Globalisation of Indian Rupee in the New World Economic Order

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Abstract

The global economy has witnessed significant transformations in recent decades, marked by the emergence of new economic powers and the evolution of financial systems. Within this context, the globalization of currencies has become a crucial aspect of international economic dynamics. This paper explores the globalization of the Indian Rupee within the framework of the new world economic order. It examines the factors driving the globalization of the rupee, including economic liberalization, financial market reforms, and India's growing integration into the global economy. Furthermore, the paper analyzes the implications of the Rupee's globalization for India's economy, financial markets, and monetary policy. By examining the possibilities of appreciation of Indian rupee and opportunities associated with the globalization of the Rupee, this paper aims to contribute to a better understanding of India's role in the evolving global economic landscape and its implications for domestic and international trade.

Introduction and Premises

The globalization of the Indian rupee refers to the increasing internationalization and use of the Indian currency, the rupee, beyond India's borders through the process of international trade, currency convertibility, rupee-denominated bonds, foreign exchange reserves, international remittances, and rising the financial sectors and increasing the bilateral trade with other countries of the worlds. Due to the changing landscape of the global economic order from uni-polar to Bi- polar and Bi-polar to multi-polar order the necessity of Indian rupee successively increasing and in the supply side the RBI has allowed 18 countries to trade in rupee and on the demand side about 35 countries shown interest to do trade in Indian rupee (Sharma.U, 2023) which calls for the enquiry into the market for rupee in the global scale and appreciate its value through globalisation and the prospects associated with it. This paper is attempted to fill this gap in research.

The concept of a "New World Economic Order" (NWEO) is the process of restructuring of the global economic system to address emerging challenges and inequalities through various proposals, ideologies, and theories towards more inclusive and sustainable global economy. The growing concern over the multilateralism and cooperation among nations to address common economic challenges such as poverty, inequality, climate change, and financial instability demanding reforming existing international institutions like the International Monetary Fund (IMF), World Bank, and World Trade Organization (WTO) or creating a new one and redistribution of wealth and resources more equitably among nations and within societies, sustainable development that balance economic growth with environmental protection and social equity with transitioning to renewable energy sources, promoting green technologies, and addressing issues such as deforestation, pollution and achieving inclusive growth through investing in education, healthcare, infrastructure, and social safety nets to ensure that economic prosperity and financial reforms to check the financial crises regulate speculative activities, address tax evasion and avoidance, and promote greater transparency and accountability in financial markets which all require a strong financial system to serve within the country and to serve internationally *(Gazala, R.2023 (Reserve Bank of India - Database, n.d.)* which warrant an enquiry into how the increased global trust on rupee and demand of it can be utilized to increase the value of it in global scale.

Reviews of Literature and Research Gap

Gupta and Jain (2020) examine the role of the rupee in India's trade relations, highlighting the growing use of rupee-denominated transactions in international trade and the work of Khan and Singh (2021) analyze the impact of financial market integration on the rupee's globalization, emphasizing the role of capital account liberalization and financial sector reforms. Mishra et al. (2022) investigate the effectiveness of currency swap agreements in promoting the international use of the rupee and enhancing financial stability where as Smith (2023) argues for enhanced multilateral cooperation as a cornerstone of a new economic order, advocating for reforms in international institutions to better address global challenges and Patel and Gupta (2020) examine the role of redistribution policies in promoting economic equity within and among nations, emphasizing the need for progressive taxation and social welfare measures and Rahman et al. (2021) explore the alignment between the sustainable development goals (SDGs) and the objectives of a new economic order, highlighting potential synergies and trade-offs.

Researchers like Sharma, R., & Verma, S. (2023) examines recent trends in the internationalization of the Indian rupee, analyzing its implications for India's economy and its role in the global financial system and Kumar, A., & Singh, P. (2022) investigates the impact of capital account liberalization on the globalization process of the Indian rupee, focusing on policy reforms and their effects on financial markets with the work of Patel, M., & Shah, N. (2021), explores the role of Masala bonds in promoting the international use of the Indian rupee, assessing their effectiveness as a financing tool for Indian corporations in global markets and Sharma, S., & Jain, R. (2023) analyzes the relationship between globalization and exchange rate volatility of the Indian rupee, examining how increased integration into global financial markets affects currency stability.

Gupta, A., & Das, S. (2022), and Khan, S., & Mishra, R. (2021) assesses the role of financial innovation in driving the globalization process of the Indian rupee, examining the development of new financial instruments and their impact on currency markets and found the relationship between trade openness and the internationalization of the Indian rupee, exploring how increased trade flows influence currency demand and usage.

Economist like Singh, A., & Sharma, V. (2023), Verma, R., & Gupta, K. (2022) and Mishra, P., & Rajput, S. (2021) examined the role of central bank interventions in

promoting or hindering the globalization process of the Indian rupee, analyzing their impact on exchange rate stability and reserve management and explores the influence of financial technology (fintech) on the internationalization of the Indian rupee, assessing how fintech innovations facilitate cross-border transactions and promote currency usage. It is observed from the above reviews of literature that there is no researches carried on how can the rupee value in the international market improved when there is additional demand of it in trade and what should be done to sustain the status of the rupee in the same status. This paper is attempted to fill this gap in research.

Theoretical Frameworks

Based on the following assumptions the present framework can be derived.

1. The value of money is being determined by the supply and demand of it.
2. Inflation in a domestic economy affect the value of money in the global market
3. Differences in elasticity of demand for rupee in the local economy and in the global market make a kinked demand oligopoly nature to the market of rupee.
4. Supply of money can be altered across the domestic and international markets
5. Exchange rate of rupee is determined by demand and supply of it.
6. Countries can follow either flexible or fixed exchange rate as per their choice.
7. Money supply is flexible and at anytime it can be altered
8. If one country increase the supply of money, it will affect the value of money of other in the global trade
9. Gain from trade can be achieved through the changing the supply of money to the international trade among the economies.

With these above assumptions the frameworks uses the theories of value money as the background and extend it into what should be done to appreciate the value of rupee. Fisher's theory emphasizes the role of monetary factors in determining the value of money and the overall price level, implying that changes in the money supply lead to proportional changes in prices which is given in the first diagram on the top left reveals that the positive relationship between the money supply and that of the inflation. When the supply of money increase from the Q1 to Q2 than the inflation also increase from S to M.

Second diagram located in the bottom of the left express the inverse relationship in between the money supply. It reveals that when the money supply doubles from 2 to 4 the money value reduces half from the value of 4 to 2 on the Y axis.

Third diagram on the right bottom explains about the cash balance approach, also known as the demand for money theory, focuses on individuals' and firms' demand for holding cash balances for transactions, precautionary, and speculative motives. It suggests that people hold money not only for transactions but also as a store of value to hedge against uncertainty and to take advantage of future investment opportunities.

According to this approach, the value of money is determined by the equilibrium between the supply of money provided by the central bank and the demand for money by individuals and firms. Changes in factors such as income, interest rates, and inflation expectations influence the demand for money and, consequently, its value.

The third diagram incorporates the real balance approach as well which focuses on the real purchasing power of money rather than its nominal value. It suggests that the value of money depends on the quantity of goods and services it can purchase. It reveals changes in the money supply affect not only the price level but also real output and income in the economy. An increase in the money supply, for example, may lead to higher prices (inflation), but it may also stimulate spending and economic activity in the short run.

It can be observed from the third diagram that the initial money value would be at equilibrium V2 where the supply MS1 equals to its demand MD1. When supply is increase without changing the demand of it the value of the currency will come down from V2 to V1with the new equilibrium E3. Similarly if the demand of money increases to MD2 without changing the money supply at MS1, than the value of money will increase from V2 to V3 which is not possible to achieve because it is not possible to keep quit when the demand for rupee increases.

It is to be noted that if both the supply and the demand for money increase simultaneously it will keep the value of money as it is unchanged at V2 but with the new equilibrium at E4. The core idea of this paper is that it can be possible change the value of the rupee just only by altering the supply of it.

Based on these assumptions above and the previous theoretical framework the idea of the present work is depicted in the top right panel. The supply of money and the exchange rate of rupee is respectively depicted in the x and y axis. MEKD is the demand curves with two different elasticity's of the rupee ME –relatively more elastic and KD relatively less elastic demand. The value of rupee can be said to be determined at V2 by the++ equality of demand and supply at E. When the money

supply increases from MS1 to MS2 without change of demand equilibrium shift from E to K and the exchange rate value also will reduce from V2 to V1 determined though the new equilibrium K.
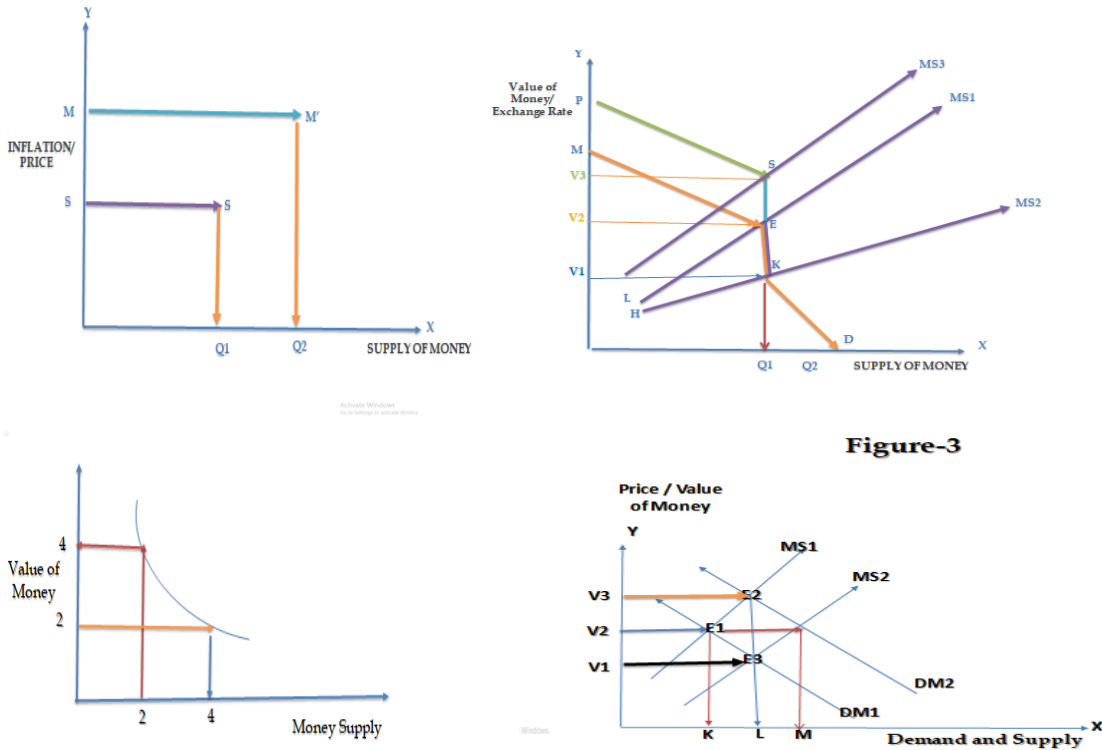

Figure-3

Conditions-1: MSL=MDL, Condition - 2: MSG=MDG, Condition 3: MDG+MDL=Total MS.

Suppose if the demand if the demand for rupee is increases from MEKD to PSEKD, by reducing the money supply MS1 to MS3 the value of the rupee or the exchange rate rupee can be from V2 to V3 which is determined by the new equilibrium S. In order to get the appreciation of value of rupee in the international market the additional supply of money should be chosen at any point in between S and E where as the domestic supply of currency may oscillate between the point E and K. So in order to appreciate the value of rupee in the global market the separate supply should be administered along with the local supply.

The most important questions can be answered from this panel is that at what level of the money supply the value of the rupee can be established .For the domestic economy the supply should be any point in-between E and K where as its is S to E is the global supply and E to K can be choose as the domestic supply.

Conclusion and Policy Implications

There are three conditions to be satisfied to get value of rupee appreciated. First the equality of money supply and the money demand should be ensured at the domestic level. Second the equality of money supply to global market and its demand should also be ensured. Third all the money demanded at the global and domestic levels should be equals total money supply of the rupee.

In the broader context of the New World Economic Order, the globalization of the Indian rupee reflects broader trends towards multipolarity, economic interdependence, and the reconfiguration of global economic governance. As emerging economies like India seek to assert themselves on the global stage, they are challenging existing power structures and advocating for reforms that reflect their interests and priorities. This includes efforts to reform international financial institutions, promote greater financial inclusion and development, and address pressing global challenges such as climate change and inequality.

The globalization of the Indian rupee represents a significant development in the evolution of the global economy and the reshaping of the international monetary system. As India continues to deepen its economic integration with the rest of the world, the rupee is likely to play an increasingly important role in international finance and trade, contributing to a more multiplier and inclusive global economic order. However, realizing the full potential of the rupee's globalization will require concerted efforts by policymakers, market participants, and international stakeholders to address the associated opportunities and challenges in a cooperative and forward-looking manner.

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