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Pak Rupee As A Currency And Currency War

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Abstract: The purpose of this article is to discuss the daily currency wars around the world. Also, it outlines important currencies. There is a debate about the risk of currency wars and the options to handle them. The impact of the exchange rate on the Pakistani economy is also part of this debate. With less domestic savings, emerging economies such as Pakistan have to go international to get more foreign money. There are always competitors in the foreign exchange market. Fights are now commonplace. Currency wars must be recognized and dealt with properly.

Key Words: Forex, exchange rate, Imports, Exports, Trade triff

JEL CLASSIFICATION: F2 F3 F31

1. INTRODUCTION

Everyone is prosecuting a special war of their own (Dworkin, 1968). One of the significant characteristics of international business is the existence of exchange rates market (Forex) or foreign money necessary for international trade (Tayeh & Kallinterakis, 2020). Forex refers to foreign exchanges in a specific sense, but the term Forex includes financial instruments in a wide sense, and their prices, styles, and determination in different market conditions, forex rate regulation or procedures of management, etc (Miziołek, Feder-Sempach & Zaremba, 2020). The term "Foreign Exchanges" refers to the process or structure for which the trade of major currencies, the process or the trade of currencies operates, i.e. every one of those actions resulting from the exchange of various currencies or exchange rates (Esmel, 2020). The U.S. contains big currencies (Hannsgen, 2020) the dollars, the Canadian Dollar, Euro, and the Swiss Franc and the British pound. As countries' exchange rates are driven by so many variables such as interest rates, liquidity, geopolitical factor, and so on (Akram, 2020). The most difficult or flexible market for buying and selling is foreign exchange markets. It

really should be detailed with terms such as money volatility, exchange wars, currency rate spreads, ranges, cryptocurrency exchanges, etc. They need cash for payments and investments (Forrest, Ying, & Gong, 2018).
For instance, a US corporation that has $10 million needs to spend three months. The best rate on these funds may be 2 across the Us, but hong kong's bank or financial institution may earn 12. Consequently, the company can convert its $10 million to the hong kong dollar and invest it in Korea. However, the expected return it earns on the resource recovery not only on the Korean exchange rate and also on the changes over the duration under review to the rate of the won against the Dollar. We have to understand that it is not a currency as such that is important in international business, but how they are transformed, how their values change, appreciation and depreciation, and how currencies are in a war and currency crisis (i.e. competitive devaluation). Consequently, currency forms, currency buying-selling activities (even swaps) and currency trading are important. Even for emerging economies like Pakistan, foreign investment is increasingly relevant (Aizenman & Binici, 2016). This is in line with the international economic integration pattern. As Peter Drucker rightly notes, "the international economy will be guided increasingly by world investment rather than world trade." Currency wars have been witnessed by international economics, leading to severe crises worldwide (Gilpin, 2018). An analysis of currency wars, therefore, is both theoretically and very satisfying. With special attention to recent developments in this regard, this paper discusses the phenomenon of currency wars (Forrest, Ying & Gong, 2018).

2. CURRENCIES

It's not the same for Forex, this refers to various foreign currencies, such as the dollar of the United States, the dollar of Australia, the Argentine peso, etc., it deals with different foreign currency differently (Rosen Streich, 2005). Today, there are various kinds of currencies: soft, hard, hot as foreign currencies (Brown, 2016). Strong currency exchanges "or hard currencies, though" soft currencies "(or poor currencies) are not completely convertible, are fully convertible." They are typically from developed countries and float quite separately, suggesting that they would be sold, sometimes close to their true values, by such a market system. The hard currency is part of a powerful geopolitical country. It is highly liquid, readily available, and over some time its value stays more or less constant (Drezner, 2010). Traders and investors make it the most common currency. As they are under constant market pressure, their prices are evident and embraced. However, it is difficult to predict future hard currency prices relative to soft currencies. For instance, the Swiss Franc, US Dollar, Euro, Japanese Yen, etc (Henríquez & Kristjanpoller, 2019).
The "soft currency" is a hyper-sensitive currency that sometimes fluctuates. Such currencies respond very sharply, also described as soft currencies. Weak currencies typically come from states that are not (politically and economically) very secure or in the "superpower" group. Rates (mostly officially cemented!) are too sticky. A high-risk proposition is an investment and exchange in such currencies. But investors who can gain more over the short term, at their own risk, will certainly go for such currencies. Soft currencies are, for traders, a major NO-NO. It is much less convertible outside the host country, so no big international negotiation using soft currencies takes place, for example, Zimbabwean Dollar (Guyer, 2017).
Quite soft currencies are defined as "Exotic currencies". In foreign exchange,' exotic currency' is a term for a thinly traded currency. Exotic currencies are illiquid, lacking economic depth, and low-volume exchange. It can be costly to exchange an exotic currency,

as the bid-ask spread is normally high. As they are not readily exchanged in a regular brokerage account, exotics are not considered big currencies. The Thai Baht, the Uruguay Peso, or the Iraqi Dinar are examples of exotic currencies (Dunis, & Levy, 2002).

The movement by one nation to others of assets or capital (e.g. hedge funds) to make a short-term benefit on interest rates fluctuations and/or anticipated shifts in currency rates is 'hot currency' or hot cash (Hassan, 2015). These volatile global markets are labeled 'hot money' as they can travel very quickly in and out of markets, adding theoretically to price fluctuations (Fattouh, Kilian & Mahadeva, 2013). This happens in the case of selective or top currencies: the European Euro (EUR), the British Pound (GBP), the United States The U.S. Dollar, Canadian Dollar (CAD), Japanese Yen (JPY), Australian Dollar (AUD / NZD), Swiss Franc (CHF) and African Rand (ZAR) are the top 8 currencies. Financial crises can also cause toasty-money flows (Cao, 2016).

No clear rule of law is available which categorizes any currencies as soft or hard. Before it was substituted by the Euro, the Russian Deutschland Mark was considered a strong currency. These developments mean that, as an investor or trader, you are advised to be sure about the geopolitical and economic outlook of various countries (Blanchard & Flint, 2017). One must be vigilant and careful when making any international contract, as large world events can potentially reduce them (Salacuse, 2015).

3. CURRENCIES WARS- DEALING WITH THE DEMON

The Cold War and the War on Terror are what most of us have heard of, but other opposing nations regulated the exchange rate, and under financial prosperity, the wealthiest individual was Tuttle ground, and this tiny well: a so-called "Currency Dispute." We also see this as a challenge to globalization. (Weldzius, 2018).

Currency war, also known as international fall in value, is a condition in international affairs in which nations negotiate against each other to achieve a relatively low exchange rate for their currency (Bergin & Corsetti, 2020). Currency wars, "James Rickards says," are fought at once, 24 hours a day, in all major advanced economies by bankers, traders, policymakers and automated networks worldwide, and the fate of markets and their affecting citizens comes to an end. As per Alan Skrainka, the chief economist of Cornerstone corporate finance, a currency crisis is "when nations use their money as a competition (Seiz, 2017)." A good example and effective ways of this type are:

1. In 1921, when the currency of the Mark, the First World War, was eroded by Germany, the wheel was commemorated in photographs of cash-wheeled wheelbarrows that were not enough to buy a loaf of bread. (Nenovsky & Penchev, 2015).
2. The rest of the civilized world raced to devalue their currency to remain "financial." France first leaped in 1925, cheapening the franc. In 1931, the fiat currency was refused by Britain (Thomas, 2017). The western world notably depreciated the dollar toward gold in 1933, from \$20.67 a gram to one extra dollar. British and French also depreciated again, (Edwards, 2017).
3. The Next Currency War started in 1967 when Britain depreciated the Pound versus the Dollar. The USD was itself soon under threat, a problem because the dollar was still tied to gold in foreign currency. (Cao, L. 2016).
4. Rupee devaluation of Pakistan 1971 (Rs.4.76 = \$1, Rs.9.99 = \$1 after devaluation, i.e. 110%), 1999(devaluated against the USD by 63-53 at least Rs.10 per USD) (Shahbaz, Chaudhary & Shahzad, 2018).

5. In the sense of the market panic in late 2008 and early '09, the financial war was made more serious by the fact it took place (Hodgson, 2019). In exchange for its oil and gas, Team Russia declared that it would consider only gold, no dollars. "Then Team China made its own attempt to" tighten the noose around the neck of the U.S. dollar." "As it happens, Russia's Vladimir Putin announced the dollar on the second and final day of the real war, "The common world currency is now a threat to the country's financial system: it is now evident to all.
6. The real currency war that Putin presided over started in early 2010. "The world's major economies raced to the bottom, causing significant trade disruption, loss of production, and destruction of wealth along the way." In his State of the Union address, President Obama fired the first volley of Currency War III on Jan. 27, 2010 (Tilve, 2016). He declared the export national initiative. It aims to double exports from the United States in five years. In his novel, Currency Wars, Rickards writes: "The conventional and quickest way to raise exports has always been to cheapen the currency." And it was known all around the world.
7. The Chinese lowered the value of their currency (Yuan) this week in comparison to the US Dollar in August 2015, which is expected to have repercussions in both markets (Yu, 2018). First, the change in China reveals that its economy is in worse shape than expected. Second, a weak Yuan requires a higher dollar, and a higher dollar means more expensive Chinese-sold U.S. goods, useless Apple iPhones, hotel rooms, and computer chip sales. Finally, there is concern that by devaluing them to maintain their currencies for quality, other nations may respond to China.Why are monetary wars going to be feared? In international economics, currency wars are one of the most disruptive and feared results. Their trading partners have the sad spectacle of stealing creation from nations at all. At worst, inflation, recession, retribution, and even real abuse degenerate into sequential bouts. Both savings and investments are impacted by currency wars. Exports are cheaper compared to imports, but they will serve as anti-growth and deflationary by producing too much supply and not enough demand. Currency crises can lead to debt and banking crises. If balance sheets (receivables or liabilities) are dollarized, exchange rate devaluation would damage balance sheets, unless there is a dollar crisis. We saw this during the 1997 East Asian crisis. Each behavior has the potential to respond or retaliate. The recent move by China to depreciate its currency, for instance, maybe the first warning shot towards a wider currency war. However, some argue that helping a declining economy is a positive step. The market may have wrongly assumed that, by allowing market pressures to assess its value, China is now taking steps to depreciate its currency.Currency warfare involves dealing with hot currencies, i.e. cash flows in the short term, whereas 1. Zero-interest reserve conditions, 2. Taxes for Tobin, 3. Administration Actions and 4. Maintenance of forex reserves > imports and debts owing for the period expected.Financial imbalances are embedded in the global issue of real capital flows and currency wars (Castro, 2017). To ensure sustainable global economic development, a coordinated strategy for the major economies is required. Some propose a come back to Gold Standard, while others argue that Special Drawing Right (SDR) need to play a progressive role. What is required is a collection of prudential policies on the part of each nation that does not retaliate, even though it is currently inconvenient.

4. IMPACT ON PAKISTAN

As concerns about Pakistan, some analysts say that Pakistan would have a competitive advantage in exports and banking with a weak Rupee (Abbas & Waheed, 2017) (Make in Pakistan Initiative). Another view is that "Pakistan must defend itself from a currency war when China devalues, that it will not win." For example, Finance Minister Hafeez Sheikh will not perform. About why? He thinks it's good do not go to a currency war currently (i.e. to keep the foreign exchange rate better) for Pakistan seeing as;

- Pakistan has been struggling with hyperinflation, and a weakened Rupee would raise the cost of imports, particularly the bill on petroleum products, which will increase increasing prices. (Raza & Afshan, 2017).
- It would have a bad impact on money inflows. A weak rupee affects their capital return. In the period 2014-18, for instance, many foreigners, especially private equity investors, were involved when the Rupee was 104 against the Dollar. Currently, the Rupee is 168, which means a loss of over 64 in terms of currency exchange. Therefore, to produce capital in Pakistan, they must make supernormal income or pay higher hedging expenses due to currency adjustment.
- Pakistan has also had to cope with significant capital costs as well. Currency is only one factor that, whether it devalued or is depreciates, affects cost favorably. Relatively small level price rises are a requirement for substantially reducing interests rates in the country.
- Pakistan must first enhance the cost of doing business with, for example, upscale infrastructural development. For Pakistan entrepreneurs and exporters, insufficient power source, too many rules, outdated employment laws, and the government bureaucracy all build hurdles. If these are holes in your economy, the 'Make in Pakistan' drive will not succeed.
- Pakistan has to focus on inventiveness. The Minister of Finance, Dr. Hafiz Sheikh, hit the nail on its head whenever he stated recently that neither Enceladus-shattering development had been achieved by Pakistan in the past 70 years. A weak currency is certainly the solution when Pakistan, like China, becomes a factory for the world. But by dropping the rupee to finance just a few items, it will not improve Pakistan's exports.

For the time being, it might be best to allow the Rupee to "find its level best," with the state bank of Pakistan stepping in only to reduce uncertainty. Let's strive for a fair rivalry. In the meantime, the good news is that, according to the SBP trade-weighted exchange rate index of the six largest trading partners in Pakistan, the Pakistani rupee strengthened from 25 out of 31 global exchanges in 2017 and is overrated by 64. Almost 10 against a basket of 36 currencies have been reinforced, as shown by the measure of the State bank's real effective exchange rate. When the Fed hikes rates later this year, the Rupee will arrive under stress, allowing the SBP to support some fragility minus conceding its credibility in achieving the deflationary policy target.

5. CONCLUSION

By leaps and bounds, international business is rising. Currency wars cannot be simply wished away with a massive, diverse, and dynamic forex market. Authorities ought to find reliable ways to deal with war or, worse, a crisis. Also, in Pakistan's neighborhood, competitive devaluation is occurring. China, under U.S. pressure, has refused to buckle down and U.S. action has begun. An ordinary man sees nothing happening, but analysts and finance ministers all over the world see it as a currency war and worry about it. Not only the U.S., but other nations also need to behave wisely to avoid a collision. The Rupee Pak grew small. If the Fed raises rates later this year, it will come under pressure, allowing the SBP to allow for some weakness without losing its credibility in achieving the disinflationary policy goal. Not only are currency fights a matrix of thoughts, but also a matter of crisis. The fact that emerging countries such as Pakistan need forex stability for economic growth and development, however, is not to be denied. Both capitals flow inward and outward are part of the new growth strategy. Monetary markets have been more volatile, and a part of the story has been "globalization" and "contagion." In the age of LPG, we need to create blocks for the smooth movement of foreign resources, not stumbling blocks. Grave instability and vulnerability must be replaced by stability. The necessity of the hour is efficient and profitable forex management. Using the Forex Management Act as well as other instruments with that objective in mind is necessary.

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Appendix

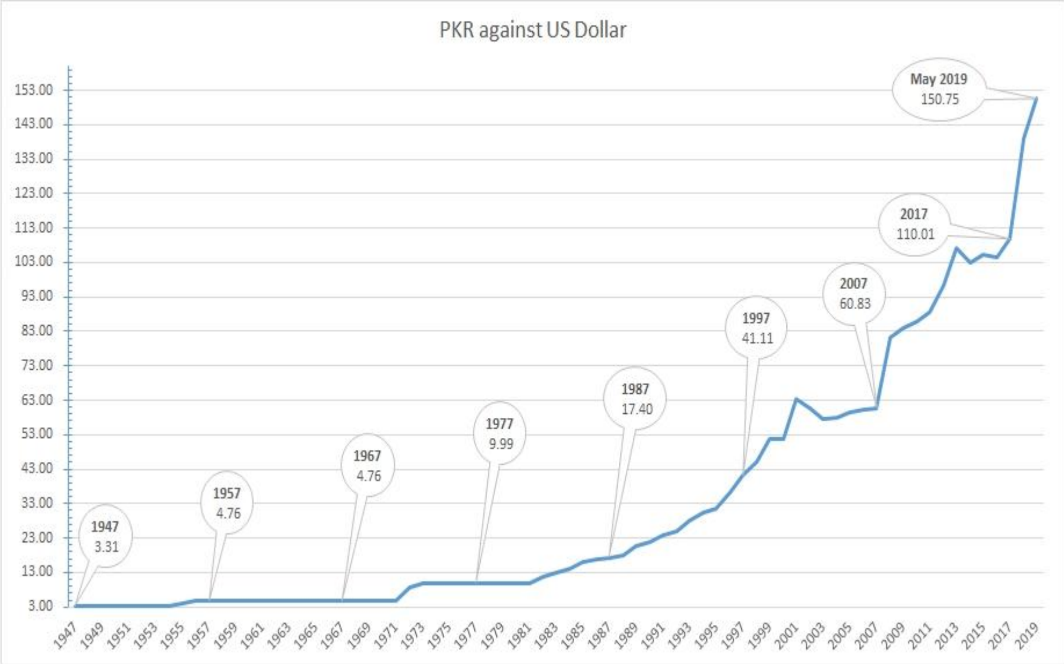

Figure: Source (Ahmad, 2019)