



## India-UAE Local Currency Settlement System

**For Prelims:** Local Currency Settlement System, [India-UAE](#), [Indian Rupee](#), [Unified Payment Interface](#), UAE's Instant Payment Platform, India-UAE Comprehensive Economic Partnership Agreement.

**For Mains:** Local Currency Settlement System between India-UAE.

**Source:** [IE](#)

### Why in News?

India and the **United Arab Emirates (UAE)** have signed a pact to establish **Local Currency Settlement System (LCSS)** to promote the use of the **Indian rupee (INR)** and **UAE Dirham (AED)** for cross-border transactions.

- The deal was signed during the Prime Minister's recent visit to Abu Dhabi, UAE.

**Note:** The [RBI \(Reserve Bank of India\)](#) in 2022 announced a framework for settling [Global Trade in Rupees](#), primarily **targeting trade with Russia**. But this is **yet to take off in a substantive manner**.

### What are the Key Agreements?

- **LCSS:**
  - It covers all current account transactions and permitted capital account transactions.
  - The LCSS will enable **exporters and importers to pay in their respective domestic currencies** and enable the development of an INR-AED forex market.
  - It will **reduce transaction costs and settlement time**, including for remittances by Indians in the UAE.
  - India could use this mechanism to **pay for imports of oil and other commodities** from the UAE, its 4th largest energy supplier (in FY 22-23).
- **UPI-IPP:**
  - The central banks of both countries have signed to cooperate on linking India's Unified Payments Interface (UPI) with the UAE's Instant Payment Platform (IPP) and RuPay switch and UAESWITCH.
    - The UPI-IPP link will enable users in both countries to **make fast, safe and cost-effective cross-border transfers**.
  - The linking of card switches will facilitate the **mutual acceptance of domestic cards** and the processing of card transactions.
    - The MoUs were signed by the **respective Governors of the RBI** and the Central Bank of UAE.
  - They will also explore the linking of India's **Structured Financial Messaging System (SFMS)** with the payments messaging system of the UAE.

- **IIT Delhi campus to be set up in Abu Dhabi:**

- An MoU was signed for establishment of IIT Delhi campus in Abu Dhabi.
  - The new MoU is an addition in the **'IITs go Global' campaign**.
  - This will be the second international IIT campus after IIT Madras Zanzibar, Tanzania.
- The degrees will be offered **starting 2024** with courses covering several **areas such as Energy and Sustainability, AI, Computer Science and Engineering, Healthcare, Mathematics and Computing** and other disciplines of engineering, sciences and humanities.

## What is the Significance of Rupee Based Cross Border Transaction?

- India is looking to work out **a way to mitigate exchange rate risks** in the rupee-based trade to limit **losses for Indian exporters**.
  - The rupee-based transaction is part of a concerted policy effort by India to **Internationalize the Rupee** to bring down the dollar demand.
- Apart from Russia, countries in Africa, the Gulf region, Sri Lanka and Bangladesh had also **expressed interest in trading in rupee terms**.
- The RBI's plan to settle **international trade in the local currency will let importers make payments in the rupee**, which will be credited to the special account of the correspondent bank of the partner country, while exporters will be paid from the balances in the designated special account.

## How has been India- UAE Bilateral Relations?

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#### ▪ Diplomatic Ties:

- India and the UAE established **diplomatic relations in 1972**.
- The greater push has been achieved in bilateral relations when the visit of India's **Prime Minister to the UAE in August 2015** marked the beginning of a new strategic partnership between the two countries.
- Further, during the visit of the Crown Prince of Abu Dhabi to India in January 2017 as the chief **guest at India's Republic Day celebrations**, it was agreed that bilateral relations were to be upgraded to a comprehensive strategic partnership.
- This gave momentum to launching negotiations for an [India-UAE comprehensive economic partnership agreement](#).

#### ▪ Bilateral Trade:

- Bilateral trade between India and the UAE was worth ~USD 85 billion in 2022-23 making the UAE India's 3rd-largest trading partner for 2022-23 and India's 2nd-largest export destination.
  - India is the 3rd largest oil importer in the world and the UAE was its 4th biggest supplier of crude in 2022.
- In 2022, India **became the first country with which the UAE signed a [Comprehensive Economic Partnership Agreement](#)**.
- The UAE, which imports most of **its food requirements**, has pledged **USD 2 billion** to develop a series of food parks in India.
- Many Indian companies have set up manufacturing units either as joint ventures or in [Special Economic Zones](#) for cement, building materials, textiles, engineering products, consumer electronics, etc. in the UAE.
  - Many Indian companies have also invested in the tourism, hospitality, catering, health, retail, and education sectors.

#### ▪ Defense Exercises:

- **Bilateral:**
  - In-UAE BILAT (bilateral naval exercise)
  - Desert Eagle-II (bilateral air force exercise).
  - [Exercise Desert Flag-VI: UAE](#)
- **Multilateral:**
  - [Pitch Black](#): Biennial, multilateral air combat training exercise of Australia.
  - [Red Flag](#): Multilateral air exercise of the USA.

### Way Forward

- The India-UAE LCSS **can potentially serve as a precursor for other bilateral currency accords** - an important first step for the internationalization of the rupee.
  - The idea is laudable; however, its **actual success will hinge on the extent of adoption** by businesses in both nations.
- Continued collaboration in areas such as technology, renewable energy, infrastructure development, tourism, and healthcare can further strengthen the bilateral relationship between India and the UAE.

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

**Q.** The question of India's Energy Security constitutes the most important part of India's economic progress. Analyse India's energy policy cooperation with West Asian countries. **(2017)**