



## **Realistic Foreign Policy for Secure Growth**

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In his latest MPC speech RBI Governor indicated that Indian GDP growth will be around 6.8% in 2025-26 accompanied by a benign inflation of 2.6%. Both the numbers show improvement over that of 2024-25, when the economy grew at 6.5% and inflation was 4.6%. Other economic parameters too look reasonable, budget deficit of the Centre could well slide down to 4.4%, the overall Fiscal deficit, States plus Centre could well be contained within 8%; Government debt as a percentage of GDP is showing a downward trend, interest rate outlook is cautiously optimistic. Current Account deficit was 0.6% in 2024-25, this may go up marginally and is expected to be contained at a little more than one percent, foreign exchange reserves are at \$700 billion which is equivalent of eleven months of imports. Further, it is generally assumed that our GDP growth is basically dependent on domestic consumption and investment, and hence can be disturbed only marginally by volatility in the global economy. Is it really immune to external shocks is the key question that we intend to take up here.

India's degree of openness as measured by exports plus imports as a percentage of GDP is already around 45%. The importance of strategic raw material and crude that we procure from abroad is fairly obvious. At the same time many of the supply chains of the critical intermediates that we use in our manufacturing are located in countries that are not too friendly. The same maybe true of the capital equipment with embedded new technology. At the front end, exports from India continue to face risks of higher tariffs and hidden sanctions. Earlier the sector which had to bear the onslaught was manufacturing, recent developments show that willy nilly service sector is also getting drawn in.

In this context the role of India's foreign policy becomes extremely important for buttressing India's economic ambition and sustainable GDP growth. The role of foreign policy in de-risking economic growth particularly in an environment of global shocks cannot but be overstressed. There was a period when India's approach in international relations was spurred by the objective of diplomatic gains and security needs, economic and trade requirements became somewhat secondary. As a part of Look East policy we signed several bilateral and regional trade agreements too quickly, without considering our long-term net gains. Subsequently, they had to be modified. In an increasingly uncertain global environment our economic interests need to be protected and significantly de-risked through mitigation processes.

Many a times we do not realize that Indian foreign policy makers have been engaged in it quietly. There are many examples, fertilizers is a key one. At the moment around 25% of our nitrogenous fertilizer requirements are imported; for phosphatic, it is 50% plus and for muriate of potash it is 100%. These imports are key to the success of Indian agricultural growth, secondly price stability in imports is also critical for our spending on subsidy and its effect on the fiscal balance. During 2022-23, in the early days of Russia-Ukraine war there was some global disruptions, thanks to our foreign policy operators we could diversify our supply base and signed a long-term contract with Saudi Arabia. We also have tied up supply sources in UAE, all these happened without upsetting Russian sources of supply. Afterall, for muriate of potash we largely depend on Russia and Canada. With Saudi Arabia's publicly owned Maaden group we have a five-year contract for phosphatic fertilizer at a stable price.

Another strategic supply requirement for India is crude and Petro products. About 85% of our requirement are imported. This is a vulnerable spot for the economy in an uncertain world. So diplomatic efforts have to be made to diversify the supply sources; Saudi Arabia, UAE, Iraq, Nigeria and even USA particularly for LNG are becoming increasingly important along with discounted crude from Russia. In a non-rule based world (WTO exists in theory), our Government and businesses have to work closely for delineating risk perceptions and trade-offs.

Looking ahead, Indian demand of Lithium for EVs, rare earths, semiconductors, etc., would continue to grow along with the progress of our automobile, defense and electronics industries. In these areas, the supportive role of foreign policy is expected to build new partnerships and investment in strategic materials abroad. From this point of view Australia, Argentina and Chile would become important for the future growth of these industries. A country may have unexploited resources but no stability in policy. The risk depending on such a source has to be evaluated by our foreign policy experts. DRC Congo, is one such example. It has Lithium, Cobalt, etc., but setting up a direct operation could be difficult.

Finally, it may still be important for us to have a working relationship with China as many of our domestic supply chains are still dependent on intermediates and equipment from China. These include pharma APIs, power and telecom equipment, rare earth materials etc.

Another area which is important for Indian domestic industry and supply chains is technology. With whom can be collaborate for technology transfer is a key issue, how can we build in this objective in our capital goods and defense industries needs to be vetted. Foreign policy makers along with technology experts can play a major role for a country and company wise study. For the new age FDI in EVs, electronics, semiconductors, etc., from USA, Japan, Taiwan or even EU one would need active engagement of our foreign policy makers. Some of these engagements have started showing signs of success like Apple, Foxconn, etc. The issue is not one of competing with China for FDI but that of a China plus one strategy.

Fortunately, we have a realistic foreign policy which is not aligned to any major country or power block. For risk mitigation, we have to diversify our front-end exports in the coming years and not depend on one major country. In a world which is on the verge of abandoning rule based multilateral processes there is a need to hedge one's interest by selecting viable options. That however requires a more detailed study. For the time being bilateral and regional treaties appear to be realistic options.

The disappearance of unipolarity has not created a genuine multipolar world. It is becoming increasingly apparent that without economic and technological advantage we cannot have leverage. Foreign policy's pursuit of strategic autonomy could well focus initially on gaining economic and technological advantage.

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