

Exploring India's Central Bank Quest for De-Dollarization

Ram Singh*

Professor & Head (CDOE), Indian Institute of Foreign Trade, New Delhi, India

Aaqib Chaudhary

Research Scholar, Indian Institute of Foreign Trade, New Delhi, India

Mahender Kumar

Research Scholar, Indian Institute of Foreign Trade, New Delhi, India

Abstract

The economic sanctions have stirred the entire trade, financial, commercial, and economic architecture, prompting a chorus call to find-out an alternative currency to trade. The global geo-economic landscape is witnessing a change with emerging markets coordinating their policy and operational interventions. The predominance of the dollar is challenged with trade in local and alternate currencies. India, with its rising geo-strategic status, is exploring newer methods and instruments to settle international payments. These include trading, exchanging, and settling international trade transactions in Indian rupees (INR), promoting digital means like the Unified Payments Interface (UPI) for global trade and commerce, and introducing digital currencies to safeguard national interests. The paper discusses the challenges before India for the internationalization of its INR. All these initiatives are aimed at bypassing sanctions thus leading to de-dollarization in the world economy. The paper elucidates India's quest for alternatives and to de-dollarize in the context of the evolving global geo-economic landscape and concludes it may achieve limited access in the absence of required economic fundamentals.

Keywords: De-Dollarization, Economic Sanctions, Rupee Payments, International Reserve Currency

JEL Classification: F31, F36, O24

*Corresponding author

Email: ramsingh@iift.edu

Address: Professor & Head (CDOE), Indian Institute of Foreign Trade, New Delhi, India

Orchid ID: 0000-0002-5984-123X

1. Introduction

For many decades, the dominant role of the US dollar has provided the United States of America, with a disproportionate amount of influence (Bergsten, 1997; Eichengreen and Flandreau, 2009; Krugman, 1984) vis-à-vis other economies in the global market. The US has long used economic sanctions as a tool to achieve its foreign policy goals and other strategic objectives (Drezner, 1999; Eland, 2018; Nossal, 1989). The weaponization of the US dollar & the EU-euro has undoubtedly served the political and strategic interests of Western countries (Byman, 2008; Carswell, 1981; Delevic, 1998) but is equally harming their economic interests (Kaempfer and Lowenberg, 1988; Nelson, 2017). Resultantly, both the U.S. allies and foes are working to develop alternative reserve currencies or even promoting alternate or local currencies for economic, commercial, and financial engagements (Portes and Rey, 1998; Ranjan and Prakash, 2010; Yu, 2014; Wilson and Purushothaman, 2003). De-dollarization has been pursued as a policy instrument (Kievich, 2018) for long but there is an urgent need by many countries to insulate themselves from geopolitical risks (Liu and Papa, 2022; Caldararo, 2022), where the status of the US dollar as a reserve currency is inappropriately used as a financial weapon (Mulder, 2022; Habibzadeh, 2018; Overy, 2022). As an emerging and a non-sanctioned country, like India now increasingly believes that the use of economic sanctions also jeopardizes its economic interests, even if used as secondary sanctions, and correspondingly, it must cushion-off itself with additional economic mechanisms to engage externally. Therefore, India has to pursue forced de-dollarization. Conceptually, the term “De-dollarization refers to reducing the dollar’s dominance in the world economy by process of substituting the US dollar with an alternate currency used for commercial and economic engagements such as international trade and payment settlements thus, reducing US dollars in the nation’s forex reserves, avoiding financial transactions in the US dollar-denominated assets such as bonds, securities, and treasury bills and lastly conducting the bilateral trade in the local or alternate currencies”. India’s central bank has been emphasizing the use of bilateral trade in local and alternate currencies.

There are several ways to pursue de-dollarization, first; the financial de-dollarization is aimed at the substitution of foreign currency assets or liabilities from the US dollar to local or alternate currencies or even gold. The declining share of the US dollar in global forex reserves is a vindication of de-dollarization and many countries especially Russia, China, Turkey, Iran, Peru, Venezuela, North Korea, and even other countries across the world have pursued financial de-dollarization to deal with US hegemony. Catão and Terrones (2016) and Sosa and Garcia-Escribano (2011) investigate the financial de-dollarization and elucidate the experience of Latin American countries on macro-prudential policies, inflation targeting, exchange rate regimes, and exchange rate risks. Advocating the need for financial de-dollarization for Turkey, Yilmaz (2005) describes that financial dollarization can limit the scope of macroeconomic policies and can cause a fear of floating and concludes that Turkey should pursue an active de-dollarization strategy associated with a sound macroeconomic policy stance, aimed at implementation of a full-fledged inflation targeting regime in the immediate future. Likewise, Ize and Yeyati (2006) describe the causes, consequences, and

realistic goals of financial de-dollarization. Second, the real de-dollarization, a system of economic regulation, wherein the indexation of domestic transactions is done in the US dollar. Incredibly, besides the United States, 5 U.S. territories and 12 sovereign nations use the US dollar as their legal currency and some of them are trying to de-dollarize, for instance, Zimbabwe (Bonga and Dhoro, 2015; Imam, 2022). Zimbabwe has been de-dollarizing with the re-introduction of local currency¹ (Z\$) and Chinese yuan but to no avail and is now moving towards the gold standard². Similarly, Burke (2022) investigates the crossroads of real de-dollarization efforts of El Salvador which has become the first nation in 2021 to accept Bitcoin as a parallel official currency to the US dollar (Urquhart and Lucey, 2022).

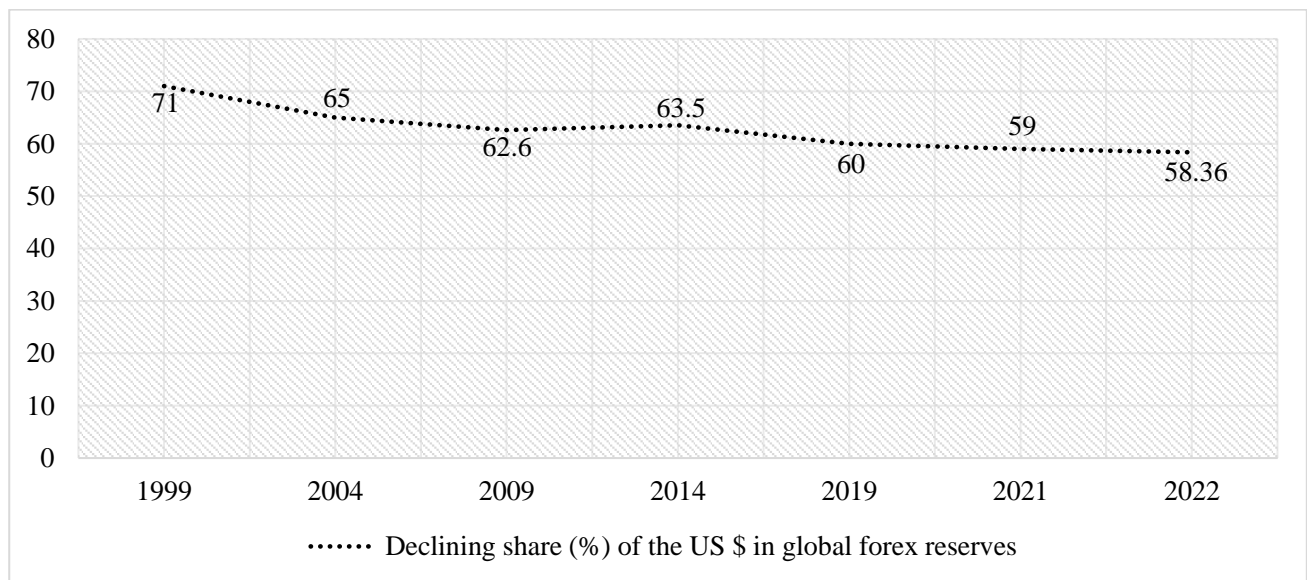
Third, transactional de-dollarization or currency substitution involves the steps and stages aimed at replacing the dollar (or another foreign currency) as a means of payment in international trade transactions. Elucidating the payment settlements in economically sanctioned Iran, Shafieizadeh et al. (2021) explain how the leveraging of vehicle currency, i.e. invoicing of trade transactions in another country's currency affects welfare and ability to frame viable oil export contract(s) (Shafieizadeh et al., 2018). Moreover, Orăștean (2013) studies the growing importance of the Chinese currency in the international monetary system and simultaneously concludes that it is far from what it represents as an international currency, playing a modest role in the global economy. China is aggressively de-dollarizing by promoting Renminbi (RMB)-yuan invoicing (Cohen, 2012; Lai, 2015; Shi and Wu, 2012), foreign loans, and credits in RMB-yuan including extending lines of credit in RMB-yuan. Subacchi (2013), on the other hand, concludes that RMB-yuan will become Asia's leading currency due to China's deep economic integration in the region. Given a context, the academic literature lucidly concludes the economic consequences of de-dollarization as enhanced exchange rate volatility, loss of confidence in the global financial system, higher transaction costs for international exchanges, reduced liquidity in global financial markets, potential inflationary pressures in dollar-dependent economies, shift in global reserve currency holdings impacting central banks' policies, changes in borrowing costs for dollar-denominated debt, impact on commodity prices, particularly oil and other commodities priced in dollars, geopolitical shifts as countries seek alternative financial alliances and challenges for businesses with international operations in managing currency risks. Under this context and circumstances, India is slowly and systematically pursuing transactional de-dollarization, by taking measures to promote trade in the Indian rupee (INR), trade invoicing, payment settlements, and money transfers as the government of India visualizes that internationalization of the INR includes savings on foreign exchange transactions for Indian residents, reduced foreign exchange exposure for Indian corporate(s), reduction on the dependence of foreign

¹ Why Zim's de-dollarisation flopped, <https://www.theindependent.co.zw/2022/05/13/why-zims-de-dollarisation-flopped/>

² Zimbabwe's Central Bank Starts Africa's Path To A Gold Standard, <https://www.forbes.com/sites/nathanlewis/2024/04/09/zimbabwes-central-bank-starts-africas-path-to-a-gold-standard/?sh=680e114c63fb>

exchange reserves for the balance of payment stability, etc. (Kumar and Patnaik, 2018; Dash et al., 2019).

Recent geo-strategic developments such as rising and boisterous China, the Russia-Ukraine War, weaponization of economic and financial instruments, mistrust and ego-driven diplomatic freeze³, trade policies cartelization, etc, have led to changes in power equation(s) not only on the geopolitical platform(s) but have also disrupted the trust and faith in established financial systems and architecture. Russia’s attack on Ukraine has led to a humanitarian catastrophe, a trauma suffered by millions of innocent people including the lessons learned, political, economic, and geo-strategic, from the use of economic sanctions will have enduring consequences for all, especially the EU (van Bergeijk, 2022). Furthermore, the war is triggering global ripple-effects through multiple channels, including commodity markets, trade, financial flows, displaced people, and market confidence (Guenette et al., 2022). Russian-Ukraine War and the resultant barrage of economic sanctions have led to economic (Liedtke, 2022; Mbah and Wasum, 2022; Orhan, 2022).), commercial (Liadze et al., 2022), financial (Federle Jonathan et al., 2022) and trade supply-chain disruptions (Boston, 2022; Kammer et al., 2022), thus changing not only the geo-economic environment but also putting intense pressure on various currencies around the world, except the US dollar. The dollar, indeed, has been a global currency with robust financial architecture, a translucent regulatory system in place, and the unwavering trust of all, especially the Central Banks of the countries to keep their reserves in US dollars.



Source: IMF Currency Composition of Official Forex Reserves, 2022

Figure 1. The US \$: A declining share

³ Joseph Camilleri (2017). US, Russia & China: Tale of personal ego, mistrust and foolish nationalism, the Business Standard, April 27, 2017

In the unfolding global environment, the status, the aura, the order, the trust, the faith, and the undoubtable system of the dollar, all seem declining (Figure 1), if not falling, as nations around the world become worried by the hegemonistic value of the US dollar (Fields and Vernengo, 2013; Norrlof, 2014; Vasudevan, 2009). The financial disruption(s) caused by economic sanctions coupled with the blocking of sea-lanes (Kusa, 2022), port blockages, oil ship-chartering, banking and insurance channels have cascading effects on supply-chain(s), commodity prices, inflationary pressures (Ozili, 2022), thus making almost all currencies struggle with depreciation and widespread socio-economic unrests in the various parts of the world. Voluntary pullbacks and commercial boycotts by trading firms and shippers that are reluctant to handle Russian cargo are further amplifying the shock(s) (Berner, 2022). India, with its rising geo-economic and geo-strategic interests, cannot remain oblivious to these international developments. India's external trade is predominantly invoiced in the US dollar (85%), the euro (4.7%) and the yen (1.8%). With the weaponization of these currencies especially the US dollar, India faces high exposures as its trade transactions and forex reserves are highly exposed to sanctioned currencies, exposing it to the vulnerabilities in sourcing key food, fuel, and fertilizers needs from low-cost supply sources such as Russia, Iran, and Venezuela. The paper is based on an extensive literature review to support the arguments and build a narrative (Table 1).

Table 1. Review of literature

Sr. No.	Specific Area of Literature Review	Select Literary Contribution
1	Financial de-dollarization	Catão and Terrones (2016), Sosa and Garcia-Escribano (2011), Yilmaz (2005), Ize and Yeyati (2006)
2	Real de-dollarization	Bonga and Dhoró (2015), Imam (2022), Burke (2022) Urquhart and Lucey (2022)
3	Transaction De-dollarization	Shafieizadeh et al. (2021), Shafieizadeh et al. (2018), Kumar and Patnaik (2018) Dash et al. (2019), Orăștean (2013) Cohen (2012), Lai (2015), Shi and Wu (2012), Subacchi (2013),
4	Evolving Landscape for De-dollarization	Harrison and Vymyatina (2007), Orakhelashvili (2015), Kamel and Wang (2019), Eichengreen and Mathieson (2000), Frankel (2013), Zeufack et al. (2022)
5	India's Quest for De-dollarization	Luckhurst (2013), Glosny (2010), Molodyko (2020), Carbaugh (2005), Eichengreen (2010), Mora and Nor (2018)

Source: Author's compilations

- a. In the context of the above, the paper attempts to delineate evolving geo-economic architecture including chorus calls for de-dollarization. India inarguably is exploring alternatives to the existing freely convertible foreign currencies (US\$ & EU€) to safeguard its economic interests. In the realm of this, the paper is aimed at understanding:
- b. The evolving geo-economic landscape leading to debate on de-dollarization.
- c. India's quest for new financial instruments & payment mechanisms in the realm of economic sanctions and blocking of banking channels.
- d. India's economic fundamentals and how far it is feasible and possible for India to de-dollarize and way forward with required reform measures.

2. Theoretical underpinning and methodology

Empirical studies and cross-country experiences indicate that there is no single recipe for success, but key factors, like reliable monetary and exchange rate frameworks, low and steady inflation, and robust domestic financial markets, are essential to any de-dollarization approach (Ben Naceur et al., 2019). De-dollarization is a complex and multifaceted process that requires a comprehensive set of policies and strategies. The key factors that have contributed to the success of de-dollarization efforts include political stability, a strong financial system, and a stable macroeconomic environment in the regions and countries such as BRICS, Ghana, South Africa, and Angola, which have undertaken de-dollarization efforts in the past (Imam, 2022). Recent trends suggest potential benefits of gradual de-dollarization and increased financing in local currencies in international trade. A shift towards local currency financing could reduce exchange rate volatility and transaction costs, making it easier and less costly for businesses to engage in international trade (Hirschhofer, 2019). The process of de-dollarization can have significant benefits, such as reducing exposure to external shocks and improving monetary policy effectiveness. However, de-dollarization can also be challenging, particularly in the context of global economic uncertainty and the dominance of the US dollar in international transactions (Duchêne and Goujon, 2006).

Let us also explore the cross-country comparison to examine the differences and similarities in de-dollarization between India and select other countries. India along with its counterparts from the BRICS grouping i.e. Brazil, Russia, China, and South Africa, aim to lessen their vulnerability to fluctuations in the US dollar and gain greater control over their economies. Correspondingly all BRICS countries are taking steps to make their domestic currencies more attractive for international transactions. This may involve reforms to increase stability and facilitate cross-border trade settlements. They are exploring alternatives to US-dominated financial systems like SWIFT, with China coming up with a 'Cross-border Interbank Payment System' (CIPS), Russia using the 'Financial Messaging System of the Bank of Russia' (SPFS), and India planning to develop 'Structured Financial Messaging System' (SFMS). Furthermore, India, along with other BRICS members, is part of initiatives like the New Development Bank (NDB) for infrastructure financing. On the contrary, there exist differences in their motivations for de-dollarization. For instance, India is primarily driven by a desire for economic independence and diversification of trade partnerships

while other countries like China seek to challenge US dominance and establish their currency as a global reserve. Russia's de-dollarization drive is motivated to reduce its economic and financial vulnerability to US foreign policy. Brazil and South Africa are vocal advocates of de-dollarization with token and customary steps to anchor with. In this reference, India's approach is more cautious as it is focusing on promoting rupee settlements in bilateral trade deals, developing domestic bond markets, and increasing foreign currency reserves in non-dollar currencies while China has aggressively internationalized the yuan and other some countries explore regional currency baskets or bilateral currency swaps.

Financial sanctions are a complex and controversial policy tool that can have significant implications for the international currency system and global financial stability. The potential role of alternative currencies, such as the euro or RMB-yuan, in reducing the impact of financial sanctions has been long discussed. The use of alternative currencies could help to reduce the dependence on the US dollar and mitigate the impact of financial sanctions (McDowell, 2021). However, there are significant challenges in achieving these goals, such as the need for greater financial development and the potential for higher borrowing costs in the local currencies. Correspondingly, from the perspective of Russia's national interests, the development of a common financial market within the Eurasian Economic Union (EAEU) includes strengthening economic integration within the region, reducing dependence on the US dollar, and increasing Russia's influence in the global financial system (Meshkova et al., 2020).

The potential of cryptocurrencies as a payment system, particularly in the context of de-dollarization, where countries are seeking to reduce their reliance on the US dollar has increased (Guliyeva et al., 2018). Cryptocurrencies may offer a viable alternative to traditional currencies, particularly in countries with weak or unstable currencies (Song, 2023). As the sanctions imposed by the US further increased the risk of bankruptcy for Venezuela, which already faced cumulative foreign obligations of over 190 billion dollars, the introduction of Petro or Petromoneda in 2018, a crypto token by the Venezuelan government aimed to achieve de-dollarization of the national economy (Zhukov and Reznikova, 2018).

Alternatively, transactional de-dollarization has gained prominence in recent years. Arrieta Vidal et al. (2022) conducted a laboratory study on policies for transactional de-dollarization requiring the use of local currencies for domestic transactions in countries that have traditionally used the US dollar and involved a simulation of a small economy where participants were given the option to use either the local currency or the US dollar. The study revealed that the policies that incentivized the use of the local currency, such as taxes, rebates, or discounts, were effective in promoting transactional de-dollarization. However, policies that penalized the use of the US dollar, such as taxes or fees, were found to be less effective and may lead to unintended consequences, such as a reduction in trade. Arguably, the dominance of the US dollar in the oil and gas trade has created significant financial and geopolitical risks for countries that rely on these resources for economic development

(Ladasic, 2017). It is noteworthy that countries adopt the transactional de-dollarization approach based on their unique economic and political contexts. Vietnam has focused on increasing the use of the Dong in international trade and investment, while Ukraine has implemented measures to encourage the use of the Hryvnia in domestic transactions. Romania has focused on reducing its foreign currency debt and increasing the use of the Leu in cross-border transactions (Duchêne and Goujon, 2006).

The status of de-dollarization in the Indian economy suggests that India has taken steps towards de-dollarization, such as increasing bilateral trade with other countries in their respective currencies and promoting the use of the rupee in cross-border trade settlements. India has traditionally been a large importer of oil, and most oil transactions are denominated in US dollars. This has made India vulnerable to fluctuations in the value of the dollar and to sanctions imposed by the US (Huleppa, 2023). In recent years, India has been exploring alternatives to dollar-based transactions to reduce its dependence on the US currency. One approach that India has considered is the use of local currency, the Indian rupee, for international trade. This involves invoicing and settling trade transactions in rupees rather than US\$. This would not only reduce India's exposure to fluctuations in the dollar but also help promote the use of the INR as an international currency. India and the United Arab Emirates (UAE) came together to an agreement to allow trade between the two countries to be conducted in their respective currencies using the Rupee-Dirham Payment mechanism⁴. This was a significant step towards reducing India's reliance on the dollar in international trade.

Similarly, India has been promoting the use of its currency in regional trade. India signed a bilateral currency swap agreement with Japan in 2018 for \$75 billion, allowing both countries to trade in their respective currencies without the need for US dollars. India also signed currency swap agreements with other countries like Sri Lanka, Bhutan, and Nepal, among many others⁵. Besides bilateral agreements, India has also been promoting the use of national currencies in multilateral trade arrangements. For example, BRICS, as a growing coalition have been discussing the possibility of using their national currencies in trade transactions under the framework of the BRICS group of countries. The de-dollarization efforts of the BRICS have built-up the necessary foundation for a potential alternative non-dollarized international financial system (Liu and Papa, 2022).

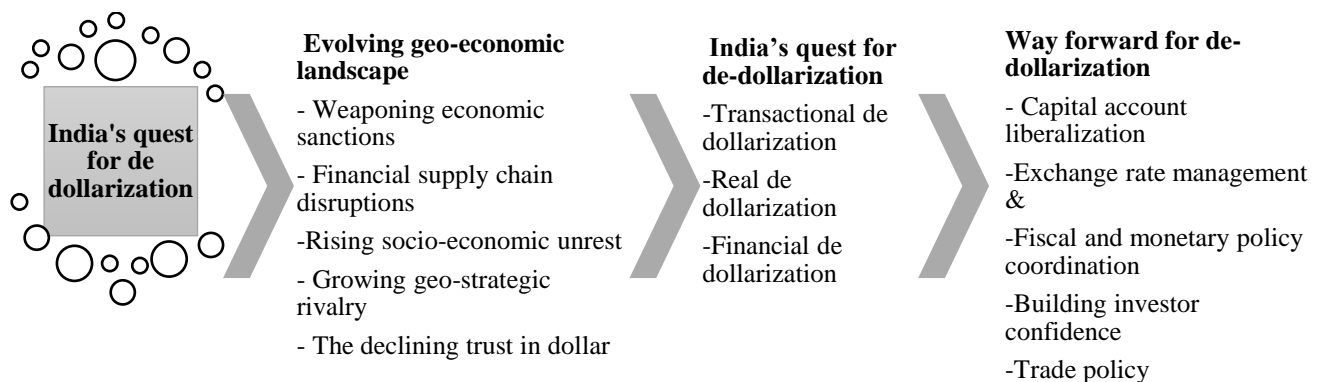
However, India faces several challenges in de-dollarizing, such as the dominance of the US dollar in global trade and the lack of liquidity in the INR. The lack of deep and liquid financial markets makes it difficult for companies to access capital in the local currency and for the government to issue debt in the local currency. In addition, many Indian businesses are not familiar with the process of invoicing and settling trade transactions in rupees, which could slow down the adoption of the local currency for international trade. The policymakers should focus on creating incentives for the use of

⁴ <https://www.newindianexpress.com/nation/2023/feb/23/rupee-dirham-trade-deal-with-the-uae-in-final-run-2550016.html>

⁵ <https://economictimes.indiatimes.com/markets/forex/india-japan-sign-75-billion-currency-swap-agreement/articleshow/66415790.cms?from=mdr>

the local currency, such as improving its stability and availability, rather than imposing penalties on the use of the US dollar. They should also note that transactional de-dollarization is only one aspect of a broader process of de-dollarization, which requires a comprehensive set of policies to address issues such as financial stability and the international role of the US dollar (Arrieta Vidal et al., 2022). The Covid-19 pandemic (Tokic, 2020) and the ongoing Russia-Ukraine conflict have created a need for de-dollarization and alternative currencies or payment mechanisms, keeping us cushioned off against the exchange rate volatility, and the risk of sanctions or other forms of financial retaliation by the US (Ladasic, 2017). However, it must be noted that the process of de-dollarization will be complex and challenging, requiring cooperation and coordination among multiple stakeholders.

In the above framework, the proposed methodology (Figure 2) appraises aspects related to the evolving geo-economic landscape prompting India’s central bank to de-dollarize which is described in section 3. Section 4 explores the aspects of de-dollarization with India’s greater focus on transactional de-dollarization. Section 5 elaborates the way forward for India with the required reforms and measures to pursue de-dollarization. Section 6 concludes the paper by suggesting a gradual path to de-dollarization in India.



Source: Author’s Creation

Figure 2. Research Methodology

3. Evolving Geo-Economic Landscape & De-Dollarization

The evolving geo-economics is grandiosely highlighted by the cascading socio-economic developments of the Russia-Ukraine war, but its undercurrents have been in the pipeline for a long time. The communist leadership of the People’s Republic of China foresees a greater role of RMB-yuan in international trade and finance ⁶. Accordingly, it is aggressively pursuing the internationalization of the RMB-yuan through many initiatives, policy interventions, and strategies. The inclusion of the RMB-yuan in a “basket” of currencies underpinning Special Drawing Rights (IMF-SDRs) has given liquidity, stability, and scale required for the internationalization of any currency (Mathews and Selden, 2018). Projecting economic and currency dominance of RMB-yuan vis-à-vis the dollar, Subramanian (2011) argues that the economic dominance of China is more

⁶ <https://www.leedsfinsights.com/post/internationalising-the-yuan-the-renminbi-s-growing-role-in-global-financial-markets>

imminent and more broad-based, encompassing output, trade, and currency for an orderly economic and financial order. Additionally, most transition economies, such as Vietnam, Iran, Turkey, Venezuela, Russia, and Chile, have experienced widespread currency substitution in the last 3 decades (Harrison and Vymyatina, 2007). Vietnam, Russia, and Chile have de-dollarized the ratio of foreign currency deposits to total deposits, which resultantly, declined by more than 15 percentage-point basis during the early 1990s (Alvarez-Plata, 2008). In a European Union context, Cem (2015) compares and analyses the euro with multiple currencies by using unit-root tests, vector auto-regression (VAR), vector error correction model (VECM), co-integration and Granger Causality to find out the policy implications, trade opportunities and economic challenges of oil trade for the European Union, by invoicing and settling payments in euros. With these de-dollarization initiatives manifested among the US allies and foes, one needs to underscore the following aspects of evolving geo-economic architecture.

Firstly, there is a weaponization of economic sanctions wherein the Council of Foreign Relations of the United States of America defines “economic sanctions as the withdrawal of customary trade and financial relations with a foreign country to achieve specific foreign policy, strategic and military purposes and may be targeted at blocking economic, trade, financial and commercial transactions by and with a particular nation, business, group, or individual. There are United Nations-mandated sanctions that compelled Iraq to accept inspections and monitoring and acceded concessions from Baghdad on political issues such as the border dispute with Kuwait. They also drastically reduced the revenue available to Saddam Hussein, prevented the rebuilding of Iraqi defences after the Persian Gulf War, and blocked the import of vital materials and technologies for producing Weapons of Mass Destruction (Lopez and Cortright, 2004). Iraq pursued a policy of barter-trade system (oil coupons), thus leading to de-dollarization to deal with these sanctions. Many countries such as the EU, Russia, China, and predominantly the US have weaponized economic sanctions and are testing them in the geopolitical arena (Ahn, 2019) which led to de-dollarization in the target country. Economic sanctions are not only proliferating (Elliott and Hufbauer, 1999; Orakhelashvili, 2015) but are predominantly becoming unilateral (Farrar, 2010; Ashford, 2016) with a specific motto of achieving foreign policy objectives of a country (Reilly, 2012; Savey, 2013) or a regional hegemony and unfortunately; are rarely aimed at achieving the humanitarian objectives (Weiss, 1999). With the dollar-euro, duo dominance in international financial markets, the US and the EU have used it for controlling access of target countries to the Western integrated financial markets which have been a highly political weapon and sometimes a decisive policy tool (Caytas, 2016). The exclusion of seven Russian banks has led to a chorus calling for de-dollarization in Russia, China, Iran, and a handful of other developing countries including India as Russia’s exclusion from SWIFT payment is termed a ‘financial nuclear bomb’⁷ and has led to Russia’s economic and financial isolation (Mardones, 2022; Taskinsoy, 2022).

⁷ Why SWIFT Ban Is Such a Potent Sanction on Russia, Analysis by Nicholas Comfort and Natalia Drozdiak, Bloomberg, June 3, 2022 at 11:11 a.m. EDT

Secondly, it leads to supply-chain disruptions which are essentially caused by economic sanctions and has prompted many emerging economies like China, Russia, and India to pursue de-dollarization, if not as a strategic choice, but indeed with economic compulsions. India, for instance, continued to trade with Russia and has returned to erstwhile the USSR model of payment settlement under the rupee-ruble account (Li, 2022). Citing the adverse impact of financial supply chain disruption(s) on their domestic economies, especially the orderly procurement of key goods, such as fertilizers, oil, coal, cereals & grains, sunflower oil, gold, diamonds, nickel, etc, India, Brazil, Mexico, South Africa, Turkey, Siberia, Hungary and many other have continued to trade either in local currency or in an alternate currency or settling payments through gold (Behnassi and El Haiba, 2022; Blanchard Christopher et al., 2022; Nagarjuna, 2022; Zeufack et al., 2022). De-dollarization has become a necessity as disruption of the financial supply-chain, including issues of ship-chartering for transport of oil, insurance, and other associated issues have compelled these emerging economies to explore alternate currencies for trade invoicing, payment settlement, and money transfers (Ramaswamy, 2022; Prasad, 2022). The disruption in financial settlements is leading to a loss of economic and trade opportunities and the worst is that the vulnerable and small developing countries are unable to settle their payments as a result, the entire economic system for domestic production and consumption is either collapsing or is on a verge of collapse (Kammer et al., 2022). There is a growing view in India and the Global South that established, trusted, and proven financial instruments should not be used as weapons of mass financial disruption (Taskinsoy, 2022). India and many other countries believe that it is critical for them, as developing countries, to rise to the occasion and advocate for the adoption of an alternative international currency (de-dollarization) for international trade settlement (Cifuentes, 2019). It will be in the interest of various countries as a whole or to a specific region or among developing nations that wish to be protected against such an eventuality, resultant consequences, and humanitarian catastrophe i.e., shortage of oil, gas, food, and other essentials.

Thirdly, there are rising socio-economic unrests unleashed by supply chain disruptions and resultant increases in energy and other essential commodities prices. Consequently, some countries are pursuing de-dollarization due to socio-economic unrest(s) caused by economic sanctions and the use of the dollar as a pressure tactics or hegemon currency, for instance, after the US-Iraq war (1991) and incessant political use of the UN & the US sanctions, Iraq began 'Oil in exchange for food' program to deal with socio-economic unrest wherein the calculations would be carried out in euro, and not in the US dollars. The erstwhile president of Libya, Muammar Gaddafi, as the president of the African Union consistently advocated the African Currency with a proposed African Monetary Union. Witnessing no progress in the African Union, in 2009, Libya introduced the 'gold dinar' and solicited African countries to switch to the new currency, which is independent of the US dollar and the African franc. Some scholars argue that 'Arab Spring' in select Arab countries was not an outcome of mere human rights violations, economic misery, and social exclusions of locals but indeed toeing the idea of de-dollarization by leaders of Libya, Tunisia, and Egypt (Engdahl, 2016). Iran announced

plans to open an oil exchange in 2016 and Russia decided to open an oil price exchange to deal with the idea of capping Russian oil prices in July 2022. This poses a serious geo-economic challenge for existing oil price exchanges, mainly the EU & the US, as the geographical location of Iran & Russia in proximity to leading oil importers, China, India, the EU, and Japan determines their strategic importance. All these developments to de-dollarize have a major geo-political angle than a geo-economic, as Iran and Russia foresee it as an instrument to ensure their socio-economic stability and sustainability.

Post Covid-19, the financial, commercial, logistical, and naval blockades, have multiplied the price volatility and supply-chain vulnerability thus leading to social tumults of unprecedented level. In Sri Lanka for instance, thousands of protesters marched to the Presidential Palace and made him resign. Sri Lanka is seeking economic assistance in all forms as evident in the recent currency swaps and financial assistance including 'lines of credit' extended by India which are primarily in the Indian rupee thus leading to de-dollarization. Many other countries including Panama, Kenya, Argentina, Ghana, and Pakistan are equally vulnerable to similar socio-economic unrests. To address socio-economic unrest as the EU consumers cannot do without Russian gas, the EU Commission allowed member countries to pay in rubles (Papava, 2022) and unbelievably, more than 10 European countries are buying Russian gas by paying in rubles, but only 4 countries Germany, Austria, Hungary, and Slovakia accepted it publicly. Facing an imminent economic crisis due to the depreciating euro, food shortages, and gas cuts by Russia, the EU has decided to soften or even lift economic sanctions on the Russian banks. Resultantly, socio-economic compulsions are inarguably leading to de-dollarization both in developed and developing countries.

Fourthly, there is growing geo-strategic rivalry which is also one of the major drivers of de-dollarization in the evolving geo-economic, geo-strategic, and geo-political canvass. The use of the Petro-RMB by Saudi Arabia has surprised all, and it is expected that in the long run, the RMB may take on a more prominent role in the international oil trade as China's weight as an oil importer rises (Kamel and Wang, 2019). Saudi Arabia, astoundingly, is procuring Russian oil to store for the future, to manufacture value-added products for the domestic market, and even for speculative trading, primarily to flaunt to the US that the world order is becoming more multipolar, a tit-for-tat, for the US for ratcheting-up human right abuse issues against Saudi leadership. China is also aggressively promoting 'Petro-Yuan' to counter the "exorbitant privilege" enjoyed by the US in the Gulf region, (Foley, 2017; Mathews and Selden, 2018) to achieve key objectives of de-dollarizing global trade, counter-balancing the US hegemonistic and coercive diplomacy (Park, 2018), elongating its economic interests (He et al., 2016) and indisputably internationalizing RMB-yuan (Park and Song, 2011; Park, 2016). Another dimension of China's promoting RMB-yuan as an international currency is that it views; that if the U.S. financial system is the core of the global financial system, then U.S. debt is "the core of the core". Unfortunately, U.S. debt is growing far more rapidly than its GDP and therefore it is completely unsustainable (Salameh, 2018).

While China intends to enhance its global footprints with de-dollarization, Russia pursued de-dollarization aimed at ensuring sovereignty, tamping the US hegemony, and addressing the economic sanctions. Russia's de-dollarization is aimed at securing the economic sovereignty of the Russian Federation and creating an alternative geo-economic pole with the participation of likeminded countries that do not accept the "golden calf" cult, reject the unjust system, challenge, or oppose the privileged position of the world reserve currencies, facilitating orderly international trade (S. I. Belenchuk et al., 2020), and strive for economic cooperation based on respect for state sovereignty, equality, and mutual respect & benefit (Rybkovskaya, 2017). Ben Naceur et al. (2019) argue that Caucasian countries should strive to achieve de-dollarization by working on credible monetary and exchange rate frameworks, low and stable inflation, and deep domestic financial markets are essential ingredients of any de-dollarization strategy, concluding that there is no unique formula for success as cross-validated by several empirical studies and cross-country experiences (Menon, 2008; Kubo, 2017). In this regard, India and Turkey are working on integrating their banking system with that of the Russian national payment system to promote their national economic interests and safeguard their geo-strategic autonomy (Chang, 2022; Shangaraev, 2020).

Fifthly, there is a realignment of economic interests among countries globally. De-dollarization is a geo-economic reality as nations are realigning their economic interests. China, India, Brazil, and even South Africa have termed Russia as their geo-strategic partner and are buying as much crude oil as they can. De-dollarization becomes an emergent necessity due to sanctions as Russia is a leading supplier of fertilizer, consequently, agriculture-dependent countries like Brazil, India, Argentina, South Africa, and other developing countries from Asia, Africa, and Latin America can never ignore (Ali, 2022; Mammadov, 2022; Ruta, 2022; von Cramon-Taubadel, 2022). Russia is a major supplier of fertilizers, exporting around one-sixth of global trade in potassic fertilizers, more than one-tenth of nitrogenous fertilizers, and around one-sixth of mixed fertilizers (containing two or more of nitrogen, potassium, and phosphate).

Russia is too big to sanction⁸ as the most vital raw materials, from wheat and grains, oil & natural gas, coal, gold, palladium, diamonds, aluminium, copper, turbojet, critical defence supplies, rhodium, nickel, and other precious metals are sourced by companies from Russia. India's largest cement manufacturer, Ultra-Tech started 'yuan invoicing' to buy lucrative deal(s) of Russian coal supplies, a vital ingredient for cement production, and simultaneously avoided economic sanctions, leading to de-dollarization. Countries such as Belarus (100%), Kazakhstan (91%), Algeria (81%), China (81%), Viet Nam (56%), India (46%), Iraq (44%), and Egypt (41%) are critically dependent on Russian defence armaments and equipment's for their total defence requirements (Connolly and Sendstad, 2017; Statistica, 2022). Co-operation in the field of defence constitutes one of the most important features of Indo-Russian bilateral ties (Bakshi, 2006), and relations with Russia are a key pillar of India's foreign policy, as public, bureaucratic, and government opinion about Russia is that

⁸ Brzezinski, Z. (2022). The western expert's assessment of sanctions against Russia, <https://articlekz.com/en/article/16322>

of trusted and reliable strategic partner (Sachdeva, 2011). These countries, by compulsion or choice, must buy defence replenishments and associated repair and maintenance supplies in alternate or local currencies, resulting in de-dollarization.

Lastly, the economic sanctions imposed on Russia are a forewarning or an alarm, leading to a 'trust deficit' in the dollar and has also come under the scrutiny of emerging market central banks (Ramaswamy, 2022) as central banks in emerging markets consider the SWIFT system to be an instrument of economic sanctions (Tulun, 2022). Alerted, apprehensive, and awakened, many central banks are urgently taking appropriate safeguards against possible financial disruptions to cross-border transactions, for instance, Russia and India have settled their bilateral trade in their national currencies, the rupee and rouble, for upwards of 30% of all settled payments post Russia-Ukraine War. The dollar undoubtedly remains the world currency (Schulmeister, 2000; Blinder, 1996) and will continue to be so, but its share in world forex reserves will certainly fall (Eichengreen and Mathieson, 2000; Frankel, 2013) due to reasons such as de-dollarization of central banks to diversify the reserve assets (McDowell, 2021), focus on trade in local and alternate currencies and to reduce dollar's centrality to the system of global payments and to avoid associated risks of financial sanctions (Barros, 2020; Taskinsoy, 2020). Central Banks in emerging markets are building new financial market infrastructure and cross-border payment systems and strengthening the existing business protocols and devices for instance, Russia introduced the 'System for Transfer of Financial Messages' (SPFS) and China launched the 'Cross-Border Interbank Payment System' (CIPS) in 2015 to internationalize RMB use. Both systems are largely aimed at de-dollarization.

India's Quest for Alternatives of Dollar

India has extensively used the US dollar for financial, commercial, and economic purposes as the US \$ is the preferred currency of Indian exporters and invoices. The US dollar has been relatively very stable, offering a fair payment settlement mechanism, and is extensively used in India for raising short-term and long-term loans. Foreign Currency Assets have been the mainstay of India's Foreign Exchange Reserves. India has US \$ 571.56 billion of total reserves and around 89% of that has been Foreign Currency Assets. Table 2 as under illustrates that the share of Foreign Currency Assets is however declining after witnessing a peak in the year 2008.

Table 2. Percentage Share of Composition of Foreign Currency Assets, Gold, SDR, and RTPs in Indian Foreign Exchange Reserves

RBI's Forex Reserve Bulletin (December-Last Week)								
Item	1998	2003	2008	2013	2018	2020	2021	2022
Total Reserve (Billion US \$)	29.75	98.96	254.05	295.51	393.29	584.24	635.08	632.95
Share of different types of forex reserves								
(a) Foreign Currency Assets	0.90	0.96	0.97	0.91	0.94	0.93	0.90	0.89
(b) Gold	0.10	0.04	0.03	0.07	0.05	0.06	0.06	0.07
(c) SDRs	0.00	0.00	0.00	0.01	0.00	0.00	0.03	0.03
(d) Reserve Tranche Position	0.00	0.01	0.00	0.01	0.01	0.01	0.01	0.01

Source: Reserve Bank of India, <https://www.rbi.org.in/scripts/WSSViewDetail.aspx?PARAM1=2&TYPE=Section>

The spate of economic sanctions on Russia coupled with the blockage of banking channels has compelled India to diversify its foreign exchange reserves beyond dollar assets. Reserve Bank of India, India's central bank never publishes data on the composition of various currencies in India's Foreign Reserves but anecdotal evidence through expert(s) opinions suggests that the current share of non-dollar assets in India's reserves is pegged at anywhere between 30% and 40%⁹. India has no geo-political, geo-economic, or even geostrategic ambitions to de-dollarize, rather its quest for de-dollarization is compelled by its economic challenges, especially its high dependence on import of crude oil. India is unlikely to look beyond the top four currencies; the dollar, the euro, the pound-sterling, and the yen to keep its foreign exchange reserves and the dollar will continue to enjoy a major share in India's forex reserves but with a declining share primarily to diversify its currency basket to cope-up with the sanctioned geo-economic regime in the turbulent global economic order.

Global power politics has created a new geopolitical architecture in which countries such as China and Russia can be seen directly opposing US policies while countries such as India, Indonesia, Brazil, and South Africa are downplaying any rift with the US and the EU. India, in particular, is under intense pressure geo-strategically and geo-economically and has to manage the rupee for international trade (Shah S. N. A, 2022). India, being a net importer of goods, is also challenged with a 'twin-deficit crisis' (Nautiyal, 2022; Bhat and Sharma, 2018) wherein it has a 'fiscal' as well as a 'current account' deficit. With a slowdown in the global economy and even risks of global economic recession looming, India, with its vast population and high import dependence on energy, food, and precious metals, is finding it immensely challenging to control the depreciation in its domestic currency. The rupee is not a freely convertible foreign currency (Kadayan, 2014) as it is a non-

⁹ <https://www.financialexpress.com/economy/indias-non-dollar-forex-assets-seen-at-30-40-of-reserves/2469944/>

convertible currency on capital account and India faces multiple challenges in its quest for alternative instruments to trade which is assuredly the most demanding task.

India has pursued the policy of trading in local currencies (Ranjana and Barai, 2021) and accordingly, the Asian Clearing Union (ACU) was founded in 1974 to reduce the dependence on foreign reserves by allowing members to settle external trade by creating an international asset such as ACU Dollar (Shekhawat and Kathuria, 2018). To take India's de-dollarization forward, the Reserve Bank of India (RBI), the central bank of India, has issued regulatory guidelines advising commercial banks and the trade community to promote trade in the Indian rupee¹⁰. The RBI advises that all exports and imports, to the extent possible, should be denominated and invoiced in Indian rupee. Laying down the detailed instructions, the RBI has furthermore clarified that the exchange rate between the domestic currencies of the two trading partner countries will be market-determined. To facilitate rupee-denominated contracts, RBI asks for the opening of 'Special Rupee Vostro Accounts' with the correspondent bank of the partner trading country. To overcome challenges posed by economic sanctions and to protect its national interests with large import dependence and twin-deficit problem, India has to de-dollarize with a quest to settle all import payments by crediting funds to the 'Special Rupee Vostro Account' and similarly retaining all export proceeds into these sanitized accounts (s) maintained with the foreign bank(s) of all major trading partners. Additionally, the internationalization of the rupee is taking place within the framework of the South Asian Association for Regional Cooperation (SAARC); in particular, in 2016, the currency swap lines were concluded between the Reserve Bank of India and SAARC's countries central banks amounting \$2 billion. Following the principles of gradualist policy in the field of economics, India however, does not allow wide, unrestricted, and unlimited use of the national currency in the international markets with notable exceptions being Bhutan and Nepal (Kondratov, 2021).

In addition to this, India is actively promoting its digital National Payment gateway, called 'RuPay¹¹', which is maintained by the National Payment Corporation of India (NPCI) (Gupta and Gupta, 2013). To tap the global growth prospects, especially to provide easy, cost-effective & secure payment services to Indians travelling abroad, NPCI has established a separate entity dedicated to the internationalization of 'RuPay' & Unified Payment Interface (UPI). NPCI's quest for a dedicated international online money transfer system is enabled with 'NPCI-International Payments Limited' (NIPL) which was incorporated as a special purpose company in 2020 and is devoted to the deployment of RuPay (domestic card scheme) and UPI (mobile payment solution) outside India (Winn, 2015). Having internationalized in Nepal, Bhutan, Singapore, the UAE, and France, NIPL is striving to build a huge acceptance network for RuPay and UPI with India's major trade partners and is also leveraging fintech agreements (for other digital interfaces) primarily to de-dollarize, expand, and empower the growth of India's digital payments ecosystem in the international market.

¹⁰ https://rbi.org.in/scripts/bs_circularindexdisplay.aspx/BS_CircularIndexDisplay.aspx?Id=12358

¹¹ India's RuPay is similar to MasterCard and Visa Card.

Moreover, India's central bank, the Reserve Bank of India has accelerated the process of the launch of digital currency (Bhat et al., 2021), known as "Central Bank Digital Currencies" (CBDC). In the initial phase, except as currency notes, all other uses of paper in the modern financial system, be it as bonds, securities, transactions, communications, correspondences, or messaging, have now been replaced by their corresponding digital and electronic versions. Further, the COVID-19 pandemic has resulted in the mass adoption of digital means of money/ fund transfer (Gupta and Singhal, 2021; Modgil, 2022) and these developments have prompted RBI and the government of India to step up efforts towards exploring a digital version of fiat currency (Jain et al., 2020). There are many reasons to quest for digital currency, firstly, the general public in India has a high interest in private virtual currencies (bitcoins, etc) and the introduction of the Indian rupee in digital format will undoubtedly shift such investor-enthusiasts away from private virtual currencies, i.e., cryptocurrencies. Private virtual currencies unlike fiat currencies do not represent any person's debt or liability. With sovereign backing, the Indian rupee in circulation in digital format will appear as a liability on the balance sheet of the RBI. Secondly, India's sovereign digital currency can be easily exchanged one-to-one with any other sovereign digital currency. Thirdly, the public will be protected from abnormal levels of volatility that they otherwise experience with private virtual currencies, and fourthly and most importantly, CBDCs have a clear advantage over digital payment systems as they enable a more real-time global payment system without the need for an intermediary bank, provided both the countries in the transaction have CBDCs in place, thus saving billions of dollars as transfer fees, commission and other banking charges associated with the US dollar and the euro.

India, without hype, is keen to explore the feasibility, mechanism, and regulation of another international reserve currency and is presently deliberating on the 'BRICS currency' (Luckhurst, 2013). BRICS currency, even if yet not been introduced and with no knowledge of how it works, is presented as an alternative to the IMF's Special Drawing Right (SDR). Brazil, Russia, India, China, and South Africa (BRICS) are developing a new basket-based reserve currency, presumably incorporating real, ruble, rupees, renminbi, and rand, as the basket for International Reserve Currency, i.e., BRICS's currency (Glosny, 2010; Molodyko, 2020). Panicked by Russia's economic sanctions and taking notice of the speed and stealth at which the US Treasury moved, BRICS nations, of which India is a founding member, therefore feel the need for an alternative reserve currency to match something like the IMF's SDR. Similar to IMF's SDR, the BRICS currency, will be a basket of claims of member countries' reserve currencies such as the real, renminbi, ruble, rand, and rupee (5Rs). India and other members of BRICS overview BRICS currency as a risk-aversion measure and to address the perceived US hegemony at the IMF, the currency will certainly allow BRICS countries to build their sphere of influence and a unit of currency within that sphere. India is also open to the idea of a multiple reserve currency system (Carbaugh, 2005; Eichengreen, 2010) which provides a level playing field to emerging economic powers like India with an improvement over an existing IMF's SDR system with reserves maintained a bigger basket of currencies, than merely in the US dollar, pound-sterling, the euro, yen, and renminbi. Some refer to the BRICS International Reserve Currency

as a ‘trial-balloon¹²’ while others consider it potentially to be the only reliable challenger (Mora & Nor, 2018) to reduce the dominance of the US dollar.

Considering the size and scale of India’s external engagements coupled with the stability of the Indian rupee vis-à-vis other foreign currencies and issues of currency liquidity in the absence of capital account convertibility, India’s central bank’s quest for internationalization of the Indian rupee is challenged at multiple levels, first, India has an ever-growing trade deficit and even current account deficit. For instance, for India’s total import trade, India has a trade deficit with 78 countries, which is almost 82.1% of India’s total import trade. India has a trade surplus with 141 countries but it constitutes merely 17.2% of its total import trade. Moreover, India has a trade surplus with countries such as the USA and many EU countries which will never trade in the Indian rupee. Table 3 provides the macroeconomic indicators of India’s external engagement to understand how far India’s Central Bank’s quest for internationalization is feasible.

Table 3. India’s Macro Economic Indicators: Is Internationalization of the Indian Rupee Feasible

Size of India’s Trade Deficit (US \$ billion)	Number of India’s Trade Partners with Trade Deficit	India’s % Share of Import Trade with Countries with Trade Deficit	India’s Top 5 Trade Partners with Trade Deficit (%) (Share)	Size of India’s Trade Surplus (US \$ billion)	Number of India’s Trade Partners with Trade Surplus	India’s % Share of Import Trade with Countries with Trade Surplus	India’s Top 5 Trade Partners with Trade Surplus (%) (Share)	India’s Total Trade Deficit
-283.4	78	82.1 %	China (15.3%), UAE (7.6%), Switzerland (5.2%), Saudi Arabia (4.9%), Iraq (4.7%)	107.8	141	17.2 %	USA (7.3%), UK (1.2%), Brazil (0.9%), Italy (0.8%), Netherlands (0.8%)	-175.6

Source: UN Comtrade, 2022

¹² <https://think.ing.com/opinions/brics-the-new-name-in-reserve-currencies/>

In the above context, India's Central Bank should strategize to internationalize India's currency with specific countries with which India has energy trade such as Saudi Arabia, Iraq, Russia, Angola, UAE, etc., or small economies with which India has socio-cultural and economic influence, for instance, SAARC countries, Middle Eastern Region and certain countries from Africa, Mauritius, Mozambique, etc. India's dollarization strategy should be specific to overcome its economic compulsions arising out of the weaponization of economic sanctions and cannot be generically aimed at increasing its geo-strategic and geo-economic status.

4. Way Forward for De-dollarization

For India's de-dollarization to materialize, there is a need to implement a series of reforms. One of the important policy interventions is to make the Indian rupee convertible internationally as it will enable the liberalization of capital accounts i.e. removing or relaxing restrictions on foreign investment and capital flows. In the bargain, this would involve easing regulations on foreign direct investment (FDI), portfolio investment, and other capital inflows. Currently, India has certain restrictions on foreign investment in various sectors such as defence, retail, and telecommunications but can be further liberalized as it will help attract more foreign investment and make the Indian economy more competitive. Furthermore, there exists a series of limits on the amount of money that foreign investors can invest in Indian securities such as stocks and bonds which will also be liberalized with capital account convertibility, facilitating more foreign investment and increasing capital inflows. Ben Naceur et al. (2019) while highlighting the significance of capital account convertibility in the Caucasus and Central Asia, elucidate the need for capital account convertibility and accordingly, India should remove all restrictions on Indian residents for investing abroad if not possible immediately, in the phased manner in the long run. If India gradually but systematically simplifies the regulations governing capital account transactions in India, it will create a clear framework for cross-border capital flows which, in turn, would help to promote transparency and reduce compliance costs. For India's de-dollarization to be a reality, a strong and well-regulated financial system is essential as it will strengthen its banking sector, improve its regulatory framework, and enhance the efficiency of its payment systems. Additionally, it helps build investor confidence which is vital to improve the governance standards, enhance transparency in policy-making, and ensure the rule of law to build investor confidence.

Additionally, for de-dollarization to materialize, India requires a market-determined exchange rate wherein the Reserve Bank of India (RBI) would need to allow the rupee to float freely against other currencies, and intervene only in exceptional circumstances to prevent excessive volatility. Moreover, India needs to deepen its forex market with the required liquidity to facilitate the smooth functioning of a market-determined exchange rate. This would require the RBI to take steps to increase the participation of market-makers, reduce bid-ask spreads, and increase transparency in forex trading (Pattnaik et al., 2003). Besides, there is a need for the development of forward markets in India which would help to reduce currency risk for investors and promote the de-dollarization efforts by greater use of the INR in international trade. Accordingly, the central bank should be tasked

to encourage the development of a well-regulated forward market for the rupee, which would allow businesses to hedge their currency risk and facilitate cross-border transactions. To support this endeavour, India would need to maintain adequate foreign exchange reserves to support a market-determined exchange rate which India can build only by attracting higher doses of foreign investment as India's exports are so competitive in the international markets. In this light, it is important to note that there is a need for greater coordination of fiscal and monetary policies to maintain macroeconomic stability. More specifically, this would involve setting inflation targets, fiscal deficits, and interest rates that are consistent with exchange rate objectives desired to achieve the de-dollarization as envisaged by India's central bank. Correspondingly, the RBI should enhance the credibility of its monetary policy by making its policy framework more transparent and accountable. This would help to build investor confidence and promote the use of the rupee in international transactions.

The quest of India's central bank is in fact, largely dependent on coordinated fiscal and monetary policies that would need to be coordinated to maintain macroeconomic stability. This would involve setting inflation targets, fiscal deficits, and interest rates that are consistent with exchange rate objectives. From this perspective, the government could create an independent monetary policy committee, which would be responsible for setting inflation targets and deciding on monetary policy. Likewise, it could set a clear fiscal deficit target, which would be consistent with the inflation target, and take steps to reduce wasteful spending. That being the case, India's central bank needs to coordinate its exchange rate policy with its monetary and fiscal policies to maintain macroeconomic stability and simultaneously allow the rupee to float freely against other currencies, with minimal intervention to prevent excessive volatility. Therefore, the RBI should set interest rates that are consistent with the inflation target and the exchange rate policy. The RBI should also communicate its policy decisions clearly and transparently, which would help to anchor expectations and promote investor confidence. It can enhance the credibility of its monetary policy by making its policy framework more transparent and accountable. This would help to build investors' confidence and promote the use of the rupee in international transactions for India's de-dollarization push. The whole exercise certainly demands regular consultations between the RBI and the government on macroeconomic developments, inflation, and the exchange rate.

In quest of de-dollarization, the Indian financial sector would need to be strengthened to ensure that it can handle the increased inflow and outflow of capital. This would certainly demand measures to improve the efficiency of payment systems, enhance the banking sector's capital base, and increase the availability of financial instruments for hedging and risk management. India appropriately needs to strengthen its regulatory framework for the financial sector by creating an independent regulator for the banking and financial sector, with adequate powers to regulate and supervise the sector. Therefore, the government as well as the central bank should take steps to improve corporate governance standards and encourage greater transparency in financial reporting. In this light, it is pertinent to mention that India needs to further deepen its financial inclusion, although it has achieved

a lot post-2014 financial inclusion drives of the government of India. This would help to broaden the base of the financial sector and reduce systemic risks thus fostering an enabling environment for the growth of microfinance institutions, cooperatives, and other financial institutions that serve the needs of the unbanked and underbanked segments of society. The financial inclusion will help encourage the growth of the corporate bond market, improving the regulatory framework for initial public offerings, and developing a vibrant secondary market for equity and debt securities. India indeed has come a long way in digital banking services but considering its vast proliferated market, it needs to develop robust payment systems, which would facilitate the smooth functioning of a convertible currency. In doing so, India can sign a mutual recognition agreement with the payment gateway of other countries thus offering access and reach to India's unified payment interface system. Correspondingly, India needs to improve the resilience of its banking sector, which would help to mitigate systemic risks and ensure the stability of the financial system. The government could encourage banks to strengthen their risk management practices, improve their capital buffers, and enhance their asset quality.

For de-dollarization to become a reality, India would need to build investor confidence by improving governance standards, enhancing transparency in policymaking, and ensuring the rule of law. This would help to build investor confidence by assuring that the government and private sector are accountable and operate within a well-defined legal and regulatory framework. Furthermore, there is a need to liberalize India's trade policy and reduce tariff barriers as it will promote international trade and improve capital flows. To achieve this, there is a need to reduce trade barriers to increase the competitiveness of its exports. Moreover, India's regulatory agencies should continuously strive to simplify trade procedures and promote trade facilitation measures. Lastly, an improved trade environment wherein India enjoys harmonious and cordial trade relations with its key trading partners will reinforce the faith and trust of all involved stakeholders in India's geo-economic strengths, helping in the de-dollarization gambit of India.

Furthermore, India should systematically move towards capital account liberalization and diversification of foreign exchange reserves. India also needs to work on macroeconomic fundamentals such as meeting the fiscal deficit's targets, addressing the infrastructure gaps, and resolving governance issues. India should also explore the possibility of bilateral currency swap agreements and local currency trade settlements. India can work for the Petro-rupee trade. Moreover, it is highly important to strengthen the fiscal discipline, accelerate infrastructure development, and foster export diversification. With sustained reforms, India can reduce reliance on the dollar and mitigate associated vulnerabilities in its pursuit of de-dollarization gradually and systematically.

5. Conclusion

The paper discusses the concept and forms of de-dollarization. It further details the geo-political, geo-economic, and geo-strategic developments shaping the trends for de-dollarization. Narrating the evolving developments on the geo-economics canvas, the paper further builds the argument for de-

dollarization, shaped either by choice or compulsion. It discusses the quest of emerging markets including India to internationalize their currencies to safeguard their national economic interests which resultantly will lead to de-dollarization and reduction of the US dollars in the global forex reserves. The paper discusses that the dollar will continue to enjoy a dominant role but will be consistently and vehemently challenged as the US dollar has been weaponized with economic sanctions in many countries including Russia, Iran, and Venezuela. A country like India will pursue de-dollarization, not to scout for geo-economic dominance, geo-strategic hegemony, or geopolitical rivalry, but with its emergent high domestic needs of imports of essentials, crude oil, edible oil, pulses, defence, rare earth, fertilizers, gold, diamonds, etc.

Building on the consequences of de-dollarization, the paper further, elaborates on financial supply-chain disruptions leading to de-dollarization in world economies. There will be cascading effects of economic sanctions, leading to rising socio-economic pains which in turn will lead to the realignment of economic interests with trade in local currencies thus reducing the total circulation of the dollar in the world economy especially the emerging markets of BRICS and other developing countries. The growing economic powerhouse like China and Russia will pursue internationalization of their currencies to cushion themselves from growing geo-strategic rivalry. The other emerging markets like Brazil, India, Indonesia, and South Africa will de-dollarize to cushion-off themselves from economic shocks, unleashed by economic sanctions on a big economy like Russia which is too big to sanction. The EU will de-dollarize to serve its domestic interests, control euro depreciation, and save European consumers from the vulnerability of supplies of food and energy products and the associated volatility of high prices.

All these developments have prompted a quest for alternate means and instruments to settle international payments and fund transfers. Emerging markets like Russia, India, Brazil, Indonesia, Turkey, Peru, Chile, and South Africa, etc., spurred by their geo-strategic interests, have started trade either in local or alternate currencies and are planning to create an international reserve currency, similar to IMF-SDRs. The paper further discusses that India has already started trading in the rupee, extensively leveraging digital payment modes, signing agreements to facilitate payments through NIPL-enabled mechanisms, and is exploring launching its digital currency. The paper offers a way forward for India by concluding that de-dollarization has become a reality under these evolving developments, be it in India or for other emerging countries in the Global South. The evolving payment mechanisms will certainly challenge the predominance of the dollar as the global reserve currency; however, the dollar will continue to enjoy the highest share in global trade and forex transactions.

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