



Israel-Hamas War and Supply disruptions: Analyzing its Implications on Indian Economy

Ashwani Chaturvedi, Manjari Singh

Student, Assistant professor
Amity University

Abstract:

The dispute between the non-state actor Hamas and Israel affects not just the surrounding area but also the international economy. This article explores how the Israel-Hamas conflict has affected the Indian economy, with a special emphasis on supply chain interruptions. Due to the disruption of the flow of necessities, such as oil, the conflict raises prices and causes volatility in international markets. India, a major importer of commodities and energy, finds it difficult to sustain steady economic growth in the face of these interruptions. Moreover, the emergence of non-state groups like as Hamas prompts reevaluations of trade and diplomatic ties between countries like India and the West due to worries about supply chain security and the Houthis attack in the Red Sea from Yemen. In order to reduce the dangers of economic disruptions brought on by distant conflicts, this article also examines India's strategic planning for navigating those situations and its efforts to strengthen ties with Western countries like I2U2, IMEC etc. The comprehension of the effects of supply disruptions on the Indian economy yields significant insights into the interplay between geopolitics and economic stability in a globalized world, as well as the reconfiguration of multilateral relations in West Asia.

Keywords

Economic disruption, international security, Houthis, I2U2, IMEC, Israel- Hamas, Non-State actor.

Introduction

The involvement of non-state actors in national and international security is crucial in the modern, multipolar, globalized world. States ruled the world very much till the turn of the twenty-first century. The World Bank, Gazprom, Al-Qaeda, ISIS, and other non-state actors are now able to significantly influence state decision-making processes. This paper aims to develop a clearer view on the Middle East's non-state actors, conflicts which affect Indian economic growth and cause regional economic unrest. States were formerly seen to be the only significant participants and logical actors. State operation has been dismantled as a result of globalization, the development of communication technologies, and the formation of a multipolar world order. States, respect rule-based order, maintain diplomatic channels, and offer security. Terrorist organizations and international criminal organizations lack official power and have no means of diplomatic contact, as demonstrated in

Afghanistan. Their aggressive policies and disregard for rule-based order are indicative of their lack of intellectual commitment to upholding global norms.

The regional and international security agenda also Economic disruption has been significantly shaped by non-state players, such as political and religious movements and militias. Al-Qaeda, the Islamic State (ISIS), Palestinian terrorist organizations from the 1970s, Islamist terrorists in Algeria and Egypt during the 1990s, Hezbollah, and the Houthi rebels of Yemen, who are now in active combat, are the most notable examples of terrorist organizations. For the past twenty years, regional states and their external allies foreign and security policies have all been influenced and driven by Iranian-sponsored entities.¹

In the Middle East, non-state actors have become more and more important in social and political life since 2011. In fact, they were instrumental in the uprisings that overthrew the despotic regimes in Tunisia, Egypt, Libya, and Yemen. Young protestors in Tunisia were the ones who started the uprising against Zine El Abidine Ben Ali's government. But it took off when the trade union federation, the UGTT (Tunisian General Labour Union), and the Bar Association backed the anti-regime campaign. Early online mobilization by youth, particularly by the April 6 Movement and fans of the "We are all Khaled Said" Facebook page, propelled the protest movement in Egypt. However, the Mubarak regime's downfall was certain when non-state actors, such as labor activists and the youth wings of political organizations representing all ideological positions, including Islamist and secular, joined the independent youth movements. The anti-Gaddafi campaign in Libya began on February 17 and was soon supported by Islamists, tribal groupings, and business interests. The Gaddafi era in Libyan politics came to an end with this coalition of opposing ideologies and outside involvement in favor of the rebels fighting the regime. Similar to this, the coalition of youth organizations that started the anti-regime protests in Yemen became unavoidable, at least in part, when a wide range of political parties and non-state actors from the country's north and south joined, demanding more autonomy (if not outright independence) from the regime in Sanaa.²

It seemed that non-state actors were losing control of the agenda to regional nations, who had become more assertive in their foreign policy and more accommodative toward one another. However, the attack on Israel by Hamas signaled a quick and brutal return to the period when terrorism is the main topic of discussion. Whether nations or other external players may reestablish themselves is still to be seen. The geopolitics of the region continue to be dominated by non-state players on a regional scale. They are supported financially and morally by outsiders, as well as by nationalist aspirations, which are seen in the aspirations of the Kurdish and Palestinian people. Within nations split along ethnic and religious lines, sectarianism and identity politics have also played a distinctive role. As a result, this region where a disproportionately big percentage of power is still outside the state-based system, even with the strength of its states.

In the Middle East and North Africa, the Houthi movement has become another significant non-state actor, mostly in Yemen. Their activities affect not just the balance of power in the region but also trade and security on a global scale. They started out as a religious movement against what they saw as attempts to push the Zaidi sect out of Yemen and the spread of foreign influence. They have, however, developed into a formidable military force and a prominent player in the Yemeni civil war, which has been raging since 2004 and has pitted many local and regional armies against one another.

¹ <https://www.iiss.org/online-analysis/online-analysis/2023/11/the-battle-for-the-middle-east-geopolitics/>

² <https://www.iemed.org/publication/the-role-of-non-state-actors-in-arab-countries-after-the-arab-uprisings/>

What effects does the Houthi movement's rise have on the world's economic disruption?

The growth of the Houthis is a sign of a larger trend in which non-state actors are becoming more prominent in global hotspots by contesting state-centric conceptions of international politics. Their "successes" provide a manual for state actors as well as other non-state players regarding how to handle proxy elements in extraterritorial settings. As non-state actors, the Houthis are hard to ignore since they have proven to be a powerful destabilizing force next to an important global commerce route and an unstable Horn of Africa. The group is now able to perform more sophisticated and exceptionally aggressive tactics as part of Iran's Axis of Resistance, raising concerns about additional instability in the region. The Houthi uprisings in the Red Sea represent the new face of warfare in the twenty-first century: a world in which unaccountable and unassailable non-state actors wield deadly influence while pursuing narrow objectives at all costs.³

In the past few months, two important shipping routes have experienced interruptions which have hindered global trade. Beginning in late November, the Houthi rebels in Yemen, who are supported by Iran, have greatly increased their campaign of attacks against commercial vessels in the Bab-el-Mandeb strait, which separates the Arabian Peninsula from the Horn of Africa. launched in retaliation for Gaza's bombing by Israel. The Suez Canal saw a decrease in traffic due to attacks on vessels in the Red Sea region. Rather, a number of shipping firms rerouted their vessels to avoid passing the Cape of Good Hope. Businesses with low inventory suffered as a result of the average increase in delivery times of 10 days or more. The Middle East and Central Asia, as well as the European Union, saw comparable drops of 5.3%. These reductions most likely represent the short-term consequences of extended shipment durations. If these disruptions persist, they might temporarily interfere with some supply chains in the impacted nations and push inflation higher (partially because of increased transportation costs)⁴

One of the most important shipping lanes in the world is provided by the Red Sea and Suez Canal. They provide the easiest and fastest means to get from Europe to Asia. In 2023, the Suez Canal, spanning 193 km (120 miles) and utilized by an average of 21,344 ships daily, handled 12 percent of global traffic. About 12% of all traffic goes through the Suez Canal, which is reached by ships from Asia across the 30-kilometer Bab-el-Mandeb strait. The majority of cargo transported over the canal consists of containerized items. Additionally, the route serves as a crucial conduit for oil supplies from the Persian Gulf to North America and Europe.⁵

The strikes by the Houthis in the Red Sea are expected to cause significant shocks that will disproportionately affect developing nations unless the region's unresolved problems are resolved holistically. By using tactics other than direct military action, the international community must exercise responsibility in how it interprets and deals with the growth of non-state actors in the Middle East and North Africa. Credible negotiations, resolving the regional conflicts, particularly the Palestinian issue, providing generous aid to developing nations prior to significant socio-economic reforms, and other supplementary initiatives aimed at addressing the underlying causes of the rise of groups such as the Houthis are a few examples. Iran said earlier in 2008 that it may stop trade at the busiest oil transit corridor in the world as a form of retaliation for US sanctions. Iran's Revolutionary Guards have often threatened to close the Strait of Hormuz between 2011 and 2016, either in response to

³ <https://www.euronews.com/2024/01/25/the-houthis-are-the-epitome-of-21st-century-non-state-actors>

⁴ <https://www.imf.org/en/Blogs/Articles/2024/03/07/Red-Sea-Attacks-Disrupt-Global-Trade>

⁵ <https://www.theguardian.com/world/2024/jan/03/what-is-the-red-sea-crisis-and-what-does-it-mean-for-global-trade>

sanctions imposed by the US and Europe or as a result of an outright oil embargo against the nation. That being said, the threats were never fulfilled. This might cause trade disruptions at the busiest oil transit chokepoints in the world, accounting for thirty percent of daily seaborne global oil exports. danger to the tiny canal that separates Oman and Iran, through which, according to a US Energy Department assessment, at least 18.5 million barrels of oil were moved daily.⁶

Growing oil prices would have an impact on the world economy. Given the global economy's "higher for longer" interest rate forecast, further escalation of the conflict towards other Middle Eastern oil suppliers is concerning and needs close observation. Unless the problem spreads to other countries in the region and turns into a proxy war between the US and Iran, the oil supply is not expected to be threatened. Ships going through the Strait of Hormuz, which Iran has threatened to close, might be harmed by any reprisal against Tehran. This will raise the already growing cost of shipping and insurance internationally.⁷

Indian economy

India's economy is affected by the ongoing Israel-Hamas conflict. India, the third-largest oil consumer in the world, could be negatively impacted by the possible effects of the Israel-Hamas conflict on oil prices, which will raise import costs and drive up the price of commodities. The National Institute of Public Finance and Policy professor Lekha Chakraborty predicted that rising oil prices will worsen inflation and have an impact on India's current account deficit (CAD), which is the result of imports exceeding exports in terms of commodities and services.⁸

High crude oil prices hurt India by making imports more expensive, potentially exacerbating the fiscal deficit (the government will probably reduce excise duties to absorb higher prices), widening the CAD further negatively impacting currency, and negatively affecting the profit margins of industries like aviation, paints, tyres, and chemicals. All of these consequences could have a short-term detrimental effect on economic growth since they would reduce disposable income and discretionary spending due to high inflation and low sector performance. According to economist Arun Kumar, if the Israel-Hamas conflict intensifies, India's oil supply may be threatened. He predicted that "tensions will worsen globally and there will be more supply bottlenecks, and not just with regard to crude."⁹

Trade between Israel and India is not currently being impacted by the conflict. If the conflict intensifies, supply-side problems could surface. The majority of India's 1.8% merchandise exports to Israel are petroleum-related goods. Refined hydrocarbons worth \$5.5–6 billion are imported by Israel from India. In FY23, India's exports to Israel totaled \$8.4 billion. Israel is the source of equipment, diamonds, pearls, and other precious and semi-precious stones imported by India. In 2023, Israel was a \$2.3 billion import for India.¹⁰

⁶ <https://www.aljazeera.com/news/2018/7/5/whats-at-stake-if-trading-at-strait-of-hormuz-is-disrupted>

⁷ <https://www.aljazeera.com/news/2011/12/28/iran-to-block-gulf-oil-if-sanctions-proceed/>

⁸ <https://frontline.thehindu.com/news/israel-hamas-war-what-could-it-mean-for-india-economy-oil-prices-imports-rupee-us-dollar/article67508014.ece>

⁹ <https://www.dw.com/en/will-israel-hamas-war-affect-indias-economy/a-67321578>

¹⁰ <https://economictimes.indiatimes.com/markets/stocks/news/decoding-the-impact-of-israel-hamas-war-on-global-and-indian-economy/articleshow/104795292.cms?from=mdr>

I2U2 & IMEC

India's entry into the I2U2 quadrilateral alliance is a radical development in its approach to West Asian affairs. It symbolizes the pinnacle of India's growing strategic partnerships with the United Arab Emirates and Israel and emphasizes how the US and India are becoming more and more similar in West Asia. I2U2, dubbed the "West Asian Quad," has committed to finding viable initiatives to boost collaborative investment in six vital areas: water, energy, transportation, space, health, and access to food. In order to accomplish a number of objectives, such as modernizing infrastructure, expanding low-carbon development pathways, and enhancing public health, the group seeks to mobilize private sector funding and expertise.

India's External Affairs Minister S. Jaishankar met in a quadrilateral format with his counterparts from the countries that have come to be known as the I2U2 countries—Israel, the United Arab Emirates, and the United States—in October 2021 while on a visit to Israel. During the conference, the International Forum for Economic Cooperation was introduced by the I2U2 partners. Since then, the I2U2 has had a number of high-level gatherings, including its inaugural leaders' summit in July 2022, during President Joe Biden's visit to Israel.¹¹ The Abraham Accords, which restored diplomatic ties between Israel and a number of Arab nations, and India's robust bilateral strategic alliances with the United Arab Emirates and Israel serve as the foundation for the I2U2, a novel type of flexible partnership. The goal of the I2U2 is to help Israel integrate into the larger area and give India a chance to create advantageous geoeconomic ties with countries in the Mediterranean and Gulf subregions. India's policy towards West Asia has seen a significant shift with its alignment with the US and its allies to enhance regional capacities and tackle common non-traditional security challenges.¹²

Although the first project implementation in India is unlikely to be hindered, the Israel-Hamas war is expected to have an impact on future collaboration attempts by the India-Israel-United Arab Emirates-United States (I2U2) countries. It will be challenging for the UAE to negotiate with Israel at the I2U2 meeting until the Israel-Hamas conflict is resolved. The representatives of India, Saudi Arabia, the United Arab Emirates, France, Germany, the European Union, and the United States signed the IMEC during the G20 meeting in New Delhi. An important trade route that links Europe and the Middle East with India is the IMEC. The economic corridor is divided into two sections: the northern corridor, which connects Europe to the Middle East, and the east corridor, which links India to the Middle East. There is a lot of potential for this trade route to help with the regional exchange of products and services. The goal of the IMEC program is to reduce greenhouse gas emissions, improve economic cooperation, create jobs, improve transportation efficiency, and lower logistics costs for all parties involved.¹³

The IMEC signatories had to convene to devise an action plan for the development of the economic corridor, which would ease the transit of data, energy, and commerce to, from, between India, the UAE, Saudi Arabia, Jordan, Israel, and Europe. This timeline coincided with the October 7 attack by Hamas on Israel. More than three years have passed since the Abraham Accords were signed, a set of cooperative normalization accords that were first signed by Israel, the United Arab Emirates, Bahrain, and later Sudan and Morocco. Additionally, it has been seven months since the normalization of relations between Iran and Saudi Arabia till October 7, 2023.

¹¹ https://www.mea.gov.in/press-releases.htm?dtl/34396/Visit_of_External_Affairs_Minister_to_Israel_October_17_21_2021

¹² <https://mei.nus.edu.sg/wp-content/uploads/2023/09/Insight302.pdf>

¹³ <https://www.livemint.com/news/india/indiauae-framework-pact-for-imec-gets-union-cabinet-nod-11710336607722.html>

The current war in Gaza adds another layer of complexity that could well impact this equation, Long-term hostilities in the area had been steadily showing signs of de-escalation.

IMEC is a bold initiative that includes Israel and the Gulf countries on a path longer than CPEC. Pros and downsides for this inclusion abound. Putting the Jewish state at the center of the transit corridor has a number of benefits, one of which is that Western countries will support it. But there are also significant drawbacks, such as the ongoing hostilities in the area and the escalation of the Israel-Palestine conflict.¹⁴ From a security perspective, one risk element influencing the possibilities of IMEC is the current escalation in Gaza and the occupied territories. It is a legitimate worry that the war could spread throughout the entire region. Normalization between Israel and important IMEC members, like Saudi Arabia, is undoubtedly continuing, even though it has been put on hold for the time being to prevent inciting negative public opinion in the region. Both Israeli Prime Minister Benjamin Netanyahu and Saudi Crown Prince Mohammed bin Salman (MBS) have made remarks indicating that the normalization effort is still ongoing. Saudi Arabia has already committed to investing \$20 billion through the IMEC. The Saudi Arabian Council of Ministers approved a Memorandum of Understanding (MoU) in November 2023 that outlined the IMEC's guiding principles.¹⁵

In addition to aiming to be a westward-oriented route, IMEC also wants to realign India's alliance position toward the Western Hemisphere in order to put pressure on China nearby and divert its attention to regional affairs. Furthermore, IMEC is a weapon that the USA uses to accelerate the pace of normalization in the Gulf and strengthen economic cooperation. US President Joe Biden stated that he thought that the formalization of the India-Middle East-Europe Economic corridor was a contributing factor in Hamas's strike against Israel. US President Joe Biden mentions the Middle East-Europe Economic Corridor (IMEC) and the diplomatic relations that have been established between Saudi Arabia and Israel in order to connect the attack on Israel by Hamas to regional integration efforts in West Asia. He also underlines the rivalry between the US and China, pointing out that the IMEC poses a threat to China's Belt & Road Initiative. Biden expresses excitement for the Quad Leaders' Summit in India and reiterates his commitment to the Quad. He talks about the necessity for a better future for the area, integrating Israel while taking the Palestinian people's aspirations into account. Biden claimed that the region will gain from "predictable markets, more employment, less rage and grievances" as a result of the IMEC.¹⁶

The Cabinet has approved the Inter-Governmental Framework Agreement between the United Arab Emirates and India regarding cooperation for the Middle East and Europe Economic Corridor's operation and empowerment. India's economic interests are demonstrated while interacting with Western nations.¹⁷ The two-day visit to Iran by External Affairs Minister S. Jaishankar on January 14–15, 2024, is an important diplomatic opportunity. First, it happened in the midst of a worsening security environment in the region due to the ongoing conflict between Hamas and Israel, terrorist attacks in Iran that were claimed by ISIS, and the Houthi targeting

¹⁴ <https://thediomat.com/2023/11/unrest-in-the-middle-east-is-bad-for-both-cpec-and-imec/>

¹⁵ https://www.bloomberg.com/news/articles/2023-11-10/israel-hamas-conflict-netanyahu-sees-saudi-arabia-peace-deal-after-gaza-fight?utm_source=twitter&cmpid=socialflow-twitter-business&utm_campaign=socialflow-organic&utm_medium=social&utm_content=business

¹⁶ <https://www.hindustantimes.com/india-news/biden-links-hamas-attack-with-west-asia-reset-push-101698343749987.html>

¹⁷ https://www.pmindia.gov.in/en/news_updates/cabinet-approves-inter-governmental-framework-agreement-india-and-united-arab-emirates-on-cooperation-for-the-empowerment-and-operation-of-the-india-middle-east-europe-economic-corridor/

of commercial ships in the Red Sea, Gulf of Aden, and Arabian Sea. Secondly, it refocused attention on India and Iran's collaboration on the International North-South Transport Corridor (INSTC) and Chabahar port. The India-Middle East-Europe Economic Corridor is another massive connectivity project that was unveiled last year in New Delhi, alongside the G20 meeting. Jaishankar stated in the joint press release that regional connectivity is spreading into new areas and is still a "critical pillar" of India-Iran relations. In addition to stressing India's dedication to the Chabahar project, he called for the creation of a "sustainable and long-term roadmap" for the country's ongoing participation and the requirement that its advancement be closely monitored by the political establishment.

CONCLUSION

In conclusion, Jaishankar's visit serves as a welcome reminder that India's relationship with Tehran is based on its own merits and that India's interests call for increased rather than decreased engagement. India is committed to upholding its long-standing independent perspective on the area even as it expands its collaboration with the US and its allies in West Asia.

India is concerned about the escalation and spread of the Israel-Palestinian conflict to other parts of West Asia and the Gulf, as this region provides the majority of India's energy needs and over six million Indians live in the Gulf Cooperation Council (GCC) countries, making significant annual contributions of foreign remittances to the Indian economy. As a long-term project, India is also constructing the port of Chabahar in Iran; but, if the war continues, this project may also be in peril. Naturally, the longer-term effects are still unknown. Naturally, any possible supply disruptions or variations will have an effect on India's energy industry. However, political risk may be the most significant risk factor, therefore the government will need to carefully balance.

Reference

- Raine, J. (2023, November 15). The battle for the Middle East's geopolitics. IISS.
- Durac, V. (2024, April 2). The Role of Non-State Actors in Arab Countries after the Arab Uprisings. IEMed.
- Al-Ghwell, H. (2024, January 25). The Houthis are the epitome of 21st-century non-state actors. Euronews.
- Kamali, P., Koepke, R., Sozzi, A., & Verschuur, J. (2024, March 7). Red Sea Attacks Disrupt Global Trade. IMF BLOG.
- Partington, R. (2024, January 3). What is the Red Sea crisis, and what does it mean for global trade? The Guardian.
- News Agencies. (2011, December 28). Iran to 'block' Gulf oil if sanctions proceed. Al Jazeera.
- Regencia, T., & Chughtai, A. (2018, July 5). What's at stake if trading at Strait of Hormuz is disrupted? Al Jazeera.
- DEUTSCHE WELLE. (2023, November 7). Israel-Hamas war: What could it mean for India's economy? Frontline.
- Krishnan, M. (2023, November 6). Will Israel-Hamas war affect India's economy? DW.
- Bhargava, S. (2023, October 29). Decoding the impact of Israel-Hamas war on global and Indian economy. The Economic Times.

Press Releases. (2021, October 16). Visit of External Affairs Minister to Israel (October 17-21, 2021). mea.gov.

Saraswat, D. (2013, September 19). I2U2: Change and Continuity in India's West Asia Policy. INSIGHTS.

Livemint. (2024, March 13). India-UAE framework pact for IMEC gets Union cabinet nod. MINT.

Elmali, B. (2023, November 24). Unrest in the Middle East Is Bad for Both CPEC and IMEC. The Diplomat.

Flatley, D. (2023, November 10). Netanyahu still sees peace deal with Saudi Arabia after Gaza fighting. Bloomberg.

Jha, P. (2023, October 27). Netanyahu still sees peace deal with Saudi Arabia after Gaza fighting: Biden links Hamas attack with West Asia reset push. Hindustan Times.

News Updates. (2024, March 13). Cabinet approves Inter-Governmental Framework Agreement India and United Arab Emirates on cooperation for the empowerment and operation of the India-Middle East Europe Economic Corridor. PM INDIA.

