

INDEF / *Institute for Development
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WEBINAR

**RELOCATING INVESTMENT TO INDONESIA IN THE TIME OF COVID-19:
OPPORTUNITY AND CHALLENGE**

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**LOOK TO INDONESIA AS
SUPPLY CHAINS SHIFT**

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THE SHIFT

Global supply chains are shifting in response to pandemic: How can Indonesia win in this new reality and attract foreign investors?

- Both serious challenges and bright opportunities
- Find ways to cooperate with this process; offer a good value proposition for foreign investors
- “Regional” supply chains: They can and should still be trans-Pacific.
 - Ensure that supply chains remain allied to important markets such as US, Japan, EU

INDONESIA'S ADVANTAGES

Transportation/infrastructure: past investments help

Large domestic market: increasingly prosperous, able to absorb productive capacity

Well-educated, motivated workforce:

- Labour not the only factor in locating factories in the new reality
- Reliability of supply important as well
- Example of PCR test kits under Indonesia Pasti Bisa

Political, economic stability:

- Rule of law
- Government strongly committed to economic reform, equality of women in the workplace

NO tradeoff between fighting pandemic and continuing reforms: think about the post-pandemic future. Continue reforms to win foreign investment.

CHALLENGES

Cut regulations

- Almost 15,000 ministerial regulations (Source: East Asia Forum, 2020)
- Vital to compete for FDI
- Omnibus Jobs Bill will help
- Should also spur further reforms

Ease of doing business

- Important to raise this in comparison with competitors
- Strong signal to foreign investors

Supply chain mapping

A NEW REALITY FOR SUPPLY CHAINS

Pandemic changing *how supply chains operate*

- How countries respond to the pandemic will feature in future investment decisions
- Want strong responses to pandemic to avoid production shutdowns

Pandemic changing *how investors make supply chain decisions*

- Resilience reduces product development cycle time, increases capacity
- For Indonesia, shows that international suppliers are looking to broaden sources
- Large domestic market can more readily absorb excess capacity, giving investors a hedge

MEDICAL EQUIPMENT – AN EXAMPLE

Medical equipment shows the new reality – and is also an opportunity for Indonesia

- *Focus on investments in all areas of the supply chain – not just the top*
- *Look to successful examples elsewhere in ASEAN to build investment quickly*
- *Think small as well as big*
- *Reduce regulations*

FINDING NEW MARKETS

Focus on investments in all areas of the supply chain

- Diversity of supply is key – it diversifies risk
- Shortages in early stages of pandemic
- Reliability of supply is essential
- New model: robust, resilient, diverse supply chains and “surplus stock”

FOCUS ON THE WHOLE VALUE CHAIN

Think small as well as big

- Precursor chemicals issue with pharmaceuticals: up to 90% imported
- Think about medical devices (durable medical equipment, testing kits, others)
- Takes advantage of Indonesia's domestic market
- Easier to have complete supply chain; "supply chain mapping"
- "Sweet spot" of lower risks for investors and lower costs of production

"Like printing money" – one Chinese entrepreneur who switched from pharmaceuticals to masks

- Opportunity in many places on the value chain
- Opportunity here in textile/apparel production?

ASEAN EXAMPLES

Look to successful examples elsewhere in ASEAN

Thailand

- 70/30 export/domestic model for medical device industry
- Approximately 176b THB, growing about 8-10% yearly (Source: Office of Industrial Economics; Krungsri Research)

Malaysia

- Strong focus on medical gloves (up to 65% of global market; Thailand 18%) (Source: Reuters)
- Usage up 6x for many health workers in pandemic
- But lockdown-related problems hurt production
- Indonesia natural site for both latex and vinyl gloves

Vietnam

- Indonesia's competitor for many types of investment
- Focus on regulation, supply chain mapping to compete

INDONESIA PASTI BISA!

- Opportunity from COVID-19 pandemic but competition will be strong
- Use advantages
- Reduce regulation at all levels of government
- Focus on opportunities, build reputation for reliability and quality
- Dream big but start practically
- New value proposition for foreign investors