



Mains Practice Question

Q. Discuss the concept of de-dollarisation and delve into opportunities and challenges it presents for India. **(150 words)**

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Approach:

- Introduce the answer by briefing about De-dollarisation
- Give the Drivers of De-dollarisation
- Highlight the Opportunities for India in De-dollarisation
- Delve into the Challenges for India in De-dollarisation'
- Suggest Steps Forward for India
- Conclude in a balanced manner.

Introduction:

De-dollarisation refers to the process of reducing global reliance on the US dollar for international trade and financial transactions.

- The **US dollar accounts for 59% of global reserves and dominates international trade** and commodities like oil, discussions on de-dollarisation have gained momentum, especially among **BRICS nations including India**.

Body:

Drivers of De-dollarisation:

- **Geopolitical Sanctions and Economic Coercion:** The US has used the dollar as a **tool for imposing sanctions (e.g., on Russia and Iran)**, restricting access to global financial systems like SWIFT.
- **Shift Towards Multipolarity:** The emergence of regional powers like **China, Russia, and India** is driving efforts to reduce dependence on the dollar and establish a more balanced global economic system.
- **Diversification of Foreign Reserves:** Central banks worldwide are reducing dollar holdings in favor of gold and other currencies, such as the **Chinese yuan, to hedge against economic risks**.
- **Digital and Regional Currency Innovation:** The rise of **Central Bank Digital Currencies (CBDCs)** offers an opportunity for countries to conduct international trade without relying on the dollar.

Opportunities for India in De-dollarisation:

- **Enhanced Sovereignty in Trade:** Promoting rupee invoicing can **shield India from dollar-induced vulnerabilities**, such as exchange rate volatility and geopolitical risks like sanctions.
 - Initiatives like the **RBI's 2022 decision to allow rupee-based trade settlements** underscore this effort.

- **Strengthening the Rupee:** Reducing dollar dependence could elevate the rupee's role as a global trade currency, **aiding its internationalisation.**
 - Greater acceptance of the rupee can **boost investor confidence and reduce India's reliance on foreign exchange reserves.**
- **Cost Savings and Economic Stability:** By trading in domestic currencies, India can **lower transaction costs** and mitigate risks associated with dollar price fluctuations in commodities like oil.
- **Strategic Alliances:** Collaborating with BRICS nations and other global players to develop alternative trade mechanisms could **enhance India's global influence in shaping a multipolar economic order.**

Challenges for India in De-dollarisation:

- **Global Dollar Dominance:** The dollar remains the preferred global reserve and transaction currency due to its **liquidity, stability, and widespread acceptance.**
 - Shifting from the dollar risks **alienating allies and impacting dollar-dominated trade,** especially in commodities like oil and gold.
- **Geopolitical Pressures:** US sanctions and tariffs could target nations seeking alternatives, as highlighted by former **President Trump's threats against BRICS countries.**
 - Aligning with **non-dollar trade blocs like BRICS risks India's strategic ties with the US** and other Western economies.
- **Inadequate Infrastructure for Rupee Internationalisation:** Despite RBI efforts, the **rupee lacks the global acceptance and trust enjoyed by the dollar.**
 - Limited financial instruments and lack of global rupee-denominated trade hubs hinder its adoption.
- **Rise of the Chinese Yuan:** India's reluctance to use the yuan, despite its increasing role in global trade, highlights geopolitical tensions with China.
- **Economic Stability Concerns:** Rapid shifts away from the dollar could destabilise markets, disrupt trade, and **impact India's foreign exchange reserves and debt obligations.**

Steps Forward for India

- **Promote Rupee Trade Agreements:** Bilateral agreements with trading partners, especially in **South Asia, Africa, and the Gulf, to expand rupee invoicing.**
- **Strengthen Domestic Currency Infrastructure:** Develop **rupee-based financial instruments** and global trade hubs to enhance rupee liquidity.
 - Improve regulatory frameworks to support seamless international rupee transactions.
- **Diversify Foreign Reserves:** Increase **gold reserves and invest in a broader basket of currencies** to reduce dollar exposure.
- **Engage in Multilateral Collaboration:** Work within BRICS to shape alternatives like a **common currency while safeguarding India's interests.**
 - Balance participation in **non-dollar trade blocs** with maintaining strategic ties with dollar-aligned economies.
- **Gradual Transition Strategy:** Pursue a phased approach to **de-dollarisation, ensuring minimal disruption to trade and economic stability.**
 - Promote **digital currency initiatives, such as a central bank digital currency (CBDC),** to complement de-dollarisation efforts.

Conclusion:

De-dollarisation offers India a pathway to **enhance trade sovereignty, reduce vulnerability to geopolitical risks, and strengthen the rupee's global standing.** By fostering multilateral cooperation, strengthening domestic currency infrastructure, and pursuing gradual transitions, **India can seize the opportunities of de-dollarisation while mitigating its risks.**

