2. Enabling Cross Border Rupee - Denominated Counter Trade and Internationalisation of Rupee

2.1 Panelists

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2.2 Background

The push for the internationalisation of the Rupee by the Reserve Bank of India (RBI) comes at a crucial juncture amid global economic shifts and geopolitical tensions. India, like many developing nations, faces fiscal challenges exacerbated by the economic disruptions caused by the COVID-19 pandemic. The mounting debt burdens and balance of payments difficulties underscore the need for innovative strategies to manage economic vulnerabilities.

As part of this broader context, there's a growing recognition of the potential of counter trade to address some of these challenges. Counter trade, which involves the direct exchange of goods and services without traditional currency, offers an avenue for developing nations such as India. These nations often confront foreign exchange shortages and aim to lessen reliance on hard currencies like the US dollar, particularly amidst sanctions affecting currency use in certain international transactions.

The process of enabling cross-border rupee denominated counter trade involves companies in India and foreign countries entering into agreements to define the terms of exchange. For instance, Company 'A' in a foreign country agrees to supply specific goods or services to Company 'B' in India, and vice versa. Upon receipt of the merchandise at Indian ports, 'B' in India must undergo customs clearance, which involves filing necessary documents such as the Bill of Entry (for imports) or Shipping Bill (for exports), Commercial Invoices, Packing List, Certificate of Origin, and Quality Inspection Certificates to comply with established custom laws, including the Customs Act 1962.

Indian Customs assess the tariff value of the imported goods to determine applicable import duties. This assessment is based on the Fair Market Value of the goods as per the Indian Customs Act. However, unlike traditional imports, in this case, a ‘Zero Value’ Bill of Entry is filed due to the absence of a direct foreign exchange transaction. This exempts the barter trade participants from the usual 90-day foreign exchange payment obligation mandated by RBI guidelines under FEMA. Additionally, to ensure fair trade practices, a settlement allowance to address minor discrepancies between the import and export invoice values is allowed by the concerned authorities as a part of the counter trade permission.

While counter trade offers a compelling path towards rupee internationalisation, navigating the current regulatory framework presents several hurdles. Companies engaging in counter trade must navigate a complex permission structure overseen by the Ministry of Commerce. This includes obtaining approvals for, Zero Value Bills of Entry due to the absence of direct foreign exchange transactions, and a waiver from filing Guaranteed Remittance (GR) forms under FEMA since counter trade doesn't involve standard currency exchange. Additionally, discrepancies between import and export values necessitate settlement allowances from the Ministry.

Discussions highlighted the challenges, enabling cross-border rupee denominated counter trade holds immense potential for India. By fostering a supportive regulatory environment that addresses these administrative hurdles, India can leverage barter trade as a strategic tool to achieve rupee internationalisation. This, in turn, can contribute to a more robust and resilient Indian economy, less susceptible to fluctuations in global currency markets.

2.3 Thematic areas of discussion

1. Challenges and Regulatory Clarity

Navigating Indian customs involves compliance with the Customs Act 1962 and RBI guidelines under FEMA. Highlighting the importance of regulatory clarity and streamlined customs processes is crucial for facilitating cross-border counter trade.

2. Role of Financial Institutions

How can financial institutions, like AD Category – I banks, provide necessary waivers or permissions under FEMA for counter trade agreements, ensuring regulatory compliance?

3. Impact on Trade and Economic Resilience

How can cross-border rupee-denominated counter trade initiatives strengthen India's position and promote the use of the rupee as a preferred transaction currency?

2.4 Key Actionable Insights

The panellists discussed the geopolitical and geo-economic shifts, the decline of multilateralism, and the move towards pluri-lateral arrangements and globalization, which necessitate a stronger role for the Rupee. The discussion highlighted the potential for using the Rupee in regional trade arrangements. The role of new technologies like the RuPay card and Central Bank Digital Currency (CBDC) in supporting the Rupee's adoption was emphasized. The Reserve Bank of India's (RBI) efforts to create an alternative to the SWIFT system by connecting RTGS systems of Indian bank branches abroad were discussed.

The panelists further highlighted the political and power dynamics in international trade and finance, emphasizing the need for India to integrate its financial systems globally. The shift towards multipolarity and the challenges faced due to the existing dominance of Western financial institutions were discussed. The panellists recommended an incremental approach to internationalization, with targeted arrangements in SAARC and BRICS.

The panelists discussed the challenges faced by small traders due to dollar/euro-denominated trade and the potential benefits of rupee internationalization for them were discussed. The RBI's introduction of the Special Rupee Vostro Account (SRVA) to facilitate internationalization of the Rupee was explained.

The discussion touched upon the BRICS arrangement for trading using local currencies. The panel mentioned the BRICS payments task force and its role in developing a settlement mechanism for local currency trade and emphasized the importance of leveraging India's economic growth and technology to strengthen the rupee's international role.

The key recommendations from the panel discussions was to ensure that the Special Rupee Vostro Account be enhanced to enable trade using local currencies while adhering to requirements of the Central Banks and keeping a tight check on AML (Anti-Money Laundering) and CFT (Combating the Financing of Terrorism). This would also enable a better balance of trade situation.

Watch the session on YouTube: https://www.youtube.com/embed/iPs35wfB818

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