



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)**