



The U.S.–Iran Conflict: Challenges for India's Economy and Global Supply Chains

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INTRODUCTION

Geopolitical conflicts have always influenced the global economy. The ongoing tensions between the United States and Iran are not limited to military or political issues; they also have significant economic consequences for countries around the world. Although India is not directly involved in the conflict, it can experience substantial indirect effects because of its dependence on imported crude oil, international trade, and global supply chains. India imports more than 85% of its crude oil requirements, and a large share of these imports passes through the Strait of Hormuz, one of the world's most important maritime trade routes. Any disruption in this region can increase transportation costs, delay shipments, and raise global oil prices. These developments increase production costs across industries, contribute to inflation, and affect the overall economic growth of the country. From an agricultural economics perspective, rising energy prices directly affect farming activities. Diesel is widely used for tractors, irrigation pumps, harvesting machinery, and transportation of agricultural produce. Similarly, fertilizers, pesticides, and other farm inputs depend on energy-intensive manufacturing processes. Therefore, an increase in crude oil prices raises agricultural production costs and reduces farmers' profit margins.

Apart from agriculture, industries such as manufacturing, construction, transportation, and logistics also experience higher operating costs. As businesses face increased expenses, these costs are often passed on to consumers through higher prices of goods and services. Consequently, households experience reduced purchasing power, leading to lower consumer spending and slower economic growth. Global supply chains are also highly sensitive to geopolitical conflicts. Shipping companies may avoid conflict-prone regions or charge higher insurance and freight rates due to increased security risks.

This results in delays in the movement of raw materials and finished products, affecting both domestic industries and international trade.

This article examines how the U.S.–Iran conflict can influence India's economy through changes in energy prices, trade disruptions, inflation, agricultural production costs, and supply chain inefficiencies. It also discusses the likely impact on major commodities and evaluates possible policy measures that can reduce economic risks.

2. Transmission Channels through Which the Conflict Affects India

The economic effects of the U.S.–Iran conflict reach India through several interconnected channels. These channels transmit global shocks into the domestic economy.

2.1 Increases in Crude Oil Prices

The most immediate impact of the conflict is an increase in international crude oil prices. Military tensions in the Middle East create uncertainty regarding oil production and exports. Investors anticipate supply shortages, causing oil prices to rise even before actual disruptions occur. Higher crude oil prices increase India's import bill, widen the current account deficit, and reduce foreign exchange reserves. Since petroleum products are essential for transportation, electricity generation, manufacturing, and agriculture, almost every sector of the economy experiences higher production costs.

2.2 Rising Inflation

As fuel prices increase, transportation costs also rise. Businesses transfer these higher costs to consumers through increased prices of food, manufactured goods, and essential commodities. This process contributes to cost-push inflation. Food inflation becomes particularly important because agricultural commodities require transportation from farms to markets. Higher logistics costs increase retail prices, affecting both rural and urban consumers.

2.3 Exchange Rate Pressure

An increase in oil imports raises India's demand for U.S. dollars, which may weaken the Indian Rupee against the dollar. A weaker rupee makes imports more expensive, further increasing the prices of crude oil, fertilizers, machinery, electronic equipment, and industrial raw materials. Exchange rate depreciation also increases the repayment burden on companies with foreign currency loans.

2.4 Trade and Export Challenges

International conflicts create uncertainty in global markets. Export demand may decline as importing countries reduce consumption due to economic instability. At the same time, higher freight charges reduce the competitiveness of Indian exports. Agricultural products, textiles, engineering goods, pharmaceuticals, and processed food products may experience reduced export margins due to rising transportation and insurance costs.

2.5 Financial Market Volatility

Geopolitical uncertainty often causes fluctuations in stock markets and foreign investment flows. International investors generally shift their investments toward safer assets such as gold and U.S. government bonds. Reduced foreign investment can slow industrial expansion, employment generation, and economic growth in India.

3. Major Sectors of the Indian Economy Likely to be affected

The U.S.–Iran conflict influences multiple sectors simultaneously. The most vulnerable sectors include:

- Energy and petroleum
- Agriculture and allied sectors
- Fertilizer industry
- Transportation and logistics
- Manufacturing industries

- Food processing sector
- Export-oriented industries
- Aviation
- Shipping and port operations
- Retail and consumer markets
- Financial markets and banking

Each of these sectors is connected through domestic and global supply chains. Therefore, disruptions in one sector can quickly spread throughout the economy, increasing production costs and reducing economic efficiency.

4. Effects on the Aeronautics and Aviation Sector

- Higher aviation fuel (ATF) prices due to rising crude oil costs.
- Increase in airline operating costs and airfares.
- Flight route diversions leading to longer travel times and higher fuel consumption.
- Disruptions in aircraft parts and aerospace supply chains.
- Higher air cargo costs, affecting international trade and exports.
- Negative impact on airline profitability and the aviation industry

5. Policy Responses & Future Outlook

Government Policy Responses

The Government of India can adopt several short-term and long-term strategies to minimize the economic impact of the U.S.–Iran conflict. Since India is highly dependent on imported crude oil and integrated with global trade networks, strengthening economic resilience is essential.

Diversification of Energy Imports

India should reduce its dependence on a limited number of oil-exporting countries by diversifying crude oil imports from different

regions. Expanding long-term supply agreements with multiple countries can reduce the risk of supply disruptions during geopolitical conflicts.

Strengthening Strategic Petroleum Reserves

Maintaining adequate strategic petroleum reserves allows the government to stabilize domestic fuel supplies during periods of international uncertainty. These reserves act as a buffer against sudden increases in oil prices and supply shortages.

Promoting Renewable Energy

Increasing investments in solar, wind, bioenergy, and green hydrogen can reduce India's dependence on imported fossil fuels. Renewable energy also supports sustainable economic growth and improves long-term energy security.

Supporting Farmers

The government can protect farmers by:

- Providing fertilizer subsidies.
- Promoting efficient irrigation systems.
- Encouraging precision farming.
- Expanding crop insurance coverage.
- Strengthening agricultural extension services.

These measures help reduce production costs and improve farm income during periods of economic uncertainty.

Strengthening Domestic Supply Chains

Investments in roads, railways, cold storage facilities, warehouses, and digital logistics systems can improve supply chain efficiency. Better infrastructure reduces transportation costs and minimizes delays in the movement of agricultural commodities.

Maintaining Price Stability

Government agencies can monitor essential commodity prices and release buffer stocks of food grains when necessary. Temporary

reductions in import duties or taxes on essential commodities may also help control inflation.

Encouraging Export Competitiveness

Supporting exporters through improved logistics, trade facilitation, export incentives, and market diversification can help maintain India's position in international markets despite global disruptions.

Future Outlook

The future impact of the U.S.–Iran conflict depends largely on the intensity and duration of geopolitical tensions. If the conflict remains limited, India may experience temporary increases in oil prices and transportation costs. However, prolonged military escalation could significantly disrupt international trade, increase inflation, and slow economic growth.

Despite these risks, India has several strengths that improve its resilience:

- A diversified economy.
- A large domestic consumer market.
- Expanding renewable energy capacity.
- Strong agricultural production.
- Growing foreign exchange reserves.
- Increasing focus on infrastructure development and digital supply chains.

These factors provide India with opportunities to adapt to external economic shocks while maintaining long-term growth.

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