Post COVID 19 - Global Rebalancing is the Opportunity for Radical Change in India

The economic fallout from the COVID-19 pandemic has been swift, global, and simultaneous. We hear that "this time, it's different" every time a macro correction occurs, and this time it truly may be. The 1999 and 2008 crises were certainly high impact, but neither was as global as the 2020 correction that was felt in every country in the world due to the first simultaneous worldwide lockdown in the modern economic world order. Read on.....

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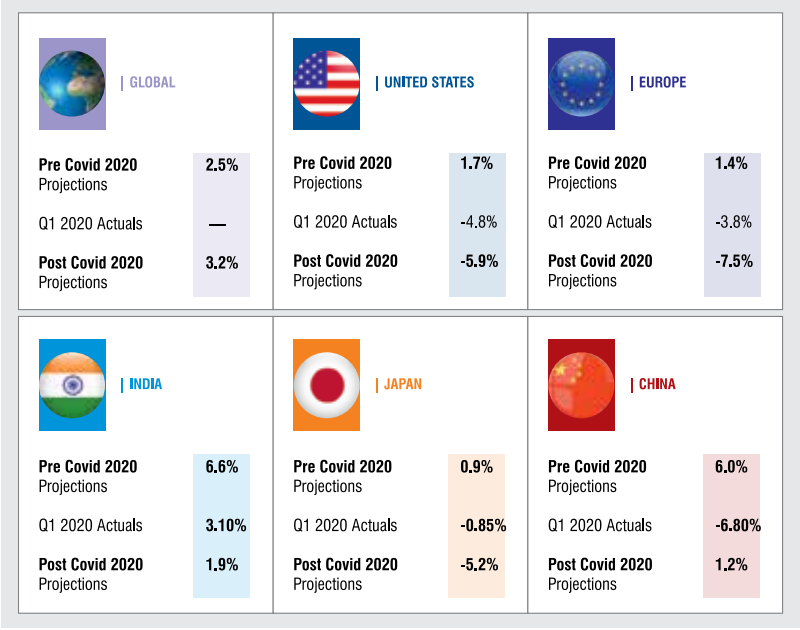
The IMF estimates that the $82 trillion global economy may shrink by 3-4% implying a loss of approximately $3 trillion. Downward revisions of most advanced nations' GDP growth rates for 2020 are already showing recessionary signals.

The response by global governments has been equally swift and intense. The International Monetary Fund estimates that approximately $9 trillion has been announced as a combination of fiscal and monetary stimulus across the world. USA, Japan, Germany, and UK among other nations have given trillions in stimulus packages to stabilise their economies. The increase in money supply should raise inflation and possibly drive down interest rates to negative zones. There has been a sharp decline in central bank rates in the G7, with US at 0.25%, UK at 0.1%, Japan at -0.10%, and the ECB MDR at -0.50%.

Country	Interest Rates
USA	0.25%
Japan	-0.10%
India	4.00%
ECB (MDR)	-0.50%
Canada	0.25%
UK	0.10%

Fig.1 – Major central bank rates as of May 2020.

Fig 2 – Projected 2020 GDP growth rates, pre and post COVID-19 estimates
Sources: World Bank, IMF Reports, UN World Economic Situation Prospects; Compiled by 3one4 Capital Research



Jobs worldwide have been a significant casualty of this correction. For the first time since the Great Depression, the US witnessed a 23.6% real jobless rate. Over 40.8 million Americans filed for unemployment over the past few months. These record unemployment levels were understandable, with so many bedrock verticals and large employment segments like travel, hospitality, manufacturing, leisure & tourism, retail, F&B, events, entertainment and mobility going offline amidst lockdowns in almost every country that was touched by the pandemic. While employment should recover substantially quickly, it may take much longer than anticipated to revert back to the record low unemployment levels seen in most advanced economies pre COVID-19. It is not hard to see a more permanent refactoring of jobs being accelerated by the predictable changes that will need to be implemented and prepared for over the long run, such as work from home, masks and temperature checks in public places, avoidance of contact from social distancing, and other behavioral shifts. The call for upskilling and future readiness will threaten middle income jobs in the services industries particularly, and this will serve as a significant challenge for governments to address.

The pandemic has also uncovered an obvious vulnerability of the global economy – the overdependence of its supply chains on China. China contributes approximately 24% of global manufacturing and amongst the largest shares of the pharmaceutical supply market. With its perceived coercive influence across economies even before the crisis, the build-up of distrust in the CCP's expansive strategies burst through the headlines globally. The Japanese government announced support of over $2.2 Billion to help Japanese companies shift their supply chains out of China. Australia began anti-dumping probes against Chinese companies. India announced new controls on capital investments from China into the country. The UK has made it a national priority to move off its reliance on Chinese imports. The US has escalated tensions with renewed calls for economic decoupling. This shift of global supply chains will inadvertently open new opportunities for India and other emerging Asian economies to capture quickly.

The impact on the Indian economy is undoubtedly unprecedented. The economy was at a standstill with the nationwide shutdown. While the mass compliance with the Prime Minister's decisions was an impressive achievement of a united and cooperative citizenry in the interest of community health, the economic fallout will be an equally daunting challenge to meet. For the first time in a generation, not a single personal car was sold in a month's time and approximately 3 crore people were estimated to miss monthly salaries. The $3 Trillion Indian economy may lose approximately $30 billion size witnessing negative growth for the first time since independence. In addition, there may be negative inflation with deeply dampened demand.

To its credit, the GOI has grabbed this opportunity to pass massive reforms that have been long pending. It has rapidly deregulated large-scale industries such coal and minerals mining, defense manufacturing, civil aviation, power distribution, the space sector, atomic energy, solar and battery manufacturing. The amendments to the Essential Commodities Act, including market linkages and pricing elasticity of agri production and infrastructure development for animal husbandry, will rapidly

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formalize the food production efficiency and earning power of the farmers. More decisive steps are expected on issues like land and labor reform, export support, incentivization of job creation, further simplification of taxes, and more to drive our economic trajectory for the next decade.

India continues to pioneer technology-led governance to reach citizens in times of distress. Arogya Setu broke the world record for the fastest app to reach 50 million downloads. It has now crossed the 100 million download mark. As a volunteer-led open-source public-private-partnership (PPP) model, it has been modelled after other such successful collaborations such as Aadhar, UPI, DigiLocker, e-KYC and other utilities of the India Stack. India has been hailed for some of the fastest cash disbursements to tide vulnerable citizens over during the lockdown. Over 42 crore beneficiaries have been directly supported via Direct Benefit Transfer (DBT) during the lockdown, amounting to more than INR 53,000 crores. DBT enabled the government to reach out to farmers, rural workers, BPL families, women, senior citizens, construction and migrant workers, the disabled and other vulnerable groups across the country to deliver income support, free gas cylinders, food and ration purchase support, EPFO contributions, and more.

The pandemic and lockdown have also accelerated India's adoption of digital utilities. During the lockdown, people have used apps and digital infrastructure for their every need – payments, receiving Direct Benefits Transfer (DBT) from the government, grocery and food procurement, medicine delivery and teleconsultations, up-skilling and children's education, news, entertainment, communication, work delivery and management, and more. As India recovers, we may confirm this to be an irreversible shift in behaviour. With a large rural population and insufficient trained medical staff and rural healthcare facilities, India must now rapidly adopt telemedicine capabilities to make up for the gap. E-consultations, which took off during the lockdown, can vastly improve access to healthcare and reduce the burden on physical infrastructure. Just as India leap-frogged landlines straight to mobile, we could leapfrog past brick-and- mortar education models straight to pedagogy augmented by ed-tech platforms. By capitalizing on these tailwinds and investing in building world-class, indigenous platforms for a large captive local market, India can accrue sustainable economic and cultural benefits.

The RBI has reduced interest rates and infused liquidity to stabilise the economy. The GoI has delivered large-scale relief packages to the poor and set a global precedent in using technology to do so. It has announced a significant stimulus package for MSMEs to revive economic activity by the third quarter. There is plenty more to do to realign the economy to its $5 Trillion GDP target. The GOI must also devise a large reconstruction budget to build infrastructure and lift the economy. It must do much more to support labour intensive industries such as textiles, chemicals and pharmaceuticals, electronics assembly, automobile manufacturing, logistics, construction, and more. It must also accelerate its support to cleaning up the real estate industry and reignite development work across the nation – this industry alone accounts for over 1.7 Cr people employed.

We must view this as a generational opportunity to systematically realign the rails of New India. As a nation, we cannot miss this window to aggressively capture a stronger position in a realigning world order. The call for an Atmanirbhar Bharat has been accompanied by serious signals of intent from the PM - by investing more to rebuild our national economic security in the post-pandemic world, we must collectively commit to sparing no efforts to reach our $5 trillion GDP target.