

Israel-Hamas War

How Will It Impact Indian Economy

Why In News

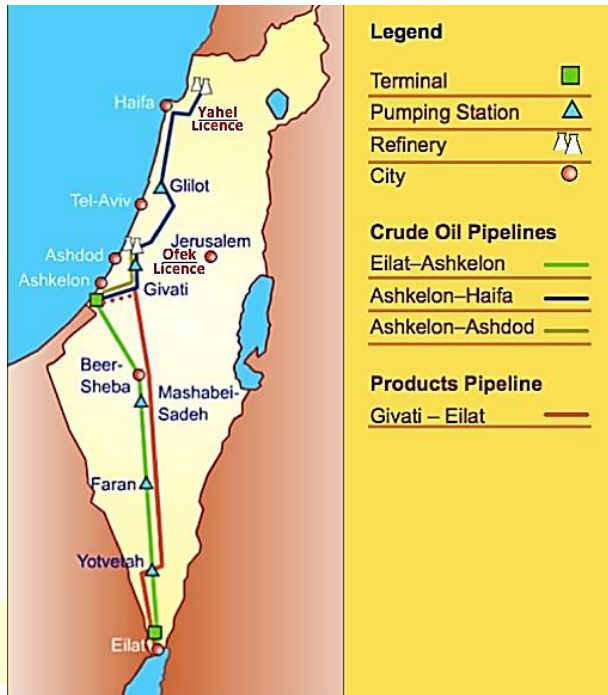
- The ongoing war between **Israel** and **Palestinian** terrorist group Hamas has thrown a shadow of uncertainty over the Middle East's geopolitical stability.
- This development is concerning not only for the global economy but also for India, given its dependency on crude oil and its strong trade ties with Israel.
- The current round of violence has had a devastating impact on the people of the region.
- At the same time, the war also has the potential to have a significant impact on the global economy, including the Indian economy.



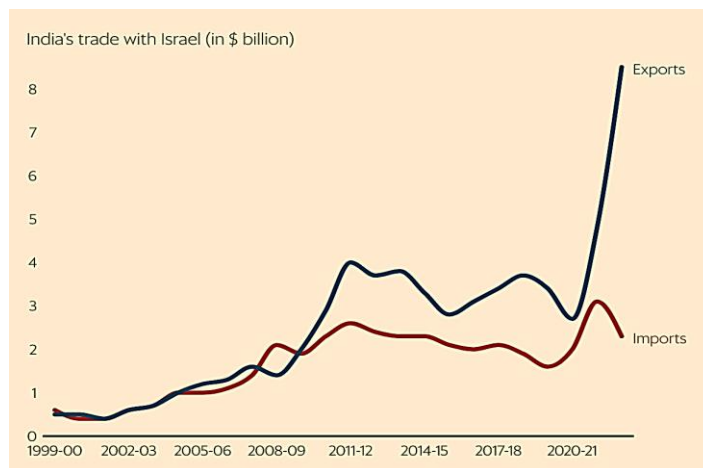
India - Israel Trade

- According to Ministry of Commerce and Industry data, India's exports to Israel grew by 76 per cent in the last fiscal. It grew from \$4.7 billion to \$8.4 billion.
- Imports from the country stood at \$2.3 billion in FY23. India's trade with Israel, at about \$10.7 billion in FY23.
- Seriously impacted if operations at the three largest ports of Israel-**Haifa**, **Ashdod**; and **Eilat** are disrupted.

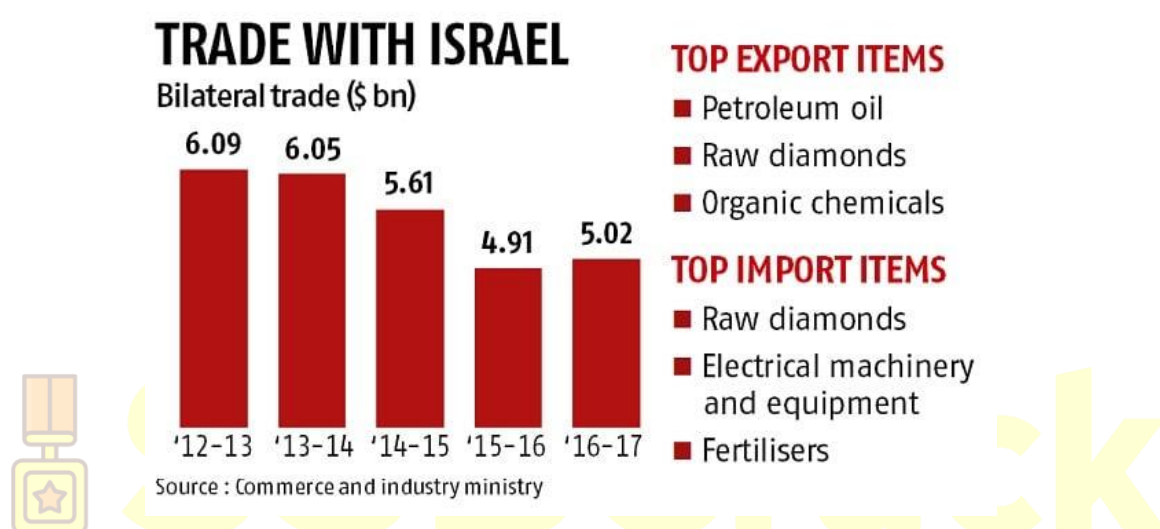
- These ports handle shipments in agricultural products, chemicals, electronics, machinery, and vehicles.
- India’s merchandise trade with Israel happens mostly through the **Eilat port**, located on the Red Sea. Fortunately, so far there is no report of port disruption.



- The real impact would depend on the duration and intensity of the war,” India’s economic and strategic ties with the Middle East have become even more important in the light of the **India-Middle East-Europe economic corridor**.
- During FY23, exports of petroleum products from India to Israel zoomed to \$5.5 billion from \$1.6 billion.



- In FY21, petroleum product exports from India to Israel were \$619 million. After the Netherlands, Israel is now the second-biggest market for export of automotive fuels. **Major exports from India to Israel** include precious stones and metals, chemical products and textiles.
- On the other hand, **major exports from Israel to India** include pearls and precious stones, chemical and mineral/fertilizer products, machinery and electrical equipment, petroleum oils, defense, machinery and transport equipment.



What Can Be Further Impacts

- For **merchandise exports** of India, the war may lead to higher insurance premiums and shipping costs. India's ECGC may charge higher risk premiums from Indian firms exporting to Israel.



You focus on exports. We cover the risks.

- It is no secret that one of the immediate impacts of this conflict is **the surge in oil prices**. Now, this hits India hard because it's the world's third-largest importer of crude oil. In the short term, some volatility in oil prices is expected and there could be some market jitters.

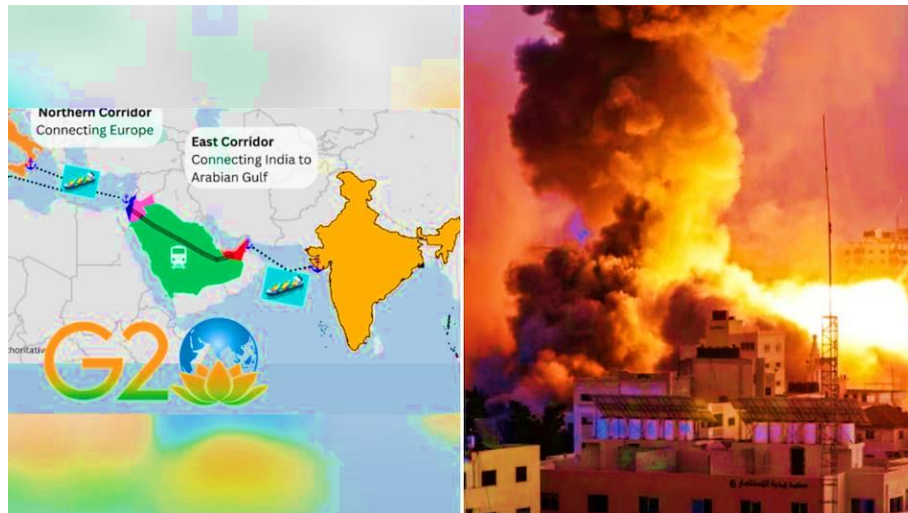


- If the conflict draws in other countries of the region (Iran already seems involved), the impact could be as big as the **oil crisis of the 1970s** or closure of key trade routes like Suez Canal.
- **Indian firms** like TCS, State Bank of India, Jain Irrigation, Sun Pharma, Infosys, Tech Mahindra, Adani, and Wipro are among the major Indian companies that operate in some capacity or have made acquisitions or investments in Israel.



- The Israel-Hamas conflict is expected to impact the **trade of gems and jewellery** between India and Israel, exporters.
- Total gems and jewellery trade between India and Israel stood at \$2.04 billion in 2022-23 as against \$2.8 billion in 2021-22.

- The entire plan for the **IMEC project** hasn't been revealed yet. However, if Middle East is drawn into a prolonged conflict, it could have a bearing on the construction works for the corridor.



Conclusion

- In simpler terms, the Israel-Hamas conflict isn't just a regional issue that impacts the Middle East. Further escalation could have a drastic impact on several countries around the globe, including India.

