

Impact of War in West Asia on India, Inflationary Pressure

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A war is currently going on in West Asia between Israel, Iran, and the United States. Missile strikes, attacks on strategic sites, and growing tensions have created instability in the region. Although India is geographically far from the conflict zone, its economic dependence on energy imports, trade links, financial flows, and migrant remittances makes it highly exposed to instability in the region. Impact of War in West Asia on India are as follows:

Impact on Energy Security

The most immediate effect of the conflict is on India's energy security.

- India imports about 80-85% of its crude oil requirement, and nearly 50-55% of crude comes from West Asia.
- Disruption in routes like the Strait of Hormuz, through which around 40% of India's crude imports pass, can push global oil prices upward.
- Even fear of supply disruption increases Brent crude volatility.

Inflationary Pressure on Indian Economy

- Higher crude prices can create cost-push **inflation** in India because fuel costs influence logistics, agriculture, and manufacturing.
- Food prices may rise due to increased transportation and storage costs.
- Although India's inflation has recently remained within the RBI target band, global oil shocks can reverse this stability.
- The **Reserve Bank of India** faces a policy challenge between controlling inflation and supporting economic growth.

Trade and Export Disruption

- West Asia is an important export market for India, especially for agricultural products, pharmaceuticals, textiles, and engineering goods. Conflict in the region can disrupt normal trade flows.
- War increases shipping costs as maritime insurance premiums rise and cargo vessels may have to take longer or safer routes.
- Small and medium enterprises are more affected because higher logistics costs reduce already thin export margins and weaken global competitiveness.
- Conflict also creates uncertainty in global supply chains. Delays in delivery, restrictions on movement, or changes in trade policies can reduce India's export competitiveness. If the situation continues for a long time, India's overall export growth may slow down.

Currency and Financial Market Volatility

- Rising oil prices and geopolitical uncertainty can lead to capital outflows from emerging markets like India. This may weaken the rupee against the dollar.
- A weaker currency increases import costs and can widen the current account deficit.
- Foreign institutional investors often reduce risk exposure during geopolitical crises, increasing market volatility.

Remittance and Diaspora Vulnerability

- Millions of Indian workers live in Gulf countries and contribute a significant portion of India's remittances. More than a third of India's worker remittances come from the West Asia region, For example around 19% of India's total remittances come from the UAE and 7% from Saudi Arabia, which support foreign exchange stability.
- Escalation of conflict may affect employment opportunities and safety of Indian diaspora communities. Any decline in remittance inflow can impact household consumption in India.

Fertiliser and Agricultural Sector Impact

- Energy price shocks can increase fertilizer production and transportation costs.
- If maritime routes are disrupted, supply of imported fertilisers may tighten. This can indirectly affect agricultural output and increase government subsidy burden.

Pressure on Fiscal Policy

- If fuel prices rise, the government may need to reduce taxes or increase subsidies to protect consumers. This can widen the fiscal deficit and affect infrastructure spending.

Experts suggest that West Asia conflict mainly creates immediate-term economic challenges rather than permanently damaging India's long-term growth trajectory. India still has potential to move toward higher growth if manufacturing expands and energy diversification continues.

Strategic Way Forward for India

The ongoing geopolitical instability highlights the need for India to strengthen economic resilience, reduce external vulnerabilities, and adopt long-term strategic planning to protect growth and stability.

- **Energy Diversification:** India should reduce excessive dependence on West Asian oil by sourcing crude from multiple regions such as Africa, the Americas, and Eurasia. Multiple supply options will help India handle geopolitical risks and price shocks.
- **Promotion of Renewable Energy:** India must accelerate expansion of renewable energy sources like solar, wind, and hydrogen power. Increasing clean energy capacity will reduce long-term dependence on imported fossil fuels and improve energy security.
- **Strategic Petroleum Reserves:** The government should expand strategic petroleum storage to protect the economy from sudden global supply disruptions. Adequate oil buffer stock can help stabilise fuel availability during international crises.
- **Strengthening Domestic Manufacturing:** India should continue promoting domestic manufacturing under initiatives like Make in India. A stronger industrial base will reduce import dependency, create jobs, and improve economic resilience.
- **Supply Chain and Infrastructure Improvement:** Modernising port infrastructure, shipping logistics, and trade networks is necessary to ensure stable export and import movement. Efficient supply chains will help Indian businesses remain competitive globally.
- **Balanced Diplomatic Approach:** India should maintain strong diplomatic and economic relations with West Asian countries, the United States, and other major global powers. Strategic neutrality and cooperation can help protect India's economic interests.
- **Protection of Indian Diaspora:** India should strengthen consular support, diplomatic engagement, and emergency evacuation preparedness to ensure the safety of Indian workers living in West Asia during conflict situations.

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