THE IMPACT OF CURRENCY CLAUSES ON EXPORT PRODUCT COMPETITIVENESS

ВПЛИВ ВАЛЮТНИХ ЗАСТЕРЕЖЕНЬ НА КОНКУРЕНТОСПРОМОЖНІСТЬ ЕКСПОРТНОГО ПРОДУКТУ

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In nowadays, the foreign producers easily compete with lower prices, because of lower transport costs, taxes, fees, etc. for their countries against domestic producers in Ukraine. National enterprises have fewer benefits and are forced to find new ways of enhancing export products competitiveness; develop effective international trade politics with more attractive conditions for consumers. The traditional way of competing become less effective and should be fine new way of keeping in track at the international market. At the moment, fluctuations of the exchange rates in Ukraine can be used by Ukrainian producers to improve the trade positions of at the international market. The currency clauses are a new way of reducing the exchange rate exposure.

Analysis of recent researches and publications

The "currency clause" is new definition in economic against legal practice, but the definitions appeared from economic terms such as "currency" etc. "Currency" and "exchange rate" definitions are widely determined by international organizations such as the IMF, the World Bank, etc. S. Stelmah, Y. Kozal (Kozal, 2008, 2006), A. Yepifanov (Yepifanov, 2007) and others provided separate definitions. E. Zvonovoy (Zvonovoy, 2014) compared changes in exchange rates and product competitiveness based on cost structure, price, and trade. The foreign exchange risk...
management within currency was investigated by such national professors as F.Zhuravka (Zhuravka, 2007, 2003), S. Mykhailichenko, V. Mishchenko and others. D. Miljkovicand V. Ristanovic (Miljkovic D., Ristanovic V., 2018) investigated the usage of currency clause in credit operations for the analysis of the profitability of the banking sector in Serbia.

**Unsolved aspects of the problem**

The usage currency clauses as a method of competition with foreign producers.

The aim of the article is to examine effectiveness of currency clauses on export products competitiveness amount Ukrainian producers by using theoretical basis for the implementation of foreign currency in enterprise’s export operation for enhancing export product competitiveness.

The method of researching is the currency clauses in the export operations of Ukrainian producers by modeling their implementation in international trading.

**The main part**

The international trade always operates in national or foreign currency based on a foreign trade partner. The general adopted legal tender of the particular county is called "currency". S. Stelmah determines "currency" as a monetary unit of a particular county, which used in calculation during comparing monetary units of different counties. Economist Y. Kozal frames the term “currency” as a product, which can be used as a medium of exchange function in international payments. The currency provides connections between national and international households. The majority of countries have national currencies with a purchase value and a particular article, symbol. As usual, the currency of a particular country is issued by Central Bank of the country. For example, Swedish official currency is the Swiss franc; in China, it is the Yuan, etc. Moreover, a currency in different countries can have the same article, but a different value (e.g. American and Australian dollar) (Investopedia, 2018; Kozak, 2008; Zhuravka, 2007, 2003).

The currency is able to fall into categories depend on the independence, the level of elastics, the participation in currency operations, the level of convertibility (tab. 1).

The feature by the independence determines such types of currencies as: national, foreign and international (regional) currency (see tab. 1). The national currency is a monetary unit (a legal tender) of a particular country in a form of banknote, coins or etc., which is in turnover of this country. The foreign currency is a legal tender (a monetary unit) a foreign country in a form of banknote, coins or others, which is in turnover of the country (Investopedia, 2018).

It is divided two groups of currencies depend on the level of elastics: hard and soft currency (see tab. 1). The first type is a currency with a high stability and it is adopted as an acceptable method of payments. The high level of stability of hard currency is provided by government of country where it is issued. As a rule, such type of currency is in the developed countries with strong industrial economies such as: the USA (US dollar – USD), the UK (pound sterling – GBP), Euro zone (euro – EUR) etc. The soft or "weak" currency characterizes as a volatility currency, which sharply reacts to political, economic and another events (e.g. Russian ruble) (Investing Answers, 2018; Economic time, 2018; Market business news, 2018; Zhuravka, 2007).

The participation in currency operations demonstrates a currency role in international transactions such as the currency price of a contract, the currency of payment, the currency of credit; debt and etc (see tab. 1). The currency of contract price (the currency of price) is a monetary unit, where goods of the contact are valued. The currency of payment is a currency of an agreement, in other words, a currency in which all payments are made in the specific currency according to the contract. The currency of price and the currency of payment can be calculated in the same currency, but do not coincide. In such case, a supplier (exporter) and a buyer (importer) use their national currencies. In the currency of credit, credits are made. In the currency of debt expressed debts from international commercial credits (Kozal, 2008, 2006).

The one of the important features of currency it is ability to be converted. The "convertibility" is an ability of one currency to be in legal exchange to other country’s currency without/with some limitations by participants of foreign economic agreements (residents or no-residents). The level of convertibility is an opposite of relationships between reserve currencies and restrictions which are established in country (WealthHow, 2017; Zvonovoi, 2014).

**Table 1. The different types of currencies by characteristics**

<table>
<thead>
<tr>
<th>Feature</th>
<th>Categories of currencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independence</td>
<td>National, Foreign, International (regional)</td>
</tr>
<tr>
<td>Level of elastics</td>
<td>Hard, Soft (weak)</td>
</tr>
<tr>
<td>Participation in currency operations</td>
<td>currency of a contract price, currency of a payment, currency of an agreement</td>
</tr>
</tbody>
</table>

Source: own elaboration
As a rule, currency converts in another currency in relative price. It is determined as an "exchange rate". The exchange rate for fully convertible currencies is set up at a point where the forces of supply and demand meet at the international markets. According to the IMF’s classification, there are floating and fixed exchange rates (ER). The fixed ER is established by a central bank as a permanent ratio of national to foreign currency exchange. The floating ER is result of demand and supply at currency market and government does not interfere in its forming (Zhuravka, 2007, 2003).

In an international sale agreement "currency clause" should be understood as a condition that defines the terms of payment due to differences in the quotation of different currencies. In another words, currency clause is, in its essence, a contractual rule that changes the amount of payment in the currency of payment according to changes in the currency of payment to the currency of the contract price (Zhuravka, 2007, 2003).

The background of the researching would be the Ukrainian currency market. According to the fig. 1., the general tendency for such hard currencies as USD, EUR and PLZ is optimistic. These currencies are hard and reserve currencies, free convertible in Ukraine. Plus, these currencies are national currencies of key trading partners. The official exchange rate of hryvnia (UAH ER) is a rate of a national monetary unit to each foreign currency, and is established as a weighted average rate of buyers and sellers by National Bank of Ukraine. Starting from March 31, 2015 NBU establish ER one time in the end of work day and it actual during next working day.

![Fig. 1. UAH exchange rate to the leading world currencies (2008-2018)](source: own elaboration)

The exchange rate increasing for all currency pairs general tendency (fig. 1) shows. The GBP/UAH exchange rate demonstrates the fastest growing dynamics. At the same time, EUR/UAH exchange rate and USD/UAH exchange rate are more stable in their dynamics and provide stable exchange rate margins for the producers. The UAH lost third of its value during last years (International Monetary Fund, 2018; Pound Sterling Live, 2018; Ministerstvo Finansiv Ukrainy, 2018).

In the article of Miljkovic D. and Ristanovic V. was demonstrated that currency clause is an instrument of asset protection, and income from the same. But currency clauses are not effective in banking sector because of there are no the costs of removing injustice in banks. This solution had positive effects on the national economy from the standpoint of, economic growth and fiscal revenues. In this investigation the effectiveness of currency clauses in export operations would be examined (Miljkovic, 2018).

The correlation analysis between currency and export products price would be based on activities of LLC "Gorobyna". LLC "Gorobyna" is a strong producer of alcohol beverage in Ukraine with high export effectiveness of products, but with a volatility position at international market because of fluctuation exchange in Ukraine. The company exports to different countries with hard currencies China, Germany, the USA, European and other countries (Gorobyna, 2018).

Let’s consider next trading situation:

On November 18, 2018 LLC "Gorobyna" concluded a contract with Polish importer for delivering 30,000 bottles of vodka "Ultra-light" (0.5 l). The currency of contract is national currency of trade partner – Poland zloty (PLZ). In the same time, the exchange rate dated November 18, 2018 is USD/PLZ=3.7687 (UAH 100 = USD 2777.4; UAH 100 = PLZ 731.3). The exchange rate dated December 6, 2018 USD/PLZ=3.7716 (UAH 100 = 741.7; UAH 100 = USD 2777.7). As a result, the price of contract
December 6, 2018 is the date of arranging payments by Polish importer (Ministerstvo Finansiv Ukrainy, 2018).

The currency of the contract is U.S. dollar (USD) and the currency of payment is Poland zloty. Thus, the fluctuations of the USD/PLZ exchange are not significant for exporter, because price of the trade contract is fixed - $40,200. If exchange rate USD/PLZ is 3.7716 at the moment of payment, the Polish importer should pay PLZ 10,666.81 to LLC “Gorobyna” instead PLZ 10,658.61. Thus, the hedging risk calculation is less on 8.2 zloty (60 hryvnias). Without separating currency of contact and the currency of payment this sum would become the loss of business opportunities. This sum of money can be accumulating more rational (Ministerstvo Finansiv Ukrainy, 2018).

Let’s assume, that US dollar depreciates. In such case, the currency clauses should be used. The currency clause is a currency which defined as an additional reserve currency in economic operations, which is hard and more predictable in its dynamic. For our investigation, the currency clauses would be set up EUR. From Figure 1.2 it was seen that EUR is more stably than USD in currency movements during researching period.

As a result, the trade contract includes next currency clauses: if EUR/USD exchange rate is raised higher than by 2.5% on the date of payment, the contract price in USD would be increased proportionally to the difference between the actual and the specified change.

At the moment of conclusion contact (November 18, 2018) there were next spot rates: is USD/PLZ=3.7687; EUR/USD=1.1362. On December 6, 2018, at the moment of payment, when export product should be delivering, exchange rates are: USD/PLZ=3.7716; EUR/USD=1.1417. Therefore, price of international trade contract is necessary to increase by 1.12%. At the same time, it receives 44,891.34 USD (40,200*1.12%) or 16,931.2 PLZ (40,200*1.12%*3.7716).

In addition, one more additional currency clauses can be write down in the trade contract: if USD/PLZ exchange rate is raised higher than by 2.5% on the date of payment, the contract price in U.S. dollar and Poland zloty would be increased proportionally to the difference between the actual and the specified change.

Thus, at the moment of payment sum of contract in U.S dollars and Poland zloty would increase by 3.75%. In this case, the enterprise has export income in sum of 168,342.5 USD (44,891.34 *3.75%) or 634,920.7 PLZ (44,891.34 *3.75% *3.7716).

So, the effectiveness of use of currency clauses demonstrated in tab. 2. The results of using currency clauses demonstrated the higher effectiveness: for zloty, especially after usage of one clause – 148.72% versus 11.67% in U.S. dollars in the same case. There is correlation between number of used currency clauses and percentages of effectiveness – the one clause 11.67%, the second clauses – 275%.

<table>
<thead>
<tr>
<th>Type of contract</th>
<th>USA currency (USD)</th>
<th>Poland currency (PLZ)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Effectiveness, %</td>
<td>Export revenue, USD</td>
</tr>
<tr>
<td>No currency clauses.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The currency of contract and</td>
<td>0</td>
<td>40 169.1</td>
</tr>
<tr>
<td>The currency of payment –</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poland zloty.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No currency clauses.</td>
<td>0.8</td>
<td>40 200</td>
</tr>
<tr>
<td>The currency of contract – USD,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The currency of payment – Poland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>zloty.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The currency clause – EUR</td>
<td>11.7</td>
<td>44 891.3</td>
</tr>
<tr>
<td>The first currency clause – USD,</td>
<td>275.0</td>
<td>168 342.5</td>
</tr>
<tr>
<td>The second currency clause – EUR</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: own elaboration

The results in the tab. 2 the practical usage of currency clauses in international trade contract domestic exporter, such as LLC “Gorobyna” is necessary conditions in hedging currency risks. Gained results demonstrated very high effectiveness (to 275.0%) after using the clauses. There is a correlation between numbers of used currency clauses and percentages of effectiveness. All earned costs easy able to cover labor costs for currency management. Plus, free money reserves could involve in manufacturing of export products to improve the quality of the company’s brands and improve export product competitiveness.

Conclusions

A currency is a general legal tender of country, which is issued and implemented as a medium of exchange function in international payments. Therefore, it can directly influence market price of domestic products and help to compete with foreign exporters at international market. That is why currency and exchange rate can be powerful instruments in international trading. In case of
Ukraine, there is active volatility in movements of national exchange rate. Moreover, a volatility of exchange rate can strengthen positions at the international marketplace. With using currency and exchange rate, the currency clauses are effective and even profitable for the enterprise. On example of LLC "Gorobyna" it was demonstrated that the currency clauses can be effective instrument of improving export product competitiveness. Moreover, the currency clauses create more business opportunities. All additional funds earned though currency management can be involved in manufacturing for improving quality of product or help make prices more competitive. Both ways will improve export products competitiveness of enterprises at the international market. So, the method of practical usage of the currency clauses is an effective way of hedging currency risks among international producers. The investigation of currency clauses influence trade operation for enhancing export product competitiveness. The main tasks are investigate currency as main aspect of currency clauses; research the influence on example of the LLC "Gorobyna" and demonstrate effect by figures for the export product competitiveness.

Methods. For achieving the goal next methods were used: theoretical and monographic analysis of the research of modern trends, statistical methods for the analysis of the currency market in Ukraine, the method of comparison for parallelization between the different exchange rates in domestic enterprises, the method of modeling to describe the features of currency management with usage of currency clauses.

Results. The article deals with a systematic approach to the level of enterprise competitiveness, which is based on the results of comparative monitoring of competitors’ products, analysis of the enterprise products and competitors. The author identifies the strengths and weaknesses of the enterprise products. This approach is aimed at achieving a high level of competitive advantage in a particular segment of the consumer market. It has contributed to achieving a high level of efficiency of marketing activity in the conditions of the specific market situation. In the article outlined main factors affecting the impact of the national currency exchange rate such as elasticity of demand for a product on the foreign market, elasticity of product supply to the external market by other countries, elasticity of the product offers for export.

Conclusions. The main scientific results of the diploma work are following: positive effect of currency clauses in currency management effectiveness within enhancing export product competitiveness. The obtained results can be used by domestic producer for a formation of management policy for improving export product competitiveness competitive advantages at international markets, as well as in determining the strategy of international export product competitiveness of the enterprise.

Abstract

Introduction. The relevance of the chosen topic for the article is determined by the fact that domestic producers should enhance their export products competitiveness in strong competition at the international markets requires. For domestic manufacturers it is hard to compete with high quality products of foreign countries. The most effective way to stand up to this challenge is to regulate export products price without decreasing profits. The export products are always traded in a special currency (either national or foreign) depending on a foreign trade partner. So, the government of the country can and should support domestic producers.

Purpose and objectives. The aim of this work is to analyze how currency and exchange rate influence export products competitiveness of Ukrainian manufacturers, consolidate the theoretical basis for the implementation of foreign currency in enterprise’s export operation for enhancing export product competitiveness. The main tasks are investigate currency as main aspect of currency clauses; research the influence on example of the LLC "Gorobyna" and demonstrate effect by figures for the export product competitiveness.

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