India's Economic Resilience Amid Global Geopolitical Uncertainties: Structural Foundations, Policy Responses, and the Road Ahead

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DOI: https://doi.org/10.51583/IJLTEMAS.2026.150500248

Received: 27 May 2026; Accepted: 01 June 2026; Published: 23 June 2026

ABSTRACT

This paper examines the structural and policy determinants of India's macroeconomic resilience during the period 2024–2026, a phase characterised by acute global geopolitical stress, including escalating West Asian conflict, US trade tariff imposition, and sustained post-pandemic supply chain fragmentation. Drawing on data from the Reserve Bank of India (RBI) Annual Report 2025–26, the Economic Survey 2025–26, IMF World Economic Outlook projections, and UN WESP 2026, the study identifies three interacting pillars of resilience: (i) robust domestic demand anchored by rising rural consumption and public capital expenditure; (ii) structural diversification of manufacturing through policy-driven frameworks such as the Production-Linked Incentive (PLI) scheme; and (iii) strengthened external buffers comprising record foreign exchange reserves, diversified foreign direct investment inflows, and expanded trade partnerships. India recorded GDP growth of 7.6% in FY2025–26 — up from 7.1% the prior year — maintaining its position as the world's fastest-growing major economy with an average annual growth of 7.8% across the five-year period 2021–2026. The paper further analyses key structural vulnerabilities — including currency depreciation, shallow manufacturing depth, and limited global value chain integration — and evaluates the policy recalibrations required to sustain and deepen this growth trajectory. The findings have implications for the broader literature on economic resilience in large developing economies navigating an era of geopolitical multipolarity.

Keywords: Economic resilience, India, geopolitical uncertainty, GDP growth, Production-Linked Incentive, trade diversification, foreign direct investment, macroeconomic stability

INTRODUCTION

The global economic order of the mid-2020s has been defined by compounding disruptions of a kind rarely encountered in the post-Cold War era. The residual fragility from the COVID-19 pandemic's fiscal and monetary aftershocks has intersected with renewed geopolitical conflict — most acutely, the sustained hostilities in West Asia and the Russia-Ukraine theatre — generating persistent uncertainty in energy markets, commodity supply chains, and the multilateral trade system. The United States' aggressive imposition of broad-based tariffs on trading partners, including India, has added a further dimension of trade policy uncertainty, challenging the growth models of export-oriented developing economies.

Within this context, India's macroeconomic performance has been anomalous in its resilience. The Reserve Bank of India (2026) confirmed that the Indian economy grew at 7.6% in FY2025–26, accelerating from 7.1% in the prior fiscal year, making it the world's fastest-growing major economy for the fifth consecutive year. Over the five-year period spanning FY2021–22 to FY2025–26, India recorded an average annual real GDP growth rate of 7.8% (Channeliam Economic Monitor, 2026), a pace that compares favourably not merely with advanced economies but with most other large emerging markets as well.

The question animating this paper is not merely descriptive — that India has grown — but analytical: what structural and policy foundations explain the persistence of this growth in the face of severe external headwinds? And what are the fault lines that, if unaddressed, could convert current resilience into future fragility?

ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue V, May 2026

This paper is organised as follows. Section 2 reviews the relevant literature on economic resilience in developing economies and situates this paper's contributions within that literature. Section 3 characterises the geopolitical stress environment of 2024–26 and its transmission channels to India. Sections 4 and 5 analyse, respectively, the domestic and external pillars of resilience. Section 6 identifies structural vulnerabilities, with extended analysis of employment absorption risks and fiscal constraints. Section 7 presents the near-term growth outlook and a comparative benchmarking of India's performance against peer emerging economies, before setting out policy priorities. Section 8 concludes.

LITERATURE REVIEW

The concept of economic resilience has gained considerable traction in development economics since the global financial crisis of 2008–09, which revealed the asymmetric vulnerability of economies to external shocks. Briguglio et al. (2009) introduced an early framework distinguishing between inherent vulnerability and policy-constructed resilience, arguing that small economies in particular could ameliorate structural exposure through institutional and macroeconomic buffers. Subsequent scholarship extended this framework to large developing economies, where the interaction between internal structural transformation and external exposure is more complex.

In the Indian context, Panagariya (2008) and Acharya (2016) have traced the foundations of growth resilience to the post-1991 liberalisation, which diversified India's sectoral base and reduced the dominant fiscal-agricultural nexus. More recently, Rajan and Subramanian (2011) cautioned that India's relative capital account openness could amplify external shocks, while Ghosh (2020) documented the countercyclical effectiveness of public investment during the COVID-19 contraction. The role of digital infrastructure — particularly the Unified Payments Interface — as a macroeconomic stabiliser has been explored by Prahalad and Nandan (2017) and extended by more recent work from the RBI's Department of Economic and Policy Research (2024).

The geopolitics-economy interface literature (Bremmer, 2022; Rodrik, 2023) highlights how the fracturing of multilateral trade norms generates both risks and opportunities for large developing economies capable of positioning themselves as geopolitically neutral manufacturing hubs. India's potential to exploit this strategic positioning has been analysed by Huang and Khanna (2024) and by the IMF's Asia-Pacific Regional Economic Outlook (2025), though neither account fully integrates the demand-side buffers that have proven central to India's resilience in the 2024–26 episode.

This paper seeks to contribute to this literature by offering a comprehensive, evidence-based assessment of the mechanisms underlying India's resilience in a specific and severe geopolitical stress episode. It does so by drawing on the most recent official data and international organisation projections, and by advancing three specific analytical contributions: (i) identifying the causal mechanisms — not merely the correlates — of India's demand-side insulation; (ii) contextualising India's performance against peer emerging economies through a comparative indicator framework; and (iii) mapping the feedback risks through which current strengths could become future vulnerabilities.

The Geopolitical Stress Environment: 2024–2026

Multi-Directional External Shocks

The period under study was characterised by an unusual convergence of external shocks that collectively constituted one of the most severe geopolitical stress episodes since the 1973 oil crisis. West Asian conflict, centred on the Israel-Gaza war and subsequently involving broader regional actors, disrupted the Red Sea shipping corridor — a conduit for approximately 12% of global trade — raising freight costs and introducing supply chain delays across multiple sectors. The coordinated US-Israel strikes on Iranian targets in February 2026, followed by retaliatory missile launches on US assets in the region, introduced fresh uncertainty into global energy markets (HDFC Fund, 2026).

Simultaneously, the United States administration's tariff programme, initiated in 2025, imposed significant levies on imports from major trading partners, including a 50% tariff on select Indian goods (Deloitte, 2026). The UN

ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue V, May 2026

Secretary-General's characterisation of the environment as one in which "a combination of economic, geopolitical and technological tensions is reshaping the global landscape" (WESP 2026) underscores the systemic rather than episodic nature of these pressures. China's continued slow recovery further constrained global demand, while geopolitical fragmentation weakened the impetus for multilateral coordination.

Channels of Transmission to India

For India, the primary transmission channels of this global stress were threefold. First, energy price volatility — driven by West Asian escalation — posed inflationary risks through import costs, though structural improvements in energy efficiency and the declining oil-import-to-GDP ratio (from approximately 8.5% to 4.8% over the preceding decade) significantly attenuated this channel (HDFC Fund, 2026). Second, US tariffs moderated goods export growth from India, particularly in categories such as textiles, chemicals, and select manufactured goods, partially offsetting the gains from supply chain diversification. Third, geopolitical uncertainty contributed to episodic foreign portfolio investment (FPI) outflows and currency depreciation pressures, with the rupee depreciating 5.4% against the US dollar during FY2025–26 (Economic Survey 2025–26).

Domestic Pillars of Resilience

Robust Domestic Demand

The central mechanism insulating India's growth from external headwinds has been the strength of its domestic demand. Household consumption — buoyed by rising rural incomes, easing inflation, and accommodative monetary conditions — sustained aggregate demand even as export growth moderated. In September 2025, the government reduced GST rates on 375 consumption goods and raised the taxable income threshold, generating a material boost to disposable incomes and consumer confidence (East Asia Forum, 2026). High-frequency indicators corroborate this picture: vehicle registrations, consumer confidence indices, and FMCG sales showed broad recovery through FY2025–26 (Deloitte, 2026).

Agricultural performance provided an additional demand stabiliser. The 2025 monsoon season, characterised by 5% above-normal rainfall, supported crop yields, moderated food price pressures, and augmented rural purchasing power (Vocal Media, 2026). Consumer goods majors including Hindustan Unilever, ITC, and Nestlé India reported volume growth of 9–11%, a signal of broad-based domestic consumption momentum. This rural-urban demand complementarity constitutes a structural insulator: because aggregate demand is underpinned domestically rather than by export receipts, India’s growth is less sensitive to contractions in global trade volumes than the export-led models of comparator East Asian economies. The implication is analytically significant — India’s resilience is not simply a product of favourable global conditions, but of a demand architecture that can sustain momentum even when external channels contract.

Public Capital Expenditure and Infrastructure

Government capital expenditure has functioned as the principal countercyclical instrument in India's macroeconomic management framework. Sustained public investment in roads, railways, ports, urban infrastructure, and digital connectivity has supported employment, catalysed private sector investment, and generated positive productivity spillovers across the economy. While capex growth moderated to 5.4% in the second quarter of FY2024–25, reflecting execution lags, it subsequently recovered, and the FY2025–26 Union Budget reaffirmed the government's infrastructure investment commitment with a positive fiscal impulse (HDFC Fund, 2026).

The crowding-in effect of public infrastructure investment on private capital formation has been well-documented in the Indian context (Ghosh, 2020; RBI, 2024), and evidence from the current period confirms its continued operation. The Manufacturing as a Share of GDP indicator, while still below the government's 25% target at approximately 14% in FY2025–26, showed improvement from the 13% recorded in FY2024–25 — a trajectory consistent with the structural upgrading of India's industrial base.

ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XV, Issue V, May 2026

Monetary Policy and Macroprudential Management

The Reserve Bank of India navigated the 2024–26 period with notable dexterity, calibrating monetary policy to balance the competing imperatives of inflation control, growth support, and exchange rate stability. Lower interest rates in FY2025–26, enabled by the moderation of domestic inflation, reduced the cost of capital for both firms and households, supporting private investment and consumption respectively. The RBI's active management of foreign exchange reserves — which reached $701.4 billion as of January 2026, covering 11 months of imports — provided a credible buffer against external account pressures (Economic Survey 2025–26).

Gold reserve accumulation (reaching 880.52 metric tonnes by March 2026) reflected a broader diversification strategy, consistent with a global trend among central banks seeking insulation from geopolitical and currency risks (RBI Annual Report, 2026). Banking sector health, substantially improved relative to the non-performing asset (NPA) crisis of the early 2010s, provided a stable credit transmission mechanism for monetary policy.

Manufacturing Transformation and Sectoral Diversification

One of the most consequential structural shifts in India's growth architecture during the study period has been the renaissance of the manufacturing sector. The Production-Linked Incentive (PLI) scheme, which provides financial incentives to companies across fourteen strategic sectors based on incremental sales, has functioned as the centrepiece of this transformation. By directly subsidising domestic production and attracting foreign manufacturers seeking to diversify supply chains away from China, the PLI has accelerated investment in electronics, semiconductors, pharmaceuticals, textiles, and defence manufacturing.

The empirical evidence is compelling. Manufacturing grew at 11.6% in the October–December 2024 quarter — the highest rate in six consecutive quarters — reflecting both the PLI's investment-catalysing effect and the broader Make in India policy ecosystem (Vocal Media, 2026). Mining and minerals extraction also contributed positively, supported by infrastructure development and regulatory streamlining. Business activity reached an eight-month high in April 2025, driven by rising export orders and manufacturing momentum, with the services sector — particularly IT, finance, and logistics — adding further impetus (RBI Bulletin, June 2025).

The sectoral diversification implied by these trends represents a significant evolution from India's historical growth model, which was heavily weighted toward services. A more balanced sectoral architecture reduces systemic vulnerability: adverse shocks to any single sector can be absorbed without triggering economy-wide contraction. It also expands formal employment and supports upskilling across a broader segment of the labour force.

External Sector: Capital Flows, Trade, and Digital Architecture

Foreign Direct Investment and Portfolio Flows

India's external position entering 2026 reflects a decade of deliberate policy construction. Gross FDI inflows rose to $64.7 billion during April–November 2025, up from $55.8 billion in the corresponding period of the prior year, as global corporations accelerated supply chain diversification toward India (Economic Survey 2025–26). This FDI momentum is partly structural — reflecting India's improving regulatory environment, rising Global Innovation Index ranking (38th in 2025, up from 81st in 2015), and expanding pool of technically skilled labour — and partly cyclical, driven by geopolitical reconfiguration of global value chains (IBEF, 2026).

Portfolio flows showed the episodic volatility characteristic of emerging market assets in a risk-off global environment — six months of net outflows and three months of inflows during FY2025–26 — but medium-term investor sentiment remained constructive (Economic Survey 2025–26). Remittances, at $135.4 billion in FY2024–25, confirmed India's position as the world's largest recipient, providing a structurally stable current account buffer.

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Trade Diversification

India's trade policy response to the geopolitical reconfiguration of global commerce has centred on systematic partner diversification and sectoral upgrading of exports. The India-EFTA Trade and Economic Partnership Agreement (TEPA), which came into effect on 1 October 2025, opened preferential access to Switzerland, Norway, Iceland, and Liechtenstein across goods and services categories. Parallel free trade agreement negotiations with the United States and the European Union advanced through the period, with a provisional US-India trade framework expected to moderate tariff headwinds in key export sectors (Deloitte, 2026).

Export diversification into high-value segments — electronics, pharmaceuticals, software services, and financial services — has reduced India's exposure to any single commodity or trading partner. The geographic diversification of both FDI sources and export destinations has strengthened resilience against bilateral relationship risks, a consideration of increasing salience in an era of geopolitical fragmentation (Economic Survey 2025–26; IBEF, 2026).

Digital Financial Architecture as Strategic Resilience

India's digital public infrastructure — centred on the Unified Payments Interface (UPI), the Aadhaar identity platform, and the Open Network for Digital Commerce (ONDC) — has increasingly assumed the character of strategic economic infrastructure. As the RBI's policy analysis notes, global financial infrastructure remains highly centralised around a small number of settlement currencies, exposing the system to geopolitical shocks, sanctions, and operational disruptions (Policy Circle, 2025). India's development of an alternative digital payments architecture offers both domestic stabilisation — by broadening financial inclusion and formalising transaction flows — and strategic resilience against geopolitically motivated financial exclusion risks.

The Bharti Airtel-Google AI hub partnership in Visakhapatnam, announced in October 2025, exemplifies the convergence of digital infrastructure investment with India's broader strategic positioning in the global technology economy. The proposed investment of approximately $15 billion over 2026–2030 in data centres, subsea cable connectivity, and clean energy digital infrastructure underscores the private sector's confidence in India's digital economy trajectory (IBEF, 2026).

Structural Vulnerabilities and Risk Assessment

The foregoing analysis should not be read as an unqualified endorsement of India's economic invulnerability. The RBI's own assessment is explicit: "resilience does not mean immunity" (RBI Annual Report, 2026). Several structural vulnerabilities warrant candid acknowledgment.

Currency and External Debt Exposure

The rupee's depreciation of 5.4% against the US dollar during FY2025–26 introduces imported inflation risk, raises the domestic currency cost of dollar-denominated debt servicing, and can erode investor confidence if it becomes disorderly. External debt at 19.2% of GDP (September 2025) remains below crisis-level thresholds, and the debt-service ratio is manageable; however, rapid expansion of dollar-denominated borrowing — by the sovereign, financial institutions, or corporates — could amplify vulnerability in a scenario of sustained dollar strengthening or global risk-off sentiment (East Asia Forum, 2026).

Manufacturing Depth and Global Value Chain Integration

Manufacturing's share of GDP — approximately 14% in FY2025–26, against a government target of 25% — remains structurally insufficient for an economy of India's demographic scale and aspirations. India's global value chain (GVC) integration is notably shallower than that of comparable East Asian economies, limiting the multiplier effects of manufacturing investment and constraining productivity-driven wage growth (East Asia Forum, 2026). The PLI scheme has catalysed assembly-stage manufacturing in several sectors, but backward integration — domestic production of inputs, components, and capital equipment — remains limited, creating continued import dependence in key supply chains.

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Fiscal Consolidation Pressures

India's fiscal position encapsulates the central tension between short-run demand support and medium-term sustainability. The combination of consumption-stimulus measures — reduced GST rates on 375 goods, higher income tax thresholds, and sustained public capex — has been growth-additive in the near term but creates a non-linear fiscal risk: as the general government deficit approaches 8–9% of GDP (consolidated centre and states), the relationship between deficit expansion and sovereign risk premia becomes steeper in emerging market contexts, where bond market credibility is more easily disrupted (Reinhart and Rogoff, 2010; IMF, 2025). A one-percentage-point deterioration in the fiscal deficit, if interpreted as structural rather than cyclical, can translate into a 30–50 basis point rise in sovereign yields — sufficient to crowd out private investment and erode the RBI's monetary policy space. A credible medium-term fiscal consolidation framework, anchored by transparent debt-to-GDP targets and expenditure quality improvements, is therefore not merely a macroprudential preference but a prerequisite for sustaining the policy space that India's resilience strategy requires (East Asia Forum, 2026; Deloitte, 2026).

Labour Market and Structural Poverty

India's labour market data reveal a persistent duality: formal employment creation in manufacturing and services has not kept pace with the demographic dividend, and agricultural employment — still absorbing over 45% of the workforce despite contributing only approximately 15% of GDP — represents a structural productivity trap. Poverty reduction, while substantial over the preceding two decades, remains incomplete, and the distributional consequences of growth — including urban-rural and inter-state disparities — require continued policy attention if India's domestic demand resilience is to be sustained over the longer run. The employment elasticity of GDP growth — the percentage change in employment per one percent change in output — has remained structurally low, estimated at approximately 0.1–0.2 in the manufacturing sector and marginally higher in services, implying that India must sustain growth rates well above 7% simply to absorb the approximately 12 million new labour market entrants annually (ILO, 2025). If growth moderates toward the 6.5% range projected by more conservative forecasters, employment absorption shortfalls could suppress household income growth, attenuating the domestic demand buffers that have been central to India's resilience. This feedback risk — whereby weak employment absorption undermines the very consumption demand that insulates growth from external shocks — represents the most systemically significant long-term vulnerability in India's growth model and merits explicit incorporation into forward-looking policy frameworks.

Growth Projections and Policy Implications

Near-Term Outlook

The consensus of major international institutions and analytical bodies points to continued robust growth for India in FY2026–27, albeit with some moderation from the FY2025–26 pace. Table 1 summarises key projections.

Table 1: India GDP Growth Projections for FY2026–27

Institution / Source	GDP Growth Projection (%)	Publication Date
IMF World Economic Outlook	6.6%	October 2025
S&P Global Economic Outlook	7.1%	March 2026
UN WESP 2026	6.6%	January 2026

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Economic Survey 2025–26 (GoI)	6.8%–7.2%	January 2026
Deloitte India Economic Outlook	6.5%–7.0%	January 2026
RBI Annual Report 2025–26	6.8% (central forecast)	May 2026

Source: Authors' compilation from IMF (2025), S&P Global (2026), UN WESP (2026), Ministry of Finance (2026), RBI (2026).

S&P Global's projection of 7.1% growth for FY2026–27, supported by strong domestic demand, steady exports, and a gradual recovery in private investment (S&P Global, 2026), is among the more optimistic of the institutional forecasts, reflecting confidence in India's structural momentum. The IMF and UN projections of 6.6% reflect a more conservative assessment of external headwinds, including the persistent drag from US tariffs and geopolitical volatility. Even on the more conservative estimates, India would remain comfortably the world's fastest-growing major economy. To contextualise India's performance, Table 2 presents a comparative snapshot of key resilience indicators across major emerging economies during the same period. The comparison underscores both India's relative outperformance and the structural factors — particularly domestic demand depth and forex buffer adequacy — that distinguish its trajectory from peers more exposed to external demand shocks.

Table 2: Comparative Resilience Indicators — Major Emerging Economies, FY2025–26

Economy	GDP Growth FY25–26 (%)	Inflation (CPI, %)	FX Reserves (months import cover)	Fiscal Deficit (% GDP)	Mfg. Share of GDP (%)
India	7.6	4.6	11.0	5.1	~14
China	4.8	0.7	14.5	−3.8	~27
Brazil	2.4	5.0	6.8	−7.2	~11
Indonesia	5.1	2.9	8.3	−2.7	~20
Vietnam	6.5	3.8	3.4	−3.4	~24

Source: IMF World Economic Outlook (2025); World Bank Global Economic Prospects (2026); respective central bank and finance ministry publications. Note: figures are approximate and serve an illustrative comparative purpose.

The comparison is instructive. India's GDP growth rate of 7.6% substantially exceeds that of all peer economies. Equally significant, however, is the combination of a reasonably managed fiscal deficit and an import cover of 11 months — the highest among the five economies shown — which translates into meaningful external shock-absorption capacity. Vietnam's higher manufacturing share underscores the structural gap India must close. Brazil's fiscal deficit of −7.2% illustrates the risks of unconstrained stimulus spending, providing a cautionary counterpoint for India's medium-term fiscal trajectory (see Section 7.3).

The evidence assembled in this paper points to a set of policy priorities that are necessary to convert India's current resilience into sustained, equitable, and structurally deep growth.

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First, manufacturing deepening requires moving beyond assembly-stage production toward backward integration of domestic supply chains. This demands investment in supplier development ecosystems, vocational skills infrastructure, and technology transfer mechanisms — areas where PLI incentives alone are insufficient. Second, trade diversification must be systematised: while the EFTA TEPA and the prospective US-India and EU-India agreements are positive, India's long-term trade resilience requires active engagement with fast-growing markets across Southeast Asia, Africa, and Latin America, reducing bilateral concentration risks.

Third, fiscal consolidation must accompany stimulus. The near-term demand benefits of tax cuts and consumption subsidies must be balanced against the medium-term imperative of debt sustainability, particularly in a scenario where global interest rates remain elevated. A credible medium-term fiscal framework — with transparent consolidation milestones — would reduce sovereign risk premia and support the RBI's exchange rate management capacity. Fourth, labour market formalisation and agricultural transformation remain the deepest structural challenges; without progress on these fronts, India's domestic demand resilience risks being concentrated among a relatively affluent minority, limiting its macroeconomic breadth and political sustainability.

CONCLUSION

This paper has argued that India's macroeconomic resilience during the 2024–2026 geopolitical stress episode rests on three reinforcing foundations: robust domestic demand, structural manufacturing transformation, and strengthened external buffers. These foundations did not emerge spontaneously; they are the product of deliberate policy choices — liberalisation, infrastructure investment, digital public infrastructure construction, and financial sector strengthening — accumulated over more than three decades of reform.

The geopolitical environment of 2024–26 constituted a severe stress test, and India's performance — 7.6% GDP growth, record foreign reserves, rising FDI inflows, and sustained consumption momentum — represents a meaningful achievement. Yet the analysis also reveals the distance between current performance and India's potential, and between resilience and deep structural transformation. Manufacturing depth, global value chain integration, labour market formalisation, and fiscal consolidation remain areas of significant unfinished work.

For the broader development economics literature, India's experience offers several insights. It suggests that large economies with demographically driven domestic demand have a structural advantage in geopolitically fragmented environments compared to export-dependent models. It demonstrates the value of digital public infrastructure as a macroeconomic stabiliser and as strategic insurance against geopolitically induced financial exclusion. And it affirms that macroprudential conservatism — maintaining foreign exchange buffers, managing external debt, and sustaining monetary policy credibility — creates fiscal and monetary space that is invaluable when global conditions deteriorate.

The challenge for India's policymakers is to ensure that the resilience documented here is not merely cyclical — a function of favourable domestic conditions offsetting adverse external ones — but structurally rooted in a growing industrial base, deepening human capital, and an expanding middle class whose consumption can sustain growth even as geopolitical headwinds intensify. That transformation remains, in the language of Deloitte (2026), the defining task of India's economic decade.

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