

Geopolitical Conflicts, Supply Chain Disruptions, and India's Strategic Economic Adaptation Toward Resilience

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Abstract:

The ongoing 2026 USA-Israel-Iran war, which escalated dramatically with joint airstrikes launched on 28 February 2026 under Operation Epic Fury, has triggered one of the most severe geopolitical and economic crises of the contemporary era. The conflict has generated the largest supply disruption in the history of the global oil market, with global financial markets reeling from stagflation fears and Iran's threats to the Strait of Hormuz further amplifying vulnerabilities in global trade and energy flows. For India, a major oil importer and a significant trading partner of Middle Eastern economies, the ramifications are profound and multi-dimensional. This paper examines how India is strategically adapting its economic policies in response to these geopolitical shocks, with focus on energy security, supply chain diversification, trade rerouting, and macroeconomic stabilization. Using a qualitative policy analysis framework supported by secondary data from RBI, Ministry of Petroleum, and international trade databases, the study maps India's adaptive responses across crude oil procurement, forex management, and diplomatic positioning. The findings suggest that India's policy of strategic neutrality, combined with accelerated domestic energy transition under the Panchamrit commitments and PLI-linked manufacturing expansion, provides partial insulation from external shocks. However, rising crude import costs, currency depreciation pressures, and disrupted remittance flows from Gulf-based Indian workers remain critical vulnerabilities. The paper concludes that building long-term economic resilience requires India to fast-track energy independence, deepen strategic oil reserves, and strengthen bilateral trade frameworks, all essential pillars of the Viksit Bharat 2047 vision.

1.0 INTRODUCTION

The modern international economic framework is going through a stage of major turbulence due to the collapse of geopolitical disputes, vulnerability in supply chains, and a swiftly evolving multipolar international framework. The 2026 United States-Israel-Iran war, in particular, the triple-strikes attack carried out on 28 February 2026, is the most fateful military conflict since the Arab oil embargo of 1973 to have an impact on world energy markets. The near shutdown of tanker flow through the Strait of Hormuz, a strategic chokepoint which, by 2025, carried about 20 000 megalitres per day (mb/d) of crude oil and petroleum products, has delivered tremors in supply chains, financial market and the price of commodities worldwide (IEA, 2026).

To India, which is the third-largest consumer of crude oil in the world, such developments represent a structural problem and a strategic juncture. India imports approximately 88-89 per cent of its domestic crude oil requirements and before the Iran conflict, nearly half of its crude oil imports had been passing through the Strait of Hormuz (CNBC, 2026; Rystad Energy, 2026). This sudden loss of this vital sea route has forced Indian policymakers, refineries and diplomats to rapidly reshape energy acquisition policies, reroute supply chains and rebalanced Indian geopolitical position in the emerging geopolitical environment.

This paper contextualizes the crisis response of India into the wider context of Viksit Bharat 2047 vision that aims at making India a complete country by the 100th anniversary of its independence. It will require a long process to reach this vision, and this requires sustained GDP growth, energy security, macroeconomic stability, and robust integration in global value chains, which are now under the test of the ongoing conflict. The argument in the paper is that strategic responses of India made so far have been remarkably agile but to make it resilient in the long-run entails structural changes in energy policy, diversification of trade and crisis governance.

2.0 PURPOSE OF THE RESEARCH

This paper seeks to achieve the following objectives:

1. To examine the macroeconomic and sectoral consequences of the 2026 USA-Israel-Iran war on India's energy security, trade balance, and currency stability.

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2. To analyse India's short-term and medium-term policy responses to the supply disruptions caused by the closure of the Strait of Hormuz.
3. To evaluate India's diplomatic positioning and its ability to navigate geopolitical pressures from both the United States and Middle Eastern nations.
4. To propose strategic policy recommendations aligned with the Viksit Bharat 2047 vision for building long-term economic resilience.

3.0 LITERATURE REVIEW

The connection between economic disruption and geopolitical conflicts has been widely represented in the scholarly literature. Yergin (2012) shows that supply shocks that have been caused by geopolitical crises in oil-producing states have had a historical impact of causing inflationary spirals in oil-importing economies and that discontinuation effects have been more severe in developing countries that have little fiscal cushions. According to Subramanian & Felman (2021), India has a structural susceptibility to oil shock events, with every 10 per barrel rise in crude oil prices widening the current account deficit of India by some 14-17 billion dollars.

More recently, Chaubey (2024) posit that the Indian policy on energy security has shifted towards proactive diversification of supply rather than crisis management as the Russian crude imports have increased quickly since the 2022 Ukraine war. The authors however warn that excessive dependence on a particular alternative source creates new vulnerabilities but this factor is justified by the 2026 conflict, which also interfered with both the Middle Eastern and alternative supply channels. As Kaushik (2025) notes, diplomatic flexibility has been brought about by India having strategic autonomy, which is its policy of not allying with the major power blocs, but at the same time, this has limited its ability to negotiate special energy-access deals.

The existing literature about Viksit Bharat 2047 (Ministry of Finance, 2024; NITI Aayog, 2023) reminds that energy security is a pre-condition to India developing and that the shift towards renewable energy sources should be spurred not just as an ecological necessity but as a national security one. These arguments, which were formerly known as the domain of policy discussion, have been transformed into an urgent operational reality in the 2026 crisis.

4.0 RESEARCH METHODOLOGY

The present investigation utilises a qualitative policy analysis model that is triangulated by a descriptive quantitative data based on secondary sources. The way it is organized is based on three levels of analysis. To begin with, the policy statements, parliamentary committee reports, Reserve Bank of India monetary policy communications, and the reports of the Ministry of Petroleum and Natural Gas were analyzed to determine the institutional responses to the crisis in India. Second, secondary data analysis was done with references to the data of the International Energy Agency, the 2025 OPEC Annual Statistical Bulletin, Kpler energy-tracking databases, CNBC market reports and Rystad Energy assessments; the given step will measure the scale of supply disruptions and estimate their macro-economic consequences to India. Thirdly, the comparative analysis was conducted to put Indian crisis response in comparison to the crisis response of other key Asian oil importers such as China, Japan and South Korea, so as to be able to find the best practices and policy shortcomings.

The study area is limited to the period between February 2026 and now, specifically the short-term and immediate effects thereof of the 2026 USA-Israel-Iran war. Considering the dynamism of the crisis, the analysis uses available current information as of March of 2026.

5.0 Major Findings

5.1 Scale of the Energy Supply Disruption

The USA–Israel war in 2026 has triggered the largest oil supply crisis in history after being announced by the International Energy Agency (IEA, 2026). In 2025, the Strait of Hormuz crude and other oil products were passing at about 20 millennia megabarrels per day (mb/d) or about 20 percent of global oil demand. With the Strait throughput now estimated to be less than 10 per cent of pre-crisis quantities, and it estimated that in March 2026 alone the Strait was closed to approximately 7.9mb/d of crude and 9.9mb/d of total liquids across the Gulf producers (IEA, 2026).

In the case of India, about 40 percent of its 4.9mb/d of crude imports in 2025 is going to be provided by the Middle-Eastern gulf (IEA, 2026). Nomura in its vessel-tracking report indicated that nearly 50 percent of Indian crude imports that were earlier passed through the Strait of Hormuz were now bypassed (CNBC, 2026). This abrupt shutdown of this vital avenue has meant that Indian refiners are on an urgent need to restructure their procurement plans in a very tight time frame.

5.2 India's Immediate Policy Response

The reaction of India has been multi-dimensional. According to a statement of the Minister of Petroleum and Natural Gas, Hardeep Singh Puri, India had reached around 70 percent non-Hormuz sourcing, compared to 55 percent before the war, by combining increased Russian crude imports with increased negotiations with the West African suppliers and with the U.S. suppliers (The Diplomat, 2026). The Indian refiners were said to have bought 30m barrels of Russian crude at a premium of between 2 to 8 per barrel over the Brent benchmark price, showing the competition in world markets over alternative supplies after the U.S. lifted the ban on Russian oil purchases (The Diplomat, 2026).

The total storage capacity of India is 39.1 million barrels in underground salt caverns at Visakhapatnam, Mangalore and Padur, which is an equivalent of 9.5 days of buffer to the overall cut-off of the supply (Team, 2026). The capacity is being doubled with plans underway to increase the capacity to 2028, which has been given new urgency in the light of the current crisis.

5.3 Macroeconomic Consequences

The macroeconomic implications on India have been huge. The crude oil imports of India are near five million barrels per day; therefore, any increase of ten dollars in the cost of oil will increase the import bill of India by about 17-18 billion dollars a year when adjustments are made (Team, 2026). The Brent crude traded at an extreme during the crisis period between 95 and 110 per barrel, which is sharp in comparison with the average price of 70.9 per barrel that was recorded in July 2025 (India Macro Indicators, 2026).

In March 2026, war-risk premiums on tankers in the Gulf increased by well over 400% in addition to the effect that India is having on its landed cost of crude imports (Team, 2026). The pressure of depreciation on the Indian Rupee is pronounced; MUFG forecasts the negative risk to INR INR 89.5/USD in the mid-2026 in case of the war being prolonged (India Macro Indicators, 2026). Inflationary issues have also escalated especially over LPG, a commodity which India is one of the largest importers of gulf dependent, thereby having an unproportionate impact on the rural and lower-income households.

5.4 Diplomatic and Strategic Positioning

India maintained its traditional stance of strategic independence during the crisis that neither criticized the US-Israeli military action nor joined Iran. This action of diplomatic balancing has maintained the ability of India to mediate with various parties at the same time. However, it has also put India in a paradoxical situation where the United States which put in place secondary tariffs of 50 percent against Indian products in August 2025 as a retaliation to the Russian buying of oil has (also) provided a 30-day waiver to allow Indian crude to be imported in response to the global market disruptions (Takahashi, 2025) but at the same time has been keeping an eye on the long-term energy relationship that India has with the Russians.

The aviation industry in India has suffered direct impacts because of the aviation closures in the Arabian Peninsula and Iran with the routes of the planes travelling west of India being greatly affected (CNBC, 2026). This has brought in yet another economic strain outside the energy industry, which can be seen in terms of airline operation price, and tourist earnings.

6.0 DISCUSSION AND IMPLICATIONS

6.1 Short-Term Resilience vs. Structural Vulnerability

The recent restructuring of the crude supply lines in India is a sign of high institutional agility, and it is the reflection of the strategic diversification efforts in the previous decade. The decrease in reliance on Middle Eastern sources, according to the data by 72% in the 2017 -18 fiscal year and then to 63% prior to the crisis (The Diplomat, 2026), and the further decrease to approximately 30% during the crisis testifies to the effectiveness of proactive supply diversification. However, the rate and the extent of the

incident have also disclosed the weaknesses of the current strategic reserve mechanism, pipeline system, and the flexibility of the refinery in India.

6.2 The Viksit Bharat 2047 Imperative

The recent restructuring of crude supply lines in India represents evidence of substantial institutional agility and is an indication of strategic diversification efforts that have been done over the past decade.

The data show that the reliance on the Middle Eastern sources declined to 72% in the 2017-18 fiscal year and to 63% right before the crisis and confirm the effectiveness of active diversification of the supply. However, the scale and occurrence of the accidents has also shown gaps in mechanism of strategic reserve, pipeline system as well as the flexibility of Indian refineries.

6.3 Policy Recommendations

Based on the empirical findings of this research, the following policy interventions are expressed in the paper.

To begin with, India needs to immediately increase its strategic petroleum reserve capacity of 9.5 days to at least 90 days, which will be in line with the international standards of the member-states of the International Energy Agency. Second, the administration should move faster to diversify the streams of crude oil imports by strengthening bilateral energy agreements with North American, Central Asian and West African producers to reduce the risk of geographic concentration of supply.

Third, a specific National Energy Crisis Response Fund should be created as a part of Union Budget so that it can provide predetermined fiscal resources to be provided in case of emergency energy purchase without taking over other development expenditures.

Fourth, the Production -Linked Incentive schemes must be restructured in such a way that domestic production of renewable energy parts is hastened which cuts short of technological importation which now nullifies part of the savings accomplished through decreased use of fossil fuels.

Last but not least, there is a need to increase force in diplomatic efforts to ensure that India is incorporated into the multilateral energy-security programs that transcend the natural weaknesses of bilateral arrangements.

7.0 CONCLUSION

The USA-Israel-Iran conflict of 2026 has been a stress test of macroeconomic resilience and strategic location of India explaining not only significant progress in terms of supply diversification made during the previous 10 years but also underlying structural weaknesses of the India-paradigm of energy-import-dependent growth. The reaction of India, which is strategic neutrality, rapid redirection of supplies, and demanding deployment of strategic reserves, deserves praise in the exceptionally unfavourable circumstances. However, it is indisputable that the crisis has shown that gradually introducing changes in the current energy policy is not going to suffice in a country with the goal of becoming a developed country by the year 2047.

The course towards Viksit Bharat 2047 cannot but pass through energy independence, and the crisis of 2026 has changed the goal of strategic preference into national imperativeness. India cannot simply come out of this crisis having survived it but utilizing it as the catalyst of the structural energy change the developmental aspirations of India needs.

India can transform a period of severe weakness into a platform of enduring economic stability by enhancing the pace of renewable energy rollout, increasing strategic reserves, diversifying partnerships in the supply chain, and integrating energy security into fiscal and diplomatic systems.

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