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**DAILY EDITORIAL
ANALYSIS**

TOPIC

**WAR & OIL PRICES: IMPACTS OVER
GLOBAL ECONOMY & ON INDIA**

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WAR & OIL PRICES: IMPACTS OVER GLOBAL ECONOMY & ON INDIA

Context

- The ongoing conflict in the Middle East i.e. West Asia highlights the **intersection of geopolitics, energy security, global trade, and domestic economics**.
- Even small increases in fuel prices can shape public opinion, political decisions, and economic stability worldwide.

Oil as a Strategic Commodity

- Oil remains the backbone of the modern global economy. It fuels transportation, powers industries, and supports global trade networks.
 - ♦ As a result, any disruption in supply quickly translates into **price volatility and inflationary pressures**.
- Historically, wars in the Middle East have triggered major oil shocks. The **1973 Arab Oil Embargo**, the **Iran–Iraq war in the 1980s**, and the **Gulf War of 1991** all led to **sharp increases in global oil prices**.
- **Contemporary conflicts** show similar patterns. Oil price shocks have been shown to significantly influence economic growth and financial markets, particularly in energy-dependent economies.
 - ♦ Petrol in the United States increased from **\$3 per gallon to around \$3.40**.
 - ♦ Brent crude oil surged dramatically from **\$60 per barrel at the start of 2026 to nearly \$120** before falling back to around **\$88**.

Strategic Importance of the Strait of Hormuz

- The **Strait of Hormuz** (located between Iran and Oman, connecting the Persian Gulf to the Arabian Sea and the wider Indian Ocean) is one of the world's most important energy chokepoints, as nearly **one-fifth of global oil trade passes through this narrow waterway**.
 - ♦ Any disruption can trigger sharp spikes in global energy prices.
- Iran has threatened to block the strait, which would severely disrupt global oil supplies.

Key Impacts

- **Oil Prices As Hidden Indicator of War:** Even a moderate increase in fuel prices has political consequences because energy prices **directly affect inflation, transport costs, and consumer sentiment**.
 - ♦ **Oil price shocks significantly influence global economic growth and financial stability**, especially during geopolitical conflicts.
- **Market Volatility and Energy Prices:** Globally, markets react to several factors i.e. threats to oil production facilities, disruptions to shipping routes, sanctions on oil-exporting countries, and speculation in energy markets.
 - ♦ Sudden spikes in oil prices can quickly translate into **higher fuel prices, increased transportation costs, and rising inflation worldwide**.
- **Emerging Gas Crisis:** Liquefied Natural Gas (LNG) and Liquefied Petroleum Gas (LPG) are critical for electricity generation, industrial production, and household consumption.
 - ♦ LNG exporters such as **Qatar play a crucial role in global gas supply** (produces about 20% of global LNG), and any interruption in production or shipping can create ripple effects across global energy markets.
 - ♦ The result can be shortages of cooking gas, higher electricity costs, and pressure on manufacturing sectors.
- **Implications for the Global Economy:**
 - ♦ **Inflationary Pressure:** Higher fuel prices increase the cost of transportation, manufacturing, and logistics. It raises the prices of goods and services, contributing to inflation.

- ♦ **Slower Economic Growth:** Energy price shocks often reduce consumer spending and increase production costs, slowing economic growth.
- ♦ **Financial Market Uncertainty:** Energy price volatility can trigger instability in stock markets, particularly in energy-importing economies.
- ♦ **Trade Imbalances:** Countries that import large quantities of oil experience rising import bills, worsening their **current account balances**.

India's Energy Security Challenge

- India is among the world's largest energy consumers and imports a significant portion of its oil.
 - ♦ Around **85% of India's crude oil requirement is imported**.
 - ♦ A large share of these imports comes from the **Middle East**.
- Consequently, geopolitical tensions in the region directly affect India's economy.
- **Key Concerns for India:**
 - ♦ Rising oil prices increase the **import bill**.
 - ♦ Higher fuel prices contribute to **domestic inflation**.
 - ♦ Energy supply disruptions threaten **industrial production and economic growth**.

India's Attempt To Mitigate Associated Risks

- **Diversification of Import Sources:** India has expanded its crude oil imports beyond traditional suppliers in West Asia to include countries such as **Russia, the United States, and African nations**.
 - ♦ Diversifying suppliers reduces dependence on any single region and helps manage geopolitical risks.
- **Strategic Petroleum Reserves (SPR):** India has created **Strategic Petroleum Reserves** at **Visakhapatnam, Mangaluru, and Padur** to store crude oil for emergency use.
 - ♦ These reserves provide a buffer against sudden supply disruptions or sharp price increases.
- **Overseas Energy Investments:** Through companies such as **ONGC Videsh Ltd.**, India invests in oil and gas fields abroad.
 - ♦ These investments help secure **long-term energy supplies** and reduce vulnerability to global market shocks.
- **Promotion of Renewable Energy:** India is expanding **solar, wind, and other renewable energy sources** to reduce dependence on imported fossil fuels and strengthen long-term energy security.
- **Alternative Fuels and Energy Efficiency:** Policies such as the **Ethanol Blending Programme and promotion of electric vehicles** aim to reduce oil consumption in the transport sector.
- **Energy Diplomacy:** India actively engages with major energy-producing countries to ensure stable supply through **long-term contracts and strategic partnerships**.

Conclusion

- The Gulf conflict demonstrates that **energy markets often determine the real impact of wars**. Oil prices, gas supply disruptions, and maritime chokepoints like the Strait of Hormuz connect regional conflicts with the global economy.
- For countries like India, the crisis reinforces the urgent need for **energy diversification, strategic reserves, and long-term energy security planning**.

Daily Mains Practice Question

[Q] Discuss the geopolitical significance of the Strait of Hormuz in global energy security. How do conflicts in the Middle East affect global oil markets and India's energy security?

Source: BL

