When global shocks occur, the after effects may be felt for several years, challenging the way in which the world is connected and reshaping many of our economic links. There are few places where this is better exhibited than in the dynamic, global economy of Indonesia.

This webinar explored Indonesia's efforts to respond to disruptions in the business and social landscape as a result of COVID-19, taking a deeper look at shifting Australia-Indonesia business and trade relations, and providing insights into how companies doing business between these countries will need to adapt to a ‘new normal’.

WEBINAR KEY TAKE-AWAYS

We are starting to see business responses to COVID-19 over two time horizons. In the short-term, businesses are in crisis management mode, focused on protecting their workers, customers and suppliers, and prioritising business critical functions. In the medium-term, we anticipate that businesses will re-focus and repivot to adjust business strategy, innovate and automate. This will include examining and making fundamental changes to their supply chains.

Amongst the many ‘unknowns’ associated with COVID-19, we do know that global recovery will demand multi-stakeholder cooperation; consumer behaviour patterns will change; and that surviving businesses will have to adapt their business models and strategies.

Broadly comparing two-way trade across G20 countries, Australia and Indonesia’s bilateral investment is comparatively low for two countries within such close geographical proximity. In times of economic contraction and chaos - such as COVID-19 - we are likely to see this trade and investment activity decrease in the short term.

Despite low levels of trade and investment, there are opportunities for deepening economic cooperation during- and post-COVID which are already under development. For example, the Indonesia-Australia Comprehensive Economic Partnership Agreement is one such vehicle, and will provide benefits to both parties including strengthening food security for Indonesia (a key policy priority for Jakarta even prior to COVID-19) and retaining access to key markets for Australian agricultural producers. The sooner the Agreement enters into force, the sooner both countries will benefit. Currently the process is awaiting formal notification from Indonesia that it has enacted the ratification law.

COVID-19 has curtailed the foundational aspects of international connectivity - international travel, face-to-face meetings, and events and conferences to promote trade and investment. It will be critically important to retain a focus on relationship and trust building during this time, and explore alternate ways to do this.

Countries appear to have three possible policy responses to COVID-19: 1) disease suppression; 2) attaining herd immunity, or 3) a combination of the two with most countries settling on something close to option 3. They will lean one way or another (suppression vs herd immunity) in a way that reflects their unique national situations and capabilities.

Australia has prioritised mitigation and control of the pandemic. This has included a focus on disease suppression, resulting in high effectiveness in ‘flattening the curve’ but significant social and economic impacts. Now, with strong success around health outcomes, Australia will be shifting priority towards supporting industries to get back up and running - particularly the extractives sector - as soon as possible.

Webinar presenters

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Indonesia has taken a ‘middle path’ policy approach to COVID-19, balancing between disease suppression and herd immunity, demonstrated by President Joko Widodo’s relatively slow response and relucnce to enforce national lockdowns, choosing rather to deploy localised, approval-based social restrictions where cases surge. In some respects, Indonesia lacked policy latitude on how to respond – with a limited healthcare system, almost no testing capability, and serious political and social considerations, keeping the ‘lights on’ in the world’s 16th largest economy is priority.

It is possible Indonesia will have a sharper economic recovery “V curve” compared to countries which took a stronger ‘control’ path. By prioritising the economy and limiting lockdowns, infection rates could be very high, meaning Indonesia may find itself ahead of the recovery curve. With a large, youthful population and strong manufacturing base, Indonesia may be well-placed to take advantage of shifting global supply chains.

These different approaches to COVID-19 mitigation and control will have long-term implications for bilateral relations, trade, and ‘re-coupling’. Australia has deep cultural and economic ties to Asia, and re-engagement will be intentional, strategic, but also need to adapt to the ‘new normal’. There will be a natural tension as both countries look to re-align their priorities and engagement, largely stemming from the different approaches taken to managing the health pandemic. Re-engagement will not happen overnight.

There are industries which are likely to thrive post-COVID-19. For example, tele-health has flourished in Indonesia in light of the pandemic, and as a longer-term solution may even mitigate some of the short-comings of the Indonesian health system by providing better access to better health services. Bi-lateral agricultural trade may also benefit as Indonesia continues to focus on food security.

There are industries that will undeniably suffer in the medium- to long-term including tourism, petroleum and education. Adaptation, innovation and agility will be key to the survival of these industries, and cities which rely on these industries will also have to shift and evolve their approaches.

Indonesia may benefit from increased foreign investment as businesses re-locate supply chains and manufacturing - emerging as a front-runner and ‘destination of choice’ based on its swift economic recovery, able workforce and free movement of products and services across the country.

More broadly and across both Indonesia and Australia, businesses will need to innovate and adapt to stay ahead and afloat. This includes leveraging government programs in both countries - including stimulus packages and business loans - as they rebuild and the economies around them recover. Importantly, businesses should re-examine their supply chains and explore options such as localisation or regionalisation of some components.

COVID-19 could allow some countries and companies to diversify supply. Given the pre-COVID-19 US-China trade war, many companies were already exploring manufacturing and sourcing outside of China, and looking to diversify. COVID-19 may increasingly highlight the importance of diversified supply chains across the region and could drive companies and trading partners to look towards other manufacturing hubs, including Indonesia.

ABOUT CARDNO

Cardno is a professional service, project management, and diversified engineering company working with businesses, governments, and charitable organisations to create a more sustainable and inclusive world. We have a global presence across more than 100 countries, including work in Indonesia for over three decades.

Cardno’s Impact Advisory Practice works with clients and partners to enable organisational resilience, stakeholder return and business sustainability. We offer strategic advisory; design and implementation management; training; and analytical support.

We are providing global leadership on the development of responses to the COVID-19 pandemic whilst also localising these responses in the emerging markets contexts. In addition to our usual suite of services, our tailored COVID-19 support includes support across the following key areas:

Supporting organisations to develop and integrate strategies to achieve supply chain resilience. This includes strategies and support supply chain localization and ESG considerations for supply chains and contractors.

Workplace health safety and risk management to ensure the immediate physical and mental well-being of business stakeholders while protecting businesses in the long-term. This spans case management and crisis response and post-COVID-19 business readiness and adaptation.

During this heightened time of business risk supporting companies across key facets of business sustainability and providing support across human rights and counter-modern slavery; ESG readiness; and social and environmental sustainability.

This webinar is part of a COVID-19 series delivered by Cardno, providing insights from our multi-disciplinary team of experts across the globe across key topics including health science; workplace health and safety; supply chain management; business strategy; stakeholder and community engagement; and ESG.

For information about business support or future webinars, please contact impactadvisory@cardno.com