Should India Pursue Active De-dollarisation?

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There is a rising global trend towards de-dollarisation, driven by the desire for economic resilience, the quest for financial stability, and a potential end to the dollar dominance. India must manage the immediate paradox of the dollar's dominance through a pragmatic de-risking strategy at home. Simultaneously, the country must embrace its role as a global leader, working to unite the developing world to build a more distributed, democratic, and just financial order.

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A global shift away from the United States (US) dollar is gaining momentum, born from a desire for economic resilience and a deep-seated unease with the dollar's decades-long dominance. For India, this presents a foundational strategic challenge. While the impulse to pursue a full-scale de-dollarisation—an active strategy to replace the dollar—is understandable, the wiser path is de-risking. This gradual, cautious approach acknowledges a core paradox of our time—countries must reduce their vulnerability to a dollar they see as increasingly fragile, while still relying on the stability it provides.

For India, a rushed exit would not only disrupt trade and destabilise the economy but also fail to address the immense internal reforms required to prepare the rupee for a global role. The real task is to navigate this transition, not force it.

The Global Pressure Cooker

Global trade has run on the dollar since World War II, but the system's foundations are trembling. The dollar's share of global reserves has fallen from over 70% in 1999 to 58% today, a clear sign that central banks are hedging their bets. This trend is a response to several powerful and converging forces.

First is the concern over the US's fiscal health. The US national debt has exploded to 120% of gross domestic product (GDP) —a staggering $35 trillion and rising—making global investors nervous about the dollar's long-term stability. Second, and more acutely, is the weaponisation of finance. The use of sanctions and the unprecedented freezing of Russia's sovereign reserves sent a shockwave through the world, demonstrating how the dollar-based system can be used for geopolitical ends. For many nations, this transformed de-risking from a matter of economic policy into one of national security.

Finally, emerging economies feel that the current global financial architecture is outdated. Institutions like the International Monetary Fund (IMF) grant disproportionate power to the US, meaning American monetary policy often creates significant economic pain for other nations, fuelling the call for a more equitable system.

Seeking Sovereignty in a Volatile World

For India, a net importer, the dollar's dominance comes at a high price. A strong dollar inflates the bill for crucial imports like oil, triggering inflation across the economy. This external vulnerability has spurred the Reserve Bank of India (RBI) to shift its strategy by relaxing its control over the rupee and promoting local currency trade through mechanisms like the Special Rupee Vostro Account system.

This policy shift is part of India's broader ambition for strategic autonomy in a multipolar world. However, this external ambition is intrinsically linked to a series of profound internal challenges that must be overcome to build a credible alternative.

Are the Alternatives Ready?

While the desire to move beyond the dollar is strong, a clear-eyed assessment of the alternatives reveals that they are either politically symbolic, technologically nascent, or institutionally distant.

The political gambit of BRICS: The idea of a common BRICS (Brazil, Russia, India, China, South Africa) currency is less a viable economic project and more a powerful political signal. Given the bloc's diverse economies and deep India–China tensions, its feasibility is extremely low. However, its purpose is to function as a tool of collective bargaining—a declaration of intent to challenge the Group of Seven (G7)-led order.

The technological frontier: The true technological challenge is not consumer cryptocurrencies like Bitcoin but state-led central bank digital currencies (CBDCs). Projects like mBridge—a collaborative platform involving China, the United Arab Emirates, and others—are designed to create alternative payment rails that bypass the US-controlled Society for Worldwide Interbank Financial Telecommunication (SWIFT) system. This is a direct, strategic effort to erode the dollar's infrastructural power, representing a far more significant long-term threat.

The institutional long game: The IMF's special drawing rights (SDR) could act as a neutral reserve asset, but this would require a major political reform of its currency basket—a difficult and lengthy process.

De-risking a Risky Asset

The lack of ready alternatives traps countries like India in a difficult paradox—they must continue to rely on a currency whose long-term stability they increasingly doubt. The US remains India's top trading partner (according to Indian Commerce Ministry data, bilateral trade was nearly $130 billion in 2022–23), and the dollar-based system offers unparalleled liquidity for raising capital.

This is why de-risking is a necessity, not just a choice. It is the art of managing this contradiction. The strategy involves gradual reserve diversification, bilateral currency swaps, and hedging—all designed to reduce vulnerabilities without triggering the immense disruption that would come from abandoning the dollar system before a viable alternative exists.

Preparing the Rupee for the World Stage

The ultimate success of India's de-risking strategy depends on an element often overlooked in geopolitical discussions—deep domestic reform. An international currency cannot be built on foreign policy alone. It requires a robust, credible, and open domestic financial market.

This means tackling the elephant in the room—full capital account convertibility. Making the rupee freely exchangeable without restrictions is the final frontier for its internationalisation. But doing so prematurely would expose India to punishing global capital flows and macroeconomic volatility. Therefore, the prerequisite is a monumental domestic effort to strengthen banks, deepen the corporate bond market, and ensure fiscal discipline. Without this internal foundation, any external de-dollarisation push is destined to fail.

Co-authoring a New Global Financial Order

A stable financial future cannot be designed by the same powers that built the old, unbalanced system. The solution lies not just in strengthening existing multilateral institutions, but in fundamentally reshaping them, with the emerging economies of the global South acting as co-authors of the new order. For too long, the developing world has been a rule-taker; it must now become a rule-maker.

This requires moving beyond rhetoric to unified action. First, a cohesive front should be formed. Developing nations, using platforms like the Group of Twenty (G20), an expanded BRICS, and the African Union, must coordinate their positions to negotiate as a powerful bloc, rather than as individual countries. Second, specific reforms should be championed. This bloc must move from criticism to concrete proposals. This includes tabling detailed plans for a radical redistribution of IMF and World Bank voting quotas to reflect the current economic reality, not the world of 1945. Third, parallel infrastructure should be built. The most powerful leverage comes from creating viable alternatives. By investing in and building South-South financial infrastructure—including their own credit rating agencies, development banks, and cross-border payment systems—the developing world reduces its dependency on the current system and gives its demands for reform real weight.

For India, the path forward involves a dual strategy. It must manage the immediate paradox of the dollar's dominance through a pragmatic de-risking strategy at home. Simultaneously, it must embrace its role as a global leader, working to unite the developing world to build a more distributed, democratic, and just financial architecture. This is not merely an economic adjustment; it is the necessary work of securing true economic sovereignty in the 21st century.