Global Economy in COVID-induced coma - India needs to clear 'political fog' & take bold decisions

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the years 2020 and 2021 thus far, Nature has been exceptionally unkind to mankind. Or, should I say our world has been too unkind to Nature in the past few decades and Nature has simply paid us in the same coin - wham! Our murderous negligence has brought on us one of the Nature's most despicable viruses - the COVID-19. We are also beleaguered with different shades of Nature's cuss such as the broiling heatwaves in large parts of the world, repetitive hurricanes, hellish wildfires and now, devouring lightnings, heavy mudslides, colossal landslides and 'oceanic' floods! Our unflappably reckless method of development and sustained culture of climate denialism have tangibly been transforming this planet into an uninhabitable gas and virus chamber! The COVID-19 pandemic, in particular, has so far been the most remorseless killer of human lives. It is a deadly double-whammy - it kills both - lives and livelihoods!

In this backdrop I intend to analyse the debatable prospects of the global economic recovery with an eye on the Indian economy. The chances of economic recovery are unfortunately squashed in a race between the virus and the vaccination! Rapid inoculation is one of the silver bullets to beat back the pandemic and go back to full-fledged opening of the economy. The second one is the mountain-size of the economic stimulus packages which obviously, even many rich countries cannot afford to sustain over a longish horizon of time! Before I dwell on this aspect let me provide a glimpse of the exacerbating divide between the jabs and the jab-nots. Though a slice of inequality in vaccine availability was always predictable but a wide gulf was not! Strangely, as soon as the virus hit the planet, most countries curled their lips and jumped out of the ship of multilateralism like a scalded cat! And they instantly changed the headwind of trade and international cooperation towards protectionism tinged with ultra-nationalism! Such a malady became more accentuated after the advent of COVID-19 vaccines. Developed countries overbooked the order-books of oligarchic manufacturers and simply overlooked the needs of have-nots!

Though the jab-nots may bemoan such inward-looking policy but the jabs-countries' dalliances of convenience and prioritisation of their own citizens have paid them handsome dividends. Let's take the case of the USA and the United Kingdom - two front-runners in vaccination who also matter for speedy recovery of the global economy. Both the countries rolled out vaccination in a huff! Though their efforts were stalled miles before their volubly mentioned milestones of 70% of population thanks to a large swathe of anti-vaxxers and their sustained disinformation campaigns on social media but inoculation of still a sizeable number enabled them to ease lockdown restrictions within a few months. Relaxation in curbs helped their economies to find feet quickly. Private investments picked up pace to such an extent that the capex index has become unmatched - close to 200 per cent growth in the case of the US. Thanks to over USD six trillion economic stimulus package out of the global total of USD 16 trillion so far, American consumers never felt short of cash and sat over oodles of money during the pandemic. As soon as the economy was reopened, the retail consumer sales grew in double-digit and may continue till September when the federal doles would expire.

The two fateful consequences the US economy may confront in the coming quarters are -
a) Rise in inflation due to overheating of the economy; and b) Possible petering out of the growth story on withdrawal of the stimulus. Thanks to heavy lifting being done by the Biden Administration, the US economy grew by more than 4% in the first quarter and economists have projected that it may turn out to be over 6% in the second quarter. The US never had it so good even prior to the economic meltdown in 2007-09! Post-second quarter is fraught with the twin dangers of lapsing of stimulus cheques and a meteoric rise in infections caused by the Delta variant. The fact that the masks are back on the face in many parts of the US, whether the local governments would again resort to lockdown, is to be watched closely to project how the economy would do in H2? As regards the inflation as a potential risk - shrugged off by the Treasury thus far, the supply-side constraints are tell-tale and may further worsen with hefty spike in the logistics costs. With acute shortage of critical raw materials right from steel to semiconductors, the prices of most products are under stress. The retail prices have already jumped by two-digit and may see further uptick unless logistics bottlenecks between China and the US are sorted out soon.

In the case of the UK, the economy has picked up a tangible semblance of pace after vaccination went into overdrive. Surveys have revealed that as many as 14 sectors of the economy have registered robust growth in the June month. However, parallel to vaccination have also risen infections of the Delta variant which forced the Boris Johnson Government to persist with restrictions till July 19. Though curbs have been eased but most Britons prefer self-imposed restrictions as a New Wave has triggered nervous fluttering in parts of the country! Given the scale of frauds being reported with respect to various business support schemes floated by the Government and their imminent expiry dates, a sustained recovery is fraught with high risks. 'Pingdemic' has also emerged as one of key factors for manpower shortages in the reopened offices. As soon as UK Health Secretary tested positive, Mr Boris Johnson himself was pinged by the Govt App to quarantine himself. Over five lakh people were pinged in the first week of July alone**.**

Similarly, for the EU, which has been playing see-saw game with the virus, a shade of normalcy is yet to be fully restored. Though German industrial hubs are abuzz with production activities but the IMF projects that it would take minimum three years for the bloc to get back to its pre-COVID level. What may further derail its recovery is another round of infections and sluggish vaccination drives. A flicker of recovery was logged when the third largest economy in the world, Japan, reported over 48% growth in its exports - demand for cars from the US and chip-making equipment from China. With emergency in force in Tokyo, Japan pins its hope on external sector for early revival.

A glimmer of bright hope for early recovery of the global economy may be gossiped about if analysts strictly go by the two-engine theory. The lorry of global output largely hinges on the prospects of two economies - China and the US. China, in the past five years, accounted for one-third of the global output and one-fifth by the USA. A bit over 50% of the global GDP hinges on speedy recovery of these two economies, and fortunately, they appear to be on the right path. But there are many caveats! Chinese factories have also slowed down. There has been double-digit spike in the ex-factory prices of most Chinese goods. Then the container cost has tripled in the last 12 months as logistics industry did not make fresh investments due to the pandemic. Thirdly, the Communist Party of China has, of late, demonstrated jitters about the rise of powerful tech companies and it has begun to clip their wings on one or the other 'hooey' ground. The fact that the digital economy now accounts for 40% of China's GDP, any crackdown on tech tsars may hurt the economy in a big way!

The graph of serious risk appears to be zooming up with the widening of cracks in the Sino-America economic relationship. In view of China's aggressive geopolitical actions and stifling of democracy in Hong Kong, the Biden Administration has sharpened its economic and diplomatic horns against China. Ransomware is just the latest dimension being added to make it more hurting. With the US joining hands with the EU and other developed countries to isolate China, which it richly deserves, there runs a deep current of risk of further aggravating the crisis of the global supply chain. China is the largest trading partner for 64 countries against 38 for the US as per the IMF trade data. If Chinese goods are subjected to higher tariff or the supply line gets disrupted, it may ramp up pressure on retail inflation which is a real danger for most economies which have printed money to bankroll their economic stimulus packages. The asset price would obviously soar like the housing rent in the US.

What are the realistic chances of an early recovery for India? India's growth story has been fading since 2016. Private investments have been on the slide since 2018. The COVID-19-induced lockdowns have broken its economic spinal cord - it has shrunk by 7.3 per cent, much higher than any other big Asian economy. With little economic activities and asphyxiating pressure on revenue, the government's spending has shrivelled to 16.3% of GDP as against 17.8% in the previous fiscal. States' investments in new projects are down by 42 per cent. Even critical projects have turned boondoggle! With little savings, households have begun mortgaging their jewellery which has soared beyond 80 per cent. Household debt has surged from 32.5% to over 37% last fiscal. Millions of small businesses have shut down. All India Mobile Retailers Association says close to 40,000 shops have downed their shutters. Two-wheeler markets have plummeted to sales recorded in 2014! Anecdotal evidence corroborates that the economic well-being has turned precariously toxic for the millions in the hinterland.

The Governments in India are cash-starved as they need funds to run hospitals, offices, purchase of drugs and vaccines. The Federal Government scaled to its 'fiscal cliff' even before it could offer any dose of concessions to taxpayers so that fresh vigour could be injected in consumer demands. That is why the Union Finance Minister has been over-emphasising on multiple credit lines schemes. The bank credit offtake has been tepid and is also being pocketed as suppliers have no matching demands in the economy! The June month retail sale has been barely half of what it was two years back! The IMF says that the loss of income in the emerging economies has been above 20% against 11% in the developed economies. Against the wilted demand coupled with lack of resources, the Federal Government has been hiking excise duty on petroleum products which continues to feed pressure on wholesale and retail inflation curves.

What is needed for a magical reversal of fate is an overdose of economic reforms for efficient reallocation of resources and reskilling of employable manpower. India has failed to take advantage of creation of a parallel global supply chain being steadily built by the advanced economies. Notwithstanding all the wrongs and baloney being attributed to the Dragon, **Mainland China attracted USD 163 billion FDI in the pandemic-wrecked 2020**. As soon as it threw open its capital markets to global finance, over USD 900 billion were invested by the rich economies. This is all because

China offers business opportunities with little costs to foreign capital. If India has to reap benefits of the new international economic order in the making and also its own 'demographic dividends', it has certainly not run out of choice. It just needs to clear traditional 'political fog' and take bold decisions at both federal and State-level if 8% growth story is expected to stage a comeback!

In a nutshell, early recovery trends being reported by a few developed economies augur well for the recovery of global GDP, much better than what we saw during the economic meltdown in 2008 but such a trend is fraught with high risk from the coma-inducing pandemic. Unless poor countries are also vaccinated by 2022, no economy is safe and can afford for itself an unhindered recovery path. The world needs to pool resources to manufacture as many billions of vaccines as possible and jab every arm jostling around in the markets or work places. The key global political leaders need to keep an eye on key macro indicators like interest rates, inflation, job creation and credit off-take to ensure smooth recovery path. A good number of low-and-middle income countries would require emergency rescue tools to stymie them from crawling back into the quagmire of debt-chokehold. Though geopolitical uncertainties would continue to hover over the world but economic recovery can be safely navigated if all like-minded 'hands' are joined together!

For the recession-struck India, pandemic has proved to be the Coup de grÃ¢ce for its economy! I sincerely hope that it is not 'Mission Impossible' for the political leadership to reverse the cycle of slowbalisation and long-term economic scarring! Time to get out of hot water!