



Caught in the Crossfire: Supply Chain Shocks and South Asia's Economic Strain

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The escalation of the US-Israel-Iran conflict in early 2026 and the resulting disruption to the Strait of Hormuz has triggered a severe global supply chain crisis. The South Asian economies have been bearing a disproportionate burden of this disruption. This work examines how the blockage of a critical maritime corridor, through which nearly 20% of the world's oil supply flows has translated into surging energy prices, currency depreciation, inflationary pressures, and trade disruptions across India and Bangladesh. India, which imports nearly 90% of its crude oil, faces acute energy insecurity compounded by diplomatic constraints, while Bangladesh confronts a triple threat of rising fuel costs, export sector strain, and declining remittances. Drawing on data from the IEA, EIA, IEEFA, SANEM, and other institutions, the work argues that the crisis is not merely an energy shock but a systemic disruption to global trade architecture. It concludes by calling for urgent structural reforms, including energy diversification, strategic reserve building, and stronger regional cooperation, to better insulate South Asian economies from future geopolitical shocks.

Introduction

When missiles hit the Persian Gulf, the effects did not stop at the water's edge, they travel through oil pipelines, shipping containers, factory floors, and household fuel cylinders, reaching economies thousands of miles away. The military conflict between the United States, Israel, and Iran, which escalated dramatically on February 28, 2026, with US-Israeli airstrikes targeting Iranian military infrastructure, has hit almost all the economies across the world. What began as a confrontation in the Middle East has rapidly turned into one of the most severe



economic disruptions the world has seen in recent decades. The International Energy Agency (2026) has stated that this has been the largest supply disruption in the history of the global oil market. At the heart of this crisis lies a single narrow waterway, "The Strait of Hormuz". Whose blockage has sent shockwaves across supply chains and consequences are being felt across South Asia along with other economies.

The Strait of Hormuz is the world's critical energy corridor. According to the U.S. Congressional Research Service (2026), nearly 20 million barrels of oil pass through the Strait of Hormuz every day. This is about 20% of the world's oil supply. At the time when Iran threatened to close this passage and the Islamic Revolutionary Guard Corps issued warnings to stop vessel movement, Supply Chain Digital (2026) reports that around 170 container ships were stuck, causing the movement of 20% of the world's seaborne oil supply to suddenly stop. The immediate result was a historic spike in energy prices. The U.S. Congressional Research Service (2026) notes that Brent crude prices rose by 8% during the two trading days after the start of military operations, and it later on surpassed \$100 per barrel, reaching to around \$120 per barrel.

It may seem as disruption of oil supply however the ultimate impacts of disruption goes beyond oil. Pharmaceutical ingredients, electronics components, fertilizers, and petrochemical feed stocks all move through the maritime routes, therefore leading to the ripple spreads through multiple industries at the same time. Airlines had not been spared either. According to supply chain analytics GEP (2026), estimate nearly one-fifth of global air cargo routes experienced delays as airlines changed their routes to avoid conflict areas. Research by an advisory firm Gartner (2026), found that during significant supply disruptions, nearly two-thirds were expected to experience loss of revenue. The cost to serve typically rose up by an average of around 40%. Realizing this importance, the Council on Foreign Relations (2026) pointed out that the Gulf is not just an oil corridor; it is also a vital route for food supplies and agricultural fertilizers that feed millions around the world. What the world is seeing is no longer an energy crisis. It is a systemic shock to the architecture of global trade.

India: Caught Between Energy Dependence and Geopolitical Pressure

India finds itself walking a delicate diplomatic tightrope with politically tilted towards the United States and Israel, while officially maintaining neutrality and calling for dialogue, even as it preserves longstanding strategic and connectivity ties with Iran. At the same time, its heavy energy dependence on Gulf countries compels a cautious, pragmatic stance, as any escalation in the US–Israel–Iran conflict has a potential to directly threaten India's energy security and limits its geopolitical maneuverability.

India is among the nations feeling the weight of Middle East instability strongly. According to the Institute for Energy Economics and Financial Analysis IEEFA (2026), India imports nearly 90% of its crude oil, making it



vulnerable to supply shocks from the Middle East. According to the U.S. Energy Information Administration (EIA) (2026), India is the second-largest destination for oil transiting the Strait of Hormuz, receiving 14.7% of all crude oil and condensate flows through the strait, making any disruption to this waterway a direct threat to India's energy lifeline. IEEFA (2026) data reveals that Brent crude prices increased by 50% in less than a week, from \$80 per barrel on March 2 to \$120 per barrel by March 9. This has directly impacted India's energy import expenses. As reported by IEEFA (2026), the Indian rupee dropped to a record low of ₹92.34 against the US dollar, which increased the inflationary pressures throughout the economy. The sharp depreciation of the rupee has also had broader macroeconomic implications, as national output measured in US dollar terms declines when the domestic currency weakens. Consequently, this rapid currency depreciation has been a key factor behind India slipping in global economic rankings, where country positions are assessed in dollar-denominated GDP". Further financial market data shows that foreign portfolio investors withdrew about ₹1.8 lakh crore from Indian equities in 2026.

The crisis has also placed India in a diplomatic dilemma. Having reduced oil purchases from Russia to build goodwill with Washington, India found itself squeezed when Middle Eastern supplies simultaneously dried up due to the conflict. CNBC (2026) states that, India faced a decline of approximately 3 million barrels per day of crude that used to flow through the Strait of Hormuz which forced Indian oil refiners to quickly look for alternative supplies. In addition to this India imports over 40% of India's urea and phosphate come from the Gulf region. Following a drop in LNG output from Qatar, India has reportedly cut production at three urea plants. As one of the world's top food producers, contributing about 25% of global rice exports, any disruption to India's agricultural inputs has effects that extend beyond its own borders.

Bangladesh: Where Energy Shocks, Export Strain, and Remittance Risks Collide

Bangladesh's vulnerability to this crisis has been both immediate and structural. Bangladesh depends on imports for about 95% of its energy needs, leaving it nearly defenseless against any supply shocks from abroad. The government's response has been painful, including Fuel caps, university closures, and stationing troops at oil depots to prevent hoarding. The economic consequences extend well beyond fuel queues. According to The Daily Star (March 15, 2026), SANEM's worst-case modeling warns that a prolonged conflict could wipe out as much as 3% of Bangladesh's GDP over two years, driven by three compounding forces — rising energy costs, declining export demand, and a potential 10% fall in remittance inflows from Gulf countries, where over 75% of Bangladesh's overseas workers are employed. The South Asian Network on Economic Modeling (SANEM) (2026) reports that about 72% of Bangladesh's LNG imports come from Qatar and the United Arab Emirates. These supply lines have been significantly disrupted due to the ongoing conflict.



The consequences of the disruption for Bangladesh's signature industry are particularly alarming. The readymade garment sector, which contributes more than 80% of Bangladesh's total export earnings, has been under increasing pressure. The shipping crisis has compounded the pain further, as Bangladesh's Daily Star (2026) reports that exporters have been facing war-related surcharges of \$500 to \$4,000 per container, with freight costs for importing raw materials rising sharply. Bangladesh's predicament is not merely economic. It is a warning about the fragility of export-dependent economies when global trade corridors come under military threat.

Conclusion

The Iran–Israel–US conflict has emerged as a reminder that in today's interconnected world; no economy is truly secured against geopolitical shocks. A military confrontation thousands of miles away has pushed fuel prices to historic high, paralyzed critical shipping lanes, and squeezed the everyday lives of millions of common people across the world. From Indian households facing rising cooking gas prices to Bangladeshi garment workers whose factory floors are dimming under fuel rationing, the ripple effects were immediate and deeply felt. For South Asian economies, the path forward demands urgent attention to energy diversification, strategic reserve building, and the development of resilient supply chains that can withstand future disruptions. The crossfire, it turns out, has no boundaries.

India, in particular, finds itself navigating complex geopolitical and economic balancing political and economic interests simultaneously. This duality constrains policy flexibility, as any escalation in the conflict not only heightens energy insecurity and inflationary pressures in the economy but also tests the limits of India's diplomatic positioning. Bangladesh, meanwhile, faced a sharper transmission of these shocks, with its energy constraints, import dependence, and export-led growth model, especially in garments and other export allied sectors making it highly vulnerable to rising costs and slowing external demand.

More broadly, the crisis illustrates how geopolitical tensions transmit through oil prices, exchange rate volatility, and disrupted trade routes, disproportionately affecting developing Asian economies with limited shock-absorbing capacity. Looking ahead, both India and Bangladesh must accelerate diversification into renewable, strengthen regional energy cooperation, build strategic reserves, and enhance macroeconomic resilience. Without such structural recalibration, future



geopolitical disruptions will continue to transform distant conflicts into immediate and persistent economic stress across South Asia.

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