

Beyond Oil Shocks: The Brewing, Hidden Risks Exposing India's Economic Vulnerabilities from a West Asian Conflict



Deepanshu Mohan

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Somewhere, a deeper alliance with the US-Israel power axis may adversely impact India's sound multialignment approach and domestic macroeconomic fundamentals.



Pro-government supporters chant slogans and wave Iranian flags during a rally, in a square in western Tehran, Iran, Wednesday, March 25, 2026. Photo: AP/PTI

Four weeks into the Iran conflict, projections of a near-term resolution continue to rest more on conjecture than on observable shifts on the ground. Despite repeated assertions that the war may soon end, developments suggest the opposite trajectory. Iran appears to be widening the confrontation raising fears that the conflict could harden into a prolonged war of attrition in a region central to the global energy and economic system.

India's engagement with West Asia has long been evaluated through the prism of energy security. That lens is now insufficient.

The current escalation across the Gulf marked by maritime insecurity, retaliatory strikes, and corridor disruptions reveals a deeper structural reality: India's integration with the

region is increasingly embedded in connectivity networks, remittance flows, digital infrastructure, and defence supply chains.

This shift matters because these linkages are less visible than oil imports, but far more systemically embedded. Unlike crude flows, which can be diversified over time, these networks are institutional, infrastructural, and demographic in nature, making them harder to recalibrate in crisis conditions.

Recent data underscores the scale of this exposure. With over **806 million internet users in India (55.3% penetration)** and **remittance inflows exceeding \$120 billion annually**. India's economic architecture is now deeply tied to global and particularly West Asian stability.

The implication is not immediate disruption, but systemic fragility under prolonged geopolitical stress. If the conflict drags on, the consequences for New Delhi could be far more structural than immediate.

Connectivity and the fragility of corridor geopolitics

India's connectivity strategy anchored in corridors such as the International North-South Transport Corridor (INSTC) and Chabahar Port is premised on stable transit geographies. That assumption is now under strain.

Freight movement along INSTC **reached 26.9 million tonnes** in 2024, while **Chabahar has handled over 8 million tonnes cumulatively**, with **2.23 million tonnes in 2024–25**. These figures signal gradual operationalisation. Yet the economics of these routes are deteriorating under conflict conditions.

War-risk insurance premiums in the Gulf have surged from **0.25% to nearly 3% of vessel value**, **implying costs of \$7.5 million per transit for a \$250 million tanker**. Such increases directly erode corridor competitiveness, undermining the cost advantages that justified these investments.

At the same time, global connectivity itself is expanding rapidly. **Nearly 6 billion people (~74% of the global population) are expected to have become online by 2025**, with India **hosting over 1.12 billion mobile connections, 92% of which are broadband-enabled**. Yet this expansion paradoxically increases vulnerability.

Nearly 99% of intercontinental data flows through subsea cables, many of which pass through conflict-prone maritime zones. Disruptions in the Red Sea and Gulf regions therefore pose risks not just to shipping, but to data continuity and digital trade flows.

The causal linkage is clear: as India deepens its integration into global connectivity networks through trade corridors, digital flows, and logistics infrastructure it simultaneously imports geopolitical risk embedded within those networks.

Remittances: Stability with concentration risk

Remittances remain one of India's most resilient external buffers. In 2023, flows to low- and middle-income countries reached \$656 billion, with India accounting for over \$125 billion, rising to around \$136 billion in FY2025.

These inflows finance nearly 10% of India's current account and approximately 47% of its merchandise trade deficit, providing a critical cushion for domestic consumption and foreign exchange stability.

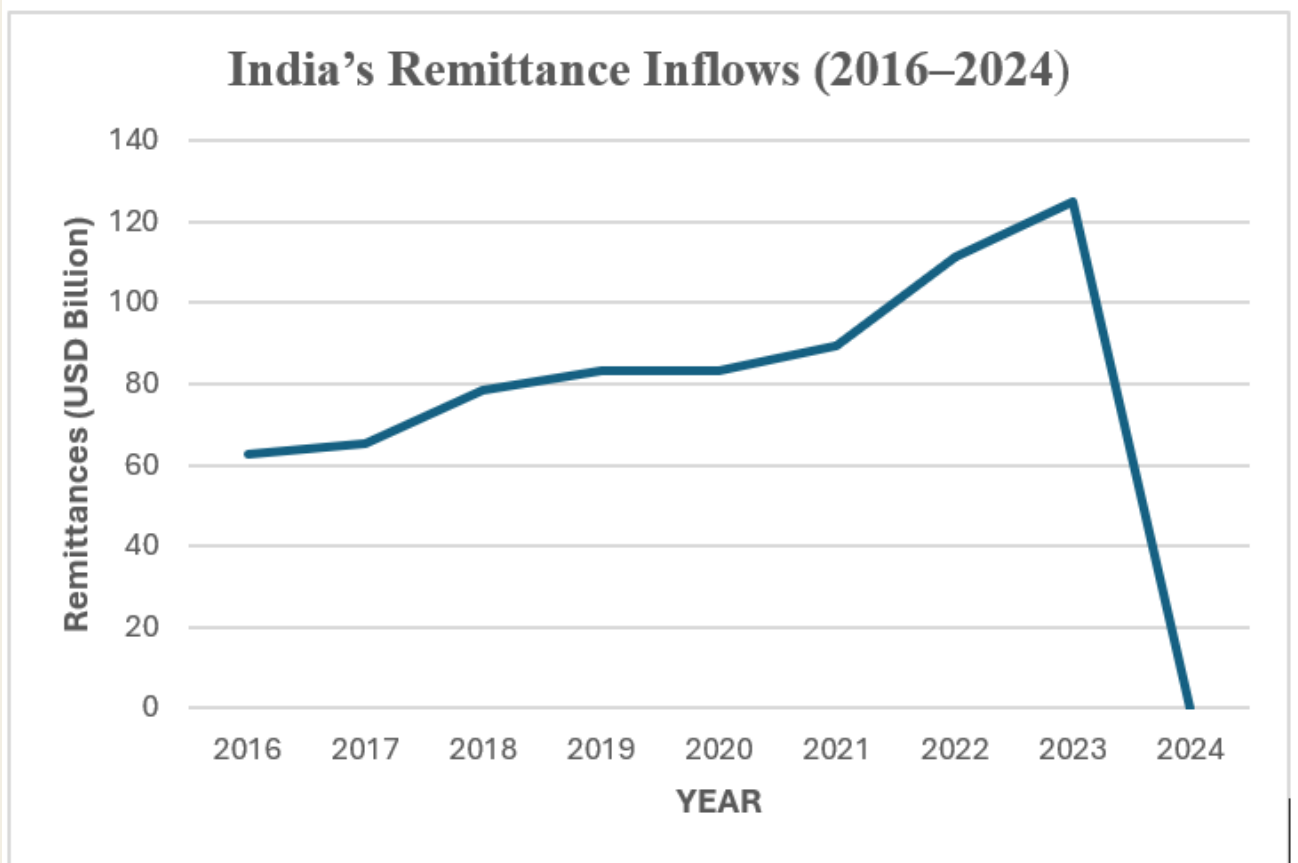
However, resilience at the aggregate level masks geographic concentration risk. Approximately 38% of India's remittances originated from Gulf Cooperation Council (GCC) countries in 2023-24, where over 9 million Indian workers are employed.

This concentration creates a structural vulnerability. Unlike diversified capital flows, remittances depend on labour market stability in host countries. A prolonged conflict could disrupt employment in construction and services sectors, wage flows due to economic slowdown, physical mobility due to airspace and maritime disruptions.

Even short-term shocks such as temporary airspace closures can delay remittance channels. More importantly, a sustained conflict could trigger labour repatriation cycles, compressing inflows over time.

Costs remain another constraint. The global average cost of sending \$200 remains 6.4%, well above the UN's 3% target. While digital channels are reducing costs toward 5%, informal transfers persist, limiting efficiency gains.

The implication is nuanced. Remittances will likely remain robust in the near term due to diaspora depth. However, their volatility is rising, not because of domestic factors, but due to external geopolitical concentration.



Source: [World Bank Migration and Development Brief](#)

Digital infrastructure: Growth and systemic cyber risk

India's digital transformation is accelerating at scale. [Data centre capacity across major cities reached around 977 MW in 2024](#), with projections of 3.29 GW by 2028. The market is expected to grow from [\\$4.5 billion in 2023 to \\$11.6 billion by 2032](#).

This expansion is being driven by hyperscale investments like [Amazon Web Services: \\$8.3 billion \(Mumbai\) & \\$7 billion \(Hyderabad\)](#), [Microsoft: \\$17.5 billion committed by 2030](#), [Google: ~\\$15 billion in AI/data infrastructure](#).

Simultaneously, India's digital public infrastructure has scaled rapidly. [The Unified Payments Interface processed 21.6 billion transactions in a single month in 2025](#), making it the world's largest real-time payments system.

Yet this scale creates systemic exposure. [Cyber incidents in India rose from 1.03 million in 2022 to 2.27 million in 2024](#), indicating both increased attacks and improved reporting.

The relationship here is structural rather than incidental. As digital infrastructure expands attack surfaces multiply (cloud, fintech, public platforms), systemic risk increases (financial networks, identity systems), geopolitical exposure deepens (state-backed cyber operations).

Global estimates suggest cybercrime costs could exceed \$10 trillion annually by 2025, reinforcing the scale of the threat.

Policy responses such as India's ₹782 crore cybersecurity allocation in 2025–26 remain modest relative to the pace of digital expansion. The gap between infrastructure growth and security capability thus persists.

In effect, India's digital ecosystem represents a strategic asset with embedded vulnerability, where economic gains are accompanied by rising systemic risk.

Defence capacity and the limits of strategic autonomy

India's defence posture reflects similar structural tensions. The Rs 6.81 trillion (\$79 billion) defence budget for 2025–26 positions India as the world's fourth-largest spender. However, only Rs 1.8 trillion (\$20.8 billion) is allocated for capital expenditure.

This imbalance constrains modernisation. Despite indigenisation efforts, India remains the world's second-largest arms importer, accounting for 8.2% of global imports (2021–25).

Supplier diversification is underway. Russia's share has fallen from around 70% to approximately 40% but dependence persists in critical systems such as engines, electronics and advanced platforms. Delays in Tejas fighter production due to engine supply constraints illustrate the limits of partial indigenisation.

Recent conflicts reinforce these constraints. The Iran & Ukraine war as well as regional skirmishes highlight three operational shifts: a shift toward low-cost, high-volume systems (drones, loitering munitions), importance of integrated air and missile defence & centrality of cyber and electronic warfare.

These trends favour states with industrial depth and rapid production cycles, rather than those dependent on external supply chains.

India's policy response through "Atmanirbhar Bharat" and procurement reforms has begun to address these gaps. Defence production has expanded and import restrictions now cover over 5,500 items. Yet, capability gaps remain significant, particularly when compared with China's \$40-45 billion annual defence R&D spending.

The conclusion is not that India lacks capacity, but that strategic autonomy remains a work in progress, contingent on execution rather than intent.

India's exposure to West Asia is no longer defined primarily by oil, but by deeper networked dependencies across connectivity, remittances, digital systems and defence supply chains.

These linkages have supported growth and integration but also increase the transmission of external shocks into the domestic economy.

The policy challenge, therefore, is not disengagement but managing risk within interdependence: diversifying connectivity routes, broadening remittance corridors, strengthening cybersecurity alongside digital expansion, and accelerating defence industrial capacity with realistic timelines.

However, from the current crisis, a deeper engagement with the US-Israel power axis as evident from the Modi Government's conduct has exposed India's cautiously curated (earlier) multi-alignment approach, which worked well to manage and diversify macroeconomic risks and structural asymmetries within its own domestic scenario, insulating the economy from deeper shocks (there is a reason why earlier Gulf Wars didn't impact India in the same way as this one may give our deeper alignment with the Americans and Israelis).

While the medium-term trajectory across these sectors remains positive, confidence in their stability is uneven and increasingly conditioned by geopolitical risk. The current conflict does not create new vulnerabilities for India so much as it exposes and sharpens existing ones.

Deepanshu Mohan is Professor of Economics and Dean, O.P. Jindal Global University. He is Director for Centre for New Economics Studies (CNES) and currently Visiting Professor, London School of Economics and an Academic Research Fellow at University of Oxford.

Ankur Singh is a Research Assistant with CNES and is studying economics at Jindal School of Government and Public Policy.