

CHAPTER I

INTRODUCTION

A. BACKGROUND

Pandemic Corona Virus Disease 2019 (COVID-19) has severely impeded the operation of the global economy. According to the estimation provided by the World Bank, which was published in June 2020, the pandemic is expected to cause a 5.2% contraction of global GDP (World Bank 2020). The COVID-19 outbreak and ways to stop it from spreading have resulted in a severe global economic contraction. The global economy will contract by around 4.4 percent in 2020, according to projections from the International Monetary Fund (IMF) – the worst recession since World War Two. This crisis also had a significant impact on Indonesia's economic growth.

Indonesia is one of the countries affected by the COVID-19 pandemic. Not only on health aspects, COVID-19 also has an impact on social and especially on economic aspects. Indonesia's gross domestic product is confirmed to contract by 1.1 percent in 2020 – a drastic drop from the 5.3 percent projected pre-pandemic growth – leading to widespread job losses and people's incomes. Many workers are laid off by the company; formal and informal jobs that are feeling the impact of the pandemic include: teachers, doctors, hospital employees, traders, laborers, farmers, and others. They all face the impact of this pandemic which causes a lot of unemployment, lack of income, the bankruptcy of entrepreneurs, and who are more concerned about until closing the company. It is different when normal activities start to resume, as companies need time to find new employees to start their business again. Any companies or traders who will not be able to survive as long as this pandemic still exists.

Previously Indonesia had experienced SARS outbreak in 2002. The SARS outbreak had a relatively limited impact on Indonesia's economy. Although the country experienced a decline in tourist arrivals and some disruptions to trade, the overall economic impact was relatively mild. Following the SARS outbreak, Indonesia experienced a short-lived dip in economic growth, but it quickly rebounded. The Indonesian government implemented measures such as travel restrictions, health screenings, and public awareness campaigns to contain the spread of SARS. However, the economic response was relatively limited. The SARS outbreak mainly affected the tourism and hospitality sectors in Indonesia. The decline in tourist arrivals had a

negative impact on these sectors, but other sectors of the economy were relatively unaffected. The SARS outbreak was more localized, primarily affecting Southeast Asia, Hong Kong, and China. The global economic impact was relatively limited. Indonesia's capacity to overcome the impact of SARS on its economy was supported by factors such as limited direct impact, a diversified economy, government response, regional cooperation, and resilient domestic demand. These factors helped in the relatively quick recovery and minimized the long-term consequences of the SARS outbreak on Indonesia's economic growth.

Indonesia still has significant development concerns. Furthermore, the worldwide crisis brought on by the COVID-19 outbreak presents Indonesia with unprecedented challenges in achieving its development objectives. The current condition of the Indonesian people's economy is not stable when the government is trying to optimize. Regarding the economic conditions in Indonesia, the pandemic comes with a lot of impact. As known that the impact of this pandemic is very influential on all aspects, especially on public health and economic conditions. The government took significant measures to mitigate the impact of the COVID-19 pandemic. These included implementing large-scale social restrictions, providing fiscal stimulus packages, expanding healthcare infrastructure, and supporting affected businesses and individuals through various relief programs. The impact of COVID-19 on Indonesia's economy is complex and ongoing. The recovery process is influenced by both domestic and global factors.

Indonesia in dealing with the SARS outbreak in 2002 was able to prove that Indonesia had the capacity to stop the SARS outbreak and all the impacts it had. The economic impact of the COVID-19 pandemic on Indonesia has been significantly more severe and prolonged compared to the SARS outbreak. The COVID-19 pandemic affected a broader range of sectors, led to a deeper economic contraction, and necessitated more extensive government intervention to support recovery efforts.

This thesis explores the effectiveness of Indonesia's policies in mitigating the impact of COVID-19. Therefore, the research aims to provide a comprehensive analysis of Indonesia's capacity to address the economic consequences following the pandemic. The study hopes to highlight the government's efforts and outcomes in dealing with the impact of COVID-19.

B. RESEARCH QUESTION

The research question is written as follows in view of the background information provided above: How is Indonesia's capacity working to overcome the impact of COVID-19 on its economy?

C. THEORETICAL FRAMEWORK

The concept of state capacity is used by the author to address the research issue and analyse the case study of this study. The ability of the state to accomplish goals is how the term "state capacity" is most broadly defined. Lindvall & Teorell (2016) define state capacity through three approaches:

1. The Weight of The State: the state's power to achieve intended outcomes.
2. National Capabilities: how states use and invest in state resources.
3. Subnational Variation: broadcast power across its territory.

To put it differently, state capacity refers to how well government policies lead to the desired outcomes. However, this relationship cannot be directly observed, so state capacity cannot be directly measured. Instead, it is possible to measure the resources that a state employs to strengthen its authority, which may include revenue, human resources, and information. Instead of trying to gauge state capacity through direct means, it is more effective to assess the resources that support state agencies in implementing public policies. To create an indicator of state capacity, Lindvall and Teorell suggest collecting data on government revenue, the quality of the bureaucracy (in terms of human capital), and institutions that gather information. These underlying factors can then be used to determine the state's capacity.

The extent of a state's power is determined by the state itself. Therefore, activities aimed at redistributing resources, such as welfare programs, are examples of variations in the chosen extent of power, rather than a measure of the state's actual ability. The idea of outreach, which is similar to autonomy and power, centres on the discussions that take place within the state and with external actors about the degree, type, and manner of involvement in society. Fukuyama (2004) defines capacity as the ability of states to plan and execute policies and to enforce laws cleanly and transparently.

State capacity according to Besley & Persson (2008) is the ability to levy taxes to finance public goods and focus on two types of conflict affects incentives to invest in capacity. Prospects of internal and external conflicts have very different effects on incentives for building capacity to collect taxes, and some correlations consistent. A complete treatment of the causes and consequences of conflict will have to treat the incidence of conflict, the level of development, and investments in state capacity as jointly determined. External conflicts may induce a common interest across different group in society and internal conflicts may not receive much attention.

Besley & Persson (2009) added that External conflicts can create common-interest public goods, but it is not satisfactory to view every conflict as an external factor. Decisions to invest in state capacity are purposeful and influenced by circumstances and institutional structures. The factors that affect these decisions show a fundamental connection between fiscal and legal capacity. Policy decisions are limited by the state's legal and fiscal capacity, as well as the economic institutions inherited from the past. Current policies also reflect the political systems inherited from the past.

Besley & Persson (2010) consider a lack of state capacity as manifested in weak states is often cited as a major obstacle to development. Weak states tend to be hopelessly poor, unable to maintain basic economic functions and raise the revenue required to deliver basic services to their citizens. They are also often plagued by civil disorder or outright conflict. This propensity toward conflict and weak government institutions tends to be clustered with low-income levels and stagnation.

Scholars in political and economic history consider a state's ability to generate revenue as an important phenomenon, explaining military victories and, more generally, contributing to the successful development of nation-states. Examples of this can be found in countries like the US, UK, and Sweden, where tax systems have been reformed and expanded in response to external conflicts. Political scientists like Migdal (1988) have highlighted that developing nations often struggle with weak states that lack the ability to generate revenue and govern effectively.

Englehart (2009) assumed that while states may be the primary violators of human rights, they are also the primary guarantors of such rights. If states are violating human rights, they may benefit from looking to international regimes to improve their record. If the state's role as a guarantor of rights is more significant, then efforts should be made

to strengthen domestic enforcement capabilities, promote the rule of law, and increase transparency while enhancing state capacity. Generally, human rights abuses occur in low-capacity states, and a stronger state apparatus typically provides better protection for citizens from non-state actors and corrupt officials. The situation of human rights in any country should be evaluated on a case-by-case basis. While some states may abuse their capacities to oppress citizens, it is usually more dangerous to live in a weak state than a strong one when it comes to protecting one's rights.

Herrera & Martinelli (2013) adopt that state capacity evolves; a choice variable can increase over time and government decisions can be usefully modelled as serving the interests of a segment of the population or elite. To expand the ruling elite and promote democracy, a state must increase its capacity and reduce illegal activities, but this may have a non-linear effect on tax rates as it decreases the elite's willingness to spend on certain things while increasing their willingness to invest in public goods. Depending on the initial conditions, political changes can lead to either democratization or an entrenched elite. If the elite turnover without considering the interests of the broader population, the state's capacity investment will decrease, leading to an increase in illegal activities. If consensual changes are allowed, the society can evolve into either a democracy or an entrenched oligarchy with no change in the elite.

Thung-Hong Lin (2015) investigated the connection between the state and disaster vulnerability, and argued that the scale of human losses is determined by state capacity, regime type, and their interactions. Historical institutionalism, which assumes bounded-rationality among disaster stakeholders, explains the differences in cross-national reduction of negative effects is achieved through both intended and unintended consequences of political institutions, particularly the government. Natural disasters can harm the economy and the tax base, and can occasionally cause political unrest among the affected population. To prevent the loss of life and property resulting from natural disasters, asserting governmental authority, and acquiring revenue serve as incentives for the ruling elite. In developing countries, the elite may devote resources to other more pressing needs to ensure their own political survival (Keefer, Neumayer & Plumper, 2011). Therefore, due to the fragility of the state, both democracies and nondemocracies may suffer from disasters.

A greater capacity of the state to extract resources is strongly linked with a decrease in human casualties that occur during natural disasters. Escaleras, Anbarci, and Register (2007) argued that maintaining a high-quality bureaucracy, which entails transparent administration and adherence to the rule of law, can effectively curb political corruption. As a result, this can lower the likelihood of citizens being harmed by badly constructed buildings and infrastructure weakened by corruption

Several studies using rational-choice theory have shown that short-sighted voters tend to favour public spending on disaster relief rather than preparedness (Healy & Malhorta, 2009). In contrast, from a historical institutionalist perspective, democracies tend to shift the state-building preferences of the political elite towards more social spending on areas like firefighting, public health, education, and pensions, which helps reduce the impact of natural disasters on society, particularly on vulnerable groups. Therefore, in strong states, especially in democracies, more lives can be saved.

While the benefits of disaster mitigation provided by a democracy may be compromised by short-sighted politicians and voters, such a political system generally offers a more accessible opportunity for civil organizations and the media. On the other hand, an autocracy usually limits the freedom of association and speech, even during disaster situations. This suppresses the transparency and accountability in disaster management decision-making, restricts access to information regarding the disaster, hinders political rights, and manipulates the number of casualties among affected individuals.

The study's results indicate that there is a correlation between a strong state capacity, as measured by the government's expenditure as a percentage of GDP, and a reduced proportion of the population impacted by natural disasters. Democracies tend to perform better than non-democracies in reducing fatalities caused by natural disasters. The entitlement effect, which refers to autocracies underestimating the disaster-affected population, complicates the relationship between politics and the estimation of disaster impacts but does not offset the main mitigating effect of democracy. Moreover, state capacity and democracy are more effective in preventing losses caused by predictable disasters than unpredictable ones. Historical legacies can worsen the vulnerability of those affected by natural disasters if there is a weak state capacity and an irresponsible regime. To avoid such political disasters in the future,

countries must carefully identify and measure the specific political hazards associated with past disaster mitigation and relief strategies.

The allocation of resources and attention to different parameters of state capacity can also vary over time as countries adapt to changing circumstances and priorities. For example, in a country with weak administrative capacity, there may be a need to invest more resources in strengthening administrative systems and improving service delivery. In another country with a well-established administrative capacity but lacking infrastructure, the focus may be on expanding and improving physical infrastructure.

It is crucial for governments to conduct comprehensive assessments of state capacity, identify areas of weakness, and allocate resources accordingly. A holistic approach that addresses multiple parameters of state capacity is typically more effective in building a robust and capable state. Rather than assigning fixed percentages, policymakers and governance experts typically focus on identifying key challenges and addressing them in a balanced and integrated manner to enhance overall state capacity. This can involve implementing targeted reforms, capacity-building programs, policy adjustments, and strengthening institutional frameworks based on the specific needs and circumstances of a country.

The theory of state capacity can be applied to explain how Indonesia is dealing with the economic consequences of the COVID-19 pandemic. See Indonesia's capacity is in achieving the desired target and the ability to use resources that can increase the country's capacity, and how Indonesia can spread its power or produce influence over all corners of its territory.

D. HYPOTHESIS

The author has a hypothesis to test, building upon the previously discussed background and concept of State Capacity: Indonesia has the capacity to overcome the impact of COVID-19 on its economy. Indonesia has taken several measures to address the economic impact of COVID-19, such as implementing fiscal and monetary policies to support affected industries and households, increasing healthcare spending, and providing social assistance programs.

E. SCOPE OF RESEARCH

This thesis will concentrate on examining Indonesia's capacity to deal with the effects of the COVID-19 pandemic on the economic growth of Indonesia, with the research restricted to the year 2021 due to the outbreak commencing in late 2019.

F. RESEARCH METHODOLOGY

The research defines as a problem and considers to solve it through a scientific approach. The researcher has chosen to utilize a qualitative approach to investigate in this study Indonesia's capacity to overcome the impact of COVID-19 on its economy. In the book "Qualitative Research Design" by Maxwell, he defines five purposes in qualitative research, which are (Maxwell, 1941): 1) To comprehend between the actors and situation or events of the research; 2) To comprehend the influence between the context and actor actions; 3) Identifying the unpredictable phenomena and its influences; 4) To comprehend the process of events or the actions, and; 5) Developing common explanations.

In this research, the author decided to use qualitative research to examine Indonesia's capacity to overcome the impact of COVID-19 on its economy. The writer has employed the descriptive research method in their study. This method is used to provide a detailed description or analysis of the population, situation, or phenomenon under investigation. Sugiyono (2005) defines the descriptive method as a research tool that is utilized to describe or analyse research findings, without necessarily being applied to conduct a more comprehensive analysis.

G. THESIS STRUCTURE

The three chapters that form this research's writing system are organized into the following framework and outline.

CHAPTER I contains of research background, research question that relevant to the background, theoretical framework, hypothesis, scope of research, research methodology, and writing system.

CHAPTER II explains the Indonesian Economic before pandemic COVID-19, Indonesian Economy During COVID-19, the Impact of COVID-19 on Economic Growth in Indonesia, and capacity of Indonesia to manage the effects of COVID-19 on its economic growth and promote recovery.

CHAPTER III provides the Conclusion and Suggestions.