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India's Rising Economy Amidst Global Financial Crisis

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Abstract: *This paper explores the impressive economic growth of India amid global monetary crisis. Despite the challenging global economic conditions, India has managed to maintain positive growth trajectory. It examines the key factors driving India's economic rise, including domestic consumption, government policies, industrial diversification and foreign direct investment. The COVID-19 pandemic has had a profound impact on the global economy, causing a monetary crisis and significant slowdown in major economies worldwide. This research paper aims to explore the various causes behind these effects, analyzing the direct and indirect consequences of the pandemic and other factors on economic sectors, fiscal policies, supply chains, and consumer behavior*.

Keywords: Forex Reserve, Monetary and Fiscal Policies, Foreign Direct Investment, Inflation-Growth Tradeoff, Ease of doing Business, FDI Diversification, Debt Ceiling

I. INTRODUCTION

Currently global trade and the economy are going through difficult times. It all started with the pandemic induced contraction in global economic output, escalated by worldwide surge in inflation, followed by interest-rate hike, unstable geo-political relation especially in eastern world. While many developing countries in Asia, Africa, and Latin America are on verge of currency crisis with severe foreign exchange shortages and volatility, some of them are due to over import dependence, while others are got heavily trapped into vicious cycle of debt. After three major shocks to the global economy since 2020, India appears to have moved on. India's economy projected to be the fastest-growing major economy in FY23 at 6.5-7.0% growth rate, as per various agencies worldwide.

According to report of World Economic Forum, Asia is expected to experience the most buoyant economic activity, with 93% of economists worldwide predicting at least moderate growth in the region. India stages full-recovery in FY22 while ahead of the many nations and positioning itself to ascend to the pre-pandemic growth path in FY23. India's economic growth in FY 23 has been principally led by two main reasons: Private Consumption and Capital Formation.

1.1 Research Objectives

The intention of the researcher is to provide an insight into causes of rising of India's economy amidst slowdown of major economies in the world keeping in mind the economic outlook for a better understanding and in-depth research of the topic. It aims to bring the reader's attention to positive growth trajectory maintained after various serious adversaries by India with respect to various scholars and economists considering different interpretations and detailed explanations and to foster a thorough understanding of the different aspects involved on current financial crisis globally.

1. Identifying the root causes and triggers of the monetary crisis, especially after Covid-19.
2. Investigating the vulnerabilities and risks in the global financial system.
3. Assessing the implications of the crisis on global trade and investments.
4. Evaluating the long-term consequences of the crisis on income distribution.
5. Assessing the effectiveness of monetary and fiscal policies implemented by India during the crisis.

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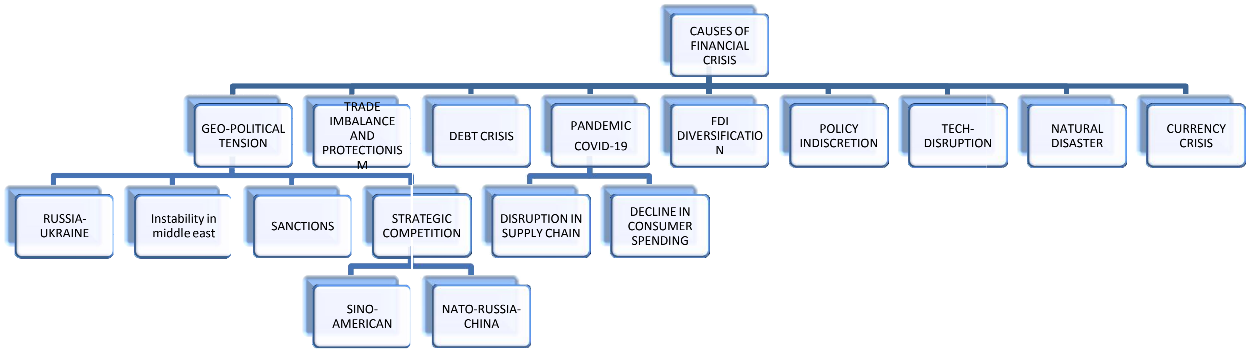
Causes of the Global Financial Crisis



Fig; 1 causes of global financial crisis

Debt crises:

A buildup of debt, particularly in the public and private sectors, led to economic vulnerabilities and triggered a financial crisis. And due to globalization, countries are interdependent, resulting pressure on fiscal balances and may exacerbate debt sustainability concerns, leaving emerging and developing countries with far less fiscal room to protect their populations in the future. For example, if governments or companies accumulate unsustainable levels of debt that they are unable to service, it can lead to defaults, bankruptcies, and a contraction in economic activity.

As per experts opinion, United States is on verge of defaulting on its debt[1], which could lead an unprecedented devastating shockwaves across global economy. An analysis by Moody's[2] found that a prolonged default would cause real GDP to decline throughout the end of 2023, falling an estimated 4.6%. Prospects for long-term growth would diminish, too. "The economic downturn that would ensue would be comparable to that suffered during the global financial crisis,"

CASE STUDY: USA

- The expenditure of USA are much higher than their tax revenues. And US pays this differences with loans.
- And their DEBT CEILING has been increased 78 times since 1960.
- In January 2023 USA had hits its Debt Ceiling. The debt then was $ 31 trillion. And their economy is nearly $22.9 trillion over the past 30 years.
- And they spend $17bn everyday, on other hand their tax returns were unexpectedly low this year.

Trade Imbalances and Protectionism:

According to International Chamber of Commerce,"**Trade is expected to slow down in 2023**. Amid lower growth and high inflation, trade growth is expected to decelerate in 2023. Tight financial conditions will increase pressure on

[1] A 4 ways US default wave could affect you and your money; https://www.weforum.org/agenda/2023/05/5-way-a-us-debt-default-could-affect-you-and-your-money/#:~:text=4%20ways%20a%20US%20debt%20default%20could%20affect,...%203%20Cost%20of%20borrowing%20to%20rise%20

[2] Moody's Corporation, often referred to as Moody's, is an American business and financial services company.

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highly indebted governments and businesses, amplifying vulnerabilities and deterring investments and trade flows[3]". Persistent trade imbalances, such as large trade deficits, between major economies can disrupt global economic stability. Trade disputes and protectionist measures aimed at reducing imbalances can create trade barriers, hamper global trade flows, and lead to economic slowdowns. The ongoing trade tensions between the US and China demonstrate this potential cause.

CASE STUDY: US Chips Act, one of the measures of US government to encourage domestic Semiconductor companies to produce at home and ignore manufacturing bases in China. Also they are alluring other global semiconductor manufacturers to establish in US, this can be seen as one of the measure to counter Chinese significance in this industry.

Pandemics and public health crises:
COVID-19 pandemic has highlighted the vulnerability of economies to health emergencies. If new variants or other infectious diseases emerge, they could disrupt economic activity, supply chains, and consumer spending.

1. Disruptions in supply chains: The existential crisis brought on by the Covid-19 has forced industries to switch their focus from innovation and restructuring to ensuring business continuity by building resiliency and flexibility. For example, Alarmed by the shortage of semiconductors, Ford and General Motors formed Strategic Agreement with Chipmakers.
2. Decline in consumer spending : Due to uncertainty cause be pandemic, buying behaviour of consumer became more erratic.

IMF data shows that Chinese economy had contracted in the first quarter for the first time since quarterly records began in 1992. And the economy hit further by reduced global demand for its products due to the effect of the outbreak on economies around the world.

Geopolitical Tensions:
Various geopolitical conflicts and trade disputes, can negatively impact global economic growth. Examples include trade tensions between major economies, political instability in certain regions, and disputes over resources or territories.

1. The Russia-Ukraine conflict has had significant effects on the global economy.
The International Monetary Fund (IMF) had pointed out earlier that both Russia and Ukraine are major commodity producers, and disruptions there have resulted in soaring global prices, especially that of oil and natural gas. With Ukraine and Russia accounting for up to 30% of the global exports for wheat, food prices, too, have jumped[4]. And if this continues further, it lead to severe food crisis.

- **Energy Trade**: Economies reliant on oil imports have to face more fiscal and trade deficits along with more inflationary pressure. However, exporters from Middle East and African countries got benefited from higher prices. In the long term, the war has structurally alter the world's economic and geopolitical order in terms of supply chains, fragmentation of payment networks, shift in energy trade.
- **Services and travel sector**: World Bank has pointed out that outbound travel was disrupted due to war, with airspace closures, travel restrictions, sanctions and extended fuel prices. Russia and Ukraine are among the

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[3] ICC 2023 Trade Report: A fragmenting world https://iccwbo.org/news-publications/policies-reports/icc-2023-trade-report-a-fragmenting-world/#:~:text=Trade%20is%20expected%20to%20slow%20down%20in%202023.,amplifying%20vulnerabilities%20and%20deterring%20investments%20and%20trade%20flows

[4] IMF Report : https://www.thehindu.com/news/international/explained-the-effects-of-the-russia-ukraine-conflict-on-the-global-economy/article65312083.ece/amp/

top 10 countries for total global departures and a key source of revenue for tourism-reliant countries especially the Europe, the Pacific, Middle East and South Asia.

- **Sanctions**: Governments around the world have imposed sanctions on Russia for its actions in Ukraine. These include restrictions on trade and financial transactions, which have affected global markets and created uncertainty for businesses.
    I. **Energy sanctions**: The US and the EU imposed energy sanctions on Russia, targeting its oil and gas industries. These sanctions restricted Russian access to crucial energy technologies and reduced its ability to export oil and gas, disrupting global energy markets. For example: diamond sanctions; The UK is banning the import of diamonds from Russia. The US set out similar plans to ban Russian diamonds last year and the EU has announced plans to do so, which is likely to affect more than 4 bn pound of earning of Russia.
    II. **Financial sanctions**: The US and the EU also implemented financial sanctions on Russia, targeting Russian banks and individuals. These sanctions restricted Russian access to international financial markets, making it difficult for Russia to borrow money and reducing its economic growth.
    III. Despite years of trying to substitute imports with domestic production, Russia was highly dependent on imported high-technology goods and inputs before the war. Russia's production structure remains, as it has for decades, dominated by mining and low-tech resource-intensive industries. With sanctions now limiting the availability of technology and financing, Russia's prospects for import substitution of technological products have become even more limited.
    IV. **Arms embargo**: Some countries, including the US, EU, and Canada, imposed an arms embargo on Russia, prohibiting the sale of arms to the country. This embargo disrupted global arms markets and reduced Russia's military capabilities.
    V. **Trade restrictions**: The US and the EU implemented trade restrictions on Russia, including limitations on imports and exports. These restrictions have disrupted global supply chains and affected the prices of goods worldwide.

Overall, the sanctions imposed on Russia have had a significant impact on global trade and market, leading to disruptions in supply chains, increased prices, and economic uncertainty. The ongoing tensions between Russia and the West continue to create volatility in global markets.

2. Strategic Competition between US and China:

The Sino-American conflict also undermines the status of various International institutions such as the World Trade Organisation, World Health Organisation. While Washington has withdrawn from a number of multilateral institutions, and China on other hand is expanding its influence in contexts like the United Nations.

Europe needs to escape the bipolar logic escalated with conflict between NATO and Russia and widened by Sino-US rivalry, which demands the Europe to choose between the American and Chinese economic and technological spheres.

Policy Indiscretion:

Decision-making errors by various governments and their central banks contributed to economic slowdowns. For example inappropriate monetary policies, such as sudden interest rate hikes or excessive tightening, can reduce consumer and business spending, impacting economic growth. Similarly, ineffective fiscal policies, like inadequate stimulus packages, can hinder recovery from economic downturns.

Policy implications ie. changes in government policies, including shifts in tax rates, regulations, or monetary policies, have significant impacts on economic performance. Policy decisions that are not well-balanced or implemented have contribute to economic slowdowns or crises.

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1. "Policymakers face a dilemma between tightening too much and too little,"[5]

As in response to inflation, central banks across the world simultaneously hike interest rates, the world is edging toward a global recession and a string of financial crises in emerging market.

Although recent tightening of monetary and fiscal policies will likely prove helpful in reducing inflation, but because they are highly synchronous across countries, they could be mutually compounding in tightening financial conditions and steepening the global growth slowdown.

"Unless supply disruptions and labour-market pressures subside, those interest-rate increases could leave the global core inflation rate (excluding energy) at about 5 percent in 2023—nearly double the five-year average before the pandemic, the study finds."[6]

Due to slowdown of global economy, the chances of global recession are increasing. Thus instead of reducing consumption the focus can be shifted to boosting production by additional investment, improved productivity and capital allocation.

Technological disruptions and industry transformations

Rapid technological advancements, while promoting overall productivity and growth, can disrupt specific industries and lead to economic slowdowns in the short term. For instance, automation and artificial intelligence replacing human labor in manufacturing or service sectors may result in job losses and require the workforce to adapt, causing temporary economic disruptions.

Natural disasters and climate-related events:

Increasingly frequent and severe natural disasters, such as hurricanes, floods, or wildfires, influenced by climate change, can damage infrastructure, disrupt supply chains, and increase costs for businesses. These events led to a slowdown in economic activity and negatively impact major economies.

Foreign Direct Investment and Slowdown of Economies:

Many factors have contributed to the slowdown in FDI before pandemic, such as increasing automation and other technological changes. But the pattern has got changed now, recently the increased FDI fragmentation is due to geopolitical tensions and inward-looking policies of the economies. Companies are looking at strategies to make supply chain more resilient by investing in geopolitically aligned economies than the countries that are geographically closer but geo-economically fragmented. Several large economies are vulnerable to relocation of FDI. Arise in political tension can further trigger a large reallocation of capital flows at international level.

Though the reconfiguration of supply chain could potentially reduce risk of investment, but it is surely reducing diversification and making developing or emerging economies more vulnerable to macroeconomic shock.

CASE STUDIES: China

1. China's reign as manufacturing hub for foreign investors is declining, while other Asian countries like India, Malaysia, Vietnam standing as an better alternatives for FDI.
2. Mainly causes are slow economic growth, increased labour coast [five times more expensive than Vietnam], growing private debt, changing demographics, China's special relationship with Russia and many more including geopolitical internal instability.

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[5] WORLD ECONOMIC FORUM: https://www.weforum.org/agenda/2023/01/global-recession-economic-outlook-2023/

[6] Risk of Global Recession in 2023 Rises Amid Simultaneous Rate Hikes: https://www.worldbank.org/en/news/press-release/2022/09/15/risk-of-global-recession-in-2023-rises-amid-simultaneous-rate-hikes#:~:text=Unless%20supply%20disruptions%20and%20labor-market%20pressures%20subside%2C%20those,five-year%20average%20before%20the%20pandemic%2C%20the%20study%20finds.

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3. Companies like Dell, Sony Daikin, Samsung, LG, Apple are moving out from china, while many other companies are reluctant to freshly invest in china.

Currency Crisis and Effect on Global Economy

Depreciation severely hurts the economy. Many economic and business decisions depend on exchange rates. A fall in the exchange rate will create instability and mistrust of the domestic currency.

The effect of the currency crisis on the economy can take several routes.

I. The currency crisis can trigger a default and banking crisis.

The risk of default on foreign debt soars. Depreciation causes debts denominated in foreign currencies to increase dramatically, reducing the ability to repay debtors, be they governments or companies.

II. The crisis have major impact on foreign exchange reserves.

Currency crises can be very damaging to an economy. The central bank took on the role of fending off speculative attacks using foreign reserves. Its purpose is to prevent the depreciation from deepening.

As a result, foreign exchange reserves fell sharply.

How strong foreign exchange reserves can last depends on the intensity of speculation, the severity of exchange rate depreciation, and the size of foreign reserves held.

III. The crisis leads to the severe depreciation, thus increases imported inflation.

The price of imported goods soared due to the depreciation of the exchange rate. Consumers may stop buying imported goods.

However, companies cannot just stop imports. Indeed, they may delay the purchase of imported capital goods. But, for raw materials, they will still buy (otherwise, they will stop operating altogether).

The increase in raw material prices raises production costs. To maintain profits, producers pass on the increase in costs to the selling price. As a result, domestic inflation has risen sharply.

For example: Sri Lanka :The main cause of the country's crumbling economy is its shortage of foreign currency, which has led to a massive reduction in imports of essential items.[7]

Causes of Economic Growth in India Amid Global Crisis:

As the covid-19 restrictions were lifted, the pent-up demand for services and increased production from industries continued to fuel India's economic growth. Several factors have played very significant role in this. Since Indian economy is dominated by service sector, service activities along with sturdy growth in core infrastructure industries provided a strong support for economic growth. The fiscal policies and schemes of the Government of India (like self-reliance and production-linked incentives) have boosted infrastructure, productivity, and jobs leading to rise in economic growth. The easy availability of personal loans and profound activity in agricultural and industrial sectors are aiding this increase in credit uptake.

[7] https://www.thequint.com/explainers/explained-sri-lanka-foreign-currency-crisis-economy#read-more

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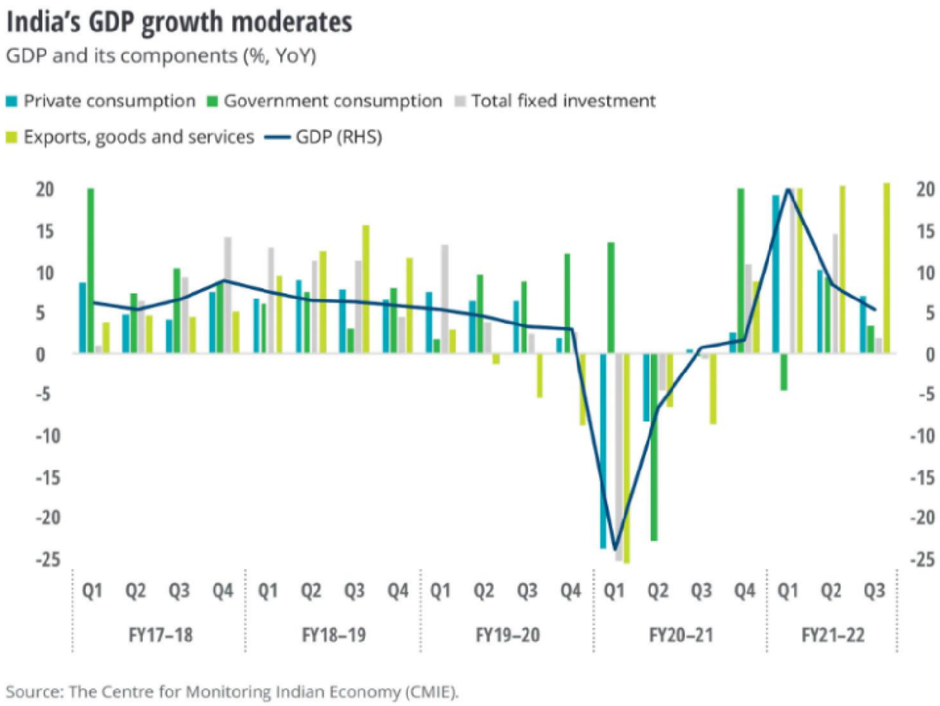


I. Business and Consumer Activity

Different surveys, including the Purchasing Manager's surveys, have pointed out that the dominant services sector in India has shown an increase in its activity. On the other hand, growth in the manufacturing sector has continued to remain steady. Despite the initial hiccups, the automobile sector also shows signs of an increase in sales.

Another indicator of consumer activity is bank credit which witnessed growth. It increased from 11.1 per cent in April 2022 to 12.1 per cent at the end of May 2022. In the case of liquidity in the market, the conditions are favourable, and it continues to be in surplus[8]

II. Industrial Activity

The main two key indicators of industrial activity are growth in industrial output and manufacturing or mining. Both these areas have showed robust growth in April 2022.

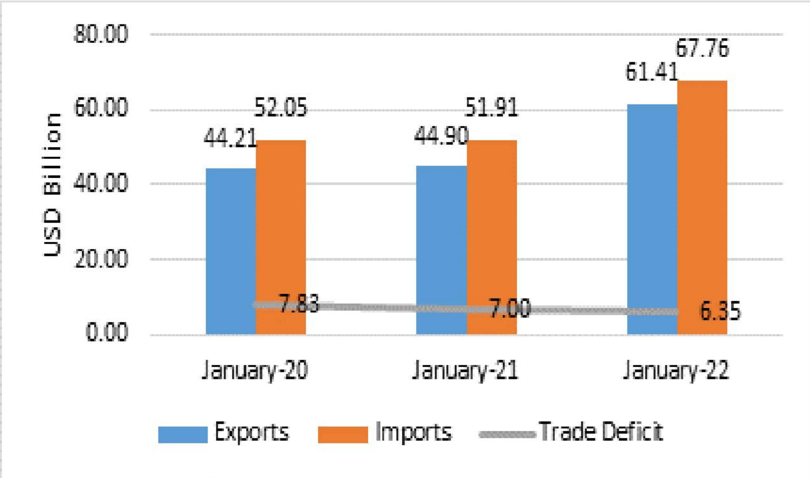
Compared to the previous year, factory output growth increased by 7.1 per cent that further rise electricity production by two folds.

III. Exports

There has been a small gap in the imports and exports of India. According to official figures, rising commodity prices kept goods imports above $ 60 billion for the third consecutive month. India's main exports include refined petroleum, pharmaceuticals and rice.[9] Overall exports from India combining merchandise and services are estimated to be $ 62.21 billion in May 2022. This shows a positive growth of around 24.03 per cent compared to the previous year.

[8] https://www.investindia.gov.in/team-india-blogs/in Indian economy's post-pandemic growth

[9] https://www.bing.com/ck/a?!&&p=6c034f6a6290d67fJml...



Source: Press Information Bureau, Government of India[10]

IV. Structural reforms: The Indian government implemented several structural reforms aimed at improving the ease of doing business and attracting investments. Initiatives such as the Goods and Services Tax (GST), Insolvency and Bankruptcy Code (IBC), and the introduction of Direct Benefit Transfers (DBT) helped streamline the business environment and boost productivity.

V. Strong consumer demand: India has a large and growing consumer market, which has been a driving force for economic growth. Rising middle-class income, urbanization, and increasing consumer spending have stimulated various sectors such as retail, FMCG, and services.

VI. Government initiatives: The government implemented initiatives like "Make in India," "Digital India," and "Startup India" to promote manufacturing, digitalization, and entrepreneurship. These initiatives aimed to boost domestic production, enhance technology adoption, and encourage innovation, leading to job creation and economic growth.

VII. Increased foreign direct investment (FDI): India has witnessed a surge in foreign direct investment across various sectors such as technology, manufacturing, and services. Favorable policies for foreign investors, relaxation of certain regulations, and a large consumer market have attracted significant FDI inflows, contributing to economic growth.

VIII. Infrastructural development: The Indian government has focused on infrastructure development, including investments in railways, roads, and renewable energy projects. These infrastructure developments have facilitated connectivity, improved logistics, and provided a conducive environment for businesses to thrive.

WAY FORWARD

Controlling a global financial crisis requires a coordinated effort from various stakeholders, including governments, central banks, financial institutions, and international organizations. Here are some steps that can be taken to help mitigate and control a global financial crisis in today's time:

1. Early identification and monitoring: Governments and financial institutions should closely monitor economic indicators, market trends, and emerging risks to detect potential financial instability at the earliest possible stage. Regular assessments and stress tests of financial systems can help identify vulnerabilities and prevent crises.

[10] https://www.investindia.gov.in/team-india-blogs/indian-economys-post-pandemic-growth

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2. Implement effective regulation and supervision: Strengthening financial regulations and supervision is crucial in preventing excessive risk-taking and promoting stability. Governments should enforce robust regulatory frameworks, including capital adequacy requirements, risk management standards, and corporate governance regulations for financial institutions. Strengthening oversight and enforcement mechanisms is essential to ensure compliance.
3. Provide liquidity support: Central banks play a critical role in stabilizing financial markets during crises by providing liquidity support to banks and other financial institutions. Central banks can lower interest rates, implement quantitative easing measures, and offer emergency funding to prevent liquidity shortages and restore confidence.
4. Fiscal measures and economic stimulus: Governments can implement expansionary fiscal policies, such as increased government spending and tax cuts, to boost economic growth during a financial crisis. Economic stimulus packages can help stabilize demand, support businesses, and maintain employment levels
5. Strengthen international cooperation: International coordination and cooperation among countries, central banks, and international financial institutions are essential in addressing global financial crises. Collaborative efforts can help devise common protocols, share best practices, and coordinate policy responses to minimize the adverse effects of crises and promote recovery.
6. Safeguard consumer and investor protection: Strengthening consumer and investor protection measures is vital to maintain market integrity and confidence. Enhanced transparency, disclosure requirements, and investor education can help protect individuals and businesses from fraudulent activities and excessive risk-taking.
7. Promote sustainable economic growth: Investing in long-term economic stability and sustainability can help prevent future financial crises. Governments should focus on policies that foster inclusive and sustainable growth, reduce income inequality, and promote responsible lending and borrowing practices.

II. CONCLUSION

In the midst of a global monetary crisis, India's rising economy stands as a beacon of resilience and promise. Despite the challenging global economic landscape, India has managed to maintain its growth trajectory and emerge as a key player in the global market.

One of the factors that contributed to India's success was its proactive approach to economic reforms and policies. The government's focus on enhancing ease of doing business, promoting entrepreneurship, and attracting foreign investment has reaped significant rewards. This has created a favorable environment for both domestic and international businesses to thrive, boosting India's economic growth.

In terms of global financial volatility, it is important to note that financial crises can have complex causes and impacts, so a comprehensive and multi-faceted approach is necessary to effectively control and mitigate their effects.

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