# Depreciation Pampered Exports

## What is the issue?

\n\n

\n
- The rupee’s relative depreciation gave India’s exports a greater edge, but it is not proving sufficient enough due to structural challenges.
\n
- A competitive currency is a good thing, but what matters much more is labour and capital productivity.
\n

\n\n

## What has caused the current status of rupee?

\n\n

\n
- Lately, currency markets are clearly seeing dollar gaining strength against most world currencies and Indian Rupee too has tumbled to 69 per dollar,
\n
- Experts are of the view that Rupee will depreciate further due to the prevalent macro-economic conditions in India.
\n
- Notably, there has been a slowing in both FDI and FII inflows and India’s software earnings and remittances from abroad have also faltered.
\n
- Significantly, software earnings which grew by around 24% per year in FY02-12 and has crashed to a mere 2.9% presently.
\n
- 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.
\n

\n\n

## What are the likely implications?

\n\n

\n

- Weakening rupee will push up crude import bills and consequently inflation and the recent MSP increases will also accentuate this.
\n
- The traditional view is that depreciating currency will boost export competitiveness and set in a demand for Indian produce.
\n
- But significantly, most other competing currencies (like Vietnam's) are also weakening currently, thereby muting the currency advantage.
\n
- 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).
\n
- Notably, from $315 billion in FY14, exports fell to $262 billion in FY16 and then recovered to $303 billion in FY18.
\n

\n\n

## Why aren't exports increasing?

\n\n

\n
- Increased exports are not just about the value of the currency, but are also heavily determined by factors like quality and productivity.
\n
- 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%.
\n
- While Vietnam's share in the U.S. imports grew by over 5%, from 7% to 12% during the same period.
\n
- Significantly, during the aforementioned years, Vietnam's Dong depreciated just about 10% while Indian Rupee fell around 30%.
\n

\n\n

## What is the way ahead?

\n\n

\n
- Currently, as exports are slacking despite the currency advantage, net trade deficit is actually worsening due to depreciation.
\n
- More importantly, recent MSP hikes will also hinder agricultural exports.
\n

- 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.
  \n
- This requires changes in labour laws or the removal of infrastructural and other bottlenecks like comparatively high electricity tariffs in India.
  \n

\n\n

\n\n

**Source: The Hindu**

\n

