



**Asia-Pacific
Economic Cooperation**

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Session 3

Boosting Productivity and Industrial Growth After COVID-19

Submitted by: Indonesian Chamber of Commerce and Industry



**Workshop on Opportunities and Challenges
for Global Value Chains During the COVID-19
Pandemic and Post-Pandemic Economic
Recovery
13-14 October 2022**

APEC Workshop on Opportunities and Challenges for GVCs during COVID-19 Pandemic and Post-Pandemic Economic Recovery

Date: 13 – 14 October 2022



Boosting Productivity and Industrial Growth After the Covid 19

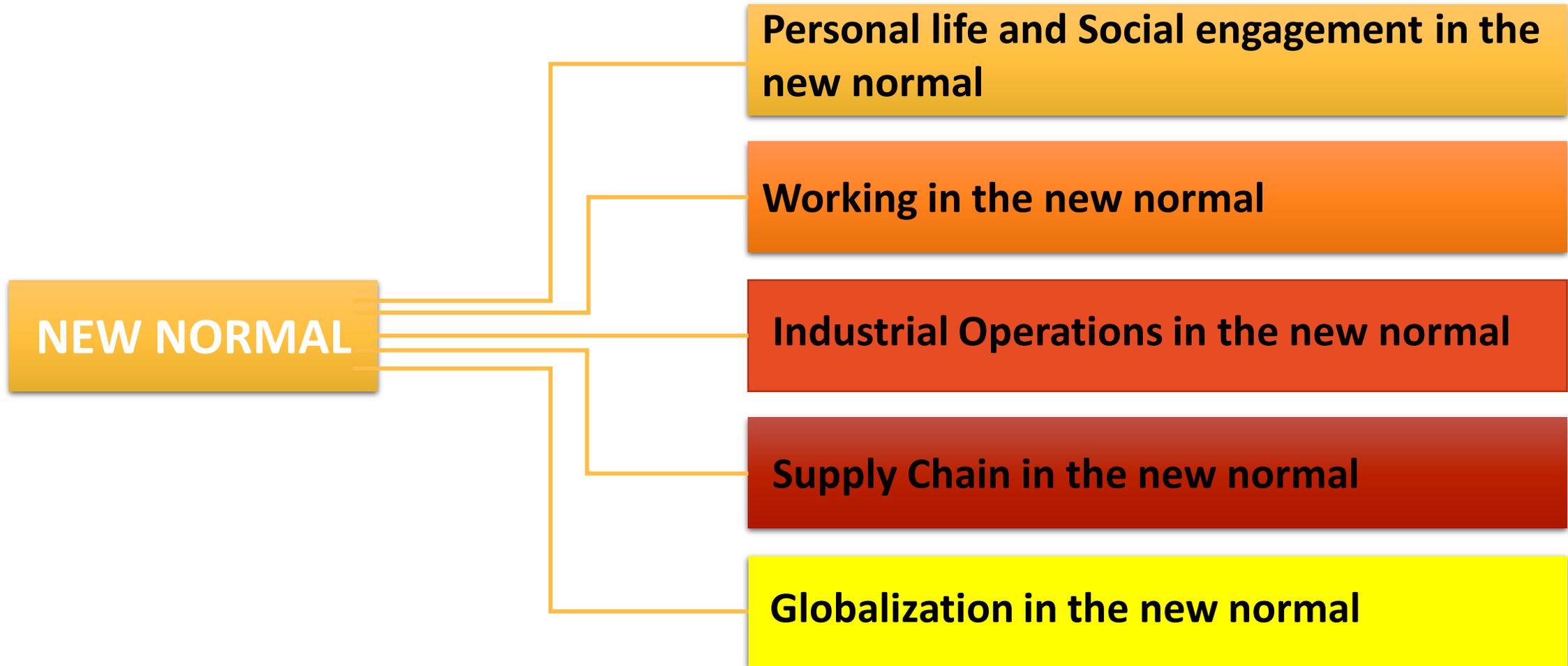
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Indonesian Chamber of Commerce and Industry

GLOBAL TREND



Changes in Consumer Preferences and Behavior

- | | | | |
|---|--|--|---|
| 1. Empathic society, positive parenting, more religious | 2. Becoming more technology literate, especially in virtual and digital, flexible working hours, video call generation | 3. Prioritizing basic/primary needs in addition to mental and physical health and safety | 4. New lifestyle stay at home with activities <i>working-living-playing</i> |
|---|--|--|---|

Challenge

- | | |
|-----------------------|------------------------------------|
| 1. Sales & Commercial | 4. Financial & Treasury |
| 2. Technology | 5. Workforce, Travel & Health Care |
| 3. Supply Chain | 6. Food Security |

Opportunity

- | | |
|---------------|--------------------------|
| 1. Software | 4. e-Commerce & Logistic |
| 2. Smart City | 5. Virtual Reality |
| 3. Broad Band | 6. Telehealth |

Now

Respond

1. Identification of critical business functions and Formulation of recovery strategy
2. Policy review, procedure, and *response plan*
3. *Crisis management structure*
4. Business continuity planning and implementation monitoring & evaluation
5. Agile and responsive communication

Adapt & Prepare

1. Make savings, rearrange company cost structure and sharpen productivity
2. Perform digital transformation to build a digital-based company from front to back offices.
3. Identify opportunities and where necessary collaboration for new revenue sources
4. Prepare the workforce for the new world
5. strengthen capital efficiency

Medium Term

Manage New Normal

1. **Aligning the business model with the new normal**
2. **Preparation to return to work in new normal conditions**
3. **change management (*Stakeholder Analysis, Change Impact & Change Readiness, Communication*)**
4. Go Virtual & Digital

Long Term

Thrive in New Normal

1. Maximizing the contribution of Millennials and Gen Z, especially in terms of technology and digitization
2. Provide a catalyst to accelerate operational transformation
3. Developing new business models
4. CRM that delivers a customer experience
5. **Reskilling tenaga kerja**



GLOBAL COMPETITIVENESS INDEX (GCI)

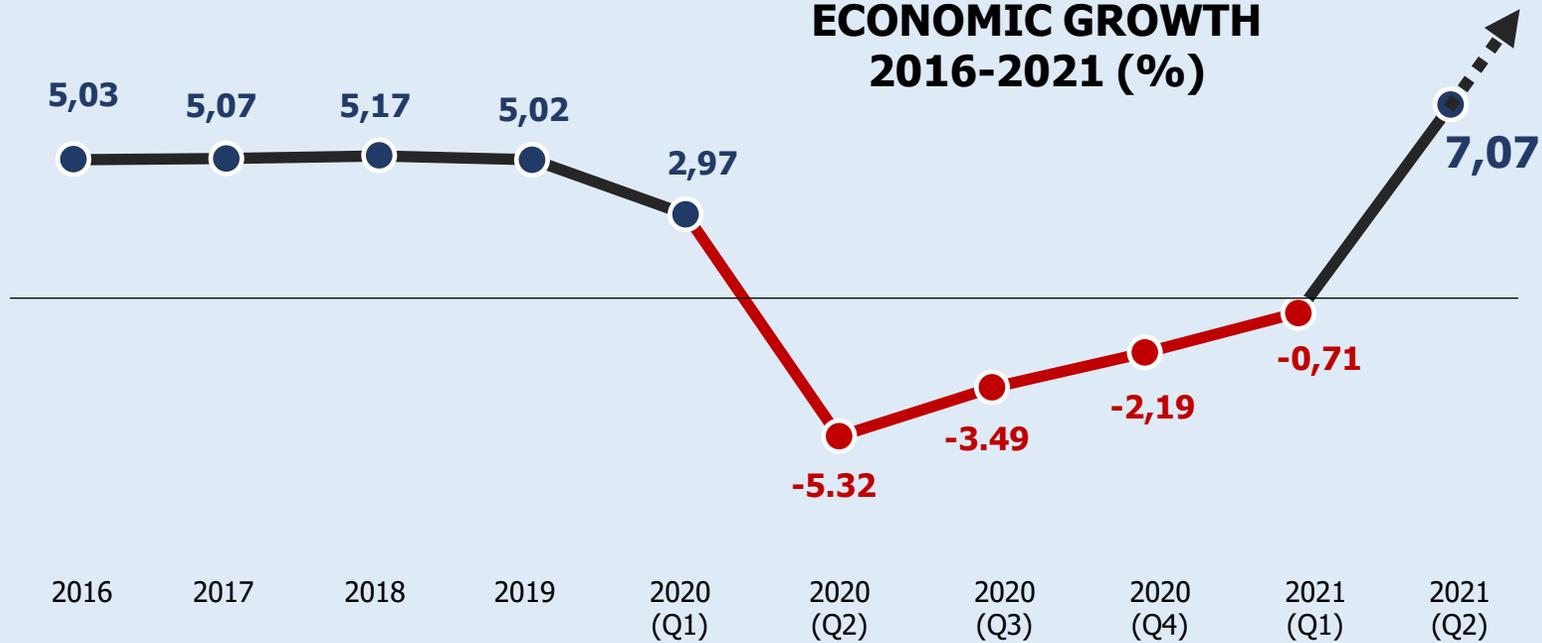
YEAR	RANK
2010 – 2011	44
2011 – 2012	46
2012 – 2013	50
2013 – 2014	38
2014 – 2015	34
2015 – 2016	37
2016 – 2017	41
2017	47*
2018	45*
2019	50*

* Perhitungan GCI pada tahun 2017 – 2019 menggunakan metode baru dengan pendekatan/pemanfaatan Revolusi Industri 4.0 (dari 141 negara)

Economic Growth for Indonesia During Covid - 19



ECONOMIC GROWTH 2016-2021 (%)



PERTUMBUHAN PDB MENURUT LAPANGAN USAHA (Y-ON-Y) (persen)



PERTUMBUHAN PDB MENURUT PENGELUARAN (Y-ON-Y) (persen)



Sumber: Badan Pusat Statistik, 2021

Despite uncertainty, some firms responded boldly to COVID-19, acting in ways that have the potential to increase productivity



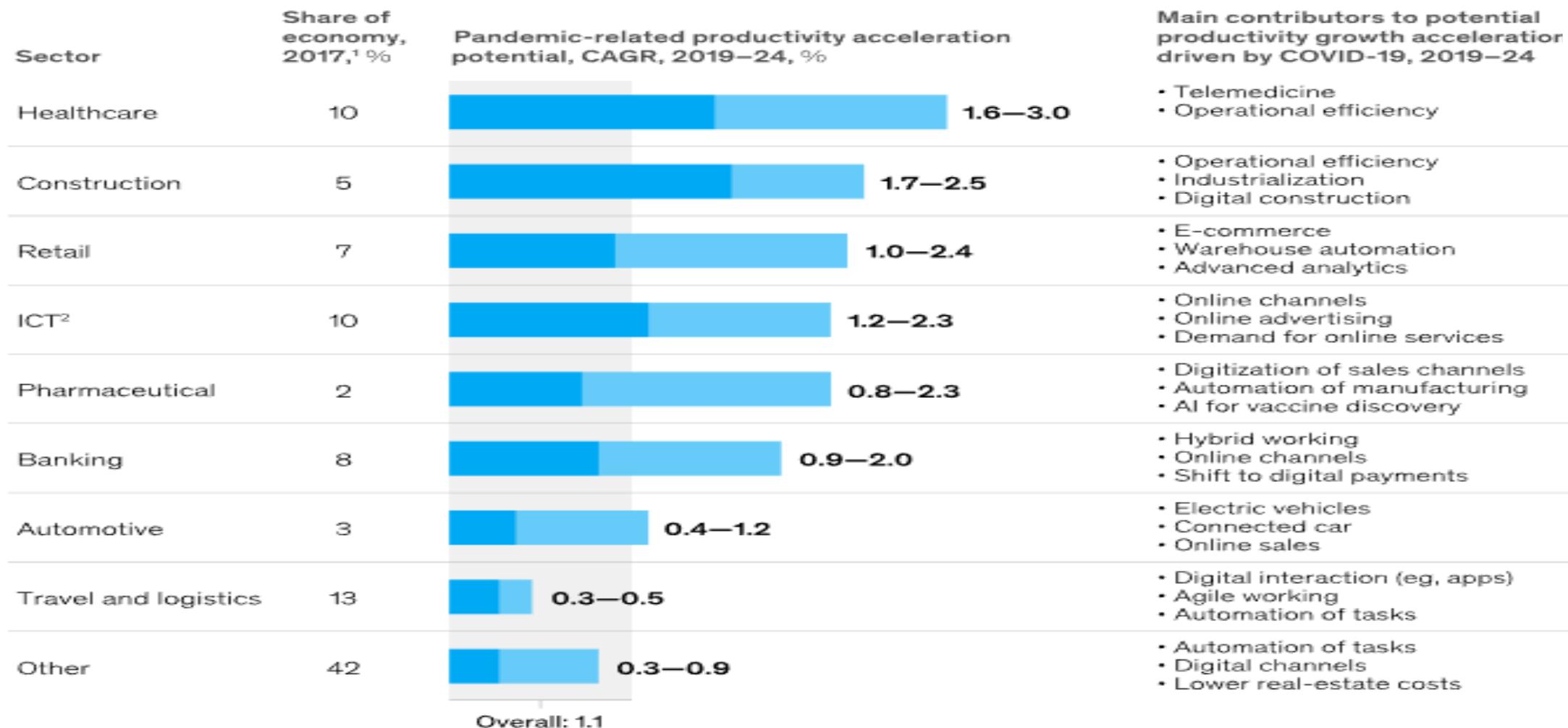
- The pressures of the pandemic also forced many businesses to become more efficient, to rethink their product, business, and operating models, and become more agile, all of which could potentially drive faster productivity growth.
- Human and physical capital accumulation are two crucial elements that typically drive growth in productivity, too, but here the evidence was more mixed. On human capital, The COVID-19 has accelerated the adoption of fully digitized approaches to learning. On the other hand, the temporary closure of educational institutions and the fact that many workers were outside the labor force for a relatively long period due to lockdowns could have a negative impact on skills. The pandemic had a generally negative impact on short-term accumulation of physical capital.

Our sector analysis indicates potential for incremental productivity growth of approximately one percentage point per year through 2024.



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United States and Europe nonfarm business economy sectors



¹Weighted by total nominal GDP contribution of US (62%) and 6 European economies (38%) in our focus countries. Pharma includes chemicals and pharmaceuticals manufacturing due to lack of breakdown for US and Sweden; automotive includes transport machinery; travel and logistics includes arts and recreation, accommodation and food services, transportation and storage, other service activities, and activities of households and extraterritorial units; other nonfarm business sectors include professional services, wholesale, mining and quarrying, manufacturing (excluding chemicals, pharmaceuticals, and automotive), and utilities; excludes public administration and defense, real-estate activities, education, and agriculture. Sectors included amount to 74% of total economy in US and 75% in 6 European focus countries.

²Information and communications technology.

Source: EU KLEMS; McKinsey Global Institute analysis

Surveyed executives expect acceleration on most drivers.



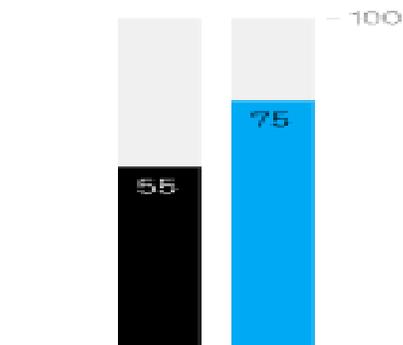
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Respondents from Europe and North America whose firms experienced or expected advances, %

■ Pre-COVID-19 pandemic (end 2014 to end 2019)¹ ■ Post-COVID-19 pandemic (end 2019 to end 2024)²

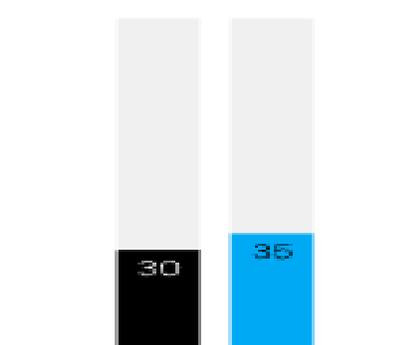
Potentially productivity-enhancing drivers, 2014–19 vs 2019–24

Automation and technology



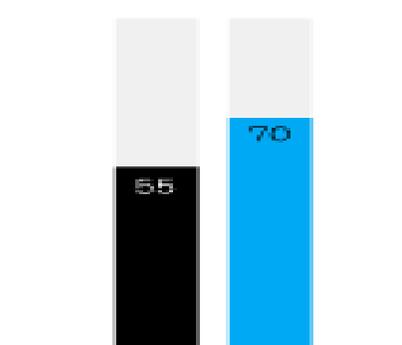
Estimate increased investment in new technologies

Operational efficiency



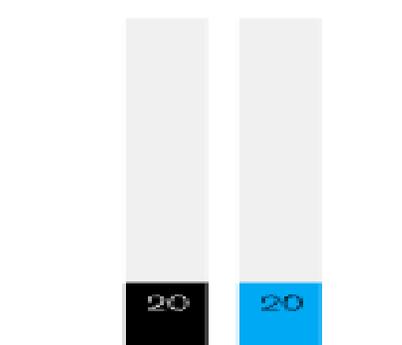
Expect decreased operating-expenditure margins

Reorganization and agility



Expect more rapid decision making and implementation of business decisions

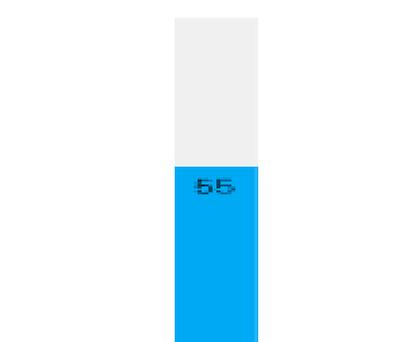
Business dynamism²



Consider M&A one of their biggest opportunities

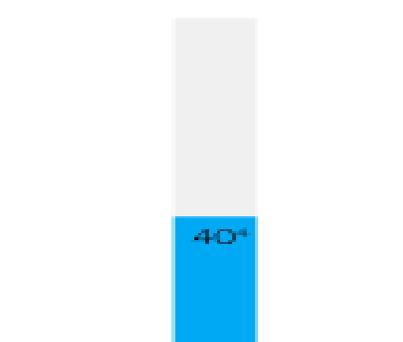
Potentially productivity-enhancing drivers, businesses accelerating due to COVID-19³

Product, business, and operational-model disruption



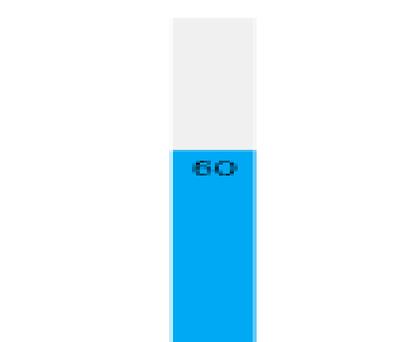
Creating new products and/or services accelerated by COVID-19

Investment in human and physical capital³



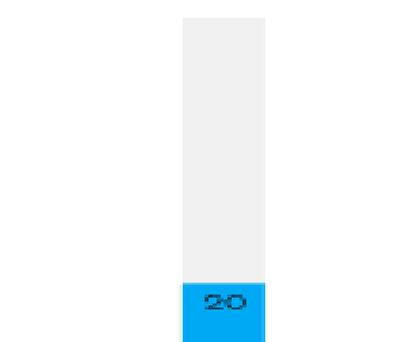
Accelerating implementation of upskilling/reskilling due to COVID-19

Shift to digital channels



Targeting new customers and using new channels accelerated by COVID-19

Shifts in consumption



Adopting new revenue models accelerated by COVID-19⁵

¹For all drivers except investment in human and physical capital (post-Oct 2020) and business dynamism (2020–21).

²Including M&A.

³For these drivers, instead of asking separately about the past (2014–19) and the future (2019–24), we directly asked businesses whether they expected to accelerate "because of COVID-19," hence only one data point is provided.

⁴Rounded average for France, Germany, Italy, UK, and US.

⁵Shifting from subscription to freemium model, for example.

Source: McKinsey Global Economic Conditions Survey, Dec 2020; World Economic Forum; McKinsey Global Institute analysis

Evidence



- **Businesses and policy makers were audacious in their response to COVID-19 and need to be bold in crafting a healthy postpandemic economy once the health crisis is contained and economies are fully open. CEOs can shape the outlook rather than solely responding to it through the new products and services they offer, the investments they make, and the wages they pay. The immediate interest of individual firms (for instance, cutting costs) can stand in the way of the collective interest of driving growth. Policy makers have a range of interventions at their disposal to engage with businesses to steer to the right outcomes.**



Without action to strengthen demand, however, growth could remain tepid, wage growth low, and, as a result, productivity growth slow as firms do not invest and the most productive firms find it difficult to grow as happened after the global financial crisis.

Conclusion



1. GOV can innovation and other advances that can increase productivity growth be sustained and spread

To underpin strong long-term growth, large corporations need to consider how to catalyze change across their entire supply chains and ecosystems to spread advances more widely. Policy can support these efforts through, for instance, public procurement focused on innovation, direct R&D investment (subsidies or tax credits), and by revising platform and competition rules, bankruptcy procedures, and product and labor-market regulations.

2. GOV can action by firms that could potentially boost productivity growth also support employment, median wages, and demand

Lifting demand through a combination of consumption and investment to match additional potential supply could add 6 percentage points of GDP by 2024, or around \$2 trillion, in our sample domestic economies. Businesses can help address demand drags by emphasizing growing revenue rather than solely seeking efficiencies, and by investing in reskilling workers who, without the right skills, risk losing their jobs or wage cuts, undermining demand. Policy makers have a range of tools to support demand and after-tax income from fiscal stimulus to wage setting norms and pre- and redistribution.

3. GOV can investment be increased—and directed to the right places

Higher business, public, and household investment will be required to support both demand and productivity. Specific types of long-running investment gaps that could be closed now include sustainability, infrastructure, and affordable housing. Businesses need to consider making environmental, social, and governance issues even more central to their decision making process. They can work toward setting higher sustainability standards and invest in line with those. Governments can support such investment by setting rules and pricing externalities, such as for carbon emissions; looking at rules governing land and housing markets; increasing direct investment in high-priority, high-impact areas such as infrastructure, basic science, or skill building; and revisiting the rules governing public investment, recognizing it a public wealth-building activity on a balance sheet rather than as a deficit-increasing fiscal expense.



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