

Andalas Journal of International Studies



Ranny Emilia

A World Without Nuclear Power

Apriwan

The Securitization of Environmental Security Issues in Southeast Asia

Poppy Irawan

Crafting The Alternative of Finance Hegemony : Returning Gold Dinar Exchange Economy

Malse Yulivestra

Neo-liberalism and Global Economic Crises (The changing of the state-market relations in Indonesia)

Haiyyu Darman Moenir

Konektivitas ASEAN : Sebagai Sebuah Pergeseran Paradigma dalam Proses Integrasi ASEAN

Rika Isnarti

Gerakan Silicon Valley Indian Professionals Association (SIPA) Dalam Membantu India Mengubah Brain Drain Menjadi Brain Circulation

Andalas Journal of International Studies	Volume 1	No 1	Halaman 1-102	Padang May 2012	ISSN 2301-8208
--	----------	------	------------------	--------------------	-------------------



**Andalus Institute of International Studies
International Relations Department
Faculty of Social and Political Sciences
Universitas Andalas**

Andalas Journal of International Studies

ISSN : 2301 - 8208

Published by
Andalas Institute of International Studies – ASSIST
International Relations Department
Faculty of Social and Political Sciences
Universitas Andalas
Padang

Editor in Chief : Apriwan
Editorial Board : Ranny Emilia, Yopi Fetrian, Sudarmoko
Associate Editors : Virtuous Setyaka, Haiyyu Darman Moenir, Zulkifli Harza
Muhammad Yusra
Design/ lay out : Rika Isnarti
Editorial Advisory Board : Kim So-il (Busan University of Foreign Studies)
Abu Bakar Eby Hara (Univ. Utara Malaysia, Univ. Jember)
Philip Vermonte (CSIS Jakarta)
Ari Bainus (Universitas Padjajaran)
Muhammad Yunus (Universitas Airlangga)

Editorial Office : Program Studi Ilmu Hubungan Internasional
Gedung Jurusan – FISIP Universitas Andalas, Lt. 2
Kampus Limau Manis Padang, 25163
Telp/fax: (0751)71266,
Homepage : <http://ajis.fisip.unand.ac.id/>

Andalas Journal of International Studies (AJIS) is published twice a year. It is published by ASSIST, contains research and analytical platform dedicated to a better understanding of International issues and aims to craft the alternatives in International Studies. AJIS welcomes for papers which never been published. Submit your paper to our editorial office in conditional, type in A4, consist of 4000-5000 words in *Turabian Style* formatting.

Andalas Journal of International Studies

Volume 1, No 1, May Tahun 2012

ISSN 2301 – 8208

A World without Nuclear Power	1
Ranny Emilia	
The Securitization of Environmental Issues in Southeast Asia	20
Apriwan	
Crafting the Alternative of Finance Hegemony: Returning Gold Dinar Exchange Economy	36
Poppy Irawan	
Neo-liberalism and Global Economic Crises (The changing of the state-market relations in Indonesia).....	55
Malse Yulivestra	
Konektivitas ASEAN : Sebagai Sebuah Pergeseran Paradigma Dalam Proses Integrasi ASEAN	70
Haiyyu Darman Moenir	
Gerakan Silicon Valley Indian Professionals Association (SIPA) Dalam Membantu India Mengubah Brain Drain Menjadi Brain Circulation	88
Rika Isnarti	

Preface

The editorial boards of the Andalas Journal of International Studies (AJIS) would like to deliver our praises and gratitude to god the almighty since the first volume of our journal eventually resulted in the first publication. This was our very long and hard struggle to eventually accomplish the publication of our first journal comprising a number of academic writings in order to disseminate the result of the researches with various topics in the field of international relations. The long process ranging from the call for papers to the editing process, from the reviewing to the articulation and now reaching the readers gave such a satisfaction to the editorial team.

The AJIS Vol. 1 No. 1 was the beginning of our contribution in disseminating the knowledge and the discussion of international relations in the form of scientific periodical publishing. As the starter, this edition could be far from such a qualified journal. However, we are seeking to approach and produce the high quality journal in order to give more benefits to both theoretical development and its application to the society, which is resembling our institutional goal, "...for a better future..."

There are six articles presented in this first edition. The first article, written by Ranny Emilia, provides an analysis of potential young leaders, especially Asian youth, in creating a peaceful world without nuclear weapons. With reference to the concept of securitization, the next article, by Apriwan analyzes how environmental issue becomes a threat for the states in Southeast Asia. Assuming that environmental issue has become one of security agenda, this article attempts to draw a map and provide an analysis of how such securitization becomes an inevitable option in the region. Then, Poppy Irawan wrote an article entitled The alternative through the returning of gold monetary system based on the idea of gold dinar exchange economy of global political economy and its impact to the developing states.

The fourth article, written by Malse Yulivestra, analyzes the growing influence of developed countries to developing countries through international treaties, and other international organizations in the era of globalization with reference to neo-liberalism approach. These interventions provide great influence on local policy in the state. Haiyyu Darman Moenir, subsequently writes an article with the title "ASEAN Connectivity: As a shifting paradigm in the process of ASEAN Integration" and the last but not least, an article written by Rika Isnarti, attempts to describe how a network of the Indian diaspora in the USA, is able to change the brain drain, a phenomenon faced by Indian and also other developing countries, into brain circulation.

Finally, all constructive criticism and suggestion are really welcome and highly appreciated so that we can do significant improvement for the upcoming edition. Thanks for the insightful thought and the generosity to care to share the knowledge.

Crafting the Alternative of Finance Hegemony: Returning Gold Dinar Exchange Economy

Poppy Irawan

poppyirawan@yahoo.com

Abstract

The aim of this paper is to examine the contemporary issues of global political economy on the predominance of finance capital as the pivotal role in moulding the current global political economy architecture; its impact particularly to the developing states; and this paper also attempt to propose the alternative through the returning of gold monetary system based on the idea of gold dinar exchange economy.

Key Words: *International, Economy, Finance, Politic, Hegemony*

1. Introduction

In the late of twentieth century, the world order was more complex than previous era. Some scholar argue that world enter the new phase where the advanced of technology, development of communication and information, more integrated of people interaction, and the interdependence among countries and also high intensity of economic activities, promising the world citizens to more prosperity than before which provide the equal opportunities for all to engage into the global economic activity. The supporters of capitalism recognize victory of market over the state sovereignty through the development the idea of liberalization. The capitalist system gained the momentum when its competitor/ the communist system collapsed in the late

1980s. The capitalist supporters (Francis Fukuyama, 1992; Thomas L Friedman, 2005; Gilpin, 2000) described the new world order has come which they called as globalization era. The world seemed to become a global village that a popular image used to describe the growth of awareness that all people share common values, stemming from a macro perspective that the world integrated and interdependent as whole (Kegley & Wittkopf, 2004). In his book, *The World Is Flat*, Thomas L. Friedman (2005) says that globalizations and technology have flattened the world, creating a level playing field in which developed and less developed countries can compete on equal terms.

Since, the birth of the capitalist system at its homeland, Europe, capitalism has been transformed and metamorphosed

into an advanced model. Although, there are a wide range of the elements of capitalist system, this paper focuses on the role of finance as the glue to bind the entire world under the capitalist system. Accumulation of capital is the main objective within capitalist system. At the early stage, the capitalists seized the power to run industry through its capital (machines, money, and land). At another hand, the working class relies on their human power to sustain their life. The earlier mode of production of capitalist society was the production of commodities. Furthermore, the profit comes after the commodities are sold in the market, which Marx (1904) considered that profit as the surplus value. In the surplus value contain the labour power and labor time. Furthermore, Hilferding (1910) called it as the exchange of value is the sum of circulation and exchange of the commodities in the society. He argued that the bond which ties a commodity, as a use value, to some particular individual need is severed while it is in circulation, where it counts only as an exchange value. It resumes its role as a useful value and re-establishes its relevance to another individual need only after the process of exchange has been completed.

Within the circulation process, money has a significant role as the intermediary of the exchange value. The

value of labour time and production process are converting to money. From this perspective, money derived from the exchange value. The conversion of value to money, posit money as a capital in the capitalist society. Hence money could transfer to the commodities. This process produce the alienation to the worker class as well as what Hilferdings argued that:

Since all commodities transform themselves into money by divesting themselves of their use values, money becomes the transformed existence of all other commodities. Only as a result of this transformation of all other commodities into money does money become the objectification of general labour time, that is, the product of the universal alienation and suppression of individual labours (Hilferding, 1910. p. 35).

The meaning of capital can be understood in two ways. In real term, first, it is defined as aggregated value of fixed capital and stock of raw materials, semi-finished goods and finished goods that do not enter into final consumption. In financial term, on the other hand, it is defined as aggregate value of securities held by property-owners (shares, private bonds); public bond gives rise to another dimension of property, an entitlement to

income from future production (Amin, 2003). At the next stage, money is not only recognized as the medium of exchange, but also funding the development of capitalism. At the early period of capitalism, money was accepted as the precarious metal (gold and silver), hence the demand of money increased to fuel the capitalist engine in order to fulfill the endless capital accumulation. Thus money transform in a new as such as paper money, credit, shares etc. The capitalist system has always been 'financialized': capitalist accumulation cannot be conceived without money and credit. Credit provides capital in the production, speculation, to increase profit and even funding war that lead imperialism (see Lenin 1917; Hilferding 1910 & Amin, 2003). Consequently, the value of money is reproduced throughout currency trading, joint stock of exchange, future trading, markets speculation as capital or "fictitious capital" (Hilferding, 1910).

Finance defined as the new capital which translated to credit and represents a social invention in which fungible assets are exchanged for future promises to pay. Credit here is a resource which people, governments and firms have access to at discretion of others, and at a cost established by others: it is both a material resources (credit can exist in several

forms: as cash, bank balances, lines of credit, or as enforced right) and a set of social practices associated with the social and political implications of credit. It concerns also with who controls the access of others to credit, who is privileged by access to credit, and who reaps the competitive advantage which access to adequate credit imparts (Germain, 1997).

2. The British Leadership of 1880-1914

The management of the international monetary system of the period 1880-1914 was due to the hegemonic role that Britain is often held to have played. London emerged as the world financial center under the gold standard regime and pound sterling being the world currency. According to Magdoff (1969) the headquarters of the capitalist system is the money market. The financial power exercised through the banks and other institutions of the money market enables the industrialized nations to fend off or alleviate balance-of-payments difficulties. It is also the power which, directly or indirectly, keeps the underdeveloped countries in line as the raw materials suppliers.

Following the expansion of empire, British arose as the great empire at that time, internationalized her currency to its colonies. The international exchange

mediated by the pound sterling. Bank of England established in 1694, was the world central Bank which provided international currency of the international economy. At that time, the British was recognized as the world hegemony and many scholars called the period between 1880 and 1914 the Pax Britanica of a stable regime under the leadership of the British (Walter, 1993; Keohane & Nye, 1977, 1987; Kindleberger, 1996; Cox, 1996; Gill, 1993; Germain, 1997 & Langley, 2002). The hegemonic stability theorists (Walter, 1993; Keohane & Nye, 1977, 1987; Kindleberger, 1996 & Gilpin, 1987) argue that British act as the stabilizer of international monetary order with pound sterling and emerged as the public goods. Pound sterling was fixed and pegged to gold and known as the international gold standard system (Walter, 1993). In 1717, the pound's value was translated into gold at 3 pounds, 17 shillings, 10.5 pence per ounce of gold, putting England on a bimetallic standard with gold on top instead of silver. The Locke definition of the British pound persisted (with lapses) until 1931, a 233-year stretch of currency stability (Lewis, 2007, p. 30). London dominated the British national political economy and, supported by imperialism and commercial success, industrialized Britain dominated the world economy for much of the

nineteenth century (Hobsbawn, 1968 & Kynaston 1994). The networks of the century and joint-stock banks at home and the foreign and colonial joint-stock banks abroad channeled a vast mass of accumulated capital into London that was far in excess of that the disposal of Amsterdam's financiers a century earlier (Kindleberger, 1996).

Credit-money and money-creation generated resources for various colonial, military, technological and industrial ventures and furthermore, discovering of new territories, supply demand of cheap raw materials and expand its market to fill the endless accumulation of capitalism. London emerged as the world financial center which supplied credit to merchants, corporations and financing the discovery of new colony. Bank invested in colonialism that is why colonialism is considered as the best investment at the time. The pre-1914 gold standard is more accurately understood as a London-centered global credit system (Germain, 1997). London's position as the single world financial center after 1815 is revealed by its dominance of world credit practices. In contrast to the largely European reach of Amsterdam-centered credit practices during the previous centuries, London-centered credit practices were undertaken at a world-scale that to some extent embraced Africa, Asia,

Oceania, Latin and North America (Held *et al.*, 1999). Commercial credit practices in support of British – and later, world – trade took the form of issuing and trading billings of exchange and commodity future contracts, institutionalized within specialized merchant banks called acceptance houses – Barings, Brown Shipley and Co., and Wiggin Wilson and Wilders (Langley, 2002).

The development of finance at the period of Pax Britanica was nurtured by the transnational classes which collaborated in the bank networking across British, French and others which binding them into a set of international norms and practices underpinned by the gold standard. The economic historian, Karl Polanyi called this network as *haute finance* (Polanyi, 1944). Furthermore, he argued that the Gold Standard, and the transnationally-operating European financial system, maintained the nineteenth-century conservative order – notwithstanding the Crimean War of 1854-56, the Franco-German War of 1870-71 and other lesser wars between European powers. It was the transnational financial system of Rothschild and other main banks that sustained a system power-balancing in Europe.

Finance capital leads to monopoly capital at all of the branches of production. The monopoly of finance capital is a high

finance (*haute finance*) era where capital became concentrated as an oligarchy of banks and nurtured by transnational capitalist class (Pijl, 1998; Polanyi, 1944 & Hilferding, 1910). As Hilferding argued,

Finance capital puts control over social production increasingly into the hands of a small numbers of large capitalist associations, separates the management of production from ownership. Once finance capital has brought the most importance branches of production under its control, it is enough for society, through its conscious executive organ – the state conquered by the working class – to seize finance capital in order to gain immediate control of these branches of production (Hilferding, 1910, p. 367).

Imperialism, colonialism and concentration of capital by the transnational capitalist class are the embryo of the emergence of the circuit of Trans-Atlantic capitalist classes. It has its root in the transnational capitalism since the expanding capitalist class in the Europe, and to its colonies. This was especially having in the expansion of British capitalism to finance technological inventions of the New World. It's further enhanced by the role of Bank of England in this circuit capital since 1860. Finance

capital has developed into a world finance bloc or a 'circuit capital' making Great Britain as world hegemony.

3. The US Leadership of 1944-1970

With the establishment of the IMF and World Bank, they furthermore acted as the world central bank. By the establishment of Bretton Woods system, it was reflected that as a phase of the internationalization of capitalist through consensus formation in the international system and transnational society. The three decades of relative stability of international monetary order under the leadership of US through the Bretton Woods regime stretched from 1944-1970 and was described as the new phase of hegemony of the world order and known as the *Pax Americana*. The Bretton Woods system understood as the institutionalization of the hegemony of US dollar as world currency beneath the multilateral agreement. According to Langley (2002), the Bretton Woods agreements of 1944 were central to the creation of a multilateral consensus of western states and societal forces around the liberalization of world trade and the establishment of a system of fixed exchange rates pegged to the US dollar. There is no such consensus marked world finance before. Subsequently, it provides a

pivotal position of the US political economy in world trade and the correlated institutionalization of the US dollar as 'world money'. From 1944 onwards this power explicitly mediated by the two Bretton Woods institutions, the IMF and the World Bank, and implicitly undergirded by US hegemony (Soederberg, 2007).

The US had appeared from the Second World War as the dominant creditor to such an extent that the majority of capital goods necessary for western European reconstruction could only be imported from the US. After the war the western European political economies were in no position to generate large amounts of foreign exchange and, consequently, there was a massive demand for dollar-denominated credit to pay for imports from the USA (Langley, 2002). Consequently, US Dollar gains a seigniorage position as the world currency. And seigniorage is defined as privilege right of a state to create money and impose its money or currency over the other countries (Strange, 1996 & Lewis, 2007). US dollar replaced the status quo of British pound sterling, the international trade, finance and foreign exchange denominated and mediated by the US dollar. Thus, the Bretton Woods fixed-exchange rate standard can be more accurately understood as a New York-centered global

credit system (Germain, 1997). It acted as the center of credit provider in financing the restoration of post-war Europe through the Marshall Plan, development aid, financing the US TNCs, military aids, and etc.

At the early of decade of Pax Americana, credits were used to finance the restoration of Europe through the public (sovereign) credit to the governments. With the US state-directed flows of sovereign credit, whether in the form of aid or military expenditure, and this inclined to condition attached that sought to reinforce the multilateral framework for trade and payments and the *Pax Americana* more broadly. For instance, Marshall Plan aid to Western Europe was at the conditional membership of the OEEC which worked towards the liberalization of intra-European trade (Cox, 1987 & Rupert, 1995). At the next stage, the predominant of private credit has a significant position which replaced the public credit. The transnational corporations took the pivotal role in replacing the public credit in the form of FDI. The long-term capital movements out of the United States from about 1956 onward thus came to be dominated by FDI, which rose from a net outflow of \$1,111 million in 1947 to a net outflow of \$7,717 million in 1971. Equity and security issues combined to form the vast

majority of the rest of private long-term capital flows, followed by bank lending, but they are overshadowed by the magnitude of FDI. The emergence of FDI as the major form of international long-term capital movement marks a major change in the way in which the world-economy was provided with credit (Germain, 1997). The distribution of long-term US corporate capital outflows took place beneath the umbrella of US Cold War interests. Outflows of US TNC FDI into Latin America, Africa and the former colonial areas of Asia were backed by informal guarantees of US military might and direct interventionism (Augelli and Murphy 1993; Gill, 1993 & Langley, 2002).

The demise of Pax Americana was marked by economic stagflation in US, the over printed of US dollar which circulating the entire of world and the US budget deficit to pay the cost of Vietnam War. These drove America to unilaterally abandon the gold standard regime. The US dollar is no more redeemable to the gold at fix standard according to the Bretton Wood agreement. By the late 1960, US experienced substantial inflation and balance-of-payments problem, causing in large part by the Vietnam War expenses. US unilaterally disposed of the multilateral agreement of the Bretton Woods regime; in August 1971 President Nixon

suspended the convertibility of the dollar into gold, the relationship that lay at the heart of the Bretton Woods arrangements. While the dollar had been subjected to speculative attacks in the Euromarkets, this so-called ‘Nixon shock’ was underpinned by the assumption that a relatively over-valued dollar was contributing towards weakening US industrial competitiveness, increasing unemployment and balance of payments problem (Langley, 2002).

4. The Newly Haute Finance

The newly *haute finance* has emerged from the crisis of the 1970s stronger and more privileged than ever. Susan Strange (1986) sees 1971 as an important date because it marks the extraordinary power of the United States unilaterally both to change the rules of the game and to reduce systematically the scale of public control of the activities of private financial firms. Kindleberger (1981), on the other hand, argue that 1971 is an important date, points out that the perceived root cause of monetary instability- the American balance of payments deficit- was in actuality nothing more than the efficient performance by New York of international financial mediation, borrowing short to lend long. And finally, Walter (1993) argues that “the image of the ‘breakdown’ of Bretton

Wood is most misleading because it underestimates the *continuity* in the evolution of the international monetary system since the late 1950s”. Despite of the argument form scholars above, the removing gold-US dollar standard was a cornerstone for the establishment with a full grant to the US in printing world currency. Thereby, with the power of financial controlled by the US Federal Reserve, they could decide the value of money and how much it be allowed to circulate the entire world. Directly, under the hegemony of US dollar, the world financial system is fully backed by paper currency and the deadly banking interest imposed turned finance capital into the supremacy of usury capitalism.

The source of financial power is laid on the ability to create money as a means of exchange and as a means of payment. The creation of money used to pay for investments and to make loans arises in two banking activities: (a) the conversion of inactive fund into active fund, and (b) the creation of credit. The creation of money through the extension of credit (or the printing money) is at the heart of modern banking (Magdoff, 1969). Since the 1970s, world economy has rapidly moved under the domination of finance capital, and money was mostly translated to the power, in order to buy finance capital (shares, offshore trading,

derivatives capital, currency trading) than real capital (land, labour power, raw materials and so on). Thus finance hegemony is associated with the globalization of capitalism, that the finance capital has erased the border of states. Strange (1996) argues that the emergence of global finance capital has been eroded the position of state in the market and states lost control over some of the functions of authority and are either sharing them with other states or with other non-state authorities and the non-state actors (banking network, insurances company, TNCs). The later took away some of the functions of the states in the management of the markets. Furthermore she argued that:

‘one of the major shifts resulting from structural change has been the increased power and influence of the multinationals – more properly called transnational corporations – and the networks they set up and operate’ (Strange, 1996. p. 43).

The raising of the power of finance led to the current world economic order was monopolized by the transnational capitalist classes channeling finance

capital and printing money, credit creation of banking system. In her seminal work, ‘*Transnational Capitalist Classes*’, Sklair (2001) asserts that the prime candidates for this role as we enter the twenty-first century are the transnational corporations. Transnational refers to forces, processes, and institutions that cross border but do not derive their power and authority from the state. Specifically, Pijl (1998) concluded that the recent global hegemony derived its power from the trans-Atlantic class: economic, military (NATO), global governance (Bretton Woods conference).

The heart of current financial architecture is concentrated to the world capitalist cities rather than states – New York, Tokyo, London, Paris, and Frankfurt – and extended by computer terminal to the rest of the world. The development of technology contributes to create digital money which can be saved on the computer memory and available anywhere. The advanced of technology facilitated the finance market and it unregulated and destructed the state sovereignty. The transnational capitalist classes are the major players holding the power of finance and mostly they are of North-Atlantic base. The money creation of banking system through credit dominated the global economic edifice which the rise and domination of private credit over the public (sovereign) credit. As a comparison,

during the period 1972-6 the ratio of public credit to private is 2:1, and by 1992-3 stood at 83 percent private and 17 per cent public (Germain 1997). Most of credits are used in the financial activities as speculation such as joint stock of exchange and currency trading. Henderson (2001) illustrates this as the global financial casino. It means global financial market driven by the loosening regulation policies, electronic trading and commerce eroding the powers of all nation states. Even the most democratically elected politician's policies are 'disciplined' by computerized currency bond traders in today's \$1.5 trillion daily global casino, 90 per cent of these flows are unrelated to trade or the real economy, i.e., they are speculative (Henderson, 2001 & Scholte, 2002). 30 years ago, the majority of currency transactions (80-90 per cent) reflected the passage of goods and services between nations. Today, only 2 per cent of a much greater volume of trading can be linked directly to the real world of trade. In other words, almost 98 per cent of all foreign exchange is estimated to be entirely speculative in nature – basically, people and institutions betting on the relative strength of one currency versus another (Wright 2000 & Soederberg, 2004). Following Amin (2003), departing from the superiority of finances, it drives for which he called as *financial*

hypertrophy involving a set of phenomena that can be easily recognized and measured:

- a) The volume of capital markets (stocks and shares, government securities and private-sector loans) expanding at a rate far above that of economic growth, to reach 189 per cent of Triad (Europe, US and Japan) in 1995.
- b) An extraordinary diversification of the arrangements and instruments available on these markets (through the invention of multiple 'derivatives'), together with an explosion of what can only be called speculative financial operations.
- c) The growing weight of finance in corporate affairs, as financial investment outside the company takes an increasing shares of resources in comparison with investment in physical assets.
- d) Progressive globalization of the financial hypertrophy, expressed in stock-market capitalization in so-called 'emerging' economies, which soared from less than 70 per cent of GDP in 1983 to more than 250 per cent in 1993 (Amin, 2003, p. 43).

5. The Highly Frequency of Economic Crisis

The financial hegemony has subjugated major of world population with increasing inequality of wealth and power in finance. That is caused by the over-accumulated of capital in the few transnational capitalist classes. The productivity of most peripheral countries is absorbed by the core through finance arbitrated through the operation of capitalist banking over the world. Surplus value of the peripheral can be easily absorbed by the banking oligarchy that converted it to money saved in banks. Money is then treated as finance capital entering into the global financial markets. Therefore, the rise of finance hegemony under the supremacy of US dollar is the moment of a larger crisis within global capitalism system reducing the periphery as their victim. Under the hegemony of dollar, the peripheries are insisted to hold US dollar as their national reserves in financing its international economic activities. If they hold poorly the US dollar, they will face two scenarios; more borrowing of US dollar with IMF and World Bank under stringent conditionality or devaluating their currency with potential to trigger financial crisis.

Prior to the Asian crisis, a study by IMF economist found that of the Fund's

181 member states, 133 had experienced disruptions of banking practices between 1980 and early 1996. Overall the findings classified 108 instances of disruption as 'significant', and 41 instances in 36 states a 'crisis'. In many instances of 'crisis', disruptions generated a sizeable reduction in GDP. Both the high frequency of crises and the extent of their detrimental consequences for economic growth were found to be worse than any similar period since the Great Depressions of the 1930s. More significant in our terms, is that the contemporary financial order itself has lurched from one major crisis to another (Langley 2002). Of course, the periphery become subordinated through the debt bondage and lost some sovereignty to determine economic policies and messed up by hegemony. In other words, the capitalist state of the core have been restructured to better serve the interests of the transnational capitalist classes with privileged position to control finance capital and manipulate finance hegemony of a new form of colonialism in this current world order. Globalization, therefore, understood as the representation of the new stage in the history of world capitalism involving integration of national economies to a new global financial system through the raising of finance hegemony.

6. The Connection of Petrodollar and Finance Hegemony

Despite the supremacy of US dollar within the financial market, the petroleum trade also has a significant contribution to the existence of finance hegemony. Indeed, the price of petroleum, politically and economically, is measured by the US dollar. It is undisputed that the petroleum is the most important commodity for all the countries to run their economy. According to the data which provided by Clark (2005), for a century the industrialized world has become dependent upon the very cheap and abundant energy provided by hydrocarbons. At the nation-state level, economic development requires sources of energy, and currently, hydrocarbons comprise 90 percent of the world's transportation fuel and 40 percent of the world's primary energy. The United States remains the world's largest energy consumer; it represents 5 percent of the world's population, but consumes more than 25 percent of the world's oil production. US was estimated to consume 7.5 billion barrels of oil in 2004, despite the fact that its oil production was then at its lowest level since the early 1950s and was declining by more than 2 percent per year. It is projected that by 2010 the United States will have less than 15 billion barrels of domestic oil reserves and will

have to import 65 percent of its projected oil demand by 2020 (estimated at 26 mb/d).

The demise of Bretton Wood system initiated to secure the position dollar as World Reserve Currency and now replaced by this new hegemonic position. Following the collapse of Bretton Woods system, under the Nixon administration, US unilaterally able to establish the dollar as the single currency in petroleum trade. Discussions among the developed countries and with the biggest petroleum producer, Saudi Arabia, took place to establish a currency basket of oil pricing. And this clashed with US attempt to preserve its dollar position. Referring to research by Spiro (1999) on the *'Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets'*, that undermined OPEC's intension to bring about a viability of pricing oil trades in several currencies. This unpublished OPEC proposal involved a basket of currencies from the Group of Ten Nations, or G-10. Members included the Bank of International Settlements (BIS), Austria and Switzerland, major European countries and their currencies, such as Germany (mark), France (franc), and the UK (pound sterling), as well other industrialized nations, such as Japan (yen), Canada (Canadian dollar), and of course the US (US dollar). It should be noted the

powerful G-10/BIS also has one unofficial member, the governor of the Saudi Arabian Monetary Authority (SAMA).

As the effort to maintain US dollar as the single price of petroleum and to prevent the currency basket system, Nixon administration conducted high talk discussions with the Saudi Arabia in order to impose the oil sales and only in dollars. In 1974 an agreement was reached with New York and London banking interests that established what became known as “petrodollar recycling.” That year the Saudi government secretly purchased \$2.5 billion in US Treasury bills with their oil surplus funds, and a few years later Treasury Secretary Blumenthal cut a secret deal with the Saudis to ensure that OPEC would continue to price oil in dollars only (Spiro, 1999).

Under the leadership of Secretary of State Kissinger, an agreement was concluded between the US and Saudi Arabia known as the US-Saudi Arabian Joint Commission on Economic Cooperation in June 1974. Based on that agreement, The US Treasury and the New York Federal Reserve would “allow” the Saudi Central Bank to buy US Treasury bonds with Saudi petrodollars. Similar to that, the London banks also handle Eurozone-based international oil transaction, loaning these revenues via

Eurobonds to oil-importing countries. The debt and interest from these loans would then flow to the dollar-denominated payments to the IMF, thereby completing the recycling of surplus petrodollars to the Federal Reserve (Clark, 2005).

Thus, what is the impact of petrodollar recycling to the finance hegemony? Logically, when the price of petroleum is pushed up, the nation of petroleum exporters will be flooded by the US dollar. The US Federal Reserve will print more US dollar and export in huge amount to the entire nations for them to purchase petroleum. The abundance of US dollar in the petroleum market affected the value of other currencies, particularly devaluing the value of developing nations’ currencies. It is burdening the developing countries with their reserves been absorbed by the purchase of petroleum and reducing further their saving, if any at all. Subsequently, it is devaluing the currency of developing nations and pushing up the massive flow of petrodollar recycling to the global financial market, to centers of financial market such as banking system in London, New York etc.

In fact, Saudi Arabia and the other OPEC producers deposited their surplus dollars in US and UK banks, which then took these OPEC petrodollars and re-lent them as Eurodollar bonds or loans, to

governments of developing countries desperate for dollar to finance their oil imports. While benefits US and UK-based financial centers, it leads to the buildup of these petrodollar debts by the late 1970s. This in fact facilitated the basis for the developing world's debt crisis of the early 1980s. Hundreds of billions of dollars were recycled between OPEC, London and New York banks, and then recycled back to developing countries (Clark, 2005).

In summary, the petrodollar recycling works is simply due to oil is a basic need for every countries and the petrodollar system requires the buildup of huge trade surpluses in order to accumulate dollar surplus. Indeed, all of countries have to purchase US dollar to meet their need on the oil, and US controls the dollar and prints it at will as fiat. Every country wants maximize dollar surpluses from their export because everyone needs the dollar. The petrodollar recycling pushes the developing countries to borrow money from the international lenders and this deeper the debt bondage. Under the global financial architecture, US as the core of global capitalist system and it enjoy the privileges and rights to determine the procedure and agenda of IFIs as the IMF and World Bank. For instance, the IMF Washington Consensus on record had enforced draconian debt collection on developing countries, forcing

them to repay dollar debts despite the social upheavals and lack of funds for domestic growth (Engdahl, 2004).

7. The Return of Gold Dinar Exchange Economy

The notion of gold dinar as the alternative international currency is understood as the anti-thesis toward the hegemony of finance; particularly the domination of US dollar as the global currency. Hosein (2007) has praised Mahathir as the single Muslim leader who advocate to using gold dinar as the world currency. He not only understood the exploitative nature of the monetary system created by modern western civilization, but also, and quite correctly so, did what scarcely any of the Muftis of Islam have so far done, or dare to do. He called for the return to the Gold Dinar as money, in place of the money-system built around the utterly fraudulent US dollar, so that Muslims could extricate themselves from financial and economic oppression and exploitation.

The notion to use gold as the world currency is supported by both the Islamic view and Political Economy view, and backed up by historical data. Indeed, gold was the universal currency of world. It has been implemented for a long period of time with march of human civilization. The word dinar was *denar* for the Roman.

Dirham or silver is called *dercham* in Greek. According to Ibnu Khaldun (1333-1406 AD) in his seminal work of *the Muqaddimah: an Introduction of History*, gold and silver price did not fluctuate and be speculating. They were not traded like other commodities. God created the two mineral “stones,” gold and silver, as the measure of value for capital accumulations. Gold and silver were world accepted and is considered as true treasure and property. Other commodities were subject to market fluctuation; but gold and silver are exempted and remained basis of profit, property and treasure. The last gold dinar was last minted in Istanbul in 1824, with the rise of Atturk Turkey and the final demise of the Ottoman Caliphate.

The Islamic Dinar and Dirham were part of Islamic Law for more than 1,000 years. According to the standard of the second Khalif, ‘*Umar ibn al-Khattab*’, one Dinar equals 4.24 g of gold, while one Dirham corresponds to 3g of silver. In a gold exchange economy, other metals artifacts used as money were pegged to gold value. the Dinar could be used as a Central Bank reserve. This would mean that traders would not need to deal entirely in physical Dinars, and only the balance-sheet difference between the imports and exports of two countries would have to be paid in gold. “This will reduce the necessity to move the Gold Dinar around.

The surplus or deficit can be credited or debited against future imports and exports” (Breuer, 2008).

In line with Khaldun, Marx (1904) in his book titled ‘*A Contribution to the Critique of Political Economy*’ contended that as the mediums of circulation, gold and silver have benefit over other commodities, that their specify gravity which condenses much weight in little space, corresponds to their economic specific gravity which condenses relatively much labour-time, i.e. a great quantity value in a small volume. The superiority of precious metal constitute on its durability, comparative indestructibility, insusceptibility of oxidation through the action of the air, in the case of gold insolubility in acids except in aqua regia – all these natural properties make the precious metals the natural material for hoarding. Hence, Gold and silver are not money by nature, but money is by nature gold and silver. In the first place, silver and gold money crystals are not only the product of the process of circulation. In fact it’s only a final product. In the second place, gold and silver are ready as direct products of nature, not distinguished by any difference in form.

It should be noted that gold is also more secure from speculative activities with the increase of the amount of gold in the world is relatively stable. Since 1492,

the world supply of gold has not risen by more than 5 percent in any one year, and even that modest figure was hit briefly only during the feverish gold rush of the 1850s. A gold rush from the 1890s to 1910 brought production to 3 to 4 percent of supply. Since 1910, it has averaged around 2 percent (Lewis, 2007).

The predominant of gold as the medium of exchange not only a Muslim practice, but also been practiced by Europeans. It should be noted that Britain adopted the gold standard since the 1717 and abandon the gold standard in only 1931. The United States America began to use the gold standard since 1800 and lasted till 1930. As Lewis (2007) argued that in the longest term, gold's record is flawless. Commodities prices were roughly the same in 1717, when Britain began the gold standard, as they were in 1931, when Britain left it. The same held true in the United States between 1800 and 1930.

As a historical record, in the Southeast Asia, gold was used as money since the 8th century. The two largest Kingdoms, Srivijaya in Sumatera and Sailendra in Java, officially used gold and silver as the medium of exchange, as well as real currency coinages. Gold currency system consists of units called one mas (contains pure gold: 20 saga = 2.4 gram), and one kupang (contains pure gold: 5 saga = 0.60 gram). The well-established

exchange was 1 mas = 4 kupang. The introduction of silver as the medium of exchange coincided with the demise of the Srivijaya and Sailendra Kingdom and the rise of new Kingdom such as Pasai, Melaka, Kedah, Johor, Aceh, and Makassar at 12th-14th century. The introduction of silver was pioneered by the Portuguese which captured the Malaka in 1511. The previous of gold standard was replaced by the silver of 'Rialle' as the medium of exchange in commodity transaction. When Europeans arrived at the Malay world and started to get involved in spice trading, they managed to convince the natives to accept their silver Dollars. The agreed rate of exchange was: One Spanish Dollar (consists of 27.30 grams of silver) for two pieces of *One Mas* (consists of 2 x 2.4 grams gold). It means, 27.3 grams of silver could be used to buy 4.8 grams of pure gold in the Malay Archipelago.

8. Conclusion

Since the US dollar is not backed up by gold in 1970s, it is merely a fiat money: money created out of nothing. The characteristic of fiat money called seigniorage is at the root of financial crises, monetary instability and unjustness. It has depreciated against others currencies. It is subjected to speculation and manipulation as happened in Malaysia

and other regions such as in Russia and Latin America. US dollar and currencies pegged to it is now merely a paper currency which has already lost its intrinsic value.

The power of finance lied on the hand of trans-Atlantic capitalist classes such as the banking network, financier, and speculators. They create abundant money within the financial market and banking operations such as the currency trading, joint stock of exchange, derivative trading, credit, and speculation. The surplus value of major world population absorbed to financial market, states insisted to collect US dollar to maintain its economic stability. Eventually, the world economy is fully transformed to the single usury capitalism under the supremacy of paper money.

The emergence of idea to return the gold exchange economy by gold Dinar should be understood as one of the alternative of the predominance of finance. It has opened up maybe in a small way new alternative of world order for the future. Gradually, this idea already implemented by some civil society groups at the Middle East, Europe and South East Asia. It needs a comprehensive study to identify the other alternatives against the negative impact of finance hegemony particularly to the developing countries.

References

- Amin, S. (2003). *Obsolescent Capitalism: Contemporary Politics and Global Disorder* (P. Camiller, Trans.). London & New York: Zed Books.
- Breuer, K. (2008). Far From Retiring: DR. Mahathir's Advice is Still Sought. *Globalia Magazine*, 6-9.
- Clark, W. R. (2005). *Petrodollar Warfare: Oil, Iraq and the Future of the Dollar*. Gabriola Island, Canada: New Society Publisher.
- Cox, R. W. (1987). *Production, Power and World Order: Social Forces and the Making of History*. New York: Columbia University Press.
- Cox, R. W. (1996a). Social Forces, States and World Orders: Beyond International Relations Theory. In R. W. Cox & T. J. Sinclair (Eds.), *Approaches to World Order* (pp. 85-123). New York: Cambridge University Press.
- Engdahl, F. W. (2004). *A Century of War: Anglo-American Oil Politic and the New World Order* (2 ed.). New York: Pluto Press.
- Friedman, T. L. (2005). *The World Is Flat: A Brief History of the Twenty-First Century*. New York: Farrar, Straus and Giroux.
- Fukuyama, F. (1992). *The End of History and the Last Man*. New York: Free Press.
- Germain, R. D. (1997). *The International Organization Credit: States and Global Finance in the World Economy*. Cambridge: Cambridge University Press.

- Gill, S. (Ed.). (1993). *Gramsci, Historical Materialism and International Relations*. Cambridge: Cambridge University Press.
- Gilpin, R. (1987). *The Political Economy of International Relations*. Princeton: NJ: Princeton University Press.
- Gilpin, R. (2000). *The Challenge of Global Capitalism: The World Economy in the 21st Century*. Princeton and Oxford: Princeton University Press.
- Held, D., McGrew, A., Goldblatt, D., & Perraton, J. (Eds.). (1999). *Global Transformation: Politics, Economics, Culture*. Cambridge: Polity Press.
- Henderson, H. (2001). The Global Casino. In K. S. Jomo & S. Nagaraj (Eds.), *The Globalization versus Development*. New York: Palgrave Publisher Ltd.
- Hilferding, R. (1910). *Finance Capital : a Study of the Latest Phase of Capitalist Development* (M. Watnick & S. Gordon, Trans.). London: Routledge & Kegan Paul.
- Hobsbawn, E. J. (1968). *Industry and Empire: the Making of Modern English Society, 1750 to the Present Day*. New York: Pantheon Books.
- Hosein, I. N. (2007). *The Gold Dinar and Silver Dirham: Islam and the Future of Money*. San Fernando: Masjid Jami'ah.
- Kegley, C. W., & Wittkopf, E. R. (2006). *World Politics: Trend and Transformation* (10th ed.). Belmont: Thomson Wadsworth.
- Keohane, R. O., & Nye, J. S. (1977). *Power and Interdependence: World Politics in Transition*. Boston: Little Brown.
- Khaldun, I. (1967). *The Muqaddimah: An Introduction to History* (Abridged ed.). Princeton: Princeton University Press.
- Kindleberger, C. P. (1996). *Manias, Panics, and Crashes: A History of Financial Crises* (3rd ed.). New York: John Wiley & Sons, Inc.
- Kynaston, D. (1994). *The City of London*. London: Chatto & Windus.
- Langley, P. (2002). *World Financial Order: An Historical International Political Economy*. London: Routledge.
- Lenin, V. I. (1917). *Imperialism, the Highest Stage of Capitalism*. Moscow: Progress Publisher.
- Lewis, N. (2007). *Gold: the Once and Future Money*. New Jersey: John Wiley & Sons, Inc.
- Magdoff, H. (1969). *The Age of Imperialism: the Economics of US Foreign Policy*. New York: Modern Reader.
- Marx, K. (1904). *A Contribution to the Critique of Political Economy*. Chicago: Charles H. Kerr & Company.
- Pijl, K. v. d. (1998). *Transnational Classes and International Relations*. London: Routledge.
- Polanyi, K. (1944). The International System. In *The Great Transformation: the Political and Economic Origins of Our Time* (pp. 3-30). Boston: Beacon Press.

- Rupert, M. (1995). *Producing Hegemony: the Politics of Mass Production and American Global Power*. Cambridge: Cambridge University Press.
- Scholte, J. A., & Schnabel, A. (Eds.). (2002). *Civil Society and Global Finance*. London: Routledge.
- Sklair, L. (2001). *The Transnational Capitalist Class*. Oxford: Blackwell Publisher.
- Soederberg, S. (2004). *The Politics of the New International Financial Architecture: Reimposing Neoliberal Domination in the Global South*. London & New York: Zed Books.
- Soederberg, S. (2007). The Transnational Debt Architecture and Emerging Markets: The Politics of Paradoxes and Punishment. In P. James & H. Patomaki (Eds.), *Globalization and Economy: Globalizing Finance and the New Economy* (Vol. 2, pp. 42-66). London: Sage Publications Ltd.
- Spiro, D. E. (1999). *The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets*. New York: Cornell University Press.
- Strange, S. (1986). *Casino Capitalism*. Oxford: Basil University.
- Strange, S. (1996). *The Retreat of the State: The Diffusion of Power in the World Economy*. New York: Cambridge University Press.
- Walter, A. (1993). *World Power and World Money: The Role of Hegemony and International Monetary Order*. London: Harvester Wheatsheaf.
- Wright, C. (2000). *A Community Manifesto*. London: Earthscan Publications Ltd.

PETUNJUK PENULISAN

1. Artikel harus orisinal dan belum pernah dimuat di media penerbitan lain atau sedang dipertimbangkan untuk dipublikasikan.
2. Tulisan ditulis dalam Bahasa Indonesia dan Bahasa Inggris
3. Jumlah kata 4000-5000 Kata dengan format penulisan *Turabian Style*.
4. Sistematika Penulisan artikel sebagai berikut :
 - a. Judul (spesifik dan efektif, maksimal 15 kata)
 - b. Nama Penulis
 - c. Abstrak dalam Bahasa Inggris (150-200 kata)
 - d. Kata-kata kunci (5 kata)
 - e. Pendahuluan
 - f. Metode Penelitian (untuk artikel hasil penelitian)
 - g. Hasil dan pembahasan
 - h. Kesimpulan dan Saran
 - i. Bibliografi
5. Berikut adalah contoh penulisan (Style Turabian) catatan kaki (**N**) dan sekaligus contoh penulisan pada bibliografi (**B**). Panduan ini berasal dari buku *A Manual for Writers of Term Papers, Theses, and Dissertations* ed. yang ditulis Kate L. Turabian.

Catatan: Pengutipan pada sumber berupa ide atau kutipan langsung harus muncul dalam catatan kaki dalam angka yang berurutan.

Pengutipan untuk pertama kalinya harus dilakukan secara penuh; nama (nama pertama lebih dulu), judul, tempat, penerbit, tahun dan nomor halaman atau bagian yang dikutip.

Pengutipan selanjutnya untuk karya yang sama bisa disingkat.

Buku

Dua Penulis

N 1. Kai Bird and Martin J. Sherwin, *American Prometheus: The Triumph and Tragedy of J. Robert Oppenheimer* (New York: Alfred A. Knopf, 2005), 52.

B Bird, Kai, and Martin J. Sherwin. *American Prometheus: The Triumph and Tragedy of J. Robert Oppenheimer*. New York: Alfred A. Knopf, 2005.

Bentuk Singkat dari Satu karya yang sebelumnya sudah pernah dikutip

Ketika satu karya yang dikutip telah dikutip sebelumnya dan langsung pada satu halaman berikutnya dikutip.

N 20. Philip Ball, *Bright Earth: Art and the Invention of Color* (New York: Farrar, Straus and Giroux, 2001), 140.

N 21. Ibid., 145.

Jika karya yang dikutip sudah pernah dikutip sebelumnya, tapi tidak langsung pada satu halaman yang sama dan hanya satu karya dari penulis yang sama pernah dikutip

N 22. Ball, 204.

Jika dua atau lebih karya sudah pernah dikutip sebelumnya, gunakan tambahan judul singkat

N 23. Ball, *Bright Earth*, 204.

6. Naskah dialamatkan pada Program Studi Ilmu Hubungan Internasional Gedung Jurusan – FISIP Universitas Andalas, Lt. 2 Kampus Limau Manis Padang, 25163 Telp/fax: (0751)71266,

Formulir berlangganan	
Andalas Journal of International Studies	
Mohon dicatat sebagai pelanggan Andalas Journal of International Studies	
Nama :	
Alamat :	
Telp/ HP :	
e-mail :	
Jumlah Berlanggan : eksamplar
Biaya berlangganan saya kirim lewat rekening a/n Bank no Rekening	

Biaya berlangganan 1 eksamplar atau 1 edisi terbit Rp. 35.000, . sudah termasuk Ongkos kirim

Andalas Journal of International Studies, is a journal for scholars, observers, and researchers in international studies in expressing ideas and thoughts related to the dynamic and issues of international relations. The dynamics of contemporary in international relations are increasingly complex. It demands the academic community to provide ideas that are more creative, brilliant and helpful for humanity. From these conditions, this journal comes to participate in scholarly discourse within the framework of strengthening the scientific community of international relations more solid and dynamic. Andalas Journal of International Studies to carry the ideals of unity not only in the frame of the mainstream, but is also present in the struggle optimism alternative ideas, like the spirit of crafting the alternatives from the corner of the community in the ideal arrangement for a better understanding in International Studies

ISSN 2301-8208



9 772301 820007