

Prepared by: New Zealand Embassy, Jakarta

## Overview

COVID-19 continues to spread across Indonesia, with record positive case spikes this week. Business hubs, Jakarta and Surabaya, have the highest number of cases. The economy has been deeply impacted by the virus and the various containment measures by Government, including fluctuations in the rupiah exchange rate against the USD and decline in foreign investment. The Government has launched a series of fiscal and monetary stimulus packages to cushion the economic and social impact of the virus. Overall Indonesia has strong economic fundamentals and sound financial policies which reduce the chances of experiencing a deep recession, akin to the Asian Financial Crisis in the 1990s.

Despite partial lockdown, supply chains remain open and few major delays have been reported. Food prices have remained stable. Many companies in Indonesia have been able to adapt in order to continue to provide their goods and services. However, many jobs around the country have been lost and many more people have fallen into poverty which may have an impact on the long-term prospects for the economy.

As of June, cities and provinces have begun to open up businesses and public services. In Jakarta, businesses and offices can reopen with 50% occupancy. It remains to be seen if consumer behaviour will pick up after the rush to re-open or if most Indonesians will choose to stay at home. This will be an important indicator for recovery timelines.

Most New Zealand businesses have remained engaged in market, with a particular customer increase in interest for health products like fruit and honey. New Zealand exporters under contract or tender negotiations may experience delays or cancellations due to the uncertainty of Indonesia’s recovery. The Embassy would welcome any feedback from New Zealand business and would be interested to hear about recent experiences operating in the Indonesian market.

At this stage, we would recommend increased preparation and market research for any businesses without experience in Indonesia, or at least South East Asia, who wish to enter this market at the moment. Especially given how important a local partner is to success and the importance of understanding a complex regulatory system. For businesses already established in Indonesia, keeping in touch virtually and regularly reaching out to business partners is essential over this time. The Asia New Zealand Foundation published a helpful article written by Alistair Crozier about *Maintaining Business Relationships in Asia in 2020* ([link](#)).

## **Report/findings**

### *Situation report and macroeconomic picture*

Economic growth this year is likely to be marginal at best. The Ministry of Finance predict Indonesia's GDP will grow by 2.4% and under a worse-case scenario fall to -0.4% this year. The Economist Intelligence Unit predict GDP will grow by 1% and the World Bank predict 0% growth. Government expenditure grew by 3.74% in the first quarter, lower than the 5.22% growth recorded in the same period last year. Private consumption (which accounts for over 50% of GDP) is predicted to slump to 0% this year.

Many businesses are in "survival mode" and are looking for maximum efficiencies. The ability of Indonesia's private sector to adapt quickly has been impressive. Existing delivery systems and use of technology (such as Gojek and WhatsApp for business) have allowed companies to pivot to online work. As of yet there is no sign of civil unrest.

### *The "New Normal"*

Notwithstanding continued growth in COVID-19 infection rates, the Indonesian Government has introduced a "new normal" policy that will allow some cities and regencies to relax lockdown arrangements. As of 6 June, Jakarta has begun to ease COVID-19 containment measures. This transition allows for public places and offices to reopen – provided they operate at 50% capacity and follow health protocols such as wearing masks. Public transport will resume normal operations, but with 50% capacity restrictions. The policy will be evaluated on 30 June and further relaxation will depend on epidemiology studies. Elsewhere in Indonesia, Surabaya in East Java has been identified as a high infection zone at present.

Economic recovery is unlikely to be quick. The ongoing growth and spread of the virus will limit moves to reopen parts of the economy. The extent to which consumers will be willing to return to market places and malls remains unclear, as is the impact health protocols will have on productivity. The risk of further infections is very high. Further partial lockdowns remain a possibility.

The Embassy is still largely working from home but open to the public by appointment. On the trade and economic work, we have been adapting our engagement with partners to include regular online seminars to help maintain contacts, promote the New Zealand Story, and support New Zealand business and update the New Zealand Government with market realities. These events have been well attended with active participant engagement, demonstrating interest in New Zealand and our value proposition in the market. There is particular interest from Indonesians about New Zealand's response to COVID-19, in particular on the alert level system to reopen the economy, food safety, and healthy New Zealand products. One looming risk for New Zealand business will be the ongoing inability to meet customers face-to-face, especially as competitors start to reopen their borders. In Indonesia this personal contact is a particularly important component of business relationships and not one easily replicable over remote platforms.

### *Airfreight/flight connectivity/supply chain issues*

We have no reports of major supply chain issues in Indonesia. There were concerns that outer regions may be impacted by fewer freight carriers or possible blockages due to locally enforced lock downs, but these do not seem to have had a major impact on the economy.

Initially there was a rise in cargo prices in Indonesia, however this seems to have flattened. Many passenger airlines (including Indonesia's national carrier, Garuda Indonesia) have started dedicated cargo services. This has created more competition in the market and has helped stabilise prices.

People movement remains restricted, but domestic and international flights are available. Domestic travel has reopened but travellers must have a recent negative PCR or rapid test result and a COVID-19-free health certificate signed by a doctor that states the passenger does not have any visible systems. Some areas, including Jakarta and Bali, require an additional Entrance-Exit permit. Cargo transport is exempt from the restrictions. Indonesia has temporarily banned foreigners from entering and transiting Indonesia, with a few exemptions including KITAS/KITAP visa holders. There is also an exemption for "essential workers". A negative PCR test result and a health certificate are required. A health check is carried out on arrival. If the traveller has any COVID-like symptoms or does not have a valid PCR test result/health certificate, they will be subject to mandatory quarantine in a Government facility. Travellers with no symptoms and a negative PCR test result are required to self-isolate for 14 days.

### *New Zealand Food Products in Market*

As in most of the world, food service remains substantially down while food retail continues to increase. Most of New Zealand's non-commodity products are sold in premium supermarkets in the major cities. Supermarkets continue to do better than e-commerce channels and traditional wet markets (due to hygiene concerns). We judge this is likely because people want a source of entertainment and reason to leave the house. Also due to Ramadan festivities, there was a spike in premium food products, especially meat and fruit, which has been beneficial for New Zealand. Some New Zealand products are more expensive than usual due to currency exchange and higher cargo costs. Overall COVID-19 is having less of an impact on New Zealand imports than ongoing non-tariff barriers and the regulatory uncertainty present in the Indonesian market. New Zealand's reputation for food safety, current COVID-free status, and strong provenance value proposition are advantages that will have considerable leverage as consumers seek safe food options.

### *Services*

Renewable energy companies in Indonesia are still in business, despite lower oil and gas prices and ongoing subsidies for fossil fuels which undermine the competitiveness of renewable sources. New Zealand's services companies in the aviation sector have understandably slowed down. Border restrictions have hampered in-person service delivery and many companies have delayed tenders or contracting signing.

In the education sector, schools in Indonesia remain closed and will likely stay closed until at least mid-July. New Zealand's COVID-19 free status has made it particularly attractive place for Indonesians to go to university or high school. The Embassy has received many questions from prospective students who would be willing to self-fund quarantine. We have advised that New Zealand's border is unlikely to reopen to foreign students for some time. With high levels of internet penetration in the target market, education providers who are able to deliver services remotely may have some success attracting students, especially if this provides a pathway to future study in New Zealand.

### *Government support*

As of 11 June, Indonesia has announced a series of stimulus packages to cushion the impact of COVID-19 worth NZ\$ 74 billion. The packages include stimulus support that largely focus on additional funding for health care, cash transfers for unemployed citizens and small business, support to state-owned enterprises, as well as tax cuts/incentives for some businesses. For a more thorough overview, see NZTE's COVID-19 page on Indonesia ([link](#)).

Due to the use of tax breaks to support business and changes in consumer spending, 2020 is predicted to be a very low tax revenue year. Low tax revenue will likely mean less funding to state-owned enterprises and infrastructure projects, which could have implications for New Zealand companies applying for tenders. In order to boost revenue, the Government has introduced a new 10% VAT (value-added tax) on digital products sold by non-resident internet companies with a significant presence in the Indonesian market, including streaming services, applications and digital games from 1 July. Services such as Spotify, Zoom and Netflix will be among those subject to the new tax.

Most central government ministries have been operating as usual (albeit from home) since March. Ministries in Jakarta re-opened on Friday 5 June but offices are only allowed 50% occupancy. Overall there have only been some minor delays due to work from home requirements, such as Customs procedures.

Note: Policies related to COVID-19 and trade regulations in Indonesia are changing rapidly. Please note the date of the report and contact Exporter Enquiries if your business has specific questions.

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