Booming Exports

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The robust 37.5% growth of India's exports in 2010-11 is extremely encouraging. That the surge is despite the strengthening of the rupee against the greenback is a clear sign that exports have ceased to ride on cheap currency. The rupee, which traded at an average of 45.57 to a dollar last fiscal year, appreciated the most between September and midOctober last year. Yet, exports touched $245.9 billion, surpassing the initial target of $200 billion. Exporters should henceforth stop expecting sops to protect them against a rupee rising just against the greenback. Broader, trade weighted effective exchange rate movements were far less adverse than what the rupee-dollar exchange rate movement suggested. The focus of export promotion policy should move from sops to better infrastructure and slashing transaction costs. A flexible rupee exchange rate has helped boost exports both in terms of volume and quality. The structural shift in exports is reflected in the rising share of high value products in the export basket. Engineering exports have the largest share, followed by petroleum products and gems and jewellery. The latest data show that engineering exports rose by an impressive 85% to top $60 billion, while petroleum product exports grew by over 50% to top $43 billion. This is a sea change from the days when India's exports were dominated by textiles. The strong growth was also driven by higher exports to new markets including Latin America and Africa. Clearly, the commerce ministry's strategy to diversify the destination of India's exports has yielded dividends.

Economic recovery and hence demand is still uncertain in Europe, though the US shows signs of recovery. However, emerging markets are posting strong growth. Renewed focus on both nontraditional and emerging markets can help India achieve the export target of $450 billion by 2013-14.

Strong exports and a slower rise in imports help contain the trade and current account deficits within manageable limits. The current account deficit will be below the 2.8% of GDP level now deemed prudent by the PM's economic advisory council.

Source: MEA