The economic impacts of COVID-19 are beginning to bite in Jakarta and more broadly in the major cities in Indonesia. The Indonesian government has responded with stimulus packages. However, the broad scale loss of jobs and business restrictions will have a growing impact on the Indonesian economy and on the demand for food. These impacts have the potential to reduce demand for Australian exports and raise food security concerns for Indonesia’s most vulnerable.

Indonesia is an important trading partner

Indonesia is Australia’s sixth largest market for agricultural, fisheries and forestry exports, worth $2.6 billion in 2018–19 and comprising a mix of staple and discretionary high-value food products (Figure 1). Indonesia is Australia’s largest market for wheat, supplying the low-cost instant noodle market.

Australia is not alone in supplying Indonesia. Other exporters include Ukraine and Argentina for wheat, India and Brazil for beef and beef products, New Zealand for dairy, and Thailand for raw sugar.

FIGURE 1 Two-way trade between Australia and Indonesia, 2018–19

Trade between Australia and Indonesia is two-way, with Australia importing $1.2 billion worth of agricultural, fish and forestry products from Indonesia in 2018–19 (Figure 1). This side of the trade relationship is also exposed to the risks of COVID-19. If Indonesia is unable to maintain its supply chains, Australian importers may need to seek alternative suppliers to fulfil their own production efficiencies.
Indonesia’s response to COVID-19

The impact of COVID-19 on the Indonesian population and economy gained pace over March and April. In response, the Indonesian government imposed a range of measures to slow the spread, including closing businesses and imposing large-scale social and travel restrictions. It also announced a $40 billion economic stimulus package.

The impact of the Indonesian government’s restrictions are being felt across all sectors of the economy. The Indonesian rupiah has depreciated to its lowest level in over 20 years, making imports more expensive. Relevant for Australian exports, the tourism and hospitality sectors look to be among the most affected, and may be slow to recover.

A variety of assistance and stimulus packages have been introduced to support the poor and food insecure in the major cities, including direct food assistance, cash aid, basic food cards and village social aid. This assistance will be critical for supporting the most vulnerable during the epidemic.

The Indonesian government has made access to food a priority, putting instruments in place to ensure supply chains remain open and that affordable food remains available and accessible. For trade, attention is being paid to easing administrative bottlenecks in import and export supply chains. Jakarta’s large scale social restrictions identified food provision as one of the eight economic activities that would be exempted from restrictions.

Food supply chain is functioning, but faces challenges

Disruptions to Indonesia’s supply chains are appearing. Although the bulk of trade through seaports continues, reduced access to airfreight, closure of some ports and roads, and reduced processing capacity have slowed the distribution of food. Shortages of some key products, like garlic and sugar, are putting upward pressure on prices (CIPS 2020).

Food processing facilities, such as abattoirs and meat processing, flour milling and sugar refining continue to operate, as do other food manufacturing businesses which consume imported ingredients, such as dairy, flour and sugar. This situation could change as the pandemic spreads, with domestic logistics potentially becoming a significant constraint on distribution of essential foods as provinces enact individual restrictions on access and logistics.

Demand for Australian exports starting to be disrupted

The broad scale loss of jobs and business restrictions will have a growing negative impact on imports of Australian agricultural, fish and forestry products. Demand for food is likely to dampen with the expected fall in household incomes and government restrictions on movements and gatherings over the month-long celebration of Ramadan (from 23 April to 23 May). High value foods consumed during those celebrations and in the hospitality sector are expected to be most affected.

This effect has already been seen in some Australian exports. While demand remains firm for some commodities, such as wheat and sugar, exports of other commodities, including live cattle, fruit, butter and cheese, fell in the first 2 months of this year compared to the same period last year (Table 1). Australian exports of wood products, such as sawnwood, wood-based panels, and packaging and industrial papers, also fell in January and February (the most recent months for which trade data is available) (ABS 2020).

The horticulture sector is facing growing uncertainty about trade with Indonesia. Delays by Indonesia’s Ministry of Trade in processing import permits required by fruit and vegetable importers (and unrelated to COVID-19) led to a halt in table grape exports in January and February, after exporting $7.38 million over the same period in 2019 (ABS 2020). Any further weakening of demand stemming from COVID-19 restrictions, particularly limitations to air freight and disruptions to Indonesian supply chains, will put further strain on the horticulture sector as the citrus harvest has commenced.

Sugar exports are a potential growth opportunity for Australia during the COVID-19 pandemic. While up-to-date data are not available because they remain confidential, Indonesia is Australia’s third largest export market, supplying about 20% of its imported raw sugar in 2018 (ABS 2020b; UN Statistics Division 2020). Sugar is among a range of food products guaranteed by the Indonesian government to be available to consumers, particularly over the peak demand Lebaran/Eid Fitri period in late May. Current shortages have caused prices to rise, necessitating an increase in imports. The Indonesian government has removed the need for import permits until 31 May and is allowing imports of both consumption sugar and sugar for industrial purposes.

Looking forward, maintaining food supply chains will help limit additional disruptions to Australia’s exports, with the greatest losses accruing to those sales that typically supply the peak demand period of Lebaran/Eid Fitri. However the outlook remains uncertain given Indonesia’s state of development and large population.
## TABLE 1 Analysis of exports from early 2020

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Export status</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td></td>
<td>• Average 5-year January and February exports $167.6m&lt;br&gt;• January and February 2020 exports down 49% on 5-year average and up 51% on 2019&lt;br&gt;• Lower supply resulting from drought-affected production&lt;br&gt;• Australian production could improve with seasonal conditions.</td>
</tr>
<tr>
<td>Skim milk powder</td>
<td></td>
<td>• Average 5-year January and February exports $24.7m&lt;br&gt;• January and February 2020 exports down 16% on 5-year average and up 3% on 2019&lt;br&gt;• Lower supply resulting from drought-affected production&lt;br&gt;• Skim milk powder does not require refrigeration making it easier to distribute.</td>
</tr>
<tr>
<td>Cheese</td>
<td></td>
<td>• Average 5-year January and February exports $3.4m&lt;br&gt;• January and February 2020 exports down 24% on 5-year average and down 5% on 2019&lt;br&gt;• Lower supply resulting from drought-affected production&lt;br&gt;• Lack of cold-chain logistics affecting demand.</td>
</tr>
<tr>
<td>Other dairy products</td>
<td></td>
<td>• Predominantly food preparation powders that can be stored without refrigeration&lt;br&gt;• Average 5-year January and February exports $10.4m&lt;br&gt;• January and February 2020 exports up 58% on 5-year average and up 27% on 2019.</td>
</tr>
<tr>
<td>Fruit</td>
<td></td>
<td>• Average 5-year January and February exports $10.3m&lt;br&gt;• January and February 2020 exports down 49% on 5-year average and down 55% on 2019&lt;br&gt;• COVID-19 restriction leading to weakening demand, compounded by limitations to air freight which affected trade opportunities&lt;br&gt;• Uncertainty also created in Australian horticulture industry by delays in processing import permits (unrelated to COVID-19), leading exporters to look for other markets.</td>
</tr>
<tr>
<td>Table grapes</td>
<td></td>
<td>• Average 5-year January and February exports $6.9m&lt;br&gt;• January and February 2020, no exports due to failure of Indonesia to issue import permits, not because of COVID-19 restrictions. Trade over the same period in 2019 was $7.4m.</td>
</tr>
<tr>
<td>Live feeder cattle</td>
<td></td>
<td>• Average 5-year January and February exports $87.9m&lt;br&gt;• January and February 2020 exports down 18% on 5-year average and down 23% on 2019&lt;br&gt;• Prices in Australia have fallen by 32% on the back of COVID-19 related demand falls.</td>
</tr>
<tr>
<td>Beef and veal</td>
<td></td>
<td>• Average 5-year January and February exports $38.7m&lt;br&gt;• January and February 2020 exports up 51% on 5-year average and up 34% on 2019&lt;br&gt;• Ongoing strengthening demand trend and world higher prices.</td>
</tr>
<tr>
<td>Lamb and mutton</td>
<td></td>
<td>• Average 5-year January and February exports $2.6m&lt;br&gt;• January and February 2020 exports up 31% on 5-year average and up 47% on 2019, largely as a result of higher world prices.</td>
</tr>
</tbody>
</table>
TABLE 1 Analysis of exports from early 2020

<table>
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<tr>
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| Offal and other livestock products | ![Green Icon] | • Average 5-year January and February exports $17.2m  
• January and February 2020 exports up 36% on 5-year average and up 10% on 2019.                                                                 |
| Raw cotton                     | ![Green Icon] | • Average 5-year January and February exports $13.8m  
• January and February 2020 exports down 11% on 5-year average and down 15% on 2019  
• Fall in exports a result of drought and reduced cotton production.                                             |
| Mung beans and broad beans      | ![Green Icon] | • Average 5-year January and February exports $3.5m  
• January and February 2020 down 28% on 5-year average and 60% on 2019  
• Reflects drought-affected production.                                                                                                                                    |
| Wood and paper products         | ![Green Icon] | • Average 5-year January and February exports $20.6m  
• January and February 2020 exports down 36% on 5-year average and down 20% on 2019  
• Bushfires contributed to export falls.                                                                                                                                     |

Note: Only commodities whose exports were greater than $1 million in 2019 are included. Exports may still be down on average, but due to other factors.

Source: ABS data and early trade insights for March 2020

Pandemic causing live cattle demand to drop

Australian live cattle exports play an important role in the Indonesian beef supply chain. Indonesia is Australia’s largest market for live cattle, accounting for about 60% of total annual live exports (Figure 2). Cattle are mainly shipped from northern Australia, which is highly dependent on the trade.

As is typical in the lead up to Ramadan, Indonesian demand for Australian live cattle increased over summer. Export volumes in January and February were not significantly below the 2017–2019 average over the same 2 months. However, pandemic-driven changes to consumption patterns, combined with the depreciation of the Indonesian rupiah, had an impact on demand for live cattle over March and April. This has been reflected in lower prices. Adverse seasonal conditions also mean there are reduced opportunities to hold stock on properties.
The significant price falls have been on the back of an expected softening of prices. By 21 April 2020, the Indonesia feeder steer price out of Darwin had fallen by 32% from its high in March, to $2.60 a kilogram live weight (Figure 3). Early indicators suggest that the value of live exports to Indonesia for March could be about 37% lower than last year. Feedlots in Indonesia are reporting a 40% to 60% decline in sales, and some abattoirs have closed.

**FIGURE 3** Weekly live export prices, ex Darwin

Note: Prices up to week ending 1 May 2020.
Source: MLA 2020

**References**


