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Weaponisation of Energy: Economic Vulnerability and Policy Responses in Developing Economies in the Context of the US-Iran Conflict

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Weaponisation of Energy: Economic Vulnerability and Policy Responses in Developing Economies in the Context of the US–Iran Conflict

Muhammad Ali Khan, Dr Syed Adnan Ali Shah Bukhari and Dr Syed Aziz Rasool[*]

ABSTRACT

This study investigates the economic vulnerability of developing economies due to the weaponisation of energy that can stem from the US–Iran conflict and outlines policies to enhance resilience. It applies document analysis and thematic analysis to 27 unique institutional, policy and academic documents. Four themes were developed: (1) energy as a geopolitical instrument; (2) inflation and economic vulnerability; (3) dependency on energy and economic vulnerability; and (4) policy responses and economic resilience. The analysis indicates that energy weaponisation affects developing economies beyond energy prices alone, through exchange rates, import bills, fiscal space, supply chains and investor confidence. Such impacts are especially strong in energy-importing countries with small foreign-exchange reserves, low institutional capacity and limited fiscal space. The examples of Pakistan, Sri Lanka and Bangladesh illustrate the interaction of external energy shocks with domestic macroeconomic vulnerabilities. The study also indicates that short-term subsidies and emergency interventions do not mitigate structural exposure. Investment in renewables, energy diversification, regional cooperation and stronger institutions are thus complementary measures that address structural exposure, while strategic reserves only cushion short-term supply disruptions.

Keywords: Energy Weaponisation, Economic Vulnerability, Geopolitical Risk, Energy Security, Developing Economies, Economic Resilience, US–Iran Conflict.

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1. INTRODUCTION

Energy has become a strategic commodity and is increasingly a geopolitical tool used by states to pursue their foreign policy interests, to gain influence and to influence international economic outcomes. Energy resources and energy supply chains are increasingly deployed as instruments of political negotiation, a practice termed the 'weaponisation of energy' in international politics. Tensions between the United States and Iran have recently raised fears that energy systems are vulnerable, with possible consequences for the stability of the global economy, especially in developing economies.

The US–Iran stand-off is linked closely to the Strait of Hormuz, a vital energy chokepoint that sees significant oil and LNG traffic from around the world. Due to its strategic significance, geopolitical risks can impact energy markets before any prolonged physical disruption occurs, as the anticipation of a supply shortage can increase the risk premia, transportation costs and energy prices. According to the U.S. Energy Information Administration (EIA 2025), oil flows through the Strait of Hormuz averaged approximately 20 million barrels per day in 2024, equivalent to around 20% of global petroleum liquids consumption, making it one of the world's most important oil chokepoints. The impact of such disruptions is especially significant for the energy importing developing economies, since the price of energy can have a dramatic impact on inflation, external balances, currencies and fiscal conditions.

Recent geopolitical events have shown that energy-related disruptions can rapidly spread economic shocks from one region to another. Energy price shocks are increasingly recognised not as short-term supply shocks but as sources of long-term inflationary pressures. For instance, the Chief Economist of the European Central Bank, Philip Lane, recently stated that war with Iran would likely have a bottom-line effect on inflation in the form of 'second-round' impacts on economic activity, in addition to the direct impact of rising energy prices (Reuters 2026a). Similarly, the Governor of the Bank of Japan warned that temporary energy shocks that affect business expectations, wage negotiations and consumer behaviour may turn into persistent inflationary pressures (Reuters 2026b). Advanced economies have greater fiscal capacity, strategic petroleum reserves and more diversified energy portfolios, which makes them less vulnerable to external shocks than developing economies. The developing world continues to be highly vulnerable to imported energy supplies, and is subject to foreign exchange problems, budget deficits and structural economic deficits. In this context, energy price rises may lead to inflation, worsening trade deficits, currency volatility and growth slowdown. The situation is especially stark in the economies of South Asia, where energy needs are growing and countries are heavily reliant on imports, resulting in their vulnerability to external geopolitical shocks.

Geopolitical energy shocks have economic impacts that go beyond oil price effects to inflation, exchange rate stability, external balances, investment conditions and policy space. Recent empirical studies show that energy price shocks can generate complex

reactions in exchange-rate dynamics and inflation, and can affect countries differently depending on their energy import dependence and institutional capacity (Mirza et al., 2023; Lebrand et al., 2024). Research on the renewable energy transition also indicates that geopolitical risks do not impact the countries equally: financial and institutional barriers could make it difficult for developing economies to use geopolitical challenges as an opportunity to decarbonise their energy mix at a quicker pace (Li et al., 2026). Much of this literature, however, focuses on the individual transmission mechanisms on a quantitative level, rather than combining energy weaponisation, structural vulnerability and policy resilience in one framework of a qualitative approach to the development of economies. This study fills that gap by examining these interlinked economic and policy processes that geopolitical energy shocks can have on developing economies through thematic analysis, focusing specifically on the experience of South Asia. It thus poses the following questions. What are the impacts of the weaponisation of energy in the US–Iran conflict on the economic vulnerability of developing economies, and which policy interventions can boost economic resilience?

2. LITERATURE REVIEW

2.1 Energy Weaponisation and Geoeconomics

The importance of control over resources, infrastructure and transit routes extends beyond economic exchange, and energy has become increasingly significant on the geopolitical level in recent years. Energy weaponisation refers to the intentional use of energy resources, energy supply chains, energy infrastructure and energy transport as instruments of geopolitical pressure (Umbach 2010). The view is in line with the general idea of geoeconomics, which is the use of economic means to achieve geopolitical ends (Blackwill and Harris 2016). This is an argument that has been reinforced by recent empirical evidence, which shows that geopolitical risk can also have an impact on the direction and/or pace of the energy transition. For instance, geopolitical risks can have an impact on the renewable energy transition via resource rents, economic openness and technological innovation, as shown by He et al. (2025); meanwhile, in developing economies with tighter institutional and financial constraints, geopolitical risk can hinder adoption of renewable energy, as demonstrated by Li et al. (2026). This indicates that the energy weaponisation phenomenon is more than just the disruption of energy supplies; it is a way to gauge how geopolitical uncertainty affects expectations, investment, energy transition choices and macroeconomic stability.

2.2 Energy Security and Economic Vulnerability

Energy security is a key aspect of economic resilience, as reliable and affordable energy is necessary for production, transportation and household welfare. Vulnerability is higher for developing economies in situations where energy supplies are inadequate, and reliance on imported fossil fuels is high. The link between the two is not just physical: external energy shocks can impact the economy on multiple fronts, including inflation, exchange rates,

trade balances and fiscal conditions. Recent empirical evidence shows significant exchange-rate and inflationary effects of energy price shocks, especially when exchange-rate pass-through is high (Mirza et al., 2023). Likewise, the data from emerging and developing economies suggest that increases in oil prices have a negative impact on the current accounts of oil-importing countries and thus increase their external vulnerability (Lebrand et al., 2024). Therefore, it is not only important to view energy security from an energy sector perspective, but also from a macroeconomic and institutional perspective. Limited foreign exchange reserves combined with limited fiscal capacity and weak institutions do not provide economies with as many options to absorb externally generated energy shocks.

2.3 Transmission Channels of Energy Shocks in Developing Economies

Developing economies are affected by energy shocks through multiple interlinked transmission channels. The first channel is the import-cost channel, that is, an increase in the cost of internationally traded oil and gas raises the cost of domestic energy, transportation and production. This can create a current-account imbalance for net energy importers and put pressure on foreign-currency reserves. Lebrand et al. (2024) offer empirical evidence that positive oil-price shocks negatively affect current-account positions in oil-importing emerging and developing economies – oil-price shocks have a greater impact than natural-gas or coal-price shocks. An increase in the cost of imported energy in domestic currency can compound the effects of exchange-rate depreciation.

The second channel is inflation. Energy is an immediate factor in the cost of household living and is an indirect factor in the cost of transportation, industry, agriculture and services. Mirza et al. (2023) demonstrate that energy price shocks can interact with the exchange-rate pass-through to raise domestic energy prices. A third channel involves investment and financial conditions, as geopolitical uncertainty can raise the risk premium and decrease investor confidence and financial conditions. These channels are not discrete but reinforce each other. This interdependence is one reason that energy intensive developing countries may be especially vulnerable to economic consequences from geopolitical events.

2.4 Economic Resilience and Policy Responses

Resilience of an economy is the ability to withstand, adapt and recover from external shocks (Briguglio et al., 2009). Energy weaponisation calls for more than emergency response for resilience – there is a need for long-term solutions to the problem of dependence on imported energy. IRENA's World Energy Transitions Outlook 2023 identifies renewable energy, electrification, and energy efficiency as key components of the transition pathway, supported by investment, infrastructure and enabling policy frameworks (IRENA 2023). Complementing this strategic perspective, IRENA's Renewable Capacity Statistics 2024 provides country-level data on installed renewable power capacity through 2023, offering a useful basis for examining progress in energy diversification (IRENA 2024). While there

is a positive relationship between renewable energy investment and the reduction in risks of disruption in fossil fuel supply, recent studies have pointed out that, due to differences between developing and advanced economies in institutional capacity and financial resources, the impact of geopolitical uncertainty on the former may be different from the latter (Li et al., 2026). In addition to diversification, regional energy cooperation, strategic energy reserves, energy efficiency and better macroeconomic institutions can help limit vulnerability to individual energy supply shocks. Evidence from Pakistan also highlights the environmental implications of energy consumption: Rasool et al. (2021), using an extended STIRPAT model, report a positive and statistically significant association between total energy use and CO_2 emissions, underscoring the importance of considering the environmental as well as the economic dimensions of energy policy. The literature thus suggests a difference between shock absorption and structural resilience: reserves, subsidies, and emergency funding can cope with shocks, while diversification, institutional strengthening and renewed investment can tackle vulnerabilities that are at the root of shocks. The distinction provides the analytical framework for interpreting the findings of the policy analysis in this study.

3. METHODOLOGY

This study is qualitative, using a documentary approach within an interpretivist paradigm. This is suitable because the research question is not about estimating a single causal relationship but about the meaning, mechanisms and policy implications of geopolitical energy disruptions. The analysis focuses on how the weaponisation of energy may create multifaceted economic vulnerabilities and on policy responses to address them.

3.1 Data Sources and Selection

Documentary research is based on information from international institutions, government and central-bank publications, peer-reviewed academic research, policy documents and selected, reputable, financial-news reporting. The final analytical corpus consisted of 27 unique documents retained after screening the initially identified sources against the inclusion and exclusion criteria and removing duplicate documents. Foundational conceptual and methodological works were consulted separately to inform the theoretical framing and analytical procedure and were not counted as substantive documents in the final analytical corpus. The main institutional sources were: International Energy Agency (IEA 2024; 2026a; 2026b), Asian Development Bank (ADB 2024), International Renewable Energy Agency (IRENA 2023; 2024), International Monetary Fund (IMF 2023; 2024; 2026), World Bank (2024), World Economic Forum (WEF 2024), State Bank of Pakistan (SBP 2024) and U.S. Energy Information Administration (EIA 2025). Empirical interpretation of the relationships between energy prices, exchange rates, inflation and the renewable transition was based separately on academic sources. These sources were selected based on targeted searches of keywords including ‘energy weaponisation’, ‘geopolitical risk’, ‘energy security’, ‘energy price shocks’, ‘oil price shocks’, ‘economic

vulnerability', 'developing economies', 'renewable energy transition' and 'US–Iran conflict' as well as country-specific terms for Pakistan, Sri Lanka and Bangladesh. The institutional repositories were prioritised for the official statistics and policy evidence, and peer-reviewed journal literature was prioritised for explanations of the mechanisms of transmission. Documents were retained if they touched upon energy security and geopolitical risk, energy prices, vulnerability or resilience of macroeconomies, and if they were published by an authoritative institution, peer-reviewed journal or established news organisation, and if they provided evidence on at least one of the research themes. Documents were excluded because of the following: unsupported claims, duplication of another document, insufficient methodological or evidential support, and/or lack of direct relevance to the research question. The study focuses on the contemporary geopolitical environment, and therefore more weight was given to research that was published in the last three years (2023–26).

3.2 Analytical Procedure

To identify and interpret the common patterns in the documents, thematic analysis was used. The analysis procedure followed that of Braun and Clarke (2006, 2021), which included familiarisation with the documents selected, generating initial codes, examining relationships between codes, developing and refining themes and interpreting the final themes in relation to the research question. The coding scheme was inductively created from research questions and literature, and then additional patterns were discovered in the documents. The initial codes were: Energy dependence, Supply disruption, Oil-price volatility, Inflation, Exchange-rate pressure, Current-account effects, Fiscal constraints, Investor confidence, Renewable energy transition, Regional cooperation and Institutional capacity. These initial codes were subsequently clustered into four analytical themes: (1) energy as a geopolitical instrument; (2) inflation and economic vulnerability; (3) dependency on energy and economic vulnerability; and (4) policy responses and economic resiliency. Evidence from institutional and academic sources was compared using a source-by-theme matrix. Coded passages were re-checked against the research question, and themes were treated as consistent patterns when they appeared in several sources, in order to assess coding consistency. Thematic sufficiency was assessed by considering whether additional documents generated substantively different patterns or required the development of new themes. The analysis was considered sufficient when further documents reinforced the existing themes without materially changing the analytical framework. This approach is consistent with the reflexive nature of thematic analysis, in which coherence between the research question, coding process and resulting themes is central to analytical quality (Braun and Clarke 2021; Byrne 2022).

3.3 Triangulation and Analytical Credibility

The study deliberately uses an institutional approach to evidence and relies on peer-reviewed academic research. While institutional reports offer up-to-date information on

energy markets, macroeconomic conditions and policies, they may also reflect the mandate and priorities of the institution producing the report. Academic research was therefore used to test whether the mechanisms identified in institutional documents are supported by independent empirical research. Differences in the data were not necessarily treated as inconsistencies but were analysed in light of the country's characteristics, energy import dependence and institutional capacity and the nature of the shock studied.

The analysis should thus be regarded as a qualitative synthesis of the documentary material, not as a systematic literature review or as a statistical causal estimation. The method offers analytical richness and policy interpretation, but the results are patterns in selected evidence and not estimates that can be generalised statistically to all developing economies.

4. FINDINGS AND DISCUSSION

4.1 Energy as a Geopolitical Instrument

The analysis shows that energy serves not only as an economic factor but also as a geopolitical one. The indications are that, before a significant disruption of physical supply, control over resources, export corridors, sanctions and critical infrastructure can impact market expectations. The difference here is crucial, as the weaponisation of energy involves not only disruption but also uncertainty. The latter can further lead to higher risk premia, freight rates and precautionary behaviour of business and investors. The strategic significance of the Strait of Hormuz is a good example of this mechanism, as it is a major route for oil and LNG transportation, and there are few alternative routes available (IEA 2026a; 2026b). Vulnerability can arise in developing economies before a shortage has been measured, because expectations of disruption can affect energy prices, currencies and investment conditions.

The findings also show that the weaponisation of energy goes beyond disruptions to energy infrastructure. Uncertainty in the financial and commodity markets can result from geopolitical tensions, which can lead to more speculative market activity and price volatility. As geopolitical fragmentation grows, it increasingly affects global investment flows, commodity markets and inflation expectations, especially in energy-dependent economies (IMF 2023). So, the economic impact of geopolitical tensions is often channelled into markets prior to the onset of supply events. The economic sanctions imposed on Iran and the geopolitical pressure that it has been subjected to have also served as a good example of how economics can be a tool for geopolitical pressure. Iran's oil exports, shipping industry and financial transactions have been seriously hindered by energy-related sanctions, which have also added to the overall instability of the international oil market. The developments underscore the interdependency of geopolitics, energy security and economic vulnerability.

Recent evidence further indicates that energy weaponisation now takes place mostly through market expectations and financial uncertainty, rather than through direct physical

disruption. Reuters (2026c) reported that monthly crude-oil exports from the Middle East fell from approximately 75 million metric tonnes before the crisis to around 36 million metric tonnes per month from March 2026. Global crude-oil loadings during January–May 2026 were also approximately 8% lower than in the corresponding period of 2025, illustrating how regional disruption can affect wider energy trade flows. The above developments are examples of the volatility that can be seen in commodity markets as a consequence of geopolitical tension, even in the absence of significant physical disruption. As a result, the economic effects of the weaponisation of energy are magnified by the behaviour of investors, the speculative trading of energy, expectations of inflation and global financial market responses, thus deepening economic uncertainty in fragile developing economies. The results indicate an ongoing evolution of international political economy in which strategic resources, infrastructure, and supply chains are increasingly a focus of geopolitical competition, and hence of energy weaponisation. The developing economies are especially vulnerable in this context, due to their reliance on imported energy and their inability to withstand external shocks.

4.2 Inflation and Economic Vulnerability

A notable result from the analysis is the interaction between energy shocks and the inflationary pressures in developing economies. Increased energy costs due to geopolitical conflicts often drive overall inflation in other areas of transportation, production, agriculture and consumer spending. Over the past few years, the increase in global energy prices has emerged as an important factor contributing to inflationary pressures in both developed and developing economies (OECD 2023). There are direct inflationary effects of energy inflation on the cost of fuel and electricity, and indirect effects on the cost of production and transportation. The impact on developing economies is especially harsh considering that energy costs form a larger percentage of household and/or industrial costs.

The World Bank's Commodity Markets Outlook (2024) also highlights the role of geopolitical disruptions in key energy-producing regions in driving commodity price volatility and imported inflation in energy-dependent economies. An increase in energy costs in South Asia has increased worries about food security, poverty, and the ability of households to purchase food. The latest institutional data suggest geopolitical energy shocks remain a big risk to inflation stability in the world. The International Monetary Fund (IMF 2026) identifies energy prices, supply-chain disruption and financial market uncertainty as the major channels of transmission for geopolitical conflicts to impact the global economy. The IMF also expects global inflation to continue to fall slowly, but still be higher than pre-pandemic levels, falling from 6.8% in 2023 to around 4.5% in 2025 (IMF 2024). Likewise, the Organisation for Economic Co-operation and Development (OECD) is concerned that geopolitical uncertainties and energy market instability are large negative risks to global economic growth and price stability (OECD 2025). The results indicate that geopolitical energy shocks have become a growing part of the stagflationary pressures (a slowdown in economic activity while inflation persists).

The South Asian experience demonstrates that energy and macroeconomic vulnerabilities cross over. Empirical studies in Pakistan suggest that in the short run, any rise in international oil prices leads to an increase in domestic inflation and has an impact on output, exchange rate and interest rates, but the impact is dampened by the country's exchange-rate policies and other domestic buffers (Abbasi and Ahmed 2024). This implies that the transmission of energy shocks is not a completely detached process but is linked to the domestic policy institutions. A second example is from Bangladesh: Nandi et al. (2024) show that an external shock in crude-oil prices has a lasting impact on the volatility of exchange rates, and an asymmetric impact on the returns of exchange rates, making it a currency-stability problem. Sri Lanka is indeed a good example of structural vulnerability. The recent research on the energy system points towards the fact that imported fuels have taken a significant portion of the export earnings of the country and diversification of energy sources based on renewable sources can help lower the exposure (Caldera et al., 2023). All these cases show that energy weaponisation has a broader impact than just the magnitude of the shock itself, as it is also dependent on import reliance, foreign exchange reserves, space for domestic energy policies and access to other energy supply options.

4.3 Energy Dependency and Structural Vulnerability

The results show that structural reliance on imported energy is a significant factor in raising economic vulnerability in developing economies. South Asian countries still heavily depend on imports of oil and LNG for their industrial needs, transportation network and electricity generation. This relationship can make an economy vulnerable to outside geopolitical shocks over which the economy has little control. Asian economies are still among the most import-reliant energy-consuming economies in the world, especially as a result of the high pace of industrialisation and population growth in the region, according to the International Energy Agency (IEA 2024). The greater the import dependence, the more vulnerable the economy is to fluctuations in the prices of imports, exchange rate volatility, and supply chain shocks. In this case, major energy-producing areas might be involved in geopolitical conflicts that can quickly upend the economic situation in their respective countries.

There are also signs that geopolitical pressure does not necessarily drive energy diversification. New cross-country research reveals that geopolitical risks can have separate impacts on different countries based on their capacity: in advanced economies, geopolitical pressure can actually spur faster transition towards renewables while, in developing economies, geopolitical risks can slow down transition due to financial constraints, institutional weaknesses and immediate energy security concerns that restrict electricity investment capacity (Li et al., 2026). An important implication of this finding is that it shows that the ability to finance and implement the transition is limited in developing economies when they diversify. This means that reliance on fossil fuels for energy supplies may continue even if governments are aware of the strategic dangers of fossil fuels. To be

sure, energy diversification is not just a technological decision but also an institutional and financial one.

Foreign-exchange reserves also emerged as an important factor in economic resilience. The weaker the reserve position of an economy, the more challenging it finds financing the increase in energy import costs in times of geopolitical tension. The Asian Development Bank (ADB 2024) identifies escalating conflicts and geopolitical tensions as risks to supply chains and commodity prices. Complementary empirical evidence shows that positive oil price shocks tend to deteriorate current account balances in oil-importing emerging and developing economies (Lebrand et al., 2024). Exchange rate depreciation also intensified inflationary pressures due to the rising cost of imported goods and fuel for the local economy. In Pakistan, the State Bank of Pakistan's annual review of the economy documents the country's interconnected external sector, fiscal, debt and inflation challenges, providing domestic context for understanding its exposure to external energy shocks (SBP 2024). Furthermore, the results indicate that energy dependency has an impact on development results. Energy price increases often lower governments' spending capacity, with governments committed to large fiscal transfers for energy subsidy support and import financing. This can then restrict investment in social protection programmes, infrastructure, education and healthcare. The results thus indicate that energy dependence should not only be considered an economic problem, but also a multi-faceted development problem, in terms of energy security, fiscal sustainability, social welfare and long-term economic resilience.

4.4 Policy Responses and Economic Resilience

The analysis identifies four complementary pillars of economic resilience: diversification of energy, regional cooperation, macroeconomic coordination, and strengthening institutions. Investment in renewables can help to lessen the importation of fossil fuels in the longer term; however, this is dependent on the willingness and ability to invest and the implementation of renewables within country structures. Cross-border electricity networks, joint infrastructure and emergency response capabilities offer a source of regional cooperation to provide extra resilience. Strategic petroleum reserves (SPRs) can cushion short-term fluctuations in supply, but they do not reduce structural supply dependence. Last but not least, inter-institutional coordination – between central banks, finance ministries and energy regulators – matters because energy shocks impact many different sectors at the same time, such as inflation, exchange rates, fiscal balances and the welfare of households. Resilience can thus be seen as a blend of shock absorption and structural change, both of which are required to be effective.

Coordination of macroeconomic policies is also a key element in cushioning energy-related economic shocks. Under geopolitical uncertainties, central banks and fiscal authorities need to coordinate their inflation management, exchange rate stabilisation and targeted subsidy policies. However, if energy subsidies are not carefully designed, their long-term impact

can be detrimental in terms of sustainability and financial burden. The current global policy debate is increasingly focused on the need to build economic resilience, not only on short-term policy responses in the markets. Geopolitical conflict, energy insecurity and supply-chain fragmentation are among the biggest risks facing the global economy in the next decade, according to the World Economic Forum (2024). Likewise, IMF research shows that today energy shocks can pass through financial systems, trade and investment channels, as well as through traditional commodity channels (IMF 2026). The developments indicate that resilience strategies need to go beyond temporary subsidy programmes and emergency reserves and involve other structural reforms such as investment in renewable energy, industrial diversification, regional cooperation and strengthening institutions.

5. CONCLUSION

This study explored the possibility of weaponisation of energy due to the US–Iran conflict and its potential to make developing economies more economically vulnerable. Thematic analysis suggests that energy weaponisation is not only a matter of supply interruption but also works through several interrelated channels. Energy price fluctuations may have impacts on inflation, exchange rates, current accounts, investor confidence and overall development. These effects are aggravated in economies with a high reliance on imported fossil fuels and limited foreign exchange buffers, fiscal space or institutional capacity.

The South Asian evidence illustrates these vulnerabilities and shows that they are context-dependent. The vulnerability of Pakistan to oil-price fluctuations, Bangladesh's exchange-rate sensitivity to fluctuations in oil prices and Sri Lanka's experience with dependence on imported fuels are all examples of the same structural issue. The analysis thus extends the definition of energy security to a more comprehensive view of energy security as a component of macroeconomic and development resilience.

6. POLICY RECOMMENDATIONS

The results highlight the need to differentiate between short- and long-term resilience and shock mitigation responses in policy. First, developing economies need to accelerate energy diversification through energy efficiency, domestic energy infrastructure and investment in renewable energy. The goal should not be just expanding renewables but decreasing dependence on outside fossil-fuel supply chains. Recently, it has been shown that geopolitical risk is likely to pose more restrictions on achieving a higher energy transition speed for developing economies than for developed economies, especially when it comes to finance and institutional capacity (Li et al., 2026).

Second, there is a need for increased energy cooperation in the region by governments. Improving the resilience of South Asian economies requires electricity interconnections, harmonising energy procurement, joint infrastructure and arrangements for providing emergency energy assistance. Cooperation can help decrease reliance on single external

suppliers and help to better manage temporary disruptions. Third, macroeconomic policy needs to be coordinated with energy policy. Central banks, finance ministries and energy regulators should agree on the inflationary, fiscal and exchange-rate implications of significant energy events. Where possible, broad and long-term subsidies should be avoided, since they can shield consumers in the short term but may impose a significant fiscal burden. Targeted support for vulnerable households and firms is more consistent with available fiscal space. Fourth, strategic petroleum reserves and emergency supply plans should be strengthened where possible, bearing in mind the economic cost. Reserves insure against interruptions in supply but should be used in addition to diversification. Finally, international financial institutions can support vulnerable developing economies by providing concessional financing, technical assistance and investment in renewable energy and regional infrastructure. There is a need in general to move from 'crisis management' to 'structural transformation' and from 'reaction' to 'proaction' to achieve effective resilience.

7. LIMITATIONS AND FUTURE RESEARCH

There are some limitations of this study. First, the analysis is based on secondary documentary evidence, so the results partly depend on the availability and quality of institutional and academic documentation. Institutional reports may also reflect the requirements or analytical priorities of the organisations that produce them. Peer-reviewed studies are used to give triangulation but cannot eliminate source-selection bias entirely. Second, the qualitative design cannot quantify the magnitude of the impact of energy shocks on developing economies.

Future studies might focus on these shortcomings by employing country level panel data sets that include energy prices, import dependency, exchange rates, inflation and fiscal indicators along with geopolitical risk measures. The impact of geopolitical energy shocks may also be compared among countries taking into account renewable energy capacity, foreign-exchange reserves and institutional quality. Further testing of the qualitative mechanisms detected here could be undertaken in event-based studies of important geopolitical shocks and their impact on macroeconomic stability.

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