FROM A FULL-BLOWN WAR IN EUROPE TO CHINA'S BOTCHED-UP EXIT FROM ITS ZERO-COVID POLICY, THE FIRST OF A YEARENDER SERIES ASSESSES HOW GEOPOLITICS AND GEOECONOMICS PLAYED OUT FOR INDIA

India remains a bright spot, but all eyes on business reforms

The Russian invasion of Ukraine has upturned the supply chain, already reeling from the pandemic. The resurgence of Covid-19 and global disruptions can impact India's exports and capital inflows FILE PHOTO: REUTERS

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The year 2022 was supposed to be when "normality" returned to India and the world, resetting the world economy after two years in which the Covid-19 pandemic raged across the globe — killing millions, sending economies into deep recession, and severely disrupting supply chains.

Yet, even as the pandemic slowly retreated from much of the world, geopolitical rivalries and geoeconomic disruptions took over. The year began, in February, with a full-scale land war in Europe; and it ends with a resurgence of Covid-19 in what had been the last remaining holdout of 'Covid Zero' and lockdowns, the People's Republic of China.

Prime Minister Narendra Modi's first major policy speech during the initial lockdown of 2020 introduced India to his new policy of "aatmanirbhar Bharat", or "self-reliance". Yet 2022 showed that even an India that prizes self-reliance is not insulated from broader geopolitical currents. The Russian invasion of Ukraine has upturned the supply chain for food and fuel in particular.

The pandemic had already put enormous pressure on supply chains, and caused monetary and fiscal policy to be unusually loose. The sudden disruptions to food, fuel, and other commodities caused by the Ukraine war was the last straw, and has caused inflation to ripple across the global economy. Central banks have had to raise rates to compensate, throwing recovery from pandemic-induced recessions into doubt.

YEAR OF RESET 2022

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The action-packed year saw BJP's victories in high-stakes state polls, tussle over CM posts, Congress campaign to "unite the country", maritime show of strength, and India's G20 presidency

India may have appeared to be something of a bright spot globally in this period. Part of the reason is that, unlike many other countries, the government did not overuse fiscal measures during the pandemic years. As a consequence, inflationary pressures in the economy are not as great as they otherwise would have been.

Nevertheless, as the Reserve Bank of India recently pointed out in its "State of the Economy" report, "an unease hangs over energy prices". Fortunately, fuel taxes have been high enough in India over the past years that a global increase in the cost of fossil fuel has not yet been as disruptive as such price hikes have been in the past.

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rising food and fuel prices or the pursuit of difficult structural reforms could create social discontent, causing capital outflows and slowing of economic growth, and giving rise to economically damaging policies. "There is no such evidence of inflation causing social discontent in India, especially as India has not experienced hyperinflation. Even during the current pandemic, inflation has not increased abruptly, reflecting coordinated monetary-fiscal measures," Subramanian added.

Biz reforms...

Yet geopolitical turbulence nevertheless has significant implications for the Indian economy in 2023. The war and a delayed exit from the pandemic might reduce global growth in the coming year to under 2 per cent, a decrease of at least a percentage point from the ongoing year. This means that recent and welcome growth in India's exports, including of electronic goods, may face headwinds. Indeed, the latest data suggests that this downturn in export growth may already have started.

Higher rates in the developed world also mean that capital flows into India will be impacted. India may have survived the initial set of capital outflows with minimal difficulty. But what is likely to be a permanently lower level of capital inflows brings its own problems for both the capital markets and macro-economic policy makers in the government and the central bank. Their best solution to ensure stability on the external account will be to further increase India Inc's export competitiveness.

The Russian invasion of Ukraine may have reset the West's view of the world back to the 1980s, as it has become clear it faces a generations-long challenge from Vladimir Putin's "Russian world". On the one hand, this would suggest that it can pay less attention to the Indo-Pacific than New Delhi would like. Much depends on the degree to which Western capitals understand that Beijing's support for Moscow is the reason the latter can indulge in such military adventurism. Certainly, the disruptions caused by the Ukraine war have led many to consider the even greater impact of any invasion of Taiwan. This increases the need to confront and contain Beijing's own adventurism.

China's botched exit from 'Covid Zero' provides 2022's last twist. It follows demonstrations across the country – including in a crucial iPhone manufacturing plant – that underlined the need for greater resilience in global value chains. The final geopolitical impact on India, therefore, is the continuing re-evaluation in both China and the West of their future relationship.

Both are committed to one degree or another to decoupling – or at least ending their co-dependence. The assumption is that this will open up space for India in geo-economic arrangements, including manufacturing supply chains. Yet turning that potential into reality will require further domestic business-focused reforms.