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The BRICS Advantage: What's at Stake for Indonesia in a Multipolar World?

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Summary

The global movement toward de-dollarization, primarily championed by BRICS countries, seeks to reduce reliance on the U.S. dollar in trade and finance. Indonesia's alignment with BRICS could significantly reshape its economic and geopolitical trajectory. With the U.S. dollar's longstanding dominance granting the U.S. leverage in international finance, BRICS' alternative currency initiatives aim to diversify global reserve currencies, mitigating the effects of U.S. monetary policy on emerging economies. Geopolitically, BRICS membership empowers Indonesia to advocate for equitable global reforms and champion the perspectives of the Global South. By balancing alliances with both Global South and Global North, Indonesia aims to enhance its autonomy, assert its international influence, and reinforce its commitment to a multipolar world order. This article assesses the potential economic and geopolitical autonomy for Indonesia in a shifting global landscape.

Keywords: *BRICS, de-dollarization, U.S. dollar, Indonesia, international trade*

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Challenging the Dollar Hegemony

In a multipolar world order, the concept of de-dollarization – reducing reliance on the U.S. dollar in international trade and finance – is gaining momentum, particularly among BRICS nations. The coalition, comprising Brazil, Russia, India, China, and South Africa, aims to establish an alternative financial system that weakens the dollar's dominance and diversifies currency influence (Ferragamo, 2024). Since the 1944 Bretton Woods Agreement, the U.S. dollar has reigned as the world's primary reserve currency (Siripurapu & Berman, 2023). Today, it makes up around 60% of global reserves and underpins a substantial portion of international trade and finance (Arslanalp & Bell, 2021). This dominance allows the U.S. government unique leverage: the power to impose sanctions, steer global finance, and shape economic policy through the Federal Reserve's interest rate decisions. This "dollar hegemony" enables the U.S. to influence countries globally, from commodity prices to debt servicing (Sen, 2019). For many countries, however, heavy reliance on the dollar comes with risks. Fluctuations in U.S. monetary policy create ripple effects worldwide, and the U.S.'s capacity to restrict access to dollar-based systems makes countries wary of the influence it wields. In recent years, BRICS has increasingly questioned this dependence on the dollar, intensifying discussions on de-dollarization to protect national economies from U.S. policies. With Indonesia aligning more closely with BRICS policies, what does de-dollarization mean for Indonesia? How could the global currency cold war shape its economy, trade relationships, and international standing?

Strengthening Indonesia's Economic Sovereignty Amid Monetary Shift

BRICS countries are leading the charge for de-dollarization for several reasons. Several global financial crises showcased the fragility of a dollar-dependent system (Eradze, 2023), prompting countries to rethink global finance and seek more independence. Since then, BRICS has introduced various initiatives to reduce dollar reliance, including trade agreements in local currencies, increased gold reserves, and liquidity support mechanisms such as the BRICS Contingent Reserve Arrangement (Cattaneo et al., 2022).

China has taken a proactive approach in internationalizing the renminbi (RMB), making bilateral agreements to settle trade in RMB, and promoting it as a stable alternative across Asia and Africa (Amighini & Herrero, 2023). Russia has also reduced its reliance on the dollar by converting reserves to RMB, shielding itself from U.S. sanctions and dollar-based risks. This shift aligns with a global trend, as recent data shows the dollar's share in global reserves has hit a 25-year low, indicating a growing movement away from dollar dependency (Arslanalp & Bell, 2021). The proposed BRICS

common currency further underscores the bloc's commitment to reshaping global finance in a way that reflects the economic clout of emerging markets.

The “currency cold war” between BRICS and the U.S. dollar isn't a direct confrontation but an evolving contest for global financial influence. This rivalry plays out across central banks, trade agreements, and bilateral currency swaps, shaping the dynamics of international finance. For Indonesia, this shift presents a plethora of opportunities. Positioned between long standing alliances and new financial partnerships, Indonesia faces a pivotal moment in its economic trajectory. The U.S. remains an essential economic partner, yet BRICS offers Indonesia a path to diversify and strengthen its economic autonomy. With China as its largest trading partner (World Bank, 2023), Indonesia sees de-dollarization as a practical move, especially as the use of the Chinese yuan (CNY) and rupiah (IDR) increases in bilateral trade through Local Currency Settlement (LCS) agreement (Central Bank of Indonesia, 2021). Indonesia's participation in the Belt and Road Initiative and regional frameworks that reduce dependency on the U.S. dollar further underscores its evolving financial landscape.

Deepening engagement with BRICS-backed financial frameworks could offer Indonesia a significant platform on the global stage, providing a voice in international finance. For an emerging market like Indonesia, adopting these frameworks may bring tangible benefits, such as protection from the volatility of the dollar, streamlined trade with BRICS countries, and a greater role in shaping global finance. While the dollar still plays a critical role, Indonesia's exploration of alternative alliances indicates its interest in reshaping its position in global economic governance. Reliance on the dollar also exposes Indonesia to external pressures from U.S. monetary policy. For example, recent years' rate hikes by the Federal Reserve coupled with geopolitical conflict around the world have triggered capital outflows from Indonesia, placing downward pressure on the rupiah and sparking inflationary concerns domestically (LPEM FEB UI, 2024). A shift toward de-dollarization could alleviate these risks by diversifying reserves and leaning on local and regional currencies. Such a strategy offers Indonesia the potential to stabilize its currency, lower borrowing costs, and promote regional trade in line with ASEAN's financial objectives. While a complete break from the dollar may be impractical in the short term, even a partial pivot could reduce Indonesia's exposure to dollar-driven market fluctuations.

As BRICS accelerates its de-dollarization agenda, Indonesia stands to benefit in sectors such as exports and trade, especially with major partners like China and India. Using regional currencies in trade agreements minimises transaction costs and currency conversion risks, potentially stimulating Indonesian exports. Additionally, Indonesia could tap into BRICS-aligned funding avenues like the New Development Bank, which offers dollar-free loans (BRICS, 2023). These funding sources align

with Indonesia's goals of enhancing infrastructure and transitioning to renewable energy (McKinsey, 2024). With a net-zero target by 2060, reduced dollar reliance could attract sustainable investments and diversify Indonesia's investor base beyond U.S.-backed institutions.

Navigating these new financial alliances will require Indonesia to balance its ties with both BRICS and Western nations. As a non-aligned country and a core ASEAN member, Indonesia carefully cultivates its relationships with both the U.S. and China. While closer alignment with BRICS promises economic autonomy, Indonesia will need to maintain its Western partnerships to avoid destabilising these crucial connections. In this unique role, Indonesia has the potential to act as a bridge between BRICS and the West, fostering cooperation across diverse markets. With ASEAN also promoting regional currency use, Indonesia is positioned as a facilitator of financial integration, capable of connecting BRICS objectives with other emerging economies and the broader global financial community. These economic shifts also carry implications for Indonesia's domestic stability. Currency volatility and dependency influence the daily lives of Indonesians, affecting prices on essentials like food and fuel. As Indonesia's ties with BRICS deepen, everyday citizens may benefit from more stable prices and a reduced reliance on dollar-pegged imports (Ramezani, 2023). Increased independence from Western influence could also shift both local and global dynamics, allowing Indonesia to advocate for economic policies aligned with its national interests in a multipolar world. By leveraging this position, Indonesia can seek a stronger voice in global governance, ultimately benefiting its economic future and enhancing its international influence.

Notwithstanding its potential benefits, full de-dollarization presents substantial obstacles for Indonesia. The dollar's global liquidity, stability, and acceptance mean that it's still indispensable for many transactions. Additionally, political and economic coordination within BRICS and ASEAN may be challenging given their varied national interests and priorities. Indonesia's private sector, too, may be slow to adopt non-dollar alternatives, as many businesses and financial institutions are accustomed to dollar-based trade and loans, a reliance shown by more than 80% of Indonesia's imports and 90% of its exports are still conducted in U.S. dollars for over 15 years (Simatupang et al., 2023). Gradually introducing alternative currencies into trade and regional cooperation will require significant reforms, adjustments to market practices, and a shift in financial mindsets.

Geopolitical Implications for Indonesia's Global Voice

Indonesia's membership in BRICS also marks a pivotal moment in its geopolitical strategy, enhancing its role on the global stage. As part of the bloc, Indonesia now has a stronger voice in international forums, allowing it to advocate for the priorities of developing nations, including policy reform, economic equity, and climate action. This platform empowers Indonesia to advance its national interests while amplifying the broader aspirations of the Global South, solidifying its position as a key player in shaping global policies.

Joining BRICS is especially timely given the current geopolitical climate, where tensions are rising and the credibility of Western-led international frameworks is waning. With Indonesia already holds a significant role in the G20 as the 16th largest economy globally (O'Neill, 2024), the inclusion in BRICS, whose members collectively account for over 30% of the world's GDP (Statista, 2024), bolsters Indonesia's capacity to influence critical discussions on economic growth, climate resilience, and sustainable development. With BRICS positioning itself as a counterbalance to Western dominance, Indonesia now finds itself with a powerful platform to advocate for the needs and perspectives of the Global South, particularly in important matters such as climate change and equitable resource distribution.

Indonesia's entry into BRICS also reflects its broader strategic ambition to pursue a more autonomous foreign policy. As a historically non-aligned nation, Indonesia has consistently championed peace, inclusivity, and cooperation. Its BRICS membership aligns well with these principles, offering a platform to engage on international issues without over-reliance on traditional Western alliances. With a population exceeding 280 million (Badan Pusat Statistik, 2024) and as a leading economy in Southeast Asia, Indonesia has the demographic and regional influence to act as an intermediaries between the Global South and the Global North. Its strong stance on issues like Palestinian self-determination and resource sovereignty resonates with fellow BRICS members such as China and Russia, who share a critical view of Western-centric policies (Adil, 2024).

Furthermore, Indonesia's active participation in BRICS signals its commitment to fostering a multipolar world order that values fairness and inclusivity. As the bloc continues to expand and diversify, Indonesia's leadership could play a pivotal role in shaping a new global agenda that prioritizes sustainable development, climate justice, and fair allocation of resources. This strategic alignment allows Indonesia not only to strengthen its international standing but also to contribute to a more balanced and cooperative global system.

Conclusion

Should de-dollarization efforts succeed, Indonesia may emerge as a central player in a diversified currency system, one in which the dollar shares influence with other strong currencies. This shift to a multi-polar currency environment could enhance Indonesia's financial resilience, expand its trade networks, and increase its political influence. Reducing reliance on the dollar offers Indonesia a chance to insulate its economy from U.S. monetary policies, fostering economic stability and allowing it to pursue national interests with greater autonomy. However, this transition won't happen overnight; it will require gradual reforms and close cooperation within both BRICS and ASEAN, as well as significant shifts in market practices and financial mindsets.

Indonesia's ability to act as a bridge between BRICS and Western world could uniquely position it as a leader in fostering collaboration across emerging economies. By balancing partnerships in both Eastern and Western spheres, Indonesia can advocate for a more equitable global financial structure that supports the interests of the Global South. With the right policies and strategic engagement, de-dollarization could enable Indonesia to strengthen its economic future, reinforcing its role as a central voice for emerging economies and enhancing its influence in international governance.

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