



ECONOMIC COMMENTARY

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*For every one to attain
financial well-being*

THE GLOBAL ECONOMY'S STRANGE CROSSROADS

The global economy resembles a chessboard, with each region playing its own strategy. Three stories now connect in telling ways: China is battling deflation with a new slogan, India is profiting from discounted Russian crude, and emerging markets are racing back to international bond markets on a wave of investor optimism.

China's "anti-involution" push

China's leaders love slogans. From "supply-side reforms" to "housing is for living, not speculation". These slogans often signal where policy is headed. The latest phrase is "anti-involution". Involution describes the grind of producers that expand capacity, slash prices, and watch profits evaporate. Anti-involution aims to stop that spiral by curbing excess capacity.

The mismatch is stark. China's solar capacity is already more than twice the global demand, and electric vehicle battery output is roughly 1.3 times more than what is needed. The price consequences are everywhere. The gross domestic product deflator has decreased for nine consecutive quarters, while consumer prices have averaged just 0.1% year-on-year since mid-2023. Unlike 2015, when commodity swings did most of the damage, deflation is now broad-based across manufactured goods. Beijing faces a tough choice: Accept slower growth by cutting capacity, or continue overproducing and deepen the trap. What is really needed is rebalancing: Shifting towards household consumption, especially for migrant workers and rural families whose saving rates exceed 40%.

India's oil math

While China wrestles with deflation, India has turned itself into a refinery hub for Russian crude. The mechanism is simple: United States (US) and European consumers buy Indian goods, delivering dollars. Those dollars purchase discounted Russian oil. India refines the oil and resells it worldwide, while Moscow collects hard currency to fund its war in Ukraine. Before 2022, Russia supplied less than 1% of India's crude. Today, it exceeds 30%, or about 1.5 million barrels a day. Much of that inflow is exported as higher-value fuels. Indian refiners pocket healthy margins; Russia's war chest is replenished; Western taxpayers continue to finance Ukrainian war efforts. Washington's patience has, however, become thin. New 25% US tariffs on Indian goods, layered on existing reciprocal tariffs, send a blunt message: India cannot pose as a strategic partner while funnelling dollar revenues towards Russian crude.

An emerging market debt rush

With China slowing and India drawing tariff fire, you might expect investors to flee risk. Instead, emerging-market debt sales are surging at their fastest pace since 2021. By July, borrowers outside China had issued roughly \$250 billion in bonds, on course to nearly match pandemic-era peaks. Why the appetite? Spreads over US Treasuries have narrowed to their lowest levels since 2007, as markets bet the Federal Reserve will soon ease policy. Governments from Saudi Arabia to Mexico are seizing the moment to fund infrastructure, energy projects, and even bailouts. Corporations are returning after years of high borrowing costs. For now, sentiment is upbeat but history warns that easy credit often seeds tomorrow's instability.

One theme, three fronts

China's deflation fight, India's oil arbitrage, and the emerging market bond boom look like separate tales but they share a common thread: The hunt for growth in a world where the old engines no longer run as before. The danger is that, in chasing quick fixes, leaders postpone the deeper reforms that would result in sustainable growth. The playbook is clear: China must lift household incomes and shrink politically protected overcapacity. India needs to reconcile strategic partnerships with energy opportunism, or accept rising trade frictions. Emerging-market borrowers should use cheaper funding to invest in productivity, resilience, and governance. The next phase of the cycle will reward realism over rhetoric: Policy choices that re-anchor demand, right-size capacity, and turn today's market window into tomorrow's durable growth.

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