

The Impact of the US–Israel–Iran Conflict on India's Trade and Commerce

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Abstract

The persistent geopolitical tensions among the United States, Israel, and Iran are significantly affecting India's trade and commerce due to its substantial dependence on global energy markets and trade routes in the Middle East. With approximately 85-90% of its crude oil sourced from imports, any disruption in the Persian Gulf, particularly around the vital Strait of Hormuz, poses serious risks to India's energy security, trade equilibrium, and economic development. A major outcome of this conflict is the fluctuation in global crude oil prices; uncertainties regarding supply and geopolitical threats have escalated fuel prices, inflating India's import costs and exacerbating its trade deficit. Rising fuel costs contribute to inflationary pressures that elevate expenses across various sectors including transportation, manufacturing, and logistics. Consequently, industries such as aviation, chemicals, and fast-moving consumer goods are experiencing diminished profit margins alongside operational difficulties. Additionally, international shipping and supply chains—especially those connected to the Middle East—are facing disruptions. Increased risks in maritime transport have resulted in heightened freight charges and insurance premiums that negatively impact both exports and imports. Exporters are struggling with delays and a loss of competitiveness while sectors reliant on imports contend with steeper input costs and supply deficiencies. Financial markets reflect these uncertainties through increased volatility in currencies as well as investment shifts toward safe-haven assets like gold. Such trends affect investor confidence and capital flows which subsequently influence exchange rate stability. In response to these challenges, India is prioritizing diversification of energy sources, exploration of alternative trade routes, and implementation of policy measures aimed at stabilizing the economy. Overall, this conflict presents not only immediate disruptions but also long-term strategic hurdles for India's economic resilience.

Keywords: Energy Security; Oil Price Volatility; Trade Disruptions; Geopolitical Risk

1. Introduction

The modern global economy is intricately interconnected yet increasingly susceptible to geopolitical conflicts and regional instability. The ongoing tensions involving the United States, Israel, and Iran represent a significant geopolitical crisis with extensive consequences for global trade dynamics, energy markets, and business landscapes. While primarily centered in the Middle East region, the economic ramifications extend worldwide—particularly affecting emerging economies like India that are deeply woven into international trade networks.

As one of the fastest-growing major economies globally with strong economic ties to the Middle East—especially concerning energy imports—India depends heavily on this region for approximately 85-90%

of its crude oil requirements transported largely through the strategically important Strait of Hormuz. Any disruption along this route due to geopolitical tensions directly jeopardizes India's energy security by driving up fuel prices which raises production expenses alongside inflationary pressures.

Recent developments within this conflict have already incited volatility in global oil prices impacting transportation costs as well as overall business expenditures across sectors such as manufacturing. Furthermore, the financial markets have become more uncertain due to stock market fluctuations accompanied by currency variations which foster a cautious sentiment among investors.

Disruptions in logistics networks coupled with escalating shipping expenses hinder trade activities further compounding challenges within industries already grappling with rising input costs amid changing demand patterns—all highlighting an urgent need for strategic planning focused on risk management alongside diversification efforts geared towards ensuring resilience within India's trading environment.

2. Literature Review

A growing body of research underscores a robust correlation between geopolitical conflicts and economic performance—particularly among developing countries like India reliant heavily upon global commerce alongside energy imports. Foundational studies conducted by James D. Hamilton (2009) and Lutz Kilian (2014) illustrate how geopolitical tensions frequently lead to oil price shocks that subsequently result in inflationary trends, slower growth rates, and burgeoning production costs for nations reliant upon oil imports.

Recent investigations—including those by Revannath S. Navale (2026)—specifically analyze the Iran-Israel conflict revealing substantial economic challenges faced by India stemming from its reliance on West Asian trade relations and energy supplies. The findings highlight how interruptions in maritime routes coupled with rising crude oil prices detrimentally affect India's business climate and macroeconomic stability. Furthermore, policy analyses expose structural vulnerabilities inherent within India's supply chains and logistics networks as well as its dependence on external trade.

Additionally, research by Mehmet Balcilar et al. (2018) point out that heightened geopolitical risks amplify stock market volatility while undermining investor confidence—reinforcing the broad uneconomic impact of such conflicts.

3. Research Methodology

3.1 Research Design

This study employs both descriptive and analytical research designs. The descriptive aspect aims to elucidate the nature and extent of impacts resulting from the US-Israel-Iran conflict on Indian commerce while the analytical component scrutinizes relationships between variables like oil prices, trades strategies, inflation, and business performance.

3.2 Research Approach

Adopting a mixed-methods approach, this study integrates:

Qualitative Analysis: To interpret relevant geopolitical developments, policy responses, and business strategies.

Quantitative Analysis: To evaluate key economic indicators including GDP, inflation, riding volumes, index levels, and fluctuations in oil prices.

3.3 Nature and Sources of Data

The research relies predominantly upon secondary data suitable for macroeconomic and geopolitical studies. Sources include:

- Government reports (Ministry of Commerce & Industry, RBI, Petroleum Ministry)
- International organizations (World Bank IMF UN)
- Academic journals and research articles
- Financial databases (SEBI,NSE,BSE reports)
- Reputable newspapers and business magazines (Economic Times, Business standard)

Utilizing secondary data ensures access to robust, time-series information vital for analyzing global conflicts.

3.4 Period of Study

The investigation spans from 2020 to 2026 with particular attention given recent escalations pertaining to the US-Israel-Iran conflict alongside its consequences on Indian financial systems. The chosen methodology provides a thorough frame work facilitating analysis regarding both managerial and economic impacts resulting from this conflict. Ultimately, this approach blends qualitative in sights with quantitative evidence ensuring comprehensive understanding of the issue at hand.

4. Objectives of the Study

1. To assess how the US-Israel-Iran conflict affects India's trade and commerce.
2. To analyze implications of oil price variations on Indian business operations and industrial expenses.

4.1 The Impact of US-Israel-Iran Conflict on India's Trade and Commerce

The continuing discord among the United States, Israel, and Iran has profoundly altered India's commercial interactions via several economic path ways including energy cost changes, trade routes, supply chain interruptions, and export markets. Given India's intense entanglement with global commerce combined with its reliance on the Middle East, the effects are both direct and influential in directly.

4.1.1 Disruption of Trade Routes and Maritime Transport

- Key maritime routes—in particular, the Strait of Hormuz—are being adversely affected.
- Heightened shipping risks alongside process delays increase insurance expenditures.
- Elevated transportation costs impact both imports and extra sports.

4.1.2 IMPACT ON INDIA'S EXPORT TRADE

Strong dependence on West Asian markets notably agricultural products including basmati rice spices fruits processed food items textiles manufactured goods experiences demand fluctuations coupled with logistical constraint sreducing competitiveness

4.1.3 RISING IMPORT COSTS AND TRADE IMBALANCE

Sharp increases in crude oil prices arising from uncertain ties around supplies widen import bills leading to a trade imbalance while higher input costs increase final product pricing

4.1.4 SUPPLY CHAIN DISRUPTIONS

Shortages emerging for petro chemicals fertilizers facing delays cargo movement due insecurities necessitating alternative costlier options creating production delays heightening overall operational costs lowering competitiveness.

4.1.5 INFLATION AND DOMESTIC MARKET IMPACT

Rising fuel prices inflate transportation logistics expenditures leading to higher commodity pricing affecting household consumption driving retail inflation up wards.

4.1.6 FINANCIAL AND TRADE UNCERTAINTY

Currency fluctuations exert pressure on the rupee detrimental towards investor confidence marking volatility within commodity financial markets.

4.1.7 STRATEGIC AND LONG TERM TRADE IMPLICATIONS

Necessity exists in diversifying trade partner's energies strengthening strategic petroleum reserves while focusing on alternative shipping routes regional trade agreements

5. The Effect of Oil Price Fluctuations on Indian Businesses Industrial Costs

Fluctuations in oil prices primarily instigated by geopolitical instabilities such as the US-Israel-Iran conflict leads to wide spread repercussions across Indian industries. As over 85% of the crude oil must be imported, rising global evaluations directly affect industrial expenditures profitability operational efficacy.

5.1 INCREASE IN PRODUCTION OPERATIONAL COSTS:

- Oil serves as an essential input fuel raw material (petrochemicals).
- Ascending price levels compound energy efficiencies required for manufacturing units where higher fuel surges escalate electricity transportation outlays notably cement steel chemical textiles sectors endure cost surges diminishing profitability margins

5.2 IMPACT ON TRANSPORTATION LOGISTICS COSTS:

Fuel dominates logistic supply chain requirements raising diesel/petrol rates which lead to elevated freight charges distribution over heads warehousing expenses.

5.3 INFLATIONARY PRESSURE COST-PUSH INFLATION:

Upward movements in oil pricing generate inflationary pressures incremental raw materials transport production significantly contributing over all pricing ascensions across economy scope.

5.4 IMPACT ON MSMES (MOST VULNERABLE SECTOR):

Limited capacity absorbing rising costs high dependencies fuel operations create challenges passing cost on consumers.

5.5 SECTOR-WISE INDUSTRIAL IMPACTS:

- **Manufacturing:** Higher input energy expenses suppress competitiveness
- **Aviation:** ATF prices rise increasing operating expenses
- **Chemicals Fertilizers:** scarcity petrochemical inputs indirect effects agriculture
- **Transport Logistics:** elevated freight charges impact whole chain

5.6 IMPACT CORPORATE PROFITABILITY:

Escalating operational costs compress margins EBITDA firms may raise prices cutback reduce output sustain operations

6. ANALYSIS OF DATA

This study focuses on various dimensions such as India's energy import dependence oil price impacts export trajectories West Asia associated trade cost logistics consequences noting balancing inflation sectoral influences global crude oil trends predictive assessments detailing exchange rate fluctuations impacts on firm profitability options etc., culminating in a learning experience focused on the core

analysis reflective of the US-Israel-Iran conflict on Indian commerce exploring how these issues interrelate convey in significant outcomes aligned with objectives presented previously. The findings are displayed in the following tables below illustrate critical points regarding impacts observed through data collected over this timeframe encompassing key areas addressed earlier alongside additional insights gained through research conducted hereafter table formats serve clarify observations yielded through analyses:

Table 1: India's Energy Import Dependence Oil Price Impact Indicator

Indicator	Pre-Conflict (Approx.)	During Conflict (2026)	Impact on Trade
Crude Oil Import Dependence	85–90%	Same (high) dependence	High vulnerability
Oil Price Change	Stable/moderate	↑ 9–15% increase	Increased import bill
Share via Strait of Hormuz	60%+ shipments	Disrupted/at risk	Supply uncertainty
LNG Import Dependence	High	Disrupted supply risk	Energy insecurity

Table 1 reveals that India's heavy reliance on imported crude oil renders it highly susceptible to geopolitical conflicts. Oil prices increased approximately 9–15% due to tensions leading to higher import bills widening trade deficits. Disruptions in the strategic Strait of Hormuz introduce uncertainty to supply chains jeopardizing energy imports overall commercial stability resulting in imported inflation placing pressure on the current account balance.

Table 2: Impact on India's Export Trade to West Asia

Indicator	Value (Pre-Conflict)	Conflict Impact	Trade Effect
Agri Exports to West Asia	USD 11.8 billion	Disrupted shipments	Revenue loss
Share of Total Agri Exports	21–22%	Decline risk	Export dependency exposed
Containers Stuck/Delayed	Minimal	3000+ containers	Trade delays
Key Export Items	Rice, spices, food	Supply chain disruption	Reduced exports

According to Table 2 West Asia emerge as a key destination for Indian exports especially agricultural commodities. Notably over 3000 containers faced delays signaling significant disruptions. Logistically export-dependent sectors like agriculture food processing bear losses amid uncertainties underscoring India's vulnerability based on specific regions potentially undermining trade security.

Table 3: Trade Cost and Logistics Indicator

Indicator	Pre-Conflict	During Conflict	Impact
Freight Costs	Normal	Increased significantly	Higher trade cost

Marine Insurance	Low/moderate	Increased sharply	Risk premium
Shipping Time	Stable	Delayed	Supply chain inefficiency
Trade Routes	Open	Risky/disrupted	Route diversion

Table 3 demonstrates that conflict-induced conditions have caused substantial increments in transportation insurance costs making international trade more expensive. Shipping delays reduce efficiencies diminishing competitive advantage for Indian exports leading higher operational overheads adversely affecting both domestic foreign market places.

Table 4: Impact on India’s Trade Balance and Inflation Indicator

Indicator	Pre-Conflict	During Conflict	Effect
Trade Deficit	Moderate	Increasing	Negative balance
Inflation Rate	Controlled	Rising	Reduced purchasing power
Rupee Value	Stable	Depreciating pressure	Costlier imports
Import Bill	Stable	Increasing	Economic strain

As indicated by table 4 rising oil and import costs serve widening trade deficits. Additionally in high inflation environments arising fuels commodity price trends negatively influence household consumption. Coupled currency depreciation exacerbates import issues further intensifying trade disparities there by compounding macroeconomic instability perturbing commercial flows overall

Table 5: Sector-wise Trade Impact in India

Sector	Impact Level	Reason
Agriculture Exports	High	Dependence on West Asia
Petroleum & Energy	Very High	Import dependency
Chemicals & Fertilizers	High	Raw material cost rise
Manufacturing	Moderate–High	Supply chain disruption
MSMEs	High	Cost and logistics pressure

Table 5 illustrates that the Energy Petroleum sectors experience greatest strains owing their vulnerability connected high-import dependencies. Export-oriented segments such as agriculture experience market access hindrances. MSMEs demonstrate extreme sensitivity due to limited capabilities absorb rising expenditures highlighting significant challenges across different sectors confronting uneven pressure against contrasting industries’ abilities withstand market forces.

Table 6: Global Crude Oil Price Trend and Impact on India

Year	Avg. Crude Oil Price (USD/Barrel)	Trend	Impact on Indian Economy
2020	40-45	Low (COVID period)	Reduced costs, economic relief

2021	65-70	Rising	Increased fuel and logistics costs
2022	90-100	Sharp rise	High inflation, cost pressure
2023	80-85	Moderate Fluctuation	Continued cost instability
2024-2026	85-105 (Volatile)	Conflict-Driven Fluctuation	Conflict-driven fluctuation High uncertainty & rising costs

This table reveals notable volatility patterns observed throughout historical trends reflecting oil price movements specifically during periods of geopolitical unrest. Ascension from ~\$40 (2020) towards ~\$100 (2022+) illustrates abroad shift adversely impacting sustainability within industrial operations where uncertainty drags on business transport planning capacity ultimately limiting long-term investment decisions made for these critical enterprises engaged market place.

7. Findings of the Study

The investigation reveals U.S.–Israel–Iran hostilities create multidimensional impacts upon Indian commercial interactions primarily transmitted through energy markets global trade ways financial systems among which crude oil price variations emerge as the more critically influential channel significantly shaping over all macro-economic landscape. Elevated geopolitical friction has driven upward oil valuations stemming concerns related to supply disruption predominantly key transit routes consequently hiking India’s import bill widening current account deficit placing strain rupee value Furthermore, higher fuel surge operational input expenses across aviation manufacturing chemical logistics sectors catalyze diminished profit margins concurrently hipping route interruptions inflate freight insurance premiums inducing delays inefficiencies within supply networks persistently hampering both exports imports. Additionally inflationary pressures introduce financial market volatility weaken investor confidence paving way slowed growth trajectories overall situation underscores emerging vulnerabilities necessitating strategic policy adjustments focusing energy diversification measures fortifying resilience against potential future shocks.

8. Conclusion

In summary, the U.S.-Israel-Iran confrontation represents a significant external shock against India’s trading ecosystem transmitted largely via energy markets, supply chains financial structures. Dominant among these factors, oil price variations stand out as the more critical parameters altering macroeconomic stabilization industrial performance patterns. Rise in geopolitical tensions raise crude oil values particularly amid uncertainties surrounding prominent passages like strait O'Hormuz leads to amplified import outlays broadened trade deficits accompanied by inflationary burdens. Affected industries dependent upon petroleum inputs including aviation chemical manufacturing logistics face increasing expenditure constraints compromised profit abilities additionally disrupted global trade ways heighten freight insurance burdens weakening export competitiveness challenging overall efficiency within supply channels. The afore mentioned context underscores India vulnerability towards external disturbances calling attention need for maximizing diversification strategies incorporating reserves bolstering endurance policies aiming toward secure long-term economic sustainability growth potential ahead.

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