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

Nika Pranata
Economic Research Center
Indonesian Institute of Sciences (LIPI)

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Introduction

Domination of Imported Goods

- Domestic goods 10%
- Imported goods 90%

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.

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

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

Based on data of 2018, 90% of the transaction of consignment goods are sold through marketplace (ecommerce).

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’ Distribution

<table>
<thead>
<tr>
<th>No</th>
<th>Region</th>
<th>Composition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Java</td>
<td>75.77%</td>
</tr>
<tr>
<td>2</td>
<td>Sumatera</td>
<td>13.51%</td>
</tr>
<tr>
<td>3</td>
<td>Kalimantan</td>
<td>3.77%</td>
</tr>
<tr>
<td>4</td>
<td>Sulawesi</td>
<td>3.99%</td>
</tr>
<tr>
<td>5</td>
<td>Bali, NTB, and NTT</td>
<td>2.55%</td>
</tr>
<tr>
<td>6</td>
<td>Papua and Maluku</td>
<td>0.41%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
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1626 respondents (820 online shoppers, 806 online sellers)

Source: Katadata Insight Center (2018)
Survey Findings (Online Shoppers)

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

[Chart showing 87.78% Yes, I do know, 12.22% No, I don't]

Have you ever purchased from overseas e-commerce platform?

[Chart showing 54.04% Yes, I have, 45.96% No, I haven't]

In which overseas marketplace you made the purchase?

- Alibaba: 55.45%
- Aliexpress: 49.09%
- Amazon: 46.36%
- E-bay: 36.36%
- Rakuten: 17.58%
- Taobao: 16.67%
- GearBest: 15.76%
- Banggood: 12.42%
- Other Option: 3.94%

Why did you buy product from overseas marketplace?

- The product is not available/rare in Indonesia: 79%
- Cheaper: 66%
- Better product quality: 49%
- Better service: 28%
- Others: 0%
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 threat 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:
- Taobao Village
- Mega Taobao Village
- Export
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
Thank you!