



## De-Dollarization and India

**For Prelims:** [BRICS+](#), [De-dollarisation](#), [Central Bank Digital Currencies \(CBDCs\)](#), [Bank for International Settlements \(BIS\)](#), [16th Kazan BRICS summit 2024](#), [Cryptocurrencies](#), [Exchange Rate](#), [Currency Devaluation](#), [Blockchain Payment](#), [UPI](#), [RuPay](#), [IMF](#), [SDRs](#), [Sovereign Wealth Funds](#), [G20](#).

**For Mains:** De-dollarisation and its impacts on Indian and global economy.

[Source: BS](#)

### Why in News?

Recent **financial and currency initiatives**, particularly within the [BRICS+](#) framework, seek to lessen dependence on the US dollar-dominated system ([de-dollarisation](#)) and establish **alternative mechanisms** for global trade and finance.

### De-dollarization

- It refers to the process of **reducing the dominance of the US dollar** in global trade, finance, and foreign exchange reserves.
- It involves **substituting** the **US dollar** with other currencies or assets (such as **gold**, [cryptocurrencies](#), or **regional currencies**) for international transactions, commodity trading (like oil), and reserve holdings.

### What are the Recent Financial and Currency Initiatives for De-dollarisation?

- **mBridge Project:** It is a **digital cross-border payment** system using [Central Bank Digital Currencies \(CBDCs\)](#). It was initially promoted by the central banks of several countries like **China, Thailand**, with support from the [Bank for International Settlements \(BIS\)](#).
  - Speculation suggests the **BIS withdrew under US pressure** to protect dollar dominance.
- **BRICS+ Initiatives:** **BRICS Bridge** and **BRICS Clear** are **proposed** financial systems for setting up a **payment and clearing system** among Brics+ countries.
  - BRICS+ group includes original BRICS nations i.e., **Brazil, Russia, India, China, and South Africa** along with new members i.e., **Egypt, Ethiopia, Iran, United Arab Emirates, and Indonesia**.
- **Petro-Yuan Market:** **Shanghai International Energy Exchange (2018)** handles **10.5% of global oil trade** and **14.4% of global oil futures**.
  - **Saudi Arabia and the UAE's non-dollar oil trades** boost the **petro-yuan** by increasing **demand** and enhancing its **credibility** as a **stable alternative to the US**

dollar.

- **BRICS Currency:** At the [16th Kazan BRICS summit 2024](#), an agreement in principle was reached to use a new settlement currency called the "**Unit**," backed by **40% gold and 60% local currencies** of member countries.

## What are Global Benefits of De-Dollarization?

- **Reduced Geopolitical Risks:** Countries can **insulate** themselves from **US sanctions and foreign policy decisions** that leverage the dollar's dominance (e.g., **freezing assets** or restricting access to the global financial system).
  - E.g., After **Russia's 2022 invasion** of Ukraine, the West froze over **USD 300 billion** in Russian assets.
- **Diversification:** De-dollarization promotes **multi-currency use**, reducing reliance on one currency and balancing global finance.
  - E.g., rise of the **petro-yuan** and **Indian rupee** to create an alternative payment system.
- **Strengthening Regional Currencies:** Countries can boost their currencies in trade, strengthening **economic sovereignty** and reducing **exchange rate risks**.
  - E.g., India trading oil with the UAE in rupees.
- **Reduced Vulnerability:** Countries become **less impacted** by US monetary policy (e.g., **interest rate changes**), avoiding effects like **capital flight** and **currency devaluation**.
- **Increased Use of Gold:** De-dollarization has led to a **resurgence in gold** as a reserve asset, providing a **stable alternative** to fiat currencies.
- **Promotion of Digital Currencies:** De-dollarization speeds up **digital currency** and **blockchain payment** development, driving financial innovation.
  - E.g., China's digital yuan (e-CNY) and **India's Digital Rupee (e₹)**.

## What Concerns are Associated with Global De-dollarization?

- **Short-Term Instability:** Sudden shifts in currency reserves or trade agreements could create **volatility in global markets**, as the dollar remains the **backbone of international trade and finance**.
- **Limited Acceptance of Alternatives:** Many alternative currencies (e.g., the yuan, rupee, or ruble) **lack the liquidity, stability, and global trust** that the US dollar enjoys.
- **Risk of Fragmentation:** De-dollarization could lead to the formation of **competing currency blocs**, **fragmenting** the global economy and complicating international trade and investment.
- **Geopolitical Tensions:** The US may respond aggressively to de-dollarization efforts, potentially escalating **trade wars, sanctions, or other forms of economic retaliation**.
  - E.g., **US tariffs threats** to BRICS countries attempting to reduce dollar dependency.
- **Global Repercussions:** A decline in the dollar's reserve status could lead to **reduced demand for US debt**, and economic instability in the US, which could have **global repercussions**, as the US being the largest economy.
- **Exchange Rate Determination Problem:** Without the US Dollar as a global benchmark, countries must use alternatives like a multi-currency basket, complicating exchange rates.
  - E.g., **India and Russia** are **still negotiating** a currency **exchange rate** based on their local currencies.

## What is India's Stand on De-Dollarization and its Impacts on India?

- **India's Stand on De-Dollarization:** India engages in **BRICS+ currency discussions** but remains **cautious**, affirming it has **no intent to undermine the US dollar**, seeing it as key to global stability.

# INTERNATIONALISATION OF RUPEE

## MEANING

- Increasing the use of Indian rupee in cross-border transactions

## INVOLVES

- Rupee for import and export
- Rupee for current and capital account transactions

Indian Rupee is fully convertible in current account, but partially in capital account (BoP)

## NEED

- Weaponisation of USD by US (for sanctions)
- Wave of de-dollarisation
- Increasing internationalisation of Chinese Renminbi
- India's minimal share in global forex market turnover (1.7%)

## RBI'S EFFORTS

- Indian currency in cross-border trade - key component in Foreign Trade Policy 2023
- Mechanism introduced for rupee trade settlement with 18 countries
  - Banks from these countries allowed to open Special Vostro Rupee Accounts (SVRAs)
- Circular on "International Trade Settlement in Indian Rupees" (2022)
- External commercial borrowings in INR enabled

## SIGNIFICANCE

- Reduced dependency on USD
- Lesser need for holding forex reserves
- Better bargaining power of Indian business
- Less exposure to currency volatility

## CHALLENGES

- Rupee not fully convertible
- Less need for other countries to hold INR; India's low share in global exports
- Rupee may become more vulnerable to external shocks
- India's lesser control on Rupee supply

## STEPS THAT CAN BE TAKEN

- More liberalised settlements in INR (in India and overseas)
- India to expand its reach in the global financial market
- Transition to an export-oriented economy to reduce trade deficit



## Benefits

- Promotion of the Indian Rupee:** It encourages the use of the Indian rupee in **bilateral and multilateral trade agreements**. E.g., India's trade with Russia in rupees for oil imports.
- Greater Monetary Policy Autonomy:** Reducing dollar reliance gives India **greater control over monetary policy** to manage inflation, and interest rates, without being impacted by US policy shifts.
- Diversification of Reserves:** De-dollarization helps India **diversify reserves** into other currencies (e.g., euro, yen, yuan) or gold, reducing dollar **devaluation risks**.
- Reduced Exposure to US Sanctions:** It **reduces** India's vulnerability to **US-led sanctions** providing greater geopolitical flexibility.
  - It **reduces reliance** on the US-centric **SWIFT system**, shielding India's financial system from risks and sanctions.

## Concerns

- Impact on Foreign Investment:** Moving away from the dollar could **deter foreign investors** who prefer the **stability and predictability** of dollar-denominated assets.
- Challenges in Diversifying Reserves:** Alternative currencies or assets like gold may expose India to **new risks**, such as **currency depreciation or price fluctuations in commodities**.
  - India risks **over-reliance on the Chinese yuan**, bringing geopolitical and economic challenges.
- Impact on Remittances:** De-dollarization may **disrupt India's dollar-denominated remittances**, impacting millions of families.

## What Lies Ahead for India?

- **Strengthening Rupee:** Expand bilateral trade in rupees, such as **India-UAE oil trade**, while promoting **currency swaps** and regional frameworks like BRICS+ initiatives.
  - Internationalize **UPI, RuPay, and Digital Rupee (e₹)** for cross-border transactions.
- **Diversifying Reserves:** Reduce USD reliance by **diversifying** reserves into **Euro, Yen, Yuan, gold, and IMF SDRs** while developing **sovereign wealth funds** and commodity reserves for stability.
- **Managing Risks:** Maintain a **multi-currency trade system**, strengthen ties with **ASEAN, EU, and Africa** for diversified trade, and ensure **investor confidence** in Rupee.
- **Strengthening India's Financial Position:** Position **Mumbai as a global financial hub**, boost **bond market liquidity**, and advocate for a multi-currency system through **IMF, G20**, and other bodies.

### **Drishti Mains Question:**

Discuss the concept of de-dollarization and its implications for India's economy.

## **UPSC Civil Services Examination Previous Year Question (PYQ)**

### **Prelims**

**Q. Consider the following statements: (2019)**

1. Most of India's external debt is owed by governmental entities.
2. All of India's external debt is denominated in US dollars.

**Which of the statements given above is/are correct?**

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

**Ans: (d)**

**Q. Recently, which one of the following currencies has been proposed to be added to the basket of IMF's SDR? (2016)**

- (a) Rouble
- (b) Indian Rupee
- (c) Rand
- (d) Renminbi

**Ans: (d)**

### **Mains**

**Q. How would the recent phenomena of protectionism and currency manipulations in world trade affect macroeconomic stability of India? (2018)**

**Q. Craze for gold in Indians has led to surge in import of gold in recent years and put pressure on balance of payments and external value of rupee. In view of this, examine the merits of Gold Monetization**

