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- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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EXCHANGE RATE MANAGEMENT: A CRITICAL LOOK INTO SEVERAL ALTERNATIVES

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ABSTRACT

Each country has its own currency administered by a central banking authority. This is a sine qua non for any functional economy with financial markets. Inter-country trade demands use of a currency to facilitate conversion and settlement of trade obligations through an intermediary currency system. The validity of a currency is confined to the territory of its sovereign territory only. When one nation enters into trade relations with other nations for exchange of goods, services, invisibles and transfers, the concerned nations may adopt bilaterally for exchange of their respective currencies under a bilateral agreement. While on the other, if the two trading partner nations are not willing to accept the currency of its trading partner nation, they may demand for an alternative currency which is accepted universally all over the world. In order to arrive at that intervention currency which will be commonly accepted by all the nations the need for establishing an international financial arrangement for facilitating acceptance of a internationally recognized currency accepted by all arises. The present research enquiry has been undertaken with the objectives of tracing the stages and phases of exchange rate regimes alongwith evaluation of the alternative currency arrangements. Moreover, the influence of dollar in determining the exchange rate of a currency has also been examined in the light of emergence of some major currencies like Euro, Chinese Renminbi and Japanese Yen.

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Currency,Dollar,Euro,Pegging,Standard.

INTRODUCTION

Every independent nation has its defined territory, population, defence, governance and a currency. However, this poses a problem owing to variation of purchasing power of the individual currencies inter se, but at the same time, with regard to the intervention of a third currency. It forms a triangular relationship, e.g. India is importing gold from South Africa and in that connection while settling the transaction Rupee and Rand may not be mutually acceptable and as a result there is need for intervention of a third currency which is mutually agreeable to both the trading nations.

From the past experience, we have noticed the emergence of the Gold Standard, fixed exchange rate, floating exchange rate, managed float, pegged exchange rate, Dollar nominated exchange rate and freely convertible currency; none of these systems could satisfy the aspirations of the trading nations and central banking authorities. The job of central banking authorities has been becoming complex day by day with regard to maintaining the domestic interest rate, inflation rate, stabilization of monetary system on the one hand, and on the other, in the external front sustaining the interaction between domestic currency vis-s-vis other global currencies. With majority of the countries opening their doors for off-shore capital movements, there has been global capital flight not only for aid, grant and relief but more prominently, for putting in alternative investment avenues offering relatively a higher return. These complex elements have compounded the aberrations further owing to diplomatic alignment of the nations, forming a group of political entities, monetary unions, economic unions and trading zones.

In the background of these matters, the present researchers have ventured into undertaking a research enquiry with the following objectives.

OBJECTIVES OF THE PRESENT STUDY

The present research enquiry has been undertaken with the following objectives:

1. To trace the stages and phases of exchange rate regimes;
2. To examine the influence of dollar in determining the exchange rates;
3. To evaluate the alternative currency arrangements.

In consonance with Objective No.1 and 2, we shall now discuss the phases of the exchange rate regimes and the influence of dollar in determining exchange rates.

EXCHANGE RATE REGIMES

Every sovereign nation must have its own currency and the validity of the currency is confined to the territory of the sovereign nation. When one nation enters into trade relations with other nations for exchange of goods, services, invisibles and transfers, the concerned nations may adopt bilaterally for exchange of their respective currencies under a bilateral agreement. While on the other, if the two trading partner nations are not willing to accept the currency of its trading partner nation, they may demand for an alternative currency which is accepted universally all over the world. This is obvious for the reason that the purchasing power of each currency differs according to the economic strength of the nation concerned. Hence, the trading partner nations call for an arrangement for settlement of their respective exchange obligations through the medium of a foreign currency which commands international acceptability and respectability. That foreign currency and the rate at which it is exchanged in relation to a domestic currency of a trading nation is known as a foreign exchange and foreign exchange rate respectively. In order to arrive at that intervention currency which will be commonly accepted by all the nations the need for establishing an international financial institution whose currency may be regarded as a global currency accepted by all arises. Thereafter, we now explain the genesis of establishing such foreign exchange and the rate of foreign exchange agreed upon by the trading nations inter se from time to time.

The term exchange rate regime connotes the way in which a country manages its currency in respect to foreign currencies and the foreign exchange market. It is closely related to monetary policy and the two are generally dependent on the same factors.

The early system of exchange rate witnessed several developments before it emerged into the present state. In the early days, prior to the development of an international monetary system, trade payments were settled through barter, but there were many inconveniences and to overcome those difficulties traders began using metal such as gold or silver for settling payments. Subsequently, metal took the form of coin which had the stamp of the sovereign on the basis of weight and fineness giving birth to the specie commodity standard. These coins were full-bodied coins, meaning that their value was equal to the intrinsic value of the metal contained therein. With the elapse of time, the process of coin debasement started. Lower value metal was mixed with the coin with the result that the value of the metal came to be lower than the face value of the coin.

Since the specie commodity standard presupposes that coins of one country are acceptable by the other countries; but this is not possible for two reasons. The metallic worth of a coin in one sovereign may not contain the same weight of that particular metal in other sovereign, and secondly, the purchasing power of the metallic coin differs. Then came the gold standard which possessed much broader features than the specie commodity standard. It was originated in England and by 1870 it was widely adopted. The gold standard experienced a hey-day between 1870 and 1914 until the outbreak o the World War I. The gold standard was of five types namely:-

- Gold Coin Standard
- Gold Bullion Standard
- Gold Exchange Standard
- Gold Parity Standard
- Gold Reserve Standard

The limitations of the gold standard led to its demise which further led to large-scale oscillations in exchange rate. This required for the establishment of an international body that could help create an orderly exchange rate regime. Finally, at the Bretton Woods Conference it was resolved to create the International Monetary Fund (IMF). The IMF, that evolved a novel exchange rate system, was finally set up in 1945. Since the resultant system was the outcome of the Bretton Woods Conference, it is often termed as the Bretton Woods System.

FIXED EXCHANGE RATE SYSTEM

The IMF articles provided that each member country was to set a fixed value- called the par value of its currency in terms of gold or the US Dollar. It was this par value that determined the exchange rate between any two currencies. Minor fluctuations, if any, within a narrow band of 1.0 above and below the established parities were expected to be corrected through the active intervention of the monetary authorities.

A fixed exchange rate, thus, is a type of exchange rate regime wherein a currency's value is matched to the value of another single currency or to a basket of other currencies, or to another measure of value, such as gold or SDR(Special Drawings Rights). As the reference value rises and falls, so does the currency pegged to it. In some cases, even fixed exchange rates are allowed to fluctuate between definite upper and lower bands, as fixed by the monetary authority of the country.

The Bretton Woods System did bring about stability in the exchange rate, but it could not go a long way. It was primarily the loss of confidence in the US Dollar following deterioration in the US Balance of Payment since late 1950s that hindered smooth functioning of the system. The US Dollar was greatly overvalued because of heavy American spending on Lyndon B. Johnson's Great Society and the Vietnam War. The American economy was also coming under serious inflationary pressures due to the aging economic infrastructure. The Marshal Plan which was proposed to provide relief to ailing European nations further detoriated the situation, finally leading to its collapse by 1973.

Following the collapse of the Bretton Woods exchange rate system, the IMF experimented with several options of exchange rates systems which have been thereafter adopted by the 196 countries of the world as their own schemes of exchange rate regime. The following paragraphs give a brief idea of the exchange rate regimes followed presently by the economies of the world.

FLOATING- INDEPENDENT AND MANAGED

An exchange rate is flexible or floating, when two countries agree to let international market forces determine the rate through the forces of supply and demand. In a floating exchange rate regime the exchange rate of a currency is established by the foreign-exchange market through supply and demand for that particular currency relative to other currencies. Thus, in such a system the market forces dictate the exchange rate between two currencies.

The floating rate system may be either independent or managed. The independent floating rate is also referred to as “clean” floating whereas the managed floating is known as “dirty” floating. In a clean float, a currency has a minimum of official intervention, except to maintain market stability, and its exchange rate is mostly determined by market demand. On the other hand, in case of dirty float varying amounts of official intervention is exercised for exchange rate stabilization.

Again the intervention may be direct or indirect. It is indirect intervention when the authority stabilizes the exchange rate through changing interest rates. On the other hand, in the case of direct intervention the monetary authority purchases and sells foreign exchange in the market which leads to the desired level of appreciation or depreciation of the currency.

Presently most of the economies of the world have adopted this system of exchange rate, with 50 countries including India and the USA going for the independent floating rate system while 27 countries having the managed floating rate system. There are several other alternatives of exchange rate regimes which have been discussed hereunder:

PEGGING OF CURRENCY: Sometimes a country may opt to tie its home currency to another strong currency or to a basket of currency, mostly widespread currency like the US Dollar or the Euro or to a currency with which it has a substantial part of its trade. The system results in stable trade payments. When a country has trade with several nations then pegging to a basket of currencies is suggested but such an arrangement often proves to be quite expensive. Pegging may also be to Special Drawings Rights (SDR) which itself is pegged to a basket of four currencies (US Dollar, Pound Sterling, Japanese Yen and Euro). The exchange rate is fixed in case of pegging, yet it is allowed to fluctuate within a narrow band of 1.0 above and below the central rate. Some countries provide for a higher band where such an arrangement is often referred to as “pegged exchange rates with horizontal bands”.

At present, around 53 countries have adopted pegs of different kinds which shows that they are no less popular a system of exchange rate. Argentina, for example, had adopted this system in 1991 under which the exchange rate between its currency (the peso) and the US Dollar was fixed by law. However, following a crisis, Argentina abandoned the system and let its currency float in January 2002. Similarly, Malaysia and Thailand had pegged their home currencies' value to the US Dollar. However, during the Asian crisis in 1994-98 they were unable to maintain the peg and hence allowed their respective currencies to float against the Dollar.

CRAWLING PEG: It is a modified version of the pegged system wherein the peg is allowed to change gradually overtime to catch up with the changes in the market determined rates. In fact, it is a hybrid of fixed and flexible rate systems.

Presently, around 11 countries of the world have voted for the crawling peg system of exchange rate regime.

TARGET –ZONE ARRANGEMENT: Under such an arrangement, the intra-zone exchange rates are fixed. Sometimes, the member countries may even go for a common currency rather than having their own currencies.

The EMU countries have target-zone arrangement whereby they have a common currency Euro under the management of European Central Bank from January, 2002. So far 12 out of the 25 members of the European Union have adopted the Euro. Some 20 countries of Africa also have a scheme whereby they share a common currency.

Another peculiar arrangement has been adopted by Equador in the year 2000 whereby it had abandoned its local currency and adopted the US Dollar completely. This scheme was known as dollarisation. Equador had also given up the control over its money supply to the Federal Bank which is the central bank of the USA.

Thus, as observed from the aforementioned paragraphs, the international monetary system is an admixture of multiple exchange rate regimes and not a single exchange rate arrangement; but the dominance of Dollar has been incontestable throughout the exchange rate regimes. A perfectly fixed exchange rate system is non-existent and most of the rates change with the change in market forces. Even in the countries where fixed rates are advocated, the rates are usually allowed to fluctuate within certain bands because fixing the rates completely is literally impossible in the present globalised context.

DISMANTLING OF DOLLAR DOMINANCE AS A GLOBAL CURRENCY
The need for a global currency in an economically integrated world is a well recognized fact. A global currency is one in which world transactions are valued and which traders are willing to hold and whose value does not fall dramatically over any period of time. Thus, a currency to be recognized as a reserve currency has to fulfill two conditions, viz.,
- It has to be liquid enough; and
- It has minimum risk of default.

Over the years the US Dollar has fulfilled all the conditions and has been accepted as an international currency. Till mid-1930s, the principal global currency was the Pound Sterling. However, devastated after the World War II, the UK and other European nations turned to the USA for reconstruction and rehabilitation financed by the US sponsored Marshall Plan. This led to a large demand for American goods and services, and the emergence of the Dollar as the 'principal reserve currency'.
Another reason why the US Dollar earns a dominant position in world currency market is that the US is the largest contributor to IMF which is supposed to be the world's last resort savings co-operative bank, where 188 shareholders put in their pennies and expect to draw in bad times.
1. Enormous public debts to GDP ratio in the USA;
2. Huge public debts to GDP ratio in the developed countries, around 80% over the period;
3. Excessive defence spending in counter-terrorism, but dependency on the US Dollar has been shaken since 1987 and the following may be attributed to the cause of the same:
4. War financing in Iraq, Afghanistan, etc.

Predictions about the demise of Dollar as a global currency have risen in the recent times, but they still appear to be premature. The obvious successors seem to be the Euro, the Yen or the Chinese Renminbi. But the debaters are putting more weightage to the IMF SDR, which is more of a unit of account than a currency, and whose value is itself linked to a basket of four currencies (Euro, Yen, Pound Sterling, US Dollar). Taking clue from Objective No. 3 we now try to venture into the emergence of other alternative arrangements.

EMERGENCE OF EURO
After December, 1971, following the collapse of Dollar as a fixed unit of currency account, the European countries entered into an arrangement called Europe's Snake arrangement. In April, 1972, several European currencies were maintained within established limits of each other. The shape of snake was given by the established limits. However, the limit of currency exchangeability within the limits of the snake was difficult to be maintained. Some currencies opted out of the snake. They tried to realign their currencies with other currencies mainly Dollar. During this period, Europe witnessed the hardships. Finally, the European Monetary System (EMS) was put into operation since March, 1979. Under the EMS arrangement, the home currency value was linked to the European Currency Unit (ECU) as a unit of account. In this EMS the order of assigning weightage to the currency value was based on the following:
1. Weighted Average of exchange rate of the member nations;
2. A member nation's relative Gross National Product (GNP);
3. Activity within intra European trade;
4. Allowance for fluctuation within the currency of member nations not more than +/-2.25% and +/- 6% for selective currencies like the Italian Lira.

The ECU witnessed difficulties since fall 1992 because of the following reasons which finally culminated in the demise of the system. Meanwhile, Nobel Laureate Prof. Robert Mundell of Canada came out with a novel idea of introducing a single currency for many nations. With the demise of ERM, the coincidence provided a momentum for introducing a single European currency, Euro in January, 1999.
The first expectations of the displacement of Dollar came with the birth of the Euro as its significance in international transactions increased appreciably. In foreign exchange markets, the Euro's share has remained stable at around 20% of all transactions, compared with the Dollar's 44% and it accounted for a stable 25% of the holding of foreign exchange reserves by countries. Therefore, it is evident that the Euro has not been able to displace the Dollar as the global currency. This is truer in the context of the recent Euro-zone crisis which has further lessened the reliance on the currency.

THE CASE OF CHINESE RENMINBI
The emerging markets and economies are growing fast; and among them China has been the fastest with Current Account surpluses and foreign exchange reserves amounting to about $ 3 trillion of which it held around $1.2 trillion in US treasuries. Hence, the Chinese Renminbi is seen as an increasingly possible alternative. The rise of China's economic power creates a case for the renminbi revaluation to make it a global reserve currency but there are several fundamental barriers to this. Despite the diagonal counter challenge to attain status of anchor currency, we arrive at the following issues in the course of our research enquiry:
1. The central banks across the world hesitate to hold Renminbi;
2. Yuan lacks dual convertibility which is a pre-requisite to be recognized as a global currency;

According to an estimate of the BIS, Basle, Renminbi's share in the global foreign exchange turnover was only 0.25% in 2007 and it was ranked 20th in the world and 5th among Asian emerging market currencies.

THE CASE OF JAPANESE YEN
Although the Japanese economy is displaying remarkable growth coupled with sound current account surpluses, yet the Yen is playing only a very modest role in the Euro-deposit market. However, as an official reserve asset, the presence of yen is somewhat greater; but still its proportions do not qualify it as a world reserve currency.

SDR AS A RESERVE CURRENCY
Besides the aforementioned currencies, the other contender of global currency is the IMF SDR. Created in 1969, the SDR was initially seen as a supplement reserve which could then meet shortages of the two then prevailing reserve assets: gold and Dollar. Initially, the value of SDR was set to gold (1 SDR = 0.888671 grams of gold = 1 $); but with the collapse of the Bretton Woods System in 1973 its value has been linked to a basket of four currencies (Euro, Yen, Pound Sterling, US Dollar). It is an allocated asset for deriving tranche facilities by the member nations from the Fund owing to their BOP crisis.
The SDR can, at best, be regarded as a paper gold but cannot be introduced as a liquid global currency; it may somewhat be regarded as having a store value held by a member nation with the Fund. Hence, even the proposition of the SDR as a sole or principal global reserve currency is rejected.

CONCLUSION
From our research analysis, we draw the following conclusions. No exchange system is absolutely perfect by itself. Gold standard could succeed partially to meet the needs for exchange of currency during the reign of capitalism, but not outside. Dollar, however, could meet the expectation as an acceptable international currency for exchange. Subsequently, Euro also could not be a perpetual threat to the existing US Dollar on account of debt crisis in Europe and weakening of

Euro within Euro zone itself. China's Renminbi also attempted to gain the position of a global reserve currency by aligning its current account surpluses with established global currency nations, but that was not accepted as such by the member nations of the IMF. Even the SDR which is the most popular alternative has been rejected on several grounds.

Hence, in the absence of any other currency which could surpass the indomitable presence of the Dollar, it continues to be a run-after unit of account, to remain as an anchor currency as well a global reserve currency. This may be a necessary but not a sufficient condition.

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