IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)
An International Open Access, Peer-reviewed, Refereed Journal

The Ripple Effect: Economic Costs Of The India-Pakistan Conflict 2025 For The World

[1]Nidhi Mittal
[1]IBDP Student
[1]Greenwoodhigh International School Bangalore

Abstract: This research paper will examine the impact of the 2025 India-Pakistan war on the international economy, analysing how a regional conflict between two nuclear-armed neighbors can instigate global economic disruptions. This research examines how military escalations immediately and long-term affect trade, manufacturing, pharmaceuticals, aviation, and financial markets through real-time economic data analysis of stock movements, currency fluctuations, trade suspensions, and sector impacts. It aims to demonstrate global markets' interconnectedness and volatility in response to regional geopolitical shocks while analyzing the economic costs of conflict.

I. INTRODUCTION

On May 7, 2025, the India-Pakistan conflict began following a terrorist attack in Pahalgam, Jammu and Kashmir, on April 22 that killed 26 civilians. India launched missile strikes on Pakistan in a military operation called 'Operation Sindoor', targeting militant camps. In response to this, Pakistan continued to deny the presence of terrorist camps and their involvement in the terror attack. They started with mortar shelling and drone strikes, before a ceasefire was reached on May 10, 2025. The fight lasted four days and was characterized by fierce military exchanges, including the first drone battle between the two neighbors with nuclear weapons.

The conflict severely affected industries reliant on cross-border supply chains. The closing of crucial border checkpoints and airspace led to significant delays and heightened operational expenses for global airlines and logistics companies, interrupting global supply chains and cold chain logistics for pharmaceuticals. India's suspension of the Indus Waters Treaty disrupted Pakistan's agriculture and hydro power generation.

Adding on, stock markets in both India and Pakistan experienced volatility throughout the conflict week due to escalating tensions. The currencies of both countries were impacted due to broader volatility and there were signs of inflationary pressures at different magnitudes on both sides. Imports became costlier and the price of essential commodities rose in response to the currency depreciation. Amid investor anxiety, global prices for gold and oil surged, reflecting concerns about regional security with potential for conflict escalating to nuclear war.

This study highlights how the uncertainty induced because of the war, deterred foreign investment, slowed economic growth in South Asia, and almost sent the global economy towards a recession if hostilities had persisted.

II. Role of India and Pakistan in global economy

Both nations play vital roles in the international economy. Their economic activities and stability are rooted in global trade, investment flows, and supply chain reliability.

India is the world's fastest-growing major economy, expected to expand by 6.2% in 2025. The country plays a pivotal role in global economic linkages. India's growth leadership attracts substantial foreign investment, with FDI exceeding $50 billion in FY 2024-25.[1] Additionally, global firms project 18-20% annual earnings growth from India, driven by private investment and consumption.[2] India's role as a trade hub and its extensive supply chains in consumer goods, software, engineering and manufacturing, further strengthens its position in the global economy. Exports from India encompass a wide swath of industries as depicted in Figure 1.

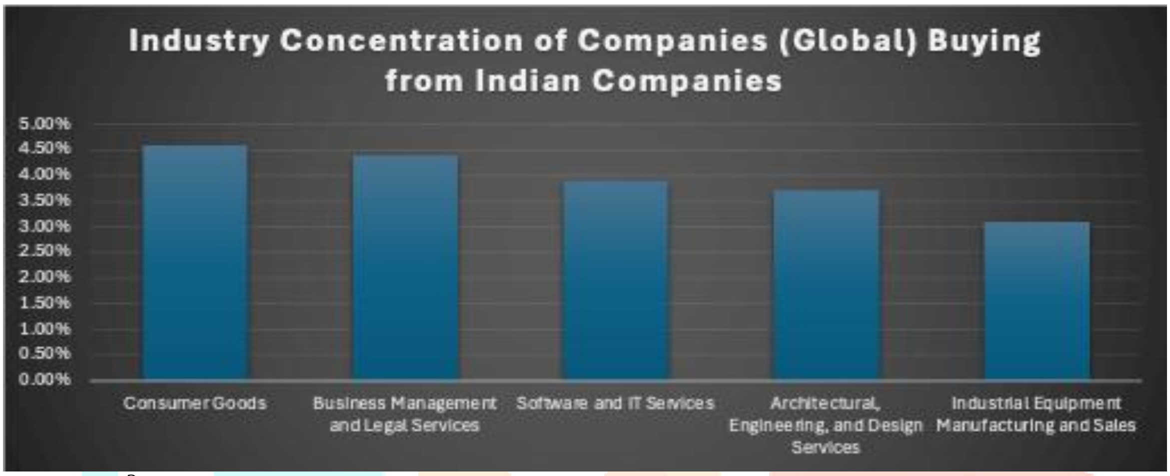

Figure 1. [3]

Most companies that purchase goods from India are located in the United States, making up over 24% of the exports supplied by Indian companies.

[1] Briefing, India. "India FDI Tracker 2025." India Briefing News, July 7, 2025. https://www.india-briefing.com/news/india-fdi-tracker-2025-38140.html/.

[2] NEWS. "Goldman Sachs Sees India Among Top Emerging Markets In 2025," n.d. https://ddnews.gov.in/en/goldman-sachs-sees-india-among-top-emerging-markets-in-2025/.

[3] Interos.Ai. "When Borders Collide: The India-Pakistan Conflict and Its Global Trade Fallout - interos.ai." interos.ai, May 16, 2025. https://www.interos.ai/blog/when-borders-collide-the-india-pakistan-conflict-and-its-global-trade-fallout/.

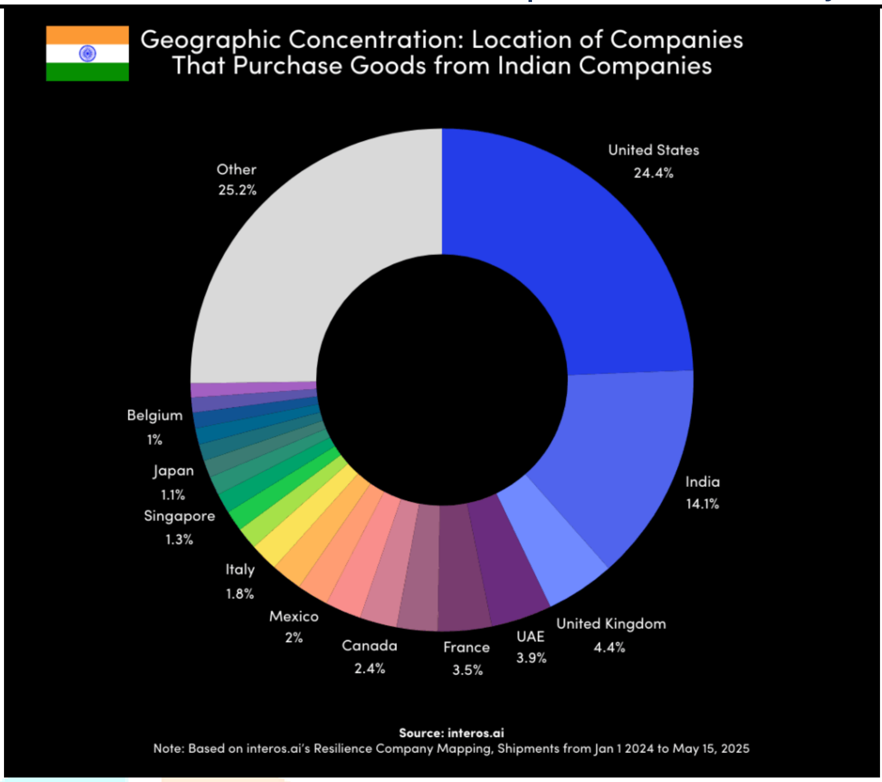

Figure 2.

Meanwhile, Pakistan leverages its strategic position connecting South Asia, Central Asia, and the Middle East. It also has enhanced regional connectivity and energy infrastructure through the $65 billion China-Pakistan Economic Corridor (CPEC).[4] Disruptions to the country's regional stability impacts trade routes, energy supplies, and Chinese investments linked to CPEC.
Pakistan's business spans a wide range of industries, with apparel producers representing the largest share.

Figure 3.

Most companies that purchase goods from Pakistan are in the United States and the United Kingdom, making up over 22% and 6% of the companies supplied by Pakistani companies, respectively.

[4] Stone, Nathaniel. "Pakistan: The Emerging Geopolitical Pivot for Regional Stability and Renewable Growth." *Ainvest*, June 18, 2025. https://www.ainvest.com/news/pakistan-emerging-geopolitical-pivot-regional-stability-renewable-growth-2506/.

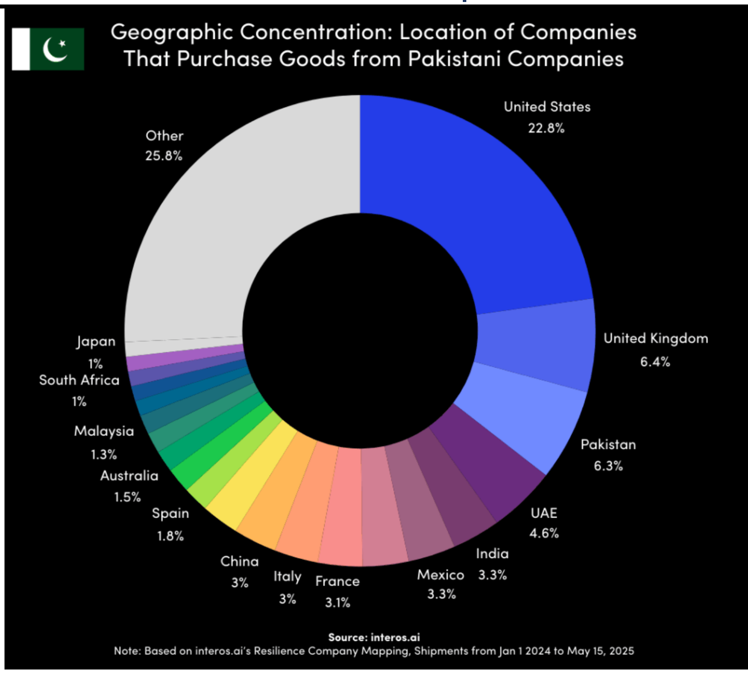

Figure 4.

III. ECONOMIC IMPACT ON INDIA AND PAKISTAN

The conflict inflicted severe economic damage on both countries. India suffered an estimated $88.712 billion in realised losses over four days. These losses included trade disruptions and service-sector impacts.[5] Pakistan's economy, already fragile, faced aggravated strain from defense spending and trade suspensions.

Impact on transport and tourism

There was a significant negative impact on tourism for India. Travel and tourism stocks in India saw steep declines, with stocks of companies like Yatra Online, EaseMyTrip, and Thomas Cook (India) experiencing drops of 2-5%, and hotel stocks falling up to 7%.[6]

Indian tourists began boycotting destinations perceived as supportive of Pakistan, such as Azerbaijan and Turkey, leading to a dramatic drop in bookings. As a result, bookings increased for politically neutral destinations like Georgia, Serbia, and Thailand.[7]

Over 430+ flights were cancelled across India, along with global carriers rerouted, increasing travel time and operational costs for the airlines.

Cargos were rerouted through the UAE, increasing shipping costs.[8] The shutdown and restriction of port operations and ban on Indian and Pakistani vessels, disrupted Pakistan's external trade, especially through Karachi. It impacted the export volume from Karachi, leading to delays, increased freight costs, and logistical difficulties for manufacturers reliant on export markets.[9]

---

[5] Salman, Aneel. "The Economic Consequences of Escalation: India'S War Ledger, May 7-10, 2025." IPRI - Islamabad Policy Research Institute, May 14, 2025. https://ipripak.org/the-economic-consequences-of-escalation/.

[6] Moneycontrol. "Airline, Tourism, Hotels Stocks Sink up to 7% as India-Pakistan Conflict Intensifies, Demand Concerns Weigh," May 9, 2025. https://www.moneycontrol.com/news/business/markets/airline-tourism-stocks-likely-to-see-sharp-selloff-as-india-pakistan-conflict-intensifies-13018474.html.

[7] Sarkar, Priyanka, and Priyanka Sarkar. "India-Pakistan Conflict Sends Shockwaves Through Travel, Trade, and Tourism What You Need to Know - Travel and Tour World." Travel and Tour World, July 1, 2025. https://www.travelandtourworld.com/news/article/india-pakistan-conflict-sends-shockwaves-through-travel-trade-and-tourism-what-you-need-to-know/.

[8] Diphda, Bintang Corvi. "Why The India-Pakistan Conflict Could Choke Global Supply Chain." Modern Diplomacy, May 11, 2025. https://moderndiplomacy.eu/2025/05/11/why-the-india-pakistan-conflict-could-choke-global-supply-chain/.

[9] Gard. "Port Situation in India and Pakistan," May 8, 2025. https://gard.no/insights/port-situation-in-india-and-pakistan/.

Impact on GDP and trade

Both countries faced losses in GDP and trade. Due to the suspension of all bilateral trade, India faced a disruption in its critical supply chains, such as for cotton imports that are important to India's textile sector. As the Attari-Wagah border was closed, it resulted in ₹7,013 crore in losses and 12,000 job cuts for Punjab alone.[10] Pakistan relies on India for 30% to 40% of its pharmaceutical raw materials. These include Active Pharmaceutical Ingredients (APIs) and specialised medicines like anti-cancer drugs, vaccines, and anti-venoms. Pakistan's Drug Regulatory Authority (DRAP) was forced to seek emergency sourcing from China and Europe. This shift risked medical shortages and price hikes.[11] Along with that, the trade suspension also increased prices for commodities like cotton and wheat in both countries.

The conflict had far reaching effects on trade, not just between the two countries but across South-Asia and even the world. Trade within South Asia, the Intra-SAARC trade, already limited to 5% of the region's total trade of $23 billion against a $67 billion potential due to political tensions, suffered further decline.[12]

Impact of suspension of Indus Water Treaty

A severe impact was borne by Pakistan due to the suspension of the Indus Waters Treaty. The reduction of downstream flows led to water shortages, especially in the country’s industrial zones.[13] The shortage also affected power generation, since almost one-third of Pakistan’s electricity comes from hydropower, much of it dependent on the Indus, Jhelum, and Chenab rivers.[14] Overall this threatened Pakistan’s food and security, industrial operations and economic stability lead to losses in agricultural and industrial productivity.

Impact of Increased Military expense

Increased military expenditure during the conflict resulted in higher costs of replacing lost equipment and repairing damaged infrastructure putting extra pressure on both governments’ budgets. This created an opportunity cost and meant less money was available for other sectors like health and education.

Impact on Currency and stock Market

During the conflict, the stock market reacted to the bad news quickly, as investors sold shares in India and Pakistan. This selling caused the main indices, like India’s Sensex and Pakistan’s PSX, to fall sharply.[15] The drop in BSE Sensex can be observed in Figure 5, while the drop in KSE can be observed in Figure 6, post the Pahalgam attack, drop in the stock market means companies lose value, investors lose money, and companies find it harder to raise funds for new projects.

---

[10] Online Desk. “India-Pakistan Tensions: How Various Sectors of India’s Economy Are Being Impacted.” *The New Indian Express*, May 10, 2025. https://www.newindianexpress.com/business/2025/May/10/india-pakistan-tensions-how-various-sectors-of-indias-economy-are-being-impacted.

[11] Pti. “Pak Initiates ‘emergency’ Steps to Secure Drug Supplies After Trade Suspension With India.” *The Economic Times*, April 26, 2025. https://economictimes.indiatimes.com/news/india/pak-initiates-emergency-steps-to-secure-drug-supplies-after-trade-suspension-with-india/articleshow/120648579.cms.

[12] Ias, Lukmaan. “THE SORRY STATE OF SOUTH ASIAN ECONOMIC INTEGRATION.” Lukmaan IAS, June 25, 2025. https://blog.lukmaanias.com/2025/06/25/the-sorry-state-of-south-asian-economic-integration/.

[13] Shah, Simmone. “Climate Change Is Straining Pakistan’s Water. Tensions With India Could Make It Worse.” *TIME*, May 9, 2025. https://time.com/7284470/india-pakistan-water-supply-climate-change/.

[14] Khadka, Navin Singh. “Pahalgam Attack: Will India Suspending Indus Waters Treaty Affect Pakistan?,” April 25, 2025. https://www.bbc.com/news/articles/cd7vjyezypqo.

[15] Jananimohan. “India’s Diplomatic Heat Impacts Pakistan Stock Market: Tax and Trade Implications.” Efiletax, April 24, 2025. https://www.efiletax.in/blog/indias-diplomatic-heat-impacts-pakistan-stock-market-tax-and-trade-implications/.

Figure 5.[16]

Figure 6.[17]

Additionally, investors had also globally rebalanced portfolios towards safe havens. Safe-haven asset shifts refer to investor movements from riskier investments to safer assets. Foreign investors took out about $2.5 billion from Indian markets during the worst period of the conflict. Adding to that, India's foreign exchange reserves declined by about $2.07 billion, indicating capital outflows due to market nervousness. The Indian and Pakistani market became riskier for investors causing them to invest in safer currencies such as the US Dollar and Japanese Yen, which gained strength during this time.[18]

The Indian Rupee (INR) weakened from about 84 to 85.703 per Dollar during the conflict, making imports more expensive and increasing inflation, as seen in Figure 7.[19] Similarly, for Pakistan, the value of the PKR also decreased against the US Dollar, highlighted in Figure 8.

[16] TRADING ECONOMICS. "BSE SENSEX Stock Market Index - Quote - Chart - Historical Data - News," n.d. https://tradingeconomics.com/india/stock-market.

[17] ———. "Pakistan Stock Market (KSE100) - Quote - Chart - Historical Data - News," n.d. https://tradingeconomics.com/pakistan/stock-market.

[18] Murarka, Kashish. "India-Pakistan Tensions Impact on Gold Prices." Edge-Forex, May 9, 2025. https://edge-forex.com/india-pakistan-tensions-impact-on-gold-prices/.

[19] Wan, Michael. "India and Pakistan Conflict - Is This Time Different for INR and the Market?" MUFG Research, n.d. https://www.mufgresearch.com/fx/india-and-pakistan-conflict-is-this-time-different-for-inr-and-the-market-9-may-2025/.

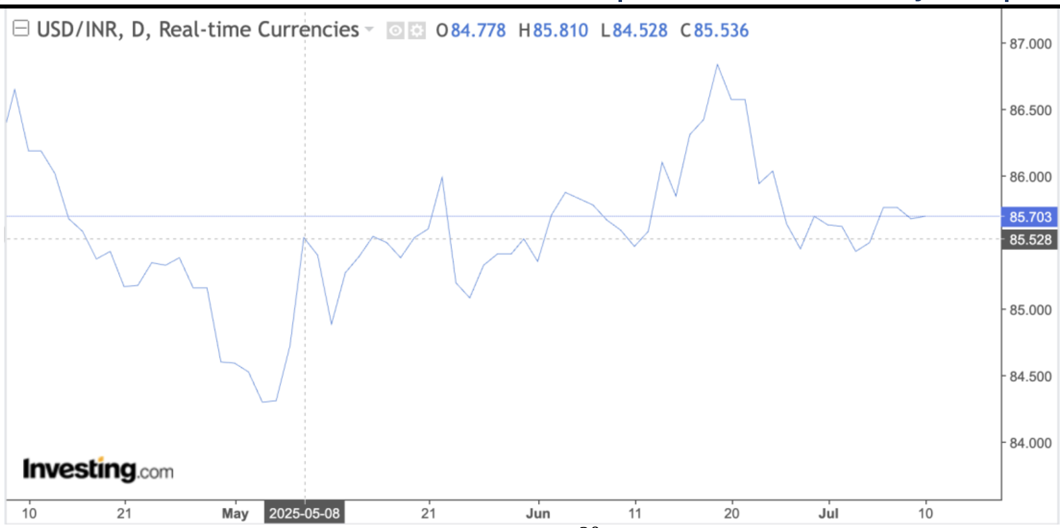

Figure 7.[20]

Figure 8.[21]

IV. IMPACT OF CONFLICT ESCALATION

If hostilities persisted, it would have been a major setback to regional economic cooperation. That is because they would disrupt trade agreements in the South Asian areas. This would restrain economies of scale and regional supply chains, further increasing instability.

This conflict would have posed severe economic risks for India and Pakistan, as well as the wider world, primarily due to interconnected channels in the global economy.

Firstly, a rise in defence spending would have diverted fiscal resources away from development, creating opportunity costs. As military expenditures take away a large share of the government budget, crucial investments in development sectors such as education, healthcare, and infrastructure would be crowded out. This reallocation of financial resources would have slowed down long-term economic growth, and lowered potential GDP.

Along with that, investor confidence in India and Pakistan would likely have deteriorated sharply, as prolonged instability would increase perceived country risk, discouraging both foreign direct investment (FDI) and portfolio inflows, impacting both countries growth prospects.

[20] Investing.com. "USD/INR - US Dollar Indian Rupee," n.d. https://in.investing.com/currencies/usd-inr-chart.

[21] Investing.com. "USD/PKR - US Dollar Pakistani Rupee," n.d. https://in.investing.com/currencies/usd-pkr-chart.

V. CONCLUSION

In conclusion, the 2025 conflict between India and Pakistan was instigated by a terrorist attack in Pahalgam and led to a brief military escalation between the nations. Both nations as well as the global economy suffered setbacks including, rise in defence spendings, trade suspensions, and disrupted supply chains that caused economic contractions. Furthermore, financial markets reacted with volatility due to investor uncertainty, while globally, the conflict heightened risk aversion.

Diplomatic efforts helped negotiate a ceasefire, but underscored the vulnerability of interconnected economies, as a continued conflict could have created severe opportunity costs for the economies. For India, the aftermath brought a decisive change in national security policy: every terrorist attack is now treated as an act of war, signaling a shift from soft to hard power.

Overall, the conflict marked a turning point for global economic order. It highlighted how the world has truly become a multipolar market, with the influence of the WTO fading off as bilateral trade agreements increasingly define international commerce. Trade agreements are more likely to be made between countries themselves, indicating a shift from multilateralism.

VI. REFERENCES

- The National Bureau of Asian Research. “The May 2025 India-Pakistan Conflict,” n.d. https://www.nbr.org/publication/the-may-2025-india-pakistan-conflict-neither-quite-the-same-nor-quite-another/.
- ———. “India-Pakistan Tensions: How Various Sectors of India’s Economy Are Being Impacted.” *The New Indian Express*, May 10, 2025. https://www.newindianexpress.com/business/2025/May/10/india-pakistan-tensions-how-various-sectors-of-indias-economy-are-being-impacted.
- ———. “Why The India-Pakistan Conflict Could Choke Global Supply Chain.” Modern Diplomacy, May 11, 2025. https://moderndiplomacy.eu/2025/05/11/why-the-india-pakistan-conflict-could-choke-global-supply-chain/.
- G, C. “Four Days in May: The India-Pakistan Crisis of 2025.” *Stimson Center*, June 23, 2025. https://www.stimson.org/2025/four-days-in-may-the-india-pakistan-crisis-of-2025/.
- Shabbir, Saima. “Latest Pakistan-India Conflict Cost Both Nations $1 Billion an Hour Combined — Economist.” *Arab News*, May 14, 2025. https://www.arabnews.com/node/2600663/pakistan.
- ———. “The Economic Consequences of Escalation: India’S War Ledger, May 7-10, 2025.” IPRI - Islamabad Policy Research Institute, May 14, 2025. https://ipripak.org/the-economic-consequences-of-escalation/.
- Grmi. “India, Pakistan 2025 Crisis.” GRMI, June 12, 2025. https://grm.institute/blog/india-pakistan-2025-crisis/.
- Finance Outlook India. “The Economic Impact of India-Pakistan War: A Detailed Analysis,” n.d. https://www.financeoutlookindia.com/article/the-economic-impact-of-indiapakistan-war-a-detailed-analysis-nwid-5091.html.

- Reuters. “India’s appeal for investors dimmed but not derailed by conflict with Pakistan,” n.d. https://www.reuters.com/world/india/indias-appeal-investors-dimmed-not-derailed-by-conflict-with-pakistan-2025-05-07/.
- Digital. “India and Pakistan: The Opportunity Cost of Conflict - Atlantic Council.” Atlantic Council, September 13, 2019. https://www.atlanticcouncil.org/in-depth-research-reports/report/india-and-pakistan-the-opportunity-cost-of-conflict/.
- Khasru, Syed Munir. “What the India-Pakistan Conflict Costs South Asia.” *The Indian Express*, May 20, 2025. https://indianexpress.com/article/opinion/columns/india-pakistan-bangladesh-nepal-saarc-trade-south-asia-asean-10017522/.
- Muneer, M. “Waronomics: India-Pak Wars Won’t Stop at LoC, They’ll Hit the Economy Hard, From Trade to Balance Sheets.” *The Economic Times*, May 16, 2025. https://economictimes.indiatimes.com/opinion/et-commentary/waronomics-india-pak-wars-wont-stop-at-loc-theyll-hit-the-economy-hard-from-trade-to-balance-sheets/articleshow/121218911.cms?from=mdr.
- ———. “When Borders Collide: The India-Pakistan Conflict and Its Global Trade Fallout - interos.ai.” interos.ai, May 16, 2025. https://www.interos.ai/blog/when-borders-collide-the-india-pakistan-conflict-and-its-global-trade-fallout/.
- ———. “Pak Initiates ‘emergency’ Steps to Secure Drug Supplies After Trade Suspension With India.” *The Economic Times*, April 26, 2025. https://economictimes.indiatimes.com/news/india/pak-initiates-emergency-steps-to-secure-drug-supplies-after-trade-suspension-with-india/articleshow/120648579.cms?from=mdr.
- ———. “When Borders Collide: The India-Pakistan Conflict and Its Global Trade Fallout - interos.ai.” interos.ai, May 16, 2025. https://www.interos.ai/blog/when-borders-collide-the-india-pakistan-conflict-and-its-global-trade-fallout/.