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From Hormuz to Households: The Impacts of the Middle East Crisis on the Indian Economy

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Editors



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Contents

	Editors' Note	4
I	Framing the Shock	6
	Why the Iran War Matters for India	7
	<i>Nilanjan Ghosh</i>	
II	Commodity Sector Deep Dives	15
	Hydrocarbons at the Epicentre of the Hormuz Crisis	16
	<i>Mannat Jaspal</i>	
	Petrochemicals and Industrial Inputs: The Hidden Cost Multipliers	22
	<i>Lydia Powell</i>	
	Geopolitical Conflicts and India's Vulnerabilities in Agriculture	27
	<i>Shoba Suri</i>	
	Metals, Cement, and Construction: India's Industrial Exposure to the West Asia Crisis	33
	<i>Gopalika Arora</i>	
III	Service Sector Transmission	38
	Logistics and Transport: The Steep Cost of Moving Goods in a War-Torn Corridor	39
	<i>Anusha Kesarkar Gavankar</i>	
	The Paradox of Resilience: IMEC and the Iran Conflict	47
	<i>Samriddhi Vij</i>	
	Finance and Markets: Inflation, Currency Risk, and Capital Flows	52
	<i>Arya Roy Bardhan</i>	
	Trade and Competitiveness: Exports in a High-Cost World	59
	<i>Manish Vaidya</i>	

Labour, Remittances, and Consumption: India's Household Exposure to the Iran Conflict	65
<i>Kumkum Mohata</i>	
Carats and Corridors: The Gulf Crisis and India's Diamond Trade	71
<i>Soumya Bhowmick</i>	
IV Synthesis and Policy	77
From Shock to Strategy: Building India's Economic Resilience	78
<i>Shruti Jain</i>	

Editors' Note

The Strait of Hormuz is one of the world's most consequential maritime chokepoints, carrying a large share of global seaborne oil, liquefied natural gas, and fertiliser-related trade. The ongoing disruption in the corridor has thus generated impacts that extend well beyond the immediate region. Energy prices are responding to daily conflict-related developments, while uncertainty around shipping routes has intensified pressure on freight, insurance, and import costs. The disruption has also sharpened concerns around fertiliser security and global food production, with fertiliser prices rising sharply since the outbreak of the war and the closure of the Strait. At the same time, higher war-risk insurance premiums and elevated freight costs are adding another layer of strain to energy-importing economies.

For India, these risks pose structural challenges to the economy, which is deeply linked to imported hydrocarbons and petroleum products that are

embedded across aviation, power generation, transport, cooking fuels, and industrial activity. As energy and logistics costs rise, the pressure is transmitted through the import bill, inflation, public finances, retail prices, and industrial competitiveness. The war has intensified risks not only for India's macroeconomic stability, but also for its sectoral growth, including logistics, petrochemicals, textiles, ceramics, consumer durables, metals, cement, construction, and gems and jewellery. Higher natural gas prices, for example, has affected urea production and petrochemical derivatives, creating wide-ranging effects for agriculture, manufacturing, and household welfare. The disruption of supply chains in these critical sectors has also had uneven consequences; for instance, India's Micro, Small and Medium Enterprises (MSMEs) have experienced disproportionately large impacts of the war. Similarly, lower-income households, farmers, and energy-intensive industries have experienced a direct shock with limited capacity to absorb it.

In this context, it is important to examine both the domains already affected by the war, and those likely to face greater strain if it persists. There is a need to disaggregate the impact across sectors, particularly by distinguishing between commodity sectors, where the shock originates, and service sectors, through which it is transmitted and amplified. This report seeks to address that gap by offering sector-specific analyses while retaining a broader systems lens on how an energy shock reverberates across the Indian economy. The articles in this report trace the transmission pathways from energy shocks to macroeconomic outcomes and identify sector-specific vulnerabilities. They measure the adaptive responses and policy levers created to address the exposure to the ongoing conflict, and build a unified analytical narrative around systemic risk and resilience.

The opening essay by *Nilanjan Ghosh* builds the conceptual foundation of the report and serves as the analytical bridge between geopolitics and economic transmission.

Part II examines the commodity sectors where the immediate disruptions first emerged. *Mannat Jaspal* examines how the Strait of Hormuz blockade has affected crude oil supply chains, LNG flows, refining margins, and India's continued dependence on imported energy. Building on this theme, *Lydia Powell* describes how volatility in hydrocarbon markets extends far beyond

fuel prices into petrochemicals and industrial feedstocks. The analysis then shifts to agriculture in *Shoba Suri's* article. The final commodity-sector essay, by *Gopalika Arora*, examines the vulnerability of the metals, cement, and construction sector to the fallout of the conflict.

Part III moves from the origin of the commodity shock to the pathways through which it is transmitted across the wider economy. In her contribution, *Anusha Kesarkar Gavankar* examines the maritime and logistical consequences of the conflict in the Middle East. Extending this discussion on connectivity and strategic infrastructure, *Samriddhi Vij* evaluates the India-Middle East-Europe Economic Corridor (IMEC) against the backdrop of escalating regional instability. The focus then shifts to macroeconomic transmission in *Arya Roy Bardhan's* article. This is followed by *Manish Vaidya's* piece, which investigates how rising logistics and energy costs reshape export competitiveness, manufacturing economics, and India's position within global trade networks. The analysis then narrows from markets to households in *Kumkum Mohanta's* article. The service-sector section concludes with a sector-specific case study of India's diamond trade by *Soumya Bhowmick*.

The report concludes with *Shruti Jain's* essay that brings together the sectoral and macroeconomic insights deriving from the chapters into a broader framework for resilience and strategic adaptation.

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I Framing the Shock

Why the Iran War Matters for India

Nilanjan Ghosh

The Iran war is much more than a crisis of global energy geopolitics. For India, the implications extend far beyond diplomacy or strategic signalling, invading into the foundations of macroeconomic stability, inflation management, fiscal arithmetic, industrial competitiveness, economic growth, and household purchasing power and well-being. Despite the shock being exogenous to the Indian macroeconomic system, the country's structural dependence on imported hydrocarbons and the emerging Gulf-linked trade corridors mean that the shock manifests beyond energy, across industrial costs, logistics networks, financial markets, and, ultimately, parameters of economic and social well-being.

At the centre of this geopolitical and geoeconomic turbulence lies a narrow maritime chokepoint: the Strait of Hormuz. Yet, the significance of the crisis cannot be understood

simply through the conventional lens of oil prices or the commodities moving through the Strait. First, the contemporary global economy is no longer solely a commodity-driven system; it is increasingly services-driven and digitally integrated. There is no doubt that the disruptions in energy markets travel through far more complex channels, affecting commodities, logistics, services, finance, technology systems, and behavioural expectations simultaneously.

Second, the impacts on some of the major economies of the Gulf region involved in the imbroglio have far-reaching implications for their partner economies, given that the Gulf Cooperation Countries (GCC) are a pillar in energy and an emerging logistics, digital, and manufacturing hub. By leveraging their strategic geography and physical capital, these nations are shifting from pure commodity exporters to integrated participants in diversified supply chains.¹ Third, this will also affect the plans for the India-Middle

East-Europe Economic Corridor (IMEC), which was conceived as a counterbalance to China's Belt and Road Initiative (BRI), and redefine the norms of global connectivity. This article will discuss the Indian story from these three perspectives.

The Strait of Hormuz and India's Strategic Vulnerability

The Strait of Hormuz is one of the world's most critical energy arteries, carrying a substantial share of global crude oil, liquefied natural gas (LNG), and petrochemical trade. India's dependence on its energy linkages with the Gulf region stems from the fact that while 85–90 percent of its crude and more than half of its natural gas are sourced from international markets.² A considerable proportion of these imports either originates from or transits through the Gulf region.

This dependence remains heavy despite India's progressive diversification of its energy basket towards Russia, the United States (US), African nations such as Nigeria and Angola, and Latin American economies including Brazil, Venezuela, and Mexico. This is where geopolitics blends into macroeconomics. When tensions rise in the Strait of Hormuz and Iran begins attacks on the Gulf allies of the US, the implications are not restricted to temporary spikes in oil prices. The uncertainty itself raises shipping insurance premiums, freight rates, transaction costs, hedging costs, and supply risks. Tanker rerouting increases transportation time and inventory carrying costs. Financial markets react instantly through exchange rate volatility, commodity speculation, and capital movement.

For an energy-import-dependent country like India, such disruptions immediately widen the current account deficit. A rise in crude oil prices increases the import bill, puts downward pressure on the rupee, and fuels imported inflation. Simultaneously, fiscal pressures intensify if governments attempt to cushion consumers through excise duty reductions or subsidies. The vulnerability becomes even more severe because India's growth trajectory is deeply energy-intensive. Infrastructure expansion, logistics, mobility systems, manufacturing ambitions, aviation, urbanisation, and digital infrastructure all depend on stable energy flows. Thus, energy is no longer merely an input into production. It has become a strategic determinant of national resilience.

Beyond Oil Prices: Introducing the Commodity–Service Transmission Framework

The traditional approach of treating energy shocks primarily as commodity price shocks in a macroeconomic framework is increasingly proving inadequate for understanding systemic shocks. Modern frameworks of the global economy acknowledge the interconnectedness of the commodity and the service systems. Therefore, disruptions, whether through the energy route or any other domain, transmit through multiple layers at the same time.

The proposed commodity–service transmission framework captures the systemic pathways through which geopolitical energy shocks permeate modern economies. The first layer is the direct commodity transmission channel, where disruptions in crude

oil markets elevate costs across petroleum products, fertilisers, petrochemicals, aviation fuel, and energy-intensive manufacturing, with cascading implications for agriculture, logistics, and food inflation. The second layer operates through logistics and maritime systems, where instability around strategic chokepoints increases freight charges, insurance premiums, bunker fuel costs, and delivery delays, thereby weakening supply-chain efficiency and export competitiveness. A third channel emerges through financial transmission, as rising import bills generate currency pressures, inflationary expectations, bond market volatility, and monetary policy dilemmas, particularly for oil-import-dependent economies such as India.

The increasingly critical services transmission channel lies beyond these conventional effects. As services now dominate economic structures, higher energy costs are diffusing across aviation, tourism, telecommunications, e-commerce logistics, urban mobility, digital infrastructure, and data-centre operations, embedding inflation within broader service ecosystems. Finally, the transmission of behaviour and expectations amplifies these systemic vulnerabilities. Geopolitical uncertainty alters household consumption, delays private investment, heightens financial risk aversion, and constrains fiscal responses. In this sense, modern energy geopolitics no longer operates solely through physical scarcity but through uncertainty, anticipation, and the systemic transmission of risk perceptions across interconnected economic networks.

It also needs to be understood that the present turmoil is fundamentally different from the oil crises of the 1970s for various reasons.³ First, globalisation has created tightly-integrated supply chains and Global Value Chains (GVCs). Second, services and digital infrastructures are now deeply energy-dependent. Third, financial markets react in real time through algorithmic and speculative channels. Fourth, climate transitions are reshaping energy investment patterns. Consequently, today's energy shocks are simultaneously physical, financial, technological, and psychological. Fifth, the current crisis emerges at a time when the global economy is already facing structural fragilities because of persistent inflationary pressures in certain economies, high sovereign debt burdens globally, supply chain realignments resulting from the Russia–Ukraine conflict, geopolitical fragmentation, climate-induced disruptions, and deglobalisation tendencies. The Iran conflict, therefore, aggravates existing vulnerabilities.

The Probable Situation for India

Prime Minister Narendra Modi has appealed to citizens to voluntarily adopt austerity measures, including working from home, avoiding gold purchases, and limiting foreign travel.⁴ The idea is clear: a) the adoption of remote working, virtual conferences, and online meetings can reduce daily fuel consumption and commuting costs, thereby limiting fuel demand; b) delaying the purchase of discretionary gold for at least a year will reduce the trade deficit and ease the drain on foreign exchange (forex) reserves; c) postponing non-essential overseas trips and discretionary foreign travel will promote domestic tourism and keep valuable foreign currency within the country.

These measures may help achieve several goals, the first being that managing fuel demand and lowering gold demand will help fill the current account deficit, retain forex, and control dollar and euro purchases through the selling of the Indian Rupee. This will not only help arrest the free fall of the Indian Rupee but also control the escalating inflationary pressure on imported goods caused by such depreciation. The case is similar for international travel that involves the buying of forex resources for global services. The PM's call for domestic travel and boosting domestic consumption demand is important, given that India's economic growth has largely been driven by domestic consumption. The goal is to conserve forex reserves and cushion the economy against escalating energy prices.

A Macroeconomic Trilemma

Recent analyses show that for India, sustained high energy prices create a difficult macroeconomic

trilemma: inflationary pressures, fiscal pressures, and downward pressure on growth.^{5,6} As mentioned earlier in this article, oil price emerges as a systemic economic variable that permeates almost every layer of the modern economy, far beyond fuel markets alone. Rising transportation and logistics costs feed directly into food inflation, while higher energy prices elevate manufacturing input costs across sectors, including services such as aviation, mobility, tourism, e-commerce, and urban service ecosystems. For India, these pressures are amplified through exchange-rate vulnerabilities and imported inflation. Importantly, even when retail fuel prices are politically moderated through fiscal or administrative interventions, inflationary pressures become embedded elsewhere within the broader economic system through hidden cost adjustments, supply-chain pressures, and service-sector price escalation.

Table 1: Possible CPIs Under Various Pass-Through Scenarios

Pass-Through	CPI Addition (\$4)	Implied Peak CPI vs. March 2026	Time Period	RBI Band
25%	1.12 pp	4.52% (+1.12 pp)	6–12 months	Within band
35%	1.57 pp	4.97% (+1.57 pp)	12–18 months	Within band
50%	2.24 pp	5.64% (+2.24 pp)	Within band	Within band
75%	3.36 pp	6.76% (+3.36 pp)	Beyond 18 months	BREACH (>6%)
100%	4.48 pp	7.88% (+4.48 pp)	Prolonged disruption	BREACH (>6%)

Source: Roy Bardhan (2026)⁷

While the government has repeatedly assured that there are sufficient crude supplies to absorb the shock from the Middle East crisis, the concern is that the cushion will become thinner the longer the war lingers. Table 1 illustrates how varying levels of inflation pass-through from producer to consumer prices could affect India's CPI inflation trajectory under the Hormuz disruption scenario. The analysis shows that, if only 25–35 percent of the structural shock is transmitted to consumers over the short- to medium-term, headline CPI inflation may remain within the Reserve Bank of India's (RBI) tolerance band of 2–6 percent, at roughly 4.5–5.0 percent. Under a more pronounced 50 percent pass-through scenario, inflation could rise to around 5.6 percent, remaining within the RBI's tolerance range but moving significantly above the 4 percent target. However, if the geopolitical disruption becomes prolonged and the pass-through rises to 75 percent or beyond, inflation may breach the RBI's upper tolerance threshold of 6 percent. This could mean heightened monetary policy stress, tighter financial conditions, and stronger macroeconomic vulnerabilities.⁸

Fiscal Pressures

Governments often respond to energy shocks through subsidy mechanisms, excise duty cuts, or welfare support. However, this weakens fiscal balances and aggravates fiscal deficits. While fiscal discipline has been a critical macroeconomic goal for India over the last few years, priorities have also centred on substantial developmental expenditure requirements in infrastructure, health, climate adaptation, and social protection. If the energy shock and the war persist, this will not only reduce fiscal flexibility but also affect critical capital expenditures seen as pillars for attracting private investment, as well as development expenditure requirements.

Growth Slowdown Risks

With inflationary pressures setting in, two other types of concerns may prevail. Inflation reduces the purchasing power and suppresses household consumption. Since the 1990s, India has witnessed how consumption-driven growth–inflationary pressures may puncture that avenue. On the other hand, this very uncertainty can weaken private investment, and public capital expenditure might be diverted to other social needs, thereby weakening the potential for long-term investment.

Impact on the IMEC and India's Long-term Development Potential

The war fundamentally alters the strategic assumptions underlying the India-Middle East-Europe Economic Corridor (IMEC). The project was conceived as a geoeconomic corridor linking India to Europe through the Gulf, Israel, and the Mediterranean, premised on regional stability, predictable maritime trade, and deep logistical integration across West Asia. However, the Iran conflict has transformed the region from a trade corridor into a geopolitical risk zone. The closure and militarisation of the Strait of Hormuz, rising insurance premiums, disruption of shipping lanes, and the growing vulnerability of Gulf infrastructure have exposed the fragility of a corridor architecture designed largely for peacetime efficiency rather than wartime resilience. The Israel–Iran conflict also complicates the political viability of the Israel–Jordan–Gulf linkage that forms the backbone of IMEC's overland component. As a result, investors, logistics operators, and sovereign stakeholders may now reassess timelines, financing commitments, and risk-adjusted returns associated with the corridor.⁹

If IMEC slows down or becomes strategically uncertain, India risks losing a long-term alternative to China-centric Eurasian connectivity architectures, as well as the connectivity diversification plans beyond the Red Sea-Suez Canal corridor.¹⁰ This affects not just trade volumes, but India's aspirations of becoming a central node in global supply chain reconfiguration efforts. In effect, the Iran war demonstrates that connectivity corridors are no longer purely economic projects; they are strategic infrastructures whose viability depends on geopolitical stability, maritime security, and resilient regional diplomacy.¹¹

The Impact of the GCC Slowdown

A prolonged Iran war can generate massive second-round effects on the Indian economy, not merely through oil prices, but through the slowdown of economic activity across the GCC economies. The GCC region is deeply intertwined with India's external sector through trade, remittances, investment flows, aviation connectivity, shipping, construction contracts, and labour markets. If the conflict persists, Gulf economies may experience slower non-oil growth due to heightened geopolitical uncertainty, reduced tourism, declining investor confidence, logistical disruptions, and rising fiscal pressures despite high oil revenues. This has already been evident in the plunging property prices in Dubai.¹² The International Monetary Fund (IMF) has revised down GCC growth projections owing to disruptions in regional logistics and non-oil economic activity.¹³ It matters profoundly for India because the GCC is among its largest export

destinations and a critical source of remittance inflows that support household consumption and regional economies, especially in states like Kerala, Telangana, and Uttar Pradesh. A slowdown in the Gulf construction, infrastructure, retail, hospitality, and services sectors could reduce labour demand for Indian migrants, weaken wage growth, and dampen remittance flows into the country.¹⁴

The implications for India's long-term growth trajectory are therefore potentially systemic. Lower remittances reduce household consumption and savings, while weakening Gulf demand affects Indian exports ranging from engineering goods and food products to services and gems and jewellery. Simultaneously, disruptions in shipping and financial flows raise transaction costs for Indian firms and create exchange-rate pressures through a widening current account deficit.¹⁵ Since India's growth model increasingly depends on integration with global value chains, trade corridors, infrastructure connectivity, and external capital flows, a prolonged economic slowdown in the GCC can weaken one of its most important external growth anchors. The Gulf is not merely an energy supplier to India; it is an extended economic hinterland linked to the latter's labour markets, balance of payments, logistics architecture, and investment ecosystem. Therefore, a lingering war with Iran risks transmitting stagflationary pressures into the Indian economy through the combined channels of slower trade, weaker remittances, higher logistics costs, and heightened macroeconomic uncertainty.

What's Next for Global Trade and the Indian Economy?

The Iran war has underlined energy security and economic security as central to strategic statecraft. It is a complex challenge that requires systematic, multidimensional thinking. The following paragraphs outline a five-point agenda.

First, the situation requires diversification of supply sources. India has already expanded crude sourcing beyond the Gulf towards Russia, the US, Brazil, and Africa, and this diversification must continue. In the process, India now routes approximately 70 percent of its crude oil imports outside the Strait of Hormuz, leaving only about 30 percent dependent on this key maritime corridor. However, diversification cannot eliminate vulnerability because shipping chokepoints remain globally interconnected. The vulnerability of LPG persists, as India imports about 60 percent of its LPG, and of these imports, about 90 percent pass through the Strait of Hormuz.¹⁶

Second, strategic petroleum reserves provide temporary buffers against disruptions. In March, the government claimed that India has reserves, including of crude oil and petroleum products, as well as strategic reserves stored in underground caverns that can sustain the economy for more than two months.¹⁷ India has since been exploring various options to boost its crude holdings.¹⁸ Yet, reserves alone are insufficient if disruptions become prolonged or systemic. Petrol and diesel prices in India increased by 7-8 percent in May 2026 across states, reversing a prolonged price freeze. The surging global crude oil costs finally forced the state-run marketing companies to pass

the burden to consumers to offset daily losses.¹⁹ Third, the war makes clear that the energy transition is no longer solely an environmental agenda but should be treated as a fundamental strategy for geopolitical and macroeconomic resilience. There is no doubt that the transition needs to happen faster than mandated, with solar energy, green hydrogen, battery storage, electric mobility, biofuels, and the development of decentralised energy systems to reduce exposure to external fossil-fuel shocks. This is now a question of economic growth, livelihoods, and strategic sovereignty.

Fourth, India must strengthen its domestic manufacturing and import substitution in critical sectors that are directly vulnerable and important to livelihoods. The country's macroeconomic vulnerability arises because imported energy transmits inflation across fertilisers, chemicals, logistics, food systems, and manufacturing. Therefore, it needs a strategic industrial policy focused on renewable energy, green hydrogen, battery ecosystems, fertiliser resilience, and critical minerals. India's ambition to become a manufacturing power through initiatives like Make in India and Atmanirbhar Bharat requires stable and affordable energy. This demands integrated planning across energy infrastructure, logistics, industrial corridors, ports, electricity systems, and critical minerals.

Fifth, India needs to create a GCC Risk-Mitigation Framework for trade, remittances, and migrant labour. Apart from being an energy supplier, the Gulf is an economic hinterland for India. The latter should therefore institutionalise labour-security agreements, remittance insurance systems, emergency evacuation protocols, and

diaspora contingency funds with the GCC countries. Simultaneously, it must diversify export markets and reduce excessive dependence on Gulf demand in sectors such as gems and jewellery, construction-linked exports, and services. Sixth, India needs to build alternative connectivity corridors beyond Hormuz-centric trade. While IMEC and the International North-South Transport Corridor or INSTC are both being affected in the process, the importance of the Red Sea-Suez Canal corridor and eastern maritime partnerships in the Association of Southeast Asian Nations (ASEAN) and the Indo-Pacific gets amplified, especially for reaching Europe. Connectivity diversification should become a core national resilience strategy rather than a mere trade strategy.

Seventh, there is a pressing need to strengthen the country's macro-financial shock-absorption capacity. Wars of this nature create currency pressures, imported inflation, and risks of capital flight. India, therefore, needs stronger foreign exchange buffers, calibrated fiscal management, inflation-targeting credibility, and resilient supply-chain financing systems. The RBI and the government may also need institutional mechanisms for commodity hedging, shipping insurance support, and strategic trade financing during periods of prolonged geopolitical instability.

Conclusion: Towards a Systems Framework for National Resilience

For India, the critical implication of the ongoing war is that economic strategy and foreign policy can no longer operate in silos. Energy diplomacy, maritime security, trade policy, industrial policy, climate transitions, technological resilience, and macroeconomic management need to converge within a systems-oriented governance architecture. India has not been substantially affected by this war so far, owing to its strategic decisions and hedging mechanisms. The deeper lesson from the Iran war is that resilience cannot be built through isolated sectoral interventions. Rather, the country requires a systems-based approach to energy governance. The commodity-service transmission framework offers one possible lens for understanding the interconnectedness between energy, logistics, services, finance, technology, and macroeconomic stability.

As a precautionary response, PM Modi's calls for austerity measures are justified as a hedging strategy against an unknown future that may prevail in the medium run due to this war. A systematic approach to national resilience is important in the long run as the future global economy is likely to witness repeated geopolitical disruptions alongside climate shocks and technological fragmentation. Oil is incidental here: the larger challenge is to build an economy capable of absorbing external shocks without the risk of systemic destabilisation.

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The author has used ChatGPT 5.5 to organise the endnotes in this article.

II

Commodity Sector Deep Dives

Hydrocarbons at the Epicentre of the Hormuz Crisis

Mannat Jaspal

The conflict may be unfolding in West Asia, but India sits uncomfortably close to its economic epicentre. Until the recent conflict, substantial shares of Indian imports—45 percent of crude oil,¹ 60 percent of natural gas,² and 90 percent of liquefied natural gas³—have historically travelled through the Strait of Hormuz, a critical maritime chokepoint. Disruptions in the narrow waterway have already triggered global supply shortages. Cumulative, global crude oil supply losses have touched more than a billion barrels since the conflict began on 28 February,⁴ and a potential 120 billion cubic metre-loss in natural gas supplies is anticipated between 2026 and 2030.⁵ Given India's dependence on Middle East energy, the exposure is profound and the vulnerabilities are multi-sectoral.

Hydrocarbons are foundational to all modern economies. Rising prices of oil and gas imports are easily transmitted and felt by consumers,

but the real danger lies beyond the first-order effects. When supply chains are fractured, the consequences cascade across sectors—powering transport; fuelling industries such as aluminium, petrochemicals, and steel; fertilising agriculture; and supporting essential domains from household energy consumption to tourism, banking, and logistics. What may begin as an energy shock can quickly turn systemic.

Macroeconomic Fault Lines

Prime Minister Narendra Modi's recent appeals—urging citizens to work from home or use public transport, avoid gold purchases for a year, and defer unnecessary foreign travel⁶—may seem unrelated, but they reflect an attempt to contain mounting external vulnerabilities and a widening current account deficit (CAD). Fuel costs, amounting to US\$118 billion last year,⁷ constitute the largest share of India's import bill. Estimates suggest that for every US\$10 per

barrel increase in crude oil prices, India’s annual import bill will rise by approximately US\$13–15 billion and widen CAD by 0.4–0.5 percent of gross domestic product (GDP).⁸ With Brent crude prices rising from US\$65 to US\$120 per barrel, CAD has already widened by 2 percent of GDP in a matter of few weeks.⁹

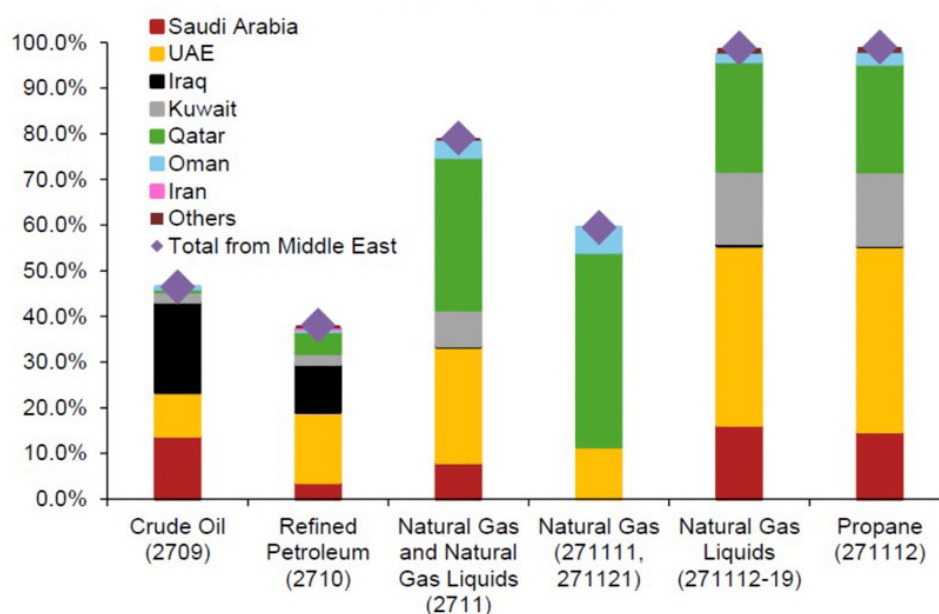
At the same time, India imports more than 90 percent of the gold consumed in the country.¹⁰ This, along with outbound foreign spending, contributes to capital outflows, further straining the balance of payments. Moreover, rising energy prices will weigh on the Indian currency from

a foreign exchange (forex) perspective as well, creating a double bind: a weaker currency makes imports more expensive, which in turn will worsen CAD, further fuelling depreciation pressures.

While the Reserve Bank of India (RBI) does hold significant forex reserves and has intervened through dollar sales, the monetary policy, however, will only offer limited and short-term respite. This is largely a supply-driven shock, rather than a demand-led inflation. Policymakers, therefore, face a delicate balancing act of managing demand and prices without triggering ‘stagflationary’ pressures.

Energy Dependence and Uneven Vulnerabilities

Figure 1: India Energy Imports from the Middle East (% Share of Total Energy Imports, 2024)



Source: MUFG Research¹¹

Table 1: Total Energy Supply by Fuel in India (%) (2024)

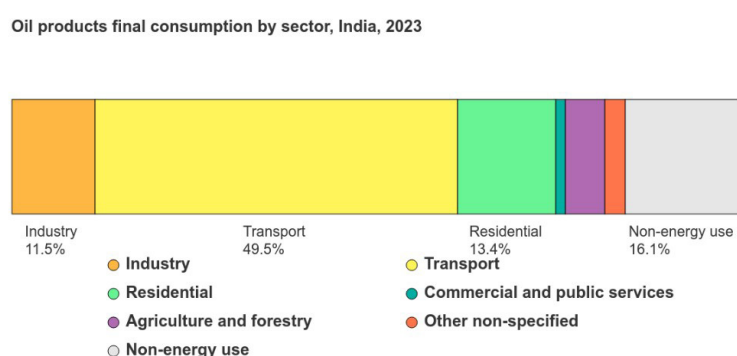
Coal	Oil	Natural Gas	Solar & Wind	Hydro	Nuclear
59	28	7	3	1	2
Electricity Generation by Fuel in India (%) (2024)					
Coal	Oil	Natural Gas	Solar & Wind	Hydro	Nuclear
75	0	3	12	8	3

Source: Author's own, using data from Energy Institute¹²

Crude Oil : India imports nearly 90 percent of its crude-oil needs¹³, (roughly 5.64 million barrels per day [bpd] in 2024¹⁴), with almost half of it transiting through the Strait of Hormuz.¹⁵ While the country has diversified its supplies from 27 countries in 2006–07 to over 40 today,¹⁶ countries in the Middle East—Saudi Arabia, Iraq, and the United Arab Emirates (UAE)—remain its key suppliers after Russia. While oil remains negligible in India's power generation due to high costs, it is critical for transport (50 percent), industry (12 percent), residential use (13 percent), and agriculture (5.5 percent).

India hosts one of the largest refineries in the world, and the crude shortages have already triggered a 15-percent drop in inventory and forced declines in processing rates.¹⁷ India's efforts to source crude from Russia, West Africa, and the Americas have already reduced reliance on the Hormuz chokepoint; 70 percent of crude imports are now routed outside the Strait of Hormuz, compared to 55 percent previously.¹⁸ Strategic stockpiles and a diversified base for crude imports offers some flexibility to the oil markets, unlike in the case of natural gas and LPG.

Figure 2: Oil Products Final Consumption by Sector, India, 2023

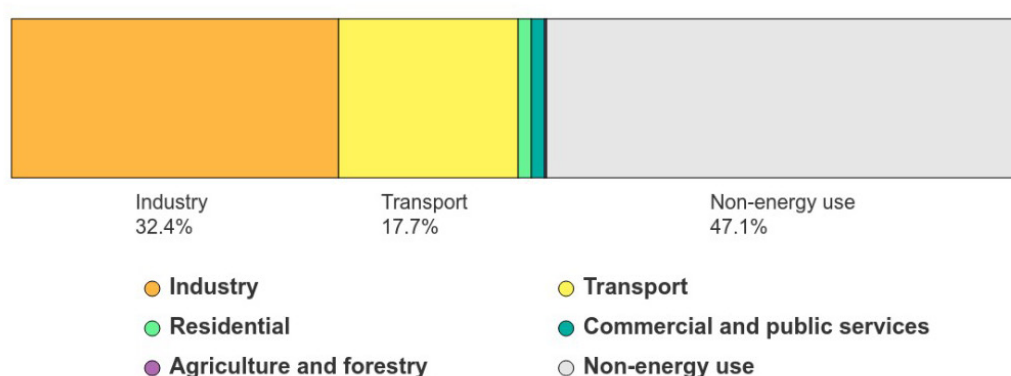


Source: IEA¹⁹

Natural Gas: India's exposure to natural gas supply chains presents a more complex challenge. Unlike oil, gas is difficult to store and transport, making prolonged disruptions particularly damaging. India imports roughly 50 percent of its natural gas needs,²⁰ of which approximately two-thirds comes from the Middle East,²¹ primarily Qatar.²² Although the share of natural gas in India's overall energy mix is only 7 percent, its importance in fertilisers (around 30 percent usage),²³ transport (compressed natural gas [CNG]) and household consumption (piped natural gas [PNG]) makes it economically sensitive. Industries such as refineries, steel, and petrochemicals are also heavily reliant on natural gas.

Piped Natural Gas: In FY 2023–24, PNG accounted for almost 20 percent of India's total gas demand.²⁴ While the government has since been prioritising PNG and CNG infrastructure, progress remains slow. About 16 million PNG connections exist today, of which 10 million are active, despite a target of 120 million; 8,600 CNG stations are operational, compared to a target of 17,500. Infrastructure constraints thus limit the short-term impact of PNG.²⁵

Figure 3: Final Consumption of Gas by Sector, India, 2023



Source: IEA²⁶

Liquefied Petroleum Gas: LPG serves as the primary cooking fuel for 330 million households and over 3 million businesses.²⁷ It therefore sits at the intersection of energy policy and welfare, and represents the most immediate and socially sensitive risk. Pradhan Mantri Ujjwala Yojana (PMUY), a scheme that provides to over 100 million low-income households access to subsidised LPG,²⁸ limits the government’s ability to transfer price increases. Beyond cooking, LPG is also widely used across small and medium (SME) manufacturing sectors.

Recent measures, including the LPG Control Order (March 2026), have raised domestic production targets, while a one-year agreement to import 2.2 million tonnes annually from the United States (US), aims to stabilise immediate supply.²⁹ However, these interventions are unlikely to offset short-term shocks.

Managing the Crisis: Policy Trade-offs

The government’s response so far reflects a tight balancing act between securing supply, ensuring affordability, protecting consumers, and maintaining macroeconomic stability. The Essential Commodities Act (1955),³⁰ invoked by the government, allows the reallocation of natural gas across priority sectors while curtailing supply to non-essential industrial consumers, and manages price spikes amidst tendencies toward hoarding.

Oil marketing companies have been asked to prioritise the utilisation of propane and butane streams for LPG production. Subsidies have been used to shield consumers from price hikes, particularly in LPG. At the same time, fuel prices in pumps have remained steady with state entities absorbing some of the shock.

However, these measures come at a cost, adding fiscal pressure and straining state-owned refineries and enterprises. Moreover, import substitution strategies—such as ramping up coal-based power generation, or fuel switching to kerosene—may ease pressure on LPG demand initially, but will exacerbate environmental and logistical challenges that could range from higher emissions to strained transport networks.

Rethinking India's Energy Security Architecture

The Hormuz crisis represents a moment of reckoning, forcing countries to rethink and recalibrate their energy security architecture.

1. Strategic Securitisation of Energy Systems

Energy security is a matter of national security. In a world with growing geopolitical tensions, energy infrastructure should be protected physically and digitally against both kinetic and cyber-attacks. Furthermore, strengthening strategic reserves and stockpiling will become central to energy security frameworks. Existing arrangements have already demonstrated their value. For instance, the UAE's storage of approximately 5.86 million barrels of crude in the Mangalore Strategic Petroleum Reserve (SPR) facility in Karnataka,³¹ turned out to be a buffer for India during the ongoing crisis. Building on this, Prime Minister Modi's visit to the UAE on 15 May 2026 was an important step forward, with both sides committing to expand storage capacity by as much as 70 percent to 30

million barrels.³² These developments offer a template for deeper collaboration and expanded storage capacity with trusted allies and partners.

2. Building Resilience: Diversification, Domestic Capacity, and Decarbonisation

Countries are increasingly willing to pay a 'sovereignty premium' to reduce external dependencies. This will drive: (a) diversification across suppliers, routes, fuels, and technologies; and, (b) domestic development and international co-development. Both factors will increase reliance on local energy resources alongside expanding investments in oil, gas, renewables, and critical minerals—in exploration as well as in sustainable extraction. This shift will likely expand to projects and even geographies that may have previously been considered financially or politically unviable. The third factor, (c) is transition.

Transition to clean energy is no longer a climate imperative but an economic necessity. Renewables, gas, nuclear, and hydrogen—though requiring high upfront capex investments—can eventually reduce long-term vulnerability to global price volatility and supply disruptions. However, transition risks remain. Without adequate domestic capacity in manufacturing clean energy and processing critical minerals, India only risks replacing one dependency with another. Building resilient supply chains, investing in storage and grid infrastructure, and strengthening distributed energy systems will be essential.

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Petrochemicals and Industrial Inputs: The Hidden Cost Multipliers

Lydia Powell

Petrochemicals are the primary source of several hundreds of synthetic materials and chemicals that are essential to modern life.¹ Basic petrochemicals fall in two categories—olefins and aromatics. Olefins consist of ethylene, propylene, butadiene, and alpha olefins such as butene, octene, and hexene,² used in the manufacture of plastic and plastic-derived products that are widely applied across food, consumer goods, textiles, and automotive and electronic components.³ Aromatics, comprising primarily benzene, toluene, and xylenes, are the building blocks for high-strength materials, synthetic fibres, and essential chemical intermediates.⁴

Ethylene, the primary building block of the petrochemical industry, is often considered a proxy for the industry's overall size.⁵ While India is important to the global ethylene landscape due to its rapid capacity expansion, it is a secondary player compared to the massive production hubs in China, the United States (US), and West Asia.⁶

India's total ethylene capacity of about 9 million tonnes (MT) is relatively small compared to the global capacity of about 240 MT; however, its annual demand growth rate, in the range of 6–8 percent, is nearly double the global average.⁷ In 2024–25, the chemicals and petrochemicals sector contributed approximately 7–8 percent of India's gross domestic product (GDP) and 8.1 percent of manufacturing value added.⁸

India's oil-refining units function as dual-purpose facilities, and have optimised the crude slate for both fuel outputs and petrochemical feedstock extraction. While this integration has improved feedstock security, it has not insulated the sector from the volume and price volatility of upstream hydrocarbon markets.

The Naphtha Disadvantage

India's petrochemical plants employ mostly naphtha or natural gas, comprising 67 percent of ethylene capacity, though interest in alternative

feedstock like coal is growing. This dependence on naphtha-based feedstock places them at a persistent structural cost disadvantage compared to global competitors in the US and West Asia that use cheap domestic natural gas and natural gas liquids.⁹ Ethylene yield from cracking naphtha is about 29–34 percent, whereas natural gas-based ethane cracking produces 80–84 percent ethylene.¹⁰

Crude oil price movements affect the petrochemical sector primarily through naphtha pricing. Feedstock costs dominate petrochemical economics. In India, it accounts for roughly 40–60 percent of total production costs, making price volatility of oil and gas the most important determinant of profitability.¹¹ Since naphtha is derived from crude oil and priced on an import parity basis, any increase in crude-oil price raises input costs for petrochemical producers. Empirical estimates indicate that a US\$10-per-barrel rise in crude oil price can raise naphtha costs by around US\$90 per tonne, compressing margins if product prices do not adjust proportionately.¹² This asymmetry is common in price-sensitive markets like India, where downstream demand, especially for plastics, packaging, and synthetic materials, often cannot absorb sharp price increases.¹³ Consequently, producers, particularly non-integrated firms that lack upstream refining assets, face margin compression during periods of rising oil and gas prices. The Hormuz Strait blockade due to the Israel–Iran war in 2026 has restricted the flow of energy and petrochemical feedstock from West Asia, amplifying India’s naphtha disadvantage.

The interaction between oil and gas markets creates a complex substitution dynamic within the petrochemical sector. When gas prices rise relative to oil, naphtha becomes more competitive, leading to a shift toward oil-based feedstock. Conversely, when gas is cheaper, producers with flexible cracking capabilities may switch to ethane or liquefied petroleum gas (LPG)-based inputs. In India, however, such flexibility is limited due to infrastructure and technology constraints, reinforcing the dominance of naphtha and increasing its exposure to oil price volatility. Domestic naphtha prices have surged sharply following the Hormuz blockade by about INR 180–190 per kilogramme, making petrochemical production economically unviable for many non-integrated players.¹⁴

Price Transmission

The volatility in oil and natural gas prices in 2026 has led to a reverse “bullwhip effect” across the petrochemicals and manufacturing value chains.¹⁵ Changes in upstream fuel and feedstock prices have led to large fluctuations in production that are moving downstream to suppliers, manufacturers, wholesalers, and resulted in changes in consumer demand. Petrochemicals are the starting point for nearly 95 percent of all manufactured goods, therefore price spikes in basic olefins and aromatics force downstream industries to either absorb the higher costs or risk demand destruction through price hikes in the final products.¹⁶ Approximately 30,000 micro, small and medium enterprises (MSMEs) and an estimated 5 million jobs in the downstream plastics and packaging sector face direct exposure

to the fallout of this.¹⁷ The specialty chemicals sector, however, is more resilient because it focuses on high-margin, low-volume products where raw material cost forms a smaller percentage of the final price.¹⁸

India is a global hub for synthetic fibres, which are heavily dependent on aromatics.¹⁹ As the cost of polyester yarn increases, synthetic garments become more expensive, reducing the polyester-cotton price gap.²⁰ This has particularly affected the budget apparel segment, as demand from lower-income consumers is highly price-sensitive to clothing costs.²¹ The textile industry also relies heavily on LPG for dyeing and finishing clothes, and for steam generation. The sharp rise in commercial LPG prices for Indian textile units when global buyers are pushing for lower product prices is reducing both domestic demand and export competitiveness.²²

Modern Indian passenger vehicles contain approximately 90–140 kilogrammes of plastic and rubber.²³ As the cost of propylene and butadiene rose in early 2026, Tier-1 component manufacturers saw a 12–15-percent rise in the cost of producing bumpers, dashboards, tyres, and other automobile parts, leading to price increase for entry-level vehicles, where margins are narrowest.²⁴

The fast-moving consumer goods (FMCG) segment is among the large consumers of ethylene-based plastics, where packaging costs often account for 10-20 percent of the total product cost for food and hygiene products.²⁵ Following the sharp rise in packaging and input costs, large FMCG companies in India have reduced pack sizes at

the same price points to offset the higher cost of plastic bottles, laminate pouches, and other plastic-derived materials.²⁶

The Indian paints and adhesive industries have been doubly hit, both by the rise in cost of chemical resin and the solvents used to carry them.²⁷ Higher aromatic prices have directly increased the cost of production, and the price of paints and adhesives, leading to deferred purchase by domestic consumers.

Modern Indian farming relies on petrochemicals not only for vital fertilisers but for support structures, such as plastic pipelines for irrigation, and mulching films and olefin-derivative surfactants that make pesticides stick to crops.²⁸ The rising cost of these and other farming equipment has increased the per-acre cultivation cost, impacting sowing and irrigation decisions, which in turn have affected agricultural supply and prices.

While some petrochemical output is directly used in drug production, medicine delivery is more directly affected, which in turn has put pressure on retail prices. Price increase in plastic derivatives used in medicine packaging has limited access to price-controlled essential medicines in India.²⁹ It has also squeezed margins for small- and medium-sized pharmaceutical enterprises, leading to lower production and job losses.³⁰

Government interventions, such as diverting natural gas streams (propane, butane, propylene) towards the production of household LPG, have further constrained feedstock supply. Gas supply to petrochemical producers has been

reduced to roughly 65 percent of the previous six-month average consumption, leading to reduced production of key polymers such as polypropylene.³¹ The government's energy security priorities have adversely affecting industrial feedstock allocation and disrupted the petrochemical value chain.

Rising petrochemical prices in India can lead to demand destruction due to manufacturers reducing purchases, cutting operating rates, and increasing prices. Price-sensitive sectors such as FMCG, agricultural products, and food packaging are prone to demand destruction. This demand-side feedback loop further compresses margins and amplifies the cyclical nature of the petrochemicals industry. Integrated players with refining and petrochemical operations are better positioned to manage feedstock volatility, as they can capture value across the hydrocarbon chain and optimise feedstock selection. However, standalone petrochemical producers are fully exposed to market price volatility for naphtha or gas, making them more vulnerable to margin compression. This structural asymmetry in favour of large, integrated conglomerates is increasingly shaping competitive dynamics within the Indian industry.

India remains a net importer of petrochemical intermediates for approximately 45 percent of its requirements, which makes it vulnerable to geopolitical turmoil.³² Higher prices for imported energy and feedstock widen the current account deficit and exert pressure on the currency exchange rate. Currency depreciation raises the domestic cost of imported feedstock, creating a second-order amplification of price shocks.

This macro-financial channel reinforces the link between global energy markets and domestic petrochemical economics.

Unavoidable increases in costs due to price rise in petrochemicals is transmitted to the end users in packaging, paints, tyres, and consumer goods, contributing to an increase in the wholesale price index (WPI) and consumer price index (CPI). WPI inflation surged to 3.88 percent in March 2026, a 38-month high, driven by energy price hikes. With approximately 70 percent of consumer packaging in India derived from flexible plastics, production shortfalls in polymers spreads rapidly into the FMCG, food, and beverage sectors.³³ Food prices, which account for about 37 percent of the CPI basket, saw a considerable 3.47 percent year-on-year increase in February 2026, compared to 2.13 percent in January.³⁴ India's annualised inflation rate was at 3.21 percent in February 2026, up from 2.75 percent in January, rising for the fourth month in a row, amidst trade uncertainty and geopolitical tensions in West Asia.

Navigating the Risk Landscape

The 2026 price and volume shock has laid bare the structural vulnerabilities imposed by extreme import dependence and suboptimal feedstock mix of the Indian petrochemical industry. Policy responses will play a crucial role in navigating the near-term hydrocarbon supply and price volatility. For instance, full customs duty exemption has been granted on key petrochemical inputs, benefiting downstream sectors including plastics, packaging, textiles, pharmaceuticals, automotive components, and other manufacturing industries. However, government interventions can also

introduce distortions. Measures such as the duty exemption can provide short-term relief but may disrupt market signals and investment incentives required for longer-term sustainability.

The Indian petrochemical industry is aggressively pursuing geographic diversification of fuel and feedstock sourcing. While Russia has already emerged as a leading alternative naphtha supplier, surpassing the United Arab Emirates (UAE) as the top supplier for India in 2024–25 and accounting for more than half of the country's imported naphtha volumes, a broader, more resilient portfolio of supplier relationships is essential.³⁵ There has also been a sharp increase in imports from the US, Australia, and Latin America.³⁶ This diversification, while increasing freight costs, will ensure the security of energy and feedstock supply necessary for continuous plant operation.

Geographic diversification needs to be complimented with feedstock diversification. The cost and yield advantages of gas-based production

are much higher, as explained in the second section of this article. Indian producers must accelerate the shift from naphtha to ethane and natural gas-based feedstock. Designing crackers that can switch between ethane, LPG, and naphtha, based on relative pricing, can improve diversification but will require substantial investment in import infrastructure.

In the longer term, India can accelerate coal-to-chemical pathways to exploit nearly 400 billion tonnes of domestic coal resources. Synthetic gas (syngas) produced through coal gasification can be a strategic substitute for imported natural gas in producing methanol, ammonia, and olefins. The current hydrocarbon supply shortage and price crisis can be catalysts for a structural transformation of India's petrochemical sector towards a more resilient, diversified, and sustainable future, if near-term import diversification is balanced with long-term domestic resource development.

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Geopolitical Conflicts and India's Vulnerabilities in Agriculture

Shoba Suri

The ongoing conflict in the Middle East has underscored the links between geopolitical developments and global energy and agricultural systems. India, one of the world's largest agrarian economies, is structurally vulnerable to such disruptions given its substantial dependence on imported energy and fertilisers, largely from the Gulf region. This vulnerability stems from India's Green Revolution model, which emphasised high-yield seed varieties while encouraging the intensive use of chemical fertilisers and irrigation, as well as extensive mechanisation.¹

India is the second-largest consumer of fertilisers globally, with annual urea consumption estimated at 35–38 million tonnes in recent years.^{2,3} While domestic production meets a substantial portion of the national demand, India continues to depend on imports of both finished fertilisers and critical raw materials such as ammonia, phosphoric acid, and rock phosphate. Nitrogen-based fertilisers depend on natural gas as a feedstock; much of this natural gas is either imported directly or priced according to international gas benchmarks linked to Gulf energy markets.⁴ Additionally, nearly 100 percent of India's potash requirements and approximately 60 percent of its phosphate-

based fertiliser needs are met through imports.⁵ This import dependence creates a structural vulnerability, particularly when supply chains remain concentrated in geopolitically sensitive regions.

The Strait of Hormuz is one of the world's most strategically important maritime chokepoints, through which a substantial share of India's crude oil, liquefied natural gas (LNG), and fertiliser-related imports transit.^{6,7} Any disruption in its functioning can rapidly translate into supply uncertainty and escalating import costs. Given that India imports more than 85 percent of its crude oil requirements and a growing share of its gas needs, the economy is inherently sensitive to volatility in this corridor.

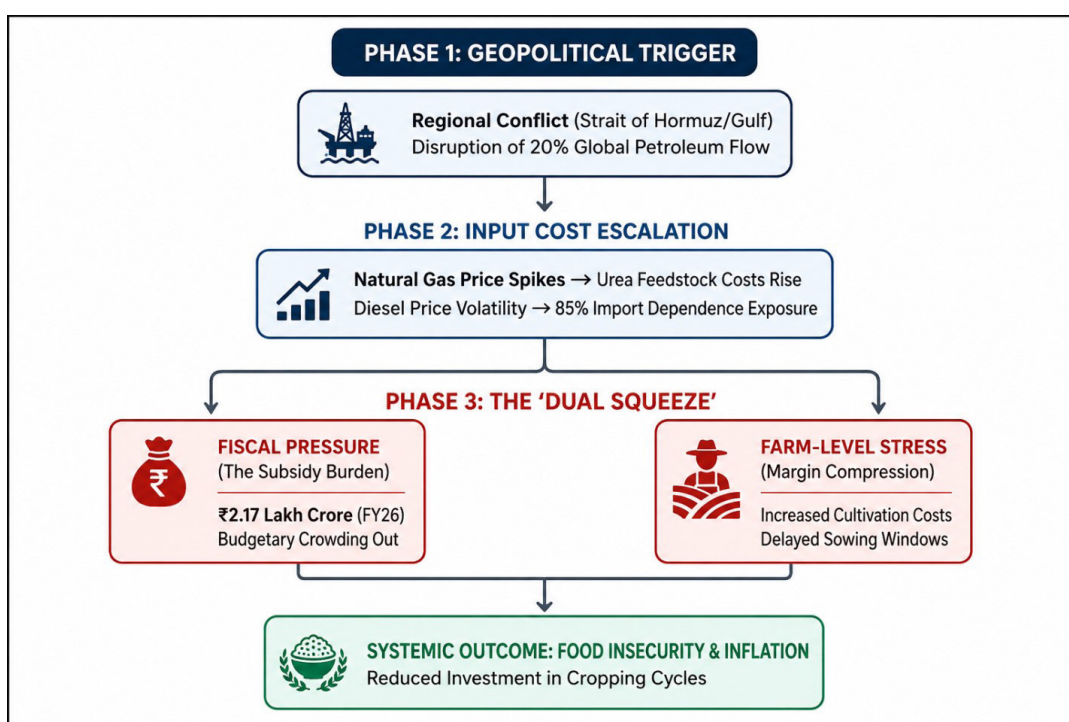
Agriculture in India is deeply energy-intensive. Diesel powers irrigation pumps, tractors, harvesters, and transport logistics, while electricity, often heavily subsidised, supports groundwater extraction. Meanwhile, natural gas underpins fertiliser production. This close link between energy and agriculture amplifies the transmission of global energy shocks into domestic food systems.

In addition to input dependencies, India's agricultural trade linkages further intensify its exposure. The Middle East is an important export destination for Indian commodities such as rice, sugar, spices, tea, and marine products.⁸ Thus, disruptions in this region affect not only import flows but also export earnings and market access. The convergence of these interdependencies across energy, fertilisers, and other avenues of trade creates a multi-layered systemic vulnerability that transforms regional geopolitical conflict into a systemic economic risk for India.

Transmission Channels from the Iran Conflict

The ongoing Iran conflict is transmitting its effects to India through several interconnected channels: energy price volatility, fertiliser supply disruptions, rising freight costs, currency pressures, trade instability, and fiscal stress, each reinforcing the others and collectively amplifying systemic risk across the agricultural economy. The simultaneous operation of these channels creates a cascading effect, which transforms regional geopolitical instability into a systemic 'dual squeeze' on India's fiscal balance and farm-level productivity (see Figure 1).

Figure 1: Impact of Geopolitical Volatility on the Indian Agrarian Economy



Source: Author's own

Energy Prices

The most immediate transmission mechanism is global oil and gas prices. Any credible threat to supply routes in the Strait of Hormuz triggers speculative and precautionary increases in crude oil prices, often even before physical supply disruptions occur.^{9,10}

For India, which imports more than 85 percent of its crude oil requirements, this translates directly into higher import bills, downward pressure on the rupee, and broader inflationary spillovers. However, India has reduced its dependence on crude shipments routed through the Strait of Hormuz in recent years by diversifying its oil import sources. Rising LNG prices further compound this effect by increasing fertiliser production costs, since natural gas constitutes the principal feedstock for urea manufacturing.

Fertiliser Supply Chains

Disruptions in ammonia and natural gas supply chains tighten global fertiliser markets, reducing both the availability and predictability of supply. Shipping delays, increased war-risk insurance premiums, and logistical rerouting further elevate landed costs. Since India imports both raw materials and finished fertilisers, it faces a dual shock: simultaneous scarcity and price escalation.

The time-sensitive nature of fertiliser procurement during sowing seasons makes these disruptions particularly acute, as even short delays can affect application schedules and potentially reduce agricultural yields.

Freight and Logistics

Maritime insecurity drives up freight rates and extends transit times across affected corridors. War-risk insurance premiums rise sharply, and shipping routes may be diverted around high-risk zones, adding distance and cost to voyages.^{11,12}

These factors increase the landed cost of imports and delay deliveries, affecting both agricultural inputs arriving in India and export shipments destined for overseas markets.

Currency and Financial Pressures

Higher oil import bills widen India's current account deficit, thereby exerting a downward pressure on the rupee.^{13,14} Currency depreciation, in turn, raises the domestic cost of imports, creating a feedback loop that intensifies inflation beyond the energy sector alone.

Financial market volatility associated with geopolitical uncertainty may also affect investment flows, equity valuations, and sovereign borrowing costs, thereby constraining the government's fiscal space for policy response.

Trade Disruptions

Export markets in the Middle East, an important destination for Indian rice, sugar, spices, and marine products, may experience demand compression because of economic uncertainty or logistical disruptions within the region. Simultaneously, higher freight costs and shipping delays reduce the reliability and competitiveness of Indian exports in price-sensitive commodity markets.

Fiscal Stress

India's fertiliser subsidy regime is designed to shield farmers from global price volatility, but this transfers much of the burden onto the government's exchequer. India's fertiliser subsidy expenditure rose sharply following global commodity disruptions after 2021, exceeding INR 200 billion in FY2022–23, before moderating.¹⁵ Rising international fertiliser prices, therefore, translate directly into higher subsidy expenditure, creating budgetary stress that may crowd out investments in infrastructure, rural development, and agricultural modernisation.

Taken together, these channels operate simultaneously, producing cascading effects that connect geopolitical instability to domestic agricultural and macroeconomic outcomes.

Short-Term Impacts: Costs, Disruptions, and Volatility

In the short term, the conflict is likely to generate a convergence of higher costs, supply disruptions, and market volatility across India's agricultural economy. Rising fertiliser and diesel prices increase cultivation expenses for input-intensive crops such as rice and wheat, while higher transportation and irrigation costs compress farm-level margins and may discourage investment in subsequent cropping cycles.^{16,17} Simultaneously, disruptions in shipping and fertiliser procurement can create localised shortages during critical sowing periods. Since fertiliser application windows are highly time-sensitive, delayed availability may adversely affect yields.

These pressures are compounded by volatility in global commodity markets, which complicates planning for farmers, traders, procurement agencies, and exporters alike. As higher input costs pass through the value chain, food inflation intensifies and disproportionately affects lower-income households, for whom food expenditure constitutes a larger share of household spending. Exporters simultaneously face higher logistics costs and shipment delays, weakening India's competitiveness in time-sensitive commodity markets, while domestic fertiliser producers confront margin pressures caused by rising input costs and regulated output prices.¹⁸

Taken together, these effects create a short-term environment defined by operational stress, inflationary pressure, and heightened uncertainty across the agricultural sector.

Medium-Term Structural Implications if the Conflict Persists

If the Iran conflict persists, its effects are likely to evolve from temporary disruptions into deeper structural changes within India's agricultural and energy systems. India will likely accelerate diversification of fertiliser and energy imports from suppliers such as Russia, Canada, Saudi Arabia, Oman, Jordan, and Morocco to reduce dependence on Gulf-centred supply chains, even though this effort may involve higher initial logistical and contractual costs.¹⁹ Persistently high fertiliser prices could also encourage more efficient nutrient management and greater adoption of alternatives such as bio-fertilisers, nano-urea, organic inputs, and precision farming techniques.

However, such transitions will require strong extension support and scientific oversight to avoid near-term productivity losses.

Continued energy price volatility may simultaneously accelerate the adoption of renewable energy technologies in agriculture, particularly solar-powered irrigation systems, thereby reducing long-term dependence on diesel and subsidised electricity. On the fiscal side, sustained subsidy burdens could push the government toward reforms such as direct benefit transfers, nutrient-based pricing mechanisms, and improved targeting designed to enhance fiscal efficiency and long-term sustainability.²⁰

If elevated fertiliser costs and shortages persist across multiple cropping cycles, cumulative yield pressures could tighten domestic food supplies and sustain inflationary trends, potentially increasing the reliance on public procurement and buffer stock operations. At the same time, India may deepen strategic partnerships and overseas resource investments to secure critical supply chains, while expanding investments in green ammonia, domestic fertiliser production capacity, and precision agriculture.^{21,22}

Overall, a prolonged conflict will act as a structural forcing mechanism, pushing India toward greater diversification, technological adaptation, and long-term resilience, although through a potentially costly transition.

Strategic Responses and Policy Pathways

The evolving crisis necessitates a policy response that operates simultaneously across immediate stabilisation and long-term resilience-building. In the short term, ensuring an uninterrupted supply remains paramount. This includes diversifying import sources, maintaining adequate strategic reserves and buffer stocks, strengthening logistical infrastructure, and enhancing maritime-risk preparedness. By prioritising these actions, policymakers can effectively manage short-term shocks, such as those seen in food supply systems, thereby reducing the risk of long-term disruption to development trajectories.²³

Over the medium- to long-term, a more fundamental restructuring is required, focusing on expanding domestic production through alternative technologies such as green ammonia and renewable-energy-linked fertiliser production. This transition, combined with improved fertiliser use, precision agriculture, and soil health management, offers a pathway toward reducing the dependence on imported fossil-fuel inputs.²⁴ Furthermore, critical investments in domestic distribution networks, multimodal logistics, and subsidy reforms, such as direct benefit transfers, could improve systemic efficiency while reducing vulnerability to global energy volatility.

India also needs a better food price hedging mechanism. This will necessitate making its agricultural commodities—and also, its non-agricultural commodity derivatives markets—more competitive and aligned with global best practices.

Conclusion

The ongoing crisis reinforces the growing linkage between food security and strategic autonomy in India's policymaking framework. Agricultural resilience can no longer be viewed solely through the lens of domestic production; it is increasingly shaped by access to energy, fertiliser inputs, shipping corridors, and stable geopolitical partnerships.²⁵ Dependence on concentrated external supply chains exposes India's food system to disruptions beyond its territorial boundaries, making agricultural security inseparable from broader economic and strategic security considerations. In this context, investments in domestic fertiliser capacity, renewable energy transitions, diversified trade partnerships, and resilient logistics infrastructure are significant not merely as economic reforms but also as components of long-term national strategic preparedness.

The impact of the ongoing conflict has extended far beyond the Middle East. For India, the crisis exposes deep structural vulnerabilities rooted in import dependence, energy intensity, and concentrated supply chains.

While the short-term impacts are already evident through rising costs, supply disruptions, and inflationary pressures, the medium-term implications could have deeper consequences for India's agricultural landscape.

In addition to the duration of the conflict, India's policy response will be crucial in determining the intensity of these impacts. By diversifying supply sources, strengthening domestic capacities, investing in technological innovation, and promoting sustainable agricultural practices, India can potentially transform this crisis into an opportunity to build a more resilient, adaptive, and self-reliant agricultural system.

Shoba Suri is Senior Fellow, Health Initiative, ORF.

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The author used ChatGPT to create Figure 1, refine the language, and format the citations.

Metals, Cement, and Construction: India's Industrial Exposure to the West Asia Crisis

Gopalika Arora

India's industrial growth has historically carried a security premium, and the West Asia conflict has raised that premium, perhaps permanently. Tensions around the Strait of Hormuz have exposed the vulnerabilities in India's industrial supply chains. India's energy security remains closely tied to key maritime chokepoints such as the Strait of Hormuz, through which a substantial share of its hydrocarbon imports passes, leaving it exposed to geopolitical shocks and disruptions.

This vulnerability extends beyond the energy sector, as these commodities also serve as essential industrial inputs across India's metals, cement, and construction sectors. The strongest impact is visible in the steel sector, while risks to aluminium, copper, nickel, and other non-ferrous metals emerge through higher energy costs, constraints on raw material availability, freight disruptions, and input-price volatility. Around 40 percent of

India's crude oil, 55–60 percent of its Liquefied Natural Gas (LNG) supplies, and nearly 90 percent of its Liquefied Petroleum Gas (LPG) imports move through the Strait of Hormuz.¹ India also depends on imports for around 60 percent of its LPG consumption and roughly half of its natural gas needs, making disruptions in this corridor especially consequential for industry.² This dependence matters because crude oil, LNG, LPG, and related fuels are essential industrial inputs. LNG feeds parts of India's steel value chain, LPG is used in stainless steel production and other industrial processes, and petroleum-linked products such as bitumen and polymers feed into construction.

India's steel sector remains particularly vulnerable because of its resource-intensive production process. India is the world's second-largest crude steel producer, and the National Steel Policy aims to expand capacity to 300

MTPA and production to 255 MTPA by 2030.³ The policy also seeks to reduce coking coal import dependence from 85 percent to 65 percent, underscoring the sector's continued reliance on imported fuel and raw material availability.⁴ The recent crisis has already shown how fuel shortages, shipping disruptions, and rising input costs can affect steelmaking operations, particularly among gas-dependent and secondary producers. This vulnerability is not limited to the production process itself. It also extends to the intermediate inputs and metal products that feed India's wider industrial and infrastructure ecosystem.

In 2025, India imported US\$190 million worth of direct reduced iron from West Asia, accounting for 59.1 percent of its total imports of this steelmaking input.^{5,6} It also sourced US\$869 million worth of copper wire from the region, representing 50.7 percent of total imports.^{7,8} Copper wire is especially important for power transmission, electrical equipment, renewable energy systems, and wider infrastructure build-out.

The cement and construction sectors face wider exposure. Cement production is energy-intensive and sensitive to logistics and packaging costs. Disruptions at Gulf-linked ports can also affect less visible but critical mineral flows. For instance, disruptions at Ras Al Khaimah's Mina Saqr Port, a key exit point for United Arab Emirates (UAE) limestone reserves, could affect supplies to India, a major export market for UAE.⁹ The construction sector is where these shocks converge as it consumes steel, cement, and other materials and metals. Any disruption in supply chains of

raw materials can create a ripple effect and raise project costs and delay execution.

Transmission Channels from the West Asia Conflict

Energy and Industrial Fuel Disruptions

The fuel shock is transmitted through the industrial economy via kilns, furnaces, reheating units, freight fleets, and construction machinery. Conventional steel production relies on coal, coke, and other fossil-based inputs, and the disruption is being felt across the steel value chain. Gas-based ironmaking units are under pressure from LNG shortages, while stainless-steel producers face constraints from tighter LPG supplies.¹⁰ Smaller steelmakers have been among the first to feel the strain. Many rely on imported LNG, and with nearly two-thirds of India's LNG imports coming from the Middle East, the conflict has quickly translated into supply stress.¹¹ The government's decision to prioritise domestic gas for households has further squeezed availability for industrial users, including steel plants.¹²

The strain is not confined to smaller producers. Gas shortages have also affected larger steel operations, with some units reportedly facing the risk of shutdown due to supply constraints.¹³ Industry players have sought government intervention to ease the shortages and sustain production. Producers using gas-based direct reduced iron (DRI) and electric arc furnace routes are especially vulnerable, as prolonged gas disruptions can directly affect a large share of their steelmaking capacity. Some firms have also

begun shifting to alternative fuels such as syngas to manage shortages of natural gas and LPG.¹⁴

Coking coal is also a critical piece of steel and cement value chains in India. India imports approximately 90 percent of its annual coking coal requirements, making the industrial sector vulnerable to these geopolitical conflicts as well as the accompanying global price shocks. In 2025, India produced around 152 million tonnes of crude steel, reinforcing the sector's large and growing demand for coking coal.¹⁵ Annual coking coal consumption is estimated at about 87 million tonnes, with the steel industry accounting for nearly 95 percent of this demand.¹⁶ This underscores how closely India's steel expansion remains tied to the availability, affordability, and security of coking coal supplies.

The remaining demand comes from sectors such as foundries and chemicals, which together account for roughly 5 percent of consumption.¹⁷ Indian cement manufacturing is also dependent on coal and pet coke as its main energy sources. Together, they account for nearly 97 percent of the sector's total fuel use, while oil contributes around 1 percent and electricity about 2 percent.¹⁸ Cement producers rely on pet coke as it is a key kiln fuel. In normal months, roughly 400,000–600,000 tonnes of pet coke move through Hormuz-linked ports, with India absorbing the bulk of these volumes.¹⁹

Raw Material Input Disruptions

The conflict has also caused logistical disruptions at Ras Al Khaimah's Mina Saqr Port, the primary export point for the UAE's massive limestone

reserves. In 2023, the UAE accounted for 79 percent of India's limestone flux imports. India imports nearly 60 million tonnes of limestone annually from the Gulf, and approximately 5 million tonnes per month arriving via cargo ships.²⁰ For the construction sector alone, India imported nearly US\$483 million worth of limestone from West Asia, accounting for 65.8 percent of its imports.²¹ Indian steel companies also require high-quality raw materials like limestone for production.

Another critical input for the construction sector is gypsum, which is used in cement production to regulate setting time and ensure product quality.²² Oman is India's largest gypsum supplier.²³ In 2024, Oman's gypsum exports to India stood at around 6.34 billion kg, valued at approximately US\$84.9 million.²⁴ Overall, India sources about 62.1 percent of its imported gypsum from West Asian and Gulf countries, including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE.²⁵

While gypsum is not among the largest cost components in cement production, it is technically essential. India's growing dependence on imported gypsum, particularly from West Asia and adjacent maritime supply routes, therefore creates a point of vulnerability. A prolonged disruption in the Strait of Hormuz may not immediately threaten sector-wide cement production, but it could force producers to secure alternative supplies from domestic synthetic gypsum, raising procurement costs and complicating blending decisions.

Bitumen, another critical material for India's road construction and maintenance sector, has also faced disruptions due to the West Asia conflict. According to recent estimates by Investment Information and Credit Rating Agency (ICRA) cited by *Mint*, India imported around 35–36 percent of its bitumen requirement in 2025.²⁶ Approximately 8.3 million tonnes of bitumen was consumed in India that year, out of which 5.3 million tonnes were produced domestically, while the balance was met through imports, a significant share of which came from West Asia.²⁷ Following the outbreak of the West Asia conflict, bitumen prices in India rose sharply, increasing from around INR 40,000 per tonne to nearly INR 54,000–76,000 per tonne.²⁸ This has placed additional pressure on infrastructure project costs, particularly road construction budgets. The price escalation is largely linked to the surge in crude oil prices, as bitumen is derived from crude oil.

Freight, Shipping, Logistics, and Other Costs

The West Asia crisis is also affecting India's metals, cement, and construction sectors through higher freight, shipping, insurance, and logistics costs. The Strait of Hormuz is a critical maritime passage for industrial inputs moving between the Gulf and India. Any rise in freight costs directly impacts the steel industry, which relies on seaborne inputs such as coking coal, DRI, and other intermediaries. Recent media reports suggest that international freight costs for India's steel sector have risen by 28–30 percent, increasing the cost of imported coking coal and adding to margin pressures.²⁹

The conflict is also creating pressure in a less visible but important part of the cement value chain, i.e., packaging. Standard 50-kg cement bags are made from polypropylene, a petrochemical product closely linked to crude oil and propane

markets. As crude prices rise, polypropylene costs have also risen sharply. Estimates suggest that the cost of a cement bag has nearly doubled from about INR 6-7 to INR 11–12. While this may appear marginal at the unit level, it adds roughly INR 60–80 per tonne to cement costs, further squeezing producer margins.³⁰

If the war continues, the steel sector will face sharper operational risk, especially through LNG, LPG, DRI, and freight. The cement sector, in contrast, is likely to experience a broader cost shock through pet coke, coal, packaging, and logistics. Together, these pressures could transmit the West Asia crisis into India's infrastructure economy through higher material costs and project delays.

Strategic Responses and Policy Pathways

The Hormuz crisis has exposed the vulnerability of gas-dependent steelmaking routes as well as the coking-coal-dependent cement sector. There is a need to accelerate low-carbon industrial pathways as resilience tools against geopolitical volatility and supply chain disruptions. One prime example of this is DRI-based steelmaking. While gas-based DRI is less carbon-intensive than coal-based production, it remains exposed to LNG shortages and global gas price volatility. India could consider partial green hydrogen blending in gas-based DRI as both a decarbonisation pathway and an energy security response. Blending 10–60 percent green hydrogen with natural gas in DRI production is technically feasible and can reduce emissions intensity by up to 80 percent compared to coal-based DRI.³¹ Over time, this could help producers reduce dependence on imported fuels while building the ecosystem for green hydrogen-based steelmaking.

Similarly, for the cement sector, India should accelerate the use of composite cement, PPC, PSC, and LC3 as resilience tools, not just decarbonisation options. Shifting to low-clinker cement can reduce India's dependence on pet coke and coal by lowering the amount of clinker required in cement production.³²

There is also a need to manage critical supply chain and trade disruptions. India needs a supply chain ecosystem that is robust and resilient and combines selective reshoring with strategic diversification. For inputs where domestic capacity can be scaled, such as scrap recycling and metal processing, policy should support domestic supply chains. For inputs that cannot be easily reshored, such as coking coal, metallurgical coke, DRI, and copper wire, India should diversify suppliers, trade routes, and contractual arrangements to reduce concentration risks. For example, the global landscape of coking coal supply is evolving. Countries like Mongolia and Mozambique are steadily becoming some of the fastest-growing suppliers of pet coke. Other African countries such as Tanzania are also being explored for the overall pet coke requirements in Asia.³³

Lastly, given the importance of freight in steel, cement, and construction costs, India should treat logistics resilience as a core part of industrial security. The West Asia conflict has shown that disruptions in the Strait of Hormuz do not only affect the price of oil and gas; they also raise

the cost and uncertainty of moving industrial inputs. There is a need to strengthen port and inland logistics capacity for critical industrial inputs. Metals, cement, and construction sectors depend on time-sensitive and bulk movement of raw materials, fuels, and other essential minerals. There is a need to establish a real-time maritime monitoring and advisory mechanism for industrial supply chains, working with shipping lines, port authorities, terminal operators, logistics firms, and industry associations.³⁴ India should also introduce targeted support for smaller exporters and downstream manufacturers that are less able to absorb freight volatility. The Government of India has already introduced an INR 4.97-billion insurance support scheme for exporters affected by such pressures, underscoring the need for time-bound financial support during shipping crises.³⁵

Industrial resilience should be treated as part of India's energy and economic security agenda. India needs a balanced mix of diversified sourcing, stronger domestic ecosystems, better logistics preparedness, and faster adoption of low-carbon industrial pathways that reduce exposure to volatile fossil fuel markets. For a country building the infrastructure base for *Viksit Bharat*, securing the materials that power construction, manufacturing, and clean energy deployment is no longer optional. It is key to long-term growth, competitiveness, and strategic autonomy.

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III

Service Sector Transmission

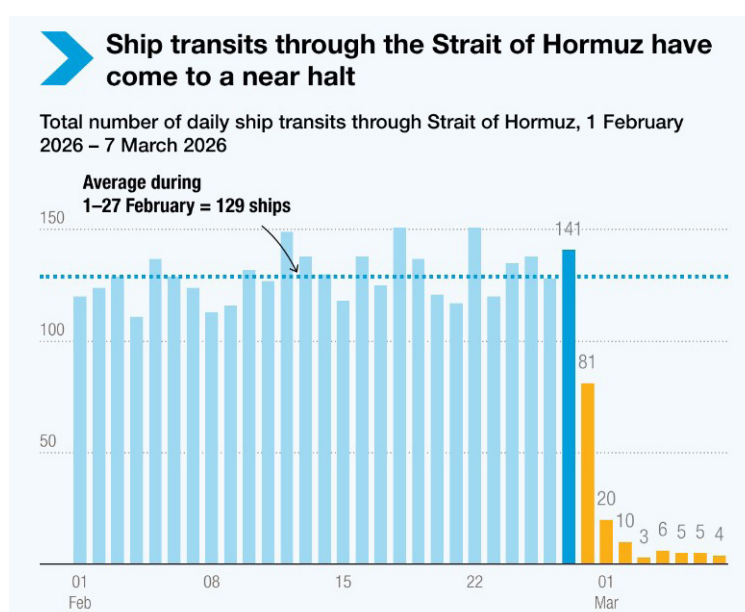
Logistics and Transport: The Steep Cost of Moving Goods in a War-Torn Corridor

Anusha Kesarkar Gavankar

The recent escalation of tensions around the Strait of Hormuz in the Gulf region has exposed deep vulnerabilities in global trade.¹ What began as a geopolitical and military confrontation involving the United States, Israel, and Iran quickly translated into economy-wide costs that spread across logistics,

connectivity and transit systems, leading to broader macroeconomic consequences (see Figure 1).² The crisis has strained energy markets, disrupted established shipping routes, affected port operations, and increased insurance premiums and freight rates, creating uncertainty in international supply chains.

Figure 1. Immediate Impact of Strait of Hormuz Blockade



Source: UNCTAD³

The repercussions are significant given the Gulf's central role in energy markets, with Gulf producers accounting for roughly 80 percent of OPEC's (Organization of the Petroleum Exporting Countries) crude oil exports.⁴ At the same time, energy demand has shifted towards Asia, with countries like India and China becoming key importers of Gulf oil, further deepening reliance on these routes.⁵ With nearly half of its exports and 30 percent of its imports passing through the Red Sea-Suez Canal corridor, a critical link between Asia and Europe, India's exposure is particularly high.⁶

The impact of these disruptions is visible through four interlinked channels: reduced shipping capacity, higher transport and insurance costs, longer transit times, and rising financial risk. These pressures create a ripple effect across supply chains, industrial production, and macroeconomic stability. For India, this translates into higher import costs, inflationary pressures, and weaker export competitiveness. The current crisis underlines that oceans are a critical infrastructure that sustain global economic stability.

Oceans as Economic Infrastructure and the Governance Deficit

Oceans enable the movement of goods, food, fertilisers, and energy across different routes, including critical ones such as the Red Sea corridor between the Bab el-Mandeb Strait and the Suez Canal,⁷ and the Strait of Hormuz in the western Indian Ocean.⁸ While these routes make global trade faster and more efficient, they

are also veritable chokepoints. Disruption at any one location can quickly spread across shipping networks, causing delays and congestion, and increasing costs. Insecurity in the Red Sea,^{a,9} for example, has led to rerouting via the Cape of Good Hope, increasing transit times and reducing effective shipping capacity. These delays are not isolated, and they have a huge impact on fleet efficiency, port operations, and global supply chains.

Alongside these challenges is a governance gap. The United Nations Convention on the Law of the Sea (UNCLOS),¹⁰ adopted in 1982 and entered into force in 1994, provides the core legal framework for navigation, but its implementation varies across countries. This unevenness is increasingly visible as non-state actors, using relatively accessible technologies such as drones and missiles, are able to intrude on shipping routes. Moreover, responses to such crises are often shaped by national priorities rather than coordinated approaches.

Complementing UNCLOS, the International Maritime Organization (IMO) sets global standards for safety, security, and environmental performance.¹¹ These include the International Convention for the Safety of Life at Sea (SOLAS), 1974, and the International Convention for the Prevention of Pollution from Ships (MARPOL), signed in 1973 and adopted in 1978. Regional platforms such as the Indian Ocean Rim Association also support cooperation.¹² However, the implementation of these frameworks remains fragmented.

a The Red Sea crisis is an ongoing maritime conflict that began in October 2023, where Yemen-based Houthi rebels are attacking merchant and commercial vessels. Triggered by the Gaza war, the attacks have forced global shipping companies to reroute vessels around Africa's Cape of Good Hope, adding 10-15 days to transit times and driving up freight costs and energy prices.

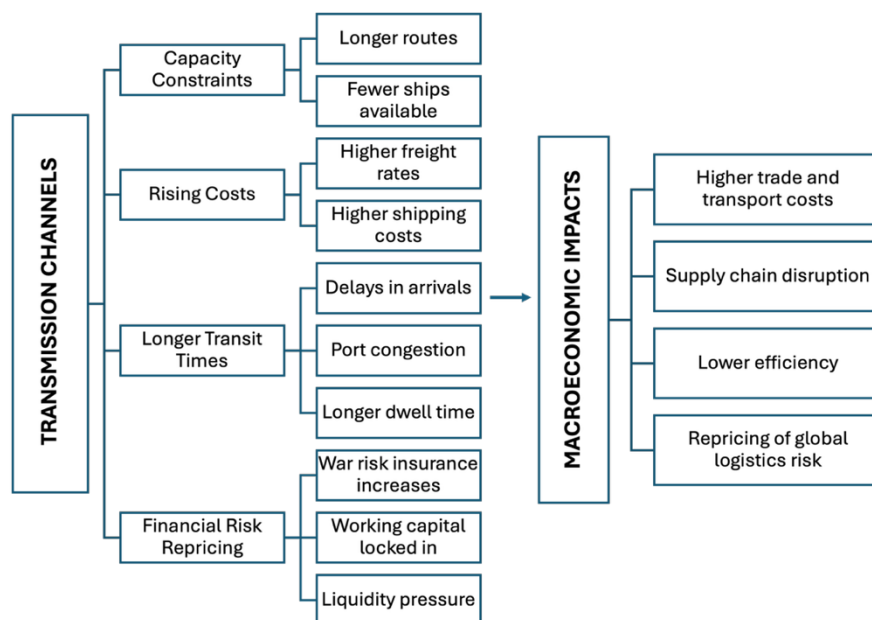
For India, these governance gaps translate into higher perceived risk, reflected in rising insurance premiums, freight rates, and greater trade uncertainty. The effects spread across the economy, raising import costs, putting pressure on exports, and straining domestic industry. Manufacturing and Micro, Small and Medium Enterprises (MSMEs) are particularly exposed due to limited buffers. While firms are adapting through diversification, higher inventories, and route recalibrations, these adjustments come at an added cost. This disruption therefore

extends across trade, finance, transport, and production networks, underscoring how maritime infrastructure constraints operate through multiple economic channels.

Logistics and Transport: The Economics of Disruption

The impacts of a disruption are manifold: capacity constraints; rising costs; longer transit times; and higher financial risk (see Figure 2).

Figure 2: Impacts of Disruption



Source: Author's own

First, capacity tightens as ships are forced onto longer routes. For instance, rerouting via the Cape of Good Hope can extend voyages by roughly 3,500 nautical miles and 14-15 days,¹³ keeping vessels at sea for longer and effectively reducing global shipping capacity. For exporters, this often translates to delays of 2-4 weeks, unsettling production timelines and trade cycles.¹⁴

Second, costs rise sharply.¹⁵ Freight rates increase during peak disruption periods, with container shipping costs on key routes nearly doubling in some cases.¹⁶ This is driven not only by longer distances but also by inefficiencies such as vessel bunching, container imbalances, and longer port dwell times as schedules become less predictable.

Third, longer transit times intensify congestion across the system. Irregular vessel arrivals place pressure on hub ports, creating bottlenecks and delays across global logistics networks.¹⁷ Even regions not directly exposed experience repercussions such as congestion and container imbalances.¹⁸ Rerouting and rescheduling challenges further strain port operations globally, contributing to longer dwell times and reduced system efficiency.

Fourth, financial risk is repriced. War-risk insurance premiums increase in response to heightened insecurity, while longer shipping cycles tie up working capital, delay payments, and raise financing costs.¹⁹ While reinforcing each other, shipping-related pressures begin to influence trade decisions, causing macroeconomic constraints on the global economy.

India's Maritime Exposure and the Cost of Corridor Dependence

India's exposure to maritime disruption is shaped by its geography. As a peninsular economy at the centre of the Indian Ocean, it depends heavily on westbound sea routes linking the Gulf, the Red Sea, and Europe. Nearly 95 percent of India's trade by volume and 70 percent by value move by sea.²⁰ Any corridor dependency becomes a formidable vulnerability, as seen during tensions around the Strait of Hormuz and during the Red Sea Crisis. Some of the impacts for India due to the recent tensions in the Gulf have been immediate and tangible, as described in the following paragraphs.

Energy supply and pricing pressures: India imports more than 85 percent of its crude oil,²¹ much of it from the Gulf region,²² exposing it structurally to external supply shocks. Disturbances around the Strait of Hormuz have increased freight and insurance costs on crude shipments,²³ feeding into higher landed oil prices²⁴ and causing domestic retail inflation, which recorded a 10-month high of 3.4 percent in March 2026.²⁵ Refiners have responded by recalibrating sourcing patterns and building precautionary inventories.²⁶

Shipping delays and rerouting: During peak disruption periods, a substantial share of India-Europe cargo are rerouted via the Cape of Good Hope, extending transit times by roughly two to four weeks and increasing working capital requirements for exporters. Tensions around the Strait of Hormuz, through which nearly one-fifth of global seaborne oil trade flows,²⁷ have further reinforced broader uncertainty in Gulf-linked

shipping routes, contributing to volatility across westbound trade schedules.

Trade flow strains: Beyond crude oil, India's export and import channels are exposed to disruptions across maritime routes linked to West Asia.²⁸ Heightened regional tensions led to a 30-50 percent increase in freight rates on shipping routes connecting Asia with the Gulf and wider West Asian region, reflecting tighter capacity, rerouting, and higher insurance costs.²⁹ Export-oriented commodities such as basmati rice, tea, and marine products have seen freight cost increases of 15-25 percent during disruption phases,³⁰ affecting price competitiveness in West Asia and Europe (in some cases more than doubling from pre-crisis levels).³¹ Meanwhile, import-dependent sectors such as fertilisers, chemicals, and manufacturing inputs have faced higher input costs due to elevated shipping and insurance charges.³²

Pressure on MSMEs and industrial clusters: Smaller exporters, particularly textile clusters in Tiruppur and Surat, have faced increased logistics costs and unpredictable shipping schedules.³³ MSMEs, which account for over 45 percent of India's exports,³⁴ are particularly exposed to such logistics shocks due to limited financial buffers. In several cases, firms have shifted to air freight for urgent consignments, where costs can be three to five times higher than sea freight, increasing export expenses and compressing margins.³⁵

Pharmaceutical supply chain risks: India supplies nearly 20 percent of global generic medicines,³⁶ making it a critical node in global health supply chains. Short shipping delays in pharmaceuticals

or active pharmaceutical ingredients (APIs) can disrupt delivery schedules in Europe and North America, where healthcare systems rely on lean, globally integrated supply chains with limited buffer inventories, creating downstream risks to medicine availability and health-system resilience.³⁷

The human cost: Maritime insecurity has direct implications for seafarers operating in high-risk corridors.³⁸ While often overlooked, seafarers, including a large number of Indians who form one of the largest seafaring labour forces globally, face heightened exposure to conflict risks, longer voyage cycles, and psychological stress during times of conflict.

Insurance and risk pricing: War-risk insurance premiums have risen sharply during periods of heightened tension around the Strait of Hormuz.³⁹ While baseline charges typically range between 0.05 and 0.25 percent of vessel value,⁴⁰ crisis situations have driven premia to reach 0.5-5.0 percent or higher, reflecting heightened geopolitical risk and constrained insurer capacity. This has added a recurring cost burden for shipping operators and traders. In response, India has approved the Bharat Maritime Insurance Pool⁴¹ to bolster its domestic underwriting capacity and reduce reliance on externally priced war-risk insurance, although its long-term effectiveness remains to be seen.

India has also strengthened naval deployments with activities such as Operation Sankalp,⁴² alongside maritime domain awareness through the Information Fusion Centre-Indian Ocean Region (IFC-IOR).⁴³ At the same time, India has

avoided formal alignment with security coalitions, meaning that a large share of the economic burden of disruption is absorbed domestically, while security provision across key maritime corridors remains uneven.⁴⁴

India's maritime approach is also evolving through the MAHASAGAR initiative,⁴⁵ indicating a broader framing of oceans as both economic and strategic spaces. However, a gap remains between ambition and capacity,⁴⁶ particularly in diversifying routes, strengthening port resilience, and building more coordinated maritime governance frameworks.

Reframing India's Maritime Role

Bridging this gap requires India to play a proactive role in shaping regional maritime governance. First, it should support the development of a more structured security architecture in the western Indian Ocean. For instance, the Indian Ocean Rim Association (IORA) and the Indian Ocean Naval Symposium (IONS) continue to function as limited coordination platforms, reflecting institutional fragmentation in regional maritime governance.⁴⁷ Similar institutional building blocks already exist and will need more focused implementation and scaling as a priority.

Second, India must utilise its growing role in sustaining a rules-based maritime order. Beyond its support for UNCLOS and other international regulatory frameworks,⁴⁸ India's position as a Category B member at the IMO⁴⁹ could involve deeper coalition-building with maritime states to uphold freedom of navigation and deter coercive disruptions to sea lanes through sustained diplomatic engagement.

Third, India must embed resilience more explicitly within its blue economy strategy.⁵⁰ Sectors such as fisheries, offshore energy, and maritime services face vulnerabilities similar to those affecting trade flows. Addressing these vulnerabilities will require selective diversification of routes, investment in port and logistics infrastructure, technological innovation, and closer alignment between economic planning and maritime risk management.

Fourth, India must ramp up its operational capacity to match its aspirations of becoming a net security provider.⁵¹ Strategic autonomy does not preclude deeper maritime partnerships; instead, it calls for sustained presence at sea, stronger maritime domain awareness, and the ability to shape regional security outcomes.

Towards Structural Maritime Resilience: A Policy Response Framework for India

Addressing the logistics shock requires a calibrated response across different time horizons, aligned with the four key transmission channels. The objective is to manage immediate strains and progressively reduce structural liabilities within India's trade and logistics system (see Table 1). This is particularly important given challenges of scale in India and the wider Global South, where effective responses will require greater participation and collaboration across diverse stakeholders, including government, industry, financiers, and logistics providers.

Table 1: A Policy Response Framework for India

Time Horizon	Policy Objective	Key Measures	Transmission Channels Addressed	Potential Impact
Short Term	Shock absorption and risk stabilisation	Planned petroleum reserves; targeted export credit support (e.g. through EXIM Bank); maritime security coordination and naval deployment; insurance facilitation	Cost escalation; risk pricing; capacity constraints	Cushion immediate energy and freight shocks and maintain continuity of critical trade flows
Medium Term	Improve logistics efficiency and reduce bottlenecks	Effective implementation of National Logistics Policy (NLP) and PM Gati Shakti; port digitisation and capacity expansion; multimodal integration; scaling coastal and inland shipping	Capacity constraints; cost escalation; transit delays	Improve throughput efficiency, reduce logistics costs, and shorten supply chain cycles
Long Term	Structural de-risking and corridor diversification	Operationalisation of alternative corridor/s; supply chain diversification; digital logistics systems (tracking, predictive routing, risk analytics); redundancy in trade routes; shift from ‘just-in-time’ to ‘just-in-case’ supply chain philosophy – moving from extreme cost-efficiency to prioritising resilience and disruption protection	Transit delays; risk pricing; capacity constraints	Reduce chokepoint dependence and build adaptive, technology-enabled logistics resilience

Source: Author’s own

These measures reflect a shift from reactive crisis management to anticipatory resilience-building. The objective is not to eliminate exposure—an inherent feature of a trade-dependent economy—but to ensure that external shocks are absorbed at lower cost and with reduced systemic volatility.

Conclusion

The Strait of Hormuz crisis shows that logistics is more than a function of trade. Connectivity and transport systems define global economic stability and security. In the current environment of recurring geopolitical shocks, trade competitiveness, price stability, and external resilience now depend as much on supply chain strength as on production capacity. When chokepoints are disrupted, the impact is felt

immediately across multiple channels, leading to higher costs, delayed supply chains, and inflationary pressures across the economy. For India, it highlights the risks of relying heavily on select maritime corridors.

India must therefore work towards shifting from efficiency-led logistics planning to a resilience-led approach. This would entail diversifying trade routes, investing more in ports and logistics infrastructure, factoring in human costs, and strengthening systems for maritime insurance, risk pricing, and supply chain management. The ocean has underpinned India's economic rise. The challenge is whether India can move from benefiting from maritime connectivity to actively shaping the institutions, norms, and capacities that sustain it.

The Paradox of Resilience: IMEC and the Iran Conflict

Samriddhi Vij

The India–Middle East–Europe Economic Corridor (IMEC), unveiled at the G20 Summit in New Delhi in 2023, was conceived as strategic insurance: a multimodal services architecture designed to insulate trade between the Indian Ocean and the Mediterranean from the concentration risk of any single chokepoint.¹ However, the corridor now faces a more searching test than its architects anticipated. Since February 2026, when a joint United States (US)-Israel campaign against Iran triggered Tehran’s closure of the Strait of Hormuz, the same sea lines that IMEC was designed to traverse have become the global economy’s most distressed maritime artery.²

This article argues that the conflict has produced a strategic paradox. It has simultaneously reaffirmed IMEC’s underlying logic of diversification away from concentrated chokepoints; and complicated its implementation, as the corridor’s own physical nodes pass through

the current conflict zone. Whether IMEC survives geopolitical fragmentation depends not on whether the conflict ends, but on whether the corridor’s architecture is recalibrated to reflect a more honest assessment of risk.

The IMEC Architecture and Its Assumptions

IMEC is best understood not as a single transport route, but as a multimodal services architecture spanning three integrated pillars: a transport pillar combining rail and shipping; an energy pillar centred on electricity and energy interconnection; and a digital pillar of cross-border digital infrastructure.³ Its design promises a 40-percent reduction in transit time and a 30-percent reduction in logistics costs.⁴ For India, the corridor’s structural significance was highlighted even before the Strait of Hormuz crisis. The European Union (EU) accounts for over 12 percent of merchandise trade but the

Red Sea crisis of 2023–24 forced rerouting around the Cape of Good Hope and added roughly 3,500 nautical miles along with a week to transit, demonstrating the cost of route concentration.⁵

Yet IMEC’s design has rested on three ambitious assumptions. First, that a continuous land bridge through Saudi Arabia, Jordan, and Israel would benefit from progressive Saudi-Israeli normalisation. Second, that the corridor’s maritime entry points like the Jebel Ali and Fujairah ports would remain physically secure within a stable Gulf. Third, that financing risks would remain manageable within conventional infrastructure markets, despite the absence of a centralised implementing body.^{6,7} The 2026 Hormuz crisis has placed all three assumptions under simultaneous stress.

The conflict has impacted IMEC through three channels: physical, financial, and political. Iran’s closure of the Strait of Hormuz has reduced shipping through the Strait—which pre-conflict averaged 178 transits per day—by 95 percent.⁸ The United States has assessed that fully clearing Iranian-laid mines could take up to six months.⁹ As IMEC’s eastern leg is anchored in Gulf ports lying inside or immediately adjacent to the Strait, its maritime entry is effectively co-located with the world’s most contested chokepoint.

The financial impact is seen in the swift and severe repricing and partial withdrawal of war-risk insurance. Hull war insurance premiums rose from 0.25 percent to 1 percent of insured ship value per transit as the crisis unfolded, while the Joint War Committee of the Lloyd’s Market Association extended its “high-risk” designation

to the entire Persian Gulf.^{10,11} Maritime analysts now estimate that, even after re-opening, transit insurance could cost up to 20 times higher than pre-conflict levels.¹² For an infrastructure project whose private-sector commercial case rests on predictable transit and risk-pricing, this could be a fundamental revision in the cost of capital.

The third and final impact is political. The conflict has surfaced the corridor’s reliance on political actors external to the IMEC framework. The Hormuz crisis has moved the disruption from the corridor’s edge to its centre. This has exposed Gulf economies, which were IMEC’s capital engine, to active military threat and made the corridor harder to invest in till security conditions remain unresolved.¹³ Multiple states in the region received Iranian retaliatory strikes despite their non-involvement in the US-Israel military campaign against Iran, due to their closeness to the US and the US military bases they host.¹⁴ This presents complications for the Gulf to publicly align with a US-Israeli infrastructure project while Iranian retaliation is still hitting Gulf infrastructure.

Impact on Viability

The paradox of IMEC’s viability lies in the contrast between the growing need for the corridor and the declining ease of its implementation. The Iran conflict has simultaneously compounded the urgency of the corridor and made its implementation more difficult. For India, the strategic stakes are particularly acute. Just days before the outbreak of the conflict, Prime Minister Narendra Modi concluded a state visit to Israel, addressing the Knesset (the Parliament) and reaffirming IMEC as an important component

of India's connectivity strategy.¹⁵ IMEC formed part of two important Indian grand connectivity initiatives, the second being the International North–South Transport Corridor (INSTC) through Iran, designed to facilitate the movement of Indian goods to Russia, Europe, and Central Asia via Chabahar Port.¹⁶ However, the Iran conflict has made the INSTC harder to operationalise, leaving IMEC as the sole viable bet for cutting transit costs to Europe.

For the other signatories, the conflict has triggered similar recalibrations. The UAE, IMEC's foundational maritime hub, has been the target of the highest number of Iranian missile and drone strikes amongst the Gulf countries since the war begun on 28 February.¹⁷ This increases the UAE's incentive to diversify away from Hormuz. Similarly, Saudi Arabia, the indispensable land bridge, has not only been hit by Iranian retaliatory strikes but operates an oil pipeline that remains vulnerable to disruptions in the Red Sea, making IMEC even more attractive.¹⁸ The United States, while presiding militarily over the conflict, has continued to publicly elevate IMEC and most recently commented on its growing importance.¹⁹ The EU has avoided any military involvement in the conflict but faces supply chain disruptions in its manufacturing and LNG trade.²⁰ Israel remains at the frontline of the conflict, which leaves the corridor's Mediterranean exit at Haifa hostage to the security situation.²¹ Therefore, the corridor has become both more necessary and less feasible.

In the short term, the conflict has placed IMEC's physical implementation on hold. While geopolitical constraints limit its full potential, India and the UAE are reinforcing the “foundational leg”

through digital initiatives like the Virtual Trade Corridor.²² However, the commercial value of the corridor is contingent on physical and political flows that have been throttled. The physical infrastructural development cannot proceed at the planned pace while regional airspace and waters remain uninsurable.

If the conflict lingers, three structural shifts will become difficult to reverse. First, private-sector confidence in cross-Gulf infrastructure will be repriced. Institutional investors might allocate smaller percentages of their portfolios to infrastructure and demand sovereign or multilateral backstops on a scale that IMEC's decentralised governance does not currently provide. Second, alternative connectivity architectures like the Trans-Caspian Middle Corridor, which already saw a rise in container demand following the Hormuz disruption, will entrench themselves in commercial logistics decisions.^{23, 24} This is critical as path dependence in shipping can be difficult. Third, the corridor's service-led layer in the digital pillar risks being eclipsed by the security crisis at the physical layer, even though that pillar is precisely the component that could continue to advance independently. The deeper structural challenge is that IMEC envisions financial integration, customs digitalisation, and port-to-port data flows that depend on trust frameworks that geopolitical fragmentation makes harder to construct.²⁵ Even between mature partners such as the United States and the European Union, cross-border data-sharing frameworks have repeatedly faltered, extending such frameworks across the conflict-stressed Gulf will be considerably more demanding.²⁶

Can IMEC Survive Geopolitical Fragmentation?

The answer is conditional, and the condition is demanding: IMEC can survive geopolitical fragmentation, but not in its present institutional form. Three structural revisions will determine whether the corridor persists as a living commercial platform or calcifies into an increasingly deferred geopolitical aspiration.

The first imperative is the formalisation of governance. The corridor's most consequential vulnerability might be institutional. In its current format, IMEC has established a clear declaration of intent but needs a concrete implementation plan and a central coordinating mechanism.²⁷ Without a central coordinating body, each signatory can quietly defect from commitments while publicly affirming them. The Hormuz crisis has made this governance vacuum urgent: the corridor cannot triage its pillars, negotiate sovereign risk guarantees, or mobilise multilateral financing without a secretariat empowered to act. The 2026 G20 cycle, under the United States presidency, offers a credible convening architecture.²⁸ Washington also holds both the political capital and the multilateral leverage to establish a formal IMEC coordinating body. The question is whether it can deploy that capacity with the urgency needed before path dependence in commercial logistics renders IMEC less relevant.

The financing question deserves particular scrutiny, because IMEC was conceived without any binding financial constraints and early estimates have stated that it could cost up to US\$8 billion to build.²⁹ However, it is unclear how this financial

burden will be shared. The European Union and United States funds are stretched and Gulf sovereign capital is simultaneously absorbing the costs of elevated defence expenditure and regional reconstruction. Therefore, the harder question is whether the residual gap can be plugged by private capital under present conditions. The answer is unlikely without structural intervention.

The second revision involves diversifying maritime entry and exit points. The corridor's physical exposure to Hormuz can be partially corrected. In the original agreement, the UAE's Khalifa Port was designated as one of IMEC's principal hubs, but Fujairah port on the Gulf of Oman could assume greater importance for IMEC's eastern leg, precisely because it bypasses the Strait.³⁰ The UAE's Abu Dhabi Crude Oil Pipeline, which already routes energy exports from Habshan to Fujairah, demonstrates that this underlying infrastructure logic is both technically proven and commercially live.³¹ Therefore, Fujairah reduces Hormuz exposure and diversifies away from Strait-dependent maritime logistics. A similar diversification would need to be construed around the Haifa port.

The third dimension demands a certain degree of decoupling of the three pillars. The conflict has produced a category error of treating IMEC as a single project whose commercial viability rises and falls with the physical security environment. The transport pillar is genuinely constrained, but the digital pillar faces materially lower geopolitical impediments. The India-UAE Virtual Trade Corridor already demonstrates that services-layer integration can advance independently of kinetic conditions. Each pillar can carry its own financing

structure, investment timeline, and diplomatic track, insulating the corridor's achievable components from the security paralysis afflicting its physical layer. The advancements in the digital pillar can then provide the "proof of concept" needed to inspire trust in institutional investors, encouraging them to further the development of the other pillars.

It would be important to materialise these changes with swift efficiency and urgency. Container traffic through the Trans-Caspian Middle Corridor grew significantly in the aftermath of the Hormuz crisis. Such route choices, once embedded in carrier contracts and insurance frameworks, become self-reinforcing and difficult to reverse.³² IMEC's survival is therefore not a function of when the missiles fall silent. It is also a function of whether its architects can move faster than the commercial gravitational pull of the alternatives that are already filling the void.

The deepest insight from the 2026 crisis is that IMEC was always less of a corridor and more of an architecture. Architectures are recalibrated, not abandoned, when their assumptions fail. Any successful recalibrated framework will need to build a security architecture that does not depend

entirely on American capacity and is designed around the actors in the original framework, rather than treating their disruption as residual risk, as they remain the most invested in its success.³³

Conclusion

The 2026 Hormuz crisis has not invalidated IMEC. Instead, it has stress-tested the corridor with a severity its architects did not model, and the results are instructive. While the crisis has made IMEC harder to operationalise, this should not be a reason for its abandonment. The corridor's underlying strategic logic, reducing dependence on chokepoints, has been vindicated with precise clarity and offers the most compelling argument for its redesign.

The corridor that emerges from this period will need to look different from the one unveiled in 2023. It will require a formal coordinating secretariat, rethinking the maritime architecture, and approaching its three pillars independently. Most urgently, it will require speed. IMEC's architects face a narrow window in which institutional reform can deliver the transformative impact IMEC was envisioned for.

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Finance and Markets: Inflation, Currency Risk, and Capital Flows

Arya Roy Bardhan

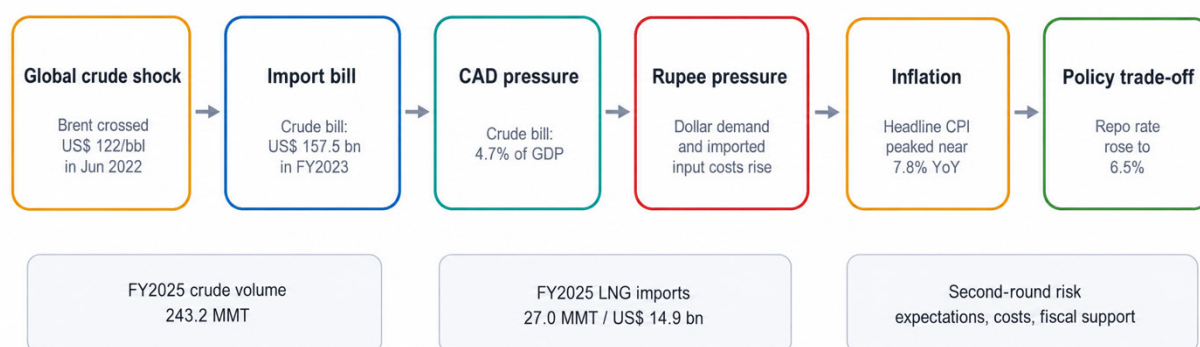
For an economy like India that imports some 88 percent of its crude oil needs and runs a structurally negative current account, any escalation in Middle East tensions constitutes a macroeconomic stress test. This article draws on the Russia-Ukraine war as the nearest empirical precedent to map the external sector effects of the Middle East crisis on India's domestic inflation.

India's exposure to the Middle East war begins with the arithmetic of oil dependence. In FY2026, India imported 245.3 million metric tonnes (MMT) of crude oil at a cost of US\$123.1 billion, equivalent to around 3.1 percent of GDP at current prices.¹ The import bill is highly sensitive to price movements, as a US\$10 per barrel increase in international crude prices potentially

adds around US\$15 billion to the annual import burden.² Meanwhile, India imported 26.5 MMT of LNG in 2025-26 at a cost of US\$13.5 billion. A Middle East shock also feeds into spot LNG prices through freight risk and regional supply disruption, extending India's exposure beyond crude oil alone. The impact is not limited to commodity prices.

The Israel-US and Iran conflict also transmits into India's financial system through three interlocking channels: i) a commodity price shock that widens the import bill and strains the current account; ii) an inflation impulse that complicates domestic price expectations and monetary policy; and iii) exchange rate and capital flow pressures that tighten external financing conditions.

Figure 1: Oil Shock to Macro-Crisis Transmission Chain



Source: Author's own

The first channel appears immediately in import costs and inflation, discussed in the next section. The second runs through the rupee, reserves, and exchange rate, where short-term volatility can evolve into a medium-term feedback loop. The third operates through portfolio flows and policy trade-offs, shaping the response choices discussed in Section 4.

Price Shock to Capital Account Pressures

The Russia-Ukraine war that started in 2022 provides the relevant benchmark for the short-term scale of such a shock. Brent crude, which averaged US\$86.51 per barrel in January 2022, reached US\$122.71 per barrel by June 2022—a 42-percent increase in five months.³ India's crude import bill consequently expanded from US\$120.6 billion in FY2022 to US\$157.5 billion in FY2023, a year-on-year increase of over 30 percent, pushing the crude import bill as a share of GDP

from 3.81 percent to 4.69 percent.^{4,5} Under a comparable conflict-driven shock emanating from the closure of the Strait of Hormuz, price risks of similar or greater magnitude are conceivable, particularly given that Iran is itself a significant crude producer and that a disruption to regional shipping routes would affect both price and logistics costs simultaneously.⁶

The pass-through from global crude prices to domestic inflation operates through three linked channels: direct fuel-price pass-through, indirect cost-push effects through transport and oil-linked inputs, and expectations effects when households and firms treat fuel prices as a signal of broader inflation. Retail petrol and diesel prices in India are linked to international benchmarks but are mediated by excise duties and state levies, which can cushion or delay their transmission. When policymakers hold retail prices below import parity, the inflationary impulse is partially suppressed in the short run but resurfaces through fiscal costs.

When prices are passed through, the impact on the Consumer Price Index (CPI) is direct and visible. Indian evidence suggests that this pass-through is material but incomplete. A 2025 study by the Reserve Bank of India (RBI) estimates that a 10-percent rise in global crude prices raises headline inflation by around 20 basis points, while an earlier RBI study finds that input-cost pass-through becomes stronger when cost shocks are large.^{7,8}

The weights in the CPI illuminate where the pressure will fall. Housing, water, electricity, gas, and other fuels account for 17.67 percent of the all-India CPI, while transport accounts for a further 8.8 percent. Food and beverages, the dominant component at 36.75 percent, is indirectly exposed through elevated intermediate

input, transport, and logistics costs. The combined directly and indirectly exposed weight is therefore considerably larger than the fuel component alone suggests.

The earlier episode demonstrated the transmission empirically. As Brent climbed through the first half of 2022, the WPI Fuel & Power index, which leads the CPI fuel component, surged from 138.3 in February 2022 to 167.1 by June 2022, a year-on-year increase of approximately 51 percent. At the consumer level, CPI headline inflation peaked at 7.79 percent year-on-year in April 2022 and remained above 6 percent for seven consecutive months. Table 1 places these outcomes alongside the corresponding Iran–Israel scenario risks.

Table 1: Russia–Ukraine (2022) vs. Iran–Israel Scenario: Key Financial Indicators

Indicator	Pre-Shock Baseline (FY2022 avg.)	Russia–Ukraine Peak	Iran–Israel Scenario Risk
Brent crude (US\$/barrel)	~80	122.71 (June 2022)	100–130
Crude import bill (percent of GDP)	3.81	4.2 (FY2023)	4–5 (scenario estimate)
CPI General YoY (percent)	5.5 (Q1 FY2022)	7.79 (April 2022)	5.5–7.0 (scenario range)
WPI Fuel & Power YoY (percent)	~31 (January 2022)	~51 (June 2022)	Significant upside risk
RBI policy response	On hold at 4.00 percent	250 bps hike, May 2022–Feb 2023	Easing cycle at risk of reversal
Net portfolio investment (US\$ bn)	–16.8 (FY2022)	–5.2 (FY2023)	Risk of material outflows

Source: Author’s own, using various open sources.

The same price movement causes the import bill pressure to move quickly into the currency market. India's current account position amplifies the exchange-rate consequences of a commodity shock, because a widening import bill mechanically worsens the merchandise trade deficit and exerts downward pressure on the rupee. Following the Russia-Ukraine shock, the INR/US\$ rate depreciated from a monthly average of 74.44 in January 2022 to 82.39 by October 2022, resulting in a nominal depreciation of approximately 10 percent over nine months.⁹ The rupee later extended its decline: by February 2025, it had weakened to a monthly average of 87.05 per dollar, though a modest partial recovery to 86.11 was recorded by July 2025. Thereafter, the INR weakened again, sinking to 92.7 per US\$ by mid-April.¹⁰

The currency channel does not operate in isolation from capital flows. An external shock of this magnitude triggers the global risk-off mechanism, raising emerging market (EM) risk premia and prompting portfolio retrenchment across both equity and debt markets. During the Russia-Ukraine period, net portfolio investment turned sharply negative, reaching US\$ -16.8 billion in FY2022 and compounding current account deterioration. FY2023 recorded a further net portfolio outflow of US\$5.2 billion.¹¹ Together, these two years of outflows placed significant pressure on the rupee and contributed to the reserve drawdown noted above.

Medium-Term Structural Implications of Prolonged War

Over the medium term, the larger risk is that household inflation expectations become less anchored. Based on the RBI's Households' Inflation Expectations Survey, as of March 2026, 81.6 percent of households expected prices to rise, of which 57.2 percent anticipated higher inflation.¹² Rising inflation expectations can themselves push prices upward under the rational expectations hypothesis. A conflict-driven fuel-price spike risks unhinging these expectations at a time when the Monetary Policy Committee (MPC) has begun a rate-cut cycle premised on durable disinflation. As of March 2026, CPI headline inflation stood at 3.4 percent year-on-year, well within the RBI's 2-6 percent tolerance band. That policy space could quickly narrow if a commodity shock reverses the disinflation trend.

On the currency front, the Real Effective Exchange Rate (REER) shows how currency pressure can become structural. On a 40-currency trade-weighted basis (base 2015-16 = 100), the REER averaged 105.41 in FY2025, suggesting a degree of real appreciation that compressed India's export competitiveness. By July 2025, the REER had retreated to 100.07, indicating that much of the overvaluation had corrected.¹³ An Iran-Israel shock that accelerates nominal rupee depreciation would push the REER further below 100 (97.90 at the end of FY2026),¹⁴ improving external competitiveness but simultaneously

feeding imported inflation through higher energy and intermediate goods costs. This imported-inflation feedback loop complicates the central bank’s ability to sustain the rate-cut cycle, especially because depreciation pass-through in emerging markets is asymmetric. RBI research finds that depreciation has a larger effect on consumer prices than appreciation, even though average pass-through has declined over time.¹⁵

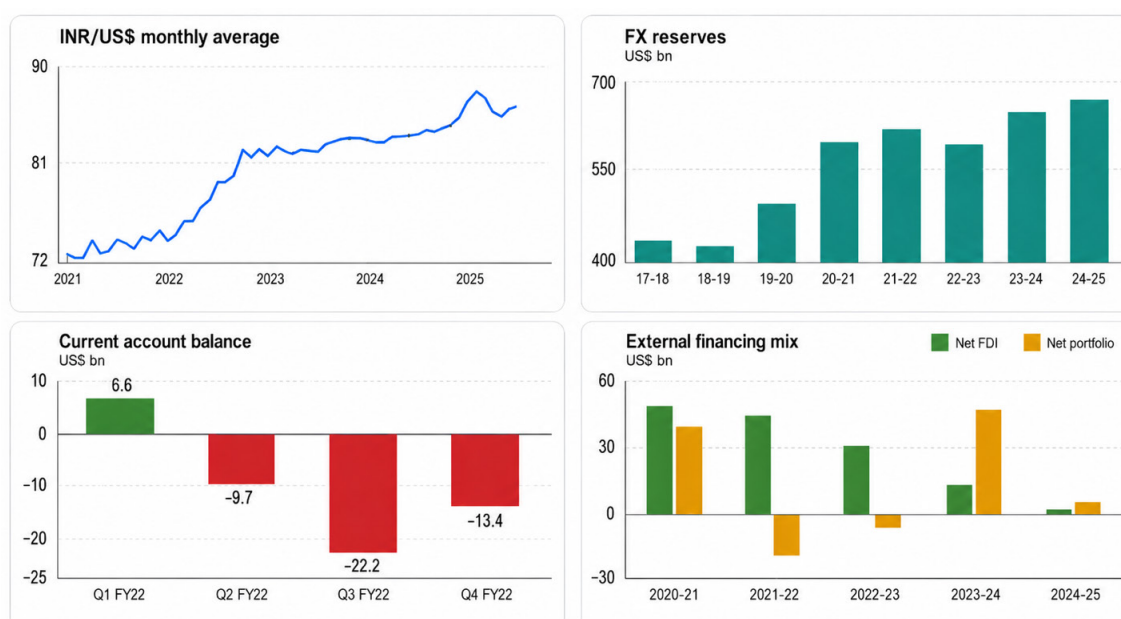
A structural concern in the capital account is the declining trend in foreign direct investment (FDI). Net FDI fell from US\$38.6 billion in FY2022 to less than US\$1 billion in FY2025, reflecting global capital-cycle dynamics rather than India-specific factors. This decline makes India progressively more reliant on volatile portfolio flows to finance its current account deficit. A conflict-induced risk-off episode that reverses even a fraction of the bond index-driven inflows would generate simultaneous pressure on the rupee, domestic

bond yields, and the RBI’s reserve buffer—a multi-channel tightening that would complicate both monetary and fiscal management.

Possible Responses to Policy Trade-Offs

The Reserve Bank has intervened actively to smooth this trajectory. India’s foreign exchange reserves stood at US\$668 billion at the end of FY2025—a record high and roughly three times the level considered adequate under the standard three-months-of-import-cover metric. This buffer provided meaningful capacity to absorb external shocks. Reserves declined by around US\$29 billion between end-FY2022 and end-FY2023 before recovering to US\$668 billion by FY2025. However, active intervention has a cost: it depletes the external liquidity cushion that serves as a confidence anchor for foreign investors.

Figure 2: External Pressure Dashboard

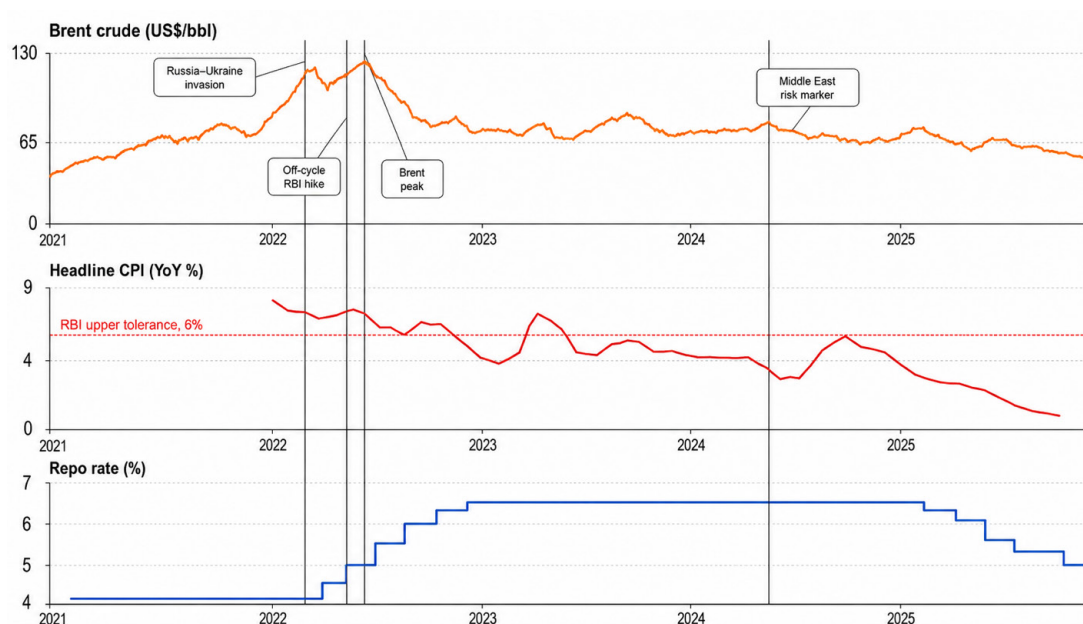


Source: Created by the author using Codex.

On the FPI front, India’s recent integration into the JP Morgan Government Bond Index - Emerging Markets (GBI-EM), with phased inclusion beginning in June 2024, has introduced a new structural dimension to the financing response.¹⁶ Following the inclusion announcement in June 2023,¹⁷ net portfolio inflows recovered sharply to US\$44.1 billion in FY2024. This surge was driven primarily by passive allocation from index-tracking funds, before moderating to US\$3.6 billion in FY2025.¹⁸ A portion of these inflows is anchored in index mandates and is therefore less sensitive to short-term risk sentiment. However, the discretionary component of active fund managers who build positions in anticipation of index flows is highly sensitive to geopolitical uncertainty and would likely retreat ahead of passive vehicles in a risk-off episode.

The channels described above converge on the Reserve Bank's MPC in the form of a difficult policy trade-off rather than the classic open-economy impossible trinity. India can smooth exchange-rate volatility through spot and forward intervention, including sterilised intervention, but persistent intervention still affects reserve adequacy, liquidity management and market expectations. As in 2022, the MPC demonstrated its willingness to prioritise inflation control: on 4 May 2022, the Committee executed an off-cycle rate increase of 40 basis points in response to the inflationary consequences of the Russia-Ukraine shock. A further 210 basis points of tightening followed over the subsequent nine months, raising the repo rate from 4 percent to 6.5 percent by February 2023.

Figure 3: Commodity Shock, Inflation, and Rate Adjustments



Source: Created by the author using Codex

As of December 2025, the MPC had cut rates by a cumulative 125 basis points, bringing the repo rate to 5.25 percent. This easing was enabled by the benign inflation environment evident in the CPI data: headline inflation had fallen below 2 percent by mid-2025, well below the RBI's tolerance range. The Iran–Israel shock materialising in this context would threaten the easing trajectory in two ways. First, renewed commodity-price inflation would push the CPI back toward, or even through, the 6 percent upper tolerance band, requiring the MPC to pause or reverse course. Second, exchange-rate depreciation would add imported inflation to the direct commodity shock, tightening the constraint further. The central bank would face a choice between leaning against depreciation and anchoring expectations through tighter liquidity or rates, or maintaining the easing path to support growth—a choice for which there is no costless option.

Fiscal policy faces the same constraint from another direction. Administered fuel pricing means that suppressing retail prices below import parity imposes direct costs on public-sector oil marketing companies (OMCs), which are ultimately transferred to the Union Budget as subsidy transfers. The FY2023 experience, when the crude import bill peaked at around 4.2 percent of GDP, demonstrated that a sustained commodity shock requires explicit fiscal accommodation.

Such accommodation narrows the space available for productive capital expenditure and, if deficit financing expands, puts upward pressure on government bond yields.

Conclusion

The Iran-Israel conflict would test India less through direct bilateral exposure than through the global price, currency, and financing channels. A sustained shock around the Strait of Hormuz would first raise the hydrocarbon import bill, then pass into inflation through fuel, transport, and input costs, while also widening dollar demand and adding pressure on the rupee. If the shock persists, the risk moves beyond short-term volatility: inflation expectations could become harder to anchor,

REER adjustments could deepen the imported-inflation feedback loop, and weaker FDI would leave the current account more dependent on portfolio flows at a moment when global risk appetite is limited. India enters this episode with meaningful buffers, especially large foreign exchange reserves and deeper bond-market integration, but those buffers do not remove the policy trade-off. Therefore, the key indicators to monitor are Brent crude's trajectory, FPI equity and debt flows, the RBI's intervention footprint, and the MPC's language on inflation persistence and the future rate path.

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Trade and Competitiveness: Exports in a High-Cost World

Manish Vaidya

The global economy has moved beyond traditional notions of comparative advantage-based trade towards deeply integrated global value chains.¹ The potential impact, therefore, of geopolitical and trade shocks has become amplified, affecting trade openness,² global financial markets,³ and broader macroeconomic dynamics.⁴ Fragmentation shocks, such as those caused by the ongoing conflicts in the Middle East, are inherently dynamic and multi-sectoral in nature.⁵ They create impacts across industries, transmitting through supply chains and affecting returns to capital and enterprise through multiple channels. A key transmission mechanism operates through exports, where supply disruptions raise the cost of critical inputs, which then cascade through production networks and global value chains.⁶

India's export ecosystem is particularly vulnerable to such dynamics, which has become

rather evident in the current conflict between the United States (US) and Israel, and Iran. Several key sectors, ranging from engineering goods and capital equipment to agri-based products such as spices, have already been affected by the ongoing crisis. The nature and extent of this impact are shaped by a set of structural characteristics such as a relatively high import intensity in production, a reliance on concentrated transshipment hubs, particularly in the United Arab Emirates (UAE), and the cost pressures arising from shipping disruptions, higher insurance premiums, and logistical bottlenecks.

India's Import Dependence and Export Fragility

To assess the impact of the Middle East crisis on Indian exports, it is useful to first examine the underlying structural dynamics of India's trade, such as trade basket composition, patterns and nature of trade, as well as some key stylised features,

as discussed in the succeeding paragraphs. Crises of this nature operate as exogenous disruptions to an already tightly interlinked import–export system.

India’s trade-in-goods import basket can be broadly divided into two main segments: primary commodities and capital and intermediate goods. Primary commodities constitute nearly half of total imports and consist of minerals, fuels, oils, and distillation products, along with pearls and precious stones, metals, and electronic equipment. These categories form a large share of India’s import dependence, particularly in the energy and key industrial inputs domains. The remaining share of imports is largely composed of capital and intermediate goods such as machinery, reactors, plastics, and chemicals. These are essential for domestic production processes, and they feed into manufacturing, infrastructure, and industrial activity across sectors.

A similar pattern can be observed on the export side. A large portion of exports falls within the same broad categories as imports, especially in categories such as refined petroleum products, gems and jewellery, chemicals, and metals. Pharmaceuticals also form an important part of this segment, reflecting India’s strength in this sector. The rest of the export basket includes a more diverse set of goods, such as vehicles and auto components, agricultural products like cereals, and other manufactured items.⁷ Overall, the overlaps between import and export categories highlight the interconnected nature of India’s trade structure, where imports

often support domestic value addition that feeds into exports.

This suggests that India’s trade structure has a notable level of intra-industry trade, with exports and imports occurring within the same sectors. This feature empirically holds for the country’s trade with its top 15 partners, with intra-industry trade dominating over comparative advantage-based trade.⁸ The considerable overlap between import and export categories points to a high degree of interdependence, with export performance closely tied to the availability, cost, and stability of imported inputs. In this setting, imported intermediates are not merely inputs but a central driver of competitiveness, export earnings, and overall factor returns in the Indian economy.⁹ Thus, two prime channels of global fragmentation shocks emerge: a) import intensity of exports; and b) export frictions.

A high degree of import intensity has long been a structural feature of India’s exports. Trade liberalisation and the growing internationalisation of production have deepened this reliance, embedding Indian production within cross-border value chains.¹⁰ While this has enabled access to inputs and integration into global markets, it has also increased exposure to external fragmentation shocks. Export frictions were evident during disruptions such as the Red Sea crisis,^a when Indian exports of finished goods, including garments and perishable commodities, were adversely affected by shipment delays, tighter working capital cycles, and elevated insurance costs.¹¹

a The Red Sea crisis refers to the disruption of key maritime trade routes in the Red Sea beginning in October–November 2023, following attacks by Yemen’s Houthi movement on commercial vessels during the Israel–Hamas conflict. The crisis disrupted global shipping through the Suez Canal corridor, leading to higher freight costs, longer transit times, and increased pressures on global supply chains.

From a national income accounting perspective, India's import-intensive export structure is reflected in its persistent current account deficit, driven primarily by the merchandise trade gap.^b This deficit is partly offset by robust services exports and remittance inflows.¹² However, the high import content embedded within key export sectors limits net foreign exchange gains and reduces the ability of exports to meaningfully narrow the deficit. In periods of external disruption or rising input costs, this structure can lead to a sharp widening of the current account deficit.

In this setting, geopolitical disruptions such as the Russia–Ukraine conflict and the Hormuz disruptions are persistent stochastic shocks that test the resilience of cross-border production and trade linkages. For an economy with strong import–export interdependencies, such as India, these shocks not only disrupt input availability but also manifest through production networks, amplifying cost pressures, delaying exports, and affecting overall trade performance.¹³ The Strait of Hormuz—one of the world's most vital energy transit routes—sits at the heart of this vulnerability, linking India's import dependence directly with its export performance.

Import Dependence and Export Vulnerabilities: India's Exposure to Hormuz-Linked Disruptions

An estimated one-fifth of global oil consumption passes through the Strait of Hormuz, alongside a substantial share of liquefied natural gas (LNG), making it central to East–West trade and global

energy security.¹⁴ Beyond crude oil and LNG, the corridor also facilitates the movement of refined petroleum products, petrochemicals, fertilisers, plastics, and other energy-linked industrial inputs that are deeply embedded in global value chains.

For India, a massive share of its crude oil and Liquefied Petroleum Gas (LPG) imports transits through the strait, along with critical inputs such as petrochemicals and fertilisers that feed directly into sectors like pharmaceuticals, textiles, and agriculture. As a result, disruptions in the strait transmit rapidly into domestic cost structures, inflation dynamics, and export competitiveness.¹⁵

Recent geopolitical tensions have reinforced the strait's role not just as a logistical chokepoint but as a macroeconomic transmission channel. Supply disruptions, rising insurance premiums, and shipping delays have amplified costs across industries, highlighting how the Strait of Hormuz increasingly shapes trade outcomes, external balances, and economic stability in an interconnected global economy.¹⁶

India imports almost 60-65 percent of its total oil¹⁷ and 90 percent of its LPG through the Strait.¹⁸ Other key non-energy imports transiting through the strait include petrochemicals and energy-linked industrial inputs, and fertilisers.¹⁹ These are essentially the exposed sectors, and the commodities that use these Hormuz-channelled imports as inputs are subject to greater export risk due to import intensity. The closure of the strait, reduced container traffic, and high shipment and insurance costs are the direct risks associated with this shock.

^b Merchandise trade gap is the difference between the country's total monetary value of goods exported and goods imported.

Table 1: Impact of the Hormuz Crisis on India's Key Export Sectors

Sector	Impact of Import Intensity from the Hormuz Crisis
Textiles	Rising fuel costs, the shortage of key raw materials, higher insurance and shipment costs, ²⁰ and a surge in input prices (sulphuric acid) have led to a fall in textile output by 3.6 percent and apparel production by 14.6 percent. ²¹
Pharmaceuticals	Pharmaceutical supply chains are under pressure. Shortages in petroleum-based inputs used in pharmaceutical production, such as methanol and isopropyl alcohol, along with higher energy costs and packaging costs, have led to limited availability of certain drugs and contraceptives. This is also affecting India's exports. ²²
Engineering Goods	India's engineering exports, from raw iron and steel to capital goods, have been hit in the MENA region due to blockades and reduced container traffic. In FY26, exports to the UAE fell by 10 percent and by 13 percent to Saudi Arabia, with disruptions to the UAE's transshipment role affecting markets beyond the region. ²³
Spices	With containers stuck at foreign ports, rising insurance and shipping costs, and the UAE serving as a key hub for India's spice trade, spice exports are expected to decline by roughly US\$90 to US\$180 million in the coming quarters. ²⁴
Jewellery	India's gems and jewellery sector is also under strain, as flight cancellations and airspace restrictions have disrupted exports and the import of rough diamonds from the UAE. ²⁵

Source: Author's own

Table 1 provides an overview of the key exporting sectors affected by the crisis and highlights the structural features shaping India's export profile. Sectors with high import intensity have been particularly exposed to disruptions. The UAE's role as a transshipment hub has amplified

these effects, with several sectors, from capital goods to spices, directly impacted by constraints at UAE nodes. While rupee depreciation could improve export competitiveness, these gains are likely offset by higher input costs given India's dependence on imported intermediates.

New Maritime Economics and India's Import-Intensive Export Model

Any escalation in the Middle East, particularly the monetisation of transit through the Strait of Hormuz via the imposition of tolls on container traffic, would fundamentally and (likely) permanently alter the maritime economics of the corridor and its users.²⁶ What are currently episodic price shocks risk becoming structural, as higher transit, insurance, and shipping costs embed themselves into global trade flows. For India, this would translate into sustained inflation in imported inputs, eroding export competitiveness, especially in sectors with high import intensity.

If similar measures or disruptions extend to other key chokepoints such as the Bab el-Mandeb, Strait of Malacca, or the Suez Canal, the cumulative impact on both India's imports and exports would be amplified. Under such conditions, domestic priorities may shift towards securing essential supplies and maintaining buffer stocks, pushing exports lower in the policy hierarchy. The burden of adjustment would fall disproportionately on smaller firms, with MSMEs likely to be the first and most severely affected. At the same time,²⁷ Indian exports risk losing competitiveness in key markets across Europe, Africa, and other Western regions, as buyers respond by reconfiguring supply chains and sourcing from alternative suppliers.

On the macroeconomic front, export earnings would come under pressure and could decline from the combined effects of a weakening rupee, imported energy inflation, supply chain disruptions, shipping costs and external demand

conditions. An increase in geopolitical distance typically reduces bilateral trade flows, disrupting established supply chains and market access.²⁸ As Indian exporters search for alternative markets and routes, a significant adjustment period would emerge. Prices would need to be recalibrated, new maritime norms would evolve, trade routes would be reconfigured, and contracts renegotiated.

This transition is inherently time-varying and unlikely to be smooth. In such a scenario, the government may need to step in with targeted export support measures, including subsidies and strategic trade policy interventions, to stabilise export performance and support current account inflows. At the same time, inflationary pressures, both domestic and imported, would intensify due to rising input and logistics costs. These elevated costs would compress returns to capital, particularly in export-oriented sectors, leading to declines in output, earnings, and ultimately incomes across affected industries.

Conclusion

India must move decisively to diversify shipping hubs, build alternative trade corridors, expand export markets, and reduce import dependence for production, wherever feasible. While the macroeconomic effects of elevated energy prices and cost inflation may moderate over time, the deeper structural vulnerabilities embedded in India's export basket require urgent and sustained policy attention. In the short run, measures to cushion the shock and ease pressure on the current account include curbing non-essential imports, providing shipment support and targeted subsidies to exporters, and attracting

foreign currency deposits, particularly from Non-Resident Indians (NRIs), to help finance the deficit.

However, from a broader and long-term perspective, the vulnerabilities are not cyclical; they are systemic, and leaving them unaddressed risks repeated exposure to future fragmentation shocks. Building resilience, therefore, cannot be incremental. It must involve a deliberate reconfiguration of India's export architecture. Such a shift will not only protect export earnings from external disruptions but also enhance

the efficiency of resource allocation, improve returns to factor endowments, and position India more favourably as it increases participation in global value chains. Ultimately, a more resilient and diversified export ecosystem will allow the country to move from being vulnerable to geopolitical shocks to actively leveraging them. It will also strengthen India's strategic autonomy and boost its geopolitical and economic influence in an increasingly fragmented global order. Incorporating these changes into the country's trade ecosystem would be an important lesson from the Hormuz crisis.

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Labour, Remittances, and Consumption: India's Household Exposure to the Iran Conflict

Kumkum Mohata

The Middle East is a crucial node in India's labour and remittance economy, and the ongoing war exposes the fragility embedded in that dependence. Nearly half of India's emigrant workforce are in the Gulf region, though they contribute only 38 percent of total remittance inflows.¹ This suggests that India's Gulf dependence is sustained less by high-income transfers than by semi-skilled labour incomes that support lower-middle and middle-income households.² In the current crisis, this dependence is unfolding as a labour shock marked by wage insecurity, employment disruption, and remittance stress in migrant-intensive sectors.

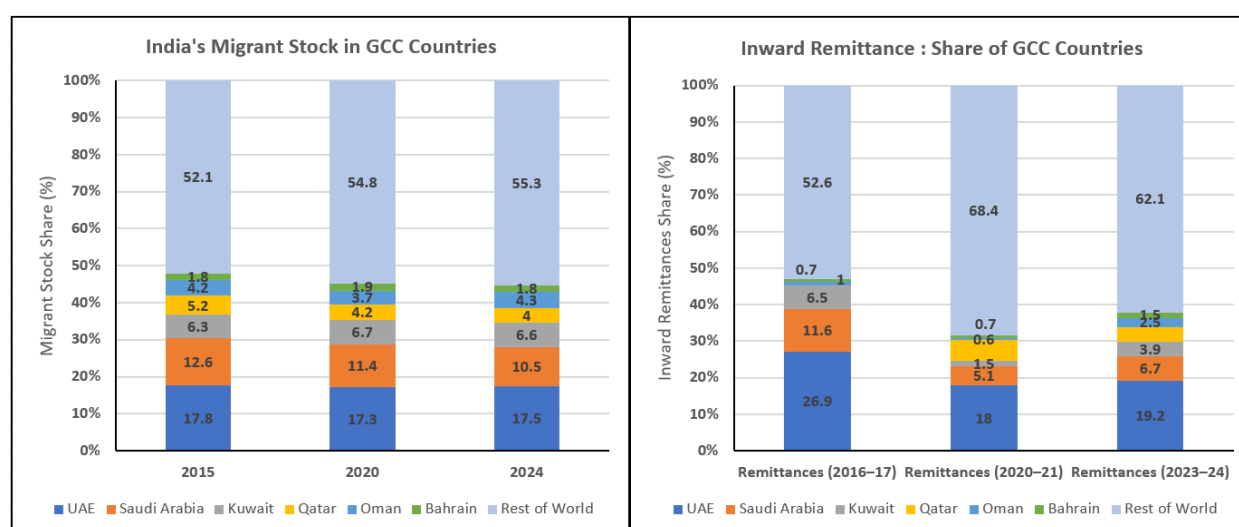
With remittances contributing anywhere between 3-3.5 percent to India's Gross Domestic Product (GDP), the crisis brought about by the Strait of Hormuz closure becomes more acute by transmitting external instability directly into household income and domestic demand.³ This article examines how the shock transmits into

domestic consumption, producing dual pressure on household expenditure through weaker cash inflows and rising essential costs, with implications for household demand over the short and medium term.

India's Gulf Labour Dependence

The India-Gulf labour corridor supports around 9.1 million Indians who work across the Gulf Cooperation Council (GCC) countries, largely in the United Arab Emirates (UAE), Saudi Arabia, Qatar, Oman, Kuwait, and Bahrain; these migrant workers send home some US\$50 billion in remittances annually.⁴ Figure 1 maps this labour-remittance distribution across the Gulf economies relative to the rest of the world. The scale of this corridor has made the Gulf a critical external labour market for India, linking economic conditions in the Middle East directly to household incomes in India.⁵

Figure 1. Labour and Remittance Shares of the Six Gulf Economies (Relative to Rest of the World)



Source: Author's own, using data from RBI and Data for India, International Migration. ⁶

The Gulf dominates India's labour migration story because it combines sustained demand for imported labour, relatively low barriers to semi-skilled migration, dense recruiter networks, and a long-standing India–Gulf migration system. This dependence is reinforced by the sectors in which Indian workers are employed: primarily in construction, hospitality, retail, logistics, transport, and domestic services, which are cyclical, externally dependent, and highly exposed to disruption. A gendered division of labour is also evident: male migrants are concentrated in construction and transport-linked services, while many Indian women are employed in domestic and care work, a statistic that is largely underreported. ⁷

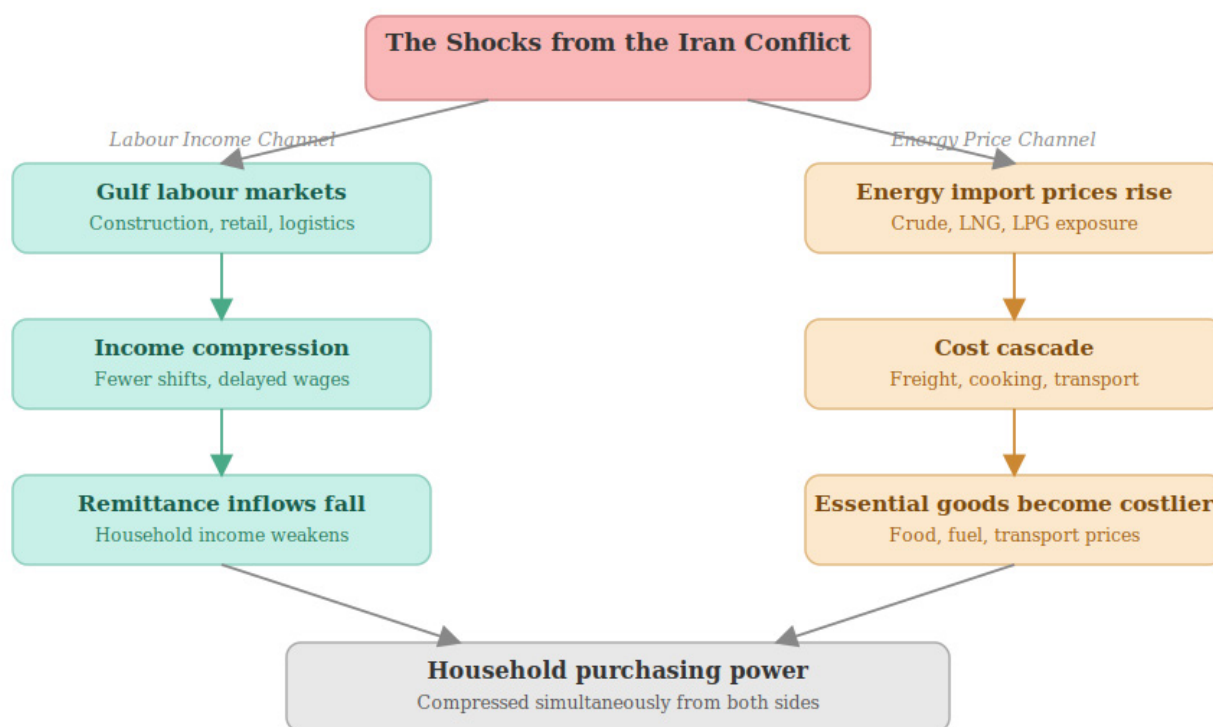
This occupational profile makes India's Gulf dependence structurally fragile in the current conflict. More than 64 percent of Indian migrant workers in the Gulf are employed in blue-collar occupations, with only a small share in higher-skilled white-collar roles. ⁸ These workers are easier to replace, less contractually protected, less able to absorb wage delays, and more likely to remit a large share of their earnings home. As a result, labour-market stress in the Gulf is transmitted quickly into remittance volatility and household income stress in India. ⁹

Shock Transmission: Labour, Remittances, and Prices

The effects of the Iran conflict on India are likely to be felt less through direct trade disruption than through household balance sheets. They are transmitted through two closely linked channels:

first, through Gulf-linked labour incomes, and second, through the cost of sustaining consumption at home. The economic significance of the shock lies in this overlap, as both these pressures converge on the same households, compressing purchasing power from both sides. Figure 2 maps this transmission mechanism.

Figure 2: Transmission Channels from the Iran War



Source: Author's own, using Claude

The pressure begins in the Gulf labour market, where Indian workers remain concentrated in the sectors most exposed to current conflict-led disruption. The construction sector is the most vulnerable because it depends directly on oil-linked public spending, infrastructure pipelines, and real estate cycles in Saudi Arabia, the UAE, and Qatar.¹⁰ Retail and hospitality are hit faster by weaker footfall, softer tourism, and slower urban spending.¹¹ Logistics and delivery are exposed almost immediately courtesy freight disruptions, insurance costs, and fuel volatility.¹² For Indian workers in these sectors, the adjustment rarely begins with outright job loss. It begins with fewer shifts, lower overtime work, delayed wages, recruitment freezes, and weaker contract renewal—small disruptions that translate quickly into tighter household liquidity in India.¹³ Households initially absorb this pressure through savings drawdowns and expenditure compression: discretionary purchases are deferred, repairs are delayed, clinic visits are postponed, and informal borrowing rises. Where remittances already finance routine consumption and migration itself is debt-financed, that margin narrows quickly.¹⁴

The second pressure comes from prices. India's dependence on West Asia for crude oil, LNG (Liquefied Natural Gas), and LPG (Liquefied Petroleum Gas) means that conflict in the Gulf quickly feeds into household budgets through fuel, cooking gas, transport, and delivered food costs.¹⁵ The burden is heavier for lower- and middle-income households because food, fuel, and transport already account for a larger share of their budgets and are harder to cut.¹⁶ The welfare effect is cumulative: incomes become less secure just as essential expenditure becomes more

expensive. This is the central economic risk of a prolonged Iran conflict for India: not a single remittance shock, but a steady compression of household purchasing power from both sides.

Short-Term Demand and Income Effects

The sharp repatriation shock has been the most immediate short-term impact of the Iran war. By mid-April 2026, over one million Indian workers and passengers had returned from the Middle East as airspace closures, route disruptions, and emergency evacuations compressed mobility across the region.¹⁷ The humanitarian implications extend well beyond those returning: a United Nations Development Programme (UNDP) report estimates that the conflict could push nearly 2.5 million Indians into poverty, risking the poverty rate to rise from 23.9 percent to 24.2 percent through the combined effects of disrupted remittances, rising fuel costs, and weaker household purchasing power.¹⁸

For those who remain in the Gulf, the immediate shock is less visible but economically sharper, as delayed wages and weaker hiring begin to tighten household cash flows.¹⁹ The brief rise in remittance inflows seen in March, estimated at 20-30 percent above normal, reflects so-called precautionary “panic transfers,” as workers send savings home before conditions deteriorate. Rupee depreciation is likely to have amplified the response; however, the primary driver remains precautionary remittance behaviour rather than exchange-rate arbitrage.²⁰

Medium-Term Adjustment Risks

If the disruption persists, the immediate shock is likely to outlast the period of direct conflict. Households adjust first through savings drawdowns and postponed spending, but that margin narrows quickly when remittance flows weaken for more than a few months. In Kerala, where remittances reached INR 2.17 lakh crore in 2023—equivalent to 23.2 percent of state output and 1.7 times the state’s own revenue receipts—the exposure extends well beyond household consumption.

Nearly 90 percent of these inflows originate in the Gulf, and their effects run through construction, retail demand, bank deposits, and credit intermediation, marking a sustained slowdown not only in household budgets but in weaker real estate, softer local demand, and slower state-level revenue mobilisation.²¹ Similar, if smaller, pressures are likely in the high-migration districts of Uttar Pradesh and Bihar, where remittance dependence is lower in aggregate, but household liquidity is thinner, and return migration is harder to absorb. On a macro-level, weaker remittance inflows depress private final consumption in remittance-dependent regions, soften demand for informal and low-ticket services, and widen the drag on aggregate demand through slower retail turnover and weaker credit demand.²²

Over the medium term, the larger shift is likely to be structural rather than cyclical. Gulf migration remains concentrated in lower-cost, recruiter-led labour channels, while migration to advanced economies is more skill-intensive, credential-heavy, and costlier to access. A decline

in one does not automatically translate into an equivalent rise in the other. The more plausible outcome is a slower reordering of India’s remittance geography: reduced dependence on Gulf labour over time, but a difficult transition for the households and regions built around it. Even in Kerala, where outward migration has begun shifting toward Western destinations, remittance dependence remains deeply tied to Gulf-linked household and local demand, suggesting that diversification reduces long-term vulnerability but does little to ease the medium-term adjustment.²³

Policy Priorities: Relief, Reintegration, and Risk Diversification

Policy should focus on three layers: immediate shock absorption, medium-term reintegration, and the long-term de-risking of India’s Gulf labour dependence. In the immediate term, stabilising migrant income streams and reducing distress are the key priorities. India already has a partial institutional architecture in place, but it remains fragmented. The Pravasi Bharatiya Bima Yojana (PBBY) and Pre-Departure Orientation and Training (PDOT) programme provide basic insurance and pre-migration support; however, both are designed around migration entry rather than labour-market disruption or post-return adjustment.^{24,25} The immediate policy gap lies in coordination, calling for faster wage-dispute resolution through Indian missions, the stronger use of existing helplines and Pravasi Bharatiya Sahayata Kendras, emergency liquidity windows for stranded workers and their families, and closer coordination with banks and payment providers to reduce remittance frictions during periods of conflict.

India's response must move beyond evacuation and welfare support towards a more durable migration-risk framework. The Ministry of External Affairs' (MEA) Indian Community Welfare Fund (ICWF) provides a baseline for consular support and emergency worker assistance; however, the current crisis has exposed the limits of India's migration governance architecture.²⁶ The proposed Overseas Mobility (Facilitation and Welfare) Bill, 2025, could provide the basis for a more modern migration framework by enabling safer return, stronger migrant databases, and more formalised reintegration support, and should be backed by stronger enforcement and broader inclusion.²⁷

The larger institutional gap lies in reintegration. India still lacks a dedicated returnee reintegration framework comparable to those used in labour-exporting economies such as the Philippines, where overseas workers are linked back into domestic credit, enterprise, and employment systems after their return. In the Indian case, this is the missing middle between migration and domestic labour policy.²⁸ Return migration can be better integrated into domestic labour strategy by systematically absorbing returning workers into sectors such as construction, logistics, transport, electrical work, and hospitality. With structured reintegration, the skills acquired abroad can be redeployed productively at home rather than lost to labour-market dislocation.

Over the longer term, reducing India's dependence on Gulf labour will require diversifying labour mobility beyond the region through more resilient skill-linked corridors. At the same time, India's engagement with GCC states should place greater emphasis on wage protection and contract enforcement. Existing Wage Protection Systems in the UAE and Qatar provide a basis for this, but stronger enforcement and wider coverage remain critical, especially for lower-wage workers.²⁹

Conclusion

The ongoing war in Iran underscores the importance of the Gulf remittance corridor to household demand in India, particularly for lower- and middle-income households whose consumption remains closely tied to migrant earnings. Its significance lies not only in the scale of remittance dependence, but in how disruptions to Gulf labour incomes can transmit into weaker spending at home and softer local demand. As remittance stress coincides with higher fuel, transport, and food costs, the effect is less a conventional external shock than a gradual compression of household purchasing power. If the disruption persists, the principal economic risk for India will lie not only in weaker remittance inflows but in the slower erosion of consumption resilience across the households, districts, and state economies shaped by them.

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Carats and Corridors: The Gulf Crisis and India's Diamond Trade

Soumya Bhowmick

The Dubai Dependency

While global markets track crude prices with predictable intensity, a quieter fracture is deepening in one of India's most structurally significant export corridors. India cuts and polishes roughly nine of every 10 natural diamonds traded globally, making gems and jewellery a US\$30-billion annual export industry and a pillar of manufacturing employment.¹ Yet this dominance rests on the United Arab Emirates (UAE), where 70 percent of all rough and polished diamonds originating from, or destined for, India's manufacturing hubs in Surat and Mumbai are routed through.² The UAE imported US\$10.2 billion in diamonds in 2024 and exported US\$7.78 billion, of which US\$5.5 billion flowed directly to India.³ The Middle East as a whole accounts for nearly 25 percent of India's total annual gems and jewellery exports,⁴ and the UAE supplies over two-thirds of India's total rough diamond imports.⁵

This dependency is not accidental, as Dubai's zero-tax regulatory environment, world-class secure logistics infrastructure, and the India-UAE Comprehensive Economic Partnership Agreement make it a natural successor to Antwerp for India's Palanpuri Jain diamantaire networks.^a The pivot toward Dubai accelerated after 2022, when sanctions by the Group of Seven (G7) nations targeting Russia's Alrosa redirected global rough diamond supply away from European bourses. Indian manufacturers, dependent on Russian rough to sustain their workforce, deepened their reliance on Dubai as the primary non-sanctioning clearinghouse. The strategic logic was sound in the short term; the second-order consequence was a dangerous concentration of systemic risk in a single corridor. When the Gulf conflict erupted in early 2026, Indian diamantaires found themselves uniquely exposed.

a The Palanpuri Jain community, originating from Palanpur in northern Gujarat, has historically dominated global diamond trading networks. Their presence in Antwerp dates to the mid-20th century; their subsequent migration to Dubai accelerated after 2022, driven by the UAE's zero-tax regime, ease of business registration, and visa accessibility contrasted with the EU's increasingly stringent sanctions-compliance and blockchain-traceability requirements for diamond provenance. See: Sifra Lentin, "The Global Indian Diamantaire Network," *Gateway House*, June 6, 2024, <https://www.gatewayhouse.in/global-indian-diamantaire-network/>

When All Doors Close: Transmission Channels from the Iran War

Unlike crude oil or grain, diamonds cannot simply be rerouted through alternative vessels or ports when corridors close. Moving a consignment of high-value stones requires a specialised, end-to-end secure logistics chain, including bonded armed couriers, serially numbered tamper-proof cachet envelopes, and dedicated secure vault facilities at transit airports. When the direct military engagements involving the United States (US), Israel and Iran commenced in late February 2026, this infrastructure ceased functioning.⁶

Dubai International Airport experienced an unprecedented 48-hour operational shutdown from 28 February to 2 March, with commercial airspace over Bahrain, Iran, Iraq, Israel, Kuwait, Qatar, Syria, and Yemen shut to civilian traffic. Exporters in Surat and Mumbai, who routinely dispatch 400–500 high-value parcels daily to Dubai, faced an immediate hard stop to operational cash flows. Simultaneously, the Strait of Hormuz⁷—through which 20–27 percent of global oil volumes and vast container traffic for the UAE and Bahrain normally pass—saw a near-total cessation of commercial transits, with Maersk, MSC, Hapag-Lloyd, and CMA CGM suspending Gulf bookings. Houthi militants in the Red Sea simultaneously resumed attacks on shipping, reversing the fragile gains of the late 2025 ceasefire. For the first time, both of the Middle East’s major maritime corridors were closed concurrently.

The financial transmission channel proved equally damaging. Leading maritime war-risk insurers, including Norway’s Gard and Skuld and the United Kingdom’s (UK) NorthStandard, withdrew coverage for shipments transiting the Persian Gulf and adjacent waters, demanding premiums that surged from a baseline of 0.15–0.25 percent of vessel value to between 1.0–1.5 percent—an approximately 1,000-percent increase, overnight.⁸ For diamond cargo, where a single consolidated parcel can be valued in the tens of millions of dollars, a 1–1.5 percent war-risk cargo premium constitutes an insurmountable barrier for the micro, small and medium enterprises (MSMEs) that dominate India’s polishing sector and operate on razor-thin single-digit margins.⁹ The sudden surge in insurance, freight and inventory-holding costs has wiped out those margins.

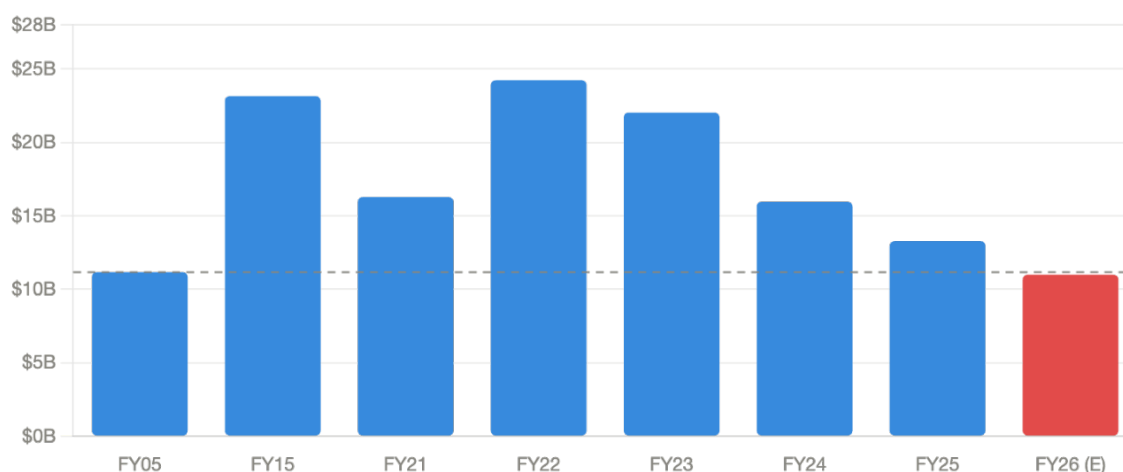
This disruption also exposes a chronic structural reality in India’s trade geography. Recurring Gulf volatility highlights a persistent ‘geographic premium’ on high-value exports: whenever regional tensions restrict critical airspace and maritime corridors, time-sensitive shipments face immediate logistical friction and surging freight costs. This is not a temporary aberration but a recurrent feature of India’s export exposure. Indeed, each episode of Gulf instability passes the cost of distant geopolitical risk down to domestic manufacturers, quietly testing the long-term competitiveness of localised production networks on the global stage.

The Timing Trap: Short-Term Impacts

The supply shock arrived at the worst possible moment. Since 2024, the Trump administration had leveraged the International Emergency Economic Powers Act to impose a 50 percent aggregate tariff on Indian cut-and-polished

diamonds (CPD),¹⁰ driving exports to the US, historically India’s largest market, from US\$5.93 billion in 2023 to US\$4.88 billion in 2024,¹¹ with a 53.62 percent collapse in CPD exports in the first half of FY 2025–26.¹²

Figure 1: India’s CPD Exports (FY05–FY26E, in US\$ billion)



Source: CareEdge Ratings; data sourced from Gem and Jewellery Export Promotion Council (GJEPC) and Ministry of Commerce.¹³

Relief arrived on 6 February 2026, when the Trump–Modi Interim Trade Agreement suspended the Russian oil penalty and reduced the residual tariff to 18 percent,¹⁴ with a long-term goal of zero duty on loose diamonds, which was widely hailed across Surat and Mumbai as a sector-saving breakthrough. Within three weeks,

Gulf hostilities commenced. Indian exporters could now price competitively into the US market, but could not physically move goods out of Mumbai or secure rough materials from Dubai to fulfil orders.¹⁵ This has since resulted in a severe liquidity crunch.

An inventory glut is building in polishing factories, with buyers and sellers delaying shipments rather than absorbing prohibitive transit costs, even as geopolitical uncertainty dampens consumer confidence globally. Diamonds are by nature a discretionary purchase, and when households and high-net-worth buyers alike perceive macroeconomic stress, jewellery is among the first spending categories to be deferred. American and European retail jewellers, anticipating weakened consumer footfall, are pulling back wholesale orders, feeding a vicious cycle of oversupply and collapsing demand at precisely the moment when Indian manufacturers can least afford it.

The Deeper Fracture: Medium-Term Structural Implications

If the disruption persists beyond an immediate crisis window, the medium-term implications are severe and, in some dimensions, difficult to reverse. The human cost is already accumulating rapidly. India's diamond industry employs some 1.2 million artisans,¹⁶ concentrated in Surat and Mumbai and predominantly comprising internal migrants from Gujarat's Saurashtra region. An estimated 150,000 workers in Surat alone have lost employment under the dual pressure of tariffs and Gulf disruption;¹⁷ between 15–20 percent of small and medium factories have shut down permanently. Workers who remain employed have seen piece-rate wages collapse to as little

as INR13–14 per piece on lab-grown diamond work.¹⁸

The greater structural medium-term threat is the erosion of specialised human capital. Diamond cutting and polishing is a craft passed down through generations. As distress-driven reverse migration of artisans back to Saurashtra accelerates, India risks a permanent depletion of skills—once workers reintegrate into the agrarian economy, reconstituting the talent pool becomes a multi-generational challenge.

The prospect of rerouting through alternative hubs offers limited relief. Antwerp's total diamond trade fell to US\$19.07 billion in 2025, due to G7 sanctions that eliminated roughly a third of its rough supply, and an administrative structure ill-suited to India's MSME-dominated trading model.¹⁹ Hong Kong, despite its zero-tax environment, is exposed to a deeply depressed Chinese luxury market where diamond's share in jewellery spending fell from 14 percent in 2021 to just 6 percent in 2024.²⁰ Tel Aviv, at the epicentre of the conflict itself, operated at minimal capacity during peak hostilities with direct India–Israel flights suspended.²¹ The 70 percent routing concentration through Dubai is a structural lock-in, one that cannot be unwound during an active conflict.

Table 1: India's CPD Exports by Destination (%)^b

Country	FY22	FY23	FY24	FY25	4M (April–July) FY26
Total Exports (US\$ Billion)	24.4	22.0	15.9	13.3	2.8
US	40%	36%	35%	37%	23%
Hong Kong	26%	25%	27%	24%	28%
UAE	7%	9%	10%	12%	19%
Belgium	9%	10%	11%	10%	11%

Source: CareEdge Ratings;²² data sourced from GJEPC and Ministry of Commerce

From Exposure to Resilience: Strategic Responses and Policy Pathways

In the near term, GJEPC and the Ministry of Commerce must move urgently on emergency working capital relief for MSMEs through direct credit lines, interest subvention, and deferred tax obligations. This would prevent a wave of insolvencies that would permanently diminish India's processing capacity. Targeted insurance subsidies or pooled war-risk cover mechanisms could offset the extraordinary premium burden that smaller firms cannot absorb on their own.

The more consequential long-term response involves supply chain architecture. The crisis makes a compelling case for establishing direct trade

corridors with the primary diamond-producing nations in sub-Saharan Africa—Botswana, Angola, Namibia, and South Africa²³—to reduce structural dependence on Dubai as an intermediary for rough material supply. India's diplomatic infrastructure and GJEPC's market development offices are positioned to fast-track sourcing agreements that bypass Gulf transit entirely. The newly operational Surat Diamond Bourse, with its 6.6 million-square-foot infrastructure, can serve as the operational anchor for such a corridor, provided India secures the upstream supply relationships that give it meaning.²⁴

More broadly, the 'geographic premium' that this crisis has made visible demands a recalibration of India's logistics risk frameworks across sectors. The 2024–26 period has demonstrated that elevated war-risk premiums and emergency freight

surcharges are no longer statistical anomalies, but recurrent features of a fractured, multipolar trade environment.

Indian exporters must begin internalising these costs into their pricing models, and forthcoming revisions to the National Logistics Policy should treat geopolitical route disruption as a standard planning scenario, with pre-negotiated

emergency routing agreements and insurance pooling mechanisms that can be activated when corridors close. Finally, the long-term preservation of India's diamond supremacy depends not only on the craft of its artisans but on the resilience of the supply chains that connect them to the world.

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IV

Synthesis and Policy

From Shock to Strategy: Building India's Economic Resilience

Shruti Jain

Overview: Impact on the World Economy

The Strait of Hormuz, a critical passage for global maritime trade, handles movement for about a quarter of the world's seaborne oil trade, fertilisers, and liquefied natural gas.¹ The disruption to the Hormuz sea lanes due to the United States (US) and Israel's war on Iran has led to wide-ranging implications that go beyond the West Asian economy. Prior to the crisis, the passage transported about 20 million barrels of oil per day (bpd), with crude oil accounting for 14 million bpd and petroleum products for 6 million bpd.² There has been a 97-percent drop in ship transits through the Strait from February to early March 2026. As a result, Brent Crude oil and gas prices soared, increasing by 27 percent and 74 percent, respectively, between 27 February and 7 March 2026.³

The worst impact has been felt in Asia, as almost 84 percent of its crude oil and 83 percent of its liquefied natural gas (LNG) were transported through the Strait of Hormuz in 2024.⁴ The disruption also poses a threat to global fertiliser security and food production, with fertiliser prices rising by more than 40 percent since the eruption of the war.⁵ Additionally, war-risk insurance premiums and freight costs have multiplied manifold, adding strain to energy import costs worldwide.⁶

India's Sectoral Exposure

The Iran war has aggravated risks for India's sectoral growth, as its economy is tied to hydrocarbons. Crude oil and gas form the basis of its trade, consumption, production, and value chains. As the world's third-largest oil importer and fifth-largest petroleum exporter, India's economy is deeply exposed to fluctuations

in oil prices, and freight and shipping costs.⁷ This has added pressure across macroeconomic parameters, trade deficit and industrial growth. For India, petroleum products are required across the aviation, electricity, and transport sectors, as well as for cooking and industrial fuel. Moreover, increases in logistics costs and insurance premiums are transferred to its import bills, public finances, and retail prices, increasing inflation. In terms of industrial structure, the soaring prices of natural gas have affected urea production and petrochemical derivatives, passing on the strain to agricultural production, manufacturing, and household welfare.⁸

For India, the war translates into macroeconomic vulnerability in the form of current account and trade deficit pressure, rupee depreciation, and inflation. The crisis is predicted to widen the country's current account deficit to 2.5 percent of gross domestic product (GDP) in FY27, a rise from 0.9 percent in the previous year.⁹ In April 2026 alone, India's merchandise trade deficit increased to US\$28.38 billion, driven by crude oil imports.¹⁰ Similarly, the rupee fell to a record low of INR 96.53 per US dollar in May, dropping by about 6.1 percent since the war started in February.¹¹ The Ministry of Statistics and Programme Implementation indicated that India's Consumer Price Index (CPI) inflation was at 3.48 percent and food inflation at 4.20 percent in April 2026.¹² The World Bank estimates that the Indian economy risks a slowdown in growth rate from 7.6 percent to 6.6 percent in FY27.¹³

India's liquefied petroleum gas (LPG) segment remains highly sensitive. As LPG is a commonly used household cooking fuel, shortages in supply increase concerns for fuel rationing and welfare protection. India's largest fuel retailer has incurred

a revenue loss of INR 617 (US\$6.39) for sale of a cylinder of LPG, as compared to INR 171 in April.¹⁴ This, in turn, translates to a direct impact on household incomes and commercial costs, as an increase in LPG costs takes up an additional 10 percent of household income, risking a return to the use of harmful fuel, such as charcoal and wood, for cooking.¹⁵ This also has a cascading effect on industry, as policy reforms have deprioritised industry allocation of LPG and piped natural gas in favour of households.

Fertilisers remain one of the most exposed sectors due to India's import dependence, with import requirements ranging from 31 percent to 37 percent over the last five years.¹⁶ Soaring fertiliser prices have led to a rise in India's fertiliser subsidy bill, which is projected to rise by INR 70,000 crore to INR 2.41 lakh crore for FY27.¹⁷ While this ensures fertiliser availability for farmers, it can have a lasting impact on public finances, thus trickling down to consumer welfare in the long run.

Petrochemicals have a hidden multiplier effect as crude oil derivatives are utilised in more than 6,000 products, including plastics, paints, synthetic rubber, textiles, pharmaceuticals, electronics, and consumer durables. The disruption of supply chains and rising costs have a disproportionate effect on micro, small, and medium enterprises (MSMEs), which form the core of manufacturing related to such industrial input. For instance, India's INR 4-lakh-crore plastic processing sector is witnessing a 30–40 percent revenue loss.¹⁸ In Gujarat, which hosts one of India's largest ceramic clusters, disruptions in propane supply have already forced nearly 100 ceramic units to shut down.¹⁹ If supply conditions do not improve, another 400 propane-dependent units could be compelled to halt operations.

The textile industry, which relies heavily on petroleum by-products, is also facing mounting pressure from higher raw material prices, labour shortages, and rising freight costs, translating into losses of around INR 100 crore per day.²⁰ Similar stress is evident in the plastics and polymers sector, where a large share of firms are MSMEs and which is facing rampant raw material shortage. Downstream industries linked to these inputs, including agricultural equipment, toys, and healthcare products, have also sought government support amidst escalating manufacturing costs.²¹

Steel forms the basis for multiple sectors, including construction, automobiles, railways, defence manufacturing, consumer durables, and machinery. Thus, rising costs of steel can trickle down to manufacturing and infrastructure development. With the Indian steel industry heavily dependent on imported metallurgical coal, a rise in freight prices and insurance premiums directly raises the primary cost of steel production. Similarly, scrap-based steel production has been impacted as 20–22 percent of India’s scrap metal imports have been disrupted.²² The cost burden also passes on to downstream segments such as automobiles, machinery, and infrastructural projects.

Table 1: India’s Exposure to the Iran War

Macroeconomic Stress	Household LPG Shock	Fertilisers and Food Security	Petrochemicals and Industry	Steel and Infrastructure
Current account, rupee depreciation, inflation, and growth under pressure simultaneously. 2.5% CAD/GDP, FY27	Cooking fuel costs surge; industry gets deprioritised in gas allocation. ₹171 → ₹617 LPG CYLINDER REVENUE LOSS, APR→MAY 2026	Import dependence enhances the subsidy bill and fiscal burden. ₹2.41 LCr FY27 SUBSIDY BILL	6,000+ products hit; MSMEs and clusters face stress. 30–40% PLASTICS REVENUE LOSS	Coking coal and scrap metals disrupted; autos, machinery, infrastructure affected. 20–22% SCRAP IMPORTS DISRUPTED

Source: Author’s own, using data from MoSPI, RBI, World Bank and IEA.

Policy Responses for Economic Resilience

India is currently deploying a fourfold strategy towards mitigating the crisis: (i) Ensuring energy security; (ii) Making supply chains resilient to sustain imports and exports; (iii) Supporting MSMEs and Indian exporters; and (iv) Stabilising macroeconomic conditions.

i. Ensuring Energy Security

Restoring and protecting the supply of mass household cooking fuel has been given the highest priority. This is being done through various measures, such as the LPG Control Order, which allows refineries to maximise LPG yields and channel output for cooking gas, and has led to an increase of 28 percent in LPG production.²³ LPG procurement has also been diversified to other regions such as Russia, the US, Norway, Canada, Algeria, and Canada.²⁴ Additionally, households, hospitals and educational institutions have been placed on an uninterrupted priority supply. The government has also taken measures to avoid diversion and hoarding by introducing a minimum booking gap. To ensure priority allocation for natural gas, households and urban transport (compressed natural gas [CNG] vehicles) have been prioritised with 100 percent supply, followed by industrial users and fertiliser plants.²⁵

ii. Ensuring Supply-Chain Resilience

The Resilience and Logistics Intervention for Export Facilitation (RELIEF) scheme provides trade support to exporters and MSMEs, through measures such as top-up compensation for war risk

insurance, stable premiums, and reimbursement.²⁶ To ensure supply chain resilience and targeted financial-risk mitigation, the Inter-Ministerial Group on Supply Chain Resilience took initiatives such as procedural relaxations for stranded cargo, waivers for storage and dwell times, advisories to promote transparency in shipping line pricing, and monitoring of insurance risk developments.²⁷

iii. Supporting MSMEs and Exporters

The government is supporting exporters by providing additional time to fulfil export obligations and removing penalties for shipment delays. It has also restored 100 percent Remission of Duties and Taxes on Exported Products (RoDTEP) benefits to protect exporters from higher freight costs and war-related risks. Furthermore, the Reserve Bank of India (RBI) has extended export-credit relief for commercial banks, non-banking financial companies (NBFCs), cooperative banks, and other financial institutions.

iv. Stabilising Macroeconomic Conditions

In order to prevent rupee depreciation, the RBI has sold dollars through state banks, with daily dollar sales accounting for US\$800 million to US\$2 billion.²⁸ Additionally, the government has raised the import duty on non-essential goods like gold from 6 percent to 15 percent on May 13 to balance the country's foreign exchange reserves.²⁹ To address concerns regarding food inflation, the government continues to monitor food grain prices through the Open Market Sale Scheme (OMSS-D), which allows the sale of grains to state governments at subsidised prices to meet additional requirements.³⁰

The Way Forward for Economic Resilience

A five-step agenda can ensure structural resilience and shock absorption through measures that will reduce exposure to conflict-induced risks:

A. Building Energy Resilience

India's Strategic Petroleum Reserves (SPR), which amount to a total capacity of 5.33 Million Metric Tonnes (MMT) are in place, but they are insufficient for an import-dependent country. India's reserve cover remains far below that of other leading Asian importers: Japan has around 254 days of net import cover, South Korea around 210 days, and China is estimated to hold roughly 90 to 100 days. The International Energy Agency's baseline requirement is 90 days of net imports.³¹ The absence of SPR capacity in India's northern interior region creates challenges for emergency distribution, which would depend on pipelines, roads, and inland logistics networks that may be affected during a crisis. The planned facility at Chandikhol in Odisha and the expansion of the Padur SPR in Karnataka, which will add 6.5 MMT, need to be accelerated. India should raise commercial stockholding obligations for private refiners, in line with standards maintained by other Asian countries. With the UAE rethinking its role in global oil markets, India can move beyond buyer-seller dependence towards co-investment in storage, emergency supply, refining flexibility, and long-term energy security. Moreover, as recommended in the chapter on "Petrochemicals and Industrial Inputs," geographic diversification must be complemented by feedstock diversification. Given the high cost and yield advantages of gas-

based production, Indian producers need to accelerate the transition from naphtha to ethane and natural-gas-based feedstock. Designing crackers that can switch between ethane, LPG, and naphtha, depending on relative prices, would improve resilience, but will require substantial investment, including in import infrastructure.

Over the longer term, India can also expand coal-to-chemical pathways by leveraging its nearly 400 billion tonnes of domestic coal resources. Synthesis gas (syngas) produced through coal gasification could serve as a strategic substitute for imported natural gas in the production of methanol, ammonia, and olefins.

B. Value-Chain Protection

India must avoid broad bailouts, instead designating specific critical materials and channelling subsidies and concessional finance to particular value-chain bottlenecks, especially for sectors such as aviation, paints and chemicals, oil marketing companies (OMCs), automobiles, fast-moving consumer goods (FMCG), and logistics. Through multilateral architectures, such as the BRICS Plus, India must encourage pooled stockpiles, mutual swap arrangements, a development finance window for emerging-economy SPRs, and rupee-currency trade settlement for energy. The chapter on "Metals, Cement, and Construction" argues that India needs to build a supply-chain ecosystem that is both robust and resilient, combining selective reshoring with strategic diversification. For inputs such as scrap recycling and metal processing, where domestic production can be enhanced, prioritisation should be given to strengthening

local supply chains. For other inputs such as coking coal, metallurgical coke, direct reduced iron (DRI) and copper wire, India should consider reducing risks by diversifying suppliers and trade routes, and making contractual arrangements across regions.

C. Fertiliser and Food Security

India must set nutrient-based targets and create regulations for when the government can stock, ration, or curb exports. It must consider equity stakes by investing in plants, beyond just contracts, in Russia, Senegal, Belarus, Canada, and Saudi Arabia. It can also explore stronger focus on green ammonia and renewable-energy-linked fertiliser production. The government and large cooperatives can use commodity hedging on international markets to smooth import costs for the domestic market. The chapter titled “India’s Vulnerabilities in Agriculture” argues that the country needs a stronger food-price hedging framework, especially in light of the volatility in international trade caused by geopolitical uncertainties. For this, India’s agricultural commodity derivatives markets, as well as non-agricultural commodity derivatives markets, will need to be more competitive, transparent, and better aligned with global best practices.

D. Macroeconomic Measures

Expanding rupee invoicing for trade with Gulf, Association of Southeast Asian Nations (ASEAN), and BRICS Plus partners, and deepening the RBI’s bilateral swap-line architecture, can reduce dollar exposure. Temporary duties can be applied


to non-essential imports to prioritise essential ones. Customised non-resident Indian (NRI) deposit schemes and sovereign-backed bonds can encourage more stable capital flows. A coordinated monetary policy and prevention of hoarding can address rising inflation. To protect household incomes, a Direct Benefit Transfer for ration-card households, indexed to the fuel and fertiliser price gap, could be implemented. The chapter on “Trade and Competitiveness” also makes the case for a deliberate reconfiguration of India’s export architecture, which would not only protect earnings from exports but also improve resource allocation and increase factor endowment returns.

The chapter on “Labour, Remittances, and Consumption” suggests that return migration should be further integrated into India’s domestic labour strategy. This would require absorbing returning workers into various sectors, including construction, logistics, transport, and hospitality. Over the longer term, reducing India’s dependence on Gulf labour markets will require diversifying labour mobility through skill-linked migration corridors. Moreover, engagement with the Gulf Cooperation Council (GCC) states should emphasise wage protection and contract enforcement for Indian workers.

E. Support Manufacturing and Industry

To support MSMEs, pooled gas access for clusters such as Morbi in Gujarat will allow smoother fuel access. Credit guarantees can be issued to support MSMEs investing in energy efficiency and inventory buffering. Interest subvention can reduce working capital during input spikes.

Quicker payment rules and receivable clearances can allow more working capital for industries. The chapter on “Carats and Corridors” suggests that as a short-term measure, export promotion councils and the government must urgently provide working-capital relief to MSMEs through direct credit lines, interest subvention, and deferred tax obligations. This would help prevent a wave of insolvencies that could permanently weaken India’s processing capacity. The article recommends

targeted insurance subsidies or pooled war-risk cover mechanisms to ease the extraordinary premium burden that smaller firms are unable to absorb independently. To support petrochemicals, strategic reserves can be built through inventory norms, tax incentives, and contracts. For steel and metals, coking coal diversification and green steel transition can provide shock absorption to the related sectors. Finally, public procurement can be built to stabilise industrial demand. 

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Logistics and Transport: The Steep Cost of Moving Goods in a War-Torn Corridor

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From Shock to Strategy: Building India's Economic Resilience

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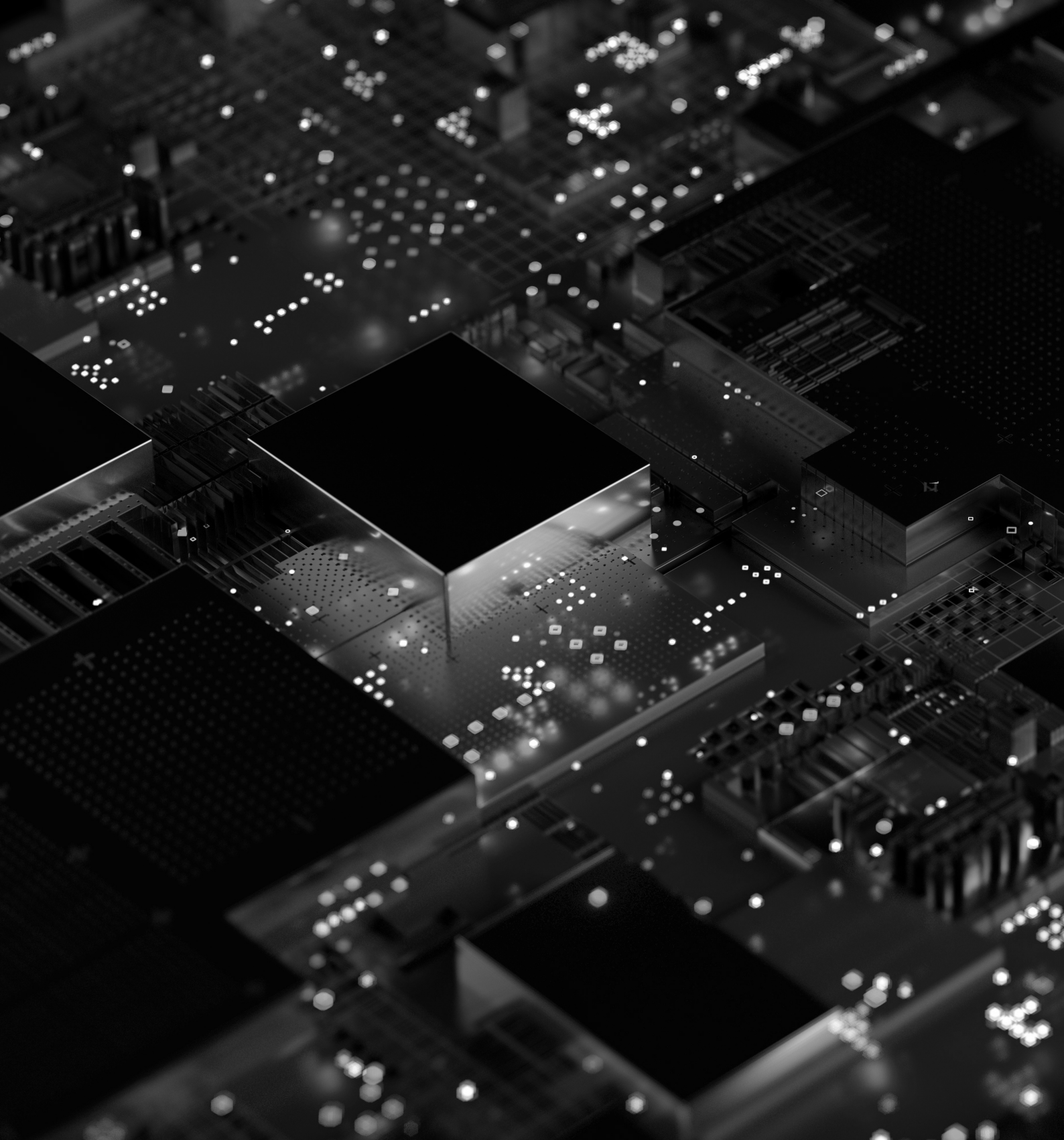
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