

Internationalization of the Indian Rupee: Strategic Implications for Economic Sovereignty, Trade, and Global Influence

OPEN ACCESS

Volume: 13

Special Issue: 2

Month: January

Year: 2026

E-ISSN: 2582-0397

P-ISSN: 2321-788X

Citation:

Singh, Poonam, et al.
“Internationalization of the Indian Rupee: Strategic Implications for Economic Sovereignty, Trade, and Global Influence.” *Shanlax International Journal of Arts, Science and Humanities*, vol. 13, no. 2, 2026, pp. 64–71.

DOI:

<https://doi.org/10.34293/sijash.v13iS2-i1-Jan.10465>

Poonam Singh

*Assistant Professor, Department of Management Studies
Vidyalankar School of Information Technology, Wadala*

Vivek Bhoir

*Assistant Professor, Department of Commerce
Karmaveer Bahurao Patil College, Vashi*

Dayanand Ghosalkar

*Assistant Professor, Department of Commerce
D.V.S. College of Commerce, Koparkhairane*

Abstract

The internationalization of the Indian Rupee represents a critical strategic pathway for enhancing India's economic sovereignty and strengthening its position within the global financial system. Despite India's status as one of the world's rapidly growing economies, the usage of Rupee remains marginal in international trade settlements, reserve holdings, and cross-border financial transactions. This limited global role has highlighted India's dependence on dominant foreign currencies such as US Dollars, exposing the economy to external shocks, exchange rate volatility, and constraints on independent macroeconomic decision-making.

This research paper discusses the strategic implications of the internationalization of the Indian Rupee with specific emphasis on economic sovereignty, trade efficiency, and global influence. The paper analyzes how increased cross-border usage of the Rupee can reduce reliance on foreign currencies, lower transaction and hedging costs for Indian firms, and improve policy autonomy in external sector management. In addition, the study further evaluates the role of Rupee internationalization in facilitating trade expansion, attracting investment, and reinforcing India's economic diplomacy in an increasingly multipolar global order.

The analysis also addresses the challenges associated with currency internationalization in terms of institutions, regulations, and the market, such as management of capital accounts, the depth of financial markets, and doubts about the credibility. By presenting a balanced assessment of opportunities and constraints, this paper contributes to ongoing policy and academic discourse on India's long-term monetary strategy. The findings underscore that a calibrated and phased approach to Rupee internationalization can serve as an effective instrument for advancing India's economic sovereignty, improving trade competitiveness, and consolidating its global influence.

Keywords: Indian Rupee Internationalization, Economic Sovereignty, Trade Competitiveness, Global Financial System, Currency Internationalization, Economic Diplomacy, Financial Stability

Introduction

Currency internationalization is the process of using a country's currency for settling international trade, making investments, and holding reserves. The US Dollar and Euro have been the leading currencies for a long time in the global financial transactions, but among others, the Chinese Renminbi has slowly but surely taken steps towards being more accepted internationally. In fact, one of the world's fastest-growing major economies, India, has vast potential for the Indian Rupee to gain a stronger global presence.

India's economy is one of the world's largest in both nominal GDP and purchasing power parity. The Rupee, being the legal tender of India, has a major role to play in the country's economic activities and is also accepted in some neighboring countries like Bhutan and Nepal. Although the Rupee is somewhat present in the regional market, its international use is still quite limited, as it has a very small share in the global reserves and trade settlements. There are a number of factors that have hindered its global acceptance, such as being only partially convertible, having capital flows controlled, the volatility of the exchange rates, and not very advanced financial markets being other factors that are still holding the Rupee back from being more global.

The process of a currency becoming internationalized carries along its challenges and advantages from economic sovereignty of a country, trade efficiency, and global power. If the Rupee becomes more international, India will be able to rely less on foreign currencies, have their businesses incurring lower transaction and hedging costs, and less exposure to external exchange rate shocks among them. The RBI or Reserve Bank of India has already taken some measures to facilitate cross-border use of the Rupee but still it will be necessary to implement more interventions that are strategic in nature to develop market confidence and widen the currency's appeal globally.

In the past internationalization of the currency was almost always linked very closely to a country's economic power and political influence, this was the case with the British Pound and the US Dollar. The RBI's Inter-Departmental Group (IDG) report for the year 2023 indicated a step-wise plan for rupee internationalization, and later on, the amendment of FEMA regulations in 2025 made the rules regarding cross-border payments and settlement even more liberal thus facilitating the use of INR in international transactions to a great extent. The latest being China's internationalization of Won, which shows the importance of continuous policy support and incorporation into the world economy. Hence, the internationalization of Rupee truly reflects the aspirations of India and the growing role of the country in world trade and finance.

The research examines the various aspects related to the internationalization of the Indian Rupee, pointing out its strategic implications for economic sovereignty, trade competitiveness, and global power. It stresses on the importance of combined policy actions, financial market development, and the establishment of relationships to make the Rupee a dependable currency in the future multipolar global financial system.

India's Economic Position in the Global Market

Currently India ranks 4th in the world economy. Indian economy is quite sufficiently diversified in trade relations, expanding export sector, and greater FDI reception to push for rupee internationalization. However, the currency remains low in terms of global transactions. The present research indicates how better internationalization of rupee in trade will improve India's economy direction further.

The USA, China, the European Union, and South Asian neighbor countries constitute the main partners in trade with India. Export sectors—for example, IT-services, pharmaceuticals, or textiles—seem to contribute greatly to GDP percentages, but most of these do not take place in rupee-denominated transactions. Therefore, if India wants to push towards more trade and commodity exports in rupees, it will reduce huge volatility in exchange rates and will enhance the balance of payments.

India's services sector – mainly IT and financial services – contributed hugely to the GDP of the nation. However, contracts for trade in such sectors are mostly settled in foreign currencies such as the US Dollar or Euro, which inhibit India's control over such fluctuations concerning exchange rates. Therefore, increasing the usage of the rupee in these sectors could provide a boost to both financial stability and economic resilience in India.

Moreover, India is rapidly increasing its imprint in global trade agreements. Therefore, it could well argue for including the rupee in bilateral and regional trade agreements by countries to increase acceptance and penetration of the currency. Trade settlements in rupees with regard to South Asian countries, particularly Bangladesh, Sri Lanka, and Nepal, should be the starting points.

Other initiatives of the Government of India, like promoting cross-border digital payment systems like UPI, further strengthen the prospects for acceptance of the rupee globally. Such steps can be taken to build confidence in the rupee internationally and spur foreign investors to trade investments in the currency of India.

Objectives of the Study

- To examine the implications of Rupee internationalization for India's economic sovereignty.
- To analyze the impact of Rupee internationalization on India's international trade.
- To assess the strategic role of Rupee internationalization in enhancing India's global influence.
- To identify key constraints and suggest policy measures required for Rupee internationalization.

Review of Literature

The term currency internationalization denotes the increasing trend of using the domestic currency for settlement, investing, and holding reserves across borders. The factors that are very significant, according to the existing literature, are macroeconomic stability, the size of the trade, the depth of the financial market, the credibility of the institutions, and the convertibility of the currency.

Zhang & Tao (2014) On the one hand, transaction costs may be lowered and external resilience may be improved by the international status of the currency, while, on the other hand, the issuing country may gain a stronger influence in the world. The studies conducted on the Renminbi accentuate that China followed a gradual approach which included trade settlement facilitation, controlled liberalization, and offshore market development, thereby showing that the currencies of emerging economies can gain international acceptance through the prudent sequencing of policy measures.

Patnaik & Shah (2012) In contrast, literature points out that the negative side of internationalization is that the currency will be prone to speculative pressures and volatility unless the domestic financial markets and the regulatory systems are adequately strong.

Das & Kumar (2019) For India, the recent research is about the feasibility of INR settlement systems and the requirement of more profound financial markets, stable macroeconomic conditions, and institutional coordination for sustainable growth.

Overall, the literature recommends INR internationalization as a strategic opportunity and at the same time points to the existence of structural constraints and the need for policy trade-offs. In the past, the internationalization of a currency was always tied to the economic and political power of the country issuing the currency. The case of the British Pound, which was the most widely used currency in international trade at the time, and the scenario of the US Dollar, which emerged as the leading currency after the Bretton Woods agreement, are good examples of how commercial activities, trust in institutions, and the availability of financial resources in a country determine the use of that currency internationally. The situation is no different in the case of China, which has lately pricked up the Renminbi little by little to show the world the importance of implementing well-planned policies one after the other. The historical background provided here favors the view that the internationalization of the Indian Rupee is a gradual, long-lasting development in the wake of India's ascending global status.

Gaps in the Existing Literature

While currency internationalization is broadly studied, the Indian Rupee remains relatively underexplored in terms of strategic relevance. Existing studies mainly concentrate on theoretical positions

and macroeconomic factors, providing an isolated and lazy approach to INR internationalization considering three linked objectives of economic sovereignty, trade competitiveness and global influence. The existing literature does not provide sufficient India-specific assessment of how policy measures in India – for example INR trade settlement mechanisms, market reforms or coordination between institutions – can promote internationalization. Demonstration lessons from a number of other emerging currency stories are often made use of in the debates, though they are not always so systematically contextualized for India. Furthermore, the significance and impact of currency use as a geopolitical and diplomatic tool especially in the context of the multipolar world order, have not been sufficiently addressed in the INR literature. The huge gaps in the existing research thus become the areas where this study intends to contribute by introducing a presentation of the integrated objective-linked assessment framework related to INR internationalization process with strategic implications.

Research Methodology

The research uses a descriptive and analytical research design based on secondary data. Data and information are extracted from official and dependable sources, such as:

Reserve Bank of India (RBI): Publications and circulars from 2022 to 2025, to evaluate India’s institutional progress towards INR settlement mechanisms.

International Monetary Fund (IMF): Reserve currency datasets (COFER) 2016–2025, to assess global reserve concentration and benchmark INR’s position as a reserve currency.

Bank for International Settlements (BIS): Foreign exchange turnover April 2022 survey results, and reports related to trade, to analyze INR’s share in global FX turnover compared with global benchmark currencies.

The paper employs comparative analysis of international currency experiences and thematic evaluation of INR policy measures related to the issue. The methodology is appropriate for a conference paper because it combines institutional evidence with the strategic interpretation of the outcomes of the currency internationalization process.

Findings and Data Discussion

Current Status of INR Internationalization

India is not yet a major player in the international currency market, as indicated by the fact that the Indian Rupee (INR) has a rather small role in global monetary usage despite the country being an economic giant and its global engagement increasing. The evidence shows that the INR’s share in global trade and reserve holdings is still very small in comparison to the US dollar and euro. The BIS Triennial Central Bank Survey (April 2022) indicates that global foreign exchange markets continue to be dominated by a small set of major currencies, and emerging market currencies, including INR, account for only a small share of overall trading activity. Although India has made some progress through institutional reforms and trade settlement initiatives, the current situation still displays a huge disparity between India’s economic power and the currency’s international acceptance.

Proofs signify that the Indian Rupee is still in the process of being internationalized. The BIS data reveals that the Rupee accounts for a very minor portion of the worldwide foreign exchange market turnover, whereas the IMF COFER data clearly states that worldwide reserve holdings are mainly in a few key currencies and the Rupee has not reached the stage of being recognized as a major reserve currency yet. Likewise, the patterns for global invoicing are still predominantly in favor of the established currencies which mean that the Indian Rupee’s participation in trade settlement is still negligible despite the recent government interventions like the RBI’s INR trade settlement framework. The following table represents the above case comprehensively:

Table 1

Metric	INR – Current Position (latest available)	Global Benchmark
Share in global FX turnover	INR accounts for ~1.6% of global FX turnover (April 2022)	Global FX turnover: USD 7.5 trillion/day; USD is on one side of most trades
Share in official global reserves	INR share is negligible and falls under “Other currencies” in COFER reporting	USD ~58%, EUR ~20%, RMB ~2% (varies by quarter)
Use in trade invoicing/settlement	Very limited at global level; INR invoicing/settlement remains marginal	Trade invoicing remains dominated by major currencies (USD/EUR), with limited use of most emerging-market currencies
Policy readiness for trade settlement in INR	RBI enabled INR trade invoicing & settlement mechanism (SRVA framework)	Comparable to early-stage local currency settlement arrangements used by emerging economies

Source: Data for reserve currency composition is sourced from IMF COFER; foreign exchange turnover data is taken from BIS Triennial Central Bank Survey (2022); and trade invoicing patterns are referenced from IMF working paper evidence and Federal Reserve review of the international role of the US dollar.

Inference

All the indicators taken together are pointing to a large structural gap: while India’s economy is becoming more and more apparent in the global system, the INR has not yet been widely accepted as a currency for settlement or reserves. The gap pointed out here further enhances the need for policy interventions directed at increasing cross-border transactions denominated in INR and building up international trust in the rupee-denominated settlement systems.

Implications for Economic Sovereignty

Economic sovereignty in the context of international finance refers to the degree of autonomy a nation enjoys in managing its external payments, trade settlement, and external sector risks without excessive dependence on dominating foreign currencies. Excessive dependence on a few key currencies, particularly the US dollar, exposes emerging economies to spillover effects resulting from global monetary tightening cycles, dollar liquidity constraints, and sudden exchange rate shocks. This is specifically relevant given that reserve currency concentration remains high, as evidenced by IMF COFER statistics indicating continued dominance of the US dollar and euro in global reserve portfolios.

In this context, INR internationalization can enhance India’s economic sovereignty by reducing the dependence on third-party currencies for trade settlement and potentially augmenting resilience against possible external currency volatility. Acknowledging these strategic benefits, the Reserve Bank of India has introduced a framework enabling invoicing, payment, and settlement of international trade in INR (A.P. (DIR Series) Circular No. 10 dated July 11, 2022), signifying institutional readiness to expand the rupee’s cross-border role.

However, the sovereignty from INR internationalization would be limited if the market for INR settlement created by RBI continued only as a policy intent and not as a reality. For countries with which India has trade relations to willingly consider the use of INR for payments resolve, offshore INR circulation needs to grow and foreign entities need to have access to reliable INR-denominated investment instruments for their INR holdings. Hence, it can be said that while INR internationalization is a step toward economic freedom, still the advantages it bequeaths are reliant upon the market being developed and the international trust on rupee-based settlement being strengthened.

Trade Implications of INR Internationalization

The internationalization of the Indian rupee (INR) would lead to a more efficient trade process, through lowering the total of the transactions involved in the currency exchange, by the need of Indian companies to hedge against the risk of a foreign exchange losing value and by the foreign exchange losing its value over a short period. Under the traditional way of settling, trade invoices are often in the dominant currencies, such as the US dollar, even if the US is not party to the deal. Studies show that the world still invoices mainly in the same few currencies that have been dominating for a long time. This means that the companies in the developing regions have to bear currency conversion costs and the costs of hedging, especially in times when the world is experiencing financial volatility.

Encouraging the use of INR for settlement will lead to a decrease in these costs through the reduced use of turning currencies and the decreased need for Indian exporters and importers to hedge. This is especially true for the highly import-dependent sectors, like energy and commodities, where currency risk and dollar pricing lead to settlement risks. In line with this purpose, India has established the institutional infrastructure required for INR-based trade settlement through the RBI's framework and the SRVA mechanism.

The increment of INR settlement is still reliant on the acceptance and the holding of INR by the partners. Such acceptance and holding are affected by the trade balance situations and the existence of the INR recycling channels. In case the bilateral trade is considerably imbalanced, the partner countries may end up with large amounts of INR while having very few opportunities to use it for imports or investments, which will in turn lessen the motivation for long-term adoption. So, the trade advantage from INR internationalization will not only be determined by the policy arrangements but also by the overall export competitiveness and the improved rupee deployment options for the foreign holders.

Global Influence and Economic Diplomacy

Internationalization of a currency is considered as a major factor in shaping geopolitical and diplomatic influence. Historically, international currencies gave the issuers the main advantages in terms of larger settlement networks, financing capacity, and stronger negotiations in international economic arrangements. The empirical research on trade invoicing has demonstrated that the geopolitical alignment and the establishment of strategic trade networks could dictate the adoption of certain invoicing currencies. This further suggests that international currencies play their respective roles not just because of the economic factors but also due to the strategic alliances.

In this context, the INR's internationalization could be a factor that supports India's economic diplomacy by reinforcing the settlement systems with the major partners, limiting the reliance on the external currency systems, and allowing India to negotiate economic engagement from a position of greater autonomy. The policy initiatives allowing the settlement of trade in INR are seen as a major step taken towards this end. However, making currency the tool to enhance global influence requires that strong credibility factors—stable macroeconomic performance, predictable policy institutions, and internationally accessible INR-denominated financial instruments—are in place. Without these supportive conditions, the usage of INR might be restricted to some corridors instead of being widely accepted internationally.

The evidence from secondary sources is that the INR is still at a very limited stage of internationalization in comparison with the major international currencies. The evidence from the BIS indicates that the global foreign exchange markets are still very much concentrated, with the INR being nothing but a minor player in comparison with global vehicle currencies. IMF's COFER data illustrates that the holdings of global reserves are still concentrated in the major currencies, while the patterns of trade invoicing continue to be dominated by the established international currencies. On the other hand, India has made the necessary institutional arrangements for the greater INR-based settlement through the RBI's INR trade settlement framework. The analysis indicates that the internationalization of the INR could bring about strategic gains in economic sovereignty, trade efficiency, and global influence, however, the progress is dependent on the structural reforms concerning market depth, offshore INR liquidity, and partner incentives improvement.

Current Scenario: India's Rising Global Footprint, yet INR Remains Marginal (India–Russia Case Study)

In the recent past, there is a clear indication that India's international economic footprint is on a fast-track to be significant. The bilateral engagement with Russia has seen India's participation in energy trade grow considerably, even to the point where the country is encouraged to set up settlement mechanisms based on the rupee trade. This led to a real trial in the form of the RBI-run Special Rupee Vostro Account (SRVA) where it showed that INR settlement is possible in a given situation of bilateral trade. On the other hand, though, the Russia case exposed a major limitation i.e. a trade imbalance that causes the INR to pile up on the partner's side without any proper recycling mechanism which consequently leads to instability in sustainability in the long run.

India's current digital payments system is, at the same time, gaining recognition globally due to the expansion of UPI and the linking up of cross-border payments. This not only helps in making India's financial infrastructure more attractive but also increases the transactional connectivity with the economies involved. Nevertheless, the expansion of UPI cannot be viewed as a direct factor contributing to the internationalization of the rupee, as the latter still requires to have deeper offshore INR liquidity, a wider range of investment instruments, and central bank level acceptance as a reserve currency.

Hence, India geo strategically moves up the ladder in partnerships, payment innovation, and trade engagement but the internationalization of INR is still a systemic issue. The disparity between India's excellent global economic performance and the limited use of the currency internationally enhances the significance of this study and underlines the need for both gradual and strategic reforms to encourage INR settlement adoption.

Constraints and Policy Suggestions

There are different types of constraints that limit the internationalization of the Indian rupee (INR). Among them the most important is the government's decision to allow only partial capital account convertibility which is not favourable for the INR to be used widely as an international currency for investment and reserves. Moreover, domestic financial markets are not that deep and liquid especially regarding the treasury bills and corporate bonds where the INR is limited in terms of safe and liquid assets for foreign investors. The limited offshore market for INR has also contributed to the restriction of it being a currency of choice in global trade which is seen in the low share of INR in the global foreign exchange market turnover.

India controls its foreign cash transactions with partner countries through trade imbalances hence there are operational constraints. If the Indian government allows trade settlement in INR with countries that are always exporting more than they import, then the INR keeps piling up in the foreign countries without any proper measures put in place to recycle the INR through importing from India or investing in the Indian financial markets. This results in trading partners being hesitant to go beyond the initial corridors and accept the settlement in INR.

The solution to these limitations lies in the proper timing and gradual implementation of the policy path for sustainable INR internationalization focusing on market deepening and settlement infrastructure instead of rapid liberalization. The development of the domestic bond market could be supported by granting non-residents greater access to INR-denominated instruments and boosting the liquidity of offshore INR through well-regulated channels. Apart from that, the expansion of the bilateral settlement arrangements with the partners of the proper strategic choice would gradually allow the usage of INR in cross-border trade supported by mechanisms such as Special Rupee Vostro Accounts under RBI's INR trade settlement framework. Moreover, the strengthening of cross-border payment systems and the enhancing of settlement linkages can be of great help in making the whole process more efficient and at the same time more accepted, provided that regulatory stability and macroeconomic discipline become the factors that reinforce long-term credibility.

Conclusion

The Indian Rupee's internationalization is going to be a tactical move for India to slow down the reliance on foreign currencies that have the highest share in global trade, to make the external sector less dependent on foreign countries, and to put itself in a better place in the already multipolar global financial system. However, the INR is still a very small player in international invoicing and global reserve portfolios, although India has been making its presence felt globally through trade that is getting larger with other countries such as Russia where trade settlement in INR has been experimented and the recognition of India's payment system UPI, which is getting more and more international. The research shows that the internationalization of the INR is not a direct result of economic growth but needs a long time and beliefs built up in the institutions, a deepened financial market and the availability worldwide of INR-denominated instruments. The right timing and the right approach can help the INR take up more space in the market gradually through the development of offshore liquidity, efficient settlement infrastructure, and not at a cost to macroeconomic stability. In the long term, the sustainable INR internationalization can put India in a better position as a competitor in trade and again as a major player on the world economic diplomacy map.

References

1. Bank for International Settlements (BIS). OTC foreign exchange turnover in April 2022: Triennial Central Bank Survey. BIS, Basel, Switzerland, 2022.
2. Bank for International Settlements (BIS). Triennial Central Bank Survey: Foreign exchange turnover in April 2022. BIS, Basel, Switzerland, 2022.
3. International Monetary Fund (IMF). Currency composition of official foreign exchange reserves (COFER) database. IMF Data Portal, Washington, DC, n.d.
4. E. Boz, G. Gopinath, A. Mehl, et al. Patterns of invoicing currency in global trade in a fragmenting world economy. IMF Working Paper No. 178. International Monetary Fund, Washington, DC, 2025.
5. Reserve Bank of India (RBI). A.P. (DIR Series) Circular No. 10: International trade settlement in Indian Rupees (INR). RBI/2022-2023/90, Reserve Bank of India, Mumbai, India, July 11, 2022.
6. Press Information Bureau (PIB), Government of India. RBI framework for invoicing and payments for international trade in Indian Rupee. PIB Press Release, Government of India, New Delhi, India, 2023.
7. E. Prasad. Has the dollar lost ground as the dominant international currency? Brookings Institution, Washington, DC, 2019.
8. S. Arslanalp, B. Eichengreen, & C. Simpson-Bell. The stealth erosion of dollar dominance and the rise of nontraditional reserve currencies. *Journal of International Economics*, 138, 103656, 2022.
9. I. Patnaik & A. Shah. Did the Indian capital controls work as a tool of macroeconomic policy? *IMF Economic Review*, 60(3), 439–464, 2012.
10. S. H. Kumar & I. Patnaik. Internationalisation of the Rupee. NIPFP Working Paper 18/222. National Institute of Public Finance and Policy, New Delhi, India, 2018.
11. L. Zhang & K. Tao. The benefits and costs of Renminbi internationalization. ADBI Working Paper No. 481. Asian Development Bank Institute, Tokyo, Japan, 2014.
12. International Monetary Fund (IMF). The dollar reigns supreme, by default. Finance & Development. International Monetary Fund, Washington, DC, 2014.