

Indonesia Investments

‘Indonesia’s New Normal’

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- And more...



JUNE 2020

Van Der Schaar Investments B.V.
CV Indonesia Investments

Indonesia Investments

Monthly Report – June 2020

‘Indonesia’s New Normal’



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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.

To purchase an edition of our monthly report (or to subscribe for longer periods), you can inquire about further details by email - info@indonesia-investments.com - or by phone: +62.(0)8788.410.6944 (incl. WhatsApp messages). Also for questions, comments, and other feedback we can be contacted through both channels.

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Introduction – ‘Indonesia’s New Normal’

June 2020 Report

The novel coronavirus (or COVID-19) crisis has a wide range of economic and social consequences. For example, the Indonesian economy is likely to contract this year (for the first time since 1998), while millions of Indonesians have lost their jobs over the past three months, and the majority of the country’s enterprises have seen their sales plunge. It are tough times, especially for Indonesia’s near-poor, and the micro, small, and medium-sized enterprises who typically have limited liquidity (available cash reserves). The sharp decline in revenues can even push many of the vulnerable people and entrepreneurs – those who live not far above the poverty threshold – into full-blown poverty.

Another, quite interesting, side-effect of the COVID-19 crisis is that it has encouraged the shift from offline business to online business. While Indonesia had already been experiencing rapid growth of the digital economy over the past decade (in particular its e-commerce sector, online travel, and ride-hailing services) on the back of rising Internet and smartphone penetration, the young and tech-savvy population, rising e-wallet penetration, and the rapidly growing economy (giving rise to an expanding middle class), relatively few domestic businesses had ‘gone digital’.



According to data from Indonesia's Ministry of Cooperatives and Small and Medium Enterprises, there are some 63 million micro, small, and medium-sized enterprises (MSMEs) active in Indonesia. A whopping number, indeed! And these MSMEs are in fact the backbone of the national economy, contributing 61.1 percent to Indonesia's gross domestic product (GDP), while providing employment to almost 117 million people (hence absorbing about 97 percent of Indonesia's national workforce). In other words: saving the MSMEs means saving the Indonesian economy from a big crisis.

Therefore, the Indonesian government allocated IDR 695.2 trillion (approx. USD \$50 billion) to spend on national economic recovery amid the unprecedented COVID-19 crisis. This includes IDR 123.5 trillion (approx. USD \$8.8 billion) specifically for the MSMEs. One may wonder though whether that is enough, especially considering the huge role these MSMEs play in the Indonesian economy.

Meanwhile, back to the topic of online businesses, only around 13 percent of total Indonesian MSMEs are currently selling their products and services on the Internet (through the big e-commerce platforms, such as Tokopedia and Bukalapak, and/or through the social media platforms, such as Instagram and Facebook). Many of them have seen their earnings rise in the COVID-19 crisis.

As people are advised to stay home amid the crisis, while various shopping centers and businesses have had to close their doors (temporarily) on the orders of local authorities, many consumers decided to shop online for a range of products such as food items and drinks, cosmetics, and clothes. In fact, Indonesia's large e-commerce platforms, such as Bukalapak and Blibli, actually confirmed to Indonesian journalists that – since the start of the social and business restrictions – they have experienced a significant increase in online shopping activities on their platforms.

It shows that going digital pays off for MSMEs. However, only 13 percent of MSMEs have gone digital so far (prior to the crisis), which implies that the remaining 87 percent are not yet involved in the digital economy. This is a risk. As the economy is changing and the role of Internet is growing, these entrepreneurs are increasingly missing out on sales.

And what makes this topic very relevant in relation to the COVID-19 crisis is that the crisis actually forced many offline businesses to go online amid the self-imposed social and business restrictions that have been introduced by Indonesia's central and regional authorities (if entrepreneurs refrain from going digital, then basically the only other alternative is: stop making sales).

Airlangga Hartarto, Indonesian Coordinating Minister for Economic Affairs, said that between 14 May 2020 and 9 June 2020 slightly over 300,000 MSMEs underwent a digital transformation. Most of them had to make the transformation to safeguard sales. Nonetheless, there remain about 54.5 million MSMEs who are stuck offline.



The Indonesian government threw its support behind this accelerated trend of going digital amid the COVID-19 crisis with the basic assumption that the more MSMEs are

shifting online, the fewer people are without income, and the fewer people fall into poverty. Prior to the COVID-19 crisis the government was already pushing for digital transformation but this issue has gained importance in the new reality.

And indeed, the recently accelerating trend of ‘going digital’ (both for the consumer and entrepreneur) may very well be something that is here to stay. Once the crisis has passed, MSMEs that recently went digital are unlikely to return their focus solely on offline business after the COVID-19 crisis has passed (whenever that may be).

Thus, while the digital economy was already part of the old normal, it is going to play an even much bigger role in the ‘new normal’, a recently-introduced term that refers to people’s changing routines as a consequence of the impact of the COVID-19 crisis. Routines of both consumers and entrepreneurs are likely to change structurally.

Speaking of the new normal, one chapter in this edition is devoted to (what we see) as the new normal for Indonesia – in specific sectors – in the period ahead. While some routines and forms of behaviour may change structurally, other ‘old’ routines and behaviour could return once the crisis has passed.

An example is the tourism sector. This is possibly the hardest hit sector in the COVID-19 crisis and is likely to need a long time to recover (as tourists’ confidence needs to be restored). We assume that the ‘behaviour’ of tourists will be different in the time to come (which could be temporary or permanent pending further developments related to COVID-19). For example, we assume that hygiene and health will become more important matters for tourists, while budget travel becomes less appealing. This is something entrepreneurs in the hospitality industry need to respond to. The new tourist might be willing to spend more on (quality) accommodations to increase

chances that health/hygiene protocols are carefully being monitored and enforced (rather than taking the cheapest hotel deal where health/hygiene protocols may be neglected).

Energy Sector of Indonesia

We also devote quite some attention in this month's edition to the energy sector of Indonesia. In fact, Indonesia Investments is scheduled to release a research report on Indonesia's energy sector in mid-July 2020. While the research report will go into all the details, we provide a broad overview of Indonesia's energy sector in this June 2020 edition of our monthly report. Those who want the in-depth study can contact us to order the research report.

Lastly, we would like to thank you for purchasing this June 2020 edition and we hope that it contains valuable information for you.

Indonesia Investments

Jakarta (Indonesia) & Delft (the Netherlands)

1 July 2020

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New Research Report

‘Energy Sector of Indonesia’



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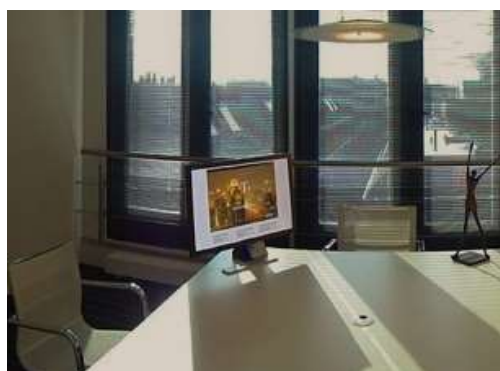
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Coronavirus Tips: How to Protect Yourself

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).



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