

How the state frames its engagement in Renminbi internationalization: the case of Indonesia

Mellynia

mellynia@binus.ac.id

Centre for Business and Diplomatic Studies (CBDS), Bina Nusantara University, West Jakarta, Indonesia

Moch Faisal KARIM

faisal.karim@uiii.ac.id

Faculty of Social Sciences, Universitas Islam Internasional Indonesia, Depok, West Java, Indonesia

Short Bio

Mellynia is a research associate at the Centre for Business and Diplomatic Studies (CBDS), Bina Nusantara University. Her research focuses on ASEAN regional integration.

Moch Faisal Karim is a senior lecturer at the Faculty of Social Sciences, Universitas Islam Internasional Indonesia. He is also a researcher at the Centre for Business and Diplomatic Studies (CBDS). His research has been published in many journal outlet, among others, Foreign Policy Analysis, International Relations, Contemporary Politics, Pacific Review, and Third World Quarterly.

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Abstract

The rise of China has accelerated Renminbi (RMB) internationalization. While existing literature examines global support for RMB internationalization, there's a gap in understanding how developing nations, facing potential domestic skepticism, rationalize and articulate their support. This study fills this gap, exploring the narratives that states use to legitimize their support for RMB internationalization. Focusing on Indonesia, the research examines the country's elites responses to China's RMB internationalization strategy. It uncovers that Indonesia frames its engagement with RMB internationalization not merely as an endorsement of China's global ambitions, but as a strategic move to hedge against US dollar vulnerability and to foster broader Asian regional integration, particularly in terms of currency cooperation. This research enriches the existing literature, providing a nuanced perspective on how states navigate the complexities of international economic diplomacy, crafting narratives that align with their strategic interests and policy objectives in the evolving landscape of global currency politics.

Keywords: Renminbi Internationalization, hedging, strategic narrative, Indonesia, international political economy, legitimation.

Introduction

Since the end of World War II, the global financial system has been predominantly shaped by the influence of the US Dollar, a characteristic of the international monetary order frequently referred to as dollar hegemony (Norrlof, 2014). Nevertheless, developing nations often encounter challenges emanating from their substantial reliance on the US dollar, as this can potentially intensify the volatility of their respective currencies (Katada, 2008). The deterioration of the US economy following the 2008 global crisis, coupled with the ascendancy of China's economic prowess, has spurred nations to reconsider dollar dependence, turning instead towards viable alternatives (Liao & McDowell, 2015). Many states, in an attempt to alleviate their reliance on the US dollar, have expressed support for the internationalization of China's renminbi (RMB). Since the 2008 crisis, the People's Bank of China has enacted bilateral exchange agreements (BSA) with 35 foreign central banks, cumulatively amounting to approximately USD 500 billion in Chinese RMB accessible to Beijing's international partners (Bowles & Wang, 2013).

Current scholarship on RMB internationalization primarily underscores China's proactive engagement in this process (Cohen, 2012; McNally & Gruin, 2017). These studies examine how the global acceptance of the RMB could strategically allow China to decrease its dollar dependence by curbing the influx of dollars into its economy. Other research focuses on the active participation of various nations in facilitating such internationalization (Chey, 2019; Chey et al., 2019; Pacheco Pardo et al., 2019). For instance, Chey (2015, 2019) scrutinizes the role of domestic politics in a country's endeavors to bolster RMB internationalization. Pacheco Pardo et al. (2019) elucidate two critical factors that encourage governments to support RMB internationalization: economic and political benefits stemming from China's internationalization, and the shifting dynamics of the international order, accompanied by the emergence of China as a global superpower.

While existing literature has offered insights into the motives behind various countries' endorsement of RMB internationalization, there remains a scarcity of understanding regarding how these nations rationalize their support, especially considering that such backing might be perceived as an acknowledgment of China's increasing dominance. This article endeavors to bridge this gap by exploring how states frame its engagement in RMB internationalization to distinguish such engagement from an explicit endorsement of China's international agenda. We propose a strategic narrative framework to comprehend such agenda, arguing that states leverage geo-economic interests to justify their support. Therefore, we posit that RMB internationalization is strategically contextualized within a broader hedging agenda.

To demonstrate this argument, we focus on Indonesia's response to China's RMB internationalization. Most literature pertaining to such responses concentrates on global economic powerhouses like the UK, Germany, South Korea, and Japan (Chey, 2019; Pacheco Pardo et al., 2019). As Southeast Asia's largest nation, Indonesia is strategically positioned to maintain regional equilibrium, particularly in the context of the escalating US-China rivalry. This geopolitical objective is crucial to uphold as part of Indonesia's role in safeguarding Southeast Asia from the influence of external powers.

This article elucidates that Indonesia's engagement with RMB internationalization is constructed as a strategic component of its overall plan to diminish dependency on the US Dollar. It is depicted as a hedging strategy against the US rather than an endorsement of China's international agenda. To maintain this coherent narrative, Indonesia has vigorously campaigned to amplify Local Currency Settlement (LCS) and Bilateral Currency Swap Agreements (BSA) with other nations other than China. Even though a substantial part of Indonesia's de-dollarization strategy is encapsulated in its escalating usage of China's RMB, Indonesia further characterizes its engagement in RMB internationalization as part of overarching strategy to foster regional integration, with a primary focus on East Asian regionalism through currency cooperation centred on Association of Southeast Asian Nations (ASEAN).

This article employs a qualitative methodology, encompassing the examination of official documents and conducting a media content analysis involving key governmental and legislative actors. The entities scrutinized in this study include pivotal institutions such as Bank Indonesia, the Ministry of Finance, the Ministry of Trade, and the House of Representatives. These bodies have been instrumental in shaping and articulating Indonesia's stance towards currency internationalization. The remainder of the article is structured as follows: the second section encompasses a review of existing literature on currency internationalization, proposing it as a hedging strategy that can explicate state preferences to support the internationalization of a particular currency. The third section presents an in-depth analysis of Indonesia, detailing how it frames its support for RMB internationalization. In the final section, we summarize our key findings.

The Underpinnings of Renminbi Internationalization

Renminbi internationalization represents China's primary strategy to extend the use of its currency, particularly for cross-border transactions and investments where China plays a significant role. A key strand of the debate surrounding this issue pertains to the foundational motivation driving renminbi internationalization. A plethora of scholars view the impetus of the renminbi internationalization as China's geo-economic aspiration to proliferate its currency among neighboring nations, thereby facilitating cooperation independent of the dollar (Song & Xia, 2020). This geo-economic ambition coexists with China's commitment to adhere to monetary standards and international regulations, as evidenced by the Bilateral Currency Swap Agreements (BCS) that numerous global countries have sanctioned (Yelery, 2016), inclusive of developed nations like Japan (Chey, 2019), Germany, and the United Kingdom (Pacheco Pardo et al., 2019).

For China, the internationalization of the renminbi is conducted to liberalize its currency and the global financial markets. This objective aligns with China's pursuit of promoting broader and more liberal capital market flows and a market-based exchange rate. This effort has resulted in a renminbi spread twice as large as it should have been, accompanied by the opening of capital accounts and bond markets (Shen, 2013).

The incentives for other nations to partake in the renminbi internationalization process can be segregated into three categories: financial, trade, and political factors. Economically, the liquidity pressure induced by the volatility of the dollar, which catalyzed the global crisis, solidified the confidence of numerous countries to curtail the use of the dollar. This realization has prompted several countries to enhance trade cooperation within their regional spaces utilizing local currencies on both bilateral and multilateral scales. This regional support reflects the belief of nations, especially those in East Asia, in diminishing dollar dependence (Katada, 2008; Rhee & Sumulong, 2014). Moreover, internationalization is carried out as a regional ambition to expand cross-border transactions and to reduce reliance on international liquidity (Liao & McDowell, 2015; Pacheco Pardo et al., 2019).

Other analysts propose that economic and geopolitical factors are the primary drivers thrusting the renminbi into the position of a principal alternative international currency. Given the robustness of China's economy, the renminbi, as an alternative currency, has emerged as the second largest economy, surpassing Japan. As the issuer of the renminbi, China has also cemented a formidable position in international trade, claiming the title of the world's largest trading nation in 2012, outstripping the United States. Data from World Trade also demonstrated an approximate 100 percent increase, from less than 14% to 26% in 2015. China even began to finalize a quarter of their trading system in 2015. These factors heavily influenced the allure of the renminbi for most countries (McDowell & Steinberg, 2017).

Incorporating insights from Cohen (2019), it becomes evident that currency statecraft extends beyond material considerations, intertwining with geopolitical ambitions. Cohen argues that a nation's currency strategy is often a reflection of its broader geopolitical aspirations and sense of identity. For instance, China's vigorous promotion of the renminbi's international standing, despite potential tensions with the United States, is indicative of its strategic intent

to bolster its geopolitical influence and assert a prominent place in the global community of nations.

The trade aspect is critical given that currency internationalization is implemented in cross-border transactions between China and its partners. The continually evolving trading system has mitigated the risks historically associated with export-import activities. Increased trading was the pivotal factor that precipitated a surge in China's investment. This also served as a benchmark in international trade, influencing a nation's economic security in the face of the fluctuating dollar interest rate (Yelery, 2016). Furthermore, China's substantial potential to possess alternative currency liquidity has bolstered other governments' confidence in their currency stability. Scholars argue that despite China's market commanding a significant portion of the world with cross-border transactions, it would not impact the value of the renminbi (Adhikari, 2017).

From a geopolitical perspective, some literature posits that currency internationalization can be construed as a country's ambition to proliferate state geopolitical agenda (Chey, 2019; McDowell & Steinberg, 2017; Pacheco Pardo et al., 2019). Moreover, renminbi internationalization can enhance political and economic ties between China and other nations. This can hinge on the implicit objectives of the proposing country, which can engender political considerations. For instance, the United Kingdom consented to renminbi internationalization with the intention of preserving London's status as a global trading hub. In contrast, Germany focused on bolstering their real economy by establishing a center for renminbi internationalization (Pacheco Pardo et al., 2019). It is evident that developed nations are seeking to improve diplomatic ties in tandem with China's ascendancy. Germany, with its desire to augment trade, and Britain, aiming to reinforce London's international role, illustrate the intertwining of political and economic motivations for tapping into China's economic potential. In collaborations with other nations, currency internationalization could serve as a diplomatic instrument in political cooperation between nations, thereby exerting long-term impacts on bilateral relationships (Chey, 2019). Here, Chey (2021) provides new research agenda on how foreign states have responded to RMB internationalization.

While existing literature has succeeded in elucidating the motives, objectives, and responses, particularly in developed countries that have yielded positive impacts, there exists a gap in the literature concerning how nations legitimize their involvement in renminbi internationalization. This process of legitimization is crucial because renminbi internationalization is inextricably linked with China's geopolitical ambition to establish its global hegemony. The expansion of the renminbi could strategically enhance China's economic prowess, thereby increasing its influence in the Asian region. There remains a possibility that the renminbi could emerge as Asia's regional key currency, potentially leading to an asymmetrical geopolitical relationship between China and other Asian nations (Hasegawa, 2018). Given the interconnectedness of these factors, several domestic factors resist a state's involvement in supporting China's international agenda, such as the internationalization of the renminbi. This research intends to examine the process of supporting internationalization, using Indonesia as a case study - a representative of middle powers from the developing world.

Framing RMB Internationalization

This study aims to unravel the underlying rationale that guides a nation's support for the internationalization of another country's currency, utilizing the concept of legitimacy, explored through the lenses of narrative and framing, as its foundational analytical tool. Legitimacy, within the context of state strategy, plays a crucial role in defining national interests and identifying potential threats. It requires a degree of acceptance and recognition from the audience, aligning with the state's projected values, norms, and economic paradigms. In the realm of International Relations, legitimacy often correlates with a state's capacity to formulate and implement policies that resonate with societal expectations and acceptance (Kang, 2012).

Legitimacy stands as a cornerstone in the architecture of governmental decision-making, particularly in the formulation and implementation of foreign policy (Karim, 2021). It acts as a crucible where policy decisions are tested for acceptance and viability. A lack of legitimacy could render policies ineffectual or subject to contestation. In this context, narratives emerge as powerful tools that governments employ to cultivate and bolster the legitimacy of their policies (Foley, 2021). Narratives, woven into the fabric of policy discourse, serve to elucidate and justify policy directions, establishing a coherent link between governmental actions and their anticipated outcomes. They function as essential conduits that facilitate the transmission of policy intents, objectives, and expected benefits to the public and other stakeholders. Narratives craft a structured storyline that navigates through the complexities of policy decisions, enhancing their comprehensibility and relatability (Jacobs & Sobieraj, 2007).

In the realm of public policy, the interplay between legitimacy and narrative is particularly pronounced (Barnett, 1999; Wallner, 2008). Narratives contribute to shaping the contours of legitimacy by providing a scaffold that supports the rationale and objectives of policy decisions. They imbue policies with a sense of purpose and direction, aligning them with broader national interests and welfare considerations (Johnson et al., 2006). Strategic narratives, therefore, play a pivotal role in steering public perceptions and attitudes towards policy initiatives. They act as catalysts that can mobilize support, engage relevant actors, and foster an environment conducive to the successful realization of policy objectives. Through narratives, governments can navigate the complexities of the policy landscape, cultivating legitimacy and fostering a supportive ecosystem for the effective execution of their strategies.

In this study, legitimacy is intricately woven into the strategic narratives that Indonesia constructs to rationalize its engagement in the internationalization of China's renminbi (RMB). The narratives are crafted, embedding the strategies of de-dollarization and regional integration at their core, each serving specific roles in bolstering the legitimacy of Indonesia's policy direction. Firstly, de-dollarization emerges as a pivotal narrative. It is articulated as a strategic maneuver to mitigate the vulnerabilities associated with an overreliance on the US dollar, aiming to foster a more resilient and balanced foreign exchange reserve in the face of currency volatilities. This narrative aligns with a broader economic prudence, underscoring Indonesia's proactive measures to safeguard its economic stability. Secondly, the narrative of regional integration is nuanced and multifaceted. While the engagement in RMB internationalization is a significant aspect, Indonesia ensures that this does not eclipse the

broader objective of fostering multifaceted regional cooperation. Indonesia amplifies its commitment to enhancing ties not only with China but also with other key players such as Japan and South Korea, emphasizing a more inclusive and balanced regional engagement. By doing so, Indonesia strategically positions the ASEAN community at the epicenter of these currency cooperation initiatives, reinforcing ASEAN's centrality and collective agency in regional economic strategies.

This dual-narrative approach is instrumental in cultivating legitimacy, ensuring that Indonesia's engagement in RMB internationalization is perceived as a balanced strategy, aligned with broader regional interests and economic resilience objectives. It allows Indonesia to navigate the complexities of regional economic cooperation, fostering a narrative that resonates with inclusivity, strategic balance, and a commitment to collective regional prosperity.

De-dollarization

De-dollarization has evolved as a strategic recalibration by various nations to mitigate vulnerabilities associated with an overreliance on the US dollar. Initially conceptualized as a response to the Asian monetary crisis, this strategy has gained traction, reflecting a broader trend where nations optimize the utilization of their local currencies to enhance economic resilience. Post-crisis, even the G7 countries exhibited a shift, with a discernible decline in growth rates, underscoring the impact of the crisis on global economic landscapes (Kievich A. & Buhtik M., 2018).

In this economic context, the internationalization of the Renminbi (RMB) emerges as a significant facet of Indonesia's strategic economic positioning. Indonesia's engagement with RMB internationalization is nuanced, reflecting a deliberate strategy to navigate the complexities of escalating geopolitical tension, particularly those emanating from the Sino-American rivalry. Indonesia's approach towards RMB internationalization is articulated as a hedging strategy, aimed at mitigating the risks associated with the prevailing global financial uncertainties. It is portrayed as a proactive measure, seeking to diversify currency reserves and reduce vulnerabilities associated with dollar dependence. This is also reflective of a broader recognition of China's pivotal role in global trade dynamics, positioning RMB internationalization as an opportunity for Indonesia to bolster its economic resilience and navigate the uncertainties of shifting global economic alignments. In doing so, Indonesia maintains a nuanced stance, refraining from overt alignments, and prioritizing strategic economic stability amidst the evolving geopolitical landscape.

Asian regional integration

In the realm of regional integration, Indonesia perceives its strategic involvement within the ASEAN community as instrumental in fostering enhanced regional economic cooperation. This vision aligns with ASEAN's broader objectives of cultivating robust globalization-regional relationships through various mechanisms such as bilateral and trilateral ASEAN Free Trade Agreements (FTA) and the ASEAN Comprehensive Economic Partnerships (CEP) with key regional players, collectively referred to as ASEAN+6 (L. Chen & Lombaerde, 2019). The internationalization of the Renminbi (RMB) is contextualized within this framework of regional economic collaborations. It is not merely seen as a reflection of China's growing economic prowess, but rather, it is strategically framed as a stabilizing initiative aimed at

mitigating the risks of economic crises and liquidity shortages, reminiscent of past financial upheavals in the region.

Historical economic adversities, such as the Asian financial crisis and the global financial crisis, have underscored the significance of liquidity safeguards and motivated the initiation of bilateral swap arrangements (BSA) among ASEAN+3 economies (Ravenhill, 2002). These arrangements, including the participation of China, Japan, and South Korea in the Chiang Mai Initiative (CMI), exemplify concerted regional efforts to bolster financial resilience, enhance short-term liquidity, and address balance of payment challenges (Sussangkarn, 2011). Indonesia's engagement in RMB internationalization is articulated as a commitment to these regional integration efforts. It is portrayed as a strategic alignment with initiatives that aim to stabilize foreign exchange reserves, optimize local currency exchange rates, and simplify transaction processes, thereby stimulating trade and economic activities within the ASEAN region.

Thus, the narrative of enhancing regional cooperation emerges as a pivotal element that legitimizes Indonesia's growing engagement in RMB internationalization. It allows for the positioning of this engagement as a coherent and strategic response aligned with broader regional aspirations and collective economic stability objectives, rather than merely a bilateral alignment with China's economic agenda. Through this narrative, Indonesia underscores its proactive role and optimism towards fostering a resilient and integrated ASEAN economic community.

Indonesia and Renminbi internationalization

The internationalization of the renminbi signifies China's strategic endeavor to amplify its currency's global presence. There are four predominant motivations driving China to advance this initiative. Firstly, China's robust economic growth trajectory has necessitated the expansion of an increasingly open market economy, validating the international community's use of the renminbi as a reserve currency. Secondly, the internationalization of the renminbi affords the potential to mitigate the risk of uncertainty surrounding the US dollar, particularly in light of the numerous financial crises that have transpired in recent years. Thirdly, the internationalization of the renminbi is anticipated to stabilize trade and reduce associated costs. Lastly, the system that China has developed to guide the renminbi's internationalization could pave the way for a seigniorage system, generating significant economic benefits for the international community (Chao, 2016; Chey, 2015, 2021). These ambitions are contingent on the sustained stabilization and growth of China's prosperous economy, which consequently influences the effective use of its currency on the international stage.

From 2016 to 2020, China prioritized the development of the renminbi's internationalization in its 13th Five-Year Plan. It strove to position the renminbi as a significant global capital. China has underscored the primary objectives of this internationalization, particularly from an economic perspective. These objectives encompass reducing cross-border transaction costs, particularly in trade, mitigating the risk of exchange rate fluctuations, amplifying transactions in the local currency renminbi with China's principal trading partners, and facilitating global trade and investment transactions (Kurien & Geoxavier, 2020).

To promote the renminbi's internationalization, the Chinese government is steering bilateral and multilateral cooperation efforts. The People's Bank of China (PBoC) has successfully entered into Bilateral Currency Swap Agreement (BCSA) contracts with at least 30 central banks worldwide (Li, 2023). China has also expanded its cooperation multilaterally through several agreements within certain regions, including the Regional Comprehensive Economic Partnership (RCEP) and the Chiang Mai Initiative in the ASEAN region (Pan et al., 2013). To further enhance the renminbi's allure, the Chinese government has promoted the development of lending and financing, including issuing Panda Bonds by the International Finance Corporation (IFC) and Asian Development Bank (ADB) (Y. Chen, 2022). This research will concentrate on BCSA as a policy for the renminbi's internationalization in Indonesia, supported by substantial and relevant data.

China has emerged as the principal export country in recent years, especially for Asian nations, with Indonesia becoming a favored destination for Chinese investment. Indonesia perceives significant opportunities in China's rapid economic progress, while China views developing countries such as Indonesia as suppliers of scarce natural resources. Bilateral cooperation promises long-term beneficial impacts, with country-level economic trade outpacing global trade growth (Eichengreen, 2011).

Indonesia's closer relationship with China began in 2002, under President Megawati's leadership, when both nations signed the Indonesia-China Energy Forum (ICEF) Memorandum of Understanding, amplifying investment and bilateral trade. The partnership intensified under President Susilo Bambang Yudhoyono, who inked a strategic partnership agreement in 2005, later extended to a comprehensive strategic partnership in 2013. President Joko Widodo's administration continues to foster ties with China, aspiring to position Indonesia as a strategic maritime axis amidst economic and political turbulence (Sriyanto, 2018).

Indonesia and China have engaged in extensive cooperation across various sectors, particularly through regional platforms. Notably, as part of ASEAN, Indonesia has been instrumental in establishing a free trade area with China (Karim et al., 2023). This collaboration has been further strengthened under the leadership of Presidents Joko Widodo and Xi Jinping, who have deepened their countries' ties through the signing of a Joint Statement of Comprehensive Strategic Partnership agreement. The economic cooperation between the two nations is also evident in Indonesia's participation in the Asian Infrastructure Investment Bank (AIIB), which is pivotal in enhancing infrastructure development and other productive sectors. Additionally, Indonesia is actively collaborating with China on the Belt and Road Initiative (BRI), a significant endeavor aimed at boosting infrastructure development and regional connectivity (Lovina et al., 2017).

In line with these developments, Indonesia is working with China to bolster the use of local currencies through the Bilateral Currency Swap Agreement (BCSA), a cooperative effort between Bank Indonesia and The People's Bank of China (PBoC) that began in 2009. Given Indonesia's history of substantial exchange rate volatility, a stable and competitive exchange rate is instrumental for its sustainable growth (Lindblad, 2015). The BCSA, therefore, aims to stimulate and enhance bilateral trade and investment between the two countries.

The BCSA cooperation commenced with an initial investment of 16.2 million US dollars in 2009, was extended with the same amount in 2013, and underwent a final renewal in 2018. China has also provided export credits of 2.8 billion US dollars and loans for power plant projects totaling 5.6 billion US dollars. These actions have made Indonesia realize that increased cooperation with China would affect the effectiveness of currency utilization in transactions with China. In addition to fortifying local currency settlement (LCS), the internationalization of the renminbi will simplify various transactions between Indonesia and China (Saputro, 2017, p. 114).

From the perspective of Indonesia, the decision to support the internationalization of the renminbi is contingent upon domestic conditions, regional integration efforts within ASEAN, and a strategy of de-dollarization. The promotion of domestic production chains (Local Supply Chains) is an impetus for Indonesia's collaboration with China through the Bilateral Currency Swap Agreement (BCSA), thereby fostering a dual link in global commerce. Bank Indonesia has expressed concern over the ongoing reliance on the US dollar, which almost triggered a replication of the global financial crisis at the close of March 2020 (CNN Indonesia, 2020c).

To mitigate the vulnerability to monetary crises, Bank Indonesia advocates for a reduction in collective investment contracts, a need that has been underscored by the Covid-19 pandemic. To this end, Indonesia has instituted a two-tiered defense strategy within its central bank in the financial sector, encompassing foreign exchange reserves and bilateral swaps with several Asian central banks. As of October 2022, Indonesia's foreign exchange reserves were ample to cover seven months of imports, amounting to 130.20 billion US dollars (Bank Indonesia, 2022). On the second line of defense, Bank Indonesia has established several bilateral swaps, including US\$30 billion with China, US\$22.7 billion with Japan, and US\$10 billion each with Singapore and Australia (Pransuamitra, 2020). Furthermore, Bank Indonesia maintains a bilateral agreement with the US central bank. The annual increase of the country's dollar reserves by 1.2 billion has led to the depreciation of the rupiah, which has been identified as a currency with minimal performance (The Jakarta Post, 2020).

The utilization of the renminbi serves as a hedging strategy for Indonesia, aimed at reducing dependency on the US dollar which could potentially lead to imbalances in the exchange rate. This hedging is an anticipatory measure against the vulnerability of the local currency exchange rate and a possible recurrence of a monetary crisis. Moreover, this initiative could balance the defensive value of the country's foreign exchange reserves against the US dollar. In Bank Indonesia's monetary policy review document for 2021, it is stated that consumer confidence in China and Europe is a factor propelling global economic activity, particularly in the business sector. This advantage has predictably increased global trade volumes and international market prices. The resultant uncertainty will also be mitigated through increased activity via the aforementioned agreements, facilitating capital inflow into developing countries like Indonesia, which, in turn, appreciates local currencies worldwide (Bank Indonesia, 2021). Despite China's substantial involvement, the US remains a focal point for Indonesia. Bank Indonesia also asserted that the recovery of Indonesia's exports was bolstered by increased demand in primary export countries, China and the United States. Furthermore, the economic recovery in these two principal countries has also spurred expansion in Indonesia's developmental sector. In 2021, economic growth is projected to rise by 5% compared to the previous year.

Bank Indonesia has established specific regulations in setting up BCSA collaboration, with primary objectives such as (1) stabilizing the value of the rupiah, (2) reducing reliance on foreign exchange, (3) enhancing the fluidity of payments in international trade and direct investment, and (4) augmenting bilateral trade transactions. The BCSA aims to foster economic development between the two countries. Various transaction methods utilized in BCSA encompass underlying transactions through the window time method, pricing, exchange rates, and top haircuts (Bank Indonesia, 2016). The window time method allows the central bank a specific period to submit the foreign currency repo to Bank Indonesia. Pricing is a method for determining the foreign currency interest rate. The exchange rate is the rate in foreign currency, and the haircut is a discount factor for the value of securities in foreign currency repos, determined as a percentage by Bank Indonesia. Indonesia and the US have applied these four methods since 2014 for transactions involving the US dollar (Bank Indonesia, 2014).

The implementation of these four methods reveals Indonesia's commitment to de-dollarization by entering into BCSA agreements with key neighboring countries. Utilization of the same methodology is projected to enhance local currency usage through its maximization with other nations. Early in 2021, the effectiveness of the BCSA was demonstrated by an increase in Indonesian exports to China and a concurrent deficit in Chinese exports to Indonesia. Indonesian exports to China rose by 10.10 percent, while the value of China's exports to Indonesia decreased by 10.13 percent. This near balance has been achieved, with Indonesia's export value amounting to 37.4 billion USD and China's export value reaching 41 billion USD. This has also impacted Indonesia's export ranking within ASEAN, elevating it from fifth to fourth place. Indonesia's principal export products to China include iron and steel, swallow nests, paper products, coffee, tea, spices, pedestals feet, essential oils, processed perfumes and cosmetics, ceramic products, tin, rubber, copper, tropical fruit, processed food products, plastics, textiles, alcoholic beverages and vinegar, sugar and confectionery, glass, zinc, and milling industry products. On the investment front, China ranks second in Indonesia as the largest foreign investor, with an investment reaching USD 4.8 billion. This includes the investment realization of the Hong Kong central bank, which ranks third in Indonesia. Additionally, China has pledged to collaborate with Indonesia in developing local technology (Ministry of Foreign Affairs of the Republic of Indonesia, 2021).

The narrative constructed by Indonesia suggests that the nation has a strategic agenda to enhance its national quality through a hedging strategy against the US dollar, encompassing economic, political, and developmental spheres. Indonesia has long identified China as a significant opportunity for contributing to the country's trade and development. Indonesia's hedging strategy, coupled with efforts to increase the Local Supply Chains and reduce reliance on the US dollar, is indicative of the nation's domestic de-dollarization endeavors. This spans from the previous President's collaboration with China to increase investment, trade, and development, to Bank Indonesia's focus on enhancing BCS cooperation. The uptick in export-import activity between the two countries is reflected in the improved ranking of Indonesia's position within ASEAN in the export sector. The growing amount of Chinese investment in Indonesia also underscores Indonesia's keenness to reduce its dependency on the US currency without completely disregarding the US dollar.

Internationalization of Renminbi as de-dollarization strategy

Indonesia's engagement in the internationalization of the Renminbi (RMB) has been met with a spectrum of responses from various domestic actors, each articulating their perspectives within the strategic framework of de-dollarization and economic resilience. Government officials and industry leaders alike have expressed their viewpoints, framing the RMB internationalization as a strategic policy aligned with Indonesia's broader economic objectives.

Key figures, such as the Governor of Bank Indonesia, Agus Martowardojo, and the Minister of Finance, Bambang Brodjonegoro, have underscored the potential benefits of this policy. They emphasize its capacity to enhance Indonesia's trade performance, particularly with China, by diversifying currency usage beyond the US dollar. This diversification is seen as a way to optimize local currency use, improve trade portfolios, and foster a more resilient financial market, given China's significant role as one of Indonesia's largest trading partners.

Agus Martowardojo, a Governor of Bank Indonesia, stated the positive impact of Renminbi policies implemented in Indonesia. He also said this policy could improve Indonesia's trade performance, especially with China. This is supported by the large import-export trade volume with China in 2015, reaching 30 billion US dollars. The policy also offers a good opportunity for Indonesia as it provides more than one currency choice for trade and investment. He also mentioned that this policy could actualize trade and investment between Indonesia and China using local currency. The internationalization of Renminbi will also impact the increasing demand for products from China itself. In addition, Indonesia's trade portfolio will be perceived as better by having more than one currency. This would certainly affect the domestic financial market, especially since China is one of the largest trading partners in Indonesia. The increase in trade cooperation is also increasingly apparent from year to year due to its influence. This is evident from the nominal and BCS agreements that are constantly updated each period (Armenia, 2015; Sihombing, 2015).

The narrative surrounding RMB internationalization is carefully constructed to highlight its alignment with Indonesia's strategic interests, rather than as a unilateral endorsement of China's economic agenda. The discourse emphasizes the policy's potential to reduce the dependence on the US dollar in Indonesia-China trade transactions, thereby contributing to a more stable and diversified foreign exchange reserve. The Ministry of Finance for instance responded positively to the effects of Renminbi Internationalization. Bambang Brodjonegoro, Minister of Finance, also stated that the effectiveness of Bilateral Currency Swap Agreements (BCSA) with Renminbi Internationalization could reduce the dependence of Indonesia-China trade transactions using US dollars. Thus, the Renminbi currency right will be used more in the processing of state foreign exchange. Bambang also believes that over time, the use of Renminbi will expand worldwide, especially in export-import transactions (Gandhi, 2015).

BCSA also received full support from House of Representatives (*Dewan Perwakilan Rakyat* or DPR RI) members. The Deputy Chairman of the DPR Commission XI responsible for Finance, National Development Planning Board, Banking and Non-Bank Financial Institutions Affairs, Eriko Sotadurga, and the Chairman of the DPR Commission XI, Said Abdullah, also stated that BCSA played an effective role as the second line of defense of Bank Indonesia's foreign

exchange reserves. This is supported by the success of BI in fulfilling the state's foreign exchange reserves as the first defense for the next few months, especially during the pandemic. Therefore, even though BCSA is not yet needed as an urgency, the fact is that reducing US dollar transactions is able to produce more stable foreign exchange reserves (Setjen DPR RI, 2020).

Legislative support, as articulated by members of the DPR, further underscores the perceived effectiveness of the BCSA in bolstering Indonesia's foreign exchange reserves and economic stability, especially in times of global uncertainties such as the pandemic. The discourse also reflects a nuanced understanding of the global economic landscape, acknowledging the ongoing cooperation and engagements with other global actors, including the United States. This multifaceted engagement is seen as a reflection of Indonesia's strategic approach to navigating global economic dynamics, fostering inclusive economic growth, and enhancing its capacity to address developmental challenges.

The Ministry of Trade also gave a response similar to other government figures. The then Minister of Trade (2015-2016), Thomas Trikasih Lembong, stated that the government has provided special steps to increase Renminbi. This is aimed at preparing large trade needs to switch from the US dollar to Renminbi. Increasing Renminbi is also believed to aim to maintain the availability of dollars domestically. He also stated that Renminbi's internationalization also benefits other countries as a source of liquidity in the world. The inclusion of Renminbi in the SDR basket will reduce the use of the American dollar. Renminbi will be an alternative in the use of currency and foreign exchange reserves. In July 2015, the world's foreign exchange reserves in the form of the American dollar were stored as much as 67.3%. Central Bank of Asia (BCA) economist, David Sumual, also stated that the effect of Renminbi on Indonesian trade may not be significant in the short term. This is because the Renminbi's own financial instruments are not yet ready. However, David sees in the long term Renminbi will have a positive impact on Indonesia (Nafi, 2016). The discourse from Thomas Trikasih Lembong, echoes a similar strategic resonance. The narrative is constructed around the diversification of currency usage, envisioning the RMB as an alternative that enhances domestic dollar availability and global liquidity. This perspective subtly navigates the economic landscape, advocating for a gradual, strategic embrace of the RMB, recognizing its potential impacts on Indonesia's trade dynamics without succumbing to a one-sided dependency on China.

RMB Internationalization as part to further Regional Integration

In the nuanced landscape of Indonesia's economic diplomacy, the internationalization of the Renminbi (RMB) unfolds as a strategic canvas painted with strokes of regional integration and economic resilience. The narrative, articulated by various policy actors, is crafted to project Indonesia's engagement in RMB internationalization as a component of a broader regional integration strategy, rather than merely a pivot towards China-centric economic dependency. Indonesia has orchestrated its policies to resonate with a symphony of regional cooperation. The internationalization of the RMB is portrayed not as an isolated melody but as a harmonized part of a broader composition of region-wide bilateral currency swap agreements

(BCSA). This approach is emblematic of Indonesia's vision of fostering a resilient regional economic architecture, fortified against the vulnerabilities of monetary crises.

Other than China, Indonesia has enhanced bilateral currency swap. For instance, Indonesia has fortified its financial cooperation with Japan, agreeing to enhance the use of local currencies and promote direct investment, facilitating smoother and more efficient trade transactions and investments. This agreement is expected to facilitate direct quotations and enable certain regulatory relaxations in settling trade transactions and carrying out investments (CNN Indonesia, 2020b). Considering Japan is one of the top five contributors to Indonesia's exports and Indonesia ranks among the top ten import contributors in Japan, this collaboration is mutually beneficial. The cooperation should strengthen the Rupiah, as transaction settlements and debt repayments will avoid double currency conversion (Novika, 2020).

Apart from Japan and China, Indonesia has also pursued bilateral currency agreements with South Korea, a partnership established over a decade ago and still in operation. In 2020, Indonesia and South Korea renewed their currency agreement with a nominal value of 115 trillion Rupiah. This collaboration aims to strengthen the relationship between the Bank of Indonesia and the Bank of Korea and bolster the stability of the local currencies of the two countries amidst global uncertainties (Bank Indonesia, 2020; CNN Indonesia, 2020a)(Bank Indonesia, 2020; CNN Indonesia, 2020a). Indonesia has similarly strengthened bilateral cooperation in reinforcing local currencies with Thailand. The two countries recently agreed in December 2020 to strengthen direct transactions (LCS) and included several banks in their respective countries in the Appointment of Cross Currency Dealers (ACCD) initiative, aimed at reinforcing LCS use between the two nations (CNN Indonesia, 2020d).

Furthermore, Indonesia has also cultivated stronger financial ties with other ASEAN countries such as Singapore and Malaysia, entering into agreements that facilitate the exchange and use of local currencies, thereby promoting economic stability and resilience within the region. These agreements underscore Indonesia's strategic intent to foster a more integrated and resilient regional economic architecture. Indonesia has entered into a significant financial cooperation agreement with the Monetary Authority of Singapore (MAS). This agreement encompasses the Local Currency Bilateral Swap Agreement (LCBSA), which facilitates the exchange of local currencies between the two central banks up to a substantial amount. Such an arrangement allows for enhanced liquidity and fosters a more robust financial relationship between the two nations. Moreover, the agreement also includes provisions such as the Bilateral Repo Line, which allows transactions to obtain US dollar liquidity by leveraging government bonds issued by major economies. This multifaceted agreement underscores a strategic partnership aimed at bolstering economic stability and facilitating smoother financial transactions, reflecting a mutual commitment to strengthening the economic architecture of the region.

Indonesia's financial collaboration with Malaysia is also noteworthy. The two nations have renewed the Local Currency Bilateral Swap Arrangement (LCBSA), an agreement that enables the use of local currencies for trade and investment transactions. This agreement is a reflection of the mutual intent to foster stronger economic ties, facilitate investment, and promote the use of local currencies, thereby enhancing economic resilience against external shocks. The renewal of this agreement signifies a continued commitment to strengthening

bilateral financial cooperation, ensuring that the economic relationship between Indonesia and Malaysia remains robust and capable of navigating global economic uncertainties.

The discourse emanating from various policy actors echoes a strategic symphony of multi-dimensional engagement. Perry Warjiyo, the current Governor of Bank Indonesia, also showed his support for BCSA with countries other than China such as South Korea, Japan, Australia, Singapore, and Malaysia. Perry also added that it not only strengthens the trade relations of the two countries, but also settles local currency transactions even in crisis conditions. Not only that, this condition also affects support for regional financial stability (Abidin, 2020). His endorsement of the Bilateral Currency Swap Agreements (BCSA), particularly with these countries, is framed as a commitment to bolstering local currency stability amidst global market flux. This narrative underscores a broader vision of regional financial stability and resilient trade relations, positioning the engagement in RMB internationalization as a calibrated strategy to navigate global uncertainties rather than a mere alignment with China's economic orbit.

The Indonesian Ambassador to China and Mongolia, Djauhari Oratmangun also responded similarly. Ambassador Oratmangun articulated that China is poised to emerge as the world's largest economy, a development that will significantly influence the economic dynamics within the ASEAN region, including Indonesia. He emphasized that the collaborative efforts between Indonesia and China are pivotal in shaping the Asian region as a central hub of global economic activity, characterized by high-quality economic growth. Various financial cooperation carried out by Indonesia and China are ready to be agreed upon and implemented directly by Indonesia. This aims to contribute to the creation of stable public welfare in Indonesia (Ministry of Foreign Affairs of the Republic of Indonesia, 2019). From a diplomatic vantage point, the engagement with RMB internationalization is framed into a broader narrative of regional economic architecture. It is portrayed as a collaborative endeavour where Indonesia and ASEAN's economic vibrancy intertwines with China's economic magnitude, fostering a quality economic growth narrative. This diplomatic framing subtly navigates the spheres of influence, advocating for a cooperative economic landscape rather than a hierarchical dependency.

These figures have articulated narratives that resonate with themes of regional stability, diversified economic engagement, and resilient local currencies. These narratives subtly navigate the geopolitical and economic landscapes, crafting a portrayal of Indonesia's engagement as a balanced act of strategic foresight rather than a singular alignment with China's economic trajectory. The growing acceptance of the Renminbi (RMB) in Indonesia's international transactions is a nuanced strategy, not solely a tilt towards China, but a broader maneuver to diversify currency cooperation within the Asian region. This is evident in Indonesia's proactive engagements in Local Currency Swap Agreements (LCSAs) with various countries, signifying a complex approach to regional economic cooperation and stability. It is clear that Indonesia's support for the use of RMB is part of a comprehensive strategy to enhance regional economic integration and stability. This is not an isolated approach; instead, it is complemented by a series of bilateral agreements aimed at promoting the use of local currencies in transactions with several Asian countries.

In essence, these narratives and agreements collectively signify Indonesia’s strategic calibration towards fostering broader regional cooperation and integration. The embrace of the RMB internationalization is intertwined with a broader vision that seeks to enhance Indonesia’s economic engagements with various key partners in the region, promoting a more diversified and resilient economic landscape in the face of global economic volatilities. This multifaceted approach underscores Indonesia’s nuanced strategy in navigating the complexities of regional economic cooperation and integration.

Table 1. Domestic Actors' Response to the Internationalization of Renminbi

Actors	Response	Reasons
Bank Indonesia	<i>Positive</i>	<i>Dedollarization and regional integration</i>
DPR RI	<i>Positive</i>	<i>dedollarization</i>
Ministry of Trade	<i>Positive</i>	<i>dedollarization</i>
Indonesian Ambassador for China	<i>Positive</i>	<i>regional integration</i>
Ministry of Finance	<i>Positive</i>	<i>dedollarization</i>

Source: compiled by authors

The aforementioned analysis delineates Indonesia's strategic incorporation of the Renminbi (RMB) and other regional currencies, framing it as a sophisticated exercise in economic diplomacy. This approach is intricately woven with the objectives of dedollarization and regional economic integration. At its essence, Indonesia's endorsement of RMB internationalization is strategically positioned to diminish the nation's reliance on the US dollar. This initiative aims to mitigate the risks associated with exchange rate fluctuations, thereby bolstering economic resilience. The Bank of Indonesia's endorsement of local currency settlement (LCS) in bilateral trade dealings exemplifies this strategy. This endorsement highlights the tangible benefits, such as improved trade facilitation and the stimulation of investment.

Expanding this narrative, Indonesia is actively engaged in the dynamics of regional economic collaboration. The country's involvement with the RMB is part of a larger fabric of bilateral currency agreements with pivotal Asian nations, including Singapore, Malaysia, and South Korea. These agreements symbolize Indonesia's dedication to strengthening financial connections within the ASEAN sphere and beyond. This commitment is pivotal in augmenting the collective economic stability and fortitude of the region, equipping it to better withstand global economic uncertainties.

Each bilateral agreement, be it with China, Singapore, or Malaysia, represents a significant chapter in Indonesia’s narrative of strategic economic partnerships. These agreements offer

tangible examples that substantiate and enrich Indonesia's broader strategies of dedollarization and regional integration. Far from being mere transactional interactions, these partnerships are imbued with strategic purpose, reflecting Indonesia's proactive stance in the complex arenas of international finance and geopolitics.

Moreover, these agreements and collaborative efforts provide a foundational rationale for Indonesia's strategic economic narratives. They are congruent with the wider discourse surrounding economic sovereignty and Asian regional cooperation, thereby reinforcing the credibility and coherence of Indonesia's economic policies and strategies. Through the cultivation of a network of bilateral currency partnerships, Indonesia is fostering a landscape of regional economic interdependencies. This network is intended to yield sustainable growth, stability, and resilience, thereby contributing significantly to the economic well-being of the region.

Conclusion

The internationalization of the Renminbi (RMB) has become a significant trend in global economic relations, with Indonesia playing a pivotal role in this evolving landscape. Indonesia's engagement in RMB internationalization is a nuanced strategy, meticulously framed to align with its broader economic and geopolitical objectives. This paper has elucidated how Indonesia, as a proactive middle-power state, has navigated this path, driven by a strategic narrative that seeks to balance its domestic and international interests.

A crucial aspect of Indonesia's approach is the narrative of de-dollarization. This narrative is not merely an economic maneuver but a strategic framing that serves multiple purposes. It allows Indonesia to subtly shift closer to China and the RMB, without overtly aligning itself with China, thus maintaining a semblance of non-alignment and independence. This is instrumental for domestic consumption, ensuring that the policy does not appear as a pivot towards China at the expense of other relationships, particularly with the United States and ASEAN neighbors.

Furthermore, the narrative of Asian integration and ASEAN centrality is also pivotal. By emphasizing regional cooperation and integration, Indonesia positions itself as a central player in fostering a more resilient and integrated ASEAN. This approach aligns with Indonesia's broader foreign policy objectives, ensuring that its engagement in RMB internationalization is seen as part of a multifaceted strategy to enhance regional cooperation and not merely as a China-centric policy.

Why a gradual shift now? The timing of this policy is influenced by various factors, including global uncertainties and the fluctuating dynamics of international currencies, particularly the US dollar. The cost-benefit analysis of this policy leans towards the benefits of reduced reliance on the US dollar, increased economic stability, and enhanced regional cooperation. However, it also comes with risks, including geopolitical considerations and the complexities of navigating multi-currency engagements.

A pivotal factor catalyzing this policy shift is Indonesia's closer engagement with China, marked by increased investments under the Belt and Road Initiative (BRI) and a burgeoning trade relationship, albeit accompanied by a trade deficit. This growing economic interdependence with China could be politically weaponized by domestic opposition to portray Indonesia as being excessively reliant on China, a narrative that could potentially foster negative perceptions and criticisms.

To navigate this geopolitical landscape, the Indonesian government has strategically curated and mainstreamed narratives that emphasize the economic benefits of engagement with China, ensuring that they are presented in a manner that aligns with national interests and economic pragmatism. This approach aims to underscore the economic dividends of the relationship while mitigating the potential adverse implications of growing economic ties with China, thus maintaining a balanced and beneficial bilateral relationship within the broader geopolitical context.

In conclusion, this study provides a nuanced understanding of Indonesia's strategic engagement in RMB internationalization, revealing a complex interplay of economic considerations intertwined with strategic narratives and geopolitical calculus. It underscores the significance of narrative and framing in legitimizing and navigating the policy pathways that middle power states like Indonesia embark upon in the evolving landscapes of global economic relations. Future research could further explore the comparative dynamics of other countries in the region, contributing to a more comprehensive understanding of the diverse strategies and narratives in the face of global economic shifts and RMB internationalization.

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