



# IMPACT OF ISRAEL IRAN WAR ON INDIAN ECONOMY

<sup>1</sup>Dr.K.Nagendiran, <sup>2</sup>R.Sathya,

Assistant Professor, PG Department of Commerce, DLR Arts and Science College (Co.Ed), Villapakkam, Arcot, Ranipet, Tamil Nadu - 632 521.

Ph.D., (Full-Time) Research Scholar, Department of Economics, Thiruvalluvar University, Serkkadu, Vellore, Tamil Nadu – 632 115.

## Abstract

In this study we have examined the economic effects of the Israel-Iran conflict on India. The intensifying conflict between Israel and Iran has the potential to greatly affect the growth momentum of economies everywhere, including India. According to our research, the ongoing conflict will hurt the world's economy and trade since it may keep the important Red Sea shipping route closed. The rising cost of crude oil will be one of India's biggest problems in the near future, since the country imports the majority of its petrol and oil. A surge in the price of crude oil will affect economic growth in addition to causing inflation. As tensions escalate, the implications for India, an emerging player in the global market are becoming increasingly significant.

India's energy security is also expected to be at risk, to a certain extent, as the likelihood of a full-scale conflict between Israel and Iran intensifies. Crucial gas and oil shipments through the Strait of Hormuz could be disrupted by the fighting, raising energy prices, causing inflation, and destabilising the Indian economy. The purpose of this article is to analyse how the Israel-Iran war will affect the Indian economy.

## Keywords

War, Crude oil prices, Strait of Hormuz, Trade, inflation, economic instability, economic growth.

## Introduction

Concerns regarding the possibility of a larger regional confrontation have been heightened by the increasing tensions between Israel and Iran. India has asked both parties to maintain caution and use communication and diplomacy to settle the problem because of its strategic interests in the West Asian area. India's oil dilemma India's energy demands are largely met by the Middle East. For a while, Russia's oil was the main source of India's imports, but in August 2024, Middle Eastern oil accounted for 44.6% of India's total crude imports, up from 40.3% in July 2024. India's primary Middle Eastern oil suppliers include Kuwait, Saudi Arabia, the United Arab Emirates, and Iraq. Nearly half of India's Liquefied natural gas (LNG) requirements are met via imports from Qatar.

A full-fledged war will affect even Russian imports because oil from Russia is delivered via the Red Sea; however, in order to avoid attacks, it may be redirected owing to the war across the Cape of Good Hope. The obstruction of the Strait of Hormuz may present an additional difficulty. Because so much oil passes through the Strait of Hormuz, it is the most significant oil chokepoint in the world. India is one of the main destinations for crude oil travelling over the Strait of Hormuz to reach Asia, along with China, Japan, and South Korea.

India's net oil import bill is expected to rise from \$96.1 billion in 2023–24 to between \$101 billion and \$104 billion in the current fiscal year. The value of these imports might increase further with any escalation in the Iran-Israel war, and this would eventually affect consumer prices. The fact that regional powers like Saudi Arabia, the United Arab Emirates, Kuwait, and Qatar have maintained their neutrality in the Iran-Israel conflict or its proxy battles is a bright spot for India despite the ongoing conflict. According to a survey by the Global commerce Research Initiative (GTRI), India's commerce with these Gulf Cooperation Council (GCC) nations increased significantly between January and July 2024, rising by 17.8% over the same period the previous year. India's exports to Iran also experienced a notable growth of 15.2% during this time.

Furthermore, analysts think that India's historically high foreign exchange reserves will insulate the nation from short-term shocks. Although geopolitical unpredictability and fluctuations in energy prices may have consequences, India's large reserves will protect against short-term bad effects. As long as there are enough reserves, there shouldn't be many short-term effects. In the week ending September 20, 2024, India's foreign exchange reserves increased to \$692 billion. The rising hostilities in the Middle East will sour investor mood worldwide and influence major central banks' future policy decisions. This economic recovery is seriously threatened by the continued conflict, even if the world was starting to see a cycle of monetary easing with central banks all over the world cutting interest rates after a protracted period of maintaining decade-high levels to combat inflation. Israel and Iran's war has entered a volatile phase that is causing concerns in a number of areas, most notably trade and economics.

### **Implications of the Israel-Iran war on Indian Economy**

#### **Disruption of Trade Routes**

India's trade with the US, Europe, Africa, and West Asia is dependent on these major shipping routes, and the conflict has increased the likelihood of these routes being disrupted. The Red Sea and Suez Canal routes are especially important because they allow the transportation of products valued at more than \$400 billion USD a year. The general security of marine trade is also at risk, in addition to shipping channels.

#### **Crude Oil Price**

At least temporarily, it is anticipated that the possibility of the conflict being worse will keep crude oil prices highly volatile. Oil prices are now hovering around USD 90/bbl, and given the recent events that have negatively impacted investor mood globally, it is anticipated that oil prices could soon approach USD 100/bbl.

#### **Energy Security and Oil Imports**

Providing more than 60% of India's imports of crude oil, West Asia is essential to the country's energy security. Following Russia, Iraq emerged as India's second-largest supplier of crude oil in 2022–2023. The region's political unrest frequently causes volatility in oil prices, which can have a big effect on India's economy. The recent pricing of Brent crude oil at USD 80–85 per barrel has an impact on inflation and import expenses for India.

#### **Foreign Portfolio Investment (FPI)**

FPIs sold shares for around Rs.8027 crore on Friday, April 12, 2024, as the confrontation between Iran and Israel became apparent starting on Thursday, April 10, 2024, in India. Nevertheless, the losses were limited since DIIs purchased shares valued at Rs.6341 crore.

#### **Trade Relationships**

One of India's most significant trading partners is the Gulf Cooperation Council (GCC). Bilateral trade between India and the GCC was valued at USD 161.59 billion in FY 2023-2024. 56.3 billion USD was exported by India. India's export industry and the Gulf's food supply could be severely impacted by any trade relations difficulties brought on by regional unrest. Furthermore, geopolitical concerns may impede India's Comprehensive Economic Partnership Agreements (CEPA) with nations like the United Arab Emirates, which are intended to increase trade.

#### **Maritime Security and Trade Routes**

Important sea lanes, such the Strait of Hormuz and Bab el-Mandeb, are vital to India's imports of oil and trade. India's commerce security may be compromised by state-sponsored attacks or pirate threats to certain waterways. The Strait of Hormuz continues to be a vital choke way. India's interest in the matter is highlighted by Iran's April 2024 seizure of a cargo ship with ties to Israel and 17 Indian people on board.

#### **Tea Industry**

The impact of the conflict's escalation on Indian exports has already started. The tea business is especially weak. Iran is one of the biggest buyers of Indian tea (India exported 4.91 million kg in early 2024), therefore worries about how a conflict would affect supplies have surfaced.

#### **Rising Shipping Costs**

Costs have increased by 15-20% as shipping routes had to be extended owing to diversion caused by conflicts. The increase in shipping prices has put pressure on Indian exporters' profit margins, particularly for those that deal in low-end engineering products, textiles, and clothing, all of which are quite susceptible to freight charges. According to exporters, growing logistical costs may have a detrimental effect on their total profitability, causing them to reevaluate their approach to pricing and operational effectiveness.

#### **Effects on Indian share Markets**

Due to its heavy reliance on oil imports - more than 80% of its demands are met by imports - India is susceptible to changes in price. Investor attention may move from Indian equities to safer assets like bonds or gold if oil prices continue to increase. Fears of a protracted confrontation have already caused major indices like the Sensex and Nifty to open lower on the Indian stock market.

#### **Geopolitical Alignments and Great Power Rivalries**

India has difficulties as a result of China's growing influence in West Asia, especially through the Belt and Road Initiative (BRI) and China's closer connections to Saudi Arabia and Iran. India's strategic interests are threatened by China's expanding influence in the area, as demonstrated by its role in mediating the rapprochement between Saudi Arabia and Iran in March 2023.

#### Suggestions

1. Pursue Strategic Autonomy and Non-Alignment: By cultivating solid bilateral ties with important nations like Saudi Arabia, Iran, Israel, and the UAE, India may continue to uphold its policy of non-alignment in West Asian disputes.
2. India can navigate regional disputes without getting entangled in them by avoiding overt alliance with any one faction.
3. Remaining impartial on delicate matters such as the Israel-Palestine conflict and the rivalry between Iran and Saudi Arabia will further improve India's reputation as a country that promotes peace and a trustworthy ally for all stakeholders.
4. Although India's energy security still depends on West Asia, the nation should diversify its energy imports in order to lessen its reliance on any one area.
5. In order to reap major gains, it is imperative to expand trade and investment ties with GCC nations by investigating new markets in industries including infrastructure, defence, and technology.

#### Conclusion

There is an impact of the continuing Israel-Iran war on the economy of India. The potential repercussions of the Israel-Iran confrontation on oil prices could have a detrimental effect on India, the world's third-largest oil importer, by raising import costs and driving up commodity prices. Forecast that growing oil prices will exacerbate inflation and affect India's current account deficit (CAD), which arises from a surplus of imports over exports of goods and services.

India's strategic objectives in West Asia demand that the intricacies of regional conflicts be navigated with equilibrium. India must prioritise issue-based diplomacy and multilateral collaboration if it is to become a stabilising force in a conflict-ridden region, safeguarding its interests as a nation while promoting peace and stability in the area.

#### References

1. Kamali, P., Koepke, R., Sozzi, A., & Verschuur, J. (2024, March 7). Red Sea Attacks Disrupt Global Trade. IMF BLOG.
2. Partington, R. (2024, January 3). What is the Red Sea crisis, and what does it mean for global trade? The Guardian.
3. Regencia, T., & Chughtai, A. (2018, July 5). What's at stake if trading at Strait of Hormuz is disrupted? Al Jazeera.
4. DEUTSCHE WELLE. (2023, November 7). Israel-Hamas war: What could it mean for India's economy? Frontline.
5. Bhargava, S. (2023, October 29). Decoding the impact of Israel-Hamas war on global and Indian economy. The Economic Times.
6. Saraswat, D. (2013, September 19). I2U2: Change and Continuity in India's West Asia Policy. INSIGHTS.
7. ET Spotlight team, (October,4, 2024)"A full-blown Israel-Iran war can imperil India's oil security", Times of India.
8. Ashwani Chaturvedi, Manjari Singh, (April 2024) Israel-Hamas War and Supply disruptions: Analyzing its Implications on Indian Economy, International Journal of Novel Research and Development. Vol.9, Issue.4. Pp.122-129.