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The Middle East Crisis: Business Risks and Economic Spillovers for India

Executive Summary

- The escalation of the Middle East crisis represents an external shock for India, transmitted primarily through energy markets, logistics, and trade-linked business exposure.
- The Gulf–Levant-11 (GL-11) economies account for around 15% of India's merchandise exports and 21% of its imports, with trade concentrated in high-value categories such as mineral fuels, precious metals, and electronics. Disruptions in this region therefore have an outsized impact despite its modest share of global GDP.
- Export exposure is unevenly distributed across India, with risks concentrated in specific districts that serve as production hubs.
- Discretionary exporters, such as gems and jewellery firms in the districts of Surat, Jaipur, and Mumbai; apparel manufacturers in Tiruppur; automotive producers in Ahmedabad; and electronics assemblers in Kanchipuram and Kolar, are vulnerable to demand slowdown and order deferrals in Gulf markets.
- Perishable agricultural exporters, including grapes from Nashik, bananas from Solapur, and bovine meat from Ghaziabad, face acute risks from shipping delays and logistics disruptions.
- Dun & Bradstreet data show that over 4,500 Indian exporters and around 1,800 importers relied on the Strait of Hormuz trade route in 2025, exposing them to working-capital stress, payment delays, and production interruptions.
- For import-dependent industries, delays in critical inputs raise the risk of temporary shutdowns, while sustained energy price volatility amplifies margin pressure across manufacturing and services.

Introduction

The escalation of tensions in the Middle East following the Iran war can no longer be treated as transient geopolitical volatility. Developments on the ground are increasingly translating into tangible macroeconomic risks, most notably through energy markets and global logistics networks. Commercial responses – such as the suspension, rerouting, or repricing of shipping activity along critical maritime corridors – indicate that firms and insurers are already adjusting behavior in anticipation of elevated and potentially persistent disruption. At the same time, policymakers and financial markets are reassessing the likelihood that the shock evolves from a short lived risk premium into a more durable supply side constraint, with implications extending well beyond the region.

From a macroeconomic perspective, the defining uncertainty is not the immediate price reaction but the duration and persistence of the disruption. A short term spike in energy and transport costs would function largely as a temporary tax on households and firms, dampening real incomes and margins before gradually dissipating. By contrast, a prolonged disruption could have more consequential second round effects: sustaining inflationary pressures, complicating central bank policy trade offs, tightening financial conditions, and raising downside risks to growth. These effects would be most acute for sectors with high trade intensity, long supply chains, or limited pricing power, where cost pressures and financing constraints tend to surface most quickly.

For the purposes of this report, the analysis is confined to a defined group of countries referred to as the Gulf–Levant 11 (GL-11). This group comprises Bahrain, Iran, Iraq, Israel Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. These economies are treated collectively because they are either directly involved in, or immediately exposed to, the current crisis through geographic proximity, security linkages, energy production and transit, or their role as regional trade and financial hubs.

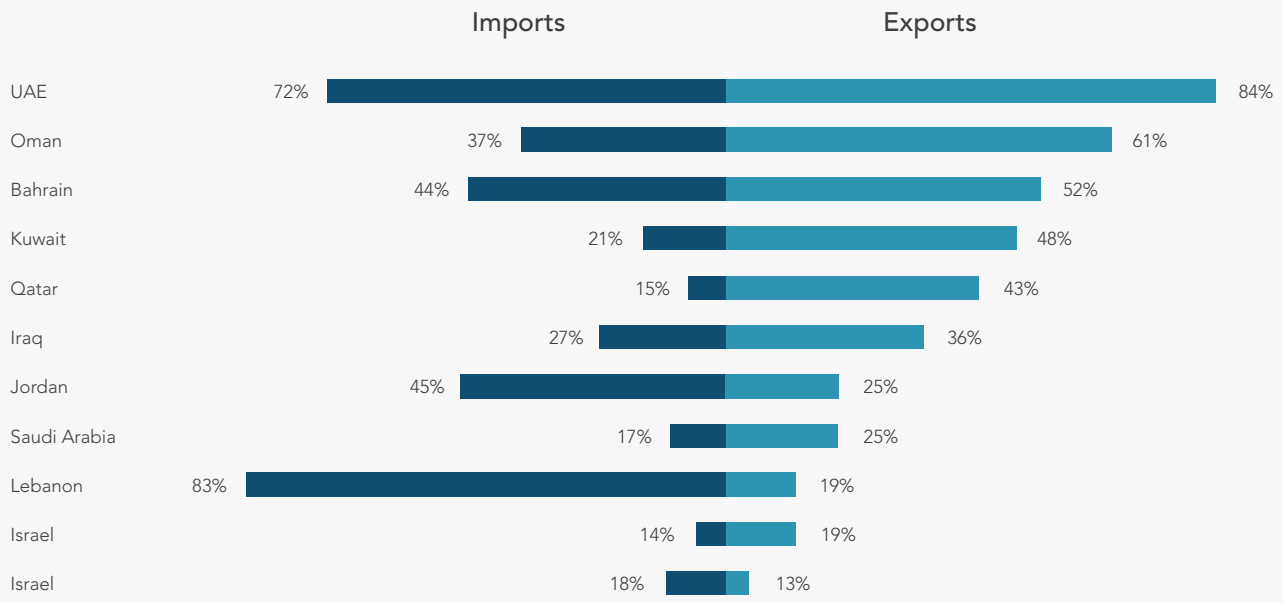
Impact on GL-11 Economy

The GL-11 economies are structurally exposed to the conflict because exports form a large share of aggregate GDP and foreign exchange earnings. The escalation introduces a region wide macro shock by raising transport, insurance, and financing costs while increasing uncertainty around the continuity of trade flows. Even where commodity prices rise, the net effect is not unequivocally positive: higher risk premia, disrupted shipping and air routes, and delayed contract execution reduce effective export volumes and weaken momentum. At the macro level, this translates into wider current account volatility, upward pressure on inflation through imported costs, and tighter financial conditions as banks and investors reprice regional risk. Capital expenditure slows as firms defer "long horizon" projects, while governments face a more constrained policy mix – balancing growth support against the need to preserve fiscal credibility and monetary stability.

The services economy is also vulnerable to prolonged conflict conditions. Tourism, hospitality, aviation, retail, and discretionary consumption are highly sensitive to perceptions of safety and connectivity; as travel demand softens and mobility costs rise, service exports and domestic spending decelerate in tandem. This has second round effects on employment, small and medium enterprises, and household incomes, reinforcing precautionary saving and dampening demand further. As services slow, fiscal revenues linked to consumption and activity weaken just as social and business support pressures increase, amplifying the cyclical downturn. Taken together, the erosion of export performance and the cooling of service sector activity point to a broad based regional growth slowdown, driven less by a collapse in demand than by elevated uncertainty and frictions that undermine the externally oriented economic model on which the GL-11 collectively relies.

For India, a regional slowdown in the GL-11 has direct spillovers through corporate and household channels. Indian firms with operating subsidiaries and branch offices in the region are likely to face weaker revenues and delayed cash flows, particularly in services, construction linked activities, and discretionary consumption. In parallel, slower growth and employment conditions could dampen remittance inflows from the Indian diaspora, softening an important buffer for household incomes and the current account.

Merchandise Exports and Import (% of GDP)

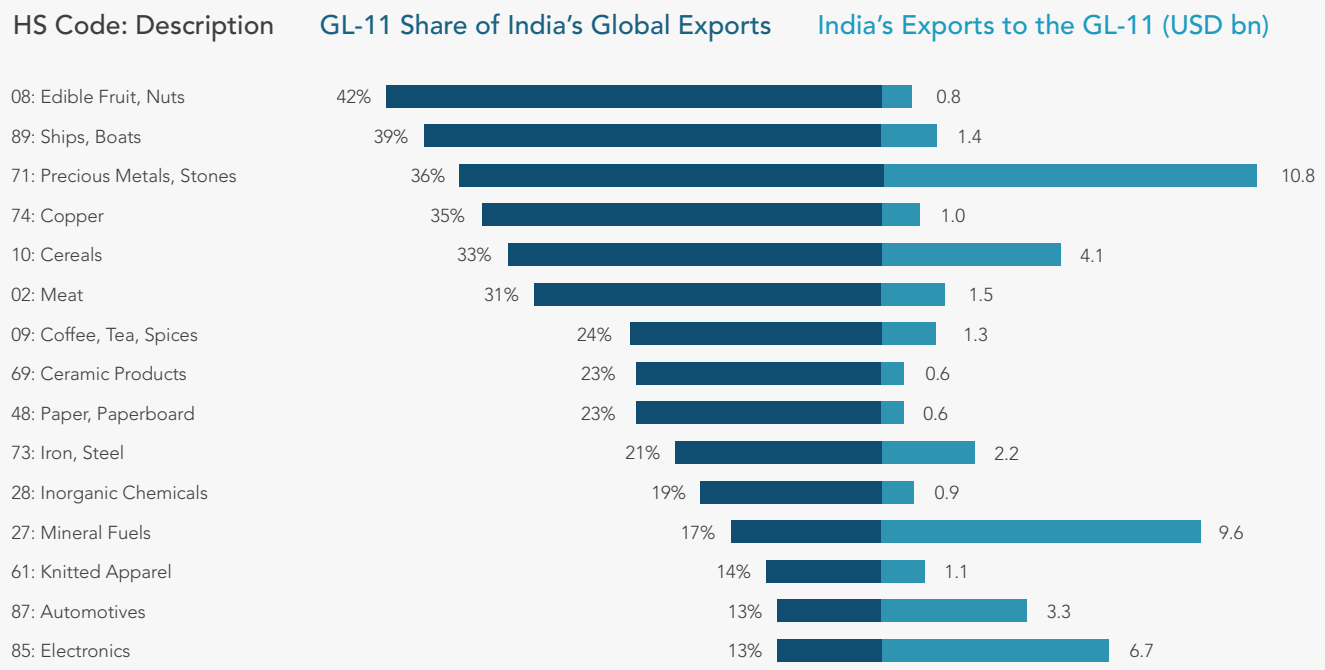


Source: World Bank

Impact on Indian Exports

The GL-11 economies account for roughly 15% of India's total merchandise exports. In absolute dollar terms, India's exports to the GL-11 are dominated by a narrow set of high-value categories – precious metals and stones (HS 71), mineral fuels (HS 27), and electronics (HS 85).

A different and more revealing vulnerability emerges when trade is viewed through the lens of concentration rather than value. For several product groups, the GL-11 absorbs a disproportionately large share of India's global exports, even where absolute dollar values are modest. Edible fruits and nuts (HS 08), cereals (HS 10), and copper (HS 74) exhibit some of the highest GL-11 shares of India's worldwide exports. In these cases, the GL-11 functions as a critical demand anchor, creating exposure to region-specific shocks. Disruptions to logistics, payment systems, or consumption patterns in the GL-11 can have outsized effects on Indian producers, particularly in agriculture and resource-linked sectors where alternative markets may be less immediately accessible.



Note: *The chart includes only products with export values exceeding USD 0.5 bn*

Source: *Ministry of Commerce and Industry*

For India, the implication is that shocks emanating from the GL-11 may not simply compress export volumes, but could also amplify earnings volatility, strain regional production hubs, and alter the sectoral composition of export growth during periods of prolonged instability.

The concentration of India's exports to the GL-11 at the product level also implies a highly uneven geographic transmission of external shocks within India. Rather than being diffused across the export base, demand and logistics disruptions linked to the GL-11 are likely to be felt acutely in a limited set of districts that function as specialized production or processing hubs. The nature of impact varies by product and could shape both local employment outcomes and firm level balance sheets.

For exporters selling discretionary products, the dominant channel is a demand slowdown in GL-11 markets. This applies to gems and jewellery firms operating out of Jaipur, Mumbai, and Surat; apparel manufacturers in Tiruppur; automotive manufacturers in Ahmedabad; and smartphone manufacturers in Kanchipuram and Kolar. These businesses are exposed to postponable consumption, which typically leads to order deferrals, slower replenishment cycles, and a more cautious stance from buyers. Importantly, the employment footprint varies sharply across these clusters.

Gems and jewellery exports are high in value but relatively capital and skill intensive, so the impact is often concentrated among traders, cutters, and polishers rather than large factory payrolls. Apparel exporters in Tiruppur are far more labour intensive and operate on thin margins and short order cycles; even modest order slippage can translate quickly into working capital stress and employment risk for smaller units.

Smartphone exports reflect a different structure again: production is tied to global value chains with a substantial portion of value added outside India, so slower exports are more likely to show up as production rescheduling and inventory build ups at assembly units than as broad supplier distress within India.

In parallel, some of India's export exposure is concentrated in high value lines where the number of exporting entities is limited, making the shock visible on a small set of balance sheets even if it does not diffuse widely across local ecosystems. Refined petroleum exporters operating out of Jamnagar fit this profile. These businesses are sensitive to disruptions in crude sourcing, shipping insurance, and freight costs, all of which can move sharply during periods of geopolitical stress. The resulting adjustment is typically reflected in volatility in realizations, and in the timing of shipments, with effects that are material but largely confined to a handful of large firms.

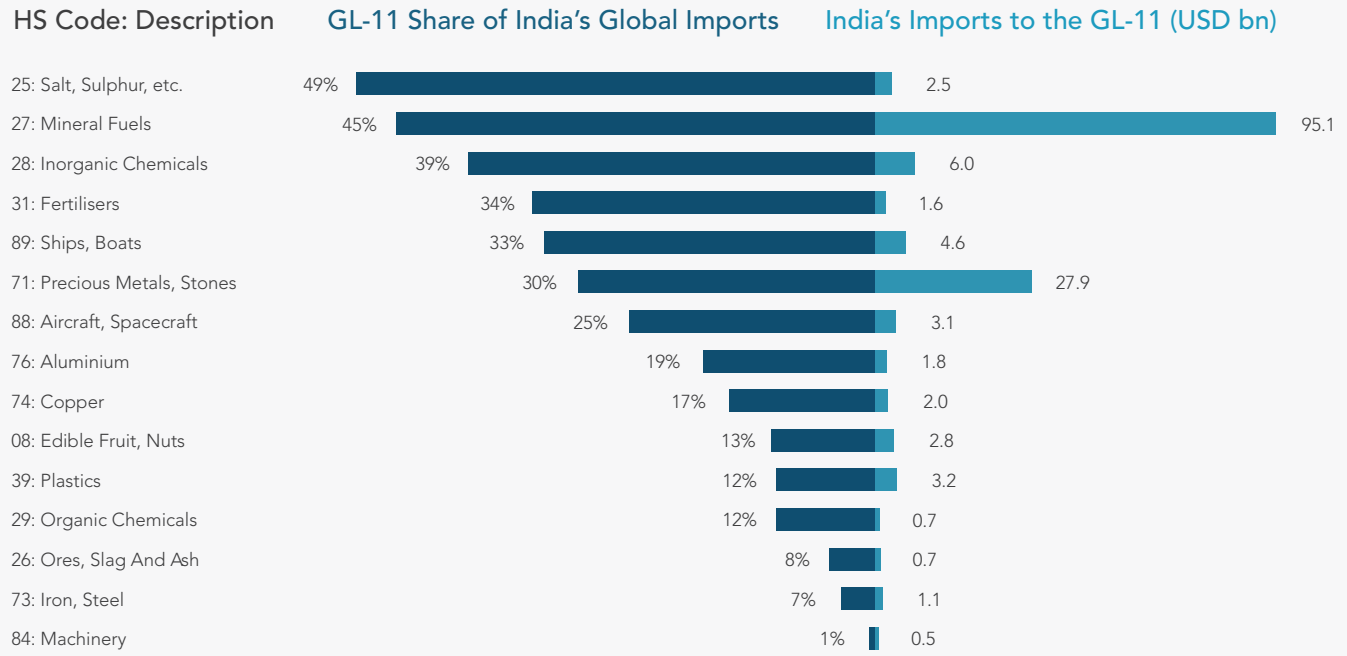
A different pattern emerges in broad based industrial clusters where the producer base is wide and exposure is transmitted through derived demand. For Morbi's tile exporters and paperboard manufacturers in Bhadradri Kothagudem, the channel runs through Gulf construction activity and packaging demand. In these clusters, shocks tend to surface as thinner order books and delayed contracting, which then translate into lower capacity utilisation, inventory accumulation, and working capital strain. Pricing and realizations can soften as firms attempt to place output into alternate markets.

Agricultural and food exporters face the most time sensitive adjustment, where perishability is the key differentiator. Exporters of highly perishable products – such as bananas from Solapur, grapes from Nashik, coconuts from Coimbatore, and bovine meat from Ghaziabad – face the sharpest short term risks. These businesses depend on tight shipping windows and rapid market clearance, leaving little scope to defer sales or reroute shipments. Any disruption or demand softening quickly translates into price discounts, wastage, and income losses, which are passed back to farmers and aggregators. Exporters of semi perishable products such as cashews from Kollam, basmati rice from Karnal, cardamom from Theni, black tea from Dibrugarh, cumin from Mehsana, robusta coffee from Kodagu are comparatively more resilient. Demand for staples and household consumables tends to hold up better during periods of uncertainty, with the primary impact coming through higher freight costs, payment delays, and margin compression, rather than volume collapse.

Impact on Indian Imports

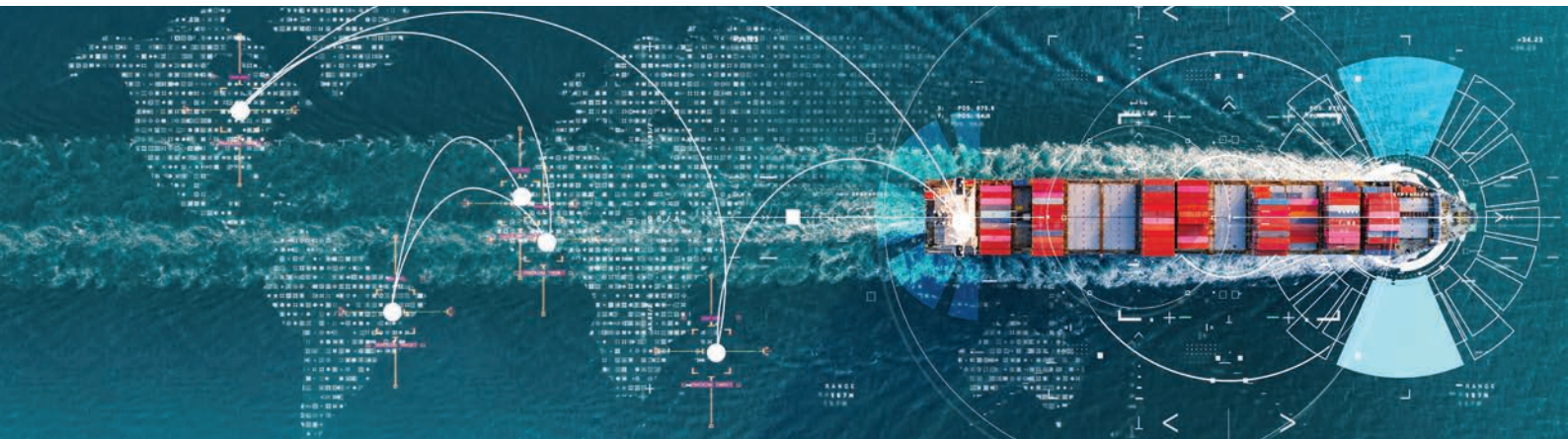
The GL-11 accounts for roughly 21% of India's merchandise imports, largely concentrated in precious metals and stones (HS 71) and mineral fuels (HS 27). This concentration is broadly similar to India's export profile to the region, where a small number of high-value products dominate trade flows.

More importantly, for several critical inputs, India's sourcing is heavily dependent on the GL-11. Limestone (HS 25), gold compounds (HS 28), and fertilizers (HS 31) stand out as categories where the GL-11 accounts for an unusually high share of India's import requirement. This dependence creates supply-side vulnerability for domestic industries. Limestone disruptions would affect cement and construction materials, gold compounds would weigh on jewellery and electronics manufacturing, and fertiliser supply shocks would transmit directly into agriculture through higher input costs and availability risks, particularly during peak sowing cycles.



Note: *The chart includes only products with import values exceeding USD 0.5 bn*

Source: *Ministry of Commerce and Industry*



Diversification away from the GL-11 is constrained by structural factors. In commodity markets, while alternative suppliers may exist, spare exportable capacity that can be mobilized quickly is typically limited, and replacement supply often requires new contracting, quality requalification, and logistics re optimization. Moreover, many of the affected product categories share a common delivered cost base – energy, freight, and insurance – meaning that even when physical sourcing can be diversified, overall costs often cannot. These constraints are reinforced by chokepoint risk. The Strait of Hormuz functions as a global pricing node, and when shipping becomes risk priced or operationally constrained, commercial hesitation by carriers and insurers can reduce effective throughput well before any formal disruption occurs. Together, these dynamics make short term diversification difficult and allow localized disruptions to propagate rapidly across global commodity markets.

The Strait of Hormuz as a Critical Chokepoint in Global Supply Chains

The strategic significance of the GL-11 in global supply chains is best understood through the centrality of the Strait of Hormuz, one of the most critical maritime chokepoints in the world economy. Although the GL-11 accounts for only a modest 3% of global GDP and 4% of merchandise trade, the Strait concentrates a disproportionately large share of energy and commodity flows into a narrow geographic corridor. At its narrowest point, the Strait spans just 54 kilometers, with commercial shipping constrained to navigable channels of approximately 3.7 kilometers for inbound and outbound traffic. This extreme physical compression renders global supply chains acutely sensitive to geopolitical risk, operational disruptions, and shifts in security conditions in and around the Strait.

Note: *This map is for illustrative purposes and does not imply the expression of any opinion on the part of Dun & Bradstreet, concerning the legal status of any country or territory or concerning the delimitation of frontiers or boundaries.*

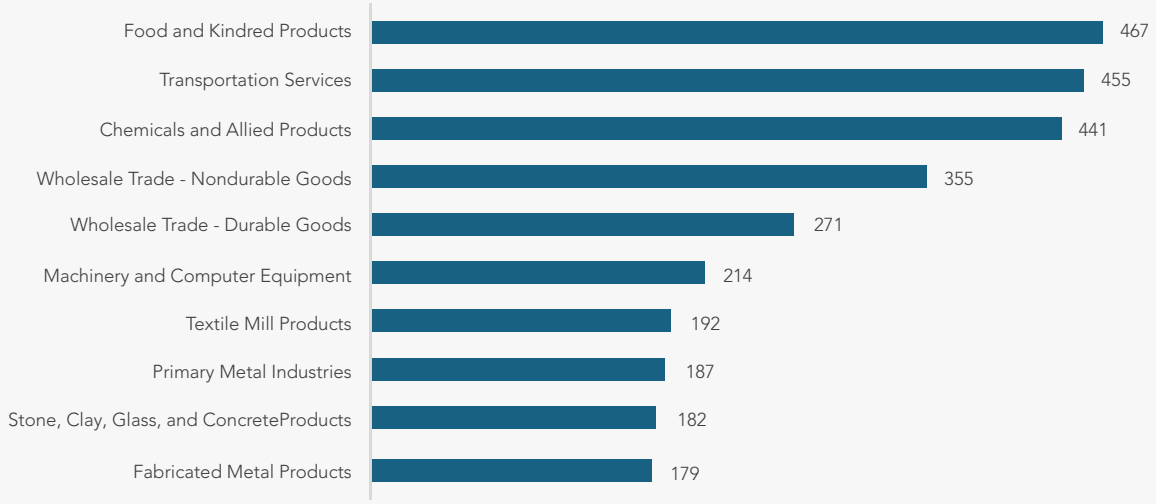
Data from the International Energy Agency shows that, in volume terms, roughly 20 million barrels per day of crude oil and petroleum products – about 25% of global seaborne oil trade – transit the Strait of Hormuz. Importantly, close to 80% of these flows are destined for Asian markets, embedding the Strait deeply into the energy security architecture of Asia's major economies, including India. While alternative infrastructure exists, its capacity remains limited relative to the scale of flows at risk. Existing pipeline networks can potentially divert an estimated 3.5 to 5.5 million barrels per day away from the Strait, providing some redundancy but falling well short of offsetting a sustained disruption. As a result, even partial interruptions tend to translate rapidly into higher global energy prices, tighter market conditions, and elevated volatility.

The Strait's importance extends beyond oil into global gas markets. Approximately 93% of Qatar's liquefied natural gas exports and 96% of the UAE's LNG shipments pass through the Strait, together accounting for nearly one fifth of global LNG trade. This concentration amplifies the macroeconomic consequences of any escalation in regional tensions, particularly for energy importing economies where gas prices feed directly into power generation costs, industrial competitiveness, and inflation dynamics. For businesses, the Strait of Hormuz thus represents not merely a transit route, but a systemic node linking energy supply, shipping and insurance costs, financial market risk premia, and corporate decision making. Disturbances in this corridor routinely exert economic effects far in excess of the GL-11's headline share of global output or trade, reinforcing its structural importance to the global economy and to India's external vulnerability in periods of Middle East instability.

Dun & Bradstreet data indicates that over 4,500 Indian exporters routed shipments through the Strait of Hormuz in 2025, spanning majorly chemicals, food products, transport services, machinery, and wholesale trade. For these firms, disruption at the Strait creates immediate balance sheet and liquidity stress, even in the absence of contract cancellations. Shipments held at sea or delayed at transshipment points lengthen the cash conversion cycle, locking up receivables and inventories and tightening working capital headroom – particularly for exporters operating on thin liquidity buffers or reliant on short-tenure trade finance.

Beyond higher freight and insurance costs on future shipments, exporters face heightened counterparty and settlement risk. Delivery delays raise the likelihood of payment deferrals, disputes over delivery terms, or renegotiation of contracts, especially where force majeure clauses are invoked upstream. Banks may respond by tightening trade credit limits, increasing collateral requirements, or shortening credit tenures, further constraining liquidity. For firms with concentrated exposure to Gulf routes or buyers, these dynamics can translate into rating pressure, weaker debt servicing capacity, and a higher incidence of rollover risk - suggesting that the Strait of Hormuz functions not only as a logistical chokepoint, but also as a systemic stress amplifier for exporter credit profiles.

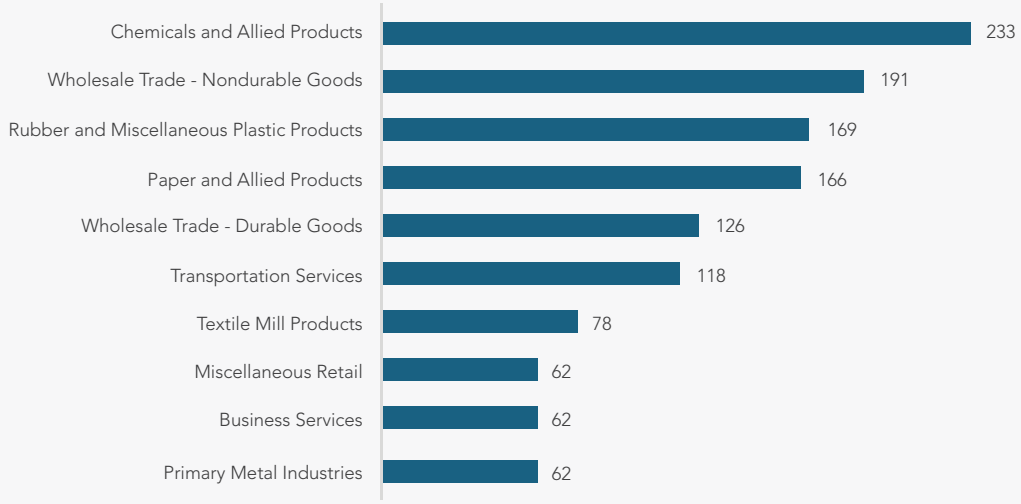
No. of Indian Exporters using the Strait of Hormuz Trade Route



Source: Dun & Bradstreet

Similarly, Dun & Bradstreet data shows that over 1,800 Indian importers relied on the Strait of Hormuz trade route in 2025, with exposure concentrated in chemicals, plastics, paper, and wholesale trade. For these firms, disruption at the Strait creates immediate operational risk through delayed input arrivals, forcing production curtailments or temporary shutdowns in sectors with limited inventory buffers or just in time sourcing models. Where substitutes are unavailable or require requalification, firms face elevated downtime risk rather than simple cost escalation.

No. of Indian Importers using the Strait of Hormuz Trade Route



Source: Dun & Bradstreet

Impact of Higher Energy Prices

Brent crude, which was trading near USD 72 per barrel toward the end of February, spiked sharply to around USD 115 per barrel amid heightened disruption risk, before easing to around USD 100 per barrel. LPG prices have moved in tandem. These price movements are already being reported at the ground level across India and other major energy importing countries, underscoring how quickly geopolitical risk in the Gulf translates into domestic cost pressures. Given the central role of oil and gas in power generation, electricity tariffs are also likely to come under upward pressure, particularly for commercial and industrial consumers.

Global price of Brent Crude (USD per Barrel)

Note: Mar-26 data is as of March 10, 2026

Source: IMF, FRED

Within India, the immediate impact of higher oil, gas, and electricity prices is concentrated in industries where direct energy consumption accounts for a large share of total inputs, as captured in input–output tables. Air transport (27%), chemical manufacturing (23%), and land transport (14%) face the sharpest first order cost shocks, given their reliance on fuel and power as core operating inputs. Energy intensive sectors such as metals manufacturing (14%), water supply and waste management (15%), and other mining and quarrying (12%) are similarly exposed. Notably, several services also exhibit high direct energy dependence, including wholesale and retail trade (21%), real estate activities (15%), and arts, entertainment and recreation (12%), reflecting electricity heavy operations and on site fuel use.

For these industries, higher energy costs translate into a straightforward trade-off: operating margins are squeezed where costs cannot be passed on, or selling prices rise, with the demand response determined by sector specific consumption elasticities. Where increases in transport and power costs are passed through, they can compound across value chains, creating a feedback loop that magnifies the initial energy shock beyond the industries directly exposed.

In addition, India has revoked the Essential Commodities Act, 1955, which could potentially affect supply timelines for certain industries. At the same time, a few companies, both in India and globally, have invoked force-majeure clauses, indicating that disruptions may extend beyond isolated firms and that broader ripple effects across supply chains could follow.

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