

Indonesia Investments

‘Closing a Remarkable Year’

- Looking Back at 2020, Looking Forward to 2021
- Regional Elections amid the COVID-19 Pandemic
- The Strategies Behind Widodo’s Cabinet Reshuffle
- Indonesia Great Soil for Electric Vehicle Industry
- Electric Vehicle Giant Tesla to Invest in Indonesia?
- Export and Import Performance Promising
- Calendar Year 2020 Inflation Lowest in 2 Decades
- Manufacturing Activity Remains in Positive Area
- What Are Indonesia’s Public Holidays in 2021?
- And more...

DECEMBER 2020

Van Der Schaar Investments B.V.
CV Indonesia Investments

Indonesia Investments

Monthly Report – December 2020

‘Closing a Remarkable Year’



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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 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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stands in a tradition that stretches back to urban development in the Dutch capital city of Amsterdam in the early 20th century.

We offer two types of subscriptions (or individual purchases):

(1) **Weekly updates + monthly reports**; on average we send one or two analyses of relevant subjects per week (“weekly updates”) to make sure that our audience gets the latest and most relevant news quickly (and complete with an analysis). These updates also form the basis of the forthcoming monthly report (in which the topics are usually discussed in more depth as we have more time to make an analysis).

(2) **Monthly reports only**; usually between the 2nd and 5th of the month, we release our monthly report. As mentioned above, this report discusses the most relevant economic, political, and social developments that took place in Indonesia (or global developments that impact on Indonesia) in the preceding month.

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Introduction – December 2020 Report

Another year has passed, and therefore we would like to wish all of our subscribers a happy, healthy, and successful 2021!

The transition to a brand new year is also typically a great occasion to look back at the year that has passed and look forward to the one that has arrived (and some may even have made a couple of New Year's resolutions in an attempt to achieve a certain goal or change a bad habit).

If we look back at the year that is behind us, then we certainly need to acknowledge that it was an unusual year, even an unprecedented year, with the main reason being the ongoing COVID-19 pandemic. This pandemic turned into an enormous economic recession around the globe as governments decided to impose severe business and social restrictions (including full lockdowns) in an attempt to cut the further spread of the virus.

Also in the case of Indonesia it meant that from March 2020 onward – when the first COVID-19 cases were confirmed in Indonesia – central and regional governments had to abandon or (at least) significantly change their pre-existing plans, ambitions, and programs. Instead, the focus had to shift to the handling of the crisis.

At first, regional authorities in the densely populated areas of Indonesia (areas that also tend to be the country's key economic centers) responded to the pandemic by

imposing far-reaching business and social restrictions. An example is the Jakarta Administration. Shopping malls in the capital city closed their doors from late-March to early-April 2020, while all other non-essential shops too had to close temporarily. Moreover, people were not allowed (or at least discouraged) to gather in groups (inside and outside) and had to obey a range of hygiene protocols in public (such as wearing facemasks or handwashing).

Meanwhile, workers and staff had to work from home (in the case of non-essential businesses) which in many cases is simply impossible. Moreover, the unprecedented drop in consumption, production, trade, and investment made labor unnecessary in many cases as business had simply stopped, and thus several millions of Indonesians are estimated to have been laid off over the past year, while millions of the country's micro and small entrepreneurs lost their business as sales plunged. This brings us to another sensitive side-effect: poverty is bound to rise steeply in Indonesia.



If possible, business and governance were done online. Therefore, video conference platform Zoom (few had heard of before the pandemic) became a very popular tool.

In line with expectations, the COVID-19 crisis pushed the Indonesian economy in a deep recession, the first one since the Asian Financial Crisis in the late 1990s. Given the large number of people who are affected by the crisis, the government had to come up with huge (social) spending programs to support the dozens of millions of households who live below, or just above, the poverty threshold as well as millions of entrepreneurs who were (and are) on the brink of collapse.

And while in many nations, especially developed ones, it is peoples' and companies' tax money that goes to national rescue funds, in Indonesia weak tax revenue makes the central government rather dependent on loans, including bonds, to collect the necessary funds. In fact, the central government struck a controversial IDR 574.59 trillion (approx. USD \$40 billion) debt monetizing deal with the central bank (Bank Indonesia), with the latter pledging to buy IDR 397.5 trillion worth of bonds at zero coupon rates. Contrary to earlier times (when the central bank always had to turn to the secondary market to invest in government bonds), Bank Indonesia is now able to buy the debt paper directly from the government.

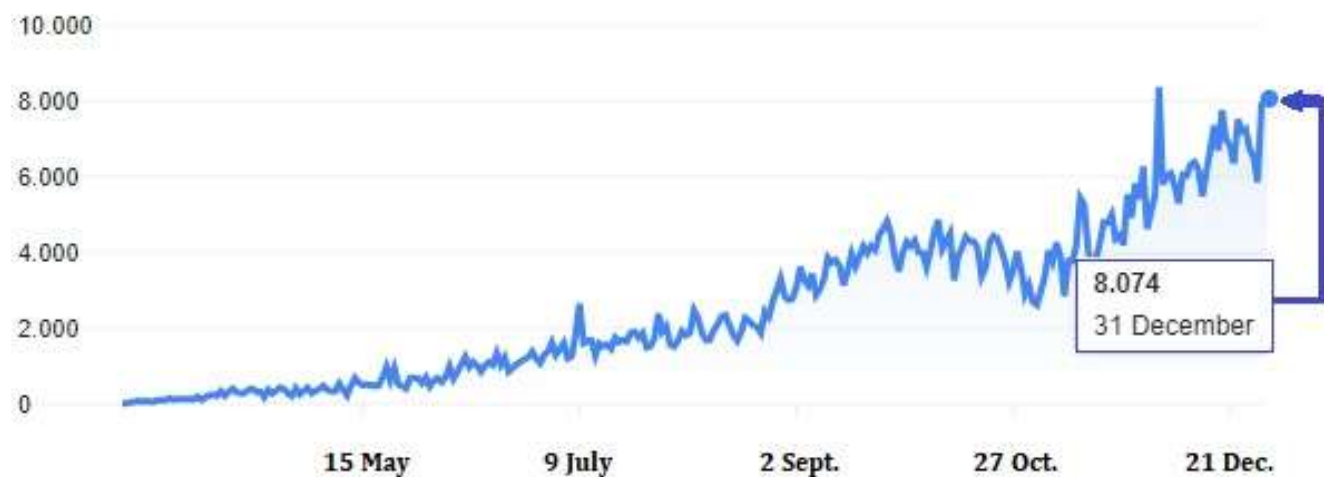
But although Bank Indonesia's bond buying program and monetary easing program do not involve the spending of peoples' and companies' tax money, it is certainly true that subsequently looming inflationary pressure in society can certainly be called a 'tax' that people will need to 'pay' in the future.

Concern about the COVID Pandemic in Indonesia Persists

As full lockdowns (for an extended period) are simply too devastating for both the economy and society (meaning that the cure is worse than the disease), Indonesia has seen so-called transitional lockdowns (*PSBB Transisi*) in various regions from June 2020, where economic activity is allowed to continue albeit at, for example, half capacity. For example, in the shopping malls of Jakarta visitor numbers are currently still limited to 50 percent of capacity (while the malls also close earlier than normal). However, although it does allow some sales to be made, many entrepreneurs in the shopping malls complain that their sales plunged between 50-75 percent amid these transitional lockdowns. So, layoffs can still not be avoided completely, and therefore it is a situation that cannot be continued too long as well.

Another problem is that the number of new confirmed COVID-19 cases in Indonesia continues to exhibit an increasing trend. While it is true that, on the one hand, we should not be overly concerned about the trend because Indonesia's testing capacity has been growing accordingly (with the positivity rate seemingly stabilizing around 12-13 percent, and thus the COVID-19 virus is certainly not spreading in a more intense manner as time goes by), it does mean the virus shows no signs of retreat. Hence, it is here to stay in the foreseeable future, and thus will continue to disrupt the Indonesian economy and society. And as Indonesia is currently in the middle of the rainy season, which means that people tend to gather indoors, it should be easier for any virus to spread (just like the peak in influenza patients during Indonesia's rainy season).

New Daily Confirmed COVID-19 Cases in Indonesia:



Source: <https://github.com/CSSEGISandData/COVID-19>

This is what makes us concerned about Indonesia's economic growth in 2021. Yes, several COVID-19 vaccines have been developed in record time (and immunization programs have even started in the West at the time of writing). But an immunization program in Indonesia (an enormous archipelago with a huge population) is bound to meet a lot of big obstacles, particularly related to the number of available medical personnel, administration, monitoring, infrastructure, and logistics.

Indonesian President Joko Widodo stated in December 2020 that he wants at least 70 percent of the Indonesian population (which is around 182 million individuals) immunized (necessary to establish herd immunity in the country). That certainly is a huge undertaking. Widodo actually volunteered to be the first one to be immunized once the Food and Drug Monitoring Agency (BPOM) has given the green light for the vaccine.

But besides the aforementioned obstacles for the immunization program, it remains to be seen how safe and effective these COVID-19 vaccines actually are. As there was a lack of time, it remains unknown how long people will be immune to COVID-19 after having received the vaccine. Even more alarming, it remains unknown whether there are any negative (long-term) health affects as a consequence of the vaccine.

It all means that we remain quite skeptic about seeing a major economic rebound in 2021. At this moment, we expect economic activity in the first half of 2021 to remain near the same levels we saw in Q4-2020. Only if the immunization program and the quality of the vaccine are both excellent, without flaws, in Indonesia, then we should expect to see a marked improvement in economic activity in the second half of 2021. However, if there will be any major setbacks in the country's immunization program, then lackluster economic growth is expected to persist throughout 2021 (but at least we can expect some economic expansion on an annual basis 'thanks to' the quite dramatic economic contraction in Q2-2020 and Q3-2020).

Although the starting date of the vaccination program across Indonesia has not been announced yet, Widodo did mention that the vaccine will be free for all Indonesian people. By making the vaccine free, more people should be willing to be immunized.

It is worth mentioning that the Indonesian government ordered six different COVID-19 vaccines, produced by Bio Farma, AstraZeneca, China National Pharmaceutical Group Corporation (Sinopharm), Moderna, Pfizer Inc. and BioNTech, and Sinovac Biotech Ltd. However, at the time of writing, they still require a license from BPOM.

A Political Month

December 2020 was also a political month for two reasons: (1) local elections were held across Indonesia, and (2) President Widodo decided to orchestrate a cabinet reshuffle. Again, and like anything else that has been going on over the past year, the COVID-19 crisis affected these occasions (or was the key trigger).

The regional elections in early December 2020 (which had been postponed from its original date in September 2020 due to the COVID-19 pandemic) were held under very strict hygiene and health protocols. Having an election amid an unprecedented pandemic also caused concern over whether people would use their right to vote. However, based on media reports, voter turnout was pretty stable (although we are yet to receive the official data).

There are also no indications that the COVID-19 crisis impacted on the local election results. This would be a different story than in the US where many analysts argue that US President Donald Trump would most likely have won the 2020 presidential election if there had not been a crisis.

Meanwhile, in the case of the latest cabinet reshuffle, the COVID-19 crisis certainly seems to have been the main trigger. However, while it makes sense that Indonesia's Health Minister was replaced, there are also some remarkable matters related to this cabinet reshuffle (as five other ministers were also replaced). This is discussed in a

separate chapter in this month's report. But one of the interesting matters we like to mention here is that both pairs who ran in Indonesia's 2019 presidential election are now united in Joko Widodo's cabinet. Besides defeated presidential candidate Prabowo Subianto, who has been Defense Minister since the start of the cabinet, we now also see the entry of defeated vice-presidential candidate Sandiaga Uno. He has now become Indonesia's Tourism and Creative Economy Minister. It reconfirms that there is great political unity in the country's political domain, with the five biggest political parties (based on the 2019 legislative election results) being in the Widodo coalition. Safeguarding political support amid a crisis is crucial for any government as crises periods are typically great occasions for opposition to undermine people's support for the cabinet (which could potentially add more chaos).

The Electric Vehicle

Something else that we discuss in this report is the electric vehicle. Considering the enormous amount of pollution that is caused by traffic across Indonesia, we highly support the gradual transition from cars and motorcycles running on fossil fuels to vehicles running on electricity. Interestingly enough, Indonesia holds great potential in terms of the electric vehicle industry.

Indeed, Thailand still controls biggest car production capacity in the Southeast Asian region (conventional cars that is), with Indonesia being second with annual installed car production capacity of around 2.5 million. But the advantage of Indonesia is that it has vast reserves of nickel (vital for the production of electric vehicle batteries).

Considering it is the battery that makes the electric vehicle expensive, having ample nickel reserves at home should allow production costs to ease for manufacturers in Indonesia. Meanwhile, the USD \$3.0 billion Patimban Seaport in West Java, which is planned to become the country's key export hub for vehicles, was inaugurated by President Widodo in December 2020. Vehicle exporters will be able to avoid the high logistics costs at the heavily congested Tanjung Priok port in North Jakarta.

Conveniently, the Karawang regency, which hosts the country's largest automotive factories, is located nearby the Patimban seaport and its output will be directed to this seaport for outbound logistics. It is part of the infrastructure development that enables Indonesia to achieve its ambition of becoming a top electric vehicle power.

However, there remains some homework to be done. Not only does the Patimban seaport still requires further construction to meet its (full) designed capacity, but it is also important to integrate the seaport with the industrial hinterland via toll roads because road transportation typically contributes up to 50 percent of logistics cost in Indonesia. Smooth connection via quality toll roads is therefore a must.

Not only the Indonesian government, but also private foreign investors are aware of Indonesia's potential in terms of the electric vehicle manufacturing industry, and therefore several big foreign players announced their investment commitments, or, are seriously considering to invest in Indonesia (such as Tesla that is scheduled to visit Indonesia in January 2021).

We have only one concern related to Indonesia's electric vehicle industry. While it is positive to replace cars and motorcycles that run on fossil fuels with those that run on electricity, we should not forget that electricity itself also needs to be generated via a power source. Unfortunately, in the case of Indonesia, electricity generation is dominated by fossil fuels. In fact, coal-fired power plants play a significant role in the central government's ambitious 35,000 MW power program (as coal is readily available across Indonesia). Meanwhile, development of renewable energy sources in Indonesia (such as geothermal energy, hydropower or solar energy) go at a very slow pace (and the government's renewable energy targets will most likely not be achieved in the years, even decades, ahead).

So, if Indonesia – itself an enormous car and motorcycle market with its 270 million population – will see its gas and diesel fueled vehicles being replaced with electric ones in the years ahead, but at the same time meets rising electricity demand via power plants that use fossil fuels, then ultimately not much is won. Ideally, the rise in electricity demand in Indonesia is met by an electricity supply that is powered by renewable energy sources. This too is something the Indonesian government needs to tackle.

CV Indonesia Investments

Jakarta, Indonesia

2 January 2021



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Research Report

'Indonesia's Energy Sector'



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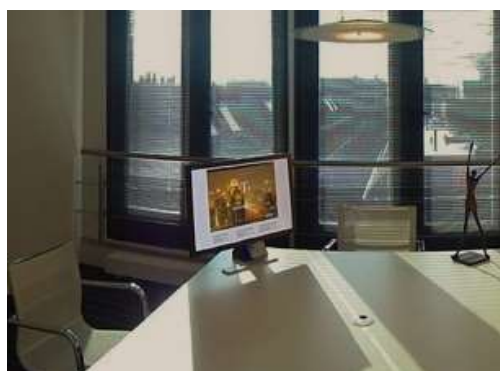
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Coronavirus Tips: How to Protect Yourself & Others

There is currently no vaccine to prevent a novel coronavirus (COVID-19) infection.

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**. Wear a face mask when going outside (mainly to protect other people) and wash your hands often and thoroughly when back inside.



- **Stay inside**; avoid unnecessary contact with people as well as unnecessary traveling, particularly to crowded or public places. After returning home from necessary activities such as grocery shopping, do not forget to wash your hands. You may also want to wash the products you bought, because people often touch products that are put on display in the local 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).



- **Ventilation**; make sure that rooms inside houses, apartments, and buildings are properly ventilated as a COVID-19 infected person can spread aerosols so small that a facemask cannot prevent them from going into the air or from going into the lungs of someone who wears a facemask. Ventilation systems need to get a good supply of fresh air from outside and/or use a good filter. It is also advised to open windows in closed spaces.

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