

Impact of the West Asia Crisis

On Indian Sectors

May 2026



Agriculture



Investments



Automotive



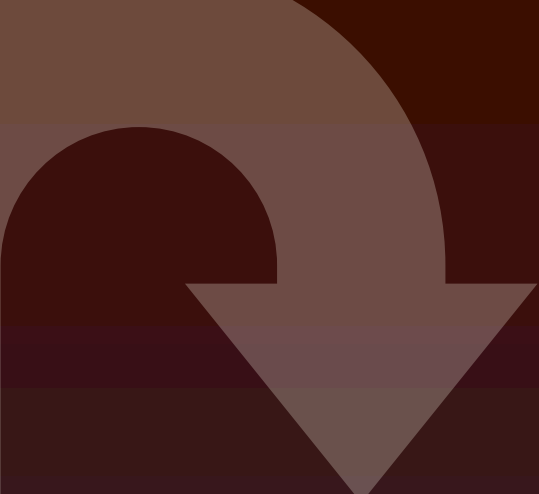
Textile



Pharmaceutical







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Executive Summary

The geopolitical situation in West Asia is not merely another episode of unrest. It is ongoing turmoil testing the resilience of countries across the globe while silently altering the terms on which global capital, trade, and supply chains will function in the coming days. This report seeks to assess the impact of this turmoil across five leading sectors.

This is not just an issue arising out of increased oil prices. Beneath the headlines of rising crude oil prices, which are currently at USD 110–120 per barrel, a weakening rupee, and FPI outflows, a more consequential and tectonic shift is underway.



Agriculture sector is at the frontline of receiving the shock. The impact here is on both exports and imports. India's Basmati rice exports to West Asia, which account for nearly ₹50,000 crore annually, are worst hit. Mango exporters have entered the peak harvest season without advance payments from Gulf buyers that fund their entire input cycle, and the fruit's perishability adds to the tension. The only option left to producers and exporters is to sell in internal markets at a much lower cost. On the other hand, Urea prices have risen by over 50% as disruptions in Hormuz affect the supply of fertilizers from Oman, Saudi Arabia, and Qatar. The downstream damage to farmers for whom agriculture is the mainstay will take a long time to resolve.



Automotive manufacturing is contending with a similar situation on three fronts: logistics delays of 10–30 additional days on component supply chains, gas and polymer shortages affecting factory operations, and an accelerating consumer and policy shift toward electric vehicles and alternative fuels. The government has responded with duty relief on petrochemicals and by fast-tracking CNG infrastructure, but these are short-term measures incapable of providing long-term mitigation.



The textile sector in India employs over 45 million people and aims to achieve USD 100 billion in exports by 2030. The crisis has caused a 26% jump in Polyester fiber in a single month. Payment cycles extended from 30–40 days to 90–120 days. The sector that survived demonetization, GST, and the COVID-19 pandemic is striving to survive the current geopolitical situation.

Executive Summary



Pharmaceuticals carry the highest stakes, and here the effect is not just monetary loss, but loss of human lives. India supplies 20% of Africa's medicines, 40% of US generic prescriptions, and the majority of UNICEF and WHO vaccine procurement for the developing world. A sustained disruption does not create a market gap. It creates a public health emergency.



Trade and Investments is the overarching sector, as situations affecting other sectors do automatically have a ripple effect on overall trade and investment. Nearly 90% of India's crude oil is imported, and hence the impact is immediate and non-negotiable. Early 2026 scenarios already pushed crude prices sharply upward, with cascading effects on inflation and growth. A slowdown in Gulf economic activity affects the global market including India. Already petrol and diesel price have increased which in turn makes everything more expensive. Along with this, the fall in rupee is creating economic impacts across domestic and international trade for India. The important question right now is whether inflation is managed without strangling growth, fiscal discipline is maintained under political pressure to expand subsidies, and regulatory predictability remains intact precisely when global investors are at their most risk-sensitive.

If there is a single thread running through all five sectors, it is this: India's vulnerabilities in energy dependency, import-linked raw materials, export concentration in a troubled region, and last-mile logistics fragility are not new. The crisis has made them starkly visible. Resilience cannot be automatic or accidental. It has to be designed within the very matrix of the system.

01

Introduction





This is a sectoral Point-of-View (POV) document on the 5 key sectors of the Indian economy which are being impacted due to the West Asia Crisis. These are: **Agriculture; Trade and Investments; Automotive; Textiles and Pharmaceutical.**



Why the West Asia Crisis Is Quietly in Rewiring India's Sectoral Story



There are moments in the global economy when short-term noise makes it difficult to see what is truly changing underneath. The ongoing crisis in West Asia is one such moment. On the surface, it looks like a familiar script: rising oil prices, volatile currencies, anxious markets. But beneath that immediate turbulence lies something more consequential. This is not just an energy shock. It is a repricing of risk, a reallocation of capital, and for India, a defining test of investment credibility.

In boardrooms from Mumbai to New York, the conversation has already shifted. The question is no longer whether the crisis will hurt India in the short term. That is a given, and it is already happening. The more important question is whether India can convert this disruption into a durable shift in global capital flows.

The answer, as always, lies somewhere between caution and conviction.

A Defining Moment, not a Disruption

In an uncertain world, credibility becomes currency.

It is tempting to view the West Asia crisis as a temporary disruption, one that will eventually fade like others before it. That would be a misreading.

This is a structural moment.

It is forcing a reassessment of supply chains, capital allocation, and geopolitical risk. It is accelerating shifts that were already underway, from friend-shoring to energy diversification.

For India, the question is whether it can emerge stronger, and the early signs are encouraging. If there is a single lesson from this episode, it is this: resilience is not accidental, it is designed.

India's response must therefore be deliberate. Energy diversification needs to accelerate, not as a climate commitment alone, but as an economic imperative. Supply chains must be strengthened with a focus on redundancy, not just efficiency. Financial markets must deepen to absorb volatility without overreacting.

And perhaps most importantly, India must continue to position itself as a predictable, transparent, and stable destination for capital.



Because in times like these, that is the ultimate competitive advantage.

The West Asia crisis will eventually pass. Markets will stabilise, oil prices will find a new equilibrium; but the capital that is moving today, the perceptions that are being formed, and the strategies that are being rewritten, will shape the next decade.

India stands at an inflection point. Not insulated from the storm, but increasingly seen as a harbour. The opportunity is real and the question is whether it will be seized.

02

Agriculture Sector



Impact on Indian Basmati

Let's begin with what has already left. According to APEDA, India exported over six million tonnes of Basmati rice for nearly ₹50,000 crore in 2024-25. Between April and December 2025, exports to West Asian nations reached ₹27,197 crore. Iran, Iraq, Saudi Arabia, the UAE, and Yemen together account for about half of all Indian Basmati exports. All five countries have been drawn into the conflict in one form or another.

When tensions first intensified, the Indian Rice Exporters Federation described a situation similar to a simultaneous freeze: cargo stuck at Indian load ports, cargo detained in the middle of the ocean, and goods stuck at destination ports unable to clear customs or locate customers ready to pay. Insurance firms have ceased insuring shipments to Iran. Wholesale Basmati prices fell by 7-8 percent in just a few days. Punjab and Haryana, which produce around 75% of India's premium Basmati, faced the brunt of the immediate impact.

One part often gets overlooked in the macro analysis: what happens to a farmer in Karnal or Amritsar whose rice has already been sold to an exporter, but the exporter is now unable to recover payment or clear the shipment? The money doesn't disappear completely. It gets caught up in disputes, renegotiated contracts, and next-season discounts that stealthily shift the loss from the exporter to the grower.



The quick price decline is visible. The downstream settlement impact is less visible and typically worse.

Impact on Summer Fruits - Mangoes, Bananas and Pomegranate



If Basmati is the headline disruption, mangoes and bananas are the near-term crisis – and unlike rice, they cannot wait. But the more important story may be the one upstream of the harvest itself.

When purchasing Indian mangoes, Gulf traders do more than just make orders at the port. They reserve orchards, which are standing crop contracts that are signed months in advance of harvest and give farmers advance payments to fund inputs for the upcoming season. When a Gulf merchant confirms an orchard in March, it serves as both a working cash injection and a purchase agreement. But these confirmations have not materialised this season. India exported around 30,000 MT of fresh mangoes in FY2025, the majority of which moved through Gulf-linked advance booking arrangements. Now that pipeline has seized it indicates that many mango producers in Karnataka and Maharashtra have entered their busiest season without the advance, they need to purchase fertiliser, engage labour, and set up packaging. The export disruption is visible.

The upstream financial gap it causes is not, and it will be reflected in input application decisions

and next-season orchard investment long after this season's mangoes have decayed or been sold at a loss.

The Alphonso's difficulty is not just where it goes, but also what happens when it can't. Completely aligned with the Gulf palate: soft, intense aroma, with an almost two-week window from harvest to consumption, there is no natural alternative market on a large scale.

The Alphonso fails to meet European supermarket retail standards for firmness and shelf life. Speciality and premium European channels can handle a little amount, but not the tonnage that the Gulf regularly receives. So, the Mango that misses the Gulf either sells at a fraction of the export price in local mandi's or does not sell at all. An exporter who has invested in export-grade supplies, packaging, and pack-house processing expressly for this variety does not see this as a market redirection. It is an almost complete write-off of the season's investment.

Bananas are at the opposite side of the spectrum: no seasonality, no variety trap, simply a simple week-by-week income loss with no recovery mechanism. Every interrupted cargo to the UAE or Oman is just gone.

Impact on Urea

If the export disruptions are painful and time-bound, the fertilizer story is structural.

According to Kpler, the Strait of Hormuz facilitates the transit of approximately 43% of the globally traded seaborne urea and 44% of the global seaborne sulphur. Oman alone accounts for around 46% of India's urea imports; Saudi Arabia and Qatar provide the majority of DAP (Diammonium Phosphate). India is among world's largest urea importers, importing 7-10 million tonnes per year depending on demand and domestic production. Since the start of the conflict, urea prices have risen by well over 50%. In response to disruptions in LNG supply from Qatar, India has reduced production at some domestic urea factories. Nitrogen applications must begin in June for the kharif season; it cannot wait.

The government's reaction, via IFFCO and PM-PRANAM, focuses on nano urea and this may be directionally right. IFFCO sold approximately 366 lakh bottles in FY 2024-25, a 47% increase year on year, equivalent to 12 lakh metric tonnes of traditional urea, with field experiments in agro-climatic zones yielding 5-8% increases. The direction is correct, but the scale is not; not yet, and not in time for this kharif. India consumed around 388 lakh tonnes of urea in FY2024-25, of which approximately 307 lakh tonnes were produced domestically — leaving the country still dependent on imports for the remainder.

In Bihar, a farmer transplanting paddy in July is unable to switch input systems in four weeks. They will apply less and silently endure the output repercussions, which is how a shock to the fertiliser supply finally turns into a problem for food production two seasons later.



03

Investments Sector



Impact on Energy, Inflation, and the Cost of Growth



India's vulnerability to West Asia begins with a structural reality. Nearly 90% of its crude oil is imported, with a significant share flowing from the Gulf. When geopolitical tensions threaten key chokepoints such as the Strait of Hormuz, the impact is immediate and non-negotiable.

The consequence is subtle but significant. Capital becomes more expensive, investment decisions are deferred, and expansion plans are recalibrated. In other words, the cost of uncertainty is paid not just at the pump, but in boardroom decisions that never get made.

The scale of the shock is already visible in global financial conditions. Recent 2026 assessments indicate that global growth expectations have softened to nearly 3.1%, even as crude prices have moved into the USD 110–120 per barrel range. At the same time, sovereign spreads across emerging markets have widened by 0.5 – 1 percentage point, directly increasing the cost of capital. For investors, this is not just volatility, it is a measurable repricing, where even a 1% increase in financing costs can render large infrastructure and industrial projects financially unviable.

Early 2026 scenarios already pushed crude prices sharply upward, with cascading effects on inflation and growth. Even a 10% increase in oil prices can shave off GDP growth and push inflation upwards, and it directly influences monetary policy. As inflation edges toward uncomfortable thresholds, the RBI is forced into a tighter stance, keeping interest rates elevated.

Capital Is Leaving, But Not Randomly

The scale of foreign portfolio outflows in early 2026 has been striking. Indian equities saw withdrawals in the range of INR 1.6-1.8 trillion within months, with a sharp concentration in March alone. The rupee responded predictably, weakening further and amplifying investor caution. This highlights that Capital is not just leaving India, it is rotating.

Investors are moving away from sectors exposed to global volatility such as export-oriented manufacturing, fuel-intensive industries, and discretionary consumption. In their place, capital is finding comfort in domestic, regulated, and infrastructure-linked sectors where earnings visibility is stronger.

This rotation matters because it suggests that India is not being abandoned, and this is not a crisis of confidence but a recalibration of risk.

The Quiet Risk of Remittances

Much of the discourse has focused on oil and markets. Less attention has been paid to a more human variable: remittances.

India receives a substantial share of its remittance inflows from the Gulf, accounting for roughly 38 percent of the total. These flows underpin household consumption, real estate demand, and small business activities across large parts of the country.

A slowdown in Gulf economies, triggered by conflict or fiscal diversion, can ripple back into India's domestic demand cycle. This is how geopolitical risk travels. Not always through markets, but through households.



The Supply Chain Friction

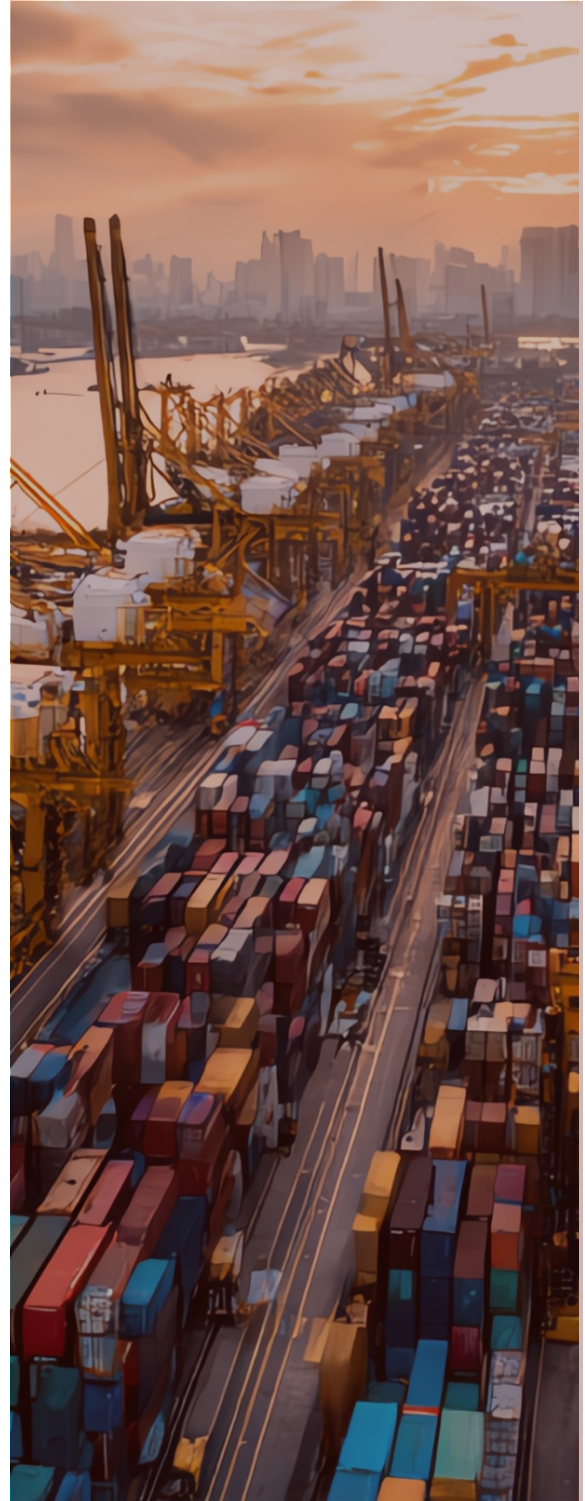
Beyond capital and consumption, the crisis is also reshaping supply chains in ways that are likely to persist.

Shipping disruptions around critical maritime routes have already increased transit times and insurance costs significantly. Shipping routes through the Red Sea and nearby corridors are facing disruptions, forcing vessels to reroute around Africa. This adds 10- 14 days to transit times and significantly increases logistics costs. War-risk insurance premiums have surged by as much as 300-400% on key routes. For Indian manufacturers, this translates into higher input costs, delayed exports, and tighter margins.

The impact is visible in investment pipelines. Globally, greenfield project announcements have declined by nearly 15-20% in recent quarters, while infrastructure financing activity remains roughly 20-25% below its pre-crisis trend. This translates into tens of billions of dollars in deferred or delayed capital deployment.

For India-linked corridors, the effects are more direct. Strategic initiatives such as the India-Middle East-Europe Economic Corridor have seen execution timelines become uncertain, while projects like Chabahar Port face renewed financing and sanctions-related risk. At the sector level, input cost volatility is also feeding into project delays, with crude-linked materials such as bitumen witnessing price increases of over 60 percent within weeks.

Taken together, these are not isolated disruptions, but indicators of a broader investment slowdown, where capital is being deferred, repriced, or redirected.



Conclusion

It would be incomplete to view the West Asia crisis only through the lens of risk. Because for India, there is a parallel narrative unfolding. Global capital is searching for stability.

Investors are increasingly pricing geopolitical and supply chain risks into financial decisions, as reflected in higher risk premiums, longer deal cycles, and stricter return thresholds. With borrowing costs rising and volatility persisting, even marginal increases in risk-adjusted returns are influencing capital allocation decisions. In effect, factors such as geopolitical stability and energy security, once secondary considerations, are now central to investment strategy.

West Asia has long been a major source and destination of investment, with sovereign wealth funds controlling trillions of dollars in assets and actively deploying capital across sectors. A prolonged conflict does not eliminate this capital. It redirects it.

And this is where India enters the frame. Investors are increasingly viewing India as a relatively stable, rules-based environment in an otherwise fragmented global landscape.

Growth forecasts remain robust, supported by domestic demand and public investment momentum.

Further, multinational corporations are beginning to rethink geographic concentration risks. The idea of a "Middle East plus one" strategy is gaining traction, with India positioned as a credible alternative for sectors such as technology and manufacturing.

Foreign exchange reserves, currently strong, provide an important buffer against external shock. Public capital expenditure continues to support infrastructure creation. The push toward renewable energy is gradually reducing dependence on imported fuel.

Inflation must be managed without derailing growth. Fiscal discipline must be maintained even as pressures to increase subsidies mount. Regulatory predictability must remain intact, particularly as global investors become more risk-sensitive.



04

Automotive Sector



Background

Even assuming a near-term end to active conflict and a resumption of exports from the Persian Gulf, the medium-term, that is 3–5 years' outlook for West Asia remains structurally fragile. In the case of a formal truce involving Gulf Cooperation Council states, persistent geopolitical mistrust and the presence of non-state actors creates an ongoing threat environment.

Energy infrastructure and transport - by their nature are centralized, flammable, and geographically exposed - remains vulnerable to low-cost, asymmetric disruptions. This implies that sporadic supply shocks, higher insurance and security costs, and a structural risk premium in global oil and gas markets are likely to persist despite nominal stability.



There is damage already done some of which is in news. This includes: Ruwais refinery (UAE) Ras Tanura refinery (Saudi Arabia), Ral Laffan LNG Terminal (Qatar), Ju'aymah gas processing plant (Saudi Arabia), Kharg and other Oil storage and export facilities (Iran), East-West Pipeline (Saudi Arabia) etc.

Further, physical damage to critical assets - particularly LNG and helium infrastructure in Qatar, along with pipelines, storage terminals, and export logistics across the region will take time to repair or replace, and capacities may shift elsewhere - as buyers diversify risk. While more than half of the damage done might recover within a year - repairing pipelines, valves, compressors, restarting operations, etc. may take up to 5 years to fully go back to earlier production levels. This is especially true for gas infrastructure where the equipment is both costly and production constrained.

Government of India has responded by shielding the public from fuel price shock as well as gas availability shock. This is at the expense of lower taxes collected and supply disruptions to the industry. Both these measures are short term, and cannot continue indefinitely. There is a portfolio of initiatives already being taken or planned to diversify our sources, fuels and other measures to derisk.

Effect on the Automobile Industry

Fuel Choice:



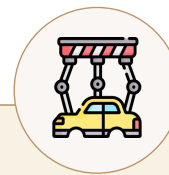
India refines most of its Petrol and Diesel from crude oil, and there is a huge import dependency for the same. Crude from West Asia that was 'convenient', has become both risky and costly. Due to interventions taken by the Government, petrol and diesel prices have not increased in line with the crude prices as much, but are likely to go way up. There is economic and political motivation to diversify our fuel mix and increase usage of alternatives like Electric Vehicles, higher ethanol blends, Hydrogen, etc. CNG is relatively less affected due to domestic production, but its price too is bound to go up as LNG from Qatar is severely effected and other alternatives are far and costlier. Also, the alternative fuel shift is likely to accelerate due to the ongoing crisis.

Increasing Logistics:



The diversions in shipping routes has severely impacted transit times, often upwards of 10-15 days or even 30 days in some cases, as compared to earlier times. This has led to delay in supply of components. In addition, due to limited fleet availability, there is increase in the cost of freight, berthing delays at ports, etc. The add-on cost being incurred on account of Emergency War Surcharge per container for any cargo around the Persian gulf stretch. This is coupled with high fuel surcharges – both of these are new fees levied on shippers, thereby, impacting the flow of components for the automotive industry.

Vehicle Production:



The Auto industry has witnessed a boom since reduction of GST, and there is a considerable backlog of vehicles to be produced. Gas is used in a variety of processes including heat treatment, foundry, paint shops etc. which is constrained. Many oil derived Polymers are used in automobile production and they are likely to get constrained and get costly. Helium is a critical gas for semiconductor production and if the disruption continues, it will effect availability of chips for the Auto industry. Collectively, all these factors put pressure on the production capacity and cost.

Initiatives undertaken to mitigate impact

The pressure on the Indian automotive players is immense. Government of India is already undertaking concrete steps to help mitigate the current situation. This includes the recent initiatives such as:



Lowering of customs duty on select petrochemical products and critical minerals for short term raw material cost relief



Reducing excise duty on petrol and diesel against the rising crude prices globally



Fast-tracking of multiple applications of CNG and CBG dispensing stations for expanding alternative fuels (by DPIIT)



Recommending use of recycled aluminium and alternate packaging materials to help rationalise the supply pressure (by MHI)

Conclusion



Setting up of a secure, B2B platform for OEMs to trade inventories of components including semi-conductors, critical minerals, etc. to especially help during production delay periods owing to shipping delays.



Incentivizing cars made from recycled metals such as aluminium and steel (refers to part car and not whole) to safeguard cost incurred on new metal production.



Increasing funding for R&D in vehicular ecosystem – including building fuel agnostic platform, design grants, standardization of incentives, etc.



Ensuring collective bargaining through the sector specific industry associations such as SIMA, ACMA, and FADA to help reduce soaring freight costs, ensure better pricing of resources, etc.



Procuring of raw materials and components easily accessible in India and around the country, by forging new partnerships.

05

Textile Sector



Background

Recent events in West Asia have disrupted global trade, energy markets, and supply chains. India's textile sector faces challenges such as trade interruptions, higher input costs, and uncertain demand.

The textile sector contributes about 2.3% to India's GDP, accounts for 12% of total exports, and employs over 45 million people. Its scale makes it highly sensitive to external shocks. With annual exports between USD 35 and 38 billion, even minor disruptions might significantly impact industry performance.

Indian textiles represent more than a business; they form a livelihood ecosystem.

The government aims to increase textile exports to \$100 billion a year by 2030 and \$600 billion by 2047. Although exports have slowed somewhat in FY26, it would be too simple to blame this only on the West Asia crisis. Many global and domestic factors are affecting trade flows.



\$37.75
billion

India's total textile & apparel exports, FY2024-25
5.2% growth YoY

45+
million

People directly employed by the sector
Second-largest employer after agriculture

6th
largest

India's global ranking in textile exports
World Trade Organization, 2024

West Asia: A Strategic Export Market

While West Asia is often perceived as a minor market for India's textile exports, data indicate that it plays a significant role in India's textile exports.

West Asia is the third-largest export market for India's knitwear industry, accounting for 11% of total knitwear exports in FY25, or ₹ 6,980 crore. The UAE alone absorbed ₹5,403 crore, or over 8% of total knitwear exports. In the overall textile and apparel trade, the UAE ranked as India's fourth-largest export destination in 2024, behind only the US, EU, and Bangladesh.

Industry reports indicate increasing uncertainty in trade with the region. Exporters face delayed shipments, cargo being withheld, and fewer new orders. Buyers are more cautious, reflecting broader economic and political instability.

These challenges have reduced visibility into export pipelines and increased working capital pressures, especially for MSMEs that often lack sufficient reserves. Disruption of re-export channels through the UAE further heightens the impact by affecting both direct trade with the Gulf and secondary markets reliant on this corridor.



Four Pressure Points Crushing the Sector



Logistics Meltdown: The Cost of Going the Long Way

The primary disruption is maritime. For Indian textile exporters operating on thin margins, this results in a structural cost increase. The Confederation of Indian Textile Industry (CITI) noted that any rise in logistics and insurance costs “puts them in a very tight spot, affecting their ability to meet contractual obligations.” The sector faces demurrage charges due to shipment delays and inventory buildup. Payment cycles have extended from 30-40 days to 90-120 days in affected corridors. Freight disruptions related to the Iran conflict have increased shipping costs by 30%, and insurance premiums for the region are now prohibitively high. Industry estimates indicate that up to 30% of export flows in some segments have been affected, resulting in a combined daily revenue loss of ₹60 crore in Tamil Nadu (Tiruppur, Coimbatore, Erode, and Karur).



The Polyester Problem: When Oil Prices Hit Your Shirt

Polyester is the backbone of global textile production. It accounts for 59% of global fiber production and is used across almost every apparel category. It is also directly derived from petroleum. The closure of the Strait of Hormuz has caused ripples straight into India’s spinning and weaving mills. According to Wood Mackenzie, the price of polyester staple fiber in India rose from ₹100 per kilogram at the end of February 2026 to ₹126.5 per kilogram a month later, an increase of over 26%. Even after the government reduced import tariffs on petrochemical raw materials, prices remained at INR 120/ kg as of mid-April 2026.



Policy Headwinds: A Sector Already Running Low

The West Asia crisis coincides with domestic policy pressures that had already weakened exporter finances. The Remission of Duties and Taxes on Exported Products (RoDTEP) scheme reduced rebate rates for cotton yarn by 50%, from approximately 3.4% to 1.7% of FOB value. The Southern states of India, which account for nearly 60% of India’s spinning capacity, reported an immediate slowdown. Yarn prices in Coimbatore, Tiruppur, and Mumbai fell by INR 2–5 per kilogram within a week of the revision.



Energy Shock and Indirect Workforce Impact

Another emerging concern is the indirect impact of energy disruptions. West Asia remains a key supplier of crude oil to India, and any supply-side constraints tend to affect domestic energy availability and pricing. Higher fuel and LPG costs have increased the cost of living for migrant workers in textile clusters. While large-scale migration trends are still emerging, industry stakeholders have expressed concerns about workforce stability if cost pressures persist.

The Opportunity Within the Crisis

While the situation presents significant challenges, there are also genuine, though limited, opportunities arising from the current disruption.

Cotton yarn exporters are seeing a surge in demand from China as polyester supply chains tighten and cotton becomes more attractive globally. Indian spinning mills powered by grid or solar electricity are insulated from fuel disruptions, and are capitalizing on this shift.

India's progress on free trade agreements supports long-term growth. The India-UK FTA was signed in 2025, and early-stage agreements with the EU and US reduce import tariffs on Indian textiles in major markets. The UAE recorded 9.5% export growth for Indian textiles in 2025; Egypt, 29%; Japan, 14.6%. These markets are less exposed to upheavals in West Asia and offer real diversification opportunities.



What the Industry Needs Now

The crisis highlights structural vulnerabilities in India's textile sector, such as export dependence, thin margins, and limited supply chain buffers. In the near term, priorities should include easing liquidity by accelerating GST refunds, assuring timely duty drawback disbursements, improving MSME access to working capital, and reducing logistics and shipping costs. Over the medium term, the focus should shift to building sector resilience. This includes market diversification, strengthening raw material security, expanding into alternative fibers, and increasing domestic demand to cushion against external shocks.

▶ Conclusion

India's textile sector has demonstrated resilience, having weathered demonetization, GST disruption, a global pandemic, and a tariff war in recent years. However, resilience does not guarantee immunity. The West Asia crisis, compounding previous challenges, risks reversing recent recovery efforts.

The industry employs 45 million people, supports hundreds of MSME clusters, and aims to reach USD 100 billion in exports. Ongoing conflict in West Asia results in idle cargo at ports, rising unemployment, and buyers shifting orders to competitors in Bangladesh, Vietnam, and Turkey.

India's ability to manage the current disruption and address underlying structural gaps will determine whether the sector emerges stronger or remains vulnerable to future shocks.



06

Pharmaceutical Sector



Background

The escalating West Asia crisis has rendered two of the world's most critical maritime corridors, the Red Sea and the Strait of Hormuz, increasingly untenable for commercial shipping. Vessels are being rerouted around the Cape of Good Hope, adding 15 to 20 days to standard transit times while considerably raising freight, insurance, and logistics costs across trade routes connecting India with Europe, Africa, North America, and the Gulf.

For pharmaceuticals, the consequences are categorically more serious than for other sectors. Active Pharmaceutical Ingredients operate within narrow delivery windows. Vaccines and biologics demand unbroken cold chains across supply routes that are now longer and less predictable. Delays that might be absorbed elsewhere translate, in this industry, directly into stock shortages and gaps in patient access. With India, as the world's largest supplier of generic medicines, we are sitting squarely at the centre of this exposure.



What Indian Pharma means for Global Health

India is known as the 'Pharmacy of the World' due to the vital role it plays in the supply of life-saving and cost-effective, high-quality medicines and vaccines. Indian pharmaceuticals are exported to more than 200 countries and are the 3rd-largest globally by volume and 11th-largest by value, with more than 3,000 companies and 10,500 manufacturing units. India is the largest global supplier of generic medicines, accounting for roughly 20% of global supply and manufacturing about 60,000 generic brands across 60 therapeutic categories. India has the highest number of United States Food and Drug Administration (USFDA)-compliant companies with plants outside the USA, demonstrating the quality of medicines produced in the country.

While India is a major global supplier, the commercial impact of the pharmaceutical industry is relatively small compared to its larger public health role. According to official data, India supplies more than half of global vaccine demand by volume. It meets 40-70% of the worldwide need for major vaccines such as Diphtheria, Pertussis, and Tetanus (DPT), Bacillus Calmette-Guérin (BCG), and Measles. India is a major vaccine supplier for both the United Nations International Children's Emergency Fund (UNICEF) and the World Health Organization (WHO). The Indian pharmaceutical industry has already demonstrated the potential it possesses during the COVID-19 pandemic, and it continues to be central to access to TB, HIV, and other important treatments in low- and middle-income countries.

Effect of Crisis on the Industry

The scale of disruption is already visible in the trade data. In March 2026, India's pharmaceutical exports fell from USD 3.68 billion to USD 2.83 billion, a 23% decline and the first monthly drop in three years. Industry and government sources attribute 80 to 90% of this fall directly to logistics disruptions resulting from the West Asia conflict. Freight surcharges and capacity constraints at key trans-shipment hubs, particularly Dubai and Abu Dhabi, have created vessel shortages, delays, and detention charges that have cascaded beyond the Gulf, disrupting onward shipments to the US, Europe, and Africa. Pharmexcil estimates the monthly losses to the Indian pharmaceutical industry at USD 26-32 Million. This is not a demand-side problem, it is a supply chain shock to one of the most consequential trade routes in global healthcare.

The disruption affects both exports and imports. India's reliance on imported APIs and drug intermediates means any rise in freight rates would simultaneously inflate the cost base. In a price-regulated environment, this pressure is often felt most acutely by small and medium manufacturers. While companies have taken interim measures such as building working capital buffers to secure raw material stockpiles in advance, these are workarounds, not solutions. The crisis has exposed sourcing and logistics vulnerabilities that demand a more structural response.



Global Implications

Africa bears 25% of the global disease burden, although it produces only 3% of global medicines, importing over 70% of what it consumes, with India as the dominant supplier, contributing approximately 20% of the continent's medicine imports. Across the Atlantic, 40% of generic prescriptions in the United States are filled by Indian-made drugs. Any sustained disruption to Indian pharmaceutical supply does not create a market gap, it creates a health emergency.

India's generics have historically played a key role in global health equity, especially in scaling up HIV/AIDS treatment across low- and middle-income countries, where Indian manufacturers drove down the cost of antiretroviral therapy from over USD 10,000 per patient per year to under USD 100, making treatment accessible to millions who would otherwise have had none. That legacy is now at risk. A prolonged crisis would hit Africa's health systems hardest, given their near-total reliance on imports, but the consequences would extend further. Multilateral agencies, including UNICEF, the WHO, and the Global Fund, rely heavily on Indian pharmaceutical supply to fulfill their procurement mandates across the developing world. A disruption to Indian exports is, in effect, a disruption to the global public health architecture these institutions underpin. Taken together, what begins as a shipping crisis could become something significantly more serious.



Conclusion



Building on the API Self-Sufficiency Momentum

First and foremost, India needs to strengthen its capacity to produce APIs. The heavy reliance on other countries, such as China, for APIs and other complex molecules will always make the industry vulnerable under such circumstances. The Government of India has already been focusing on Production-Linked Incentives (PLIs), with a dedicated component for API, Key Starting Materials (KSMs), and drug intermediates. Addressing this issue will require sustained efforts, as the PLI scheme alone won't resolve all the problems, as API manufacturing is heavily influenced by energy costs, environmental regulations, and global market dynamics. We need to build a stronger, self-reliant R&D infrastructure for process chemistry and fermentation science.



Investing in Logistics Resilience

Logistical resilience needs to be another major focal area to mitigate such risks in the future. Industry experts have already voiced their opinion on the need to diversify shipping routes and explore alternative logistics options for the industry. Given the high time-sensitivity of many vaccines and other generics, the export strategies need to evolve. For major export destinations, additional regional depots to hold essential stock can offer some protection against such sea-route disruptions.



Leading the Next Chapter of Global Pharmaceutical Cooperation

During India's G20 Presidency in 2023, India led a landmark push for pharmaceutical equity through collaborative R&D, shared manufacturing, and harmonized regulation, all aimed at ensuring that medicines reach every country regardless of wealth. That framework was built for pandemics. The supply shocks generated by geopolitical disruption are structurally identical to those of a pandemic, and the countries that suffer most are the same. India should champion an extension of this framework through a coordinated early warning system for pharmaceutical supply threats, a shared emergency financing mechanism for vulnerable nations, and a multilateral commitment to treat essential medicines as humanitarian cargo.

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