



Original Article

Navigating India's Economy through Tariff Challenges

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Abstract

Since 2008, the nation has accelerated its economic transformation, aspiring to match the stature of two global giants—one in the West and the other in the East. This paper explores the layers of Indian economic landscape over the past few years, examining how domestic and international forces have both shaken its foundations and deepened its roots, making the nation increasingly prominent on the world stage. India's economic trajectory since 2008 reflects a dynamic interplay between domestic reforms and global trade challenges. This paper examines the evolving structure of the Indian economy in the context of tariff disruptions, foreign direct investment (FDI) fluctuations, and global monetary shifts. By analyzing trends from 2019 to 2025, the study highlights how policy decisions, such as GST implementation, RBI rate adjustments, and proposed Free Trade Agreements (FTAs), have shaped India's resilience amid declining FDI and volatile global markets. The discussion emphasizes India's strategic neutrality, self-reliance initiatives, and potential to redefine its position within global value chains. Despite short-term headwinds from tariff conflicts and external capital withdrawals, India's long-term growth outlook remains anchored in strong domestic consumption, robust service-sector performance, and prudent economic governance.

Keywords: Indian Economy, Foreign Direct Investment, Tariff, Gross Domestic Product

Introduction

Since 1947, Indian conglomerates have consistently strived to foster balanced growth across both traditional and non-traditional sectors, aiming to strengthen regional economies [1]. Over the past decade, under the visionary leadership of Shri. Narendra Modi, the Indian government has introduced transformative policies to attract substantial foreign investments and pose India as a global superpower [2]. Foreign Direct Investment (FDI) has played a pivotal role in shaping the Indian economy over the last three decades. This era has witnessed an industrial resurgence, driven by enhanced trade connectivity with major global powers. The Information Technology sector, in particular, has emerged as a key contributor, with its interlinked dependencies stimulating broader economic growth. FDI is widely recognized for infusing capital that fuels job creation and technological advancement, and it has been instrumental in insulating the economy from global shocks [3]. India has achieved its FDI inflows amounting to \$1 trillion since 2000. Also India's rank jumped to 63 from 142 in Ease of Doing Business [4].

FDI Data

The rise of Covid-19 led to a substantial increase in Foreign Direct Investment (FDI) in IT and support services between 2019 and 2021, as illustrated in Figure 1.

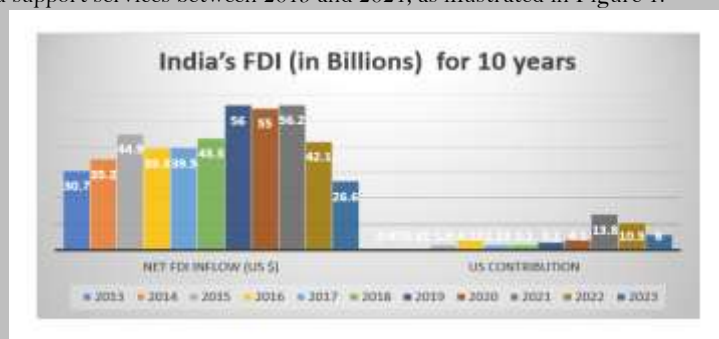


Fig. 1. FDI data with US contribution

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The downward trend in the Indian market since 2021 stems from the U.S. Federal Reserve's policy decisions and their ripple effects. By September 2025, approximately \$50 billion had been pulled from India, driven by factors that also included rising U.S. borrowing costs, tariff conflicts, and slow domestic economic growth [Figure 2]. The higher cost of capital prompted American investors to re-route their outsourcing to nearby countries like Mexico, which hindered the free flow of the dollar into India[5-6]. Traditional sectors such as IT, FMCG, and Energy have stagnated, while Chemical Manufacturing and emerging themes have drawn increased interest from Foreign Institutional Investors (FIIs)[7]. A strategic solution to fill the void of decreasing FDI would be for India to replace Bilateral Trade Agreements (BTAs) with more robust Free Trade Agreements (FTAs).

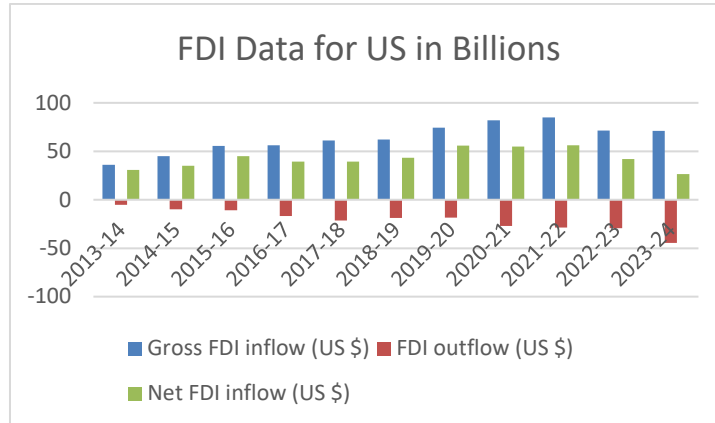
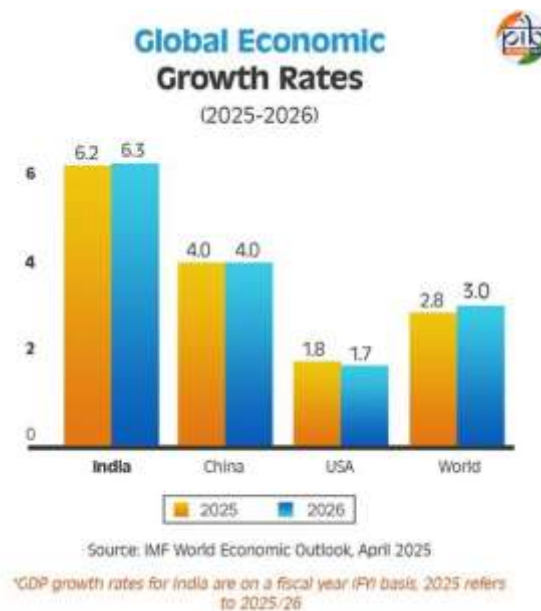


Fig. 2. US FDI inflow/outflow

India has responded to these challenges—much like China—by boosting domestic consumption and reducing dependence on export-driven models. Measures such as the implementation of GST and RBI rate cuts have been introduced to stimulate internal demand, though their full impact may take time to materialize. In April 2025, prior to the imposition of tariffs, the International Monetary Fund (IMF) projected India's GDP growth at 6.2% for 2025 and 6.3% for 2026 (see Fig. 3).



Discussion

Global uncertainties and a tense political climate have cast a shadow over the transition from FY25 to FY26, dampening GDP growth [5]. Financial markets continue to exhibit erratic valuations, with low-yield companies commanding disproportionately high prices. While these global disruptions may cause short-term instability, India's long-term economic framework remains resilient [8-9]. The United States, pursuing a “No Pain, No Gain” approach, faces inflationary pressures and challenges to dollar supremacy, which in turn affect its own economic stability. India, meanwhile, maintains a sovereign and neutral stance in global politics, advocating for peace and stability. Tariffs impacting global supply chains threaten to destabilize the broader economic structure, especially in energy (oil) markets. Additionally, the services and talent provided by Indian IT firms are integral to the profitability of major tech corporations worldwide [10]. This global reset appears to be nudging India closer to China, a shift that runs counter to longstanding U.S. policy aimed at counterbalancing Chinese influence. In response, India must strengthen ties with trusted trade partners and advance its self-reliance strategy to safeguard against external economic disruptions and adversarial manoeuvres.

Conclusion

In conclusion, while global tensions and economic uncertainties continue to pose short-term challenges for India's growth trajectory, the country's foundational economic resilience, strategic neutrality, and integral role in global services position it well for long-term stability. As the geopolitical landscape evolves, India must navigate these shifts with a focus on strengthening alliances, enhancing self-reliance, and safeguarding its economic interests against external volatility.

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Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper

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