



ASEAN DE-DOLLARIZATION STRATEGY TO REDUCE DEPENDENCE ON THE US DOLLAR

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ABSTRACT

This research aims to analyze the ASEAN de-dollarization strategy to reduce dependence on the use of the US dollar in international transactions in Southeast Asia. It uses a qualitative approach with an analytical descriptive method. Data was collected through literature review and analyzed through several stages, namely data reduction, data presentation, and conclusion. Data reduction is done by reviewing the collected data to be selected according to research topic. Furthermore, data presentation stage was carried out in form of a narrative. Finally, conclusion is drawn based on elaboration of theory of regulatory regionalism and regional monetary cooperation. Based on research results, the ASEAN de-dollarization strategy is implemented through several forms, namely regional payment system, regional liquidity sharing, regional exchange rate coordination, and regional financial market development. The regional payment system is implemented by establishing regional payment connectivity and local currency transaction mechanisms. On other hand, regional liquidity sharing is carried out by enforcing foreign exchange swap mechanism. Meanwhile, regional exchange rate coordination is done by establishing ASEAN+3 Macroeconomic Research Office, enforcing external balance assessment mechanism, and establishing ASEAN+3 Currency Swap Arrangement mechanism. Finally, development of regional financial markets will be achieved through establishment of ASEAN Capital Market Forum, ASEAN Banking Integration Framework, ASEAN+3 Bond Market Forum, and ASEAN Infrastructure Fund. These strategies are proven to have an impact on reducing dependence on the US dollar

Keywords: ASEAN, de-dollarization, regional payment system, regional liquidity sharing, regional exchange rate coordination, regional financial market development.

INTRODUCTION

The use of the United States (US) dollar in world economy and finance is very significant. In the beginning, the US first set dollar as national currency through the passing of the Coinage Act of 1792 (Russell, 1991). However, a central role of dollar

in world economy began to be seen in the mid-20th century. At that time, the US came out as one of the major powers in the World War II and became one of the great powers that played a central role in regulating the world economic system, one of which was through the Bretton Woods Conference in 1944. The result of this conference was establishment of the Bretton Woods system, where the US dollar was designated as a world reserve currency based on gold (Idris et al., 2022). This created stability and built confidence in the US dollar and this currency became foundation of the international financial system.

Although the Bretton Woods system eventually collapsed in 1971, the institutional legacies such as the International Monetary Fund (IMF) and World Bank still preserve the use of the US dollar as one of a key financial instruments, thereby creating a large influence on its existence. Along with dynamics of the international political economy, the use of the US dollar has intensified in international trade transactions, exchange rate measurement, and as a global reserve currency. The domino effect of the use of the US dollar as a world currency has proliferated to various regions in world without exception in Southeast Asia.

The dependence on the US dollar in Southeast Asia has been a phenomenon that has attracted attention in recent decades. In the beginning, many countries in region relied on the US dollar as the main currency for payment transactions, bilateral trade, and foreign direct investment. It is recorded that almost 90% of global forex transactions are denominated in the US dollars. This reliance on foreign currencies was mainly due to stability and liquidity of the US dollar, as well as its dominant role in the global financial system (Hasibuan et al., 2022). However, over time, countries in Southeast Asia began to realize the risks associated with this currency dependence. Fluctuations in the US dollar exchange rate, regional financial crises such as the 1997-1998 Asian financial crisis, and impact of economic globalization have triggered awareness of the need for proactive and anticipatory measures to reduce dependence on the US dollar.

In Southeast Asia, a number of countries in region are reducing their reliance on the US dollar. Some of them are members of the Indonesia-Malaysia-Thailand Growth Triangel (IMT-GT) which are fully committed to reducing dependence on the use of the US dollar as the major means of exchange in payment transactions, bilateral trade, and foreign direct investments through a policy strategy widely known as de-dollarization.

Conceptually, de-dollarization is a form of economic policy that refers to a country or a regional effort to reduce dependence on the US dollar in their economic activities. In the context of ever-evolving economic globalization, the IMT-GT holds the view that de-dollarization is considered as one of the relevant strategies to avoid excessive dependence on foreign currencies such as the US dollar, optimize economic control, and promote long-term economic sustainability (Raharjo et al., 2017).

The proliferation of de-dollarization in Southeast Asia occurred as the European Union, China, Japan and South Korea attempted to reduce their dependence on the use of the US dollar in international transactions and investments. As one of the IMT-GT members, Indonesia perceived this as an opportunity and started to enter into international trade agreements by applying payment systems in local currencies (Sulfarid, 2022). Indonesia considered the bitter experience of the US dollar financial crisis as Malaysia and Thailand also suffered the same (Nofansya & Sidik, 2022). Besides Indonesia, Malaysia and Thailand are also actively involved in encouraging the use of the local currencies as a means of regional trade transactions in Southeast Asia. They have a long history of cooperation and are founding members of ASEAN. In fact, the three countries are involved in various regional initiatives including the establishment of the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) which has existed since 1993 (Supadi & Jamaan, 2021).

As one of the largest regional organizations in Southeast Asia, ASEAN recognizes the importance of de-dollarization given the vulnerability of countries in the region to the risk of US dollar exchange rate volatility, as occurred amidst the international economic and financial crises in 1997 and 2008. The global economic situation is increasingly uncertain as the US interest rate fluctuations continue to record significant increases and are expected to increase further. This has created a domino effect for a number of countries that depend on the US for their economy and finances.

ASEAN holds the view that de-dollarization would make ASEAN countries' currency exchange rates more stable and less dependent on the US dollar (Bisnis.com, 2023a, 2023b; kompas.id, 2023a, 2023b). Moreover, de-dollarization policies are considered to have a number of positive impacts in terms of economic efficiency as transactions are conducted using the currencies of the transacting countries. Secondly, de-dollarization can prevent a country from the risk of a global financial crisis due to the

diversified currencies used in international transactions. Thirdly, it is beneficial in terms of balance of payments and fiscal health especially when the US dollar is more depreciated and stable (ASEAN Indonesia 2023, 2023a).

This research focuses on ASEAN's de-dollarization strategy in reducing dependence of countries in region on the use of the US dollar as a key instrument of exchange in trade transactions, investments, and cross-border payment systems in Southeast Asia. Therefore, this research formulates a main problem, namely "How does the ASEAN's de-dollarization strategy reduce dependence on the US dollar?". Through elaboration of the formulated problem, this research focuses on the ASEAN de-dollarization strategy in reducing dependence of regional countries on the use of the US dollar as a key instrument of exchange in trade transactions, investments, and cross-border payment systems in Southeast Asia.

METHODS

This research uses an analytical descriptive research method to examine the ASEAN de-dollarization strategy in reducing dependence on the use of the US dollar in international transactions in Southeast Asia. This method is applied to describe the ASEAN's de-dollarization strategy preferences systematically and in detail and to analyze the data obtained to find relevant relationships and patterns (Creswell & Creswell, 2022). Data was collected through secondary sources such as journal articles, books, newspaper articles, official websites of ASEAN and international institutions, and other internet sources. These data sources were selected to deeply analyze the ASEAN de-dollarization strategy preferences.

The research process was started with a preparatory stage, where researcher formulated the research problem, research objectives, and developed a theoretical framework. The next stage is data collection, which is carried out through searching and collecting secondary data relevant to research topic. After the data is compiled, the following stage is data analysis and processing. The last stage is data interpretation and conclusion drawing, where results of the data analysis are used to answer research questions based on elaboration of the theoretical framework of regulatory regionalism and regional monetary cooperation in order to be able to analyze the de-dollarization strategy preferences pursued by ASEAN (Miles et al., 2014).

RESULTS AND DISCUSSION

De-dollarization phenomenon in Southeast Asia is a response to a growing international economic and financial uncertainty and the need to reduce dependence on the US dollar. This measure aims to reduce the risk of exchange rate fluctuations and global financial market volatility, enhance economic sovereignty, strengthen regional financial stability, stimulate the use of regional currencies, and promote a deeper economic integration in region. To that end, ASEAN is adopting a number of strategies to reduce dependence on the US dollar, namely regional payment systems, regional liquidity sharing, regional exchange rate coordination, and regional financial market development.

Regional Payment System

ASEAN established a regional framework to facilitate cross-border financial transactions among its member states. They agreed on the use of common mechanisms and infrastructure through both the use of a regional currency and an integrated payment system. This system enables them to conduct trade, investment, and financial transfer transactions more efficiently and to lower transaction costs, reduce the risk of currency fluctuations, and increase liquidity (ASEAN Secretariat, 2015). For this reason, ASEAN established a regional payment system which is known as Local Currency Transaction (LCT) and Regional Payment Connectivity (RPC). The enforcement of these two systems was marked by the signing of a memorandum of understanding (MoU) by the Governors of the Central Banks of ASEAN countries coinciding with the moment of the 43rd ASEAN Summit in Jakarta, Indonesia (ASEAN Indonesia 2023, 2023b).

A number of ASEAN countries, especially Indonesia, Malaysia, Thailand, Singapore, the Philippines, Vietnam, Brunei Darussalam, and Laos have adopted LCT and RPC. The RPC scheme implementation includes a digital payment system in regional countries through the use of QR Code Indonesian Standard (QRIS), Fast Payment System Interlinking (FPSI), and Real Time Gross Settlement (RTGS) payment system so that cross-border payments in the ASEAN region will be faster, cheaper, and more inclusive. The use of QRIS brings together various QRs from Payment System Service Providers (PJSP) for more practical and centralized transactions. Consumers do not need to use a variety of different payment applications so that digital transactions with QR codes become easier, faster, and

safer. In addition, the use of QRIS as a cross-border payment method aims to enable the central bank to standardize digital payment transactions through various electronic financial applications, e-wallets, and mobile banking. Meanwhile, the LCT scheme is utilised in bilateral trade and investment transactions between countries in region without requiring the US dollar as a payment system, but rather using the local currency of each country in region (Antara News, 2023c; ASEAN Indonesia 2023, 2023c; Bank Indonesia, 2024b).

Picture 1. Attitudes Toward Cashless Payment

In terms of implementability, the RPC

Attitudes towards cashless payments

	Plan to use cashless payments more often	View cashless as a safer way to pay	Support government initiatives for going cashless	Prefer shops that accept cashless payments
S.E.A.	77%	75%	72%	68%
SG	71%	66%	69%	61%
MY	78%	75%	73%	66%
ID	78%	79%	73%	63%
VN	83%	80%	76%	77%
PH	78%	79%	72%	71%
TH	89%	86%	80%	81%
CM	43%	49%	43%	43%

implementation in ASEAN is carried out

through various strategic measures, including

development of technological infrastructure such

as the ASEAN Payment Connectivity

Framework (APCF), which facilitates cross-

border transfers and payments. One of the forms

of APCF implementation is the use of QR Code

systems that have been applied in various ASEAN

countries such as Cambodia (KHQR), Indonesia

(QRIS), Laos (Lao QR), Malaysia (DuitNow),

Philippines (QR Ph), Singapore (PayNow), Thailand (PromptPay), and Vietnam

(VietQR). They have applied a QR code standard system at the national level to facilitate

cross-border transactions even though it is still bilateral (Sinay et al., 2021).

The LCT and RPC system implementation has a significant impact on payment

transactions, trade volume, and investment rates in ASEAN. This is inseparable from the

cooperation mechanism between financial institutions in ASEAN, including central

banks and regulators to ensure policy harmonization and infrastructure that supports

payment connectivity. One successful form of RPC is the Bakong digital payment system

in Cambodia, which processes millions of transactions as part of the digital

transformation efforts in the country. Bakong has processed about 11.6 million

transactions in the first half of 2023, while transactions in the US dollars reached 21.3

million transactions (The Phnom Penh Post, 2023). The enactment of these two systems

is an important step in the ASEAN de-dollarization effort, which strengthens payment connectivity and regional economic integration. This enables ASEAN to become more financially independent and less vulnerable to global economic turmoil linked to foreign currencies especially the US dollar.

Regional Liquidity Sharing

Regional liquidity sharing is accomplished by ASEAN through the exchange swap mechanism among the ASEAN countries. A currency swap is an agreement whereby central banks exchange a certain amount of currency to meet local liquidity needs, assist in reducing the risk of currency instability, and increase availability of regional liquidity. Currency swaps also involve establishment of a common financial reserve between member countries. This reserve serves as an emergency fund to be used in case of a liquidity crisis or financial instability. With a common reserve, the ASEAN countries can mutually support each other in preserving regional financial stability. Through the regional liquidity sharing strategy, ASEAN has already taken steps to enhance monetary cooperation and reduce dependence on the US dollar. A set of cooperation is in place to realize exchange swaps, including the Chiang Mai Initiative (CMI) and the ASEAN Swap Arrangement (ASA) (Ciorciari, 2011; Rahman, 2010; Sussangkarn, 2010).

The ASEAN Swap Arrangement (ASA) was first initiated on August 5, 1977 with a liquidity fund of USD 100 million. The total liquidity fund increased to USD 200 million in 1978 and increased rapidly to USD 1 billion in 2000. The ASA liquidity fund experienced another drastic increase of USD 2 billion in 2005. The ASA mechanism permits the ASEAN countries to borrow up to double their contribution with a maximum tenor of six months. In addition to the US dollar, ASA also provides flexibility to borrow in Yen and Euro, providing an option for them to use currency that meets their needs (Bank Negara Malaysia, 2000).

Meanwhile, the Chiang Mai Initiative (CMI) was first initiated on May 6, 2000. The initiative aims to strengthen regional self-help mechanisms and provide liquidity reserves through exchange swap arrangements among ASEAN+3 countries. CMI includes expansion of the ASEAN Swap Arrangement (ASA) and development of new bilateral swap agreements. The participation of the Plus Three countries (China, South Korea and Japan) is particularly important given the significant regional economic

imbalances that occurred in the late 1990s. For example, in 1997, ASEAN experienced a deficit of USD 3.3 billion, while the Plus Three countries gained a surplus of USD 125.5 billion (Chandrasekhar, 2021). This makes the role of CMI even more relevant in stabilizing the regional economy.

A number of countries that are members of the CMI cooperation conduct exchange swaps to reduce the use of the US dollars in their bilateral transactions through the ASEAN+3 Currency Swap Arrangement (ACSA) mechanism. Countries such as Indonesia, for instance, cooperate with China, South Korea, and Japan in using local currencies in their trade transactions. Indonesia also cooperates with South Korea through framework of the Bilateral Currency Swap Arrangement (BCSA), both parties conduct currency swaps worth KRW 10.7 trillion or IDR 115 trillion (equivalent to USD 10 billion). The agreement entered into on March 6, 2017 and was extended until March 5, 2023 with a fixed total currency swap value. This currency swap cooperation is intended for settlement of current account transactions, direct investment, and other economic and financial transactions agreed upon by the two Central Banks (Bank Indonesia, 2024a).

On the other hand, Indonesia also conducted exchange swaps through the BCSA mechanism with China worth CNY 250 billion or IDR 550 trillion (equivalent to USD 38.8 billion). This cooperation agreement is intended to further encourage bilateral trade and foreign direct investment in each of the respective countries' local currencies in context of economic development in both countries as well as demonstrating the commitment of the two central banks to maintain financial market stability. Both parties agreed to renew this cooperation and became effective on January 21, 2022 (Bank Indonesia, 2022b). In addition to South Korea and China, Indonesia also cooperates with Japan through the BCSDA mechanism in the use of local currencies in bilateral transactions worth USD 22.76 billion. The bilateral transactions include facilitation and enhancement of trade, foreign direct investment, and remittances between Indonesia and Japan. This cooperation has been in place since February 17, 2003 and is periodically extended every three years according to agreement (Antara News, 2021).

In addition to ASA and CMI, the dedollarization strategy is also carried out through the bilateral exchange swap agreements among the ASEAN countries through the

local currency bilateral swap arrangement (LCBSA) mechanism to further strengthen regional liquidity. A number of ASEAN countries have already implemented LCBSA policies to reduce dependence on the US dollar, particularly Indonesia, Malaysia, Thailand and Singapore. In March 2016, the Central Bank of Malaysia established cooperation with the Central Bank of Thailand through a cooperation framework known as the Ringgit-Baht (MYR-THB) Local Currency Settlement Framework (LCSF). This cooperation mechanism focuses on enhancing trade transactions in goods and services through the use of local currencies. In December 2017, the cooperation was further expanded to include foreign direct investment and income transfer. The two countries further renewed the cooperation on September 23, 2022, allowing for up to RM 8 billion or IDR 28 trillion in exchange swaps over three years (Bank Indonesia, 2022a).

Another ASEAN member country such as Indonesia also established the LCBSA cooperation with Malaysia in December 2017 where the Central Bank of Indonesia collaborated with the Central Bank of Malaysia known as the Rupiah-Ringgit (IDR-MYR) Local Currency Settlement Framework (LCSF). The two countries through this framework seek to increase the use of local currencies in promoting trade transactions in goods and services (Antara News, 2022; Bank Indonesia, 2022a). In addition, Indonesia also cooperates with Singapore in the LCBSA framework where the Central Bank of Indonesia cooperates with the Monetary Authority of Singapore (MAS) in the context of a local currency swap worth SGD 9.5 billion (equivalent to IDR 100 trillion) and a repo agreement (repurchase agreement) worth USD 3 billion using G3 (the US, Japan, and Germany) bonds as collateral (Antara News, 2023b).

These agreements demonstrate strong efforts to maintain regional financial stability through a close cooperation at the bilateral level. Overall, through mechanisms such as ASA, CMI, and LCBSA, ASEAN and its ASEAN+3 partner countries are able to provide significant liquidity reserves, mitigate the risk of currency fluctuations, and strengthen regional financial stability.

Regional Exchange Rate Coordination

Exchange rate coordination pursued by ASEAN is aimed at minimizing exchange rate fluctuations, reducing market volatility, and creating a stable and predictable environment, ultimately strengthening regional trade and promoting sustainable

economic growth. ASEAN is embarking on a number of important steps as part of its de-dollarization strategy through utilization of established economic and financial institutions including AMRO, EBA, and ACSA.

First, the ASEAN+3 Macroeconomic Research Office (AMRO). This institution was established as a regional economic monitoring agency, tasked with monitoring economic and financial stability in ASEAN+3 (ASEAN plus China, Japan, and South Korea). The main focus of AMRO is to provide relevant policy advice to support regional stability, including analyzing exchange rates and economic conditions in member countries. For instance, the AMRO's risk analysis of the Thai economy. This risk assessment covers external and domestic factors that could affect economic growth and financial stability, providing deeper insights into economic imbalances as well as necessary policy recommendations (ASEAN+3 Macroeconomic Research Office, 2023a). Second, as part of efforts to preserve economic stability, ASEAN also adopted the External Balance Assessment (EBA) mechanism. This instrument helps member countries monitor external balance and evaluate exchange rate policies to achieve sustainable stability in the region. Third, apart from AMRO and EBA, ASEAN also utilizes the ASEAN+3 Currency Swap Arrangement (ACSA) institutional mechanism in strengthening regional financial stability. ACSA allows currency swaps among ASEAN+3 countries to fulfill liquidity needs in local currencies. Through ACSA, member countries can provide emergency liquidity and maintain economic stability amid global uncertainty (Association of Southeast Asian Nations, 2024). Through these three mechanisms, AMRO, EBA, and ACSA serve to strengthen regional monetary cooperation and support de-dollarization measures in ASEAN.

Regional Financial Markets Development

The ASEAN strategy in reducing dependence on the US dollar is carried out through development of regional financial markets. This strategy is conducted by establishing the ASEAN Capital Market Forum (ACMF), ASEAN Banking Integration Framework (ABIF), ASEAN+3 Bond Market Forum (ABMF), and ASEAN Infrastructure Fund (AIF). First, the ASEAN Capital Market Forum (ACMF). The ACMF was established in 2004 to develop capital markets in ASEAN. The forum consists of capital market regulators from the ASEAN-10 countries. The main objective

of the ACMF is to enhance capital market integration in ASEAN through three main pillars, namely regulatory harmonization, awareness raising, and building a strong capital market infrastructure.

A number of countries such as Indonesia, Thailand, Malaysia, and Vietnam are the countries that have the largest contribution to the ASEAN capital market. Vietnam, for instance, dominates the real estate sector (28%), finance (24%), and mandatory consumption (16.6%). Meanwhile, Malaysia dominates the financial sector (40.7%) and must-have consumption (12.4%). On the other hand, Indonesia controls the financial sector (59.2%) and communication services (10.5%). Finally, Thailand controls the energy (16.4%) and basic consumption (12.2%) sectors (MacroMicro, 2024). This data shows that ASEAN countries' participation in the regional stock market has increased significantly.

First, the ASEAN Capital Market Forum (ACMF). ACMF facilitates cross-border investment, promotes economic growth, and enhances the ASEAN competitiveness through better capital market integration. Harmonized regulations and strong infrastructure create a favorable environment for companies to raise capital and expand their operations. Improved financial literacy also gives individuals the ability to make better investment decisions, thereby strengthening participation in ASEAN's economic development.

Second, the ASEAN Banking Integration Framework (ABIF). ABIF is an initiative to enhance banking sector integration in ASEAN through cooperation among monetary and banking authorities in the ASEAN countries. It aims to facilitate cross-border capital movements, strengthen regional banking infrastructure, and ensure the adoption of best practices in regulation, supervision, and risk management. By adopting these principles, ABIF seeks to create a more coordinated and consistent banking environment across member countries. One of the key steps of ABIF is to strengthen cross-border banking licensing and supervision cooperation, allowing ASEAN countries' banks to operate more easily in other member states. In addition, ABIF also focuses on developing regional banking infrastructure, including payment systems, technology, and dispute resolution frameworks.

Based on measurement of the level of competitiveness of banks in ASEAN in the

face of ABIF, using the DEA (data envelopment analysis) scale in measuring the level of banking efficiency from 0 (inefficient) to 1 (efficient). It was found that a number of banks in ASEAN are considered efficient and able to compete regionally and contribute to the achievement of ABIF objectives. The existence of ABIF not only strengthens the regional banking system but also supports de-dollarization efforts as ASEAN banks have demonstrated the ability to manage risk and meet high operational standards. With a more efficient and integrated banking system, ABIF plays an important role in creating a strong and competitive financial market in ASEAN (Sujarwo et al., 2020).

Third, the ASEAN+3 Bond Market Forum (ABMF). The ABMF was established to foster regional bond market development in ASEAN together with China, Japan, and South Korea. It focuses on improving the liquidity, transparency, and growth of the regional bond market, with a special priority on developing the local currency bonds (LCY) market. LCY development is important for several reasons. First, rapid economic growth in countries such as China, India, and ASEAN is driving private sector funding needs, which can be met through the bond market. Second, the high demand for infrastructure investment requires a long-term source of funding that bonds can provide. Thirdly, multinational corporations (MNCs) operating in Asia require funds denominated in local currencies and LCY bonds are considered an appropriate solution. Fourth, the growing middle class and the need for investment diversification are driving interest in long-term bonds. Finally, long-term bonds are very attractive to financial institutions such as pension funds and insurance, especially in countries with aging populations (Kawai, 2019).

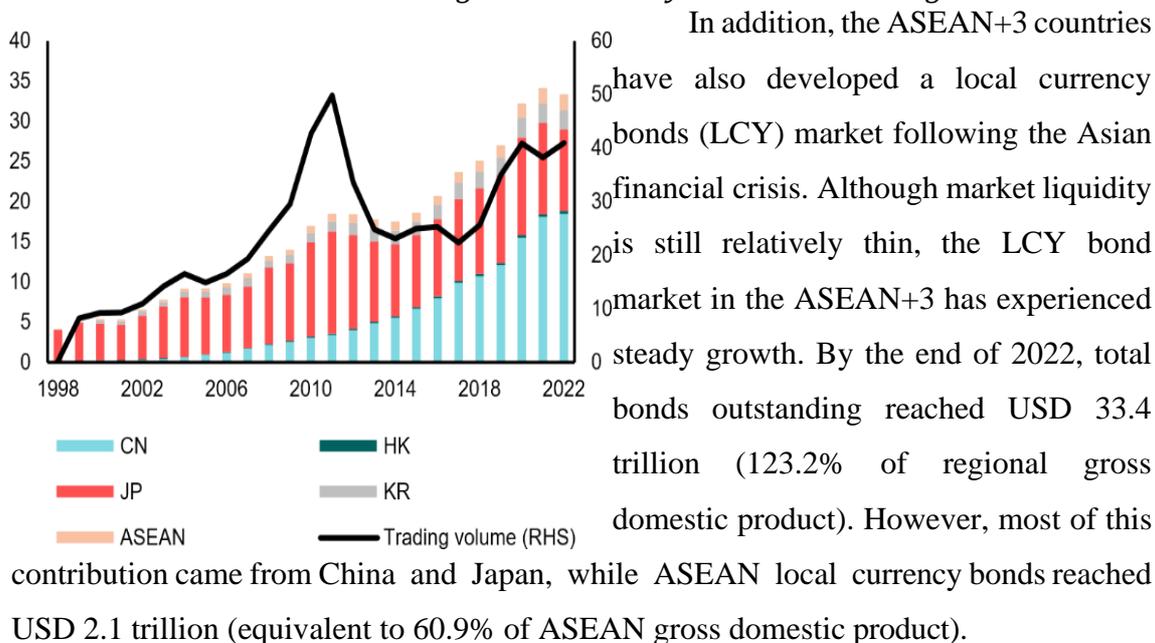
Fourth, the ASEAN Infrastructure Fund (AIF). The AIF was established to support infrastructure development in ASEAN by providing long-term financing for strategic projects. It mobilizes funds from ASEAN countries and dialogue partners, including foreign exchange reserves, to provide loans to infrastructure projects that have the potential to support regional economic growth. The AIF focuses on two main aspects, namely fund mobilization and infrastructure project financing. Through this initiative, the AIF promotes de-dollarization efforts and monetary cooperation in ASEAN by strengthening a more integrated regional financial market. The strategic infrastructure financing provided by AIF plays an essential role in supporting

economic growth and strengthening ties among ASEAN member states (Asian Development Bank, 2019).

Impact of the ASEAN Regional Monetary and Financial Cooperation in Reducing Dependence on the US Dollar

The ASEAN regional monetary and financial cooperation has made a significant impact in reducing dependence on the US dollar. By encouraging the use of local currencies in payment, trade and investment transactions, ASEAN countries are able to reduce exposure to fluctuations in the US dollar exchange rate and the risk of external uncertainty. One of ASEAN's tangible efforts in reducing dependence on the US dollar is through the implementation of Local Currency Transaction (LCT) and Regional Payment Connectivity (RPC). These initiatives have shown a positive impact in reducing the use of the US dollar in regional financial transactions in Southeast Asia (Kawai, 2019). Indicators of this success include an increase in the use of local currencies in trade transactions as well as an increase in the volume of intra-regional trade. Statistics show that ASEAN countries have increased the number of transactions in local currencies over the past few years.

Picture 2. ASEAN+3: Outstanding Local Currency Bonds and Trading Volumes



Enforcement of the LCT and RPC also helps reduce exchange rate risk and provides stability in the financial management of countries in the region. Southeast

Asian companies and financial institutions are increasingly aware of the importance of the LCT and RPC, as evidenced by greater participation in regional payment systems as well as the use of local currency means of payment. Overall, ASEAN monetary and financial cooperation supported by initiatives such as the LCT and RPC are instrumental in reducing dependence on the US dollar, supporting de-dollarization, and strengthening Southeast Asia's economic stability and growth (Kawai, 2019).

In addition to the LCT and RPC, the Chiang Mai Initiative (CMI), ASEAN Swap Arrangement (ASA), and Local Currency Bilateral Swap Arrangement (LCBSA) policies have had a significant impact in reducing ASEAN countries' dependence on the US dollar for local currency liquidity reserves. Through cooperation among the ASEAN countries and regional partners, these policies enable the exchange of local currencies in emergency situations, reduce the risk of economic instability, and strengthen regional financial stability (Ciorciari, 2011).

In 2010, the Chiang Mai Initiative (CMI) started with a reserve commitment of USD 120 billion, which later increased to USD 240 billion in 2014. CMI replaced BSA (bilateral swap arrangement) as the multilateral swap mechanism, providing liquidity amidst the financial crisis. Through CMI, the plus three countries (China, Japan, and South Korea) and Hong Kong contribute 80% of the total funds, moreover ASEAN countries can draw loans in excess of their contributions, providing flexibility for smaller countries such as Cambodia, Laos, Myanmar, and Vietnam (CLMV). Before the CMI came into effect, the ASEAN Swap Arrangement (ASA) also saw a significant increase, from USD 200 million to USD 2 billion in 2005. The ASA became an invaluable instrument in providing liquidity among the ASEAN countries during crisis, and helped in supporting regional economic stability (Ciorciari, 2011).

On the other hand, the bilateral swap arrangements (BSA) regime, which was also developed in cooperation with the plus three countries, served as an additional mechanism to enhance local currency liquidity. BSAs were able to expand the ability of the central banks of countries in the region to access non-traditional currencies, which are gaining popularity due to increased liquidity and confidence in them. Non-traditional currencies include the Chinese Renminbi and currencies outside the special drawing rights (SDR) component of the International Monetary Fund (IMF) (Rahman, 2010;

Sussangkarn, 2010).

Total foreign exchange reserves in non-traditional currencies held by countries at the end of 2020 amounted to USD 8,270 billion, of which USD 769.6 billion were in non-traditional currencies (Renminbi reserves: USD 117.2 billion). Countries with the highest share in non-traditional currencies, namely Lesotho has 69% of its foreign exchange reserves in non-traditional currencies; Namibia has 53%, and Malta has 41%. Medium-share countries, Malaysia has 20% of its reserves in non-traditional currencies; Indonesia has 15%; Singapore 13%; and Thailand 8%. The positive impact of BSA also includes increased perception and confidence in the source countries' currencies, which encourages their use in international transactions (Sussangkarn, 2010).

Establishment of the ASEAN+3 Macroeconomic Research Office (AMRO), the External Balance Assessment (EBA) mechanism, and the ASEAN+3 Currency Swap Arrangement (ACSA) have significantly impacted exchange rate stability and reduced the risk of economic instability in the ASEAN+3 region. AMRO serves to monitor and analyze economic conditions in the ASEAN+3 region, including exchange rates. AMRO forecasts the regional economic growth to reach 4.5% by 2024, with adjusted projections for the Plus-3 economies (China, Japan, and South Korea) showing steady growth. Average inflation is estimated at 3.0% in 2023, indicating a decline from the previous year and supporting price and exchange rate stability. These projections assist member countries in planning effective economic policies (Antara News, 2023a; ASEAN+3 Macroeconomic Research Office, 2023b).

The following is a summary of gross domestic product (GDP) growth projections by year and the AMRO quarterly updates for 2023 and 2024. For the ASEAN+3 region, projected economic growth in 2023 is estimated at 4.4% in the October 2023 update, which then increases slightly to 4.5% in the January 2024 update. This growth is projected to remain stable at 4.5% in 2024. The Plus-3 group (China, Japan, and South Korea) is expected to grow by 4.4% in 2023, matching the projections in both quarterly updates (October and January). Growth in 2024 is also projected to remain at 4.4%. On the other hand, countries such as China show higher growth than other countries, with a projection of 5.2% in October 2023, which increased to 5.3% in the January 2024 update. Growth in 2024 is also projected to stabilize at 5.3%. AMRO has also estimated the

growth projections of various other ASEAN countries. Each ASEAN country has its own GDP growth projections, with countries such as Indonesia, Malaysia, the Philippines, and Vietnam showing stable and fairly strong growth in the range of 5% to 6% in 2023 and 2024 (ASEAN+3 Macroeconomic Research Office, 2023b).

In addition, in analyzing the external balance of a country including the exchange rate, AMRO utilizes the EBA mechanism as an instrument to evaluate factors affecting external balance with implications for exchange rate stability. The EBA mechanism provides an assessment of the external balance of ASEAN+3 countries, assisting in identifying risks of imbalances such as trade balance and capital flows. On the one hand, ACSA in this case also provides access to currency exchange among member countries in crisis situations, reducing the risk of economic instability caused by exchange rate volatility. Overall, AMRO, EBA, and ACSA collaborate to enhance exchange rate stability and reduce the risk of economic instability in the ASEAN+3 region, by providing better monitoring, in-depth assessment, and support in crisis situations (Siregar & Chabchitrchaidol, 2013).

Cooperation in development of regional financial markets through the ASEAN Capital Market Forum (ACMF), ASEAN Banking Integration Framework (ABIF), ASEAN+3 Bond Market Forum (ABMF), and ASEAN Infrastructure Fund (AIF) has had a significant impact in reducing dependence on the US dollar as the main currency in capital markets, bonds, and bank financing in Southeast Asia. The ACMF plays an important role in reducing US dollar dependency through the development of sustainable and integrative capital markets. The ACMF operates in accordance with the ACMF Action Plan 2021-2025 and the Roadmap for ASEAN Sustainable Capital Markets, which focuses on enhancing market resilience and promoting inclusiveness (ASEAN Capital Markets Forum, 2020).

In 2023, ACMF organized various activities, including the ACMF Chairs Meeting and ACMF International Conference, involving various stakeholders from ASEAN and the Asian Development Bank (ADB). Through these initiatives, ASEAN strengthens regional financial integration, improves market access and liquidity, and reduces dependence on the US dollar. Bilateral agreements in the ASEAN+3 region to utilize

local currencies in financial transactions represent a concrete measure towards de-dollarization. A series of regional mechanisms established reflect strong support for the use of local currencies, contributing to reduced reliance on the US dollar (ASEAN Capital Markets Forum, 2019).

CONCLUSION

The ASEAN strategy to reduce dependency on the US dollar in international transactions in Southeast Asia is carried out through the development of a number of regional frameworks. A number of regional initiatives such as regional payment systems, regional liquidity sharing, regional exchange rate coordination, and regional financial market development are carried out by ASEAN to reduce dependency of countries in region on the use of the US dollar. This strategy was adopted in response to an experience of crisis that affected the economies and finances of the ASEAN countries due to negative impact of volatility in the US dollar exchange rate.

The regional payment system was put in place by establishing regional payment connectivity (RPC) and local currency transaction (LCT) mechanisms. On the other hand, regional liquidity sharing is applied by enforcing the exchange swap mechanism. Meanwhile, regional exchange rate coordination is conducted through establishment of ASEAN+3 Macroeconomic Research Office (AMRO), external balance assessment mechanism, and ASEAN+3 Currency Swap Arrangement (ACSA) mechanism. Lastly, regional financial market development is conducted through establishment of ASEAN Capital Market Forum (ACMF), ASEAN Banking Integration Framework (ABIF), ASEAN+3 Bond Market Forum (ABMF), and ASEAN Infrastructure Fund (AIF).

Enforcement of the four strategies has significantly reduced dependency of the ASEAN countries on the use of the US dollar in international transactions in Southeast Asia. The use of local currencies among the ASEAN countries in international transactions including cross-border payment transactions, bilateral trade, and regional investment has evidently increased economic productivity of the ASEAN countries. The roles and functions of a number of ASEAN economic and financial institutions such as ASEAN+3 Macroeconomic Research Office (AMRO), ASEAN+3 Currency Swap Arrangement (ACSA), ASEAN Capital Market Forum (ACMF), ASEAN Banking Integration Framework (ABIF), ASEAN+3 Bond Market Forum (ABMF), and ASEAN

Infrastructure Fund (AIF) have also made significant contributions in assisting reduction of dependence on the US dollar through institutionalized regulatory and policy measures.

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