

# **Trump Effect**

## **The good, the bad, and the ugly**

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**NOFIE IMAN**

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- Understanding Donald Trump
- Current state of global world
- Trump economic policy
- Trump foreign policy
- How do we (Indonesia) do?
- Indonesia - U.S. relationships
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# Who voted for Trump?

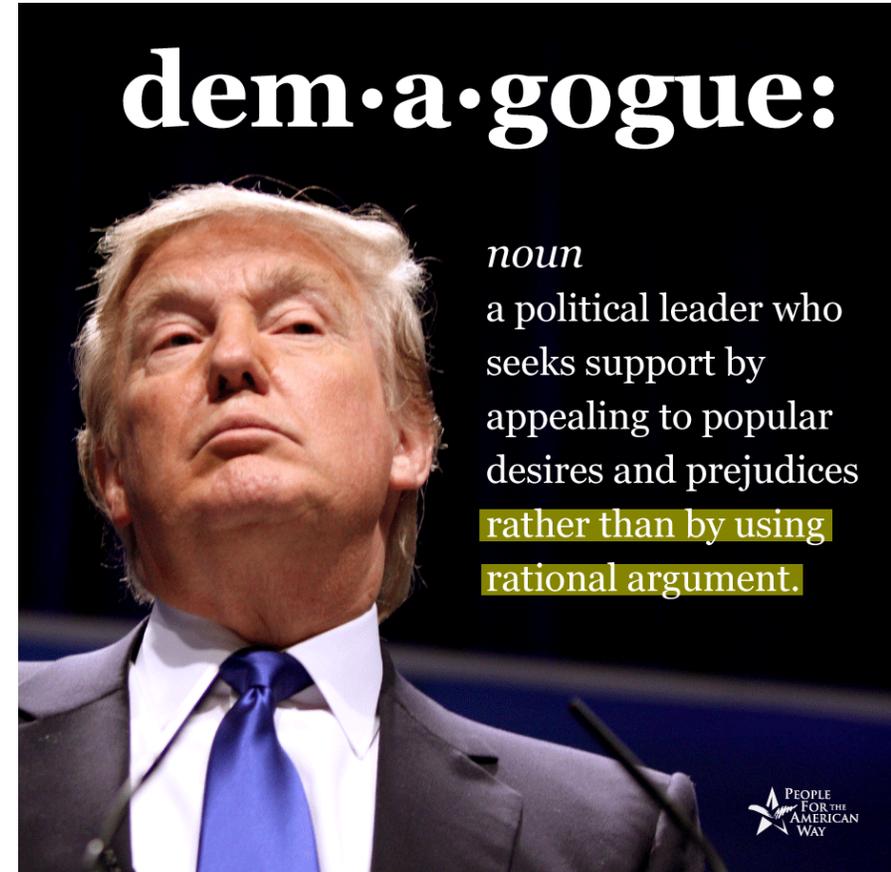
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- **53% of men** - 41% backed Clinton
- 42% of women - 54% voted for Clinton
- **58% of white voters supported Trump** - 37% backed Clinton
- 8% of black voters backed Trump - 88% voted for Clinton
- 29% of Hispanics backed Trump - 65% supported Clinton

Source: Edison Research for ABC News, AP, CBS News, CNN, Fox News, NBC News

# Reading Trump

- His anti-immigrant, anti-Islam and anti-free competition stance — can be problematic to Indonesia
- He promised to get along with all nations — signals that the U.S. under him could do Indonesia good
- Trump is a very populist president and he basically follows the flow of public opinion — quite erratic
- Red-faced, angry, visibly sweating, filled with extravagant emotion, hyperbole and plainly ridiculous promises — one of the most capable demagogues has ever seen?



# Trump policies and beliefs

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- Trump wants to build a “great, great wall” between the US and Mexico. He suggested that Mexicans coming to the US are largely criminals.
- A mass deportation of the estimated 11 million illegal immigrants living in the US should go into effect -- BBC estimates it will cost about \$114 billion.
- There should be surveillance on US mosques. Trump believes Muslims should be tracked by law enforcement as a counterterrorism initiative.
- The world would be better off if Saddam Hussein and Muammar Gaddafi were still in power. While he concedes them “horrible”, he says they did a better job combating terrorists.
- In order to end mass shootings, the US should invest in mental health treatment. Regarding gun rights, he said, “the government has no business dictating what types of firearms good, honest people are allowed to own.”
- Get Wall Street pros to run the economy. Trump says he knows all the smart businessmen who should be running things in Washington.

# Trump policies and beliefs

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- Trump repeated his declaration that “Obamacare is a disaster”. He criticised the law for having little impact and suggested millions are unsatisfied with the Affordable Care Act or lost health care because of it.
- The North Atlantic Treaty Organization (NATO) is a “rip-off” because the U.S. pays more than anyone else -- he later said he was “all” for the alliance.
- Climate change is just “weather”. He dismissed climate change science as a “hoax” and believes environmental restrictions on businesses make them less competitive in the global marketplace.
- He says he will make China stop undervaluing its currency, and force it to step up its environmental and labour standards. He is also critical of the country’s lax attitude towards American intellectual property and hacking.
- He has praised Vladimir Putin’s leadership, “I would probably get along with him very well. And I don’t think you’d be having the kind of problems that you’re having right now.”
- Trump order prohibits for 90 days the entry of travelers from six predominantly Muslim countries: Iran, Libya, Somalia, Sudan, Syria, and Yemen -- Federal Judges rule against Trump’s travel ban.

# Things to ponder

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- The realm of politics is the realm of appearance (Arendt, 1958). Catchphrases and slogans replacing real political arguments.
- There lies an authentic reality behind the world of appearance (the allegory of the cave, Plato).
- Modern political media has become the grotesque spectacle concealing what really goes on behind closed doors.
- Is Trump acts in a way that is **consistent** with his stated beliefs? Does he puts on a **false appearance** of virtue or religion? What is his **innermost** motivation?

# Current state of the global world

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- Global outlook and uncertainty:
  - **Known known:** all variables, possible outcomes, and potential risks are known
  - **Known unknown:** known risk/uncertainty factors that will materialise in the future in one way or another
  - **Unknown unknown:** somewhat extreme, completely unpredictable, black swan

# Current state of the global world

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- Our world is characterised today by many “**known unknowns**”
  - U.S. growth and inflation, Fed policy rate normalisation pace, fiscal fights in Congress
  - Brexit - EU disintegration, Eurozone recovery and growth
  - Abenomics: trade liberalisation, public debt crisis, weakening yen, equities rally
  - China: soft/hard landing, rebalancing, structural reforms, RMB depreciating
  - Emerging markets: economic slowdown, cyclical/structural crisis, risk, policy options
  - Geopolitical issues: Syria-Iraq-ISIS, Russia-Ukraine, North Korea
  - Populism: backlash against globalisation, trade, migration, supra-national authorities, technological disruption, job polarisation, rise of income/wealth inequality feeds populism

# Economic agenda

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- Cut corporate rates from 35 to 15 percent to improve the competitiveness of U.S.-based corporations and creating a tax environment more attractive to global corporations.
- Provide relief to U.S.-based companies with profits exceeding \$3 trillion held outside the country -- if successful, U.S. could benefit from the influx of capital.
- A reduction in marginal tax rates along with the broader package -- although the details are still unclear.
- Invest \$1 trillion in rebuilding the nation's infrastructure over the next 10 years -- the plan is still short on details.
- Attempt to reduce regulation broadly, specifically targeting Dodd-Frank and the Affordable Care Act

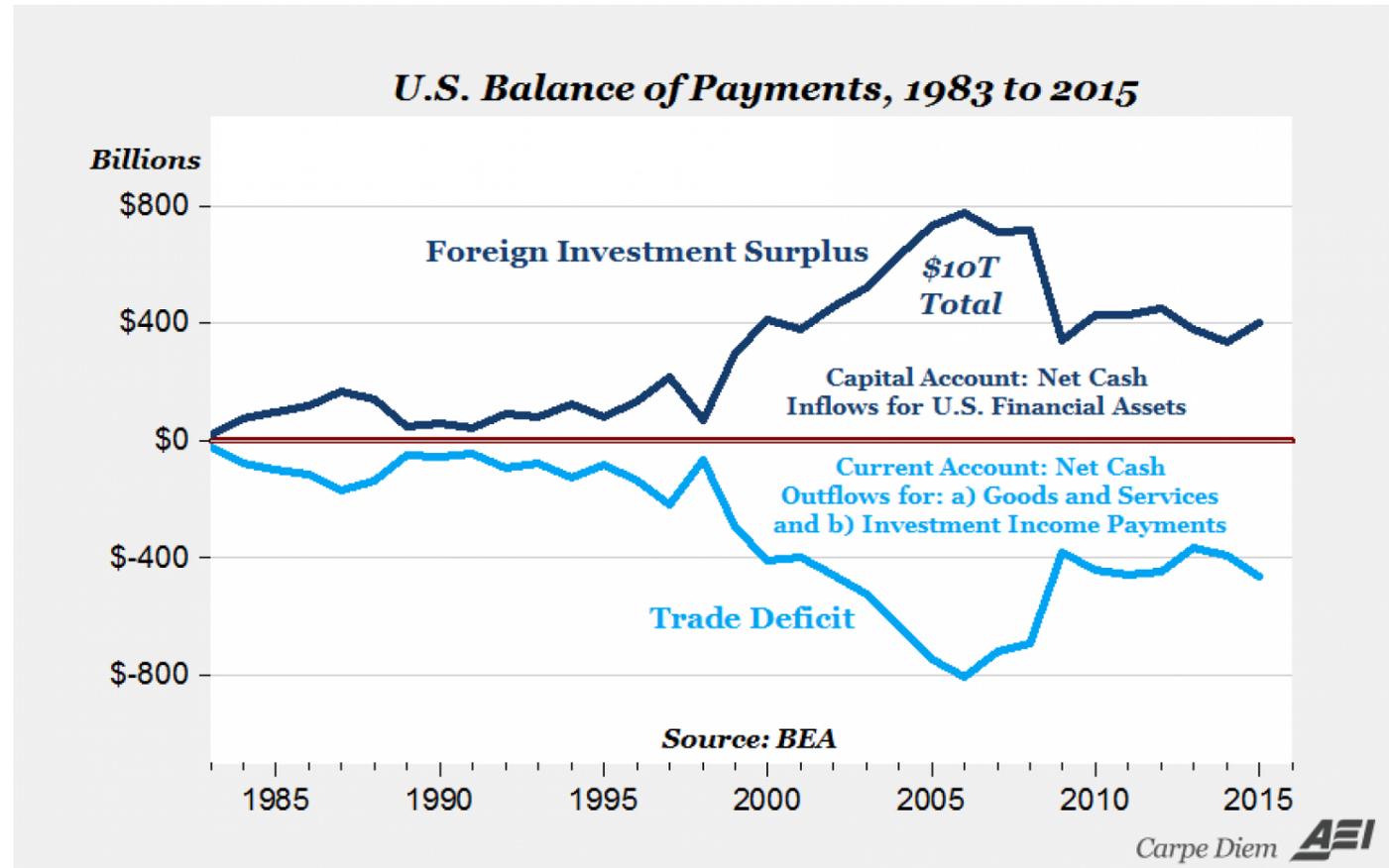
# Economic impact on Trump policies

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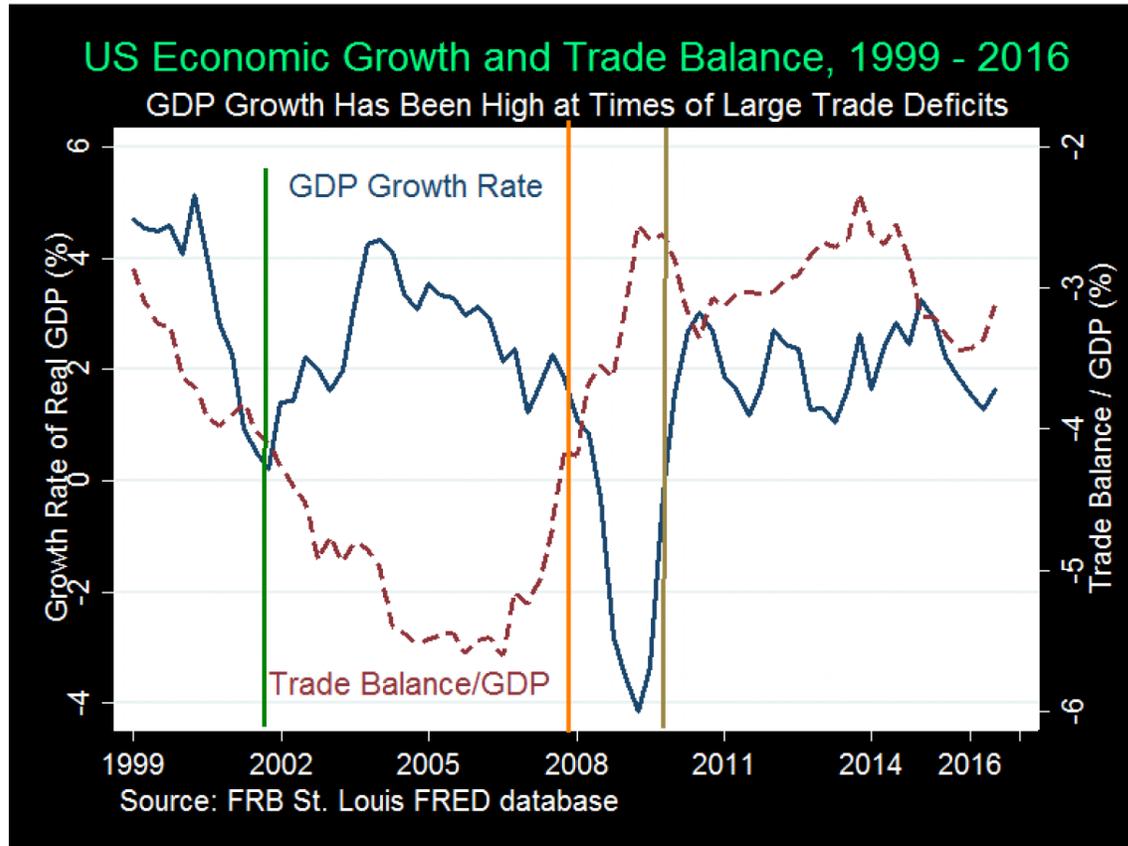
- Impact on the economy: The pickup in the economy was already evident. Most economists point to a modest increase in GDP in 2017 and a greater positive effect coming in 2018. Corporate and individual tax reform, infrastructure investment and regulatory reform all appear likely to provide some near-term boost to economic growth.
- Impact on fixed-income markets: Long-term interest rates moved sharply higher in response to rising inflation expectations and optimism that fiscal stimulus will drive stronger economic growth. Rising rates are a negative for bond performance, but over the long term, will boost the returns of bond investors in the form of higher income.
- Impact on equity markets: The policies that Trump has put forward as critical elements of his domestic economic agenda are expected to be pro-growth and thus broadly positive for stocks, and a stronger U.S. economy should provide a more favorable backdrop for corporate America.

# U.S. trade deficit

- Trump criticised countries like China, Mexico, Germany and Japan for running large trade deficits with the United States.
- But, he also has welcomed investment from these countries at every turn -- especially Japan.
- This doesn't mean that foreign investment in the U.S. is bad -- investment often creates jobs in the U.S.
- What it means that a trade deficit isn't necessarily bad, either.



# U.S. trade deficit



- A larger trade deficit reduces the U.S. GDP, but that's sometimes a matter of accounting, not necessarily of cause and effect.
- U.S. imports reduce a country's GDP in an accounting sense, but that doesn't mean they necessarily cause GDP to be smaller, often driven by other factors
- Tax cuts can cause the economy to boom, incomes could rise, and households could start to consume more imported goods. In this case, the trade deficit might rise even as GDP does as well.
- Mankiw, who served under President George W. Bush, has called the trade deficit "a distraction."

# In responding to the economic challenges

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- **Keynesian approach:** provide monetary and fiscal stimulus, and bailout the private sector as otherwise the recession can lead to a depression as self-fulfilling panics and runs occur while private demand is collapsing.
- In the short run you want to be Keynesian to avoid panic, animal spirits, runs and illiquidity to lead to a collapse of the private sector. Public demand has to substitute for collapsing private demand. Rescue illiquid but solvent agents.
- **Austrian approach ("Austrian"):** front-load the adjustment/reform and restructure balance sheets and P&Ls. Don't bailout as you postpone financial and operational restructuring and you cause moral hazard: zombie banks, households, governments.
- In the medium-long term you want to be more Austrian and do true economic and financial restructuring as, otherwise, you can zombify the economy and reduce long term growth. Austrian approach was tried in the 1930s (no monetary/fiscal stimulus and allow banks to collapse) and led to Great Depression. "Liquidate liquidate!" -- Bernanke learned the lessons of the Great Depression.

# In responding to the economic challenges

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Are problems of **illiquidity** or **insolvency**?

**Growth** versus **austerity** debate

Front load fiscal austerity (as in EU and UK) or back load it (US, Japan)?

Be very aggressive in monetary easing (US and Japan) or less aggressive (UK, EU)?

Bailout banks and recapitalise them fast (US) or go slow (EU, UK)?

US avoided a double dip recession and is growing at a 2%+ rate (output above pre-crisis level). Now even Japan is growing better

UK growing more strongly after anemic recovery

EU had a double dip recession and is now weakly growing (GDP still below pre-crisis level)

# Rhetoric between economics and politics

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## DURING THE CAMPAIGN (POPULIST)

- A fierce opponent of immigration and free trade
- A valiant defender of steep tariffs
- Major spending on infrastructure -- \$1 trillion in rebuilding the nation's over the next 10 years (which would presumably put under-employed working-class voters back to work)
- Intentions to build the border wall and massive deportations

## AFTER THE CAMPAIGN (PLUTOCRAT)

- All the billionaires and titans of finance Trump is lining up to staff his administration
- He favours a massive tax cut for upper-income earners and removes regulatory burdens on businesses
- He wants to replace the Affordable Care Act and abandon the goals of universal and comprehensive health insurance coverage.

# Need for consolidation?

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- There's **tense relations** and **mistrust** between Congress and the White House. Although the GOP have full control of the executive and legislative branches, it is certain that Trump will encounter resistance from the establishment wing of his party on some of the changes he promised to introduce.
  - Trump tried to discredit influential figures such as Senator Marco Rubio.
  - Against assertive policy towards Russian actions by widely respected senators Lindsay Graham and John McCain.
  - Kevin McCarthy, the Republican majority leader in the House of Representatives, also expressed skepticism towards some of Trump's proposals
- Additional **conflict of interest** may come from the property and business interests of the president and his officials.

# Foreign policy agenda

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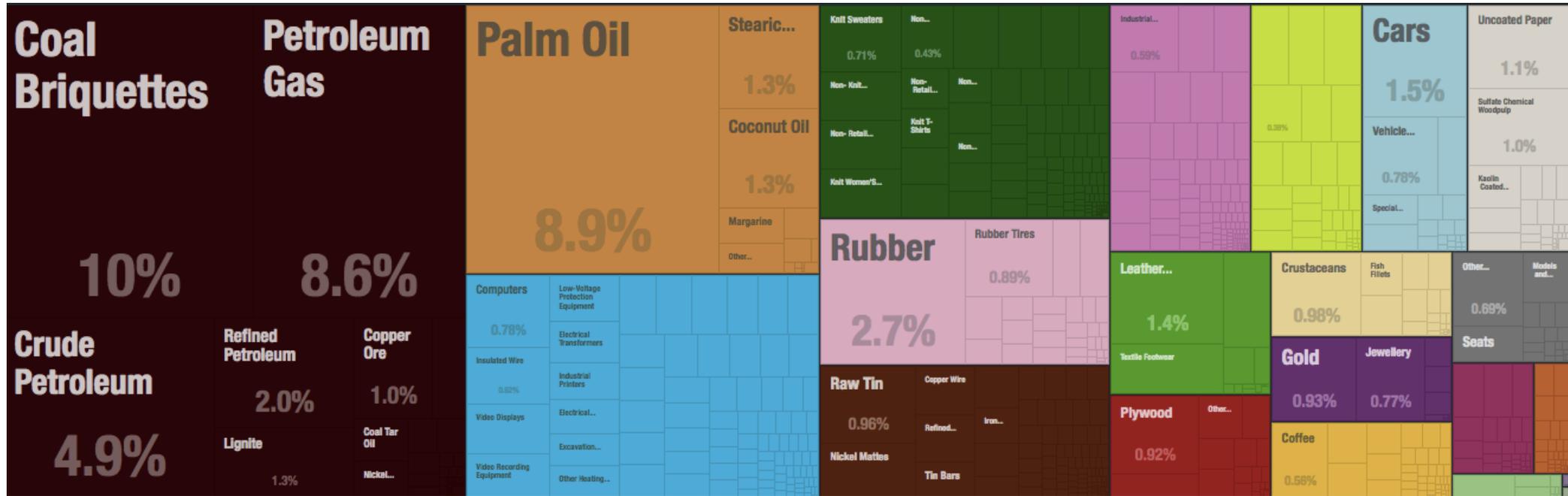
- Fight “radical Islam” and terrorism as a top U.S. global priority
- Revise U.S. policy towards China
- Change the agreement on Iran’s nuclear programme
- Intention to cooperate with Russia
- Critics toward European integration
- The costs of U.S. alliances in NATO
- Abandon the alliance in the Asia-Pacific region (TPP)

# Alignment of interests

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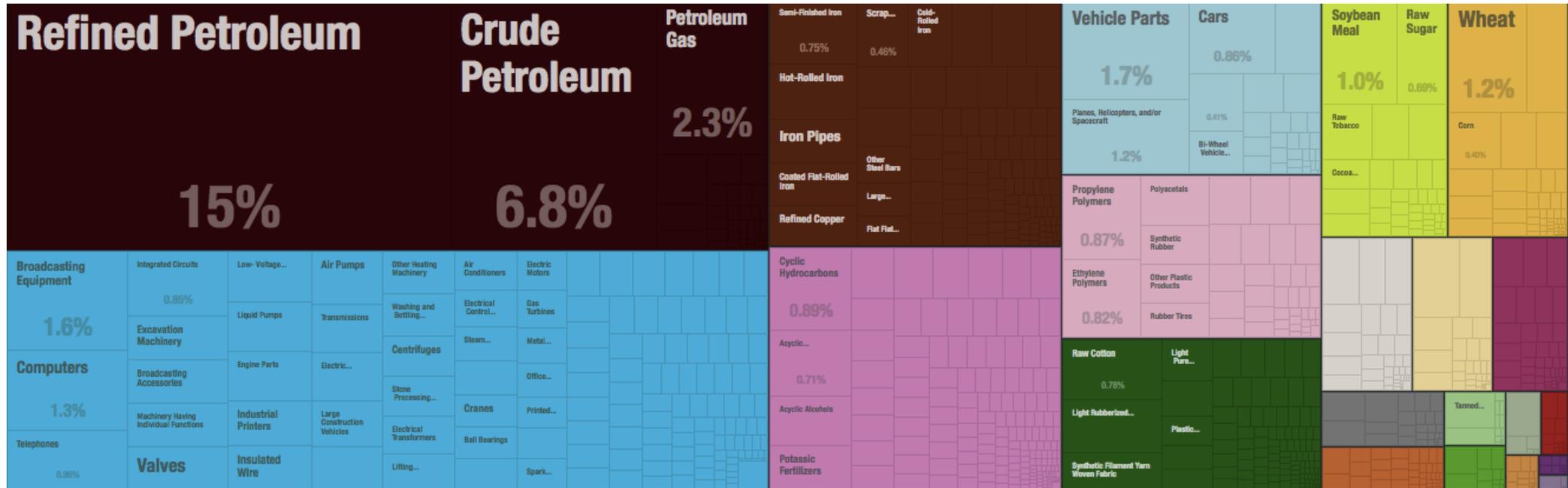
- POTUS's lack of experience in foreign affairs may result in a rivalry among officials for influence over the decision-making process — may turn into a series of open conflicts. His son-in-law Jared Kushner has been nominated as a “special advisor” (unofficial title) to the president on trade and the Middle East.
- The prerogatives of the executive branch to conduct foreign policy are limited by the powers reserved by Congress. Republicans have majorities in the House of Representatives (241 of 435) and the Senate (52 of 100).
- Trump's views are shared by Mike Flynn (National Security Council) but are not shared by James Mattis (Secretary of Defense). Mattis emphasised the threat from Russia and considers NATO treaty obligations to be inviolable.
- Vice President Mike Pence had a similar viewpoint with Mattis.
- Rex Tillerson (Secretary of State) sees Russia's foreign policy as a threat, though in many respects his stands are still vague.

# How do we do? (What do we export?)



Source: <http://atlas.media.mit.edu/en/profile/country/idn/> (2016)

# How do we do? (What do we import?)



Source: <http://atlas.media.mit.edu/en/profile/country/idn/> (2016)

# How do we do? (Where do we export to?)



Source: <http://atlas.media.mit.edu/en/profile/country/idn/> (2016)

# How do we do? (Where do we import from?)



Source: <http://atlas.media.mit.edu/en/profile/country/idn/> (2016)

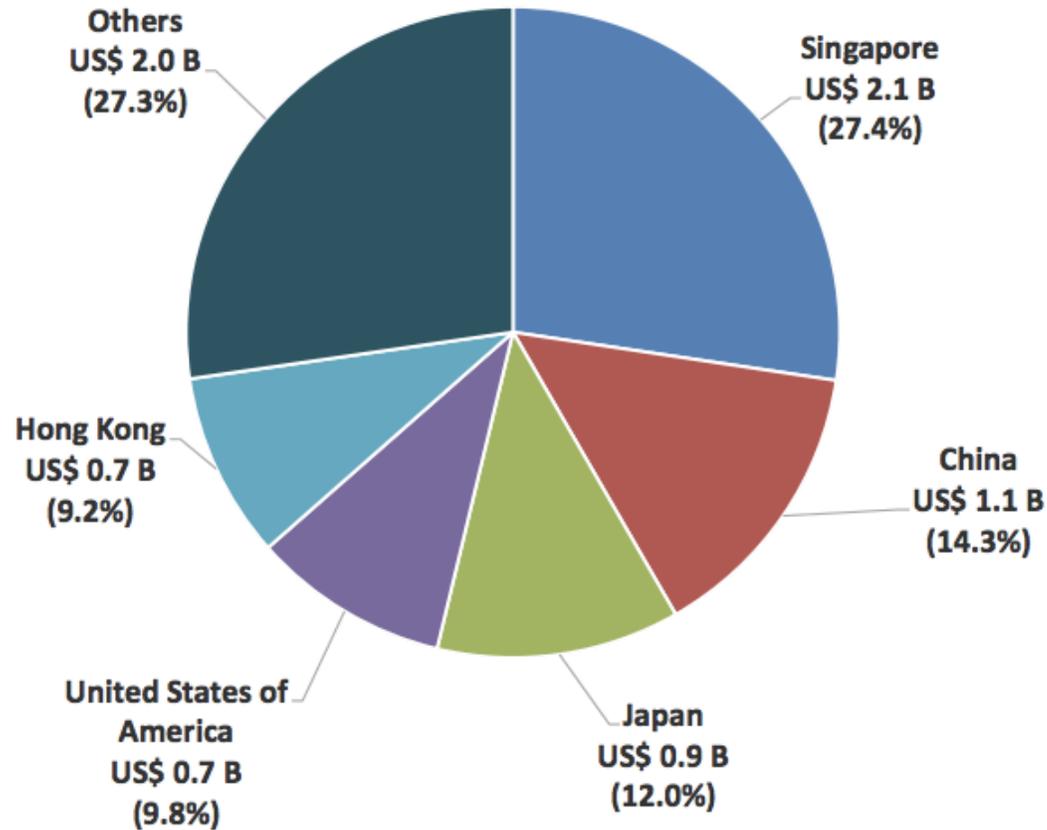
# How do we do? (Where does the FDI comes from?)

NO.	NEGARA / Country	2010		2011		2012		2013		2014		2015	
		P	I	P	I	P	I	P	I	P	I	P	I
I	ASIA / ASIA	1,628	7,977.8	2,311	9,135.5	2,364	11,098.4	4,992	13,798.2	4,944	13,458.2	10,516	15,043.7
	ASEAN / ASEAN	641	6,131.9	994	5,841.8	1,069	5,460.0	2,235	5,495.9	1,820	7,938.6	4,034	9,152.5
	ASIA DILUAR ASEAN / Asia Excluding ASEAN	987	1,845.9	1,317	3,293.6	1,295	5,638.4	2,757	8,302.3	3,124	5,519.6	6,482	5,891.2
20	JEPANG / Japan	321	712.6	421	1,516.1	405	2,456.9	958	4,712.9	1,010	2,705.1	2,030	2,877.0
21	KOREA SELATAN / South Korea	355	328.5	456	1,218.7	421	1,949.7	807	2,205.5	1,054	1,126.6	2,329	1,213.5
32	R. R. TIONGKOK / People's Republic of Tiongkok	113	173.6	160	128.2	190	141.0	411	296.9	501	800.0	1,052	628.3
II	EROPA / Europe	456	1,302.3	538	2,179.9	520	2,573.9	1,003	2,566.6	896	3,983.2	1,604	2,326.7
	UNI EROPA / European Union	418	1,160.6	496	2,158.1	458	2,303.3	902	2,414.0	779	3,764.2	1,437	2,258.1
43	BELANDA / Netherlands	106	608.3	118	1,354.4	131	966.5	233	927.8	181	1,726.3	421	1,307.8
50	INGGRIS / United Kingdom	132	276.2	156	419.0	97	934.4	231	1,075.8	182	1,588.0	267	503.2
III	AMERIKA / America	234	2,715.0	302	2,018.9	345	2,139.5	632	3,748.8	493	2,120.1	913	1,773.4
78	AMERIKA SERIKAT / United States of America	100	930.9	112	1,487.8	97	1,238.3	210	2,435.8	179	1,299.5	261	893.2
85	BRITISH VIRGIN ISLANDS / British Virgin Islands	99	1,615.9	151	517.1	168	855.9	307	785.7	240	624.0	549	730.5
IV	AUSTRALIA / Australia	104	239.2	142	112.1	144	745.4	310	233.5	263	684.9	502	205.2
96	AUSTRALIA / Australia	94	214.2	123	89.7	137	743.6	287	226.4	226	647.3	443	168.0
V	AFRIKA / Africa	45	150.0	57	202.1	42	1,195.7	86	801.7	83	663.9	161	192.9
116	MAURITIUS / Mauritius	20	23.3	20	72.5	23	1,058.8	55	780.0	45	540.7	67	44.4
VI	GABUNGAN NEGARA / Joint Countries	609	3,830.4	992	5,826.0	1,164	6,811.8	2,589	7,468.6	2,206	7,619.4	4,042	9,734.0
	<b>JUMLAH / Total</b>	<b>3,076</b>	<b>16,214.8</b>	<b>4,342</b>	<b>19,474.5</b>	<b>4,579</b>	<b>24,564.7</b>	<b>9,612</b>	<b>28,617.5</b>	<b>8,885</b>	<b>28,529.7</b>	<b>17,738</b>	<b>29,275.9</b>

Source: Badan Koordinasi Penanaman Modal/BKPM (2016)

# How do we do? (Where does the FDI comes from?)

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- Greater reliance on our neighbourhoods, rather than on the U.S.
- Money and investments are important, but so does job opportunities, knowledge absorption, technology transfers, etc.
- We might, or might not, need the U.S.

# U.S. - Indonesia relationship

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- Long history of bilateral cooperation (establishment of consular relations in 1801, U.S. recognition of Indonesian independence in 1949, establishment of diplomatic relations in 1949)
- U.S. Trade Missions and Reverse Trade Missions, U.S. Support for Energy Investment in Indonesia, Commercial Dialogue, OPIC Trade and Investment Conference
- U.S. development assistance is delivered through the U.S. Agency for International Development (USAID), Millennium Challenge Corporation (MCC), and Peace Corps
- Regularly engage on trade and investment issues through the U.S.-Indonesia Trade and Investment Framework Agreement (TIFA) to address market access restrictions in key sectors such as pharmaceuticals, agricultural products, and energy
- U.S. is a major supplier of aircraft and rail transport equipment as well as a wide range of equipment to develop Indonesia's energy sector
- Indonesian politicians and lawmakers were already thinking about restricting trade and investment with the U.S. in response to Trump's inflammatory remarks about Muslims

# U.S. - Indonesia relationship

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- Indonesia is U.S.' 28th largest goods trading partner with \$28.0 billion in total (two ways) goods trade during 2013
- Trade in services with Indonesia (exports and imports) totalled \$2.6 billion in 2012.
- Indonesia was the U.S.' 33rd largest goods export market in 2013. The top export categories in 2013 were: aircraft, miscellaneous grain, seed, fruit (primarily soybeans), machinery, food waste, and electrical machinery. U.S. exports of agricultural products to Indonesia including: soybeans, feeds and fodders (excluding pet food), dairy products, and wheat.
- Indonesia was the U.S.' 25th largest supplier of goods imports in 2013: knit apparel, rubber, woven apparel, electrical machinery, and footwear. U.S. imports of agricultural products from Indonesia: rubber and allied products, tropical oils, coffee (unroasted), and spices.
- U.S. imports of private commercial services were \$476 million in 2012. Other private services (business, professional, and technical services, and financial services) and travel category accounted for the most.
- U.S. FDI in Indonesia was \$13.5 billion in 2012, primarily concentrated in the mining sector. Indonesia FDI in the United States was \$136 million in 2012. Sales of services in Indonesia by majority U.S.-owned affiliates were \$3.2 billion in 2011, while sales of services in the United States by majority Indonesia-owned firms were \$87 million.

# U.S. Foreign Direct Investments

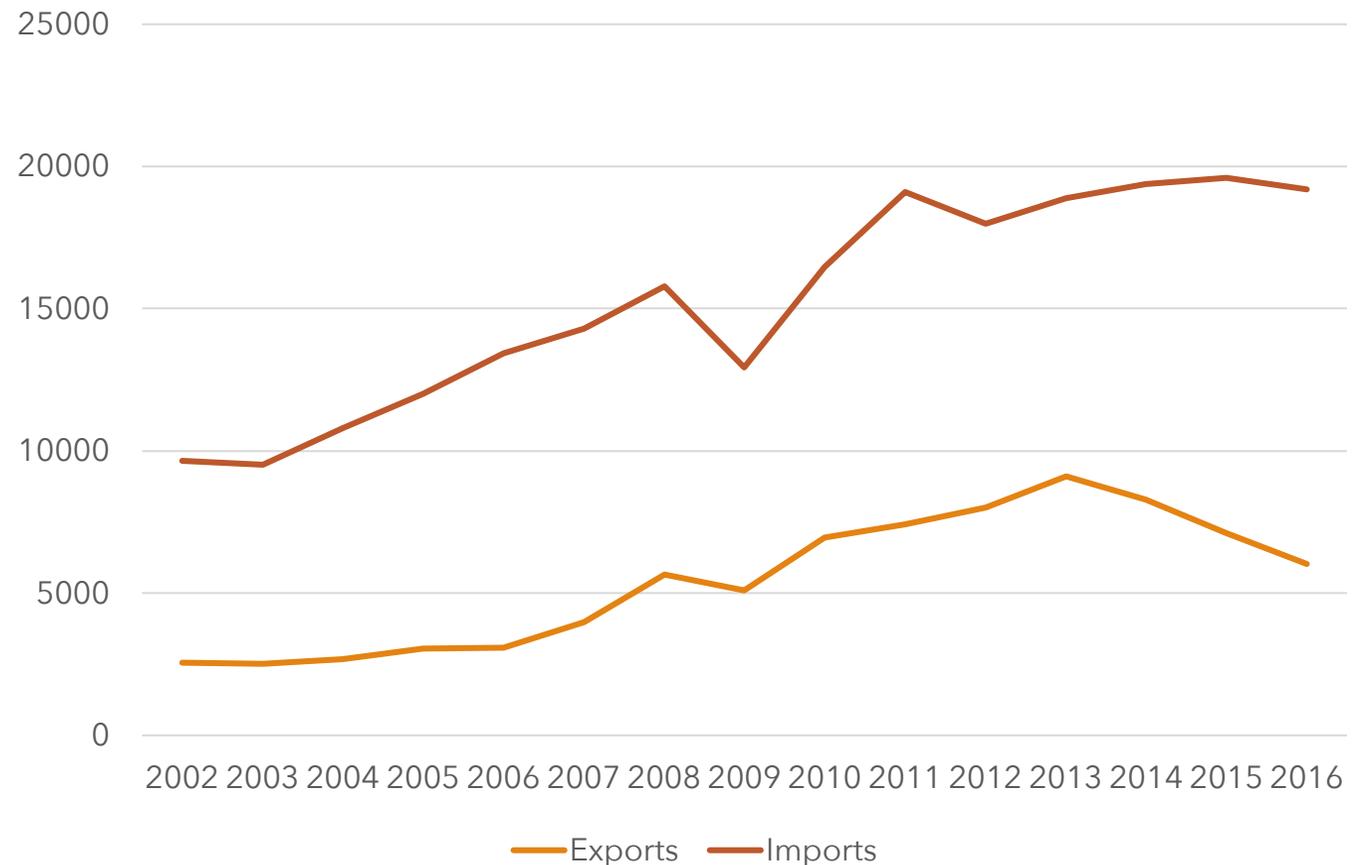
Source: Organization for International Investment (OFII), 2016

	2014	2009	2010	2011	2012	2013	2014	2009-2014
<b>Europe</b>	<b>\$1,977,215</b>	<b>\$99,073</b>	<b>\$151,055</b>	<b>\$128,687</b>	<b>\$137,934</b>	<b>\$120,814</b>	<b>\$29,807</b>	<b>-70%</b>
Austria	\$6,887	(D)	\$136	\$177	\$434	\$620	\$873	n/a
Belgium	\$89,097	\$13,262	\$5,640	\$10,284	\$12,311	-\$7,662	\$1,329	-90%
Cyprus	\$2,386	(D)	-\$173	(D)	(D)	\$132	-\$64	n/a
Denmark	\$12,912	\$1,171	\$1,472	\$462	\$251	\$1,985	\$2,775	137%
Finland	\$9,100	(D)	-\$179	\$660	-\$218	\$553	-\$1,105	n/a
France	\$223,164	\$25,369	\$8,865	\$795	\$25,510	-\$3,765	\$12,882	-49%
Germany	\$224,114	\$12,320	\$18,760	\$16,396	\$6,709	\$16,348	\$19,124	55%
Hungary	\$19,526	\$266	-\$26,488	-\$3,650	\$2,882	\$59	\$4,345	1533%
Ireland	\$16,195	-\$1,348	\$5,417	-\$1,696	-\$1,128	\$9,344	\$1,207	n/a
Italy	\$21,824	-\$2,462	\$1,304	\$3,334	\$1,950	\$1,950	\$3,681	n/a
Luxembourg	\$242,862	\$17,349	\$29,461	\$11,989	\$7,788	\$31,250	\$16,130	-7%
Netherlands	\$304,848	\$5,018	\$20,772	\$8,457	\$37,174	\$8,322	\$38,927	676%
Norway	\$17,565	\$577	\$885	\$7,743	\$2,669	\$1,685	\$2,107	265%
Russia	\$5,278	-\$746	-\$1,905	\$693	-\$64	\$727	-\$396	n/a
Spain	\$58,138	\$4,569	\$4,410	\$5,923	\$796	\$1,507	\$2,775	-39%
Sweden	\$41,909	\$1,381	\$10,903	\$2,779	\$2,055	\$808	\$3,674	166%
Switzerland	\$224,021	\$10,710	\$41,406	\$19,894	\$15,603	\$18,164	\$23,541	120%
United Kingdom	\$448,548	\$18,373	\$30,069	\$46,316	\$25,310	\$35,895	-\$102,440	n/a
<b>Asia and Pacific</b>	<b>\$512,906</b>	<b>\$5,482</b>	<b>\$26,875</b>	<b>\$50,832</b>	<b>\$27,839</b>	<b>\$47,570</b>	<b>\$42,409</b>	<b>674%</b>
Australia	\$47,340	-\$3,850	\$4,047	\$21,163	-\$7,834	-\$4,966	\$94	n/a
China	\$9,465	\$500	\$1,037	\$1,105	\$3,415	\$2,821	\$968	94%
Hong Kong	\$7,604	-\$10	\$271	\$236	\$1,362	-\$3,440	\$635	n/a
India	\$7,823	\$490	\$1,289	\$1,241	\$374	\$139	\$718	47%
Indonesia	\$1,180	\$160	-\$134	\$125	-\$112	\$1,170	\$70	-56%
Japan	\$372,800	\$6,544	\$15,805	\$17,077	\$22,436	\$43,619	\$33,765	416%
New Zealand	\$1,011	\$230	\$77	\$1,325	-\$477	-\$37	\$68	-70%
Singapore	\$20,609	\$1,328	\$1,496	\$2,862	\$1,785	\$1,165	\$1,184	-11%
South Korea	\$36,056	\$236	\$2,245	\$4,798	\$6,300	\$6,168	\$4,139	1654%
Taiwan	\$5,676	-\$405	\$726	\$284	\$484	\$1,087	\$527	n/a
Thailand	\$1,558	\$11	-\$43	-\$32	\$242	\$86	\$145	1218%
<b>Canada</b>	<b>\$261,247</b>	<b>\$30,366</b>	<b>\$7,357</b>	<b>\$18,790</b>	<b>\$16,398</b>	<b>\$24,153</b>	<b>\$21,116</b>	<b>-30%</b>
<b>Caribbean</b>	<b>\$99,909</b>	<b>\$6,897</b>	<b>\$10,599</b>	<b>\$13,937</b>	<b>\$4,900</b>	<b>\$13,586</b>	<b>\$11,538</b>	<b>67%</b>
Curacao*	\$2,779	--	--	\$243	\$943	\$67	-\$3	n/a
United Kingdom Islands, Caribbean	\$100,000	\$2,481	\$5,627	\$14,859	\$7,415	\$10,204	\$7,292	194%
<b>South and Central America</b>	<b>\$27,123</b>	<b>\$1,093</b>	<b>\$2,824</b>	<b>\$7,200</b>	<b>\$243</b>	<b>\$3,141</b>	<b>\$3,623</b>	<b>231%</b>
Brazil	\$616	-\$1,539	\$2,718	\$3,681	-\$202	-\$142	-\$468	n/a
Mexico	\$17,710	\$2,469	-\$123	\$2,432	\$776	\$3,508	\$2,421	-2%
Panama	\$1,185	\$144	-\$553	\$87	-\$120	\$307	-\$162	n/a
Venezuela	\$5,127	\$158	\$420	\$503	\$322	-\$590	\$958	506%

# U.S. Trade in Goods with Indonesia

(in millions of U.S. dollars on a nominal basis)

Year	Exports	Imports	Balance
2016	6,037.5	19,203.4	-13,165.9
2015	7,120.9	19,601.5	-12,480.6
2014	8,282.8	19,390.1	-11,107.3
2013	9,106.5	18,871.6	-9,765.1
2012	7,998.0	18,002.2	-10,004.2
2011	7,421.4	19,110.9	-11,689.5
2010	6,947.9	16,478.3	-9,530.5
2009	5,107.0	12,938.6	-7,831.6
2008	5,644.5	15,799.1	-10,154.7
2007	3,969.7	14,301.3	-10,331.6
2006	3,078.5	13,424.7	-10,346.2
2005	3,053.9	12,014.3	-8,960.4
2004	2,671.4	10,810.5	-8,139.1
2003	2,516.4	9,515.1	-6,998.7
2002	2,555.8	9,643.4	-7,087.6



<https://www.census.gov/foreign-trade/balance/c5600.html>

# Wrap-up

To conclude our discussion

- We are all looking (and will continue to look) for hints of **Trump's intention** on many things, since his consistent attachment to the ideological program and institutional establishment are questionable
- **Political consolidation** is Trump main priority at the moment -- disagreements within the administration, the impact of informal advisors on a president distrustful of experts, lack of full support from the Republican Party
- Trump is probably going to focus much more on **domestic issues and agenda** instead of regional and foreign issues
- Trump effect is just one of the many "**known unknowns**" that we (Indonesia) have to deal with -- we have much more serious and threatening "known unknowns" -- MEA, political instability, maritime and border issues, trafficking, radicalism, etc.
- **Non-economic** effect of Trump administration might be much more influential -- politics, regional/international stability, social policy, immigration, education, etc.

# Thank you

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