

Monthly Report – January 2020

# INDONESIA INVESTMENTS

“Digital Economy of Indonesia”



# Indonesia Investments Monthly Update

## *Digital Economy of Indonesia*

January 2020



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*\* The picture on the cover of this month's edition is owned by Gojek*



## 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 key international developments that impact on the economy of Indonesian or its politics.

Our monthly reports are intended for a wide audience, including individual and corporate investors, financial market participants, policy makers, journalists, diplomats, academics, and analysts.



The website of Indonesia Investments is the key reference and access point for gaining knowledge about Indonesian markets, the economy, and cultures. The website is owned by Van Der Schaar Investments B.V., a privately-held investment company (Ltd.) which 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 Indonesia Investments, please visit: **[www.indonesia-investments.com](http://www.indonesia-investments.com)**.

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Lastly, we would like to emphasize here that – although we strive to present accurate, up-to-date, and objective information to the reader – Indonesia Investments cannot guarantee the accuracy of all data that is included in this report.

- 
- **Individual Subscription**; reports are only intended for one individual
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# The 6<sup>th</sup> ASEAN Refining and Petrochemical Forum

21- 22 April, 2020  
Jakarta, Indonesia

>> Premier regional refining and petrochemical industry conference for ASEAN countries scheduled in April, Jakarta

ConnecForce will be holding **The 6th ASEAN Refining & Petrochemical Forum** in Jakarta of Apr 21-22, 2020. Continued the success of the 2019 event. The conference will gather the key participants from refining and petrochemical players of Indonesia and other major ASEAN countries such as **PT Pertamina, PT Chandra Asri, PT Lotte Chemical, PETRONAS, PTTPLC, PetroVietnam, PTTGC, Idemitsu, Cosmo Oil, SINOPEC, JG Summit, Reliance Industries Ltd** and many others. Important topics to be covered include maintaining refinery and petrochemical plant competitiveness, mega projects in Indonesia and other countries, overcapacity, demand and supply of refining and petrochemical products in the region etc. This is the premier annual industry conference for the refining and petrochemical industry in ASEAN countries providing both networking opportunities and valuable intelligence.

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## Introduction

Faithful readers of our monthly reports surely notice something different in this month's edition. Considering the month of January is usually a relatively quiet month in terms of economic and political developments, we therefore decided to release a special edition as our first report of 2020.

What is so special about this January 2020 edition? Well, it primarily focuses on the lively and rapidly developing digital economy of Indonesia. Of course, in the second part of the report, we discuss the (usual) updates on the key macroeconomic indicators of Indonesia, including the country's trade performance, the rupiah rate, inflation, and monetary policy. However, the first part of the report is devoted to topics related to the digital economy. In case we receive positive feedback, then we may release such specials (editions in which we focus on one specific sector) more often in the future.

And we strongly believe to have valid reasons to focus on Indonesia's digital economy as this sector has been a real game changer, particularly in the case of Indonesia. The arrival of the digital era has not only changed peoples' habits and lifestyles, but it also changed the way business and governance are conducted.

Although these are very challenging times (as a lack of response to the new environment can ruin a well-established business) it also brings opportunities: those who are innovative and creative now have more opportunities than before to become successful businessmen.

In Indonesia there are a number of examples of innovative minds who, in a relatively short time-span, have built big companies (including several unicorns as well as one decacorn) by offering efficient solutions to Indonesian society. However, in the same short time-

span, there have also been countless tech startups that failed disastrously. So, success is certainly not guaranteed.

The digital economy allows a high degree of efficiency and effectiveness. Traditionally a store or restaurant only sold products or meals to customers who visited the physical store or outlet (and, in some cases, they had their own delivery services to transport the sold items to the customer). Hence, the customer base was limited to those who know the store or restaurant (and who intentionally traveled to it to purchase something), or, those who coincidentally passed by the outlet and decided to take a look inside.

Today, however, things have changed. Millions of Indonesians are using smartphones to find, order, and pay for a meal or product through a mobile application and Internet. The item that was purchased is then simply transported to their homes. It saves time, energy, and – in many cases – money for the consumer. Indonesia's leading e-commerce platform, Tokopedia, now facilitates over USD \$1 billion worth of transactions, each month (!), and based on data from similarweb.com, Tokopedia's website had almost 75 million visitors in December 2019. Not bad for a company that recently celebrated its 10<sup>th</sup> anniversary.

Those are very impressive numbers for a (young) company indeed, and the e-commerce sector has been a true game changer. Millions of Indonesian companies now have created accounts on Tokopedia (or its rival Bukalapak) to sell their products online as it opens up the customer base for the business owner – sometimes even quite drastically. Business has become less constrained by space and time because (potential) customers do not need to visit the physical stores anymore. Customers who would normally never have come across the outlet are now ordering the outlet's products because it came up when searching in a mobile app or on the Internet. This allows the business owner to make more sales, hence earn more income (while more economic activity should open up employment).

It is interesting to note that the digital economy of Indonesia develops at a very rapid pace. In fact, at an unbelievably rapid pace, especially when we compare it to – for example – developments in the Europe. There are a couple of crucial reasons behind this situation. One is that in Indonesia conditions are rather chaotic (due to matters such as the lack of infrastructure development or the lack of quality public transport), and therefore efficient solutions are needed, and are very well received by the people. For instance, why go out in heavy traffic if you can order products from home and simply wait for them to arrive at your location? Moreover, transport of the items to your home is sometimes even free, and if not, a relatively small fee is added as fuel prices and the cost of labor are both cheap in Indonesia.

This example is markedly different from Europe where infrastructure is relatively well-developed and therefore there is fewer room to introduce efficient solutions. Moreover, in Europe the cost of labor and energy prices are relatively expensive, so it would not be possible to offer such solutions to consumers at a cheap price.



Another good example are the ride-hailing services that are offered by Gojek and Grab. As public transport in Indonesia is not in a good state (albeit improving), urban residents

are dependent on private players for transportation (in case they do not own a motorcycle or car themselves), such as the conventional taxicab or motorcycle taxi (*ojek*). However, if you wanted to use a taxicab or *ojek*, you first had to go out to the street and find one.

What Gojek and Grab introduced to Indonesia was much more customer friendly, namely a mobile app that allows you to order a car or motorcycle which would come to your place to pick you up. Moreover, the price of the ride is determined in advance, meaning the driver is eager to take the fastest route to your destination (while many conventional taxi drivers would deliberately take a wrong route or slow lane to let the meter run higher).

Another important reason that explains the success of the digital economy in Indonesia is that the country has a young and tech-savvy population that is extremely interested in the latest technological developments (specifically related to mobile applications and online games). Internet and the smartphone (including the mobile apps) have become a true part of Indonesians' lifestyles.

## **Important Topics in January 2020**

Although this January 2020 edition particularly focuses on Indonesia's digital economy, it is important to mention several subjects that impacted on Indonesia in the first month of 2020.

### **2020 Jakarta Floods**

Firstly, there were the floods at the start of January. After unusual heavy rainfall, floods hit Jakarta on New Year's Day, killing at least 66 people and displacing around 60,000 people. It was, in fact, the worst flooding in the area since 2007. Besides heavy rainfall,

a significant contributing factor is that a major part of Jakarta is located below sea level. Flooding becomes severe when heavy rain coincides with high tides. When this happens, the high tides push water into the low-lying areas coinciding with the runoff from rains in upland areas (such as Bogor) flowing down into the Jakarta area. Fortunately, the floods did not lead to significant inflation in January 2020. But local authorities will need to put some more thinking in structural solutions to overcome these floods.

### **Rising Tensions in South China Sea**

Secondly, there emerged concern about Indonesia-China relations when in early January 2020 more than 60 Chinese fishing vessels were spotted across various locations within Indonesian territorial waters (Indonesia's Exclusive Economic Zone, or EEZ). And those Chinese vessels were backed by ships of China's coast guard.

The Indonesian government responded on 8 January 2020 by ordering Indonesian naval vessels into the area and dispatching fighter planes to patrol it. In response, the Chinese fishing fleet was reported to have withdrawn.

It is not the first time this had happened. According to China, these waters (although being located nearly 1,000 miles from the Chinese mainland) have traditionally been fished by Chinese. Beijing therefore claims that the South China Sea waters are part of the nation's traditional fishing grounds (known as the infamous nine-dash line), thereby making it a 'legal and legitimate right' for Chinese vessels to fish in these waters. However, Indonesia and the other countries in the Southeast Asian region obviously do not agree with China's point of view.

Meanwhile, the Indonesian government argues that it has rights to a 200-mile EEZ from its archipelago baseline (in line with international law). The picture below shows that the nine-dash line and the 200-mile EEZ overlap and therefore cause tensions.



Although tensions cooled quickly, it is likely that such incidents will reoccur in the future as China persists with its stance that it is entitled to the majority of the South China Sea.

## Coronavirus Causes Concern around the Globe

A new disease has been in the news in recent weeks: the coronavirus. According to the World Health Organization, coronaviruses are a large family of viruses that cause illness ranging from the common cold to more severe diseases such as Middle East Respiratory Syndrome (MERS-CoV) and Severe Acute Respiratory Syndrome (SARS-CoV). A novel

coronavirus, which is responsible for the recent outbreak, is a new strain that has not been previously identified in humans.

Coronaviruses are zoonotic, meaning they are transmitted between animals and people. Several known coronaviruses are circulating in animals that have not yet infected humans.

The 2019-2020 novel coronavirus outbreak originates from Wuhan, the capital of China's Hubei province. As of 4 February 2020, more than 20,600 cases and 427 deaths have been confirmed. A larger number of people may have been infected but not detected (especially mild cases). The disease has also spread to other parts of Asia, Australia, Europe, Canada, United States, United Kingdom, and Russia.

So far there have not been any official novel coronavirus cases in Indonesia. However, if the disease has spread throughout a major part of the world, it is highly unlikely that there are no cases in Indonesia, especially considering the fact that many people travel between China and Indonesia. It was reported on 4 February 2020 that one Indonesian maid, who works and lives in Singapore, was diagnosed with the coronavirus.

In late January 2020, 243 people – comprising 237 Indonesian nationals, one foreigner, and five Foreign Ministry officials – had been evacuated from Wuhan to the Hang Nadim International Airport in Batam (Riau Islands) by the Indonesian government. They were immediately transferred to Raden Sadjad Air Force Base in Natuna where they are now quarantined and where their health will be monitored for two weeks. So far, the medical examinations found no indications of the novel coronavirus.

Besides humans, stocks have also been a victim of the novel coronavirus. The Shanghai Composite index closed nearly 8 percent lower, its biggest daily drop for more than four

years, after the market reopened after the Lunar New Year holiday. But also most other parts of the world were hit by plunging stocks amid concern that the novel coronavirus is spreading throughout the world and particularly affects the (already slowing) economy of China. Nearly all benchmark stock indices are in red territory so far in 2020.

Lastly we would like to take the opportunity to thank you for purchasing the January 2020 edition, titled '*Digital Economy of Indonesia*'. We hope that this report contains valuable information for you.

### **Indonesia Investments**

Delft (the Netherlands) & Jakarta (Indonesia)

5 February 2020

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