

Trade Dominance with Indian Currencies- An Empirical Study Sector: World Economy and Trade

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I. Introduction

“In the ancient, the trade was done by the concept called “Barter System” .The system which goods are exchanged for goods and the money was not invented trade as a whole was on barter system. The Aztecs used the barter system to trade with neighbouring cities. Through bartering the Aztecs adopted the traditional culture. Presently, the trade was done for money or money’s worth which can be succeeded through valuable currencies.













Due to the booming in the technological development, India made trade with several countries which include both export and import. The US dollar (\$) seeks high impact in dominating the trade of other countries. Due to the hike in the US dollar against the Indian currency (INR) are lagging in the domain part of balance of payments. With the proportionate increase in the GDP as well as interest rate of the Indian currency (INR) against US dollar (\$) has been influencing the cash reserve ratio of our central bank. Inflation, the major drawback for the country growth and it will hike in consumer expenditures of commodities and goods.

Inflation has an effect on consumer prices, to be sure, but there are effects on corporate finance as well. Typically, in developed countries, inflation rates are fairly steady and somewhat predictable. However, in times of hyperinflation, prices soar and corporate financial reports can be misinterpreted without accounting for inflation. Inflationary changes offer a more accurate view of a company or individual’s financial situation in the nation through the lens of inflation.

This paper perhaps the extensive enhancement of currency value of different nation those who are connecting with international trade in our Indian economy”.

Keywords: GDP-Gross domestic Product, Inflation.

“Vulnerable comparison of Indian currency with other nations

Country	Exports	Imports	Total trade	Trade Balance	Indian Value on 28.08.13
 United Arab Emirates	36,265.15	38,436.47	74,701.61	-2171.32	18.44
 China	13,503.00	54,324.04	67,827.04	-40,821.04	10.99
 United States	36,152.30	24,343.73	60,496.03	11,808.57	67.77
 Saudi Arabia	9783.81	34,130.50	43,914.31	-24,346.69	18.06
 Switzerland	1,116.98	29,915.78	31,032.76	-28,798.80	73.68
 Singapore	13,608.65	7,754.38	21,363.03	5,854.27	52.88
 Germany	7,244.63	14,373.91	21,618.54	-7129.28	46.30
 Hong Kong	12,278.31	8,078.58	20,356.89	4,199.74	8.73
 Iraq	1,278.13	20,155.94	21,434.07	-18,877.81	0.0057
 Japan	6,099.06	12,514.07	18,613.14	-6,415.01	0.6958
 Kuwait	1,060.80	16,569.63	17,630.43	-15,508.83	237.04
 Iran	3,351.07	11,603.79	14,954.86	-8,252.72	0.0027”

Commodity market in currency exchange

“Any product that can be used for commerce or an article of commerce which is traded on an authorized commodity exchange is known as commodity. In short commodity includes all kinds of goods. Forward Contracts (Regulation) Act (FCRA), 1952 defines “goods” as “every kind of movable property other than actionable claims, money and securities”.

In current situation,” all goods and products of agricultural (including plantation), mineral and fossil origin are allowed for commodity trading recognized under the FCRA. The national commodity exchanges, recognized by the Central Government, permits commodities which include precious (gold and silver) and non-

ferrous metals; cereals and pulses; ginned and un-ginned cotton; oilseeds, oils and oilcakes; raw jute and jute goods; sugar and gur; potatoes and onions; coffee and tea; rubber and spices.” Etc.

The major commodity markets are in the United Kingdom and in the USA. In India there are 25 recognised future exchanges, of which there are three national level multi-commodity exchanges. After a gap of almost three decades, Government of India has allowed forward transactions in commodities through Online Commodity Exchanges

National Commodity & Derivatives Exchange Limited (NCDEX)

Multi Commodity Exchange of India Limited (MCX)

“All the exchanges have been set up under overall control of Forward Market Commission (FMC) of Government of India.

Approved Bodies in the commodities Market

- National Commodity & Derivatives Exchange Limited (NCDEX)
- Multi Commodity Exchange of India Limited (MCX)

Derivatives Commodity Market

“The contract based commodity transactions is happened in derivative market. The commodity prices are set and executed on confirmed future date for delivery and payment. It is a best method to protect the investor against volatile commodity prices.

The wide array of commodities transactions are executed including gold, silver, copper, menthe oil, crude oil, aluminum, iron ore, coal, coffee beans, wheat etc.

Commodity markets roll out on futures, swaps forward options and other derivatives.”

Future growth and Prospects of Commodity Market

“The substantial growth of commodity market and transactions are based on two factors-

Liberalization of capital and commodity market adopted by the country

Effective implementations of financial intermediaries to promote derivatives.

The system of forwards/future trading is controlled at three levels by Government of India, forward market commission and commodity exchanges. Their collaborative efforts are to create the market integrity, financial integrity, transparency in commodity prices and protect the customer interests”.

Important Defintions:

“Commodity Derivatives

There are commodity derivatives as below-

Forwards – It is a contract between the parties to exchange the commodity at a set price on particular date confirmed today.

This contract is unique and over the counter for fixed size, expiry data and the type of asset.

Futures – It is a standard contract between purchaser and seller, who affirmed the terms and conditions of commodity exchange at a defined future date. It is a part of organized exchange for future execution.

Options – It is a contract that gives option to second party if he/she doesn’t want to execute. Thus is becomes a non obligatory responsibility for second party at specific terms. In such case to make the first party rightful to gain the different between the strike price and commodity market price, if the commodity market price is higher than the strike price.

Swap – It is a two party’s agreement to exchange sequence of cash flow for particular time duration. Commodity Swap is an exchange obligation where not required physical delivery of commodities”.

Impact of indian currency through prodominant commodities for the FY 2011-2012

India’s Trade Performance

“India’s merchandise exports reached a level of US \$ 251.14 billion during 2010-11 registering a growth of 40.49 percent as compared to a negative growth of 3.53 percent during the previous year. India’s export sector has exhibited remarkable resilience and dynamism in the recent years. Despite the recent setback faced by India’s export sector due to global slowdown, merchandise exports recorded a Compound Annual Growth Rate (CAGR) of 20.0 per cent from 2004-05 to 2010-11”.

World Trade Scenario

As per IMF’s World Economic Outlook October, 2011, “world trade recorded its largest ever annual increase in 2010, as merchandise exports surged 14.4 per cent. The volume of world trade (goods and services) in 2011 is expected to slow down to 7.5 per cent compared to the 12.8 per cent achieved in 2010. Growth in the volume of world trade is expected to decline in 2012 to 5.8 per cent as per IMF projections.

The IMF has moderated its growth projections of world output to 4 per cent in 2012. The advanced economies are expected to grow at 1.9 per cent in 2012 while the emerging and developing economies to grow at 6.1 per cent. The projected growth rates in different countries are expected to determine the markets for our exports. The year 2011 has been a difficult year with Japan facing a major earthquake and tsunami, the swelling of unrest in the Middle East oil producing countries, the slowing down of US economy and the Euro area facing major financial turbulence. The current global economic slowdown has its epicenter in the Euro-region but the contagion is being witnessed in all major economies of the world. As a result, India's short-term growth prospects have also been impacted".

Exports

"Exports recorded a growth of 40.49 per cent during April-March 2010-11. The Government has set an export target of US \$ 300 billion for 2011-12. With merchandise exports reaching US \$ 217.66 billion in 2011-12(Apr-Dec), the export target of 300 US \$ billion is expected to be achieved. Export target and achievement from 2004-05 to 2010-11 and 2011-12 (Apr-Dec)"

Imports

"Cumulative value of imports during 2011-12 (Apr-Dec) was US \$ 350.94 billion as against US \$ 269.18 billion during the corresponding period of the previous year registering a growth of 30.4 per cent in \$ terms. Oil imports were valued at US \$ 105.6 billion during 2011-12 (Apr-Dec) which was 40.39 per cent higher than oil imports valued US \$ 75.2 billion in the corresponding period of previous year. Non-oil imports were valued at US \$ 245.35 billion during 2011-12 (Apr-Dec) which was 26.49 per cent higher than non-oil imports of US \$ 194.0 billion in previous year".

Exports by Principal Commodities

"Disaggregated data on exports by Principal Commodities, both in Rupee and Dollar terms, available for the period 2011-12 (April-October) as compared with the corresponding period of the previous year are given in Table 2.1, and 2.2 respectively. Exports of the top five commodities during the period 2011-12 (April-October) registered a share of 53.1 per cent mainly due to significant contribution in the exports of Petroleum (Crude & Products), Gems & Jewellery, Transport Equipments, Machinery and Instruments, Drugs, Pharmaceuticals & Fine Chemicals.

- Plantation Crops
- Agriculture and Allied Products
- Ores and Minerals
- Leather and Leather Manufactures
- Gems and Jewellery
- Chemicals and Related Products
- Engineering Goods
- Electronic Goods
- Textiles
- Handicrafts and Carpets
- Project Goods
- Petroleum Products
- Cotton Raw including Waste".

Imports by Principal Commodities

"Disaggregated data on imports by principal commodities, both in Rupee and Dollar terms, available for the period 2011-12 (April- October), as compared to the corresponding period of the previous year are given in Table 2.5 and Table 2.6 respectively. Imports of the top five commodities during the period 2011-12 (April-October) registered a share of 62.8 per cent mainly due to significant imports of Petroleum (Crude & Products), Gold, Electronic Goods, Pearls, precious and semi-precious stones and Machinery except electrical and electronic.

The import performance by growth of top five Principal commodities during 2011-12 (April- October) vis-a-vis the corresponding period of the previous year

- Fertilizers
- Petroleum Crude & Products
- Pearls, Precious and Semi-Precious Stones
- Capital Goods
- Organic and Inorganic Chemicals
- Coal, Coke & Briquettes

- Gold & Silver

During 2011-12 (April– October) import of Gold and Silver increased to US \$ 38817.81 million from US \$ 23320.39 million during the corresponding period of the previous year registering a growth of 66.45 per cent.

During the period 2011-12 (April– October), the share of Asia and ASEAN region comprising South Asia, East Asia, Mid-Eastern and Gulf countries accounted for 50.69 per cent of India's total exports. The share of China stood highest at (12.00 per cent) followed by UAE (7.51 per cent), Switzerland (7.21 per cent), Saudi Arabia (6.06 per cent), USA (4.78 per cent) Iraq (3.85 per cent), Germany (3.25 per cent), Nigeria (3.25 per cent), Indonesia (3.06 per cent), Australia (2.96 per cent)".

New economic policy in India of Indian currency

Although India has steadily opened up its economy, its tariffs continue to be high when compared with other countries, and its investment norms are still restrictive. This leads some to see India as a 'rapid globalizer' while others still see it as a 'highly protectionist' economy.

"India however retains its right to protect when need arises. Agricultural tariffs average between 30-40 percent, anti-dumping measures have been liberally used to protect trade, and the country is among the few in the world that continue to ban foreign investment in retail trade. Although this policy has been somewhat relaxed recently, it remains considerably restrictive.

Nonetheless, in recent years, the government's stand on trade and investment policy has displayed a marked shift from protecting 'producers' to benefiting 'consumers'. This is reflected in its Foreign Trade Policy for 2004/09 which states that, "For India to become a major player in world trade ...we have also to facilitate those imports which are required to stimulate our economy."

India is now aggressively pushing for a more liberal global trade regime, especially in services. It has assumed a leadership role among developing nations in global trade negotiations, and played a critical part in the Doha negotiations".

Regional and Bilateral Trade Agreements

- India-Sri Lanka Free Trade Agreement,
Trade Agreements with Bangladesh, Bhutan, Sri Lanka, Maldives, China, and South Korea.
- India-Nepal Trade Treaty,

Comprehensive Economic Cooperation Agreement (CECA) with Singapore.

- Framework Agreements with the Association of Southeast Asian Nations (ASEAN), Thailand and Chile.
- Preferential Trade Agreements with Afghanistan, Chile, and Mercosur (the latter is a trading zone between Brazil, Argentina, Uruguay, and Paraguay).

World Bank Involvement

"As a number of research institutions in the country provide the Government with good, just-in-time, and low-cost analytical advice on trade-related issues, the World Bank has focused on providing analysis on specialized subjects at the Government's request. In the last three years, the Bank has been working with the Ministry of Commerce in a participatory manner to help the country develop an informed strategy for domestic reform and international negotiations.

Given the sensitivity of trade policy and negotiation issues, the Bank's role has been confined to providing better information and analysis than was previously available to India's policymakers".

World Bank Reports

The Bank has also held a number of workshops and conferences with a view to providing different stakeholders with a forum to express their views on trade-related issues. Raghuram Rajan, the highly respected Chicago academic and former IMF chief economist, could not be assuming the helm of the Reserve Bank of India early next month at a more opportune moment for India. For his stellar international reputation and his many years of experience abroad should allow him to make the world of difference as to how India handles its worst foreign exchange crisis since 1991.

An economy on the brink

"A further and more immediate indication of India's present economic malaise is its current experience of a full blown exchange rate crisis. Over the past six weeks alone the Indian rupee has plunged by over 15 percent bringing its total decline over the past two years to almost 30 percent. Part of this decline is to be explained by a widening in India's external current account deficit to almost 5 percent of GDP. However, the

more important source of foreign exchange pressure is coming from outward capital flows by both domestic residents and foreigners, who are becoming increasingly reluctant to finance India's external account imbalances.

True to form, the Indian government has responded to the foreign exchange crisis with a piecemeal approach that has been addressing the symptoms rather than the underlying causes of the crisis. Among the measures adopted have been increased tariffs and tighter restrictions on gold imports as well very much tighter restrictions on corporate and household capital outflows. Little wonder then that despite these measures, the Indian rupee keeps depreciating in the market to record low levels for want of a coherent plan to stabilize the currency.

By now it should be clear to Indian policymakers that the foreign exchange crisis needs to be addressed by a basic shift in the overall macroeconomic policy approach aimed at restoring domestic and foreign investor confidence in the Indian economic growth model. It should also be clear by now that India does not have the luxury of waiting till after the scheduled May 2014 parliamentary elections to implement such a shift. This would seem to be particularly the case in the context of the tighter global liquidity conditions that might be expected once the US Federal Reserve starts to taper its quantitative easing program. For in the absence of an early restoration of investor confidence, India's currency could go into a real tailspin. Such an eventuality would leave Mr. Rajan with little alternative but to hike interest rates to levels that could have untoward consequences for India's highly indebted corporate sector.

At the heart of any strategy to demonstrate to investors that India was serious about getting the country back on a rapid economic growth path would be a redoubled effort to restore momentum to the country's stalled structural reform program and to reduce the general government's budget deficit from its present level of around 10 percent of GDP. In particular, bold steps should be taken to move the pricing and allocation of energy and food resources to a market basis that would improve both transparency and efficiency. In addition, every effort should be made to minimize the many structural roadblocks to investment as well as to improve the functioning of the labor market.

The Indian government would have to rise to the occasion by putting politics aside and by coming up with a coherent policy plan both to revitalize the structural reform process and to address the country's saving and investment imbalance that might be credibly sold to a skeptical investor community".

II. Conclusion:

With the critical journey of the Indian currency value with the proportionate rapid growth and sensitive decrease of our rupee value with the global market, India has to highly concentrate their economy to meet out the problems of CAD (Current Account Deficit) to overcome and facilitate the financial stable measures required to our nation in the forth coming fiscal policy of our nation. The Remedial measures should be given by the government in the union budget for the supportive allocation to RBI for sustaining the reasonable stability maintenance in our global trade market. In this juncture, the researcher opined that positive trade association and liberalization policy to compete with world market.

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