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ANALYSIS**

TOPIC

**INDIA'S ECONOMIC MOMENTUM:
RESILIENCE AMID TRANSITION**

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INDIA'S ECONOMIC MOMENTUM: RESILIENCE AMID TRANSITION

Context

- Recent debates and other policy forums questioned whether weakening reforms, changes in India's Bilateral Investment Treaty (BIT) framework, declining net FDI, and rupee depreciation indicate a loss of economic momentum and investor confidence.

About India's Economic Momentum & Transition

- India is navigating a critical phase of economic transformation, balancing high growth aspirations with global uncertainties.
- It remains among the fastest-growing major economies despite persistent external challenges such as geopolitical tensions, supply-chain disruptions, elevated global interest rates, and trade fragmentation.
- India's transition is characterized by major structural reforms, including:
 - Digital Economic Transformation:** Expansion of Digital Public Infrastructure (DPI), UPI-led payment revolution, Jan Dhan–Aadhaar–Mobile (JAM) ecosystem, and growing digital commerce and fintech penetration.
 - Manufacturing and Industrial Expansion:** Make in India, PLI Schemes, National Logistics Policy, and PM Gati Shakti.
 - Infrastructure-Led Development:** Record investments in railways, highways, ports, airports, and renewable energy infrastructure have improved productivity and reduced logistics costs.
 - Balanced Global Integration:** India has sought to attract investment while preserving policy flexibility through reforms in its **Bilateral Investment Treaty (BIT) framework**.

What are the Key Strengths in India's Economy?

- Strong Growth Despite Global Headwinds:** India has maintained robust economic growth despite facing unprecedented external shocks, including COVID-19 pandemic, global supply-chain disruptions, Russia–Ukraine conflict, and tightening global monetary conditions.
- Large Domestic Market and Demographic Advantage:** India continues to attract investors due to a large consumer base, rising middle class, young workforce, and expanding digital economy.
- Robust Foreign Direct Investment (FDI) Inflows:** Despite the restructuring of India's BIT regime after 2015, India continues to receive substantial FDI inflows, and gross FDI inflows reached around **\$95 billion in 2025–26**.
 - It indicates that investors continue to view India as an attractive long-term destination.
- Balanced Approach through BIT Reforms:** India's Model BIT seeks to protect investor rights, preserve sovereign regulatory space, and reduce excessive litigation risks.
- External Sector Stability:** Despite pressures on the rupee:
 - Foreign exchange reserves stood at around **\$682 billion (April 2026)**.
 - Reserves provide nearly **11 months of import cover**.
 - Current Account Deficit (CAD) remains manageable at around **2% of GDP**.
 - These indicators suggest that India possesses adequate buffers against external shocks.
- Global Trend of Reassessing Investment Treaties:** India is not alone in revisiting traditional BIT frameworks.
 - Countries such as Brazil, South Africa, Indonesia, Ecuador and Bolivia have modified or terminated investment treaties to preserve policy flexibility.
 - Thus, India's approach reflects a broader global reassessment rather than policy isolation.

What are the Weaknesses and Concerns Ahead of India's Economy?

- Slowing Private Investment:** Although public capital expenditure has increased significantly, private investment growth remains uneven in some sectors.

- ◆ Sustained economic growth requires stronger private sector participation.
- **Employment and Quality Job Creation:** India's demographic dividend can become a liability if:
 - ◆ Skill development remains inadequate.
 - ◆ Formal employment opportunities do not expand sufficiently.
- **Manufacturing Competitiveness:** India still faces challenges in logistics efficiency, technology adoption, and global value chain integration.
- **Fiscal Pressures:** High public expenditure on infrastructure is growth-enhancing but must be balanced with fiscal prudence, debt sustainability, and efficient resource allocation.
- **Exchange Rate Volatility:** The rupee has witnessed periods of depreciation. While strong reserves provide stability, prolonged external shocks such as rising oil prices, global financial tightening, and geopolitical uncertainty can create pressures on currency and inflation management.
- **Global Economic Uncertainty:** India remains vulnerable to weak global demand, trade fragmentation, supply-chain disruptions, and protectionist tendencies.
 - ◆ These factors can affect exports and investment flows.

Way Forward: Strengthening India's Economy for the Future

- **Deepen Structural Reforms:** Improve ease of doing business, simplify compliance and regulatory processes, and strengthen contract enforcement mechanisms.
- **Accelerate Manufacturing Growth:** Expand PLI-linked sectors, improve logistics infrastructure, and enhance integration with global value chains.
- **Promote Human Capital Development:** Invest in education and skilling, and align workforce capabilities with Industry 4.0 requirements.
- **Strengthen Financial Sector Efficiency:** Improve credit access for MSMEs, deepen capital markets, and enhance banking sector resilience.
- **Maintain Macroeconomic Stability:** Keep inflation under control, ensure prudent fiscal management, and continue building foreign exchange buffers.
- **Balance Investor Protection and Sovereign Rights:** Continue refining the BIT framework, and ensure regulatory certainty while safeguarding policy space.

Daily Mains Practice Question

[Q] Examine the strengths and vulnerabilities of the Indian economy in the context of growth, investment, external sector stability, and policy reforms. Suggest measures to sustain long-term economic momentum.

Source: IE

