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# The Impact of the COVID-19 Pandemic on Indonesia's Political- Economic Order

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## ASIA'S PATH FORWARD

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## INTRODUCTION

The COVID-19 pandemic which started in Wuhan, China has now spread to 213 countries and territories. The spread of this pandemic has shown an exponential growth trend. The fatality rate, - the number of deaths divided by the total number of positive cases of COVID-19 - has increased from around 1% to 3.79%. This trend is indeed worrying.

The United States remains the epicenter of the pandemic (1), followed by Brazil (2), Russia (3), and India (4). According to the UNDP, the pandemic has begun to have a global socioeconomic impact.<sup>1</sup> As a result of large-scale social restrictions, it is predicted that around 40-60 million people will fall into extreme poverty. This is triggered by a decline in several major sectors. For example, international trade is expected to decline by up to 27% in the second quarter of 2020. Consequently, the income of countries originating from the balance of trade will also experience a significant decline.<sup>2</sup>

Meanwhile, the global tourism sector, which is a key source of income for many developing countries, has also been severely affected by this pandemic. International tourism is expected to decline by 850 million to 1.1 billion tourists, an economic loss of between USD \$910 billion to USD \$1.2 trillion. As a result of the sector's economic slowdown, it is estimated that around 100-120 million jobs in this sector are at risk of being lost.

As a result, unemployment has risen sharply - 1.6 billion informal workers are expected to lose up to 60% of their income.<sup>3</sup> Likewise, remittances, which are an important source of foreign exchange for many low- and middle-income countries, are expected to decline by up to 20%. Amid this economic uncertainty, the world will also face the threat of a decline in the level of food crop production. It is estimated that the food crisis could increase twofold, with 265 million people in low and middle-income countries at risk of hunger at the end of 2020.<sup>4</sup>

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<sup>1</sup> United Nations. "Putting the UN Framework for Socio-Economic Response to COVID-19 Into Action: Insights", June 2020

<sup>2</sup> United Nations. "Putting the UN Framework for Socio-Economic Response to COVID-19 Into Action: Insights", June 2020

<sup>3</sup> International Labour Organization (ILO). "COVID-19 and the world of work. Fifth edition Updated estimates and analysis", 30 June 2020.

<sup>4</sup> United Nations. "Putting the UN Framework for Socio-Economic Response to COVID-19 Into Action: Insights", June 2020

If the COVID-19 pandemic cannot be stopped quickly and a vaccine is not discovered, the economic impact is likely to be worse than that of the Spanish Flu after World War I or the Great Depression.<sup>5</sup> If these conditions are not anticipated, the negative impact on the global economy will worsen, with the potential to threaten political stability and security in various regions.

Developed and developing countries, including countries in Southeast Asia, are beginning to feel enormous socioeconomic pressure from the pandemic. Several countries are already experiencing a recession, which is beginning to have a destabilizing political effect, as in Indonesia. For this reason, this paper discusses the implications of the COVID-19 pandemic on Indonesia's current political-economic dynamic in detail and also Indonesia's economic and political outlook if the threats posed by the pandemic are not appropriately handled.

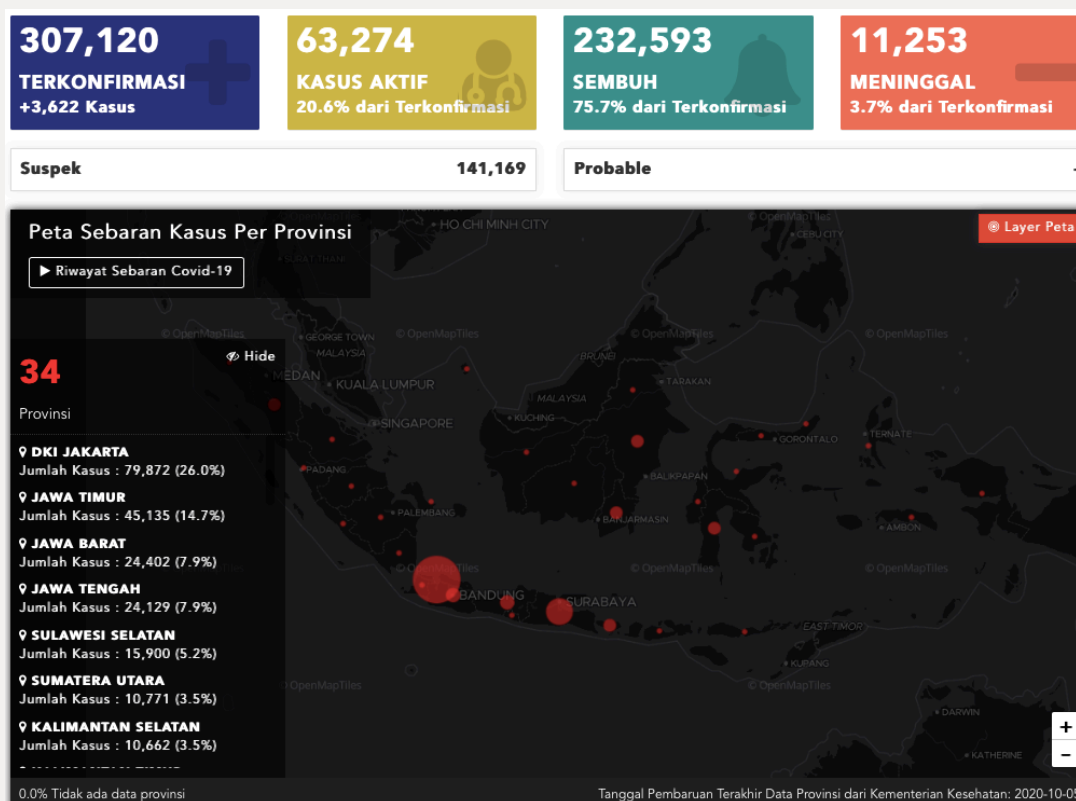
## INDONESIA: LIMITED CAPABILITY AND WEAK POLITICAL WILL

For several months, Indonesia's pandemic response was led by the Task Force to Accelerate the Handling of COVID-19, or *Gugus Tugas Percepatan Penanganan COVID-19*. However, the pandemic response recently entered a new yet crucial chapter. Through Presidential Regulation (Perpres) No. 82/2020, President Joko Widodo disbanded the Task Force and formed the Committee for Handling COVID-19 and the National Economic Recovery. This new Committee is now overseeing two new task forces, namely the COVID-19 Handling Task Force, which replaced the original Task Force, and the National Economic Recovery and Transformation Task Force.

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<sup>5</sup> International Monetary Fund (IMF). "Policy Responses to COVID-19: Indonesia Chapter", 6 March 2020. <https://www.imf.org/en/Topics/imf-and-COVID19/Policy-Responses-to-COVID-19#l>

This step looks to help carry out COVID-19 related economic and health interventions simultaneously. This new chapter deserves serious attention as, thus far, the pandemic response in Indonesia has been fundamentally less than satisfactory. Indonesia ranks 22<sup>nd</sup> globally for confirmed COVID-19 cases, and the virus has spread to almost every province of the country, as the figure below shows:



Based on the Indonesian government data above, the pandemic epicenter in Indonesia had previously shifted from the capital city of Jakarta to Surabaya in East Java (July 2020), then back to Jakarta (September to present), followed by other big cities such as Semarang in Central Java, Makassar in South Sulawesi, and Bandung in West Java.<sup>6</sup> This means that all regions in Indonesia should maintain a high level of vigilance. Complacency could allow a green zone to quickly turn into a red one.

<sup>6</sup> Gugus Tugas COVID-19, "Peta Sebaran Pandemi (the map of pandemic COVID-19 in Indonesia), 14 August 2020. <https://COVID19.go.id/peta-sebaran>

The government was arguably careless in its initial handling of the pandemic. This is evidenced by a policy response that seemed to underestimate the dangers of this pandemic. As early as January 2020, there were around 20 patients around Jakarta displaying symptoms of COVID-19. However, at that time the government chose to provide fiscal incentives for the tourism sector to increase community mobility. When the trend of the spread of the pandemic had not yet begun flattening, let alone declining, President Joko Widodo insisted on loosening public spaces, again for the sake of maintaining economic growth.

When the first cases of COVID-19 were finally identified, the government soon implemented the Large-Scale Social Restrictions, or PSBB, policy. The policy significantly limits the people's movements economically, socially, and even religiously as no religious gatherings were allowed at the beginning of the PSBB implementations. Thanks to the support of mass organizations like Nahdlatul Ulama and Muhammadiyah, the majority Muslim population were willing to postpone their Friday prayers for months, a restriction that would typically have resulted in social and political instability. But the PSBB has become less practical over time. Its implementation is being hampered by poor coordination between ministries and agencies. Also, the public lack discipline and generally take COVID-19 lightly. When the government launched its "New Normal" campaign, people were confused, interpreting it as "back to normal."

As a result, in mid-July, the number of COVID-19 cases in Indonesia exceeded the number of cases in China. As of August, positive cases in Indonesia have reached 132,000 and are expected to continue to increase. Meanwhile, the fatality rate - the number of deaths due to the pandemic divided by the number of positive cases - reached 3.6 percent. That rate is a significant decrease from the previous few months (March-June), when it reached as high as 8 percent. However, the claim for a reduction in the fatality rate in Indonesia is somewhat problematic, as it may reflect a low testing rate rather than an actual drop in deaths. Additionally, there was no data on cases of death by COVID-19 in some regions where records are spotty or testing never occurred.

This latter issue is a particularly urgent concern because only 3 in every 1,000 Indonesians has been tested for COVID-19. With a population of 265 million, this test ratio is very low. Even more worrying, of the many mass tests for COVID-19 conducted, 48 percent were focused on the capital city of Jakarta. This means, like an iceberg, it is possible the number of positive cases in various regions is much higher than indicated by the data.

## THE THREAT OF ECONOMIC RECESSION IN INDONESIA

The Indonesian economy was under heavy pressure throughout the second quarter of FY2020, as seen by a decline in economic growth of around 8 percent - from 2.97 percent in the first quarter to -5.32 percent in the second quarter of 2020. According to the Central Bureau of Statistics, almost all major sectors are under significant pressure.<sup>7</sup> Of the five main sectors that contribute the most Gross Domestic Product (GDP), only the agricultural maintained a positive growth rate of 2.19 percent. In contrast, the industrial sector contracted 6.19 percent, trade fell sharply 7.57 percent, construction fell 5.39 percent, and the mining sector fell -2.72 percent (BPS, August 2020).

Economic conditions in the third quarter will be determined mainly by government spending, which prioritizes boosting private sector resilience and maintaining the purchasing power of general public. Previously, growth in government spending in the third quarter would traditionally not show a significant increase. This high spending trend, in general, would appear in the fourth quarter or the end of the year. If there is no change in this pattern, then economic growth in the third quarter has the potential to plummet. If that happens, then the negative marginal GDP growth that occurs in two consecutive quarters will mark the beginning of an economic recession in Indonesia.<sup>8</sup>

Recession, indeed, should not be underestimated. It is a basic economic principle, as established by Arthur Okun (1965), that unemployment increases by one percentage point for every two-percent drop in GDP. The National Planning and Development Agency (Bappenas) has already predicted that five million will become unemployed, resulting in total unemployment of 12.5 million by the end of 2020.<sup>9</sup> If unemployment increases, the poverty rate will almost certainly skyrocket, and the level of socio-economic inequality will rise, as indicated by the increase in the GINI coefficient this year. As a result, the portion of Indonesian society classified as poor or nearly poor will likely increase in 2020 and 2021.<sup>10</sup>

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<sup>7</sup> Central Statistical Bureau (BPS), "Pertumbuhan Ekonomi Triwulan-II 2020" (Economic Development Quarter II-2020), Official Statistics News, 5 August 2020.

<sup>8</sup> International Monetary Fund (IMF). "Policy Responses to COVID-19: Indonesia Chapter", 6 March 2020. <https://www.imf.org/en/Topics/imf-and-COVID19/Policy-Responses-to-COVID-19#I>

<sup>9</sup> Badan Perencanaan Pembangunan Nasional/ National Planning and Development Agency (Bappenas). "Perkembangan Makro Ekonomi" (Macro Economic Development), May 2020. <https://www.bappenas.go.id/index.php?cid=13524>

<sup>10</sup> World Bank, "Indonesia Economic Prospects, July 2020: The long road to recovery", 19 Juli 2020. <https://www.worldbank.org/en/country/indonesia/publication/indonesia-economic-prospect>

Indonesia's economy was already under pressure before the COVID-19 pandemic. Economic growth has repeatedly missed government targets. During the first period of Jokowi's administration (2014-2019), economic growth averaged only 5 percent, far below his campaign promise of 7 to 8 percent. As a result, in early 2021, Indonesia could face even worse economic pressure due to the state's increasingly limited fiscal resources. If the Indonesian government adds more debts, the state debt ratio will increase even more after the previous administration continued to increase debt for infrastructure development, which was often not well-targeted and prone to corruption.

## THE IMPACT OF COVID-19 ON INDONESIA'S SOCIO-POLITICS

The poor handling of COVID-19 has started to have an impact on decreasing the level of public satisfaction with the performance of President Joko Widodo and his administration. Kompas's Research and Development Survey (July 2020) and Indonesian Political Indicators (July 2020) show that, even though it is still above 50%, public approval of the administration continues to decline, from 69.5% in February 2020 to 66.5% May 2020 and about 63% July 2020.

No major protest has materialized from the grassroots nor the government's opposition parties in parliament, as the government has attempted to systematically repress and disorganize the critical voices and movements. However, if the threat of economic recession becomes more evident, then this situation has the potential to be exploited by political forces outside the government to undermine support for government. This movement could grow if economic recession starts to have an impact on the inflation rate and people's purchasing power. At present, the discourse of "the failure of the government in saving the country's economy" has begun to be exploited by conservative Islamic interest groups that are at odds with the government's political line.

The COVID-19 pandemic will also have an impact on the quality of local democracy in the implementation of local elections or 'Pilkada' in Indonesia. If an uncontrollable pandemic situation arises, these elections could be delayed, as regulated in government regulation in lieu of law or Perppu No.2/2020 about Pilkada, recently signed into law. Although the Pilkada is scheduled for December 9, Articles 120, 122A and 201A allow the Pilkada to be postponed and rescheduled if elections cannot be carried out due to a situation like the pandemic.

Pilkada in the pandemic era has the potential to benefit the incumbent and his allies. The potential exists for social assistance politicization, the strengthening of money politics due to limited campaign space, and opening opportunities for 'piracy' of state institutions for practical political interests. If not anticipated, Pilkada fraud could emerge in a systematic, massive, and structured manner. Moreover, in a pandemic situation that requires limiting public space, the target of 77.5% voter participation looks



quite unlikely. For this reason, all parties need to ensure that the implementation of Pilkada in these 270 regions will follow the COVID-19 protocol. Indonesia cannot let the Pilkada create new COVID-19 clusters.

## CONCLUSION

Testing and tracing capacity are increasing, although it remains low. The number of registered cases will continue to increase. On the one hand, this is good news, as it indicates an increase in the kind of widespread testing that is key to effective quarantine measures. On the other hand, this means the COVID-19 curve is not going to decline any time soon. Amid the still-high potential for additional new COVID-19 cases, any hasty moves like the sudden formation of the Committee for Handling COVID-19 and the National Economic Recovery would be a “punching bag” for public criticism.

However, in times of crisis, expeditious decision making is necessary. The rotation of the economic and social wheels, which have been halted due by the Large-Scale Social Restrictions (PSBB), must restart soon if Indonesia does not want to fall into a deeper economic recession. Meanwhile, the health repercussions of COVID-19 should be better handled if Indonesia wants to see no more waves of this pandemic.

This paper recommends three key policy measures for handling the pandemic and approaching economic rescue. First, public health must be prioritized over economic performance. For this step to be effective, it is imperative to improve the transparency and accuracy of data on the spread and victims of the pandemic. This early step is essential because the accuracy of the data will inform the direction of future policy. Data-based policies must be implemented by the government rather than performing political gimmicks to ease the people's fears and worries.

Secondly, the government's steps to boost the main sectors that contribute greatly to national GDP, such as industry, agriculture, trade, construction, mining, and banking, must be carried out strictly and carefully so that any negative trends in the national economy can be mitigated. Indeed, the government has allocated around IDR 900 trillion for handling this pandemic and saving the economy. However, with superficial spending in the second and third quarters, this wave of expenditure and distribution will only become optimal in the fourth quarter. Amid tight time constraints, all parties must guard this spending properly so that this distribution will not be misdirected and become the target of large-scale corruption. It is easy to anticipate such corruption as complex political dynamics have degraded the recent performance of law enforcement agencies.

Thirdly, while public health must be seriously prioritized, the government must also be alert and need to execute appropriate attempts to save the state's weakening economic foundation. The government



should ensure that social assistance packages at the grassroots, as well as the economic stimulus, especially for the Micro, Small and Medium Enterprises (MSME) sector, can be executed quickly and on target. Maintaining people's purchasing power and providing assistance to MSME players is quite relevant as the sector employs 60 percent of Indonesia's population.<sup>11</sup> In the 1998 and 2008 economic crises, MSMEs functioned as a safety valve for the country's draining economy, but now they are significantly affected, even damaged, by the pandemic. This is because the policy of limiting social mobility has direct impact the demand side of goods and services and the supply of goods or raw materials for the production process, as well as the sources of their business capital.

In short, the Indonesian government has been arguably careless in its handling of the pandemic and inclined to underestimate its risks. However, even though it is rather late, the Indonesian government still has an opportunity to re-evaluate, revitalize and speed up its technical and strategic approaches to stop the spread of the pandemic and save the country's economy. However, the key success and failure of these approaches will be highly dependent on the will of the top political leaders. In this context, the President's leadership quality and public communication capacity will determine how effective or likely, permissive, the government's approach will be to save both lives and the economy from pandemic threats in the future.

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<sup>11</sup> Ministry of Cooperation & Micro, Small and Medium Enterprises (MSME). "Kemenkop dan UKM Siap Terapkan Program Mitigasi Dampak COVID-19 Bagi UMKM", 15 April 2020. <http://www.depkop.go.id/read/kemenkop-dan-ukm-siap-terapkan-program-mitigasi-dampak-COVID-19-bagi-umkm>

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