RELEVANCE OF FOREX PRODUCTS FOR MINERAL-RICH STATES: A CASE STUDY OF JHARKHAND

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Mineral-rich states like Jharkhand still adopt the typical British pattern of industrialisation where mined ore is exported to foreign locations from where manufactured goods are imported back. But both movements come at a cost of foreign exchange

The genesis of the foreign exchange market is in the formation of International Monetary Fund. When International Monetary Fund was formed, the fixed exchange rate system was adopted to maintain a common price level for tradable goods. Except the USA, all major industrialized countries had to follow the suit. At that time US Dollar was the central unit of account and prime means of settlement of international transactions. This legacy continued till the remarkable entry of Euro as another means of international transactions.

In India, foreign exchange was being conserved prior to 1990s. But the Foreign Exchange Management Act 1999 changed the outlook of Indian foreign exchange market. It has facilitated external trade & payment and promoted the orderly development & maintenance of foreign exchange market. As a result, India as a foreign exchange starved country has been transformed into a $250 billion+ club member. Now various disadvantages of hoarding surplus reserve in the country are as appreciation of $, opportunity cost, sterilization cost, inflationary impact etc. As per a recent Assocham study* (retrieved from www.banknetindia.com/banking/120111 on 14th September, 2012) on "Rupee Exchange Depreciation: Impact Analysis" - nearby 18% of rupee depreciation between May and December 2011 has added additional rupee cost of imports to the nation by Rs. 66,000 crores despite decline in the global prices of two major imported products crude oil and thermal coal. Means we are at loss at both end by using $ as a means of transactions.

In this paper we explore the relevance of forex products for mineral-rich states of India, with special reference to Jharkhand. Mineral-rich states are still adopting the typical British pattern of industrialization: ores mined in these states are transported and exported to other distant locations for manufacturing purpose. Manufactured goods then imported to our native states for our own use, but come at extra manufacturing and transportation costs. In both movements, foreign exchange is involved.

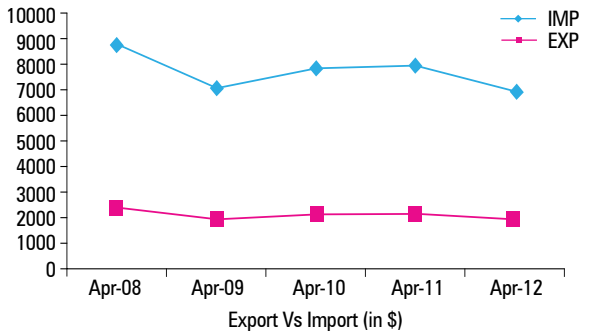
Jharkhand is the richest state in terms of mineral reserves and variety of minerals [Metallic/Non-metallic/Atomic minerals]. This uniqueness is due to its geographical formation of different geological periods. As per the Annual Report Mines 11-12, the value of mineral production in Jharkhand during the year 2010-11 at $3649 Million got increased by about 6.35 % over the previous year. The State claiming fourth position in the country accounted for 7.72% of the total value of mineral production during 2010-11. Based on a Working paper estimation by Jaya

Prakash Pradhan [ref. ISID Working Paper 2007/03], if we are converting the minerals into finished goods at our own places, we would be able to make at least 7 times more money. If we will consider the projection, in Jharkhand alone, we can make finished goods worth $25543 Million.

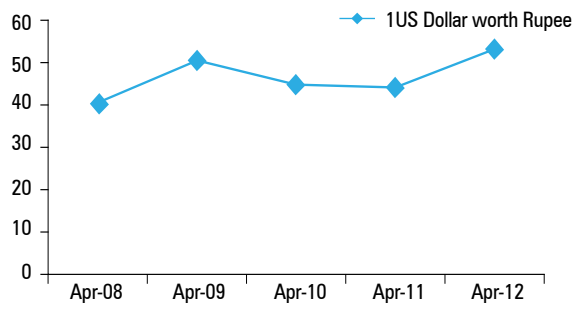
We will explore the possibility to promote Rupee-dominated export. We have an example of recent India-Iran Pipeline deal in which 60% of the payment will be done in Indian Rupee. So we compared the Export and Import data of Minerals on all India bases, we can see the gradual decrease in export/import value with appreciation in all major currencies. We can observe the same for US Dollar/Sterling Pound/Euro/Japanese Yen:-

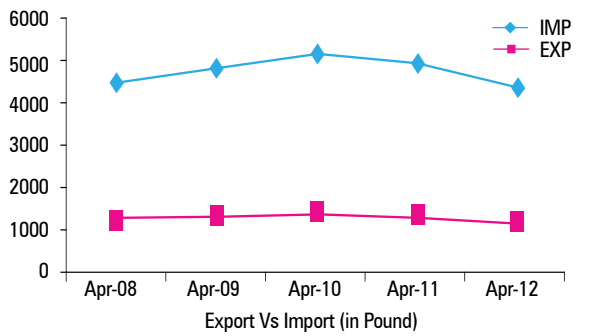
In this paper we have argued that rupee-based export should be promoted from mineral-rich states of India. It will be more relevant when Indian Rupee is losing its reputation. Rupee has been depreciated as against Dollar by 26% in the period of Apr-10 and Apr-12; 30% against Euro; 60% against Japanese Yen and 3% against Pound Sterling for the same period.

It is also observe the lesser depreciation in export/import value against comparatively strong currency. With the help of this analysis we can take a logical decision to move forward for the import of raw materials or export of our finished goods. Mineral-rich states should embark on programs of import substitution so that they need not purchase

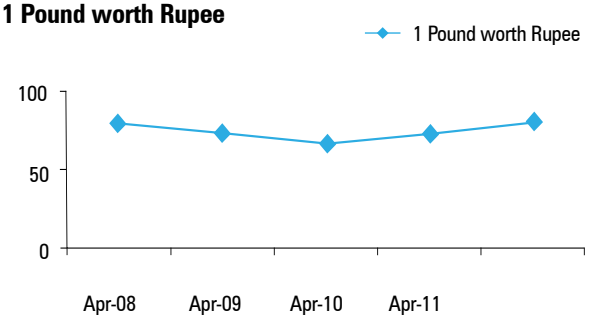


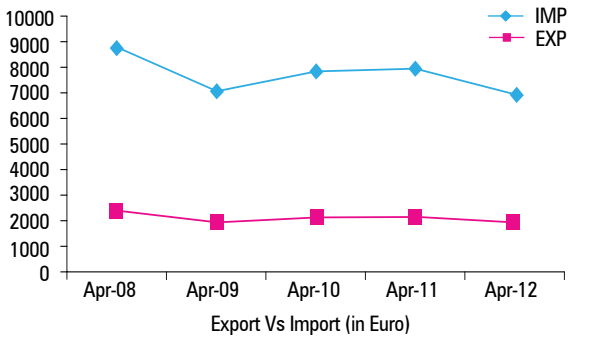
1US Dollar worth Rupee



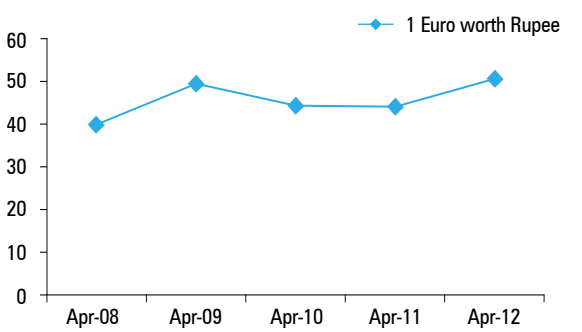


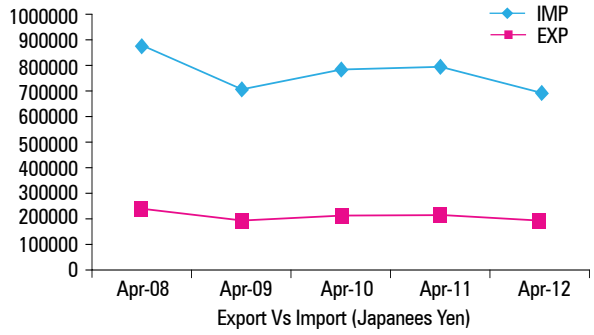
1 Pound worth Rupee



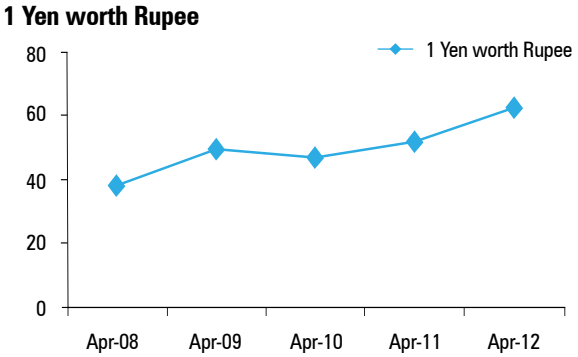


1 Euro worth Rupee





Export Vs Import (Japanees Yen)



the manufactured products from the richer countries. State has move forward in this direction in 2011 when SAIL had signed a Memorandum of Understanding (MoU) with South Korea's Posco to form a joint venture company at Bokaro in Jharkhand for setting up a three-million tonne per annum steel-making unit with a Rs 16,000 crore investment. In the case of SAIL-Posco venture, the South Korean major would bring an iron-making technology that is not available anywhere other than in its own domestic plant. Though decision is not yet finalized due to share-holding issues between both the parties.

It will analyze the role of State Bank of India, because it has the proficiency and the largest share in this specific market. In 2008-09, State Bank of India has the trading volume in Forex transaction was around Rs.1811194 Cr. We will do a Time Series analysis of the Forex transaction in State Bank of India network available in Industrial Belts in Jharkhand from 2008 to 2011.

The analysis has several limitations that should be kept in mind when giving the conclusion. One of such limitation is unavailability of access to Intranet of State Bank of India. We plan to address this limitation in future work. We expect that the basic intuition developed in this paper will survive some more realistic environment.

Opportunities

The mining industry is largely a capital-intensive industry, which acts as a significant barrier to entry and also raises the exit costs. In the world-mining scenario, there is a growing tendency towards consolidation, with a few multinationals dominating in several segments. The consolidation also led to backward or forward integration, especially with the metals producers (steel and aluminium) joining the minerals segment, principally to defend the margins against escalating raw material prices. Major end-user segments of steel and aluminium are automobiles, aerospace and construction sectors. The mining sector in the country is an age-old sector and it requires significant investment for technology infusion. Because obsolete equipments will lead to lower productivity and diseconomies of scale. Policy initiatives to do on-line registries & to increase competitiveness will be a differentiator for the Industry. India's exports have largely been confined to only iron-ore. It is therefore wise to diversify its export basket with mineral products that have a longer life index or with a larger reserve-base.

Present scenario of Jharkhand

The topic will be chosen for research to explore the possibilities to establish an export-based economy in Jharkhand.

Abundant availability of coal makes Jharkhand an ideal state for setting up thermal power plants at the coal pits. The installed power capacity (excluding Damodar Valley Corporation - DVC) is 2,017 MW, with thermal power plants contributing 1,875 MW.

The DVC has an installed capacity of 2,840 MW. About 9,000 tones of fly ash being generated everyday from the coal-based thermal power plants is being used for reclaiming abandoned mines, cement manufacturing and brick making.

Jharkhand ranks high in the list of states having vast mineral resources. It has large reserves of iron ore, coal, copper ore, mica, bauxite, manganese, limestone, china clay, fire clay, graphite, kainite, chromite, asbestos, thorium, sillimanite, uranium (Jaduguda mines, Narwa Pahar), gold (Rakha mines), silver and several other minerals. The easy availability of raw materials has lead to rapid industrialization. The following are some of the state's achievements in the industrial sector:

- Largest fertilizer factory of its time in India at Sindri;
- First iron and steel factory at Jamshedpur;
- Largest steel plant in Asia at Bokaro;
- Biggest explosives factory at Gomia
- First methane gas well of the country.

Currently, the state has three Industrial Area Development Authorities (IADAs) headquartered at Adityapur, Bokaro and Ranchi. A fourth IADA is also being planned at Dumka. The state is establishing three-tier growth centres at mega, mini and micro levels. Provision of facilities and incentives to these centres include capital investment and interest sub-

sidy, infrastructure support and priority in power allocation.

There are 28,468 registered small-scale industry (SSI) units in the state along with an estimated 134,752 unregistered SSIs. An auto components industry cluster has been established at Jamshedpur under the Small Scale Cluster Development Programme. Most SSIs are ancillary industries, which are spin-offs from mega-projects and industrial clusters such as Jamshedpur and Bokaro. Entrants like Timken and Cummins have helped introduce best practices, including state-of-the-art operating procedures in the local production environment.

A Single Window System office is operational since August 2003, creating a favorable environment for business. A state-level committee for speedy clearance of projects exceeding $11 million in investments has also been formed. The State Industrial Policy 2001 aims at infrastructure development, lesser number of regulations and speedy clearance of new projects.

Due to above initiatives taken by State Government, prominent Investors have invested in Jharkhand. Examples are Jindal Steel & Power Ltd. in Ghatshila & Patratu [Pellet Plant, Sponge Iron & Steel Plant]; Aadhunic Alloy & Power Ltd. in Kandra [Pelletisation, Sponge Iron & Steel]; Essar Steel in West Singhbhum [Pellet Plant, Sponge Iron & Steel Plant]; Tata Steel Ltd (Green Field Project) in Manoharpur & Chandil; Tata Integrated Steel Plant in Jamshedpur; JSW Steel Ltd. in Heslong & Nimdih; Mukund Steel in Hazaribagh & Barlanga; Rugta Mines in Khunti [Integrated Steel Plant].

Exports have not been commensurate to the state's potential. But the resources remain largely unexploited due to inadequate infrastructure support and connectivity. For instance, Jamshedpur, which is an important manufacturing centre for a number of engineering products, is not connected by air with any capital city in the country.

Along with it, some more key Industries which are having business potential in Jharkhand is Fertiliser, Zinc, Cement, Locomotive and Lac-based Industries.

Research priorities

There have been many researches but still there is a further scope of studies in the following areas:-

1. Forecasting of Revenue generation through State's resources either production at home [like in SAIL-Posco deal] or Ores are exported for another raw material used in production of Steel/Chemicals etc. [through barter system]
2. Role of SBI in these transactions
3. Behaviour of Rupee against Major currencies [Asian Countries/Euro/US$] to analyze the Market and suggest the possible Silk route for further business moves
4. Possible location for Investors – [Jharkhand is not in the Top 15 list of Investor's choice. Maharashtra tops the list].

Conclusion

Wide ranging process of economic reform was witnessed in India during the last one and a half decade. The main component of this process is the opening up of the foreign trade segment. The policies relating to import liberalization, export promotion and attracting foreign investment are the main features. Due attention has been paid to enhance the competitiveness of the domestic industry by importing quality and cost-effective inputs and technology and thus increasing its efficiency. The objective is to make exports grow faster and turn it into an engine of growth for the economy as a whole.

But it does not apply to all regions of the country. Jharkhand is one such state which is lagging behind in the foreign trade segment. The State claiming fourth position in the country accounted for 7.72% of the total value of mineral production during 2010-11. The value of mineral production in Jharkhand for the same period was at Rs.16,402.08 crore. If we are able to use the forex products extensively in mineral-rich states like Jharkhand, we will certainly lessen the gap of vertical inequality (rich and poor populations) and horizontal inequality (mineral-rich & mineral-poor regions like Sighbhum and Plamu districts). ("How Mineral-Rich States can Reduce Inequality" - Michael L. Ross).

A further study can be done in this area to investigate the relevance of forex products for a particular product in Jharkhand as well as in other states with the same methodology applied in this research work.

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