Newsletter

December 2024

Dear Friends,

Greetings from the Isaac Centre for Public Policy (ICPP) and welcome to the first edition of the ICPP Quarterly Newsletter! Going forward, this newsletter will provide highlights of our research, events, and public engagement, along with our perspectives on the global and Indian economies.

The past few months have been exciting and eventful. We have published over a dozen policy briefs and case studies, conducted multiple policy events—both on campus and off—and, in collaboration with the Economics department, launched a new undergraduate major in Economics and Public Policy at Ashoka University. The undergraduate program will be led and delivered by the Economics department. We have also identified our research priorities and decided to focus the Centre's initial work on the following areas:

1. Macroeconomics and Public Finance
2. Rural and Agricultural Economy
3. Employment and Labour
4. Indian Regulators

We were delighted to welcome co-leads for each of these priority areas, as well as Prof. Jeffrey Liebman, Dr. K P Krishnan, and Dr. Ajay Chhibber as Distinguished Fellows of ICPP.

Among our events, we were particularly excited to host Shri N.K. Singh (Chairman of the 15th Finance Commission and former MP, Rajya Sabha), Dr. V. Anantha Nageswaran (Chief Economic Advisor), Dr. Arvind Panagariya (Chairman of the 16th Finance Commission), and Ms. Uma Mahadevan (Additional Chief Secretary, Government of Karnataka), among others.

In the coming quarter, we will release stock-taking papers and other research outputs in our priority areas while continuing to organize engaging policy events in Delhi and other locations. We will also launch our Quarterly Macroeconomic Bulletin, featuring an analysis of macroeconomic data and an in-depth exploration of one or two key macroeconomic issues. We hope you stay tuned for these and other exciting activities!

Finally, we take this opportunity to extend the season's greetings from all of us at ICPP.

Dr. Prachi Mishra

Vikas Dimble

COLUMN

Global Economic Outlook and India's Position

Dr. Prachi Mishra

December 2024

The global economic landscape continues to evolve amid significant geopolitical developments and policy shifts. Persistent geopolitical tensions, including the ongoing Russia-Ukraine conflict and developments in the Middle East, along with continued domestic problems in China, have all added complexity to the global economic outlook. The big global event has been the recent U.S. presidential election, which has ushered in significant changes, with former President Trump's return to office and Republican control of Congress. The current environment carries substantial implications for the global economy, markets, and particularly for India's economic trajectory.

The New Economic Landscape: Trumponomics 2.0

The renewed Trump administration's economic policies are expected to center around several key initiatives. On the trade front, Trump has already announced intentions to implement a 25% tariff on imports from Mexico and Canada and an additional 10% tariff on Chinese imports. There are indications these measures could expand significantly, with possible increases up to 60% on Chinese imports and a possible extension to a broader range of countries, with average tariffs on all imports potentially reaching 10%.

The domestic policy agenda is expected to be equally impactful, with the administration pursuing restrictive immigration policies that may include large-scale deportation measures. This will be accompanied by an expansionary fiscal policy featuring corporate tax reductions, alongside comprehensive regulatory reforms across various sectors.

Global Economic Implications

The impact on U.S. growth itself presents a complex picture. While initial tariffs and policy uncertainty might constrain growth, this could be offset by fiscal stimulus and regulatory easing. Inflation can be expected to trend higher, particularly under risk scenarios.

China, as the world's second-largest economy, faces notable growth headwinds, though the baseline impact may end up being manageable. The country's response will likely include a strategic pivot from external to domestic demand, implementation of monetary and fiscal stimulus measures, and management of the exchange rate. It's worth noting that more severe scenarios could result in significantly greater economic impact.

Market Outlook

The global market landscape is evolving in response to these changes. I anticipate continued dollar strength, driven by inflation expectations and interest rate dynamics. While markets have largely priced in many of these developments, there remains potential for positive momentum in global equity markets from U.S. corporate tax cuts. However, important tail risks require close monitoring.

India's Position and Opportunities

India's economic position in this evolving global landscape presents both challenges and opportunities. In the external sector, services exports continue to show robust growth exceeding 10%. The current account dynamics reveal an interesting pattern: while there's a roughly $250 billion deficit in goods trade, this is substantially offset by services and secondary income surpluse.

India's position in global trade presents an intriguing paradox. Despite focused manufacturing support through initiatives like PLI schemes, India's global merchandise export share remains stagnant. Exports of services, conversely, without such support, have shown remarkable growth and global market share gains.

To capitalize on potential opportunities, especially in manufacturing, several key areas require attention. A strategic approach is essential, with focus needed on labor-intensive sectors that offer high growth and employment potential. Key sectors could include textiles, footwear, and food & beverage processing, which together account for half of manufacturing employment.

The textile sector, in particular, requires a comprehensive reform approach. This includes expediting European Union FTA negotiations to address tariff disadvantages versus competitors, reforming labor laws and minimum wage structures to enhance competitiveness, developing efficient raw material ecosystems (particularly in man-made fibers), and creating large-scale, efficient Special Economic Zones with comprehensive infrastructure.

Macroeconomic Management Challenges

India's macroeconomic landscape faces mounting challenges both domestically and internationally. Economic growth has notably decelerated, with Q2 FY25 recording a seven-quarter low of 5.4%, falling significantly below market expectations. This slowdown has prompted the Reserve Bank of India (RBI) to revise its FY25 growth forecast downward by 60 basis points to 6.6%.

Inflationary pressures have simultaneously intensified, with the Consumer Price Index (CPI) exceeding the RBI's target range in October. Inflation has moderated in November but continues to remain near the upper threshold. Consequently, the RBI has raised its FY25 inflation projection by 90 basis points to 4.8%. Adding to these concerns, the Indian Rupee has depreciated to historic lows.

The external sector presents additional complexities. Substantial equity market outflows, potential sustained dollar strength, and volatile oil markets are creating heightened uncertainty. These challenges are further complicated by liquidity management issues stemming from foreign exchange market interventions. The RBI's recent adjustments to Cash Reserve Ratio (CRR) requirements reflect its efforts to address tightening liquidity conditions.

The central bank now faces the intricate challenge of supporting economic growth while managing above-target inflation, requiring a delicate balance in monetary policy decisions.

Conclusion

The current economic environment presents a complex set of challenges; global uncertainty, moderating growth, above-target inflation, and currency pressures. Policymakers are really walking a tightrope. Maintaining macroeconomic stability while navigating these challenges will be crucial for policymakers. As we move forward, the focus should be on leveraging opportunities in the evolving global landscape while maintaining domestic economic resilience. The key to success will lie in implementing targeted reforms while preserving the hard-earned macroeconomic stability that has been achieved thus far.

RECENT POLICY BRIEFS

Re-designing Crop Insurance

Digvijay Singh Negi, Co-lead, Agriculture and Rural Economy Associate Professor, Ashoka University

Bharat Ramaswami, Co-lead, Agriculture and Rural Economy Associate Professor, Ashoka University

October 21, 2024

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Consumption Expenditure by Social Groups: Findings from India's Household Consumption Expenditure Survey, 2022-23

Sekhar Bonu, Non-resident Fellow, NITI Aayog

August 22, 2024

Read more »

Kuposhan Mukta Bharat – Devolution, Human Capital, Incomes, Food Diversity Matters

Amarjeet Sinha, Member of Public Enterprises Selection Board (PESB)

May 20, 2024

Read more »

Building State Capacity in Regulation Through Performance Evaluation of Regusystem-uirs

K P Krishnan, Former Secretary, Government of India & Distinguish fellow, ICPP

February 14, 2024

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High Public Debt in India: Challenges and Remedies

Prachi Mishra, Head, ICPP & Professor of Economics, Ashoka University

Nikhil Patel,Economist (IMF)

February 8, 2024

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Building State Capacity Through an Ecosystem Approach

Sekhar Bonu, Non-resident Fellow, NITI Aayog

February 1, 2024

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SELECT RESEARCH PROJECTS

Laws Mandating Prevention of Sexual Harassment at Workplace and Female Employment

Kanika Mahajan, Sonia Bhalotra, Medha Chatterjee, Daksh Walia, January 2024

Sexual harassment at workplace is one of the significant barriers women face in improving their economic outcomes. The MeToo movement brought to light the high prevalence of this issue across the world. Several countries, including India, have already taken cognizance of this problem and promulgated legislation to prevent and punish such acts of harassment. In 1997, the Supreme Court of India passed a landmark judgment that laid down the Vishaka guidelines – a set of procedural guidelines to be followed by establishments in dealing with complaints about sexual harassment.

Read More »

Constraints on Firms for Providing Safer Workplaces for Female Workers

Anisha Sharma, Lori Beaman, Karmini Sharma, January 2024

Why don't firms invest in safer workplaces for women? Female labour force participation in developing countries like India is low and has been falling, but safer workplaces may encourage more women to participate in paid employment. In turn, attracting more women, and skilled women in particular, into the labour force can contribute to firms' productivity and promote inclusive growth.

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Immigration Uncertainty and Offshoring Jobs: Evidence from India

Kanika Mahajan, Ritam Chaurey, Shekhar Tomar, January 2024

Immigration and its impacts on the host country have risen to the forefront of political agendas and policy debates in the recent years. Both low skilled and high-skilled legal immigration has come under attack from policy makers. Brexit and restrictive H-1B visa regime under Trump regime in the USA are recent examples of restrictive policies in movement of high skilled labor across countries. Supporters of these policies often blame immigration for lower domestic wages and decline in employment opportunities for the natives.

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BENGULURU LAUNCH EVENT

Panel Discussion

Panelists – Dr. K P Krishnan (Former Secretary, Ministry of Skill Development and Entrepreneurship, Government of India), Ashish Dhawan (Founding Chairperson, Board of Trustees, Ashoka University), Smt. Uma Mahadevan (Additional Chief Secretary and Development Commissioner, Government of Karnataka)

Watch Now »

Panel Discussion

Dr. Prachi Mishra (Director; Head, Isaac Centre for Public Policy, Ashoka University)

In Conversation With – Shri NK Singh (Chairman, 15th Finance Commission of India & Former Member of Parliament, Rajya Sabha)

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Keynote Address

Speaker – Dr. V Anantha Nageswaran (Chief Economic Adviser, Government of India)

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SELECT MEDIA MENTIONS

The Economics Times

Ashoka University establishes Isaac Centre for Public Policy

September 21, 2024

Business Standard

ICPP will help bring scalable research-based interventions to policy challenges: Experts

September 22, 2024

The Print

ICPP will help bring scalable research-based interventions to policy challenges: Experts

September 22, 2024

The Indian Express

Centre for Public Policy at Ashoka university in Bengaluru

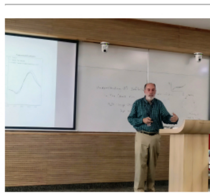
September 22, 2024

STUDENT ENGAGMENT

Speaker Session

In Conversation with Arvind Panagariya, The Nehru Development Model

ICPP, along with the Ashoka Economics Society, hosted Dr. Arvind Panagariya (current Chairperson of the Finance Commission of India) on the Ashoka campus for the launch of his latest book, The Nehru Development Model, in a talk moderated by Professor Prachi Mishra.



Special Seminar

"U.S. Inflation Since the Pandemic Speaker" by Prof. Laurence Ball

The talk discussed the US post-pandemic inflation episode and potential factors contributing to the dramatic rise in US inflation since 2020

Case study workshop

Harvard Case Study Workshop with Professor Jeffrey Liebman

Across two sessions, Prof. Leibman presented two of his recent research initiatives to discuss how evidence informs public policy and to explore innovative and systematic approaches to policymaking.

Dr. Jeffrey Liebman, Distinguished Fellow at ICPP, is the Robert W. Scrivner Professor of Public Policy at Harvard Kennedy School; he is the director of the Government Performance Lab and served as Executive Associate Director and Chief Economist at the Obama Administration's Office of Management and Budget, shaping key economic policies.