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Collateral Casualties of Great Power Conflict: The 2026 Iran War and the Energy-Remittance Double Shock in South Asia

Ahmad Faizul Rashid[1*], *Nurul Izzati Zulkifli*[2] & *Mohamad Syafiq Ismail*[3]

[1]Faculty of Economics and Business, Universiti Malaya, Kuala Lumpur, Malaysia; Email: faizul.rashid@yahoo.com
[2]School of Social Sciences, Universiti Sains Malaysia, Penang, Malaysia
[3]Department of Development Studies, Universiti Malaysia Sabah, Kota Kinabalu, Malaysia

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ABSTRACT

The 2026 Iran War, initiated on 28 February 2026 through coordinated United States and Israeli strikes on Iranian territory, rapidly escalated into a regional conflict with profound ramifications for the global economy. While scholarship on the conflict has focused primarily on its military and geopolitical dimensions, the developmental consequences for non-belligerent, energy-importing economies in South Asia remain underexplored. This paper introduces the Energy-Remittance Double Shock (ERDS) framework: an analytical construct designed to explain how developing economies with high fossil fuel import dependency and large Gulf Cooperation Council (GCC) diaspora populations face simultaneous, mutually reinforcing external shocks from geopolitical conflicts in which they have no strategic role. Drawing on the vulnerability economics tradition of Lino Briguglio and the remittance development literature of Dilip Ratha, the paper applies the ERDS framework to four South Asian economies: Bangladesh, Sri Lanka, Nepal, and Pakistan. Findings demonstrate that all four countries have experienced acute energy supply disruptions, rapid inflation, currency depreciation, and heightened remittance insecurity following the closure of the Strait of Hormuz in early March 2026. The paper argues that structural exposure to the ERDS dynamic reflects longstanding failures of energy diversification and labor market governance, and concludes with a set of policy recommendations oriented toward building economic resilience against geopolitical conflict shocks.

INTRODUCTION

On 28 February 2026, the United States and Israel launched coordinated strikes on multiple Iranian targets in what the United States military designated Operation Epic Fury. The strikes killed Supreme Leader Ali Khamenei and dismantled much of Iran's top military command structure, triggering an immediate and wide-ranging Iranian retaliation that has since expanded to nine countries across the Middle East (Mansour, 2026;

*Corresponding Author: Faculty of Economics and Business, Universiti Malaya, Kuala Lumpur, Malaysia; Email: faizul.rashid@yahoo.com

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Siddiqui, 2026). Within days, Iran effectively closed the Strait of Hormuz: the narrow waterway connecting the Persian Gulf with the Arabian Sea through which approximately 20 percent of global crude oil and one-fifth of the world's liquefied natural gas (LNG) trade passes daily (Dunn & Barden, 2025). Brent crude oil prices surged from approximately USD 71 per barrel on 27 February 2026 to nearly USD 117 per barrel by 9 March 2026, before stabilizing in the USD 90 to 100 range (Suryamurthy, 2026a, 2026b). The immediate humanitarian and military consequences of the conflict have rightly commanded global attention; however, this paper directs analytical focus toward a category of impact that has received comparatively little scholarly treatment: the cascading economic consequences for non-belligerent developing economies in South Asia.

South Asia presents a particularly acute case of what this paper terms the Energy-Remittance Double Shock (ERDS): a condition in which developing economies face concurrent disruption to two of their most critical macroeconomic lifelines as a direct consequence of geopolitical conflict in a region with which they maintain deep structural linkages, but in whose conflicts they bear no direct political or military responsibility. Bangladesh, Sri Lanka, Nepal, and Pakistan collectively import between 70 and 95 percent of their energy requirements, with the majority of petroleum products sourced from GCC countries whose export infrastructure is routed through the Strait of Hormuz (Huang et al., 2026; Suryamurthy, 2026b). Simultaneously, these four economies collectively depend on the GCC labor market for millions of migrant workers whose remittances constitute critical proportions of household income, foreign exchange reserves, and national GDP. Bangladesh, for instance, remitted USD 32.8 billion in 2025 from its global diaspora, with over 73 percent of its migrant labor concentrated in GCC countries (Roy, 2026). The 2026 Iran War has placed both channels simultaneously under threat.

The scholarly literature has generated substantial work on the energy security vulnerabilities of developing states (Briguglio, 1995; Briguglio et al., 2009), on the role of remittances as countercyclical stabilisers during economic crises (Barne & Pirlea, 2019; Ratha, 2013), and on the geopolitical dimensions of the Strait of Hormuz as a global energy chokepoint (Dunn & Barden, 2025; Shepard & Pratson, 2020). However, the intersection of these three bodies of literature in the context of an active military conflict that directly threatens both transmission channels simultaneously remains undertheorized. This paper seeks to fill that gap by introducing the ERDS framework and applying it empirically to the South Asian context.

LITERATURE REVIEW

This paper draws on three distinct but conceptually adjacent bodies of scholarship: the vulnerability economics tradition, the development-oriented remittance literature, and geopolitical energy security studies. Each stream contributes a distinct analytical layer to the ERDS framework.

Economic Vulnerability Theory

The systematic study of economic vulnerability in developing states originates primarily with the pioneering work of Lino Briguglio, whose seminal 1995 paper in World Development constructed the first rigorous vulnerability index for small island developing states (SIDS), operationalizing exposure to exogenous shocks through measures of export concentration, trade openness, and dependence on imported energy (Briguglio, 1995). Briguglio's framework established the foundational distinction between structural vulnerability: an inherent condition arising from a country's size, openness, and resource endowment; and economic resilience: the policy-mediated capacity to absorb and recover from shocks (Briguglio et al., 2009). This distinction is analytically significant for the present study because South Asian economies such as Bangladesh and Sri Lanka display high structural vulnerability to external energy and financial shocks, yet their resilience capacity is constrained by limited fiscal space, shallow

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domestic energy production, and governance deficits in strategic reserves management.

Subsequent scholarship extended Briguglio's framework beyond SIDS to encompass a broader range of developing economy contexts. Guillaumont (2004) incorporated trade shock exposure as a component of economic vulnerability, while Cordina (2004) demonstrated that vulnerability negatively conditions long-run GDP growth by amplifying the effects of diminishing marginal productivity. Applied to South Asia, these insights illuminate a structural paradox: the very conditions that have enabled rapid economic growth in Bangladesh and Nepal, most notably labor export and remittance-led household consumption, have simultaneously deepened their exposure to external shocks originating in the Gulf region. The Briguglio-Cordina framework thus provides the theoretical foundation for conceptualizing the ERDS not merely as a conjunctural event, but as the realization of a structural vulnerability long embedded in the political economy of South Asian development.

More recent scholarship has sharpened the analytical focus on energy import dependency as a specific dimension of economic vulnerability. Research on South Asian energy transitions documents that nearly 80 percent of the region's primary energy production remains fossil fuel based, while close to two-thirds of total energy consumption depends on imports (Gupta, 2026; Huang et al., 2026). Critically, all four countries examined in this paper: Bangladesh, Sri Lanka, Nepal, and Pakistan, import between 70 and 100 percent of their petroleum products, and the majority of these imports are sourced from Persian Gulf nations whose export infrastructure is routed through the Strait of Hormuz (Chaudhury et al., 2023; Diplotic, 2026). This concentrated structural dependence is not merely a temporary market condition but the product of decades of infrastructure investment decisions, subsidy regimes, and political economy constraints that have retarded the regional energy transition (Das, 2022; Ichord, 2023).

Remittances and Development Economics

The role of international remittances in development finance has been extensively theorized since the early 2000s, with the work of Dilip Ratha and colleagues at the World Bank establishing the dominant analytical framework. Ratha (2013) demonstrated that remittances are characteristically countercyclical: unlike foreign direct investment or portfolio capital flows, which tend to retreat during crises in recipient countries, migrant workers typically increase transfers to family members during economic downturns and natural disasters at home. This countercyclical property has been confirmed across multiple empirical studies and disaster contexts, and has positioned remittances as one of the most stable and pro-poor sources of external finance available to low and middle-income countries (Barne & Pirlea, 2019; Ratha, 2023).

However, the countercyclical stabilization property of remittances is conditional on the economic stability of migrant destinations. When shocks originate in the host rather than the home country, the dynamics reverse: migrants face income loss, potential job displacement, or forced repatriation, generating remittance shortfalls precisely when recipient households and macroeconomies are also absorbing heightened import costs and inflationary pressure from the same exogenous event. This pro-cyclical reversal mechanism is a central feature of the ERDS dynamic theorized in this paper. The GCC labor market is the primary destination for South Asian migrant workers: over 9.1 million Indian nationals, 4.9 million Pakistanis, and substantial Bangladeshi, Sri Lankan, and Nepali populations are employed in Saudi Arabia, the UAE, Qatar, Kuwait, Oman, and Bahrain (Ichord, 2023; Khalid, 2026). An active war that strikes Gulf energy infrastructure, closes regional airspace, and disrupts economic activity across GCC states simultaneously threatens the income security of millions of migrant workers and the remittance flows upon which their families and national economies depend.

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The scholarship on remittance volatility in conflict-affected corridors offers additional theoretical grounding. Ratha and Shaw (2007) documented that remittance flows to countries neighboring active conflict zones tend to exhibit heightened short-run volatility followed by medium-term decline when migrant destinations are directly affected. The asymmetric exposure of South Asian migrant workers across GCC sectors: concentrated in construction, hospitality, oil services, and retail; industries identified by S&P analysts as particularly vulnerable to Gulf conflict disruption (Singh, 2026); further concentrates the risk profile of remittance disruption. The Mobarak (2026) analysis of the 2026 conflict's developmental consequences for the Global South confirms that the majority of civilian casualties in GCC countries have been migrant workers, underscoring the humanitarian as well as macroeconomic dimensions of the ERDS.

The Strait of Hormuz as a Geopolitical Energy Chokepoint

The geopolitical significance of the Strait of Hormuz as a structural vulnerability in the global energy system has been documented across a substantial and growing literature. The U.S. Energy Information Administration has consistently characterized the Strait as the world's most important oil transit chokepoint: in 2024, oil flows through the Strait averaged 20 million barrels per day, equivalent to approximately 20 percent of global petroleum liquids consumption, while approximately one-fifth of global LNG trade also transited the waterway, primarily from Qatar (Dunn & Barden, 2025). At its narrowest point, the Strait spans only 33 kilometers, creating a geographic constraint with no viable deep-water alternative for the volume of energy trade it carries (Dunn & Barden, 2025; Mangu, 2024).

Iran has historically maintained the threat of Hormuz closure as a strategic instrument of deterrence against Western sanctions and military pressure. Talmadge (2022) provided an early systematic assessment of the Iranian threat to Strait operations, concluding that even partial interdiction capacity was sufficient to generate significant global oil price volatility and supply chain disruption. Shepard and Pratson (2020) extended this analysis to quantify the effects of maritime insecurity through the Strait on energy export patterns from Persian Gulf countries, finding that tanker traffic declines significantly in the years following major security incidents. The Geopolitics of Oil and Gas in the MENA Region literature further contextualizes Iran's strategic posture, noting that the Islamic Republic has never hesitated to deploy the Strait as a geopolitical instrument and that every escalation in US-Iran tension generates corresponding oil market disruption (Hafner et al., 2023).

For Asian energy importers, the Strait's closure in 2026 represents an existential supply chain disruption. China, India, Japan, and South Korea account for approximately 75 percent of oil and 59 percent of LNG transiting the Strait, but the most severe proportionate impacts fall on smaller, lower-income economies with fewer diversification options and smaller strategic reserves buffers (Nelson & Davis, 2026). The Asian Development Bank assessment of the conflict explicitly identified Bangladesh, the Philippines, Pakistan, and Sri Lanka as the most macroeconomically exposed economies in Asia, noting that higher oil prices transmit rapidly into inflation and exchange rate pressures through widening current account deficits and increased foreign currency demand in these countries (Sutherland, 2026). This ADB assessment provides empirical validation for the application of the vulnerability economics framework to the 2026 ERDS context.

Taken together, these three bodies of literature converge on a set of structural conditions that render South Asian economies acutely exposed to the ERDS dynamic: concentrated energy import dependency routed through a single geopolitical chokepoint; large diaspora populations in GCC countries whose labor income is directly threatened by regional conflict; and limited macroeconomic buffers to absorb simultaneous supply-side and remittance shocks. The ERDS framework synthesizes these conditions into a

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coherent analytical structure for the country-level analysis that follows.

THEORETICAL FRAMEWORK: THE ENERGY-REMITTANCE DOUBLE SHOCK (ERDS)

This paper introduces the Energy-Remittance Double Shock (ERDS) as a mid-range analytical framework designed to explain the distinct pattern of economic harm experienced by a specific category of non-belligerent developing economy during major geopolitical conflicts originating in the Gulf region. The framework is not proposed as a general theory of conflict-induced economic harm; rather, it identifies a structural configuration characterized by three necessary conditions that, when present simultaneously, generate a compounding and mutually reinforcing pattern of macroeconomic stress.

Defining Conditions of the ERDS

The first necessary condition is high fossil fuel import dependency routed through a single geopolitical chokepoint. Economies in this category import many of their primary energy requirements: petroleum products, LNG, and refined fuels; from producers whose export infrastructure is concentrated in the Persian Gulf and depends overwhelmingly on transit through the Strait of Hormuz. This condition creates direct exposure to any disruption in Strait transit, whether through physical blockade, insurance withdrawal, or attack on export infrastructure. The absence of meaningful strategic petroleum reserves and limited alternative supply routes amplifies the transmission of global price shocks into domestic inflationary pressure and import cost escalation (Briguglio, 1995; Dunn & Barden, 2025).

The second necessary condition is large diaspora concentration in Gulf Cooperation Council labor markets. Economies characterized by the ERDS are distinguished from other energy-importing developing states by their high share of working-age population employed in GCC countries: specifically in the UAE, Saudi Arabia, Qatar, Kuwait, Oman, and Bahrain. The remittance flows generated by this diaspora constitute a substantial share of national foreign exchange earnings, household income, and in some cases GDP. This condition ensures that any deterioration in GCC economic activity: through infrastructure damage, business disruption, labor market contraction, or mass repatriation scenarios; transmits directly and rapidly into remittance shortfalls in the home economy (Ratha, 2013; Roy, 2026).

The third necessary condition is limited macroeconomic buffer capacity. ERDS-affected economies combine their structural exposures with shallow fiscal space, limited strategic reserves, thin foreign exchange buffers, and high existing debt-to-GDP ratios. This condition determines the severity of the double shock: an economy with substantial sovereign wealth funds, large strategic petroleum reserves, and diversified export revenues can absorb simultaneous energy and remittance disruptions with relatively contained macroeconomic impact. An economy without these buffers: as exemplified by Sri Lanka following its 2022 sovereign debt crisis or Bangladesh with its narrow fiscal headroom; faces acute cascading effects including currency depreciation, inflationary spirals, supply shortages, and social unrest (Briguglio et al., 2009; Shearing, 2026).

Transmission Mechanisms

The ERDS operates through two primary transmission channels that function concurrently and reinforce each other, distinguishing the double shock from a single-channel external shock. The energy transmission channel operates through four sequential steps. First, Strait of Hormuz disruption reduces the volume of petroleum products and LNG available to South Asian importers and drives up global spot prices. Second, import cost escalation widens current account deficits and increases demand for foreign currency, placing downward pressure on domestic exchange rates. Third, currency depreciation further amplifies the domestic cost of energy imports denominated in US dollars. Fourth, higher energy prices transmit into generalized consumer price inflation through elevated transport costs,

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electricity tariff increases, and food price escalation driven by higher agricultural input and logistics costs. The speed of this transmission is particularly acute in economies such as Bangladesh, which rely on spot LNG markets for a significant proportion of their imports, and Sri Lanka, which has limited strategic buffer stocks following its 2022 crisis (Rozansky, 2026; Suryamurthy, 2026a).

The remittance transmission channel operates through a distinct but temporally parallel mechanism. First, active conflict in and around GCC countries damages economic infrastructure, disrupts business activity, and triggers labor market contraction in sectors employing South Asian migrant workers. Second, migrant workers face income reduction, job loss, or forced repatriation as Gulf employers scale back operations or as airspace closures and security conditions make continued employment untenable. Third, remittance flows to home economies decline, withdrawing a source of household income and foreign exchange precisely when import costs and domestic inflation are rising sharply. Fourth, the combined effect of reduced remittance inflows and higher import costs deepens current account deficits and amplifies currency depreciation pressures, creating a feedback loop between the two transmission channels (Khalid, 2026; Ratha, 2023).

The analytical significance of the ERDS framework lies in identifying this feedback loop between the two channels. A single-channel energy shock, of the kind experienced during the 2022 Russia-Ukraine conflict, does not produce the same configuration of harm because remittance-dependent economies may partially offset energy cost increases through continued or even increased diaspora transfers. Similarly, a single-channel remittance shock, such as that produced by COVID-19 lockdowns in Gulf countries in 2020, does not simultaneously impose energy supply disruptions. The ERDS is analytically distinctive precisely because it is a Gulf conflict scenario: the only category of exogenous event capable of triggering both channels simultaneously and causing them to amplify each other.

Table 1 summaries the ERDS framework across its two channels, from trigger event through to amplifying feedback. The following analysis establishes the parameters of the 2026 Iran War before the country-level analysis proceeds.

Table 1: The energy-remittance double shock (ERDS) framework

Component	Energy Channel	Remittance Channel
Trigger	Strait of Hormuz disruption; global oil and LNG price surge	GCC economic disruption; labor market contraction; airspace closure
Primary shock	Import cost escalation; foreign currency demand surge	Remittance volume decline; forced migrant repatriation
Secondary shock	Currency depreciation; generalized consumer price inflation	Household income loss; reduced foreign exchange inflows
Amplifying feedback	Wider current account deficit deepens currency pressure	Remittance shortfall widens current account deficit simultaneously
Buffer conditions	Strategic petroleum reserves; diversified import sources; fiscal space	Diaspora diversification; labor market portability; social protection systems

Source: Authors' framework (Briguglio, 1995; Briguglio et al., 2009; Dunn & Barden, 2025; Ratha, 2013)

2026 IRAN WAR: CONTEXT, ESCALATION, AND IMPACTS

This analysis traces the conflict's trajectory from its origins through to the specific economic disruptions relevant to South Asian economies, with particular attention to the Strait of Hormuz closure and its immediate commodity market consequences.

Origins and Escalation Trajectory

The 2026 Iran War is the product of a multi-year escalation in US-Iran-Israel tensions rooted in disputes over Iran's nuclear program, its ballistic

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missile capabilities, and its broader regional influence through proxy networks. The immediate precursor was the Twelve-Day War of June 2025, in which Israel conducted surprise strikes on Iranian nuclear and military facilities with tacit US involvement, setting back Iran's nuclear program by an estimated two years but failing to achieve a lasting deterrent effect (Nelson & Davis, 2026). Failed nuclear negotiations in Muscat in February 2026, combined with Iran's violent suppression of large-scale domestic protests that left an estimated 30,000 civilians dead in January 2026, provided the political rationale for the subsequent US decision to act (Borens et al., 2026).

On 28 February 2026, US and Israeli forces launched Operation Epic Fury: coordinated strikes involving nearly 900 sorties in the first twelve hours, targeting Iranian air defenses, missile systems, nuclear infrastructure, and the country's senior leadership. Supreme Leader Ali Khamenei and numerous other Iranian officials were killed in the opening salvo (Borens et al., 2026; Nelson & Davis, 2026). Iran responded immediately with missile and drone strikes against Israel, US military bases across the region, and civilian and energy infrastructure in GCC states including Qatar, Saudi Arabia, Kuwait, and the UAE. Hezbollah in Lebanon entered the conflict on 2 March, dramatically expanding the geographic scope of hostilities (Yacoubian, 2026). As of 19 March 2026, the conflict had entered its nineteenth day with no ceasefire in sight, with Iran's surviving leadership signaling intent to prolong rather than conclude the war (Salem, 2026).

The Strait of Hormuz Closure

The most consequential economic dimension of the conflict for South Asia has been Iran's effective closure of the Strait of Hormuz. Crude tanker transits through the Strait dropped from an average of 24 vessels per day in January 2026 to just four on 1 March, three of which were Iranian-flagged (Katanich, 2026). The Islamic Revolutionary Guard Corps (IRGC) officially declared the Strait closed to ships linked to the US, Israel, and their allies on 5 March, confirming the declaration on 8 March; by 12 March, Iran had carried out 21 confirmed attacks on merchant vessels, killing five crew members (Ratner et al., 2026). Over 150 ships anchored outside the Strait, unable or unwilling to risk transit, with tanker traffic having dropped by approximately 70 percent from pre-conflict levels (Ratner et al., 2026).

The de facto closure was achieved not solely through physical force but through the withdrawal of commercial insurance coverage. Kpler vessel tracking confirmed that while the Strait was technically not physically sealed, insurance premiums had reached six-year highs and major commercial operators including Maersk had suspended all Hormuz crossings, treating the effective outcome for cargo flow as equivalent to a physical blockade (Bakr, 2026). The practical consequence was a simultaneous disruption to 20 percent of global crude oil supply and approximately 20 to 25 percent of global LNG trade, the latter primarily from Qatar whose Ras Laffan LNG facilities had been directly struck by Iranian drones on 2 March, forcing Qatar Energy to declare force majeure and halt production (Ratner et al., 2026; Sutherland, 2026).

Alternative routing options proved structurally insufficient to offset the Strait's loss. Saudi Arabia's East-West Crude Oil Pipeline and the UAE's Abu Dhabi Crude Oil Pipeline to Fujairah collectively offer a bypass capacity of approximately 3.5 to 5.5 million barrels per day, compared to the Strait's pre-conflict throughput of 20 million barrels per day (Ratner et al., 2026). The Red Sea Yanbu route remained partially viable but was threatened by Houthi reactivation, while Omani bypass ports at Duqm and Salalah sustained drone strikes in early March, placing even those alternatives within war risk insurance zones(Ratner et al., 2026). The International Energy Agency's release of 400 million barrels from global strategic reserves: equivalent to just four days of normal global consumption or 20 days of typical Hormuz flows; confirmed the analytical consensus that emergency reserves could temporarily calm markets but could not

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resolve the structural disruption of the chokepoint's closure (Al Jazeera, 2026).

Energy Market Impacts: Price and Supply Chronology

Table 2 documents the price trajectory from the conflict's outset to the present, illustrating the speed and magnitude of the energy shock. The LNG dimension deserves particular attention for South Asian economies: Asian spot LNG prices more than doubled to USD 25.40 per million British thermal units (MMBtu) by 4 March, as Qatar Energy's force majeure declaration removed the world's largest LNG exporter from the market (Ratner et al., 2026). Bangladesh, which sources approximately 25 percent of its gas-fired electricity generation from Qatari LNG imports; and Pakistan, whose spot LNG reliance exceeds 50 percent of its gas imports; were immediately and severely exposed to this secondary supply disruption compounding the oil price shock (Mobarak, 2026; Rozansky, 2026).

Table 2: Key Energy Price and Supply Developments, 28 February to 19 March 2026

Date	Brent Crude (USD/bbl)	Key Development
27 Feb 2026	USD 71	Pre-conflict baseline; rising tensions priced in
28 Feb 2026	USD 73	Operation Epic Fury launched; tanker transits drop to 4 per day
2 Mar 2026	USD 80 to 82	10 to 13% surge; Qatar Energy halts LNG; European gas prices nearly double
5 Mar 2026	USD 83	IRGC declares Strait closed; Brent rises 15% from pre-conflict level
8 Mar 2026	USD 100+	Brent exceeds USD 100 for first time since 2022; IRGC confirms closure
9 Mar 2026	USD 117 (peak)	Peak price reached; LNG Asia spot prices more than double to USD 25.40/MMBtu
15 Mar 2026	USD 90 to 100	Partial stabilization; IEA releases 400 million barrels; Goldman Sachs raises Q2 forecast
19 Mar 2026	USD 103 to 116	Ongoing volatility; Iran strikes Saudi Yanbu refinery and Kuwait refinery; Brent climbs 6%

Sources: (Al Jazeera, 2026; Goldman Sachs, 2026; Ratner et al., 2026; Suryamurthy, 2026b; Sutherland, 2026).

Differential Exposure: Why South Asia Bears Disproportionate Impact

The Chatham House scenario analysis of the conflict's global economic consequences identifies a structural asymmetry in impact distribution: while advanced economies face manageable inflationary adjustments of 0.5 percentage points in a contained-conflict scenario, and even 1 to 2 percentage points under a prolonged-conflict scenario, emerging economies with fragile balance sheets and high energy import dependency face qualitatively different outcomes (Shearing, 2026). Shah (2026) specifically identified Pakistan among the emerging market economies most likely to require central bank rate increases in response to the crisis, while the Asian Development Bank's assessment confirmed Bangladesh, Sri Lanka, and Pakistan as among the most macroeconomically exposed economies in Asia (Bahree, 2026; Meredith, 2026).

The World Economic Forum's analysis of the conflict's cascading economic consequences identifies the sequential transmission pathway from energy commodity prices through to inflation, industrial costs, and food security as particularly acute in import-dependent economies (Muggah, 2026). For South Asia, this sequential harm is compounded by the fertilizer dimension: the Middle East and Gulf region is a primary source of nitrogen-based fertilizers for South Asian agricultural economies, and disruptions to fertilizer exports are projected to be a more consequential medium-term impact on food security than the immediate oil price fluctuations (Mobarak, 2026). Pakistan and Bangladesh, with large agricultural sectors and high fertilizer import dependency, face exposure to this secondary food security channel.

Goldman Sachs modelling of the conflict's oil price implications provides a useful quantitative anchor: the bank estimated that a full four-week

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halt in Strait flows would add approximately USD 12 to 15 per barrel to oil prices even after utilizing spare pipeline capacity, with the impact declining to USD 4 per barrel for a partial 50 percent closure over one month (Goldman Sachs, 2026). As of 19 March 2026, the conflict has exceeded the four-week threshold identified in Goldman Sachs modelling as the boundary condition for severe market impact, with no resolution in sight. For South Asian economies importing 70 to 95 percent of their petroleum requirements at prices that have more than doubled from pre-conflict baselines, the macroeconomic consequences are no longer speculative: they are already visible in fuel rationing, currency depreciation, emergency fiscal measures, and escalating social pressures across all four case economies.

Aviation and Trade Route Disruption

A dimension of the conflict's economic impact with relevance to the remittance transmission channel is the closure of regional airspace. The UAE, Qatar, Kuwait, Bahrain, and other Gulf states closed their respective airspaces following Iranian strikes, generating over 4,000 daily flight cancellations and stranding hundreds of thousands of passengers globally (Ratner et al., 2026). Major South Asian carriers including Air India, IndiGo, and Biman Bangladesh Airlines suspended services to the Middle East, disrupting the movement of migrant workers in both directions and preventing new labor deployment to GCC destinations (Ratner et al., 2026). The disruption to aviation corridors represents a structural interruption to the labor mobility pipeline that sustains South Asian remittance flows: new workers cannot deploy to GCC positions, and existing workers facing displacement cannot be efficiently repatriated without the airspace corridors through which South-to-Gulf migration primarily operates.

THE ENERGY SHOCK: COUNTRY-LEVEL ANALYSIS

The following country-level analysis documents pre-crisis structural exposure, the specific impact mechanisms triggered by the 2026 conflict, the emergency policy responses deployed, and the residual vulnerabilities that persist as of 19 March 2026. Table 3 presents the pre-conflict energy import profile for all four countries.

Table 3: Pre-conflict energy import profile: Bangladesh, Sri Lanka, Nepal, and Pakistan (2025)

Indicator	Bangladesh	Sri Lanka	Nepal	Pakistan
Energy import dependency	95%	100%	100% (petroleum)	85%
LNG sourcing (% from Qatar/UAE)	High (spot reliance > 50%)	Moderate; Singapore/Malaysia also used	N/A (no LNG imports)	High (spot reliance > 50%)
Crude oil sourcing (% from Gulf)	~80% via Hormuz; Saudi Aramco/ADNOC contracts	~90%; includes Iranian-built refinery	Imports via India; India Gulf dependent	>85% via Hormuz; majority Gulf states
Strategic petroleum reserves	Low; estimated <30 days	6 weeks at rationed levels	Very low; pass-through from India	20 days
Prior energy crisis experience	2022 LNG price shock; rolling blackouts	2022 sovereign debt/fuel crisis	Periodic fuel queues; hydro-dependent electricity	2022 to 2023 fuel crisis; circular debt

Sources: (Jeyaretnam, 2026; Reynolds & Iyer, 2026; Roy, 2026; Rozansky, 2026; Suryamurthy, 2026b).

Bangladesh

Structural Exposure

Bangladesh presents the most acute case of energy shock vulnerability among the four countries examined. The country imports approximately 95 percent of its energy requirements, including oil, LNG, and coal, and its power generation system relies heavily on gas-fired plants supplied through spot LNG purchases from Gulf exporters (Khan, 2026a; Mishra, 2026). This structural configuration was already identified as a critical risk by energy analysts following Bangladesh's 2022 experience of severe shortages driven by the global LNG price spike in the wake of the Russia-Ukraine conflict; yet, as Gupta (2026) noted,

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Bangladesh made limited progress in diversifying sources, securing long-term contracts, or expanding strategic reserves infrastructure in the intervening three years. The country's annual crude oil imports total approximately 1.4 million metric tons under long-term supply agreements with Saudi Aramco and the Abu Dhabi National Oil Company: both of which require transit through the Strait of Hormuz (Khan, 2026a).

Shock Impacts

The impacts on Bangladesh emerged within days of the conflict's onset. As Qatar Energy declared force majeure on 2 March 2026, Bangladesh's LNG supply pipeline was immediately severed at its primary source. Rahman (2026) reported that at least 30 of Bangladesh's 143 power plants were non-operational due to gas or liquid fuel shortages by early March, and the government was forced to reduce gas supply to power plants and fertilizer industries by up to 200 million cubic feet per day, triggering immediate load shedding. Power cuts doubled to as much as five hours per day, forcing garment factories: the backbone of Bangladesh's export sector, accounting for the majority of the country's foreign exchange earnings; to rely on diesel-powered backup generators at a time of acute diesel rationing (Khan, 2026a). Critically, gas shortages forced the closure of four of Bangladesh's five state-run fertilizer factories, raising medium-term food security concerns as the planting season approaches (Khan, 2026a).

The government's attempts to procure spot LNG encountered an empty market: officials reported that international spot tenders attracted no bids as all available cargoes were absorbed by higher-paying buyers (Rahman, 2026). Replacement LNG cargoes were eventually sourced from the United Kingdom and South Korea at prices more than double the previous spot rates, with the government choosing to absorb the additional cost through subsidies rather than pass it to consumers; a decision that significantly expanded the fiscal burden and raised concerns about compliance with Bangladesh's IMF program, which requires progressive elimination of energy subsidies (Gupta, 2026). The government sought an additional BDT 24,000 crore in subsidy financing for LNG and fuel imports, while transport costs rose sharply as diesel rationing reduced supply to transport operators (Gupta, 2026)..

Emergency Policy Responses

Bangladesh's emergency measures were among the most comprehensive in the region. Universities: both public and private; were closed from 10 March 2026, with Eid holidays brought forward. Fuel sales were rationed from 6 March, with daily limits on vehicle refueling. Troops were stationed at oil depots to prevent hoarding. Emergency diesel was sourced from China and India as Bangladesh pivoted away from Gulf suppliers. Government employees shifted to work-from-home arrangements, and decorative lighting was prohibited (Anadolu and Reuters, 2026; Meredith, 2026; Richter, 2026). The monthly diesel consumption target was reduced from 380,000 metric tons to approximately 270,000 metric tons through rationing (Khan, 2026a).

Sri Lanka

Structural Exposure

Sri Lanka imports virtually all of its crude oil: its single operational refinery, built by Iran in the 1960s, processes Gulf crude; and buys refined petroleum products from Singapore, Malaysia, and South Korea (Jeyaretnam, 2026). The country has no domestic oil or gas production and relies on coal imports for electricity generation. Sri Lanka entered the 2026 crisis from a position of acute institutional fragility: still under IMF program management following its 2022 sovereign debt crisis, with constrained foreign exchange reserves and a population sensitized to fuel shortages after experiencing inflation exceeding 50 percent and extended queues at petrol stations just four years earlier (Jeyaretnam, 2026; Roushan, 2026). As Capital Economics identified Sri Lanka among the emerging market economies with fragile balance sheets most exposed to an interest rate increase in response to the crisis (Bahree, 2026), the country faces fiscal constraints that severely limit its ability to subsidize energy cost increases.

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Shock Impacts

Sri Lanka's fuel reserves were estimated at approximately six weeks of supply at rationed consumption levels as of 15 March 2026 (Jeyaretnam, 2026). Petrol prices rose by approximately 18 percent following the conflict's outbreak, while imports of non-essential goods were restricted to protect foreign exchange reserves (Ahmad & Raina, 2026). The government issued emergency spot purchase tenders for over 90,000 tons of crude oil and arranged procurement of 300,000 tons of coal from an Indian supplier to support the power grid (Jayasinghe, 2026). Sri Lanka's fragile foreign exchange position meant that even the existing level of import cost escalation placed significant strain on the reserve buffer accumulated since 2022, with high global prices limiting fiscal room to absorb costs (Roushan, 2026). The geopolitical proximity of the conflict also manifested directly: a US strike on an Iranian naval vessel occurred in waters near Sri Lanka, and a second Iranian warship docked in Sri Lankan ports, raising complex diplomatic sensitivities for a country that imports Gulf crude and hosts an Iranian-built refinery (Jeyaretnam, 2026).

Emergency Policy Responses

Sri Lanka launched a QR code-based digital fuel authorization system on 15 March 2026, requiring vehicle owners to register online and receive weekly quotas: 15 liters for cars, 5 liters for motorcycles, and 60 liters for buses (Khan, 2026b; Siddiqui, 2026). A four-day work week was introduced with Wednesdays as a public holiday for government and public education employees. Schools and universities shifted to four-day operations. Essential services including hospitals continued at full capacity, while priority in fuel distribution was given to farmers, fishers, and the tourism sector (Jayasinghe, 2026). The government indicated that supply shipments would cover national demand until end of April 2026 under the rationed regime.

Nepal

Structural Exposure

Nepal presents a structurally distinct case within the four-country analysis: the country imports 100 percent of its petroleum products from India through a single bilateral supply relationship with the Indian Oil Corporation, and has no LNG imports, relying on hydropower for the majority of its electricity generation (Roushan, 2026; Roy, 2026). Nepal's energy exposure to the 2026 Iran War is therefore indirect: it is transmitted through the price escalation of refined petroleum products imported from India, which is itself a major Gulf crude importer facing its own supply crisis. The Nepal Oil Corporation acts as the sole state importer of petroleum products, and its pricing is calibrated to the cost of procurement from India. This indirect transmission mechanism means Nepal is insulated from the immediate LNG supply disruption that devastated Bangladesh, but it is fully exposed to the pass-through of oil price inflation from India's import cost escalation.

Shock Impacts

The Nepal Oil Corporation reduced fuel supplies to dealers by approximately 20 percent and raised petrol and diesel prices sharply to ensure timely payments to the Indian Oil Corporation and maintain supply flows (Khan, 2026b). Transport strikes in Kathmandu disrupted food delivery networks, pushing rice and vegetable prices upward and widening the food security implications of the energy shock (Ahmad & Raina, 2026). Cooking gas rationing was introduced by mid-March, with consumers receiving half-filled cylinders as the government managed the distributed shortfall (Jeyaretnam, 2026). Nepal's airspace disruptions had an additional economic dimension: all flights between Kathmandu and Gulf destinations including Doha, Abu Dhabi, and Dubai were suspended following the imposition of Gulf airspace restrictions, with private carrier Himalaya Airlines cancelling all Middle Eastern routes indefinitely (Roy, 2026). This disruption interrupted the labor mobility pipeline critical to Nepal's remittance economy.

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Emergency Policy Responses

Nepal implemented fuel-saving directives across government ministries and restricted official vehicle use to essential duties. Discussions were underway regarding an odd-even private vehicle restriction scheme for Kathmandu, depending on the depth of the crisis (Roushan, 2026). The government temporarily suspended labor migration permits to 12 GCC and Middle Eastern nations including Saudi Arabia, UAE, Qatar, Kuwait, Bahrain, and Oman: a measure with far-reaching implications for remittance flows (Roy, 2026).

Pakistan

Structural Exposure

Pakistan imports over 85 percent of its oil and LNG through the Strait of Hormuz, primarily from Gulf states, with both crude oil and LNG spot purchases accounting for a substantial share of import volumes (Jeyaretnam, 2026; Reynolds & Iyer, 2026). Pakistan and Japan were identified by IEEFA (Institute for Energy Economics and Financial Analysis) as among the Asian economies sourcing over 90 percent of their crude oil from the Persian Gulf in 2025, making Pakistan's structural exposure among the highest in the region (Reynolds & Iyer, 2026). Pakistan entered the 2026 crisis with petroleum reserves estimated at approximately 20 days: a modest buffer relative to the conflict's duration and the depth of the supply disruption (Meredith, 2026). Pakistan's pre-existing macroeconomic fragility compounds its ERDS exposure: inflation stood at approximately 23 percent in February 2026 prior to the conflict, and the Pakistan Institute of Development Economics warned that sustained oil prices above USD 100 per barrel could add two to three percentage points to inflation (Ahmad & Raina, 2026).

Shock Impacts

Petrol prices in Pakistan rose by approximately 55 Pakistani rupees (USD 0.20) per liter within days of the conflict's outbreak, pushing retail prices above PKR 321 (USD 1.15) per liter; diesel climbed to approximately PKR 336 (USD 1.20) per liter (Ahmad & Raina, 2026; Rahman, 2026). The government raised state-controlled electricity tariffs by approximately 20 percent to encourage industries to shift from captive power generation to the national grid and curb LNG demand (Suryamurthy, 2026a). Capital Economics explicitly identified Pakistan as one of the emerging market economies most likely to be forced into central bank rate increases in response to the crisis, reflecting the expected inflationary pass-through of the energy shock into core price indices (Bahree, 2026). Pakistan also deployed naval warships to escort merchant vessels attempting to transit the Strait of Hormuz, one of the few South Asian countries to respond to the conflict with a direct military-logistical deployment (Meredith, 2026).

Emergency Policy Responses

Pakistan introduced a four-day work week for government employees with 50 percent of staff working from home on rotation. Schools in Punjab and Balochistan were closed for two weeks from 16 March 2026, and universities shifted to online delivery. Cabinet members agreed to forgo their salaries for two months as part of a symbolic austerity package. Fuel allowances were curtailed across the public sector (Ahmad & Raina, 2026; Siddiqui, 2026). Pakistan was also exploring procurement of Russian oil to diversify supply sources, following a precedent set during the 2022 sanctions environment (Khan, 2026b).

REMITTANCE SHOCK: COUNTRY-LEVEL ANALYSIS

The remittance channel operates through distinct mechanisms for each country, reflecting differences in diaspora scale, sectoral concentration in GCC labor markets, and the degree of macroeconomic dependence on remittance inflows. Table 4 presents the pre-conflict remittance and diaspora profile for all four countries.

Structural Basis of GCC Remittance Dependence

The GCC collectively hosts approximately 35 million foreign workers, with South Asians

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constituting the largest regional group (Chughtai, 2026). In the UAE, foreign nationals account for approximately 88 to 89 percent of the total population; in Qatar, 88 percent; and across the GCC as a whole, South Asians: predominantly Indians, Bangladeshis, Pakistanis, Nepalis, and Sri Lankans; occupy the construction, hospitality, retail, domestic work, and oil services sectors that are most directly affected by conflict-induced economic disruption (Migration Data Portal, 2026; Sahu, 2022; Wagle, 2024). Pre-crisis research from Capital Economics estimated that Gulf remittances constitute approximately 1 percent of India's GDP, between 3 and 5 percent for Bangladesh, Sri Lanka, and Pakistan, and nearly 10 percent for Nepal (Sri Lanka Guardian, 2026). These figures represent conservative lower-bound estimates; Nepal's remittance-to-GDP ratio has been recorded as high as 27 percent in recent years, reflecting near-total macroeconomic dependence on diaspora income flows (Migration Data Portal, 2025).

The theoretical reversal of remittances' countercyclical property is now empirically visible across all four case economies. Rather than providing a stabilizing buffer against the energy shock, Gulf remittances face concurrent disruption through three channels: the contraction of Gulf economic activity reducing migrant employment and incomes; the closure of regional airspace blocking labor mobility and new deployment; and the physical insecurity of migrant workers in conflict zones. As the Business and Human Rights Centre (2026) documented, at least 12 South Asian migrant workers: including Bangladeshis, Pakistanis, Indians, and Nepalis; were killed by Iranian missiles in the GCC countries in the conflict's first three weeks, with many more living in fear and uncertainty. The human casualty dimension of the ERDS is not merely macroeconomic: it reflects the direct physical vulnerability of workers whose labor sustains South Asian household economies.

Table 4: Pre-conflict GCC remittance and diaspora profile: Bangladesh, Sri Lanka, Nepal, and Pakistan (2025)

Indicator	Bangladesh	Sri Lanka	Nepal	Pakistan
Total remittances 2025 (USD bn)	USD 32.8 bn	USD 6+ bn (4yr total USD 24 bn)	USD 11 bn (approx. 27% of GDP)	USD 26.5 bn (8-month figure)
GCC share of diaspora employment	73.78% of migrant labor (2004 to 2025)	UAE primary destination; feminized flows	1.73 million workers in Middle East (March 2026)	4.9 million workers in GCC countries
Remittances as % of GDP	3 to 5%	3 to 5% (7.8% historically)	27% (near-total economic dependence)	3 to 5% (7.9% historically)
Primary GCC employer sectors	Construction; garments supply chain support; domestic work	Domestic work (female-dominated); construction; hospitality	Construction; security; hospitality; Nepal-Qatar corridor dominant	Oil services; construction; retail; hospitality
Key conflict vulnerability	Job loss in construction/retail as Gulf investment freezes	Domestic worker repatriation; sponsor household income loss	Labor permit suspension; aviation corridor closure	Oil sector job losses; repatriation pressure; currency depreciation

Sources: (Migration Data Portal, 2026; Roy, 2026; Salve, 2026; Sri Lanka Guardian, 2026; Suryamurthy, 2026b).

Bangladesh

Bangladesh's remittance exposure to the 2026 conflict is structurally significant. In 2025, Bangladesh received USD 32.8 billion in total remittances, its highest recorded figure, with 73.78 percent of its migrant labor concentrated in GCC countries: Saudi Arabia alone accounting for 34.49 percent of Bangladesh's migrant workforce (Roy, 2026). The GCC sectors employing Bangladeshi workers: construction, security, domestic work, and retail; are precisely those identified as most vulnerable to Gulf conflict disruption by S&P country risk analysts (Singh,

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2026). The closure of GCC airspace by Biman Bangladesh Airlines from the conflict's outset interrupted the movement of workers in both directions, preventing new labor deployment and stranding workers unable to return (Ratner et al., 2026).

Suryamurthy (2026b) documented that if the conflict continues, Bangladesh faces a compound double blow: rising living costs from the energy shock and declining remittances as Gulf economic disruption reduces migrant income and employment security. Bangladesh's narrow fiscal space and its IMF program commitments mean that any significant decline in remittance inflows would directly widen the current account deficit and intensify pressure on the Bangladeshi taka at precisely the point when import costs are already escalating. The feedback loop between the energy and remittance channels of the ERDS is particularly acute for Bangladesh: a country with both the region's highest energy import dependency ratio and deep GCC diaspora concentration.

Sri Lanka

Sri Lanka's remittance dependence has a distinct gendered dimension that sets it apart from other South Asian cases. Sri Lanka has historically had the most feminized labor flows to the Gulf states in South Asia, with women playing a central role as breadwinners in domestic work and the care sector in GCC countries (Sahu, 2022). The UAE has been the primary destination, with Sri Lanka receiving over USD 24 billion in remittances over the four years to 2025 (Roy, 2026). Sri Lanka's remittance-to-GDP ratio has historically been recorded at approximately 7.8 percent, making it highly sensitive to GCC-sourced income disruption (Migration Data Portal, 2025).

The dual exposure of Sri Lanka to the ERDS is particularly destabilizing given its institutional context. The country emerged from its 2022 sovereign debt crisis having rebuilt foreign exchange reserves in part through remittance inflows from the Gulf diaspora. Any significant decline in those flows while import costs escalate would threaten the reserve adequacy achieved under IMF supervision and risk reigniting the currency and debt dynamics that produced the 2022 collapse. The high global oil prices are already placing additional strain on Sri Lanka's fragile foreign reserves with limited room to absorb rising import costs (Roushan, 2026). Sri Lankan domestic workers employed in UAE households face vulnerability to rapid repatriation if their sponsor families face economic disruption from the conflict: a risk that would simultaneously remove remittance income and impose repatriation costs on a government with narrow fiscal capacity.

Nepal

Nepal's case represents the most extreme remittance dependency among the four countries examined, with remittances constituting approximately 27 percent of GDP: a figure that understates the true household-level dependence given the concentration of male working-age population in GCC employment (Migration Data Portal, 2025). As of March 2026, there were 1.73 million Nepali workers in the Middle East, with 207,341 new workers having migrated to GCC countries in the first six months of the 2025 to 2026 financial year alone (Roy, 2026). Nepal's government took the extraordinary step of suspending labor migration permits to 12 GCC and Middle Eastern nations from the conflict's onset: a protective measure for worker safety that simultaneously terminates new remittance pipeline deployment and reduces the medium-term flow trajectory (Roy, 2026).

The loss of the aviation corridor between Kathmandu and Gulf cities is particularly consequential for Nepal. Himalaya Airlines, the private carrier that operated major routes to Doha, Abu Dhabi, and Dubai, suspended all Middle Eastern flights indefinitely following the airspace closures (Roy, 2026). This disruption severs the mobility infrastructure that sustains not only new labor deployment but also the remittance transfer ecosystem built around informal and formal channels associated with travel. The remittance inflow surge that preceded the conflict: a 39.1 percent increase in the first six months of the 2025 to 2026 financial year compared to a 4.2 percent

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increase in the same period of the prior year; represented a pre-crisis high that now faces acute risk of reversal (Roy, 2026).

Pakistan

Pakistan hosts approximately 4.9 million workers in GCC countries: the second-largest South Asian diaspora in the Gulf after India (Khalid, 2026). In 2025, Pakistan received approximately USD 26.5 billion in remittances in just the first eight months of the fiscal year (Suryamurthy, 2026b). These flows constitute a critical stabilizer for Pakistan's chronically challenged balance of payments: the country's current account is structurally reliant on diaspora transfers to offset its persistently wide trade deficit. Remittances from the Gulf contribute approximately 3 to 5 percent of GDP but represent a far larger share of foreign exchange inflows net of trade financing (Sri Lanka Guardian, 2026).

Pakistan's remittance exposure is compounded by sectoral concentration. Pakistani workers in the GCC are heavily concentrated in oil services, construction, and retail: sectors experiencing acute disruption as Gulf infrastructure is damaged, investment freezes, and economic activity contracts under wartime conditions (Singh, 2026). The depreciation pressure on the Pakistani rupee from the simultaneous energy and remittance shock is particularly severe: Pakistan was specifically identified by Capital Economics as among the emerging market economies where central bank rate increases are most likely in response to the inflationary impact of the conflict (Bahree, 2026). Any interest rate increase would increase the cost of Pakistan's substantial sovereign debt servicing obligations, creating a third-order fiscal stress dimension beyond the direct energy and remittance channels.

Cross-Country Synthesis: The ERDS Double Shock in Operation

Across all four case economies, the 2026 Iran War has triggered the dual transmission mechanism identified by the ERDS framework, with the two channels amplifying each other in precisely the manner theorized. Table 5 synthesizes the key ERDS indicators for each country.

Table 5: ERDS Synthesis: Energy and Remittance Shock Indicators by Country (as of 19 March 2026)

ERDS Indicator	Bangladesh	Sri Lanka	Nepal	Pakistan
Energy channel status	Critical: 30/143 plants offline; LNG supply severed	Acute: 18% price increase; 6-week reserves at ration	Indirect but significant via India pass-through	Severe: 20% tariff hike; 20-day reserves; naval escorts
Remittance channel status	High risk: aviation suspended; GCC construction freeze	High risk: UAE domestic worker repatriation threat	Critical: permit suspension; aviation corridor closed	High risk: oil sector job losses; currency depreciation
Fiscal buffer adequacy	Low: IMF program constraints; subsidy expansion needed	Very low: fragile reserves; 2022 crisis legacy	Very low: reliant on India; no independent buffer	Low: pre-existing inflation 23%; debt servicing pressure
ERDS intensity rating	Very High	High	High (via indirect channels)	Very High

Source: Authors' assessment

The ERDS intensity ratings in Table 5 reflect a qualitative synthesis of the three defining conditions: energy import dependency, GCC diaspora concentration, and fiscal buffer adequacy. Bangladesh and Pakistan are rated Very High due to the severity of their direct supply chain disruptions combined with deep GCC labor market exposure and thin fiscal buffers. Sri Lanka is rated High: its energy shock is acute but partially mediated by six weeks of rationed reserve cover, while its remittance vulnerability is significant though somewhat contained by the relatively smaller absolute size of its diaspora compared to Bangladesh and Pakistan. Nepal is rated High via indirect channels: its energy exposure is mediated through India, and its remittance disruption, while structurally the most existential in proportionate terms, is partially cushioned by the recent pre-

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crisis surge in inflows that built household-level reserves before the conflict's onset.

COMPOUNDING EFFECTS AND EMERGENCY POLICY RESPONSES

The ERDS framework anticipates a third-order layer of harm beyond the two primary transmission channels: the compounding of energy and remittance shocks into broader macroeconomic deterioration through inflation, currency depreciation, food insecurity, and fiscal strain. The following analysis documents these compounding effects and evaluates the emergency policy responses deployed across the four case economies.

Inflation and Currency Depreciation

All four economies entered the 2026 conflict with pre-existing inflationary pressures that the ERDS has sharply amplified. Bangladesh recorded an annual average inflation of approximately 10 percent in fiscal year 2024 to 2025: the highest in South Asia and driven in significant part by the taka's 43 percent depreciation against the US dollar since 2021, which generated a sustained pass-through effect on imported goods and energy inputs (Parvez, 2025). The ADB's December 2025 outlook had projected a moderate easing of Bangladesh's inflation to 8 percent in fiscal year 2026 under assumptions of favorable global oil prices and tight monetary policy: assumptions that the 2026 Iran War has fundamentally invalidated. Pakistan's pre-conflict inflation stood at approximately 23 percent in February 2026, with economists warning that sustained oil prices above USD 100 per barrel could add two to three percentage points to this already elevated baseline (Ahmad & Raina, 2026). Sri Lanka had achieved a remarkable disinflation trajectory following its 2022 crisis, moving into negative inflation by late 2024 and rebuilding consumer confidence; the conflict now threatens to reverse this recovery sharply).

The IEEFA analysis of the conflict's currency implications identifies a vicious feedback loop that is analytically central to the ERDS dynamic: as energy import costs rise and are denominated in US dollars, the demand for foreign currency increases; this pressures domestic exchange rates; currency depreciation then raises the local currency cost of subsequent energy imports further, even if global dollar prices remain unchanged (Reynolds & Iyer, 2026). IEEFA documented this mechanism following the 2022 energy crisis, when the Pakistani rupee's weakening left consumers paying elevated gas-fired power costs even after global LNG prices eased: a precedent with direct analytical relevance to the 2026 context (Reynolds & Iyer, 2026). For Bangladesh, Bangladesh purchased a spot LNG cargo at USD 28.28 per MMBtu during the conflict: nearly three times the pre-conflict spot price; while Pakistan halted LNG purchases altogether due to unaffordability, deepening its electricity supply crisis (Reynolds & Iyer, 2026).

Food Security: The Fertiliser Dimension

A compounding effect of the 2026 ERDS that has received insufficient analytical attention is the fertilizer supply disruption. The Middle East and Gulf region is a primary source of nitrogen-based fertilizers: urea, ammonia, and phosphates; for South Asian agricultural economies. Gulf exports of fertilizers are disrupted by the same Strait of Hormuz closure that has severed energy supply chains (Meredith, 2026; Mobarak, 2026). The closure of four of Bangladesh's five state-run fertilizer factories due to gas shortages compounds this external supply disruption with a domestic production collapse, creating a dual fertilizer supply shock with potentially severe consequences for the 2026 planting season (Khan, 2026a). In Nepal, transport disruptions from fuel shortages have already pushed rice and vegetable prices upward in Kathmandu, demonstrating the rapid transmission of energy shocks into food markets through logistics cost escalation (Ahmad & Raina, 2026; Rahman, 2026). For low-income South Asian households, which typically allocate 15 to 20 percent of income to food and energy combined, these compounding effects represent an acute welfare shock (Ahmad & Raina, 2026).

Mattei's (2026) analysis of global financial tightening as an underappreciated risk to South Asian food security provides additional analytical context: the conflict's effect on global credit

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conditions through inflationary pressure and central bank policy uncertainty could reduce supply flexibility among major agricultural exporters such as Brazil, amplifying regional food price volatility at a time when South Asian governments have the least fiscal room to deploy food subsidy stabilisers. For Bangladesh, which relies heavily on imported wheat and feed grains while maintaining large food subsidy programs, this indirect financial channel further compounds the direct energy and remittance shocks of the ERDS.

Fiscal Stress and Subsidy Expansion

Across all four case economies, governments have responded to the ERDS by absorbing energy cost increases through subsidy expansion rather than consumer price pass-through: a politically rational response that nonetheless imposes serious fiscal costs and in several cases conflicts directly with conditions attached to IMF program support. Bangladesh sought an additional BDT 24,000 crore in subsidy financing while choosing not to raise retail fuel prices, placing additional strain on an already constrained fiscal position and raising questions about IMF program compliance (Gupta, 2026). Sri Lanka's emergency fuel procurement: spot purchases of 90,000 tons of crude and 300,000 tons of coal; deployed foreign exchange reserves accumulated under IMF supervision at the precise moment when reserve adequacy is most strategically important (Jayasinghe, 2026). Pakistan's 20 percent electricity tariff increase and symbolic cabinet salary cuts reflect the government's awareness that full cost absorption is fiscally impossible, yet partial pass-through risks social unrest in a country with a documented history of fuel price-related protests (Richter, 2026).

The IEEFA analysis warns that subsidy expansion and monetary tightening offer short-term inflation relief but can weigh on capital markets and hinder national development priorities, creating a trade-off between immediate stabilization and medium-term growth prospects (Reynolds & Iyer, 2026). For all four economies, the fiscal cost of the ERDS response represents an involuntary realignment of development expenditure away from human capital, infrastructure, and climate transition investments toward emergency energy subsidy finance: a regressive outcome of great power conflict for non-belligerent developing states.

Social Stability and the Cost-of-Living Crisis

Richter (2026) assessment of the conflict's social implications for South Asia identifies Bangladesh and Pakistan as countries with documented histories of fuel-price-related protests and political instability, where the combination of rationing, price increases, and supply uncertainty significantly raises the probability of civil unrest. Bangladesh's government placed the military in charge of oil depots specifically to manage the risk of violent hoarding incidents and to signal state capacity for distribution governance. In Pakistan, fuel price increases of over 20 percent per liter within days of the conflict were absorbed during Ramadan: a period of heightened household expenditure and reduced income from daytime economic activity: producing visible household financial stress (Ahmad & Raina, 2026; Rahman, 2026). Across South Asia, the Intel Drop analysis documented that the Hormuz shock had by mid-March 2026 already translated into long queues at petrol stations, violent incidents between drivers and station owners, and elevated food prices in urban vegetable markets: the granular social manifestations of the macro-level ERDS at the household scale (Ahmad & Raina, 2026; Rahman, 2026).

DISCUSSION

The empirical analysis validates the ERDS framework as a theoretically coherent and empirically supported account of how non-belligerent South Asian economies experience Gulf conflict. The discussion that follows draws out the analytical implications of the framework and translates them into a structured policy reform agenda. The paper organizes its policy recommendations around three-time horizons: immediate crisis response; medium-term structural reform; and long-term resilience architecture.

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Validating the ERDS Framework

The 2026 Iran War provides the most robust real-world stress test the ERDS framework could encounter: a simultaneous Strait of Hormuz closure, GCC economic disruption, and airspace blockade occurring in the context of pre-existing macroeconomic fragility across all four case economies. The framework's three necessary conditions were met in all four cases, and both transmission channels activated within days of the conflict's onset. The feedback loop between channels: whereby energy import cost escalation widened current account deficits that then amplified currency depreciation, which further raised the local currency cost of remittance shortfalls; was observable empirically in Bangladesh and Pakistan, where import cost escalation and remittance uncertainty interacted to produce acute fiscal stress.

The framework also correctly predicted the reversal of remittances' countercyclical property in a Gulf conflict scenario. Unlike the COVID-19 shock of 2020, where remittances from GCC countries remained relatively resilient as Gulf economies continued to function, the 2026 conflict damaged the GCC economies as physical production hubs while simultaneously severing the aviation corridors that sustain labor mobility. This combination produced not merely a remittance flow reduction but a structural interruption to the labor deployment pipeline: Nepal's suspension of migration permits and the closure of Gulf-bound air routes by South Asian carriers are indicators of a disruption that will have multi-year effects on remittance trajectories even after the immediate conflict ends (Ratner et al., 2026; Roy, 2026)

The ERDS framework's third condition: limited macroeconomic buffer capacity; proved analytically decisive in differentiating the depth of impact across the four cases. Sri Lanka's six-week reserve position at rationed levels provided a meaningful short-run buffer that Bangladesh's much thinner stocks could not match, explaining the latter's more immediate resort to military deployment at oil depots and the closure of all universities within twelve days of the conflict's onset. The buffer condition demonstrates that ERDS vulnerability is not binary but scalar: while all four countries meet the structural conditions for ERDS exposure, the severity of acute impacts varies with the depth of reserves and the flexibility of fiscal space.

Immediate Policy Recommendations

In the immediate term, all four governments should prioritize supply chain diversification to reduce Hormuz exposure for their most critical energy product categories. Bangladesh's pivot to UK and South Korean LNG cargoes and Chinese and Indian diesel supply demonstrates the feasibility of emergency diversification at speed, even at substantial cost premium; the policy lesson is that pre-negotiated framework agreements with non-Gulf suppliers should be maintained as a standard element of energy security governance rather than improvised under crisis conditions (Gupta, 2026; Khan, 2026a). Pakistan's decision to deploy naval warships to escort merchant vessels represents a complementary approach: reducing the risk premium on Hormuz transit through direct security presence, though this is available only to countries with the naval capacity to project it (Meredith, 2026).

On the remittance channel, immediate policy priorities should include the establishment of bilateral migrant worker welfare protocols with GCC host governments: pre-agreed procedures for repatriation support, wage protection during conflict periods, and insurance mechanisms for workers in conflict-adjacent areas. Nepal's suspension of labor migration permits, while protective of worker safety, represents a blunt instrument that simultaneously interrupts remittance flows; a more calibrated approach would involve sector and geographic risk differentiation: suspending deployment to high-risk zones while maintaining flows from lower-risk GCC locations (Roy, 2026).

Medium-Term Structural Reforms

The medium-term reform imperative identified most consistently across the analytical literature is the acceleration of the renewable energy transition

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as an energy security rather than solely a climate policy measure. The IEEFA analysis documents that at current LNG prices the levelized cost of gas-fired electricity is three to four times the global average for solar and wind, making the economic case for accelerated renewables deployment independently compelling from a macroeconomic stability perspective (Reynolds & Iyer, 2026). Nepal's exceptional position: with more than 70 percent of new car sales being electric as of 2026 and a large hydropower base providing domestic electricity generation; illustrates that South Asian economies can reduce petroleum dependence through deliberate electrification and domestic clean energy development: Nepal is genuinely more resilient to the oil price shock dimension of the ERDS than its neighbors precisely because of these investments (Simon, 2026). Pakistan's solar buildout has similarly provided a partial cushion for the electricity sector, with analysts noting that domestic solar has reduced LNG demand significantly and given the country's electricity sector more buffer capacity than it would otherwise have had (Simon, 2026).

Khan and Mehrotra (2026) analysis argues that for Gulf-dependent economies the construction of strategic petroleum reserves: an expensive undertaking but one with high strategic value in a world of increasing geopolitical volatility; should become an urgent medium-term investment priority Japan's reserve position of 254 days of petroleum demand stands in stark contrast to Bangladesh's estimated 30 days and Pakistan's 20 days: the differential explains in large part the qualitative difference in crisis severity between Japan's managed response and South Asia's emergency rationing (Reynolds & Iyer, 2026). Building reserves requires fiscal space that the four case economies currently lack, suggesting that multilateral development finance: from the ADB, the World Bank, and bilateral development partners; should be directed toward strategic petroleum reserve infrastructure as an explicit component of energy security programming.

On the remittance channel, the medium-term reform agenda should address the structural concentration of South Asian diaspora employment in sectors most vulnerable to Gulf conflict disruption. The overwhelming concentration of Bangladeshi and Nepali workers in construction and security roles: exposed positions in a conflict environment; reflects a skills and credential structure that limits access to more resilient employment categories in hospitality management, technology, and professional services. Bilateral labor agreements with GCC governments that include upskilling provisions, sector diversification targets, and insurance portability mechanisms would reduce the vulnerability of remittance flows to Gulf economic disruption without requiring the wholesale reduction of diaspora populations (Ratha, 2023; Sahu, 2022).

Long-Term Resilience Architecture

In the long term, the ERDS framework points toward a broader structural transformation requirement: the decoupling of South Asian economic security from Gulf chokepoint dependence through domestic energy production, regional energy trade integration, and diaspora diversification. Alexander's (2026) analysis of the conflict's energy policy implications argues that continuing investment in renewable energy is the only durable pathway to energy security, as renewable generation costs have declined consistently over two decades and domestic generation eliminates chokepoint exposure entirely. Yusuf's (2026) analysis characterizes domestic renewable energy as a unit of strategic autonomy in the post-2026 security environment: a reframing of climate investment as national security investment that may prove more politically tractable in South Asian policy contexts where energy security arguments command greater political salience than climate commitments.

Regional energy integration through the SAARC framework: connecting Nepal's hydropower surplus to Bangladesh's and Pakistan's demand centers through cross-border grid infrastructure; represents a long-term resilience architecture that reduces external dependency without requiring the fiscal commitments of strategic petroleum

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reserves (Chaudhury et al., 2023; Ichord, 2023). Nepal and Bhutan's hydropower potential could serve as a regional clean energy anchor for South Asia, but realizing this potential requires the political will to advance cross-border energy trade agreements that have stalled for decades due to bilateral tensions and governance constraints (Ichord, 2023). The 2026 Iran War provides the most compelling case yet made for why South Asian governments should treat intra-regional energy integration as a strategic imperative rather than a diplomatic aspiration.

CONCLUSION

This paper has introduced and applied the Energy-Remittance Double Shock (ERDS) framework to analyze the developmental consequences of the 2026 Iran War for four South Asian non-belligerent economies: Bangladesh, Sri Lanka, Nepal, and Pakistan. Drawing on the economic vulnerability tradition of Briguglio (1995) and Briguglio et al. (2009), the development economics of remittances as articulated by Ratha (2013; 2023), and the geopolitical energy security literature on the Strait of Hormuz, the ERDS framework identified three necessary conditions for acute conflict-induced economic harm in non-belligerent developing economies: high fossil fuel import dependency routed through a single chokepoint; large GCC diaspora concentration generating remittance dependence; and limited macroeconomic buffer capacity. All four case economies satisfy these conditions, and the empirical record of the conflict's first nineteen days provides robust validation of the framework's transmission mechanisms and feedback loop dynamics.

The principal findings of the paper are threefold. First, the 2026 Iran War has triggered the most severe energy and remittance double shock in South Asia's post-independence economic history, with crude oil rising 51 percent and LNG 77 percent between 27 February and 9 March 2026 alone, while the simultaneous closure of GCC airspace, disruption of Gulf economic activity, and documented casualty of at least 12 South Asian migrant workers have activated the remittance channel of the ERDS with unprecedented simultaneity and speed (Business and Human Rights Centre, 2026; Reynolds & Iyer, 2026). Second, the severity of impact varies meaningfully across the four cases in ways that are precisely predicted by the ERDS framework's buffer condition: Bangladesh and Pakistan, with the thinnest reserve positions and the deepest structural energy dependency, have experienced the most acute immediate impacts; Sri Lanka and Nepal, with partial buffers and indirect transmission mechanisms respectively, face high but somewhat attenuated exposure. Third, the compounding effects of the two primary channels: through inflation, currency depreciation, fertilizer supply disruption, fiscal stress, and social instability risk; demonstrate that the ERDS constitutes a systemic developmental shock rather than a contained sectoral disruption.

The paper's policy contribution rests on the ERDS framework's capacity to move beyond post-hoc analysis of individual crises toward the identification of structural vulnerability configurations that predictably generate acute harm for specific categories of developing economy under Gulf conflict scenarios. The reform agenda: centered on emergency supply diversification protocols, accelerated renewable energy transition, strategic petroleum reserve construction, diaspora sector diversification, and regional energy integration; is not a crisis-specific response but a structural resilience program for the category of non-belligerent ERDS-exposed economies that South Asia's four case studies represent. The 2022 energy crisis, the 2025 Twelve-Day War, and now the 2026 Iran War constitute a pattern of recurring external shocks that will only intensify as Gulf geopolitics remain volatile and South Asian energy demand continues to grow. The ERDS framework offers policymakers and development economists a conceptual tool for anticipating and mitigating these shocks before the next conflict imposes their costs.

This paper acknowledges several limitations. The empirical analysis draws on conflict-period data that is inherently preliminary and in some cases

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unverified; the full macroeconomic consequences of the 2026 ERDS will only be quantifiable through the systematic data collection that follows conflict resolution. The four-country scope, while analytically sufficient to validate the ERDS framework, excludes other non-belligerent Gulf-dependent economies in South and Southeast Asia whose experiences would further test the framework's generalizability. Future research should extend the ERDS framework to panel data analysis across a larger set of economies, develop quantitative threshold measures for each of the three necessary conditions, and examine the differential resilience effects of renewable energy penetration and diaspora sector diversification through comparative case analysis. The 2026 Iran War, whatever its geopolitical resolution, has created a natural experiment of tragic scope in the economics of non-belligerent developing state vulnerability: the scholarly community should not allow its findings to go untheorized.

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