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Australian Government

How Should Government Promote Competitiveness of Indonesia's Micro, Small, and Medium Enterprises (MSMEs) in the Borderless Trade Era?

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Introduction

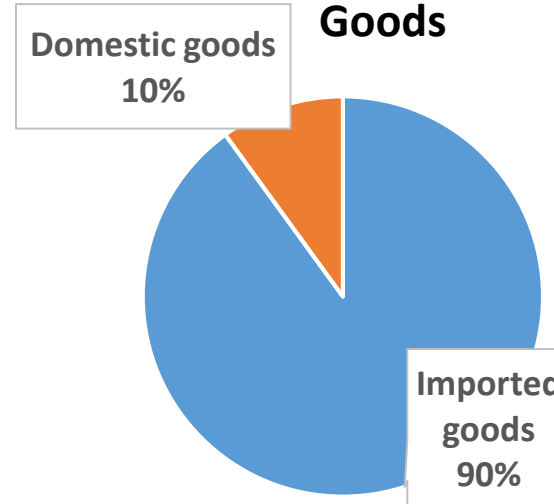


Transaction value:
IDR 112 trillion (2017)
IDR 896 trillion (2022)



Labor absorption
4 million people (2017)
26 million people (2022)
Majority are MSMEs

Domination of Imported Goods



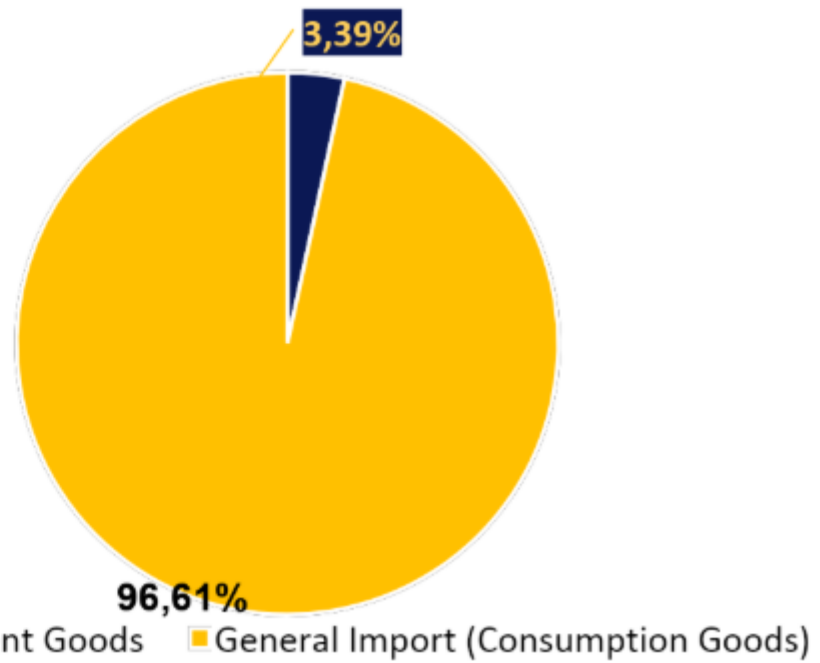
Direct Selling through Global E-Commerce Partnership:

- Lazada + Taobao
- Shopee Global
- Blanja + E-Bay
- JD.ID + Jingdong

Competition with overseas E-Commerce platforms from China and the US

Aliexpress, Alibaba, Taobao, Amazon, Ebay, etc.

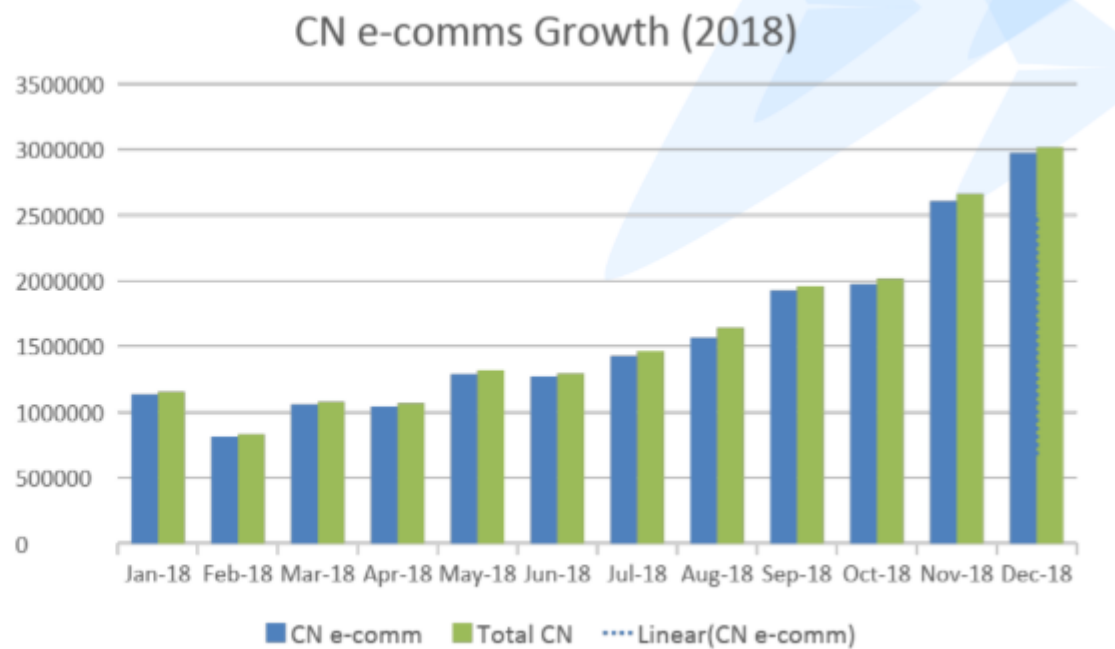
BASED ON DATA OF 2018, 90% OF THE TRANSACTION OF CONSIGNMENT GOODS ARE SELL THROUGH MARKETPLACE (ECOMMERCE)



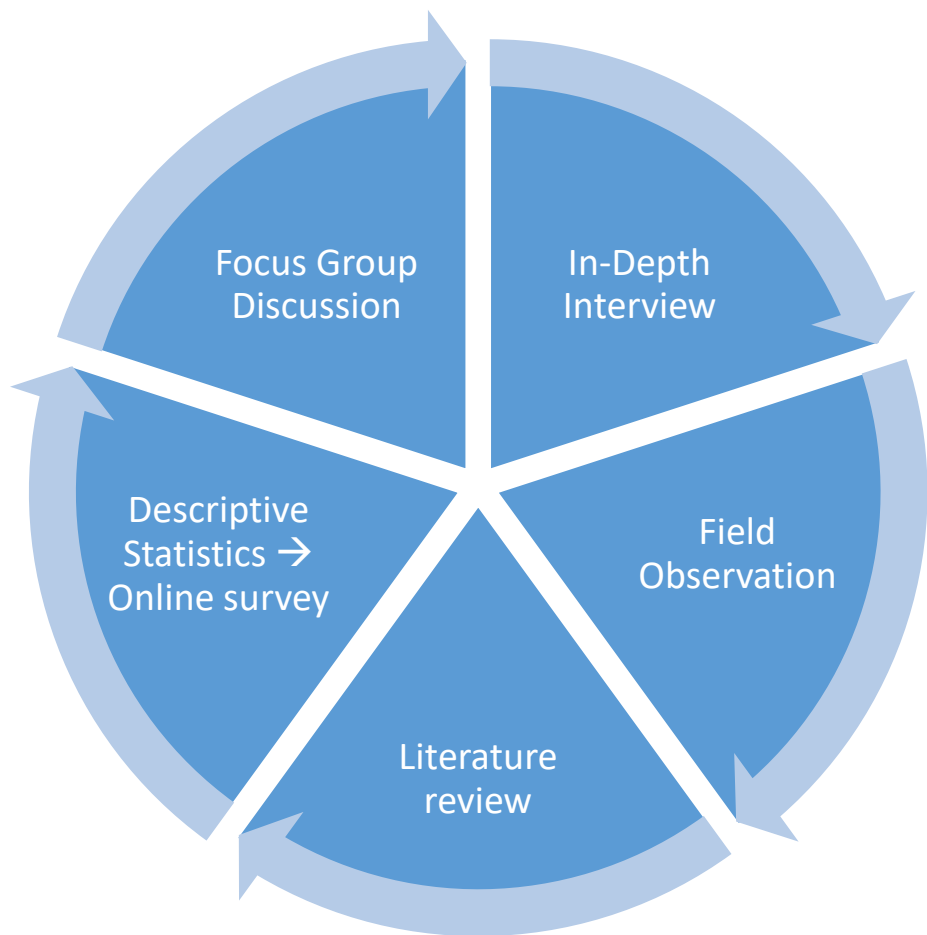
Introduction (2)

Number of Consignment Notes (CN) E-comm and Free On Board (FOB) E-comm Value Data (2018)

Average Growth : 10,49%/month



Research Methods



Respondents' Distributon

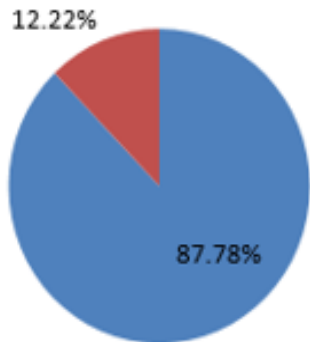
No	Region	Composition
1	Java	75.77%
2	Sumatera	13.51%
3	Kalimantan	3.77%
4	Sulawesi	3.99%
5	Bali, NTB, and NTT	2.55%
6	Papua and Maluku	0.41%
Total		100%

1626 respondents (820 online shoppers, 806 online sellers)



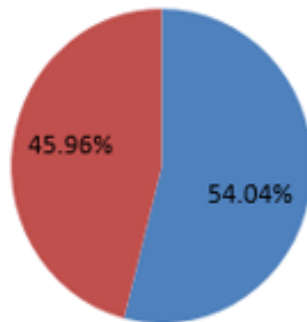
Survey Findings (Online Shoppers)

Do you know that you can make a purchase directly from overseas e-commerce platforms?



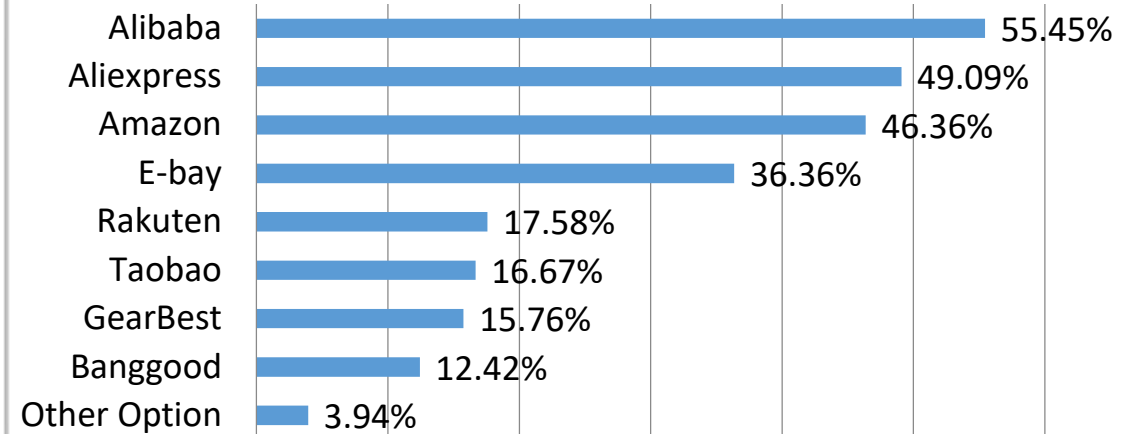
■ Yes, I do know ■ No, I don't

Have you ever purchased from overseas e-commerce platform?



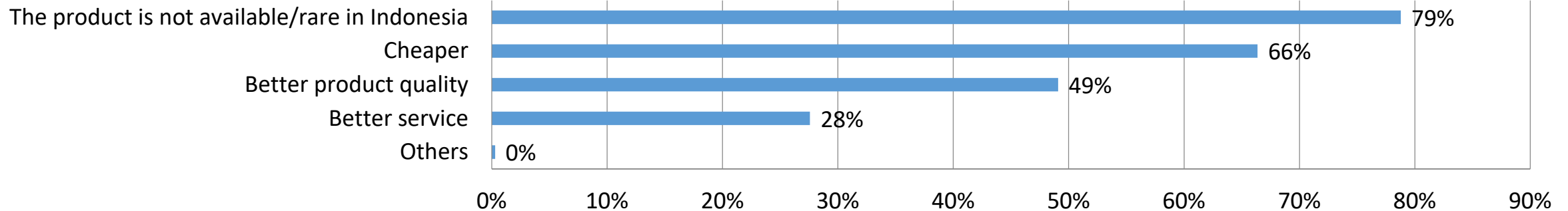
■ No, I haven't ■ Yes, I have

In which overseas marketplace you made the purchase?



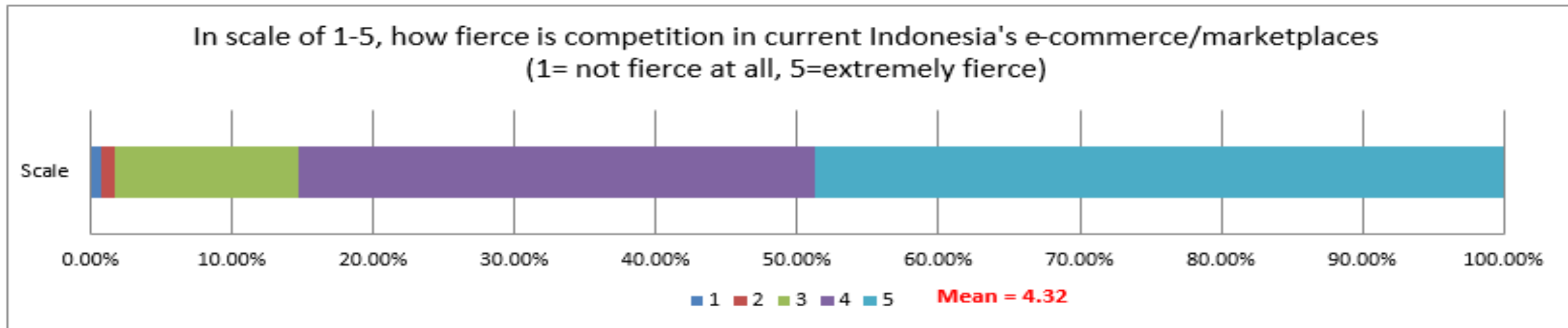
0.00% 10.00% 20.00% 30.00% 40.00% 50.00% 60.00%

Why did you buy product from overseas marketplace?



Survey Findings (Online Sellers)

- Based on the field observation finding, most Indonesian sellers stated that such practice reduces their sales and threaten their businesses.
- In current fierce competition in online marketplaces, this situation will make competition fiercer which may threaten their survival in the e-commerce



China E-Commerce Development



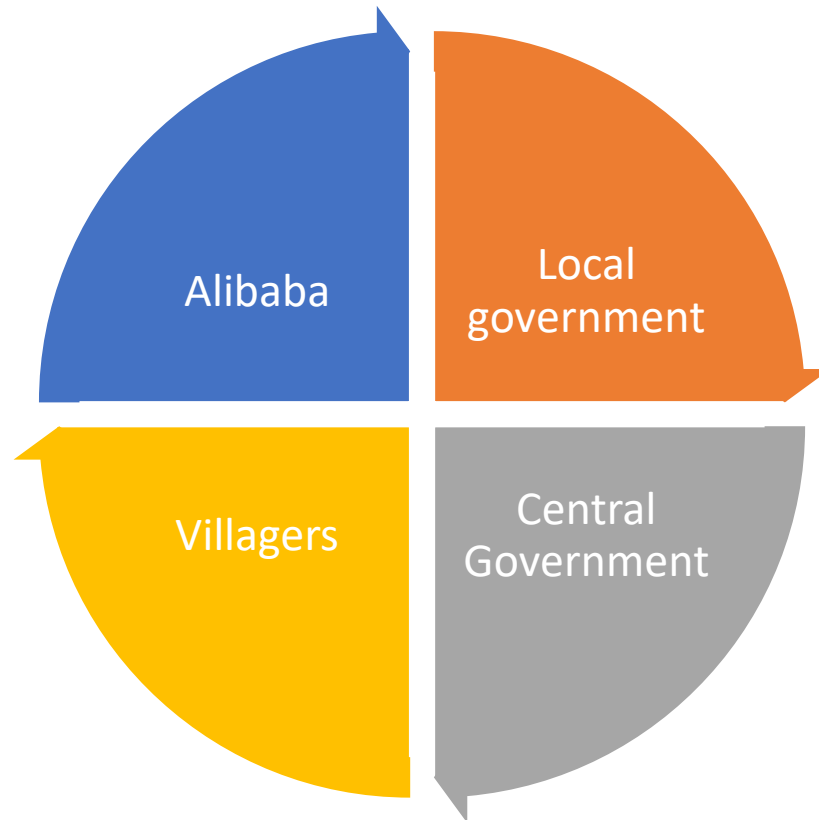
- In China, online retail sales accounts for more than 35% of total retail sales. The US = 11%, Indonesia = 2.4%
- Similar to Indonesia, development of e-commerce in China is also boosted by massive internet users and growing middle income group
- One of the major factors of the rapid development of e-commerce in China is because its government has taken crucial part by strongly accelerating it with numerous favorable policies

Learning from China (1) : Taobao Village

- Rural areas in China have enjoyed tremendous economic development growth as majority of the villagers are facilitated to buy and to run online shops in Alibaba group
- Those villages are called “Taobao Village”

Main Requirements:

- (i) Uses Taobao marketplace as the main platform for online selling/shopping,
- (ii) At minimum 10% of village residents actively engage in e-commerce or there are at least 100 villagers running online shops

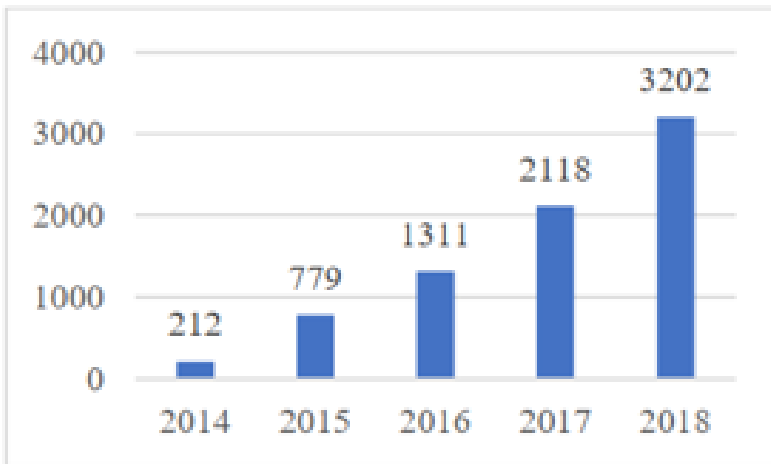


Alibaba requires local govt to make investment commitment on infrastructure improvement

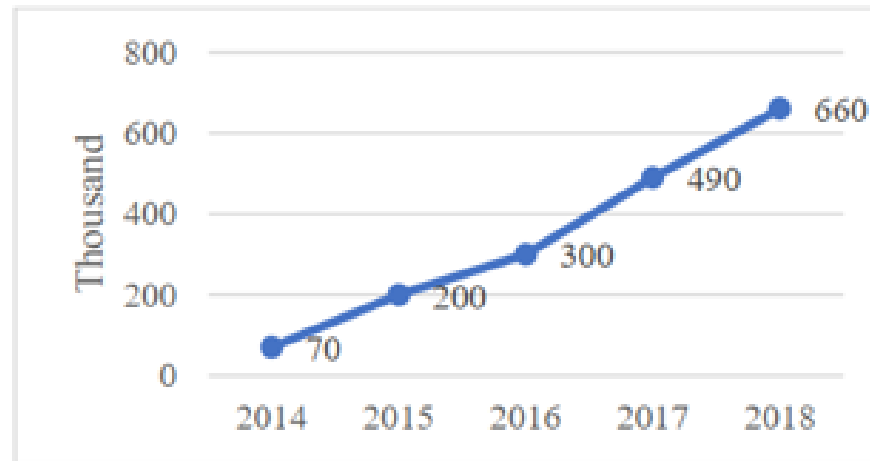
TRANSFORMATION



Impact of Taobao Village on social, welfare, employment

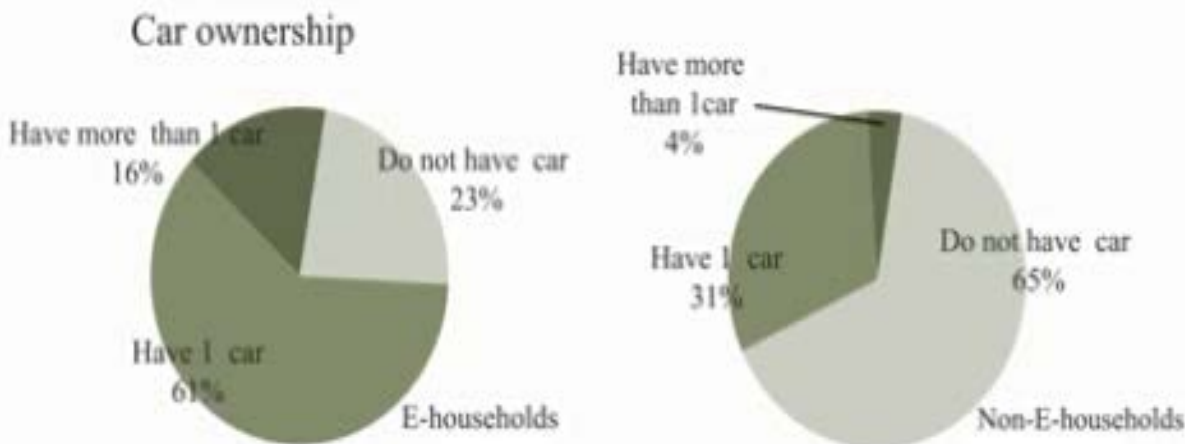


Number of Taobao Villages



Number of active online shops in Taobao Villages

Impact on employment, welfare, and poverty



840,000 direct jobs. One e-shop = 2.8 jobs



316,000 disadvantaged sellers



Alleviates poverty. Increase per capita income by more than RMB 20,000/year

Learning from China (2) : E-Commerce Special Trade Zones

- ESTZs are meant to support and ease online exporters and importers
- Benefits of ESTZs: Developed ecosystem, reduced layers of intermediaries, less inspection, improved customs clearance system and procedure, efficient warehousing management, tax incentives, etc.
- Those lead to efficiency → enhance competitiveness
- As of October 2018, there are 13 cities that have set up ESTZs. Another 22 cities will join to build them



Learning from China (3) : Domestic Protection



Govt set a limit for individual import:

- RMB 5,000/transaction
- RMB 26,000/year
- Transaction under those value charged with 9.1% VAT

DAIGOU

- Literal meaning: 'buying on behalf of' in Indonesia: 'Jastip' or 'Jasa Titip'
- Their products mostly 20-40% cheaper than in China
- Number of *Daigous* in Australia: 100,000 – 200,000 people
- Considered to be placed in 'gray area' → tax evasion
- Govt has issued regulation to legalized them and the platforms → Some of them have been fined and jailed

Indonesia:

- Transaction under 75 USD is free of any charges including VAT
- Every domestic transaction regardless the price is charged 10% VAT
- Unfair level of playing field → decreases competitiveness of domestic goods
- Opening opportunity for tax evasion → under invoice, split payment, etc.

DOMESTIC PROTECTION



Set up maximum limit of individual cross border trade transaction



Apply 10% VAT for all imported goods regardless the price



Formalize and legalize Indonesian cross border individual agent (*daigou* alike)



Integrate automated payment of import charges with global platform directly

DOMESTIC ENHANCEMENT



Establish national scale of agriculture e-commerce



Promote and support establishment of e-commerce village



Promote Online to Offline Channel (O2O)

GLOBAL EXPANSION



Promote and support establishment of cross border e-commerce platform



Set up and support Special E-Commerce Trade Zones

Policy recommendations



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Thank you!