



CENTRE FOR
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INTERNATIONAL
STUDIES

ISEAS YUSOF ISHAK
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Indonesia's E-Commerce: A New Engine of Growth?

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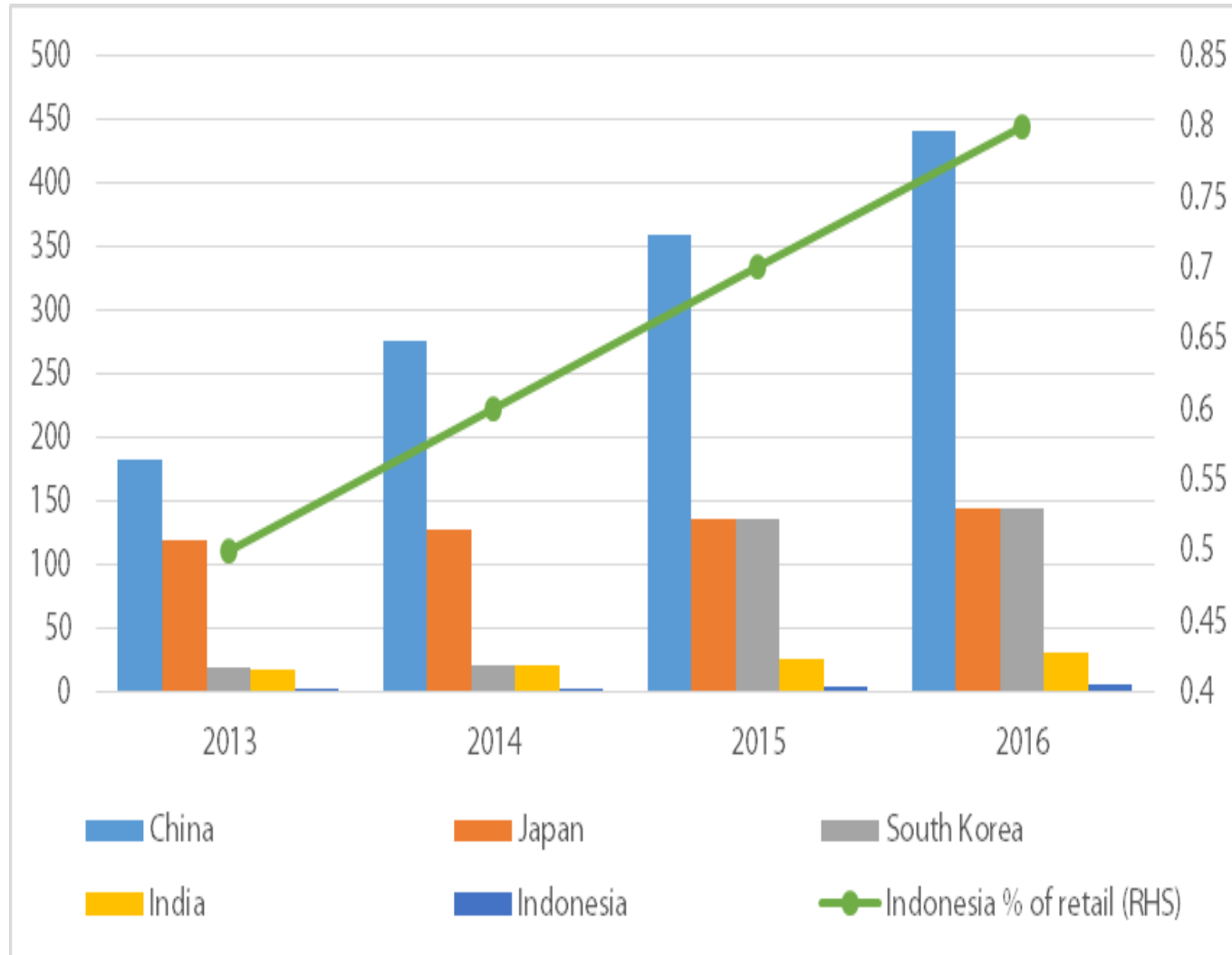
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Symposium on E-Commerce, ASEAN Economic Integration, and Competition Policy & Law
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Key Messages

- E-commerce in Indonesia is growing and taking larger portion of sales
- Several factors have boosted e-commerce performance in Indonesia, e.g. massive development of related infrastructures
- E-commerce is perceived as an alternative marketing channel for SMEs
- The government remains ambivalent towards the development of e-commerce
 - Want to see it growing with a very high target, while expecting e-commerce to foster SMEs
 - But remain cautious to its impact on traditional retails, international trade, industrial development, and taxation
- Challenges are still abundant for future development
 - Consumer and data protection, lacks of reliable payment system
 - SMEs access to various enabling factors remain limited, e.g. access to financing

Rapid growth but still relatively small

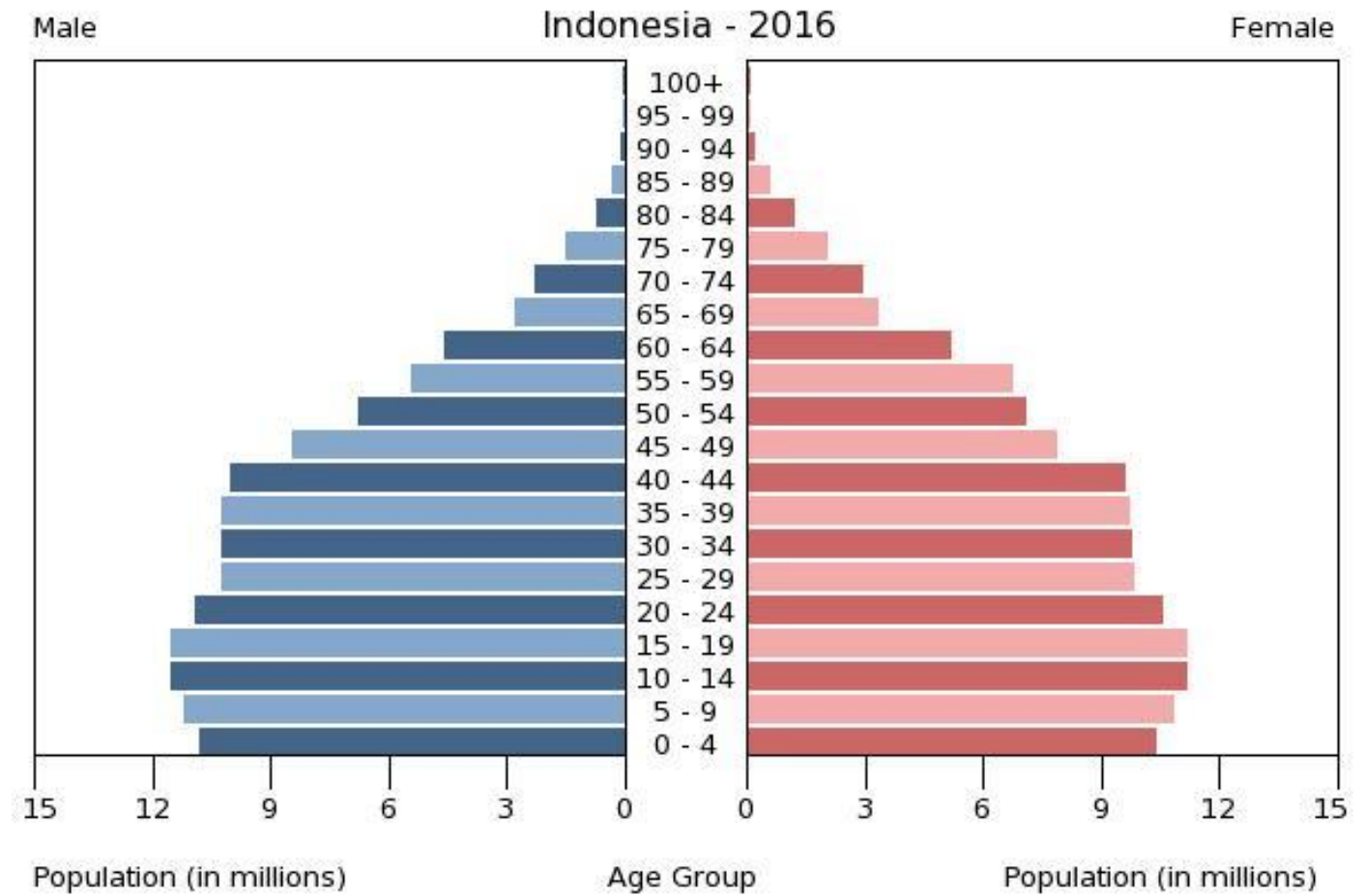


Source: Statista

- Retail e-commerce in Indonesia has been growing rapidly
 - While it is still small compared to other countries, it grew by around 30% annually during the last five years
 - The proportion to retail sales is still small but increasing
- The government targeted the online transactions to reach US\$130 billion (2020)
 - More than 30 times increase of 2015 figures

Factors Supporting E-Commerce Development: Demography

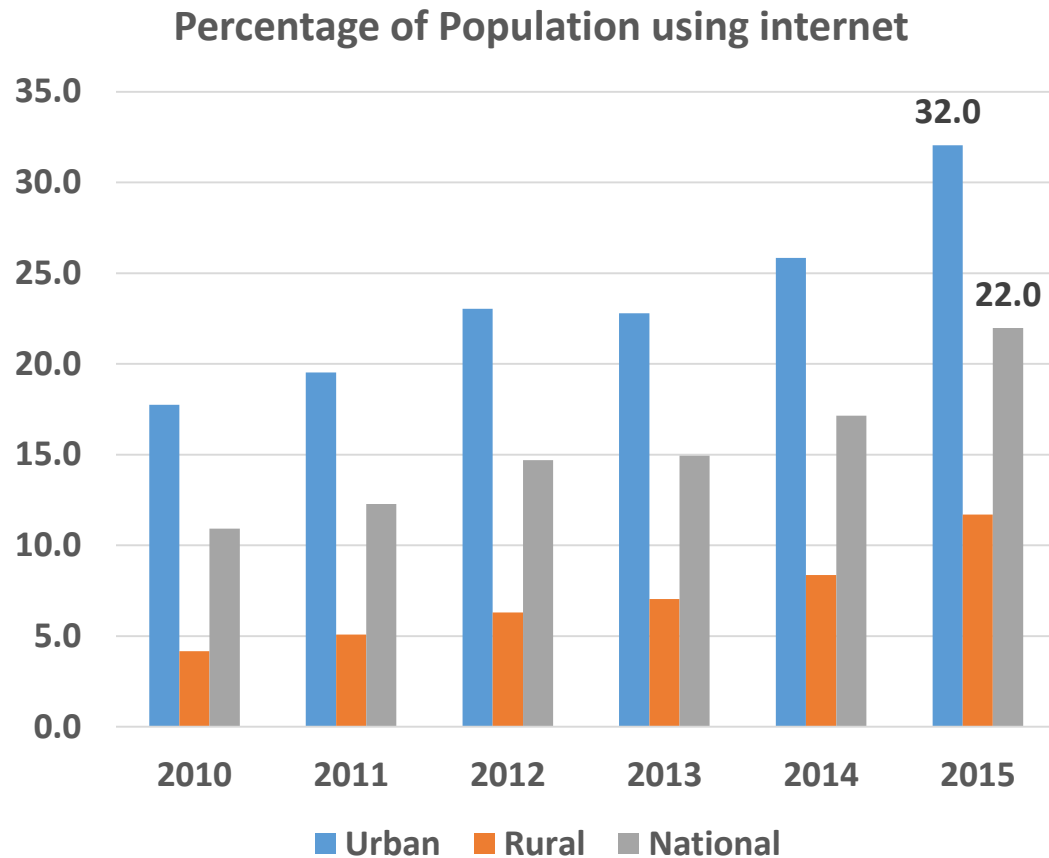
- Largest market in SEA
- A growing middle class (135 mill by 2020)
- Young population: 70 per cent of the population is under the age of 40
- Big share of population aged 15-34



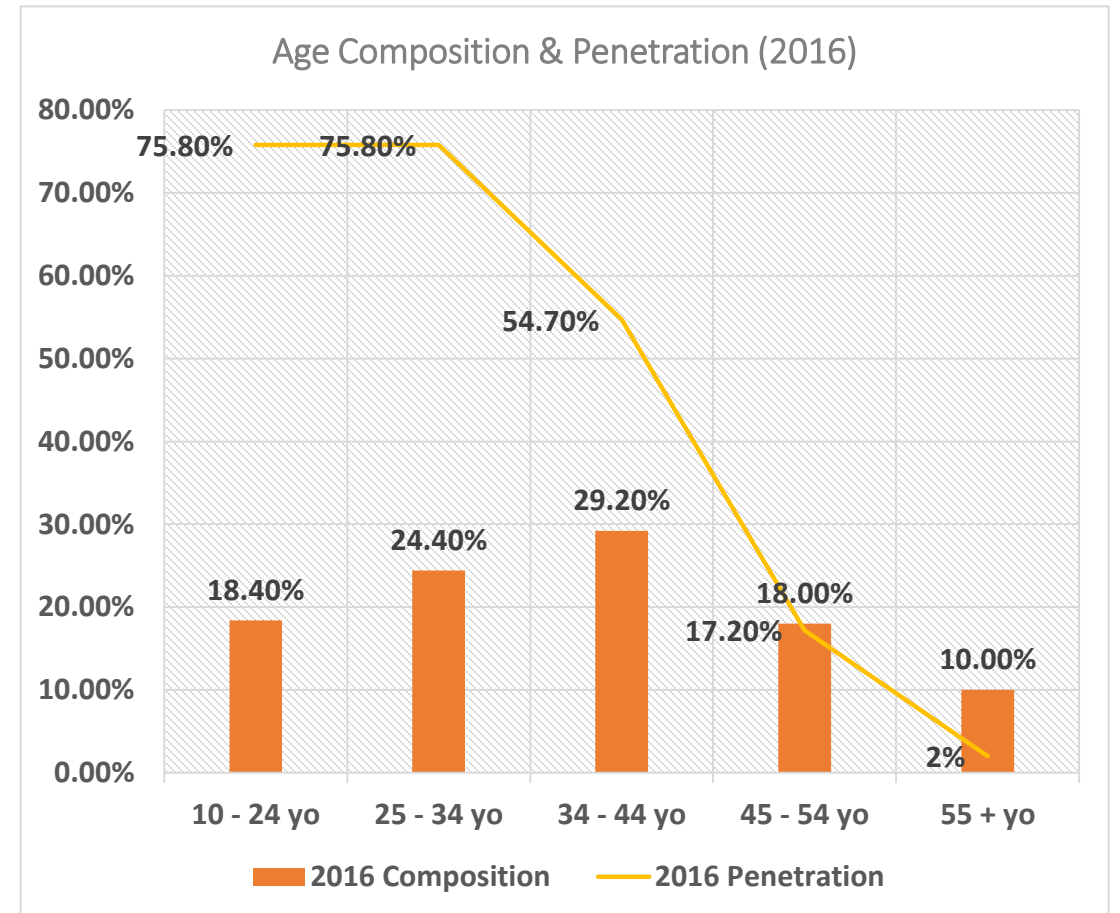
Source: CIA World Factbook

Factors Supporting E-Commerce Development: Growing Internet Penetration

Rising internet penetration (36 million in 2010, 93 million in 2015)

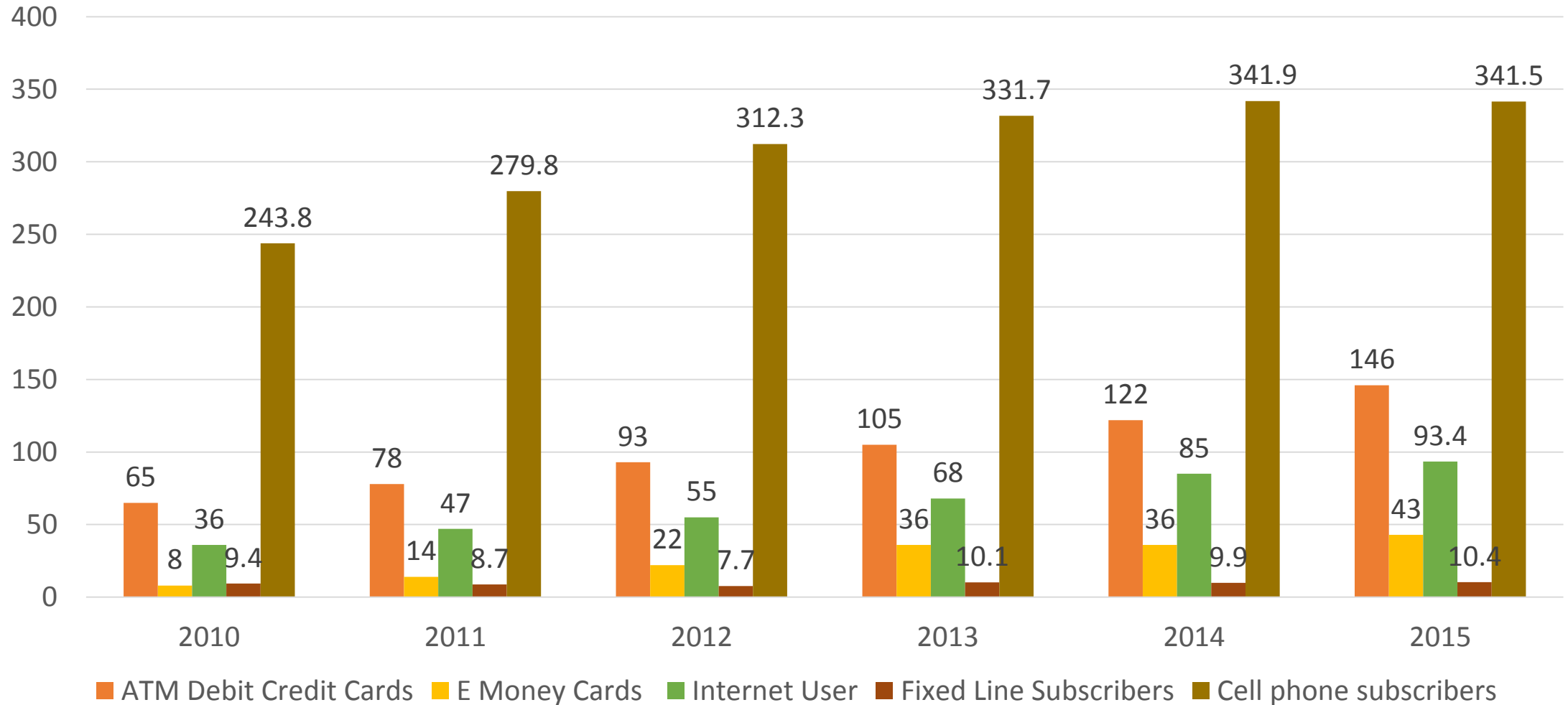


Source: Susenas 2014



Source: APJII

Supported by growing number of mobile internet and payment tools



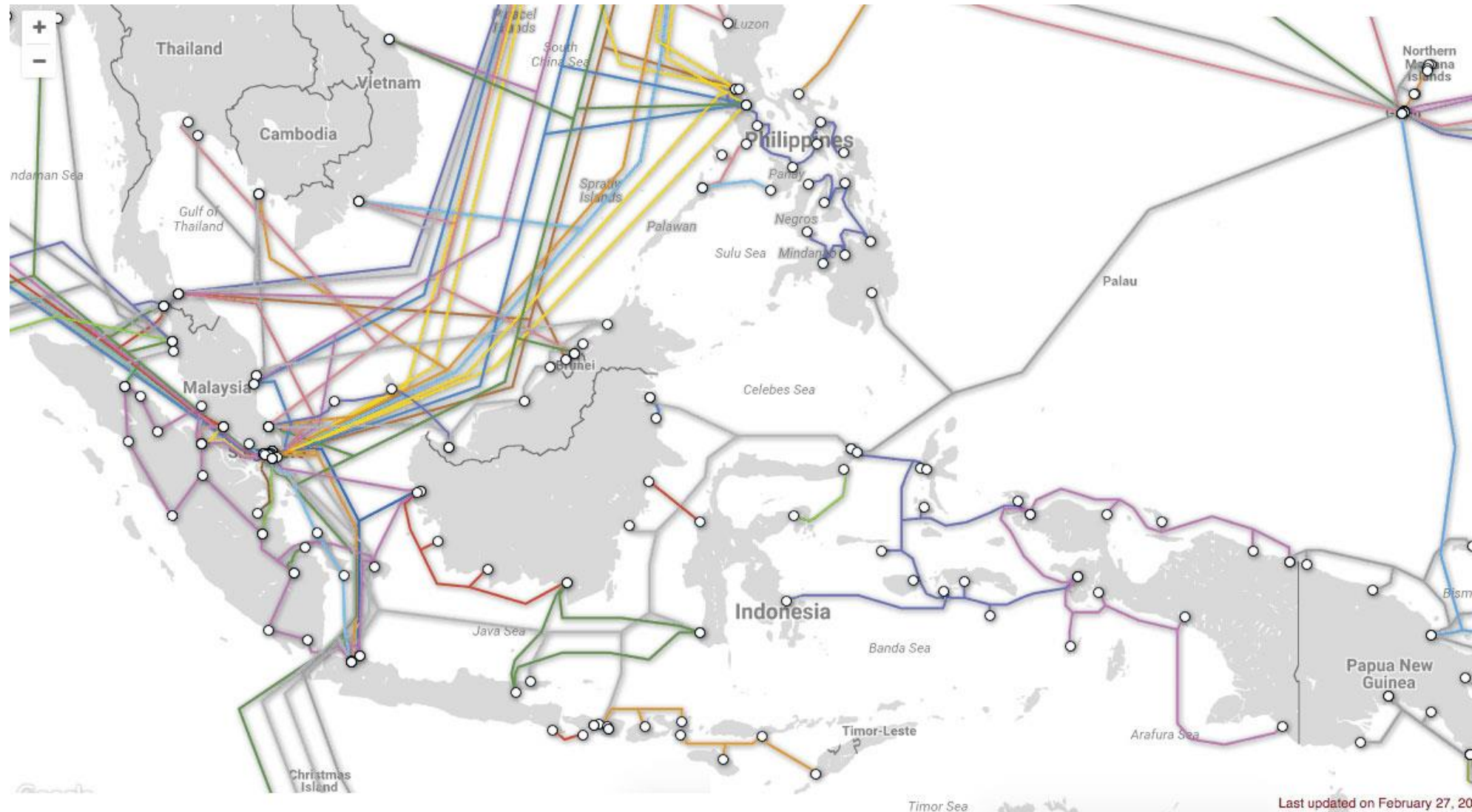
Infrastructure: Networking Fiber Optic Palapa Ring

- Indonesia Broadband Program: Palapa Ring designed to bring greater internet speed and parity
- Aims to provide broadband access to every district by 2019
- Previously delayed for more than 10 years (AFC, 2008 crisis, etc.).
- Since 2016, govt guaranteed financing, backed by SO Bank Mandiri



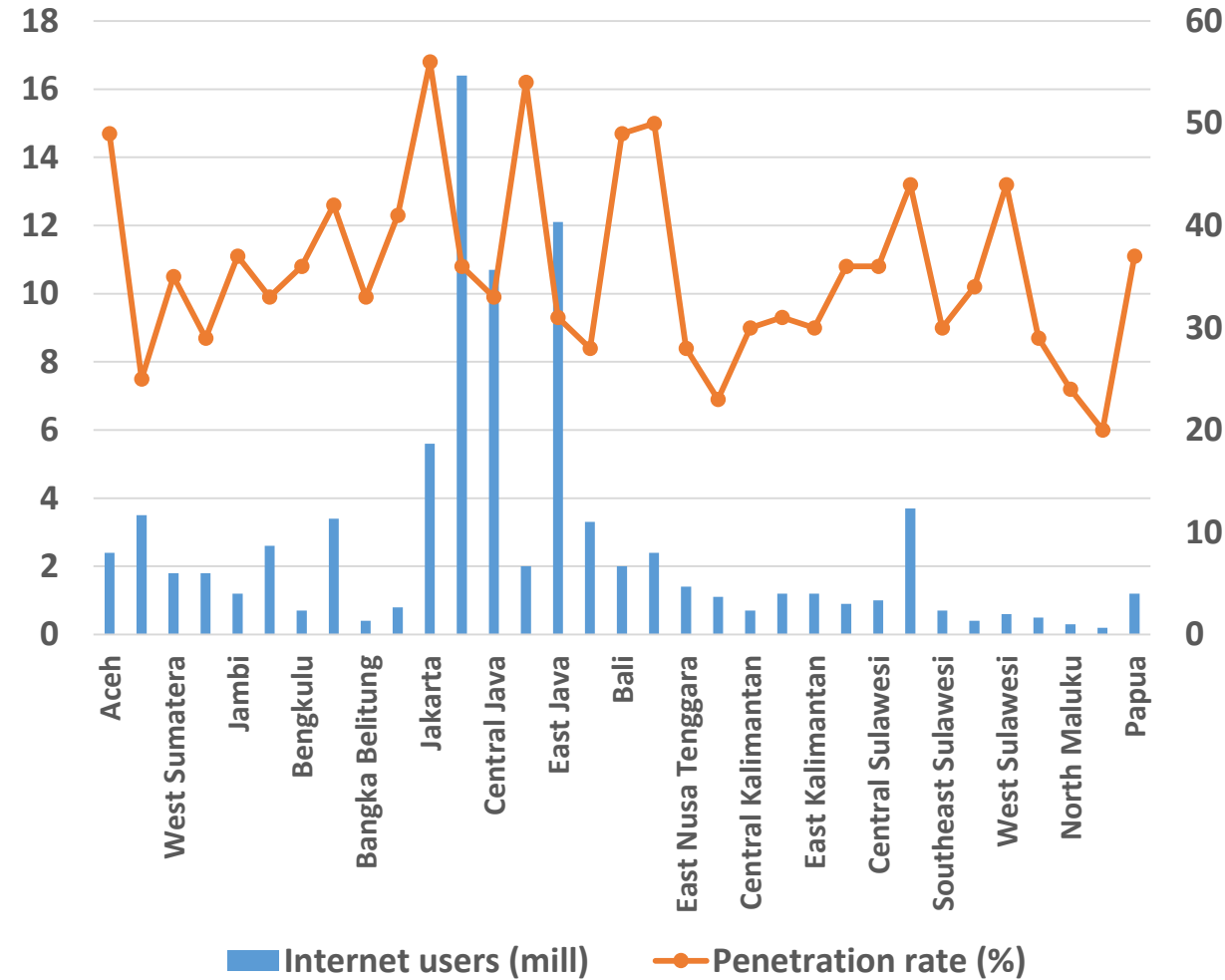
Source: Ministry of communication and information technology

Existing submarine cables, facing geographical challenges

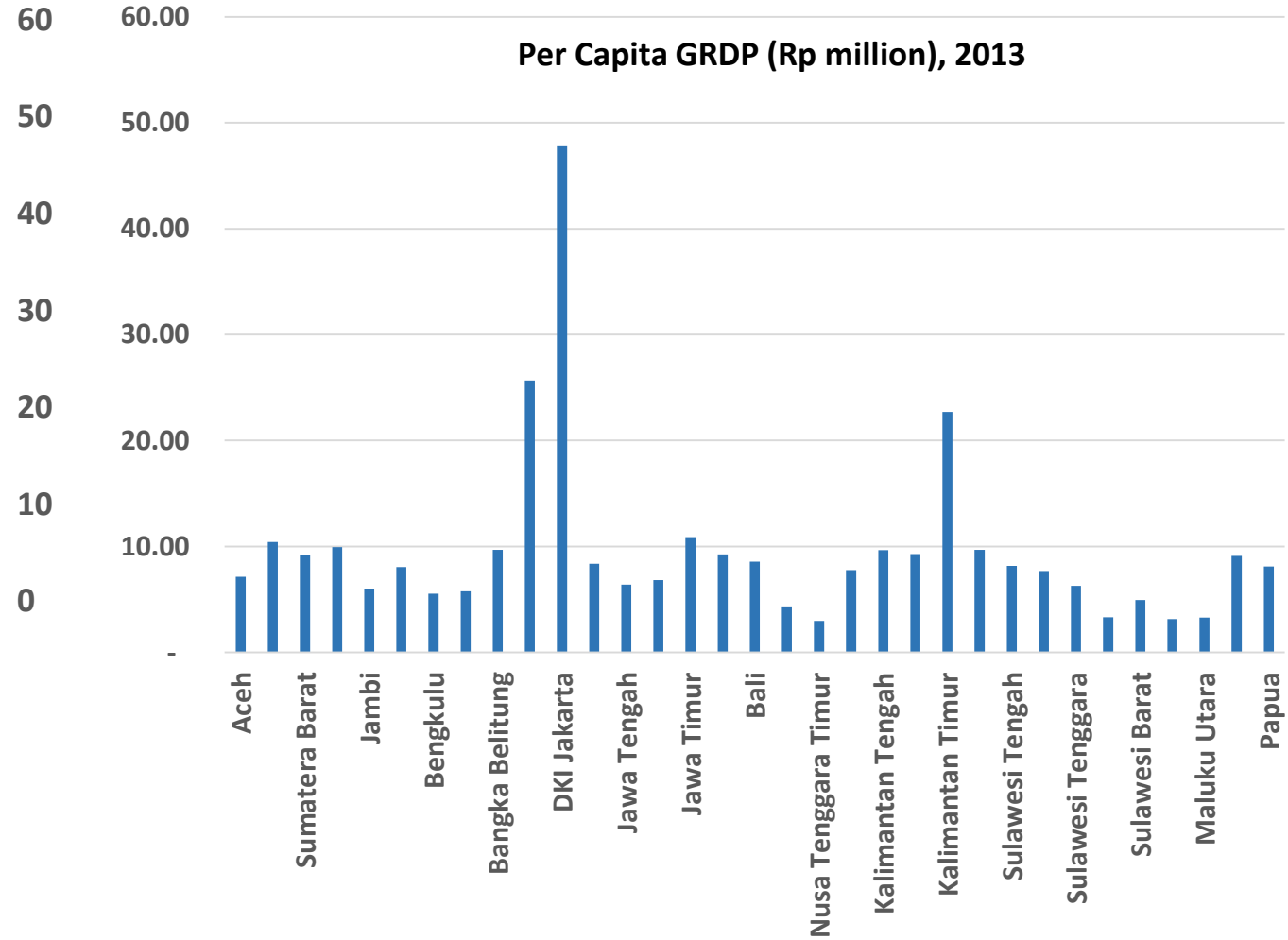


Source: submarinecablemap

Uneven Distribution of Internet Penetration across Region



Source: APJII (2015)



Source: BPS







The Landscape of E-commerce in Indonesia

- E-commerce has just recently developed in Indonesia
- It started with simple marketplaces/classifieds where sellers can only advertise their products
 - Buyers and sellers make contact directly
 - The transactions is normally conducted through e-mails, phone calls or messaging
- Several integrated platforms started to grow by early 2010s
 - Especially when some big providers offer integrated services of online transactions
 - Turning point in the development of e-commerce in Indonesia



Source: Bede Moore, Lazada Indonesia (2016)

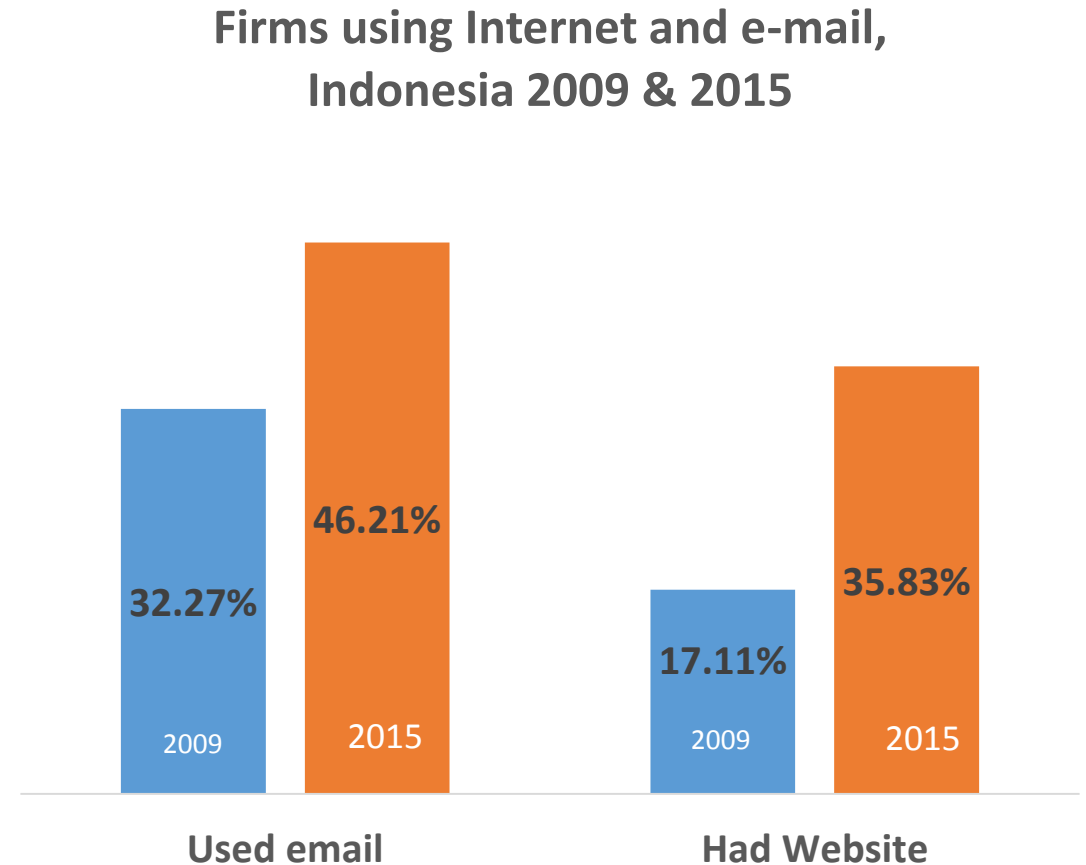
VC firms mostly linked to major conglomerates

	Launch date	Backing	Significant investments in
	Mid 2015	Riady (re-incarnation of Lippo Digital Ventures)	GrabTaxi, HappyFresh, Bridestory, Munchery, RuangGuru, First Media ISP Lippo also invested in MatahariMall, Lazada
	Mid 2015	Widjaja (Sinar Mas Digital Ventures)	HappyFresh, aCommerce, FemaleDaily, MyRepublic ISP
	Nov 2014	Bakrie	Path, Qraved, YesBoos, MBDC media
	Nov 2014	Sariaatmadja	Bukalapak, PropertyGuru, Kudo, Hijup, BoboBobo
	2010	Hartono (Djarum)	BliBli, Kaskus, Daily Social, InfoKost
	Dec 2013	Kompas Gramedia Group	SCOOP, Bridestory, Hijup

Source: Bede Moore, Lazada Indonesia (2016)

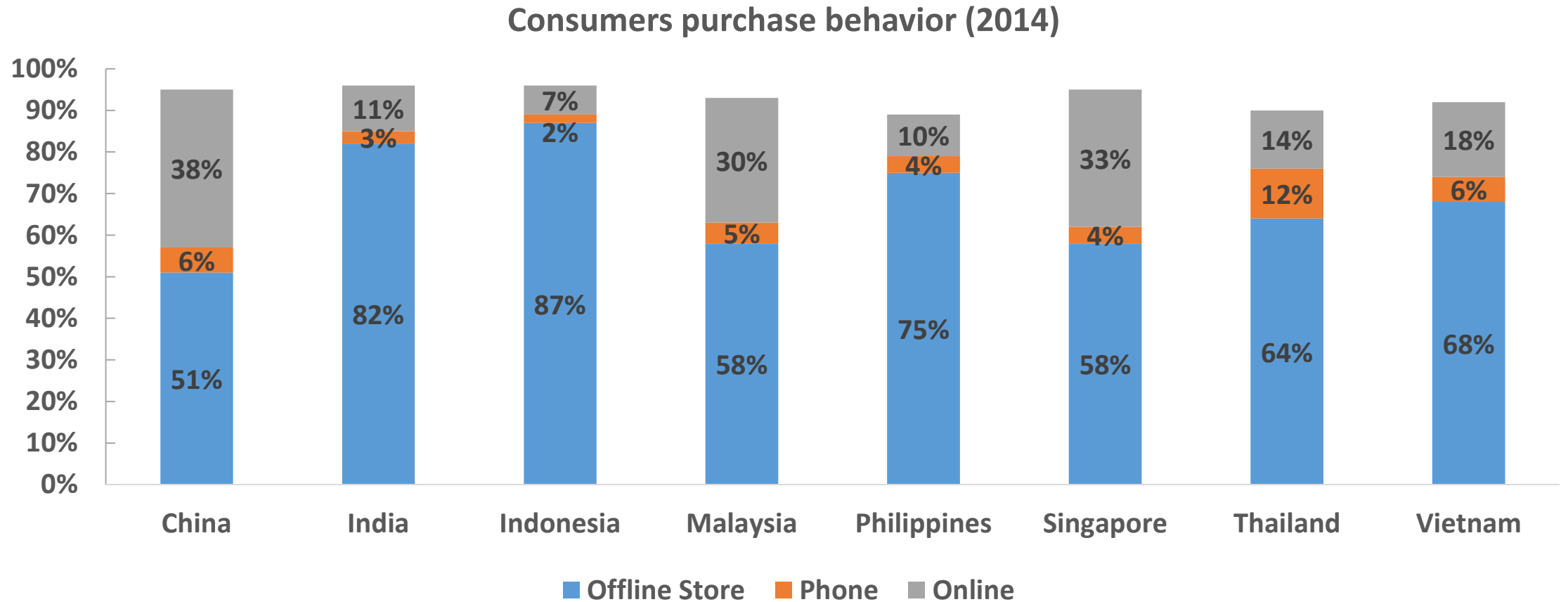
E-commerce and SMEs

- The development of e-commerce is believed to offer significant chances in retail and distribution for SMEs
- New potentials for the creation of networks, and cross-border activities
 - Enabling companies to compete with larger firms, while encouraging the creation of new businesses and to the innovation
- But the proportion of firms using email and have websites is still small
 - Necessary conditions to be connected to the network and to take advantages of e-commerce



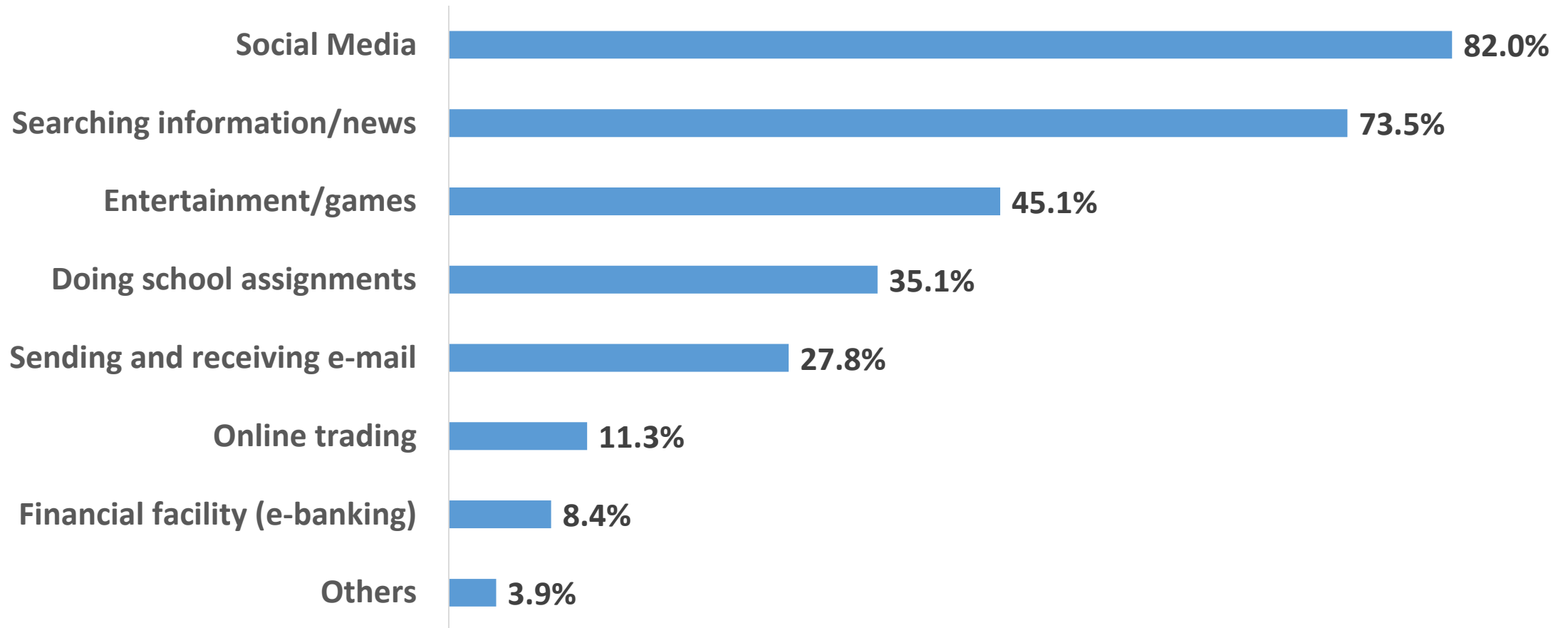
Source: World Bank Enterprise Survey

Despite all the development... only 7% of Indonesian buys online



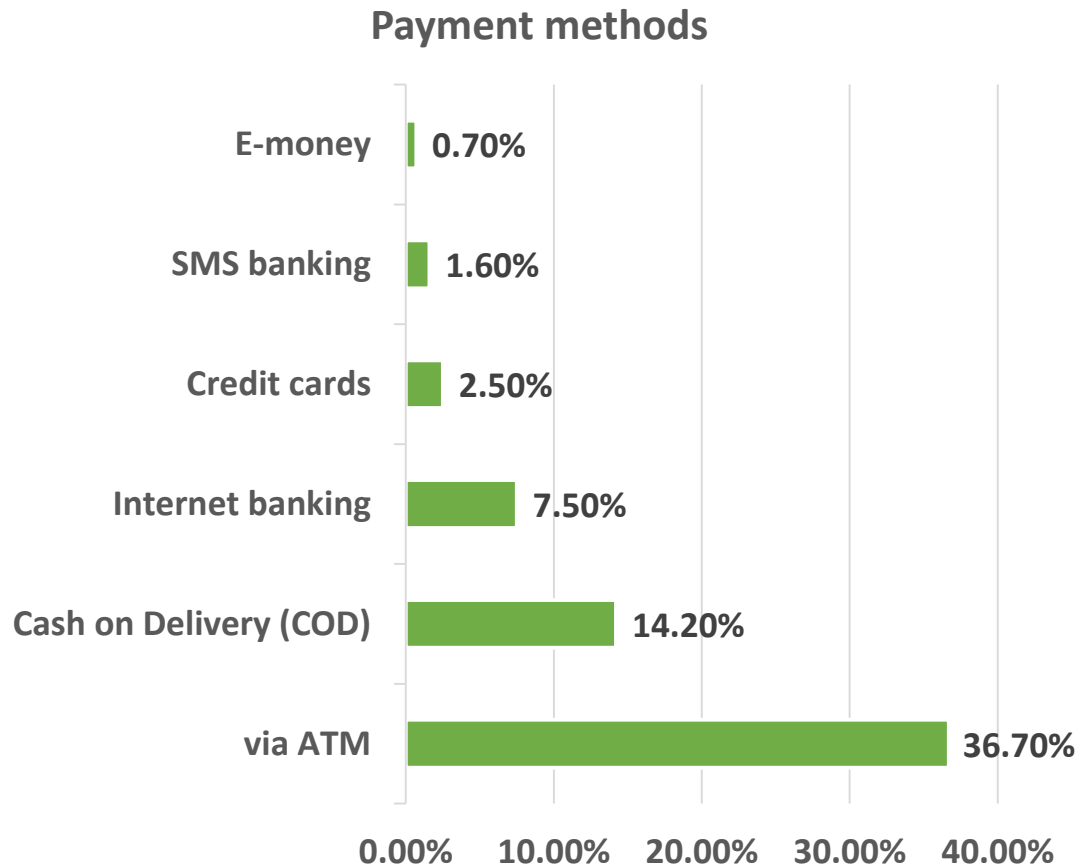
Source: Google Barometer

Most people use internet for social media....

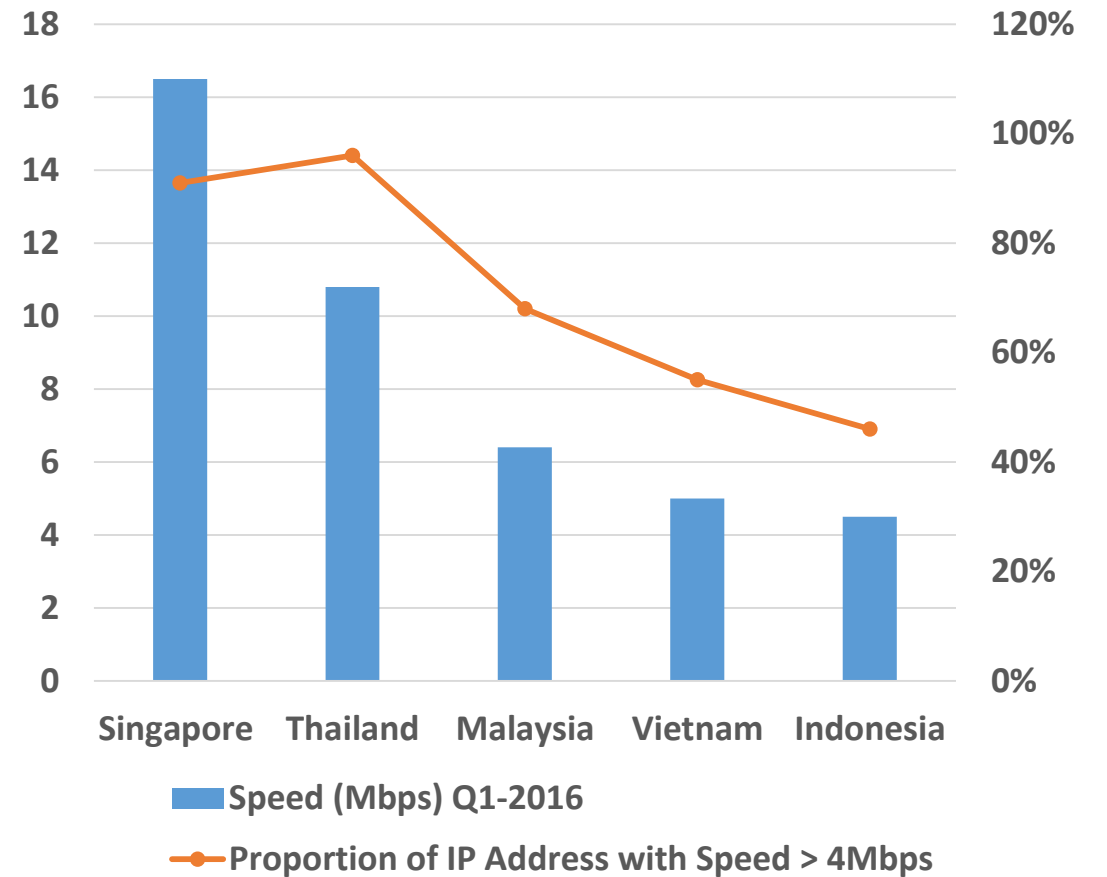


Source: Susenas (2014)

Some infrastructures are just not sufficient....

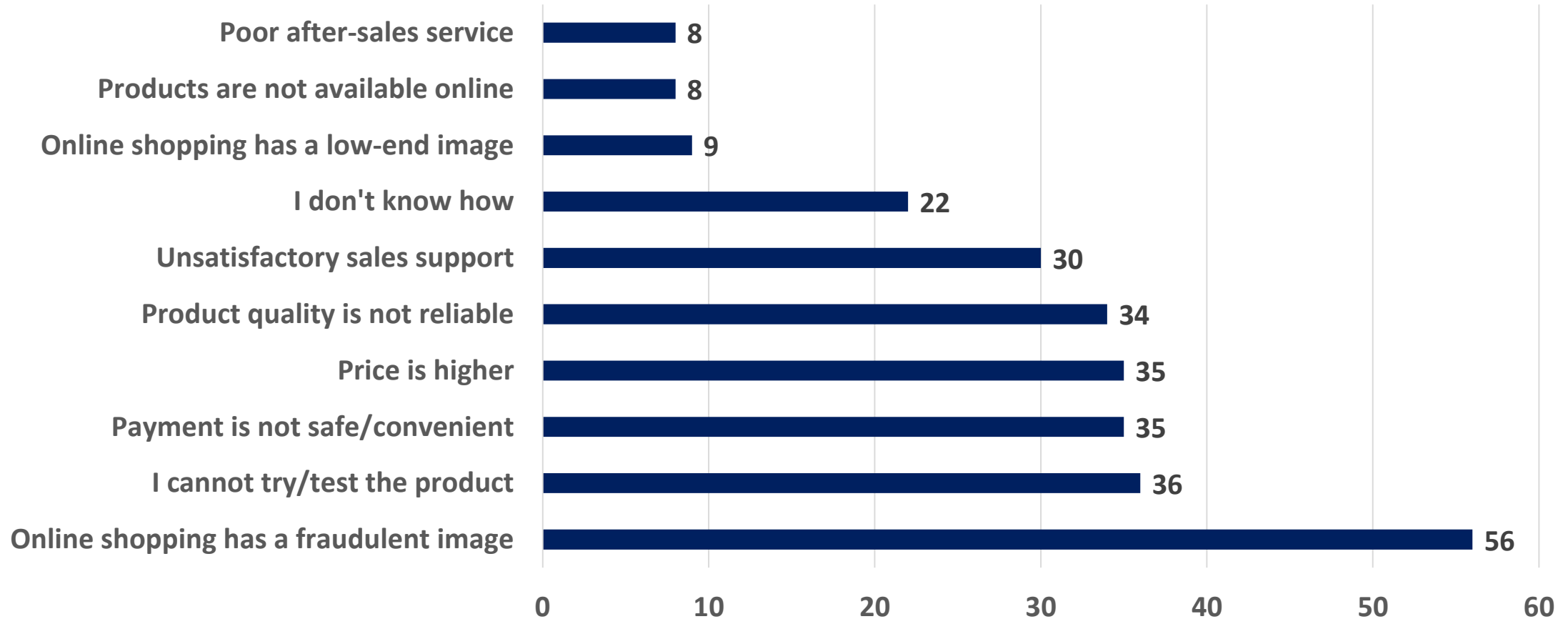


Source: APJII (2016)



Source: Akamai – State of the Internet Connectivity Report 2016

And consumers still don't trust online shopping...



Source: McKinsey (2013)

Current regulations

- Law No 8/1999 on consumer protection
- Law No 11/2008 on information and electronic transaction
- Government Regulation No 82/2012 on electronic system and transactions
- Law No 7/2014 on trade (Article 65 and 66 on e-commerce)
- Presidential regulation No 44/2016 opens e-commerce business for foreign investment
- DG Tax circular No 6/2015 which sets the taxes to be paid by e-commerce business
- Financial Services Authority (OJK) regulation no. 77/2016 regarding Information Technology-Based Money Lending Services, e.g. peer-to-peer lending (P2P lending)
- Draft government regulation on e-commerce

Policy Issues

Policy Areas	Possible Issues	Illustrative Cases
Competition-related	<ul style="list-style-type: none">- Definition of relevant market- Winner takes all- Definition of anti-competitive behavior	<ul style="list-style-type: none">- Web-based vs traditional transport services- Acquisition of platforms to increase market share- Some e-commerce platforms might use consumers' profiles and characteristics for other services they offer
Consumer protection	<ul style="list-style-type: none">- Fraudulent activities in C2C and B2C marketplaces- Risky payment mechanism	<ul style="list-style-type: none">- Complaints about quality of goods, or delivery time- Especially in using credit cards on unsecured services
International trade	<ul style="list-style-type: none">- Cross-border e-commerce- Impact to domestic industry and start-up services	<ul style="list-style-type: none">- Tariff application for such imported goods
Taxation	<ul style="list-style-type: none">- Taxing internet-based economic activities	<ul style="list-style-type: none">- Problems if the services is supplied cross-border, e.g. Google case, Amazon
Data protection and traffic	<ul style="list-style-type: none">- Freedom of data flow and privacy	<ul style="list-style-type: none">- Requirement for localization of data centers

Policy direction

- Law No 7/2014 provides legal base and certainty for e-commerce business
- Need operational framework to provide consumer protection and protection for Indonesia's national interests
- Govt regulation provides operational and implementation framework
- More Perpres and Permen to come: Need harmonization among various regulations (vertical and horizontal)
- How about Perda (local govt regulations)?

Government departments & regulators

Enforcement? Coordination across ministries and govt agencies remains challenging

1. Coordinating Ministry of Economic Affairs
2. Ministry of Communication and Information
3. Ministry of Trade
4. Ministry of Industry
5. Head of Creative Economy (Bekraf)
6. Ministry of Finance
7. Bank Indonesia
8. OJK (Financial Service Authority)



Economic Package XIV: E-commerce Roadmap...

Released
Nov
2016

1	Funding	<ul style="list-style-type: none">(1) KUR for platform developers(2) Grants for business incubators facilitating start-ups(3) USO (universal service obligations) funds for digital MSMEs and e-commerce platform start-up(4) Angel/seed capital(5) Crowdfunding(6) Opening of DNI (Negative Investment List)
2	Taxation	<ul style="list-style-type: none">(1) Tax cut for local investors investing in start-ups(2) Streamlining of tax permits and procedures for ecommerce start ups whose revenue is under Rp 4.8 billion/year(3) Tax standardisation for e-commerce
3	Consumer protection	<ul style="list-style-type: none">(1) Government Regulation on Commercial transactions through electronic system(2) Regulation harmonisation(3) Trade payment systems and sales of government products/services through e-commerce(4) Incremental development of national payment gateway(5) Digital certification for e-commerce (recently announced)

Economic Package XIV: E-commerce Roadmap

4	Education & workforce	<ul style="list-style-type: none">(1) Campaign to increase ecommerce awareness(2) National incubator programs(3) E-commerce curriculum(4) E-commerce education to consumers, business players, and law enforcement
5	Logistic	<ul style="list-style-type: none">(1) Use of National Logistic System (Sislognas);(2) Strengthening of local/national courier companies(3) Development of logistic data for MSMEs(4) Development of logistics from rural to urban areas
6	Communication infrastructure	Development of communication infrastructure through broadband networks
7	Cyber security	<ul style="list-style-type: none">(1) Development of national monitoring system in e-commerce transaction(2) increase public awareness about cyber crimes(3) Developing SOP related to consumer data, certification for consumer data and security

Next Steps

- How to balance between consumer protection, national interest and security vis-à-vis the need to keep innovation progress and promote fair competition
- Need more accurate data and information (including cross border transaction flow and value)
- Next step: looking at study cases and conducting in-depth interview with relevant actors, e.g. platform providers, merchants, regulators
- Recommendations for future research: improving database

THANK YOU