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NOTE

Of Exports and Imports

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Indian economy may take a hit from the US economic crisis due to fewer exports. The European crisis will not make things better. Countries like Germany account for a large share of Indian exports of carpets, for example. Reduced purchasing power in these countries will lead to fewer orders for Indian exporters. The impact of the Western crisis is transmitted to Indian economy in another way. The dollar and euro are likely to decline against the rupee. This will make exports costlier in the Western markets. So exports are likely to decline. But whether this will be good-or bad for the country is debatable.

Argument 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 has declined from Rs 15-a-dollar presently. But only few jobs were created in the economy. The Economic Survey states that 77 lac persons were employed in the organized private sectors in 1991. This increased to 99 lacs in 2008. About one lac persons got jobs in a year. The number of unemployed increased much during this period. The steep decline of the rupee in this period has not led to generation of much employment in the economy. In other words, increase in the value of rupee may not have much impact.

On the other hand, rise of the rupee may be beneficial for the economy as a whole even if it is harmful for the export-oriented sectors. The price of India's exports in the Western markets rises with rise in the value of the rupee.

If at all, problems arise because other exporters may grab Indian markets. That is unlikely to happen, however, because the decline of the dollar has a similar effect on all exporting countries. Indeed, Indian T-shirts will become costlier in America. But Thai or Bangladeshi shirts will become equally costlier. Therefore, there will be no special impact on the economy.

Rise of the rupee is fundamentally good for the economy. It means that Indian goods are of such good quality that they can fetch high price in the world markets. To say that rise of rupee is harmful is like saying the moonlight is bad because of the dark spot in the moon.

It is moreover not clear whether the woes of the export sector are due to rise of the rupee. The policy of encouraging foreign capital inflows has to necessarily lead 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. This balance is established by the formula "Exports + Foreign Capital Inflows = Imports." Accordingly an increase in foreign capital inflows has to necessarily lead to decline in exports.

Another cause of exporter's woes is the entry of poorer countries in the global economy. Low-wage countries like Bangladesh and Vietnam are supplying goods like garments and coffee at low prices. This is pushing down the earnings and, therefore, wages in the export sectors in India just as the rate demanded by auto rickshaw declines when cycle rickshaws are available on the street corner. One can see this pressure on the IT and BPO sectors in India. Many companies have asked their employees to work for six days in a week instead of five earlier in order to reduce costs. This decline in export-oriented sectors should be accepted as an inevitable punishment of joining the global economy just as the sun burns the entire earth without sparing anyone. For these reasons one should not get much worried about the impact of the Western economic crisis on Indian economy.

The question of China remains. Indeed that country has maintained a low value of its currency *Renminbi* and pushed exports. But the jury is still out on this strategy. Three problems can be noted immediately. One, low value of *Renminbi* implies greater poverty for the people as evinced in great social unrest. This is not visible, however, because of lack of democracy in that country. Second, China is deeply tied with the fate of the US economy. A collapse of the US economy will simply shatter China. Third, China is holding huge amounts of T-Bills issued by the US government-about worth $ 1 trillion. The decline in the value of dollar is reducing the value of this huge investment. China is like the bank which gives more loans to a defaulting company and in the process gets neither the principal nor the interest. Thus Indian Government should be wary of following the Chinese model and consider giving incentives to imports. ◻◻◻