
THE ASCENDANCE OF THE DOLLAR AS INDIA'S PRIMARY CURRENCY FOR INTERNATIONAL TRADE AND ITS FUTURE PROSPECTS

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ABSTRACT

The dominance of the US dollar as India's primary currency in international trade originated with the shift in the global monetary system, from the gold standard to the Bretton Woods agreement and the eventual collapse of that system, ultimately elevated the dollar to the status of the world's central currency for international trade. India, like many developing economies, has remained deeply reliant on the dollar for trade, which has brought both benefits, such as transactional stability and global integration, and drawbacks, including exposure to US monetary shifts and trade imbalances. The study further explores India's current efforts to diversify its currency usage and reduce dollar dependency. It assesses India's growing role in multilateral platforms such as BRICS Plus and the potential for enhanced rupee-based trade settlements. Through a combination of qualitative research and policy analysis, the study aims to provide a roadmap for strengthening India's currency sovereignty while contributing to a more balanced global monetary order.

Keywords: De-dollarization, BRICS, Reserve Currency, Gold Standard, Bretton Woods Agreement.

1. Introduction: The Ascendancy of the Dollar as India's Primary Currency for International Trade and its Future Prospects

The gradual shift from the US Dollar to the National Currency or other independent payment ways is widely known as De-dollarization, a term that remained relatively obscure until the early 21st century. It encompasses efforts by various nations to reduce their reliance on the dollar for international trade and financial transactions, opting for alternative means. This transition carries significant implications for global economic dynamics, with India occupying a unique and evolving position in this landscape.

The US dollar's dominance as the world's primary reserve currency finds its roots in the Bretton Woods Agreement of 1944. Though the system collapsed in the early 1970s, but the dollar maintained its status as the preferred global currency, due to economical and geopolitical influence of United States. Over time, this dominance has provided the U.S. with significant advantages, including control over global financial flows and the ability to impose economic sanctions with broad international reach.

In recent years, however, the global economic order has been shifting. Emerging economies have begun to challenge the traditional dollar-centric system, driven by the desire to diversify reserves, shield themselves from external financial shocks, and assert greater control over their economic destinies.¹

For India, the move toward de-dollarization is not merely an economic initiative but a strategic imperative. As the world's second-most populous country and a rising economic power, India aims to enhance its global influence. Embracing de-dollarization enables India to strengthen its economic sovereignty, reduce exposure to exchange rate volatility, and conduct trade on more balanced and favorable terms. Facilitating international transactions in Indian Rupees can help stabilize the country's trade dynamics and foster deeper bilateral relations with key trading partners.

Furthermore India's involvement in the BRICS group representing around 42% of the world's population and a substantial share of global GDP underscores its commitment to reforming

¹ Arokiasamy, P., et al. (2024). *The impact of multimorbidity on adult physical and mental health in low- and middle-income countries: What does the study on global ageing and adult health (SAGE) reveal?* *SAGE Open Medicine*, 12, 1–10. Available at: <https://journals.sagepub.com/doi/10.1177/19427786241266896> (Last visited: April 17, 2025).

global financial structures.² Through institutions like the New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA), BRICS nations are actively promoting alternatives to Western-dominated financial systems.

The subsequent sections of this study will explore the economic and geopolitical impacts of de-dollarization for India, assess the opportunities and risks involved, and examine the broader implications for the global financial system. By analyzing India's approach to reducing dollar dominance, this study aims to shed light on a critical aspect of the country's evolving role in the international trade landscape.

1.1 Objective of the Study:

- a. To analyze the historical and economic reasons behind the US Dollar's dominance in India's international trade.
- b. To evaluate how Dollar-dependence affects India's trade, economy, and financial stability.
- c. To explore alternatives to Dollar dominance and strategies for boosting India's currency independence.

2. Historical Context: Evolution of International Monetary System

2.1 From the Gold Standard to Bretton Woods:³

The gold standard was one of the earliest international monetary systems, where countries fixed the value of their currencies to a specific quantity of gold. Britain informally adopted the gold standard in 1717 and formalized it in 1819. The United States, initially on a bimetallic system, moved toward a gold-backed currency in 1834 and formalized it through the Gold Standard Act in 1900. By then, gold was fixed at \$20.67 per ounce, a rate that held until 1933.

The Classical Gold Standard period (1880–1914) saw widespread global adoption and economic growth, but it was disrupted by World War I, when nations resorted to inflation to

² Balasubramanian, S. (2024), *De-dollarization: Unveiling India's Growing Influence*. IMPRI India. Available at: <https://www.impriindia.com/insights/policy-update/de-dollarization-india> (Last visited: April 17, 2025).

³ Richard H. Timberlake, "Gold Standard", *Library of Economics and Liberty*, <https://www.econlib.org/library/Enc/GoldStandard.html> (last visited Aug. 10, 2025).

fund war efforts. A modified version, the Gold Exchange Standard, was briefly restored in the 1920s but collapsed again by 1931. In response to the Great Depression, President Franklin D. Roosevelt nationalized privately held gold and ended the domestic gold standard.

In 1944, global leaders established the Bretton Woods system, where currencies were pegged to the U.S. dollar, and the dollar was pegged to gold at \$35 per ounce. This marked a major shift, positioning the dollar as the central global currency. Institutions like the IMF and World Bank were created to support this structure and promote financial cooperation.

2.2 Bretton Woods agreement and Dollar's Global Grip:⁴

Dollarization, the adoption of the US dollar as a national or trade currency, extends beyond economics—it is rooted in key historical events such as **World Wars I and II** and the **Bretton Woods Agreement (1944)**. The post-war strength and stability of the U.S. economy, along with its large gold reserves, positioned the dollar as the central global currency.

Under the Bretton Woods system, established in 1944, a global framework was created in which most international currencies were pegged to the US dollar, and the dollar itself was convertible to gold at a fixed rate of \$35 per ounce. This structure effectively made the US dollar the anchor of the global monetary system. Instead of holding gold, central banks across the world began accumulating dollar reserves, recognizing the dollar as a stable and reliable store of value. The United States' strong economic performance, political stability, and substantial gold holdings gave other nations the confidence to use the dollar for international trade, investment, and reserve purposes.

This arrangement allowed the U.S. to play a unique role in global finance, as countries needed dollars to settle trade accounts and support their own exchange rate stability. The dollar became the default currency for most international transactions, from oil purchases to foreign aid, reinforcing its global supremacy. Over time, this also enabled the U.S. to exert significant geopolitical influence, as it could leverage its currency in shaping global economic policies and enforcing sanctions. Thus, the Bretton Woods system not only institutionalized the dollar's dominance but also laid the foundation for its enduring centrality in international trade and

⁴ Saaïda, M. (2024). BRICS Plus: de-dollarization and global power shifts in new economic landscape. *BRICS Journal of Economics*, 5(1), 13–33. <https://doi.org/10.3897/brics-econ.5.e117828>. (last visited: Aug. 12, 2025).

finance, a legacy that continues to shape global economics including India's current trade practices.

2.3 End of Bretton Woods and the Dollar's Continuing Dominance:⁵

Although the Bretton Woods system aimed to stabilize global trade and finance, persistent U.S. balance-of-payments deficits and declining gold reserves eroded confidence in the dollar's convertibility. In 1971, President Richard Nixon ended the dollar's convertibility to gold, officially transitioning the world to a fiat currency system, where currency value is based on trust rather than physical assets.

Despite the end of the gold standard and the Bretton Woods system, the U.S. dollar remained the dominant global reserve and trade currency, which it continues to hold today because of the global trust in the U.S. economy, deep financial markets, and its widespread use in international trade, offering continued stability to the global system. For countries like India, this dollar centric system provided stability but at the same time expose to vulnerabilities, such as exposure to U.S. monetary policy and global dollar liquidity cycles.

3. Dollar Dependency and Its Effects on India's Financial System

As outlined in the historical development of the U.S. dollar as a global currency, the United States strategically positioned the dollar at the core of the international monetary system through the Bretton Woods Agreement of 1944. This agreement laid the foundation for a global economic order where the U.S. dollar was pegged to gold, and other currencies were pegged to the dollar, effectively institutionalizing dollarization. Notably, British India was among the 44 original signatories to the agreement, aligning itself with the new global financial structure.

However, as the U.S. economy began facing domestic financial pressures largely due to the burden of maintaining gold convertibility under the Bretton Woods framework, started making decisive changes. The most significant of these was the closure of the gold window in 1971, when foreign governments were no longer permitted to exchange their dollar reserves for gold.⁶

⁵ Sandra Kollen Ghizoni, "Nixon Ends Convertibility of U.S. Dollars to Gold and Announces Wage/Price Controls," Federal Reserve History, August 1971, available at <https://www.federalreservehistory.org/essays/gold-convertibility-ends>, (last visited Aug 12, 2025).

⁶ Ibid.

This move marked the end of the Bretton Woods system and the transition to a fiat currency regime, where the value of money is based on trust rather than a physical commodity like gold.

During all this, countries were heavily dependent on the U.S. dollar for international trade, reserve holdings, and financial stability. This reliance made the global economy increasingly vulnerable to fluctuations in U.S. monetary policy and economic conditions. Even after the collapse of the Bretton Woods system, the dollar retained its dominance due to the depth of U.S. financial markets, trust in its institutions, and the lack of a viable alternative. As a result, nations willingly or not continued to conduct a significant portion of their international transactions in U.S. dollars, further entrenching the dollar's central role in the global financial architecture.

Thereby, developing countries like India had to rely on the U.S. dollar for their international trade, despite having limited influence over global monetary policy. This dependency exposed India to external vulnerabilities such as exchange rate volatility, U.S. interest rate fluctuations, and global dollar liquidity cycles. It also limited India's monetary autonomy, as shifts in U.S. economic policy often had direct implications for India's trade balance, inflation, and foreign exchange reserves. While the dollar offered a stable medium for global transactions, it also underscored the need for greater diversification and long-term strategies aimed at reducing overdependence on a single foreign currency.

3.1 Pros and Cons of Dollar Dependency in India:

The dependency on the U.S. dollar has been a defining feature of India's international trade and financial system for decades. As the global economy continues to evolve, the reliance on the dollar brings both advantages and challenges.

a. Pros of Dollar Dependency in India:

Stability in Trade Transactions: The U.S. dollar's widespread acceptance ensures that Indian exporters face minimal exchange rate risk, as most of their trade is invoiced in dollars. This stability is crucial for maintaining competitive pricing in global markets.

Access to Global Financial Markets: The dominance of the dollar in international finance provides Indian businesses and the government with easier access to global capital markets, facilitating investments and borrowing at favorable terms.

Lower Transaction Costs: Conducting trade in a single global currency reduces the need for currency conversions, leading to lower transaction costs for Indian importers and exporters.

b. Cons of Dollar Dependency in India:

Exposure to U.S. Monetary Policy: India's reliance on the dollar means it is susceptible to U.S. monetary policy changes. For instance, when the Federal Reserve raises interest rates, it can lead to capital outflows from India, affecting the rupee's value and financial stability.

Vulnerability to Exchange Rate Fluctuations: Fluctuations in the dollar's value can impact India's import costs, especially for essential commodities like crude oil. A stronger dollar makes imports more expensive, leading to inflationary pressures domestically.

Limited Monetary Policy Autonomy: Dependence on the dollar constrains India's ability to implement independent monetary policies. The Reserve Bank of India's decisions may be influenced by global dollar liquidity and U.S. economic conditions, limiting domestic policy effectiveness.

4. Exploring Alternatives to Dollar Dominance: Pathways to India's Currency Sovereignty

Countries beyond the United States have increasingly recognized the drawbacks of the U.S. dollar's hegemony in the global financial system. This awareness has been heightened by recent global disruptions, particularly the economic fallout from the COVID-19 pandemic and the geopolitical instability triggered by the Russia-Ukraine war. These events exposed the risks of over-reliance on a single currency for international trade and reserves, especially in times of crisis when U.S. monetary policy decisions can have sweeping impacts on global markets. As a result, many nations are now reassessing their dependency on the dollar and exploring alternatives to enhance their economic sovereignty and resilience.

4.1 BRICS Plus Role:⁷

As global power dynamics shift and economic landscapes evolve, several emerging economies

⁷ Gouvea, R., & Gutierrez, E. (2024). *BRICS Plus: De-dollarization and global power shifts in new economic landscape*. *BRICS Journal of Economics*, 5(1), 13–33. Retrieved from <https://brics-econ.arphahub.com/article/117828/> (last visited Aug. 17, 2025).

including members of BRICS Plus are actively exploring alternatives to the enduring dominance of the U.S. dollar in international trade and finance. BRICS Plus, comprising influential developing nations such as Brazil, Russia, India, China, and South Africa, is at the forefront of this de-dollarization movement, motivated by a combination of economic, geopolitical, and strategic factors.⁸

- a. **Economic Resilience:** BRICS Plus nations aim to reduce their exposure to external economic shocks by diversifying their foreign exchange reserves away from the U.S. dollar. This strategy is designed to buffer their economies from currency volatility and protect against sanctions that can threaten economic stability. For India, this offers a potential path to enhance macroeconomic stability and reduce dependence on dollar-denominated assets.
- b. **Rise of Alternative Currencies:** Several BRICS members most notably China have taken proactive steps to internationalize their national currencies. By promoting the Yuan and other local currencies in trade settlements and cross-border transactions, these countries aim to build a multipolar global monetary system that reduces the U.S. dollar's monopoly. India, too, can capitalize on these global shifts by promoting the Indian Rupee in regional and bilateral trade agreements, as demonstrated in its recent trade dealings with Russia.⁹
- c. **Geopolitical Tensions and Strategic Autonomy:** Escalating geopolitical tensions, such as the war in Ukraine and growing U.S.-China rivalry, have highlighted the risks of overdependence on the U.S. dollar. As global political alignments evolve, BRICS Plus countries are increasingly motivated to reduce dollar usage in order to avoid being subject to political and economic retaliation. A move toward de-dollarization thus becomes not just an economic necessity but a strategic imperative.
- d. **Safeguarding Financial Stability:** The freezing of Russia's foreign currency reserves by the U.S. following the Ukraine invasion served as a wake-up call for many countries.

⁸ Arnold, T. D. (2024). De-dollarization and global sovereignty: BRICS' quest for a new financial paradigm. *Human Geography*, 18(1), 78-83. <https://doi.org/10.1177/19427786241266896> (last visited Aug 17, 2025).

⁹ Jagota, M. (2024, November 13). *90 per cent of India-Russia trade in local currency now*. The Financial Express. Available at: <https://www.financialexpress.com/business/industry-90-per-cent-of-india-russia-trade-in-local-currency-now> (last visited Aug 15, 2025).

This incident sparked a significant decline in the dollar's share of global reserves and encouraged BRICS Plus nations to reassess their financial vulnerabilities. Thereby developing countries need to look to strengthen their financial systems by diversifying their currency reserves and increasing the use of local currencies in international settlements.

- e. **Establishment of Independent Institution:**¹⁰ Western-led institutions like the World Bank and the IMF played a significant role in the establishment of dollarization as the dominant reserve currency for international trade and finance. In response, BRICS Plus created key instruments such as the New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA) to counter the U.S. dollar's dominance and promote de-dollarization among emerging economies. The NDB, established by BRICS, provides financing for development projects in local currencies, reducing reliance on the U.S. dollar and challenging the power of Western institutions. Similarly, the CRA offers liquidity support to BRICS nations during times of crisis without the need for U.S. dollar transactions, enhancing financial sovereignty. Together, these initiatives foster a more diverse and resilient global financial system, accelerating the move away from dollar dependence.

The push for de-dollarization is not simply a response to temporary political or economic pressures rather it reflects a long-term ambition among emerging economies to create a more balanced, resilient, and multipolar global financial system. With BRICS Plus strengthening its collective influence, the vision of diminishing dollar dominance is becoming increasingly attainable.

4.2 India's Role:

Before delving into India's ongoing de-dollarization strategy in 2024, it is essential to consider the early concerns raised by policymakers. In 2011, then-Governor of the Reserve Bank of India (RBI), Duvvuri Subbarao, warned about the risks of excessive reliance on a single global reserve currency—the U.S. dollar. He argued that the global financial system would be more stable with multiple reserve currencies, and likened efforts by emerging market central banks to defend depreciating currencies to “catching a falling knife.” At the time, the RBI adopted a

¹⁰ IMPRI India, 'De-Dollarization: Unveiling India's Growing Influence in Global Trade', IMPRI India (2024) <https://www.impriindia.com/insights/policy-update/de-dollarization-india/> (last visited Aug. 15, 2025).

cautious stance, intervening in currency markets only to smooth excessive volatility, not to defend a specific exchange rate. With foreign exchange reserves showing signs of decline after surpassing \$300 billion pre-2008, the RBI's measured approach reflected broader concerns about limited monetary tools in a dollar-dominated global economy.¹¹

Thereby in this shifting global economic environment, India's pursuit of de-dollarization is not just a policy shift but a strategic assertion of its ambition to influence global financial governance. As India moves forward, it must balance the complexities of reducing dollar dependency with the opportunities that arise from a more diversified and resilient trade system.

In line with the trend set by BRICS Plus, India, recognizing the volatility of the U.S. dollar during the Russia-Ukraine war, embarked on the process of de-dollarization. India began promoting the Indian Rupee in international trade, particularly with Russia, aiming to reduce its dependence on the dollar and stabilize its trade dynamics. This move signifies India's strategic effort to enhance its economic sovereignty while minimizing exposure to the fluctuations of the global reserve currency.

Moreover, during times of strained relations between the U.S. and Russia, India's willingness to conduct trade with Russia in Rubles further strengthened their economic partnership. These actions not only underscore India's commitment to multilateralism but also demonstrate its resilience against external pressures. As a key member of BRICS, India's role in de-dollarization is pivotal in establishing alternative financial institutions, reinforcing its leadership in creating a more balanced global financial system.

Furthermore, the significant rise in Rupee-Rouble transactions underscores the growing importance of alternative payment systems in the global financial landscape. According to Russia's largest state-controlled bank, Sberbank, the volume of Rupee-Rouble transactions processed in the first half of 2024 has doubled compared to the same period in 2023. Additionally, the number of transactions increased by 80%, and the volume of corporate deposits in rupees surged six-fold. This indicates a growing trust in the Indian Rupee among Russian businesses and a shift towards more localized financial mechanisms in international

¹¹ Duvvuri Subbarao, 'Over-reliance on a single currency for global trade is dangerous: D Subbarao, RBI governor', *The Economic Times*, 19 April 2013, available at: <https://economictimes.indiatimes.com/markets/forex/over-reliance-on-a-single-currency-for-global-trade-is-dangerous-d-subbarao-rbi-governor/articleshow/19623608.cms> (last visited Aug. 17, 2025).

trade.¹²

India's active involvement in de-dollarization is a key part of its broader strategy to enhance economic sovereignty. By promoting the use of the Indian Rupee in international trade, India aims to reduce its dependence on global currency fluctuations and strengthen its financial independence. The increased use of Rupee-Rouble payments, particularly in response to the exit of Western companies from the Russian market, also provides an opportunity for Indian businesses to fill the gap, reinforcing bilateral economic ties and positioning the Rupee as a viable alternative in global transactions. This development underscores India's growing influence in shaping a more diversified global financial system.

5. Conclusion

De-dollarization process is not in itself an easy process but despite the odds India's active participation in the de-dollarization process underscores its growing influence in the global economic landscape. By promoting the use of the Indian Rupee in international trade, India aims to enhance its economic sovereignty and reduce dependence on the U.S. dollar. This strategic initiative aligns with India's broader goals of minimizing financial vulnerabilities and reinforcing its influence within an emerging multipolar global order.

One of the primary concerns is managing exchange rate volatility, a persistent issue highlighted by the Indian Rupee's depreciation over the past several years. Expanding the global acceptance of the Rupee will require sustained diplomatic engagement and the strengthening of financial infrastructure to support cross-border transactions. Moreover, conducting trade with sanctioned countries brings geopolitical risks, demanding a careful and balanced approach in India's foreign policy to safeguard both economic interests and international relations.

Looking ahead, India must continue to engage with other nations to build a stable and resilient financial system that promotes inclusive growth. Initiatives like BRICS Pay, introduced during the 16th BRICS Summit in 2024, aim to facilitate transactions in local currencies among member states, reducing reliance on the U.S. dollar. Additionally, with the global rise of cryptocurrencies and Central Bank Digital Currencies (CBDCs), India has the opportunity to

¹² Haidar, S. (2024, July 15). *India and Russia have doubled rupee-rouble payments in 2024, says largest Russian bank. The Hindu*. Available at: <https://www.thehindu.com/news/national/india-and-russia-have-doubled-rupee-rouble-payments-in-2024-says-largest-russian-bank/article68407397.ece> (last visited Aug 17, 2025).

explore and integrate digital financial innovations into its de-dollarization strategy. By actively participating in such platforms and embracing emerging technologies, India can help shape a more balanced, tech-driven, and equitable global economic framework.

Thus India's role in de-dollarization is not merely about the rise of the Rupee or the decline of the Dollar; it reflects a broader shift towards a more diversified and resilient global financial system. With strategic planning and international cooperation, India has the potential to play a pivotal role in shaping the future of global currency trade and international finance.