

Conference Paper

The Vulnerability of Developing Countries to the Economic Crisis Due to the Pandemic: What Can Indonesia Do?

Farida Rahmawati and Fidelis Dwi Putra Santoso

Department of Development Economics, Faculty of Economics, Universitas Negeri Malang

ORCID:

Farida Rahmawati: <http://orcid.org/0000-0002-8574-7474>

Abstract

The spread of COVID-19 has had a significant impact on the global economy, including in Indonesia. The pandemic affected all economic performance, including growth, price stability, exchange rates, unemployment, poverty and so on. Although the crisis was felt by all countries, developing countries felt a greater impact than developed countries. Through a qualitative analysis, this paper aims to explain why this can happen, what are government policies for pandemic mitigation and what are their impact. The results show that the crisis caused by the pandemic in Indonesia was caused by four things, namely the dominance of the informal sector, limited fiscal space, poor governance and demographic differences between developed and developing countries. So, a strategy is needed to overcome these obstacles. Strategies that can be carried out are through evaluating government performance, increasing the budget deficit and moderating lockdowns. These three strategies are expected to be able to help Indonesia through the crisis caused by the COVID-19 pandemic.

Keywords: COVID-19 Pandemic, Demographic Differences, Informal Sector, Limited Fiscal Space, Poor Governance

Corresponding Author:

Farida Rahmawati

farida.rahmawati.fe@um.ac.id

Published: 14 July 2021

Publishing services provided by
Knowledge E

© Farida Rahmawati and Fidelis Dwi Putra Santoso. This article is distributed under the terms of the [Creative Commons](#)

[Attribution License](#), which permits unrestricted use and redistribution provided that the original author and source are credited.

Selection and Peer-review under the responsibility of the IRCEB Conference Committee.

1. Introduction

1.1. Indonesian Economic Condition After the Pandemic Occurs

The spread of the COVID-19 virus has had a significant impact on the world economy. Indonesia also experienced the impact of the emergence of this pandemic as a result of the decline in the world economy. The impact of this pandemic can be seen from data related to economic growth. The Indonesian economy in the first quarter of 2020, where the COVID-19 pandemic began in Indonesia, grew by 2.97 percent compared to the first quarter of 2019 (YoY) of 5.07 percent (Badan Pusat Statistik, 2020a).

OPEN ACCESS

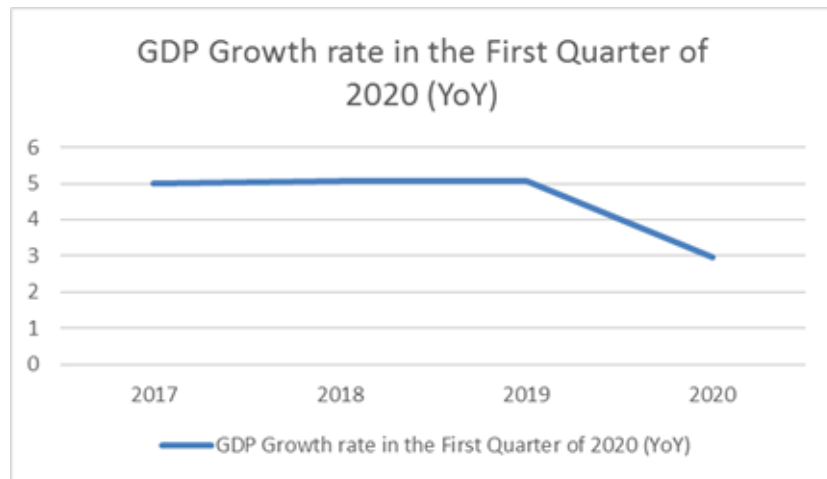


Figure 1: GDP Growth Rate in the First Quarter of 2020 (YoY)

Based on the source of Indonesia’s economic growth in the first quarter of 2020 (YoY), the highest source of growth came from the information and communication business sector at 0.53; followed by financial services and insurance as well as the manufacturing industry each by 0.44 percent; and construction 0.29 percent. Meanwhile, other sectors grew 1.27 percent (Badan Pusat Statistik, 2020b). This is very relevant to the real conditions of Indonesia because, since the pandemic, social distancing and new normal policies have emerged which have caused people to have online activities so that the information and communication sector is the largest contributor to economic growth in Indonesia.

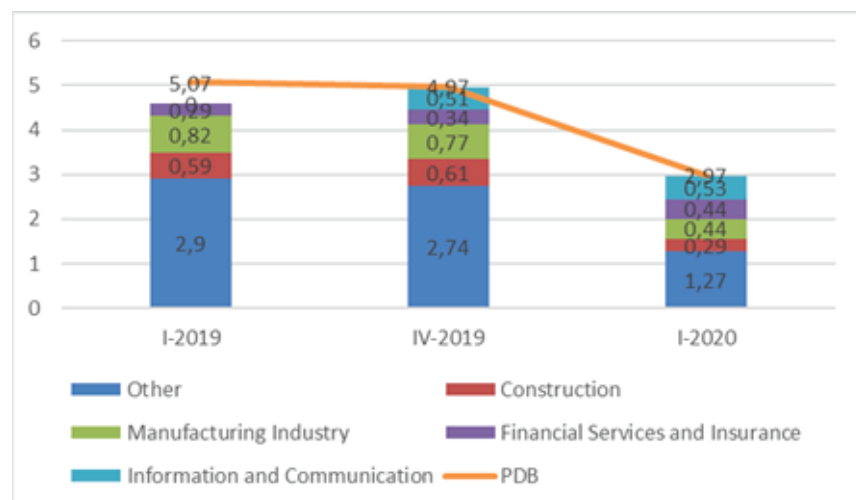


Figure 2: Sources of Indonesia's Economic Growth in the First Quarter of 2020

As a developing country, Indonesia is still experiencing problems at the poverty level. Moreover, coupled with the crisis due to the pandemic currently hitting the world, poverty in Indonesia is increasing. According to a publication released by The SMERU Research

Institute on the impact of the COVID-19 pandemic on poverty in Indonesia. In this publication, they predict poverty levels based on economic growth rates. September 2019 is used as the base figure with a poverty rate of 9.22 percent. They provide predictions related to the total growth rate ranging from 4 percent to the most extreme of 1 percent, wherein this 1 percent the poverty rate is estimated at 12.37 percent (Suryahadi et al., 2020).

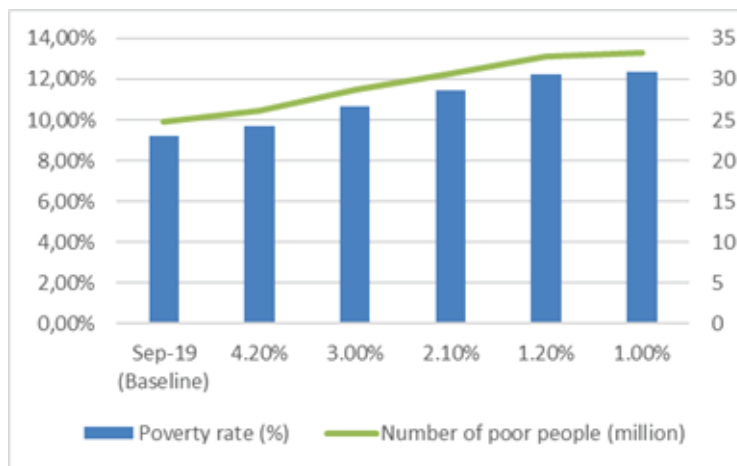


Figure 3: Estimates of Economic Growth Rate and Poverty Level

If we compare the calculations made by the SMERU Research Institute with data on Indonesia's growth rate in the first quarter of 2020, the results will be quite surprising. In the first quarter of 2020, Indonesia's growth rate was 2.97 percent, which means that the estimated poverty rate in Indonesia currently ranges from 10 to 11 percent or has reached 2 digits. This should be of particular concern to the Indonesian government considering the past few years the poverty rate in Indonesia has been in the one digit figure.

1.2. Developing Countries Constraints to Facing Pandemic

The economic crisis caused by the COVID-19 pandemic has a greater impact on lower-middle-income countries than developed countries because they lack the resources and capacity to deal with major systemic shocks. Indonesia as a developing country certainly also has obstacles or shortcomings that cause this crisis to have a bigger impact. For a pandemic crisis, three structural characteristics make developing countries particularly vulnerable to major economic shocks: the informal sector, limited fiscal space, and poor governance. (Loayza, 2020). Also, differences in demographic characteristics between developed and developing countries mean that not all policies can be applied in developing countries.

The informal sector is one of the largest sectors in Indonesia. The Central Bureau of Statistics (BPS) noted that the informal sector dominates jobs in Indonesia, where in February 2019 there were around 74 million people aged 15 years and over who worked in the informal sector, while only around 55 million people working in the formal sector (Katadata, 2019b). This shows that there is a considerable obstacle for Indonesia, where the informal sector is large in Indonesia. Most informal workers, especially self-employed persons, depend on day-to-day work to pay for their basic household needs: if they are unable to work even for a short time, their family living benefits are at risk (Loayza, 2020). This risk needs to be considered by the government so that it does not take the wrong steps in making decisions, especially to deal with this pandemic.

Countries with middle and lower-income have other limitations to be able to overcome the crisis during the pandemic, namely limited fiscal space. Small tax bases and less efficient tax administration mean that income support for people whose income is sharply disrupted or limited due to pandemic and countercyclical fiscal policies is more difficult to implement in developing countries than in developed countries. (Loayza, 2020).

Most developing countries suffer from corruption, lack of transparency and accountability, low bureaucratic competence, and burdensome regulatory systems that pose obstacles for the country to overcome the crisis related to this pandemic (Loayza, 2020). This is very relevant, especially in Indonesia. When compared to ASEAN countries alone, the rate of government effectiveness in Indonesia is still low. The country of Singapore, since 19 years ago, has defeated the United States in terms of government effectiveness scores, whereas from Indonesia in the last 19 years there has been no significant improvement (Kompasiana, 2019).

In dealing with the COVID-19 pandemic, governments in various countries around the world are implementing various methods so that this virus does not spread rapidly. One of the methods used by the government, in general, is by implementing lockdowns or restrictions on mobility for its people. The government has had a difficult choice to make the best approach for their country to prevent the spread of this disease, so many countries are implementing strict lockdowns for their countries (Loayza, 2020). However, over time the lockdown policy gave new problems which eventually became an obstacle in solving the pandemic problem. This problem is triggered by the demographic differences between regions so that not all policies can be effectively implemented in these regions.

The implementation of lockdowns carried out in various countries has different impacts and losses, especially between developing countries and developed countries.

TABLE 1: Government Activity Effectiveness Figures

Government Activity Effectiveness Figures						
Year	Country					
	SG	AS	ML	TH	PH	ID
1996	1.99	1.52	0.54	0.2	-0.31	-0.71
1998	2.15	1.76	0.76	0.1	0.03	-0.61
2000	2.20	1.80	1.06	0.2	-0.18	-0.29
2002	1.85	1.68	1.02	0.3	-0.13	-0.41
2003	1.95	1.60	1.16	0.4	-0.10	-0.46
2004	1.99	1.76	1.09	0.3	-0.24	-0.42
2005	1.96	1.54	1.09	0.4	-0.04	-0.48
2006	2.21	1.59	1.27	0.5	-0.13	-0.33
2007	2.38	1.65	1.24	0.2	0.07	-0.28
2008	2.44	1.61	1.11	0.2	0.02	-0.24
2009	2.27	1.51	0.98	0.3	-0.03	-0.30
2010	2.24	1.56	1.12	0.2	0.00	-0.21
2011	2.15	1.52	1.02	0.2	0.09	-0.26
2012	2.17	1.53	0.92	0.2	0.11	-0.27
2013	2.09	1.52	1.00	0.2	0.12	-0.20
2014	2.18	1.47	1.12	0.3	0.19	-0.04
2015	2.24	1.46	0.95	0.4	0.11	-0.24
2016	2.19	1.48	0.87	0.3	-0.02	0.01
2017	2.21	1.55	0.84	0.4	-0.06	0.04
Average	2.27	1.67	1.06	0.29	-0.03	-0.32

The strict application of lockdowns carried out by developing countries actually causes greater economic costs and other social problems, because the government can place families of poor and informal workers, especially day laborers, with the threat of hunger, crime, and disease (Loayza, 2020). Most of the people living in developing countries work in the informal sector, where this sector has a daily income and cannot be carried out at home. If the government implements a lockdown, it will have an impact on the economy of the poor who work in this sector, causing other problems such as poverty and hunger.

The implementation of lockdown in developing countries is also not very effective. The economic benefits of the tighter lockdown measures decrease with income levels (Loayza, 2020). Developing countries that have middle-lower income tend to have relatively young people. The COVID-19 pandemic is very vulnerable to elderly people so that the threat of death for people in developing countries is lower. When the government implements a lockdown, the rate of decline will not drop significantly,

because basically, the level of vulnerability to viruses is lower. In fact, the economy will deteriorate because people are unable to meet their daily needs.

2. Mitigation Strategy

2.1. Evaluation of Government Performance as a Strategy to Overcome Constraints

One of the obstacles for developing countries in reducing the impact of the crisis as a result of the COVID-19 pandemic is poor governance. The quality of a country's governance will determine the effectiveness of managing shocks and providing assistance (Loayza, 2020). Indonesia as a developing country also faces these problems. This is evident in budget management during the COVID-19 pandemic. President Joko Widodo highlighted the health budget during the COVID-19 pandemic, whose absorption was only 1.53 percent of IDR 75 trillion (BBC News Indonesia, 2020). In fact, if these funds are fully absorbed, it will have a positive impact on Indonesia. Public Policy Expert from the University of Indonesia, Lina Miftahul Jannah, assessed that the Ministry of Health and many other ministries that President Jokowi alluded to were stuttering when they received the special COVID-19 budget (BBC News Indonesia, 2020). The government is accustomed to focusing on the absorption of the budget at the end of the year, so when there is an emergency fund that is provided and it must be absorbed immediately at the beginning of the year it confuses some related ministries.

Evaluation of government performance can be a solution to the obstacles faced by developing countries, especially Indonesia in facing the crisis caused by this pandemic. Evaluation can be done periodically, either weekly or monthly. This evaluation is expected to be able to improve coordination between government posts as well as reduce the existence of miscommunication between agencies. An example of a case that occurred in Indonesia was that there was a budget for handling COVID-19 that was not fully absorbed due to the government's unpreparedness in allocating funds at the beginning of the year. The evaluation that is carried out can be focused on financial management. Each leader in the relevant ministry is expected to have innovations and creative ideas to use these budget funds so that the funds that have been budgeted can be absorbed. Leaders can be even more proactive, especially in terms of seeking policy ideas for channeling budget funds. The government can learn from other developing countries that have been able to reduce the impact of the economic crisis to emulate creative ideas/ideas that might be suitable to be applied in Indonesia.

Evaluation can also be carried out on the government system itself, especially in the bureaucracy that is already in effect in Indonesia. The government also has the authority to determine the process and method of procurement of goods and services and to simplify the mechanism and simplify documents in the field of state finance (Silalahi & Ginting, 2020). The bureaucracy that was too long caused budget funds to not be distributed quickly so that the handling of the economic crisis caused by COVID-19 was hampered. Minimizing or trimming the bureaucratic process, especially in a precarious situation like this, can be an option so that the handling process is faster. Of course, with a clear legal umbrella so that it can be accounted for. In the end, Indonesia as a developing country was able to reduce the impact caused by the crisis due to the COVID-19 pandemic.

2.2. Increasing the Budget Deficit as a Strategy to Overcome Constraints

Another strategy is to maintain fiscal space by increasing the budget deficit. One of the obstacles faced by developing countries, including Indonesia, is the limited fiscal space. Under Government Regulation (Perppu No.1 / 2020), the government has the authority to take actions that result in APBN expenditure where the budget for that expenditure is not yet available (Silalahi & Ginting, 2020). There is already a clear legal umbrella regarding how government actions are related to increasing the budget deficit to help deal with the crisis caused by the COVID-19 pandemic. By increasing the budget deficit, it is expected to be able to save the economy from the COVID-19 pandemic.

In fact, the Indonesian government itself has made several revisions related to the budget deficit. The government has for the third time changed the outlook for the 2020 State Budget deficit from 6.27 percent to 6.34 percent of gross domestic product (GDP) (Bisnis.com, 2020). This widening fiscal deficit as a result of government policies in dealing with the COVID-19 pandemic. But if it is felt that budget funds are still needed, the government is expected to be able to widen the budget deficit until this pandemic is completely resolved.

Sources of funds to increase the budget deficit can be obtained from several sources of financing. The sources of funds that can be undertaken by the government include reallocation of the State Budget, issuance of securities (SUN), loans to the IMF, and bilateral loans with other countries. From several alternative sources of financing, the government is advised to issue Government Securities (SUN). This is related to interest financing, where some of these alternatives are more inclined to foreign debt financing.

In a crisis like this, foreign debt will increase the burden of financing, particularly interest financing. If the government issues global Government Securities (SUN) in the midst of current conditions, the coupon interest will be higher and the tenor will also be longer (Silalahi & Ginting, 2020).

The aspect that needs to be considered when increasing the budget deficit is the aspect of budget effectiveness through priority based on the level of urgency. The government is expected to focus these funds on the economic and health sectors. These 2 sectors are currently so heavily affected that it needs special attention from the government. Some of the areas that the government has made amendments to the State Budget are in the health sector valued at 75 trillion, social sector 110 trillion, fiscal and tax policies worth 70.1 trillion, and MSMEs worth 150 trillion (Kemlu Indonesia, 2020).

2.3. Moderate Lockdown as a Strategy to Overcome Constraints

One other alternative in overcoming the economic crisis during the COVID-19 pandemic is to make adjustments to the lockdown policy which has become the primary policy in almost all countries to reduce the spread of the virus. As previously explained, if the lockdown policy has different results when applied in developed and developing countries. The most cited models of COVID-19 transmission and mortality suggest that we should expect fewer deaths in developing / poor countries and that social distancing policies in those countries yield little benefit. (Barnett-Howell & Mobarak, 2020). Thus, it is necessary to make adjustments to lockdown policies in developing countries, especially Indonesia to minimize the impact of the crisis received by Indonesia.

The first adjustment associated with lockdowns is to reduce the severity of the lockdown itself. One of the obstacles faced by developing countries, especially Indonesia, is the large number of informal sectors which of course will be disrupted when this lockdown policy is implemented. If everyone is forced to stay at home, it will worsen the economy even more. Poverty and the emergence of other diseases due to malnutrition will become a new problem, instead of reducing the spread of the COVID-19 virus and minimizing the occurrence of crises.

The high average age in rich countries drives high mortality estimates from the spread of COVID-19 without mitigation, while younger populations in low-income countries result in a lower risk of death (Barnett-Howell & Mobarak, 2020). The people in Indonesia themselves have a larger number of young population than the elderly.

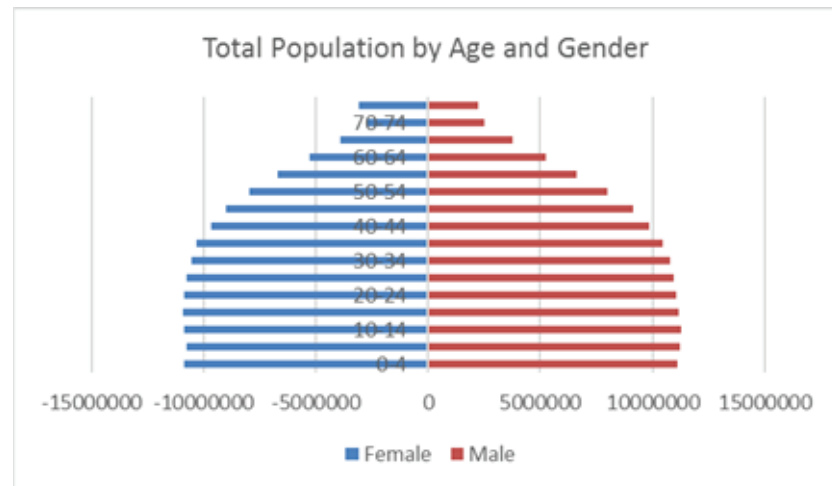


Figure 4: Total Population by Age and Gender

Based on the data above regarding the estimated population of Indonesia in 2020, it is very visible that Indonesia has a more productive age population. The total population of Indonesia in 2020 is 269.6 million, consisting of 135.34 million men and 134.27 million women (Katadata, 2019a).

Based on data regarding the population of Indonesia, adjustments can be made related to lockdown, namely by making allowances for people who are young or not vulnerable to COVID-19 cases. The percentage of the Indonesian population who died from COVID-19 by age, namely the 0-5 year age group by 1 percent, 6-17 years old by 0.6 percent, 18-30 years by 3.3 percent, 31-45 years by 13.2 percent, 46-59 years old by 40 percent and the age group over 60 years old as much as 41.94 percent (Task Force Acceleration Handling COVID-19, 2020). From this data, people who are vulnerable to death due to the COVID-19 virus are dominated by those aged 46-59 years and over 60 years. So, loosening lockdowns can be carried out for people who are less than 45 years old. Of course, this relaxation must be accompanied by good health protocols and good supporting facilities.

If people aged 45 years and under are given the leeway to be able to do activities outside the home, then the government can impose strict regulations for people over the age of 45 not to leave the house. If the community is still working, they are obliged to do work from home (WFH). To deal with people who still violate these regulations, the government can enforce tightening through security and conduct sweeping to strategic areas where people gather such as shopping centers, office areas, schools, markets, campuses, etc. The government, through the authorities, checks the identity to see the age of the community. If violations are found, they can be given strict sanctions such as warnings, monetary fines, and for the most extreme imprisonment.

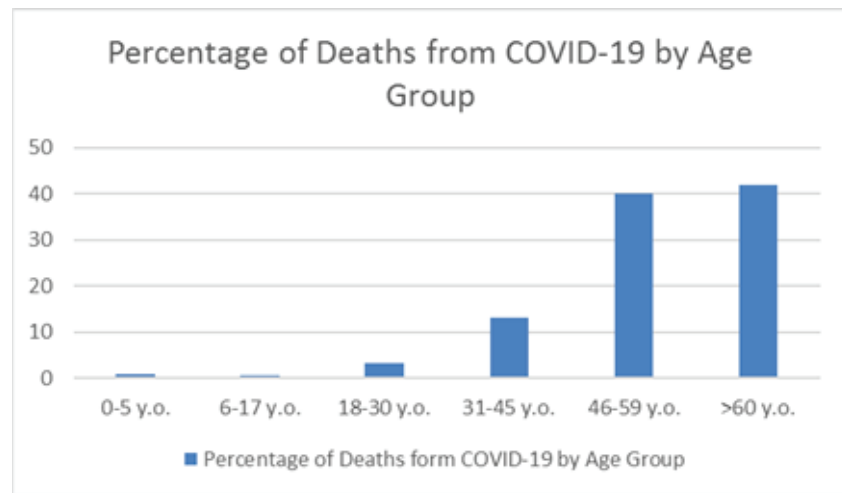


Figure 5: Percentage of Deaths from COVID-19 by Age Group

3. Conclusions

As a developing country, Indonesia is vulnerable to crises that occur due to COVID-19 pandemic. This can be seen from the contraction rate of Indonesia's economic growth in the first quarter of 2020, which shows a figure of 2.97 percent, lower than the initial target of around 5 percent. Then in the second quarter, Indonesia's economic growth was even minus by. From the poverty aspect, it also needs attention, where it is predicted that the poverty rate in Indonesia in 2020 will increase by 10 to 11 percent. Barriers that are owned by developing countries that make them vulnerable to this crisis are limited fiscal space, high employment in the informal sector, and low governance. Besides, the demographic differences between developed and developing countries make the main policy in overcoming the COVID-19 pandemic, namely, lockdowns cannot be applied effectively in all regions.

The advice that can be given is to carry out several strategies to reduce the impact of the crisis due to the COVID-19 pandemic. One thing that can be done is to improve the governance system itself. Improvements are made by evaluating the performance of the government during the pandemic. The government is expected to have innovations so that the available budget funds can be properly absorbed to be able to help the country's economy. Innovation can be obtained through learning about policies from neighboring countries that have successfully reduced the impact of the COVID-19 pandemic crisis. Evaluation can also be done by conducting de bureaucracy related to state finances so that they can be distributed more quickly.

Besides, the government can increase the budget deficit to pay for everything needed to deal with COVID-19. Maintaining the budget deficit as high as possible is an alternative

that can be done related to the constraints faced by Indonesia, namely limited fiscal space. It is advisable to take domestic sources of financing, such as the issuance of SUN in rupiah because it has a lower risk when compared to foreign debt. The funds obtained from the issuance of SUN must be able to be used as best as possible through determining priorities so that it can be even more effective in the process of handling COVID-19.

The last strategy that Indonesia can take to overcome obstacles in handling the COVID-19 pandemic is to make adjustments to the lockdown policy based on the demographic conditions of the area. Adjustments are made by limiting people who are vulnerable to the COVID-19 virus and making relaxation for people who tend to be less susceptible to the virus. If the community commits a violation, there will be strict sanctions in the form of monetary fines, warnings, to the most extreme is imprisonment.

References

- [1] Badan Pusat Statistik. (2020). *Laju Pertumbuhan Y on Y Produk Domestik Bruto Menurut Lapangan Usaha (Persen), 2017 - 2020*. Retrieved from <https://www.bps.go.id/linkTableDinamis/view/id/960>. [3 December 2020]
- [2] Badan Pusat Statistik. (2020b). Statistik Pertumbuhan Ekonomi Indonesia Triwulan I-2020. Retrieved from <https://www.bps.go.id/pressrelease/2020/02/05/1755/ekonomi-indonesia-2019-tumbuh-5-02-persen.html>. [3 December 2020]
- [3] Barnett-Howell, Z. and Mobarak, A. M. (2020). *The Benefits and Costs of Social Distancing in Rich and Poor Countries*, arXiv preprint arXiv:2004.04867, pp. 1–14.
- [4] *BBC News Indonesia*. (2020). Retrieved from <https://www.bbc.com/indonesia/indonesia-53223755>. [3 December 2020]
- [5] *Bisnis.com*. (2020, June). Retrieved from [https://ekonomi.bisnis.com/read/20200603/10/1247758/untuk-ketiga-kali-pemerintah-revisi-defisit-jadi-634persen?utm_source=Desktop&utm_medium=Artikel&utm_campaign=BacaJuga_2]. [03 May 2020]
- [6] *Katadata*. (2019, September). Retrieved from [https://databoks.katadata.co.id/datapublish/2019/09/13/jumlah-penduduk-indonesia-diproyeksikan-mencapai-270-juta-pada-2020#:~:text=JumlahPendudukIndonesiaMenurutKelompokUmur\(2020E\)&text=Sebanyak66%2C07jutajiwa,produktif\(65%2Btahun\)](https://databoks.katadata.co.id/datapublish/2019/09/13/jumlah-penduduk-indonesia-diproyeksikan-mencapai-270-juta-pada-2020#:~:text=JumlahPendudukIndonesiaMenurutKelompokUmur(2020E)&text=Sebanyak66%2C07jutajiwa,produktif(65%2Btahun)). [03 May 2020]
- [7] *Katadata*. (2019, December). Retrieved from <https://databoks.katadata.co.id/datapublish/2019/10/21/sector-informal-mendominasi-pekerjaan-di-indonesia->

2015-2019.[03 May 2020]

- [8] *Kemnl Indonesia*. April (2020). Retrieved from <https://kemlu.go.id/brussels/id/news/6349/kebijakan-pemerintah-republik-indonesia-terkait-wabah-covid-19>. [06 June 2020]
- [9] *Kompasiana*. February (2019). Retrieved from <https://www.kompasiana.com/yahowu/5c6b686aab12ae2a7576a60b/efektivitas-pemerintah-indonesia-terburuk-di-asean-dalam-19-tahun-terakhir>. [06 June 2020]
- [10] Loayza, N. V. (2020). Costs and Trade-Offs in the Fight Against the COVID-19 Pandemic: A Developing Country Perspective. In *Research & Policy Briefs*. E-World Bank Prints: Washington
- [11] Silalahi, D. E. S. and Ginting, R. R. (2020). Strategi Kebijakan Fiskal Pemerintah Indonesia Dalam Menghadapi Dampak Pandemi COVID-19. *Jurnal Ekonomi & Ekonomi Syariah*. 3(2), 156-167.
- [12] Suryahadi, A., Al Izzati, R. and Suryadarma, D. (2020). The Impact of COVID-19 Outbreak on Poverty: An Estimation for Indonesia (Draft). In *SMERU Working Paper*. Vol 1(1), pp 1-20, SMERU Working Paper: Cikini
- [13] *Peta Sebaran*. April (2020). Retrieved from <https://covid19.go.id/peta-sebaran>. [07 June 2020]