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India is The Most Exposed Major Economy to Turmoil in West Asia

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With both sides "declaring victory and going home", the first phase of the US-Iran standoff triggered by Iranian military commander Qassem Soleimani's assassination last Friday appears to have been defused. It is perhaps a good time to assess the likely impact of the crisis on Indian economy.

The emergent picture, though fuzzy, nevertheless provides definitive indications. The global economic turmoil that peaked during the first two business days following the last Friday incident, inflicted the following collateral consequences on India's economy:

- The BSE Sensex fell by nearly 2%, resulting in erosion of investments worth ₹3 lakh crore, or nearly $42 billion.
- Nearly 5% rise in crude prices pushed our annual import bill by nearly $5.7 billion.
- The 1% decline in the value of Indian rupee against the US dollar further raised our annual oil import bill by over ₹112 billion, or $1.6 billion.
- A 2% surge in gold prices pushed cost of annual gold imports by over $660 million. India is the world's second largest importer having imported gold worth over $33 billion in FY19.

In addition to these, we also need to factor in other tangible but less real-time quantifiable setbacks such as loss of expatriate remittances from the Gulf, disruption in our exports to this region, withdrawal of investments from India and other emerging markets, and higher political risk premium on logistics and air travel.

The total impact of the Soleimani assassination on Indian economy at this stage can thus be conservatively put at a ball-park figure of $50 billion, or nearly 2% of India's GDP. This bill could have been manifold higher if the various worse case scenarios were played out. In such eventuality, not only each of the aforementioned factors could worsen, but additional economic pain would come from the loss of expatriate jobs, their repatriation and resettlement.

The situation would have been a *déjà vu* of 1990-91 Gulf War crisis, which sent Indian economy into a tailspin, forcing us, for the only time, to pledge our gold reserves to avoid a sovereign default. Coincidentally, then too, Indian economy was facing a twin balance sheet problems, but the Gulf had only a third of Indian expatriates it currently hosts.

The impact assessment is admittedly empirical and the figures are prone to change as the situation evolves. Some of the damages, by nature, are reversible. Stock markets, crude and gold indicators are already on the mend, for example. While some of our economic exposure is due to other factors including the overarching globalisation of the Indian economy, there is no getting away from a fundamental conclusion: India, arguably, has become the world's most exposed major economy to any turmoil in the Middle East and North Africa (MENA) region.

This exposure is hinged, in the main, on three vital economic linkages: hydrocarbons where we, the world's third largest importer, depend on the region for over half of our total needs worth $112 billion (in 2018-19); more than eight million expatriates in the Gulf region remit more than $40 billion annually; and, commodity trade, which in FY19 stood at $188 billion, or 23% of our global commerce, with our exports at over $63 billion, or nearly a fifth of our global figure.

The above narrative is not to imply that our extreme exposure to the Middle East is a one way street. On the contrary, many Indian products, services and investments have a sellers' market in various parts of MENA. For instance, Indian automobiles, food products, textiles, jewellery, handicrafts, etc. have niche markets in the region. Till recently, Maruti counted Algeria to be its top export market. Thanks to strong Indian footprint in Dubai's real estate, our investments in the UAE are actually higher than the UAE's in India. Also, Gulf preference for Indian professionals is well known.

Given the strong Indo-MENA economic symbiosis and potential thereof, it cannot be left to a *laissez-faire* approach. We need to manage its course in a proactive manner that is effective and forward-looking. To this end, we should put in place an early warning mechanism to monitor the regional developments with economic impact for us. A synergetic public-private partnership in various sectors to leverage the emerging economic opportunities is also called for. We should foster tie-ups with potential partners – both within and outside the region – to collaborate on strategic economic issues. In fact, much of the international political posturing in the region is focused on gaining the economic advantage.

If looked carefully in granular fashion, the ongoing developments in the MENA region have both opportunities and challenges for us. According to a BP projection, India would be the biggest contributor to the global growth in consumption for hydrocarbons during next two decades. This possibility should be leveraged more effectively to set up strategic joint venture projects in this sector. Over the long term horizon, the conflict raging in Syria, Iraq, Yemen, Libya, etc. are likely to wind down and these countries would be rebuilt – creating huge opportunities for Indian project exporters, provided G2G (government-to-government) funding is ensured. The pent-up demand for economic growth in most populated countries of the region, such as Iran, Egypt, Algeria and Sudan would be eventually released – creating vast opportunities for our stakeholders. The recently discovered enormous offshore gas-field in eastern Mediterranean is already looking for markets – and India's LNG demand is destined to grow the fastest.

Perhaps equally important is the amelioration of politico-economic disconnect and inequity that lies at the heart of ongoing Arab Spring phenomenon in Algeria, Sudan, Iraq and Lebanon. India's seven decades of experience in creating credible political and economic institutions in a multi-ethnic, inclusive developing society can be useful. All that we need is to abandon our traditional penchant for either prevarication or minimalism, identify and focus on emerging opportunities in this extended neighbourhood, and go for them. Even otherwise, the bills from MENA region would keep coming and getting bigger all the time.
(1004 words)

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