

Indonesia Investments

A Year of Big Changes?

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- Prabowo Subianto Stretches Lead in Surveys after the First Two Debates
- Our Projection for Indonesia's Economic Growth Remains at 5.0-5.1% for 2023
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DECEMBER 2023

Van Der Schaar Investments B.V.
CV Indonesia Investments



Indonesia Investments

Monthly Report – December 2023

**‘2024 Could Bring Big Changes for
Indonesia’**



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Preface

The monthly report of Indonesia Investments is written and published by business consultancy CV Indonesia Investments, headquartered in Yogyakarta (in Indonesia), with the assistance of investment company Van Der Schaar Investments B.V. (based in Delft, the Netherlands). This report aims to inform the reader of the latest, most relevant, political, economic and social developments in Indonesia as well as those crucial international developments that (may) impact on the economy of Indonesia or on its politics.

Our reports are intended for a diverse audience, including individual and corporate investors, financial market participants, diplomats, policymakers, decision-makers, academics, journalists, and analysts.



The website www.indonesia-investments.com is the key reference and access point for gaining knowledge about the markets, economy, business sectors, politics, and

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Introduction – December 2023 Report

Another year has flown by. And so, it is an appropriate occasion to take a look back at the year that has passed (2023), while also looking forward to a new year (2024); one that is bound to bring big chances to Indonesia.

The year 2023 can be labelled as the year when the COVID-19 crisis really ended as the central government of Indonesia scrapped the public activity restrictions (that were locally known as PPKM) and scrapped its special COVID-19 spending budget at the start of 2023. While many sectors in the economy indeed already recovered in 2022, we did see society –largely– turn back to normal in 2023. For example, many people don't want to wear the previously mandatory facemasks anymore nor engage in social distancing. Even the tourism industry (possibly worst-affected by the social and business restrictions) managed to rebound quite strongly in 2023.



But while the domestic economy of Indonesia performed quite well in 2023, there were certainly some dark clouds visible at the international horizon. Through most

of 2023, the US Federal Reserve maintained a hawkish stance in terms of monetary policy (in order to keep US inflation in check), which meant Indonesia's central bank (Bank Indonesia) and all other key central banks around the world had to raise their benchmark interest rates further as well to curtail capital outflows as US investment instruments became more attractive. In the case of Bank Indonesia, it raised its key rate twice in 2023 from 5.50 percent to 6.00 percent.

In fact, we saw quite some volatility in global financial markets over the past twelve months due to markets speculating about what the Federal Reserve would do on the short-term. On a handful of occasions in 2023, markets expected the Federal Reserve to become dovish, hence risk-appetite improved, and thus Indonesia saw plenty of capital inflows (supporting Indonesian stocks and the rupiah rate). However, those upbeat times were followed by capital outflows from Indonesia when markets felt (based on statements by Federal Reserve officials) that the Federal Reserve would need more time to control inflation, hence taking a hawkish stand.

At the end of 2023, however, we saw upbeat sentiments prevail as markets expect the Federal Reserve to cut rates in 2024, hence Indonesian stocks ended the year in record high territory, while the rupiah ended stronger than it had been at the start of 2023.

Meanwhile, the global economy isn't performing too great, yet. Besides high interest rates curbing economic activity, the economy of China is having a hard time due to a

range of problems, such as high youth unemployment and a property market that is in disarray. Subdued domestic consumption drags down China's economic activity, and this also has a clear negative impact on global demand (including the downward pressures on global commodity prices). Moreover, the population of China is rapidly ageing, implying its working-age population is declining. This is a context that made international institutions (including the IMF) downgrade China's economic growth in the years to come. In a recent economic outlook report, the IMF projected Chinese economic growth at 3.7 percent year-or-year (y/y) in 2027. This is quite spectacular because not too long ago, a 10 percent (y/y) growth rate was normal for China, and so one of the world's key growth engines is rapidly losing power.

Meanwhile, in terms of population size, China has just been surpassed by India. In 2023, the population of India became the biggest in the world (see the table below).

Top Countries in the World by Population Size (2023):

Country	Population (in millions)
India	1,428.6
China	1,425.7
United States	340.0
Indonesia	277.5

Source: www.worldometers.info/world-population/population-by-country/

This is yet another reason why India is a rising giant on the global stage, with annual economic growth rates between 7 and 8 percent (y/y). It might certainly also not be a coincidence that India has become the second-biggest export market for Indonesia in 2023 (after China), surpassing the traditional roles of Japan and the US. However, export flows to India are still dominated by coal and palm oil shipments, and so India may drop on the list of Indonesia's biggest export markets if commodity prices fall further.

Meanwhile, the year 2023 was also one in which geopolitical turmoil continued, and in some parts of the world, in fact, ignited brutally. There is still a proxy war ongoing between –on the one side– the US and European Union (EU) and –on the other side– Russia as all three players want to pull Ukraine into their sphere of influence (either directly, or, through NATO/EU membership).

Furthermore, tensions between the US and China also continued to simmer in 2023, especially after an alleged Chinese surveillance balloon appeared over the US (which was shot down by the US). In late-2023 the US imposed additional restrictions on its trade with China (in the form of a reduction in the types of semiconductors that US companies can sell to China). And, while Washington complains about expansion of China in, and around, the South China Sea (including harassment of Taiwan), Beijing, in turn, complains about US military presence in Asia.

Furthermore –after the Middle East seemed quieter than it had been in two decades– a brutal war started between Palestinian militant organization Hamas and Israel on 7 October 2023. Initially, most of the world seemed to understand that Israel took instant revenge. Vowing to eradicate Hamas, Israel launched airstrikes against Gaza, and invaded the northern part of Gaza. After a short cease-fire, Israeli troops moved into southern Gaza too, with the soaring death toll for Palestinians (including many women and children) fuelling complaints around the world that Israel is committing war crimes. Israel denied these charges, arguing that Hamas was using Palestinian civilians as human shields. However, international support for Israeli aggression has declined rapidly, and will ease further the longer this war drags on.

Interestingly enough, the US –again– plays a role as it was the only country to veto a United Nations resolution backed by almost all other Security Council members and dozens of other nations. This resolution demanded for an immediate humanitarian cease-fire in Gaza. The vote in the 15-member council was 13-1 (the United Kingdom abstained from voting and the US rejecting the resolution). The isolated stand of the US seems to reflect a growing fracture between the US and some of its closest allies. For example, France and Japan were among those supporting the call for a cease-fire between Israel and Hamas.

And so, the US (through its monetary and political policies and ambitions) continues to make a huge impact on the world, ironically enough with a president in office (Joe

Biden) who probably is incapable of managing his own wardrobe, let alone manage the world's biggest political force and economy. In that context, it is certainly worth following the US 2024 presidential election. The run-up to these elections is already controversial, with former president Donald Trump eager to participate, but facing the legal aftermath of four criminal indictments filed against him in 2023, as well as a civil investigation of the Trump Organization in New York.

On the topic of elections, this is the key thing to watch for Indonesia in 2024 as it will organize legislative and presidential elections on 14 February 2024. The legislative election seems to become a tight battle between the PDI-P and Gerindra (possibly the former enjoying slightly more support than the latter), while Gerindra Chairman Prabowo Subianto seems to have the biggest chances of becoming the next president of Indonesia (based on a variety of surveys and opinion polls).

Foreign investors may be a bit concerned in case Prabowo Subianto takes over from incumbent President Joko Widodo as Subianto is known for his protectionist views, and has repeatedly stated in the past that Indonesia is still being exploited by foreign powers (particularly referring to the mining sector).

Moreover, Subianto also doesn't excel at diplomacy, and therefore we can certainly expect to see some controversy during his presidency (were he to be elected as the country's eight president). Policy-wise, there might not even be too many changes

compared to Widodo's decade-long rule. But in terms of personality, the question is how Subianto will react and respond to those developments, opinions, and decisions that aren't according to his wishes.

To close this month's introduction, I send all subscribers warm wishes for a bright and prosperous New Year!

Richard van der Schaar, MA Indonesian Studies
Managing Director

Indonesia Investments
Yogyakarta, Indonesia
1 January 2024



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- Renewable Energy -

Renewable Energy Sources in Indonesia; What Can We Learn from Solar Power Development?

At the start of the New Year we are taking a look at renewable energy development in Indonesia, specifically the case of solar power. Solar power is energy from the Sun that is converted into thermal or electrical energy, either through photovoltaic (PV) panels or through mirrors that concentrate solar radiation. The electrical energy can be used to generate electricity, or, it can be stored in batteries or thermal storage.



Thanks to a process called nuclear fusion, the Sun radiates an enormous amount of energy, each second. In fact, it radiates more energy in one day than the world uses in one year. However only a small portion of the Sun's energy hits the Earth's surface. Still, this amount of energy is enormous, implying the Sun offers great potential for

electricity generation on Earth. Around 30 percent of the Sun's energy that reaches Earth is reflected back into space, while another 50 percent or so is absorbed by land and oceans. The remainder of the Sun's energy is absorbed by Earth's atmosphere and clouds in the so-called greenhouse effect.

As with most matters in life, there are a number of advantages and disadvantages when employing solar power.

For example, solar power is a relatively clean energy source because it has a very low carbon footprint and does not produce any greenhouse gas emissions. However, construction of solar facilities on large areas of land does require the destruction of land, vegetation and animal habitat. This can prompt soil compaction and erosion (hence disrupt local ecosystems). Meanwhile, floating PV systems can have adverse effects on marine life as the construction of the systems can lead to water pollution, while the systems can also affect water temperatures (shading and less evaporation makes the water cooler).

[...]

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