

'Lanka Dahan' - Global Economy heading for many 'Lankas'!

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LAST weekend was a stomach-churning, historic moment of *dĀ@jĀ vu*

! More particularly for those whose cerebral hemispheres continue to attain bilateral symmetry and may recall the Capitol riots of January 6, 2021 in the United States of America! With the Senate probe glacially snaking through and the details of the insurrection are being theatrically unspooled, what happened at the Lankan Presidential Palace was a live enactment of the phlegmatically-fading history of assault on the Congress! Oh, hell! History was nakedly repeating itself live on the screen! Unlike the siren calls given by Mr Trump to far-right militia group, a patriotic but desperate *cri de cĀ“ur*

drove ordinary Lankans in hordes to scale the walls of the Presidential Palace like Patagonian Puma and thousands of lesser mortals took over the assets of luxury grinning in all the corners! Many, starved of full-belly food for weeks, cooked a meal for themselves and others in dozens tossed themselves on the presidential canopied bed - a foam-padded lap of opulence! What, perhaps, partly lowered the mercury of the fury-riding mob was the cool water available in the presidential swimming pool

! Many caved in to temptations of having fun of splash and splurge as they were not left with any money to splurge even on food and fuel! Ouch! It was a close shave for the Lankan President, Mr Gotabaya Rajapaksa, who would have added a new chapter to the history book if he would have shunned temptation to escape out of the country! First to Maldives, and next could be Timbuktu!

Oof! Human history is no stranger to shocks and violence! The tiny nation of 22 million people has a dreaded history of ethnic violence. President Gotabaya family managed to rule Lanka with iron hands, for decades, only because their family members in the government had honed violent skills to put down Tamil rebellion a decade back! They started with a 'licence to kill' and continued to renew the licence on their own because they occupied the seats of the renewal authorities. They lavishly dabbled into political purging and rampant corruption! Then came a phase of gathering foreign loans with both hands! Foreign 'doughnuts' are indeed hard to resist! And the strings attached to them are often not visible at the time of pocketing them! And it peaked to USD 35 billion by 2020. Soon followed suit the cunning family of Corona Virus! The COVID-19 triggered a series of lockdowns across the world, including Lanka. And it simply stymied the tourist inflow which was the key source of foreign exchange, needed to service the foreign debts.

It had forex reserves of USD 8 bn in 2020 which dwindled to less than USD 2 bn in 2022 and it finally expectedly defaulted in servicing its debt in the month of May! The COVID-19 had also walloped the global supply chain of all sorts of goods. Broken supply chain along with the generous dose of stimulus splurged by the rich countries yanked up the prices worldwide. With the dragon of inflation soaring north, the central banks began to raise interest rates. That made imports unaffordable against hugely devalued rupee of Lanka. What came as the second blow to its economy was the globally soaring prices of commodities which got fresh tailwinds from the Russian invasion of Ukraine.

Though India, being a big brother in the region, extended some assistance in terms of Exim creditline and free supplies of fuel and commodities but ill-fated Lanka was destined to hurtle into economic abyss. It went belly up with a thud! It has, within two months, earned a moniker - Lebanon of South Asia!

It literally ran out of fuel. Queues of thousands of tri-rickshaw drivers curled outside deserted petrol pumps like metal pythons! Its economic stamina to feed its own citizens nosedived to zero! Milk powders and other essential goods got vapourised into thin air! It was fleeced with dark clouds! With no fuel, nighfall began bringing eerie darkness - most streetlights and traffic lights went on a 'holiday'! Power cuts that ran late into sweltering nights, began to steal hours of sleep! Commodity prices turned wallet-guzzling! Economic death spiral stole the smile of the masses who began to see their faces in clouds! Smile became such a scarce commodity that it was found only on the billboards! And the political rulers living in hallucination, failed to hear the noise of battle cry originating from different geographical pockets of the country! The political leadership, known for high IQ, failed to realise that IQ is not the same as intelligence!

Surrounded by cringing yes-men and accustomed to live in splendour, the political sharks had lost their ability to change 'colour' like white shark and continued to behave like water off a duck's back!

Crumb! It was the turn of political analysts to cringe at their stupidity! The political leadership of Lanka forgot that politics cannot be a form of entertainment - it's a serious business as it governs the lives of millions of ordinary people who need a sound economy to earn their living!

Though there were tell-tale signs of simmering discontent but the political leadership perhaps tethered their future survival to dog-whistle politics like in the past! And what happened as an aftermath is now widely reported! Prime Minister's house was set ablaze and his office being stormed by mobs. The President took shelter in the military camp! A good example of how smart politicians end up doing absurd things! Even if a new leadership assumes power tomorrow, it would take years to crawl back to the pre-pandemic point of peace and governance indices! Meanwhile, the World Food Programme projects that more than one-fifth of the Lankan population has been sucked into the festering world of poverty! And more would be gobbled up by the 'vampire state' in the coming months!

But Lanka is not a stand-alone case of going bankrupt with a thunder! First, it was the COVID-19 and its variants. And then came the Ukrainian crisis inflating commodity and energy prices worldwide, even before smaller countries could rediscover their limbs to stand on! What have further complicated things are the unrestrained inflation and rising interest rates which in turn further rob poor countries of whatever tiny forex reserves they may have, of resources needed for importing essential goods! The twin crises have turned many poor and lower-middle-income countries into debt-ridden and dysfunctional. And they are in dozens, scattered all across continents. If we pull our ears, most bellyaching voices may appear to be coming from Africa but there are many belly-landing economies in Asia as well as Latin America. Devastated by the COVID, a good number have failed to quell the soaring inflation. Argentina is a good case of about 60% inflation rate! Though many Latin American economies, including Brazil, may seem afloat today but that is only because of the zooming prices of commodities. Most of their central banks have spiked interest rates on many occasions in the past one year. They are clearly hurtling into the quicksand of recession!

The UNDP has recently reported that thanks to the zombie of inflation, about 71 million people since March 2022 have plunged into the ugly hole of poverty. It was 46 mn for 2021 and about 150 mn since the outbreak of the pandemic. Recession-induced poverty has a tendency to deepen as the on-going bucket of crises would further acquire new tentacles such as civil unrest! The developing and the emerging economies would find it uphill to grapple with fast-diminishing foreign reserves, shrinking fiscal space and the mind-numbing strain of soaring sovereign debts. A quick study reveals that almost 160 developing economies have reported relentless spike in commodity prices. On the debt front, more than two years of battling out the pandemic with on-off lockdowns have exacerbated global debt, both public and private. In 2020 it surged to 256% of the global GDP. With central banks raising interest rates to have a hand combat with inflation, the cost of servicing debts has leapfrogged.

Another knock-on effect of inflation has been the devaluation of currency. Sinking currencies and depleting forex kitty may impact even economies like India and Brazil.

India has early this week made a smart move to go for international trade in rupee - internationalising its currency and also saving the scarce convertible foreign exchange reserves.

In a nutshell, all one may project at this stage is that the global economy needs to brace up for a devastating hurricane which would have ominous portents to rob the world of all the economic and financial gains the world has achieved in the past 30 years! The 1990s are promising to stage a comeback! There are going to be

many 'Lankas, Lebanons and Ghanas' as the World Bank says, almost 40% of the low-income countries have not even published the details of their sovereign data since 2020 and the banker of all central banks - the IMF, may not be able to bail them out unless its conditions are fulfilled.

With the IMF corpus being raised to USD one trillion and about USD 650 bn chest is bubbling with money but it is not to be disbursed unless a sinking economy agrees to a string of conditions. What complicates the bail-out package is the fund borrowed from China which, despite being a member of the G20, is loath to go with its bail-out framework and deems a large part of its loans to poor countries as commercial borrowings! What a jaw-droppingly pythonic state of global affairs! I am certain that given the deepening geopolitical fissures, the global economy is heading for a train wreck scenario where millions of poor are destined to perish for lack of food and their bellyfopped economies would also sink bellyaching for fuel, medicines and commodities! The present time is indeed a destroyer of sanity! A tad alarmist! Some of us will go for belly laugh - woo-hoo! and many will head for the subterranean gallery of tombs! The end of the grandiose principle of interdependence! Rip-roaring economic recovery for some but death spiral for a large swathe! After all, humans are like putty in hands of Nature! Frigging painful! Amen!