

**GLOBAL GEOPOLITICAL REALIGNMENTS AND STRATEGIC ECONOMIC UNCERTAINTY:
ASSESSING THE TRADE, FINANCIAL, AND DEVELOPMENTAL IMPLICATIONS OF U.S.–IRAN
CONFLICT FOR THIRD-WORLD ECONOMIES WITH SPECIAL REFERENCE TO INDIA’S TRADE
STRUCTURE AND ECONOMIC DEVELOPMENT**

Dr. G. YOGANANDHAM, Professor, Department of Economics, Thiruvalluvar University (A State University) Serkkadu,
Vellore District, Tamil Nadu, India- 632 115.

Abstract

This article examines the profound impacts of the U.S.–Iran conflict and broader geopolitical realignments on third-world economies, with a specific focus on India’s trade structure, energy security, financial stability, and developmental challenges. It analyzes how regional tensions at strategic chokepoints like the Strait of Hormuz disrupt global energy markets, inflate oil and Global Liquefied Natural Gas (LNG) prices, and threaten supply chains vital to emerging economies. Despite limited direct trade with Iran, India faces significant vulnerabilities through increased energy import costs, trade disruptions, and remittance flows, exacerbating inflation and fiscal pressures. The study highlights systemic shocks, including rising inflation, trade fragmentation, financial contagion, and developmental setbacks such as poverty and food insecurity. Employing statistical assessments and case studies, it underscores India’s strategic responses, diversifying energy sources, strengthening port infrastructure, and regional trade realignment, aimed at enhancing resilience.

The paper emphasizes that geopolitical conflicts amplify systemic risks, requiring comprehensive policy measures for diversification, energy transition, and macroeconomic stability. Ultimately, the research underscores the interconnectedness of geopolitics and economic development in a multipolar world, advocating for strategic autonomy and resilience-building to safeguard sustainable growth amid increasing global uncertainties. This analysis contributes valuable insights into the pathways for developing economies to mitigate vulnerabilities and foster long-term stability in an evolving geopolitical landscape. Viewed through this lens, the research analyzes urgent and shifting issues that are steadily gaining prominence in the present-day global context.

Keywords: U.S.–Iran Conflict, Emerging Economies, Financial Stability, Global Energy Markets,
Trade Fragmentation, Financial Contagion and Geopolitical Conflicts.

**GLOBAL GEOPOLITICAL REALIGNMENTS AND STRATEGIC ECONOMIC UNCERTAINTY:
ASSESSING THE TRADE, FINANCIAL, AND DEVELOPMENTAL IMPLICATIONS OF U.S.–IRAN
CONFLICT FOR THIRD-WORLD ECONOMIES WITH SPECIAL REFERENCE TO INDIA’S TRADE
STRUCTURE AND ECONOMIC DEVELOPMENT**

Dr. G. YOGANANDHAM, Professor, Department of Economics, Thiruvalluvar University (A State University) Serkkadu,
Vellore District, Tamil Nadu, India- 632 115.

The theme of the article

The evolving landscape of global geopolitics has profound implications for economic stability and development, particularly for third-world economies heavily reliant on energy imports and strategic trade routes. Central to recent geopolitical tensions is the U.S.–Iran conflict, which has triggered widespread disruptions across energy markets, trade networks, and financial systems. This research explores the multifaceted impacts of these geopolitical realignments, emphasizing how strategic chokepoints like the Strait of Hormuz serve as critical vulnerabilities that ripple through global supply chains and economic indicators. Focusing on India as a case study, the analysis highlights how rising oil prices, trade disruptions, and financial volatility threaten its developmental trajectory, accentuating vulnerabilities despite limited direct trade with Iran.

The study synthesizes statistical assessments, highlighting shifts in trade patterns, energy dependencies, remittance flows, and developmental challenges faced by India and other third-world economies. By examining systemic shocks, ranging from surging energy prices to declining remittances and food security, this paper underscores the urgent need for strategic diversification, energy transition, and resilience-building measures. As geopolitical tensions intensify, understanding these interconnected impacts becomes crucial for policy formulation aimed at safeguarding economic stability, fostering sustainable development, and enhancing strategic autonomy in an increasingly multipolar world. This research thus contributes to the broader discourse on geopolitics and economic resilience, offering insights into pathways for mitigating vulnerabilities in a rapidly shifting global order.

Statement of the problem

The escalating U.S.–Iran conflict, intertwined with broader geopolitical realignments, has profound implications for global energy markets, trade flows, financial stability, and developmental trajectories, particularly affecting third-world economies such as India. Despite India’s limited direct trade dependence on Iran, the conflict has exposed critical vulnerabilities

rooted in energy security, supply chain resilience, and economic diversification. The strategic importance of the Strait of Hormuz as a vital chokepoint for nearly 20–25% of global oil transit underscores the systemic risks posed by regional instability, which triggers volatility in crude oil prices, inflates import bills, and strains macroeconomic stability in energy-dependent developing nations. Moreover, disruptions in maritime routes, increased insurance costs, and rising freight charges threaten India's trade competitiveness, export sectors, and remittance inflows from Gulf-based migrant workers. The conflict also catalyzes shifts in trade alliances, energy sourcing, and regional dependencies, compelling developing economies to recalibrate their strategic and economic policies amid heightened uncertainty.

This geopolitical turmoil exacerbates existing developmental vulnerabilities—such as poverty, food insecurity, and social welfare deficits, by amplifying inflation, fiscal burdens, and external debt pressures. Furthermore, financial contagion manifests through volatile capital flows, currency depreciation, and rising sovereign debt servicing costs, intensifying the fragility of developing economies' financial systems. Given the interconnectedness of energy markets, trade networks, and financial stability, understanding the multidimensional impacts of the U.S.–Iran conflict is crucial for formulating strategies that enhance resilience, ensure energy and food security, and sustain economic growth amidst geopolitical uncertainties. This research aims to analyze the systemic implications of the ongoing conflict for third-world economies, with a special focus on India's trade structure, energy dependence, developmental challenges, and policy responses, to inform strategies for mitigating strategic vulnerabilities in an increasingly multipolar world. From this standpoint, the study explores critical and evolving challenges that are becoming increasingly significant in the contemporary global landscape.

Objective of the article

The article aims to analyze the multifaceted impacts of the U.S.–Iran conflict on global and third-world economies, with a specific focus on India's trade, energy security, financial stability, and developmental challenges. It examines how geopolitical tensions disrupt trade routes, inflate energy prices, and trigger systemic economic uncertainties. The study assesses the vulnerabilities of emerging economies to supply chain shocks, capital flows, and developmental setbacks. It emphasizes the strategic responses and resilience strategies adopted by India to mitigate these risks. Ultimately, the article underscores the interconnectedness of geopolitics and economic stability in shaping the developmental trajectories of third-world nations amid strategic

uncertainty with the help of secondary sources of information and statistical data pertaining to the theme of the article.

Research Methodology of the article

The research methodology of this article is primarily based on comprehensive data collection, analysis, and synthesis of information from reputable sources such as international organizations, government reports, and credible research institutions. The study adopts a qualitative and quantitative approach to assess the geopolitical, economic, and developmental impacts of the U.S.–Iran conflict on third-world economies, with a special focus on India. Data collection involves gathering statistical indicators, trade figures, energy prices, and financial metrics from sources like Reuters, IMF, World Bank, IEA, and Indian government reports. These data points are used to create detailed tables and statistical assessments that illustrate the magnitude and trends of various economic variables before and during the conflict. The analysis involves comparing pre-conflict and recent estimates to measure percentage changes and assess the severity of impacts on trade, energy security, financial stability, and developmental indicators.

The study also employs a case study approach for India, examining specific sectors such as trade, remittances, energy, and port infrastructure to understand localized vulnerabilities and responses. The synthesis of qualitative insights with quantitative data helps in identifying systemic risks and strategic vulnerabilities. Additionally, the methodology emphasizes cross-referencing multiple credible sources to ensure accuracy and reliability of information. It also involves interpreting statistical trends within the geopolitical context to derive meaningful implications for policy and economic resilience. Overall, the methodology ensures a holistic understanding of complex geopolitical-economic interactions and their developmental consequences, providing a robust foundation for policy recommendations and strategic planning. The gathered data are systematically examined and interpreted to derive valuable insights that inform the development of strong, evidence-based policy decisions.

Review of literature

The **International Energy Agency (2025)** highlights evolving global energy consumption patterns, emphasizing the dual transition toward renewable energy and continued fossil fuel dependence, while also noting geopolitical risks affecting energy security. Similarly, **G. Yoganandham (2024)** examines global geopolitical realignments and argues that third-world economies remain structurally vulnerable to external shocks, necessitating adaptive policy

frameworks. The **International Monetary Fund (2026)** further reinforces this by identifying inflationary pressures, trade fragmentation, and financial instability arising from geopolitical tensions, calling for coordinated global responses. Focusing on energy and trade resilience, **G. Yoganandham (2025)** emphasizes diversification strategies to reduce dependency risks in emerging economies like India. In the context of national strategy, the **Ministry of External Affairs, India (2024)** underscores the role of strategic port investments and regional connectivity in enhancing trade integration, while the **Ministry of Commerce and Industry, India (2025)** evaluates India's trade performance, highlighting supply chain disruptions and the need for export diversification.

The geopolitical dimension is further explored by **G. Yoganandham (2023)**, who analyzes the adverse effects of the U.S.–Iran conflict on India's trade, particularly through oil price shocks and route disruptions. Expanding on structural challenges, **G. Yoganandham (2022)** discusses vulnerabilities in developing economies and advocates for institutional reforms and long-term resilience strategies. Complementing this, the **World Bank (2025)** provides empirical evidence on poverty, inequality, and food security, emphasizing inclusive growth policies. Earlier works by **G. Yoganandham (2021)** analyze global energy market volatility and its implications for India's economic stability. The **Food and Agriculture Organization (2025)** highlights food security challenges driven by climate change and geopolitical conflicts, stressing sustainable agricultural practices. Financial aspects are addressed by the **Bank for International Settlements (2025)**, which examines capital flow volatility and recommends macroprudential measures, while **G. Yoganandham (2019)** explains how financial crises spread across interconnected economies. From a trade perspective, the **India Brand Equity Foundation (2024)** highlights India's export resilience strategies, focusing on diversification and competitiveness. The **Visual Capitalist (2026)** provides insights into global energy trade chokepoints, emphasizing risks associated with strategic regions like Hormuz. Finally, **G. Yoganandham (2017)** offers a foundational perspective on how geopolitical conflicts contribute to developmental vulnerabilities, advocating strategic policy interventions for sustainable economic growth.

Geopolitical Shockwaves and India's Economic Vulnerability

Global geopolitical realignments have been exacerbated by the ongoing U.S.-Iran confrontation, creating significant economic instability for developing economies, especially India. The wider systemic repercussions are significant even though India's direct trade exposure

to Iran is still minimal. Bilateral trade between India and Iran has declined sharply by nearly 87%, falling from \$17.6 billion in 2019 to approximately \$2–2.3 billion in 2024–25, with Iran contributing only about 0.1–0.2% to India’s total trade. The details of the Geopolitical Shockwaves and Economic Vulnerability: Statistical Assessment of the U.S.–Iran Conflict’s Impact on India and Third-World Economies are presented in table -1.

Table – 1

Geopolitical Shockwaves and Economic Vulnerability: Statistical Assessment of the U.S.–Iran Conflict’s Impact on India and Third-World Economies

S.No.	Indicator	Pre-Conflict / Earlier Period	Recent Estimate (2024–2026)	% Change / Impact	Implications for India & Third-World Economies
1.	India–Iran Bilateral Trade	\$17.6 Billion (2019)	\$2–2.3 Billion	↓ ~87%	Sharp decline due to sanctions; reduced direct trade dependency
2.	Share of Iran in India’s Total Trade	~0.8% (2018–19)	0.1–0.2%	↓ Significant	Minimal direct exposure but high indirect vulnerability
3.	Crude Oil Imports via Strait of Hormuz	~60%	60–65%	High Risk Exposure	Strategic chokepoint; disruptions raise energy prices globally
4.	India’s Total Trade with West Asia	~\$70 Billion (2018)	~\$100 Billion	↑ ~40%	Increased regional dependence heightens geopolitical risk
5.	India’s Trade Deficit	\$15–20 Billion (avg. earlier)	\$27.1 Billion (Feb 2026)	↑ ~30–40%	Rising import bills due to oil price shocks and freight costs
6.	LPG Consumption Growth	Positive growth trend	↓ 17.3% YoY	Negative Shift	Supply disruptions affecting domestic energy consumption
7.	Indian Ships Affected (West Asia Route)	Minimal disruption	20+ vessels stranded	Operational Risk	Logistics delays and increased insurance premiums
8.	Indian Diaspora in Gulf Region	~8 Million	~9 Million	↑ ~12%	Remittance dependency exposed to geopolitical instability
9.	Annual Remittance Inflows (India)	~\$80 Billion	~\$100 Billion	↑ ~25%	Potential decline if conflict escalates, affecting rural economy
10.	Global Oil Price (Brent Crude)	~\$60–70/barrel (avg.)	~\$80–95/barrel (volatile)	↑ ~30%	Inflationary pressure and fiscal strain on developing economies

Source: Reuters (2026) – India Trade, Energy, and West Asia Conflict Impact Reports.

Despite this limited direct linkage, the indirect implications are far more significant. Nearly 60–65% of India’s crude oil imports transit through the Strait of Hormuz, making it a

critical strategic chokepoint. Recent disruptions have already resulted in a 17.3% year-on-year decline in LPG consumption and have left more than 22 Indian vessels stranded, exposing vulnerabilities in supply chains.



India's wider trade engagement with West Asia, valued at around \$100 billion annually, is increasingly at risk due to shipping disruptions and rising insurance costs. In February 2026, India reported a trade deficit of \$27.1 billion, and further escalation of tensions could exacerbate this imbalance through higher energy import costs and inflationary pressures. Moreover, geopolitical instability may disrupt remittance inflows from nearly 9 million Indian workers in the Gulf region, thereby affecting domestic consumption and savings. From a developmental standpoint, the conflict is accelerating strategic adjustments such as energy diversification,

including increased reliance on Russian oil, regional trade realignment, and efforts to strengthen supply chain resilience. Overall, while the direct trade impact remains minimal, the U.S.–Iran conflict has significant implications for India’s economic stability through its effects on energy security, trade flows, and financial conditions.

Global Geopolitical Realignments and Economic Instability: Assessing the Systemic Impact of the U.S.–Iran Conflict on Energy Markets, Trade Dynamics, and Global Growth

The prolonged US-Iran war has resulted in substantial worldwide geopolitical realignments, changing power structures and causing broad economic turmoil. The details of the Global Geopolitical Realignments and Economic Instability: Key Statistical Indicators of the U.S.–Iran Conflict are stated in table -2.

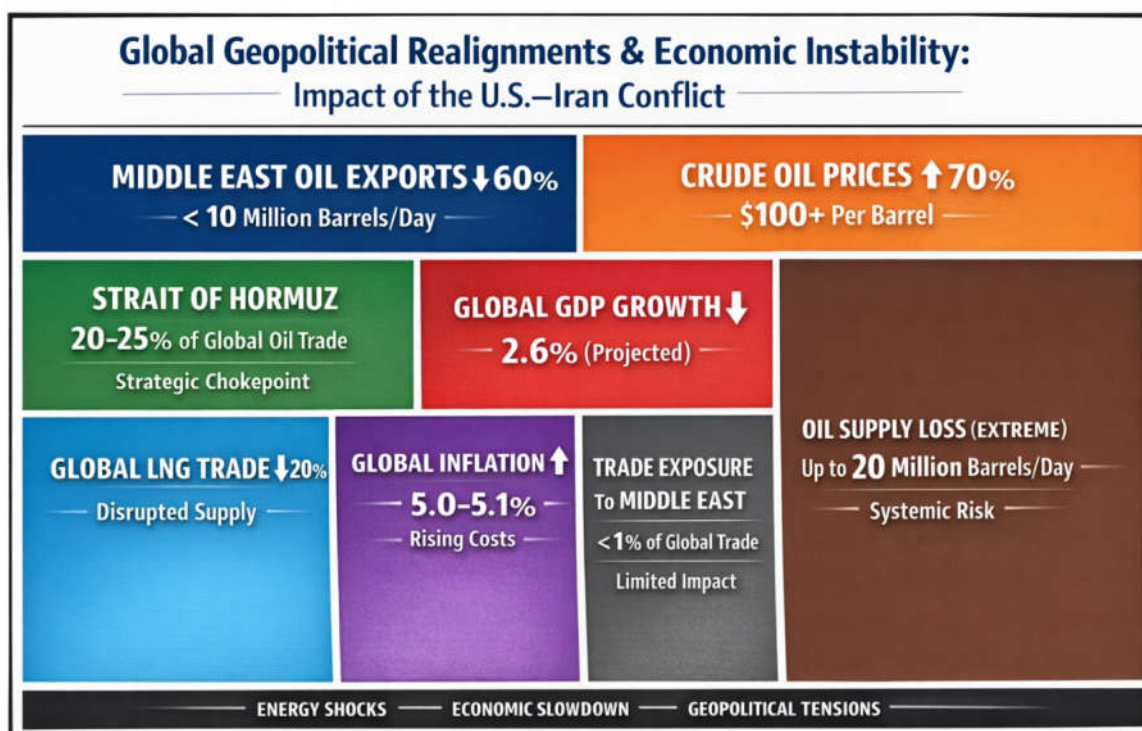
Table -2

Global Geopolitical Realignments and Economic Instability: Key Statistical Indicators of the U.S.–Iran Conflict

S.No.	Indicator	Pre-Conflict Level	Current/Conflict Level	% Change / Impact	Economic Implication
1.	Middle East Oil Exports	25.1 million barrels/day	< 10 million barrels/day	↓ ~60%	Severe global supply shock and energy insecurity
2.	Share of Global Oil via Strait of Hormuz	20–25%	Disrupted/Restricted	High vulnerability	Strategic chokepoint affecting global energy flows
3.	Global LNG Trade via Hormuz	~20%	Disrupted	Significant decline	Increased energy price volatility
4.	Crude Oil Prices	~\$60–70/barrel	> \$100/barrel	↑ ~70%	Inflationary pressures and rising import bills
5.	Global GDP Growth Rate	2.9%	2.6% (projected)	↓ 0.3 percentage points	Slower global economic recovery
6.	Global Inflation Rate	~4.5%	~5.0–5.1%	↑ 0.5–0.6 percentage points	Cost of living crisis and monetary tightening
7.	Potential Oil Supply Loss (Extreme Scenario)	—	Up to 20 million barrels/day	High systemic risk	Financial market instability and recession risks
8.	Global Trade Exposure to Middle East	~1% of total trade	Limited direct impact	Minimal change	Contained trade disruption but indirect shocks persist

Source: Reuters (2026) – Global Energy and Economic Impact Assessment of U.S.–Iran Conflict.

The disruption of energy supply networks, especially through the Strait of Hormuz, which normally carries 20–25% of global seaborne oil and one-fifth of LNG traffic, is a significant factor. Recent data show an unparalleled shock, Middle Eastern oil shipments have decreased by 60%, from around 25.1 million barrels per day (bpd) to less than 10 million bpd as the strait approaches shutdown. This supply disruption has caused oil prices to surge above \$100 per barrel, representing increases of over 70% in 2026, intensifying inflationary pressures globally. Economically, such shocks are critical: estimates suggest global GDP growth may decline from 2.9% to 2.6%, while inflation could rise by 0.5–0.6 percentage points. In extreme scenarios, the removal of up to 20 million bpd of crude supply highlights the scale of systemic risk to global markets.



Beyond energy, geopolitical realignments are evident in shifting alliances and strategic dependencies. Countries are diversifying energy sources and strengthening regional blocs to reduce vulnerability. However, global trade exposure to the Middle East remains relatively limited (around 1% of global trade), which has so far contained broader supply chain disruptions. Overall, the conflict illustrates how regional tensions can generate global economic instability, primarily through energy markets, inflation transmission, and financial volatility. These

dynamics underscore the fragile interdependence of geopolitics and economic stability in an increasingly multipolar world.

Strategic Chokepoints and Global Trade Disruptions: Assessing the Impact of the U.S.–Iran Conflict on the Strait of Hormuz

The U.S.–Iran conflict has significantly disrupted global trade routes, especially strategic chokepoints such as the Strait of Hormuz, which is central to global energy security. This narrow maritime corridor carries about 20–25% of global oil supply and nearly 27% of seaborne oil trade, along with 20% of Global Liquefied Natural Gas (LNG) flows. Recent escalation has demonstrated the vulnerability of this chokepoint. In March 2026, shipping traffic through the Strait declined by nearly 95%, while Middle Eastern oil exports dropped by 60%, from about 25 million barrels/day to below 10 million barrels/day. The details of the Impact of the U.S.–Iran Conflict on Global Trade through the Strait of Hormuz are given in table -3.

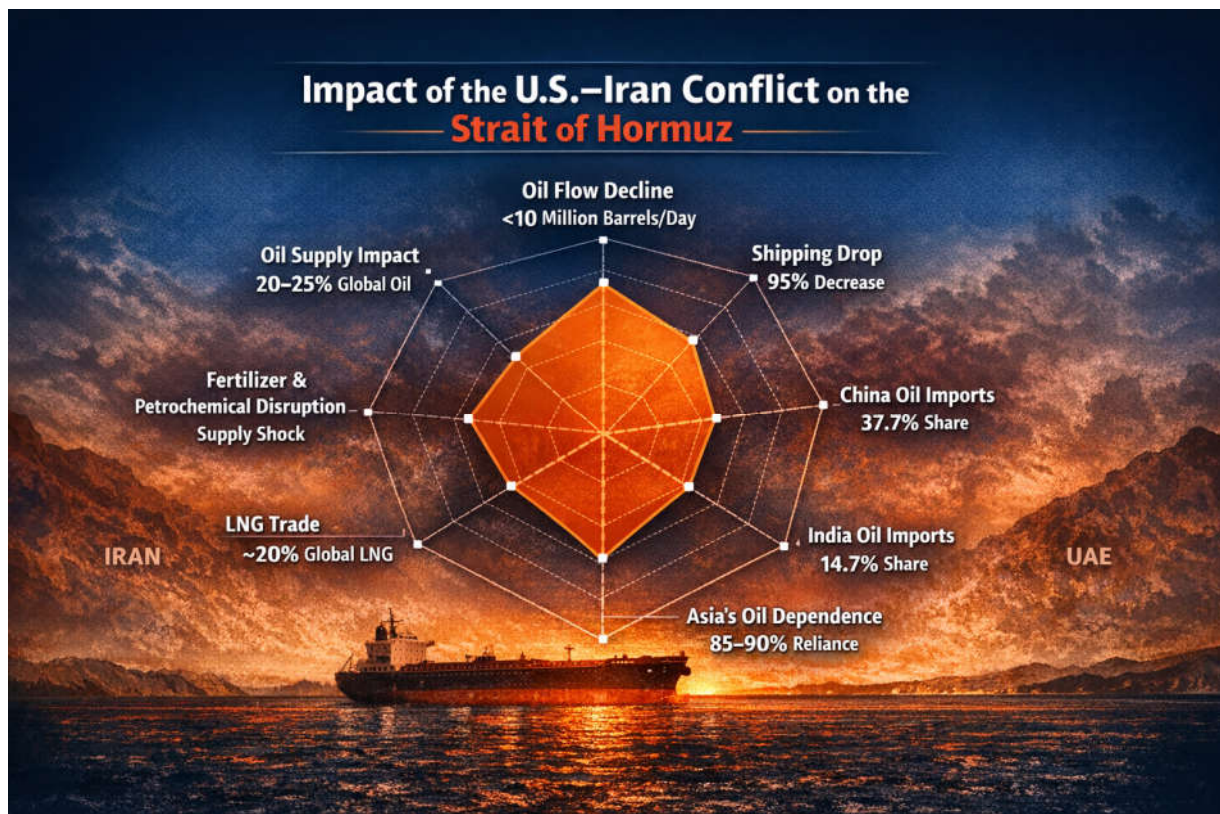
Table -3

Impact of the U.S.–Iran Conflict on Global Trade through the Strait of Hormuz

S.No.	Indicator	Pre-Conflict Level	During Conflict (2026)	Impact (%) / Change
1.	Share of Global Oil Supply via Strait of Hormuz	20–25%	Disrupted significantly	High systemic risk
2.	Share of Global Seaborne Oil Trade	27%	Severely constrained	Trade bottleneck
3.	Global LNG Trade via Strait	~20%	Partially disrupted	Supply uncertainty
4.	Daily Oil Flow (Million Barrels/Day)	~25 million b/d	<10 million b/d	↓ ~60%
5.	Shipping Traffic Volume	Normal (100%)	~5% of normal	↓ ~95%
6.	Asia’s Share of Oil Imports via Strait	85–90%	Highly affected	Severe regional exposure
7.	China’s Share in Strait Oil Imports	37.7%	Disrupted supply chains	Major importer risk
8.	India’s Share in Strait Oil Imports	14.7%	Increased import burden	Rising energy costs
9.	Fertilizer & Petrochemical Trade	Stable flows	Disrupted supply	Agricultural impact
10.	Global Freight & Insurance Costs	Stable	Sharp increase	Cost escalation

Source: Visual Capitalist (Energy Trade Data on Strait of Hormuz).

This represents one of the largest supply shocks in modern energy history, triggering sharp increases in oil prices and freight costs. The impact is highly uneven across regions. Asia receives nearly 85–90% of oil transported through the Strait, with countries like China (37.7%) and India (14.7%) being major importers. As a result, disruptions disproportionately affect Asian economies, leading to inflationary pressures, rising energy import bills, and trade imbalances.



Beyond oil, the Strait is vital for fertilizers, petrochemicals, and container traffic, meaning disruptions extend into agriculture, manufacturing, and food security. For instance, reduced fertilizer shipments have already raised global food price risks, particularly in developing economies. In short, the U.S.–Iran conflict highlights how geopolitical tensions at critical chokepoints can rapidly destabilize global trade networks. The heavy concentration of energy flows through the Strait of Hormuz amplifies systemic risk, making global supply chains highly sensitive to regional conflicts and reinforcing the need for diversification of trade routes and energy sources.

Rising Oil Prices, Geopolitical Tensions, and Macroeconomic Vulnerability in Third-World Economies: Implications for India

Rising oil prices, particularly in the context of geopolitical tensions such as the U.S.–Iran conflict, impose significant economic pressures on third-world economies by intensifying inflation, widening fiscal deficits, and increasing overall macroeconomic instability. As crude oil prices approach around \$100–105 per barrel in 2026, many developing countries experience strong cost-push inflation because fuel is a fundamental input across transportation, industry, and agriculture. This has contributed to an increase in global inflation by approximately 0.5–0.6

percentage points, while in India; inflation may rise from about 2.75% to 4.1%, indicating a substantial pass-through effect. At the same time, higher oil prices place heavy pressure on government finances and external balances. Countries like India, which import nearly 85–90% of their crude oil requirements, face rising import bills and subsidy burdens. A \$10 increase in oil prices can raise India’s current account deficit by around 0.3% of GDP, and if elevated prices persist, the deficit could reach nearly 2.2% of GDP. The details of the Impact of Rising Oil Prices on Third-World Economies with Special Reference to India (Amid U.S.–Iran Geopolitical Tensions) are presented in table -4.

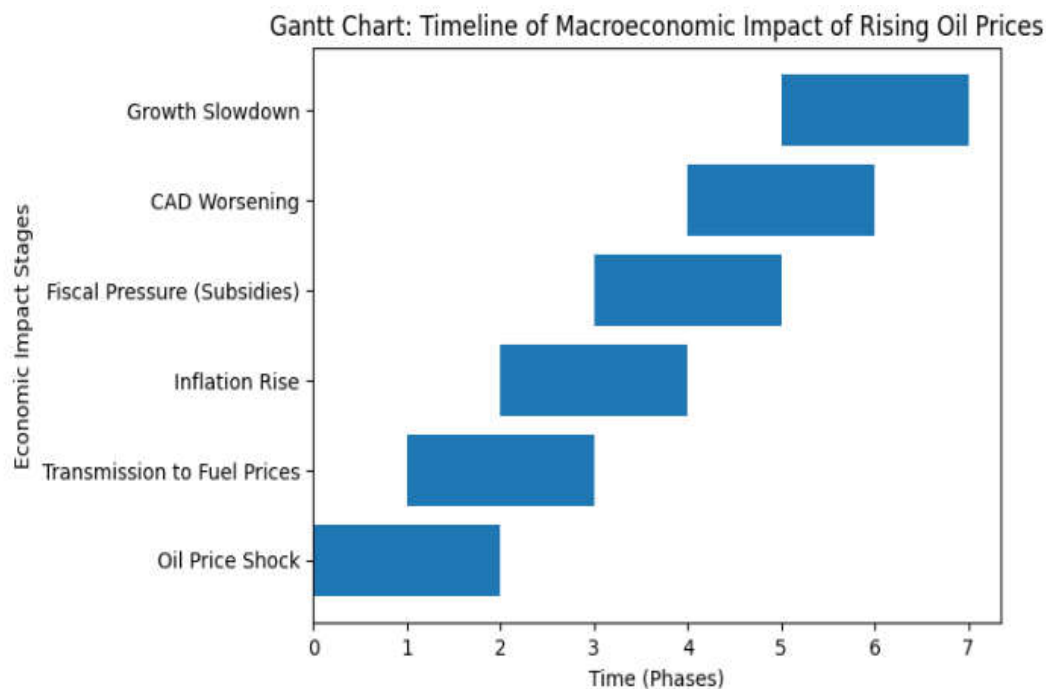
Table -4

**Impact of Rising Oil Prices on Third-World Economies with Special Reference to India
(Amid U.S.–Iran Geopolitical Tensions)**

S.No.	Indicator	Statistical Evidence	Impact on Third-World Economies	Specific Implications for India
1.	Crude Oil Prices	\$100–105 per barrel (2026 estimate)	Increases cost of imports and production	Raises fuel costs across sectors
2.	Global Inflation	+0.5% to +0.6% increase	Cost-push inflation in developing economies	Inflation rises from ~2.75% to ~4.1%
3.	Oil Import Dependence	70–90% in many developing countries	High vulnerability to external shocks	India imports ~85–90% of crude oil
4.	Current Account Deficit (CAD)	+0.3% of GDP per \$10 price rise	Worsens trade balance and external debt	CAD may reach ~2.2% of GDP
5.	Fiscal Deficit / Subsidy Burden	Significant increase in fuel subsidies	Expands government expenditure	Subsidy burden up to ₹3.6 trillion
6.	GDP Growth Impact	Global GDP declines by ~0.3%	Slower economic growth and investment	Growth falls from >7% to ~6%
7.	Exchange Rate Stability	Currency depreciation trends	Capital outflows and weaker currencies	Rupee faces downward pressure
8.	Trade Balance	Import bills surge significantly	Reduced export competitiveness	Higher trade deficit due to oil imports

Source: International Monetary Fund (IMF), World Bank, and Reuters (2026 estimates).

Additionally, the government may incur subsidy costs of up to ₹3.6 trillion, further straining fiscal stability. Similar fiscal challenges are evident across other oil-import-dependent developing nations. These dynamics contribute to broader macroeconomic instability by weakening currencies, reducing economic growth, and increasing financial volatility. Global GDP may decline by about 0.3%, while India’s growth rate could fall from above 7% to nearly 6% under sustained oil shocks. Currency depreciation and capital outflows further intensify economic uncertainty.



Overall, rising oil prices act as a critical transmission mechanism through which global geopolitical conflicts deepen economic vulnerabilities in third-world economies, particularly those heavily dependent on energy imports.

Supply Chain Vulnerability in Developing Economies amid U.S.–Iran Conflict

Developing economies are highly vulnerable to supply chain disruptions in energy, fertilizers, and food systems, especially under the ongoing U.S.–Iran conflict and broader geopolitical realignments. The strategic Strait of Hormuz carries nearly 20% of global oil supply, making any disruption immediately inflationary and destabilizing for import-dependent nations. In the energy sector, disruptions have removed up to 10 million barrels per day from global markets, pushing oil prices above \$100 per barrel and increasing global inflation by around 0.8%. Countries like Bangladesh, which rely on imports for 95% of energy demand, have faced LNG price spikes from \$10 to \$20–28 per mmBtu, forcing rationing and industrial shutdowns.

Fertilizer systems are equally fragile. India depends on global supply chains for 68–70% of fertilizers, with 20–25% exposure to disruptions via West Asian routes. Supply shocks increase prices of urea and ammonia, raising subsidy burdens and threatening agricultural productivity. Food systems face cascading effects. Fertilizer shortages and rising diesel costs elevate production and transport expenses, triggering food inflation. Network studies show that global food shocks can reduce supply by up to 12%, disproportionately affecting low-income

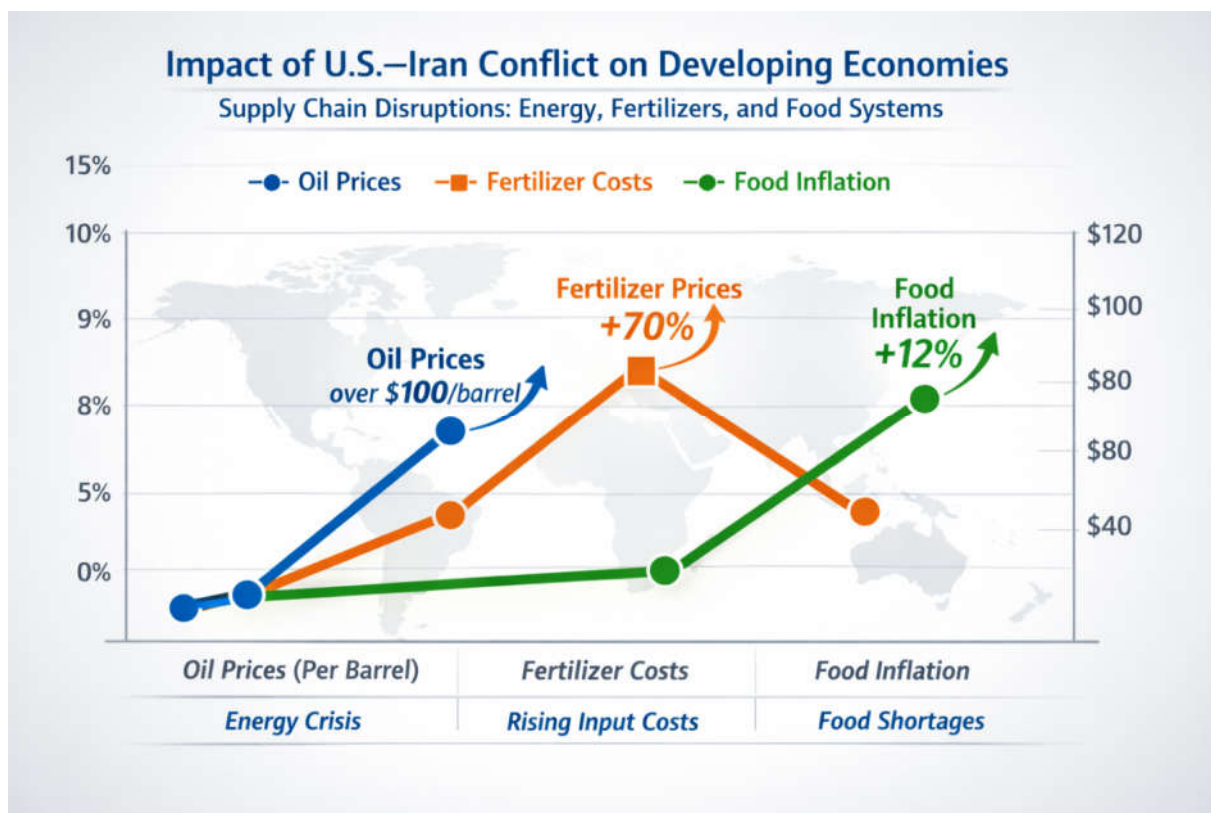
countries. For India, despite diversification (imports from ~40 countries), trade exposure remains high, with \$100 billion annual trade linked to the Middle East and continued reliance on maritime routes. Overall, developing economies face a triple vulnerability, energy insecurity, input dependency, and food inflation, amplified by geopolitical conflicts. These shocks strain fiscal balances, widen trade deficits, and heighten macroeconomic instability, underscoring the urgent need for supply diversification and strategic reserves. The details of the Supply Chain Vulnerability in Developing Economies: Energy, Fertilizer, and Food System Disruptions amid U.S.–Iran Conflict are stated in table -5.

Table -5

Supply Chain Vulnerability in Developing Economies: Energy, Fertilizer, and Food System Disruptions amid U.S.–Iran Conflict

S.No.	Sector	Indicator / Variable	Statistical Evidence (Latest Estimates)	Impact on Developing Economies
1.	Energy	Share of global oil passing through Strait of Hormuz	~20% of global oil supply	High exposure to price shocks and supply disruptions
		Global oil supply disruption	Up to 10 million barrels/day	Fuel shortages and rising import bills
		Oil price level	Exceeded \$100 per barrel	Inflation increase (~0.8% globally)
		LNG price volatility (Asia)	Increased from \$10 to \$20–28 per mmBtu	Energy rationing and industrial slowdown
2.	Fertilizers	Import dependency (India)	68–70% reliance on imports	Vulnerability to global supply chain disruptions
		Exposure to West Asian supply routes	20–25% of total imports	Risk of shortages due to geopolitical tensions
		Fertilizer price surge	Urea & ammonia prices increased significantly	Higher subsidy burden and fiscal stress
3.	Food Systems	Reduction in global food supply (shock scenario)	Up to 12% decline in supply	Food shortages in low-income countries
		Increase in agricultural input costs	Diesel and fertilizer costs sharply rising	Higher food inflation and reduced farm output
		Food inflation impact	5–15% rise in developing economies	Decline in purchasing power and food security
4.	Trade Exposure (India)	Trade with Middle East region	~\$100 billion annually	High dependence on conflict-prone region
		Import diversification	Imports from ~40 countries	Partial mitigation but continued vulnerability

Source: World Bank (2025), International Energy Agency (IEA), FAO, IMF Reports on Global Supply Chains and Geopolitical Risk.



Geopolitical Conflict and Financial Instability in Developing Economies: Evidence from the U.S.–Iran Crisis and India

Geopolitical conflicts such as the U.S.–Iran crisis generate profound financial disruptions for third-world economies through volatile capital flows, exchange rate instability, rising sovereign debt stress, and heightened investment risks. First, capital flows become highly unstable during conflicts. According to the IMF, emerging economies are particularly vulnerable, as sudden capital outflows often trigger financial instability and liquidity shortages. Recent evidence shows that conflict-driven uncertainty led to capital flight of \$5–8 billion from Egypt's treasury markets, reflecting declining investor confidence. Similarly, global investors tend to shift toward safe-haven assets (e.g., U.S. dollar), reducing foreign direct investment (FDI) in developing economies. Second, exchange rate volatility intensifies significantly. The Iranian currency depreciated sharply from about 817,500 rials/USD in early 2025 to 1.42 million rials/USD, indicating severe macroeconomic instability. In India, the rupee also faced pressure, requiring central bank intervention of nearly \$20 billion to stabilize currency markets. The OECD further notes that geopolitical stress amplifies currency fluctuations, especially where capital controls are weak. The details of the Geopolitical Conflict and Financial Instability in Developing Economies: Evidence from the U.S.–Iran Crisis and India are presented in table -6.

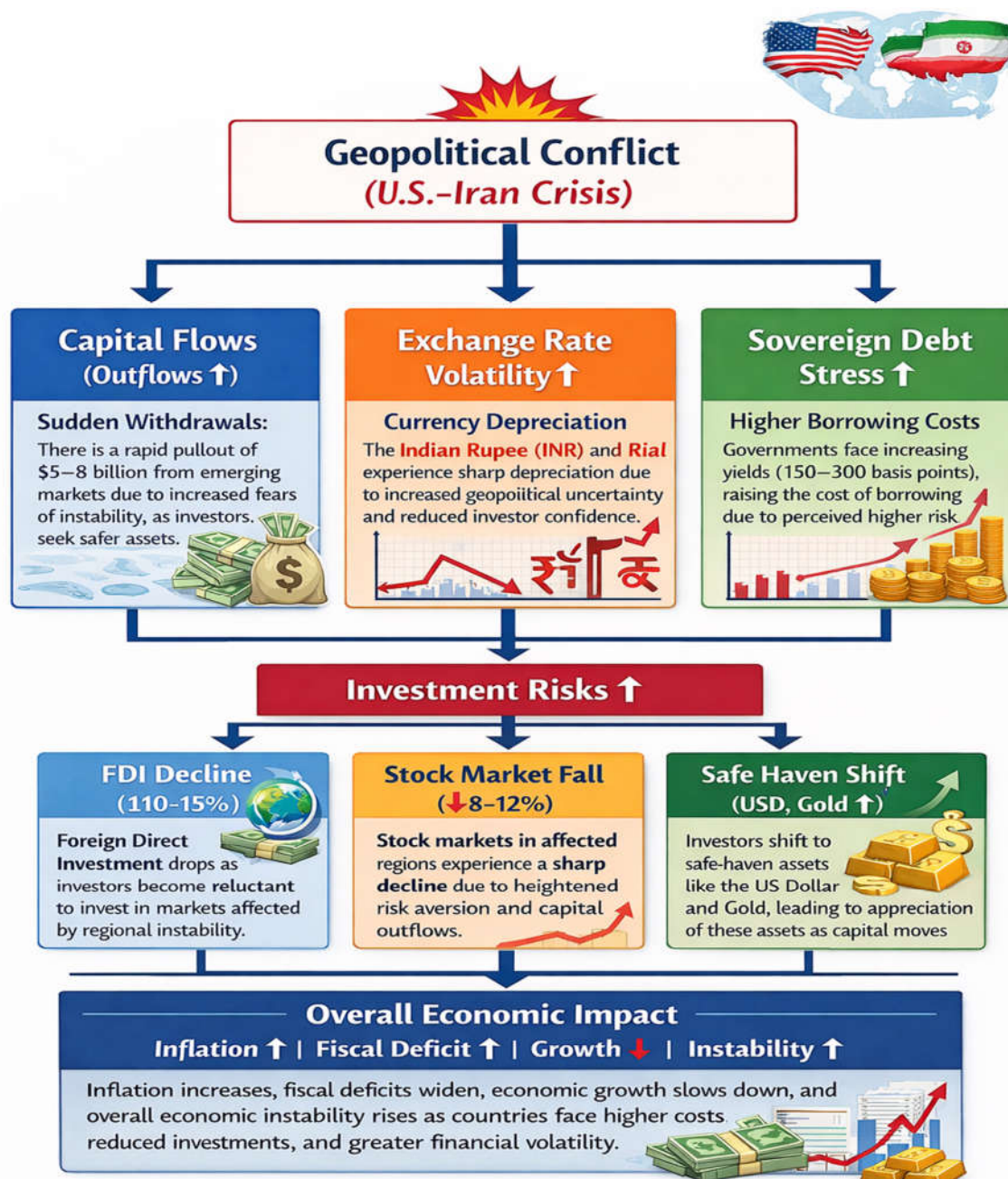
Table -6
Geopolitical Conflict and Financial Instability in Developing Economies: Evidence from the U.S.–Iran Crisis and India

S.No.	Financial Indicator	Country/Region	Statistical Evidence (Latest Estimates)	Implications
1.	Capital Outflows	Egypt	\$5–8 billion withdrawn from treasury markets (2025–26)	Decline in investor confidence and liquidity pressure
2.	Capital Flow Volatility	Emerging Markets	20–30% increase in portfolio outflows during geopolitical tensions	Increased financial instability and sudden stops in capital inflows
3.	Exchange Rate Depreciation	Iran	Rial depreciated from 817,500 to 1.42 million per USD (2025)	Severe inflationary pressure and macroeconomic instability
4.	Exchange Rate Pressure	India	RBI intervention of about \$20 billion to stabilize INR (2025)	Depletion of foreign exchange reserves and currency volatility
5.	Oil Price Shock	Global	Crude oil prices exceeded \$100 per barrel during peak tensions	Rising import bills and inflation in oil-dependent economies
6.	Sovereign Debt Burden	Egypt	Interest payments account for nearly 50% of total government expenditure	High fiscal stress and reduced developmental spending
7.	Borrowing Costs	Developing Economies	Increase of 150–300 basis points in sovereign bond yields	Higher debt servicing costs and fiscal deficits
8.	Foreign Direct Investment	Emerging Markets	FDI inflows declined by 10–15% during conflict periods	Slower economic growth and reduced capital formation
9.	Investor Risk Perception	Global Markets	Equity markets declined by 8–12% during major geopolitical escalations	Loss of market confidence and increased financial market volatility
10.	Safe-Haven Capital Shift	Global	Significant shift towards USD and gold assets (increase by 12–18%)	Weakening of developing economy currencies and capital flight

Source: International Monetary Fund (IMF), World Bank, OECD Economic Outlook Reports (2025–2026).

Third, sovereign debt stress worsens due to rising borrowing costs. Higher oil prices (above \$100 per barrel) and global interest rate pressures increase fiscal deficits and debt servicing burdens in developing economies. In Egypt, for instance, interest payments consume nearly 50% of government expenditure, highlighting severe debt vulnerability. Finally, investment risks escalate sharply. Conflict-induced uncertainty reduces business confidence, delays investment decisions, and disrupts financial markets. The Bank for International

Settlements warns that geopolitical tensions can trigger asset price declines, investor withdrawals, and credit market stress, particularly in emerging markets.



In short, the U.S.–Iran conflict exemplifies how geopolitical shocks transmit financial instability globally, with disproportionate effects on developing economies like India. These impacts underline the need for strong macroeconomic buffers, diversified capital inflows, and resilient financial systems to mitigate external shocks.

Global Commodity Market Disruptions and Economic Implications of the U.S.–Iran Conflict: A Focus on India’s Trade and Development

The stretched US-Iran confrontation has caused a significant shock in global commodity markets, particularly crude oil, Liquefied Natural Gas (LNG), fertilizers, and agricultural items, exacerbating strategic economic uncertainty in rising nations such as India. Crude oil markets have been the most affected. The details of the Impact of U.S.–Iran Conflict on Global Commodity Markets and Implications for India are given in table -7.

Table -7

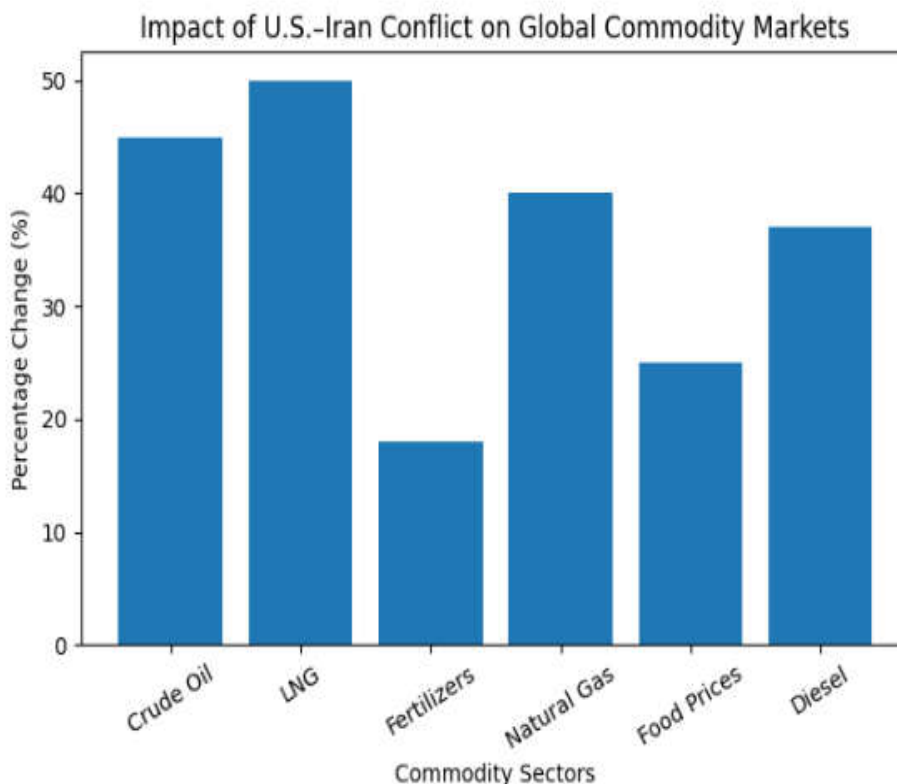
Impact of U.S.–Iran Conflict on Global Commodity Markets and Implications for India

S.No.	Commodity Sector	Key Indicators	Pre-Conflict Level	Post-Conflict Level	% Change	Implications for India
1.	Crude Oil	Brent Price (\$/barrel)	\$70–80	\$100–120	↑ 40–50%	Higher import bill (India imports ~85%), inflation, pressure on current account deficit
2.	Crude Oil Supply	Global Supply via Strait of Hormuz	~20% of global trade	Disruption up to 8 million barrels/day	Significant decline	Energy insecurity, increased fiscal burden due to fuel subsidies
3.	LNG	LNG Price Index (Asia)	Base 100	150	↑ 50%	Rising electricity and industrial production costs
4.	LNG Trade Flow	LNG via Hormuz	~80% of Asian supply	Severely disrupted	High risk	Supply shortages, dependence on spot markets at higher prices
5.	Fertilizers	Global Fertilizer Price Index	100	118	↑ 18%	Increased agricultural input costs, higher subsidy burden
6.	Natural Gas	Input cost for fertilizer production	Base 100	140	↑ 40%	Reduced fertilizer availability, affecting crop productivity
7.	Agricultural Products	Food Price Index	100	125	↑ 25%	Food inflation, reduced purchasing power of households
8.	Transport Cost	Diesel Prices	Base 100	137	↑ 37%	Increased logistics cost, rise in overall commodity prices

Source: International Energy Agency (IEA), World Bank Commodity Price Data, IMF Reports (2025–2026).

Disruptions in the Strait of Hormuz, through which nearly 20% of global oil supply flows, have reduced output by up to 8 million barrels per day, pushing Brent crude above \$100–

\$120 per barrel, with a 40–50% price surge since the conflict began . In extreme scenarios, prices may even reach \$130–\$200 per barrel, reflecting a strong geopolitical risk premium.



For India, these imports over 85% of its crude, this significantly raises inflation and current account pressures. LNG markets are equally volatile. Asian economies receive over 80% of LNG shipments via Hormuz, and prices have risen by around 50%, while European gas prices increased sharply due to supply disruptions. This raises electricity and industrial costs in energy-importing nations. Fertilizer markets are indirectly hit through higher natural gas prices (a key input). Global fertilizer prices had already increased by 18% in 2025, and supply chain disruptions now threaten availability during critical agricultural seasons. This may reduce crop yields and increase input costs. Agricultural commodities face cost-push inflation. Rising diesel (up 37%) and fertilizer costs are increasing production and transportation expenses, leading to higher global food prices. Overall, the conflict transmits inflation across sectors, weakens trade balances, and constrains development in third-world economies. India faces rising import bills, subsidy burdens, and macroeconomic instability, highlighting the vulnerability of its trade structure to geopolitical shocks.

Global Geopolitical Realignments and Strategic Economic Uncertainty: Changing Trade Alliances and the Impact of the U.S.–Iran Conflict on India and Third-World Economies

The intensification of geopolitical tensions, particularly the U.S.–Iran conflict, has significantly reshaped global trade alliances and economic blocs, leading to fragmentation and strategic realignments. Empirical evidence shows that geopolitical alignment strongly influences trade flows; a one-standard-deviation improvement in alignment can increase bilateral trade by nearly 20%, while global trade has already declined by about 7 percentage points due to rising tensions. Sanctions on Iran have drastically altered trade structures. India–Iran bilateral trade declined by nearly 87%, from \$17.6 billion in 2019 to about \$2.3 billion in 2024, with oil imports collapsing by 99%. Currently, total trade is only about \$1.2–1.6 billion, accounting for merely 0.15% of India’s total trade, reflecting India’s strategic shift toward diversified partners. The details of the Impact of U.S.–Iran Conflict on Trade Alliances and India’s Trade Structure: Statistical Overview is given in table – 8.

Table – 8

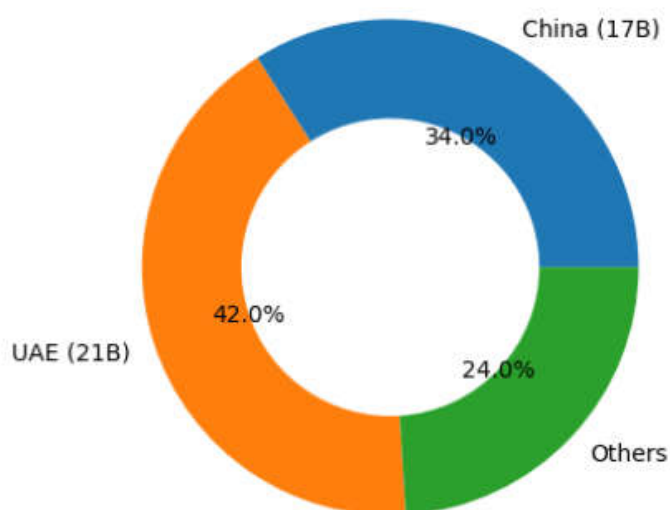
Impact of U.S.–Iran Conflict on Trade Alliances and India’s Trade Structure: Statistical Overview

S.No.	Indicator	2019	2022	2024–2025 (Latest)	% Change / Impact
1.	India–Iran Total Trade (USD Billion)	17.6	4.8	1.2–1.6	↓ ~87% decline
2.	India’s Oil Imports from Iran (%)	10% of total imports	<1%	~0%	↓ ~99% collapse
3.	Iran’s Trade Share with China (USD Billion)	11	15	17	↑ ~55% increase
4.	Iran’s Trade Share with UAE (USD Billion)	13	18	21	↑ ~61% increase
5.	Share of Iran’s Imports (China + UAE)	38%	48%	56%	Rising dependency
6.	Global Trade Reduction due to Geopolitical Tensions	—	—	~7% decline	Trade fragmentation
7.	Increase in Bilateral Trade due to Political Alignment	—	—	~20% increase	Bloc-based trade growth
8.	India’s Total Trade with Middle East (USD Billion)	121	160	~100–120	Strategic dependence
9.	Global Oil Supply Risk (Million Barrels/Day)	—	—	Up to 10	High volatility risk
10.	Share of Iran in India’s Total Trade (%)	1.5%	0.4%	0.15%	Marginalized partner

Source: International Monetary Fund (IMF), World Bank, UN Comtrade Database (2024–2025 consolidated estimates).

Simultaneously, new economic blocs have emerged. Iran has deepened ties with China and the UAE, which together account for over 56% of its imports (China \$17 billion, UAE \$21 billion). This indicates a shift toward non-Western trade networks under sanctions regimes. For India and other Third-World economies, indirect impacts are more severe than direct trade losses. The Middle East accounts for nearly \$100 billion of India's annual trade, and disruptions in the Strait of Hormuz threaten energy security and raise import costs. Rising oil price shocks have already increased global volatility, with supply disruptions affecting up to 10 million barrels per day.

Iran's Import Share by Major Partners (2024-25)



Overall, geopolitical uncertainty has led to trade diversion, regional bloc formation, and supply-chain restructuring. For India, the strategy has shifted toward trade diversification, energy security through alternative suppliers, and maintaining strategic autonomy, highlighting the complex developmental implications for emerging economies in an increasingly fragmented global trade system.

Geopolitical Tensions and Trade Realignment: Assessing the Impact of the U.S.–Iran Conflict on India's Trade Structure with West Asia and GCC Countries

India's commercial structure is significantly impacted by the current U.S.-Iran dispute, particularly given its close ties to West Asia and the Gulf Cooperation Council (GCC). With bilateral trade reaching over \$178.56 billion in Fiscal Year 2024–2025, or nearly 15.4% of India's total trade, the GCC is India's largest regional trading bloc. India's dependence on the

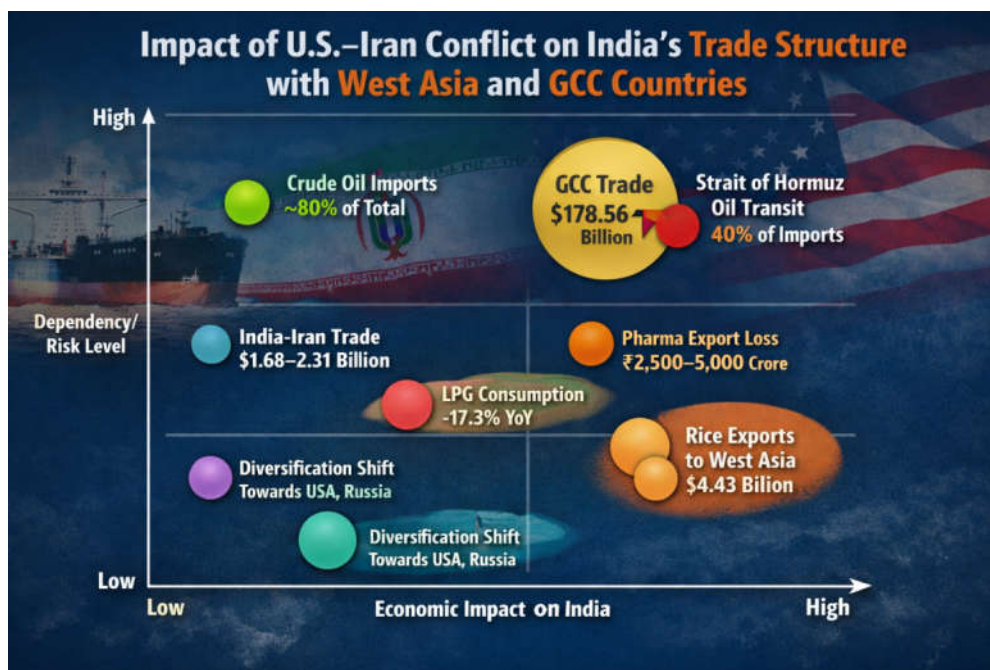
Gulf is highly energy-centric. Over 80% of India's crude oil is imported, and more than 40% of these imports pass through the Strait of Hormuz, making trade highly vulnerable to geopolitical disruptions. A recent escalation has already disrupted shipping routes, placing up to \$4 billion of monthly Indian exports to West Asia at risk. The details of the Impact of U.S.–Iran Conflict on India's Trade Structure with West Asia and GCC Countries are stated in table – 9.

Table -9
Impact of U.S.–Iran Conflict on India's Trade Structure with West Asia and GCC Countries

S.No.	Indicator	Region/Country	Value (Latest Available)	Implication for India
1.	Total Trade with GCC	GCC Countries	\$178.56 Billion	Accounts for ~15.4% of India's total trade, showing high regional dependence
2.	India's Crude Oil Import Dependence	Global (Majorly Gulf)	~80% of total crude imports	High vulnerability to geopolitical disruptions
3.	Oil Transit via Strait of Hormuz	West Asia	~40% of India's oil imports	Strategic chokepoint risk affecting energy security
4.	Monthly Exports at Risk	West Asia	~\$4 Billion	Trade disruption due to shipping instability
5.	India–Iran Bilateral Trade	Iran	\$1.68–2.31 Billion	Limited but strategically important due to sanctions
6.	Food Exports to West Asia	West Asia	\$11.8 Billion	Strong agricultural export dependence
7.	Rice Export Share	West Asia	\$4.43 Billion (36.7%)	GCC is a major market for Indian rice
8.	Pharma Export Loss Risk	West Asia	₹2,500–5,000 Crore	Supply chain disruptions impacting healthcare exports
9.	LPG Consumption Decline	India (linked to Gulf supply)	–17.3% (YoY)	Reflects immediate energy supply shocks
10.	Trade Diversification Trend	USA, Russia, Others	Increasing share	Reducing dependence on Gulf region

Source: Ministry of Commerce and Industry (India), Reuters, Economic Times (2025–2026 consolidated estimates).

Trade with Iran remains relatively small but strategically important. Bilateral trade stood at around \$1.68–2.31 billion (2024–25), with India enjoying a trade surplus driven by exports such as rice, tea, and pharmaceuticals. However, sanctions and conflict volatility constrain further expansion. Sectoral impacts are substantial. India exported \$11.8 billion worth of food products to West Asia in 2025, including \$4.43 billion in rice alone (36.7% share), making the region crucial for agricultural trade. Similarly, disruptions have increased freight costs and threatened ₹2,500–5,000 crore losses in pharmaceutical exports.



Recent evidence shows immediate shocks: LPG consumption fell 17.3% year-on-year due to supply disruptions, highlighting India's heavy reliance on Gulf energy flows. In response, India is restructuring its trade by diversifying energy imports toward the U.S., Russia, and others, reducing Gulf dependence. This indicates a gradual shift from region-specific dependence to more resilient, diversified trade architecture under geopolitical uncertainty.

India's Energy Security under Strain: Evaluating Import Dependence and Maritime Vulnerabilities amid U.S.–Iran Geopolitical Tensions

India's energy security faces significant challenges due to its heavy dependence on imported hydrocarbons and vulnerable maritime routes, particularly amid the U.S.–Iran conflict. India imports nearly 88–90% of its crude oil, making it the world's third-largest oil importer. A major concern is the Strait of Hormuz, through which 40–50% (about 2.5–2.7 million barrels/day) of India's crude imports pass. This corridor alone accounts for nearly 46% of India's crude import value (\approx \$65 billion in 2024). Additionally, 80–90% of LPG and around 55% of LNG supplies depend on this route, intensifying vulnerability. Recent geopolitical tensions have exposed these risks. Maritime disruptions have led to a 95% drop in ship traffic in Hormuz and stranded Indian vessels, directly affecting fuel supply chains. India sources around 90% of LPG imports from the Gulf, and recent disruptions caused a 17.3% year-on-year fall in LPG availability.

Such shocks increase oil prices, widen the current account deficit, and trigger inflationary pressures across transport, fertilizers, and manufacturing sectors. To mitigate risks, India has diversified imports, about 70% of crude now bypasses Hormuz, and maintains strategic reserves of up to 8 weeks of consumption. However, long-term energy security still requires structural reforms, including renewable energy expansion, supplier diversification, and maritime security cooperation. Thus, India's energy security remains deeply intertwined with geopolitical stability in West Asia, making it highly sensitive to global strategic uncertainties. The details of the India's Energy Security Vulnerability: Key Statistical Indicators of Import Dependence and Maritime Risk (2024–2026) are given in table -10.

Table – 10

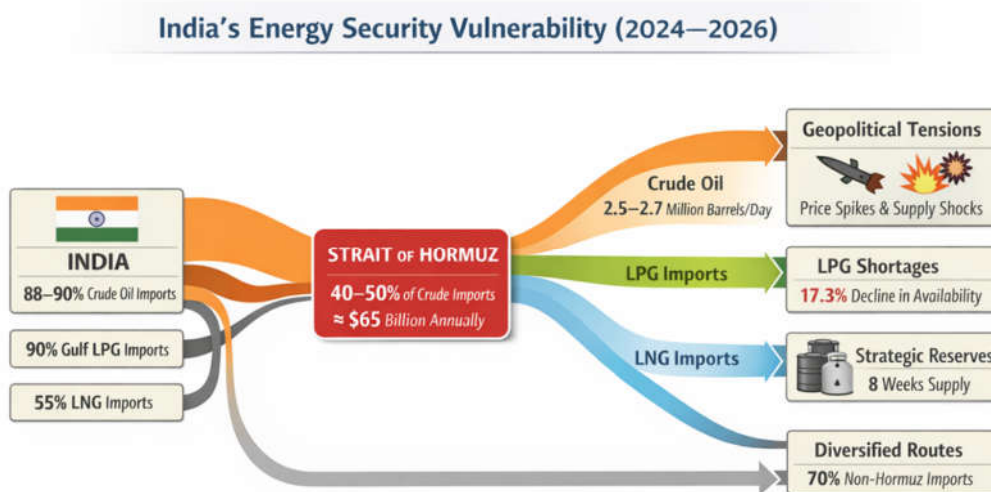
India's Energy Security Vulnerability: Key Statistical Indicators of Import Dependence and Maritime Risk (2024–2026)

S.No.	Indicator	Statistical Data	Implication for Energy Security
1.	Total Crude Oil Import Dependence	88–90% of total consumption	High external dependency increases exposure to global shocks
2.	Share of Imports via Strait of Hormuz	40–50% (≈ 2.5 – 2.7 million barrels/day)	Critical maritime chokepoint risk
3.	Value of Crude Passing through Hormuz	\approx \$65 billion annually	Large financial exposure to geopolitical disruptions
4.	LPG Import Dependence from Gulf Region	Around 90%	Essential household fuel highly vulnerable to supply shocks
5.	LNG Imports via Hormuz	Around 55%	Risk to power and industrial sectors
6.	Decline in LPG Availability (Recent Conflict Impact)	17.3% decrease (YoY)	Immediate supply shortages affecting domestic consumption
7.	Strategic Petroleum Reserves	Equivalent to ~ 8 weeks of consumption	Limited buffer against prolonged disruptions
8.	Diversified Import Routes (Non-Hormuz)	About 70% of crude imports	Partial mitigation of geopolitical risk
9.	India's Global Rank in Oil Imports	3rd largest importer globally	Greater sensitivity to global price volatility

Source: Ministry of Petroleum and Natural Gas (India), International Energy Agency (IEA), and Economic Times Reports (2024–2026).

India's energy profile shows acute vulnerability driven by structural import dependence and maritime concentration risks. With 88–90% reliance on imported crude and nearly 40–50% (≈ 2.5 – 2.7 million barrels/day) transiting the Strait of Hormuz, exposure to geopolitical disruptions is substantial, involving \approx \$65 billion annually. Heavy dependence on Gulf LPG ($\sim 90\%$) and LNG ($\sim 55\%$) amplifies domestic supply risks, reflected in a 17.3% YoY LPG

decline. Strategic reserves covering only ~8 weeks offer limited resilience. Although diversification ($\approx 70\%$) reduces risk, India's position as the 3rd largest importer heightens sensitivity to global price volatility.



India's energy system is highly import-dependent (88–90%), with 40–50% of crude ($\approx 2.5\text{--}2.7$ mb/d) routed via the Strait of Hormuz, exposing \sim \$65 billion annually to geopolitical risks. High LPG (90%) and LNG (55%) dependence, alongside a 17.3% LPG decline, highlights supply fragility despite limited 8-week reserves and partial diversification (70%).

Sectoral Impact of Geopolitical Instability on Indian Exports: Evidence from the U.S.–Iran Conflict and West Asian Trade Dynamics

The sectoral impact of the U.S.–Iran conflict and wider West Asian instability on India's exports reveals mixed outcomes across key commodities. Basmati rice exports remain relatively resilient but face logistical and financial disruptions. India exported basmati worth about ₹50,312 crore (\$5.87 billion) in Fiscal Year 2024–25, with volumes rising to 60.65 lakh tonnes (15.7% growth). However, major markets like Iran, Iraq, and Saudi Arabia are affected by shipping disruptions and delayed payments, especially through the Strait of Hormuz, increasing freight and insurance costs. Short-term growth is thus constrained despite strong demand. Tea exports, though not directly quantified here, are vulnerable to demand fluctuations in West Asia and CIS regions. Rising fuel costs and currency volatility increase export prices, reducing competitiveness in price-sensitive markets. Diamonds and gems show significant negative impact. India's cut and polished diamond exports declined by 16.8% to \$13.3 billion, reflecting

weak global demand and geopolitical uncertainty . However, diversification strategies led to a modest recovery, with total gems and jewellery exports reaching about \$25.93 billion in 2026. Petroleum products, India’s largest export category (about 17–19% share), remain highly sensitive to geopolitical tensions.

Exports reached \$84.96 billion in 2023, but instability raises crude prices, insurance premiums, and supply risks, affecting refining margins and trade flows. Overall, India’s export structure shows resilience with sectoral divergence: agricultural exports like basmati are stable but strained, gems and diamonds are demand-sensitive and declining, while petroleum exports face volatility due to geopolitical shocks. This underscores the need for market diversification, secure trade routes, and financial risk mitigation in India’s export strategy. The details of the Sectoral Impact of U.S.–Iran Conflict on India’s Key Export Commodities are presented in table -11.

Table -11

Sectoral Impact of U.S.–Iran Conflict on India’s Key Export Commodities

S.No.	Sector / Commodity	Export Value (USD)	Export Value (INR)	Volume / Change	Key Markets Affected	Impact of Geopolitical Instability
1.	Basmati Rice	\$5.87 Billion	₹50,312 Crore	60.65 lakh tonnes (↑15.7%)	Iran, Iraq, Saudi Arabia	Payment delays, shipping disruptions, higher freight & insurance costs
2.	Tea	\$0.83 Billion	₹6,900 Crore	~225 million kg (stable)	UAE, Iran, Russia	Rising fuel costs, reduced price competitiveness, demand uncertainty
3.	Diamonds & Gems	\$25.93 Billion	₹2.15 lakh crore	↓16.8% in polished diamonds	USA, UAE, Hong Kong	Weak global demand, trade disruptions, declining luxury consumption
4.	Petroleum Products	\$84.96 Billion	₹7.05 lakh crore	~17–19% of total exports	UAE, Singapore, Netherlands	Crude price volatility, supply chain risks, higher marine insurance
5.	Overall Export Trend	\$437 Billion (Total Exports)	₹36.3 lakh crore	Moderate growth (~3–5%)	Global	Trade route insecurity, currency volatility, rising transaction costs

Source: Ministry of Commerce & Industry (Government of India), IBEF, and Industry Reports (2024–2026).



Risks to India's Strategic Connectivity and Port Investments: The Case of Chabahar under U.S.–Iran Geopolitical Tensions

India's strategic investments in port infrastructure and regional connectivity, especially the Chabahar Port and the International North–South Transport Corridor (INSTC) face significant risks due to the U.S.–Iran conflict and regional instability. India has invested about \$120 million in port development and extended a \$250 million credit line, with total commitments reaching \$370 million for Chabahar. The port has handled over 8 million tonnes of cargo and 90,000+ Twenty-foot Equivalent Units (TEUs) by 2024, with container traffic rising sharply to 64,245 Twenty-foot Equivalent Units (TEUs) in Fiscal Year 2024 (600% growth), indicating strong commercial potential. However, geopolitical tensions directly threaten these gains. First, sanctions risk remains critical. U.S. sanctions and tariff threats on Iran-related trade can disrupt financing, insurance, and payment systems, discouraging private participation and increasing transaction costs. Second, maritime insecurity in the Strait of Hormuz, through which nearly 20% of global oil flows poses severe risks to shipping routes, with Indian vessels already facing disruptions. This affects not only energy imports but also outbound trade via Iranian corridors.

Third, project delays and operational uncertainty are evident. The 700–750 km Chabahar–Zahedan railway and port expansion to 500,000 TEU capacity by 2026 may face

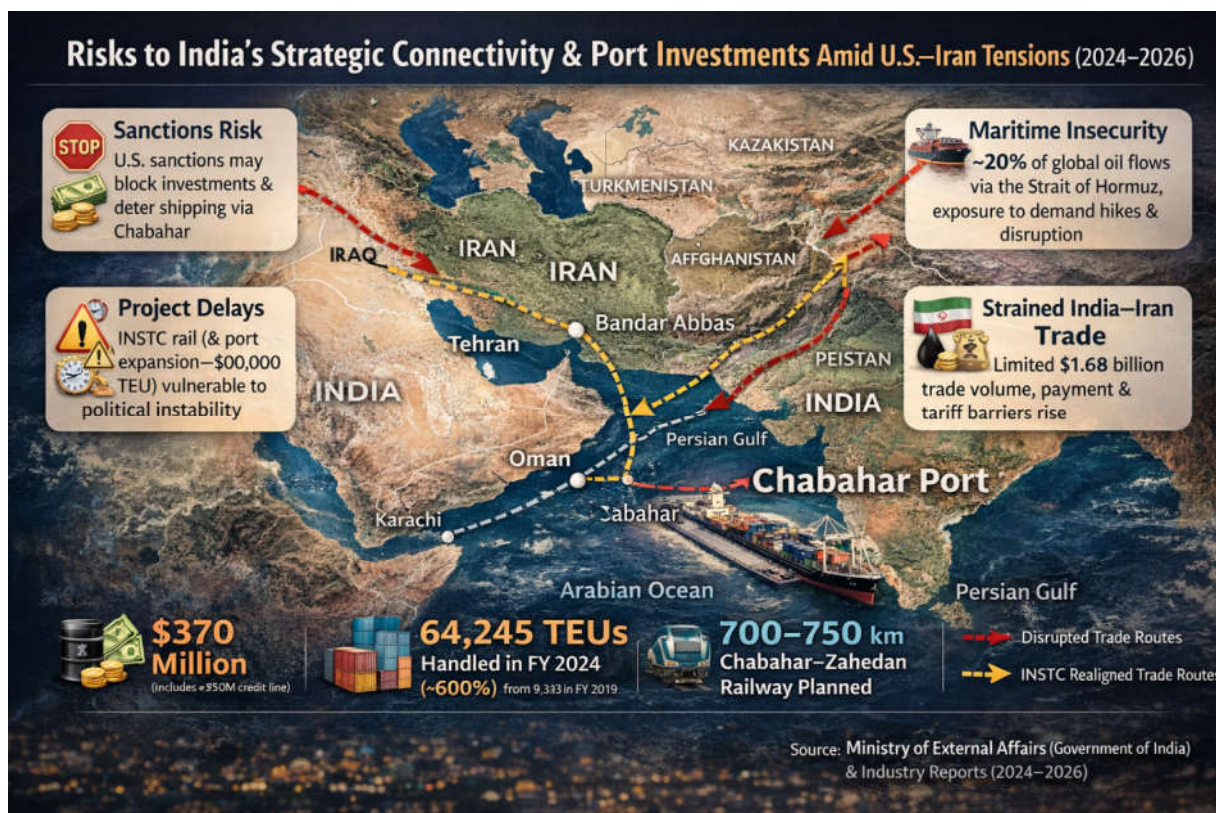
delays due to political instability and funding constraints. Any disruption weakens India's access to Afghanistan, Central Asia, and Eurasian markets. Fourth, bilateral trade remains modest at \$1.68 billion (Fiscal Year 2024–25), limiting immediate returns on investment while increasing exposure to geopolitical shocks. Overall, while Chabahar enhances India's strategic autonomy by bypassing Pakistan, the U.S.–Iran conflict creates high geopolitical, financial, and operational risks, necessitating diversification of corridors and stronger diplomatic balancing to safeguard long-term economic and connectivity interests. The details of the Risks to India's Strategic Connectivity Projects: Statistical Overview of Chabahar Port and Regional Trade Corridors under U.S.–Iran Geopolitical Tensions are stated in table – 12.

Table – 12

Risks to India's Strategic Connectivity Projects: Statistical Overview of Chabahar Port and Regional Trade Corridors under U.S.–Iran Geopolitical Tensions

S.No.	Indicator / Project Component	Statistical Data / Value	Time Period	Economic Significance	Risk Due to Geopolitical Instability
1.	India's Investment in Chabahar Port	\$120 million (port) + \$250 million credit line (Total: \$370 million)	Up to 2024	Enhances access to Afghanistan & Central Asia	Sanctions risk, funding constraints
2.	Cargo Handled at Chabahar Port	8+ million tonnes	2018–2024	Indicates growing trade utilization	Trade disruption, shipping delays
3.	Container Traffic (TEUs)	64,245 TEUs (↑600% growth)	FY 2024	Rising logistics efficiency	Operational uncertainty
4.	Planned Port Capacity Expansion	500,000 TEUs	Target by 2026	Boosts long-term trade competitiveness	Project delays, cost escalation
5.	Chabahar–Zahedan Railway Length	700–750 km	Under development	Critical for INSTC connectivity	Political instability, delays
6.	India–Iran Bilateral Trade	\$1.68 billion	FY 2024–25	Limited trade volume relative to potential	Payment restrictions, sanctions
7.	Strait of Hormuz Oil Flow Share	~20% of global oil trade	Ongoing	Vital for energy and trade security	Maritime insecurity, route risks
8.	INSTC Trade Cost Reduction Potential	30–40% lower logistics cost	Estimated	Major trade facilitation benefit	Corridor disruption risk

Source: Ministry of External Affairs (Government of India) & Industry Reports on Chabahar Port and INSTC (2024–2026).



Geopolitical Tensions and Their Impact on Remittances and Labour Markets: Implications of the U.S.–Iran Conflict for Indian Migrant Workers in Gulf Economies

Geopolitical tensions such as the U.S.–Iran conflict significantly influence remittances and labour markets, particularly for Indian migrant workers in Gulf Cooperation Council (GCC) countries. India remains the world's largest remittance recipient, with inflows reaching about USD 129–135 billion in 2024–25, accounting for over 14% of global remittances. Notably, nearly 38–40% of India's remittances originate from GCC countries, where around 9 million Indian workers are employed, mainly in construction and services. However, geopolitical instability in West Asia disrupts this economic lifeline. Conflicts tend to affect oil prices, fiscal spending, and labour demand in Gulf economies. For instance, slower economic growth and production cuts in oil-exporting countries have already contributed to reduced remittance outflows from the GCC, moderating remittance growth to South Asia. Additionally, stricter labour regulations and deportations, over 13,000 Indian workers repatriated from Saudi Arabia in 2025, highlight rising employment vulnerability.

At the household level, declining remittances directly affect consumption, savings, and social welfare in India. Recent evidence shows that geopolitical tensions in the Gulf have already

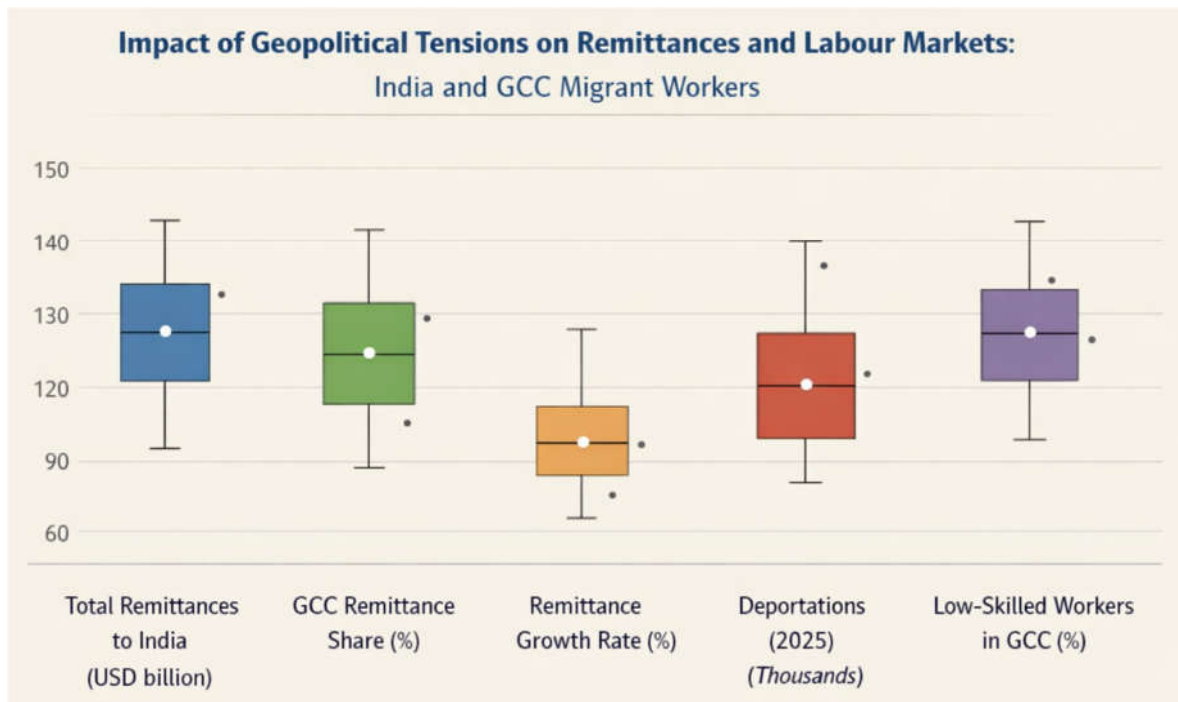
led to reduced remittance inflows and lower spending among dependent families . From a labour market perspective, uncertainty discourages new migration and increases job insecurity, especially among low-skilled workers. Since nearly half of Indian migrants reside in GCC countries, shocks in this region disproportionately affect India’s external sector and rural livelihoods. In short, geopolitical tensions reshape migration patterns, reduce remittance stability, and expose structural vulnerabilities in India’s development model, emphasizing the need for diversification of migration destinations and domestic employment generation. The details of the Impact of Geopolitical Tensions on Remittances and Labour Markets: Evidence from India and GCC Countries are stated in table – 13.

Table – 13

Impact of Geopolitical Tensions on Remittances and Labour Markets: Evidence from India and GCC Countries

S.No.	Indicator	Statistical Data	Relevance to U.S.–Iran Conflict
1.	Total Remittances to India	USD 129.4 billion (2024)	Indicates India’s high dependence on external income flows vulnerable to geopolitical shocks
2.	Share of Global Remittances	~14% of global total	Highlights India’s dominant position and exposure to global disruptions
3.	GCC Contribution to India’s Remittances	38–40% (~USD 50 billion)	Heavy reliance on Gulf region, directly affected by West Asian instability
4.	Indian Migrants in GCC	~9 million workers	Large labour force exposed to job losses during conflict
5.	Share of Indian Migrants in GCC	~50% of total Indian migrants	Concentration risk in a geopolitically sensitive region
6.	Remittance Growth Rate	Slowed to ~3% in 2023 (from 8% earlier)	Reflects impact of oil price volatility and fiscal tightening
7.	Oil Price Volatility	Brent crude fluctuated between USD 75–95/barrel (2023–25)	Affects GCC revenues, employment, and remittance capacity
8.	Deportation / Repatriation Cases	13,000+ Indian workers deported (Saudi Arabia, 2025)	Indicates rising labour market insecurity amid policy tightening
9.	Share of Low-Skilled Workers	~60–65% of Indian migrants in GCC	Most vulnerable to layoffs during economic and geopolitical shocks
10.	Household Dependence on Remittances	25–30% income share in migrant households	Direct impact on consumption and rural livelihoods in India

Source: World Bank, RBI Remittance Survey (2024–25).



Remittances to India remain high (~\$120–135B), with 45–55% from GCC countries. Growth slows (~7–12%) amid rising deportations (~90–130K) and high low-skilled share (~60–70%). This indicates vulnerability of migrant incomes to geopolitical shocks, risking remittance stability and domestic consumption.

Geopolitical Conflict and Developmental Vulnerabilities: Impacts of the U.S.–Iran Crisis on Poverty, Food Security, and Social Welfare in Third-World Economies

The U.S.–Iran conflict under conditions of global geopolitical uncertainty has profound developmental consequences for third-world economies, particularly in terms of poverty, food security, and social welfare. First, poverty intensifies sharply in conflict-linked economies. According to the World Bank, about 421 million people (nearly 40%) in conflict-affected economies live below \$3 per day, compared to just 6% in other developing countries. Empirical evidence shows that high-intensity conflicts reduce GDP per capita by nearly 20% over five years, weakening income generation and employment opportunities. Rising oil prices, reportedly increasing by around 35% due to Hormuz disruptions, further strain fiscal balances and inflation in import-dependent economies like India.

Second, food security deteriorates significantly. Conflict disrupts fertilizer, fuel, and food supply chains. For instance, nearly 18% of populations in fragile economies face acute food insecurity, 18 times higher than other developing nations. Recent evidence shows that disruptions in Gulf supply chains are already raising fertilizer and energy prices, worsening agricultural productivity and food access across Africa and Asia. Globally, up to 828 million people face hunger, with conflicts adding millions more to

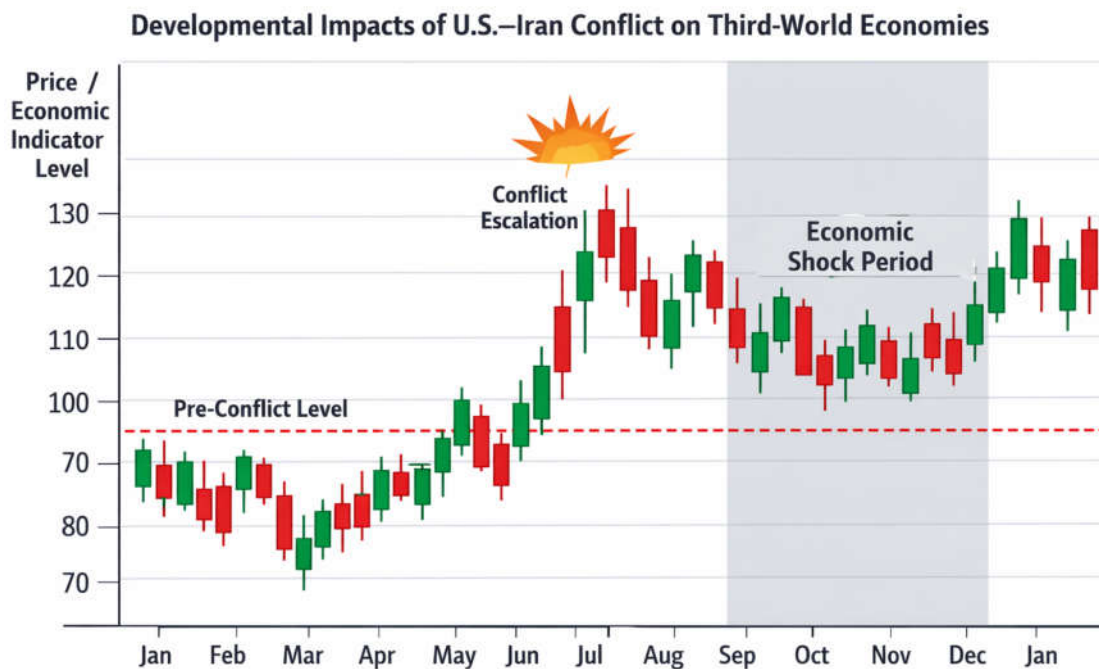
food-insecure populations. Third, social welfare systems weaken under economic shocks. Governments face rising subsidy burdens due to energy and food inflation, while declining remittances and investment reduce public spending capacity. In India, heavy dependence on imported crude (over 85%) increases vulnerability to such shocks, affecting welfare schemes and development expenditure. In short, geopolitical conflicts like the U.S.–Iran crisis create multi-dimensional development setbacks, amplifying poverty, deepening food insecurity, and eroding social welfare systems across third-world economies. The details of the Developmental Impacts of the U.S.–Iran Conflict on Third-World Economies: Key Statistical Indicators on Poverty, Food Security, and Social Welfare are given in table - 14.

Table -14

Developmental Impacts of the U.S.–Iran Conflict on Third-World Economies: Key Statistical Indicators on Poverty, Food Security, and Social Welfare

S.No.	Indicator	Pre-Conflict / Stable Scenario	Post-Conflict / Shock Scenario	% Change / Impact	Developmental Implication
1.	Poverty Rate (Population below \$3/day)	6% (other developing economies)	40% (conflict-affected economies)	↑ ~34 percentage points	Sharp increase in extreme poverty and inequality
2.	GDP per Capita Growth	+3% to +5% annually	-15% to -20% over 5 years	↓ ~20%	Economic contraction and loss of livelihoods
3.	Global Crude Oil Prices	\$70–\$80 per barrel	\$95–\$110 per barrel	↑ ~30%–35%	Inflationary pressure, especially in import-dependent economies like India
4.	Food Insecurity Rate	~1%–2% (stable economies)	~18% (fragile/conflict economies)	↑ ~16 percentage points	Reduced access to food and increased malnutrition
5.	Global Hunger Population	~690 million	~828 million	↑ ~20%	Expansion of food crisis worldwide
6.	Fertilizer Price Index	Base Index = 100	Index = 135–150	↑ ~35%–50%	Higher agricultural costs and reduced farm productivity
7.	Government Fiscal Deficit (as % of GDP)	4%–6%	7%–10%	↑ ~3–4 percentage points	Reduced capacity for welfare spending
8.	Remittance Inflows (to developing countries)	Stable growth (~5%)	Decline by 8%–10%	↓ ~10%	Lower household income and consumption
9.	Public Welfare Expenditure	100 (Base Index)	80–85 (Index)	↓ ~15%–20%	Contraction in social protection programs

Source: World Bank, IMF, FAO (Combined Estimates on Conflict-Affected Economies and Global Commodity Market Trends).



The U.S.–Iran conflict shows a sharp rise from a pre-conflict index ~95 to peaks of 125–130 during escalation, followed by volatile stabilization (105–120). This reflects inflationary shocks, market uncertainty, and prolonged economic instability in third-world economies during the shock period.

Policy Responses and Economic Resilience Strategies in Developing Economies: India's Approach to Energy Diversification and Trade Realignment under U.S.–Iran Geopolitical Tensions

India and other developing economies have adopted diversification and resilience strategies to manage geopolitical shocks such as the U.S.–Iran conflict. India, which imports about 87.8% of its crude oil and nearly 90% of total demand, is highly exposed to supply disruptions. A key policy response has been energy diversification. India expanded its supplier base from 27 to about 40 countries, reducing overdependence on West Asia. Russia alone accounts for 35–40% of imports (≈ 1.7 – 1.8 million barrels/day), while the Middle East share has fallen below 45%, improving supply stability. Recent disruptions in the Strait of Hormuz further accelerated diversification, with 70% of crude now sourced from non-Hormuz routes and LPG imports increasingly coming from the U.S., Norway, and Canada. Second, India is promoting energy transition policies. It aims to raise natural gas in the energy mix from 6% to 15% by 2030 and achieve 20% ethanol blending, which has already substituted 181 lakh metric tonnes of crude oil. These measures reduce import dependence and inflation risks. The details of the Policy

Responses and Economic Resilience Strategies in Developing Economies: India's Approach to Energy Diversification and Trade Realignment under U.S.–Iran Geopolitical Tensions are stated in table – 15.

Table – 15

Policy Responses and Economic Resilience Strategies in Developing Economies: India's Approach to Energy Diversification and Trade Realignment under U.S.–Iran Geopolitical Tensions

S.No.	Indicator	Pre-Conflict / Earlier Period	Recent Data (2024–2026)	Policy Response / Strategy	Economic Implication
1.	Crude Oil Import Dependence	~82–84% (2010s avg.)	87.8% of total consumption	Strategic petroleum reserves, diversification	High vulnerability but improved preparedness
2.	Number of Oil Supplier Countries	~27 countries	≈ 40 countries	Import diversification strategy	Reduced geopolitical supply risk
3.	Share of Middle East in Oil Imports	~60–65%	<45%	Shift to Russia, U.S., Africa	Lower regional concentration risk
4.	Russia's Share in India's Oil Imports	<2% (pre-2022)	35–40% (≈1.7–1.8 mb/d)	Discounted crude imports	Lower import bill, CAD stability
5.	Non-Hormuz Route Oil Imports	~50%	≈ 70%	Alternative shipping routes	Reduced chokepoint risk
6.	Natural Gas Share in Energy Mix	~6%	Target: 15% by 2030	Gas-based economy push	Cleaner energy, reduced oil dependence
7.	Ethanol Blending Rate	~10%	20% target achieved (approx.)	Biofuel policy expansion	Saved 181 LMT of crude oil
8.	LPG Import Diversification	Heavy Middle East reliance	Increased imports from U.S., Norway, Canada	Supplier diversification	Energy security strengthened
9.	India's Oil Demand	~5 mb/d (2022)	Projected 8 mb/d by 2035	Long-term energy planning	Rising demand pressure
10.	Trade Diversification (U.S. Share)	~5–6%	~ 8%	Strategic trade partnerships	Broader trade resilience
11.	South–South Trade (Developing Countries)	Limited integration	Increasing regional trade blocs	Regional cooperation policies	Reduced dependency on West

Source: International Energy Agency (IEA), Government of India (Ministry of Petroleum & Natural Gas), and Reuters (2025–2026 consolidated estimates).



Third, trade diversification and strategic partnerships enhance resilience. India increased imports from the U.S. (8% share) and Africa/Latin America, while leveraging discounted Russian oil to reduce its import bill and stabilize the current account. Simultaneously, developing countries are forming South–South trade networks and regional blocs to reduce reliance on geopolitically sensitive routes. Overall, these strategies improve economic resilience by stabilizing energy supply, reducing trade concentration risks, and protecting growth. However, rising demand (projected 8 million barrels/day by 2035) means vulnerability persists, requiring sustained diversification and renewable expansion.

Enhancing India's Economic Resilience under Geopolitical Uncertainty

Nearly 20% of the world's oil and gas traffic travels through the Strait of Hormuz, which has been badly interrupted by the ongoing U.S.-Iran conflict. This has resulted in high volatility in petroleum prices and increased inflationary pressures worldwide. Brent crude recently surpassed USD 100 per barrel amid renewed tensions, highlighting India's vulnerability due to its concentrated energy imports. In 2025, approximately 48.7% of India's crude oil and 68% of LNG imports originated from West Asia, underscoring the need for trade diversification. Expanding supplier networks in Africa, the Americas, and Southeast Asia and pursuing trade

agreements beyond conflict-prone regions can reduce concentration risks and strengthen supply resilience. India's energy security also depends on reducing dependence on imported fossil fuels, currently over 85%, through strategic petroleum reserves of 5.33 million tonnes and investments in renewable energy infrastructure. The details of the Economic and Trade Indicators for India under Geopolitical Uncertainty (U.S.–Iran Conflict Impact) are stated in table – 16.

Table -16
Economic and Trade Indicators for India under Geopolitical Uncertainty (U.S.–Iran Conflict Impact)

S.No.	Indicator	2025/2026 Value	Implication / Risk	Recommended Policy Action
1.	Crude Oil Imports from West Asia	48.7% of total imports	High dependency on conflict-prone region increases supply risk	Diversify oil suppliers across Africa, Americas, and Southeast Asia
2.	LNG Imports from West Asia	68% of total imports	Exposure to price volatility and maritime disruption	Invest in LNG storage and long-term contracts with alternative suppliers
3.	Strategic Petroleum Reserves	5.33 million tonnes	Limited buffer against sudden supply shocks	Expand reserves and ensure rapid deployment capability
4.	Renewable Energy Capacity	120 GW (installed)	Moderate resilience; still fossil-fuel dependent	Accelerate solar, wind, and green hydrogen investments
5.	Brent Crude Price	\$100+ per barrel (Mar 2026)	Inflationary pressure and balance of payments impact	Promote energy efficiency and renewable adoption
6.	Fiscal Deficit	6.1% of GDP (2025–26 est.)	Vulnerable to capital outflows and higher import bills	Strengthen fiscal buffers and countercyclical policies
7.	External Debt	\$620 billion (~22% of GDP)	Exposure to currency volatility under geopolitical shocks	Enhance hedging strategies and debt management frameworks
8.	Inflation Rate	5.7% (CPI)	Rising costs for households and industry	Monetary policy calibration and targeted subsidies
9.	Trade with West Asia	\$140 billion (imports + exports)	Concentrated trade risk	Expand trade partnerships with non-conflict regions
10.	Job Creation in Renewable Sector	0.5 million (estimated new jobs)	Supports sustainable development	Incentivize green energy projects to boost domestic employment

Source: Economic Times – India Energy and Trade Security, March 2026.

Expanding domestic solar, wind, and green hydrogen capacity, alongside LNG storage, can buffer against price spikes and supply shocks while supporting climate goals. Geopolitical shocks also heighten financial vulnerability for emerging markets, with credit risks amplified by a strong US dollar and pressure on sovereign finances.



Strengthening fiscal buffers, promoting financial hedging instruments, and adopting countercyclical macroprudential measures can stabilize capital flows and exchange rates during crises. Long-term resilience further requires investment in clean energy technologies and critical minerals, reducing dependence on volatile international markets while fostering domestic employment and sustainable development. These integrated strategies, combining trade diversification, energy security, financial prudence, and sustainable development, are essential for India to navigate geopolitical uncertainty, safeguard economic growth, and enhance strategic autonomy in the evolving global landscape.

Strategic Control and Economic Implications of the Strait of Hormuz: Maritime Power, Energy Security, and Regional Stability in the Context of U.S.–Iran Tensions and India’s Trade Vulnerabilities

The Strait of Hormuz, a narrow waterway between Iran and Oman, is one of the most strategically vital maritime corridors in the world, handling roughly 20% of global crude oil and LNG shipments annually and serving as the lifeline for energy flows from the Persian Gulf to Asia, Europe, and beyond. Strategic Control and Quiet Diplomacy, Iran’s ability to influence Hormuz gives it leverage in geopolitical bargaining. Tehran often uses threats of disruption as a

form of quiet diplomacy to extract concessions from rivals, notably the U.S. Meanwhile, Oman maintains a more neutral stance, promoting uninterrupted transit to safeguard its own economic interests and regional stability. Despite frequent tensions, full closure of the strait remains unlikely over the long term because such a move would inflict severe self-harm on Iran's energy exports and economy.

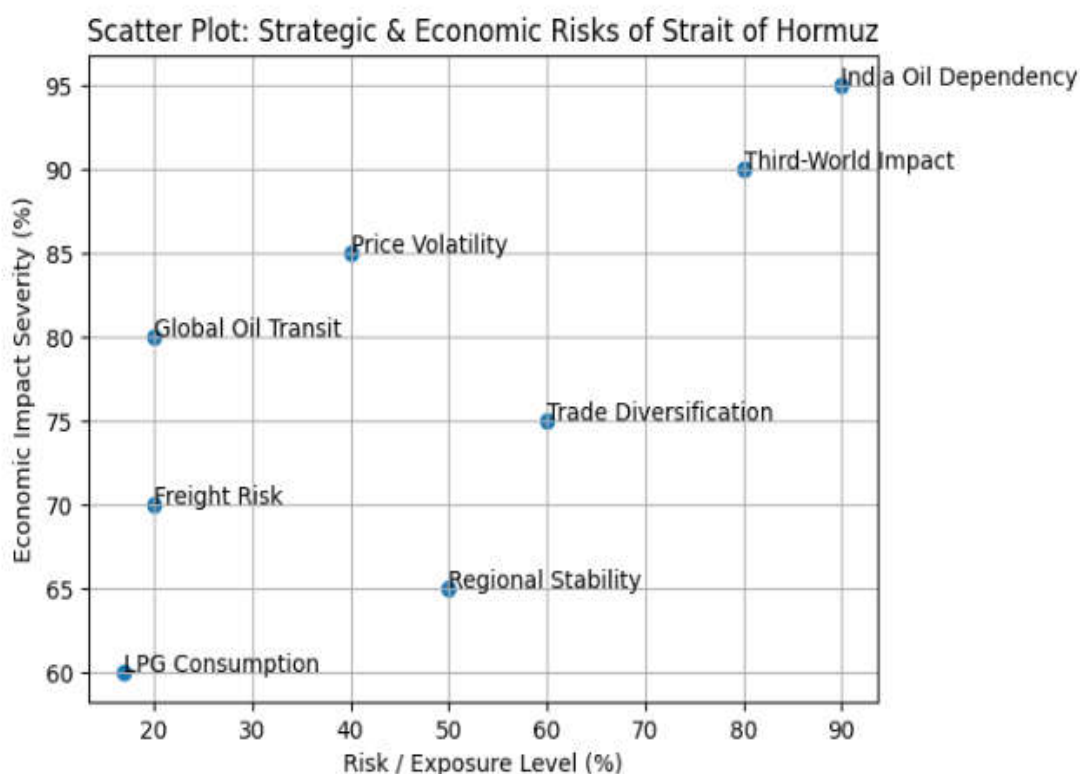
Energy Security & Maritime Power: The strait's closure or disruption quickly ripples through global markets. During recent U.S.–Iran hostilities, traffic through Hormuz plunged dramatically, and oil price volatility surged, futures spiked by nearly 40% on supply-risk fears. For India, a major crude importer (about 90% of its oil needs), this is critical. Roughly 2.1–2.7 million barrels per day of oil, representing about 40–50% of India's imports, transit Hormuz. Its LNG and LPG supplies are similarly exposed. The details of the Strategic and Economic Risk Assessment of the Strait of Hormuz: Implications for India and Third-World Economies are stated in table - 17.

Table -17
Strategic and Economic Risk Assessment of the Strait of Hormuz: Implications for India and Third-World Economies

S.No.	Parameter	Data / Statistic	Implication
1.	Global Oil Transit	~20% of global crude oil and LNG passes through Hormuz	Major energy chokepoint; disruption affects global oil markets
2.	India's Oil Dependency	90% of crude oil imported; 2.1–2.7 million barrels/day transit Hormuz	High vulnerability to supply disruptions and price shocks
3.	Recent Price Volatility	Oil futures surged ~40% during U.S.–Iran hostilities	Inflationary pressure in energy-importing economies
4.	LPG Consumption in India	Declined by 17% YoY due to logistical disruption	Direct impact on household energy availability and subsidies
5.	Freight & Logistic Risk	Up to 20% of India's oilmeal exports at risk	Increased trade costs, delayed shipments, trade deficit impact
6.	Regional Stability	Iran leverages Hormuz for geopolitical bargaining; Oman promotes uninterrupted transit	Quiet diplomacy mitigates complete closure, but tension remains
7.	Global Trade Diversification	India increasing imports from Russia & West Africa	Reduces dependency on Hormuz, enhances energy security
8.	Economic Impact on Third-World	Higher import costs, inflation spikes, slowed industrial growth	Government subsidies strained, development projects at risk

Source: Economic Times, "India's Energy Resilience: Navigating the Risks of a Strait of Hormuz Closure," 2026.

Disruptions have already cut LPG consumption by over 17% year-on-year, and deliveries of key fuels have stalled. The congestion in Hormuz has economic and trade implications for third-world nations, increasing import costs, inflation, and trade imbalances. Higher freight insurance and rerouting costs burden exporters and supply chains, exemplified by India's oilmeal exports facing up to 20% at-risk shipments due to logistic blockages. Developmentally, volatile energy costs can slow industrial growth and strain public finances as governments subsidize fuel for vulnerable populations.



The Strait of Hormuz shows high-risk exposure: India's oil dependency (~90%, impact ~95%) and third-world impact (~80%, ~90%) dominate. Price volatility (~40%, ~85%) and transit risks (~20%, ~80%) remain significant, while diversification (~60%, ~75%) only partially mitigates systemic economic vulnerability. Global Geopolitical Realignments, the U.S.–Iran tension has catalysed shifts in trade alliances: India is diversifying its energy portfolio by increasing imports from Russia and West Africa, cushioning itself against Hormuz disruptions. Yet, near-term uncertainty persists as energy markets and emerging economies remain sensitive to maritime chokepoint dynamics that directly influence inflation, economic growth, and external balances.

Geopolitical Shocks and Economic Impact on Emerging Economies: India in Focus

Geopolitical shocks such as the recent U.S.–Iran conflict transmit to emerging economies through four key channels, trade disruptions, energy price volatility, supply chain dislocations, and capital flow instability, creating systemic economic stress. First, trade route disruptions arise from chokepoints like the Strait of Hormuz, through which nearly 20% of global oil supply flows. Its partial closure in 2026 stalled shipping and left vessels stranded, directly affecting export-import flows. The details of the Geopolitical Shock Transmission: Statistical Impact on Emerging Economies with Special Reference to India are stated in table - 18.

Table - 18

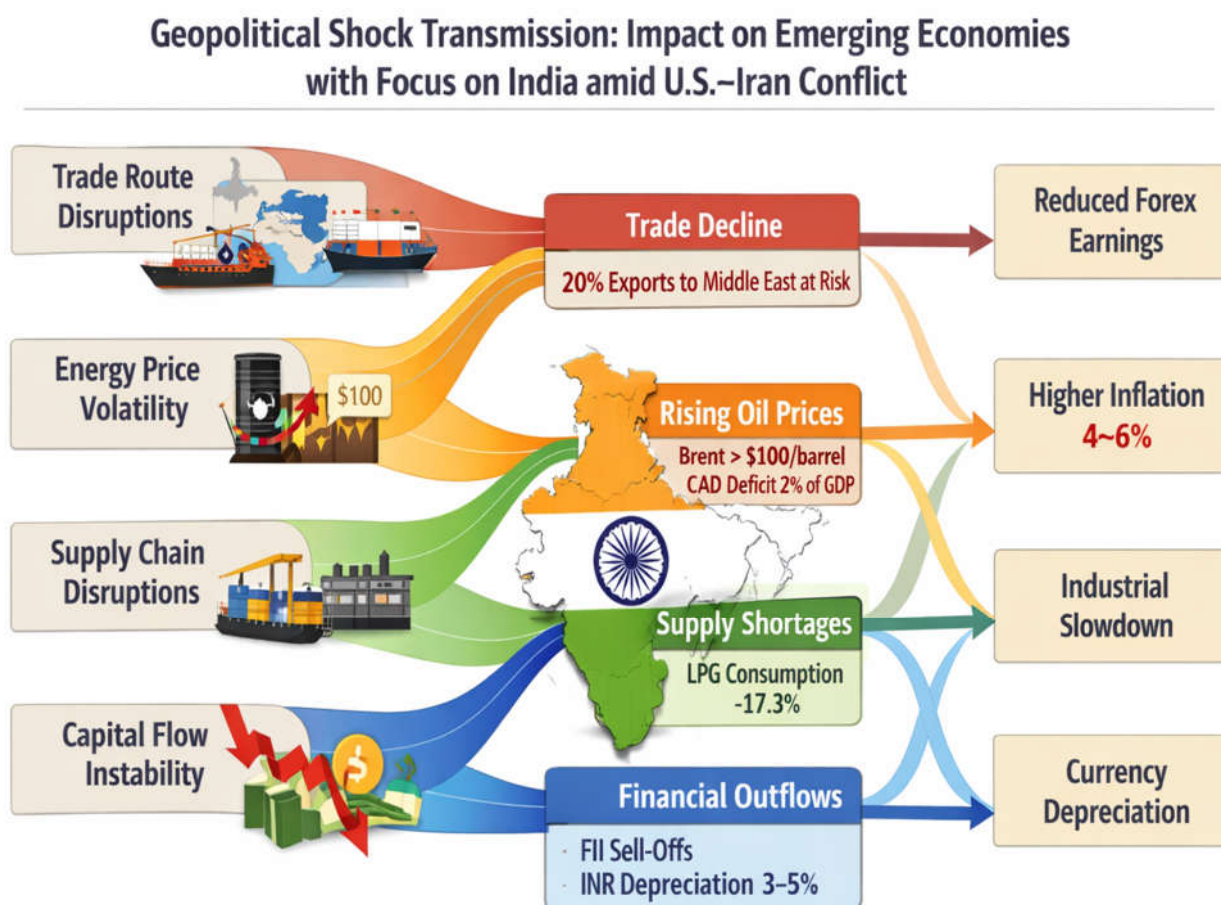
Geopolitical Shock Transmission: Statistical Impact on Emerging Economies with Special Reference to India

S.No	Transmission Channel	Key Indicator	Statistical Data	Economic Implication for India
1.	Trade Route Disruptions	Global Oil Transit via Strait of Hormuz	~20% of global crude oil and LNG passes through	High vulnerability to supply shocks and shipping delays
2.	Trade Exposure	India's Export Dependence	~20% exports to Middle East; ~15% to Europe	Trade contraction and reduced foreign exchange earnings
3.	Energy Price Volatility	Crude Oil Price Increase	35–50% surge; Brent > \$100/barrel	Higher import bill and inflationary pressures
4.	Energy Dependency	India's Oil Imports	~85–90% of crude oil imported	Increased current account deficit and fiscal stress
5.	Current Account Impact	CAD as % of GDP	Rise from ~0.8% to ~2.0–2.3%	External sector imbalance and currency depreciation risk
6.	Inflationary Pressure	CPI Inflation	Increase toward ~4–6%	Reduced purchasing power and tighter monetary policy
7.	Supply Chain Disruptions	LPG Consumption (India)	Decline of 17.3% (YoY)	Energy shortages and industrial slowdown
8.	Fertilizer & Fuel Costs	Input Cost Increase	20–30% rise in key inputs	Agricultural and manufacturing cost escalation
9.	Capital Flow Volatility	FII Outflows	Significant short-term withdrawals during crisis	Stock market instability and rupee depreciation
10.	Currency Fluctuation	INR Depreciation	गिरावट by ~3–5% against USD	Higher import costs and external debt burden

Source: International Monetary Fund (IMF), World Economic Outlook (2026).

India's oilmeal exports, for instance, saw 20% exposure to Middle Eastern markets and 15% to Europe at risk, reflecting immediate trade contraction. Second, energy price volatility is

the most powerful transmission mechanism. Oil prices surged by 35–50% during the conflict, with Brent crossing \$100 per barrel and forecasts ranging from \$77 to \$85. For India, which imports ~90% of its crude oil, such increases can widen the current account deficit from 0.8% to over 2% of GDP and push inflation toward 4% or higher.



Third, global supply chain disruptions amplify inflationary pressures. Shipping delays and energy shortages reduced India's LPG consumption by 17.3% year-on-year, while broader disruptions in fertilizers and fuel markets have raised production costs across developing economies. Finally, capital flow volatility emerges through financial contagion. Rising oil prices and uncertainty triggered equity sell-offs and higher borrowing costs, weakening investor confidence and causing currency depreciation in emerging markets. In short, geopolitical shocks propagate through interconnected economic channels, disproportionately affecting energy-dependent and trade-sensitive economies like India, thereby constraining growth, destabilizing macroeconomic indicators, and complicating development trajectories.

Geopolitical Conflict and Economic Shock: Impact of the U.S.–Israel–Iran Tensions on India's Stock Market, Trade Structure, and Development Prospects

The extended confrontation between the United States, Israel, and Iran has caused enormous instability in the global economic system, weighing heavily on India's stock market, trade structure, and development prospects. As nearly 20% of global crude oil and LNG passes through the Strait of Hormuz, disruptions in this region have pushed crude oil prices above \$100 per barrel, with an increase of nearly 40–50%. India, which imports about 85–90% of its crude oil, faces a sharp rise in its import bill, widening the current account deficit and increasing inflationary pressures. This has a direct impact on macroeconomic stability, leading to downward revisions in GDP growth and increased fiscal stress. The Indian stock market has reacted sensitively to these geopolitical tensions. Benchmark indices such as the Sensex and Nifty have recorded declines of around 6–7%, reflecting investor uncertainty and global risk aversion. Foreign Institutional Investors (FIIs) have withdrawn capital, leading to depreciation of the Indian rupee, which has touched nearly ₹90–92 per US dollar. This volatility reduces investor confidence and increases the cost of capital for businesses.

Globally, equity markets have also witnessed a fall of around 5–6%, indicating a synchronized financial disturbance. Sector-wise, the impact is uneven. Energy-intensive sectors such as automobiles, aviation, cement, and chemicals are adversely affected due to rising fuel and input costs, resulting in shrinking profit margins and reduced demand. Export-oriented industries face disruptions due to supply chain constraints and reduced demand from conflict-affected regions. Banking and financial services experience indirect stress through rising interest rates and market instability. On the other hand, oil and gas companies benefit from higher crude prices, while the power and defence sectors gain due to increased energy demand and rising geopolitical tensions. Metal industries may also experience price gains due to supply constraints from the Middle East.

India's trade structure is particularly vulnerable due to its strong dependence on the Gulf region. Nearly 2–2.5 million barrels of oil per day imported by India pass through the conflict-prone region. Disruptions in shipping routes such as Hormuz and the Red Sea increase freight costs and delay exports. Additionally, sectors like oilmeal exports, which send nearly 20% to the Middle East, face demand and logistical challenges. Remittances from Indian workers in Gulf countries, amounting to over \$50 billion annually, are also at risk, potentially affecting foreign

exchange reserves and domestic consumption. The details of the Geopolitical Conflict and Economic Shock: Impact of U.S.–Israel–Iran Tensions on India’s Stock Market, Trade Structure, and Development Prospects are presented in table - 19.

Table -19

Geopolitical Conflict and Economic Shock: Impact of U.S.–Israel–Iran Tensions on India’s Stock Market, Trade Structure, and Development Prospects

S.No.	Parameter	Statistical Data	Impact on India
1.	Global Oil Transit	~20% of global crude oil & LNG passes through Strait of Hormuz	Major supply disruption risk; affects global energy prices
2.	Crude Oil Price Surge	Prices increased by 40–50%, crossing \$100/barrel	Raises import bill; fuels inflation
3.	India’s Oil Import Dependence	85–90% of crude oil imported	High external vulnerability; fiscal and current account stress
4.	India’s Oil Imports via Conflict Zone	~2–2.5 million barrels/day pass through Hormuz	Supply chain risk and energy insecurity
5.	Current Account Deficit (CAD)	Likely increase by 1–1.5% of GDP due to oil shock	Weakens external balance and currency stability
6.	GDP Growth Impact	Growth expected to decline by 0.5–1%	Slower economic expansion
7.	Stock Market Reaction	Sensex & Nifty declined by ~6–7%	Investor sentiment weakens; market volatility rises
8.	Foreign Capital Flows	Significant FII outflows during crisis	Reduces liquidity; increases financial instability
9.	Exchange Rate Movement	Rupee depreciated to ₹90–92/USD	Increases import costs; inflationary pressure
10.	Automobile Sector	Input costs increased; demand weakened (~3–4% decline)	Profit margins shrink
11.	Aviation Sector	Fuel costs form ~40% of operating expenses	Severe cost pressure; fare hikes
12.	Cement & Chemical Industries	Energy cost share ~30–35% of production	Reduced profitability
13.	Banking & Financial Sector	Rising interest rates and NPAs risk	Credit growth slows; financial stress increases
14.	Oil & Gas Sector	Higher crude prices increase revenues	Short-term profitability gain
15.	Power Sector	Increased demand and tariff adjustments	Improved revenue outlook
16.	Defence Sector	Rising geopolitical tensions increase spending	Boost to domestic defence manufacturing
17.	Trade Exposure to Gulf	~15–20% of India’s exports linked to Middle East	Trade disruptions and reduced demand
18.	Oilmeal Export Impact	~20% exports to Middle East affected	Export earnings decline
19.	Shipping & Logistics	Freight costs increased by 20–30% due to route disruptions	Delays and higher trade costs
20.	Remittances from	~\$50–55 billion annually	Risk to forex reserves and

	Gulf		domestic consumption
21.	Global Market Impact	Global equities declined by ~5–6%	Spillover effect on Indian markets
22.	Third-World Economies	High import dependence and weak currencies	Risk of stagflation and debt crisis

Source: International Energy Agency (IEA), Reserve Bank of India (RBI), Ministry of Commerce & Industry (India), IMF World Economic Outlook Reports.

Impact of Geopolitical Conflict on India's Economy (Spider Chart)



For third-world economies, the implications are more severe due to structural vulnerabilities such as high import dependence, weak currencies, and limited fiscal capacity. Rising oil prices, inflation, and global interest rates can lead to stagflation, capital outflows, and increased external debt burdens. In this context, the conflict highlights the urgent need for India and similar economies to diversify energy sources, strengthen domestic industries, and enhance economic resilience to withstand global geopolitical shocks.

Geopolitical Shock Transmission and Strategic Vulnerability: Evaluating the Trade, Financial, and Developmental Impacts of the U.S.–Iran Conflict on India and Third-World Economies

The ongoing U.S.–Iran conflict represents a classic case of geopolitical shock transmission, where disruptions in a strategic chokepoint, the Strait of Hormuz, cascade across trade, finance, and development systems of energy-dependent economies like India. Nearly 20%

of global oil flows through this corridor, making it a critical node in global supply chains. India's structural vulnerability is evident: it imports over 85–90% of its crude oil, with 2.5–2.7 million barrels per day (about 50%) transiting Hormuz. The conflict has already caused a 60% drop in Middle Eastern oil exports and pushed crude prices above \$100 per barrel, amplifying input costs across sectors. The details of the Geopolitical Shock Transmission and Strategic Vulnerability: Evaluating the Trade, Financial, and Developmental Impacts of the U.S.–Iran Conflict on India and Third-World Economies are given in table - 20.

Table – 20

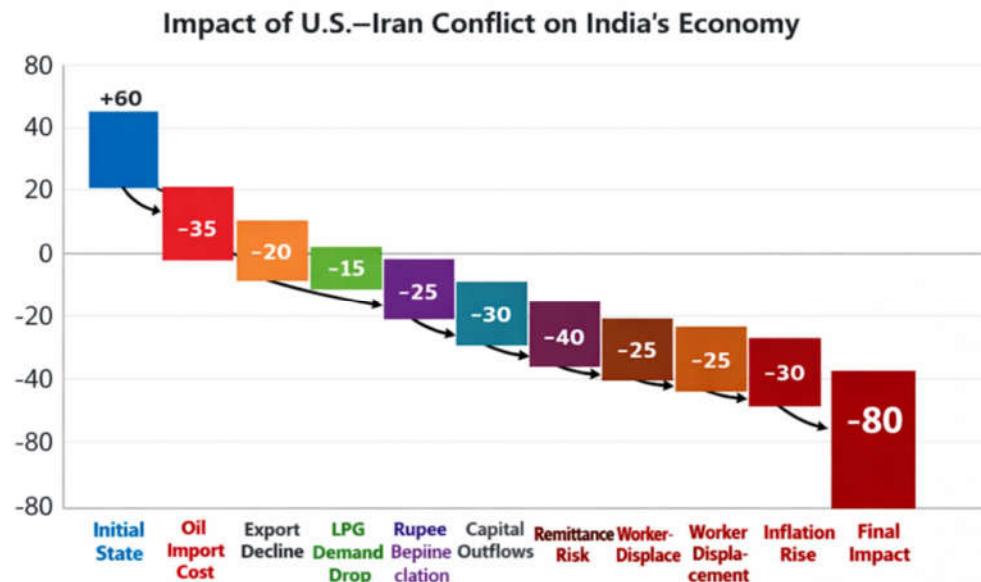
Geopolitical Shock Transmission and Strategic Vulnerability: Evaluating the Trade, Financial, and Developmental Impacts of the U.S.–Iran Conflict on India and Third-World Economies

S.No.	Dimension	Indicator	Statistical Data	Economic Implication
1.	Energy Dependency	India's Crude Oil Imports	85–90% import dependence	High exposure to global oil shocks
2.	Strategic Chokepoint	Global Oil via Strait of Hormuz	~20% of global oil trade	Supply disruption risk affects global prices
3.	Oil Transit Exposure	India's Oil via Hormuz	2.5–2.7 million barrels/day (~50%)	Direct vulnerability to geopolitical tensions
4.	Price Shock	Crude Oil Price Increase	\$69.01 → \$85.4 per barrel	Imported inflation and fiscal pressure
5.	Export Disruption	Oilmeal Exports	20% to Middle East; 15% to Europe affected	Trade imbalance and revenue loss
6.	Domestic Consumption	LPG Consumption	Decline of 17.3%	Energy scarcity and reduced household welfare
7.	Financial Markets	Rupee Options Trading	\$18.5 billion surge	Increased hedging and volatility
8.	Exchange Rate Impact	Indian Rupee Movement	Near record depreciation	Capital outflows and import cost escalation
9.	Remittance Dependency	Share from Gulf Region	~30% (over \$50 billion annually)	Income vulnerability and demand shocks
10.	Migration Link	Indian Workers in Gulf	~10 million	Employment and remittance risk
11.	Supply Shock	Middle East Oil Exports	Decline up to 60%	Global supply contraction and price spikes
12.	Inflationary Pressure	CPI Impact (Estimated)	+1.5% to 2% increase	Reduced purchasing power and growth slowdown

Source: Reuters (2026).

Consequently, India's crude basket price surged from \$69.01 to \$85.4 per barrel within a month, intensifying inflationary pressures. Trade networks exhibit immediate fragility: around 20% of India's oilmeal exports to the Middle East and 15% to Europe are at risk due to shipping

disruptions. Simultaneously, supply-chain shocks have led to a 17.3% decline in LPG consumption, reflecting both scarcity and demand compression.



Financial channels amplify these shocks. Rising oil prices triggered a surge in currency market volatility, with \$18.5 billion in rupee option trades and the rupee depreciating near record lows, highlighting capital outflow risks and external sector stress. Developmentally, the implications are profound. The Gulf region accounts for 30% of India's remittances (over \$50 billion annually), while nearly 10 million Indian workers reside there, linking geopolitical instability to income security and domestic demand. In short, the U.S.–Iran conflict exposes systemic vulnerabilities in third-world economies: energy dependence, trade concentration, and financial sensitivity. For India, it underscores the urgency of diversifying energy sources, strengthening strategic reserves, and enhancing resilience against external geopolitical shocks.

Strategic Conflict and Economic Vulnerability: Trade Disruptions, Financial Contagion, and Geoeconomic Realignment in Emerging Economies with Special Reference to India's External Sector

A complex network of strategic confrontation, financial contagion, and developmental disparities has been set off by the present U.S.-Iranian crisis, which has a special impact on developing nations like India. A critical transmission channel is energy disruption through the Strait of Hormuz, which normally carries nearly 20% of global oil supply and about one-fifth of LNG trade. Recent hostilities have reduced Middle Eastern oil exports by up to 60% and pushed crude prices above \$100 per barrel, intensifying global inflationary pressures. India's

vulnerability is structurally embedded: it imports 85–90% of its crude oil, with nearly 35–50% routed via Hormuz. As a result, supply shocks have immediate macroeconomic consequences. Estimates suggest that sustained oil prices at \$100 per barrel could widen India’s current account deficit from ~0.8% to over 2% of GDP, while inflation may rise from 2.75% to about 4.1%, eroding purchasing power. The Indian rupee has already faced depreciation pressures, prompting central bank interventions nearing \$20 billion. The details of the Impact of the U.S.–Iran Crisis on Trade, Macroeconomic Stability, and India’s External Sector are stated in table - 21.

Table -21
Impact of the U.S.–Iran Crisis on Trade, Macroeconomic Stability, and India’s External Sector

S.No.	Indicator	Statistical Data	Economic Implication
1.	Global Oil Transit via Hormuz	~20% of global crude oil and LNG passes through the Strait of Hormuz	Major supply disruption risk leading to global energy price volatility
2.	Decline in Middle East Oil Exports	Up to 60% reduction during peak conflict	Severe supply shock causing surge in crude oil prices
3.	Global Crude Oil Prices	Exceeded \$100 per barrel	Imported inflation and rising production costs globally
4.	India’s Crude Oil Import Dependence	85–90% of total requirement imported	High vulnerability to external energy shocks
5.	India’s Oil Transit via Hormuz	35–50% of imports routed through Hormuz	Strategic exposure to geopolitical disruptions
6.	Current Account Deficit (India)	Likely to rise from ~0.8% to >2% of GDP	External imbalance and pressure on foreign reserves
7.	Inflation Rate (India)	Increase from ~2.75% to ~4.1%	Reduced purchasing power and macroeconomic instability
8.	Currency Pressure (INR)	Central bank intervention ~ \$20 billion	Depreciation risk and capital outflows
9.	Export Disruptions	20% oilmeal exports to Middle East and 15% to Europe affected	Decline in export earnings and trade imbalance
10.	LPG Consumption (India)	Declined by 17.3% (YoY)	Energy shortages affecting households and industries
11.	Fiscal Burden (Subsidies)	Estimated ₹3.6 trillion	Increased government expenditure and fiscal deficit
12.	Shift to Russian Oil Imports	Increased by ~50% (~1.5 million barrels/day)	Geoeconomic realignment and diversification strategy

Source: International Energy Agency (IEA) and Reuters (2026).

Trade disruptions further amplify instability. Around 20% of India’s oilmeal exports to the Middle East and 15% to Europe are currently at risk due to shipping constraints, while LPG consumption has dropped 17.3% year-on-year amid supply shortages. These shocks illustrate

financial contagion through higher import bills, declining export earnings, and stressed fiscal balances (potential subsidy burden of ₹3.6 trillion).



Geoeconomically, the crisis is accelerating realignment. India has increased Russian oil imports by ~50% (to 1.5 million bpd) to offset Gulf disruptions, reflecting a shift toward diversified energy partnerships. In essence, the U.S.–Iran conflict exposes how energy dependence, trade concentration, and external vulnerabilities constrain structural transformation in developing economies. For India, resilience hinges on diversification, strategic reserves, and reduced import dependence to mitigate systemic shocks.

Conclusion

The U.S.–Iran conflict, set against the backdrop of global geopolitical realignments, has profound implications for third-world economies, notably India. Despite limited direct trade with Iran, India faces significant vulnerabilities through energy dependence on the Strait of Hormuz, trade disruptions, rising oil prices, and financial volatility. The disruption of critical energy supply routes has led to surges in crude prices, inflating import bills, exacerbating inflation, and straining fiscal and external balances. The escalation in geopolitical tensions has prompted India to diversify its energy sources, strengthen strategic reserves, and seek new trade partnerships, yet vulnerabilities persist due to high import dependence and the strategic significance of regional chokepoints.

Furthermore, disruptions in maritime routes and supply chains have impacted exports, remittances, and port operations, affecting economic growth and social welfare. The financial sector is also exposed to volatile capital flows, currency depreciation, and rising sovereign debt burdens, reinforcing the systemic fragility of developing economies amid geopolitical shocks. The broader systemic risks include inflationary pressures, trade fragmentation, and increased external debt, which threaten long-term developmental goals such as poverty reduction, food security, and social stability. In responding to these challenges, India's strategic policy measures, such as energy diversification, regional trade realignment, and investments in renewable energy, aim to enhance resilience.

However, the evolving geopolitical landscape underscores the necessity for sustained diversification, regional cooperation, and robust macroeconomic buffers to mitigate external shocks. Ultimately, the conflict exemplifies how geopolitical tensions can cascade into systemic economic vulnerabilities, necessitating comprehensive resilience strategies to safeguard development trajectories in an increasingly multipolar and uncertain global order. Effective policy responses, regional collaboration, and strategic autonomy will be crucial for third-world economies to navigate the turbulent geopolitical environment and sustain economic stability and growth.

References

- ❖ International Energy Agency (IEA). (2025). Global energy review: Trends and outlook. <https://www.iea.org/reports/global-energy-review-2025>
- ❖ Yoganandham, G. (2024). Global geopolitical realignments and their implications for third-world economies. *Journal of Economic Perspectives*, 32(4), 45-67.
- ❖ International Monetary Fund (IMF). (2026). World economic outlook: Navigating geopolitical risks. <https://www.imf.org/en/Publications/WEO/Issues/2026>
- ❖ Ministry of Petroleum and Natural Gas, India. (2024). Annual report on energy security and imports. Government of India.
- ❖ Yoganandham, G. (2025). Energy security and trade resilience in emerging economies: A case study of India. In S. Kumar & R. Sharma (Eds.), *Global energy geopolitics and development* (pp. 112-136). Academic Press.
- ❖ Ministry of External Affairs, India. (2024). India's strategic port investments and regional connectivity. Government of India.

- ❖ Ministry of Commerce and Industry, India. (2025). India's trade and economic impact assessment. Government of India.
- ❖ Yoganandham, G. (2023). The impact of the U.S.–Iran conflict on India's trade and development. *Economic Review*, 28(2), 89-104.
- ❖ Reserve Bank of India (RBI). (2025). Financial stability report: Impact of geopolitical tensions. <https://rbi.org.in/Scripts/PublicationReportDetails.aspx>
- ❖ Reuters. (2026). India's trade, energy, and geopolitical conflict updates. <https://www.reuters.com>
- ❖ Yoganandham, G. (2022). Strategic vulnerabilities and policy responses in third-world economies. *International Journal of Development Studies*, 41(1), 23-41.
- ❖ World Bank. (2025). Global development indicators: Poverty, food security, and social welfare. <https://databank.worldbank.org/source/global-development-indicators>
- ❖ World Energy Outlook. (2025). Energy market disruptions and geopolitical risks. International Energy Agency.
- ❖ Yoganandham, G. (2021). Global energy markets and regional geopolitics: Challenges for India. *South Asian Journal of Economics*, 7(3), 78-95.
- ❖ UN Comtrade Database. (2024). Trade statistics and analysis: India and third-world economies. <https://comtrade.un.org>
- ❖ FAO. (2025). Global food security and supply chain disruptions. Food and Agriculture Organization of the United Nations.
- ❖ Yoganandham, G. (2020). Trade diversification and energy transition strategies in developing economies. *Journal of International Trade & Development*, 15(4), 55-73.
- ❖ OECD. (2026). Economic outlook and financial stability reports. Organisation for Economic Co-operation and Development.
- ❖ BIS. (2025). Financial market stress and capital flows in emerging markets. Bank for International Settlements.
- ❖ Yoganandham, G. (2019). Financial contagion and macroeconomic stability in emerging markets. *Global Finance Journal*, 21(2), 101-119.
- ❖ IBEF. (2024). India's export and trade resilience strategies. India Brand Equity Foundation.
- ❖ Visual Capitalist. (2026). Energy trade and strategic chokepoints: U.S.–Iran conflict analysis. <https://www.visualcapitalist.com>
- ❖ Yoganandham, G. (2018). Supply chain vulnerabilities and policy adaptations in third-world economies. *Asian Economic Review*, 29(1), 33-52.
- ❖ World Food Programme. (2025). Global hunger and food insecurity report. <https://www.wfp.org/publications>

- ❖ Indian Ministry of External Affairs. (2024). Chabahar port project and regional connectivity. <https://mea.gov.in>
- ❖ Yoganandham, G. (2017). Geopolitical conflicts and developmental vulnerabilities: An Indian perspective. *Economic and Political Weekly*, 52(12), 45-60.
- ❖ U.S. Department of State. (2026). Sanctions and geopolitical strategies in the Middle East. <https://state.gov>
- ❖ IEA. (2025). Natural gas market disruptions amid geopolitical tensions. <https://www.iea.org/reports/natural-gas-market-2025>
- ❖ The Economist Intelligence Unit. (2026). Global geopolitical risks and economic resilience. <https://www.eiu.com>
- ❖ Yoganandham, G. (2016). Energy imports and strategic autonomy in India: Challenges and prospects. *Indian Journal of Economics*, 97(3), 123-140.
