

Insights: Quarter 4, 2020

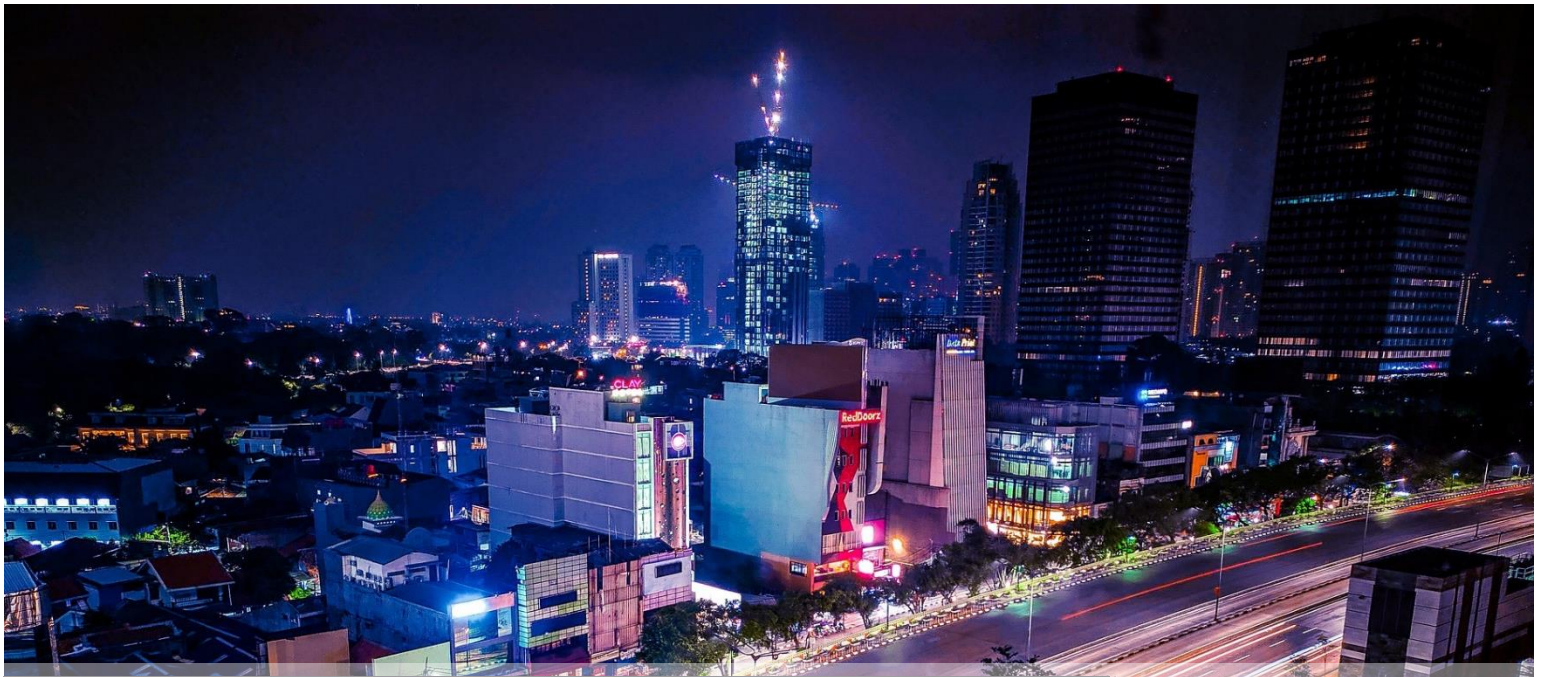
Indonesia Economic Update Report

This Issue:

Indonesia's Economic Performance in Q4
President Jokowi signs controversial bill to
create one million jobs

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Indonesia suffered its first full-year contraction in over two decades in 2020

In Q4, Indonesia gradually recovered from the recession, driven by an increase in consumption and government expenditures.

Indonesia's economic performance gradually recovered in Q4 2020, with contraction 2.07% (YoY). Compared to previous quarter, the contraction is a clear indication of economic improvement. The economic rebound is partially driven by the increase in domestic consumption and a considerable increase in government expenditure. According to the Bank of Indonesia (BI), people are confident about the economic recovery, which reflects in the large increase in household consumption.

Though the Indonesian economy shows signs of recovery, it is still slower than expectation due to the uneven recovery by different sectors. Sectors that require on-site production are largely impacted by the social distancing policy during the pandemic period. Within the manufacturing sector, the production was back to Q1 levels by the end of 2020, and is expected to continue its steady growth in 2021 with increasing demands for export. On the other hand, industries like communication and education, which are not constrained by the social distancing, are relatively resilient.

In the coming year of 2021, Indonesia's economy is expected to gradually recover from the recession as the pandemic situation eases.

In 2020, Indonesia records their biggest trade surplus since 2011

Indonesia's exports increased by 14.6% (YoY) in December 2020 and is expected to further increase in 2021. The country's import and export values reached its lowest point in May, but has since then seen a steady recovery. In December 2020, the economy witnessed a strong export rebound and recorded a 2.10 billion USD trade surplus in December, which is smaller against the surplus of 2.62 billion USD in November.

The trade gap has narrowed down since Oct 2020 with the significant increase in imports. However, imports are still lower than the same period of previous year. Overall, the trade surplus of the whole year of 2020 reached 21.74 billion USD, which is recorded as the largest surplus since 2011.

Indonesia Trade Value from May to Dec 2020

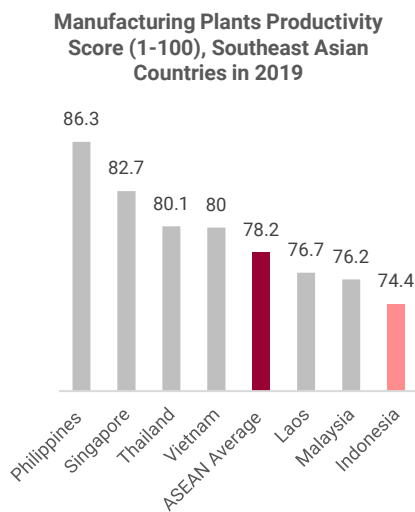


Source: Statistics Indonesia, Trading Economics

President Jokowi signs controversial bill to create one million jobs

Last November, Indonesia's President Joko Widodo officially enacted a controversial "job creation" law, usually known as the omnibus law, by giving it his signature a month after it was passed by the parliament.

With the omnibus bill coming into effect, more than 70 labor, tax, and other key laws will be adjusted. According to the government, the newly passed law is expected to create an additional one million jobs annually and increase Indonesia's worker productivity, which is currently way below Southeast Asia's average level. The omnibus law is also meant to reduce regulations and bureaucracy in areas from mining to industry and labor to business licensing, which ultimately helps to attract more foreign investment to Indonesia and kick-start the recovery of the archipelago's economy amidst the pandemic.

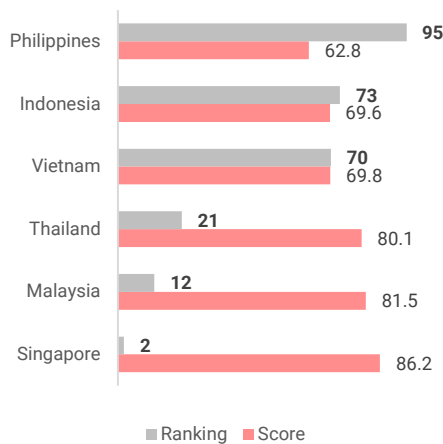


Source: Japan External Trade Organization (JETRO)

From the supporters' perspective, the reforms will give Indonesia an advantage in capitalizing on shifts in the global manufacturing supply chains. In fact, many multinational corporations are looking into the opportunities for moving parts or complete supply chain operations from China to Indonesia due to uncertainties caused by the China - U.S. trade tension, as well as the rising labor costs in the market.

However, the opposing party, a coalition of labor, environmental and civil society groups, claimed that the new law would impede Indonesia's ability to achieve goals on decent work, sustainable economic growth, climate action, and environmental protection. Trade Unions state that the omnibus law weakens minimum wage provisions, extends maximum overtime hours and allows employers to keep workers on temporary contracts an indefinite period of time. These adjustments are believed to degrade workers' rights and eliminate the comfort of working and social security for many workers. The new law also poses a serious threat to Indonesia's carbon emissions reduction targets as it opens the door to unrestrained logging and an upsurge in coal mining.

Southeast Asian Countries' Ease of Doing Business Ranking and Score (1-100) in 2020



Source: World Bank

In addition, the critics accused the government of mishandling the legislative process as the drafting process took less than six months. Legal experts have deemed the process as "flawed" for rushing through wide-reaching legal changes with minimal social dialogue or public participation. The later discovery of various typos in final draft of the Job Creation Law and changes made even after the law was ratified caused an uproar on Indonesia's social media and has even led some activists to question the validity of the law.

Indonesia fastens the mass vaccination program to save the country from recession



After nine months into the pandemic, Indonesia finally welcomed the first batch of three million doses of COVID-19 vaccine produced by China's Sinovac Biotech in December 2020, marking the next phase of the country's mass inoculation program.

In total, Indonesia has secured 329 million vaccine doses. In order to reach herd immunity, the country will need to vaccinate 181.5 million people (67% of its population), which requires around 427 million doses of vaccine.

Besides the vaccine procured from overseas firms, an Indonesia's COVID-19 vaccine is also being developed by a consortium of the Health Ministry's Research and Development Agency, Bio Farma, Eijkman Institute for Molecular Biology, and several universities. By October 2020, the development of this vaccine has reached 55 percent and it is expected to be ready for clinical trial on humans by early 2021.

The government aims to vaccinate its 267 million population for free, starting with frontline health workers. Contrary to what the Western countries are doing, Indonesia plans to prioritize working adults over the elderly. The government believes that younger working adults are generally more active, more social and travel more so this strategy should decrease community transmission faster. If the vaccination program succeeds, it will help fasten the economic recovery in Indonesia.



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