

A Prolonged Gulf Crisis: Implications for India's Economic Security

Amitendu Palit

Summary

The Gulf crisis will adversely impact India's economic security if it prolongs. Apart from energy prices, India's worries will be over air travel disruptions, lower remittances, challenge for the Brazil, Russia, India, China and South Africa grouping, the India-Middle East-Europe Economic Corridor and New Delhi's free trade agreements with the region.

The political uncertainty in the Gulf has generated new economic challenges for India. Global oil prices are rising fast following the attacks by the United States (US) and Israel on Iran, and retaliatory strikes by Iran on US energy assets in the Middle East. The developments occur at a time when global energy supplies outstrip demand. Nevertheless, oil prices are rising from deep ruptures in energy supply chains.

The foremost underlying cause behind the rupture is lack of security for energy traffic in the Strait of Hormuz. The narrow waterway between Iran and Oman is the main conduit for the export of oil and gas from the Gulf to the rest of the world. Traffic in the Strait of Hormuz has ground to a halt with tankers fearing attack. [Qatar has stopped](#) supplying liquified natural gas (LNG) through the Strait of Hormuz. For India, the challenge of tackling rising crude oil prices is amplified by lack of LNG imports from Qatar that has implications for a substantial number of vehicles running on compressed natural gas.

Insecurities of India's energy-deficiency are clearly visible at a time when the war on Iran has weaponised energy. A beleaguered Iran is striking back at where it can hurt the US and its allies the most: choking global energy supplies. India, and much of the rest of the world, including China, will suffer collateral damage if the hostilities prolong.

The lack of energy supplies from the Middle East might force India to turn back to Russia for more imports. The cut in importing oil from Russia was forced by US sanctions on Russian refineries and US punitive tariffs. Now, however, India might have little option other than reengaging Russia for uninterrupted supplies. Russia will now have an upper hand in negotiating as the geoeconomic lever turns in its favour.

India will also suffer from disruption in connectivity. Iran's strategy of targeting US allies in the Gulf has led to closure of commercial air space across the region. These include shutdowns of the airports in Dubai, Abu Dhabi and Doha. All three airports are major hubs for the movement of passengers and cargo from India to its West, including the Gulf, Africa, Europe and North America.

Indian carriers using the Gulf air space have cut operations and are exploring alternative routes to access Europe and North America. Air India and Indigo have already been flying

longer routes for nearly a year now since the closure of Pakistani air space. Higher fuel costs for these routes will now be exacerbated by those from even longer routes and rising oil prices. The economic problems faced by air carriers will brush off on Indian travelers, especially students, who will find it tough to travel. On the other hand, the crisis will impact tourist flows to India, especially from Israel and the Middle East, causing hardships for the hospitality industry.

Almost [10 million Indians](#) live and work in the Gulf and remit large sums of money to support their families. These remittances have been steady inflows of private transfers for India, partly offsetting its trade deficit, and stabilising the current account of the balance of payments. The Gulf crisis does not bode well for the prospects of these remittances. Economic securities of migrant households and the health of overall balance of payments will be affected if the crisis forces Indian workers and professionals to leave the Middle East.

India is currently the Brazil, Russia, India, China and South Africa grouping (BRICS) chair and will hold the BRICS Summit later during the year. The Gulf crisis will be a heavy test for the BRICS. Iran is a member of the group and in conflict with two other members – the United Arab Emirates (UAE) and Saudi Arabia. The situation challenges the unity and cohesion of BRICS. As Chair, India will be required to demonstrate deft brinksmanship in managing the internal friction and upholding the BRICS's efforts to develop an alternative rules-based order shaped by the Global South.

The crisis also raises questions on the progress of the India-Middle East-Europe Corridor. Till the time the political situation stabilises in the region, advancing on the framework of the corridor will be difficult, if not impossible. The lack of progress on the infrastructure project will be accompanied by challenges faced by India in effectively utilising its free trade agreements (FTAs) with the UAE and Oman and advancing negotiations on prospective FTAs with Israel and the Gulf Cooperation Council.

The longer the crisis lingers, the worse the impact of its downsides will be. The predicament is a stark reminder of the strategic potency of the Gulf in adversely impacting India's economic security through multiple channels.

.....

Dr Amitendu Palit is a Senior Research Fellow and Research Lead (Trade and Economics) at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore (NUS). He can be contacted at isasap@nus.edu.sg. The author bears full responsibility for the facts cited and opinions expressed in this paper.