

## "Battles Beyond Borders: How Wars Reshape Indian Trade in The Global Economy"

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**ABSTRACT:** Armed conflicts—from the Gulf War (1990–91) and Kargil (1999) to the U.S.–China trade war (2018–), Russia–Ukraine (2022–), and the Red Sea crisis linked to the Israel– Hamas war (2023–)—have repeatedly reshaped India’s trade flows, prices, and partners. Wars propagate through multiple channels: (i) energy and commodity price shocks; (ii) route and logistics disruptions; (iii) sanctions, export controls, and payments frictions; (iv) risk premiums on finance and insurance; and (v) trade diversion and realignment of global value chains (GVCs). This article synthesizes theory and evidence to show how these channels affected India’s merchandise and services trade, balance of payments, inflation, and sectoral winners/losers. Using recent multilateral estimates and case material, we document: (1) how shipping disruptions in the Red Sea and the Black Sea rerouted trade and raised costs for Indian exporters; (2) how discounted Russian crude altered India’s import basket, refining margins, and re-exports of petroleum products; and (3) how U.S.–China tariff hostilities created selective opportunities for India in electronics, chemicals, and textiles while also raising global uncertainty. We integrate classic trade theory (comparative advantage, terms-of-trade, new trade theory) with modern GVC and geopolitics insights, and we assess macro spillovers to growth and inflation. Policy recommendations emphasize resilience—diversified energy sourcing, hedging logistics risk, deepening trade facilitation, and leveraging services exports—while carefully navigating sanctions compliance. The paper closes with a future-scope agenda on nearshoring, rupee-based settlements, green shipping, and dual-use tech controls that will increasingly frame India’s trade in a fragmenting global economy. IMFUN Trade and Development (UNCTAD) Business Standard Econ Stor.

**KEYWORDS:** war-economy linkages; India trade; supply-chain disruption; sanctions; global value chains.

### OVERVIEW

#### 1. Conflict as a Trade Shock: Channels and Mechanisms

Wars transmit to trade via five primary channels:

1. **Commodity price shocks**—notably oil;
2. **Logistics and route disruptions**—canal closures, maritime risk, and insurance surcharges;
3. **Sanctions and export controls**—payment frictions, compliance costs;
4. **Financial spillovers**—FX volatility and tighter trade finance;
5. **GVC reconfiguration**—diversion and friend-shoring.

Recent multilateral monitoring confirms how Red Sea attacks cut Suez transits roughly in half in early 2024, while drought hit Panama Canal throughput, compounding Black Sea constraints; these raised costs and delivery times for India–EU trade lanes and distorted trade statistics. IMFUN Trade and Development (UNCTAD)

#### 2. Macro Backdrop: A Slower, Risk-Prone Trade Cycle

WTO’s trade outlooks highlight subdued merchandise trade growth and a risk-laden environment in 2024–25; UNCTAD’s updates show India’s quarterly goods exports softening amid global headwinds even as services remain relatively resilient. The macro context matters: in a world of slower trade elasticity to GDP, war-related frictions have outsized effects on smaller margins. World Trade Organization+1UN Trade and Development (UNCTAD)

#### 3. India’s Exposure Map

**Energy-heavy import dependence** (crude and LNG), **maritime-centric shipping lanes** (Suez for Europe; Malacca for East Asia), and **petroleum-product re-exports** make India acutely sensitive to conflict. Since 2022, India’s crude mix pivoted sharply toward Russia

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at discounts, improving terms-of-trade and refining margins but adding compliance and diplomacy complexity as sanctions regimes tightened. Business Standard National Bureau of Asian Research

### 4. Opportunity in Disruption

The U.S.–China tariff cycle created selective openings for India to substitute in global supply chains (electronics assembly, chemicals, apparel). Yet the same tensions also depress aggregate trade volumes and raise uncertainty, dampening investment and services linked to goods trade (transport, logistics). [EconStor](#)

## REVIEW OF LITERATURE

### Classical and New Trade Theory Foundations

The foundations of international trade theory provide a useful lens through which to analyze the impact of wars and geopolitical disruptions on trade flows and welfare outcomes. Classical theories, beginning with David Ricardo's principle of comparative advantage, demonstrate how countries specialize in the production of goods where they have lower relative costs, thereby increasing overall efficiency and welfare. However, when wars alter relative prices, particularly of critical commodities such as oil, these trade patterns and welfare outcomes are disrupted. For instance, large-scale conflicts in oil-producing regions can raise global prices, leading to terms-of-trade losses for energy importers such as India.

Beyond classical trade theory, the new trade theory—pioneered by Paul Krugman and others—emphasizes the role of economies of scale, product variety, and firm heterogeneity. This framework suggests that higher trade costs, arising from wartime disruptions such as increased shipping insurance premiums, longer detour routes, and delays, have profound effects on both the extensive margin of trade (the number of firms or products exported) and the intensive margin of trade (the volume of trade per firm or product). For instance, when shipping lines rerouted vessels around the Cape of Good Hope instead of the Suez Canal due to hostilities in the Red Sea, the costs per shipment surged, reducing the competitiveness of exporters, particularly in time-sensitive sectors such as textiles and pharmaceuticals.

Further, literature on global value chains (GVCs) highlights that shocks to particular nodes can have non-linear and persistent propagation effects. Wars and blockades affecting chokepoints such as the Suez Canal or the Black Sea do not merely cause short-term detours; rather, they can lead to the reconfiguration of supplier–buyer networks for years to come. For example, when Black Sea routes became unsafe during the Russia–Ukraine conflict, global buyers and sellers were compelled to reestablish contracts with alternate suppliers in Asia or Africa, thereby permanently altering trade relationships.

## EMPIRICAL STREAMS RELEVANT TO INDIA

### 1. Commodity Price and Energy Shocks

The Indian economy's vulnerability to global oil price fluctuations has been a recurrent theme in literature. A historical example is the 1991 Balance of Payments (BoP) crisis, which was exacerbated by the oil price spike during the First Gulf War. Rising import bills strained India's foreign exchange reserves, compelling structural reforms. Scholars often cite this crisis as a turning point in India's trade and economic liberalization.

In the current decade, India has benefited from discounted Russian crude oil supplies in the aftermath of the Russia–Ukraine conflict. This has allowed refiners to maintain lower input costs, thereby reducing the country's import bill while simultaneously enhancing refined petroleum exports—such as diesel and aviation turbine fuel—to Europe and Africa. For example, Business Standard reported that Indian refiners were able to maintain higher refining margins, creating terms-of-trade gains. However, this advantage comes with risks, including exposure to sanctions compliance challenges and payment settlement uncertainties, especially in light of fluctuating Western enforcement intensity. Analysts note that swings of tens of dollars per barrel, coupled with refining dynamics, highlight the fragile balance between short-term gains and long-term vulnerabilities.

### 2. Shipping and Canal Disruptions

The Red Sea crisis of early 2024 provides a stark empirical example of war-induced trade disruptions. According to analyses by the United Nations Conference on Trade and Development (UNCTAD) and the International Monetary Fund (IMF), Houthi-led attacks on commercial vessels cut Suez Canal traffic by nearly 50 percent year-on-year. As a result, ships were compelled to reroute around the Cape of Good Hope, adding between two to four weeks to transit times and sharply increasing freight and insurance costs.

For India, this disruption has had a profound effect. Engineering goods, textiles, and pharmaceutical exports to Europe faced substantial delays, leading to missed delivery windows and contractual penalties. Reuters documented multiple cases of Indian exporters incurring significant losses, with aggregate national-level estimates running into billions of dollars. This illustrates how

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higher logistical costs and reliability concerns undermine India's export competitiveness, despite the country's efforts to integrate more deeply into global trade networks.

### 3. Sanctions and Controls

Sanctions represent another critical dimension through which wars reshape trade. The imposition of Russia-focused sanctions following the Ukraine conflict reconfigured global trade networks. Rather than halting flows altogether, sanctions redirected them through intermediating hubs—such as Gulf states—and created a “shadow fleet” of tankers operating outside mainstream insurance and tracking systems.

Reports by the World Trade Organization (WTO) suggest that the enforcement of sanctions has a direct bearing on the degree of trade disruption. When enforcement is stringent, discounts widen, but so too do risks of contract enforceability and payment delays. The WTO has also flagged that services trade, especially in shipping and logistics, tends to weaken when goods trade slows, thereby amplifying the overall macroeconomic drag. Reuters accounts reinforce this by showing that logistics firms in India faced weaker order flows even when goods exports remained resilient in certain niches.

### 4. Trade Diversion from Great-Power Rivalry

The U.S.–China tariff war offers useful lessons for India. Literature indicates that while India benefitted marginally from trade diversion, particularly in select Harmonized System (HS) code lines such as chemicals, engineering goods, and electronics assembly, these gains were highly nuanced. Analyses from repositories such as EconStor confirm that the benefits were constrained by India's limited scale, infrastructural bottlenecks, and dependence on Chinese intermediate inputs. In other words, while tariff wars create opportunities for third countries, the extent of benefit depends on the domestic ecosystem's readiness to absorb the diverted trade.

### 5. Services Cushion

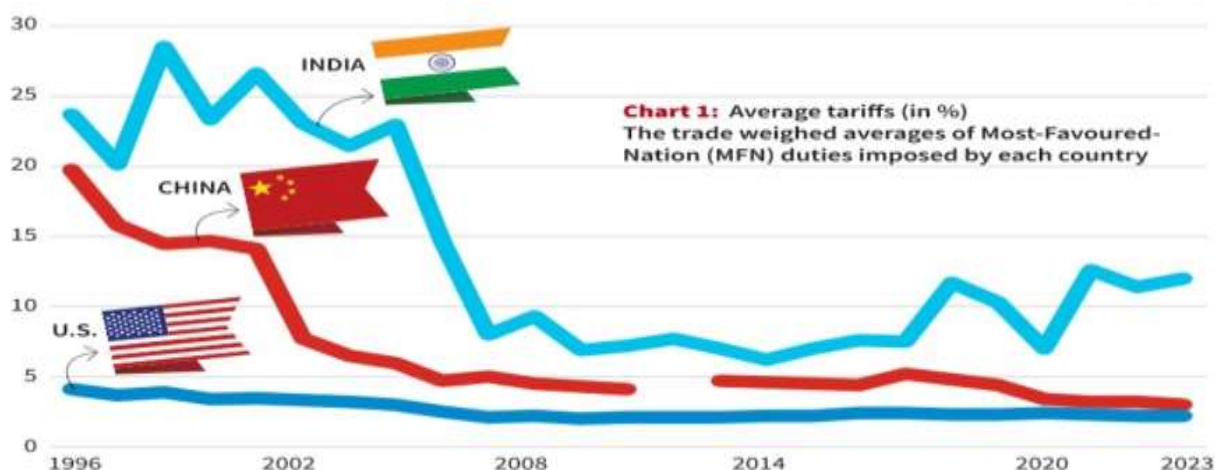
Unlike goods trade, India's services exports—particularly information technology, business process management (IT-BPM), and digital services—often operate in a counter-cyclical pattern. This means that during periods of goods trade weakness, services exports sometimes continue to grow. For example, the COVID-19 pandemic saw a contraction in goods exports but resilience in IT services. However, logistics and travel services are positively correlated with goods trade and thus face headwinds during wartime disruptions. WTO and UNCTAD projections suggest that while India's services sector remains a critical cushion, its growth trajectory may be modest if goods trade headwinds persist.

## INDIA-SPECIFIC CASE THREADS IN THE LITERATURE

Several strands of literature focus specifically on India's experiences during war-related disruptions:

- **Petroleum Complex:** India's strategic advantage of importing discounted crude from Russia while exporting refined products to Europe and Africa has been widely covered in business and policy outlets. For instance, Business Standard highlighted that India saved billions of dollars in import costs while simultaneously increasing refinery margins. However, geopolitical scrutiny from the European Union and the United States poses long-term risks of tighter monitoring and compliance restrictions.
- **Manufacturing Substitution:** In the context of the “China+1 strategy,” multinational firms have explored India as a potential site for electronics assembly and specialty chemical manufacturing. Yet, literature synthesized from EconStor emphasizes that India's infrastructure challenges, compliance hurdles, and scale limitations restrict the extent of these gains. In practice, India has attracted inquiries and pilot investments, but the shift has been gradual rather than sweeping.
- **Shipping Resilience:** The Red Sea disruptions prompted Indian exporters to adopt a series of tactical responses. These included advance booking of freight, creation of larger inventory buffers, and use of alternate transshipment hubs such as Gulf Cooperation Council (GCC) ports. This aligns with UNCTAD's guidance in reports such as *Navigating Troubled Waters*, which emphasize resilience-building measures by exporters in the face of maritime uncertainty.

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**Table 1: U.S. tariffs on selected countries and their export-GDP ratios**

	U.S. tariffs (%), as of April 9, 2025	Exports as % of GDP
<b>India</b>	<b>27*</b>	<b>21.8</b>
China	145	19.7
Canada	25	33.4
Mexico	25	36.0
Vietnam	46*	87.2
South Korea	26*	44.0

\*Yet to take effect due to the 90-day pause

**Table 2: U.S.'s trade with major trading partners in 2022 (in \$ billion)**

Partner Name	Export	Import	Trade Balance
All countries	2,062	3,373	-1,311
China	154	576	-422
Mexico	324	459	-135
Canada	355	447	-92
Japan	80	154	-74
Germany	73	150	-78
Vietnam	11	136	-124
South Korea	71	121	-49
<b>India</b>	<b>47</b>	<b>91</b>	<b>-44</b>
United Kingdom	77	65	13
Thailand	16	63	-47

Sources: World Integrated Trade Solution (WITS), The World Bank, World Trade Organization STATS, WTO, World Development Indicators, The New York Times.

### Recent Reports and Case Studies

Global trade is rarely insulated from the tremors of war. Conflicts disrupt supply chains, inflate risk premiums, and reshape geopolitical alignments that define the flows of goods, services, and capital. India, being a pivotal emerging economy and a hub of both manufacturing and services, is often caught at the intersection of these upheavals. As Paul Krugman, Nobel Laureate in Economics, aptly remarked, "Globalization is not a tide that lifts all boats equally—it is a system vulnerable to waves of political and military shocks." The following case studies demonstrate how India's trade has been directly and indirectly impacted by recent wars and conflict-driven disruptions.

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### Case Study 1: Red Sea Crisis and India–EU Trade Lanes (2023–2024)

**Fact pattern.** The escalation of Houthi attacks on commercial shipping in the Red Sea forced multiple shipping companies to reroute their vessels around the Cape of Good Hope. Container traffic through the Suez Canal fell by nearly 50% year-on-year in January–February 2024. Concurrently, the Panama Canal faced severe drought-driven water-level constraints, further tightening global shipping capacity.

**Impact on India.** Indian exporters, especially in engineering goods, garments, seafood, and perishable commodities, reported 21–28-day delays in delivery. This lag not only strained working capital cycles but also exposed exporters to penalty clauses under delivery contracts. The Federation of Indian Export Organisations (FIEO) estimated that these bottlenecks inflicted a \$10–30 billion drag on India's FY2023–24 exports. Rising freight rates and higher insurance premiums exacerbated the issue. An exporter from Tirupur, Tamil Nadu, noted in *The Hindu Business Line* that "a container of garments to Europe now costs as much as sending it by air two years ago." This encapsulates the distortion in trade economics caused by geopolitical conflict.

**Broader reflection.** The Red Sea crisis illustrates how even distant regional wars can reverberate across India's trade arteries, undermining the long-standing cost advantages that Indian exporters rely upon.

### Case Study 2: Russia–Ukraine War and India's Oil-Trade Reconfiguration (since 2022)

**Fact pattern.** With Western nations imposing sweeping sanctions on Russia following the 2022 invasion of Ukraine, India recalibrated its crude oil sourcing strategy. By mid-2023, Russian crude accounted for nearly 35–40% of India's imports, compared to negligible levels pre-war. This shift enabled Indian refineries to benefit from discounted barrels, re-exporting refined petroleum products to markets such as Europe.

**Impact on India.** IN

**Broader reflection.** This case reflects India's agility in navigating conflict economics, embodying what Amartya Sen once wrote: "*In a globalised economy, resilience lies not in isolation, but in the capacity to adapt to shifting constraints.*"

### Case Study 3: U.S.–China Trade War and Selective Diversion to India

**Fact pattern.** The tariff battles between the United States and China (2018 onward) created openings for alternate sourcing destinations. Certain multinational firms diversified their supply chains, and India emerged as a potential beneficiary, particularly in electronics assembly, specialty chemicals, and textiles.

**Impact on India.** While India gained incremental orders in select Harmonized System (HS) lines, the scale of benefits was muted. Multinational companies often preferred Southeast Asian economies such as Vietnam due to established trade infrastructure and preferential trade agreements. Still, Indian exports of specific electronics sub-components and chemicals showed upticks.

**Broader reflection.** India's experience underscores the limits of "trade diversion" benefits. Without systemic supply chain readiness, tariff arbitrage alone cannot convert wars into sustained export advantages. As economist Jagdish Bhagwati has argued, "*Trade policy is only as effective as the domestic competitiveness it leans upon.*"

### Case Study 4: Gulf Wars and India's Energy Security (1990–2003)

**Fact pattern.** The First Gulf War (1990–91) and the U.S. invasion of Iraq (2003) triggered oil price shocks, supply volatility, and uncertainty in labor remittances from the Middle East—where over 7 million Indian expatriates reside.

**Impact on India.** Duri

**Broader reflection.** These wars serve as historical reminders that India's trade and economic reforms were catalyzed not only by internal inefficiencies but also by external shocks. In the words of Milton Friedman, "*Only a crisis—actual or perceived—produces real change.*"

Sources: Reserve Bank of India Annual Report (1991); Ministry of Petroleum & Natural Gas archives.

### Case Study 5: COVID-19 Pandemic as a Conflict Analogue (2020–2022)

**Fact pattern.** Though not a conventional war, the COVID-19 pandemic functioned as a global conflict against an invisible enemy, disrupting supply chains, mobility, and labor flows.

**propitiate** Trade contraction was acute: India's merchandise exports fell by 7.3% in 2020–21. Pharmaceutical exports surged, however, showcasing India as the "pharmacy of the world." The crisis accelerated digital trade adoption, but dependence on global inputs in electronics and APIs (Active Pharmaceutical Ingredients) exposed vulnerabilities.

**Broader reflection.** The pandemic highlighted that "wars" need not always be military; economic nationalism and supply shocks can equally test resilience. As the WTO (2021) noted, global trade in services was more resilient, cushioning India's IT exports despite physical restrictions.

Sources: WTO; UNCTAD.

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## MACRO FRAMING FROM MULTILATERAL REPORTS

The **World Trade Organization (WTO)**, **UNCTAD**, and the **International Monetary Fund (IMF)** collectively warn that conflict-driven fragmentation will anchor structurally weaker trade growth in the decade ahead. The IMF's *World Economic Outlook (2024)* underscores that global goods trade elasticity to GDP growth has weakened by 30% since 2008, a trend exacerbated by wars and rising protectionism.

India's services exports, especially IT and knowledge-intensive services, provide some cushion; however, even these are vulnerable to sanctions, visa restrictions, and data-protection nationalism.

## CONCLUSION

Wars exert persistent, multi-channel pressures on India's trade: energy price volatility, maritime disruption, sanctions compliance, and global value chain (GVC) realignments. Recent episodes show both exposure (shipping delays, import-cost spikes) and agency (leveraging discounted crude; capturing diverted demand). India's strategic imperative is not autarky but **resilient openness**—diversifying energy sources and sea routes, deepening logistics and standards capacity, and protecting services competitiveness. A calibrated diplomatic posture—committed to multilateral rules while safeguarding energy security—will determine whether shocks become setbacks or springboards.

As Winston Churchill once said, *"Difficulties mastered are opportunities won."* India's trade day

## FUTURE SCOPE

### 1. Route-Risk Quantification

A Future AI with firm-level export outcomes. By linking vessel rerouting patterns with delivery times, freight costs, and insurance premiums, scholars can model the true love faced by Indian exporters. For example, comparing shipment delays during the Red Sea crisis against historical disruptions like the Ever Given blockage (2021) would provide empirical evidence of the scale of vulnerabilities. Such quantification would not only inform government policies on route diversification but also help insurers and banks in pricing maritime risk more accurately.

### 2. Between

Small and medium exporters are disproportionately affected when transit times rise by 20–30 days and when freight costs multiply. Future work can simulate stress scenarios—longer payment cycles, higher demurrage, and non-fulfillment penalties. The objective would be to design innovated and credit instruments under EXIM Bank or ECGC that shield SMEs from bankruptcy during prolonged global conflicts. Drawing inspiration from pandemic-era emergency credit schemes, India could pioneer trade-finance backstops specific to conflict-driven disruptions.

### 3 Energy-Tra

India's crude import dependency (~85%) leaves it highly exposed to conflict volatility. A dual-layered approach is needed:

- **Physical diversification:** Expanding purchases from the Middle East, U.S., and Africa while investing in LNG infrastructure and renewable corridors.
- **Financial diversification:** Using futures, options, and swaps to hedge crude price shocks while also studying the interaction of such strategies with carbon pricing frameworks emerging in the EU and beyond.

### 4. Comply

As global conflicts often spawn complex secondary sanction, India faces rising compliance costs. Research should focus on developing sanctions mapping tools that track restrictions against Indian HS codes—particularly in dual-use technologies (like semiconductors, drones, and AI-enabled products). Integrating AI-driven compliance analytics with customs and shipping platforms could not only minimize penalties but also bolster India's image as a trusted global supplier in politically sensitive markets.

### 5. Served

While India's IT and professional services have cushioned goods-trade shocks, disruptions in physical trade eventually ripple into services like logistics, tourism, and financial outsourcing. Future research must model these spillovers more systematically. For instance, a fall in textile exports due to delayed shipping affects not just factories but also back-office freight services, port logistics, and international design consultancies. By mapping these interconnections, policymakers can anticipate knock-on effects and design holistic support packages.

### 6.Go

With recurring risks at Suez and Panama, alternatives like the India–Middle East–Europe Corridor (IMEC) gain traction. Future

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studies should quantify comparative costs, transit times, carbon footprints, and political risks or IMEC versus corridor architect, not just a corridor user. Additionally, green shipping initiatives—such as zero-emission—can be integrated into these models, aligning India's trade security with its climate commitments.

### 2. DIGITAL TRADE AND E-COMMERCE RESILIENCE

Beyond physical goods, digital trade and e-commerce are increasingly critical to India's export story, with IT, SaaS, fintech, and cross-border e-commerce platforms contributing billions annually. Conflicts impact undersea cables, cyber infrastructure, and payment gateways—making digital trade just as vulnerable as physical trade routes. Future research should examine:

- The resilience of submarine cable networks linking India to Europe and the U.S.
- The security of digital payments and fintech systems under sanctions and cyberattacks.
- The scalability of digital export platforms for MSMEs (e.g., ONDC) to buffer against physical trade blockages. Btrade security architecture, India can ensure its growing services and e-commerce sectors remain shielded from conflict-driven shocks.

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- 18) Logistics hedges: priority berthing and capacity at alternate transshipment hubs; incentivize longer-haul contracts; expand ECGC cover for war-risk.
- 19) Compliance & facilitation: a one-stop sanctions-advisory helpdesk; automate origin tracing; align with trusted-trader schemes.
- 20) GVC integration: target sectors where India can credibly substitute (electronics components, specialty chemicals, pharma intermediates); scale FTAs with rules-of-origin that match actual input sourcing.
- 21) Services moat: protect and expand IT-BPM, professional services, and logistics services that stabilize overall trade receipts when goods cycles are weak.



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