# India-Pakistan missile strikes escalate economic uncertainty amid global recession fears



# Tensions Between India and Pakistan: A Looming Threat to Global Economic Stability

Despite its rich historical ties and cultural connections, the fraught dynamics between India and Pakistan are once again pushing the world to the brink of potential conflict. Recent missile strikes carried out by India mark a worrying escalation in hostilities that could have dire implications not only for South Asia but also for the global economy. Experts are cautioning that a drawn-out confrontation may plunge the world into a recession, particularly in a time when the global market is already precarious.

India’s missile strikes, described as the most significant military action since the 1971 war, have drawn fierce condemnation from Pakistan, with Prime Minister Shehbaz Sharif labelling them as “an act of war.” He has vowed a decisive response, but the economic fallout from further escalation could be catastrophic for Pakistan. The country is already grappling with over $131 billion in external debt, limited foreign reserves, and a struggling agricultural sector crucial to about 40% of its workforce. Any prolonged conflict could derail its fragile recovery, threaten foreign financing, and worsen repayment challenges, ultimately deepening poverty and instability in the region.

In stark contrast, India, currently ranked as the fifth-largest economy globally, stands on a stronger economic footing. Its extensive domestic market and less reliance on bilateral trade with Pakistan afford it a degree of resilience against the upheaval of military operations. While military expenditures may increase, India's economic apparatus is expected to absorb these costs more effectively than its neighbour. However, the stakes remain high, as the repercussions of military escalation could disrupt global supply chains and economic stability.

Michael Clarke, a defence analyst, cautioned that the ongoing volatility reinforces an already fragile global trade environment. He highlighted that any escalation, even a limited skirmish, could significantly disrupt trade and contribute to the world teetering on the edge of recession. The situation underscores pressing concerns within the international community to diplomatically intervene and de-escalate the tensions, particularly given the complex geostrategic landscape involving nuclear-armed states.

The potential for adverse economic impacts extends to currency markets. Following the news of missile strikes, the Indian rupee experienced its sharpest decline in a month, exacerbated by fears of further hostilities. Although markets showed resilience, with local equities remaining relatively stable, foreign investment sentiment was uncertain, leading analysts to predict ongoing pressure on the rupee. In light of these tensions, the Reserve Bank of India is poised to watch the situation closely and may intervene if necessary to avoid excessive volatility.

Analysts are torn regarding the broader implications for foreign investment in India, which has historically proven robust amid geopolitical strife. The nation's $4 trillion economy continues to attract both domestic and foreign capital, bolstered by a strong GDP growth forecast. Although the recent conflict panders to investor caution, particularly in the bond market, many indicators suggest that confidence remains largely intact. Notably, India secured a trade agreement with the UK and is in ongoing negotiations with the United States, highlighting its ambition to solidify its place in the global supply chain, particularly against the backdrop of heightened tensions with China.

The current geopolitical crisis, however, poses a serious challenge to India's aspiration of becoming a safe haven for international investments. The ongoing conflict has created an atmosphere of uncertainty, compelling multinational corporations to prepare for potential operational disruptions. As governments conduct security drills and reassess their regional strategies, companies may need to pivot to mitigate risks associated with violence or instability.

In conclusion, the trajectory of India-Pakistan relations will undoubtedly influence not just regional stability, but global economic health as well. As the international community watches with bated breath, the need for diplomatic efforts is more urgent than ever to navigate this precarious moment. The shadows of war loom large, but the global economy cannot afford to languish in uncertainty. The time to act is now.

## Reference Map:

* Paragraph 1 – [[1]](https://www.express.co.uk/news/world/2052001/india-pakistan-war-global-recession-ww3), [[2]](https://www.ft.com/content/bccc3ed4-c456-401b-8964-f4044ea7dcbe)
* Paragraph 2 – [[2]](https://www.ft.com/content/bccc3ed4-c456-401b-8964-f4044ea7dcbe), [[4]](https://www.ft.com/content/5098c79c-3b7f-4105-b229-5d137c898f0f)
* Paragraph 3 – [[1]](https://www.express.co.uk/news/world/2052001/india-pakistan-war-global-recession-ww3), [[4]](https://www.ft.com/content/5098c79c-3b7f-4105-b229-5d137c898f0f)
* Paragraph 4 – [[3]](https://www.reuters.com/world/india/rupee-falls-most-month-after-indian-strikes-pakistan-raise-tensions-2025-05-07/), [[7]](https://www.reuters.com/world/india/rupee-faces-downward-pressure-after-india-strikes-pakistan-rbi-action-watched-2025-05-07/)
* Paragraph 5 – [[5]](https://www.reuters.com/world/india/indias-appeal-investors-dimmed-not-derailed-by-conflict-with-pakistan-2025-05-07/), [[6]](https://www.reuters.com/breakingviews/attacks-cloud-indias-nascent-safe-haven-status-2025-05-07/)
* Paragraph 6 – [[6]](https://www.reuters.com/breakingviews/attacks-cloud-indias-nascent-safe-haven-status-2025-05-07/), [[7]](https://www.reuters.com/world/india/rupee-faces-downward-pressure-after-india-strikes-pakistan-rbi-action-watched-2025-05-07/)

Source: [Noah Wire Services](https://www.noahwire.com)

## References

* <https://www.express.co.uk/news/world/2052001/india-pakistan-war-global-recession-ww3> - Please view link - unable to able to access data
* <https://www.ft.com/content/bccc3ed4-c456-401b-8964-f4044ea7dcbe> - Tensions between India and Pakistan have escalated following Indian missile strikes into Pakistani territory, marking the deepest incursion since the 1971 war. Pakistan's Prime Minister Shehbaz Sharif labeled the strikes 'an act of war' and vowed retaliation. However, the economic costs of further conflict could be disastrous for Pakistan, which has over $131 billion in external debt and minimal foreign reserves. Prolonged conflict risks derailing macroeconomic recovery, jeopardizing foreign financing, and exacerbating repayment issues, particularly as Pakistan's agricultural sector—vital to 40% of its labor force—is additionally threatened by India's suspension of the Indus Waters Treaty. In contrast, India's robust economy is less dependent on bilateral trade with Pakistan and can better absorb defense-related expenditures. International intervention is critical to de-escalate the situation, as even limited skirmishes could impose outsized economic and human costs on Pakistan, deepening poverty and instability in the already fragile South Asian region.
* <https://www.reuters.com/world/india/rupee-falls-most-month-after-indian-strikes-pakistan-raise-tensions-2025-05-07/> - On May 7, 2025, the Indian rupee experienced its sharpest single-day decline in a month, dropping nearly 0.5% to close at 84.8250 against the U.S. dollar. The decline was driven by escalating geopolitical tensions following Indian airstrikes on nine Pakistani sites said to be linked to a militant attack that killed 26 tourists in Indian Kashmir. In retaliation, Pakistan claimed to have downed five Indian fighter jets, marking the most intense conflict between the nuclear-armed nations in over two decades. Currency traders anticipate continued pressure on the rupee, though interventions by the Reserve Bank of India and dollar sales by conglomerates and state-run banks provided some support during trading. The tensions also affected regional markets, with Asian currencies such as the offshore Chinese yuan and Indonesian rupiah weakening. While India's stock markets—the BSE Sensex and Nifty 50—ended slightly positive, bond yields dipped to 6.3381%. Investors are also awaiting the U.S. Federal Reserve’s policy decision, with no rate changes anticipated. MUFG Bank cited heightened risk aversion among investors due to the India-Pakistan conflict, indicating ongoing caution in the financial markets.
* <https://www.ft.com/content/5098c79c-3b7f-4105-b229-5d137c898f0f> - Tensions have escalated dangerously between India and Pakistan following Indian airstrikes on what it claimed were terrorist camps in Pakistan, in retaliation for a deadly shooting that killed 26 tourists in Indian-administered Kashmir. India blames Pakistan-based militants for the attack, though it has not publicly provided evidence, and Pakistan denies involvement. These strikes, the most extensive military action in decades, mark a significant deepening of conflict compared to the 2019 clashes. Pakistan’s response, including claims of downing Indian military aircraft, raises fears of further escalation. Both nations are nuclear-armed, and a full conflict could have devastating consequences for regional and global stability. The international community, particularly the United States, France, the UK, and China, is urged to engage diplomatically to prevent war. US President Trump has expressed concern, but greater effort is needed, especially given weakened multilateral cooperation. The crisis poses a serious challenge to global peacemaking capabilities and underscores the need for restraint on both sides to avoid catastrophe.
* <https://www.reuters.com/world/india/indias-appeal-investors-dimmed-not-derailed-by-conflict-with-pakistan-2025-05-07/> - Despite recent tensions between India and Pakistan, including cross-border missile strikes, analysts believe these events have not significantly deterred foreign investment in India. India's limited trade with Pakistan and historical resilience in past conflicts suggest that a full-fledged war is unlikely and that investor confidence remains relatively intact. The country’s $4 trillion economy and strong domestic consumption continue to attract investments, with local inflows providing market stability. Although recent geopolitical events may temporarily dampen foreign portfolio investment, especially in bonds, India’s strong GDP growth forecast of 6.5% and outperforming stock market have maintained investor interest. Foreign investors resumed buying Indian equities in April and May 2025, injecting $1.5 billion, though they withdrew $1.7 billion from the bond market. Meanwhile, India secured a major trade deal with the UK and is in negotiations with the U.S., aiming to lower tariffs and bolster manufacturing. These strategic moves, along with dovish central bank policies, are expected to sustain India’s medium-term investment appeal. As investments are concentrated in southern and central India—areas less affected by the conflict—potential long-term investment risks are seen as limited.
* <https://www.reuters.com/breakingviews/attacks-cloud-indias-nascent-safe-haven-status-2025-05-07/> - Amid growing global investment interest in India, recent military clashes with Pakistan have cast a shadow over the country’s emerging status as a potential economic safe haven. Following a deadly militant attack on Hindu tourists in Indian Kashmir, India launched strikes on nine 'terrorist infrastructure' sites in Pakistan and Pakistani Kashmir. In response, Pakistan claimed to have downed five Indian fighter jets and reported civilian casualties. Despite this dramatic escalation—the worst violence between the nuclear-armed neighbors in over two decades—Indian financial markets remained resilient, reflecting the country's high tolerance for geopolitical risks. However, the conflict threatens long-term stability, especially with India suspending a vital water-sharing treaty, which could exacerbate poverty in Pakistan and fuel further unrest. Multinational companies operating in India are preparing for potential disruptions, such as power outages, as local governments conduct security drills. The situation could deter foreign investment just as India attempts to capture more U.S. supply chain operations from China, including Apple's plans to manufacture iPhones for the U.S. market in India by 2026. While India's global economic ambitions are advancing, ongoing regional tensions highlight the fragile geopolitical environment investors must navigate.
* <https://www.reuters.com/world/india/rupee-faces-downward-pressure-after-india-strikes-pakistan-rbi-action-watched-2025-05-07/> - The Indian rupee is expected to decline following India's military strikes on Pakistani targets, escalating cross-border tensions. The 1-month non-deliverable forward rate for the rupee suggests a drop to 84.64–84.68 per U.S. dollar, down from 84.4325 in the prior session. Currency traders attribute the depreciation to market caution and concerns over potential further escalation. The Reserve Bank of India (RBI) is closely monitoring the situation and is expected to intervene to prevent excessive volatility. Analysts believe the RBI may take assertive action if market disruption occurs. Prior to the strikes, the rupee had remained stable, but growing tension may now challenge this complacency. The strikes were in retaliation for an Islamist militant attack in Indian Kashmir that killed tourists, which India attributed to Pakistan. In response, Pakistan called India's actions a 'blatant act of war' and signaled a potential response, informing the U.N. Security Council. Broader regional markets were also under pressure, with most Asian currencies weakening amid uncertainties surrounding pending U.S. trade deals, particularly with China.