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INDIA STRATEGIC REVIEW

The ISR features an assessment of key developments, trends, and policies pertaining to India's immediate and continental neighbourhood, and is authored by Lt. Gen. Deependra Singh Hooda (Retd.), Distinguished Fellow for Military Strategy. The research team includes Shreyas Deshmukh, Research Associate. Your comments and feedback may be addressed to Shreyas Deshmukh at shreyas@dpg.org.in. To subscribe, please [click here](#).

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1. Indian Prime Minister Narendra Modi chaired a meeting of the CCS to review implications of ongoing West Asia Conflict, New Delhi, March 22, 2026. Source: [newsonair.gov.in](https://www.newsonair.gov.in)
2. China's Foreign Minister Wang Yi held talks with Pakistani Deputy Prime Minister and Foreign Minister Mohammad Ishaq Dar in Beijing on March 31, 2026. Source: [MOFAPRC](https://www.mofaprc.gov.in)
3. On March 27, 2026, Balendra Shah was sworn in as Nepal's 47th Prime Minister. Source: [ddnews.gov.in](https://www.ddnews.gov.in)

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India Strategic Review

by

Lt. Gen. Deependra Singh Hooda (Retd.)

IMPACT OF THE IRAN WAR ON SOUTH ASIAN ECONOMIES

The US-Israel war on Iran, now in its fifth week, has produced the most severe energy shock to hit Asia since the 1973 oil embargo. Fatih Birol, the head of the International Energy Agency, described the situation as the "greatest global energy security challenge in history."¹ Iran's closure of the Strait of Hormuz, combined with strikes on energy infrastructure across the Gulf, has driven Brent crude from around \$70 per barrel before the war to above \$110 per barrel by late March, a rise of nearly 60 per cent in a month. Asian economies, which in 2024 received 84 per cent of the oil and 83 per cent of the LNG shipped through the Strait, are bearing the brunt of the disruption.²

India imports approximately 90 per cent of its crude oil and 60 per cent of its LPG, of which half of India's crude and about 90 per cent of its LPG imports pass through the Strait of Hormuz. LPG prices have jumped by Rs 60 per cylinder, and the government issued a Natural Gas Control Order on March 9 under the Essential Commodities Act to manage gas supplies and protect priority sectors.³ In an attempt at diversification, India is now sourcing crude from more than 40 countries, with purchases from Russia touching 2 million barrels per day by the end of March. Prime Minister Narendra Modi has called Iranian President Masoud Pezeshkian twice to discuss the closure of the Strait, while External Affairs Minister Dr. S. Jaishankar has had several conversations with his Iranian counterpart about securing safe passage for Indian ships stranded in the Strait.⁴

Pakistan, which imports about 80 per cent of its energy from the Gulf and maintains reserves of only about 20 days, is one of the most exposed countries. With its fuel import bill surging, Pakistan has raised petrol and diesel prices by around 20 per cent. Facing mounting pressure, the government has rolled out sweeping austerity measures, including work-from-home policies, reduced office hours, and cuts in fuel usage across government departments. The crisis also threatens Pakistan's vital remittance inflows. With over 4.7 million Pakistanis working in Gulf countries, any instability in the region could disrupt earnings and transfers.⁵

Bangladesh, which imports about 95 per cent of its oil, has closed universities and halted operations at four of its five state-run fertiliser factories, redirecting available gas to power plants to avoid widespread outages.⁶ Fuel rationing is in place, and the government has deployed the Border Guard Bangladesh across multiple fuel depots

in different districts to prevent hoarding.⁷ Sri Lanka has introduced QR-based fuel rationing, raised fuel prices by 26–30 per cent, and ordered a four-day working week.

Beyond oil, the disruption to fertiliser supplies is a major concern for the entire region. Almost half of the world's urea passes through the Strait of Hormuz, and urea prices are up 50 per cent since the war, while ammonia prices are up 20 per cent.⁸ The longer the war continues, the greater the shock to food security as energy and fertiliser prices remain elevated.

The Centre for Global Development has identified Pakistan, Bangladesh, and Sri Lanka as among the most at-risk countries globally, based on factors including dependence on fuel imports, public debt levels, and foreign exchange reserves.⁹ The weakening of many developing countries' currencies against the US dollar has compounded the situation by further driving up import costs. The Indian economy is large enough to absorb some of the shock, but if the conflict lasts through the summer, it could have calamitous effects on smaller and more fragile South Asian nations, leading to political instability.

India has stepped in to support its neighbours. Approximately 27,000 tons of diesel have been supplied to Bangladesh in March through the India-Bangladesh Friendship Pipeline.¹⁰ Following a request from Sri Lanka, on March 28, India delivered a shipment of 38,000 MT of petroleum, comprising 20,000 MT of diesel and 18,000 MT of petrol.¹¹ India has also assured Nepal that fuel supplies will remain regular for at least the next three months despite disruptions in global oil markets.¹²

AFGHANISTAN

Escalation of the Pakistan-Afghanistan War

The armed conflict between Afghanistan and Pakistan, which began in late February 2026, escalated sharply. In the first week of March, the Pakistan Air Force carried out strikes in Kabul, Bagram, Kandahar, and Khost. Afghanistan's Ministry of Defence said Taliban forces struck Pakistani military installations in more than two dozen locations along the border, destroying 14 posts.¹³ In a statement on March 4, the UN's International Organisation for Migration stated, "The ongoing military confrontation along the Durand Line has reportedly resulted in civilian casualties, damage to critical infrastructure, and the displacement of nearly 66,000 people in eastern and southeastern Afghanistan."¹⁴

The deadliest incident occurred on the night of March 16, when the Omid Addiction Treatment Hospital, a drug rehabilitation centre in Kabul, was destroyed during Pakistani airstrikes. The hospital was a 2,000-bed facility located near Camp Phoenix,

a former NATO military base. Afghan authorities stated that at least 408 people were killed and 265 were injured, most of them patients undergoing treatment for drug addiction.¹⁵ The United Nations mission in Afghanistan (UNAMA) documented at least 143 deaths and 119 injuries, significantly lower than the Taliban's figures but still confirming a mass-casualty event.¹⁶

Pakistan denied targeting the hospital, saying its strikes had "precisely targeted military installations and terrorist support infrastructure" at Camp Phoenix, and attributed the hospital damage to secondary explosions from stored ammunition. The strike drew international condemnation, with the UN Secretary-General calling for an independent investigation.¹⁷ The Indian Ministry of External Affairs denounced the attack, stating that "This is yet another act of aggression by a Pakistani establishment that remains hostile to the idea of a sovereign Afghanistan."¹⁸

Under growing international pressure, on March 18, Pakistan announced a five-day pause in hostilities for Eid al-Fitr, mediated by Saudi Arabia, Turkey, and Qatar. Afghanistan followed with its own temporary suspension of military operations.¹⁹ However, fighting resumed almost immediately after the ceasefire expired on 25 March, with renewed clashes killing at least two civilians in eastern Afghanistan.²⁰ The final days of March confirmed that the conflict remains active with artillery exchanges across the Durand Line.

The Pakistan-Afghanistan conflict is now the most serious military confrontation between the two neighbours in decades. The rapid collapse of the truce suggests that mediation efforts are currently capable of producing tactical pauses but not of providing conflict-management mechanisms. With global attention focused on the US-Israel war on Iran, international pressure for a sustainable ceasefire has been limited. The humanitarian consequences for civilians on both sides are severe, and the prospects for a diplomatic resolution remain bleak.

Worsening Human Rights Situation

On March 9, UN mission in Afghanistan (UNAMA) Officer-in-Charge Georgette Gagnon briefed the UN Security Council, warning that crises on both of Afghanistan's borders with Pakistan and Iran were undermining the country's stability. The ongoing conflict in the Middle East was adding further strain to Afghanistan's already fragile economy, with commodity prices rising and the trade route through Iran "increasingly uncertain." Gagnon warned: "If these issues are not dealt with, Afghanistan could again become a driver of regional and global instability in the form of out-migration, terrorism, narcotics and more."²¹

Thousands of Afghan migrants living in Iran are crossing the border back into Afghanistan every day due to ongoing attacks by the United States and Israel. Many

Afghan families are now facing cycles of displacement – first forced to flee Afghanistan, later displaced again inside Iran due to conflict, and now returning once more to an uncertain future in Afghanistan.

The ongoing conflict between the Taliban and Pakistan is also worsening Afghanistan's already grave humanitarian situation. According to OCHA data, approximately 115,000 people (about 16,400 families) had been displaced by the conflict. Prices for key staples, including imported rice and vegetable oil, have increased by 20–40 per cent since December 2025, while humanitarian cargo remains stranded in Pakistani ports.²²

Restrictions on movements in the border area due to the conflict have reduced the capacity of humanitarian agencies and partners to deliver life-saving and other assistance in the most-affected areas, leaving Afghan returnees from Pakistan particularly vulnerable. The World Food Programme has suspended activities in areas affected by fighting between Afghanistan and Pakistan, affecting approximately 160,000 people.²³ In a report released March 5, the agency warned that acute malnutrition is rising across the country, putting tens of thousands of children at serious risk.²⁴

Funding remains the central operational bottleneck. At the UN Security Council, UNAMA said humanitarian agencies aimed to assist 17.5 million Afghans in 2026 through a \$1.71 billion appeal, but by March 9, it was only 10 per cent funded. Washington has called for a review of the utility of international assistance and engagement in Afghanistan, as well as the budget allocated to UNAMA. Following this, the mandate for UNAMA was extended for only three months, rather than the usual one-year period.²⁵

PAKISTAN

Impact of the Iran War

The Iran war has had a multifaceted impact on Pakistan. It raised immediate economic costs through higher energy prices and external-financing pressures, generated domestic instability risks through sectarian mobilisation, and sharpened external balancing pressures as Islamabad sought to preserve working ties with Tehran, Washington, Riyadh, and other Gulf monarchies.

Higher oil prices threaten to widen the current account deficit, accelerate inflation and strain fiscal resources already constrained by the country's \$7 billion programme with the International Monetary Fund (IMF). On 27 March 2026, the IMF reached a staff-level agreement with Pakistan on the third review of its 37-month Extended Fund

Facility (EFF) and the second review of its 28-month Resilience and Sustainability Facility (RSF). The agreement was stated to be subject to approval by the IMF Executive Board. If approved, Pakistan would gain access to about \$1.0 billion under the EFF and about \$210 million under the RSF.²⁶ However, with the Fund insisting on fiscal discipline, tight monetary policy, and avoidance of broad energy subsidies, Islamabad has less scope to cushion the impact of the Iran war with large fuel or power-price support.

The killing of Iran's Supreme Leader Ayatollah Ali Khamenei in US-Israel airstrikes generated intense public anger among Pakistan's Shia community. The day after the airstrikes, protests erupted across the country, leaving at least 35 civilians dead. The demonstrations, many of them held near the United States diplomatic missions, turned violent in multiple cities as clashes broke out between Shia protesters and security personnel.²⁷

In Gilgit-Baltistan, thousands of demonstrators targeted and set fire to the offices of the United Nations Military Observer Group amid widespread unrest in the region. Protesters also burned a police station and damaged a school and the offices of a local charity in Gilgit. At least 13 protesters and 1 security officer were killed, and 60 were injured in Gilgit, Skardu, and Shigar districts.

In the most serious incident, a mob breached the US Consulate compound in Karachi. US Marine Security Guards stationed at the consulate opened fire to repel the mob, killing about 10 protesters and injuring more than 60.²⁸ Following this, the US State Department ordered non-emergency personnel at American consulates in Karachi and Lahore, along with their families, to leave Pakistan due to security concerns.

Pakistan finds itself in a difficult geopolitical position. At the start of the war, Pakistan condemned the US-Israeli attacks on Iran, emphasising the need to "exercise maximum restraint, to uphold international law, and to respect the territorial integrity of all brotherly nations."²⁹ Pakistan also joined a group of 12 Arab and Islamic countries on March 18, condemning Iranian attacks on neighbouring states as "heinous" and urging Tehran to end support for proxy networks and avoid disrupting maritime traffic in the Strait of Hormuz.³⁰

There was a series of visits by Pakistani leaders to Riyadh. On March 7, the Chief of Defence Forces (CDF) and Chief of the Army Staff (COAS), Field Marshal Asim Munir, visited Saudi Arabia and met with Defence Minister Khalid bin Salman Al Saud. On March 12, Pakistan's Prime Minister Muhammad Shehbaz Sharif undertook a brief official visit to Saudi Arabia at the invitation of Saudi Crown Prince Mohammed bin Salman. On March 18, Pakistan's Deputy Prime Minister and Foreign Minister, Senator Ishaq Dar, arrived in Riyadh for a two-day official visit to attend a consultative meeting of regional foreign ministers hosted by Saudi Arabia.

If the conflict deepens, Pakistan's fragile economy could be pushed into a deeper crisis.

Pakistan's Mediation Role

On March 26, Pakistan's Foreign Minister Ishaq Dar said in a statement posted on X that his country is relaying messages between the United States and Iran to de-escalate tensions and seek an end to the ongoing war in the Middle East. In this context, a 15-point proposal of the US had been shared with Iran. He said that Turkey and Egypt were also part of the mediation efforts.³¹

On March 28 and 29, Pakistan convened a regional diplomatic grouping in Islamabad with Saudi Arabia, Turkey and Egypt to discuss de-escalation of the Iran war. In a televised briefing, Ishaq Dar said Islamabad was "happy" that Washington and Tehran had agreed to peace talks facilitated by Pakistan. The country has also offered to host talks between the US and Iran.³²

On March 31, Ishaq Dar travelled to Beijing, where the two countries issued a five-point initiative to restore peace in the Gulf and the Middle East. The initiative calls for the immediate cessation of hostilities, the initiation of peace talks, the protection of non-military targets, the restoration of normal passage through the Hormuz Straits, and the primacy of the United Nations Charter.³³ China has stated that it supports Pakistan playing an important role in easing tensions and helping resume peace talks.

Even as Pakistan positions itself as a mediator, Iran has rejected the US 15-point proposal and stated that it does not plan to engage in negotiations. In a post on X on March 30, the Consulate General of Iran in Mumbai stated that there have been no direct talks with the US, only excessive and unreasonable demands passed through intermediaries. In a reference to the four-nation meeting in Islamabad, the consulate said Pakistan's forums are its own affair and that Iran did not participate in them.³⁴

Pakistan's mediation efforts have strengthened its diplomatic relevance, but its role remains facilitative, and it is doubtful that it can deliver a decisive result.

BANGLADESH

BNP Government's First Month in Office

The Bangladesh Nationalist Party (BNP) government, which took office under Prime Minister Tarique Rahman on 17 February, completed its first month in power in March. The government has outlined three immediate priorities: reviving the economy, restoring law and order, and strengthening governance. The challenges are

formidable. Bangladesh's GDP growth has declined from 7.1 per cent in FY22 to 3.49 per cent in FY25, inflation remains above 8 per cent, and the garment sector, which accounts for about 80 per cent of exports, has suffered from declining orders and political instability.³⁵

The Iran war has compounded Bangladesh's economic difficulties. Bangladesh has formally approached Washington for a waiver to import Russian fuel. Dhaka is looking to import up to 600,000 tonnes of Russian diesel as it navigates the energy crunch.³⁶ As Bangladesh is set to graduate from Least Developed Country status in 2026, losing duty-free access to Western markets, the new government faces the task of diversifying trade relationships and attracting investment under extremely adverse global conditions.

On the political front, the implementation of the July Charter, which voters endorsed in a referendum alongside the February elections, remains contentious. The BNP has not opposed the reforms in principle but has refused to take an additional oath to serve on a Constitutional Reform Council, arguing that the council is not recognised in the Constitution. The Jamaat-e-Islami, now the official opposition, has threatened street protests over the sequencing of constitutional reforms. Whether the BNP will push through the constitutional changes or seek to dilute them will be a defining test of its governance.

On a positive note, the government deserves credit for moving quickly on visible campaign pledges. Within the first month, it approved a waiver of small agricultural loans, launched a pilot for the Family Card, began work on a Farmer's Card, and kicked off a large river-and-canal excavation programme. Tarique's decision to forgo VVIP protocol, his directive requiring all officials to be present at their offices on time, and his visits to the homes of opposition leaders have drawn widespread praise.³⁷

India-Bangladesh Ties

There are tentative signs that the frost in India-Bangladesh relations may be thawing. Within a week of the BNP government taking charge, Bangladesh's newly appointed Directorate General of Forces Intelligence (DGFI) chief, Major General Mohammad Kaiser Rashid Chowdhury, made an unannounced trip to New Delhi, holding talks with India's National Security Adviser, the RAW chief, and the Director General of Military Intelligence.³⁸

The Indian High Commissioner to Bangladesh, Pranay Kumar Verma, held meetings with Bangladesh Commerce Minister Khandaker Abdul Muktedir and Finance Minister Amir Khosru Mahmud Chowdhury. Discussions were focused on strengthening cooperation in the financial sector between the two countries, expanding economic relations and other issues of mutual interest. Both countries are

satisfied with the progress of projects under India's Line of Credit (LoC), and efforts are underway to resolve problems affecting several large projects.³⁹

In New Delhi, Bangladesh High Commissioner Ambassador M Riaz Hamidullah met with India's External Affairs Minister S Jaishankar on March 20. Ambassador Hamidullah, in his post on X, wrote, "Had the opportunity to pay a courtesy call on India's External Affairs Minister S Jaishankar. I assured him that Bangladesh is ready to work together with India to achieve shared interests and mutual benefits."⁴⁰

While ties appear to be improving, structural challenges persist. The Hasina extradition issue remains unresolved, and the Ganges Water Sharing Treaty is due to expire in December 2026. Bangladesh's explicit "Bangladesh First" foreign policy orientation suggests that India will be dealing with a Dhaka that seeks greater diplomatic room for manoeuvre. The BNP government's ability to stabilise its economy amid the global energy crisis, while balancing its relationships with India, China, and Pakistan, will be the central challenge of its early months.

NEPAL

General Elections

Nepal held general elections on March 5, the first since the Gen Z-led uprising that toppled the KP Sharma Oli government in September 2025. The Rastriya Swatantra Party (RSP), founded just four years ago, won a landslide victory, securing 182 of the 275 seats in the House of Representatives – 125 won directly and 57 through proportional representation. The party received 47.84 per cent of the proportional vote nationally and emerged as the largest party in first-past-the-post voting in six of the seven provinces. Voter turnout was approximately 60 per cent.⁴¹

The Nepali Congress finished second with 38 seats. The CPN-UML won only 25 seats, its worst-ever result, while the Nepali Communist Party secured 17 seats. The election was a decisive repudiation of the established political parties that have dominated Nepalese politics for three decades.

The RSP's prime ministerial candidate, 35-year-old Balendra Shah, widely known as "Balen," defeated the veteran four-time Prime Minister K.P. Sharma Oli in his own constituency of Jhapa-5, securing nearly four times as many votes.⁴² Balen's rise from structural engineer and rapper to Kathmandu's first independent mayor in 2022, and now to the prime ministership, represents one of the most dramatic generational shifts in recent South Asian politics.

On March 27, Balendra Shah was sworn in as Nepal's 47th and youngest democratically elected Prime Minister. He immediately formed a 15-member cabinet, 33 per cent of which is made up of female ministers.⁴³ The first Cabinet meeting of the newly formed government has decided to immediately implement the report of the high-level commission that investigated incidents related to the Gen Z movement of September 2025. The commission had recommended action against several officials, including then Prime Minister KP Sharma Oli, then Home Minister Ramesh Lekhak, and then Inspector General of Nepal Police Chandra Kuber Khapung.⁴⁴

The cabinet decision led to the arrest of KP Sharma Oli and Ramesh Lekhak for allegedly cracking down on the Gen Z protest. Home Minister Sudan Gurung has said that no one is above the law, clarifying that the arrests are not an act of political retaliation but the beginning of a legal process.⁴⁵

Indian Prime Minister Narendra Modi was among the first to congratulate Balen, saying his appointment "reflects the trust reposed in your leadership by the people of Nepal." Balen responded by stating that he was eager "to advance the multifaceted relations between our two countries."⁴⁶

From India's perspective, the RSP government presents both opportunities and uncertainties. On the one hand, the RSP is a centrist party with no hostile stance towards India, and Balen's Madhesi roots lend it cultural and geographic affinity. On the other hand, the RSP has no track record in foreign policy, and Balen has in the past taken visibly nationalist positions on politically sensitive matters involving India. For India, it is important to lock the relationship into practical cooperation on trade, transit, and energy integration.

SRI LANKA

Economic Impact of the Iran War

The US-Israel war on Iran has dealt a severe blow to Sri Lanka's fragile economic recovery. Sri Lanka imports 60 per cent of its energy needs, much of it through the Hormuz Strait. The country has no storage capacity beyond one month's fuel consumption. Sri Lanka's state-owned Litro Gas has storage facilities for only 8,000 metric tonnes of LPG, while national consumption is approximately 33,000 metric tonnes per month.⁴⁷

In a televised media briefing on March 17, President Anura Kumara Dissanayake said that Sri Lanka was facing an external shock to energy supply chains and reported delays to shipments carrying 90,000 metric tonnes of crude oil. In the same statement,

he said that ministries had been given fuel-reduction targets and that the government aimed to cut fuel use across public-sector institutions by at least 25%.⁴⁸

For Sri Lanka, the crisis carries echoes of the 2022 economic collapse. The re-emergence of fuel queues and rationing has raised fears among ordinary citizens that the country may be heading back to the kind of crisis that forced President Rajapaksa to flee the country. However, the current situation differs in some important respects. The government's finances are in better shape after two years of IMF-guided fiscal consolidation. The economy had grown by 5 per cent in 2025, inflation was at 1.6 per cent, and foreign exchange reserves stood at \$7.3 billion. However, both the IMF and the Central Bank said the Middle East conflict had become the main new downside risk because of its effects on energy prices, trade, and external-sector conditions.⁴⁹

Sri Lanka directly faced the operational spillover of the Iran war when a US submarine struck and sank an Iranian frigate, IRIS Dena, off the coast of Sri Lanka. The Sri Lankan Navy responded to the distress call and rescued 32 survivors and recovered 87 bodies. Sri Lanka also took custody of a second Iranian naval vessel, IRIS Bushehr, and disembarked 204 sailors.⁵⁰

In a statement to Parliament on March 20, President Dissanayake stated that Sri Lanka had denied a US request for two-armed combat aircraft to remain at Mattala International Airport on March 4 and 8. He stated that Sri Lanka did not want to become a party to the conflict.⁵¹

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