

## Iran War and Changing Economic Convictions

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For containing conflicts, reducing geopolitical risks and overcoming economic shocks and fragilities, there should be an agreed set of rules. This calls for a shared perception of legitimacy. Without a shared perception, in a multipolar world, instability can become the order of the day. Consequently, geopolitical uncertainty and economic volatility would increase. The gradual eclipse of multilateral institutions like the UN, WTO, WHO, UNFCCC (the climate change body), etc. has reduced the perception of rule-based legitimacy. The unfettered use of tariffs and sanctions, along with regional conflicts, is closely linked to the absence of a shared perception of legitimacy.

In the history of international relations, the Treaty of Westphalia in 1648 is a landmark. It helped in ending the Thirty Years' War in Europe. It also became a precursor to the belief system that sovereignty cannot be trampled, the territorial integrity of a State cannot be violated and there should be no interference in the internal affairs of another State. Every time a global or regional hegemon has contested it, the results have been sub-optimal for all parties concerned. The war in Iran will subside one day, but whether that will lead to stability in a fractured West Asia is the key question.

In the search for stability, the convergence of geopolitics, security and macroeconomics is becoming increasingly apparent. In recent weeks, the Iran war has once again brought it to the fore. It is not merely a regional military conflict; its reverberations can be felt across global economies, commodity markets and financial markets. The impact, however, is a lot greater on energy-importing economies, with major ones being China, India, the EU, Japan and South Korea. India has sixty days of oil in reserve, which is to be used in case of supply disruption.

The global markets have seen at least seven oil shocks since the early seventies; of these, the 1973 and 1979 shocks were the most prominent. In 1973, the price of crude went up fourfold; during the second oil shock beginning in 1979–80, prices went up around three times. The first event was driven by supply reduction by OPEC countries, led by Saudi Arabia (post the Yom Kippur War) and the second one was due to political upheaval in Iran.

The 2026 oil shock emanating from the Iran war is

different. A part of the oil infrastructure and capital equipment has been destroyed and its replacement will take time. It has also opened up a number of fault lines. The roles of economic chokepoints like the Strait of Hormuz and Bab al Mandeb have never been so stark. From the point of view of future statecraft, these chokepoints need to be considered for scenario building and contingency plans.

Iran's ability to regulate these chokepoints, along with non-state actors, has set at naught several supply chain calculations. Global markets are increasingly questioning the dependence on a single chokepoint, like the Strait of Hormuz. Around 20% of the world's oil consumption currently passes through it.

The global markets across assets and countries are better integrated now. Volatility in the energy market is getting transmitted to commodity and equity markets almost instantaneously. Secondly, the destruction of petroleum infrastructure and natural gas plants would force energy-importing countries to look for alternative sources. This may affect petro-dollar flows and the subsequent use of petrodollars for purchasing US Treasury bonds. Alternate sources of crude supply could also lead to a shift in payment methods, including barter arrangements and the limited use of currencies such as the Yuan. This, however, is not an immediate option for India, given its fluctuating geopolitical dynamics with China.

The Iran war has also affected commodity markets like fertilizers, helium and aluminium. Given these developments, the current conflict appears more damaging than the oil shocks of 1973 or 1979. Another key issue is the uncertainty regarding the military and diplomatic endgame in the West Asian conflict.

The systemic shock on account of the Iran war can be felt across countries with different economic structures and political alignments. An Al Jazeera report suggests that between February 23, 2026 and March 11, 2026, petrol prices rose sharply in 95 countries, with the highest increases being in Cambodia (68%) and Vietnam (50%). Several advanced economies experienced more than a 15% increase.

The West Asian military conflict has disturbed the energy market in terms of availability and price. From a

macroeconomic point of view, it has deleterious implications in terms of higher inflation, stalled rate reductions, tighter credit, higher fiscal deficits, larger current account deficits, weaker currencies and above all, lower GDP growth.

The Iran war is not limited to military and diplomatic manoeuvres. It is increasingly affecting the cost of fuel and transport for ordinary consumers in far-off economies. The Iran war started as a contest for regional dominance in West Asia, buttressed by global power dynamics; however, the economic consequences of the war are now shaping interest-based alliances across the globe. Countries, including India, are pursuing a multivector foreign policy and balancing relations with competing global powers.

During the 1990s globalization era, both advanced and emerging economies prioritized economic efficiency, which led to long and complex global supply chains. Today, these are increasingly being replaced by simpler and more resilient supply chains. Bilateral and regional trade arrangements must increasingly focus on the resilience of supply chains, along with investment and technology acquisition. India has taken steps in this direction in recent negotiations.

The broader objective is to build strategic autonomy through flexible partnerships. India maintains strong economic, geopolitical and diaspora relationships with countries in West Asia. About 10 million people of Indian origin live in West Asia and they account for 38% of remittances. Around 85–90% of India's crude oil and 60% of India's LPG requirements are imported; half of the crude oil imports come from West Asia. About 90% of India's LPG requirements and 50% of LNG supplies pass through the Strait of Hormuz. The Iran war highlights the importance of diversifying energy suppliers and expanding domestic production. For India, energy security is closely tied to national security. Along with diversifying crude oil and LPG sources, India needs to expand strategic reserves and

accelerate renewable energy adoption.

Given the presence of both state and non-state actors around key chokepoints, naval protection and alternative trade routes are essential. Strengthening supply chain resilience is, therefore, critical. During the globalization period, cost minimization and efficiency dominated supply chains; current geopolitical tensions, however, are pushing countries toward strategic autonomy and multiple alliances.

The concept of having an industrial trajectory, if not a full-fledged policy, based on self-reliance is re-emerging in both advanced and emerging economies. India's Production Linked Incentive (PLI) schemes in sectors such as defence, electronics and pharmaceuticals (including API manufacturing), etc., support this point of view; the promise of exports and higher employment are potential benefits.

As the Iran war continues, a one percent drop in India's GDP and a 1.5% increase in inflation are well within the realm of possibility. Oil shocks could get transmitted into higher transport costs, higher fertiliser costs and higher industrial input costs. The weaker sections of society would need support through targeted subsidies, which will have an impact on the fiscal side. The deficit is likely to go beyond the budgeted number. The current account deficit could go up due to higher import costs, lower exports and lower remittances. The currency will be under pressure due to both structural and speculative reasons; fortunately, India still has adequate foreign exchange reserves and a vigilant RBI.

Another issue that needs to be borne in mind is the lagged effect of the oil shock. Unlike financial markets, the transmission to the real economy could take time—it could well play out over two years. Economic growth does not follow a linear trajectory; disruptions like the Iran war are a grim reminder. Future economic growth will depend on the ability of policymakers to juxtapose geopolitics, security and economic policy.

## About Author



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Siddhartha Roy is the former Economic Advisor to the Tata Group and currently serves as CEO of SR Associates, an economic advisory and strategic consultancy firm. With extensive experience in macroeconomic analysis and corporate strategy, he has contributed significantly to policy discussions and business decision-making in India. His work continues to focus on economic trends, industry dynamics and strategic advisory.

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