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WIDELY FLUCTUATING RUPEE AND ITS IMPACT ON INDIAN EXPORT PERFORMANCE FOR THE LAST TEN YEARS FROM 2000 TO 2009

S. RAMESH KUMAR MEHTHA
HEAD OF THE DEPARTMENT OF MANAGEMENT
JSPM'S RAJASHI SHAU COLLEGE OF ENGINEERING
PUNE

AVINASH DEOSTHALI
VICE PRINCIPAL
JSPM'S RAJASHI SHAU COLLEGE OF ENGINEERING
PUNE

VIJAYSHRI R. MEHTHA
CO-ORDINATOR (M.B.A.)
JSPM'S JAYAWANT INSTITUTE OF MANAGEMENT STUDIES
PUNE

ABSTRACT

A clear understanding and analysis of rupee vis a vis dollar and other major currencies from 2000 to 2008 shows a high degree of volatility in their movements. Rupee which had been trading around at RS 50 in year 2000-01 currently trades at Rs 43 (2008 July) and it would be appropriately pertinent to say that the same rupee was trading at Rs 39 in March April 2008. Major export oriented industries like IT, ITES, Textiles and others have been badly impacted due to highly volatile rupee. These are those industries that generate large scale employment and this kind of situation has wrecked havoc and disturbed the industry and economy in a big way. The research paper tries to analyze these fluctuations in the rupee against dollar and its impact on Indian export market for period 2000 onwards. The paper will also try to recommend strategies to be adopted by Indian Government to utilize the opportunity of appreciating rupee against dollar.

KEYWORDS

Rupee, Dollar, Indian Exports, Fluctuating Rupee.

INTRODUCTION

India's Share in total Global Exports has remained abysmally low from time in memorial. All economic policies and measures have been adopted, implemented and directed with a clear ambition of achieving the target export and earn reach and valuable foreign exchange reserves that has its own significance and role to play like payment of imports, determination of rupee value against global currencies and others.

India, with the advent of liberalization and embracing globalization as a path to economic development has adopted plethora of policy measures in this direction to prepare itself to integrate with global markets and developed economies.

Intermittent, irregular and unanticipated quantum of flow of foreign exchange reserves (inbound / outbound) due to flexible measures like FDI, FII, NRI investments, current account convertibility, mergers and acquisitions, takeovers etc have clear and conspicuous impact on rupee against the global currencies.

A clear understanding and analysis of rupee vis a vis dollar and other major currencies from 2000 to 2008 shows a high degree of volatility in their movements. Rupee which had been trading around at RS 50 in year 2000-01 currently trades at Rs 43 (2008 July) and it would be appropriately pertinent to say that the same rupee was trading at Rs 39 in March April 2008.

This frequent, unpredictable and violent fluctuating has exposed foreign exchange currency markets and India's benchmark sectors namely manufacturing, services and agriculture to an unanswerable predicament.

Major export oriented industries like IT, ITES, Textiles and others have been badly impacted due to highly volatile rupee. These are those industries that generate large scale employment and this kind of situation has wrecked havoc and disturbed the industry and economy in a big way.

The top line, bottom line and the operating cost of India Inc., have come under tremendous pressure. If the trend continues to persist in future ahead, it can heavily and badly paralyze the export sector, its performance, and its employment generating capacity and importantly Balance of Payment position and foreign exchange reserves.

Ways and means should be devised and adopted properly and timely so as to overcome a situation as mentioned.

DATA ON INDIAN EXPORTS, IMPORTS, TRADE DEFICIT FOR THE LAST DECADE AND RUPEE VS DOLLAR VALUE

TRENDS IN INDIA'S FOREIGN TRADE

The Foreign Trade Policy (FTP) 2004-09 with clearly enunciated objectives & strategies and initiatives taken by the Government from time to time have been instrumental in putting exports on a higher growth trajectory. With merchandise exports growing at an average rate of more than 25 percent per annum during 2004-08 period, India has improved its rank in world merchandise exports from 30 in 2004 to 26 in 2008. During this period, the imports grew at a much higher pace, increasing at an average rate of 32 percent per annum to meet the expanding requirements of a growing economy.

During the last five year period i.e. 2004-2008, Indian exports have done very well in comparison to the performance recorded by some of the major exporting nations both developed as well as emerging markets. In fact, India's average annual growth rate of merchandise exports at 25.0 percent was the third fastest after Russia (28.5 percent) and China (26.8 percent).

In the face of global slowdown and financial crisis, Indian exports have shown a good measure of resilience during 2008 as the deceleration in the exports growth was less marked in case of India as compared to a sharp decline in exports growth recorded by other leading exporting countries like USA, Germany, Japan, China etc. In fact, India recorded a marginally higher growth rate of 21.8 percent during 2008 as compared to 21.5 percent during 2007. As compared to this, export growth of China, the fastest growing economy in the world, in 2008 dropped sharply to 17.2 percent as compared to 25.8 percent in 2007 reflecting a greater effect of the global slowdown on its exports. Russia also experienced a higher rate of growth of exports in 2008 at 33.1 percent as compared to 16.7 percent in 2007. However, this is due to high petroleum prices during the first half of 2008 resulting in a higher value of petroleum exports of Russia. The chart below shows a comparative picture of average growth rate of merchandise exports of major countries of the world.

INDIA'S TRADE PERFORMANCE**EXPORTS**

India's merchandise exports reached a level US \$ 163.0 billion during the year 2007-08 registering a growth of 29.1 percent over the previous year. During 2007-08 the major drivers of export growth were Engineering Goods (27.4 percent); Petroleum Products (52.0 percent); Chemicals (21.5 percent); Gems & Jewellery (23.3 percent); Agriculture & allied Products (55.6 percent); Ores & Minerals (30.4 percent) and Cotton Raw incl. Waste (63.3 percent). Exports of Gems & Jewellery, Textiles, Handicrafts and Sports Goods, which were badly hit during 2006-07 due to appreciation of Rupee vis-a-vis US \$ (since September 2006), showed improvement during 2007-08. The spectacular achievement of export during 2007-08 was accomplished despite economic slow-down in some of our major export destinations and steep appreciation of Rupee. In spite of all these adverse conditions beyond our control, the exporters have risen to the occasion showing great resilience.

During 2008-09, India's exports reached a level of US \$ 168.7 billion, registering a growth of 3.5 percent as compared to a growth of 29.1 percent during the previous year. The growth of exports during the year has exhibited a significant slow-down from September 2008 onwards. While, during the first half of the year 2008-09, April-September, exports increased by 31.3 percent with almost all the major commodity groups, except marine products, handicrafts and carpets, recording significant growth. In the second half of the year 2008-09, October-March, exports recorded a decline of (-) 19.2 percent with almost all the major commodity groups recording significant negative growth. In fact, commodities like Engineering Goods, Petroleum Products, Chemicals & related Products, Agriculture & Allied Products and Plantation which recorded overall positive growth during the year as a whole, also recorded negative growth during the second half.

Global economy has witnessed one of the most severe downturn following the worsening of financial crisis since September 2008. WTO Press Release 23rd March 2009 has indicated deceleration in the growth of Real Global Output to 1.7 percent in 2008 as compared to 3.5 percent in 2007 and Merchandise Trade, in volume terms, to 2 percent in 2008 as compared to 6 percent in 2007. Similarly, IMF's World Economic Outlook, April 2009 has also estimated growth in World Output only by 3.2 percent in 2008 (down from 5.2 percent in 2007) and World Trade Volume, both Goods & Services, by 3.3 percent in 2008 (down from 7.2 percent in 2007).

IMPACT OF GLOBAL SLOW-DOWN ON INDIA'S EXPORTS

The global slowdown has affected India's exports by way of

- default in payment or delayed realization for exports resulting in cash flow difficulties for the exporters;
- difficulty in executing orders in hand owing to lack of additional credit limit;
- difficulty in providing covers for high risk countries/ buyers by Export Credit Guarantee Corporation (ECGC);
- reluctance of exporters to execute orders for fear of defaults; and
- Tougher 'due diligence' by Banks in extending Pre and Post-shipment credit and insurance cover by ECGC

As per the IMF forecast, while the World Output is likely to fall by (-) 1.3 percent, the World Trade Volume is projected to fall by a significant (-) 11 percent in 2009. With a projected significant fall in non-fuel commodity prices by (-) 27.9 percent, export by emerging and developing economies, is estimated to fall by (-) 6.4 percent. WTO Press Release 23rd March, 2009 has also observed similar trend in the world merchandise trade which has been projected to fall by 9 percent in volume terms in 2009 with Developing Countries' export shrinking by 2-3 percent. Given these projections, significant policy supports are needed for the export sector to maintain our share in the global trade.

IMPORTS

Imports, in US \$ terms, registered a growth of 35.5 percent during 2007-08 over the previous year. While the import of POL increased by 39.6 percent, the Non-POL import registered a growth of 33.7 percent. The commodities which registered significant growth are POL, Transport Equipment, Machinery, Iron & Steel, Organic Chemicals, Coal, Fertilizer, Artificial Resin, Manufactures of Metals, Machine Tools, Pulses, etc.

During 2008-09, imports reached a level of US \$ 287.8 billion registering a growth of 14.4 percent. Oil imports were valued at US \$ 93.2 billion, which was higher by 16.9 percent over the previous year. Non-Oil imports increased to US \$ 194.6 billion, which was higher by 13.2 percent. Items which registered significant growth are Pearl, Precious & Semi-Precious Stones, Crude & Manufactured Fertilizer, Coal, Inorganic Chemicals, Project Goods, etc. Import of Gold and Transport Equipment registered significant decline.

EXPORTS BY PRINCIPAL COMMODITIES

Disaggregated data on exports by Principal Commodities, in Rupee terms, available for the period 2008-09 (April-February) as compared with the corresponding period of the previous year are given in Table. Exports during the period was mainly driven by Engineering Goods, Chemical & related products, Agriculture & allied products, Electronic goods, Plantation and Sports goods.

PLANTATION CROPS

Export of plantation crops during 2008-09 (April-February), increased by 29.7 per cent in rupee terms compared with the corresponding period of the previous year. Export of Coffee registered a positive growth of 31.3 per cent, the value increasing from Rs. 1496.95 crore to Rs. 1966.11 crore. Export of Tea also increased by 28.4 per cent.

AGRICULTURE AND ALLIED PRODUCTS

Agriculture and Allied Products as a group include Cereals, Pulses, Tobacco, Spices, Nuts and Seeds, Oil Meals, Guar gum Meals, Castor Oil, Shellac, Sugar & Molasses, Processed Food, Meat & Meat Products, etc. During 2008-09 (April-February), exports of commodities under this group registered a growth of 22.2 per cent with the value of exports rising from Rs. 48,542.30 crore in the previous year to Rs. 59,312.03 crore during the current year.

ORES AND MINERALS

Exports of Ores and Minerals were estimated at Rs. 32,965.35 crore during 2008-09 (April-February) registering a growth of 3.0 per cent over the same period of the previous year. Sub groups viz. Processed Minerals, and Coal have recorded a growth of, 30.7 per cent and -2.9 per cent respectively. Mica and Processed Minerals have registered significant growth of 61.8 and -4.8 percent respectively.

LEATHER AND LEATHER MANUFACTURES

Export of Leather and Leather Manufactures recorded a growth of 16.3 per cent during 2008-09 (April-February). The value of exports increased to Rs. 15,011.43 crore from Rs. 12,908.45 crore during the same period of the previous year. Exports of Leather and Manufactures have registered a growth of 17.5 per cent whereas Leather Footwear registered a growth of 14.8 per cent.

GEMS AND JEWELLERY

The export of Gems and Jewelry during 2008-09 (April-February), increased to Rs. 78,260.37 crore from Rs. 71,868.27 crore during the corresponding period of last year showing a growth of 8.9 per cent.

CHEMICALS AND RELATED PRODUCTS

During the period 2008-09 (April-February), the value of exports of Chemicals and Allied Products increased to Rs. 98,389.29 crore from Rs. 78,795.29 crore during the same period of the previous year registering a growth of 24.9 per cent. Rubber, Glass & Other Products; Residual Chemicals & Allied Products and Basic Chemicals, Pharmaceuticals & Cosmetics and Plastic & Linoleum have registered a positive growth.

ENGINEERING GOODS

Items under this group consist of Machinery, Iron & Steel and Other Engineering items. Export from this sector during the period 2008-09 (April-February) stood at Rs. 166,206.40 crore compared with Rs. 119,545.55 crore during the same period of the previous year, registering an overall growth of 39.0 per cent. Export of Machine Tools and Transport Equipments have registered growth of 30.6 and 86.1 per cent respectively.

ELECTRONIC GOODS & COMPUTER SOFTWARE IN PHYSICAL FORM

During the period 2008-09 (April-February), exports of Electronic Goods as a group were estimated at Rs. 18,461.51 crore compared with Rs. 12,520.54 crore during the corresponding period of last year, registering a growth of 47.4 per cent. Computer Software in Physical form has shown a growth of 49.8 per cent and the exports of electronics registered a growth of 47.4 per cent.

TEXTILES

During the period 2008-09 (April-February), the value of Textiles exports was estimated at Rs. 77,211.03 crore compared with Rs. 66,609.56 crore in the corresponding period of the previous year, recording a growth of 15.9 per cent. The exports of Natural Silk Textiles and Manmade Textiles & Made Ups have shown a positive growth of 12.3 and 18.4 per cent respectively.

HANDICRAFTS AND CARPETS

Exports of Handicrafts declined to Rs. 1272.93 crore during 2008-09 (April-February), from Rs. 1918.46 crore during the corresponding period of the previous year registering a negative growth of 33.6 per cent. Export of carpets decreased marginally to Rs. 3,301.50 crore from Rs. 3590.88 crore during the same period last year registering a negative growth of 8.1 per cent.

PROJECT GOODS

During 2008-09 (April-February), the export of Project Goods were estimated at Rs. 595.42 crore compared with Rs. 558.86 crore during the corresponding period of last year registering a growth of 6.5 per cent.

PETROLEUM PRODUCTS

Export of Petroleum Products increased to Rs. 113270.16 crore during 2008-09 (April-February), as compared with Rs. 97803.47 crore during the same period of last year recording a growth of 15.8 per cent.

COTTON RAW INCLUDING WASTE

There was a negative growth in the exports of Cotton Raw including waste by 62.0 per cent from Rs 6596.59 crore in 2007-08 (April-February) to Rs. 2,507.18 crore during 2008-09 (April-February).

IMPORTS BY PRINCIPAL COMMODITIES

Disaggregated data on imports by principal commodities, in Rupee terms, available for the period 2008-09 (April-February), as compared to the corresponding period of the previous year are given in Table 2.5. Imports during the period was mainly driven by commodities such as Petroleum crude & products, Fertilizers manufactured, Pearls Precious and semi-precious stones, Coal, coke & briquettes, inorganic chemicals, vegetable oils, manufactures of metals, project goods etc. The share of top five Principal Commodity in India's total imports during 2008-09 (April-February) is given at Chart 2.4. The import performance by top five Principal commodities during 2008-09 (April-February) vis-a-vis the corresponding period of the previous year is shown at Chart 2.5.

FERTILIZERS

During 2008-09 (April-February), import of Fertilizers (manufactured) increased to Rs. 52,992.64 crore from Rs. 17498.95 crore in April-February 2008 recording a growth of 202.8 per cent.

PETROLEUM CRUDE & PRODUCTS

The import of Petroleum Crude & Products stood at Rs. 393,076.28 crore during April - February, 2009 against Rs. 284,029.31 crore during the same period of the previous year registering a growth of 38.4 per cent.

PEARLS, PRECIOUS AND SEMI-PRECIOUS STONES

Import of Pearls and Precious and Semi-Precious Stones during 2008-09 (April-February) increased to Rs. 58,237.02 crore from Rs. 29,181.14 crore during the corresponding period of the previous year registering a growth of 99.6 per cent.

CAPITAL GOODS

Import of Capital Goods, largely comprising Machinery, including Transport Equipment and Electrical Machinery recorded a notable increase during 2008-09 (April-February) over the same period of last year. Import of Machine Tools, Non-Electrical Machinery, Electrical Machinery and Transport Equipment registered a growth of 20.3 per cent, 21.1 per cent, 27.5 per cent, and 11.0 per cent respectively.

ORGANIC AND INORGANIC CHEMICALS

During 2008-09 (April-February), import of Organic and Inorganic Chemicals increased to Rs. 51705.33 crore from Rs. 36467.51 crore during the same period of last year, registering a growth of 41.8 per cent. Import of Medicinal and Pharmaceutical Products also increased to Rs. 7,587.94 crore from Rs. 6182.9 crore during the corresponding period of last year registering a growth of 22.7 per cent.

During the period 2008-09 (April-February), the share of Asia and ASEAN region comprising South Asia, East Asia, Mid-Eastern and Gulf countries accounted for 51.4 per cent of India's total exports. The share of Europe and America in India's exports stood at 23.8 per cent and 16.5 per cent respectively of which EU countries (27) comprises 22.3 per cent. During the period, USA (12.0 per cent), has been the most important country of export destination followed by United Arab Emirates (10.8 per cent), China (5.1 per cent), Singapore (4.7 per cent), Netherland (3.7 per cent), Hong Kong (3.7 per cent), U.K. (3.6 per cent), Germany (3.4 per cent), Saudi Arabia (3.0 per cent), Belgium (2.6 per cent) and Italy (2.2 per cent).

Asia and ASEAN accounted for 61.7 per cent of India's total imports during the period followed by Europe (18.7 per cent) and America (10.1 per cent). Among individual countries the share of China stood highest at (10.7 per cent) followed by Saudi Arabia (7.1 per cent), UAE (6.4 per cent) and USA (6.0 per cent), Iran (4.3 per cent), Switzerland (4.2 per cent), Germany (3.6 per cent), Kuwait (3.4 per cent), Nigeria (3.2 per cent), and Iraq (2.8 per cent).

IMPORT OF SENSITIVE ITEMS DURING APRIL 08-MARCH 09

The total import of sensitive items for the period April-March 2008-09 has been Rs.45877.3 crores as compared to Rs.35919.3 crores during the corresponding period of last year thereby showing an increase of 27.7 percent. The gross import of all commodities during same period of current year was Rs.1305503 crores as compared to Rs 1012312 crores during the same period of last year. Thus imports of sensitive items constitute 3.5 percent of the gross imports during last year as well as current year. The summary of import of Sensitive items is given in Table.

Imports of spices and food grains have shown a decline at broad group level during the period. Imports of all other items viz. edible oil, fruits & vegetables (including nuts), automobiles, cotton & silk, products of SSI, rubber, alcoholic beverages, marble & granite, tea & coffee and milk & milk products have shown increase during the period under reference.

In the edible oil segment, the import has increased from Rs 10942.54 crores last year to Rs 15873.60 crores for the corresponding period of this year. The imports of both crude edible oil as well as refined oil have gone up by 34.4 percent and 120 percent respectively. The increase in edible oil import is mainly due to substantial increase in import of crude palm oil and its fractions.

Imports of sensitive items from Indonesia, China P RP, Korea RP, Myanmar, Malaysia, Japan, United States of America, Germany, Brazil, Thailand, Cote D' Ivoire, Tanzania, Italy, Australia, Czech Republic, Ukraine, Guinea Bissau etc. have gone up while those from Argentina, Canada etc. have shown a decrease.

SIGNIFICANCE OF THE STUDY

The significance of the study stems from the fact that due changing currency prices and highly unpredictable value of rupee vis a vis currencies like dollar, pound and euro India's export sector growth is hampered damaging the performance of Industries like IT, ITES, Textiles and other export oriented industries. This, of course, largely affects the foreign exchanges reserves, employment generating capacity and eventually act as detrimental in the overall economic growth of the nation.

SCOPE OF STUDY

The study is limited for the duration of 2000 to 2009. Any other period will be out of scope of study. The study is in context of India's Export & Rupee. The results may vary with some other countries and some other currencies.

OBJECTIVES OF RESEARCH

1. TO STUDY THE RATE OF RUPEE AGAINST DOLLAR DURING THE LAST 10 YEARS
2. TO STUDY THE INDIAN EXPORT PERFORMANCE DURING THE LAST 10 YEARS
3. TO STUDY THE RATE RUPEE AGAINST DOLLAR VIS A VIS INDIAN EXPORT PERFORMANCE DURING THE LAST 10 YEARS .

RESEARCH DESIGN AND METHODOLOGY

The research is of Exploratory nature .The research is purely based on Secondary data being collected from different journals , books , newspapers and other sources . To some extent the expert’s opinion is taken from experts in the field. The data collection is limited to the duration 2001 to 2009 only .

DATA ANALYSIS

TABLE NO. 1: INDIA’S RANK IN THE WORLD MERCHANDISE TRADE

Year	Exports	Imports
2004	30	23
2005	29	17
2006	28	17
2007	26	18
2008*	26	17

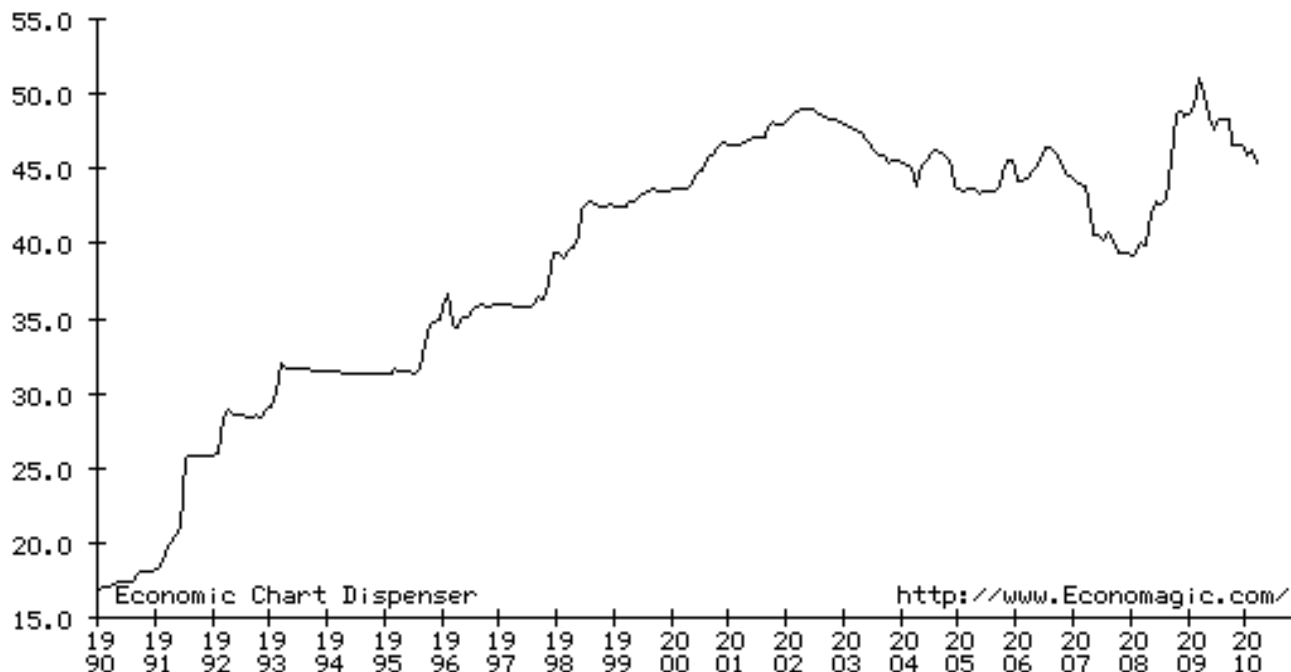
Source: International Trade Statistics(WTO)
 * Sourced from WTO : 2009 Press Release dated 23rd March, 2009

TABLE NO. 2: EXPORT, IMPORTS & BALANCE OF TRADE (Values in Rs. Crore)

Year	Exports	Growth Rate (%)	Imports	Growth Rate (%)	Balance of Trade
2003-2004	293367	15.0	359108	20.8	-65741
2004-2005	375340	27.9	501065	39.5	-125725
2005-2006	456418	21.6	660409	31.8	-203991
2006-2007	571779	25.3	840506	27.3	-268727
2007-2008	655864	14.7	1012312	20.4	-356448
2008-2009(P)	766935	16.9	1305503	29.0	-538568

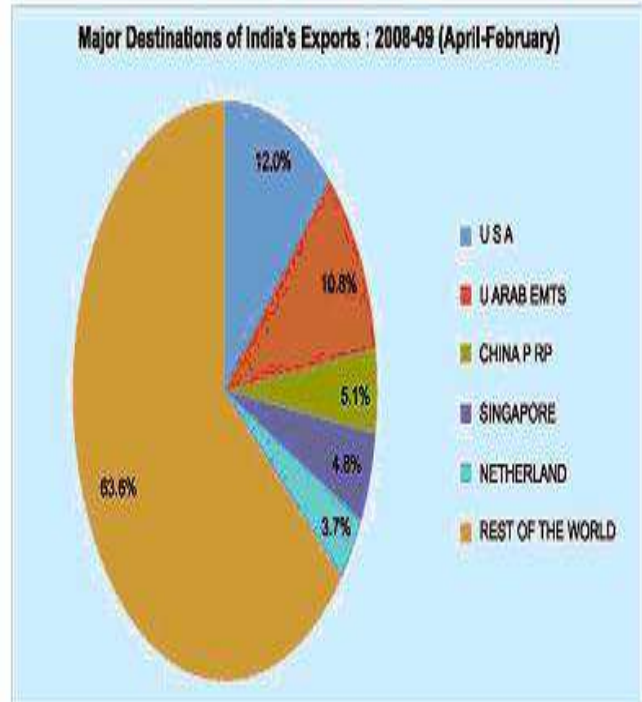
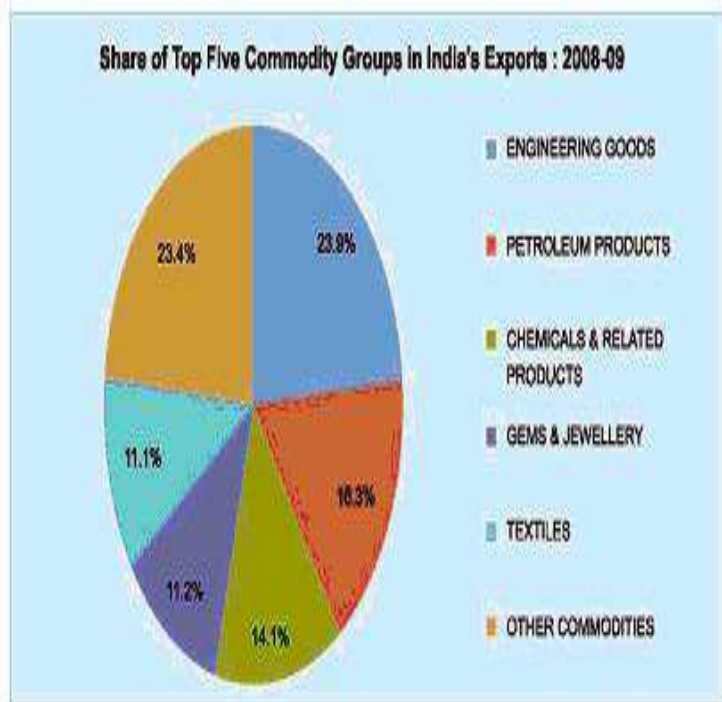
GRAPH NO. 1: INDIAN RUPEE TO ONE U.S.DOLLAR

India / U.S. Foreign Exchange Rate: Indian Rupees to One U.S. Dollar



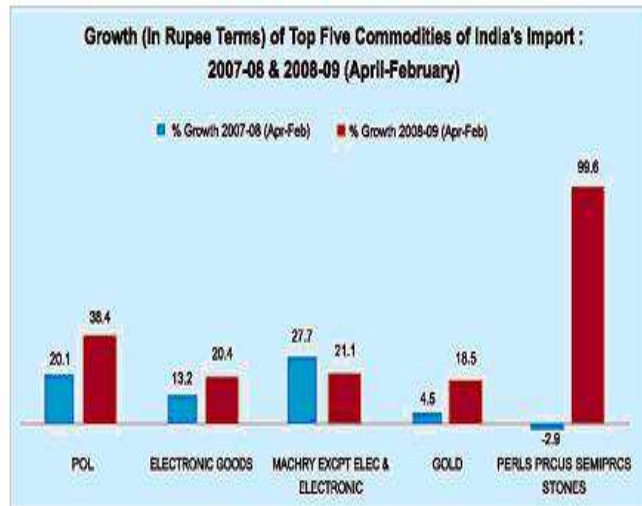
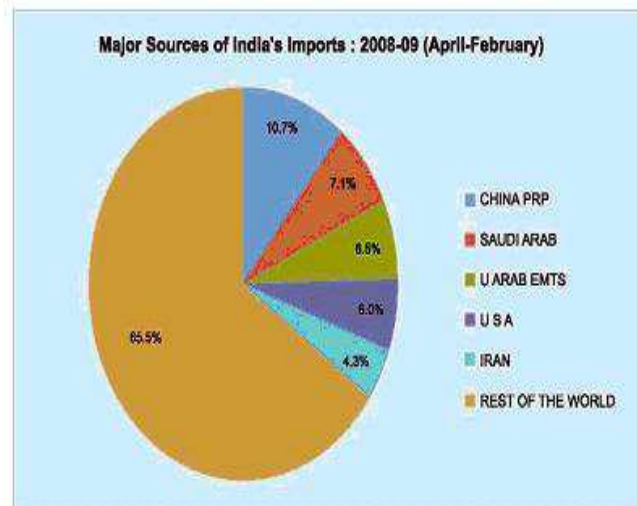
GRAPH NO. 2: SHARE OF FIVE COMMODITY IN INDIA'S EXPORTS

GRAPH NO. 3: MAJOR DESTINATIONS OF INDIA'S EXPORTS



GRAPH NO. 4: MAJOR SOURCES OF INDIA'S IMPORTS

GRAPH NO. 05: GROWTH IN RS. IN INDIA'S IMPORT



FINDINGS

1. From the graphs and trends it is revealed that rupee has been appreciated to a lot extent in the last 10 years. Also it is found that the rupee rate against us dollar was very much fluctuating.
2. From the statistical figures it is found that major export and imports of India are from US. So the fluctuations in the rupee rate against us dollar has impacted the trade performance of India.

Government should intervene in forex market and control the movement of rupee (appreciation against dollar) and the same time purchase dollar from foreign exchange market thereby creating artificial demand for dollar.

LIMITATIONS

The findings and conclusions are purely based on the data collected. The results may not be universal and opinions may differ from country to country.

CONCLUSION

Intermittent , irregular and unanticipated quantum of flow of foreign exchange reserves (inbound / outbound) due to flexible measures like FDI, FI, NRI investments, current account convertibility, mergers and acquisitions , takeovers etc have clear and conspicuous impact on rupee against the global currencies. It is very important government, RBI pay attention to monetary policies and control the fluctuations taking place in rupee value .

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