RSIS COMMENTARY

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Growing Out of COVID-19: Can New Tools Work?

By Richard Borsuk

SYNOPSIS

There are two new tools for Indonesia to help draw needed foreign investment – the Omnibus Law and a wealth fund. But do not expect significant gains until the pandemic is under control.

COMMENTARY

COVID-19 CONTINUES to ravage Indonesia, Southeast Asia's biggest economy. Indonesian officials expect a small contraction in 2021's just-ended first quarter, which would mean a fourth consecutive period of shrinkage – which has slashed jobs and consumption – compared with a year earlier. Still, President Joko Widodo should feel upbeat about the longer-term economic outlook based on some developments during the first quarter.

Surprising sceptics who have been assuming bureaucratic lethargy, the drafting of implementing rules for bureaucratic reforms under the Omnibus Law, which should help attract investors, was completed on schedule, 90 days after the president signed it. Also, Indonesia launched an ambitious "sovereign wealth fund" to draw hefty foreign inflows to build more infrastructure. The United Arab Emirates even pledged US$10 billion for the fund.

COVID-19 Cloud

However, an ominous cloud still hovers over Indonesia – and until it dissipates, the recession-hit economy likely will have at best an anaemic recovery that is not strong enough to recreate the millions of jobs lost last year, and create new ones for the millions entering the labour force every year. The cloud, of course, is COVID-19.

For the economy to get back on a steady growth track, “control of the pandemic is really, really important,” Indonesian Chamber of Commerce and Industry vice-chair Shinta Kamdani told a recent seminar.

In the battle with COVID-19, there were some encouraging developments during the first quarter: in late March, daily new case numbers were around 5,000, less than half those in January. The new health minister gets good marks, unlike the last one. And Indonesia started a massive vaccination campaign, before many developing countries did.

But vaccination of the targeted 181.5 million people will take at least two years, rather than the 12 months Jokowi is hoping will be enough for the logistically daunting job. At quarter’s end, more than 10.5 million jabs had been given.

COVID-19: Still a Serious Problem

But there are worries that case numbers could easily rise again, especially with holidays in May for the end of Ramadan, the Islamic fasting month, when millions in Jakarta traditionally return home to their villages. Last year, Jokowi, as the president is also known, flip-flopped on policy toward the movement called “*mudik*”, and cases shot up post-holiday.

This year, the government has announced a ban on such travel, but there are big questions about how well that can be implemented. Meanwhile, international travel to Indonesia – vital for its significant tourism business and for attracting new investors – probably cannot restart for a long time.

COVID-19 “remains a serious problem”, declares Pandu Riono, an epidemiologist at the University of Indonesia. He has long maintained testing is inadequate, and he believes that the real death toll may be double or even triple the official number, which recently topped 40,000.

Traffic in Jakarta is close to normal, but not as jammed as the pre-pandemic days, so far. That’s a sign of continued weakness in consumption – and consumption is what drives growth in Indonesia, as it accounts for about 60% of GDP.

January’s case-spike hurt consumption, which is a main reason the economy likely did not grow in January-March (the result is scheduled to be reported on 5 May). If the second quarter brings a sustainable fall in coronavirus cases, that will boost consumption and the growth rate.

Overtaken by Vietnam?

Economist Muhamad Chatib Basri, finance minister under Jokowi’s predecessor, predicts there could be year-on-year growth of 6% in April-June, which sounds encouraging but stems from a very low base for comparison. In 2020’s second quarter, with the pandemic raging, the economy contracted 5.32%, the worst result since 1998, when the Asian financial crisis raged and President Suharto fell from power after devastating riots in Jakarta.

Basri sees 4% growth for full-year 2021 growth, compared with last year's -2.1%, though still below pre-COVID-19 annual levels of 5%. "Economic recovery depends so much on vaccination," he says. "With COVID-19 there, the economy can't operate at 100%."

Jokowi, concerned that Vietnam has been far more attractive to investors than Indonesia for years, is counting on the Omnibus Law to attract companies and boost economic recovery. The changes it is bringing to cut red tape are due to be rolled out in July. "Indonesia is very much known for over-regulation," says Kamdani, the chamber of commerce vice-chair. "This is a major step if implemented property… we're trying to be more competitive."

Douglas Ramage, Indonesia managing director of business advisory firm BGA, says while some officials are "wildly optimistic" on what the Omnibus Law can do, Indonesia "is on the right track. For companies used to Indonesia being hard work, they can see it's less (hard) now".

INA: Details Still to be Worked Out

The other tool Jokowi is counting on for an economic boost – and it was part of the law – is the newly-formed wealth fund, known as the Indonesia Investment Authority (INA). It is misnamed as a wealth fund, as this will depend mostly on foreign entities and institutional investors putting up money to co-invest in Indonesian infrastructure projects.

Many details need to be worked out on how it will function, which is largely as an asset manager. Announcement of the fund was greeted with hefty scepticism, but that diminished when Jokowi appointed credible, well-respected individuals as its directors and supervisors. Announcement of the big UAE pledge further raised hopes.

There still will be scepticism because infrastructure work is largely done by state-owned companies (SOEs), many of which have heavy debt-loads and less-than-sterling reputations. An economic survey on Indonesia published by the Paris-based Organisation of Economic Cooperation and Development (OECD) in March called the SOEs "omnipresent and powerful".

It said their financial and operational performance has "experienced a trend deterioration in recent years, which the current crisis (COVID-19) is further aggravating". The Omnibus Law and INA should produce gains for Indonesia, but don't look for quick ones. Due to the pandemic, Basri notes, "even people interested in investing in Indonesia cannot come at present".

Richard Borsuk, the Wall Street Journal's Indonesia correspondent from 1987 to 1998, is an Adjunct Senior Fellow at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University (NTU), Singapore. He is co-author of "Liem Sioe Liong's Salim Group: The Business Pillar of Suharto's Indonesia".