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INDIA’S ECONOMIC RESILIENCE

Published On: 16-09-2025

Introduction

India's economy posted its highest GDP growth in five quarters at 7.8% for April-June 2025, led by gains in agriculture, manufacturing, and services. However, growth is threatened by US trade tariffs that could hit 66% of Indian exports with levies of 50% or more, along with low nominal GDP growth at 8.8% raising fiscal challenges. To manage these pressures, the economy needs stronger resilience going forward.

Challenges Indian economy confronting amidst global uncertainities

1?**Trade Protectionism / Tariff Barriers**

- The U.S. has imposed steep tariffs (up to ~50%) on certain Indian goods, affecting exports.
- These have hurt export volumes especially in sectors like textiles, engineering goods, and pharmaceuticals.

2?**Imported Inflation & Commodity Price Volatility**

- Inflation pressures from global food and energy price shocks continue. For example, recent surges in food/manufactured goods have pushed up WPI after months of deflation.
- Heavy, erratic rains affecting crop yields (e.g. in Punjab, Telangana) threaten supply of staples, likely increasing food inflation.

3?**Global Economic Slowdown & Weak External Demand**

- Slowing growth in major economies (US, EU, China) reduces demand for Indian exports.
- India’s merchandise export growth has weakened; some sectors facing order shortfalls.

4?**Exchange Rate / Currency Pressures**

- Depreciation of the rupee makes imports costlier (energy, raw materials), feeding inflation.
- It also raises the foreign currency burden on debt and increases risk of capital flight.

5?**Interest Rate Headwinds & Financial Market Volatility**

- Global tightening of monetary policy (higher rates abroad) spills over, increasing borrowing costs in India and reducing investor risk appetite.
- Corporate bond schemes have seen outflows, reflecting caution among investors.

6?**Regulatory / Supply Chain Disruptions**

- Import curbs/licensing bottlenecks on raw materials for electronics/chips are hurting competitiveness.
- Disruptions in global supply chains (shipping delays, higher freight, non-tariff barriers) increasing costs & uncertainty.

7?**Agricultural / Climatic Risks**

- Extreme weather (erratic rains, heat waves) damaging crops, reducing output, pushing food prices up.
- Such volatility threatens food security and leads to inflation spikes in essential commodities.

8?**Geopolitical Risks & Global Uncertainties**

- Conflicts like Russia-Ukraine, Israel-Hamas, tensions in key shipping routes (Red Sea, Suez Canal) disrupt supply chains and trade flows.
- Increased policy uncertainty globally adds a "risk premium" in investments.

9?**Lagging Domestic Private Investment / Infrastructure Bottlenecks**

- Despite strong government capex, private investment has been slow, perhaps due to uncertainty, regulatory hurdles.
- Infrastructure issues like high logistics cost, land acquisition, delays in regulatory approvals still impede scaling up manufacturing.

10?**Vulnerabilities in Labour Markets & Employment**

- Export-oriented, labour-intensive sectors (textiles, gems & jewellery, services) face risk when global demand falls.
- Skill gaps persist for advanced tech & high productivity sectors, reducing ability to capture value in global supply chains.

<u>What scope does these events offer for India</u>

1. Diversification of Export Markets

- As U.S. and EU demand weakens, India can pivot exports towards **Global South, Africa, Middle East, and ASEAN**.
- Example: India's **comprehensive economic partnership talks with UAE and Australia** are expanding new markets.

2. Boost to Domestic Manufacturing via 'China+1' Strategy

- Multinational firms are shifting supply chains away from China. India can position itself as a major alternative.
- Example: **Apple now makes ~25% of its iPhones in India** (2025 reports), with Foxconn, Pegatron expanding plants.

3. Strengthening Energy Security & Renewable Push

- Volatile global oil markets highlight the need for domestic energy diversification.
- Example: India is scaling up its **National Green Hydrogen Mission** and expanding **solar & wind capacity**, targeting **500 GW renewable by 2030**.

4. Attracting Global Investments Amid Market Shifts

- With China slowing and Western firms seeking new bases, India can capture FDI.
- Example: **India attracted $80+ billion in FDI inflows in FY 2024–25**, despite global slowdown, especially in **electronics & semiconductors**.

5. Leveraging Digital Public Infrastructure (DPI)

- India's **UPI, ONDC, Aadhaar, CoWIN** give it a competitive edge in fintech and digital governance exports.

- Example: Several countries (e.g., France, Singapore, UAE) are adopting **UPI-linked payment systems** with India.

6. Food Security & Agricultural Exports

- Global climate shocks offer India a chance to emerge as a **reliable agri-exporter**.
- Example: India has expanded rice, wheat, and sugar exports to Africa and Gulf nations, though balancing domestic needs remains key.

7. Strengthening Regional & Global Leadership

- Global fragmentation allows India to present itself as a **bridge between developed and developing worlds**.
- Example: India's role in the **G20 Presidency (2023)** and leadership in the **International Solar Alliance** strengthens its soft power.

8. Innovation & Start-Up Ecosystem Expansion

- Global capital is cautious, but India's **domestic venture capital + large consumer base** make it a hub.
- Example: **India crossed 110 unicorns in 2025**, with strong growth in **AI, clean tech, and deep-tech start-ups**.

How can India enhance its resilience further ?

1. Diversify Export Basket & Markets

- Move beyond reliance on textiles, gems, and IT services by pushing **pharma, electronics, green tech exports**.
- Example: India signed **India–UAE CEPA** and is negotiating trade pacts with **EU and UK**, widening its trade footprint.

2. Strengthen Food & Energy Security

- Build larger buffer stocks, modern cold storage, and diversify energy sources.
- Example: India is ramping up **strategic petroleum reserves** and expanding **biofuel blending to 20% by 2025**.

3. Boost Domestic Manufacturing & Supply Chains

- Accelerate **PLI schemes** in electronics, semiconductors, EVs, and green hydrogen.
- Example: **Micron's semiconductor plant in Gujarat (2025)** marks a milestone in chip self-reliance.

4. Deepen Digital & Financial Inclusion

- Expand **UPI, ONDC, RuPay, and fintech innovations** to rural and global markets.
- Example: **UPI crossed 14 billion transactions in July 2025**, and is now live in countries like **France, Singapore, UAE**.

5. Climate Adaptation & Resilient Agriculture

- Invest in drought-resistant seeds, micro-irrigation, and crop insurance to tackle erratic weather.
- Example: Under **PM Fasal Bima Yojana**, ~55 million farmers were covered in 2025, cushioning shocks from heavy rains and floods.

6. Infrastructure Modernisation for Trade Competitiveness

- Cut logistics costs (currently ~13% of GDP) via **multimodal corridors, smart ports, faster rail freight**.
- Example: **PM GatiShakti Masterplan** is integrating road, rail, port, and airport connectivity to support exports and supply chains.

7. Attract Quality FDI & Strengthen Start-Up Ecosystem

- Provide regulatory certainty, ease compliance burden, and nurture **AI, deep-tech, clean-tech start-ups**.
- Example: Despite global slowdown, India saw **$80+ billion FDI in FY25**, with heavy inflows in **electronics and renewables**.

Conclusion

India's ability to withstand global shocks rests on a delicate balance between external integration and internal consolidation. While challenges like supply chain disruptions, imported inflation, and geopolitical tensions persist, they also provide India with an opportunity to reposition itself as a hub of **manufacturing, digital innovation, and green growth**. As the **IMF and OECD note**, India's strong macroeconomic fundamentals, policy reforms, and demographic dividend make it uniquely placed to emerge as a stabilising force in an uncertain global order. Going forward, sustained focus on **self-reliance, inclusive growth, and strategic global partnerships** will ensure that India not only weathers global headwinds but also converts them into pathways for long-term economic leadership.