

CHAPTER I INTRODUCTION

1.1 Background

World Health Organization (WHO) announced COVID-19 on May 11, 2020, of a global pandemic outbreak (WHO, 2020). COVID-19 is a pandemic due to Coronaviruses (Cov) is a virus that attacks the respiratory system. Based on the Ministry of Health of the Republic of Indonesia (2020), the development of the COVID-19 case began on December 30, 2019, at the Wuhan Municipal Health Committee issued a statement "urgent notice on the treatment of pneumonia of the unknown cause".

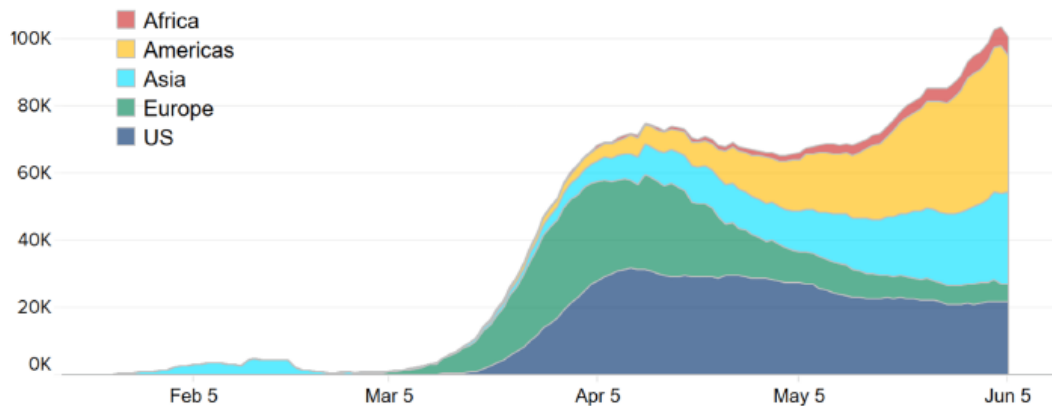


Figure 1 Daily Global Confirmed Cases

Source: John Hopkins University¹, 2020

Coronavirus or in its scientific designation is called Covid-19. The coronavirus began to spread around the Wuhan area and has now infected more than 188 countries (WHO, 2020). From figure 1 above, it can be seen that as many as more than 100,000 people in the world tested positive for this malignant virus. The number of new cases reported in China has indeed declined. But the surge in cases occurred in South Korea, Italy, Iran, Indonesia, and even the USA. The increasingly widespread corona outbreak in various parts of the world poses a serious threat to the global economy. COVID-19 is not only a global pandemic and public health crisis; it has also severely affected the global economy and financial markets. The significant economic impact has already occurred across the globe due to reduced productivity, loss of life, business closures, trade disruption, and decimation of the tourism industry. Global financial markets have been heavily impacted by the effects of COVID-19 spread. As the numbers of cases started to increase globally, mainly through the US, Italy, Spain, Germany, France, Iran, and South Korea, the world financial and oil markets significantly declined. Since the start of the year, leading U.S. and European stock market indices (the S&P 500, FTSE 100, CAC 40, and DAX) have lost a quarter of their value, with oil prices declining by more than 65% as of April 24, 2020².

¹ <https://coronavirus.jhu.edu/map.html>

² <https://www.frontiersin.org/articles/10.3389/fpubh.2020.00241/full>

In January 2020, World Bank argues that growth in almost all emerging markets and developing economies regions have been weaker than expected due to the global trade tension, the sharp downturn in the major economic and financial disruptions. They suggest that there is a need to rebuild macro-economic policy space, pursue decisive reform to bolster the governance and business climates, improve the tax policy, promote trade integration and rekindle the productivity growth while protecting vulnerable groups (World Bank, 2020). In response, the governments across the world scrambled with emergency actions, such as lockdowns, travel restrictions, testing and quarantining, and the economic packages (Ashraf, 2020). It is having a growing impact on the global economy and unfortunately, the global health crisis becomes a global economic crisis due to the cancel of flights, restriction on labor mobility and the volatility in the stock markets, fall in the oil prices, and so on (Singh & Neog, 2020).

(Donthu & Gustafsson, 2020) The COVID-19 outbreak is likely to cause bankruptcy for many well-known brands in many industries as the consumers stay at home and economies are shut down. In the US, famous companies such as Sears, JCPenney, Neiman Marcus, Hertz, and J. Crew are under enormous financial pressure. The travel industry is deeply affected; 80% of hotel rooms are empty (Asmelash & Cooper, 2020), the airlines cut their workforce by 90%, and the tourist destinations are likely to see no profits in 2020. The International Air Transportation Association (IATA) stated that the air travel industry would lose US\$113 billion if the COVID-19 outbreak was not quickly contained³. Due to fear and uncertainty, and to rational assessment that firms' profits are likely to be lower due to the impact of COVID-19, the global stock markets erased about US\$6 trillion in wealth in one week from 24th to 28th of February (Ozili & Arun, 2020). The S&P 500 index lost over \$5 trillion in value in the same week in the US while the S&P 500's largest 10 companies experienced a combined loss of over \$1.4 trillion⁴. When China share market reopened on 3 February, the Shanghai Securities Composite Index declined by nearly 8% in response (He et al., 2020). On September 10, 2020, Jakarta Governor Anies Baswedan announced his intention to retighten social distancing measures (PSBB) as a response to rising covid-19 infections. As a result, Indonesia's stock market index (JCI) tumbled by more than 5%, triggering a halt in that day's first trading session. The JCI dropped from 5,150 to a low of 4,892, with bank stocks taking the largest hit, falling by 5.94%⁵. The Dow and S&P 500 have both been seeing drops due to uncertainty around the global coronavirus pandemic, while the Chicago Board of Exchange Volatility Index has been rising steadily since the middle of February as the virus began to spread around the world. The coronavirus has created such uncertainty around the world that two of the largest single day drops in the Dow Jones Industrial Average have been from March of 2020⁶.

While some businesses are struggling, some businesses are thriving. This is true for several Internet-based businesses, such as those related to online entertainment, food delivery, online shopping, online education, and solutions for remote work. Even after all this, compared to many other industries, the IT industry is expected to have an enormous market boom from US\$ 131 Billion in 2020 to US\$ 295 in the next five years by 2025. The main reason for this increase in the economy for this industry is the increased demand for software and social media platforms such as Google Hangouts, WhatsApp Video call, Zoom, and

³ <https://airlines.iata.org/news/potential-for-revenue-losses-of-113bn-due-to-covid-19-“crisis”?redirectcounter=1>

⁴ <https://www.reuters.com/article/us-health-coronavirus-stocks-carnage/coronavirus-then-oil-collapse-erase-5-trillion-from-u-s-stocks-idUSKBN20W2TJ>

⁵ https://www.iseas.edu.sg/wp-content/uploads/2020/12/ISEAS_Perspective_2020_142.pdf

⁶ <https://www.weforum.org/agenda/2020/03/stock-market-volatility-coronavirus/>

Microsoft Teams. All these teleconferencing tools help the people who are in quarantine to stay in touch with their family members as well as have conference meetings and work at the same time. The economy will also blossom because, during these crises, people understood the importance of the internet and technology as this is helping us stay safe and helping in the communication between the doctors and the public⁷. Other industries that are doing well are those related to healthcare and medication as well as herbs and vitamins (Donthu & Gustafsson, 2020). However, pharmaceutical companies taking center stage in the Covid-19 fight, such as Gilead and Eli Lilly, are seeing positive growth on the stock market and a new burst of innovation in the infectious disease landscape as the race for treatment approval for a Covid-19 therapy takes off. Eli Lilly has offered great support to its diabetic population with full-page adverts in various US papers detailing how they can receive support in such a financially unstable time. Another point of interest is Bayer, which has donated three million Resochin (chloroquine) tablets to the US government for use in Covid-19 patients. Gilead, potentially the most beneficial and controversial of all Covid-19-fighting drug-makers, has also contributed to the Covid-19 battle⁸.

The COVID-19 outbreak caused a decline in financial markets in January 2020, but that decline didn't last long and losses were quickly compensated. January's and February's decline was generally in Asian markets, especially in China. In China despite the strict measures taken into account, it was impossible to prevent the spread of the virus to other countries, so the global stock markets collapsed. The declines in the stock markets were further increased when the WHO announced COVID-19 as a global pandemic on March 11, 2020⁹. The Dow Jones and Standard & Poor's showed that the share values of corporations in the U.S dropped by 20% since mid-March 2020. Similar to the Nikkei (Tokyo Stock Exchange), the prices of companies' share also fell significantly. Sri Lanka (Colombo Stock Exchange) has experienced a 9% decline in its share prices of the index over the previous week and was forced to close the trading three times during this week since mid-March 2020. The composite stock price index of the Indonesia stock market weakened in line with the worry in the market about the effect of the COVID-19 pandemic on the global economy (Machmuddah et al., 2020).

There is a fast-growing body of research looking at the responses of stock markets to the COVID-19 pandemic, which is already giving some insights. While the dynamic of stock markets during the pandemic might look random, irrational, or even insane at first glance, on closer inspection they did not react blindly. Three main findings of stock market reactions during the COVID-19 pandemic arise. First, after initially ignoring the pandemic (until 21 February 2020), the stock markets reacted strongly to the increase in the number of infected people in each country (23 February to 20 March 2020), while the volatility surged as concerns about the pandemic grew. However, following the intervention of central banks (23 March to 20 April 2020), the shareholders no longer seemed troubled by the news of the health crisis, and prices rebounded all around the world. Second, country-specific characteristics appear to have had, at best, a little influence on the stock market responses. The stock markets did not react more strongly in countries more susceptible to the pandemic, either due to the structural economic fragility (for instance, indebted countries) or through exposure to the transmission vectors (for instance, countries with 'at-risk' populations). Third, the investors were sensitive to the number of COVID-19 cases in neighboring (but mostly wealthy)

⁷ <https://www.marketdataforecast.com/blog/impacts-of-covid19-on-information-technology-industry>

⁸ <https://www.pharmaceutical-technology.com/comment/covid-19-pharmaceutical-companies-impact/>

⁹ https://www.researchgate.net/publication/341029980_Coronavirus_COVID-19_and_Stock_Markets_The_Effects_of_the_Pandemic_on_the_Global_Economy

countries. Fourth, the credit facilities and government guarantees, the lower policy interest rates, and the lockdown measures mitigated the decline in the stock prices¹⁰.

The Indonesian capital market through the Indonesia Stock Exchange is an integral part of global stock exchange activity. The closer relationship between the Indonesian stock exchange and the global stock exchanges is represented by the relationship between the stock price index. Indonesian stock exchanges are increasingly fast in responding to the movement of the global stock market and bringing a positive influence. Indonesian stock exchange condition that responds too quickly to the movement of global stocks can also bring negative consequences, if the global stock market declines, it will also quickly affect the Indonesian stock market (Damajanti & Rosyati, 2018).

The President of the Republic of Indonesia, Joko Widodo, announced the first patient of COVID-19 on March 2, 2020. This information had surprised many parties because so far Indonesia was considered safe from the virus. The public was starting to predict the development of the capital market. The pandemic was considered to have a serious impact on national economic stability and investment in the future. The industrial sector was considered to be the most vulnerable to being affected because the outbreak has a systemic impact (Amaroh, 2020).

Indonesia as part of the world market and countries that have close trade relations with China were affected by this incident. Some sectors that are directly affected are tourism, import, export, and investment. Restrictions on the tourist arrivals from China and temporary closure of China flights, potentially lowering the foreign exchange of 54,8 trillion Rupiah from tourism. The experienced by the import-export sector, the Central Statistical Agency (CSA) of Indonesia noted in January 2020 non-oil and gas exports to China recorded US \$211,9 million, down 3,08% compared to the previous month and dropped 9,15% compared to the same period in the year 2019. The imports from China to Indonesia also suffered a reduction in main fruits that fell by 78,88% (MTM), the machinery and mechanical aircraft is that dropped 11,24% (MTM), the iron and steel down 10,97% (MTM) as well as a variety of other commodities. The negative effect is also felt in the investment sector as China has planted its investments amounting to 64,4 trillion rupiah or 16,8% of all Indonesian foreign investments (Mita Nia, n.d.).

The spread of the Covid-19 Pandemic in the world, even Indonesia, has caused the Indonesia Stock Index felt. With the linkages between the U.S index market and the China index market to the Indonesian index market, it will have an impact on each other. Because as is known, the United States and China are two countries that have strong and close state relations with Indonesia from all sectors^{11 12 13 14}.

This research is expected to be a suggestion to the Indonesian government in addressing the current problems. Especially in the Capital Market sector of Indonesia. This research is also expected to be a reference or input for the investors in determining the investment decision in the Indonesian capital market, especially in the pandemic period.

¹⁰ <https://voxeu.org/article/stock-market-and-economy-insights-covid-19-crisis>

¹¹ <https://thediplomat.com/tag/china-indonesia-relations/>

¹² <https://theconversation.com/growing-ties-between-indonesia-and-china-may-hurt-us-indonesia-relationship-148532>

¹³ <https://id.usembassy.gov/our-relationship/policy-history/embassy-fact-sheets/fact-sheet-united-states-indonesia-relations/>

¹⁴ <https://thediplomat.com/2020/10/the-five-strategic-challenges-facing-us-indonesia-relations/>

1.2 The importance of the topic

This research will examine and learn about how the relationship between the U.S. Stock Index, China Stock Index, and Indonesia Stock Index in the context of the current Covid-19 event, will certainly be a research that is expected to be a solution to overcome problems in the capital market sector caused by the spread of Covid-19 pandemic. This research will be very useful for the Indonesian government to improve the faltering economic conditions due to Covid-19. The previous researchers it has done a lot of research on the impact of Covid-19 on the Indonesian Market Index, but they used the Indonesia Market Index (JCI) as a variable, it is still very difficult to find the researchers who use the Financial Market Index in Indonesia. Besides, the results produced by the previous researchers are also still not yet significant.

This research is also expected to be a reference for the investors in making decisions, especially in the Indonesian capital market. So that the investors can reduce the level of risk that will be faced in the future.

This research is also expected to be development research for future researchers so that they can develop further research.

1.3 Research Objective

1. To find out how Covid-19 Pandemic and stock market affect the Financial Market Index of Indonesia on The Indonesia Stock Exchange during the coronaviruses pandemic.
2. This research aims as advice and input for the Indonesian government to be able to face the uncertain situation caused by the Covid-19 pandemic. Not only that, this research can also be a reference to investors who want to invest in the Indonesian capital market, especially in the Indonesian financial market.

1.4 Research Questions

Based on the above background, the research question in this study can be formulated as follows:

1. How does Covid-19 Pandemic affect the Financial Market Index of Indonesia on The Indonesia Stock Exchange?
2. How do International Stock Markets affect the Financial Market Index of Indonesia on the Indonesia Stock Exchange during the coronavirus pandemic?

1.5. Research contribution

This research has a huge contribution to the investors, governments, firms, businesses, and individuals as it will not only help them know what's happening in the stock market but also for them to better plan and make good investment decisions in current condition (Covid-19 Pandemic). Also, the companies could use this as a guide for better planning and decision making. This research would therefore assist in making people better understand the subject matter theoretically and will equally act as a stimulus for future research.

The research in the context of Indonesia has not been done before. Therefore, this research will provide the first empirical evidence on how the pandemic affects Indonesia, in terms of both the active cases and other stock markets.