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Research Article

Trade Substitution in a Fragmented World: EU's China De-risking vs. Russia's Pivot to Asia -Where Does Pakistan Fit?

Abdul Samad[1*], Erum Naz[2], Saif Ur Rehman[3], Abdul Malik[4], Melis Ipek Gokcen[5]

[1*](Master's Student at the Faculty of Historical and Political Sciences, National Research Tomsk State University, Russian Federation)
[2](Master's Student in International Relations at DHA Suffa University Karachi, Pakistan)
[3](Master's Student at the Faculty of Historical and Political Sciences, National Research Tomsk State University, Russian Federation)
[4](Master's Student at the Faculty of Historical and Political Sciences, National Research Tomsk State University, Russian Federation)
[5](PhD Student the Faculty of Historical and Political Sciences, National Research Tomsk State University, Russian Federation)

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Abstract

This study examines Pakistan's emergence as a "swing economy" amid global trade fragmentation driven by the EU's de-risking strategy toward China and Russia's sanctions-induced pivot to Asia. Pakistan leverages EU market access under the GSP+ scheme for textile exports while pursuing discounted Russian energy and wheat imports via barter systems. This dual approach offers short-term benefits—trade diversification, energy security, and inflation control—but exposes structural vulnerabilities: overdependence on EU textiles, compliance costs, secondary sanctions risks (e.g., CAATSA), and institutional barriers to non-dollar trade with Russia. Empirical analysis (2019–2024) reveals Pakistan's opportunistic hedging strategy faces sustainability challenges without institutional reforms, export diversification, and diplomatic dexterity to navigate competing EU normative pressures and Russian transactional pragmatism.

Keywords: Trade substitution, swing economy, EU de-risking, Russia sanctions, Pakistan hedging, GSP+ compliance

1. Introduction

The new age of economic division has gained pace following the war in Ukraine. The decision by Western countries to sanction Russia, the need to decouple their energy system due to Russian energy dependence and the controversial role of China within the global value chains have triggered realignments in world trade. The European Union's (EU) "de-risking" strategy toward China, formally articulated in 2023, aims to reduce overdependence on Chinese critical raw materials, green technologies, and intermediate goods while nurturing alternative suppliers in South Asia and Africa (Huld, 2023). In parallel, Russia, facing an unprecedented wave of sanctions, has accelerated its Asia Pivot, redirecting trade toward non-Western partners while seeking to build barter systems and alternative payment networks to bypass the dollar-dominated global financial system (Tran, 2024).

In this tectonic realignment, Pakistan has become a referential, but underutilised, non-globalising swing economy of the new trade reset. Historically dependent on the EU and US for textile and leather exports (Tariq, 2025), Pakistan also joined China's Belt and Road Initiative (BRI) through the China-Pakistan Economic Corridor (CPEC), making it a key node in Beijing's connectivity ambitions (Sacks, 2021). However, Islamabad's persistent foreign exchange crises, energy shortfalls, and external debt vulnerabilities have compelled it to diversify its trade partners, increasingly looking toward Russia for discounted energy imports, wheat supplies, and barter-based trade (Durrani, 2023). In addition, Russia has emerged as the major wheat provider to Pakistan. In March 2024, the shipping of 478,000 tons accounted for 70 per cent of Pakistan's imports that month. In 2023, Russian wheat exports to Pakistan rose 5.5 times to 1.6 million tons ($568.3 million). In the first quarter of 2024, shipments reached 1 million tons ($296 million), nearly two-thirds of the previous year's total (Tridge, 2024). Russian companies have established a barter trade system with Pakistan to facilitate economic exchanges without monetary transactions, seeking to overcome payment challenges under Western sanctions on Moscow (Voronin, 2024). Pakistan is considering various options to enhance oil imports from Russia, including barter trade-exchanging goods for oil, to boost imports to one million tons (Yousafzai, 2024). Such dynamics have changed the trading scene of Pakistan over the past few years. However, with these changes, the significance of secondary beneficiaries such as Pakistan in the great power trade rebalancing debate is mostly missed by scholarly and policy documentation. Analyses typically focus on the EU's decoupling from China (European Parliament, 2024) or on Russia's adaptation to sanctions within Eurasia (Inozemtsev, 2025), sidelining how middle economies navigate and exploit these rivalries to enhance their bargaining power while managing exposure to geopolitical risks (Kara, 2024). Pakistan's position is particularly instructive: under the EU's Generalised Scheme of Preferences Plus (GSP+), over 85% of Pakistan's EU-bound exports, including textiles and clothing, enter duty- and quota-free, conditional upon compliance with human rights, labour rights, and environmental reforms (European Commission, n.d.). Russia offers transactional, sovereignty-respecting trade arrangements without political preconditions. The subsequent policy dilemma that we have created in Pakistan would lead to revealing the structural contradictions of a fragmented global system of trade.

This research is a contention that Pakistan is turning into a contentious swing economy as EU incentives and standards of trade are meeting those of China and Russia's strategies of connectivity and transactional trade, which will provide opportunities to Islamabad to diversify its reliance and be subjected to a systemic strain between Western paradigms and potential Eurasian networks of economic connectivity. Short-term substitution of trade, trade diversification and energy security issues form the immediate benefits of Pakistan; however, some profound structural hindrances, such as institutional restrictions, subject to secondary sanctions, and an unstable export basket, compromise the extent to which Islamabad can enjoy them comprehensively.

To support this argument, the study:

- Examines comparative trade data (2019–2024) from UN Comtrade and Eurostat to trace Pakistan's export-import shifts across the EU, China, and Russia.
- Reviews policy documents, including the EU's Critical Raw Materials Act (2023), GSP+ conditionalities, China's Belt and Road Initiative implementation, and Russia's Asia Pivot strategies to contextualise Pakistan's positioning within broader geopolitical shifts.
- Incorporates perspectives from Pakistani exporters, trade officials, and regional analysts (Ahmed, 2024; Khan, 2024) to capture perceptions of trade opportunities, constraints, and hedging strategies in a fragmenting global economy.

This approach anchors the analysis within broader theoretical frameworks on hedging, small-state agency, and structural power in trade regimes (Bailes et al., 2022), providing insights into how middle economies like Pakistan navigate a rapidly bifurcating global economic order.

It also reflects on Russia-China economic integration and the key role that Pakistan plays in the EU-China de-risking narrative, or the consideration of secondary beneficiaries in the great power rivalry, and lastly, the creation of alternative trade routes outside Western financial systems. It highlights how, although the swing position will provide temporary relief to long-historied structural economic difficulties facing Pakistan, the sustainability of the same will be determined by the ability of Islamabad to form institutional strength, diversify the export basket and take care of systemic tensions in the face of the emergence of a world order of trade that is ever more contested.

2. EU's China De-risking Strategy

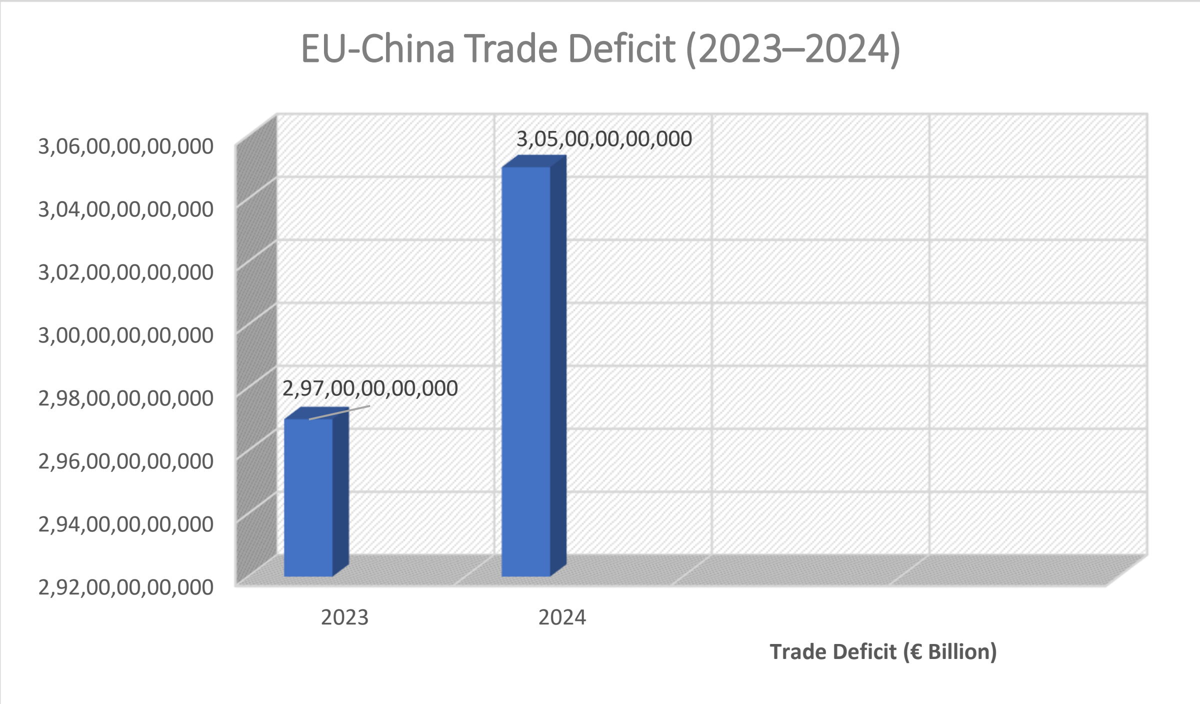
The European Union's approach of China de-risking, which has increased speed following the war in Ukraine, is a selective tool toward the limitation of dependency on China in key industries and the maintenance of profitable flows of trade. Publicly framed as resilience-building, the policy aligns with broader Western bloc efforts to contain competitors under the language of "risk management" (Chimits et al., 2024). However, the de-risking approach does not equate to decoupling but reflects a controlled recalibration shaped by US geopolitical imperatives and Europe's industrial vulnerabilities (Borrell, 2023).

Recent developments have further intensified this agenda. China's export restrictions on rare earths—critical for smartphones, electric vehicles, and green technologies—have exposed the EU's strategic vulnerabilities, demonstrating how "dependencies are vulnerabilities" (von der Leyen, 2024). Additionally, China's alignment with Russia in the Ukraine conflict has added geopolitical urgency to Europe's de-risking push, illustrating the growing entanglement of trade and security considerations within EU-China relations (Moller-Nielsen, 2025).

Policy intentions notwithstanding, the trade data highlight the difficulties of the practical dimensions of de-risking. As can be seen in Figure 1, EU Imports from China have been increasing steadily, reaching some \$700 billion by 2022, whereas exports to China have grown more moderately to a level of a little more than

$300 billion, resulting in a result trade deficit that is persistent and widening a deficit of approximately -$400 billion. The European Commission reported that the EU's trade deficit with China rose from €297 billion in 2023 to €305 billion in 2024, highlighting persistent structural dependencies even amid diversification efforts (Figure 2) (European Commission, 2024). This is indicative of the EU taking advantage of Chinese production, specifically associated with electronic devices, machines, as well as green technologies, despite the de-risking aspirations. The data illustrate that while de-risking initiatives may facilitate incremental diversification, the scale of interdependence constrains rapid substitution, making the EU's strategy incremental rather than transformative (Moller-Nielsen, 2025).

Figure 2. EU-China Trade Deficit (€ Billion), 2023–2024



Source: European Commission, EU Trade Policy Report (2024).

For emerging exporters like Pakistan, this selective de-risking offers substitution opportunities in textiles and low-tech sectors while simultaneously creating compliance challenges, exposure to political conditions, and risks of entanglement in bloc rivalries (Hussain, 2024). Even as Pakistan is capable of securing marginal advantages of the EU, reducing supply chains with Chinese suppliers, the fact that structural reliance on Chinese supply networks in Europe remains high constrains the magnitude of the advantages, as Islamabad cannot allow its export interests to run freely in the new EU trade environment.

2.1 EU Trade Diversification Tools

Critical Raw Materials Act (2023)

This study will employ a snowball sampling technique to collect data from Russian citizens. The research will begin with a small group of initial participants who meet the study criteria-individuals aged 18 years and above, aware of Western financial sanctions, and willing to share their experiences. These participants will be asked to forward the survey link to others within their networks who meet the same criteria. This approach is appropriate given the sensitivity of the topic and the lack of an accessible national sampling frame. Snowball sampling will allow the researcher to reach diverse participants from different regions and socio-economic backgrounds efficiently while ensuring anonymity and ethical participation.
The Critical Raw Materials Act (CRMA), adopted by the EU in 2023, aims to reduce Europe's reliance on external suppliers for rare earth elements, lithium, cobalt, and other strategic raw materials essential for its

green and digital transitions (Lanzavecchia, 2023). Currently, China supplies 98% of the EU's rare earths, 93% of its magnesium, and 97% of its lithium, underscoring Europe's high dependency on these critical sectors (Kardaś, 2023). In response, the CRMA supports domestic extraction within Europe while developing "trusted partnerships" in Africa and Asia, providing incentives for sustainable mining practices to diversify sourcing options (McLoughlin & Rajkotwalla, 2025).

Even though the CRMA does not directly address Russia, the fact that it is a supplier of minerals in Europe, e.g., nickel and palladium, is relevant to the seat shifting debate about material sourcing in Europe. Before 2022, Russia was also an important supplier of energy to Europe, and recent changes in trade flows have influenced how European actors approach the question of stable access to critical materials (Kardaś, 2023). Rather than indicating a clear pivot away from specific countries, the CRMA reflects Europe's adjustments within a changing trade environment, where economic, technological, and geopolitical considerations shape sourcing decisions in a multipolar trade landscape (Hool, Helbig, & Wierink, 2024).

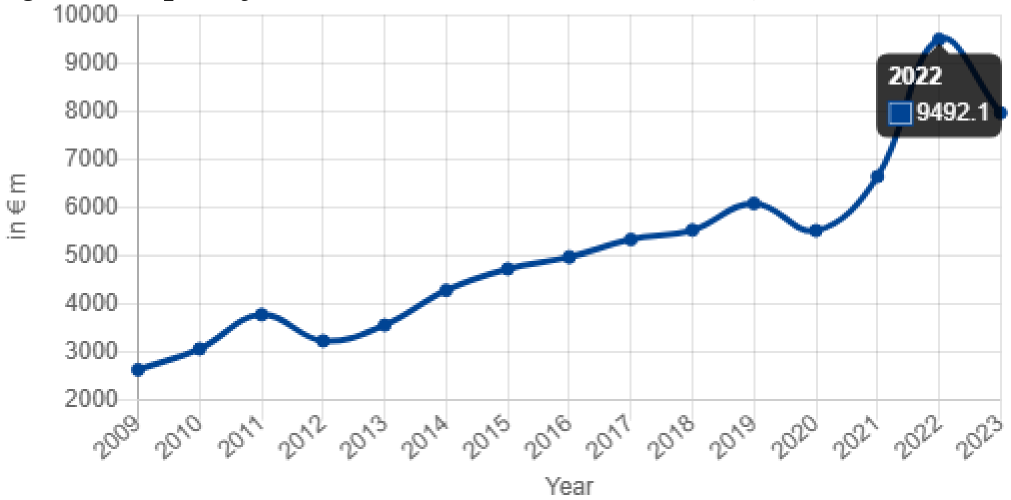
GSP+ Incentives for Alternative Suppliers

The Generalised Scheme of Preferences Plus (GSP+) is an EU trade instrument that grants duty-free access to developing countries while requiring compliance with 27 international conventions on human rights, labour rights, environmental protection, and good governance, aligning trade preferences with broader sourcing and regulatory objectives. (European Parliament, n.d).

The (GSP+) has played a significant role in Pakistan's export strategy, providing duty-free access for over 76% of its exports to the EU, primarily textiles and garments, which account for around 80% of Pakistan's total exports to the EU (The Herald Today, 2025).

Pakistan has over doubled its exports to the EU since joining the scheme in the year 2014, as indicated in Figure 3. Pakistan has been exporting steadily, with reports showing exports to rise by about 15 per cent to about 2 billion Euros in the year 2010 to a high of more than 4.2 billion Euros in 2014 when Pakistan was granted the GSP+ status. Since 2014, the export has grown with moderate growth phases up to the sudden rise that happened after 2020. Exports peaked near €9 billion in 2022 before moderating slightly to €8 billion in 2023 (GSP Hub, 2025).

Figure 3: Imports from Pakistan Over Time (€ million), 2010–2023



Source: GSP Hub (2025). https://gsphub.eu/country-info/Pakistan

Table 1 also demonstrates that in 2022, the Pakistani exports to the EU amounted to 9.3 billion dollars (29.8 per cent of its worldwide exports). The highest destination was the Netherlands and Germany, which contributed 38.6 per cent of these exports, followed by Spain, Italy and Belgium. This concentration highlights Pakistan's reliance on a few key EU markets under the GSP+ framework (Pakistan Business Council, 2023). Additionally, Pakistan's exports to European countries grew by 8.62% during the first ten months of fiscal year 2025, rising from $6.95 billion to $7.55 billion (Startup Pakistan, 2025).

Table 1. Pakistan's Top Five Export Destinations within the EU, 2022 (USD Millions and % of Total EU Exports)

Ranking	*Member/Country*	*Pakistan Exports in USD Millions*	*Share in Exports to the EU in %*
-	*European Union*	9,304.7	-
1	*Netherlands*	1,814.9	*19.5*
2	*Germany*	1,774.6	*19.1*

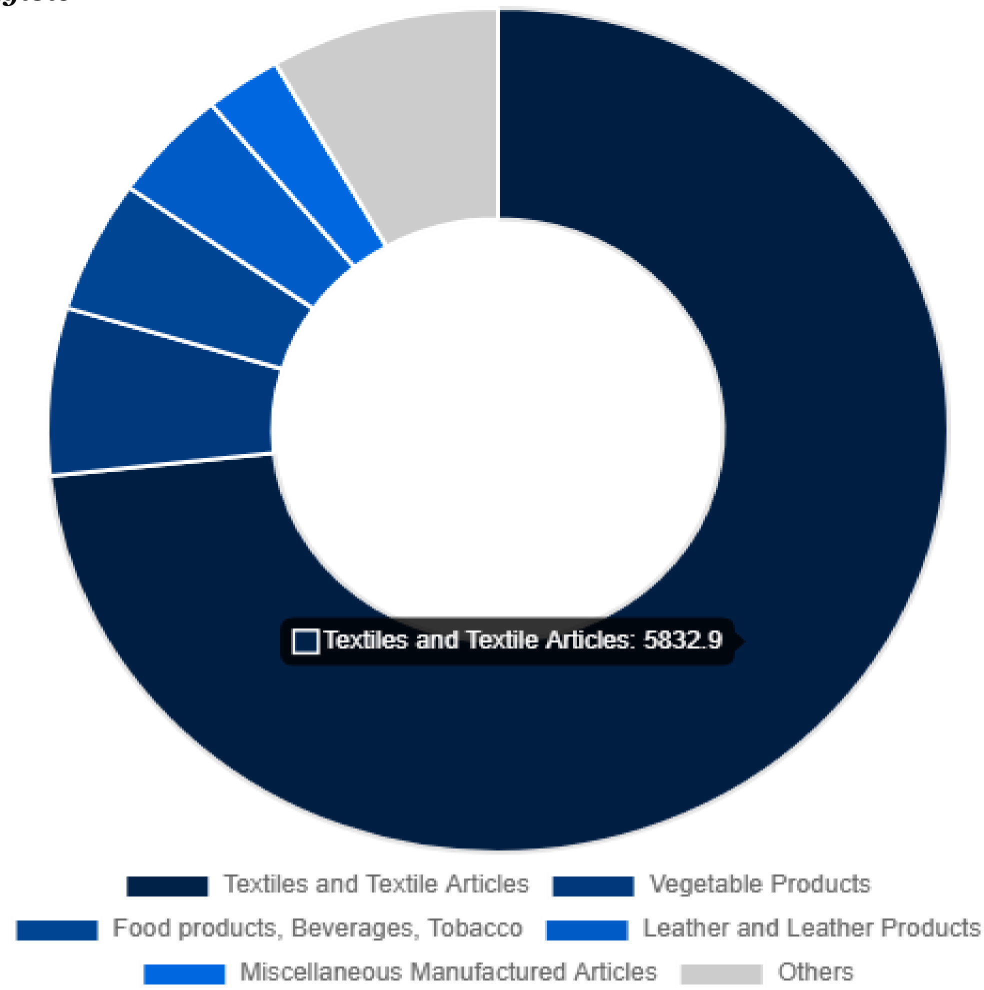
3	*Spain*	1,404.9	*15.1*
4	*Italy*	1,230.3	*13.2*
5	*Belgium*	766.5	*8.2*

Source: ITC Trade Map (2023).
Retaining GSP+ status remains important for Pakistan's export competitiveness, which supports over 40% of its formal manufacturing employment, linking continued access to measurable regulatory progress in line with the framework's conditions (The Herald Today, 2025). However, under GSP+, Pakistan has to align with 27 international conventions on human rights, labour standards, environmental protection, and governance to retain these trade preferences (Human Rights Information Resource Portal, n.d.). The European Commission is currently reviewing Pakistan's compliance, with the current monitoring cycle extending benefits until 2027 (Rafique, 2024). The new framework also puts more conventions and high levels of reporting, and the Pakistan government was given a two-year grace period in achieving such standards. While portrayed as development cooperation, the GSP+ system functions as a geoeconomic tool, shaping suppliers' domestic policies to align with EU preferences while serving its trade diversification goals (Ahmed & Ali, 2024).

Case: Textiles – Pakistan's Export Surge

The textile industry is a bright example of a little but real substitution. Textile exports from Pakistan to the European Union (EU) are a vital component of Pak-EU trade (Hussain, 2025). Pakistan has already intensified its status as a major supplier of textiles and garments to the EU since it became a GSP+ country in 2014. Textile export volumes grew at a much faster pace post-GSP+ compared to the 2004–2014 period, nearly doubling over the next decade and peaking by 2022 (ProPK Staff, 2023). Between the years 2019 and 2023, Pakistan has strengthened its status as one of the key exporters of textiles and garments to the EU market, especially within the GSP+ terms. In 2023, as shown in the pie chart in Figure 4 visually demonstrates Pakistan's heavy reliance on textile exports to the EU market, which reached $6.23 billion (approximately €5.83 billion), accounting for over 72% of its total exports to the EU under the GSP+ scheme. This graphic representation clearly shows how textiles dwarf all other export categories, including vegetable products, food products, beverages and tobacco, leather and leather products, and miscellaneous manufactured articles, illustrating the limited diversification of Pakistan's export basket within the EU (GSP Hub, 2025).

Figure 4. Pakistan's Export Basket to EU Markets: Overreliance on Textiles vs. Other GSP+-Eligible Products



Source: GSP Hub (2025).

Moreover, Table 2 indicates that textile exports of Pakistan to the EU in 2023 were highly focused on home textiles, knitted garments, and woven garments, with Germany, Spain, and the Netherlands being reported as the leaders in the list every time. In terms of home textiles, Germany posted first with 373.7 million, followed by the Netherlands and Italy. Spain was the greatest importer of knitted garments at 430 million US dollars, followed by the Netherlands and Germany. On the same note, on woven garments, Spain led the list once again since it is the key market for value-added textile goods produced by Pakistan.

Table 2. Pakistan's Textile Exports to Top EU Destinations by Category (2023)

Category	Country	Exports (USD Millions)
Home Textiles	Germany	373.7
	Netherlands	351.3

	Italy	290.0
Knitted Garments	Spain	430.0
	Netherlands	361.4
	Germany	333.5
Woven Garments	Spain	432.6
	Netherlands	311.3
	Germany	304.6

Source: Hussain, T. (2025). *Textile exports from Pakistan to the EU*. The Textile Think Tank.
This redirection is primarily in **low-value sectors**, with China retaining dominance in high-value segments like technical textiles and machinery, indicating that the EU's de-risking remains incremental rather than transformative.

2.2 Pakistan's Opportunistic Alignment

Compliance vs. BRI Debt Exposure

Pakistan's approach reflects pragmatic opportunism. The country aligns with EU labour and environmental standards to sustain GSP+ benefits while simultaneously maintaining its infrastructure partnerships under China's Belt and Road Initiative (BRI) (Hussain, 2024). This dual alignment allows Pakistan to benefit from EU trade shifts while leveraging Chinese financing for energy and transport projects, despite concerns of debt risks and sovereignty erosion (Ahmed & Ali, 2024).

Trade Data Snapshot

Below is a **snapshot of the top five EU imports from Pakistan vs. China (2020 vs. 2023),** illustrating Pakistan's niche gains:

Product	Pakistan Exports to EU (€M) 2020	Pakistan Exports to EU (€M) 2023
Leather Goods	910	1,120
Surgical Instruments	380	460
Sports Goods	320	390
Rice	210	250

Product	China Exports to EU (€B) 2020	China Exports to EU (€B) 2023
Leather Goods	2.3	2.1
Surgical Instruments	1.1	1.0
Sports Goods	0.7	0.6
Rice	0.5	0.4

(Source: Eurostat, 2024)
This illustrates that while the EU's de-risking has enabled Pakistan to capture incremental gains in sectors like textiles, the scale remains marginal relative to China's trade footprint, underscoring the limitations of the EU's substitution strategy (Eurostat, 2024).

3. Russia's Asia Pivot and Pakistani Niches

3.1 Sanctions-Driven Trade Realignment

The shift of Russia in the direction of Asia, especially quickened under sanctions pressure imposed by the West as a result of the Ukrainian conflict, has essentially reoriented Moscow's trade and energy relations towards non-Western countries. This strategic reconfiguration reflects a deliberate effort to diversify markets, reduce reliance on European buyers, and construct alternative payment and logistics frameworks resilient to Western secondary sanctions (Ivanov, 2024). In this larger picture, Pakistan has become a common-sense companion, using the eastward tilt of Russia to achieve cheap energy, alternation of sources of wheat importation and control of other logistical conduits other than those under the control of the West.

The feature of this realignment is the flood of Russian wheat into Pakistan. Facing persistent food inflation and foreign exchange constraints, Pakistan intensified its wheat imports from Russia, capitalising on competitive pricing and flexible payment mechanisms insulated from Western market volatility (Hussain, 2024). According to UN Comtrade data, Russian wheat exports to Pakistan expanded from under $30 million in 2021 to over $1 billion in 2023, underscoring the mutually beneficial nature of this partnership (UN Comtrade, 2024). For Russia, these exports not only compensated for the loss of European markets but also strengthened its position as a reliable supplier to the Global South, demonstrating the resilience and adaptability of its sanctions-proof trade strategy (Ivanov, 2024).

At the same time, the swing of Russia helped Pakistan solve its energy deficit problems. In 2023, Pakistan received its first shipment of Russian crude oil under a local currency payment structure, marking a significant shift in its energy procurement strategy (Ali, 2023). By mid-2024, Russian oil accounted for approximately 15% of Pakistan's crude imports, a development that has mitigated Pakistan's foreign exchange pressures and stabilised domestic fuel prices amid global market disruptions (Khan, 2024). The utilisation of barter trade, wherein Pakistani rice and other commodities are exchanged for Russian oil, further exemplifies the innovative mechanisms devised by both states to bypass the constraints of the Western-dominated financial system (Ali, 2023). For Russia, these transactions align seamlessly with its broader de-dollarisation objectives, reducing the centrality of Western currencies in global trade while reinforcing its presence in South Asian markets (Ivanov, 2024).

3.2 Institutional Barriers

Though the achievements have been so significant, the growth in Russia-Pakistan trade is still inhibited by institutional and structural limitations, which are mainly associated with Western secondary sanctions on financial services. The absence of direct banking channels between Russian and Pakistani financial institutions has necessitated the use of intermediary banks in the United Arab Emirates and China, introducing compliance complexities and increasing transaction costs (Ahmed & Ali, 2024). Smaller Pakistani exporters often encounter difficulties in accessing trade finance due to the cautious stance adopted by local banks wary of inadvertently breaching Western sanctions (Hussain, 2024). These limitations remind us of enduring asymmetries in the international financial system that prevent the proper development of the Russia-Asia pivot, even being the weight and the political desire of both Moscow and Islamabad are obvious. One such interesting example demonstrating the pragmatic process of turning this collaboration into reality is the implementation of direct flights between Karachi and Moscow, which are planned to open in the year 2023. These flights, designed to facilitate business travel and freight while circumventing European airspace restrictions, symbolise tangible progress in fostering connectivity between Russia and Pakistan (Ali, 2023). However, logistical integration remains hindered by insurance and payment settlement complications rooted in Western-controlled reinsurance markets and monitoring systems (Ahmed & Ali, 2024). These practical challenges underscore the tiers present in the process of sanctions implementation that have so far extended to practices beyond military trade and connectivity.

However, the Russia-Pakistan alliance is a progressive realignment of Eurasian economic currents, and the Russian pivot provides an alternative to Pakistan on the route to energy and food security under the suffocating pressures of the Western-dominated supply chain. For Russia, deepening trade ties with Pakistan strengthens its economic outreach to South Asia and solidifies its pivot as a sustainable long-term strategy rather than a short-term reaction to Western pressure (Ivanov, 2024). With both nations examining local currencies deals and barter systems, these actions may slowly erode the Western claim on the rules of trade, whilst creating flexible South-South connections that advantage Moscow and Islamabad during the changing multipolar world.

4. Competing Visions: EU vs. Russian Leverage

4.1 EU's Normative Power

The European Union has historically wielded normative power in its trade relations, leveraging market access as an instrument to promote human rights, labour standards, and environmental protections globally (Youngs, 2023). Pakistan's engagement with the EU under the Generalised Scheme of Preferences Plus (GSP+) exemplifies this strategy. Under GSP+, the EU ties approximately 78% of Pakistan's exports to conditionalities related to the ratification and implementation of 27 international conventions covering human rights, labour rights, environmental protection, and good governance (European Commission, 2023). This preferential access has been critical for Pakistan's textile and garment sectors, which account for over 60% of its exports to the EU (Eurostat, 2024).

However, while GSP+ has provided market stability, it has imposed compliance costs on Pakistani exporters, requiring adherence to labour standards, environmental benchmarks, and workplace safety norms (Ali, 2024). These obligations have necessitated investments in certifications and regulatory frameworks that smaller enterprises often struggle to meet (Hussain & Qureshi, 2024). Additionally, the EU has leveraged the potential suspension of GSP+ benefits as a diplomatic tool, particularly concerning Pakistan's blasphemy laws and press freedom issues (European Parliament, 2023).

These conditions reflect the EU's commitment to shaping partner economies, but they also highlight Pakistan's asymmetric dependency on EU markets, which constrains Islamabad's policy autonomy (Rizvi, 2024). Although these conditions were able to bring about governance as well as the change, they have brought about frictions between the local priorities and the EU expectations.

4.2 Russia's Transactional Playbook

In contrast, Russia employs a transactional playbook that prioritises pragmatic, interest-based cooperation while avoiding political or ideological preconditions (Ivanov, 2024). The strategy of Asia Pivot in Russia has given weight to economic and defence cooperation with other states, including Pakistan, and this trend of coexistence and diversification of ties has been viewed with similarity to the aspiration of having sovereign policy by Islamabad.

A clear example of this transactional approach is Russia's arms-for-energy arrangements with Pakistan, linking defence sales, such as Mi-35 attack helicopters, with discussions on liquefied natural gas (LNG) and discounted crude oil supplies (Khan, 2024). This model allows Russia to strengthen defence exports while expanding its energy market presence, providing Pakistan with flexible options in securing critical imports without Western restrictions (Ali & Ivanov, 2024).

Furthermore, Russia's openness to Rupee-Ruble settlements and barter mechanisms enables Pakistan to bypass reliance on dollar-denominated trade and SWIFT-based payment systems, reducing foreign exchange pressures and shielding transactions from potential Western sanctions (Hussain, 2024). For instance, the rice-for-oil barter agreement operationalised in 2024 demonstrates Pakistan's use of alternative channels to manage its energy and food security needs efficiently (Ahmed & Ali, 2024).

Russia's pragmatic, non-conditional engagement thus aligns with Pakistan's needs, offering Islamabad greater policy flexibility while strengthening its resilience against Western economic pressures (Rizvi, 2024).

Comparative Table: EU vs. Russian Trade Incentives for Pakistan (2020–2024)

Aspect	**EU (2020-2024)**	**Russia (2020-2024)**
Trade Conditionality	Linked to compliance with 27 human rights, labour, and environmental conventions (GSP+).	No political or governance conditionalities.
Market Access	Preferential access for textiles, leather, and sports goods.	Wheat, energy, and barter trade mechanisms.
Currency & Payments	Euro-based transactions, reliance on SWIFT.	Rupee-Ruble settlements, barter frameworks.
Sanctions/Restrictions	Subject to suspension based on political conditions.	Sanction-resilient, alternative systems.
Strategic Ties	Trade focus; minimal defence engagement.	Defence cooperation linked with energy deals.
Compliance Costs	High compliance and regulatory costs.	Low compliance burden.

Political Leverage	Used to promote governance reforms.	Respects sovereignty, transactional.

Source: Compiled from European Commission (2023), Eurostat (2024), Ivanov (2024), Khan (2024), Rizvi (2024).

Analysis: Divergent Power Projections

The participation of the EU in Pakistan highlights their approach of normative power parade by using conditional trade, whereas the Russian model is based on flexibility and mutual gain. For Pakistan, the EU offers high-value, stable markets with the cost of compliance and reduced policy autonomy, whereas Russia provides flexible energy and defence partnerships with fewer political strings attached (Rizvi, 2024). Pakistan's ability to navigate these competing visions defines its emerging position as a "swing economy" in a multipolar global order, leveraging EU markets while diversifying toward Russia's transactional frameworks to mitigate external shocks (Hussain & Qureshi, 2024). However, balancing these relationships requires careful management to avoid overreliance on either bloc while protecting Pakistan's domestic policy space and strategic autonomy (Khan, 2024).

5. Pakistan's Agency: Hedging or Balancing?

The reaction that Pakistan has towards the dynamic system between the EU, China and Russia in terms of their economic and geopolitical competition does not represent either a simple balancing act or a blind following. By simultaneously courting the EU's lucrative markets, deepening energy and defence ties with Russia, and retaining its strategic partnership with China, Islamabad aims to maximise economic gains while preserving strategic flexibility (Rizvi, 2024). This segment has untangled the practical manifestation of this hedging approach and explained where the hedging strategy is subject to physical limits.

5.1 Economic Pragmatism

The most visible case of economic pragmatism can be found in Pakistan, where the industries and export sectors are at the forefront. Sialkot, the textile centre of the country, has powerful business lobbies that strongly lobby in continuation of the EU GSP+ preferential trade treatment. In 2023–2024, associations of textile and sports goods exporters from Sialkot actively engaged the Ministry of Commerce to meet EU compliance benchmarks, including commitments to improve workplace safety and align local labour codes with ILO conventions (Hussain & Qureshi, 2024). For these exporters, GSP+ renewal is existential; the EU accounts for over 30% of Pakistan's textile exports (European Commission, 2023).

Yet, this same business community has quietly endorsed the government's pivot toward discounted Russian grain and energy imports, which help cushion domestic inflation and reduce production costs for the export sector (Ahmed & Ali, 2024). The possibility of Pakistan continuing to live up to EU trade requirements on one hand and enjoying Russian commodities on the other hand demonstrates a clear logic of hedging: Islamabad, standing on the ground of business elites, does not want to overdepend on one country or another.

In addition, Pakistan adjusts to the external shocks through this dual track. When global wheat prices spiked in late 2023, Russian grain imports stabilised domestic supplies, shielding exporters from input price volatility that could have undermined their EU competitiveness (Khan, 2024). At the expense of treating EU conditionality and Russian deals as mutually exclusive, Islamabad uses conditionality and Russian deals as complementary means of stabilising the macroeconomy.

5.2 Strategic Risks

However, Pakistan's hedging strategy is not without risk. The country's growing military-technical ties with Russia, especially discussions to acquire T-90 tanks and expand Mi-35 helicopter fleets, expose Islamabad to secondary sanctions under the United States' Countering America's Adversaries Through Sanctions Act (CAATSA) (Ivanov, 2024). The issue is that, as Islamabad believes that all these procurement works are not offensive, but it is a necessity to ensure the region remains safe, the threat of CAATSA sanctions is a major limitation.

Unlike energy deals—which often operate in grey zones through barter or non-dollar settlements—major Russian arms purchases can attract direct scrutiny from the U.S. Treasury and potentially jeopardise Pakistan's broader security cooperation with Western suppliers (Ali & Ivanov, 2024). The dangling of sanctions is adding to the calculus of Pakistan: the desire to demonstrate a credible deterrent position without taking action that can destabilise the IMF-supported programs or induce EU political recriminations.

In addition, constant dependence on the EU market towards textiles exposes Islamabad. Non-compliance with EU human rights benchmarks could lead to the suspension of GSP+, threatening export revenues and foreign exchange reserves (European Parliament, 2023). The structural hazard constrains Pakistani regimes to how much India can see-saw towards Russia or even strengthen its relationship with China at the cost of European sentiment.

Such tensions indicate one simple truth: the hedging policy of Pakistan is a matter of careful calibration. Too much alignment with Russia on security could undermine Western partnerships; too much dependence on the EU's conditional trade access could restrict Islamabad's strategic space to pursue flexible energy deals and non-Western defence procurements (Rizvi, 2024).

6. Conclusion and Policy Implications

The recurring disintegration of the world economy, necessitated by the imposition of Western sanctions on Russia and the EU-China agenda to de-risk itself, has provided Pakistan with a small but significant opportunity to resettle as a side player in the rearranged global commerce. This article has been of the argument that even though the Pakistani textile industry has become export-oriented through the use of EU GSP+ credits, the nation has also engaged in deep trade with Russia in wheat and energy exports, showing an example of a hedging measure that focuses on economic expediency. Nevertheless, the opportunities in the growing access to tighter Pakistani trade with Russia are restricted by structural hindrances, such as CAATSA risks, tolls of compliance under EU conditionality, in addition to an inadequate material foundation of financial infrastructure enabling strengthened, resilient commerce with Russia.

Pakistan's immediate benefits from discounted Russian energy and grain, combined with its continued access to EU markets, have allowed it to stabilise foreign exchange reserves and reduce inflationary pressures in the short term (Ahmed & Ali, 2024). However, no one can be absolutely confident about the sustainability of this dual-track policy. The EU's normative leverage through GSP+ creates a dependency risk that may conflict with Pakistan's aspirations to diversify security partnerships and energy sources through closer ties with Russia (Rizvi, 2024). Simultaneously, Pakistan's limited institutional capacity to operationalise rupee-ruble settlements constrains its ability to scale up trade with Russia without exposing itself to secondary sanctions (Ivanov, 2024).

Policy Recommendations for Pakistan:
Expand Export Baskets Beyond Textiles

Although the EU market will still be crucial, it should be important to diversify the exports so that the high-value-added products and services can be redirected into the Eurasian markets by taking advantage of the Russian import substitution policy. This will reduce dependence on the narrow textile window under GSP+ (Hussain & Qureshi, 2024).

1. **Operationalise Rupee-Ruble Settlement Mechanisms**

To reduce exposure to SWIFT and dollar-based transactions, Pakistan should pursue local currency trade arrangements with Russia, learning from India's mechanisms under the Vostro account system (Ali & Ivanov, 2024). This would protect trade against the effects of Western money and enable an increase in the imports of energy.

2. **Negotiate Selective Sanctions Waivers**

Pakistan must seek to exploit diplomatic avenues to seek CAATSA waivers where available in cases that it claims its arms imports are defensive in nature and hence essential in maintaining stability in the region. Engagement with EU stakeholders to clarify the non-offensive use of Russian systems can help mitigate backlash (Khan, 2024).

3. **Build Energy Security Through Russian Partnerships**

Islamabad must address long-term, discounted energy supply contracts with Russia, with a particular preference to oil and gas importation that is payable not in dollar-based funds, to act as a hedge against shocks on international energy prices.

For the EU:

1. Expand GSP+ to Include Russian-Origin Inputs

To balance EU interest, maintaining its de-risking demands but still enabling the more organic integration of Eurasian sourcing systems, the EU could opt to apply some derogations of rules of origin in some sectors to accept Russian-origin intermediate inputs.

2. Facilitate Technical Assistance for Compliance

The EU is supposed to give more technical and financial assistance to Pakistani exporters to comply with labour, environmental and governance criteria to keep GSP+ + as an incentive and not another way of crisis.

For Russia:

1. Invest in Institutional Infrastructure for Trade

Russia can solidify its pivot to South Asia by supporting the development of direct banking channels with Pakistan, reducing transaction bottlenecks and the overreliance on intermediaries that increase costs (Ivanov, 2024).

2. Offer Flexible Payment Arrangements

Moscow should consider phased payment options, rupee-ruble swaps, and partial barter arrangements (e.g., rice for oil) to encourage Pakistan's participation in larger-scale trade deals while respecting Islamabad's balance of payments constraints (Ahmed & Ali, 2024).

3. Support Industrial Cooperation

In addition to raw materials, Russia must consider developing joint ventures in engineering products, agricultural equipment and power facilities in Pakistan so that Islamabad can lose its technological reliance on Western suppliers.

Concluding Reflection

The hedging approach adopted by Pakistan is a logical consequence of a disaggregated world where the de-risking by the EU in China, national shift by Russia towards Asia, and the rearranging of trade relationships have posed a potential threat to risks and opportunities alike. Pakistan can reap the actual benefits of its relations with both the EU and Russia by maximising pragmatic diversification within the precautionary limits of institutional limitations. But maintaining such a strategy will need diplomatic touch, institutional creativity and flexibility to adjust as the global trading environment changes.

Instead of seeing the EU and Russian interactions in black and white scenarios, Islamabad would do well to keep them as complementary sectors, recognise Russia as a partner on energy and security demand, and not consider using the markets of the EU to get an export revenue, which is essential to its external footing. This will ensure that Pakistan is as agentic as possible in a more multipolar economic system whilst allowing enough room to manoeuvre to face outside shocks and orient itself in relation to its long-term development objectives.

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