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DE-DOLLARIZATION AND INTERNATIONALIZATION OF RUPEE: A CRITICAL ANALYSIS

AUTHORED BY - DEEPALI PADHY

Abstract:

The U.S. dollar has long dominated international finance, but a shift toward de-dollarization is underway as nations seek financial sovereignty. In this context, the internationalization of the Indian rupee is gaining momentum, with countries like the UAE and Sri Lanka accepting it for trade. India has also allowed twenty-two countries to open Special Rupee Vostro Accounts (SRVAs) to settle payments in rupees, signaling a move to reduce dollar reliance. This move not only highlights India's commitment to reducing reliance on the dollar, but also raises pertinent questions about the future of the dollar dominance in the global trade. By analyzing international legal frameworks, bilateral agreements, and domestic regulations, this article aims to provide a comprehensive understanding of the opportunities and challenges facing the rupee on its path to becoming an international currency. Through this exploration, we seek to evaluate the prospects for the rupee and its potential role in reshaping global financial dynamics followed by recommended pathways.

Keywords: *De-dollarization; FEMA; International Institutions; Rupeefication; India.*

I. INTRODUCTION

The modern geopolitical and geostrategic landscape in the context of international monetary system is undergoing a profound revolution, which is marked by a complex interaction of power dynamics, regional tensions, and emerging alliances among the international communities.¹ The traditional unipolar world, with the U.S. as its dominant superpower, is gradually shifting towards a multipolar order, where rising economies like China and India assert their influence on the global stage.² Concurrently, an ongoing military conflict, such as

¹ Zhongmin Liu, Meng Shu, "The Russia-Ukraine Conflict and the changing geopolitical landscape in the Middles East", 5 *Springer Nature* 99-112 (2023).

² *ibid*

the Russia- Ukraine crisis and the continuous turmoil in the Middle East, is not only reshaping regional dynamics but also casting shadows of uncertainty over global stability. Additionally, the intensifying race for tech supremacy, like AI and cybersecurity, underscores the entangled nature of economic competitiveness and national security in the modern era.

During these shifts and challenges, the U.S. dollar's longstanding dominance as the world's primary reserve currency faces increasing scrutiny along with pressure. As emerging economies diversify and grow, their reduced dependency on the U.S. dollar for trade and investments signifies a broader trend towards a more multipolar financial system. Moreover, the geopolitical issues of the U.S. dollar, notably in the form of sanctions against nations such as Iran and Russia, have prompted countries to seek the promotion and adoption of regional currencies, coupled with central banks to diversify their foreign exchange reserves, signify a nuanced but significant challenge to the dollar's hegemony.³

In the year 1944, the United Nations held a conference known as the 'Bretton Woods Conference', which resulted in the creation of the International Monetary Fund (IMF) and World Bank.⁴ The agreement signed by the Member States of the IMF has the motive to bring international economic cooperation, creating economic peacetime relations between the Nations from the stage of wartime and rebuilding the economies. The Articles of Agreement allowed countries experiencing disequilibrium in their international balance of payments to devalue their currencies and lessen the time. The U.S. then incurred a deficit in its payments.⁵

The Bretton Woods System brought stability to the international monetary system in the aftermath of World War II. Central to this system was the U.S. dollar, which was pegged to gold at \$35 an ounce, effectively making the dollar the prime reserve currency.⁶ It provided stability and predictability in global trade and finance, as most currencies were pegged to it. The U.S. dollar's pivotal role was further solidified by the country's economic strength and its position as a major creditor nation post-war. Additionally, institutions like the IMF and the World Bank were established to oversee the system, provide financial assistance, and promote

³ M J Vinod, "The geopolitics of De-dollarization" *The Deccan Herald*, Sep. 26, 2024.

⁴ Bretton Woods Agreement and the Institutions It Created Explained, available at: <https://www.investopedia.com/terms/b/brettonwoodsagreement.asp> (last visited on November 2, 2024).

⁵ Ragnar Nurkse, "Conditions of International Monetary Equilibrium", *Essays in International Finance* 1-24 (Princeton University, 1945).

⁶ *Id.* at. 17

economic cooperation among member countries. However, the Bretton Woods system began to unravel in the 1960s due to economic imbalances, including the U.S.'s growing trade deficit and the increasing redemption of U.S. dollars for gold by foreign governments.⁷

As per the data visualized by Morgan Stanley in the year 2024, where it seems unlikely that the dollar will soon lose its position as the primary currency of central banks and for international trade.⁸ The U.S. dollar may someday lose its position as the most popular and commonly used currency in the world. Although some analysts have cautioned that rivals like the Chinese yuan, Japanese yen, or even a common BRICS currency might upset the dollar's statistics, there are important reasons why dollar dominance isn't going away anytime soon.

Further, what's India's take on this process of de-dollarization and does de-dollarization automatically result in rupeefication? The steps taken by India for internationalization of the Indian Rupee (INR) by the way of allowing Special Vostro Accounts (SRVAs) and also using the rupee for trade with countries like UAE, Sri Lanka, Germany, Malaysia, Israel etc., were not primarily aimed at targeting the U.S dollar.⁹ Despite U.S. and the European Union (EU) sanctions, Russia and India have doubled their payments in their native currencies (rupee-rouble) since last year. Rather, these moves were crafted to provide India and its trading partners with alternatives in situations where using the dollar might be challenging or less feasible. This can be regarded as a step to enhance financial sovereignty and diversify currency options.¹⁰

In the recent BRICS Summit of 2024, the External Affairs Minister S. Jaishankar commented that India's actions regarding the rupee's internationalization are pragmatic rather than politically motivated to undermine the dollar to undermine the dollar. The BRICS nations, such as Russia and India have made their statement clearer about not fighting against the U.S. dollar but rather finding alternatives if the situation necessitates.¹¹

India recognizes the U.S. dollar's dominant role in global finance and trade and continues to

⁷ *Id.* at. 19

⁸ The Dollar is Poised to keep Its Crown, available at: <https://www.morganstanley.com/ideas/us-dollar-dominance-maintains-reserve-currency-status> (last visited on November 2, 2024).

⁹ Government of India, "Question No-271 Trading In Local Currencies" (Ministry of External Affairs, 2023).

¹⁰ Suhasini Haidar, "India and Russia have doubled rupee-rouble payments in 2024, says largest Russian Bank, *The Hindu*, Jul. 16, 2024.

¹¹ Huma Siddiqui, "BRICS Unveils Symbolic Banknote, Pushes for Local Currency Trade Amid Dollar Debate, *The Financial Express*, Oct. 24, 2024.

use it where necessary. The push to use the rupee in specific cases addresses practical concerns, such as reducing currency volatility risks, bypassing dollar shortages, and promoting smoother trade with certain nations. Thus, India's focus appears to be on increasing the rupee's viability as an additional option in global trade rather than positioning it as a direct rival to the U.S. dollar.

Through a doctrinal study, *Part I* deals with the global trend of de-dollarization where countries like Russia, China, the EU, and others seek to find alternatives to reduce their dependence on the U.S. dollar for economic sovereignty and stability. It also further examines India's monumental steps taken to internationalize the rupee through liberalization, swap agreements, and rupee-based trade with some countries though there remain hurdles to make the rupee a widely accepted currency. *Part II* critically analyzes the international legal framework (International Monetary Fund Agreement), moreover, its provisions related to capital and current account convertibility, Balance of Payment rules, and scope of freely usable currencies. It focuses on the Regional Trade Agreements (RTAs) and their overlapping jurisdictions, which can be a threat to the de-dollarization efforts and how India is maintaining such regional economic cooperation with regional organizations to make the rupee accepted for trans-national transactions. *Part III* examines the domestic law of India, the Foreign Exchange Management Act, 1999 (FEMA) alongside the RBI rules for the internationalization of the rupee. It seeks to analyze the comprehensiveness of the present laws and the need for a reformation in the legal framework for effectively making the rupee globally accepted while maintaining financial stability. *Part IV* revolves around the debate between nations having a multi-currency system or a single-currency system for trans-boundary transactions in the international monetary system. It *concludes* with an overview of the global finance system doubting the dominance of the U.S. dollar in the future, as there is a rise of regional influences and each country is aiming for economic sovereignty.

II. AN OVERVIEW OF DE-DOLLARIZATION:

Many countries are increasingly reconsidering their reliance on the U.S. dollar for a combination of economic and geopolitical reasons. From an economic perspective, the dollar's dominance has sometimes led to challenges such as volatile exchange rates which can impact trade between balances and economic stability for nations with significant dollar-denominated debts. Additionally, the U.S. Federal Reserve's monetary policy decisions, tailored to domestic economic conditions, can unintentionally create challenges for countries with closely tied

currencies or significant dollar reserves.¹²

Additionally, the dominance of the dollar has been perceived by some nations as representative of a broader unipolarity in the context of international relations. It calls for an additional multipolar international monetary system that better reflects the global international communities' diverse interests and realities. As a result, several countries and regional blocs are actively diversifying their currency reserves, prompting the use of alternative settlement currencies, and establishing bilateral or multilateral financial arrangements to reduce their dependency on the dollar, signaling a potential; shift in the global economic landscape.

Notably, Russia has been at the forefront of this shift faced with U.S. and Western sanctions, Russia has actively sought alternatives to the dollar, increasing trade in national currencies with key partners like China and establishing non-dollar payment systems. On the other hand, China, as the world's second-largest economy, is another pivotal player. Through initiatives like the Belt and Road Initiative (BRI) and the establishment of the Shanghai Cooperation Organization (SCO) Development Bank, China is promoting the use of its currency, the Yuan, in trade settlements and financial transactions, reducing the dollar's dominance in its regional sphere of influence.¹³ Also, the EU has been exploring measures to bolster the Euro's role in global finance, particularly in energy trade, to mitigate vulnerabilities associated with dollar dependency.¹⁴ Countries in Latin America, such as Venezuela and Iran, have also embarked on de-dollarization efforts, driven partly by U.S. sanctions and a desire to enhance economic sovereignty. Collectively, these diverse initiatives underscore a broader global trend: *a gradual shift away from unilateral dollar dominance towards a more multipolar, diversified international monetary system.*

Interestingly, the INR's standing in the international arena has been significantly shaped by India's economic policies and legal reforms, which have progressively encouraged its usage in foreign trade.¹⁵ India's economy changed from being closed and restrictive to being more market-oriented in 1991 as a result of liberalization policies implemented under the Foreign

¹² Raghuram Rajan, "Currencies aren't the problem: Fixed Domestic Policy, Not Exchange Rates", 90 *Council on Foreign Relations* 104-116 (2011).

¹³ China is defending against the dollar's dominance, available at: <https://www.omfif.org/2024/05/china-is-defending-against-the-dollars-dominance/> (last visited on November 2, 2024).

¹⁴ Dr Pawel Tokarski, "The Euro in a World of Dollar Dominance", 30 *Stiftung Wissenschaft und Politik* 3-7 (2024).

¹⁵ Abhiman Das, Sanket Mohapatra, *et. al.* "India's International Integration and Challenges to Sustaining Growth" 42(3) *Vikalpa* 168-205 (2017).

Exchange Management Act (FEMA).¹⁶ This increased India's involvement in international trade and raised the rupee's profile on the global stage. Even while the rupee is still only partially convertible on the capital account, its global influence has increased as a result of gradual liberalization that has permitted more international investments. In order to facilitate trade in rupees and promote worldwide recognition, India has set up currency swap agreements with nations such as Malaysia and Japan. To increase the rupee's influence internationally, recent moves to permit rupee-based trade agreements with more than 22 nations—including Russia and Sri Lanka—have been essential. One of the biggest challenges to increasing bilateral trade between Russia and India has been operationalizing the rupee-ruble system.¹⁷

But the *question* of the rupee getting par with a dollar in the future in the process of internationalization of the rupee is a speculative aspect of this discussion. It is challenging for any currency, including the rupee, to threaten the U.S. dollar's supremacy in global finance, which is supported by the size of the U.S. economy and the confidence of international markets. Due to periods of high volatility, the rupee is less appealing to international traders and investors. For the rupee to become more widely accepted internationally, stability is necessary.¹⁸ India's economy would need to grow quickly and steadily over many years, propelled by higher exports, manufacturing production, and technical advancement, to get close to parity with the U.S. currency. For the rupee to be completely convertible on the capital account, India would need to further liberalize its financial markets. The rupee is now only partially convertible, which restricts its applicability worldwide.¹⁹ The need for a robust legal framework is also necessary for internationalization of rupee which will be discussed in the next chapter.

III. INTERNATIONAL LEGAL FRAMEWORK FOR CURRENCY

INTERNATIONALIZATION:

Although the IMF does not directly regulate currency internationalization, its policies, such as those regarding '*freely usable currencies*,' significantly impact global efforts like de-dollarization and the development of alternative currencies. In contrast with the U.S. dollar,

¹⁶ *ibid*

¹⁷ K.A. Dhananjay, "End of the road for India and Russia's Rupee Ruble Trade? *The Diplomat*, May 22, 2023.

¹⁸ Government of India, "How India's Rupee went from Most to Least Volatile in Asia" (Press Information Bureau, 2024).

¹⁹ Nikita Vashisht and Puneed Wadhwa, "What is Capital account convertibility? Is India ready for it yet? *The Business Standard* (Oct. 26, 2021).

Euro, Japanese yen, British pound, and Chinese yuan (RMB), the Indian rupee is not yet accepted by the IMF as a freely usable currency. Because the IMF bases its classification of "freely usable currency" on a currency's extensive use in global trade and availability in foreign exchange markets, this status is crucial.²⁰

The Agreement of Articles under *Article VIII* encourages member states to achieve current account convertibility.²¹ Under this article, member countries are encouraged to make their currencies fully convertible for "current account" transactions, which include trade in goods and services, income, and unilateral transfers as well. India has maintained current account convertibility for the rupee since 1994 which can be regarded as a significant step to align with IMF guidelines. Now, "full convertibility" does not include "capital account", which is for investments, loans, foreign asset holdings etc. IMF does not mandate its member countries to proceed with full capital account convertibility instead it encourages a framework of selective liberalization that allows countries to gradually open their capital accounts in a way that aligns with their economic conditions and stability.²² India's capital account remains partially convertible, as FEMA restricts certain capital flows to maintain financial stability. Further, IMF's balance of payments rules influence how India reports foreign exchange transactions. For this purpose, IMF requires countries to categorise transactions such as capital or current account based on the nature and duration of the transaction.²³ While India's goal may not be to challenge the dollar's dominance, aligning with IMF frameworks and fully liberalizing its capital account along with financial stability will be critical to establishing the INR as a stable alternative in global markets.

Moving to bilateral and multilateral treaties, the question arises whether overlapping jurisdictions of multiple RTAs present challenges to de-dollarization efforts. From the regional perspective, the rules about currency usage and payment resolution methods frequently differ throughout RTAs. For instance, whereas one RTA may prefer the U.S. dollar as the medium of exchange, another may permit trade in local currencies. India is a party to several RTAs, including the SAARC agreements and the India-ASEAN Free Trade Agreement. Conflicting

²⁰ International Monetary Fund Agreement, 1944, art. XXX(f).

²¹ International Monetary Fund Agreement, 1944, art. VIII.

²² Capital Account: Liberalize or not? available at: <https://www.imf.org/external/pubs/ft/fandd/basics/capital.htm> (last visited on November 2, 2024).

²³ Mr. Mahinder Singh Gill, "11 Classification of Capital Account Transactions", *The IMF's Statistical Systems in the Context of Revision of the United Nation's A System of National Accounts* 629 (International Monetary Fund, 1991).

currency protocols may arise from overlap with agreements under SAARC or other multilateral frameworks like the Regional Comprehensive Economic Partnership (RCEP), where China predominates and tends to rely more on the dollar if India wants to encourage the use of the rupee in trade with ASEAN nations.²⁴ Some overlapping RTAs can fragment regional financial systems, making it harder to adopt a unified approach to de-dollarization.

If regional partners under one agreement are committed to dollar-based trade but others are shifting to local currencies, it can impede cohesive strategies for reducing dollar reliance. For example, if trading partners favor dollar-denominated contracts because of their greater acceptability, India's effort for rupee invoicing through SRVAs would not mesh well with other RTAs where dollar dominance is still firmly established.²⁵ Again, some legal clarity about dispute resolution, currency clause enforcement, and recognition of currency convertibility arrangements is sometimes lacking in multiple RTAs with overlapping jurisdictions. For instance, India's bilateral currency arrangements with nations such as Sri Lanka and the United Arab Emirates might not always be in perfect harmony with multilateral agreements that maintain the U.S. dollar as the default currency of settlement.²⁶ The broad usage of alternative currencies may be deterred by this legal ambiguity. The free flow of capital, which is essential for a currency's internationalization, is restricted by certain RTAs. Although SAARC's South Asian Free Trade Area (SAFTA) encourages commercial liberalization, it lacks a single payment settlement system in local currencies and a clear mechanism for capital account convertibility.²⁷

To address these challenges, recently the BRICS summit of 2024 held in Russia, initiated a pathway to mitigate some issues.²⁸ The members have agreed to explore a shared currency, which aims to facilitate cross-border trade within the bloc without relying on the U.S. dollar due to sanctions imposed on Russia. This represents a shift in how regional economic groups might counterbalance dollar dominance that offers a sustainable roadmap for India to trade in local currencies across other RTAs. If this step in the future will be successful then the BRICS

²⁴ Government of India, "Report of the India-China Joint Study Group on Comprehensive Trade and Economic Cooperation" (Ministry of External Affairs, 2005).

²⁵ Y V Reddy, "The Rupee as an International Currency", *The Indian Forum*, Jun 21, 2023.

²⁶ Rupee going global: Acceptable for South Asia? available at: <https://www.orfonline.org/expert-speak/rupee-going-global-acceptable-for-south-asia> (last visited on November 2, 2024).

²⁷ Government of India, "Agreement on South Asian Free Trade Area (SAFTA)" (Ministry of External Affairs, 2004).

²⁸ Government of India, "Prime Minister participates in the 16th BRICS Summit" (Ministry of External Affairs, 2024).

currency could act as complementary or supplemental currency alongside the rupee. If such shared currency works well within BRICS, it can set a precedent that India can propose its currency as an accepted one among other regional organizations as well like the RTAs or bilateral agreements.

Coming to currency swaps, India can avoid using the U.S. dollar by conducting business with nations that have such agreements in place and settling payments in rupees directly.²⁹ Usually restricted to particular industries or product categories, many currency swap agreements only cover a subset of trade volumes. This restricts the rupee's wider acceptance because not all trade is carried out in rupees. Typically bilateral, currency swaps do not always advance the rupee outside of the participating nations. This limits the rupee's use in certain trade connections because, in contrast to the dollar, which is widely accepted worldwide, it does not generate a truly global demand for the currency. Cross-border investments and transactions in rupees are restricted because the currency isn't completely convertible on the capital account. The rupee's appeal and usefulness as a world currency are limited by capital controls, which prevent it from freely moving or from being retained as reserves by foreign institutions. To increase the effectiveness of currency swaps, India might consider expanding its trade coverage and financial marketing depth. Therefore, the question arises whether there is a need for reformation in the current legal framework for supporting de-dollarization efforts or whether it complements IMF rules is dealt with in the next chapter.

IV. DOMESTIC LEGAL FRAMEWORK OF INDIA:

After analyzing the global and regional contexts, the next step is to examine the domestic laws of India. To facilitate rupee internationalization, often known as "rupeefication," specific changes may be necessary to the Foreign Exchange Management Act (FEMA), which mostly regulates capital and foreign exchange flows in India.³⁰ Firstly, the rupee is convertible for the majority of current account transactions (trade and service payments), but it is still partially restricted for capital flows (investments and asset acquisitions) which means - India's adoption of Article VIII and subsequent alignment of FEMA with IMF standards allow rupee convertibility for current account transactions.³¹ As IMF does not mandate full convertibility

²⁹ A.K. Ramdas, "Currency Swap Agreements- How India can benefit from it?", *The MoneyLife* (December 30, 2013).

³⁰ The Foreign Exchange Management, 1999 (Act 42 of 1999).

³¹ The Foreign Exchange Management, 1999 (Act 42 of 1999), s.6.

for capital accounts instead they recognize that selective liberalization can suffice the economic growth and stability of a nation because full convertibility can bring risks, especially for developing economies. India's step which is enabled by FEMA, allows gradual liberalization on the capital account to balance the benefits of foreign investment along with financial stability.³² However, this partial convertibility prevents foreign investors from owning assets denominated in rupees and restricts the rupee's freedom of movement in international markets. Instead of full capital account convertibility, rather it can adopt phase wise approach by selectively liberalizing a few sectors or kinds/types of capital flows – which means a gradual increase in targeted industries while controlling sensitive trade areas.

Secondly, for cross-border rupee transactions, FEMA enforces stringent regulatory procedures that can discourage foreign firms from needing permissions and compliance. The rupee's worldwide acceptability may rise if these conditions are made simpler, particularly for importers and exporters who are eager to transact in rupees. Foreign investors face a barrier since FEMA permits foreign investments in rupees but is unclear about repatriating funds and profits.³³ FEMA provisions do not specifically cover the **legal backing for currency swap agreements** or arrangements for trade settlements in rupees. Currently, these agreements are negotiated at the diplomatic level but lack a statutory basis. Also, FEMA does not explicitly aim to promote the rupee's use abroad, leaving ambiguity about **international transactions** and investment flows. This lack of clear objectives under FEMA makes it challenging to pursue targeted rupee internationalization initiatives. Thus, including specific clauses for rupee internationalization, such as clarifying the **legal treatment of rupee-held accounts** overseas and providing statutory support for currency agreements, could make the rupee a more viable option for foreign entities.

Thirdly, RBI allows SRVAs to enable foreign banks to hold rupee-denominated accounts for settlement purposes.³⁴ This mechanism has facilitated rupee-based trade with specific countries, like Russia and Sri Lanka, as an alternative to dollar transactions. It has set limits on foreign participation in Indian government and corporate bonds to control foreign influence in

³² R.B. Teli, "A critical analysis of foreign direct investment flows in India" 133 *Procedia - Social and Behavioral Sciences* 447-455(2014).

³³ *Supra* note 32 at 454.

³⁴ Freeing the Rupee: RBI Allows Foreign Trade Settlements in INR, available at: <https://premium.capitalmind.in/2022/07/freeing-the-rupee-rbi-allows-foreign-trade-settlement-in-inr/> (last visited on November 2, 2024).

domestic markets. This restricts the demand for rupee-denominated bonds, limiting the rupee's appeal to foreign investors. RBI maintains a diversified foreign exchange reserve but largely holds these reserves in U.S. dollars, euros, and yen.³⁵ Its interventions in the foreign exchange market aim to maintain the rupee stability, which is critical for the currency's reliability in international transactions. For this purpose, India can encourage the issuance of bonds and financial instruments that can be denominated in INR in trans-national trade.

On the other hand, the Indian rupee's membership in the IMF's Special Drawing Rights (SDR) basket, bilateral currency exchange agreements, and masala bonds are important steps in the country's currency internationalization process, but they might not be enough to accomplish complete "rupeefication."³⁶ By enabling Indian companies to raise money abroad in rupees, masala bonds improve the currency's profile overseas. However, rather than generating a wide, strong demand for the rupee in international trade, they mostly function to draw in particular investor classes. In a similar vein, the rupee's participation in the SDR basket raises its symbolic reputation internationally, but according to the IMF, it is still not a globally "freely usable" currency, making it less popular for transactions than the U.S. dollar, the euro, or even the Chinese Yuan.³⁷

By establishing more transparent regulations for cross-border rupee transactions, increasing the rupee's usage in bilateral trade and regional accords, and facilitating international investors' access to rupee-denominated assets, comprehensive legislative changes could overcome these restrictions.

V. SINGLE CURRENCY V/S MULTI CURRENCY SYSTEM:

The debate between a single and multi-currency system is relevant in the context of international trade, regional stability, and economic integration. There are benefits attached in order to bring a single currency system, such as uniformity and lower transaction costs, where one currency dominates the world market (for example, the U.S. dollar today). All nations would certainly benefit since there would no longer be currency risk in international traders as the traders would no longer have to verge their roles due to currency fluctuations. It will also

³⁵ Narendra Jadhav and *et al.*, "The Reserve Bank of India's Balance Sheet: Analytics and Dynamics of Evolution", 24(3) *Reserve Bank of India Occasional Papers* 4-5 (2003).

³⁶ Internationalization of Rupee, available at: <https://www.drishtias.com/daily-updates/daily-news-analysis/internationalisation-of-indian-rupee> (last visited on November 2, 2024).

³⁷ *Supra* note 20, art. xxx

eliminate conversion costs which shall be beneficial for both travellers travel abroad and businesses conducting their operations in other states. There can also be trade improvements, for instance, the European Union, which switched to the euro has increased trade among the member states by 5% to 20%.³⁸ Apart from these merits, the fundamental one can be currency stability specifically for the economically developing nations. Contrastingly, there are criticisms as well where it implies that the introduction of a global currency can lead to the loss of independent monetary policy to regulate national economies. For example, during the COVID-19 crisis in the U.S., there was a proliferation witnessed in inflation rates for which the Federal Reserve had raised interest and also tightened the money supply to pull down the pressure.³⁹

Although the U.S. dollar is usually considered the ‘de-facto currency’ to establish a global currency it would require a degree of comparability across the nations that do not already exist and there is doubt about this in the future. The question of the U.S. dollar going away has been a point of discussion while some countries are increasingly reducing their dependence on the U.S. dollar; also most of the world’s transactions are completed in dollars which will make it difficult for other countries to overcome. The main fact is that 59% of the foreign exchange reserves are in U.S. dollars.^{40 41}

Conversely, economic diversification and resilience are encouraged by a multi-currency system in which multiple currencies, such as the euro, yuan, and possibly the Indian rupee, coexist and play important international roles. This system gives nations the freedom to select their currencies according to their economic requirements, trade preferences, and regional affiliations. For example, emerging markets and the BRICS nations frequently support a multi-currency system to lessen their reliance on the U.S. dollar and promote greater monetary policy sovereignty. For a multinational currency system, there requires stability in multinational exchange rates is an important criterion for regional stability and sustained growth of the regional economy. The research also suggests that the co-movement of currency will reduce exchange rate settlement costs and also improve the efficiency of trade.

³⁸ The Euro and Trade: New evidence, *available at*: <https://cepr.org/voxeu/columns/euro-and-trade-new-evidence> ((last visited on November 2, 2024).

³⁹ What caused the US pandemic-era inflation?, *available at*: <https://www.brookings.edu/articles/what-caused-the-u-s-pandemic-era-inflation/> (last visited November 2, 2024).

⁴⁰ The Dollar: World’s Reserve Currency, *available at*: <https://www.cfr.org/background/dollar-worlds-reserve-currency> (last visited November 2, 2024).

⁴¹ One World, One Currency: Could it work?, *available at*: <https://www.investopedia.com/financial-edge/0310/one-world-one-currency-could-it-work.aspx> (last visited November 2, 2024).

From the futuristic view, several scenarios can be possible because the dollar might retain its primary role due to the lack of a strong alternative. Alternatively, a multipolar reserve system could emerge with a basket of currencies like the dollar, euro, and Renminbi serving as a reserved asset. The least likely scenario is the rise of a completely new reserve currency, as it would require an economic power with an unparalleled currency. The future of the dollar as the primary reserve currency is uncertain. While it will likely face challenges, the dollar is still expected to remain a major player. The pairs and the nature of change will depend on the U.S. economy's performance, the rise of emerging economies, and the evolving global political landscape. As the world order shifts, the role of reserve currencies will undoubtedly adapt alongside it.

However, India's objective of increasing the rupee's global importance while lowering its reliance on the dollar is in line with its pursuit of a multi-currency strategy. The goal of programs like rupee-denominated trade agreements and currency exchange agreements is to establish the INR as a competitive currency choice without jeopardizing the stability of the world economy. However, India would need to address the institutional and legal barriers preventing the rupee's complete convertibility and liquidity in international markets if it were to successfully contribute to a multi-currency system. Furthermore, a multi-currency system that capitalizes on the efficiency and liquidity that a single-currency system frequently offers while permitting a variety of steady trade flows requires strong domestic policy and effective international partnerships.

VI. CONCLUSION

To conclude, the researchers suggest that by adopting such alternative strategies as suggested, India can make an effort to internationalize the use of the INR and move towards uplifting its economic sovereignty and power among the regional and global state actors. This can be achieved without fully converting the capital account for financial stability, as it allows a gradual integration of the rupee into the global economy. Further, there is a need for a reformation to be made in the existing laws of India to make INR internationally and regionally accepted as an “alternative” currency. In essence, the BRICS currency approach, if implemented successfully (with consensus), could act as a stepping stone that will normalize the use of alternative currencies for facilitating trade in major RTAs, and it will also strengthen the case for the INR as an international trade currency. Though the single currency system comes with more advantages, the multi-currency system would rather be a practical approach.