



**Supply Chains in a World of Conflict and  
COVID: perspective of Indonesia/  
Southeast Asia**

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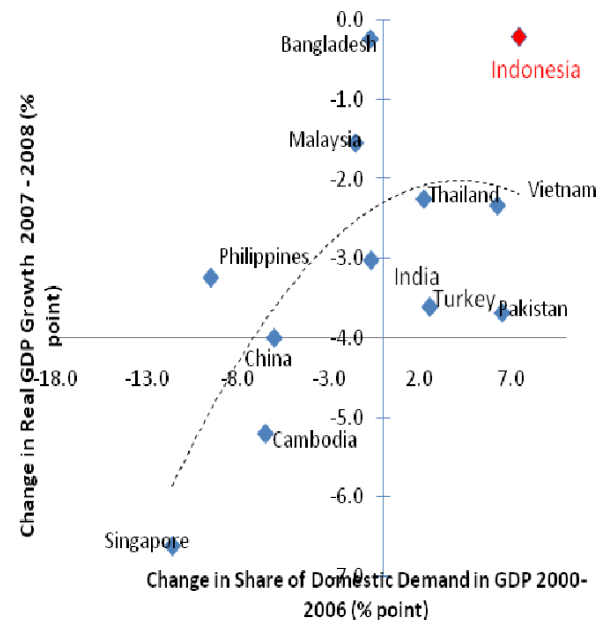
**University of Indonesia**

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# Pandemic, geopolitics and supply chains

- Pandemic COVID-19, trade war, have exposed many vulnerabilities in supply chains and raised doubts about globalization.
- The global shock had a significant impact on economies that are highly integrated into the global supply chain (Bonadio, Huo, Levchenko, Pandalai-Nayar (2020))
- Shortages of medical supplies, temporary trade bans, have exposed vulnerabilities in supply chain
- Lesson learnt from GFC: in Asia, countries that maintained or even increased their share of domestic demand in GDP were relatively in a better position to withstand the global economic downturn

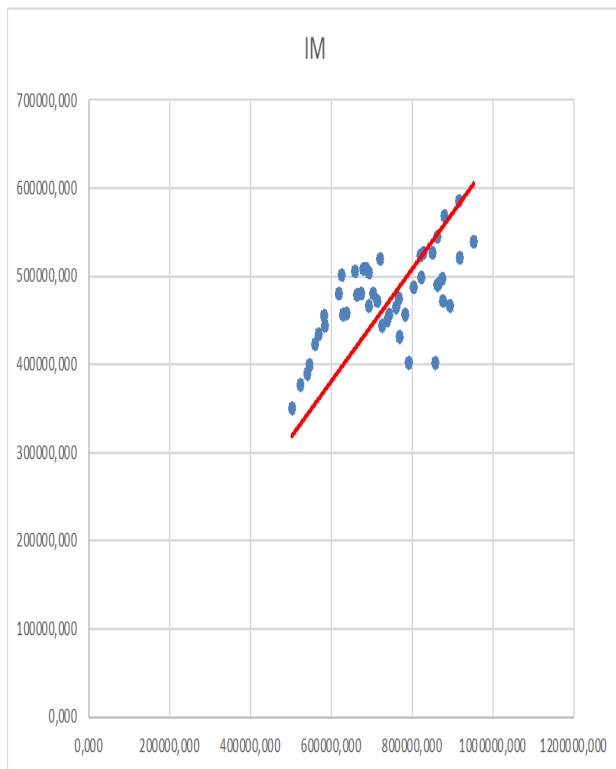
**Figure 1 Domestic Demand and Resilience from Global Crisis**



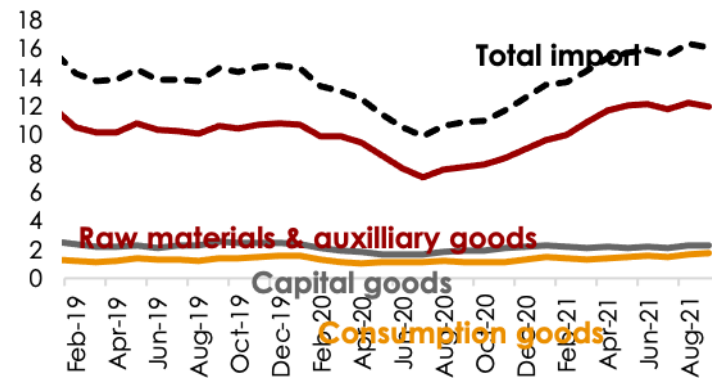
Source; EIU, Basri and Rahardja (2009)

# Indonesia: Yet, trade is still very important

Indonesia: Correlation between Investment and Import (quarterly, 2010-2021, \$mn)



Indonesia: Import and its components \$, 3 m moving average)



Co-movements between Innovations in Private Consumption with Innovations of GDP Components <sup>2</sup>

Lags	Components of GDP		
	Government consumption	Gross fixed capital formation	Exports
0	0.12	0.06	0.24
-1	-0.16	-0.04	-0.27
-2	-0.22	-0.01	-0.41
-3	0.26	-0.07	0.29
-4	0.20	-0.13	0.49

Adopted from: Basri and Rahardja (2010)

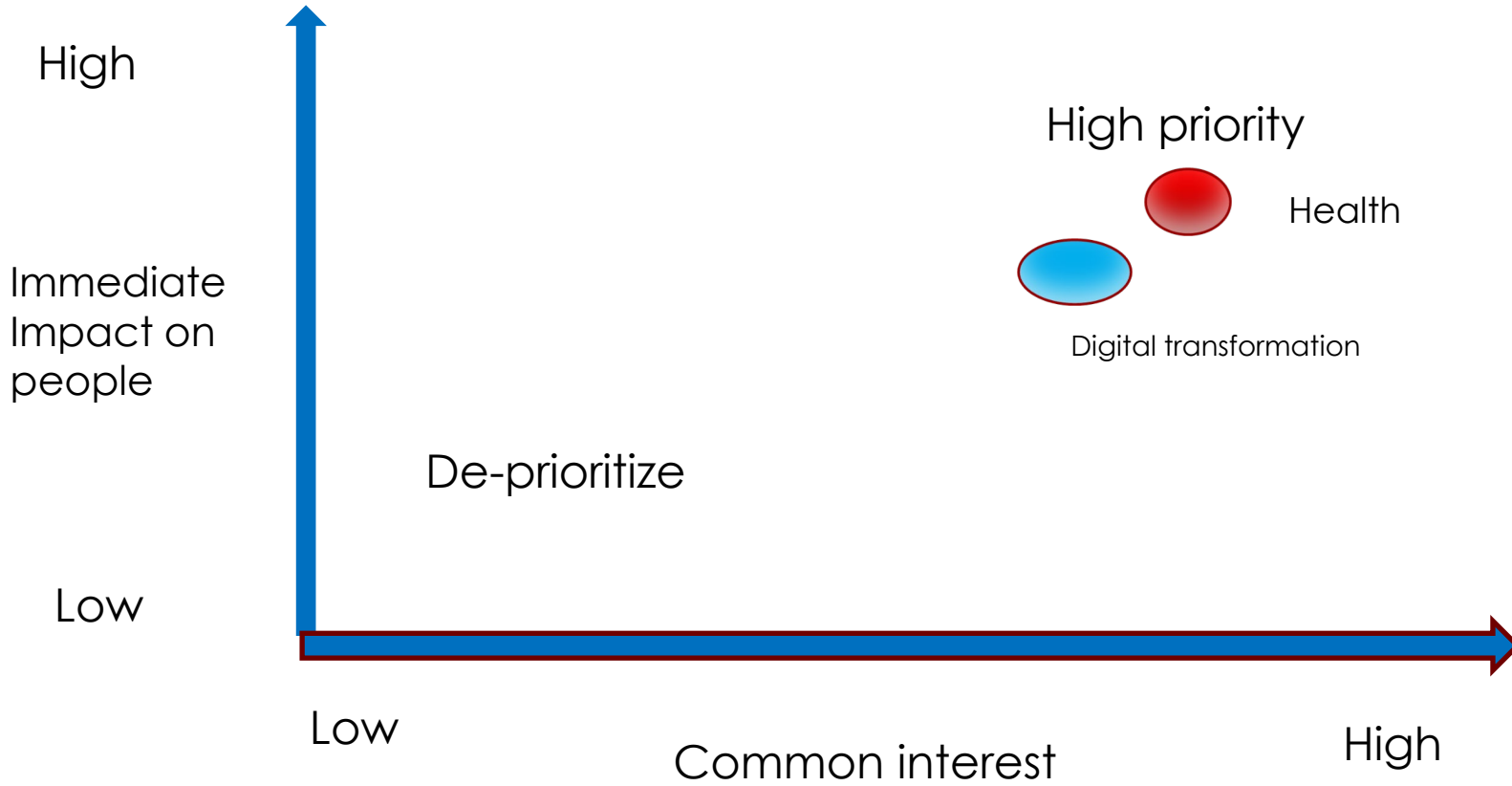
<sup>a</sup> Co-movements between innovations of each component derived from original data that spans from 2000-I to 2008-IV. Here growth is expressed as annual (year-to-year) growth

# Political economy: push back on globalization

- The risks of interdependence
- Vaccine nationalism
- Political economy factors: national interest, rent seeking
- Political pressures to increase domestic production, grow employment in their home countries, reduce or even eliminate their dependence on sources that are perceived as risky, rethinking inventory's strategy
- Push back on globalization: unilateral, multilateral, regional cooperation
- However, consumers want low prices; domestic capacities sometimes are limited; higher costs, firms cannot pass through the high cost; pandemic also affects domestic sectors

# The way ahead

- Maintaining domestic demand is very important. However, given the importance of trade to economic growth, improving integration within the domestic economy can strengthen domestic demand and improve export competitiveness. Investment on physical and soft infrastructure will help to reduce domestic transaction costs.
- Diversification of supply chain base; exports and countries destination
- Move more into digital: information and data on where goods are in the chain and their condition; automation, technology (3D printings, AI (can help make predictive decision etc)
- Relocation of investment; Opportunities for some Asian countries
- just-in-time manufacturing may be over; Hold intermediate inventory of safety stock
- Partnership within the supply chain makes a difference
- Cooperation: start with something which is politically feasible, but have an high marginal impact for future reform.



**Thank you**