# Redefining Barter System for Sustainable Economic Development: Prospects & Challenges

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***Abstract- The recent fall in the rupee was mainly due to conditions in the euro zone, plunging stock markets, falling foreign investment inflows, rising fiscal deficit and untamable inflation and strengthening of the dollar. As India runs a large current account deficit, it needs a constant inflow of dollars, which is not there. High oil prices inflated the import bill and resulted in further widening of the current account deficit, which accelerated the rupee fall. Just by closing some petrol bunks, India cannot control the oil imports. There should be a solution to this problem that will lead to sustainable economic growth of the country. Before governments and currencies, trade was done through the barter system- the exchange of goods. Introduction of currencies enabled a common denominator by which goods could be more easily valued, thus currencies became the medium of exchange. The US Dollar is currently the world reserve currency. But as countries across the world find it difficult to accommodate certain US demands and are barred from using its financial system, they have to find out a medium of exchange- be it their respective national currencies or commodities (barter trade). Essentially what this does is that it takes the US Dollar away from being the sole medium of international exchange and instead, two countries can trade on one national currency and the nation receiving the currency can use the same for purchasing goods from the other country. If practiced in India, this would enhance the rupee value and bring it back to its original position. And even though the India-Iran deal may just be a small step, it also gives us a peek into the future- a future where countries can engage in free trade without its interests being held hostage by the demands of any country. India is grappling with a current account deficit (CAD) exerting tremendous pressure on the rupee. Controlling imports and reducing the trade balance is one of the key strategies for reining in the CAD. The present paper highlights on the prospects of indigenous trade system i.e, barter system for sustainable economic growth of our country.***

***Index Terms- Barter trade, Current Account Deficit, Rupee Value, Economic development***

## I. INTRODUCTION

Before governments and currencies, trade was done through the barter system - the exchange of goods. Barter is a type of trade where goods or services are exchanged for a certain amount of other goods or services; no money is involved in the transaction. It can be bilateral or multilateral trade. It is a word frequently used as a synonym for 'negotiate/negotiation', but this usage is incorrect. Barter trade is common among people with no access to a cash economy, in societies where no monetary system exists, or in economies suffering from a very unstable currency (as when hyperinflation hits) or lack of currency.

Introduction of currencies enabled a common denominator by which goods could be more easily valued, thus currencies became the medium of exchange. As the international trade developed, valuation of currency of one country against the currency of other country became a trade practice. When the economies were opened up on account of globalization and liberalization because of which cross border transactions increased, the US Dollar was considered as the benchmark for valuation of the currencies of all the other countries and treated as the sole medium of international exchange. So, currently US Dollar is the world reserve currency.

But as countries across the world find it difficult to accommodate certain US demands and are barred from using its financial system. India is not an exception to this. The recent fall in the rupee was mainly due to conditions in the euro zone, plunging stock markets, falling foreign investment inflows, rising fiscal deficit and untamable inflation and strengthening of the dollar.

Therefore, these countries including India have to find out a medium of exchange - be it their respective national currencies or commodities (barter trade). Essentially what this does is that it takes the US Dollar away from being the sole medium of international exchange and instead, two countries can trade on one national currency and the nation receiving the currency can use the same for purchasing goods from the other country. If practiced in India, this would enhance the rupee value and bring it back to its original position. And even though such a deal may just be a small step to begin with, it also gives us a peek into the future- a future where countries can engage in free trade without its interests being held hostage by the demands of any country. Controlling imports and reducing the trade balance are obviously one of the key strategies for reining in the CAD.

## II. OBJECTIVES OF THE PAPER

The paper aims at:

- Analysing the present trade and economic position of India with the different Asian countries.
- Evaluating the prospects for Barter Trade with the above mentioned countries in order to appreciate the rupee value against the dollar
- Analysing the challenges of barter trade in the present economic scenario

## III. METHODOLOGY

This paper is prepared on the basis of the analysis of the secondary data from journals, newspapers, journals and related websites.

## IV. CONCEPTUAL BACKGROUND

The general term "barter trade" comprises a number of different types of transactions. These are: pure, partial, local-currency barter, compensation trade; clearing agreements, product buy-back, co-production, and barter for services. Barter traders use many of these terms frequently, in practice interchangeably and imprecisely.

i) Pure Barter:

In pure barter, money enters into the transaction at most as a unit of account. The parties may refer to the trade as involving goods worth X million dollars, but negotiations are actually in terms of physical quantities. When it does occur, the size of the transaction is frequently very large and tends to be negotiated on a government to-government basis.

The 1973 / 1974 oil crisis gave rise to several such barters:

In December 1974, France agreed to swap long list of industrial products, hydroelectric power stations, and arms to Iran in return for guaranteed supply of oil.

Britain agreed to buy five million tons of oil from Iran in exchange for 110 million of steel, cement, rubber, and paper. Iran negotiated the sale of these products directly with the individual companies. One recent case of pure barter involved the exchange between Bangladesh and Pakistan of jute for cotton. The negotiators agreed on the quantity to be traded and that the transfer would occur simultaneously. The two countries engaged in a barter partially to conserve scarce hard currency.

ii) Partial Barter:

Partial barter is common in East-West trade. In this mode the EB buyer pays in both goods and hard currency. Negotiation establishes the proportion with 20% to 50% in goods being typical. Recently, in an attempt to reduce their trade deficits, the EBCs have increased their pressure on Western firms to accept partial barter and to take a greater proportion of goods.

iii) Local-Currency Barter:

This mode differs from the preceding one only in its mechanism. The Western firm sells its goods and accepts payment in the local currency. Under the terms of the agreement it can use these funds to buy from a list of local products. As in the case of partial barter, the list is the subject of negotiation.

For example of this mode, a few years ago, a Swiss pharmaceutical company entered into a barter agreement with Bangladesh the Swiss firm invoiced its pharmaceutical shipments in Swiss francs but accepted payment in Bangladesh taka in a local account. A Swiss barter house helped to negotiate the deal and administered it for a fee for goods like jute, tea, hides, skins and shrimp; and other goods.

iv) Compensation Trade:

Compensation trade or counter- purchase involves at least two parallel contracts. On the one hand, the Western firm is paid in hard currency for its products. On the other, it signs a separate contract to buy an equal value of goods from the importing country. The reason for the two contracts is that most Western countries will only provide government export credits and guarantees for exports that are paid for in cash. There is frequently a third contract also, the financing package.

Pepsi Co's arrangement with the USSR is a good example of compensation trade. Pepsi ships syrup to Novorossiysk where the Russians bottle it under the company's supervision. The Soviets then distribute and sell the soft drink throughout the country. Pepsi Co agreed to take Stolichnaya vodka in payment for its syrup and the use of its trademark. What converts this transaction from a pure barter to a compensation agreement is that the amount of syrup which the USSR buys depends on the amount of vodka Pepsi can sell in the US.

v) Clearing Agreements:

A clearing agreement represents monetary trade using the "book" money. The two countries establishing the arrangement agree to exchange products over some specified period and up to some maximum value. Each country agrees to accept as payment for its exports to the other, a credit in a special account maintained in its name in the other's Central Bank and Debits to this clearing account then pay for imports from the other country.

vi) Product Buy-Back:

Under this system, the exporter in the West, barters to the EBC, the technology to build a factory in return for some of the output once it is in operation. The terms of such agreements may require that the firm buys back 20-30% of the plant's annual production for a period of 10-15 years. Buy-back frequently poses problems, though, for the Western firm, particularly in the areas of quality, delivery, manufacturing output frequently does not match Western standards. Therefore, most agreements contain a clause giving the Western partner nearly absolute control over quality.

Bendix agreed to build a spark plug plant in the USSR, and to market 25% of the output in the West. The plugs were to be marked “Made in the USSR” and sold under the Bendix label.

vii) Co-production or Co-operation Agreements:

In a co-production agreement, both partners customarily make reciprocal deliveries of components which they use in a jointly finished product. Generally, the East Bloc partner produces the majority of the parts, while the Western firm provides the more sophisticated components. The reciprocal deliveries represent a barter payment mechanism. This is completely separate from the mutual marketing and/or profit-sharing arrangements, if any, which the partners may make.

Western firms enter into cooperation agreements for a variety of reasons. In particular, they hope to get access to a new market and to take advantage of lower wages in the East Bloc. The Eastern European firms gain new technology and a wider market for their products. Even so, individual EB factories may enter into cooperation deals with reluctance despite governmental policy favoring such arrangements. Launching a new product in an existing plant can cause a temporary reduction in output and endanger the factory's overall plan fulfillment.

viii) Barter as Payment for Services:

Co-production and product buy-back include a component of barter for services. Goods pay for technical assistance. Many ordinary barters have a similar aspect in that the goods the Western firm or barter specialist accepts represent payment for marketing services as well as the original merchandise. While the countries could buy marketing services for cash, they prefer to conserve their hard currency

## V. ESSENCE OF BARTER IN INTERNATIONAL TRADE

### *A. Price Distortions:*

When prices are out of line with the real scarcity value of goods, individuals will turn to barter. For instance, after World War II prices in Germany were still frozen at 1936 levels even though wartime financing had increased liquid funds in the public's hands tenfold. Prices were so out of line that legal sale could frequently take place at a financial loss. A small "black market” developed, as did a great deal of "compensation trade." Sale took place at legal prices in money, augmented by compensation in real goods and services. Part of the explanation for the emergence of barter trade during periods of inflation, recession or uncertainty is that during these periods prices may be "sticky" for legal or institutional reasons.

*B. Liquidity and Credit:*

The barter arrangements that have grown up since World War II, particularly the clearing agreements, serve another function, that of providing liquidity. Even when countries want to engage in monetary trade they may be unable to do so because of a shortage of international reserves. The reserves are assets which national governments are ready to accept from other national governments in settlement of debts. Because of this acceptability in transactions between countries, governments accumulate these assets and use them as "reserves" against periods when aggregate payments to foreigners exceed aggregate receipts from them.

*C. Terms of Trade:*

Countries, like individuals, tend to want to receive a higher price for what they sell, and pay a lower one for what they buy. Barter can assist them in achieving both these aims.

*D. Long-term Contracts and Trading Relationships:*

Some barter agreements represent what are in essence exchanges of long term futures or options contracts. This is certainly one aspect of most clearing agreements. The inter- country oil barters after 1973 referred to earlier are another example. The recent Japanese-Chinese trade agreement may be a third. In effect what the parties to the barters are doing is exchanging long term purchase contracts, and options (the right, without obligation, to buy or sell specified goods at specified prices over the period of the agreement). The futures contracts' ability to reduce uncertainty is especially important to centrally planned economies because of their plans' sensitivity to unexpected developments.

## VI. PROSPECTS IN BARTER TRADE – INDIAN SCENARIO

For much of the last decade, the rupee traded strong beyond what its fundamentals justified. Today, it is the other way round. Since June 2013, the six-currency trade-weighted REER has dropped below 100; the latest number for July was 96.94. It implies the rupee had already substantially corrected by June, when its exchange rate averaged about 58.4 to the dollar. But, at the existing Rs 65-68 levels, the rupee is an ‘undervalued’ currency, given that its ‘real’ parity is around 58 to a dollar. In a bear market where everyone wants to ‘short’ it, the rupee will remain under pressure. In practice, the price of a commodity is usually determined by the law of supply and demand and rarely by its underlying ‘value’. The same is true of the rupee.

The current global recession has fueled barter trade and the trend is gaining momentum in India as well. The best way to reduce the demand for dollars is Barter system. In the current economic downturn, the global barter exchange companies are growing by 15 to 60 per cent and the same trend is fast catching up here in India too. Businesses are becoming more receptive to the idea of barter. The slowing economy has certainly helped to grow the barter exchange. What makes this concept unique is that besides goods and commodities, it facilitates bartering and giveaways of services and even concepts. Thus, barter system of trade will lead to a sustainable economic development as it will find the right partners for trade and also sustain the partnership for a long period.

According to the statistics, barter is still just a fraction of Indian trade. Nearly 30 per cent of world business is barter and 65 per cent of Fortune 500 companies engage in barter in one form or another; whereas, Indian barter is a mere 10-12 per cent of trade. America's Universal Barter Group claims 65 per cent of the companies on the New York Stock Exchange, are involved in barter. Indian corporate world is fast catching up with the increased global barter practices.

Barter in Internal Trade

The ancient system of barter can work best during recessionary times, when a business is struggling with its cash flows. It also works well to unload inventory that is not moving and the firm doesn't need to invest time or money in marketing.

Liberty Footwear, Cavin Kare, Emami, OCM Woolen Mills, Lux or Writing Pens, Radisson Hotels and many media publications swear by barter deals. They offer finished goods in exchange for, say, media space or furniture, equipment, free gifts, footwear, electronic goods and a host of other products and services. The trick is to find the right fit in a prospective partner, someone who has something you need and vice-versa.

Finding The Right Partner

"The growth of bartering doubles during recessionary growth phases. Also, when cosmetics or other FMCG companies want to alter the packaging of their products, they barter their old goods," says Manoj Kumar, National Head, Sales, Tradex, a sister-concern of Chennai-based Synapse Trade Solutions.

Companies also use barter to tide over tough times. When there's potential to trade, can agents or facilitators be far behind? So, although some companies like Fractal Ink ask their own vendors whether they would accept their services instead of paying in cash, there are a host of small and medium companies that use the services of barter exchanges or facilitators such as Network4barter, Ormita, Tradex, Barter India, IBX, BBX Barter Services. There is no dearth of products on offer as the exchanges have a vast network.

For instance, BBX has trans-national coverage of 10,000 clients, Network4Barter serves more than 500 companies, Tradex has a footprint of 2,500, while Barter India boasts over 1,600 customers.

Pricing Bartered Goods

Usually, the value of the bartered goods is at par with the maximum retail price (MRP) but never more than that. So, it works to check the market value of the goods offered, to avoid receiving products whose value is lower than the firms goods. Also, the client could bag discounts on the MRP offered. "If the products are approaching their expiry date, companies offer a 10-per cent discount," says Irfan Bage, Manager, Sales and Business Development, Tradex.

Barter in International Trade

Rising fiscal deficit and untamable inflation were behind the fall in the rupee. As India runs a large current account deficit, it needs a constant inflow of dollars, which is not there. High oil prices inflated the import bill and resulted in further widening of the current account deficit, which accelerated the rupee fall. Just by closing some petrol bunks, India cannot control the oil imports. There should be a solution to this problem that will lead to sustainable economic growth of the country. Barter in international trade will help India to bring its Rupee value to its real position, by reducing the demand for dollars in international trade and also reducing the further widening of the Current Account Deficit. The following are the Barter trade possibilities in the International market

India & Iraq

Crude oil is the largest component of India's import bill, accounting for a third of the total. Iraq has now emerged as India's second largest supplier of crude oil after Saudi Arabia. Unlike other commodities whose global prices have fallen significantly in recent months, crude has exhibited no signs of bearishness.

Fact Sheet:

- Since April 18, when it touched a nine-month-low of $ 97.18, the average cost of crude imported by Indian refiners has risen to cross $109 a barrel. Taking into account the substantial currency depreciation over this period, the effective increase in rupee terms works out to over 36 per cent. The ongoing geo-political tensions in Syria and civil unrest in Egypt make any respite on the crude front unlikely in the near term.
- In 2001-02, the country's top four suppliers were Saudi Arabia, Kuwait, Nigeria and Iran. Today, the No. 2 and 3 slots have been taken over by Iraq and Venezuela, with Kuwait pushed to fourth position. While western financial sanctions have reduced oil imports from Iran by about 40 per cent, the vacuum has been more than filled by Iraq and Venezuela.
- Iraq, has a huge infrastructure rebuilding requirement resulting from the 2003 US invasion and the internal strife that followed

Prospect for barter trade:

- Since Iraq, has a huge infrastructure rebuilding requirement, payments for Iraqi oil can be tied with contracts for execution of engineering, procurement and construction projects for Indian companies.
- The fact that the visiting Iraqi side showed interest in such cooperation, including turnkey railway projects and sourcing of power equipment from India, indicates the potential here. Likewise, there is no dearth of things – rice, oil-meals, tea, pharma and engineering goods – that India can supply to oil exporting countries on barter. Our foreign policy must be tailored to promote these goals.

India & Iran

Any attempt to control the CAD should obviously start with reducing the crude oil import bill. Yet, buckling to unfair pressure from the U.S., the Indian government has been cutting down on imports from Iran over the past three years.

Fact Sheet:

- As India fell in line with U.S. sanctions, it reduced its oil imports from Iran from 21.2 million tonnes in 2009-10 to 13.2 million tonnes in 2012-13. In the first five months of this fiscal, the country imported just two million tonnes of crude oil from Iran.
- However, the time has now come for India to unhitch itself from the American bandwagon and step up crude imports from Iran in its own interests. According to a proposal the Petroleum Ministry has sent to the Prime Minister, the country's dollar payments for its oil imports can be brought down by $8.5 billion (almost 10 per cent of the CAD) if it imports as much oil from Iran as it did in 2012-13, which is another 11 million tonnes.
- Iran is the biggest importer of basmati rice, especially long-grained Pusa1121 variety, from India.

Prospects for Barter Trade:

- Iran, which is stifled by U.S. financial sanctions, is willing to sell oil to India in exchange for payment in rupees. With Iran offering the comfort of rupee payments through a bank account with an Indian bank in Kolkata, India should now push the advantage and maximise its oil purchases from that country. Such a move will ease the pressure not just on the current account but also in the forex market as the oil companies will be buying that many dollars less.
- Oil companies are big buyers of dollars and have the potential to influence the forex market. The rupee payment route has the trappings of a barter deal, except that the goods are not exchanged for each other. It must be admitted that while payment would not be made in the US dollar, valuation of the oil imported would factor in the prevailing quotations in dollar terms. The reduced demand for the greenback would bring down the exchange rate in India's favour.
- Iran is willing to sell oil to India against the Indian rupee, which admittedly is not a hard currency, freely tradable in the forex markets across the globe. Iran knows this, but is willing to do business with India on the understanding that it will buy goods it needs from India using the rupees it has earned through oil sales. This should be fine with India, given that payment would be made in the domestic currency.
- We must also explore more and more possibilities of entering into counter-trade arrangements which is a more direct form of barter. Since, Iran is the biggest importer of basmati rice, especially long-grained Pusa1121 variety, from India. In 2012-13, Iran accounted for about 10.82 lakh tonnes of basmati rice export, out of total 34.56 lakh tonnes, from India. Punjab, especially Amritsar district, contributes maximum to the export of Pusa1121 rice to Iran. "More than four-five lakh tonnes of Pusa1121 rice is exported from Amritsar, out of nearly 10 lakh tonnes sent to Iran from Punjab. Hence, here is the potential for barter trade.

India & Bangladesh

The cotton season in India runs between October and September. India's cotton exports are estimated at around 100 lakh bales in the current cotton season. At present, exports of cotton are in 'open general licence' category with registration of export contracts by the Indian Directorate General of Foreign Trade. The two countries also exchanged the final draft of a cotton purchase deal and signed a textiles sector collaboration agreement after a meeting between visiting Bangladesh's Textiles and Jute Minister and Indian Textiles Minister here. There is, however, no official word from either side as to when the agreement on cotton purchase will be finalised and signed.

According to Indian Textile Minister, under the proposed cotton purchase agreement, it is assured Bangladesh's textiles minister that Bangladeshi textiles mills will get a smooth flow of cotton and would have no difficulties in sourcing it from India even if we have to ban cotton exports to other countries.

Fact Sheet:

- India has agreed to export 20 lakh bales of cotton to Bangladesh in the 2013-14 cotton season starting in October, even if a ban is imposed on such exports. Bangladesh had sought a minimum of 20 lakh bales and India assured them that we will give them that much and not ban it. India's cotton production was 340 lakh bales (170 kg each) last year and consumption 270 lakh bales, leaving a surplus of 70 lakh bales.

- In the previous season, the country exported 129 lakh bales. The textiles sector collaboration pact came into effect recently in August and will remain in force for a period of five years. The agreement will be reviewed in every two years.

Prospects for Barter Trade:

- Under this textile cooperation pact, India and Bangladesh would cooperate in different areas like fashion technology through exchange programmes, skill exchange through institutions and upgradation and enhancement of productivity, efficiency, management techniques and research and development. The pact was signed by Indian Textiles Secretary Zohra Chatterjee and Bangladesh Textiles Secretary Ashraful Moqbul.
- Also, the two sides discussed about establishment of a successor organisation for the International Jute Study Group in Dhaka through joint efforts at the UNCTAD. India and Bangladesh together account for nearly 94 percent of the world's production of jute and allied fibre.

India with Middle East & North Africa

India is an emerging country in respect of supply of computer software and services to different parts of the world. Kamal Vachani, regional director of Electronics and Computer Software Export Promotion Council of India, said Indian exporters can expand their markets with their innovation, quality and cost effectiveness. As Vachani says, "because of its strategic location and the facilities Dubai can be the gateway for exports of computer software products and services to the North Africa.

Fact Sheet:

- Despite global economic slowdown, India's export of Computer Software and Services during 2012-13 registered an estimated growth of 10.26 per cent over the year 2011-12. The export of computer software and services during 2012-13 has crossed USD 75 billion from USD 68 billion in 2011-12.
- The Middle East and North Africa region has huge potential for export of India's computer software and services sector.

Potential for Barter trade:

- The upcoming India Software event in November in Mumbai is an opportunity for the entrepreneurs from the Middle East region to join hands with the leaders in Mobile services applications, cloud computing, big data management, BPO, e-security, Banking, Finance, Insurance, telecommunications, Media & Entertainment, Bio Informatics, Engineering Design and others.
- The Electronics and Computer Software Export Promotion Council, ESC will host around 400 IT buyers from more than 75 countries including those from the Middle East and North Africa region for business networking.
- This event will surely help India to enter into barter agreement with these countries for import other necessary goods in exchange for export of computer software and services.

India with Korea

Textiles and garments is among the three sectors for which India has sought greater access in the South Korean market. At a bilateral meeting between India's Minister of Commerce and Industry Anand Sharma and his Korean counterpart Mr. Yoon Sang-jick on the sidelines of Asean Ministerial meeting in Brunei, Mr. Sharma pointed out the widening trade deficit for India.

Realizing the need for more balance in the bilateral trade, the Korean Minister agreed to consider providing better market access to Indian products.

Fact Sheet:

- In 2012, India's exports from Korea stood at US$ 4.14 billion, while imports were US$ 13.50 billion. In January-June 2013, India's import from Korea stood at US$ 6.34 billion, while exports were US$ 1.77 billion in the same period.
- In the first two years of implementation of Comprehensive Economic Partnership Agreement (CEPA) with Korea there was 70 percent growth in the bilateral trade.

Prospects for Barter Trade:

- Mr. Sharma identified textiles and garments, information technology and generic medicine as the three sectors in which India needs greater access to the Korean market.
- Shortly, 12 National Investment and Manufacturing Zones (NIMZ) will be coming up in India as part of the National Manufacturing

Policy which aims to increase the share of manufacturing in GDP from the current 16 percent to 26 percent, and elaborated on the huge opportunities available for the Korean companies to invest in infrastructure development in India. So, both these countries have great potential for barter agreements.

India with China

Bharat Malkan, proprietor of IB Yarn Agency, a trader and exporter of cotton yarn, said: "While demand from China, Brazil and Turkey is on full swing, enquiries have started floating in from Europe and Italy also after four years of uninterrupted halt." Another factor which helped exports is the record depreciation in the rupee against the dollar. Exporters have rushed to sign a pact with importers at the current exchange rate and lock in till exports are executed.

Fact Sheet:

- The registration for cotton yarn exports has jumped 55 per cent in the first four months of the current financial year due to resurgence in Chinese demand. If the trend continues, cotton yarn export will likely to hit a new record this year.
- Data compiled by the Directorate General of Foreign Trade showed traders and exporters had registered for a shipment of 488.15 million kg between April and July 2013, compared with 314.19 million kg in the corresponding period last year.
- Export registration for cotton yarn almost doubled from 245.84 million kg in the April-July 2011 period. "If the trend continues, cotton yarn exports would beat all previous expectations to set an all time record this year," said D K Nair, secretary general, Confederation of Indian Textile Industry.
- Also, cotton price jumped 11.79 per cent to trade at Rs.3,329 a quintal on August 19 against Rs.11,923 a quintal a month ago.
- According to Arun Sakseria, a Mumbai-based cotton trader and exporter, the government of China has levied around 40 per cent accumulative import taxes and local levies to encourage local power loom and textile sectors. In contrast, import duty on cotton yarn works out to seven-eight per cent.
- Meanwhile, the benchmark 40's count combed cotton yarn price moved up by four-five per cent in the last one month to trade between Rs.250-255 a kg in Mumbai.

Prospects for Barter Trade:

- According to reports, the Cotton Yarn Advisory Board has projected a marginal 14.2 per cent increase to 1,150 million kg in cotton yarn exports from India this financial year. But actual exports could be even higher. Total cotton yarn production this year is estimated at 4,000 million kg.
- China produces around 6.7-7 million tonnes (mt) of cotton annually against the country's consumption of 9.5 mt.
- India can fill the above gap in exchange for cost effective electronic goods.
- Challenges
- The main drawbacks of Barter system can be summarized as below:
- Barter system relies on the understanding between countries and the *needs* of each other. The needs of countries *should be complementary*. This may not be the case everywhere putting a constraint into the trade plans.

However, the *multilateral barter system* is a solution to the above stated problem. This increases the prospect of being able to find your exact needs and also works well in improving the relations amongst nations.

- A major problem with the barter system was the issue of *common measure of value* i.e. there was no reference value to which goods could have been mapped. Some goods had to be devalued so that a barter exchange can be brought into the picture. This may not augur well for some of the small countries as their economy depends on the production.

However to tackle this countries can bilaterally or multilaterally agree to a certain *reference value* so as to bring uniformity. This would be a mutually agreed treaty amongst the participating countries and would work in the interests of the states.

- Barter system deals with the exchange of goods amongst the countries. Goods are kept in a physical form and this requires a *storage cost* which includes rent for the space taken, property taxes, security costs and utilities such as electricity and water. Also warehousing has repair and maintenance costs and all the above are part of warehousing costs. Transportation of goods forms a major chunk and includes freight charges, insurance amongst others.

- Storage of goods in physical form brings into perspective the *perishability* and overhead loss of some goods. Also there may be deterioration in the value of good over a period of time due to external and internal factors. For ex: Crude oil imported at the rate of 100$ per barrel, can deteriorate to a value of 95$ in a span of a week due to the world economy changes. This results in value deterioration and loss to the organization.

To counter this, the companies might follow an *increased sale value* thereby valuing the goods more than the actual just to balance the loss that might arise out of such a scenario.

## CONCLUSION

Considering the pros and cons of the barter, introduction of the barter will be the partial barter in these initial days acting only for crude oil with some specified countries. The result can be analyzed in the coming days with measuring the contribution to GDP, reduction in the cost of the petroleum products, inflation rise percentage and transportation cost of the materials inside India. Going forward Indian government can also remove the subsidy against many items saving the tax payers money and investing in other required sectors.

Money is otherwise known as fiduciary money. So let’s take this jargon in a globalized manner and establish the trust with other countries as well as internal trust between different Indian companies, and the government.

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