

NOTE

Of Jobs and Exports

Bharat Jhunjhunwala writes :

A SURVEY UNDERTAKEN BY the Commerce Ministry indicates that huge loss of jobs is taking place in the export sector due to the recent rise in the value of the rupee. Worst hit among the sectors is leather, which saw profitability drop 75 per cent and 1,900 workers lost their jobs in six units that were surveyed. The processed agricultural products sector saw loss of export orders to the extent of 25 percent and lay-offs between 35 and 40 percent. The handicraft sector feared business losses of around \$5 million, which will impact 20,000 families of weavers. The textiles and garments industry alone cut around 11,000 jobs between March and June in the 45 units surveyed. In Tirupur job losses are expected to be around 80,000.

These figures are not disputed. But there is doubt whether this is harmful for the economy and also whether this is due to the rise of the rupee. Argument of the Commerce Ministry is that rise in the value of rupee makes exports difficult and hits at employment in the economy. If this is true then, conversely, decline in the value of rupee should have led to creation of jobs. The rupee had declined from Rs 15-a-dollar in 1991 to Rs 49-a-dollar in 2004. But jobs were not created in the economy. The Economic Survey states that 267 lac persons were employed in the organized sectors in 1991. This declined to 264 lacs in 2004. The number of unemployed increased from 90 lacs in 1994 to 130 lacs in 2005. An OECD report published in June 2007 states further that wages in the manufacturing sector in India have declined from 100 units in 1990 to 90 units in 2005. Deep decline of the rupee in this period of more than a decade has not led to generation of employment in the economy as a whole. It is possible that jobs generated in the export-oriented sectors may have been cancelled by job losses in rest of the economy.

It follows that the present rise of the rupee may be beneficial for the economy as a whole even if it is harmful for the export-oriented sectors as shown in the survey by the Commerce Ministry. That rise of the rupee is beneficial for the economy can be easily understood by an example. The price of India's exports rises with rise in the value of the rupee. Now rising price of one's produce has never hurt a trade or industry. It is never heard that a factory has closed down because the market price of good manufactured by it has increased. If at all, problems arise because of increase in cost of inputs. But rise of rupee makes imported inputs cheaper hence lowers the cost of production. To say that rise of rupee is harmful is like saying the moonlight is bad because of the dark spot in the moon. The Commerce Ministry should have made an assessment of impact of rise of rupee on the economy as a whole instead of presenting a partial picture of export-oriented industries.

It is moreover not clear whether the woes of the export sector are due to rise of the rupee. Other factors are at play along with. One : the US economy is weakening. American workers are losing highly-paid jobs because of cheaper

goods made in China and India. Their purchasing power is declining. Indian exports to that country are under pressure.

Also, government policy of encouraging foreign capital inflows has to necessarily led to decline in exports. The two main sources of inflow of dollars into the economy are from export earnings and foreign capital inflows. These dollars are purchased by importers and sent out of the economy. Accordingly an increase in foreign capital inflows has to necessarily led to decline in exports. The Commerce Ministry should provide incentives to importers to solve the problem of exporters. It is particularly beneficial to provide import subsidy on goods that are not produced much in India like gold, phosphate fertilizers, tin, copper and MIG fighter airplanes. □□□