Strong rupee a plus point for India

The rupee has always been an also-ran on the global foreign exchange stage. Unlike strong currencies like the old deutsch mark or the pound sterling and now the euro, India's currency has over the years been consistently weakening against the dollar till it reached the mark of Rs.47 last year. But the tide then began to turn for the rupee since the beginning of this year.

It is now steadily becoming stronger and is currently hovering around in the region of Rs.39.50 to the dollar. Certainly a boon for the country's growing tribe of tourists who find it cheaper than ever before to travel abroad as the mighty dollar is now much easier to buy.

This phenomenon may appear to be a morale booster for the economy but a strengthening rupee is not without hazards.

Exports, which have been on a high growth path for the last few years, have been hit hard by rupee appreciation. The cost of their products is rising in dollar terms and the cost competitiveness of Indian goods in world markets has dipped considerably.

In fact, Commerce and Industry Minister Kamal Nath is sounding dire warnings about the impact on employment unless some steps are not taken to help exporters deal with this crisis.

Prime Minister Manmohan Singh has also spoken of the need to hold a special meeting to discuss the issue and propose some remedial measures to boost exports, while exporters' associations have been highlighting their woes for quite some time.

Despite these concerns, the export surge appears to be continuing unabated despite the hardening of the rupee.

It is no doubt true that exports would have risen much more sharply in case the rupee had remained stable or softened against the dollar. But even in the existing scenario, exports have not been hit as hard as is being made out by the strong rupee.

It is possible, however, that in case this trend continues some export-oriented units may face the threat of closure.

Currently, there are no credible studies showing that there has been any loss of jobs in the unorganised sector. There is certainly need for well-researched surveys on this issue.

In case these yield any firm data on job losses, it would then be time to sound the alarm and urge the Reserve Bank of India to intervene in the forex market.

As of now, the Reserve Bank of India (RBI) is clearly not inclined to intervene to curb the rising streak of the rupee against the dollar. And there are good reasons for the RBI's diffidence over intervening in the foreign exchange markets.

The most important of these is the fact that a strong rupee may make exports more expensive but it also makes imports cheaper. At a time when the country is shelling out huge amounts for import of crude and petroleum products in world markets, it simply does not make economic sense to try and depreciate the rupee.

World oil prices are continuing to hover in the region of $80 dollars per barrel, a level that would have been unthinkable just last year.

Developing countries like India import 75 percent of their petroleum needs and the cost of oil is becoming a significant burden on the exchequer. In such a scenario, the finance ministry is not likely to be in favour of steps to devalue the rupee against the dollar.

Besides, the RBI is keen to douse any inflationary pressures on the economy. Buying dollars to keep the rupee low artificially creates more liquidity in the system and thus fuels inflation.

The strengthening of the rupee is also a clear indicator of the way the world perceives the health of the economy. A strong currency may no longer be considered a matter of prestige globally, but the rupee is reflecting the resurgence of the Indian economy and the high growth rates recorded over the last few years.

The huge inflows of foreign funds into the domestic stock markets have raised the Sensex (sensitive index of the Bombay Stock Exchange) to unprecedented heights and foreign direct investment flows have also shot up in the last two years.

India is finally becoming an attractive investment destination, though it still remains far behind China.

It is also clear that with the huge amount of foreign funds flowing into the system, especially the portfolio investments from foreign institutional investors, it would have been difficult for the RBI to continue mopping up dollars even if it were inclined to do so.

It may add to the country's already huge dollar reserves - in the range of $250 billion - but the return on them is low enough to prove a disincentive to increase their size.

In this context, exporters always cite the case of China, which has kept the yuan artificially weak against the dollar to boost the competitiveness of its products.

This is not really a fair comparison since the volume of India's exports are far lower than those of China, which currently boasts of a multibillion dollar trade surplus with the US.

Even if China were to lift controls on the yuan, it is a moot point whether it would make that country much less competitive in world markets.

A strengthening rupee thus has both plus and minus points. At this stage, however, the plus points seem to outweigh the minus ones.

Exporters will definitely face some strain, but till now they have been given enough support through government policies.

In fact, exports need more help by way of improving infrastructures in the ports and transport sector rather than merely by a depreciating rupee. For the time being therefore, a stronger currency will provide a better support in the drive to achieve a sustained high economic growth in the next few years.

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