

# EVA STALIN IAS ACADEMY - BEST IAS COACHING IN CHENNAI

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## *The grammar of commerce in a new age of geopolitics*

**T**hat India is a favoured trading partner, with potential for a large market, has been quite evident, at least since March 2018 when 23 advanced and developing countries agreed to have currency swap arrangements with India, extending credits in settling transactions.

### Use of rupee for international payments

There has been an unexpected turn in the use of the Indian rupee for international transactions after the Ukraine-Russia war began in early 2022, in turn leading to sanctions imposed by the United States and the European Union on Russia, by directly targeting the assets of Russian financial institutions. The issue became serious for Russia (one of the largest suppliers of India's 21.2 million tons of crude oil imports during 2022) and for India (a large market for Russian exports). An alternative route was chosen to settle payments between India and Russia by using the Indian rupee in transactions related to trade between the two countries.

When it comes to the modalities, payments from either India or Russia now go to the Rupee Vostro accounts, opened in Russian banks by the authorised dealer banks in India, which take care of settling payments between the two countries. Indian importers, going by the terms in this arrangement, pay rupees to the Rupee Vostro account through authorised Indian banks against invoices presented by the Russian supplier. The arrangement is supposed to provide for payments to Russians – for items India has been importing on a regular basis such as mineral fuels, crude oil and even the air defence system. Exports from India can also be paid in rupees from the same Vostro account maintained with the corresponding bank in Russia.

While the arrangement seemed to be fool-proof, a problem emerged in meeting the payments, with Russia continuing with a trade surplus – despite global turmoil, the sum in 2020-21 amounted to \$3.42 billion, followed by similar surpluses in the following years. With Russia reluctant to hold more of the Indian rupee as an asset in the Vostro account (as the rupee has a low rank in the global currency hierarchy and may be subject to depreciation), India faced an issue in arranging for payments and letting the agreement continue. The options were few, with the dollar or the Euro not permissible (the sanctions prevent some Russian banks from



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making or receiving international payments using SWIFT) or by purchasing the rouble at an exchange rate which is too volatile in the market. As reported in the media, Indian refiners for instance have settled some payments for Russian oil imports using the Chinese yuan – which seems to be acceptable to Russia. This is in the backdrop of Russia selling oil to China and accepting yuan payments.

### Agreements in the past

The concerns highlighted above bring back memories of similar bilateral trade and clearing arrangements that India had initiated in the 1950s. This was a major tool used in conducting trade with the former Soviet Union and countries in the Soviet bloc – arrangements that reflected the inter-war clearing arrangements in Europe largely used to contain and confine mutual trade within the region.

In a similar manner, bilateral trading arrangements between India and the Soviet Union provided a closed account in rupees to handle merchandise as well as credit-related transactions between the two countries, with the rupee as the medium for all such dealings. It began in the 1950s, with the Soviet Union setting up a steel plant in Bhilai, defying the opposition from western nations. Loans from the Soviet Union to India as well as the net proceeds from trade were pooled through the bilateral clearing account which was denominated in rupees.

Problems similar to concerns now over the choice of a suitable currency to settle trade surpluses came up earlier too when the Soviet Union began having trade surpluses on a consistent basis. The floating of the dollar in 1971 led to a turmoil in the currency market and the rouble, at 10 to a rupee, was virtually left to the market. Problems worsened with the Balkanisation of the former Soviet Union that left Russia standing separate. The India-Soviet Agreement had a natural ending at that stage.

However, problems in the past, in settling payments on trade surpluses relate to a different geopolitical scenario if one compares the situation prevalent now. While the purchase of the yuan to settle Russian surpluses in the prevailing rupee account is currently approved as a convenient step by Russia, there is a history of opposition, in the context of BRICS (Brazil, Russia, India, China and South Africa), to similar use of the Chinese currency by the non-Chinese

members of BRICS. This was in the context of setting up a clearing arrangement among BRICS members to settle the consistently large surpluses that were held by China. The idea did not work out.

The prevalent geoeconomic scene has also led to further settlements in local currencies, as seen in the recent rupee-dirham agreement between India and the United Arab Emirates (UAE), covering transactions in trade, remittances and capital flows. The process will help to avoid exchange risks for both trade partners and save, for India, dollar payments for its imports of crude oil and minerals from the UAE. In addition the agreement provides for interlinking their payment and messaging systems. It makes for quick and cost-effective transfers of money for an estimated 3.5 million Indian community in the UAE – an 18% share in terms of the total remittance flows into India. Negotiations are on with Indonesia to launch a similar agreement using the rupiah for transactions with India.

None can deny the saving of hard currencies in these agreements despite a possible loss of confidence in currencies (as with the Russian rouble) that could disrupt such arrangements.

### A new financial architecture

With the Indian rupee, the Russian rouble, China's yuan, the UAE's dirham and even Indonesia's rupiah sharing the common goal of local currency transactions, one also notices a geo-economic and political turn with countries in the South getting ready to trade and settle their payments with one another without the use of the hegemonic currencies from the advanced economies in the North.

It follows, as a sequel, that the set up will also avoid seeking the help of institutions in the advanced countries, which include the International Monetary Fund and the World Bank as well as private capital – at least in settling their mutual transactions. Political differences as well as the disparate status of currencies may crop up as issues, especially with China's role in it. But geoeconomics may prevail over geopolitics to overcome the differences. After all, it is capitalism. It is worth watching the change, which heralds the early beginning of a new financial architecture where currencies of the South are ready to replace the hegemonic and exploitative order enjoyed by currencies (and economies) of the North for much too long.

There seems to be a new financial architecture, where currencies of the South are ready to replace the hegemonic and exploitative order enjoyed by currencies and economies of the North

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## Climate events and an umbrella for urban health

There has been much media focus on the monsoon season in India this year largely on account of the large-scale devastation in parts. Beginning with the cyclonic storm Biparjoy that formed over the Arabian Sea in June and which made landfall in western India, to the floods in the north-eastern State of Assam, and the recent episodes of heavy rain and devastation in parts of north India, the subject has been a matter of concern especially for policymakers.

Even as the process of getting back to normal life is in various stages, we must not lose sight of another looming challenge. Common water and vector-borne diseases such as typhoid, cholera, dysentery, leptospirosis, malaria, and dengue are likely to impact people in rain-affected areas. Conditions in these areas are most likely to be conducive for the spread of water and vector-borne diseases.

While every section of the population is affected in different ways as a result of extreme climate events, there is no doubt that households in urban areas, particularly in less developed parts of a city such as slums and urban settlement colonies, are likely to be the most vulnerable groups. A large majority of people in these slums and resettlement colonies live in poverty, working in the informal sector of the urban economy with no social security benefits.

### A study on disease vulnerability

The findings on the vulnerability of households to climate change-led events, such as those in recent months in India, finds a place in our recently published study in the *Indian Journal of Public Health*. The study highlights two important points: While households in general with poor socio-economic indicators are more vulnerable to malaria, it is urban households, when compared to their rural counterparts, that are significantly at a much greater odds of suffering from malaria. It is well known that dengue too affects the urban



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The vulnerability of urban households to climate change-led events needs attention in India

population more. Second, households from climatically high and moderately high vulnerable States are at greater odds of suffering from malaria.

Post the monsoon season, water and vector-borne disease management officials are on high alert to monitor and contain the spread of such diseases. However, this time the pressure on them will be palpable. Controlling the spread of these diseases requires a systematic and coordinated effort not only within but also between two or more States. One reason is because of the movement of people between States. Therefore, coordinating mitigation and adaptation efforts can be a challenge.

### Rebuild the health system

Given increasing exposure to unpredictable and extreme climatic events, we need to rebuild the urban primary health-care system and ensure its resilience. Such a system should focus on the vulnerable urban population, especially those living in urban slums and peri-urban areas. A resilient health system is one which can respond to emergency situations, prepare well in advance against impending crises and adapt to changing public health needs.

A crucial prerequisite for this is greater public investment with an immediate focus on urban areas that are more vulnerable to climatic shocks. We spend very little on primary health care and only a tiny fraction goes to urban local bodies. Even though the National Urban Health Mission has made modest beginnings in improving primary-care systems in urban areas, the limited and varied ability of urban local bodies in generating revenues constrains progress.

A large part of preventive and public health functions are the responsibilities of local bodies. What is essential is a special fund from statutory institutions such as the Finance Commission that is targeted towards building a resilient system for

vulnerable urban areas. Such attention needs to go beyond cities, to towns.

### The COVID-19 experience

It is important to recognise the complexities of urban health governance with multiple agencies and fragmented care provisioning, alongside the increasing presence and dominance of the private sector. The experience during the COVID-19 pandemic has shown that public health emergencies need greater coordination and cooperation across various actors in terms of knowledge and data sharing, preventive and curative functions, treatment practices and, above all, the regulation of rates and standards. The realm of surveillance and information systems such as the Integrated Disease Surveillance Programme needs to be universalised, made comprehensive and strengthened.

With the complex nature of the health and the climate crisis, the current system of vertical disease control programmes needs to give way to a comprehensive health system approach in the management of public health programmes. An immediate step in working towards this could be the integration of front line workers across various disease management programmes to create a cadre of multi-purpose, front line public health cadres in urban areas, who would be accountable to communities as well as to the health system. Such integration will also help address one of the key challenges in the sphere of public health in the country – a shortage of an adequately trained workforce in health and allied areas.

As a system, we most often work in a resource-constrained environment. Therefore, such systems must integrate in their planning and management the idea that climate change-led events are only going to be more frequent and intense. The world needs to be better prepared.