THEIR VIEW

Adapt India's geopolitical game to the developing global order

New Delhi's multi-alignment strategy is appropriate but a better balance and 'neighbours first' approach would serve us well



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This is the second part of a two-part series on how India should position itself in the emerging new world order of multiple regional conflicts, rivalries and alliances surrounding the central rivalry between the US and China. The first part (*Mint*, 31 August) dealt with the most complex of these emerging regional structures, the scenario in West Asia. This part discusses similar structures which may—or may not—be emerging in other parts of the world and India's position in the emerging geopolitical architecture of the 21st century.

Russian support for Iran, along with that of China, plus Zelensky's recent visit to West Asia and EU initiatives to protect trade flows through the Strait of Hormuz link the emerging structure of conflict and alliances in West Asia with the post-Cold War conflict and alliances in Europe. The Ukraine War is the latest stage in a conflict that goes back to Nato's eastward expansion despite assurances given to Moscow during the collapse of the Soviet Union that this would not happen. Russia's fear of the eastward extension of Nato is therefore understandable, but so are European fears of Russian expansionism. This war of attrition between Nato-backed Ukraine and Russia may eventually grind to a halt with accommodation on both sides due to sheer exhaustion. Meanwhile, notwithstanding internal disagreements, a tectonic shift is underway in European security arrangements, with EU countries and the UK aiming to step up their defence budgets to 5% of GDP. Europe's defence industrial capability is literally being multiplied on a war footing. Henceforth, European powers will likely be far more independent and assertive within Nato, as was already evident at the recent Ankara summit, and will seek political or economic accommodation with other countries to serve their interests. The US will remain a major partner, but its influence will be more muted, like in West Asia.

Central Asia is the third important region with major developments. Located at the heart of the Eurasian landmass, surrounded by China, Russia, Central Europe, West Asia and South Asia, there is no other region with such strategic locational significance. The region's five countries—Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan—and possibly Azerbaijan in the near future are establishing a Central Asian Community. Resolving their disputes through friendship treaties, they seem committed to leveraging their strategic location. Agreements with countries and regions around them (and those beyond like the US) may shape their developmental trajectories.

Thus, there is an emerging pattern of countries in regional geographies coming together, despite their differences, to prioritize their collective interests over those of an external or aspiring hegemon. South America contrasts with this pattern. There, the Monroe Doctrine of US domination is in active evidence. Large countries like Argentina, Peru, Chile, Bolivia, Paraguay and Columbia and also small countries like Equador, Honduras and Panama have right-wing governments loyal to the US. Venezuela has been neutralized. The only outliers are Brazil and Mexico, which must be under intense pressure to fall in line.

Africa is a continent where no clear picture is evident. There is still too much internal civil strife within countries and tension between countries, which makes it difficult to discern any clear direction of how its geopolitical scenario will evolve.

A grouping that cuts across all these geographic regions is Brics. Despite its somewhat rudderless formation 20 years ago, this group of developing countries has emerged as a significant force is global geopolitics. Its 11 members and 10 partner countries together account for about half the world population, 40% of global GDP and more than a quarter of total cross-border trade. In that sense, it is much more muscular than the G-7. All the five regions described above are represented in the group, though barring founder member Brazil, it has no other member yet from South America; Bolivia and Cuba are partners. Despite rivalries among some of them (such as between Iran and Saudi Arabia, Egypt and the UAE), the group is engaging with practical initiatives across a wide range of issues from climate change and terrorism to global trade and finance. Following the forthcoming New Delhi summit, when China will take over as Brics chair from India, it will certainly try to leverage the group as an instrument against the US in its competition with the latter.

How should India position itself in this emerging plurilateral geopolitical architecture of regional groups, each pursuing its own interest through varying alliances and cooperative arrangements with others within and outside each group? As Canada's premier Mark Carney said in his landmark Davos speech earlier this year, middle powers must cooperate with one another to ensure they have a seat at the table and do not become a part of the menu. A variable geometry of different groups cooperating on various issues could achieve that. This must also be India's way forward. Multi-alignment is indeed the strategy that India seems to be pursuing.

As commerce minister Piyush Goyal recently remarked, India now has nine free trade agreements and another 8-9 on the table. Eventually, India's trade-deal partners could cover up to 75% of global trade.

Some balancing is desirable. Though India has recently tilted closer to the US-Israel alliance for economic, intelligence and defence ties, its long historical relationship with Iran and Palestine need not be compromised. Similarly, while sustaining its long relationship with Russia as a reliable friend, India also needs to forge deeper economic and political cooperation with the UK and EU countries. Pakistan has vastly enhanced its stature through its recent role in West Asia and especially the Makkah Agreement, but that should not set back India's relations with Saudi Arabia (or other countries like Egypt and the UAE).

Hopefully, India will pursue its multi-alignment strategy energetically. But its leverage in these alignments will depend in large measure on how it manages relationships in its own neighbourhood: that is, with Bangladesh, Nepal, Bhutan, Sri Lanka, the Maldives and, eventually, even Pakistan.

This is the concluding part of this series.

MINT CURATOR

Why the fate of luxury houses rests on the US equity market

Rich American buyers must make up for a Chinese spending slump



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Wealth effect: stock portfolio gains tend to boost top-end buying. REUTERS

A year ago, shoppers in Shanghai visiting The Louis, a massive Louis Vuitton emporium shaped like an ocean liner, were stocking up on pricey luggage, raising hopes that China's luxury market was finally rebounding.

The striking homage to the brand is still a tourist attraction, but the recovery ship may have sailed. There are growing concerns that the nascent upturn in Chinese top-end spending has stalled, leaving big bling more dependent on America for growth this year—and ever more vulnerable to any downturn in the US stock market.

In late 2025, it looked like China was at last turning a corner. Between the easing of a trade war with the US and enthusiasm for AI supporting spending, LVMH, Burberry and Cartier-owner Richemont all indicated that a long slump, which worsened in 2024 after the collapse of China's real estate sector, was past its nadir.

Spending in 2026 started off well, but lately confidence has cracked. The MSCI China Index is down about 10% this year. More troubling for the luxury houses are government measures targeting the wealthy who have been propping up the luxe industry. *Bloomberg News* reported last month that sales at the 25 biggest luxury labels in China dropped by more than 10% in July, deepening a slump seen in June.

Bernstein analyst Luca Solca last week trimmed his estimate for global industry sales growth this year to 5.1%, from 5.5% previously, on the possibility of "another Chinese false dawn." The cut came after a sample of luxury shopping mall sales data in mainland China pointed to a sharp deceleration in June and July.

China's ongoing economic malaise has strained the coffers of its national and regional authorities. To replenish them, Beijing began this year to tighten controls on capital flowing out of the country and stepped up efforts to reclaim tax revenues going back decades—moves that disproportionately hit the affluent consumers that luxury brands rely on most.

At the same time, Chinese middle-class consumers hit by a broad economic downturn have been downgrading their shopping budgets. No longer able to spend tens of thousands of yuan on designer handbags, they have turned to more affordable indulgences such as luxury skincare. That's why the likes of L'Oréal and Estée Lauder are enjoying a revival in the country even as many fashion labels struggle.

For big luxury houses, the wobble further delays the moment when Chinese consumers return to any semblance of the force they were for the decade between 2010 and 2020, when they accounted for as much as 90% of growth in the industry. It also makes designers even more dependent on the US.

Americans now represent the largest share of global luxury spending, according to Jelena Sokolova, analyst at Morningstar, and this is set to remain the case through 2035, according to her estimates.

Emboldened by AI riches and broader stock market gains, which tend to be well correlated with top-end spending, Americans have been leading the luxury charge. But the newly minted appear to be shelling out more on watches and jewellery than handbags and designer clothes.

The largest risk, though, is any brake on US stock markets, either from a bond rout turning into an equity-market correction or an AI bubble bursting. Investors are already nervous. Shares in LVMH fell last week to their lowest since 2020. While that level could be attractive to long-term investors, comfort on both the Chinese and US luxury markets would be needed.

In the case of China, reassurance is in short supply. LVMH noted in July that its market remained volatile, with spending clustered around key holidays and shopping events. It may be that recent months have simply coincided with a period lacking in inspiration for Chinese consumers. The 618 online shopping festival that ended in mid-June was lacklustre for luxury. The National Day Golden Week early next month and Singles Day retail event that follows will be the next big tests of demand.

Help from the authorities can't be ruled out, but looks unlikely. While Beijing says reviving household spending is a strategic priority, it has not undertaken the long-term work of achieving that goal. A slew of disappointing economic data in recent months has Beijing scrambling to increase infrastructure investment and boost confidence in the property market, but these are incremental measures that will not move the needle on consumption.

Either way, when luxury cratered three years ago after the post-covid 'revenge spending' trend, the freeze was severe because both the US and China weakened at the same time. Companies and investors will want to avoid a repeat of that unfortunate market combination. ©BLOOMBERG

THEIR VIEW

What the global bond market revolt implies for India

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For decades, emerging economies had reason to envy advanced countries for their fiscal and monetary credibility. Their governments borrowed more cheaply and their sovereign bonds were regarded as safe assets. That distinction is blurring. The US, UK, France and Japan now confront elevated sovereign bond yields. Large US deficits co-exist with strong growth; Japan faces rising yields after decades of near-zero rates; France and the UK face high debt with difficult fiscal choices. Chinese yields remain unusually low, but this reflects weak domestic demand rather than fiscal strength.

There are lessons for India. *First*, high public debt can remain manageable for a remarkably long time—until the environment sustaining it changes. Low interest rates allowed advanced economies to accumulate debt with limited immediate consequences. Inflation and monetary tightening have transformed that arithmetic. Sovereign bonds once treated as safe assets can themselves become sources of instability. India's overall public debt remains around 81% of GDP and the combined Centre-state fiscal deficit above 7%. Yet, India's position differs: growth is relatively strong, debt is overwhelmingly domestic and foreign-exchange reserves provide an external buffer. Growth is thus India's most important fiscal asset. But it must be protected. UK Chancellor John Healey put the principle well when he said maintaining fiscal credibility was 'indivisible' from the drive for growth. The same applies to India. Debt sustainability depends on future growth, interest rates, inflation and confidence in fiscal institutions. Fiscal consolidation that undermines productive investment can weaken growth; borrowing that hurts fiscal credibility can do so as well.

Second, what government debt finances matters as much as how much it borrows. India has enormous investment needs. But what counts as capital expenditure needs greater clarity. India's budgetary definition includes not only spending that creates physical assets but financial investments, loans and other transactions that do not directly add to productive physical capacity. Borrowing that builds productive infrastructure and eases bottlenecks expands future income from which debt can be serviced. Financial assets may support this, but are not the same. The test is what asset is created and what economic return it generates.

Third, India should guard against fiscal dominance. As debt and interest costs rise, governments have a stronger interest in keeping credit costs low, potentially pressuring monetary policy to accommodate fiscal needs. The Reserve Bank of India's inflation objective and operational independence are therefore fiscal assets: monetary credibility lowers inflation risk and the related premium investors demand on long-term debt. India's large domestic investor base offers protection, but not immunity. Japan's case demonstrates the limit: when inflation and monetary policy normalizes, yields can rise even in a domestically financed market. Domestic savings are a buffer, not an unlimited fiscal resource.

Economic growth and fiscal credibility are mutually dependent and must both be strengthened

Higher US, European and Japanese yields raise the global price of capital. Emerging economies increasingly compete for savings with heavily indebted advanced-country governments and technology companies financing enormous AI investments. For India, this can mean higher bond yields, rupee pressure and dearer corporate loans. India's integration with global bond markets diversifies its investor base but also increases sensitivity to global portfolio shifts. Instability originating in advanced bond markets could hit emerging economies disproportionately.

India should use today's high-growth environment to strengthen fiscal buffers before global conditions harden. Fiscal consolidation must continue without pullback in high-return physical investment. India must also address state-level vulnerabilities and contingent liabilities: fiscal sustainability is an all-government requirement.

Investors discriminate among sovereign markets by growth prospects, inflation credibility, institutional strength and diversification benefits—not simply whether the bond issuer is advanced or emerging. India could benefit. Note how Japan's Credit Rating Agency has upgraded India's rating, returning its sovereign debt to the A category for the first time since 1988. It cited high growth, public investment, banking-sector improvement and structural reforms. The upgrade is an external vote of confidence. But it reinforces the argument that global credibility requires India to achieve growth on a stable fiscal foundation.

Sustaining this advantage requires stronger private investment, alongside greater R&D and innovation. Infrastructure, skills and research capacity attracting more global AI investment could strengthen private investment as an engine of growth.

The *final* lesson is that India's current ability to borrow should not be confused with tomorrow's capacity to service debt comfortably. Thankfully, India has what some highly indebted advanced economies lack: favourable growth dynamics and substantial scope for productive investment. The challenge is to retain that edge by strengthening fiscal buffers, monetary credibility and the productivity of public outlays.

Bond markets can remain forgiving for a long time, but not indefinitely. India's best defence against a new era of dearer global debt is its economic growth. But growth and fiscal credibility are mutually dependent. Fiscal policy, especially the quality of what public debt finances, must aim for both.