UNDP report exposes vulnerability of South Asia’s economies to US war against Iran

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28 April 2026

The US-led imperialist war against Iran is intensifying the economic crisis across the world, with South Asian countries among the worst hit as confirmed by a United Nations Development Programme (UNDP) report.

Washington’s indiscriminate bombing of multiple sites inside Iran triggered retaliatory strikes across the region. This led to the US blocking commercial shipping through the Strait of Hormuz, through which roughly one-fifth of the global energy supply normally passes. The blockade has significantly affected South Asian countries, where oil storage facilities are minimal.

Oil prices rose above $US119 a barrel in the first phase of the war. Freight charges soared, insurance premiums for vessels increased, and global markets were badly shaken. Although oil prices later fell, they have surged once again to $106 per barrel.

The UNDP report entitled *Military Escalation in the Middle East: Human Development Impacts Across Asia and the Pacific* (April 2026) warns that higher fuel, freight, and input costs are “diminishing household purchasing power, raising food insecurity, straining public budgets, and weakening livelihoods” in underdeveloped Asian countries.

“Rising living costs are squeezing poor and near-poor households, while food and fertilizer prices increase, hitting ahead of key planting cycles, threaten to deepen food insecurity… Employment losses are concentrated in informal and micro, small and medium enterprise (MSME)-intensive sectors. Women, migrants, and low-income households face the greatest risks,” the report notes.

South Asia accounts for the largest share of people being pushed into poverty by the Iran war—the UNDP estimates an additional 8.8 million—with the region particularly exposed to rising food and energy costs and falling remittances.

Asia-Pacific regional output losses are estimated to range between $97 billion and $299 billion, with South Asia alone suffering losses of over $183 billion and as much as 3.6 percent of its GDP. This is not accidental. South Asian economies are an integrated part of global supply chains, dependent on imported fuel, remittances from migrant labour in the Gulf, and foreign borrowing.

The report warns that Sri Lanka is being hard hit by the rising cost of fuel, falling tea exports, declining tourist visits, dwindling remittances from overseas workers, and rising debt repayments.

A recent World Food Programme (WFP) report noted that, because 80 percent of remittances were from the Gulf, “any slowdown would weaken household incomes, pressure the rupee, and strain foreign reserves.”

The WFP pointed out that Sri Lanka imported $2.5 billion worth of food in 2025, making it particularly vulnerable to higher food costs, and referred to the country’s dependence on imported oil for much of its electricity. It estimates that Sri Lanka is currently losing $10–15 million per week in tea exports and that tourist arrivals fell from an average of 9,976 a day in February to 5,956 a day from March 1 to 8—a collapse of roughly 40 percent.

In 2022, Sri Lanka experienced an economic collapse, triggered by COVID-19 and the proxy war against Russia in Ukraine, resulting in the Rajapakse government announcing a foreign debt default while imposing fuel price rises, extended power cuts, and major shortages of essential goods.

While mass nationwide protests forced the resignation of Rajapakse, successive Colombo governments—the Wickremesinghe administration and, since 2024, the Dissanayake regime—have systematically imposed International Monetary Fund-dictated austerity measures. These include tax hikes, electricity and utility price increases, and the privatisation of state-owned enterprises, increasing the number of people in extreme poverty by 25 percent to about 5.5 million.

The UNDP notes that India—the biggest economy in South Asia—imports over 90 percent of its oil needs, with more than 40 percent of crude imports and 90 percent of LPG imports coming from the Middle East.

Middle Eastern countries provide more than 45 percent of India's fertilizer imports, with 85 percent of India's domestic urea production dependent on imported re-gasified liquefied natural gas (RLNG). They also account for 14 percent of India's exports and over 20 percent of imports, with $48 billion in non-oil exports at risk, including rice, tea, gems, jewellery, and garments, because of the ongoing Middle East conflict.

In the medical sector, raw material costs for devices are expected to increase by about 50 percent because of disruptions around the Strait of Hormuz, while wholesale medicine prices have already risen by 10 to 15 percent.

The impact on jobs in India is expected to be severe, especially in micro, small and medium enterprise (MSME)-based sectors, which depend on imported energy and raw materials or are tied to Gulf-related trade.

India also has the largest expatriate workforce in the Gulf. The report cites 9.37 million Indians living in Gulf countries, sending back 38–40 percent of India's foreign remittances. It shows that, under the developing scenario, 2.46 million more people in India could be pushed into poverty.

According to the report, the number of those living in poverty is expected to rise from around 400,000 to 2.5 million in India, and in Pakistan from about 73,000 to over 420,000.

Pakistan is especially exposed, with more than half of its remittance inflows coming from Arab countries. The UNDP report warns that Pakistan's food inflation could rise by up to 5 percentage points under in a prolonged conflict involving Iran.

Remittances account for 26 percent of Nepal's GDP, with 41 percent of inflows coming from the Middle East. At the same time, Nepal's fuel reserves are dangerously low. As of March, storage tanks were only 80 percent full—enough for about 10 days of petrol and diesel demand—with no LPG stock.

Bangladesh, whose garment industry is central to export earnings, faces serious logistics disruptions. The report says Gulf carrier cancellations stranded shipments from Bangladesh and India, while more than half of Bangladesh's air cargo normally transits through Gulf hubs. It points out that Bangladesh could see tens of thousands more people pushed into poverty.

The report states that labour market effects in South Asia will be "regressive," with low-skilled workers hit hardest. A one percentage point decline in GDP growth is associated with a 2-percentage-point increase in unemployment among lower-skilled workers. Women workers, migrants, and informal labourers are singled out as the most vulnerable.

The US war against Iran is inseparable from the broader descent into global war. South Asia's ruling elites, whether aligned with Washington, Beijing, or balancing between them, will only deepen their attacks on the working class and the masses through increased austerity and social repression.

The only progressive answer is the independent mobilisation of the working class across South Asia, the Middle East, and internationally against war, IMF austerity, and capitalism itself. This means fighting for workers' governments and socialist policies that place society's resources under the democratic control of the working class to meet human need, not profit and geopolitical plunder.