

# Economy | Macro-Cap

## A day inside at the Kartavya Bhavan

One key theme running across Delhi: Focus on indigenization

This week, we spent an entire day at Kartavya Bhavan, New Delhi, engaging with some of the most influential policymakers shaping India's economic strategy. The conversations provided an unusually candid insight into how the Indian state currently views growth, risk, resilience, and global positioning.

Policymakers believe India is entering a far more uncertain global era, but remain confident that the country is structurally better positioned than most emerging markets to navigate it. The emphasis, however, is shifting decisively towards building resilience for the medium term. Some of the policies are already in process around critical minerals, rare earths, semiconductors, and defense.

### Growth is slowing — but still strong

The bureaucracy does not appear particularly worried about India's near-term growth-inflation mix. Even under conservative assumptions, growth is still seen holding around 6–6.1%, keeping India among the fastest-growing major economies despite geopolitical fragmentation.

What was more notable was the stance on inflation. The emerging policy view appears aligned with the broader posture of the RBI — namely that temporary inflation overshoots, even toward 6%, may be tolerated if they remain supply-driven.

In other words, the policy priority today is not fighting every inflationary impulse mechanically, but preserving growth momentum through an uncertain external cycle.

The bigger concern lies elsewhere: capital flows, oil vulnerability, current account pressures, and supply-chain fragility. Policymakers appear far more focused on external resilience than on the traditional growth-versus-inflation debate dominating market conversations.

### Building domestic resilience matters more

The strongest theme running through nearly every discussion was the transition from globalization toward autonomy in key resources.

Policymakers increasingly view the post-2010 world as one likely to remain structurally volatile for an extended period.

India's response is evolving around three broad pillars:

- **Indigenization** where national capability is critical
- **Diversification of supply chains and raw material dependencies**
- Maintaining **openness to trade and capital** simultaneously, via FTAs

This balancing act between strategic autonomy and global integration is becoming the defining framework for India's medium-term economic policy.

The implications are already visible at the industry level:

- **Raw material substitution** policies are accelerating, and multimodal switches are being promoted wherever applicable.
- **Alternate chemicals for raw materials** used for refraction, smelting, etc., are being explored
- Focus is increasing on **solar, renewables, and electric**
- **Domestic capability-building in critical minerals and semiconductors** is receiving sustained policy support (methanol, ammonia, nitrogen, and biofertilizers)

### **Power: a strong tailwind sector**

The power sector emerged as one of the clearest long-duration policy themes.

Officials indicated that the long-awaited power sector legislation could move forward over the next year, potentially by 2HFY27. More importantly, policymakers increasingly view power not as a standalone utility issue, but as a foundational infrastructure for manufacturing, AI, data centers, transportation, and industrial electrification.

The larger industrial policy direction is becoming clearer:

- **Advanced solar manufacturing**
- **Localization of supply chains**
- **Integrated renewable ecosystems**
- **Electrification** of industrial production
- **Domestic manufacturing depth** over assembly-led growth

There was also acknowledgment that labor-intensive sectors remain under pressure, although policymakers pointed out that **schemes such as ECLGS, benefiting the MSMEs, were materially underutilized.**

The broader takeaway was clear: India is attempting to build industrial resilience before the next global shock arrives, rather than after it.

### **Trade policy is becoming more tactical**

Trade policy discussions suggested a more proactive phase ahead.

There was visible optimism around the India-UK FTA timeline, with expectations of movement over the next 1.0–1.5 months. **Discussions around the EU agreement also appear to be gaining momentum.**

**The European market, in particular, is increasingly viewed as a major underpenetrated opportunity for India.** Policymakers recognize that India's presence remains significantly below potential, especially relative to countries such as Vietnam and Bangladesh that benefit from preferential access structures.

At the same time, **the focus is shifting beyond merely signing FTAs toward actual implementation and utilization.** Policymakers appear increasingly conscious that **market access alone does not automatically translate into export competitiveness.**

### India's AI path: looking out for the second mover's advantage

One of the more interesting discussions revolved around artificial intelligence.

India is not attempting to replicate the hyperscale AI infrastructure model, which is dominating the US capital markets. The emerging policy view is a comfortable positioning of India as a “second-user advantage” economy — adapting and deploying AI efficiently rather than competing aggressively in every layer of AI infrastructure.

India has historically succeeded through frugal innovation and digital public infrastructure rather than capital-intensive technological replication. Platforms such as Aadhaar, Unified Payments Interface, and U-WIN demonstrate how India has repeatedly built scalable systems with far lower capital intensity than conventional global models.

That same philosophy may ultimately shape India's AI trajectory as well.

Policymakers also appear acutely aware of the employment implications of rapid AI adoption. **The emphasis, therefore, is not only on building indigenous AI capabilities and domestic language models, but also on preserving labor-intensive growth engines alongside technological adoption.**

### Rupee reflects global capital flows searching for the AI theme, not weak fundamentals

India's macro fundamentals remain considerably stronger than current currency levels imply. Growth remains robust, inflation manageable, fiscal consolidation credible, and external debt relatively contained. What has distorted the equation is the extraordinary concentration of global capital into US AI-linked assets over the past two years.

This is not uniquely an Indian phenomenon. Even structurally stronger external-sector economies such as South Korea have experienced similar currency weakness despite current account surpluses.

This implies that current exchange-rate behavior is increasingly reflecting global capital concentration rather than underlying domestic macro deterioration.

At the same time, policymakers recognize that India cannot remain complacent. External resilience—particularly regarding oil dependence, supply chains, and capital flow volatility—is becoming a central policy priority.

### Final thought

Policymakers increasingly believe the world is entering a prolonged era of structural uncertainty where linear forecasting models will repeatedly fail. In such an environment, the objective is not simply maximizing short-term growth. It is building a system capable of absorbing repeated shocks while continuing to compound over time. This implies that the next phase of India's growth story may be driven less by consumption and liquidity alone and far more by resilience, industrial capability, manufacturing, and infrastructure depth.

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