



Research Center
Strategic Change
“Franco Fontana”

GEOPOLITICAL RISK OBSERVATORY

India

An overview

Luiss Guido Carli University

Last update: August 2026

Luiss

Libera Università Internazionale
degli Studi Sociali Guido Carli
Viale Romania 32, 00197 Roma
T +39 06 85222350
www.luiss.it

GRO Country Profile: India

GRO Country Profiles are neither extensive analyses nor news updates. Rather, they provide a general perspective on selected areas and issues, identifying a set of factors and variables that organizations should monitor in order to anticipate risks.

For in-depth analysis or day-to-day updates, please contact the Observatory at strategicchange@luiss.it.

Summary

- India is a federal parliamentary republic in which executive authority rests with Prime Minister Narendra Modi, whose Bharatiya Janata Party (BJP) lost its outright majority in the 2024 general election and now governs through the National Democratic Alliance (NDA) coalition. The presidency is largely ceremonial, while the Supreme Court, the Election Commission, and a federal structure of 28 states and 8 union territories provide institutional checks that remain, on balance, functional but increasingly contested by opposition parties and civil society.
- India occupies a pivotal but contested geopolitical position between the United States, China, and Russia. Renewed India-Pakistan hostilities following the April 2025 Pahalgam attack, an unresolved military stand-off with China along the Line of Actual Control and a volatile trade and tariff relationship with Washington over India's Russian oil purchases have all tested New Delhi's long-standing strategy of multi-alignment. India's heavy dependence on imported crude oil transiting the Strait of Hormuz exposes the economy directly to the current Gulf crisis.
- Key business challenges include bureaucratic discretion, an uneven regulatory environment across states, judicial backlogs, and episodic internal security flashpoints (Jammu and Kashmir, Manipur, residual Naxalite-Maoist activity). State investment programmes and a widening network of trade agreements generate substantial opportunities, but manufacturing diversification and FDI inflows remain volatile and dependent on global demand and geopolitical conditions.

Basic Parameters

Indicator	2020	Latest value
GDP (PPP, USD bn)	9,541	18,902 (2026)
Population (mn)	1,396.4	1,477 (2026)
Population under 25 (%)	44.9	41.1 (2026)
Population over 65 (%)	6.4	7.6 (2026)
Urban population (%)	34	36 (2025)
Unemployment rate (%)	7.9	4.2 (2025)
Youth unemployment 15–24 (%)	24.6	17.7 (2025)
CPI inflation (% annual average)	6.2	4.7 (2026)
General government debt (% of GDP)	88.4	84 (2026, projected)
FDI inward flows (USD bn)	64.4	39 (2025)

Sources: GDP PPP; CPI inflation; General government debt (IMF, World Economic Outlook Database, April 2026; the 2026 debt figure is an IMF projection for FY2025/26) – Population; Urban population; Population ages 0-14; Population ages 65+ (UN, World Population Prospects 2024 Revision) – Unemployment rate; Youth unemployment rate (World Bank, modelled ILO estimate) – FDI inflows (UNCTAD, World Investment Report 2026).

Historical context

India gained independence from British rule in August 1947 amid the partition that created Pakistan, and pursued a mixed economy and non-aligned foreign policy under Nehru through the Cold War, fighting three wars with Pakistan (1947-48, 1965, 1971, the last creating Bangladesh) and one with China (1962) that left their border unresolved. Economic liberalization from 1991 dismantled the post-independence "license raj" and opened the economy to foreign investment; nuclear tests in 1998 confirmed India's status outside the Non-Proliferation Treaty, while the 2000s-2010s saw its IT and services sector emerge as a global growth engine alongside recurring Pakistan-linked terrorism, notably the 2008 Mumbai attacks.

Narendra Modi's BJP has governed since 2014, combining Hindu nationalist politics with economic reform (demonetization, the GST, "Make in India"). In 2024 the BJP lost its outright majority for the first time, now governing through the NDA coalition as the opposition INDIA bloc gained ground. In April-May 2025, a terrorist attack in Pahalgam killed 26 civilians, prompting India's "Operation Sindoor" strikes on Pakistan and four days of cross-border fighting before a US-mediated ceasefire and India's unprecedented suspension of the Indus Waters Treaty; tensions have since simmered without substantive bilateral dialogue.

Trade relations with Washington deteriorated through 2025 as tariffs reached 50% over India's Russian oil purchases, prompting New Delhi to conclude a landmark EU free trade agreement in January 2026 before Washington cut its own tariff to 18% in February in exchange for reduced Russian crude imports. Since late February 2026, the US-Israeli campaign against Iran and the closure of the Strait of Hormuz have driven a direct shock: a weaker rupee, inflation rising from near zero to 3.4%, and India's slip from the world's fifth to sixth-largest economy in dollar terms, a currency and statistical effect rather than a real slowdown.

Institutional Set-Up and Structural Challenges

India is a federal parliamentary republic under its 1950 Constitution, with power divided between the Union government in New Delhi and 28 states and 8 union territories. The President is head of state with largely ceremonial functions; executive authority rests with the Prime Minister and the Council of Ministers, accountable to the directly elected Lok Sabha (lower house). The Rajya Sabha (upper house) represents the states. The Supreme Court exercises judicial review and has repeatedly intervened in politically sensitive matters, though backlogs across the judicial system exceed 50 million pending cases, constraining contract enforcement and dispute resolution timelines.

Since the 2024 election left the BJP short of a majority, governance has depended on coalition management with the NDA's regional allies, giving smaller parties leverage over legislation and increasing the political cost of contentious reforms. Opposition-governed states periodically clash

with the Union government over federal fund allocation, gubernatorial appointments, and the implementation of central schemes, illustrating recurring centre-state friction inherent to India's federal design.

Internal security presents a differentiated picture. Jammu and Kashmir remains the most acute flashpoint, with residual militancy, periodic terrorist attacks, and an uneasy calm since the 2019 revocation of its special status. Manipur has experienced sustained ethnic violence between the Meitei and Kuki-Zo communities since May 2023, displacing tens of thousands and prompting extended periods of President's Rule. Naxalite-Maoist insurgency, once active across a wide “red corridor” of central and eastern India, has been substantially degraded by security operations but persists at low intensity in parts of Chhattisgarh and adjoining states. Northeast insurgencies have generally subsided through peace accords, though sporadic incidents continue.

Economically, India remains among the fastest-growing major economies, with growth supported by services exports, digital public infrastructure (Aadhaar, the Unified Payments Interface), and a large domestic consumption base. However, energy dependence is a core structural vulnerability: with 85-90% of crude oil imported, largely through the Strait of Hormuz, India's external accounts, inflation, and currency are directly exposed to Gulf chokepoint risk, an exposure the 2026 Hormuz crisis has made concrete. FDI performance is a second weakness: gross inflows recovered to an estimated USD 39 billion in 2025 according to UNCTAD, but net FDI has trended down since 2020 as outflows and repatriations have grown, and the “China Plus One” relocation wave has so far delivered less than anticipated. Job creation has lagged GDP growth, a pattern often described as “jobless growth”, leaving youth unemployment, particularly among educated urban youth and women, well above the headline rate, while the top 10% of earners capture close to 58% of national income. Externally, India pursues a strategy of multi-alignment: deepening security and technology ties with the United States and Quad partners (Japan, Australia) while maintaining historic defence and energy relationships with Russia, and managing a partially de-escalated border stand-off with China along the Line of Actual Control since the 2020 Galwan clashes, a détente formalized by the October 2024 patrol agreement and a Modi-Xi meeting in Kazan, even as China remains India's largest trading partner and the border dispute unresolved. The neighborhood has grown more complicated: the August 2024 fall of Sheikh Hasina's government in Bangladesh brought to power an interim administration less aligned with New Delhi, straining a previously close relationship. Several developments are worth watching. The US tariff rate is conditional on India actually reducing Russian oil imports, and could be reversed. The EU trade deal still needs signature and ratification before entering into force around 2027. The Hormuz disruption will keep driving inflation, the current account, and the rupee. The India-Pakistan ceasefire remains untested by real dialogue. Domestically, the 2026 state elections and the question of BJP succession – Modi turned 75 in September 2025 – will shape coalition politics, while PLI schemes still need to prove they create lasting jobs, not just announced investment. A new pressure point emerged in mid-2026: youth-led protests under the banner “Cockroach Janta Party” drew large crowds in Delhi and other cities over exam irregularities and the lack of secure jobs for graduates, prompting police crackdowns and

calls for the education minister's resignation. It is a reminder that India's youth bulge can become a source of instability, not just opportunity, if job creation keeps lagging.

Business implications

Opportunities

India's demographic dividend, large domestic market, and "China Plus One" diversification narrative underpin its appeal to foreign investors. Production-linked incentive schemes have attracted manufacturing investment in electronics, semiconductors, and pharmaceuticals. Apple's expansion of iPhone assembly with Foxconn and Tata Electronics in Tamil Nadu is emblematic, though still a comparatively isolated success rather than a broad-based manufacturing boom.

India's trade opening is accelerating. Agreements with the UK (July 2025) and EFTA (late 2025, with a \$100 billion investment pledge) have been followed by the landmark India-EU free trade agreement concluded in January 2026, which will create a free trade zone of two billion people once ratified, opening European markets to Indian textiles and footwear while cutting Indian duties on European cars, wines, and pharmaceuticals. Entry into force is expected around 2027, and the EU's carbon border mechanism remains a friction point for Indian steel and aluminium exporters. Combined with tariff de-escalation with Washington, these agreements materially improve market access for export-oriented investment.

Renewable energy offers substantial opportunity under the National Green Hydrogen Mission and India's 500 GW non-fossil capacity target for 2030, a rationale reinforced by the Hormuz crisis. Digital public infrastructure – UPI payments, Aadhaar, and the broader "India Stack" – continues to draw fintech and technology investment. Infrastructure spending remains a priority across highways, freight corridors, and ports, while defence self-reliance ("Atmanirbhar Bharat") is opening co-production opportunities for foreign OEMs, particularly from the US and France.

Challenges

- *Security challenges:* India faces geographically differentiated security risks rather than a single nationwide threat. Jammu and Kashmir remains subject to episodic terrorist attacks and cross-border militancy: the April 2025 Pahalgam attack and the subsequent Operation Sindoor demonstrated how quickly a terrorist incident can escalate into direct military exchanges between two nuclear-armed states, and the May 2025 ceasefire rests on no agreed framework, no bilateral dialogue, and a suspended Indus Waters Treaty. Manipur's ethnic conflict, ongoing since May 2023, continues to generate displacement and periodic violence

with limited resolution in sight. Residual Naxalite-Maoist activity persists at reduced intensity in parts of central India. The border stand-off with China has de-escalated since the October 2024 patrol agreement but remains unresolved. The Hormuz crisis adds an external dimension: energy supply disruption, shipping and insurance costs, and the security of sea lanes in the Arabian Sea now weigh directly on Indian operations. For businesses, day-to-day security risk is manageable outside specific geographies, but tail risks of interstate escalation are material and have grown since 2025.

India's security risk is assessed as Band 4 (medium-high challenges).

- *Regulatory challenges:* India has substantially liberalized its FDI regime over the past decade, permitting up to 100% foreign ownership in most sectors, while retaining caps or approval requirements in insurance, defence, multi-brand retail, and media. Regulatory predictability has improved through digitalization and the consolidation of four labour codes, though implementation timelines vary significantly by state and bureaucratic discretion remains a recurring complaint among foreign investors. The Goods and Services Tax, while a major simplification since 2017, still generates compliance complexity through multiple rate slabs and frequent amendments. The 2023 Digital Personal Data Protection Act introduces new obligations for data handling and cross-border transfers. External regulatory risk has grown: the 2025-2026 US tariff escalation demonstrated how third-country trade policy can materially affect Indian exporters, and firms in the defence and dual-use space must navigate US export-control and sanctions exposure (including CAATSA-related risk) arising from India's legacy Russian defence relationship, notably the S-400 systems and dependence on Russian spares and maintenance.

India's regulatory risk is assessed as Band 3 (medium challenges).

- *Governance challenges:* India's judiciary is formally independent, but chronic case backlogs affect the speed and predictability of commercial dispute resolution, and contract enforcement remains slow compared to OECD standards. Transparency International's 2025 Corruption Perceptions Index ranks India 91st of 182 countries, a level broadly stable over the past decade and reflecting persistent, if uneven, public-sector corruption risk. Centre-state political friction, including disputes over gubernatorial powers, fund devolution, and the treatment of opposition-governed states, adds a further layer of unpredictability for businesses operating across multiple states. Concerns over press freedom, the concentration of economic influence among a small number of large conglomerates with close political ac-

cess, and the treatment of religious minorities have drawn sustained criticism from civil society and international observers, feeding into a broader debate about the resilience of India's democratic institutions even as electoral competition itself remains vigorous.

India's governance risk is assessed as Band 3 (medium challenges).

Luiss

Research Center

Strategic Change

“Franco Fontana”

Viale Romania 32, 00197 Roma

T +39 06 85222350

www.luiss.it