The Global Business Growth, Impeding Headwinds: Resilience of Indian Economy and Transition to Circular Economy

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Abstract
The global economy is on the threshold of witnessing greater uncertainties and uneven development in the face of Russia-Ukraine war, China’s zero covid policy and a deep hole in the pockets of developing economies due to burgeoning oil bills and the in-built resilient nature of Indian economy to bounce back given its past record and switch over to renewable energy resources by augmenting renewable source of energy by tapping into green hydrogen.

Keywords: Recession, Looming Global Economic Crisis, Burgeoning Oil Bills, Transition to Renewable Energy Sources, Foreign Direct Investment, Foreign Portfolio Investors, Federal Bank, Repo, Monetary Policy

Introduction

The GDP of Indian Economy is poised to grow at 7.2% despite the global turbulence in the economic front caused chiefly by Ukraine -Russian war, Covid related eccentric curbs imposed by China and geo-political tensions over establishing hegemony on Indo-pacific region spearheaded by the United States led alliance versus China and its allies.

The recession fears stoked by the aforementioned developments are engulfing global economy apparently. As a result, world economies are resorting to excessive protectionism in their trade relations with others though they still remain avowed proponents of free trade with hassle free access to capital and other factors of production at a competitive price.

Indian Economy has been known to be resilient and robust since the days of global meltdown struck the world economy heavily in the year 2008 and left many developed and developing economies scurrying for cover in the form of protecting their core sectors of economy through repressive measures of multiple genres. Even in these, trying times, the Indian economy was left less bleeding on many of economic parameters thanks to its strong fundamentals rooted in unfailing Agriculture sector and well capitalised public sector banks. The last decade starting 2010 onwards has been quite an eventful one for the world at large. Rapid industrialization, niche technological breakthroughs in multiple sectors have leveraged the market space of emerging economies in a tremendous manner than developed ones, comparatively. In a departure of kind, market led innovations have been fashioned more by technology than any other forces, to a significant extent.
International Trade

In the present era, the world trade has grown in size tremendously mainly due to the facilitating role played by the World Trade Organization (WTO) in sync with the global aspirations and ensuring seamless access to products and services than never before. The Free Trade Agreements (FTA) are the new norm for any economy with global ambitions in mind. Traditionally, the trade imbalances (Trade deficit) for India were caused by the unmistakable import Petroleum products, capital goods of high technological component and persisting inflationary conditions. Conventionally, Current Account Deficit (CAD) of 2.5 to 3% of GDP is held to be manageable. But RBI’s data put out a current account deficit of 4.4 percent of GDP in monetary terms USD 36.4 billion in the second quarter of 2022-2023 compared to an increase of a bit higher than 100% from USD 18.2 billion in the year before.

Depreciating Indian Currency

The steady decline in the value of Indian currency over a period of time is palpable. Though global macro-economic factors do contribute sizeably for this steady downfall, the inflationary conditions exacerbated by steep increase in the Consumer Price Index (CPI) prompted by the price level increases in goods of common needs like food, clothing, beverages, housing, medical care to name a few. The inverse relationship between the bundle of goods and services and the reduction in the purchasing power of the country’s currency has led to a plummeting Indian Currency 10% against the US dollar in the year 2022 alone. In al these, the matter of consolation remains, lesser amount of depreciation suffered by the Indian Currency compared to other major currency Yen which suffered almost 26 %, a country with whom trading ties are on upswing, for India.

As a matter of fact, the US dollar tends to strengthen when the global recession or economic slowdown related fears are mounting. The Federal bank’s natural inclination to hike the interest rates thereby provoking and tempting the Foreign Portfolio Investors (FPI) to shift their capital from the developing countries volatile financial markets to US is a matter of public knowledge and the ABC of analysing the causes of free fall of Indian Currency, for that matter.

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<th>Year</th>
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<td>45.73</td>
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<tr>
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<td>46.67</td>
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<td>2012</td>
<td>53.44</td>
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<tr>
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<td>-1.03</td>
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The Nexus of Industrial Production and Stock Market

Being the barometer of the level of industrial activity in the country, the Index of Industrial Production (IIP) is the tell-tale of positivism enveloping the industrial sector. The upward swing and growth in the core sectors of economy such as Manufacturing, Electricity and Mining helps to boost the confidence of investors and entrepreneurs in other primary sectors in a big way to evince interest and adopting a positive outlook of the economy by investing heavily in the stocks of such companies to soar the value of the investments in financial assets in real time.

Indian banking sectors stellar performance in times of adversity is praise worthy. More so, when a country is reeling through high inflationary conditions unsupported by ailing manufacturing sector. The relatively insipid performance of service and other allied sectors of the economy is only adding...
to the lacklustre outlook of Industrial Sector in trying times. But on the contrary, when the production is picking and posting tremendous growth, the banking sectors growth is quickened by way of increased investments, accelerated production activity funded by mostly in the form of project finance.

The lack of required manufacturing growth in the first half of the financial year 2022-2023 is worrisome and has been a flesh in the thorn for the policy makers especially for the monetary policy committee of RBI to tweak the rates of REPO and reverse REPO. If the banks rates are any indication to measure the perception and investment goals of depositors with banks, the deposits have declined sharply to the tune of INR 1,71,470 crores while the credit off take has increased to the tune of INR 51,028 crore mainly driven by inflationary pressure on rupee curtailing the purchasing power of people thereby to spend more to meet their needs.

The Indian Economy is shaped by the manufacturing, trading and services sector in the following manner in the year 2022.

Services sector contributing the most in terms of GVA of 179.15 lakh crore which accounts for 53.89 percentage of all while the manufacturing sector contributing around 16 percentage of GDP and the trading sector fetches the remaining 31%.

The space on the list of top notch banking companies of highest market cap are shared by the country’s largest Public Sector Bank State Bank of India with 485,185.88 crores though it has conceded the top ranks to Private lenders like HDFC Bank Ltd, ICICI Bank Ltd with 8,05,722.42 crores and 6,16,965.70 crores with the first and second places respectively.

In order to reign in the burgeoning inflation and to have a semblance of order in the monetary system especially on the supply of money, the Government has hiked the interest rates of tax savings moderately and in some cases appreciably. It is being done keeping in view the projected tax revenue is no way affected as only non-tax savings schemes alone covered. The small savings rates are now higher than any bank deposit might fetch as returns in the medium to long term.

In the backdrop of banks being in tight spot over its approach towards the future, the credit off take from the banks have risen in an unprecedented manner in the last ten years while the aggregate deposit rates have tumbled significantly thereby prompting the policy makers to ponder over this with greater foresight and forward looking approach.

The Credit growth rate posted by public sector banks have been broad based with customers of all income strata, type of accounts, geography being accounted for. In general, resilience of Indian economy is pinned on the well-developed digital infrastructure. It has been validated by the unprecedented growth and development of fintech companies riding on sophisticated digital infrastructure. Universalisation of Information through statutory and other means, Electronic delivery of services, Public Internet Access Programme and substantial changes in the outlook of Government through e-services. It is a matter of common knowledge that the mobile technology led revolution is at the fulcrum.

The inclusive growth sought to be achieved through improvement in access to e-services, commodities, manufacturing and job creation is meant to enhance the living standards of people. The new mantra governing the online environment is reflected through 4R’s symbolising Respect, Responsibility, Resilience and Reasoning for ensuring the safety of online environment.

Challenges in overcoming the issues in ensuring safe and secure online environment are many. For a country of a population of more than 1.4 billion, the menace of sensationalism taking over truth is imminent. To tide over this, there should be better administrative system to discern fact from half truths or false information. It goes to extent of protecting the digital identity of the users to have a control on the information eco-system of the country. The digital laws regulating online abuses or violations are in nascent stage, hence, a better self-regulating behaviour in online interactions will do a world of good to all concerned.
Emerging New Horizon of Energy Sector

A significant cause of imbalance in balance of trade is asymmetry caused by heavy imports bill towards petroleum products. In a very calibrated manner, the cash outgo on the oil bill is kept under control through some adroit diplomacy. In fact, the crude oil prices were surging in a menacing manner in the early part of 2022 fuelling fears of elevated levels of foreign exchange flight in the backdrop of deprecating Indian rupee. The softening of prices were aided by looming fears over recession triggered by the Russia-Ukraine war. Nevertheless, the prices ended on positive note as of now.

In order not to take a gamble on oil prices dictating the monetary policy of the country, the Government has come up with re-orientation in its approach towards fulfilling energy needs by switching over to tapping renewable sources of energy such as wind, tidal and solar. But, admittedly no major affirmative action yet to take off in this regard so far. As for regulations concerned, the wind industry still to get supportive regulations in place as the addition of just 1,538 MW have been added to the kitty, in the year 2022, thereby making a tad slow progress in this regard compared to pre-pandemic period.

On the policy front, the renewable energy sector needs to go back on the reverse auction system in which the bidding process is felt to be widely not supportive and yielding very poor results. This process of bidding is perceived to be held against the small capacity segment contributors such MSME’s. For an economy growing in the stature of India’s size, the present strength of around 1.6 lakh MW of total renewable energy needs to be tripled at least thrice to meet its diverse requirements. At the same time, experts’ suggestion of reducing the solar module prices and duty barriers deserve serious consideration. India is poised to achieve its ambition of meeting its major part of energy needs through renewable sources by initiating measures such as electric mobility, public transport, green hydrogen to name a few. In the backdrop of global oil market being turbulent over the past yar and production cuts in its output initiated by OPEC, downward looking China’s economy due to Zero-covid policy and relatively strong US dollar tend to affect the consumption and ultimately affect the growing economies in a big way. In order to tackle all this, India might use its G20 presidency to flag and raise the importance of international co-operation on clean energy technologies by way of improving and strengthening supply chain of clean energy.

Conclusion

A concerted effort of all global powers in effective energy management can advance the global ambition of net zero emissions. A change in approach towards energy conservation is the need of the hour to articulate the global ambitions in a meaningful manner. An elaborate study on advantages of cleaner technologies in the interest of energy achieving energy security must be put into the curriculum to inspire the young minds in a great way.

References


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