However, **trust will remain low**. Companies should not expect a quick return to pre-crisis normal; instead there will be a phased restoration. High-friction trade (licensing, inspections) might continue for months. That said, war risk premiums on shipping and insurance would drop swiftly. Global markets would likely stabilize as the threat of war recedes – easing pressure on oil prices and flight routes. Indian markets, which showed only a brief dip during the crisis, would firm up, and Pakistani supply chains would try to recover from the shock. Pharma and food shortages in Pakistan could be alleviated by emergency imports via friendly third countries as India's direct ban stays formally in effect for some time. Overall, **this scenario contains the fallout** to a temporary regional disruption in April–May 2025, with a rebound by late Q2 2025.

Scenario 2: Protracted Tit-for-Tat Standoff

- **Outlook:** The current pattern of exchanges and economic sanctions continues in a **volatile equilibrium**. Neither side launches all-out war, but periodic skirmishes, militant incidents, or political flashpoints prolong the crisis for several months. The border remains largely sealed; sporadic firefights and military drills persist. Diplomatic relations stay frozen. This scenario essentially means a drawn-out impasse – a hostile status quo without overt full-scale war.
- **Supply Chain Implications:** In a protracted standoff, **all existing disruptions persist and could intensify gradually**. The suspension of trade links and air routes would become long-term, forcing companies to fundamentally adapt. For example, Indian and Pakistani businesses that historically engaged in indirect trade via Dubai or Singapore would permanently shift to other partners (the “hidden” \$10B informal trade between the two would seek new circuits or be lost).

Expect **persistent logistics inefficiencies**: shipments that once moved over a 1-day land route might continue taking a 3-week sea journey. Inventory costs will rise as just-in-time flows are replaced by buffer stocks for critical inputs in Pakistan. Global supply chains might start **reallocating production away from Pakistan** due to reliability concerns – e.g. apparel buyers may move more orders to Bangladesh or India until stability returns. In India, most industries would remain largely unaffected domestically, but companies would factor in a higher geopolitical risk premium for any ventures in Pakistan or joint regional projects.

Ripple effects could include strain on Afghanistan's trade (which depends on Pakistan–India routes), continued elevated air freight costs for Asia–Europe, and slow damage to Pakistan's manufacturing export sectors as international clients quietly shift sourcing.

Scenario 3: Escalation into Open Conflict

- **Outlook:** Worst-case scenario – the crisis escalates into a **short-duration conventional war** between India and Pakistan. This could be triggered by a larger terrorist attack or miscalculation that prompts wide-ranging military engagements (air strikes beyond Kashmir, armoured thrusts across the border, and naval battles). The conflict is likely intense but short (weeks), under pressure from global powers to cease hostilities.
There is a *low but non-zero risk* of further escalation to unconventional (nuclear) war, which is beyond the scope of this report as it would have catastrophic humanitarian consequences far eclipsing supply chain concerns.

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- **Supply Chain Implications:** An open conflict would have **severe and immediate supply chain shocks regionally, and significant global reverberations**. In the first days of war, all land, air, and sea connections between the two countries would be completely closed under military order (if not already). **Airspace closures would** widen – both India and Pakistan (and likely neighbors like Afghanistan) would be effectively no-fly zones for commercial aircraft. International flights would make large detours (e.g. routing via Central Asia or the Arabian Sea), adding hours to travel; some carriers may suspend routes to South Asia entirely.

Shipping in the Arabian Sea would halt near the conflict zone – expect India to enforce a naval blockade on Karachi quickly, as it has done in past wars, to cut off Pakistan’s supplies. This would stop ~\$2 billion of Pakistan’s monthly imports (fuel, machinery, etc.) overnight. Pakistan’s industrial production would grind down as fuel stocks deplete. On the Indian side, ports on the western coast (like Mumbai, Kandla) would prioritize military logistics and may restrict civilian cargo for security; foreign ships might avoid calling on Indian ports temporarily for fear of being caught in hostilities.

Supply chain infrastructure could become targets: major highways, rail lines, bridges, or even factories might suffer damage in cross-border strikes. Power grids could be disrupted by sabotage or capacity throttling (especially in Pakistan if fuel for power plants runs out).

Global impact: A short war would send a shockwave through global markets – analysts estimate even a limited conflict could cost India ~\$17.8 billion *per day* in economic losses and push Pakistan’s fragile economy into outright crisis. Oil prices could spike 10-20% on fears of a wider regional war, given proximity to Middle Eastern shipping routes. Multinational companies would likely impose travel bans to both countries and activate emergency operations centers to manage the fallout.

Depending on the duration of conflict, critical global supply chains (e.g. textiles, auto parts, generic drugs) sourced from India could see weekslong delays, as factories might pause during air raid alerts or due to transport bottlenecks. Pakistan’s export commitments (textile shipments for holiday retail, sports goods for global events, etc.) would almost certainly default, pushing international buyers to alternate sources. In essence, a war would **deeply paralyze regional supply chains** and inject significant uncertainty and cost into global trade with South Asia.

● Conclusion

The India–Pakistan escalation underscores how quickly a regional security shock can expose hidden dependencies and bottlenecks across global supply chains. Direct disruptions remain concentrated at key chokepoints – Attari-Wagah, the Port of Karachi, the LoC and Pakistan’s airspace – but their ripple effects already reach textile showrooms in Europe, generic-drug shelves in Africa, and freight timetables on Asia-to-EU lanes. Because the crisis could plateau, protract, or escalate with little warning, companies must keep contingency measures fully active until a durable diplomatic off-ramp is visible.

In practical terms, the most resilient firms will (1) maintain high-frequency horizon scanning of border, air-route, and maritime advisories; (2) diversify critical inputs beyond single-country clusters; (3) hard-wire alternate logistics corridors into standard operating procedures; and (4) treat geopolitical stress tests as integral—not optional—elements of supply-chain design. Acting on those imperatives now will protect continuity through this confrontation and sharpen readiness for the next systemic shock, wherever it emerges.