

Depreciation Pampered Exports

What is the issue?

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- The rupee's relative depreciation gave India's exports a greater edge, but it is not proving sufficient enough due to structural challenges.

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- A competitive currency is a good thing, but what matters much more is labour and capital productivity.

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What has caused the current status of rupee?

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- Lately, currency markets are clearly seeing dollar gaining strength against most world currencies and Indian Rupee too has tumbled to 69 per dollar,

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- Experts are of the view that Rupee will depreciate further due to the prevalent macro-economic conditions in India.

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- Notably, there has been a slowing in both FDI and FII inflows and India's software earnings and remittances from abroad have also faltered.

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- Significantly, software earnings which grew by around 24% per year in FY02-12 and has crashed to a mere 2.9% presently.

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- Remittance growth slowed from over 16% to a mere 0.1% during the same time frame - majorly due to the unrest in the Middle-East.

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What are the likely implications?

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- Weakening rupee will push up crude import bills and consequently inflation and the recent MSP increases will also accentuate this.
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- The traditional view is that depreciating currency will boost export competitiveness and set in a demand for Indian produce.
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- But significantly, most other competing currencies (like Vietnam's) are also weakening currently, thereby muting the currency advantage.
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- In fact, data shows that India's exports are actually doing quite poorly overall despite a slight pickup in FY18 (after the massive slump in FY16).
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- Notably, from \$315 billion in FY14, exports fell to \$262 billion in FY16 and then recovered to \$303 billion in FY18.
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Why aren't exports increasing?

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- Increased exports are not just about the value of the currency, but are also heavily determined by factors like quality and productivity.
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- Trends in the textile sector indicate this, with India's share of exports to U.S. growing just 1% between FY 12-18 from 6.5% to 7.5%.
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- While Vietnam's share in the U.S. imports grew by over 5%, from 7% to 12% during the same period.
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- Significantly, during the aforementioned years, Vietnam's Dong depreciated just about 10% while Indian Rupee fell around 30%.
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What is the way ahead?

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- Currently, as exports are slacking despite the currency advantage, net trade deficit is actually worsening due to depreciation.
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- More importantly, recent MSP hikes will also hinder agricultural exports.
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- If the government is keen to give a push to India's exports, it will have to do a lot more to increase productivity levels.
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- This requires changes in labour laws or the removal of infrastructural and other bottlenecks like comparatively high electricity tariffs in India.
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Source: The Hindu

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