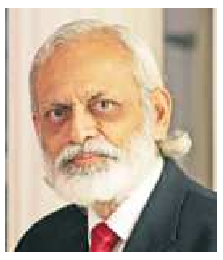
Economic recovery: hopes and trepidations



RIZWANUL ISLAM

Although the budget for fiscal year 2020-21 projected a GDP growth of 8.2 per cent for the year, the Planning Commission has recently revised the projection down to 7.4 per cent.

From this, it seems that the Planning Commission is taking into account the difficult environment that the economy is having to chart. And yet, even this may be rather optimistic, especially given the current situation of the global economy.

Apart from the rise in stock values and the prospect of growth resumption in China, there is not much good news about the global economy as we end the year of the Covid pandemic. The disjunct between Wall Street and the main street seems to be persisting.

With the pandemic continuing to rage and the fear of the third wave gripping many parts of the world, the prospect of economic recovery starting from the first quarter of 2021 looks rather dim.

Even though anti-Covid vaccines are being rolled out in various countries, completion of the process is going to take time – thus delaying the resumption of growth.

If the global economy boat does not have much wind in its sail, it will not be sufficiently powerful to tow the smaller boats like Bangladesh. So, the start of real recovery of the country's economy is likely to be delayed too.

It is in the above context, that even the revised growth projection of the Planning Commission appears optimistic. Of course, one has to hope for good days to come, because it is hope that keeps one alive and going. But it is important to remain alert about lurking dangers and take appropriate steps to overcome them.

Also, in order to transform hopes and aspirations into reality, it would be necessary to identify areas where one can pin one's hopes.

Let's first talk about why there is trepidation about the timing, speed and type of recovery that can be expected for the economy of Bangladesh.

As a significant part of the country's economy is now linked to export, GDP growth of the order mentioned above may be difficult to attain unless the export market recovers fully.

And that is where the first reason for trepidation lies. The second wave of the pandemic in several countries of the developed world has already created new uncertainties about the prospects of turnaround of exports of the country's major export item, ready-made garments.

Given the fluctuations already experienced and the new uncertainties, what the overall growth of the sector will be in 2020-21 and when (if at all) it will be able to return to its pre-pandemic growth path is anybody's guess.

What about other export items? In the current situation, there is so much focus on RMG industry that hardly any attention is given to other items and to the issue of export diversification which has been talked about for some years now. I do realize that the time of an economic crisis may not be the perfect timing for adopting measures for structural changes in the economy.

But if one were to convert challenges into opportunities, it would be necessary to simultaneously look at strategies for promoting other export items. In that context, what is happening to existing export items like jute goods, frozen food, etc. and potential of other items have to be looked at.

There are other reasons for being concerned about the speed and type of economic recovery. And that relates to what is happening to non-RMG manufacturing industries and domestic market-oriented sectors.

It is by now well-known that larger enterprises have been able to make good use of the government's economic recovery support programme and the others, especially the very small ones have remained way behind.

Whatever the reasons are for such lopsided performance of the support programme, its implications for recovery are obvious. The current recovery seems to be taking the shape of the letter K - with one segment recovering and another segment continuing to decline.

But if the economy has to recover more on the basis of the domestic market, it is the smaller enterprises – especially those in the informal segment of the economy that have to grow.

Another cause for trepidation is that the delay in the global economic recovery would also imply a delay in the resumption of overseas employment for workers seeking such jobs. Loss of a major source of jobs means further pressure on the labour market in the country which is likely to continue in 2021 – at least during the early part of the year.

That can also have implications for the flow of remittances which, of course, has remained strong despite apprehensions to the contrary. But it would be important to closely monitor the flow in the coming year.

An issue of serious concern is the rise in the incidence of poverty.

This is the first time in several decades that such a reversal has occurred. Inequality in income was already rising and must be rising further in the pandemic-affected economy.

This seems inevitable in view of two developments. One has already been mentioned above: smaller and micro enterprises lagging behind in recovery. And the second is the adverse effect on the labour market – both in terms of job loss and fall in real wages of workers. While millions of jobs were lost during the height of the pandemic, it is not clear how many of them have been restored.

In addition, real wages have been falling in recent months, and the trend is likely to continue. Recently, owners of the RMG industry enterprises have requested for permission to skip annual wage increments for their workers. If that comes on top of the existing pressure on the labour market, the consequence can be dire for workers.

Thus, the experience of the pandemic year shows that neither economic growth nor achievements in social development were sustainable.

Hence, the focus of the debate on recovery has to move from a single-minded pursuit of growth to broad-based and inclusive recovery. Effort needs to be made to reverse the north-east move of the incidence of poverty and the decline in real wages.

Where can one pin hopes for attaining a healthy economic growth? One obvious answer is good old agriculture. That sector is now much more diversified than before; and it is possible to talk about not only grain crops, but also vegetables, fruits, poultry, livestock, etc. While it would be crucial to have a good boro crop next year, the other sub-sectors can also provide some boost to the economy.

Outside agriculture, there is good potential in non-farm activities in rural and semi-urban areas. But their health and potential are linked to the health of the other segments of the economy. So, if agriculture performs well and if the flow of remittances holds, the environment would be conducive to the growth of those segments.

However, whether all of that can add up to the kind of growth that has been projected remains an open question.

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STAR/FILE

The second wave of the pandemic in several countries of the developed world has already created new uncertainties about the prospects of apparel, which accounts for 84 per cent of Bangladesh's total exports.

GLOBAL BUSINESS

Factories bounce back from Covid-19 hit, tighter controls cloud outlook

REUTERS/FILE

An employee transports an engine at a factory of Maserati, a car maker, in Turin, Italy.

REUTERS, *London/Tokyo*

Manufacturers across Europe ended 2020 on a high while Asian factory activity expanded moderately thanks to robust demand in regional giant China, surveys showed, but the prospect of tougher coronavirus curbs clouded the outlook for the recovery.

Despite hopes that vaccination programmes being rolled out will eventually quell the virus, a resurgence of infections is forcing many countries to reimpose strict controls on economic activity, possibly hurting large exporters such as China and Germany.

"Global manufacturing was still on a roll until the middle of December which is a very good basis for an economic rebound once the current wave of the pandemic subsides," said Holger Schmieding at Berenberg.

"We may have a modest setback in January as renewed lockdowns affect manufacturing but with China remaining fairly strong and the US not showing significant signs of a consumer slowdown the outlook for manufacturing is still good."

Activity in euro zone manufacturing increased at its fastest pace since mid-2018 last month, suggesting the bloc's economy was less hard hit by the pandemic than earlier in the year.

IHS Markit's final euro zone Manufacturing Purchasing Managers' Index (PMI) rose to 55.2 in December from November's 53.8, although that was below the initial 55.5 "flash" estimate.

Anything above 50 indicates growth, and December was the highest reading since May 2018. An index measuring output, which feeds into a composite PMI due on Wednesday that is seen as a good guide to economic health, rose to 56.3 from 55.3.

Germany was again the bloc's driving force and in contrast to the dominant service industry - which has been particularly badly impacted by lockdown measures to tackle the coronavirus - factories in the region have mostly remained open.

Britain's PMI bounced to a three-year high of 57.5, but that surge was likely in large part due to factories rushing to complete orders before the UK's transition period on its way to leaving the European Union ended.

Prime Minister Boris Johnson reached an eleventh-hour deal with the EU on Dec. 24, averting tariffs on goods trade with the EU. However, trade between the two economic areas will still face significant extra paperwork.

India's manufacturing sector ends 2020 on brighter note

REUTERS/FILE

Workers stitch garments at a factory of an apparel shop in Jaipur, India.

REUTERS, *Bengaluru*

India's factory sector ended a rough 2020 on a stronger note as manufacturers boosted production to meet rising demand, a private survey showed on Monday, although the employment situation worsened as firms continued to reduce headcounts.

Manufacturing has been one of the main engines driving a recovery in Asia's third-largest economy after a coronavirus-induced slump early in the year. Business activity is slowly improving after contracting at an annual pace of 23.9 per cent and 7.5 per cent respectively in the April-June and July-September quarters.

The Nikkei Manufacturing Purchasing Managers' Index, compiled by IHS Markit, rose slightly to 56.4 in December from November's 56.3, above the 50-level separating growth from contraction for a fifth month.

"The latest PMI results for the Indian manufacturing sector continued to point to an economy on the mend, as a supportive demand environment and firms' efforts to rebuild safety stocks underpinned another sharp rise in production," noted Pollyanna De Lima, economics associate director at IHS Markit.

Both new orders and output continued to grow strongly, albeit at a slower pace. New export orders rose at the slowest pace in four months as a recent surge in coronavirus cases dampened overseas demand.

Rising demand, however, failed to improve conditions in the labour market, with manufacturers continuing to cut jobs.

"Once again, the survey brought the bad news of falling employment.

However, the trend for jobs is at least moving in the right direction as the rate of contraction softened to the weakest in the current nine-month period of reduction," added De Lima.

Input prices surged at the fastest pace in over two years, threatening to squeeze profit margins as manufacturers were not able to fully pass rising costs on to customers.

That might keep overall inflation above the Reserve Bank of India's medium-term target range of 2-6 per cent over the coming months, curtailing the chances of policy easing by the central bank.

Optimism about the next 12 months declined to a four-month low in December amid growing concerns over rising price pressures and the economic impact of the pandemic.

Tesla shares set to start 2021 at record high

REUTERS

Tesla Inc shares were set to open at a record high on Monday after the electric-car maker reported better-than-expected vehicle deliveries in 2020, extending a rally from last year that saw the stock surge more than eight times.

It delivered 499,550 vehicles, above Wall Street estimates of 481,261 vehicles, according to Refinitiv data, but 450 units short of Chief Executive Officer Elon Musk's target for 2020.

Tesla's dizzying stock rise made it the world's biggest automaker by market value as the electric-car maker showed it could sustain its profitability with five straight quarters of gains.

That helped it ride out the coronavirus slowdown, defying last year's wider auto industry trends of slumping sales, quarterly losses and global supply chain disruptions.

"We are raising our forecasts to reflect higher 4Q deliveries and reports of strong demand for the Model Y in China, which is also suggestive of higher future deliveries," J.P. Morgan analysts said in a client note.

The company, however, faces an uphill task of ramping up production.

Its delivery push so far has been supported by the new Shanghai factory, the only plant currently producing vehicles outside California.

"The bad news is to keep up with this demand, the company needs to quickly build new factories in Austin, Texas, and Brandenburg, Germany," said Gene Munster, managing partner at Loup Ventures.

"... Ramping production is difficult and will be one of the most important Tesla topics in 2021, along with the status of FSD (Full Self-Driving)".