



# Government Responses to COVID-19 Pandemic

Leonardo A. A. Teguh Sambodo, Ph.D

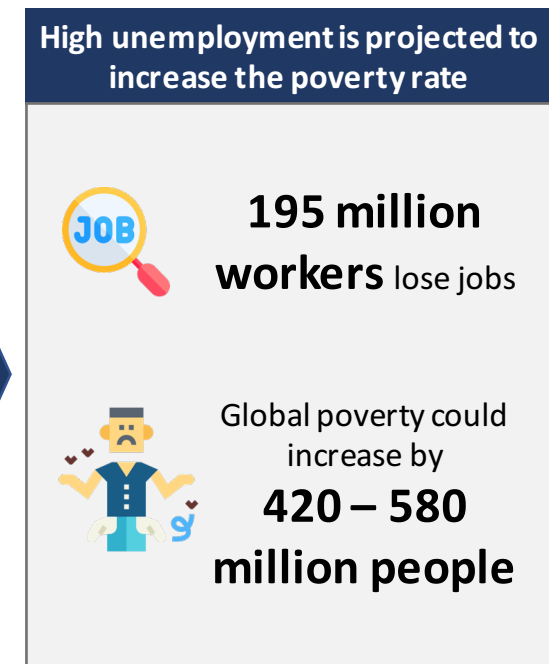
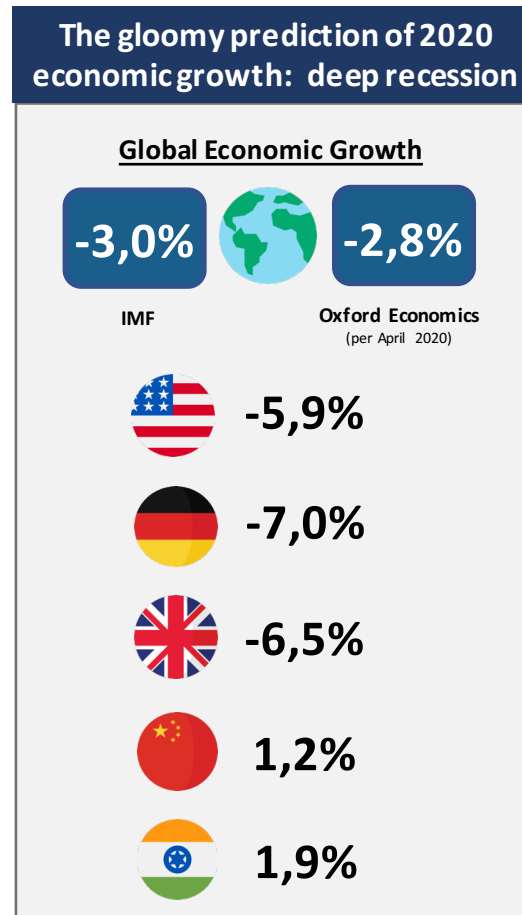
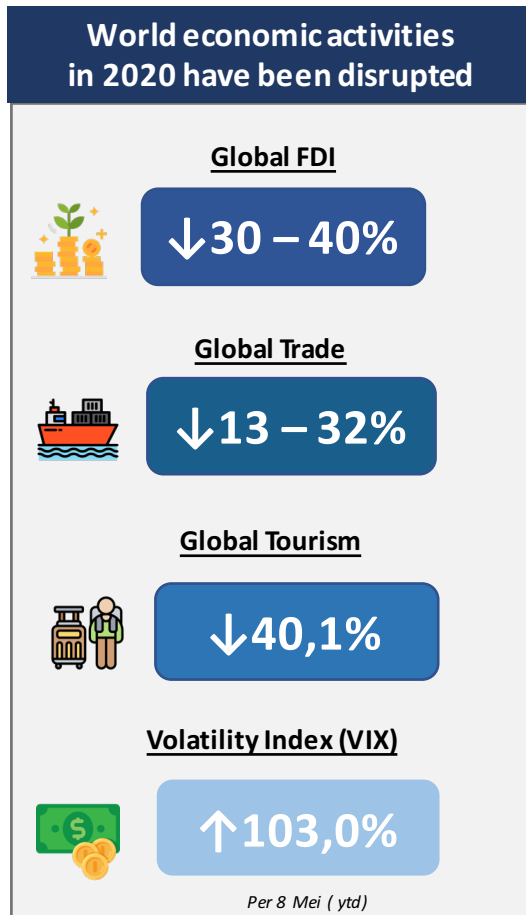
Director for Industry, Tourism and Creative Economy

Acting Director for Trade, Investment and International Economic Cooperation

Jakarta, 13 May 2020



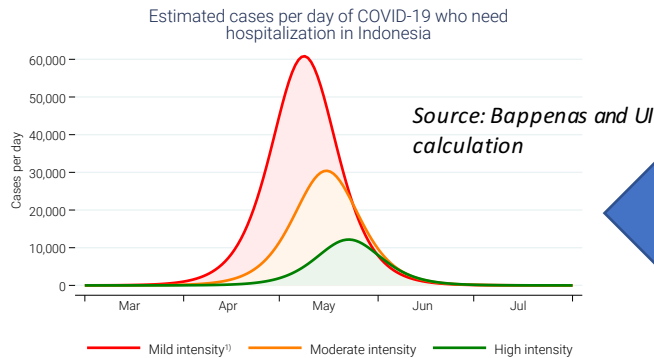
# The Massive Impact of COVID-19 to Global Economy



Sources: WEO IMF April 2020, Oxford Economics, Bloomberg, WTO, UNCTAD, ILO, Sumner et al (2020)

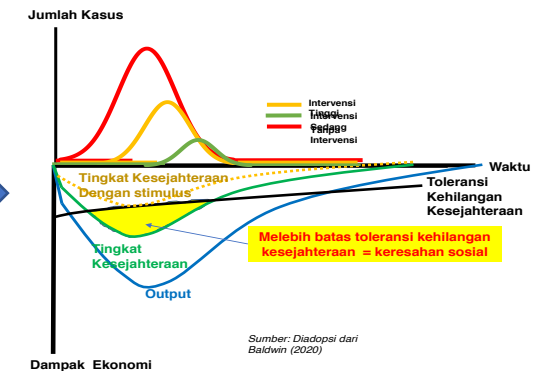


# The Impact of COVID-19 to the Indonesian Economy



Note:  
Estimated cases is based on assumptions:  
R0=2.5, doubling-time=5 days, and disease onset=3<sup>rd</sup> week of January 2020  
1) As a proxy for current situation

Until the invention of vaccines for Covid-19, a degree of social distancing policy is still needed. Government needs to reduce the negative impact to the economy by providing fiscal stimulus to vulnerable people and businesses.



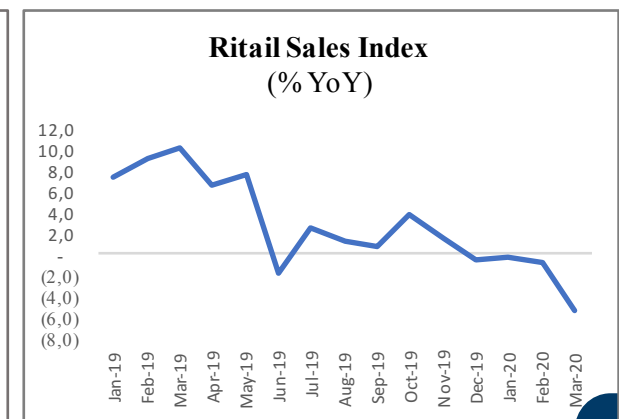
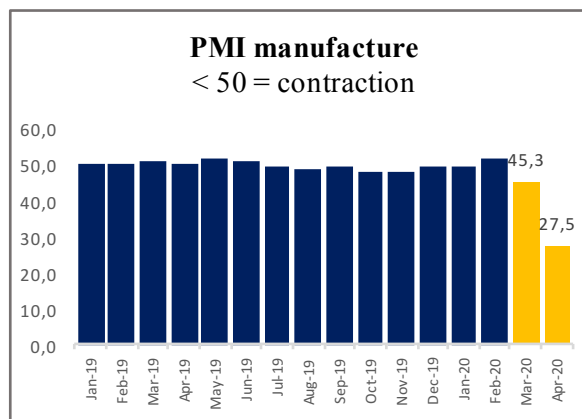
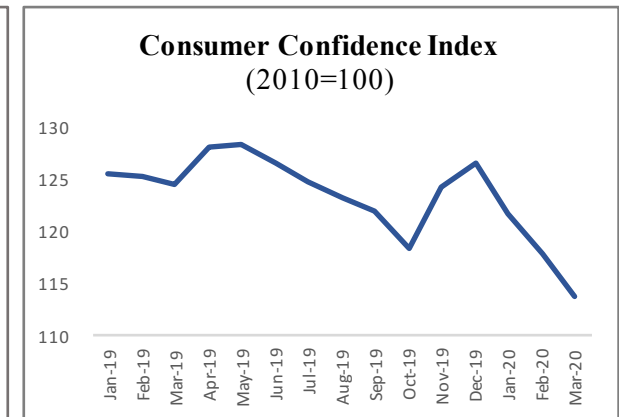
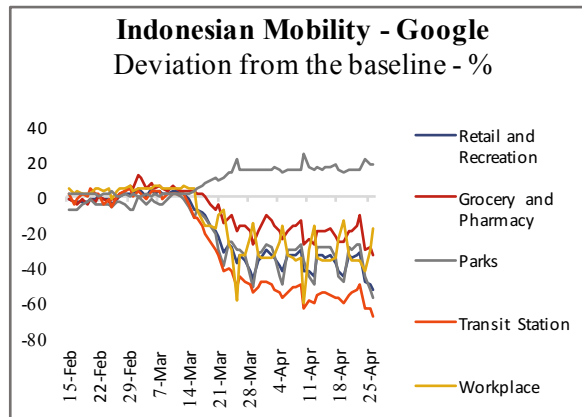
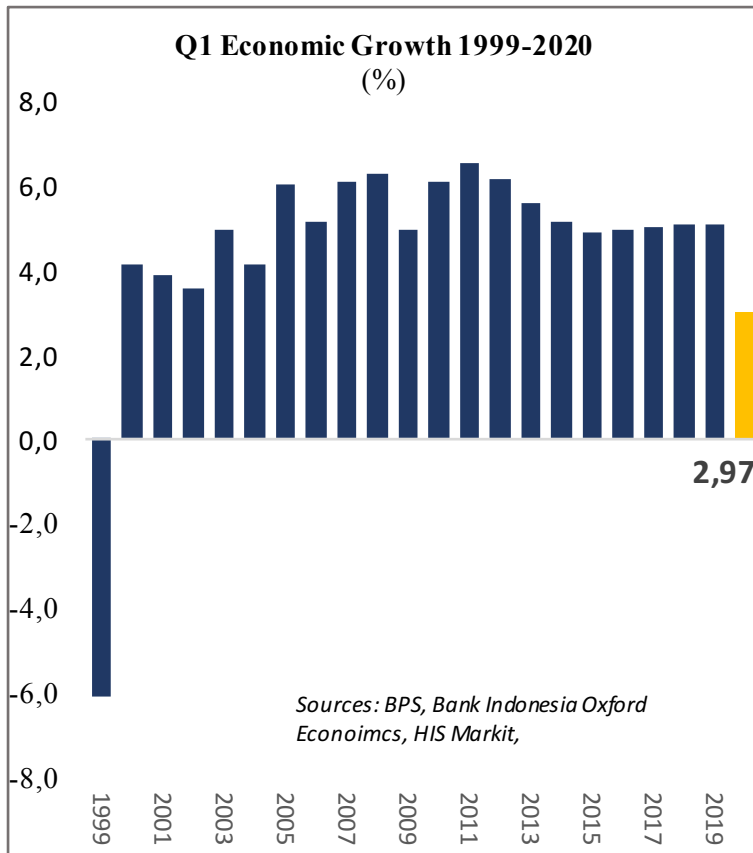
Households	Businesses/ SME	Government	Financial institution	Rest of the World
<ul style="list-style-type: none"> <li>- <b>Loss of income</b> due to job loss and social distancing.</li> <li>- Reduce the consumption of non-essential goods.</li> <li>- Increase savings.</li> <li>- Higher prices of some products due to the logistic disturbance.</li> </ul>	<ul style="list-style-type: none"> <li>- <b>Lower demand for goods and services</b> both for export and domestic.</li> <li>- Facing cash flow issues.</li> <li>- Lay-off some employees and facing threat of bankruptcy.</li> <li>- Supply chain and distribution disturbance</li> </ul>	<ul style="list-style-type: none"> <li>- <b>Lower government income</b> due to declines in economic activities and commodity prices.</li> <li>- <b>Higher government expenditure</b> to support the economy</li> </ul>	<ul style="list-style-type: none"> <li>- <b>Higher volatility</b> in financial market.</li> <li>- Rupiah depreciation.</li> <li>- Liquidity issues and insolvency problems of banks and financial institutions.</li> </ul>	<ul style="list-style-type: none"> <li>- Lower people movement activities.</li> <li>- Disturbance in global trade and investment.</li> <li>- Supply chain disturbance</li> <li>- Declines in international commodity prices.</li> </ul>
<div>↓</div> <div><b>C</b></div> <div><b>Kons. RT</b></div>	<div>↑</div> <div><b>G</b></div> <div><b>Kons. Pemerintah</b></div>	<div>↓</div> <div><b>I</b></div> <div><b>Investasi</b></div>	<div>↓</div> <div><b>X</b></div> <div><b>Ekspor</b></div>	<div>↓</div> <div><b>M</b></div> <div><b>Impor</b></div>



# COVID-19 Impact on Indonesian Economy

The economic growth in Q1 2020 has been the lowest growth ever since Asian Financial Crisis 1998/1999.

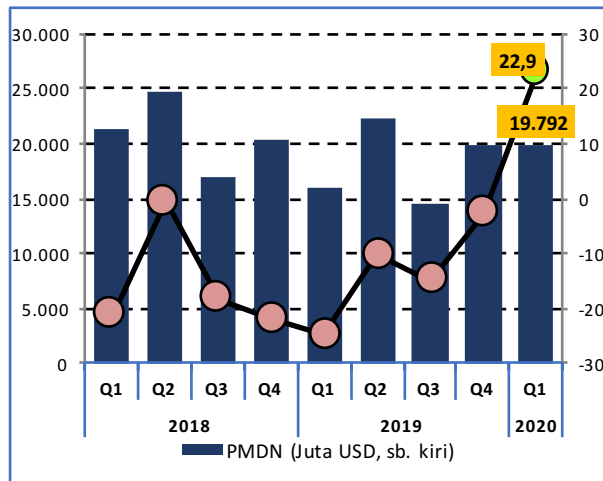
The slowing down of economic growth is the result of the declining in consumption, production and investment activities since March 2020.





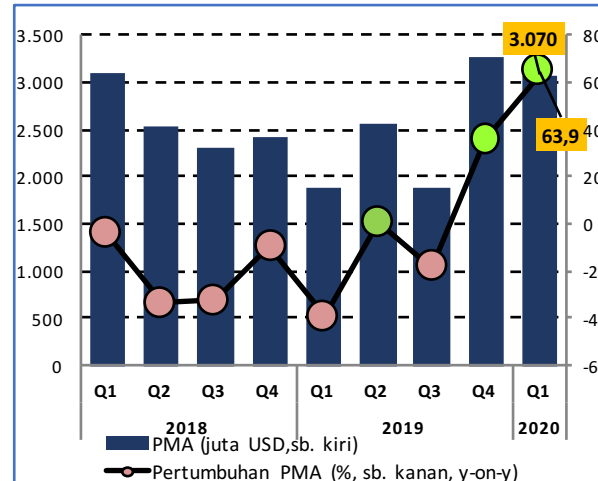
# Investment and Export of Manufacture in Q1 2020

## Domestic Investment (PMDN)

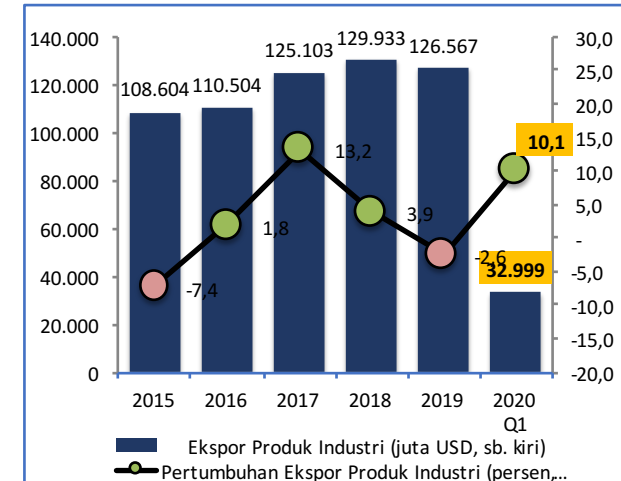


Source: BPS, 2020

## Foreign investment (PMA)



## Export of Manufacture



- The value of domestic investment in Q1 2020 is Rp19,8 trillion or increased by 22,9 percent (YoY).
- Food and beverages industry is one of sectors that have the highest investment realization. It contributes to Rp7,3 trillion (6,5 percent).

- The value of foreign investment in Q1 2020 reaches USD 3,1 million or increased by 63,9 percent (YoY). The increase is contributed by investment in basic metal industry, as well as chemical and pharmaceutical industry.
- The contribution of investment in manufacture is 45,1 percent.

- The export value of manufacture products in Q1 2020 has increased by 10,1 percent (YoY).
- The highest increase is in export of steel (36,2 percent), and the highest decrease is in vehicle and parts (12,5 percent).



# Policy Responses in the Period of COVID-19

As well as the preparation for the economic recovery post Covid-19



- Phase 1-3 are policies that are needed during Covid-19 as well as in the recovery period.
- Phase 4 focus on the recovery strategies.

The impact of Covid-19 is similar to the impact of major disaster or war. Therefore, a big economic recovery plan from government is needed. Some countries have discussed some programs that are as big as Marshall Plan after the WWII.

Sources: adaptation from IMF

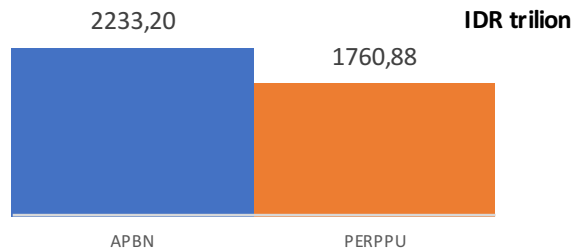




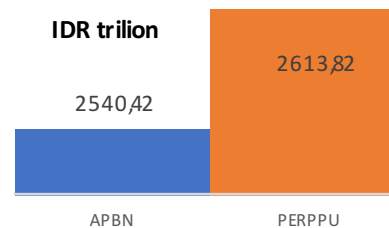
# Fiscal Policy



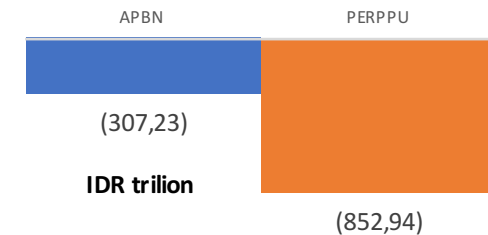
## Government revenue



## Government expenditure



## Fiscal Deficits



### STIMULUS I

(IDR 8,5 T)

- Extending the groceries card (kartu sembako)
- Extending the interest subsidy for housing
- Incentive for tourism
- Accelerating the implementation of the pre-work card (kartu pra-kerja)
- Reallocation of DAK (Specific Allocation Fund)

### STIMULUS II

(IDR 22,5 T)

- Relaxation of taxes (PPh dan restitution of PPN)
- Simplifying the export and import procedures.

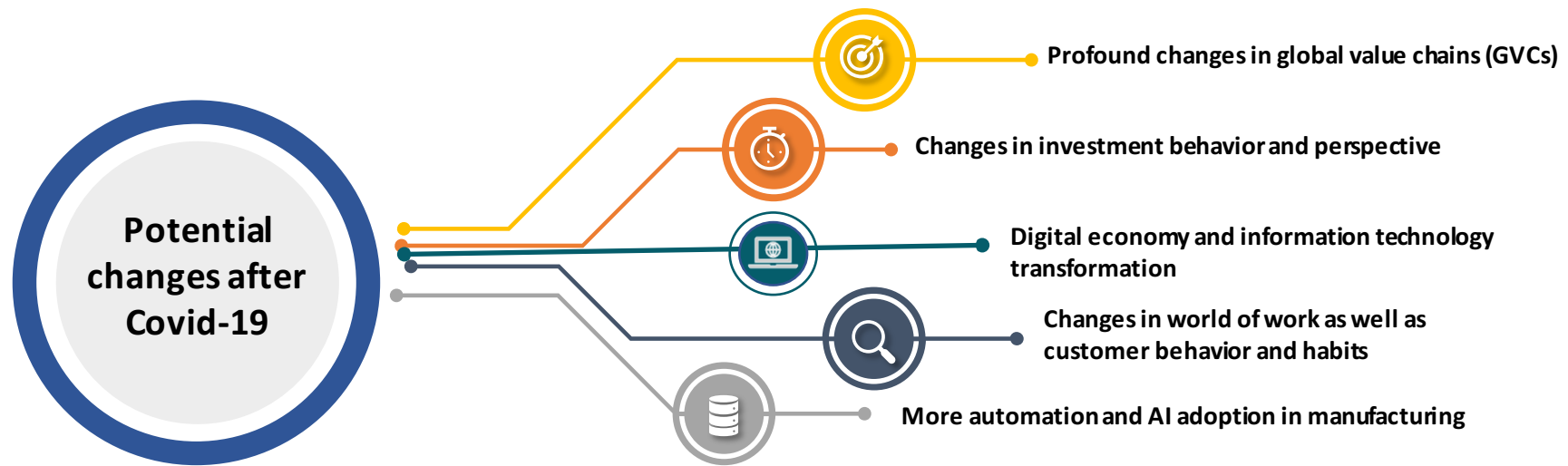
### STIMULUS III

(IDR 405 T)

- Rp75T for health sector
- Rp110 T for social assistances (PKH, BPNT, electricity discounts, BPJS, kartu Pra-Kerja)
- Rp 70,1 T for tax incentives and KUR
- Rp150 T for economic recovery including assistance for businesses and SMEs.



# Anticipating Changes on Economic Structures After Covid-19



## Business condition after Covid-19

- Firms try to start their business and may face financial issues

- Huge needs of capital and investment to rebuild business

- Consumer demand and sales might have not fully recovered

- Companies might have difficulties to employ workers at the same level as in 2019

- Potential changes in comparative/*competitive advantage*

- Financial sector condition might have not stabilized





# Strategies For Economic Recovery Post Covid-19



## INVESTMENT ACCELERATION

Attract investment to stimulate economy through: accelerating the integration of Online Single Submission (OSS), relaxation on regulations, debottlenecking, aftercare services to retain existing investment, extending scopes of positive list investment.

## RECOVERY IN INDUSTRY AND TRADE

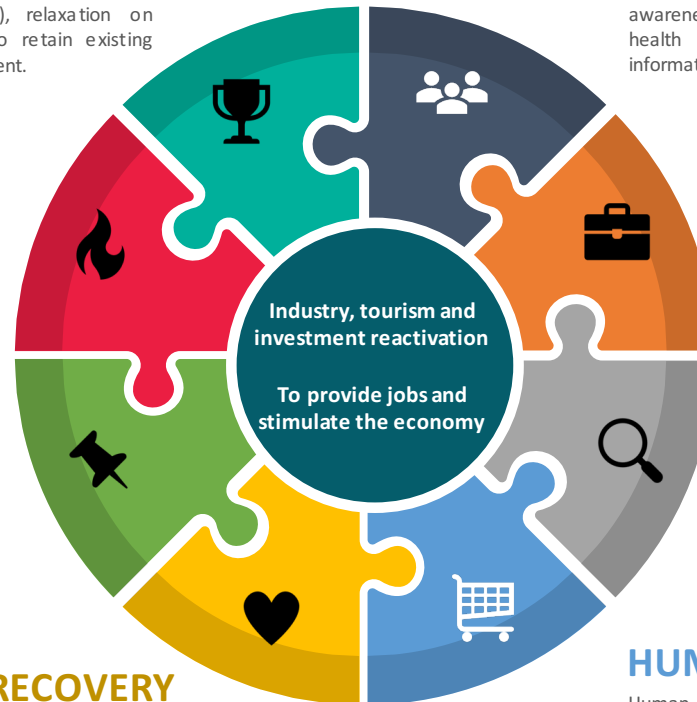
Optimalization the sectoral competitive advantage, government procurement optimalization, accelerating the industrial development especially in food and baverage sectors as well as in medical and pharmatical sectors, improvement on export facilitation, facilitating the intermediate inputs import, improving the product standard, optimalization the utilization of PTA/FTA/CEPA, improving the logistic efficiency.

## FINANCIAL SECTOR DEEPENING

Deepening the domestic financial sector by strengthening the structure, the resilience and the stability of the financial sector.

## TOURISM RECOVERY

Increasing the flight frequencies and destinations; increasing the tourism promoton; increasing events: sports, art and culture and MICE; providing incentives and tourism packages for priority destinations; improving the infrastructures and services standard; arranging public holidays to domestic tourists.



## STRENGTHENING THE HEALTH SECTOR

Strengthening the health sector by improving efforts on health awareness promotions and preventive actions, improving the health security capacities, labs capacities and networks, information system, as well as health resources and facilities.

## EXTENSION OF THE SOCIAL PROTECTION PROGRAM

Extending the social protection program, including the improvement of database of informal sectors in order to maintain the consumer purchasing power after Covid-19.

## INFRASTRUCTURE DEVELOPMENT

Investment on labour intensive infrastructures to support the industrial estate and tourism.

## HUMAN CAPITAL DEVELOPMENT

Human capital development to improve productivity and competitiveness of workers by strengthening the vocational education and training as well as intermediate and higher education.



# Investor Perception Study: SWOT Analysis

## PERCEIVED STRENGTHS:

- Domestic market demand and potential
- Macroeconomic stability
- Proximity to key international markets
- Relative political stability
- Workforce adaptability

## PERCEIVED WEAKNESSES:

- Subnational institutional inefficiencies
- Regulatory inconsistencies
- Workforce skills gaps in core disciplines (e.g. engineering)
- Limited market access – including foreign ownership limitations and partnership requirements
- Access to land and cost-competitive premises

## PERCEIVED OPPORTUNITIES:

- Ongoing political uncertainty in Thailand
- To strengthen economic ties with key partners, including through more FTAs and other agreements
- Enhanced collaboration with other ASEAN countries to find complementarities in sectoral GVCs (i.e. they're not always just competitors).
- To absorb examples of institutional good practice from other countries (e.g. EDB Singapore, Invest India)
- 'Quick-fixes': e.g. procedures to obtain an APEC Business Travel Card and Bahasa Indonesia documentation requirements

## PERCEIVED THREATS:

- Competition from elsewhere in ASEAN and further afield: the IPS survey reveals that of the companies that had Indonesia on their location shortlist, 50% ultimately selected another location.
- Issues of corruption – particularly at subnational levels
- Investor protection provisions (or lack thereof)

*\*The points featured in this SWOT analysis are based on investor perceptions. As such, they are debatable and cannot be taken as fact.*



# Investor Perception Study: Investors' Feedbacks

## MORE FTAs

Investors noted the smaller number of bilateral and multilateral agreements in place compared with other ASEAN markets.

## SECTORAL FOCUS

Government FDI attraction efforts need to be based on a manageable number of sectors and subsectors: too many priorities means a loss of focus.

## MORE OF A FOCUS ON AFTERCARE\*

Going beyond resolving investment hurdles / debottlenecking for prospective investors seeking to establish their operations and develop a longer-term investor relationship-oriented service offering.

## IDENTIFY AND WORK ON 'QUICK FIXES'

A couple of suggestions included simplifying the procedures for Indonesians to obtain an APEC Business Travel Card, revising the Bahasa Indonesia language documentation requirements, as well as the provision of select key government documentation in English and potentially other key languages

*\* Aftercare is widely used as an umbrella term to cover an IPA's services designed to support investor retention and expansion in their locations. The ongoing COVID-19 pandemic has meant many businesses will not currently be looking to establish operations in new locations, focusing instead on supporting and sustaining their existing operations*



**Thank You**