



Geopolitical Conflicts and the Indian Economy: A Political Economy Analysis of Global Power Dynamics and Domestic Outcomes

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ABSTRACT

Geopolitical conflicts have emerged as a defining feature of the contemporary international system, significantly influencing global economic structures and national economies. India, as a rapidly growing and globally integrated economy, is particularly vulnerable to such conflicts due to its dependence on energy imports and international trade networks. This research article examines the impact of geopolitical conflicts on the Indian economy through a political economy framework, focusing on key transmission channels such as energy security, inflation, trade disruptions, financial instability, and macroeconomic performance. The study further analyses India's policy responses within the context of global power dynamics and strategic autonomy. It argues that while geopolitical conflicts create substantial economic risks, India's adaptive strategies and policy interventions contribute to resilience and long-term economic sustainability.

1. Introduction

The contemporary global order is increasingly shaped by geopolitical conflicts, which have significant implications for both international relations and economic stability. In an era of globalization and economic interdependence, conflicts are no longer confined to political or military domains; instead, they have far-reaching economic consequences that affect countries across the world. Events such as the



Russia–Ukraine War and continuing tensions in West Asia have demonstrated how geopolitical instability can disrupt global supply chains, increase energy prices, and create financial uncertainty.¹

India, as one of the fastest-growing emerging economies, is particularly sensitive to such global disruptions. Its heavy dependence on imported crude oil, growing participation in international trade, and integration into global financial markets make it vulnerable to external shocks.² Any fluctuation in global oil prices or disruption in trade routes directly affects India's inflation, fiscal balance, and economic growth.³ As a result, geopolitical conflicts often translate into domestic economic challenges, impacting both policymakers and the general population.

This approach emphasizes that economic processes are deeply influenced by political power, state behaviour, and global institutional structures.⁴ Geopolitical conflicts are not merely military confrontations; they also involve economic strategies such as sanctions, trade restrictions, and control over critical resources, which shape global economic patterns.

The ongoing transition towards a multipolar world order has intensified competition among major powers, increasing the frequency and complexity of geopolitical conflicts. In such a scenario, countries like India must navigate a delicate balance between economic interests and strategic priorities. India's policy of strategic autonomy reflects its attempt to maintain diplomatic flexibility while safeguarding its economic stability.⁵

In this context, the present study aims to analyse the impact of geopolitical conflicts on the Indian economy through a political economy lens. It focuses on key areas such as energy security, inflation, trade disruptions, and financial market volatility, while also examining India's policy responses to these challenges. By doing so, the study seeks to provide a comprehensive understanding of how global power dynamics influence domestic economic outcomes and highlight the need for resilient and adaptive policy frameworks in an increasingly uncertain global environment.

Objectives of the Study

1. To analyse how geopolitical conflicts influence the overall performance and stability of the Indian economy.
2. To examine the impact of global conflicts on India's energy security, particularly oil import dependence.



3. To study the effects of geopolitical tensions on trade patterns and global supply chain disruptions in India.
4. To assess the influence of geopolitical instability on inflation and key macroeconomic indicators.
5. To evaluate India's policy responses and strategies to manage geopolitical and economic challenges.

Research Methodology

This study adopts a qualitative approach based on secondary data sources such as reports from the Government of India and the Reserve Bank of India, along with books and journals. A descriptive and analytical method is used to examine the impact of geopolitical conflicts on the Indian economy. The study also includes a case analysis of West Asia to understand region-specific effects.

Review of Literature

1. Amartya Sen – Development as Freedom – Oxford University Press – 1999. Amartya Sen redefined development as a process of expanding human capabilities rather than merely increasing income levels. His work emphasized that economic progress is closely linked with political stability, social opportunities, and institutional effectiveness. In the context of geopolitical conflicts, Sen's framework is useful in understanding how external shocks such as wars, economic sanctions, and global instability can restrict economic freedoms and development outcomes in countries like India. His analysis highlights that vulnerability to global disruptions can directly affect welfare, employment, and overall human development.
2. Joseph Stiglitz – Globalization and Its Discontents – W.W. Norton – 2002. Joseph Stiglitz critically examined the process of globalization and its uneven impacts on developing nations. He argued that global economic integration often exposes countries to external risks, including financial crises and geopolitical tensions. His work highlights how institutions like the IMF and World Bank sometimes fail to adequately address the needs of developing economies during global disruptions. In relation to this study, Stiglitz's arguments help explain how geopolitical conflicts can destabilize global markets, disrupt capital flows, and negatively impact trade-dependent economies such as India.
3. Pranab Bardhan – The Political Economy of Development in India – Oxford University Press – 1984. Pranab Bardhan provided a comprehensive analysis of India's development through the lens of political economy, focusing on the interaction between state policies, institutions, and economic outcomes. He emphasized that economic development is not solely determined by market forces but is significantly



influenced by political structures and power relations. Bardhan's work is particularly relevant to this study as it highlights how external geopolitical pressures, combined with domestic institutional factors, shape India's economic responses. His analysis helps in understanding the structural vulnerabilities and policy challenges faced by India in an increasingly complex global environment.

2. Theoretical Framework: Political Economy and International Relations

The theoretical framework of this study is grounded in the intersection of political economy and international relations, which provides a comprehensive understanding of how geopolitical conflicts influence economic outcomes. Political economy emphasizes that economic systems are deeply embedded within political structures, where state policies, power relations, and global institutions play a crucial role in shaping economic performance.⁶ It highlights that economic outcomes are not merely the result of market forces but are significantly influenced by political decisions and global power dynamics.⁷

The perspective of international relations, the Realist theory argues that states act primarily in pursuit of national interest and power. Geopolitical conflicts often arise due to competition over strategic resources such as oil, natural gas, and key maritime routes.⁸ Control over these resources becomes central to global power struggles, directly affecting countries dependent on imports like India.⁹ Thus, realism explains how global conflicts influence economic stability through resource competition and strategic dominance.

In contrast, the Liberal theory emphasizes cooperation, economic interdependence, and the role of international institutions in maintaining global stability.¹⁰ According to this perspective, trade and mutual economic benefits reduce the likelihood of conflict. However, recent geopolitical tensions have revealed the limitations of liberal interdependence, as conflicts often lead to sanctions, trade restrictions, and disruptions in global markets.¹¹ These developments create challenges for economies like India that depend on open and stable international trade systems.

Another important concept is Geoeconomics, which refers to the use of economic instruments such as sanctions, trade policies, and financial controls to achieve geopolitical objectives.¹² In contemporary global politics, economic tools are increasingly used as strategic weapons, influencing global trade patterns and financial systems.¹³ For India, this creates a complex environment where economic decisions are closely linked with diplomatic and strategic considerations.



Thus, by integrating political economy with international relations theories, this framework enables a deeper understanding of how geopolitical conflicts shape economic outcomes in India. It demonstrates that domestic economic stability is significantly influenced by external political forces, global power rivalries, and strategic state behaviour.^{14 15}

3. Nature and Trends of Contemporary Geopolitical Conflicts

Contemporary geopolitical conflicts have evolved significantly in terms of their nature, scope, and impact. Unlike traditional wars that were largely confined to territorial disputes and military confrontations, modern conflicts are multidimensional, involving economic, political, technological, and strategic dimensions.¹² These conflicts are increasingly shaped by global power competition, resource control, and ideological differences, making them more complex and far-reaching in their consequences.

Control over these resources has become a major source of conflict among nations, especially in regions like West Asia. Strategic locations such as maritime chokepoints and trade routes have also gained significance, as they play a crucial role in global supply chains and energy transportation.¹³

Important trend is the increasing use of economic instruments as tools of conflict, often referred to as economic warfare. States are increasingly relying on sanctions, trade restrictions, and financial controls to exert pressure on their adversaries. This shift towards geoeconomic strategies reflects the changing nature of global conflicts, where economic power is used alongside military strength to achieve political objectives.¹⁴

The emergence of a multipolar world order has intensified geopolitical competition. Unlike the bipolar structure of the Cold War, the current global system is characterized by the presence of multiple powerful actors, each pursuing its own strategic interests. This has led to increased instability and frequent conflicts, as competing powers seek to expand their influence in different regions.¹⁵

In addition to these factors, technological advancements and cyber capabilities have introduced new dimensions to geopolitical conflicts. Cyber warfare, information manipulation, and technological competition have become integral components of modern conflicts, further complicating the global security environment. These developments highlight the interconnected nature of political, economic, and technological factors in shaping contemporary geopolitical dynamics.

Overall, the nature and trends of contemporary geopolitical conflicts indicate a shift from traditional warfare to more complex and multidimensional forms of conflict. These changes have significant



implications for countries like India, as they influence global economic stability, trade patterns, and strategic decision-making.

4. Channels of Impact on the Indian Economy

4.1 Energy Security and Oil Price Volatility : Energy security is the most critical channel through which geopolitical conflicts affect India. The country imports a large proportion of its crude oil requirements, making it highly vulnerable to global price fluctuations.¹⁶

When conflicts occur in oil-producing regions, supply disruptions lead to sharp increases in global oil prices. This results in a higher import bill, increased fiscal deficit, and pressure on foreign exchange reserves.¹⁷ Furthermore, rising fuel costs affect multiple sectors, including transportation, agriculture, and manufacturing, thereby amplifying the overall economic impact.¹⁸

4.2 Inflationary Pressures: Geopolitical conflicts contribute to inflation by increasing the cost of energy and essential commodities.¹⁹ This phenomenon, often referred to as imported inflation, reduces the purchasing power of consumers and increases the cost of living.²⁰

Higher fuel prices lead to increased transportation costs, which in turn raise the prices of goods and services across the economy.²¹ This creates challenges for policymakers, particularly in balancing inflation control with economic growth.²²

4.3 Trade Disruptions and Supply Chain Instability: Global conflicts disrupt trade routes, increase shipping costs, and create uncertainty in supply chains.²³ India's export-import dynamics are significantly affected by such disruptions. For instance, delays in shipping and increased logistics costs reduce the competitiveness of Indian exports.²⁴ At the same time, disruptions in the supply of essential imports can lead to shortages and production slowdowns.²⁵

4.4 Financial Market Volatility and Currency Fluctuations : Geopolitical instability leads to uncertainty in global financial markets, resulting in capital outflows from emerging economies like India.²⁶

The Indian rupee often depreciates during such periods due to increased demand for foreign currency for imports.²⁷ Additionally, stock markets experience volatility as investors respond to global risks.²⁸ These factors affect investment flows and overall economic confidence.

4.5 Impact on Economic Growth and Development : The combined effect of inflation, trade disruptions, and financial instability can slow down economic growth.²⁹ Increased production costs and reduced



consumer demand negatively impact industrial output and investment. In extreme cases, prolonged geopolitical conflicts can lead to stagflation, characterized by low growth and high inflation.³⁰

5. Case Analysis: West Asia and Its Impact on India

West Asia holds immense strategic importance for India due to its dominance in global energy production and its role in international trade routes. India's economic dependence on this region makes it highly sensitive to geopolitical tensions and conflicts. The impact of such conflicts on the Indian economy can be understood through the following key dimensions:

1. **Rise in Global Oil Prices :** Geopolitical conflicts in West Asia often disrupt oil production and supply chains, leading to sharp increases in global crude oil prices. For India, which imports a significant share of its energy requirements, this results in a higher import bill and increased fiscal pressure. Rising fuel prices also have a cascading effect on various sectors such as transportation, manufacturing, and agriculture, thereby increasing overall economic costs.³¹
2. **Disruptions in Maritime Trade Routes :** West Asia includes critical maritime chokepoints essential for global oil transportation. Conflicts in the region can disrupt these routes, causing delays and increasing shipping and insurance costs. For India, such disruptions weaken supply chains and reduce trade efficiency, thereby affecting both imports and exports.³²
3. **Inflationary Pressures in the Domestic Economy :** An increase in global oil prices directly contributes to inflation in India by raising transportation and production costs. This leads to higher prices for goods and services, reducing consumer purchasing power. Persistent inflation also creates challenges for monetary policy and economic management.³³
4. **Impact on Industrial and Economic Growth :** Higher energy costs and disrupted supply chains negatively affect industrial productivity and overall economic growth. Industries dependent on fuel and imported inputs face rising operational costs, which can lead to reduced output and investment.
5. **External Sector Vulnerability :** Geopolitical tensions can widen India's current account deficit due to increased expenditure on energy imports. Currency volatility and fluctuations in foreign exchange reserves further highlight India's vulnerability to external economic shocks.
6. **Need for Strategic Policy Responses :** These challenges underline the importance of adopting policy measures such as energy diversification, strengthening strategic reserves, and enhancing diplomatic



engagement. Such strategies are essential to reduce dependency and improve economic resilience in the long term.

6. India's Policy Responses and Strategic Adaptation

India has adopted a range of policy responses and strategic adaptations to mitigate the adverse effects of geopolitical conflicts on its economy. These measures reflect a combination of economic resilience, strategic autonomy, and proactive diplomacy in an increasingly uncertain global environment.³⁴

The key policy responses can be analysed as follows:

1. **Energy Diversification Strategy** : India has actively pursued diversification of its energy import sources to reduce dependence on conflict-prone regions such as West Asia. By expanding energy partnerships with multiple countries, India aims to ensure a stable and uninterrupted supply of crude oil. This strategy helps in minimizing risks associated with geopolitical instability and enhances long-term energy security.³⁵
2. **Strengthening Strategic Petroleum Reserves** : To address short-term supply disruptions, India has invested in building strategic petroleum reserves. These reserves act as a buffer during periods of global supply shocks and price volatility, thereby supporting economic stability and ensuring continuity in energy supply.
3. **Promotion of Renewable Energy Sources** : India has accelerated its transition towards renewable energy sources such as solar and wind power to reduce reliance on imported fossil fuels. This shift contributes to both energy security and sustainable development, while also reducing exposure to global energy price fluctuations.
4. **Trade Diversification and Supply Chain Resilience** : In response to global trade disruptions, India has focused on diversifying its trade partnerships and strengthening domestic supply chains. Policies promoting self-reliance and local manufacturing have played a crucial role in reducing external dependencies and enhancing economic resilience.³⁶



5. **Monetary and Fiscal Policy Measures :** The government and the Reserve Bank of India have implemented various monetary and fiscal measures to manage inflation and stabilize the economy. These include interest rate adjustments, liquidity management, and targeted fiscal interventions to support key sectors affected by global uncertainties.
6. **Strategic Diplomacy and Global Engagement :** India has maintained a balanced and pragmatic foreign policy approach by engaging with major global powers while safeguarding its national interests. Strategic autonomy has enabled India to navigate geopolitical tensions effectively without aligning exclusively with any single power bloc.
7. **Technological and Infrastructure Development :** Investments in infrastructure and technology have strengthened India's economic foundation and reduced vulnerability to external shocks. Enhanced logistics, digitalization, and innovation-driven growth have contributed to improving overall economic efficiency and resilience.

7. Discussion, Results and Analysis

The analysis shows that geopolitical conflicts have a significant impact on the Indian economy, mainly through energy prices, trade disruptions, and inflation. Conflicts in regions such as West Asia lead to rising oil prices, increasing India's import burden and affecting economic stability.

The results also indicate that global supply chain disruptions negatively influence trade and industrial growth. Macroeconomic indicators such as inflation and current account deficit are adversely affected by external shocks. While policy measures by the Reserve Bank of India and the government have helped manage short-term challenges, structural vulnerabilities still remain. Overall, the study highlights the need for stronger

Findings and Recommendations

1. Geopolitical conflicts significantly impact India's economy through rising energy prices and import dependence.
2. Conflicts in regions like West Asia increase inflation and fiscal pressure on the economy.



3. Global supply chain disruptions negatively affect India's trade and industrial growth.
4. Macroeconomic stability is weakened due to rising current account deficit and currency fluctuations.
5. Existing policy measures reduce short-term shocks but do not fully address structural vulnerabilities.

Recommendations

1. India should strengthen energy diversification to reduce dependence on conflict-prone regions.
2. Expansion of strategic petroleum reserves is essential for managing supply shocks effectively.
3. Greater focus on renewable energy can enhance long-term economic and energy security.
4. Trade diversification and domestic manufacturing should be promoted to build supply chain resilience.
5. Strong coordination between the government and the Reserve Bank of India is needed for macroeconomic stability.

9. Conclusion

Geopolitical conflicts are an integral feature of the contemporary global order and have far-reaching implications for national economies. For India, these conflicts present both challenges and opportunities. While they expose vulnerabilities in energy and trade sectors, they also encourage policy innovation and strategic diversification.

A political economy approach highlights that managing these challenges requires a coordinated strategy that integrates domestic economic reforms with proactive foreign policy. Strengthening energy security, enhancing trade resilience, and maintaining strategic autonomy will be essential for India's sustained economic growth in an increasingly uncertain world.

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