

Indonesia Investments

Impact of Russo-Ukrainian War

- How Does the Russo-Ukrainian War Impact on the Indonesia Economy?
- Analysis of Economic Activity in Indonesia; How Is the Economy Doing in Q1-2022?
- Renewable Energy in Indonesia; Challenges and Opportunities of Biomass Development
- Motorcycle Sales Reflect Overall Economic Conditions: Improving But Not Normal Yet
- West Worries about Stagflation, Indonesia Experiences Deflation in February 2022
- Omicron Wave Burdens Manufacturing

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

Indonesia Investments

Monthly Report – February 2022

‘Impact of Russo-Ukrainian War’



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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.



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

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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1 edition	IDR 150,000	USD \$11	EUR €11
3 editions	IDR 428,000	USD \$31	EUR €26
6 editions	IDR 810,000	USD \$58	EUR €50
12 editions	IDR 1,530,000	USD \$110	EUR €95

To purchase an edition of our monthly report (or to subscribe for a longer period), you can inquire about further details via email – info@indonesia-investments.com – or by phone: +62(0)882.9875.1125 or +62(0)8788.410.6944 (including WhatsApp text messages). Also for general questions, comments and any other feedback we can be contacted through email and telephone.

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Disclaimer

Lastly, we would like to emphasize that – although we strive to present accurate, up-to-date, and objective information in our reports – Indonesia Investments cannot guarantee the accuracy of all data and information that is included. We also do not intend to provide legal, investment, tax, or accounting advice through the contents of this report, and therefore the reader should not perceive this report as such. In short: Indonesia Investments cannot be held responsible for decisions based on the content of this report.

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Introduction – February 2022 Report

In the last week of February 2022 the international community was rocked by the blatant Russian attack on Ukraine, triggering a full-blown war in the eastern part of Ukraine. The attack was launched by Russian President Vladimir Putin after months of Russian military build-up around the borders between Russia and Ukraine. But, while that was a serious sign that something was about to occur, few expected to see an actual invasion. Most analysts assumed the Russian military build-up was simply aimed at putting pressure on Ukraine in an effort to thwart the latter's ambitions to join the North Atlantic Treaty Organisation (NATO) and European Union (EU).



This brings us to the essence of the matter. Ukraine has been caught in the middle of a battle between two forces that compete for (expansion of) their influence spheres. From the west, it are NATO and EU that are trying to pull Ukraine into their influence sphere. At the Brussels Summit, organized in June 2021, NATO leaders reiterated the

decision that was taken at the 2008 Bucharest Summit to allow Ukraine to become a member of this alliance (NATO being an alliance that was specifically set up at the beginning of the Cold War to curb communism and expansion of the former Soviet Union in Europe; something that may make those Russian leaders who lived through the Cold War – and who can be called ‘products’ of the Cold War years such as Putin – quite suspicious and concerned).

Meanwhile, from the east, Russian leaders have repeatedly demanded over the past three decades that Ukraine should remain neutral, being a sort of buffer between the West and East. This stance of Russia might be explained by the argument that Russia does not want NATO weaponry close to its borders. It is true that Estonia and Latvia, both direct neighbours of Russia, have already been NATO members since 2004. But considering Ukraine is bigger in size and more strategically positioned (and possibly also – culturally and historically – of more significance to Russia), this could make it the (final) straw that broke the camel’s back (as a seemingly minor action causes an unpredictably large and sudden reaction because of the cumulative effect of a series of smaller actions).

In this scenario, we should also question the intentions of NATO and EU as they seek eastern expansion in Europe. What are exactly the motives behind such expansion, particularly considering NATO and EU are well aware of Russia’s concerns? And, as long as there’s a leader in Russia who is a product of the Cold War it might have been

in everyone's interest to tone down NATO and EU expansion ambitions in Eastern Europe until, perhaps, a new generation leads Russia.

On the other hand, since 2014 (which is the year when Russia used military force to annex Crimea, which was the only part of Ukraine home to a majority population of ethnic Russians) anti-Russian sentiment seems to have grown in Ukraine, and so has the appeal of the West with its allure of economic prosperity. And, if Ukraine and the West want to embrace each other, one could also defend the standpoint that this is solely their business and not anyone else's to interfere.

There is also the possible scenario that President Putin already had the intention of forcefully taking back Ukraine one day in order to (partially) re-establish the former borders of the Soviet Union. This intention would be significantly harder to achieve once Ukraine has become a full NATO or EU member because of the mutual defence agreements (which would likely trigger World War III), and therefore Putin could not wait for much longer.

At this moment, most remains speculation. But what seems certain, though, is that the Russo-Ukrainian war implies massive consequences for US-EU-Russia relations. These relations are bound to be disturbed for a long time. In fact, we might even see the return of the Cold War, depending on how matters unfold. And considering Putin is in a situation where he has nothing left to lose (since relations with the West are

irrevocably damaged, while a defeat in the Ukraine would cause Putin to lose face at home in Russia), we fear that this war can escalate even further.

In this edition's first article we zoom in on the Russo-Ukrainian war, trying to get a clearer picture of what is happening, and with special emphasize on the (possible) effects of the war on Indonesia (which currently holds G20 presidency and therefore may need to be particularly diplomatic in its statements concerning the invasion).

COVID-19 Situation

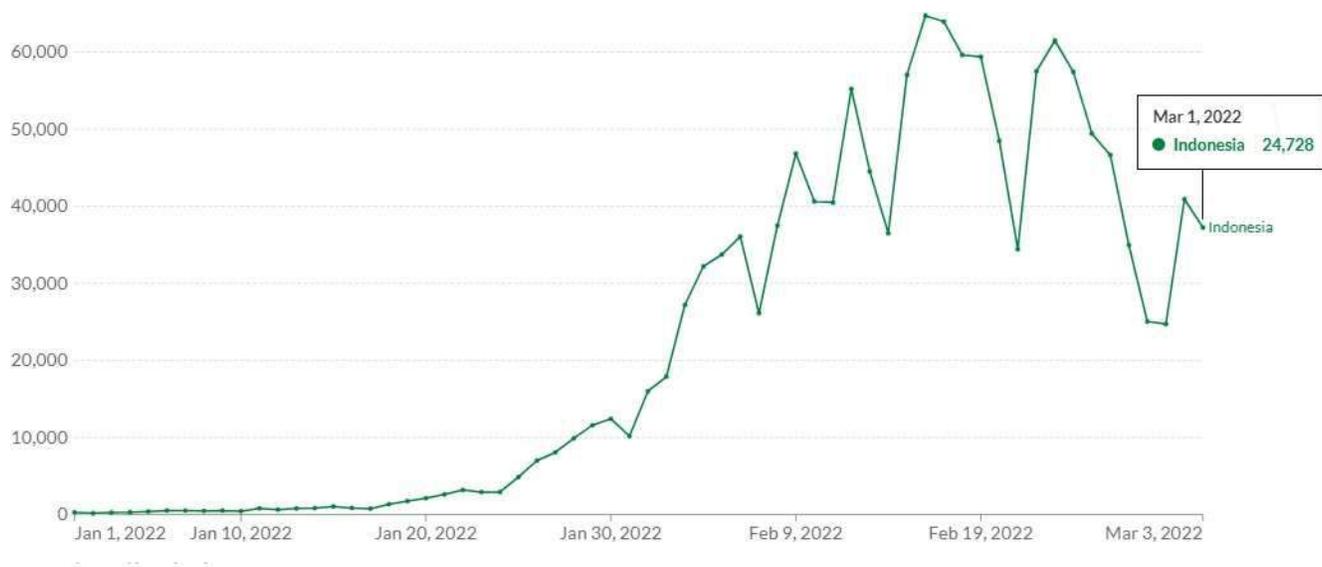
The Russian invasion of Ukraine, which obviously deserves a lot of attention due to its sheer magnitude, also managed to somewhat distract media's attention from the COVID-19 virus, which – ironically – is a positive development as we assume that less media coverage of this topic allows for more economic activity (as people are easily and unnecessarily frightened by the coverage, hence may limit consumption).

Since November 2021 we have argued that the (then) new Omicron variant might be the last chapter of the COVID-19 pandemic as this variant is less dangerous than earlier COVID-19 variants, while at the same time more infectious. And considering natural infection triggers broader (and longer) protection than the vaccine-induced protection, Omicron basically replaces existing vaccination programs (although we emphasize that the vulnerable people in society, namely elderly and/or those with

underlying medical conditions are advised to get a booster, similar to the seasonal flu shot that is common in the West, as it puts their immune systems in a stronger position to battle the virus if there occurs an encounter).

Overseeing the latest developments, our conviction has only strengthened. Despite the high number of new confirmed COVID-19 cases in Indonesia (see chart below), hospitals' bed occupancy rates (or BOR) have remained under control, including in those provinces where most positive cases are reported (West Java, Jakarta, Banten, and East Java).

Confirmed COVID-19 Cases in Indonesia (01 January 2022 – 01 March 2022):



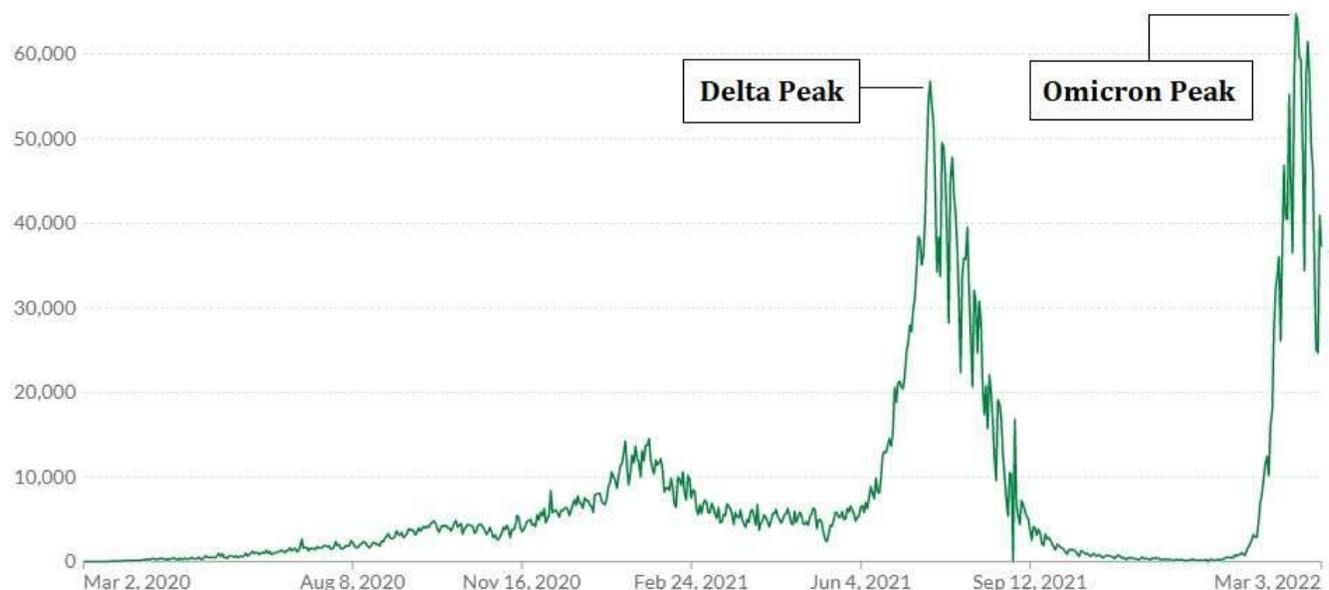
Source: www.ourworldindata.org/covid-cases

What is interesting about the chart above is that it seems to show a mildly declining trend, dropping from a record of nearly 65,000 positive cases on 16 February 2022

to slightly over 37,000 cases on 1 March 2022. However, the data could be distorted as Indonesia had a public holiday on 28 February 2022 (*Isra Mikraj*, the Ascension of Prophet Muhammad). Earlier we had seen that public holidays tend to disturb the underlying pattern or trend because there occurs a decline in test capacity.

Something else that is interesting to mention is that we did not experience the giant wave of Omicron infections that was predicted by Indonesian Health Minister Budi Gunadi Sadikin. Last month we reported that Sadikin urged the Indonesian people to remain careful as he projected an (at least) threefold increase in COVID-19 cases compared to the Delta peak (that was reached on 15 July 2021 when almost 57,000 positive tests were recorded in Indonesia).

Delta versus Omicron Peak in Indonesia (Confirmed Cases):



Source: www.ourworldindata.org/covid-cases

For now, it seems that confirmed Omicron cases peaked only modestly higher than Delta (see the chart above). This is interesting because most countries (particularly those with impressive vaccination rates) show a much higher Omicron peak (which explains why Health Minister Sadikin warned about a possible threefold increase compared to the country's Delta peak). So, this suggests that the people of Indonesia had built solid immunity 'thanks to' the natural spread of Delta in society in the first half of 2021 (which unfortunately also caused excess deaths). It is yet another sign that the Indonesian government (and media) need to carefully review and analyse the effectiveness of the vaccination program (engaging in some self-reflection).

We are optimistic that the COVID-19 threat will fade further in the months to come since all new mutations that sprout up seem to be less dangerous than pre-existing variants. Hopefully, the year 2022 is the last one in which the impact of the COVID-19 pandemic is felt by the Indonesian economy (although we assume that a sector like tourism will require a few more years to fully recover).

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Coronavirus Tips: How to Protect Yourself & Others

Immunization programs have started but it is important to remain careful to avoid becoming infected with COVID-19, or, infect others.

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



- **Cover your nose and mouth** with a (disposable) tissue or flexed elbow **when you cough or sneeze**. Wear a face mask when going outside (this won't stop aerosols unfortunately but should prevent the larger droplets from spraying), and wash your hands often and thoroughly when back inside.

- **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 each day). And do not forget to exercise! Taking enough time to sleep and avoiding stress are also crucial to improve the immune system. Lastly, it is highly recommended to quit bad habits, most notably: smoking!



- **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 or doors in closed spaces so there is a good supply of fresh air.

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