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Analysis of the Potential of BRICS Currencies in Challenging the Dominance of the US Dollar in the Perspective of Islamic Monetary Economics: Advantages and Challenges

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Abstract: This research aims to analyze the potential of the BRICS currency in challenging the dominance of the US dollar from the perspective of Islamic monetary economics. The study examines the advantages and challenges associated with the emergence of the BRICS currency as an alternative to the US dollar in international trade and finance, focusing on the principles of Islamic monetary economics, which emphasize justice, stability, and sustainability. A qualitative method is used in this research, with data sourced from journals, books, and articles. The main analytical tools are exchange rates and foreign policy. The research findings indicate that the potential emergence of the BRICS currency is driven by longstanding dependence on the hegemony of the US dollar, which benefits the US more than developing countries. However, the BRICS currency is deemed less potential due to the need for substantial financial infrastructure and competition with the World Bank. Therefore, BRICS should consider an Islamic financial system based on principles of justice, sustainability, and economic independence.

Keywords: BRICS; foreign policy; islamic monetary

1. Introduction

BRICS is a non-formal global cooperation forum consisting of several rapidly growing emerging market economies. The group includes Brazil, Russia, India, China and South Africa. Besides being considered a formal geopolitical entity, BRICS also holds annual summits and conducts policy coordination. Representing its member countries, BRICS currently controls about \$4 trillion in global foreign exchange reserves and accounts for one-third of the world's population [1]. In addition, the term BRICS has evolved. Previously, the group was called BRIC because South Africa only joined in 2010 [2].

The countries of Brazil, Russia, India, China, and South Africa (BRICS) account for about 40% of the global population, 30% of land area, 18% of international trade, and a quarter of the world's GDP, surpassing the economies of the US and the European Union, as highlighted by [3]. This proves that the BRICs at the beginning of their rise experienced a very sharp economic growth spurt. BRICS to date has an annual summit with an intense focus on the global economy.

Emphasized the importance of the BRICS Summit and its role in shaping economic and geopolitical dynamics. They consistently highlighted the cooperative and multilateral nature of BRICS, focusing on collaboration between member states. All newspapers emphasized the importance of BRICS summits as key events in global geopolitics. For example, they discussed the 2023 BRICS Summit in South Africa as a focal point for member states to discuss global issues. Each newspaper discussed the role of BRICS in advocating for equitable global governance and challenging Western dominance in international affairs [4].

Against this backdrop, this study seeks to examine the impact of FDI on growth in the presence of important characteristics present in the host economy such as economic stability, financial development, human capital, and trade openness. Our study focuses on the fastest-growing economies of Brazil, Russia, India, China, South Africa (BRICS); these countries have attracted significant FDI flows after receiving 15% of total global FDI flows in 2015. [5] BRICS not only changes traditional power structures within the existing system, such as the World Trade Organization, but also serves as the basis for a broader coalition of developing countries to challenge US hegemony [6]. Their average GDP growth over the past decade has been above 6.5%, and their overall contribution to global GDP is over 23% [7].

The need for a new reserve currency is currently being proposed. The formation of BRICS countries has been planned since the first BRIC summit was held in Yekaterinburg on June 16, 2009, when South Africa was not yet a member. During the meeting, the BRIC countries emphasized the importance of a more diversified, stable and predictable global reserve currency. This reflects the BRIC countries' waning confidence in the US dollar as the world's reserve currency. The ideal reserve currency should fulfill three main principles: safety, liquidity, and return. Group of countries: South Africa, India, Brazil, Russia and China, make up 40% of the world's population and account for 60% of the world's mineral reserves. The justification for examining the BRICS economic case is not limited to the fact that the BRICS share of global output is estimated to be one-third by 2030 (or 45% of world gross domestic product (GDP) around 2030 in purchase price parity terms), the bloc occupies around 30% of global territory, the BRICS account for around 17% of world trade and generate around 4 trillion USD of foreign exchange reserves [8].

This is aimed at making new currency transactions, the average for South Africa is about 184.53 percent followed by India (52.47 percent), Brazil (38.97 percent), Russia (35.88 percent) and China (34.94 percent). Furthermore, the value of shares traded, a proxy for stock market liquidity shows that the average value of the variable over the study period was about 52.92 percent for China followed by South Africa (42.56 percent), India (33.26 percent), Russia (21.74 percent) and Brazil (21.11 percent). Finally, the average turnover ratio was found to be highest in China (163.82 percent) followed by India (106.03 percent), Brazil (67.63 percent), Russia (62.97 percent) and South Africa (23.99 percent) [9].

Therefore, the idea of a new reserve currency will displace the hegemony of the US dollar as the medium of exchange in the global economy. This also indicates that BRICS has long been a group of global political entities that often criticize Western dominance in world financial governance. One form of such dominance can be seen through the Bretton Woods Agreement, which has defined the global trading and financial system for almost eight decades. This system was designed to improve the efficiency of foreign currency transactions, prevent competitive currency devaluation, and promote global economic growth [10].

The system then established three main regimes and institutions as regulators and global financial infrastructure, namely the IMF, the World Bank, and the World Trade Organization (WTO). Based on IMF regulations, all currencies of the Bretton Woods Agreement member countries must be set at parity price against the US dollar or gold of equivalent value. The convertible value of the US dollar against gold is set at 1 ounce of gold = \$35. This provision shows how Western countries dominate global financial governance through their financial regimes. In an effort to counter this dominance, BRICS established the New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA) at the 5th BRICS Summit in 2013. These two institutions were established as new alternatives to the World Bank and IMF, with the aim of strengthening the national financial systems of its member countries [5].

The main purpose of these institutions is to mobilize resources for infrastructure and sustainable development projects in BRICS countries, emerging market economies, and developing countries. In addition, the establishment of these institutions also aims to avoid biases in financial lending that are often detrimental to developing countries in their national economic development efforts. In addition, the perspective of Islamic monetary economics is also an important factor to consider in this analysis. In Islamic monetary economics, the role of currency includes aspects of justice, balance, stability and economic independence. These principles have a significant impact in formulating an alternative global financial system that is more inclusive and fair [11].

2. Results

2.1. Exchange Rate

Exchange rate movements have a significant impact on short-term and long-term stock market indices in all BRICS countries. Our findings have implications for policymakers and market participants trying to manage exchange rates would have different doses of intervention if they knew that the impact of currency depreciation is different from appreciation. These results have important implications that investors in frequency-varying exchange rates and stock returns should take into account and regulators should consider developing appropriate policy measures to prevent financial risks [12].

Examine the exchange rate and oil price effects in BRICS countries (Brazil, Russia, India, China, South Africa, Iran, Egypt, Ethiopia, and United Arab Emirates) through Diebold-Yilmaz and rolling-windows spillover index analysis using monthly frequency data from 1999:M01-2019:M11. Consumer price index, exchange rate, output growth, spot crude oil price variables are used in this study. The empirical findings show that there is strong evidence of directional spillovers across countries. Moreover, total spillovers are low, with Russia (China) having the highest (lowest). This situation suggests that there is low pass-through across countries. In addition, the authors find that the net spillovers of oil prices and exchange rates are positive in Brazil, Russia and South Africa, while in India, they are negative. The last result obtained from the analysis shows that the net spillovers of inflation and output growth are positive in India, while in China, the net spillovers of inflation are negative with oil prices and output growth having positive net spillovers [13].

An increase in the currency exchange rate by the central bank is called a revaluation, while a decrease in the currency exchange rate by the central bank is called a devaluation. The use of the dollar as the world's reserve currency dates back to the decision of [14]. The Bretton Woods Agreement agreed upon in 1944 involved 44 allied countries agreeing to have central banks maintain a fixed exchange rate between their currencies and the US dollar. In this system, the US dollar is held to the gold standard, while the value of other currencies must be adjusted to the US dollar. The system was fully implemented in 1958. However, the Bretton Woods system only lasted for 13 years. In 1971, the system was officially dissolved after global suspicion of the United States' gold reserves emerged. After the collapse of the Bretton Woods system, various exchange rate systems were implemented in various countries, including floating exchange rates, fixed exchange rates, and a combination of both. Nonetheless, the legacy of Bretton Woods, such as the World Bank and IMF, is still influential in the global financial system. In fact, in 2021, it was recorded that 61% of foreign banks' foreign exchange reserves were still in US dollars [15]

2.2. Foreign Policy

A country's foreign policy does not only depend on internal factors, but is a reflection of the international situation that can impose changes and influences on a country and persuade it to change its policies through economic impact, international coordination and alliances [16]. Foreign policy policies of all countries interact with the concept of environment. This interaction includes various elements, such as objectives, capacities, strategies, technical means and methods, tactics, and decisions in addition to foreign policy actions and outcomes.

James N. Rosenau refers to the issue of national-international relations. Gabriel Almond and Bingham Powell added that the international environment influences the development of national political systems, regardless of the foundation or structure of the international system. Almond and Powell also say that there is an interactive relationship between national potential and international potential [17]. Every country has the freedom to determine the direction of policy in accordance with the desired goals and principles. However, countries must also consider the interests of other countries and respect them, so that there is no intervention that can pose a threat or disrupt security stability [6].

Although not an international organization, BRICS is a group of policy makers at the state level which is an internal factor for foreign policy while external factors can be influenced by threats/pressure from other countries, persuasion, and diplomacy. Another influence is that the formulation of foreign policy must be in line with one of the demands that must be carried out by member countries within a certain time in accordance with the agreement that has been made, in other words, each country must be in a state of mutual agreement [18].

This fact is important as it can lead to a lack of human capital which can increase the risk of unemployment and negative social consequences despite Brazil's economy being the most developed in Latin America. Like other BRICS countries, there is a large gap in talent adaptability which makes human capital investment one of the most important factors for productivity in the coming decades. Industries such as automotive and agribusiness can benefit from other funds (Innovation Good Law) and regulations as artificial intelligence (AI) and Internet of Things (IoT) laws come into effect [18].

Such actions are clearly pressure from other countries that can influence the decision-making process. In addition, sanctions against Russia, including the blocking of global financial assets and access to SWIFT-the international payment system-hindered the country's financial transactions on a global level. This has prompted other countries, especially China, to be more vigilant in maintaining the stability of their currencies [19].

2.3. *The Role of Currency in Islamic Monetary*

In Islamic monetary economics, the role of currency plays an important role as a medium of exchange, a store of value and a measure of value. Currency also serves as a medium of transaction that facilitates the economic activities of the Muslim community. However, the role of currency in Islamic monetary economics goes beyond practical functions, but also relates to broader Islamic economic principles and values [15]. One of the main principles in Islamic monetary economics is the prohibition of usury or interest. Usury is considered contrary to the principles of justice and economic balance in Islam [20]. Therefore, currency in an Islamic monetary economy must be free from usury. In practice, this means avoiding the practice of charging interest on loans or other financial transactions. A currency that operates in accordance with the principles of Islamic monetary economics will ensure fairness in economic transactions and avoid the exploitation that may arise from interest [21].

Overall, the role of currency in Islamic monetary economics includes aspects of justice, balance, stability, and economic independence. A currency that conforms to the principles of Islamic monetary economics will play an important role in creating a fair, sustainable and self-reliant financial system for Muslim societies [22]. In analyzing the potential of BRICS currencies in challenging the dominance of the US dollar in the perspective of Islamic monetary economics, it is important to consider the extent to which BRICS currencies can fulfill these principles and provide an alternative that is more in line with Islamic values in the global monetary context [23].

3. Discussion

3.1. *BRICS Country Advantages*

Like other BRICS countries, there is a huge gap in talent adaptability which makes human capital investment one of the most important factors of productivity in the coming decade. The alliance aims to transform their growing economic power into greater geopolitical influence. The acronym is built on the similarities between the countries in considering developing countries' gross domestic product (GDP) growth and purchasing power parity; economic partnership and cooperation in education or international governance achieve their national interests [18].

Indicates overall performance. China leads the ranking (28), Brazil (7) and India (68) have improved some socio-economic issues. Russia (43) and South Africa (60) have gained prominence in innovation performance. Furthermore, some countries, despite turbulence in industry, and poor governance (institutionally weak and risky countries) tend to receive significant flows of FDI (Foreign Direct Investment) [9].

Brics economic growth, As the BRICS Summit concluded, its business council released a report highlighting the thematic focus of the BRICS Business Forum, which revolved around key themes, such as opening up trade and investment opportunities in BRICS markets, green energy transition, promoting small to medium-sized enterprises, and advancing the African Continental Free Trade Area (AfCFTA). The report also focuses on Prioritization on board priorities including establishing BRICS Centers of Excellence in Africa, as well as member countries' shared commitment to promoting trade and investment, fair trade practices, and inclusive investment flows to benefit all BRICS economies [7].

In addition, BRICS countries also engage in regional cooperation and economic initiatives that aim to strengthen economic growth and financial stability. An example is the BRICS Financial Cooperation, which aims to strengthen cooperation in the financial and monetary sectors among the BRICS countries. Through this cooperation, BRICS countries support each other in facing global economic challenges and develop financial instruments that can reduce dependence on the US dollar. This cooperation also provides an opportunity for BRICS currencies to become more integrated in the regional and international financial system [3].

To understand economic development, emphasizing the importance of sustainable growth that aligns economic expansion with improved quality of life. Developing countries, particularly the BRICS countries, have attracted global attention due to their rapid economic growth, large populations, and rich natural resources. Therefore, analyzing the basis of growth and its impact on future generations is important, especially on how endogenous growth drivers can support sustainable development [2].

3.2. Impact of BRICS Currency Issue on World Economy

Impact of the BRICS Currency Issue on the World Economy The existence of BRICS currencies as a potential alternative to the dominance of the US dollar has a significant impact on the world economy. First, the presence of BRICS currencies can reduce the dependence of countries outside BRICS on the US dollar as a reserve currency and international means of payment. This can help reduce risks and vulnerabilities arising from fluctuations in the US dollar exchange rate and far-reaching changes in US monetary policy. A stronger and more integrated BRICS currency can help strengthen intra-BRICS trade and facilitate more sustainable economic growth within the group of countries. By reducing dependence on the US dollar, BRICS countries can improve their economic stability and resilience, and expand access to international markets for their products and services [6].

The impact of Brics currencies also impacts diversity and plurality within the group and in the eyes of the world. [24] The existence of BRICS currencies as an alternative can bring more balanced diversity in the international monetary system, providing a wider choice for countries to conduct international transactions and manage economic risks [25]. However, the impact of BRICS currencies may also pose challenges. The development of stronger BRICS currencies may result in exchange rate appreciation, which may reduce the competitiveness of BRICS countries' exports and increase imports. [26] In addition, exchange rate stability and confidence in BRICS currencies also need to be maintained through consistent monetary policy and effective policy coordination among BRICS countries.

3.3. Advantages of BRICS Currency Collaboration with Islamic Financial System

Collaboration on BRICS currency creation and Islamic finance has significant importance in addressing economic challenges and creating a more inclusive and sustainable financial system. First, this collaboration can provide a strong foundation for developing a BRICS currency that follows the principles of Islamic finance. Islamic finance, which is based on sharia principles, emphasizes fairness, transparency, and sustainability. By adopting these principles, BRICS currencies can provide a strong alternative to conventional financial systems that are often perceived as unfair and crisis-prone [12].

Second, given that the existing literature on the co-movement between the US dollar currency index and the dominating currencies of Brazil, Russia, India, China, and South Africa (BRICS) countries is relatively limited, we try to identify in this paper the short-run and long-run effects of the US dollar on the major stock market indices of BRICS countries [12]. Moreover, this collaboration can strengthen economic ties between BRICS member countries and Muslim-majority countries. By integrating Islamic financial principles in BRICS currencies, this collaboration can create greater trade and investment opportunities between the countries. It can also enhance the exchange of knowledge and experience in the development of Islamic financial instruments, so that BRICS member countries can support each other in developing a strong Islamic-based economy [27].

3.4. Limitations of BRICS Currency as a Dollar Replacement

While BRICS currencies offer potential as a substitute for the US dollar, there are some limitations to be aware of. The liquidity of BRICS currencies is limited compared to the

US dollar. The US dollar is the world's primary reserve currency and has broad global coverage. Alternatively, BRICS currencies still need to broaden their usebase and improve their liquidity in order to be widely adopted by countries and international financial institutions [7].

The transparency and credibility of BRICS financial institutions remains a concern. Although BRICS has established the BRICS Development Bank and the BRICS Foreign Exchange Reserve Fund, these institutions still need to prove themselves in terms of trust and accountability. When countries look for alternatives to the US dollar, they tend to look for financial institutions that are trusted and have high integrity. Therefore, BRICS needs to overcome this challenge to gain trust and become an attractive option for other countries [4].

Economic and political stability in BRICS member countries also affects the perception and acceptance of their currencies. Economic instability or political tensions within one of the BRICS countries can undermine the confidence and stability of the group's currencies. Therefore, BRICS member countries need to ensure continuity and stability in their economic and political policies, so that BRICS currencies can be perceived as a reliable alternative in the long run [3].

4. Materials and Methods

The research method used in this research is to use a qualitative data analysis system research method with a data collection process, data interpretation process, and also narrative reporting writing through secondary data sources including comments, interpretations or discussions of original material such as books, and scientific journals [3]. A qualitative approach is used in this research to build understanding through various literature sources, such as journals, books and articles. In assessing the potential emergence of BRICS currencies, qualitative data analysis as well as the use of secondary data plays an important role in supporting the research. This method allows for a more in-depth analysis by using theoretical foundations as the main study tool [28].

5. Conclusions

BRICS is a non-formal global cooperation forum consisting of several fast-growing emerging market economies (EMEs), namely Brazil, Russia, India, China and South Africa. BRICS member countries have great potential to influence the global monetary system and reduce the dominance of the US dollar. However, according to economic experts, the establishment of a BRICS currency is still considered to lack potential because it requires a large financial infrastructure and must be able to compete with the World Bank. Therefore, in realizing the plan, BRICS should consider cooperation and collaboration with Muslim countries to implement an Islamic financial system. This system prioritizes the principles of fairness, sustainability, and self-reliance to create a more inclusive financial system for the people. Furthermore, the Muslim communities in the Nusantara region, with their rich history of Islamic trade and the growing adoption of Islamic finance principles, offer a unique and valuable context for supporting the development of such a financial system.

The BRICS currency is one of the new currency alternatives developed by the BRICS countries-Brazil, Russia, India, China, and South Africa-with the aim of reducing dependence on the US dollar in international trade. Here are some aspects that can be considered from the BRICS currency concept. Reduced dependence on the US Dollar. The BRICS currency can be a more stable and robust alternative to the US dollar, which is often considered risky for developing countries in international trade. Increase economic stability. The existence of BRICS currency has the potential to provide more stable and efficient trade access for member countries, thus improving national economic stability. Encouraging a more multipolar financial system. BRICS currencies can change the dynamics of global trade by creating a more multipolar system, allowing more countries

to join and participate in international trade. Challenges in implementation. Despite its great potential, the implementation of the BRICS currency also faces challenges, such as coordination between central banks, differences in monetary policy, and the need for adequate infrastructure to support the payment system.

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