Foreign exchange and economic developement-india

Economics

In the past two decades India has transformed itself successfully from a rigid centrally-planned economy to an increasingly open and market-oriented economy, with GDP growing at an annual average rate of nearly 10%. The path and forms that India took to transform its economy were far from conventional. India's reform centred on improving incentives, hardening budget constraints and creating competition by regional decentralization of government and adopting a dual-track approach to market liberalization. This approach determines that India's reform has been partial, gradual and experimental in nature.

With the implementation of its " reform and opening up" decision made in 1991, India has successfully broken through the state monopoly of foreign trade and achieved significant progress in trade liberalization. Direct administrative controls of foreign trade have been substantially reduced, while trade has been conducted increasingly in accordance with its comparative advantage. In line with its foreign trade system reform, India's foreign exchange reforms since 1991 have aimed to achieve a more realistic exchange rate for its currency through regulations by Reserve Bank of India.

To become a major player in world trade, a comprehensive approach needs to be taken through the Foreign Trade Policy of India. Increment of exports is of utmost importance, India will have to facilitate imports which are required for the growth Indian economy. Rationality and consistency among trade and other economic policies is important for maximizing the contribution of such policies to development. Thus, while incorporating the new Foreign Trade Policy of India, the past policies should also be integrated to allow developmental scope of India's foreign trade.

This is the main mantra of the Foreign Trade Policy of India. Foreign Exchange: Foreign exchange literally means " the system, by which one currency is exchanged for another, enables international transactions to take place". The foreign exchange market (forex, FX, or currency market) is a worldwide decentralized over-the-counter financial market for the trading of currencies. Financial centers around the world function as anchors of trading between a wide range of different types of buyers and sellers around the clock, with the exception of weekends.

The foreign exchange market determines the relative values of different currencies. The Indian foreign exchange market consists of the buyers, sellers, market intermediaries and the monetary authority of India. The main centre of foreign exchange transactions in India is Mumbai, the commercial capital of the country. There are several other centres for foreign exchange transactions in the country including Kolkata, New Delhi, Chennai, Bangalore, Pondicherry and Cochin. In past, due to lack ofcommunicationfacilities all these markets were not linked.

But with the development of technologies, all the foreign exchange markets of India are working collectively. The foreign exchange market India is growing very rapidly. The annual turnover of the market is more than $400 billion. The primary purpose of the foreign exchange is to assist international trade and investment, by allowing businesses to convert one currency to another currency. For example, it permits a US business to import British goods and pay Pound Sterling, even though the business's income is in US dollars.

It also supports speculation, and facilitates the carry trade, in which investors borrow low-yielding currencies and lend (invest in) high-yielding currencies, and which (it has been claimed) may lead to loss of competitiveness in some countries. In a typical foreign exchange transaction, a party purchases a quantity of one currency by paying a quantity of another currency. The modern foreign exchange market began forming during the 1970s when countries gradually switched to floating exchange rates from the previous exchange rate regime, which remained fixed as per the Bretton Woods system.

The whole foreign exchange market in India is regulated by the Foreign Exchange Management Act, 1999 or FEMA. Before this act was introduced, the market was regulated by the FERA or Foreign Exchange Regulation Act, 1947. After independence, FERA was introduced as a temporary measure to regulate the inflow of the foreign capital. But with the economic and industrial development, the need for conservation of foreign currency was felt and on the recommendation of the Public Accounts Committee, the Indian government passed the Foreign Exchange Regulation Act, 1973 and gradually, this act became famous as FEMA.

Foreign Direct Investment [FDI] ; Foreign Institutional Investors [FII] Aspect of Foreign Exchange market is that apart from flows resulting from personal and trade remittances, banks and corporate borrow funds from abroad and foreign entities invest in Indian business entities, such as Foreign Direct Investment [FDI], foreign funds and Foreign Institutional Investors [FII] that invest in the Indian capital markets. These flows are large in magnitude and have a great impact on capital market and the exchange rate. There is also

the danger that if FIIs pull out, the stock markets could crash which in turn can adversely impact the economy.

This danger is not only on account of the impact of share prices but also because of the impact on exchange rate, which can adversely affect foreign trade and consequently the price level in the country. Foreign Exchange Risk Management Framework •Forecasts •Risk Estimation •Benchmarking •Hedging •Stop Loss •Reporting and Review Economic Development: Economic development is the increase in the standard of living in a nation's population with sustained growth from a simple, low-income economy to a modern, high-income economy.

Also, if the local quality of life could be improved, economic development would be enhanced. Its scope includes the process and policies by which a nation improves the economic, political, and social well-being of its people. Economic development typically involves improvements in a variety of indicators such as literacy rates, life expectancy, andpovertyrates. GDP does not take into account other aspects such as leisure time, environmental quality, freedom, orsocial justice; alternative measures of economic wellbeing have been proposed.