Indonesia Investments

‘Bracing for Impact’

- IMF: Great Lockdown, Deep Recession
- How is Jakarta Handling COVID-19?
- COVID-19; Who Gain, Who Lose?
- Travel Restrictions, No Mudik Exodus
- Can Companies Claim Force Majeure?
- Can Workers Be Fired in the Pandemic?
- Foreign Direct Investment in Q1-2020
- When Is a Trade Surplus Not Positive?
- Rupiah Rebounds as Virus Fears Ease
- Manufacturing Activity at Record Low
- Inflation Remarkably Low in April
- And more...

APRIL 2020

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

Monthly Report – April 2020

‘Bracing for Impact’
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Preface

The monthly report of Indonesia Investments is written and published by Van Der Schaar Investments B.V., located in Delft, the Netherlands. The 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 impact on the economy of Indonesian or on its politics.

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

The website of Indonesia Investments is the key reference and access point for gaining knowledge about the markets, economy, and cultures of Indonesia. This online platform is owned by Van Der Schaar Investments B.V., a privately-held investment company (Ltd.) that was established in 2009 but stands in a tradition that stretches back to urban development in the Dutch capital city of Amsterdam in the early 20th century. For more information about the services and activities of Indonesia Investments, please visit: www.indonesia-investments.com.
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Introduction – April 2020 Report

April 2020 was yet another remarkable month. Global crude oil prices even dropped into negative territory temporarily (which suggests that sellers were actually paying crude oil buyers to take deliveries in a bid to avoid incurring of storage costs), while the global economy and society remain captivated by the novel coronavirus (COVID-19) outbreak.

It has also become increasingly clear that the policy measures that have been taken by governments across the globe (in an effort to protect their populations’ health) come at huge economic costs (besides jeopardizing the existence of many companies these policy measures also prompt an increase in unemployment and poverty). And, the longer these COVID-19 measures last, the higher the damage becomes. It means governments need to come up with generous and effective stimuli.

Meanwhile, almost all analysts are now having big trouble setting accurate forecasts for economic growth in 2020 and 2021. The key reason for this is that the world is in uncharted waters. The huge drop in economic activity and limitations to people’s movement must resemble the situation of a world war (with hospitals having turned...
into modern battlefields). However, few of us, today, have experienced a world war, or world war-like conditions. In fact, the looming global recession is bound to be the worst recession since the Great Depression in the 1930s. But the COVID-19 crisis is unlike any other crisis we have seen in the past, including the Great Depression.

This has made it very confusing for analysts to set forecasts for economic growth. Without a precedent, analysts struggle to assess the extent to which damage has been done (and will be done) to both the global and national economies. Moreover, we are currently living in times of heavy globalized economies. Hence, a sudden and huge disruption to the flow of people and goods across international boundaries is bound to have far-reaching consequences on a wide range of industries, and in a big number of countries. Meanwhile, central governments are required to take swift and effective action by spending heavily on the national health sector, on companies, and on households. This implies that countries’ debt levels will rise significantly in 2020.

As a consequence of being in uncharted waters, various analysts (including those at Indonesia Investments) have had to cut their economic growth forecasts on several occasions in recent months (and weeks). As awareness of the massive impact of the COVID-19 crisis on economies is rising among analysts, their outlook for economic growth becomes increasingly dim.

In April 2020, data from China showed just how severe the economic damages are as the country reported that its Q1-2020 gross domestic product (GDP) contracted by 6.8 percent (from the same quarter a year earlier). Meanwhile, the International Monetary Fund (IMF) released an interesting report in early April in which it stated that – under the assumption that the COVID-19 pandemic and required containment
measures peak in the second quarter in most countries in the world, and then recede in the second half of 2020 – it projects global economic growth in 2020 at minus 3 percent year-on-year (y/y), a downgrade of 6.3 percentage points from the IMF’s global economic growth outlook in January 2020 (and thus an unprecedented huge revision, over a very short period of time).

Indonesia Bracing for Impact

While several countries in the West have now started (carefully) planning to reduce some policy measures, thereby allowing the return of some economic activity, as the peak in COVID-19 infections and fatalities seems to have passed, Indonesia in fact had to tighten social (and business) restrictions in April 2020. Tightening is needed because the COVID-19 peak in Indonesia is not in sight yet. Moreover, special caution is required as Ramadan (the holy fasting month in Islam) started on 24 April 2020, while Idul Fitri (the celebrations that mark the end of Ramadan) is just around the corner (on 22-25 May 2020).

In the context of the traditional Idul Fitri holiday, millions of city dwellers typically return to their places of origin (usually located in the rural or suburban areas) to spend a few days with their families (a tradition that is called mudik in Indonesian). This year, however, this traditional exodus could lead to a major health disaster as the larger cities (in particular Jakarta and Surabaya) are in fact the epicenters of the COVID-19 outbreak in Indonesia. Hence, if millions of city dwellers travel to the rural and suburban areas, it could lead to a deepening in the further spread of COVID-19 across Indonesia, thereby jeopardizing the health of the rural and suburban people (in particular elderly are vulnerable to the effects of COVID-19).
Indonesian virologists assume that the peak of the COVID-19 outbreak in Indonesia may arrive in late May, or, early June, roughly coinciding with the Idul Fitri holiday. This means that the Indonesian government needs to take measures to stop people from traveling, and thus avoid the worst-case scenario.

The Indonesian government therefore imposed heavy restrictions on all passenger travel (by air, sea, land or railway) in and out of “red zones” starting from late April 2020. This effectively means that people in Jakarta, Bandung, and Surabaya (all are red zones) cannot perform the *mudik* this year.

This *mudik* ban is necessary to limit the further spread of COVID-19 to the rural and suburban areas. But it also means that – in combination with the large-scale social restrictions in several cities and regencies across Indonesia – the Ramadan and Idul Fitri celebrations will be very sober this year. Typically, both Islamic festivities cause a huge rotation of money in Indonesia as people tend to spend heavily on food items and drinks as well as a wide range of other consumer goods (such as shoes, bags, and clothes). Moreover, when visiting the rural and suburban areas in the context of
mudik, a huge wave of money goes from the urban centers to the rural and suburban areas, thereby stimulating the regional economies. This money rotation will sadly be missed this year.

Still, the IMF remains remarkably optimistic about Indonesia’s economic growth in 2020, setting its forecast at 0.5 percent (y/y). We would not be surprised, however, if this projection is too optimistic and needs revision in the weeks ahead.

**Remarkable News from Indonesia**

Lastly, two remarkable news stories from Indonesia to conclude this introduction. Firstly, in April 2020, more than 38,000 Indonesian inmates (primarily elderly and children) were prematurely released from prison as concern rose among authorities that COVID-19 may spread rapidly in the country’s overcrowded prisons. It is worth mentioning that while the combined total of all Indonesian prisons across the nation is designed to handle 130,000 inmates, at the start of April 2020 there were actually around 270,000 inmates serving their sentence in Indonesian prisons.

Secondly, April 2020 was also the month in which many people in Jakarta – for the first time – could see Mount Gede Pangrango in Bogor and Mount Salak in Sukabumi, both in West Java, from Jakarta.

The image below, which was made around 1810 when Batavia (present-day Jakarta) was still in the hands of the Dutch, shows these two mountains in the background. However, due to huge traffic congestion in the Greater Jakarta area, especially since the 2000s, it has become impossible to see both mountains from Jakarta as pollution blocks the view.
Hence, the advantage of having the large-scale social restrictions and work-from-home orders in Jakarta is that traffic has decreased massively. As a consequence, the air is currently much healthier; and with less pollution, vision improves.

**Indonesia Investments’ April 2020 Report**

In the remainder of this April 2020 report we focus on the Indonesian economy and society amid the ongoing COVID-19 crisis (except for one article that discusses the global economy). We present articles on the social restrictions in Jakarta (and take a look at examples of conflicting regulations made by central and local authorities), on whether Indonesia-based companies can successfully claim *force majeure* under present circumstances, the *mudik* and passenger travel restrictions, foreign direct investment in the first quarter of 2020, the impact of the COVID-19 crisis on various sectors and macroeconomic indicators of Indonesia, and more.

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Coronavirus Tips: How to Protect Yourself

There is currently no vaccine to prevent the novel coronavirus disease (COVID-19).

However, you can protect yourself and help prevent spreading the virus to others if you:

- **Wash your hands regularly and thoroughly** for 20 seconds, with soap and water or alcohol-based hand rub. Remember that before your hands are clean, you should not touch your face, especially not (around) your eyes, nose and mouth as these are the key entrance points for any virus.

- **Cover your nose and mouth** with a disposable tissue or flexed elbow when you cough or sneeze. In case you feel unwell, wear a mask (to protect other people) and keep washing your hands often and thoroughly.

- **Stay Inside**; avoid contact with people and avoid going to crowded places or public places where people can leave the virus on items such as a doorknob, bench, or handrail. Hence, after returning home from grocery shopping, wash your hands. You may also want to wash the products you bought, because people often touch products that are on display in the supermarket.
- **Strengthen your immune system**; people who are healthy (which are usually young people) may not even notice that they are infected with COVID-19. The trick here is that their immune system is stronger (generally). Therefore, now is the time to take some efforts to strengthen your immune system by eating healthy (fruits and vegetables) and take some supplements, such as vitamin pills. Taking enough time to sleep is also crucial to help improve your immune system. Lastly, it is highly recommended to quit smoking (and not consume too much alcohol).
The only trade exhibition in children, baby, maternity industry is coming again in Indonesia. After its very successful event in 2019 by attracting more than 3000 visitors and bringing more than 120 brands from all over the world, CBME [Children, Baby, Maternity Expo] Indonesia will be held again for the 2nd edition at Jakarta International Expo (JIExpo) on 9 – 11 September 2020. CBME [Children, Baby, Maternity Expo] in other countries also held in China, Turkey, and India.

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Dedicated as a Business-to-Business platform, CBME Indonesia brings together buyers and suppliers to meet and grow their business. CBME Indonesia provides great opportunity for you to grow your business. During the show, CBME Indonesia successfully made programs that facilitated visitors to enlarge their business, such as business matching program and insightful seminar series.

Business matching program is a complimentary service for visitors to pre-arrange meetings with exhibitors in advance. CBME Indonesia provides an exclusive business matchmaking program designed to expedite the meeting process between importers, distributors, and whom already have narrowed down their potential business partners in mind. This program helps visitors to find companies that matched their business needs and maximize their visit.

CBME Indonesia is the right platform to find new business leads and contacts. It is a one-stop comprehensive trade fair that covers all the sectors of the industry providing comprehensive coverage with wide selection of suppliers and brands both from local and international.

Wide array of products and brands covering these categories

- Maternity and Baby Care Products
- Baby Carriages, Car Seats and Furniture
- Food and Health Care Products
- Toys, Educational Products and Souvenirs
- Children, Baby and Teenager Clothing, Footwear and Accessories
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