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Charting the Global Pandemic from an Indonesian Subnational Perspective: Businesses Expectations amidst COVID-19

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Charting the Global Pandemic from an Indonesian Subnational Perspective: Businesses Expectations amidst COVID-19*

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Abstract

The COVID-19 pandemic has adversely impacted Indonesia's economy with the deterioration of business activities observed across the country. Based on responses from a business expectation survey of 766 Indonesian firms located in 26 provinces across the archipelago, this paper provides an assessment of firm's economic and business sentiments. The pandemic has caused widespread pessimism across firms. Only 43% of firms who have reported good business sentiments in the first half (H1) of 2020 expect to be in the same positive position in the second half (H2) 2020, and at the same time 46% of firms who have noted that H1 was a bad period expect H2 to be worse. Secondly, analyses by industry reveal a spectrum of impacts. Tourism-related services consistently present as the worst hit industry, whereas manufacturing and agriculture show hints of faster and better recovery. Despite the current pessimistic economic reality in Indonesia, 71% of respondents are optimistic of their provincial economy's quick recovery. However, the continuing of the pandemic through 2021 will no doubt worsen the sentiments.

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1. Introduction

The onset of the COVID-19 pandemic has negatively affected global economy in 2020. Global Gross Domestic Product (GDP) growth contracted by 3.3% in 2020 (International Monetary Fund, 2021). In Indonesia, economic growth, which has averaged above 5% since 2000, shrunk by 2.1% in 2020. Indonesia has suffered three consecutives GDP contraction in the second, third and fourth quarter of the year, pushing it into recession, a first in over two decades.[1]

This contractionary expectation is caused by a highly uncertain global economic situation. For one, the healthcare crisis is still ongoing in many parts of the world and Indonesia has not been left unscathed. National lockdowns worldwide have devastated Indonesia's economy, which has grown to be more dependent on external trade and tourism in recent years (Tambunan, 2008). The situation is further exacerbated by a high number of local COVID-19 cases, which has recorded over 151 million cases by 4 May 2021 (World Health Organization, 2021).

Efforts to limit the spread of the pandemic have created a 'New Normal'. The issuance of a Presidential decree, dated 31 March 2020, enabled provincial governments to react to the pandemic based on their local situation and needs (Nur Hakim, 2020). The large-scale social restrictions, known locally as Pembatasan Sosial Berskala Besar (PSBB) were implemented based on findings from the Ministry of Health, but differed widely based on the provincial government's directives. Apart from PSBB, the Acting Minister for the Transport Ministry put into effect a Mudik Ban on 23 April (Nurbaiti and Roidila, 2020). Mudik, or the annual exodus that occurs yearly for Indonesia's Muslim majority in preparation for the Idul Fitri celebration. Due to COVID-19, the ban aimed to reduce transmissions from what was then pandemic epicenters of Greater Jakarta and West Java to other parts of the country. This was done by preventing private travels by land, air, sea and rail from areas declared as 'Red Zones' (Nurbaiti and Roidila, 2020). On 26 January 2021, the government implemented Restriction on Public Activities (PPKM) in Java and Bali as cases in these regions began to rise (EKONID, 2021). As the virus spreads further, the government has extended this policy, named PPKM Mikro, to cover a total of 30 provinces in Indonesia, from 4 May to 17 May 2021. These social movement restrictions are just some of a larger set of government initiatives that characterize the New Normal.

As part of measures aimed at alleviating the socio-economic impact of COVID-19, Indonesia has previously announced a Rp695.2 trillion state budget on 16 June 2020 for its National Economic Recovery Program (PEN). Continued revision of the budget has seen an increase in this budget to Rp744.28 trillion on November 2020. The scope of the stimulus intends to provide economic, social and health protection to businesses and the general populace. Out of the Rp744.28 trillion, about a third has been allocated for family hope program, stable food program and pre-employment cards, covering 20 million family and 5.6 million laid off workers, informal workers and MSMEs.

Using the data collected from a survey of 766 Indonesian firms conducted in collaboration with the Indonesian Employers' Association (APINDO), the paper that follows attempts to illustrate the 2020 economic and business conditions, the effect of government's policies, and their overall recovery outlook. From the business perception data collected from July to September 2020 period, this paper seeks to evaluate if Indonesian firms' recovery outlook is in line with the economic reality.

2. Providing an Indonesia-specific economic snapshot of the pandemic

This study complements Asia Competitiveness Institute (ACI)'s existing studies on the economic development of Indonesia and its provinces. ACI's flagship project studies the sub-national

[1] The last recession in Indonesia is in the year of 1999, in the aftermath of the 1997 Asian Financial Crisis.

competitiveness of Indonesia's 34 provinces using hard data from Indonesia's statistical agencies and perception surveys conducted with each province's government, business and academic sectors. The findings aim to provide greater detail to national-level studies done by the likes of World Bank (*Ease of Doing Business)* and World Economic Forum (*The Global Competitiveness Report)*. The sub-national analyses seek to aid provincial government agencies, business owners and prospective investors with findings that are directly relevant to their locales.

In line with ACI's objective of tracking sub-national economic developments in Indonesia, the Business Expectations Survey was conducted to assess the changing economic and business sentiments in Indonesia during the Covid-19 pandemic. ACI also facilitated conversations on the pandemic's economic impact with members of the business, government and academic sectors. The present paper rounds up the project's research cycle for 2020 by discussing the potential developments and implications to be expected as the pandemic continues.

3. Survey Methodology

The time delay for hard data publication is a common problem faced by major statistical agencies. It has made it challenging to assess the impact of COVID-19 on every nation's economies and their business conditions. Business expectations surveys have been useful in place of hard data publications, to analyze the short-term and on the ground perceptions in a dynamic situation.

Some business expectations surveys have tapped on high frequency survey exercises to track changes in business sentiments before and during Covid-19 (Bartik et al, 2020; Fairlie, 2020; Buchheim et al., 2020). Such surveys have provided timely data by collaborating with pre-existing survey cycles that have not been deterred by the pandemic. Another group of surveys are more targeted in measuring the efficacies of Covid-19 oriented policies such as movement restrictions (Chetty et al, 2020; Spelta et al, 2020). Other surveys approach business expectations from a resilience angle, that seeks to understand how long businesses are confident of lasting during a crisis (Buchheim et al., 2020; Rappaccini et al, 2020)

ACI's survey sought to adapt the existing models but also consider the granularity of firms' profile, including measures such as firms' size, industry and location (province). This was made possible by the ongoing partnership with APINDO, that has been providing access to businesses across Indonesia with a good representation of the different sectors. This access was highly valuable in assessing the varied impacts of Covid-19 for different types of businesses. In terms of time frame, questions were set to assess retrospectively, business sentiments in the first half (H1), or January to June 2020 when the pandemic was still in its early stages, but also, respondents expectations in the second half (H2), or July to December 2020 when the extent of the pandemic on businesses was more tangible.

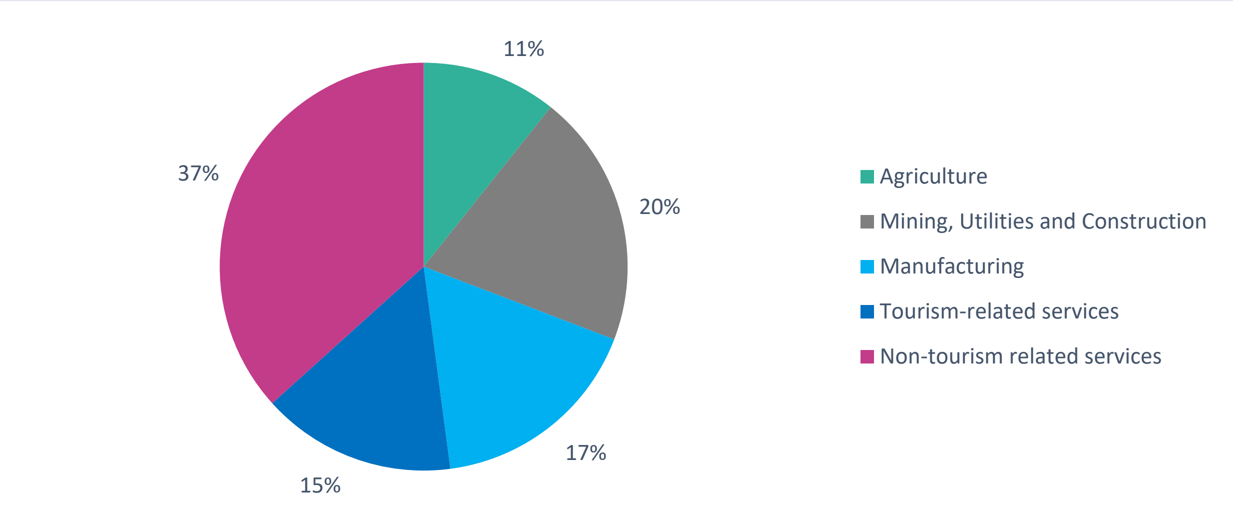
Participant recruitment for the survey began in June 2020, when ACI contacted each provincial APINDO chapter's head, who would then appoint a staff to promote the survey amongst the association's members. Participants who were recruited are management-level executives of businesses in the provinces, which ensured that they held positions with key access to their firms' economic situation. In July 2020, when the survey was launched, recruited participants received an invitation via e-mail with a personalized web browser link, which they would access via a browser to complete the survey. Due to the staggered coordination timeline with 34 provincial APINDO chapters, participants were recruited and completed the survey on a rolling basis up until October 2020, a month before the survey closed, in November 2020.

4. Profile of Survey Respondents

The survey collected a total of 766 respondents as of 31 September 2020, consisting of firms across 26 provinces. Appendix 1 summarizes the distribution of responses across provinces, firm assets and revenues, manpower and industries. Using firm revenue as an indicator of size, the distribution of the surveyed firms is as such: 33% of the survey respondents are micro firms, 24% are small firms, 19% are medium firms and 24% are big firms.

This paper will also undertake some analyses on the differentiated impacts on COVID-19 on various industries. The five sectors that have been utilized for the analysis below are: Tourism related services, Non-tourism related, Agriculture, Manufacturing, and Mining, Electricity and Water, Construction. Figure 1 illustrates the industry-level profile of our survey respondents. The largest percentage of respondents come from the Non-tourism related service sector (37%), followed by those from Mining, Electricity, Water and Construction (20%), Manufacturing (17%), Tourism-related services (15%) and Agriculture (11%).

Figure 1: Industry-level profile of survey respondents (n=766)



In total, 26 provinces have been represented in the survey data. A detailed illustration of the provincial spread of responses can be found in Appendix 2.

5. Results

This result section will present the extent of COVID-19 disruption towards Indonesian firms using four broad parameters: i) understanding firm's business sentiments; ii) navigating the impact of COVID-19 pandemic on firms' operations; iii) impact of government policies; and iv) pathway to recovery.

5.1 Understanding Firms' Business Sentiments

5.1.1 Firm's Business Sentiments in H1 and H2

We first evaluate the early effects of the COVID-19 pandemic in Indonesia by asking the respondents to rate their firms' business situation in H1 of 2020. Figure 2 shows that a majority of the firms surveyed (582 firms, 76% of the businesses) considered the business condition to be 'bad' in H1. 16% of firms reported 'satisfactory' business conditions, and only a small percentage (8%) rated business conditions 'good' in the same period. As our survey covers the major provinces of Indonesia, this distribution shows that even in during the early stages of pandemic in H1, the negative impact of the pandemic had already reverberated through Indonesia's economy.

Figure 3 further shows that in H1, the economic impact from COVID-19 had affected firms of all sizes, regardless of manpower, assets or revenue. A clear majority of firms (>70%) across all categories reported "bad" business conditions. This finding runs in contrast with other countries' experience where small firms are disproportionately affected by COVID-19 compared to larger firms (Bartik et al., 2020; Wijaya, 2020; Fairlie, 2020).

Figure 2: Firms' Business Sentiments in H1 2020

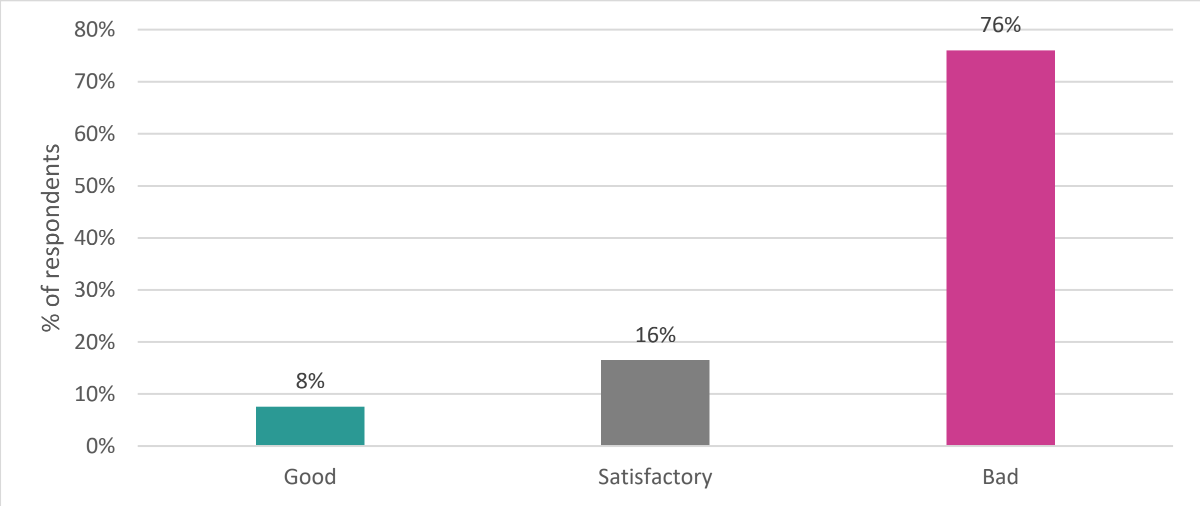
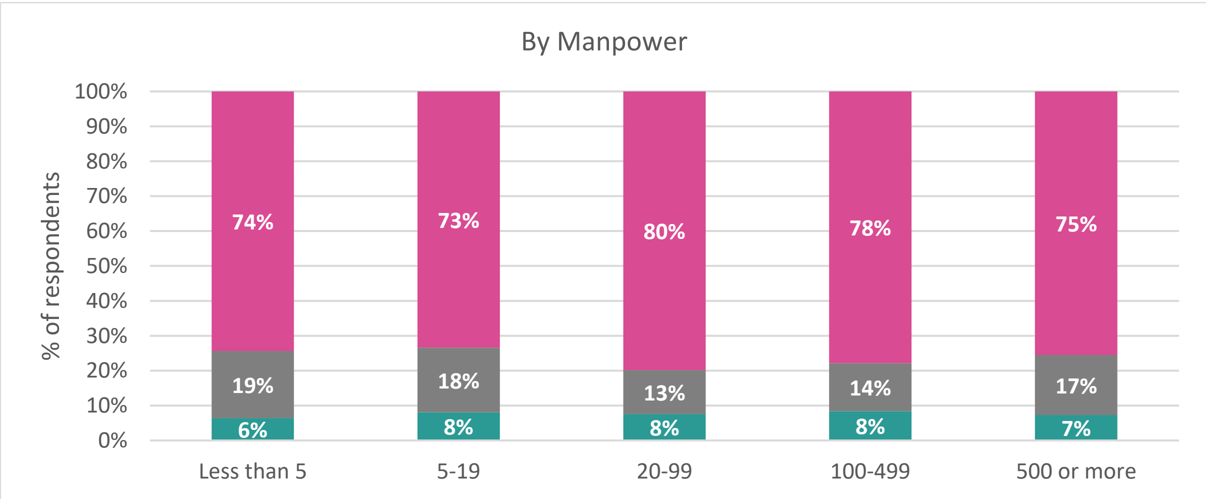
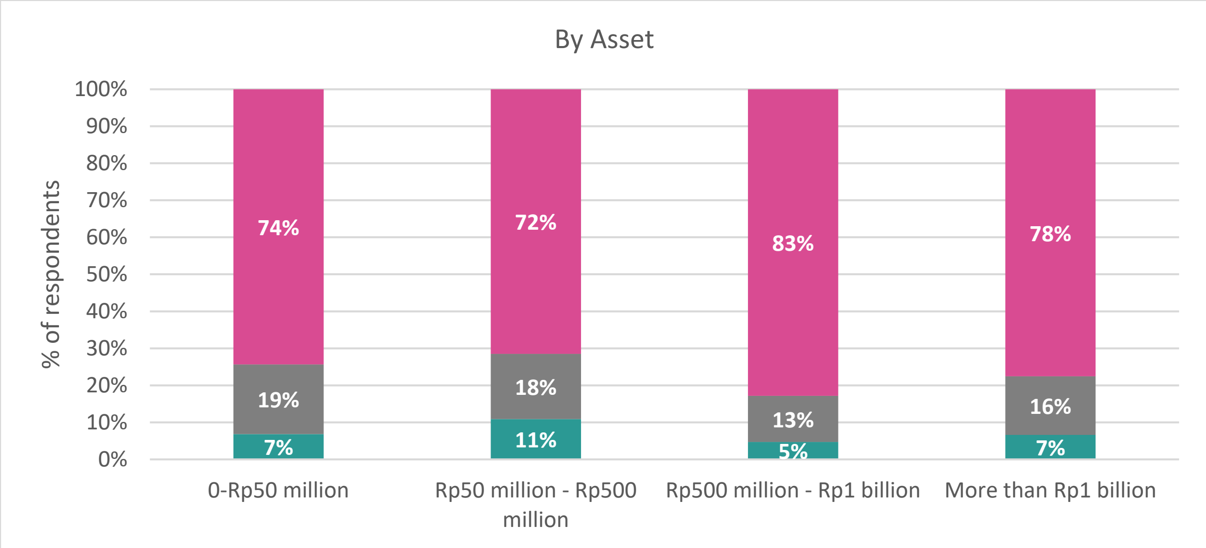
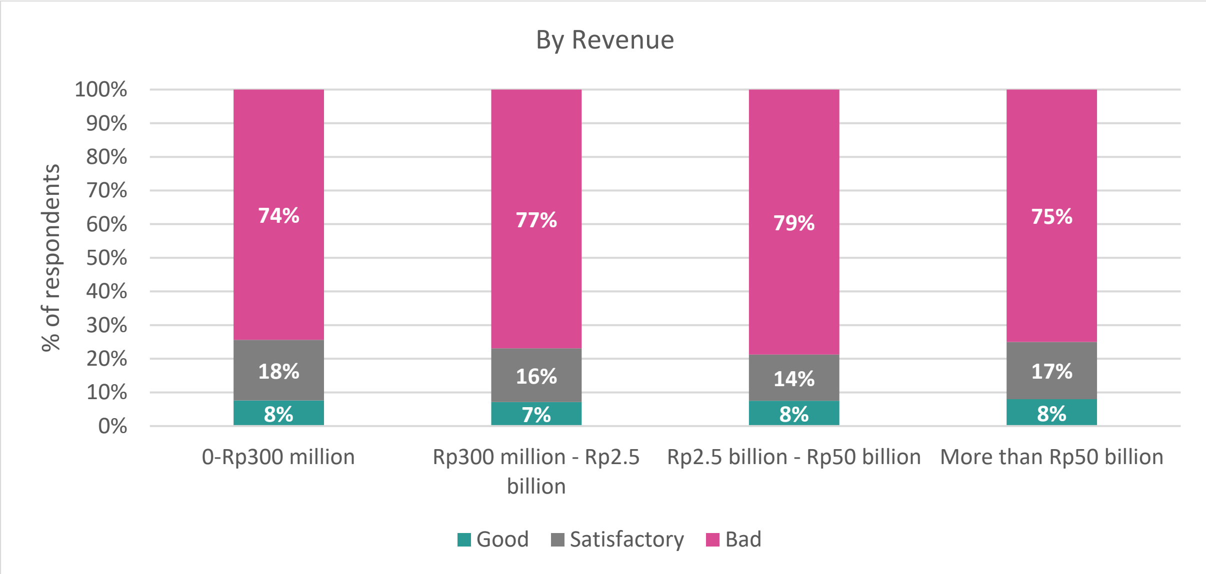


Figure 3: Firm's Business Sentiments in H1 2020, by Firm Profile




By Asset
% of respondents
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
74%
19%
7%
72%
18%
11%
83%
13%
5%
78%
16%
7%
0-Rp50 million
Rp50 million - Rp500 million
Rp500 million - Rp1 billion
More than Rp1 billion


By Revenue
% of respondents
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
74%
18%
8%
77%
16%
7%
79%
14%
8%
75%
17%
8%
0-Rp300 million
Rp300 million - Rp2.5 billion
Rp2.5 billion - Rp50 billion
More than Rp50 billion
Good
Satisfactory
Bad


By Firm Size
% of respondents
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Good
Satisfactory
Bad
MSMEs
Large corporations

Subsequently, to assess if the negative business sentiments would persist or improve, the survey asked respondents to evaluate their firms' outlook for the second half of 2020 (H2). It can be seen in Figure 4 that majority of the firms (43%) expected business conditions to remain the same as in H1 and more than one-third of the firms expected business conditions to deteriorate in the near future. Only 18% of the firms expected to see an improvement in business conditions in H2. The assessment of this outlook by firm size shows that this trend persists for both MSMEs and large firms (See Figure 5). This implies that Indonesian firms are expecting a prolonged business and economic downturn that could last beyond the end of 2020.

Figure 4: Firms' Outlook on Business Conditions in H2 2020

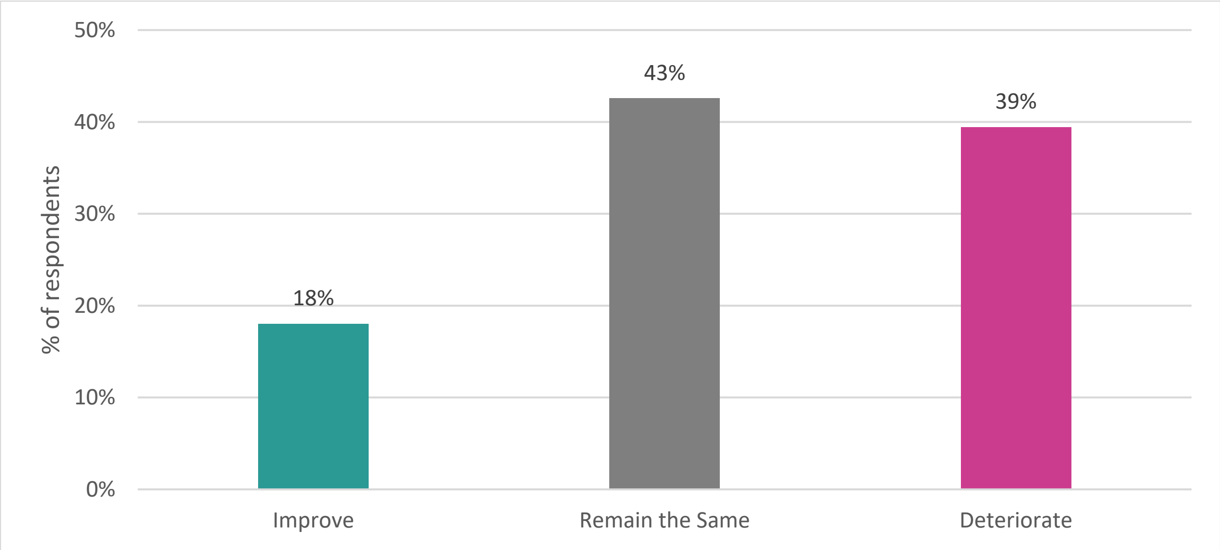


Figure 5: Firm's outlook on Business Conditions in H2 2020, by Firm Size

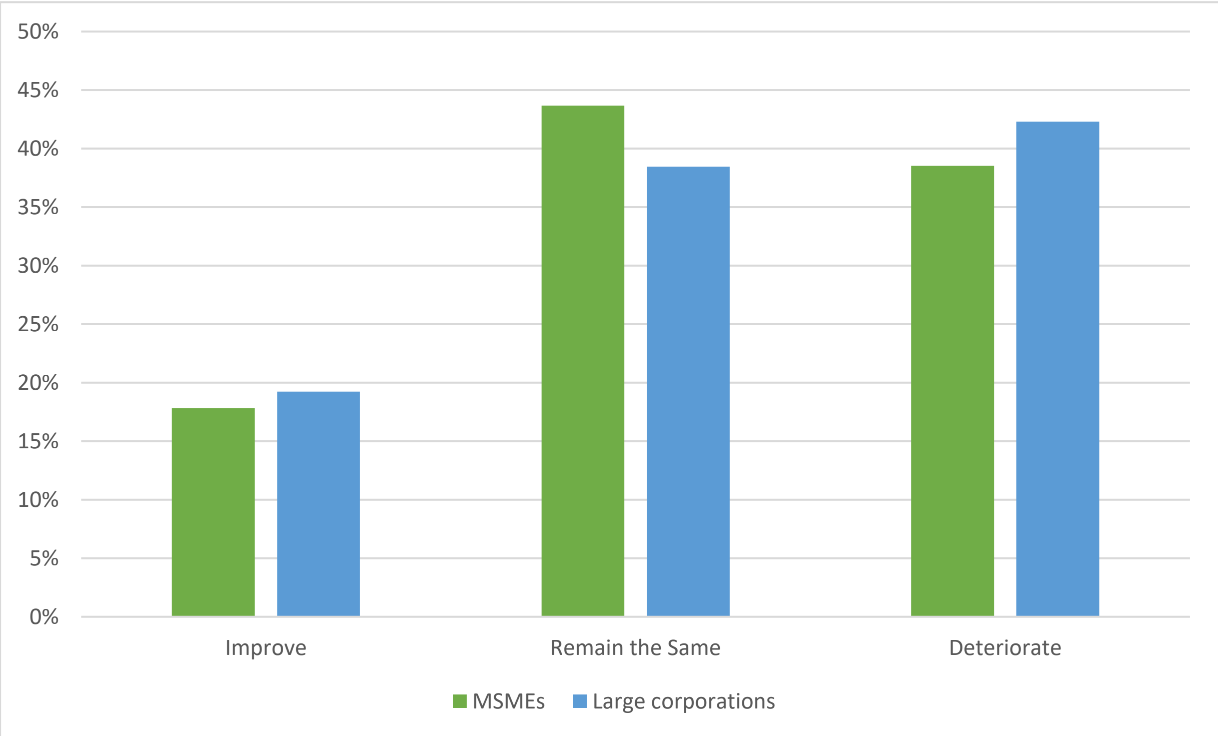
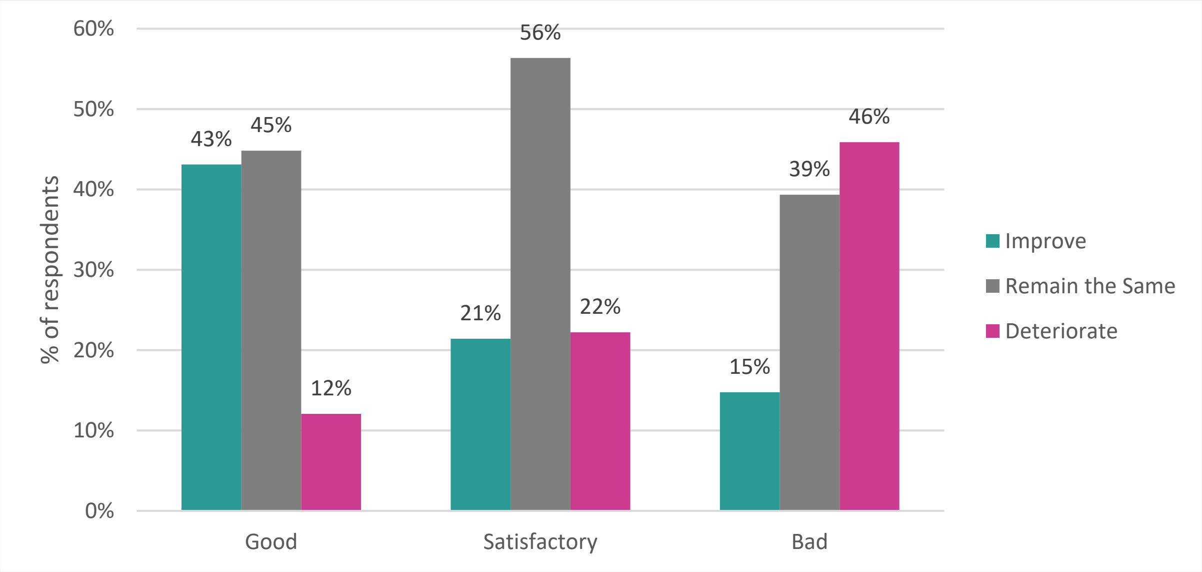


Figure 6 analyses the changes in business sentiment from H1 to H2. Most of the firms that were optimistic in H1 expected business conditions to improve in H2 (43%) or remain as positive as they had experienced it (45%). This suggests that firms that managed to tide through the first half of the year in a pandemic were in a better position to navigate its prolonged effects in the second half of the year. The converse can also be observed in Figure 6. Among firms that reported "bad" business sentiments in H1 a majority expected the unfavourable conditions to continue. 39% of them predicted business conditions to remain as bad as in H1 and 46% expected further deterioration from H1 to H2. These findings imply that the pandemic is set to widen existing disparities in businesses' crises-management abilities, which in turn affect their chances of survival in a prolonged crisis.

Figure 6: Comparing how Business Sentiments in H1 2020 with Outlook on Business Conditions in H2 2020



We proceed to further analyze the responses at the sectoral level, to assess the effect of industry type on business sentiment and outlook. **Tourism-related services** was the most affected industry in H1 2020 with 4 out of every 5 firms in the sector reporting bad business conditions (See Figure 6). Moreover, 83% of the firms responding bad in H1 2020 expect either a similar business situation or a deterioration in H2 2020 (See Figure 7). The tourism industry has been badly hit due to the loss of both domestic and international tourism revenue from border closure. Indonesia allowed domestic travel to resume in June 2020 in order to soften the impact of the tourism downturn. However, only about 19% of the firms under this sector expected an improvement in H2 business conditions and 38% believed that the condition would deteriorate further. According to Indonesia's Bureau of Statistics, Indonesia's international passenger capacity decreased by 89% to 158,256 in June 2020, compared to June 2019. The room occupancy rate of classified hotels in January 2020 had also dropped by more than 50% to 19.7% in June 2020 (BPS, 2020). The rate increased slightly to 28.07% and 32.93% in July and August 2020 respectively, possibly due to the resume of domestic air travel.

Mining, utilities and construction was the second most affected industry in H1 (See Figure 6). Most in firms in the sector also expected further deterioration in H2. As seen in Figure 7, out of the firms that reported bad business conditions in H1, 55.4% expected a greater deterioration in H2. Bank Indonesia (2020) postulates that mobility control is likely to be a cause for slowdown in the labour-intensive mining and construction activities across the archipelago. In the mining sector, the decrease in domestic demand for coal, Crude Palm Oil (CPO) and biodiesel during the pandemic, coupled with the natural declining oil supply and depressed global commodity prices for these commodities are likely factors explaining the pessimism in our survey result (Bank Indonesia, 2020). Under President Joko Widodo's infrastructure acceleration plans, the construction sector has grown tremendously. However, due to extensive movement restrictions during the pandemic, construction projects were postponed from May to June 2020. Even when projects resumed gradually from July 2020, firms had to implement new safety measures, and were subject to sudden stoppages whenever a case was detected. This has led to uncertainty in the business outlook of construction firms (Wantoro, 2020).

Non-tourism services was also significantly affected in H1 2020 (See Figure 6). This sector, which includes information and communication (ICT), financial and real estate services are particularly vulnerable to the slow domestic demand during the pandemic. For the ICT firms, ICT spending in Indonesia is expected to shrink by 7.1% in 2020, instead of the forecasted 7.5% growth before the onset of the COVID-19 pandemic, and hardware spending is expected to drop by 7.7%, as opposed to 9.9% positive growth in 2019 (GlobalData, 2020). For the finance industry, the decline in economic activities across the archipelago has resulted in a reduced financial transaction volume. Financial transaction volume, through the Real Time Gross Settlement system, shrunk by 6.6% and 20% y-o-y in the first and second quarter of 2020 respectively (Bank Indonesia, 2020). Notably, some firms in this sector which were less impacted in H1 did expect an improved H2. Our survey data shows that 52.2% firms that reported good business conditions in H1 and 24.4% of firms reporting satisfactory H1 business conditions expected to see an improvement in H2 2020. A further dissection of our survey shows that this result is fuelled by the ICT and finance sectors. Firms in this sector are likely to harness the increase in demand for digital goods and platforms resulting from the rise in e-commerce marketplace and work from home technologies, could explain this renewed optimism (Chan, Trihermanto and Sebastian, 2020). Also, the introduction of money market instruments by Bank Indonesia, including quantitative easing and assuring sufficient liquidity in the banking system, have spurred the lending market in the second half of 2020. This has led to greater resiliency in associated industries such as financial firms and intermediaries (Suksmonohadi and Indira, 2020).

The **manufacturing** industry was greatly impacted as well with 74% of the respondents indicating "bad" business conditions in H1. Of these firms, 32% expect the situation to remain the same and 55% expect the situation to get worse in H2. This is in line with the industry-wide's negative growth of 6.19% in the second quarter of 2020 (BPS, 2020). The manufacturing industry is particularly vulnerable to supply shock, from mobility restrictions and demand shock from a decrease in domestic demand and a drop in export due to a decrease in global demand (Bank Indonesia, 2020).

Out of the five sectors, the **agricultural** industry was the least impacted, with the lowest percentage of firms (62%) reporting "bad rating business conditions in H1. The remaining 27% and 11% of the respondents noted satisfactory and good respectively in the same period. This industry is less affected mainly due to two reasons. Firstly, the second quarter coincided with the annual food harvesting season, leading to greater produce. Secondly, domestic demand for food is generally inelastic (Bank Indonesia 2020).

Figure 6: Business Sentiments in H1 2020, by Industry

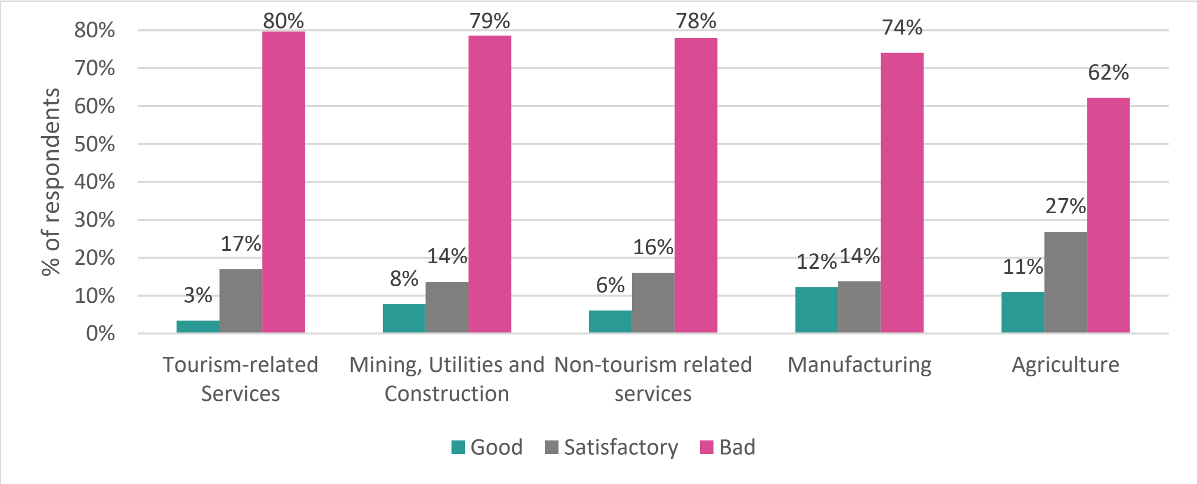
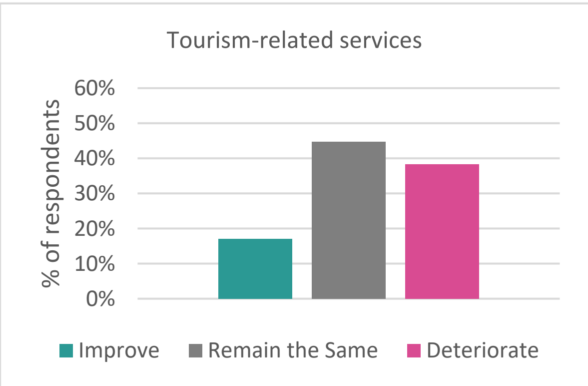
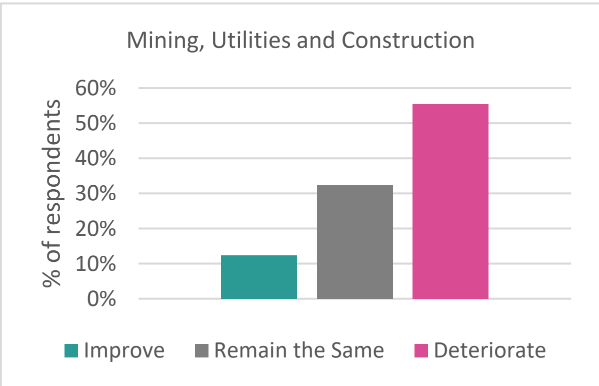
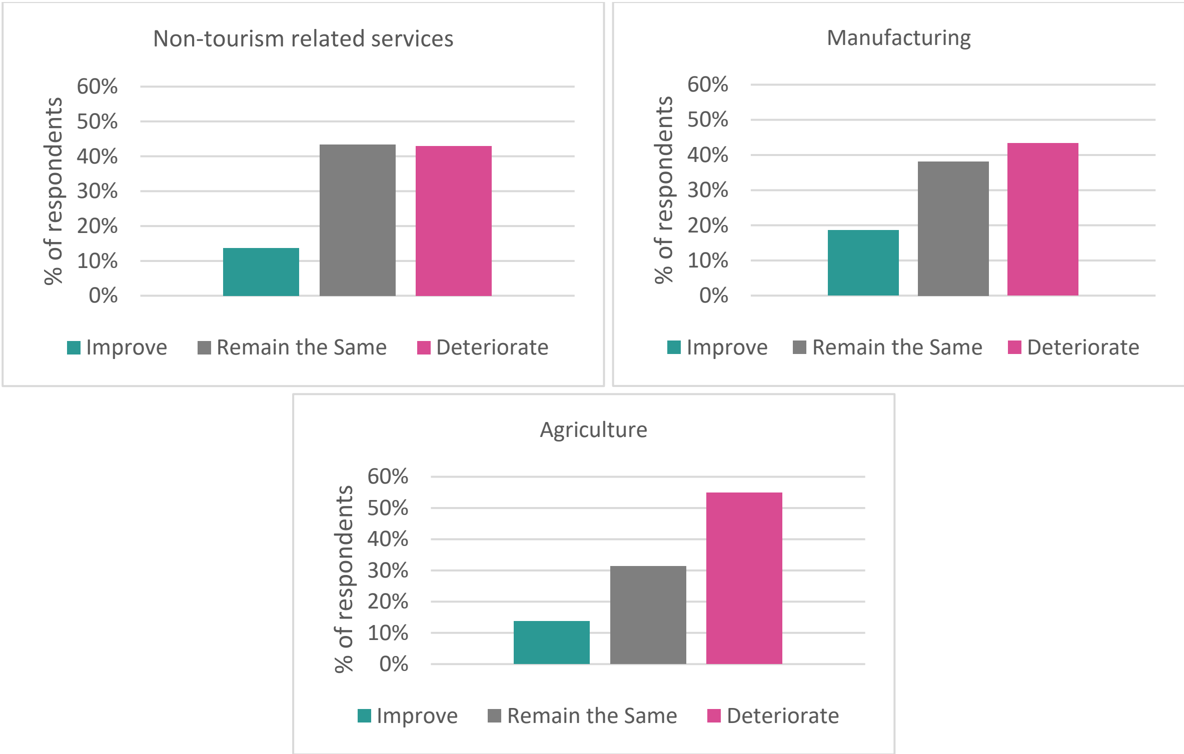


Figure 7: Comparing how "Bad" Business Sentiments in H1 2020 affects Outlook on Business Conditions in H2 2020, by industry[2]





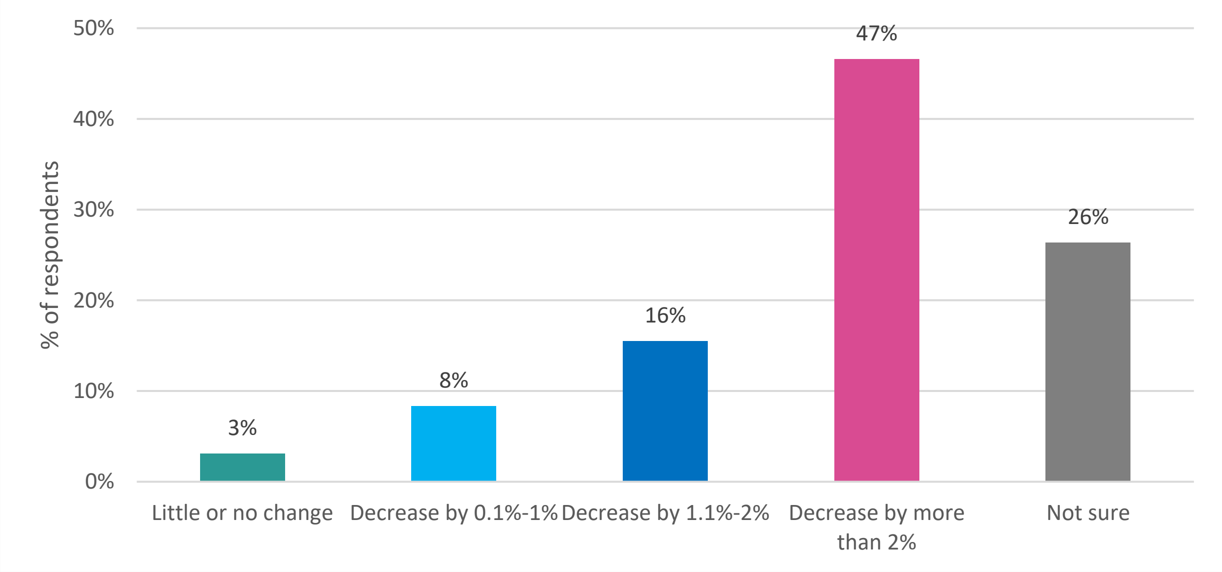
[2] Due to the small sample size of firms that respondent "Good" or "satisfactory" in H1, graphs in Figure 7 were restricted to respondents who reported "bad" business sentiments in H1.



5.1.2 Firm's Expected Change on 2020 Provincial Economy

Next, we asked survey respondents to gauge the severity of the pandemic's impact on the their province's economy (See Figure 8). 47% of the respondents believed that the Gross Regional Domestic Product (GRDP) of their respective provinces will shrink by more than 2% in 2020. This expectation is in line with the national GDP growth of 2.97% in Q1 and -5.32% in Q2 of 2020. As mentioned in the previous section, GDP growth has further declined in the third and fourth quarter of 2020 (International Monetary Fund, 2020). The COVID-19 crisis is by far Indonesia's worst economic and health crisis in recent decades. Even during the 2009 global financial crisis, Indonesia's economy remains resilient and grows above 4%. This is the first time since 2001 that Indonesia's economic growth has dropped to a negative level. On top of the demand shock and the supply chain disruption, the inability of the healthcare services to cope with the pandemic may have also dampened business and consumer confidence.

Figure 8: Firm's Expected Change on the 2020 Provincial GRDP



5.2 Navigating the Impact of COVID-19 Pandemic on Firms' Operations

5.2.1 Firms' Expected Change on Business Revenue

Most firms expect a decrease in Business Revenue during the pandemic. As seen in Figure 9, more than 90% of the firms expect their company's revenue to decrease compared to the previous year. 44.5% of firms foresee a severe drop of more than 20%; 18% expect a mid-range decrease of 11%-20%; and 28% expect some decrease of 1%-10%.

Majority of firms across all sectors expect a decrease in revenue, with a trend that is in line with the analyses in prior sections (See Figure 10). Tourism-related services presents the greatest impact, with 97% of firms in the sector expecting a decrease, and only 3% foreseeing little or no impact in revenue. The least impacted sector is agriculture, which has a lower proportion, 86% of firms noting an expected decrease in revenue, but also a significant 14% of firms expecting an increase despite the less than favourable business environment.

Figure 9: Expected Change on Business Revenue

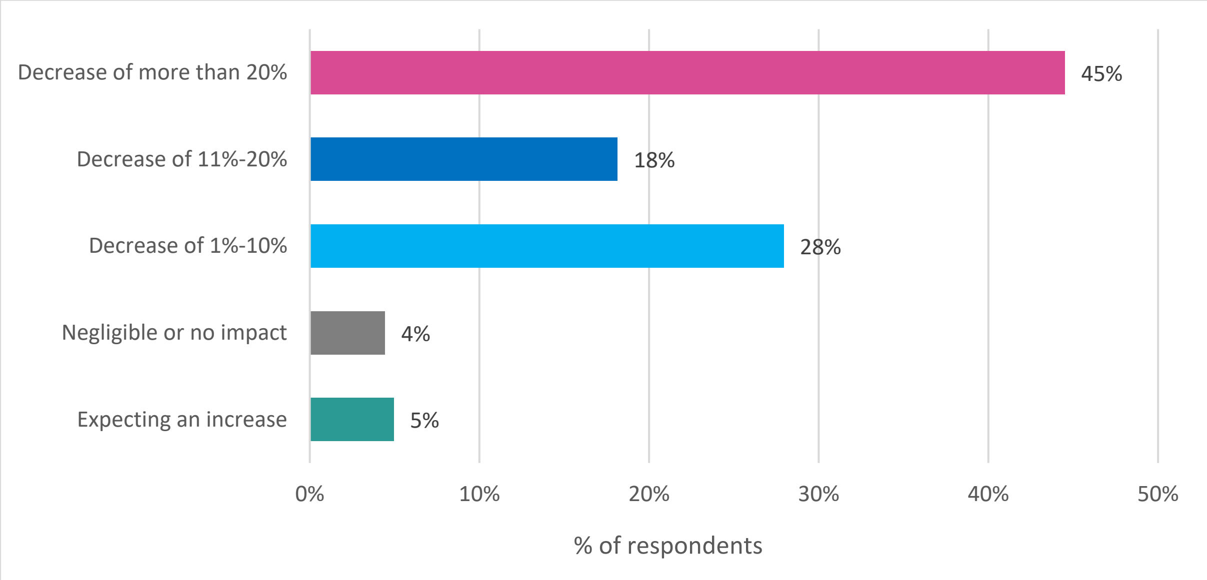
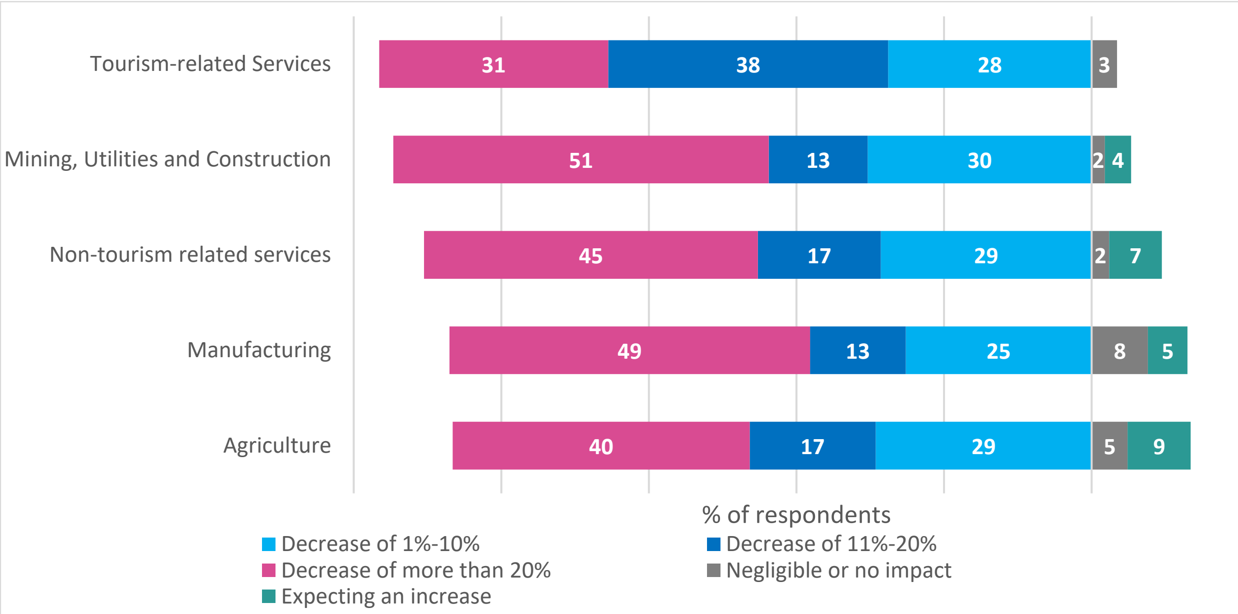


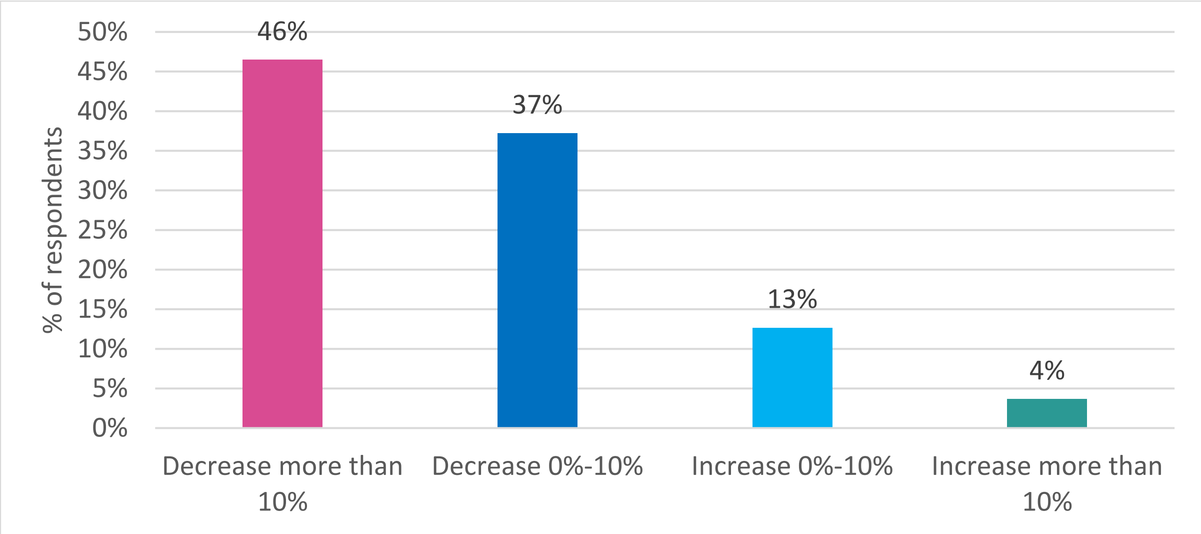
Figure 10: Expected Change on Business Revenue, by Industry



5.2.2 Firms' Expected Changes in Manpower and Wages

To understand the impact of Covid-19 on manpower and wages, the survey asked firms about their expected change in manpower from 2019 to 2020. Figure 11 shows the results across all firms. 83% of firms expect a decrease in manpower. 9% more firms expect a larger decrease of more than 10% of its manpower, compared to firms that expect a smaller decrease of 0%-10% in manpower. While manpower cuts apply to a majority of the surveyed firms, there remains a few, 17%, of respondents who predict an increase in manpower.

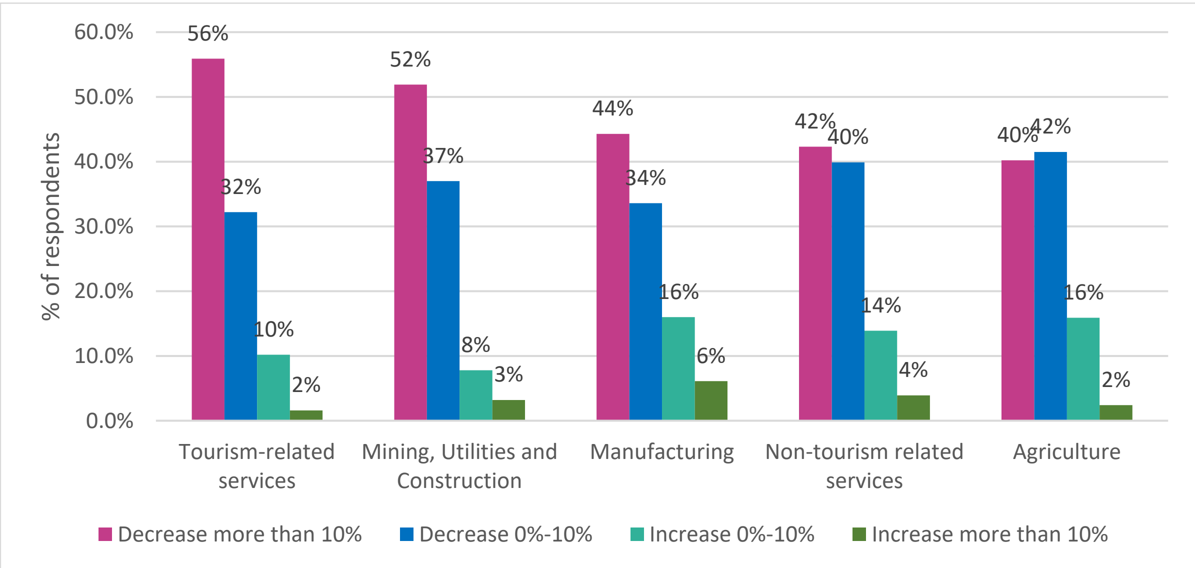
Figure 11: Expected Change in Manpower, 2019 to 2020



To see if the differentiated impacts of Covid-19 on industries would affect manpower change differently, we further analyze the distribution in Figure 11 according to industries. The results are presented in Figure 12. Across each industry, more than 80% of firms expect to see a decrease in manpower. Mining, utilities and construction, and Tourism-related services present the highest proportion of firms in their industries that expect a decrease in manpower, at 89% and 88% respectively.

Conversely, in each industry only a minority of firms expect an increase in manpower. The manufacturing sector stands out with the highest percentage of firms, 22% expecting an increase in manpower. This is followed by Non-tourism related services and agriculture, both of which report 18% of firms predicting an increase in manpower.

Figure 12: Expected Change in Manpower, 2019 to 2020, by industry



Despite the less than favourable labour conditions, our survey findings have also shown that firms are more likely to keep the incomes of their remaining workers stable (See Figure 13). 46% of firms indicated that they do not expect to impose a salary freeze or pay cut. This is 10% more than firms who indicated that they do expect to impose a salary freeze or pay cut.

Across industries, firms' plans to impose a salary freeze or pay cut shows less of a consistent trend. All industries except tourism-related services have more firms without plans to impose a salary freeze or pay cut, as compared to those who do. The manufacturing industry shows a clear majority of 54% of firms indicating they will not freeze or cut workers' pay. Non-tourism related services show the least difference between firms' plans to freeze or decrease workers' pay. Notably, the customer-facing service industries, are the two that have a closely divided share of firms when it comes to workers' pay.

The generally pro-labor sentiments could be a result of Indonesia's labour laws that advocated workers' rights. The revised Omnibus bill passed in October 2020 have brought into question the potential repercussive impact on workers, who are often undercut with regards to their severance benefits. It can be expected that firms who have been greatly affected by the pandemic, will be unable to uphold their end of the employment agreements. For this reason, a comparison between expected salary changes in 2020 and 2021 might prove valuable in assessing the sustainability of existing labour policies.

Figure 13: In view of COVID-19, are you expecting your firm to impose a salary freeze or pay cut?

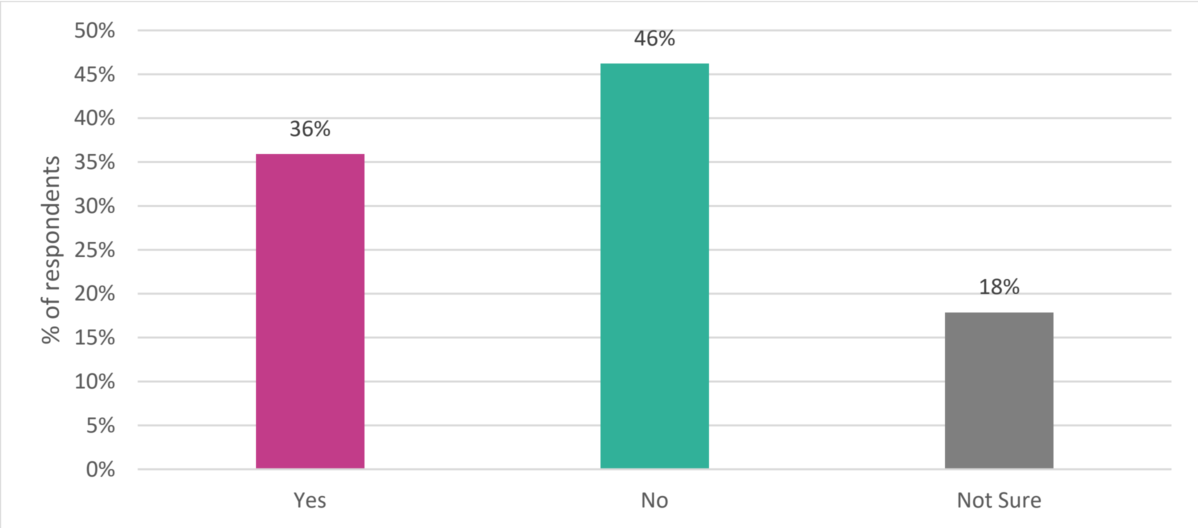
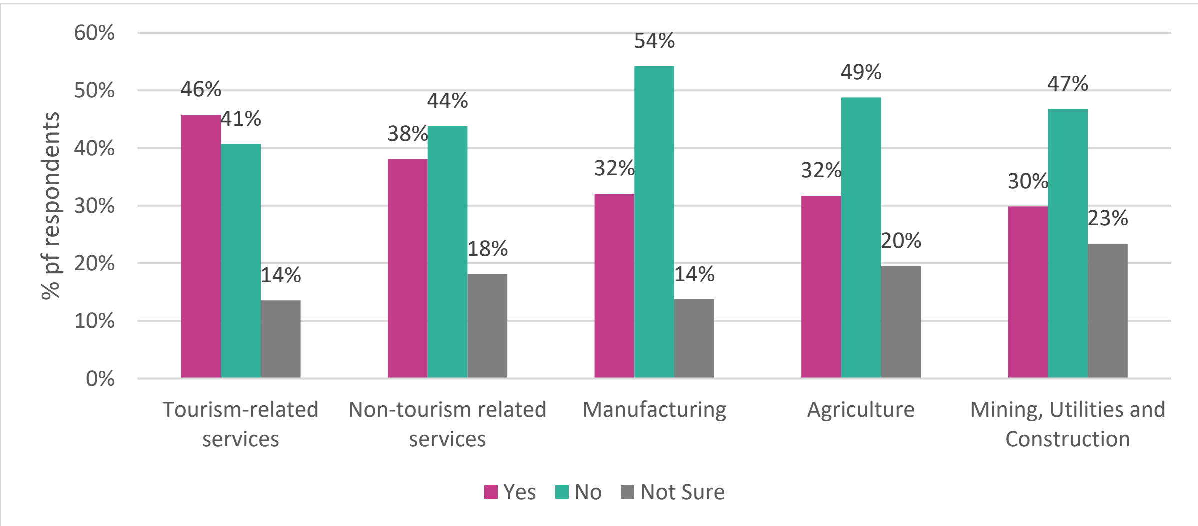


Figure 14: In view of COVID-19, are you expecting your firm to impose a salary freeze or pay cut? By industry



5.3 Impact of Government Policies

5.3.1 Navigating Measures in the New Normal

While COVID-19 has impacted all industries in one way or another, the degree to which industries are exposed to Covid-19 would be dependent on the province's geographical location, urban density, regional and international connectivity. Across the country, governments have attempted to taken on a precautionary stance against Covid-19. In the survey, we also sought to understand the impact of newly initiated regulations. Particularly we asked about the ease of implementing them.On a national level, about 90% of respondents indicated moderate – significant changes to their firms' operation (See Figure 15). Given the novelty of the measures, this large majority may be explained by the significant costs that firms incurred to implement safety measures.

The responses were further analyzed on an industrial level, as expected that the different industries would have varying safety regulations. As seen from Figure 16, more than half of firms in **tourism-related services** indicated significant impacts to operational costs. This was predictable because as domestic tourism returned, the industry had to meet the travelers' high hygiene and safety expectations.

The **agriculture** industry was least impacted by the implementation of new Covid-19 regulations, with just 44% of firms indicating a significant impact. This may be explained by agriculture operations' largely outdoor and dispersed nature. Significantly impacted firms could have been inconvenienced by the need to stagger workers' hours and the implementation of contact tracing mechanisms, which were a prerequisite determined by the government for firms intending to go back to their workplaces.

Figure 15: Impact of New COVID-19 Regulations and Measures on Business Operation

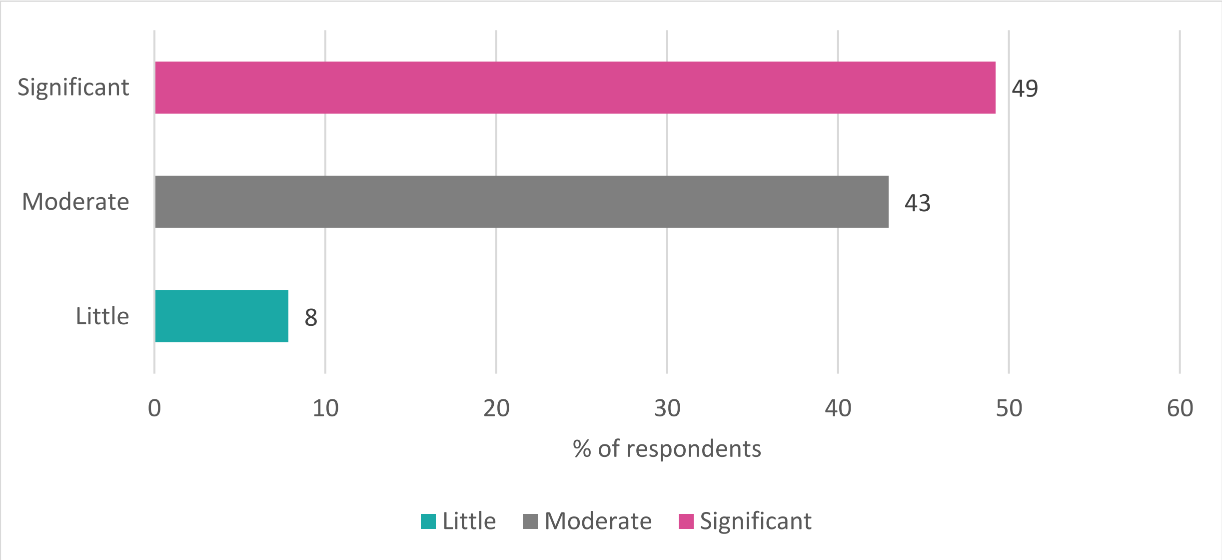
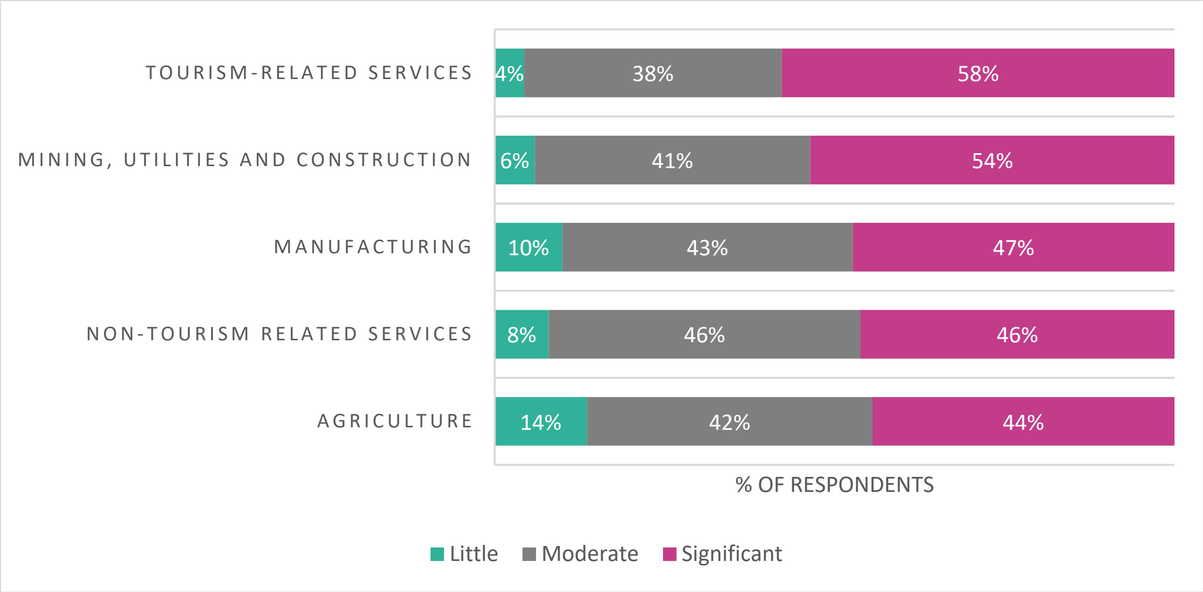


Figure 16: Impact of New COVID-19 Regulations and Measures on Business Operation, by Industry



5.3.2 Impact of Province-specific Measures on Firms

Two questions in the survey sought to understand the variations in impact given the differing conditions imposed by the two bans on social movements. The first asked about PSBB restrictions that had a staggered time frame and impacted firms' operations within a province, while the second asked about the Mudik ban, that had a uniform time frame for all affected provinces, and would affect firms that had inter-province movements between such provinces. The data for this section has been restricted include only provinces that have officially implemented the large-scale movement restrictions to be discussed. Thus, 7 out of the total 26 provinces were used for this section's analysis.

Figure 17 compares the responses to the two questions and illustrates how firms were more impacted by PSBB than by Mudik. The percentage of firms who felt their operations were affected "To a great extent" by PSBB were twice as high as those who were impacted by the Mudik Ban to the same degree. This may indicate that firms have greater operations within the province, than with external provinces that are not their own.

Responses to the PSBB ban were further aggregated based on industries in Figure 18. Across all industries situated in provinces with PSBB, a clear majority of firms were inconvenienced by PSBB. **Tourism-related services** and **mining, utilities and construction** were the most impacted industries, with all firms indicating some degree of impact. **Tourism-related services** was most impacted with 88% of firms in the industry reporting being impacted "To a great extent" or "somewhat". The same responses in **Mining, utilities and construction** formed a lower 86%.

Agriculture was the least affected industry, with only 6% reporting being affected by PSBB to a large extent. The majority of firms, 67% in this industry only felt "somewhat of an impact. It may be inferred that had largely avoided agriculture heavy provinces.

Figure 17: What are the differentiated Impacts of the Mudik Ban and PSBB?

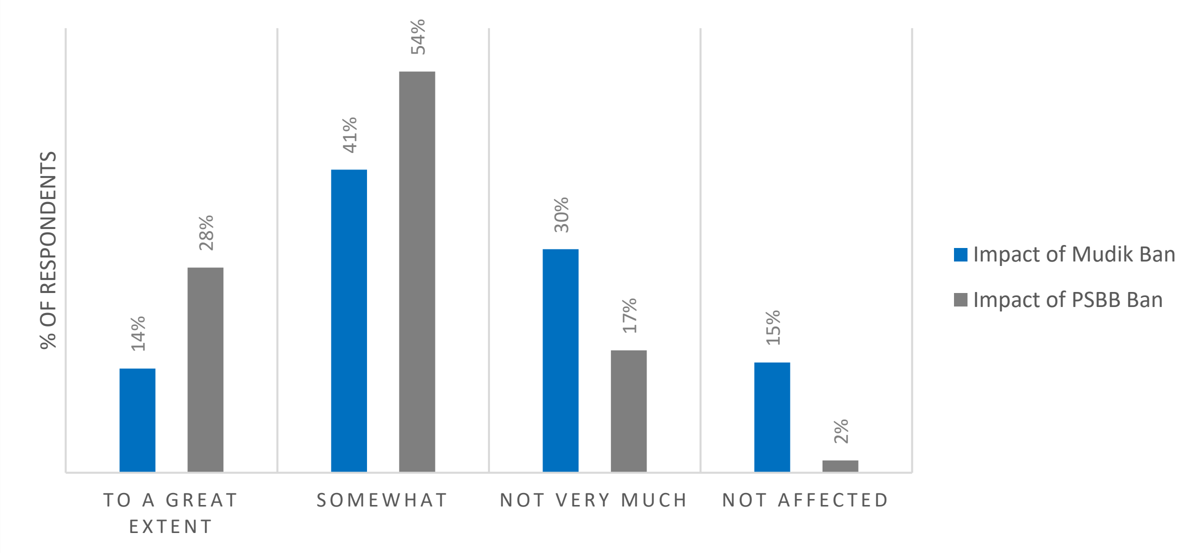
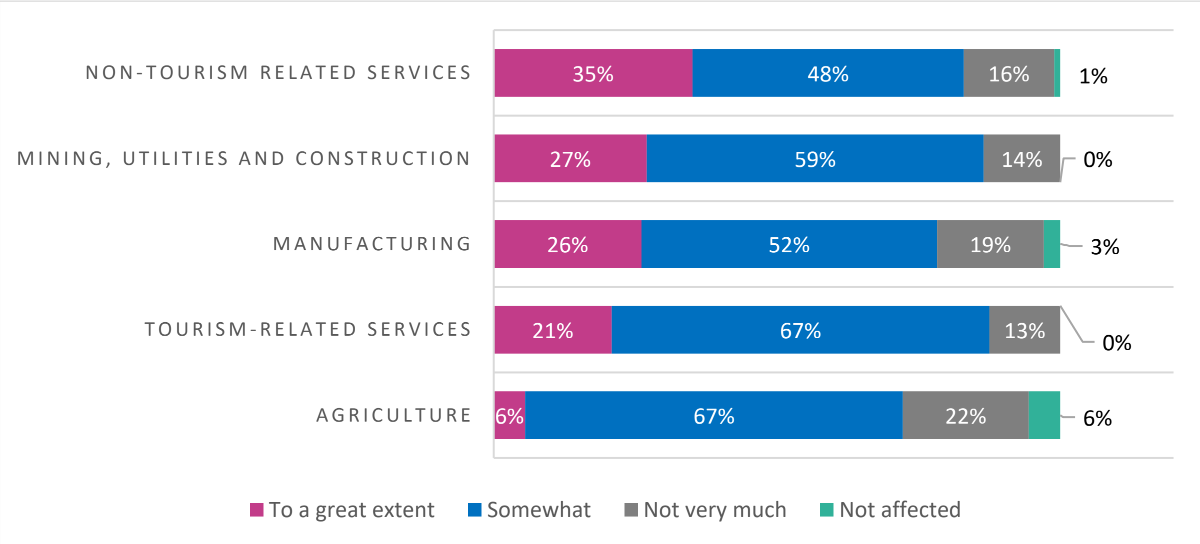


Figure 18: Extent of PSBB Impact on Business Operations, by Industry



To gauge the extent of the New Normal, the survey also asked respondents in PSBB provinces whether working from the office had been set as the default practice. From the responses, it was found that about a third of the firms in provinces under PSBB maintained normalcy and had their employees work everyday (See Figure 19). Less than 2 out of every 10 firmss implemented a total Work From Home Model.

By industry, **tourism-related services** had the lowest percentage, 25% of firms maintaining in-person operations everyday. **Agriculture,** had the highest percentage with 39% of firms maintaining in-person operations everyday. These two findings fit with the previously discussed drop in tourism-related businesses, and the continued stability of agricultural work.

Figure 19: Percentage of Respondents Working from Office, PSBB Provinces Only

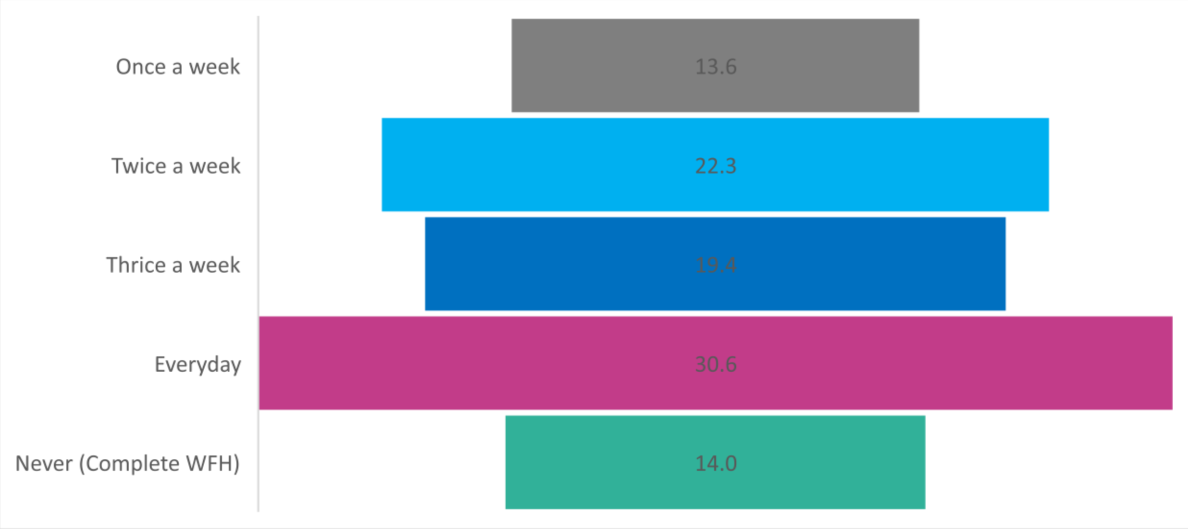
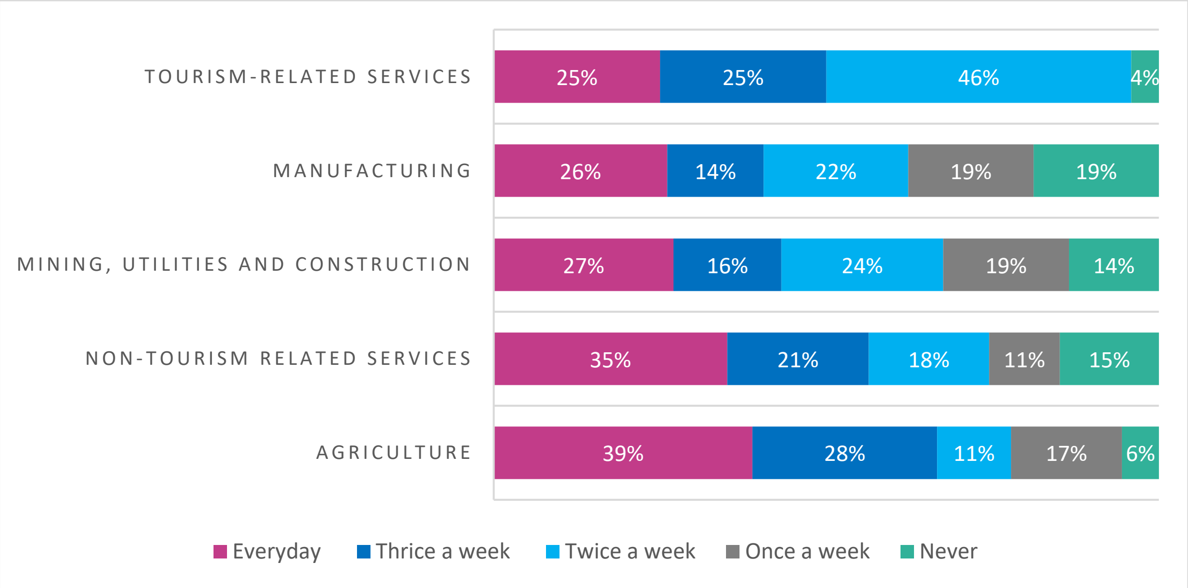


Figure 20: Frequency of Working from Office in PSBB Provinces, by Industry



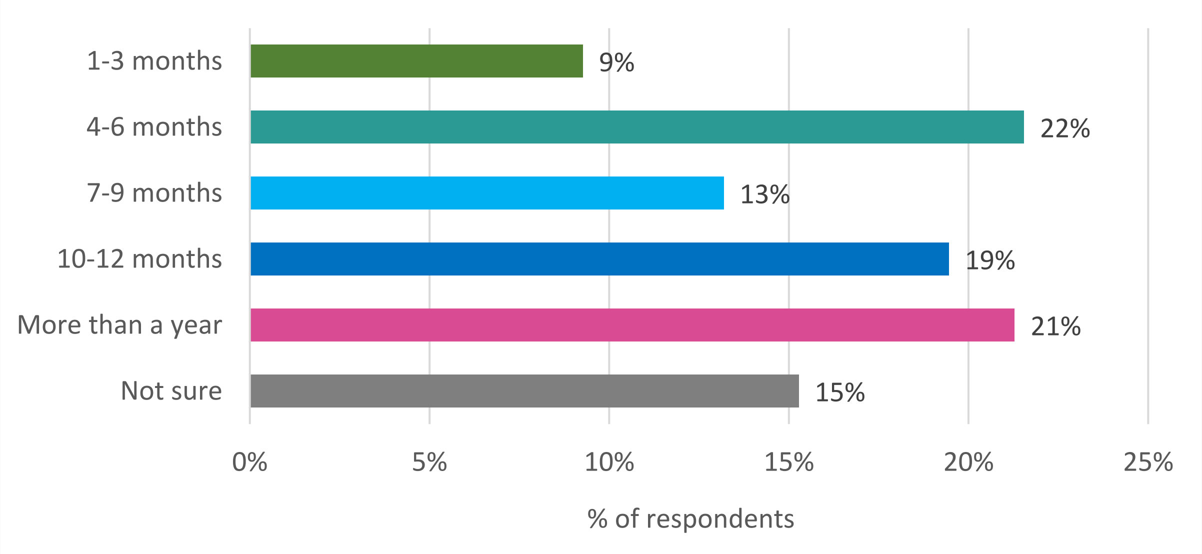
5.4 Pathway to Recovery

5.4.1 Firm's Expected Business Recovery Time

The results above have shown how business conditions have deteriorated greatly for many firms in Indonesia. This next section assess firms' pathway to recovery. Our question on the expected duration for firm recovery from the crisis intends to indicates their level of confidence to make it through the pandemic-induced crisis.

From the survey results, the largest group of firms (22%) believe that their business operations will recover in 4-6 months (See Figure 21). Only 9% of the firms expect a short business recovery period of 1-3 months. A large proportion of firms are less hopeful about their recovery prospect. About 1 in every 2 firms believe that their business recovery will take more than half a year, and 21% expects recovery to take more than a year. About 15% of the firms reported "Not sure", suggesting that there is high uncertainty in economic and business environment in Indonesia.

Figure 21: How long do you think it will take for your firm to recover from the COVID-19 outbreak?



Based on industries (See Figure 22), the **non-tourism related services** and **manufacturing** industries have the quickest recovery expectations. 1 in 3 firms from non-tourism related services and manufacturing sectors expect their businesses to recover within half a year after COVID-19.

Four predominant strategies and trends may explain the quick recovery expectation in the **non-tourism related services** industry, that includes the healthcare, finance, and ICT industries. Firstly, there is a total of Rp87.6 trillion government injection into improving healthcare services thus far, allocated with the purpose of increasing healthcare capacity to cope with the ongoing COVID-19 pandemic. (Ministry of finance Indonesia, 2020). Secondly, the Central Bank's monetary policy, explained in previous sections, have spurred lending activities, which in turn builds optimism in the finance firms (Suksmonohadi and Indira, 2020). Thirdly, the increasing use of e-commerce, online social channels and remote working platforms by Indonesians have increased demand for ICT products and services (Bank Indonesia, 2020). Fourthly, the Indonesian government's supportive policies on the ICT industry is likely to drive further growth in this industry. In August 2020, Indonesia's Ministry of Communications and Information Technology announced five priorities for digital transformation in Indonesia which includes the completion of high-speed internet infrastructure development in local districts, construction of a National Data Center (PDN) as part of the One Data Indonesian policy, human capital development in digital sectors, consolidation of digital economy ecosystem to foster digital businesses, and realization of supporting legislation in personal data protection and digital job creation (Office of Assistant to Deputy Cabinet for State Documents & Translation, 2020).

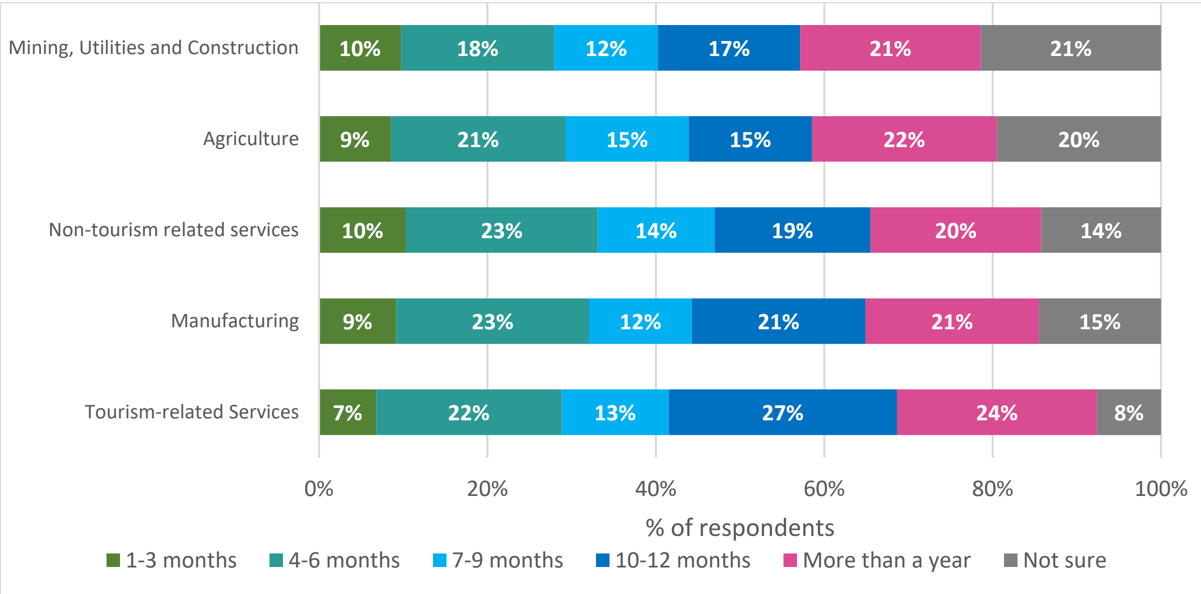
On the **manufacturing** front, a new two-pronged strategy adopted by the Indonesia government to assist (i) priority industry (i.e. automotive and textile) and (ii) resilience industry (i.e. pulp and paper, petrochemical and nickel) in time of crisis may have improved business recovery sentiments (Bank Indonesia, 2020).

Tourism-related services expects the slowest recovery. 64% of the firms in this sector expect recovery to last beyond 2020, and 24% expect their businesses to recover only in late 2021. The uncertain recovery is likely to remain as border restrictions remains the rest of the world with no end in sight, affecting international tourism.

Overall, we found that the expected recovery timeline reflects the improving economic reality. The rapid digitalization, as explained above, has not only driven growth in ICT firms that provide hardware, software, and e-commerce platforms, but also benefitted financial enterprises as digital adoption led to increased usage in financial technology such as digital banking, e-payment and fintech lending (Bank Indonesia, 2021). In Q4 2020, GDP growth for both of the Information and Communication, and Financial and Insurance Activities sectors expanded considerably by 10.91% and 2.37% respectively. This supports early business optimism in the **non-tourism related services** where one-third of respondents expect their firms to recover within 6 month of our survey period.

Furthermore, exports have increased in the fourth quarter of 2020 and first quarter of 2021 (Bank Indonesia, 2021) as a corollary of improving demands for consumer products, raw materials, and intermediate manufacturing goods in United States and China, two of Indonesia's largest export markets. This is in line with our findings, as forecasted by our survey respondents, that firms in **agriculture** and **manufacturing** industries are gradually recovering within 12 months after COVID-19.

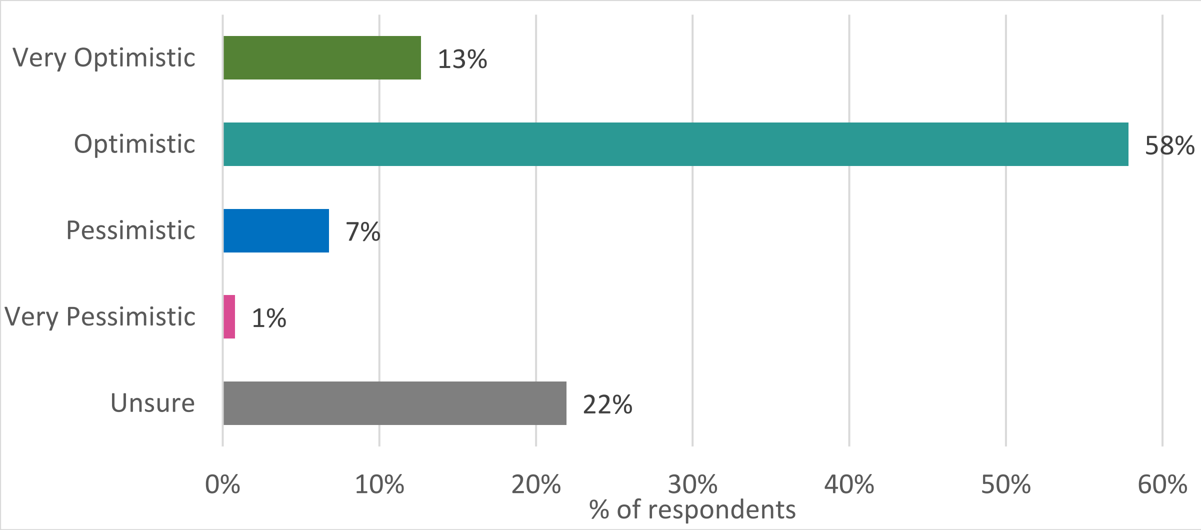
Figure 22: How long do you think it will take for your firm to recover from the COVID-19 outbreak? By industry



5.4.2 Firm's Optimism on Provincial Economy's Ability to Recover

Figure 23 illustrates firms' optimism in the provincial economy's ability to recover quickly after the social distancing or lockdown measures are lifted. Despite the gloomy economic outlook, 7 in 10 surveyed firms showed optimism in provincial economic recovery, and only 8% indicated pessimism. This could mean that the Indonesian firms are generally confident of the provincial government's ability to enact the right economic strategies for a post-pandemic recovery In fact, provincial governments across Indonesia have already announced several post-COVID-19 economic recovery strategies. They include Central Java's prioritization of the creative and e-commerce industry and East Kalimantan's improvement plans for labour capital and infrastructure connectivity (Firmansyah, 2020; Prakoso, 2020).

Figure 23: Firm's Optimism on Provincial Economy's Ability to Recover



The Indonesian government's assistance to affected firms may further explain the optimistic outlook. Under the National Economic Recovery (PEN) programme, a COVID-19 stimulus programme, government assistance came in the form of tax and non-tax incentives. For tax incentives, the programme removed import tax, reduced corporate income tax rates, and offered electricity discount for Indonesian firms. The non-tax incentives came in the form of financial and loan assistance to MSMEs. These include the Fund Placement and Provision of Interest Subsidies which assist MSMEs in credit restricting and interest subsidies.

6. Conclusion

Throughout 2020, both large and small-scale lockdowns have been implemented and then eased, only to be repeated as case numbers rise again, such that the 'New Normal' may be defined by a constant flux. The analyses of the survey data gathered over July to September 2020 shown that the economic repercussions is more felt in particular sectors, such as tourism-related services. At the same time, the pandemic has also presented economic opportunities for minor gains in some industries that are more confident in their post-pandemic recovery.

Government aid to Indonesian businesses would be useful for affected firms to stay afloat and innovate to adapt to the New Normal. The 2021 Indonesian budget (APBN 2021) allocated a total of Rp5 trillion to support export industries and Rp22 trillion to improve capital access for MSMEs and increase the disbursement of microcredit to the MSMEs. The Ministry of Finance has also allocated Rp175.4 trillion to assist businesses via energy subsidy and non-energy subsidy such as tax incentives. Our survey serves as a basis for understanding the ground-level business conditions which will be useful in the evaluation of the effectiveness of these policies.

While the survey data cannot claim to be representative of Indonesia's landscape, the varied trends in business sentiment and outlook remains useful for gauging the local situation in different industries. Moving forward, this paper hopes that the industrial variations shown through an analysis of the survey data may provide policymakers and business executive with key insights for effective recovery strategies.

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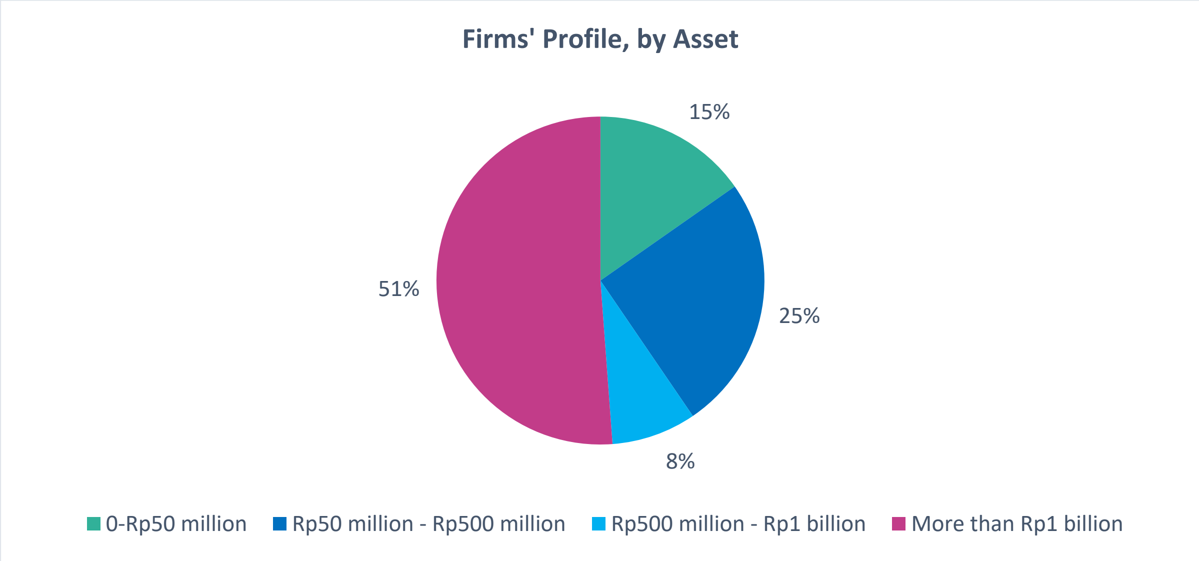
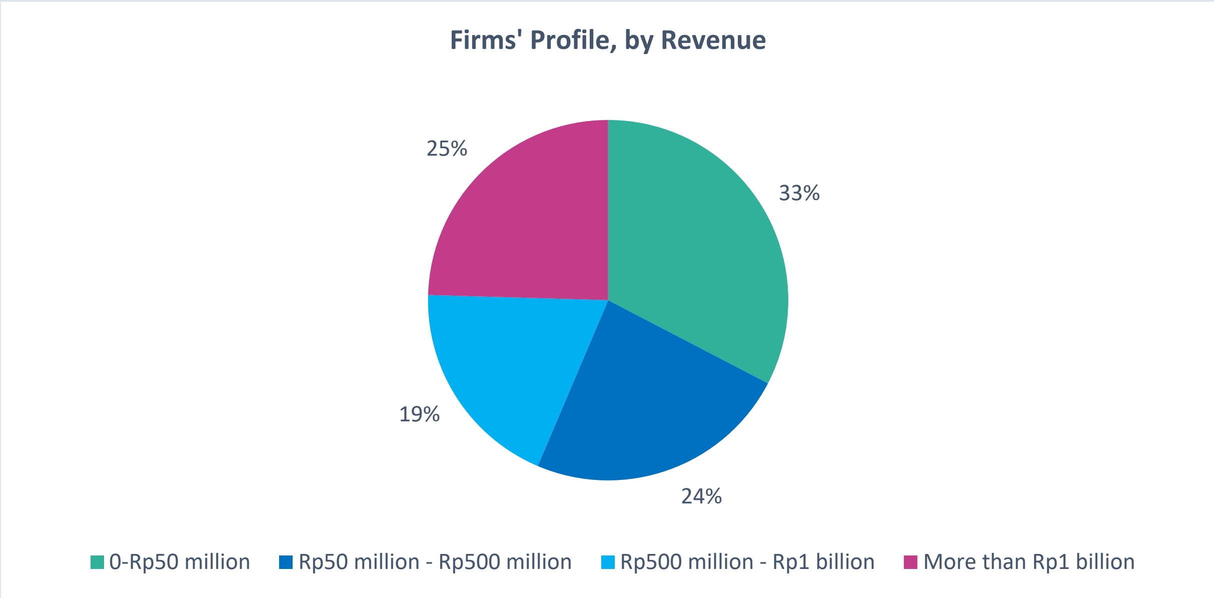
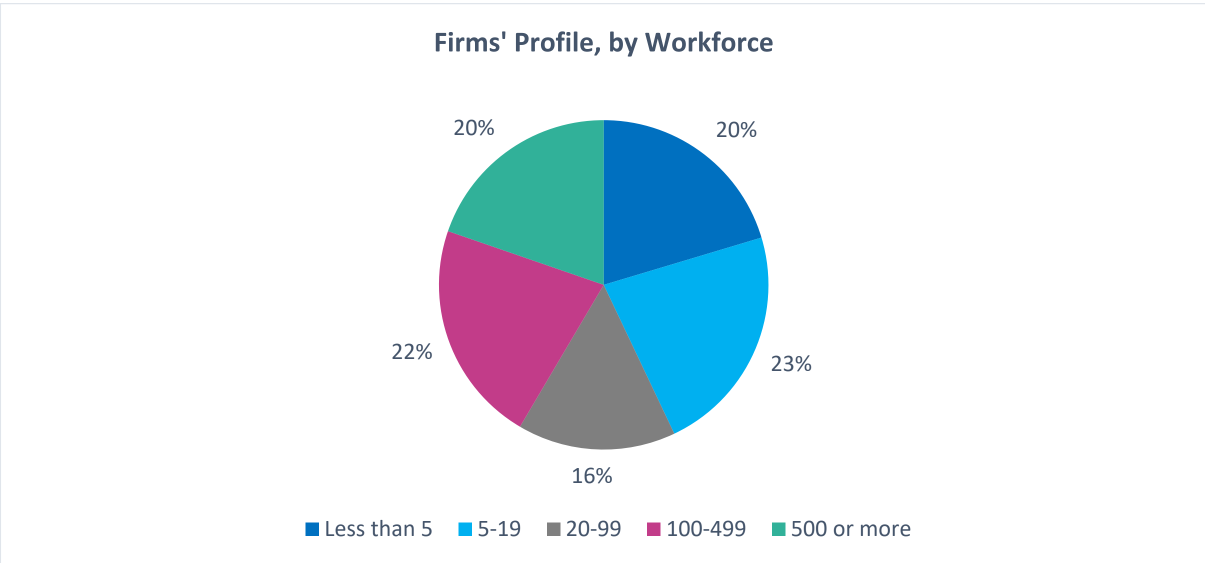
Appendix 1: Profile of Survey Respondents (n=766)







Appendix 2: Provinces included in Q3 Survey Data