



POLITICAL IMPLICATION OF ISLAMIC DINAR FOR THE STABILITY IN ASEAN-5 REGION POST COVID-19 CRISES

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ABSTRACT

The paper analyses the possibility of monetary integration in ASEAN-5 countries, Indonesia, Malaysia, Philippines, Thailand, and Singapore for improving the stability in the region. The idea for regional monetary integration is grounded by the process of monetary union theory within the member states. In terms of volatility, by using certain assessment, the ASEAN-5 currencies are suggested to peg their national currencies into Dinar-Dirham Islamic exchange system since it empirically brings the lowest level of volatility, both during normal and crisis periods. Therefore, Dinar-Dirham could be proposed as the anchor currency for ASEAN-5 countries. The results statistically suggested that all ASEAN-5 countries could be grouped as eligible to employ Dinar-Dirham as their currencies.

Keywords: *International relations, Monetary integration, Dinar, Dirham, Indonesia*

INTRODUCTION

The COVID-19 global financial crises have undermined the legitimacy of ASEAN's unilateral fixed exchange rate, reignited calls for broader monetary integration, and eventually improved regional exchange rate stability. Regarding the stability of exchange rates, Europe Exchange Rate Mechanism, sometimes known as the European Prior involvement in the Euro came from the monetary system throughout the previous years. Under such mechanism, participating nations are permitted to keep the fluctuation of their currency rates within restrictions on both sides. The Declaration of ASEAN Concord II (Bali Concord II), has created an ASEAN Community by 2020 was adopted by the ASEAN Heads of States/Governments in 2003. The ASEAN community has emphasized ASEAN's importance and function as the engine that steers the development of the regional construction. In Kuala Lumpur, ASEAN vision 2020 was established in December 1997. Its goal is to make ASEAN a stable, wealthy, and fiercely competitive region with equitable economic growth, decreased poverty, and minimized socioeconomic inequities. Cost recapitulation for crises over GDP was reported by the World Bank in

2000 as follows: Indonesia (58% GDP), Malaysia (10%GDP), Thailand (30%GDP), and Korea (10%GDP). According to the findings, from 1974 to 1990, the majority of the joined countries in the European region were able to keep their currency volatility below 2.5%, and on average, European countries grew less volatile both against one another and the US dollar.

LITERATURE REVIEW

The rationale for monetary union

Exchange rate stability is the main goal of creating the monetary union. According to Yuen (1999), the development of several cases for instance in the European monetary system was a response to the late 1970s monetary volatility on both the domestic and international levels, as well as the ongoing presence was the search for constancy. Additionally, according to Gros and Thygesen (1998), the external component of monetary instability in the European region was reduced to around one-quarter by 1990 as a result of the increasingly strict regulation of the exchange rate mechanism. Another goal of the proposed monetary union is to improve coordination of monetary policy by having some members' currencies pegged to the same basket of currencies. Asian currency formation for example is anticipated to serve as a statistical signal reflecting the collective movement of Asian currencies, according to Kuroda and Kawai (2002). As a result, the member nations' exchange rates would be able to stable against the currency basket, and coordination between monetary and exchange rate policies would be better understood.

THEORY

The Theory of Monetary Union

Robert Mundell in 1961 introduced a convergence theory that encouraged the contemporary and defined as the ideal geographic range of one currency, or of a group whose exchange rates are fixed and harmonized. The existence of the monetary union, in accordance with Mundell (1961), would result in economies of scale during the implementation phase. This is due to two factors. First, when a small nation fixes its currency to that of a larger one with a manageable rate of exchange fluctuation, it sets the course for the remainder of its macroeconomic policies and causes them to move in the direction of convergence. Second, the impact of any internal or external disturbance on a currency region decreases as more nations join it. Third, as money serves as a unit of

account, currency unions benefit from economies of knowledge and convenience. As a result, the more nations that join a currency region, the more effective it will be.

RESEARCH METHODS

In this study, this research used a case study as the research design. Research departs from the phenomenon that occurs regarding the lack of awareness of monetary integration in ASEAN countries, then this research wanted to see how the significance of Dinar Dirham in increasing stability in the region. The level of analysis taken in this study were from ASEAN-5. In a case study design, this research has transferable aspect that were worth it. The similarities raised by the research are first, Indonesia is a member of ASEAN-5. Second, geographically Indonesia is located in the region, namely Southeast Asia. Also, the population in this country is dominated by Muslims.

DISCUSSION & RESULT

A descriptive analysis revealed the potential for ASEAN-5 to unite. Despite Indonesia's considerably lesser supply and demand shocks compared to the rest of the world, they appear similar overall. In other words, the ASEAN-5's degree is compatible with moving forward with Dinar Dirham. Unifying the currencies of ASEAN countries was one of the objectives of the initial formulation of the blueprint for the development of the ASEAN Economic Community (AEC), where the aim of unification was to increase trade efficiency by reducing transaction costs and increasing price transparency so that there would be increased economic activity in these countries. ASEAN countries. Therefore, the dinar and dirham are considered the most ideal in unifying ASEAN currencies to realize this goal.

Dinars and dirhams have been known for hundreds of years, first introduced by the ancient Romans in 211 BC, in Indonesia itself the history of the dinar has been discovered since the 13th century. Why dinars and dirhams? Because dinars and dirhams have the advantage of being currencies used as transaction tools. The first advantage is that dinars and dirhams have a nominal value (the value stated in the currency) which is the same as their intrinsic value (actual value), so they have a stable value. The government cannot print money at will, unlike fiat money, the government can print whatever fiat money it wants because fiat money has no intrinsic value in itself. For example, if it is required that each bank have a reserve amount of 10%, with a deposit amount of IDR 1,000, then the bank could double the deposit amount to IDR 10,000. The government can profit from the

difference in printing costs and the legal value of money. So in the end it will also cause inflation due to the doubling of money.

Second, the exchange rate of the dinar and dirham is more stable, so ASEAN-5 for example can avoid speculative efforts in the market. The stability of dinars and dirhams will also be able to reduce and eliminate exchange rate risks, which will prevent exporters and importers from uncertainty, namely unstable (fluctuating) exchange rates. This will bring benefits to economic activities, especially international trade. Third advantage, whatever the quantity of dinars and dirhams in a country, a lot or a little can still meet market needs in currency exchange. For example, the amount of money remains the same, but goods and services increase, so the existing money is still able to buy maximum goods and services. If the amount of money remains the same, but goods and services decrease, the available money will only reduce purchasing power. Unlike the paper money system, if the country prints more and more paper money, the purchasing power of the money will decrease and inflation will occur.

CONCLUSION

This conclusion has a number of suggestions for political leaders in the region. First, they should quickly complete internal market unification, as with Dinar Dirham AFTA for example. Second, they should increase competitiveness in goods and services. Third, they should improve coordination and oversight of economic policy. Fourth, they should make budgetary adjustments in highly indebted or deficit countries. Fifth, they should commit to establishing the ASEAN monetary institute which would be similar to the World Bank.

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