Syllabus subtopic: Effect of policies and politics of developed and developing countries on India’s interests, Indian diaspora.

Prelims and Mains focus: escalating US-Iran tensions and its impact on India’s economy

News: Investors in India were rattled on Friday after a US airstrike killed a top Iranian general, sending crude oil prices soaring, a development that could further strain the finances of the world’s third largest crude importer and deepen an economic slowdown.

Context:
Crude oil futures in London and New York surged by more than 4% to levels not seen since the attacks on Saudi Arabia’s oil production facility in September. The strike near Baghdad airport killed Qasem Soleimani, the Iranian general who led the Revolutionary Guards’ Quds force, according to a US defence department statement.

Escalating tensions between US and Iran
While no oil installations or production were hit, the killing of one of Iran’s most powerful generals is a provocation that ratchets up tension between Washington and Tehran, heightening fears of an armed confrontation that could pull in other countries. As focus shifts to how Iran will react, the country’s supreme leader, Ayatollah Ali Khamenei, vowed “severe retaliation” awaits the killers of Soleimani.

Impact on India’s economy
- The surge in prices is worrying for New Delhi as India imports more than
80% of its fuel requirements. Analysts forecast that Brent crude oil prices could breach $70-72 a barrel in the coming weeks if Teheran retaliates.

- Even though New Delhi has slashed its crude imports from Iran to negligible levels since a **US sanctions waiver** on its purchases ended in May last year, a bulk of India’s crude oil supplies are routed from West Asian nations through the **Strait of Hormuz**—a narrow passageway that carries one-fifth of the world’s oil—which could be vulnerable in the case of a wider US-Iran conflict.

**Significance of Strait of Hormuz**

Bounded to the north by Iran and to the south by Oman and the United Arab Emirates (UAE), the Strait of Hormuz connects the Gulf with the Arabian Sea.

- Iranian officials had in April threatened to **block the Strait of Hormuz** in **retaliation to US sanctions**. India had deployed naval assets in the region to protect its supplies in the wake of mine attacks on oil tankers in the region.

- With India’s gross domestic product growth slowing to a six-and-a-half-year low of 4.5% in the September quarter, there are serious concerns that **high fuel prices could hurt economic recovery**.

- **Another worry**: according to government officials, is that tensions between Iran and the US could **affect India’s trade with the region**, which now **stands at $78 billion** (from Gulf Cooperation Council member countries—Saudi Arabia, Kuwait, the UAE, Qatar, Bahrain and Oman), according to April-November figures from India’s commerce ministry.

- West Asia is the source of some $200 billion in **remittances** and investments for India.
The jitters over the potential economic impact saw the rupee on Friday closing at a six-week low against the dollar, while the benchmark BSE Sensex fell 0.39% to 41,464.61 points.