

Indonesia Investments

US Pressures Come and Go

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MAY 2023

**Van Der Schaar Investments B.V.
CV Indonesia Investments**

Indonesia Investments

Monthly Report – May 2023

**‘US Pressures Come and Go –
How Was Indonesia Affected in May?’**



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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.



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Introduction – May 2023 Report

In the introduction of this month's report, I want to focus on the Indonesian rupiah, with the main reason being that there turned out to be a big discrepancy between our rupiah projection last month and the actual value of the rupiah rate in the present.

In the April 2023 edition we wrote that the rupiah is likely to appreciate toward the level of IDR 14,500 per US dollar in the foreseeable future. However, in reality, we saw the rupiah depreciating over the past month. In fact, the rupiah nearly touched IDR 15,000 per US dollar in late-May 2023. So, what went wrong here?



There are two key reasons that disrupted our projection. First, there emerged the risk of a US debt default in case US Congress would fail to agree on raising the debt ceiling from its current limit. While in the end an agreement was reached, markets were becoming increasingly nervous throughout May 2023 as the consequences of a default would be significant (which is discussed in more detail in the first article

of this edition), and so stronger demand for safe haven assets gave rise to capital outflows from the emerging markets (including Indonesia). Normally, it is a routine procedure to raise the debt ceiling, which is why it caught us by surprise a bit.

Interestingly enough, the US dollar is one of the world's (typical) safe haven assets. However, if the default had occurred, then it could have changed its position. And so, global financial markets could have been deprived from a key safe -and liquid- asset if US Congress had failed to raise the debt ceiling.

Secondly, while at the time of publishing our April 2023 edition markets seemed sure that the US Federal Reserve was done hiking its benchmark interest rate, there has surfaced renewed speculation that the Fed could raise its rates again in June as US inflation and consumer spending accelerated in April 2023. While US inflation has eased since peaking one year ago, resilient household demand does risk keeping price pressures elevated.

And if the Fed feels it is necessary to raise rates further, then this would also increase the risk of an economic recession for the world's top economy. Currently, it might already be too late for the US to avoid one, but with interest rates even higher, then a recession simply seems unavoidable. And so, the world continues to be plagued by a high degree of uncertainty.

In fact, since the past decade or so, it feels as if this uncertain environment is never-ending. And it reminds me of an article that was recently released by the ING Group, a well-known Dutch multinational banking and financial services corporation. In the article, titled “*We’re in a polycrisis – and this is what it means*”, it refers to a wide range of crises – including the Russo-Ukrainian war, the US banking crisis, US debt ceiling crisis, COVID-19 crisis, refugee crisis in the European Union, and the climate crisis – that have been disrupting the worlds’ financial markets and global economy.

However, in the article the crucial question of ‘why are we seeing so many crises’ is avoided. I would argue that the underlying problem is that there exists a leadership crisis in the West (and the impact of this is felt around the globe due to the economic and political power of West). With ideology replacing science, evidence and ratio, it has now become very easy for any crisis to emerge (perhaps a crisis has become a utility because a crisis situation allows governments to impose measures that would never be tolerated by people under normal conditions).

Something else that is at play – and perhaps related to the above – is that it can be argued the world is currently in a transitional phase between two types of societies. Every couple hundreds of years or so, the type of society changes, which brings big adjustments and a high degree of friction and uncertainty. Particularly changes in the West are important in this context because in today’s globalized world the West

still sets the tone, although China has turned into a big global economic powerhouse, and has become a force to reckon with.

For example, the feudal society (which had replaced the agricultural societies) was characterized by land ownership and protection. Then, there emerged republics and nation-states, while trade became increasingly important as new parts of the world were discovered (for example the Dutch East India Company, VOC). But in the 18th century Europe experienced a dramatic rise in technological invention, ushering in an era known as the Industrial Revolution, characterized by mass production (which involved the relation between mass labour and capital).

However, continued technological development in combination with the relatively recent Internet revolution (that started in the 1990s) is leading us to a new type of society where machines are gradually replacing labour, while people focus on the production of information and services. Since this type of society is driven by data and knowledge (instead of material goods), power now lies with those in charge of storing and distributing data/information.

It has led to a situation in which certain companies (such as big tech) have become so dominant and crucial in our daily lives (both for personal and business reasons), while they are not confined by space and time. Moreover, our devices know more about us than we know ourselves. A funny example is when I received a notification

on my phone one month ago. For reasons unknown to me, my smartphone reminded me of a trip I made exactly one year earlier (in my own neighbourhood), showing me the exact route I took, the restaurant I ate at, and the store I visited. This is very detailed information that my brain has largely erased but my smartphone has saved. While this might be a trivial example, there are also a lot of valuable footprints we leave behind on our devices.



The power of digital technology that lies in the hands of tech companies can also be a threat to society. Not everyone may have noticed it, but censorship on social media (and self-censorship on mainstream media) was horrific during the COVID-19 crisis as certain facts were (and are) not allowed to be shared to the people. That is also why it was very interesting to see Elon Musk taking over Twitter recently.

At the same time, the old-fashioned nation state has been weakening amid the rise of supranational organizations that are being attributed growing powers (ironically

by the leaders of these nation states). However, these supranational entities have a very weak democratic basis.

So, the rise of specific giant private entities (not bounded by traditional boundaries) and supranational institutions, while the national democracies are being hollowed is now shaping a new society; it is a birth that's accompanied by frictions (as always happens in power struggles).

With this in mind (particularly the supranational institutions), it is interesting that Indonesia hosted the 42nd ASEAN Summit in May 2023. While it is positive to see the economic integration of the Southeast Asian region (as this encourages efficiency, improved competitiveness, and prosperity) there is likely to come a time when it is political integration that is pursued (just like what –gradually– happened in Europe with the European Union, EU), implying that individual nations relinquish sovereign control over their country.

It is important that if that situation will occur, Southeast Asian nations have learned from the mistakes that were made in Europe. The most important lesson being that political leaders need to communicate their plans and ambitions in a transparent manner to their populations. What I saw in the Netherlands was the opposite: to avoid derailing the political integration of the EU, the prime minister and political parties in the cabinet have done their best to misinform the public about these plans.

In fact, after two referenda (regarding the adoption of an EU constitution, and the EU-Ukraine Association Agreement) did not show the results that were hoped for by the Dutch government (as the Dutch people rejected these matters), it essentially moved these results aside and pushed through the EU integration plans. Moreover, the Dutch government abolished the referendum because – apparently – the opinion of the Dutch people should not be allowed to derail certain political ambitions. What this means is that the country is gradually moving away from democracy as leaders prioritize the ambitions of their international network. This is a big step, and when it isn't transparently communicated to the population through media it causes rising resentment once people gradually realize what has happened.



Indonesian leaders like President Joko Widodo and his successors will increasingly need to choose between serving the interests and ambitions of their international network (consisting of supranational institutions, big private players, and political leaders) or –on the other side– the Indonesian people because both sides not always share the same interest.

One final remark regarding this May 2023 edition: because the Statistical Agency of Indonesia (BPS) was quite late with releasing the consumer price index data, it could not be included in this edition. So, instead of including our analysis of inflation in the monthly report (which is the usual procedure), we will send subscribers an update (with our inflation analysis) one or two days after this report has been released.

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Indonesia Investments
Yogyakarta, Indonesia
4 June 2023



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