



India's Economic Resilience Amid Global Headwinds

This editorial is based on “[Among the challenges ahead for India, trade is the biggest risk to growth](#)” which was published in Business Standard on 07/05/2024. The article brings into picture India's 7.8% GDP growth in April-June 2025, the strongest in five quarters, while also highlighting risks from US tariffs, weak nominal growth, and GST rationalization that could strain fiscal stability.

For Prelims: [US trade tariffs](#), [Imported Inflation](#), [Economic Survey 2024-25](#), [Make in India](#), [Atmanirbhar Bharat](#), [Unified Payments Interface](#), [Green hydrogen](#), [SEMICON India Programme](#), [India Semiconductor Mission](#).

For Mains: Key Challenges that Indian Economy Confronting Amid Global Headwinds, Opportunities that Geo-economic Disruptions Present for India

[India's economy](#) delivered a surprising **7.8% GDP growth in the first quarter**, the highest in five quarters (**April-June 2025**), driven by broad-based expansion across agriculture, manufacturing, and services sectors. However, this strong performance faces significant headwinds from [US trade tariffs that could impact 66% of Indian exports with levies of 50% or higher](#). Additional concerns include **low nominal GDP growth at 8.8%** could complicate fiscal management. In this environment of mixed signals and external pressures, the **Indian economy needs greater resilience to navigate the challenging path ahead**.

What Key Challenges is the Indian Economy Confronting Amid Global Headwinds?

- **Adverse Global Trade Environment:** India's trade landscape is increasingly burdened by **escalating global protectionism** and geopolitical conflicts.
 - The US has imposed steep **50% tariffs on Indian goods**, signaling **Washington's displeasure over Delhi's continued oil and defense ties with Russia**.
 - These tariffs also threaten key sectors like textiles, engineering goods, and chemicals, undermining growth prospects.
 - Also, **Indian export growth dropped sharply to 3.9% in Q4 FY24, from 7.4%** in the previous quarter.
 - This significantly hampers India's ability to remain competitive in critical markets.
- **Global Inflation and Commodity Price Shocks:** Rising global inflation, largely driven by **surging oil and food prices**, is putting immense pressure on India's domestic prices ([Imported Inflation](#)).
 - For instance, **imported inflation surged in India**, rising from **1.3% in June 2024 to 31.1% in February 2025**, driven by rising prices of precious metals, oils, and fats.
 - This, in turn, leads to higher inflationary pressures, which could breach the **RBI's target range of 4-6%**.
 - The challenge for India is to balance monetary easing to stimulate growth while managing

rising inflation due to global supply shocks.

- **Geopolitical Risks and Supply Chain Disruptions:** Geopolitical risks, particularly arising from tensions in **Europe and the Indo-Pacific**, have led to persistent disruptions in global supply chains.
 - For India, this has meant higher costs for imported raw materials and intermediate goods.
 - The [Economic Survey 2024-25](#) highlighted that escalating global geopolitical tensions, **ongoing conflicts in the Red Sea region** disrupting major shipping lanes, and protectionist trade policies have elevated transport costs and created uncertainty in supply chains.
- **Tightening Global Financial Conditions and Rupee Depreciation:** The tightening of global financial conditions, especially from the [US Federal Reserve's interest rate hikes](#), is exerting pressure on the Indian rupee.
 - The Indian rupee plummeted to a record low of 88.36 against the U.S. dollar due to concerns over potential U.S. tariffs on India.
 - As the **rupee depreciates**, India's ability to **manage external debt and maintain the stability of its foreign exchange reserves becomes even more challenging**, raising concerns over fiscal and financial stability.
- **Slow Global Recovery and Delayed Trade Agreements:** While India is making efforts to diversify its trade partners through deals with regions like the EU and US, **geopolitical disruptions and delayed trade agreements** are slowing down the pace of these negotiations.
 - The [India-EU FTA](#) is yet to be finalized. Similarly, **trade negotiations between India and Canada have experienced a long pause**, mainly due to diplomatic tensions.
 - This delay is largely attributed to complex issues such as **data protection, intellectual property rights, and trade tariffs**, alongside diplomatic disagreements over human rights and environmental standards.
- **Decline in Foreign Direct Investment (FDI) from Global Uncertainty:** The global economic slowdown and investor uncertainty, exacerbated by trade tensions and geopolitical risks, have led to a [decline in FDI inflows](#) into India.
 - RBI data shows **net FDI inflows plunged to just \$35 million in May 2025**, down sharply from \$2.2 billion a year ago.
 - This decline in foreign investment makes it difficult for India to meet its infrastructure and development goals.
 - This drop in foreign capital undermines the **Indian rupee and threatens to destabilize financial markets**, adding pressure to India's external debt and forex reserves.
- **Disruptions in Global Energy Supply Chains:** India's energy sector is under strain due to **global energy supply disruptions**, primarily due to geopolitical tensions and fluctuations in global oil prices.
 - With **India importing 80% of its oil**, any significant rise in energy prices, as seen in 2025, adds substantial pressure on the fiscal deficit and inflation.
 - This in turn **raises input costs for industries, undermines consumer purchasing power, and hampers growth momentum**.
 - The pressure on the balance of payments also increases, as higher import bills strain foreign exchange reserves.
 - These dynamics highlight the urgency for India to accelerate its transition towards renewable energy, strengthen strategic oil reserves, and diversify energy partnerships.

What Opportunities do Geo-economic Disruptions Present for India?

- **Diversification of Trade Partners and Supply Chains:** Geo-economic disruptions, such as the **shifting global trade dynamics and supply chain reconfiguration**, present India with an opportunity to become a key player in alternative trade routes and global value chains.
 - With Western countries increasingly looking for alternatives to China, India can position itself as a reliable manufacturing and sourcing hub.
 - India's ["Make in India"](#) and ["Atmanirbhar Bharat"](#) policies are strategically aligned with this shift.
 - Also, these disruptions can push India to secure **new trade deals**, particularly with the **Latin America, Africa and ASEAN countries**, positioning India as a trusted manufacturing partner.
- **Potential for Growth in Digital Economy and Tech Exports:** The ongoing global shift towards

digital transformation and remote work creates a significant opportunity for India to enhance its leadership in the **global tech services** sector.

- India's deep talent pool in **IT and business process outsourcing (BPO)** is already well-positioned to meet rising global demand for **cloud computing, AI, and cybersecurity** services.
- India's IT industry is likely to hit the **USD 350 billion mark by 2026** and contribute 10% towards the country's gross domestic product (GDP)
- Also, platforms like the [Unified Payments Interface \(UPI\)](#) and [Aadhaar](#) have not only revolutionized domestic transactions but are also being adopted as a blueprint by other countries.
- **Strategic Positioning in Global Energy Transition:** The global push towards a **low-carbon economy** offers India the chance to **become a leader in [renewable energy](#) and energy storage technologies**.
 - India's vast renewable energy potential, particularly in **solar and wind**, positions it as a key player in the **energy transition**.
 - The total installed renewable energy (RE) capacity in the country has reached **220.10 GW as of March 2025**.
 - The country's ongoing efforts to scale [green hydrogen](#) production and **battery storage technology** could make India an **exporter of green energy** to global markets.
 - With global demand for **clean energy solutions** growing, India can capitalize on this opportunity to meet both domestic energy needs and become a supplier of sustainable solutions worldwide.
- **Strengthening Regional Leadership in South Asia:** Geo-economic disruptions offer India the opportunity to solidify its position as the **leading economic and strategic power** in South Asia.
 - As global focus shifts towards **Indo-Pacific stability**, India can expand its influence by fostering deeper economic ties with its neighboring countries, such as Bangladesh, Sri Lanka, and Nepal.
 - India's **\$1 billion line of credit to Sri Lanka** in 2023, as well as growing trade and infrastructure investments in **Bangladesh** and **Nepal**, strengthen its role as a regional leader.
 - India can leverage these partnerships to create regional economic blocs, reducing reliance on unstable global supply chains and ensuring its strategic autonomy.
- **Potential for in Global Defense and Aerospace Partnerships:** **As global defense strategies shift towards self-reliance and diversification away from traditional powers,**
 - India has the opportunity to expand its role as a defense manufacturer and strategic partner in global security.
 - India's "Make in India" initiative for defense, combined with its growing military-industrial complex, positions it as a key partner in the Indo-Pacific region.
 - [India's defence exports](#) grew over 34 times between FY 2013-14 and FY 2024-25, signaling growing global demand for its defense technologies.
- **Emergence as a Global Leader in Semiconductor Manufacturing:** With the ongoing global chip shortage and increasing reliance on semiconductors for everything from automobiles to consumer electronics, India has a significant opportunity to develop its semiconductor manufacturing capabilities.
 - The central government has launched the [SEMICON India Programme](#) with an investment of ₹76,000 crore, implemented through the [India Semiconductor Mission \(ISM\)](#), which is a strategic step to attract global players and build a domestic chip manufacturing ecosystem.
 - Global demand for semiconductors is expected to reach \$1 trillion by 2030, and India's focus on advanced manufacturing technologies and skilled labor positions it as a potential hub for semiconductor fabrication plants.
 - As countries diversify supply chains away from China, India can emerge as a key player in the global chip market.

How can India Enhance its Economic Resilience and Safeguard Growth Amid Geo-economic Disruptions?

- **Diversified Trade Architecture:** India must reduce overdependence on select geographies by

building a **multi-aligned trade strategy** that includes **regional groupings, bilateral agreements, and south-south cooperation**.

- Creating alternative supply corridors through **friend-shoring and near-shoring** can cushion supply chain shocks.
- Focus should be on critical sectors like **energy, semiconductors, and rare earths to secure long-term interests**.
 - This requires institutionalized frameworks for **strategic trade partnerships**. Such diversification insulates the economy from sudden external volatility.

▪ **Financial System Shock Absorption:** The financial sector must be fortified with **macro-prudential regulations, counter-cyclical buffers, and stress-testing mechanisms** to withstand external shocks.

- Promoting deeper **domestic capital markets** and reducing reliance on volatile foreign portfolio flows increases stability.
- Use of **digital finance and fintech innovation** can ensure continuity of services during disruptions.
 - A calibrated **currency management strategy** shields against external turbulence. Such a framework ensures financial resilience even under uncertain global conditions.

▪ **Resilient Agricultural and Food Systems:** Geo-economic disruptions often impact food supply chains; hence India needs a **climate-smart, technology-driven, and diversified agri-base**.

- Investments in **post-harvest infrastructure, cold chains, and localised procurement systems** can buffer supply shocks.
- Promoting **crop diversification and resilient seeds** enhances adaptive capacity. Strategic food reserves managed with transparency can act as shock absorbers.
 - This ensures food security, price stability, and rural income resilience simultaneously.

▪ **Technological Sovereignty and Digital Resilience:** Securing India's **digital ecosystem and critical technologies** is central to future resilience.

- Developing indigenous capacity in **AI, 5G/6G and cybersecurity** reduces external vulnerabilities.
- Building **domestic digital infrastructure clouds** safeguards sensitive data from geo-political disruptions.
 - Encouraging **R&D and innovation ecosystems** fosters self-reliance while maintaining global competitiveness. Such technological sovereignty creates insulation against techno-economic fragmentation.

▪ **Human Capital and Labour Resilience:** Resilience is also about people; skilling the workforce in **future-ready domains** ensures adaptability to disruptions.

- Portable social security systems protect migrant and gig workers from sudden economic downturns.
- Strengthening **public health systems and workplace safety nets** provides resilience against pandemics or climate-linked shocks.
 - **Labour codes** should encourage **flexible yet secure employment models**. Such investments in human capital create a stable base for sustained growth.

▪ **Regional and Global Leadership Role:** India should position itself as a **rule-shaper in global economic governance**.

- Proactive leadership in platforms like **G20, BRICS, and Indo-Pacific frameworks** allows India to shape rules of trade, finance, and technology to its advantage.
- Building **regional financial safety nets and coordinated crisis responses** adds layers of protection.
 - **Strategic diplomacy (recent India-China-Russia alignment)** can convert vulnerabilities into **geo-economic leverage**. Such **leadership builds not just resilience, but influence**.

▪ **Internationalisation of the Rupee:** A resilient economy requires reducing exposure to **external currency shocks by gradually internationalising the Rupee**.

- Expanding bilateral and multilateral settlement agreements in Rupees, especially with energy and commodity partners (e.g, Rupee-Rubel Agreement), can cut dependence on the US dollar.
- Promotion of rupee-denominated trade invoicing, swap lines, and digital rupee linkages strengthens monetary sovereignty.

- Over time, a regional rupee zone can emerge, enhancing both stability and strategic autonomy.
- **Strengthening Domestic Demand Base:** Enhancing domestic demand is vital to insulate India from external slowdowns and supply-chain shocks.
 - A two-pronged strategy is needed
 - MSME growth by improving credit access, reducing compliance costs, and leveraging digital platforms.
 - reinforcing public capital expenditure in infrastructure, housing, and green technologies to crowd-in private sector participation.
 - Simultaneously, expanding domestic tourism, cultural industries can generate new internal multipliers.
 - By **combining inclusive consumption with investment-driven growth**, India can create a resilient demand base that cushions against global economic turbulence.

Conclusion:

India's economy stands at a crossroads—**strong in fundamentals yet vulnerable to global headwinds of trade wars**, inflationary shocks, and supply chain disruptions. Building resilience now requires a **holistic approach: diversifying trade, securing energy and food systems, empowering human capital, and deepening domestic demand**. Strategic autonomy through rupee internationalisation and technological sovereignty will anchor India's long-term stability. ***“True economic strength lies not in escaping turbulence, but in learning to sail steadily through it.”***

Drishti Mains Question:

Amidst robust GDP growth, India continues to face mounting geo-economic headwinds such as protectionist trade policies and supply chain disruptions. Critically examine the key challenges confronting the Indian economy in this environment.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Mains:

What are the challenges before the Indian economy when the world is moving away from free trade and multilateralism to protectionism and bilateralism? How can these challenges be met? **(2025)**