



Implications of the Israel-Iran Conflict

For Prelims: [Red Sea](#), [Suez Canal](#), [India-Middle East-Europe Economic Corridor](#), [G20](#), [Belt and Road Initiative](#), [Inflation](#), [Indian stock market](#), [Organization of the Petroleum Exporting Countries](#), [OPEC+](#), [United Nations](#)

For Mains: [Israel and Iran Conflict](#), Implications of the Israel-Iran conflict, Effect of Policies & Politics of Countries on India's Interests

Source: [BS](#)

Why in News?

The conflict between [Israel and Iran](#) has entered a volatile phase, raising concerns across various sectors, particularly trade and economics. As tensions escalate, the implications for India, an emerging player in the global market are becoming increasingly significant.

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What are the Implications of the Israel-Iran Conflict on India?

- **Disruption of Trade Routes:** The conflict has heightened the risk of disruptions along key shipping routes crucial for India's trade with Europe, the US, Africa, and West Asia.
 - The **Red Sea and Suez Canal routes** are particularly vital, as they facilitate the movement of goods worth over USD 400 billion annually.
 - The instability threatens not just shipping lanes but also the overall **security of maritime trade**.
- **Economic Impact on Exports:** The escalation of conflict has already begun to affect Indian exports. For instance, exports fell by **9% in August 2024**, primarily due to a substantial 38% decline in petroleum product exports caused by the **Red Sea crisis**.
 - These exports accounted for a significant portion of India's trade, with Europe receiving 21% of total petroleum product exports.
 - The **tea industry is particularly vulnerable**. With **Iran being one of the largest importers of Indian tea** (India's exports reaching 4.91 million kg in early 2024), concerns about the impact of conflict on shipments have arisen.
- **Rising Shipping Costs:** As shipping routes become longer due to conflict-related diversions, **costs have increased by 15-20%**.
 - This surge in shipping rates has strained the **profit margins of Indian exporters**, especially those dealing in low-end engineering products, textiles, and garments, which are highly sensitive to freight costs.
 - Exporters have reported that rising logistics costs could **negatively impact their overall**

profitability, forcing them to reconsider pricing strategies and operational efficiencies.

- **India-Middle East-Europe Economic Corridor (IMEC):** The **IMEC**, during **India's G20 presidency** to create an efficient trade route connecting India, the Gulf, and Europe, aims to reduce dependency on the Suez Canal while also countering **China's Belt and Road Initiative**.
 - However, the ongoing **conflict threatens the progress and viability of this corridor**, impacting bilateral trade between India and its partners as well as regional economic dynamics.
- **Impact on Crude Oil Prices:** The ongoing conflict has led to a spike in **global crude oil prices**, with Brent crude nearing USD 75 a barrel. As **Iran is a major oil producer**, any military escalation could disrupt oil supplies, further pushing prices upward.
 - Higher oil prices may hinder **central banks from cutting interest rates**, as increased **inflation** can complicate economic recovery efforts.
- **Effects on Indian Markets:** India relies heavily on **oil imports (more than 80% of its oil needs coming from abroad)**, making it vulnerable to price fluctuations. A sustained rise in oil prices may lead investors to shift focus from **Indian equities to safer assets like bonds or gold**.
 - The **Indian stock market** has already felt the impact, with major indices like the **Sensex and Nifty** opening lower amid fears of a prolonged conflict.
- **Gold as a Safe Havens:** Gold prices have **reached new highs**, fueled by geopolitical tensions and shifts in investment strategies.
 - In times of uncertainty, investors often flock to **gold as a safe haven**, which could further elevate its price.
- **Logistics Challenges:** Indian exporters are currently navigating a **"wait and watch"** situation. Some exporters are urging the government to invest in developing a reputable Indian shipping line to mitigate the reliance on foreign shipping companies, which often impose high transport charges.

What is the Status of India's Trade with Israel and Iran?

- **India- Israel Trade:**
 - **Significant Growth:** India-Israel trade has doubled over the last five years, growing from approximately USD 5.56 billion in 2018-19 to USD 10.7 billion in 2022-23.
 - **In FY 2023-24, the bilateral trade was USD 6.53 billion** (excluding defence) witnessing a decline due to regional security situation and trade route disruption.
 - **India is Israel's second-largest trading partner in Asia.** During FY 2022-23, Israel was India's 32nd biggest trading partner.
 - **Key Exports:** The primary exports from India to Israel include diesel, diamonds, aviation turbine fuel, and Basmati rice, with **diesel and diamonds alone accounting for 78% of total exports in 2022-23.**
 - **Imports:** India primarily imports space equipment, diamonds, potassium chloride, and mechanical appliances from Israel.
- **India-Iran Trade:**
 - **Declining Trade Volumes:** In contrast to the robust trade with Israel, India's trade with Iran has seen a contraction over the past five years, with bilateral trade amounting to just USD 2.33 billion in 2022-23.
 - **In FY 2023-24, the bilateral trade Iran reached USD 1.52 billion** during the first 10 months (April-January).
 - **Trade Surplus:** In 2022-23, India enjoyed a trade surplus of approximately USD 1 billion, exporting USD 1.66 billion worth of goods to Iran, primarily agricultural products, while importing USD 0.67 billion.
 - **Major Indian exports to Iran:** Basmati rice, tea, sugar, fresh fruits, drugs/pharmaceuticals, soft drinks-other than sharbat, kernels H.P.S, boneless bovine meat, pulses etc.
 - **Major Indian imports from Iran:** Saturated methanol, petroleum bitumen, apples, liquified propane, dry dates, inorganic/organic chemicals, almonds, etc.

Reasons for the Iran-Israel Conflict

- **Formation of Israel (1948):** The creation of Israel led to the **Arab-Israeli War**. Although Iran

opposed Israel's formation and voted against the Partition Plan in 1947, it recognized Israel in 1950 under the **Pahlavi regime (last Iranian royal dynasty)**, fostering friendly relations characterised by economic and military ties.

- Despite formal ties, segments of Iranian society remained sympathetic to the Palestinian cause. The **Iranian Revolution in 1979** marked a turning point, ending **Pahlavi rule** and leading to the deterioration of Israel-Iran relations.
- **Religious and Ideological Differences:** Iran, governed by **Shia Islam**, and Israel, a predominantly **Jewish state**, have fundamental religious and ideological differences that **fuel mutual suspicion and animosity**.
- **Post-1979 Revolution Relations:** The Islamic Republic severed diplomatic ties with Israel, labelling it "**Little Satan**."
 - Shia clerics in Iran view the **Old City of Jerusalem** as a holy site and oppose its Israeli control. After the revolution, Iran promoted the idea of a **Palestinian state** and branded **Israel an "illegal" entity**.
- **Israeli-Palestinian Conflict:** Iran supports **Palestinian causes, backing groups like Hamas and Hezbollah**, which Israel designates as terrorist organisations. Iran's calls for the destruction of Israel exacerbate tensions.
- **Nuclear Program:** Israel perceives **Iran's nuclear ambitions as an existential threat**, fearing potential nuclear weapons development.
 - Israel has criticised the **Iran nuclear deal (Joint Comprehensive Plan of Action)** and undertaken covert operations to disrupt Iran's nuclear activities.
- **Proxy Conflicts:** The Iran-Israel conflict has seen significant proxy warfare involving several groups. Iran supports **Hezbollah in Lebanon**, which frequently engages in fights with Israel, and the **Houthis in Yemen**, who have targeted Israeli shipping in the Red Sea.
 - Additionally, Iranian-backed Shia militias in Iraq have been retaliating against US forces while also resisting Israeli actions in the region.
 - These proxy conflicts enable Iran and Israel to wage indirect warfare, complicating regional stability and raising the risk of direct confrontations amid increasing tensions.
- **Regional Power Dynamics:** The competition between Iran and its allies versus Israel and its allies contributes to ongoing tensions and conflicts in the region.

What are the Global Implications of the Israel-Iran Conflict?

- **Energy Supply and Pricing Dynamics:** Iran, a member of **Organization of the Petroleum Exporting Countries (OPEC)**, produces approximately **3.2 million barrels per day (bpd)**, constituting about **3% of global output**.
 - Despite facing **U.S. sanctions**, **Iranian oil exports have surged, primarily due to demand from China**. The country's strategic importance in the global oil market cannot be overstated.
- **OPEC's Spare Capacity:** **OPEC+** possesses significant spare oil production capacity, with estimates suggesting that **Saudi Arabia could increase output by up to 3 million barrels per day** and the UAE by about 1.4 million.
 - This capacity provides a **buffer against potential Iranian supply disruptions**, but the situation remains delicate.
- **Long-term Energy Security:** The increasing diversity of global oil supply, particularly due to rising **US production**, has provided a degree of insulation from price shocks associated with conflicts in the Middle East.
 - The US produces approximately **13% of global crude oil and nearly 20% of total liquid production**, which helps stabilise the market amid uncertainties.
- **Potential for Escalation:** Israel has not yet launched attacks on Iranian oil facilities, but the **possibility remains**. If Israel were to strike key installations, such as the **Kharg Island oil port**, it could provoke a significant military response from Iran.
 - Historically, conflicts have escalated quickly in this region, leading to unintended consequences for global supply chains.
- **Geopolitical Considerations:** The US is likely to **exert pressure on Israel to avoid major military escalation**, aiming to maintain regional stability and prevent a broader conflict.

- This reflects a nuanced approach to foreign policy that seeks to balance support for Israel with global economic interests.
- Other global players, **especially China, which has significant energy ties with Iran**, will be closely observing developments.
 - The outcome of this conflict may influence **international energy strategies and alliances**, potentially reshaping the geopolitical landscape.
- **Humanitarian Crises:** A wider conflict could lead to **significant refugee flows, impacting Mediterranean countries** like Italy and Greece, and straining **international humanitarian resources**.

What are the Possible Solutions to De-escalate the Iran-Israel Conflict?

- **Immediate Ceasefire Agreement:** Urging both Iran and Israel to agree to an immediate ceasefire can serve as a foundational step toward reducing tensions and facilitating dialogue.
 - Global powers, particularly the **United States and China**, should leverage their diplomatic influence to press for a ceasefire and promote negotiations between the conflicting parties.
- **Regional Collaboration:** Engaging **Gulf Arab states** in discussions can provide a more comprehensive approach to de-escalation, addressing shared concerns about Iran's influence in the region.
- **Humanitarian Aid and Support:** Increasing **humanitarian assistance** to affected regions, can alleviate suffering and foster goodwill, potentially easing hostilities.
- **International Organisations:** Engaging organisations like the **United Nations** to mediate discussions and facilitate conflict resolution efforts can provide neutral ground for negotiations.
- **Long-term Peace Initiatives:** Regional powers should collaborate to establish a comprehensive security framework that includes confidence-building measures, arms control agreements, and peaceful conflict resolution mechanisms.
 - Addressing underlying issues such as historical grievances, **territorial disputes, and religious extremism** will foster a conducive environment for lasting peace.

Read more: [Iran-Israel Conflict](#)

Drishti Mains Question:

Discuss the implications of the Israel-Iran conflict on India's trade and economic interests.

UPSC Civil Services Examination, Previous Year Question (PYQ)

Prelims

Q 1. Which one of the following countries of South-West Asia does not open out to the Mediterranean Sea? (2015)

- (a) Syria
- (b) Jordan
- (c) Lebanon
- (d) Israel

Ans: (b)

Q2. The term “two-state solution” is sometimes mentioned in the news in the context of the affairs of (2018)

- (a) China

(b) Israel

(c) Iraq

(d) Yemen

Ans: (b)

Mains

Q . "India's relations with Israel have, of late, acquired a depth and diversity, which cannot be rolled back." Discuss. **(2018)**

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