Indonesia, Southeast Asia’s largest economy, is one of the fastest growing economies in the world. It is growing at 5.1% annually. No wonder its population, fourth largest in world around 264 million in 2017, is playing a major role in the growth of the economy. But in addition to population, there are other factors which are helping in the growth of digital economy in Indonesia. In this article we would like to discuss the drivers of Indonesia digital economy and future opportunities in Indonesia.

Nowadays, large companies all over the world are investing heavily in Indonesian start-up companies. Indonesia produces 4 unicorn companies, the largest in Southeast Asia, and is gaining further momentum with huge funding.

Digitalization in Indonesia

The economic growth of Indonesia with an average age of 29 is remarkable. We introduce strategies of the country that accelerates digitization leveraging huge population of the digital generation and digital-friendly policies.

【Reference】
Unicorn companies in Indonesia

GO-JEK - established in 2010
Like Uber and Grab, GO-JEK is a ride share app that completes the dispatch and payment process with just a smartphone. GO-JEK is mainly for ride sharing of motorcycles. Traffic congestion...
Digitalization in Indonesia

Four criteria need to be met to become unicorn companies: market value of more than USD 1 billion, less than 10 years after establishment, unlisted, and technology company. The momentum is having a big impact not only domestically but also on neighboring countries.

Drivers of digital economy

The Indonesian government has set a goal of becoming a digital economy advanced country in Southeast Asia by 2020, and has launched “2020 Go Digital Vision” and “Indonesia’s e-Commerce Road Map.” Under “2020 Go Digital Vision,” the government will support the growth of the e-Commerce ecosystem for agriculture, fishery and SMEs to digitize, expand their marketing network and increase employment. The Indonesia’s e-Commerce Road Map targets at least USD 130 billion in domestic e-commerce transactions by 2020. Under this policy, the government

- **Tokopedia** - established in 2009
  Tokopedia is the largest Indonesian e-Commerce company that connects sellers and buyers, and is a representative of the burgeoning e-Commerce businesses. Logistics in Indonesia, consisting of 17,000 islands, was said to be extremely difficult. However, they already provide logistics services in 93% of the land area, and same day delivery to 25% of urban customers. With USD 1.1 billion in funding from Alibaba in 2018, they have begun to expand their business from Indonesia to other Southeast Asian countries.

- **Bukalapak** – established in 2012
  Bukalapak means “stand” in Indonesian is one of the largest e-Commerce company in seasia. Focusing on the fact that only 10% of Internet users use Internet shopping in Indonesia, they are aiming to expand their businesses by focusing on small businesses (small stores, farmers and freelancers).

- **Traveloka** – established in 2012
  Traveloka provides online flight booking and hotel booking services. They take advantage of the low price and user-friendliness of the app, and occupy an overwhelming share in Southeast Asia including Indonesia. In 2017, the company raised USD 350 million from Expedia.

<table>
<thead>
<tr>
<th>Trends driving the Indonesia digital economy</th>
<th>Chart 1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Political</strong></td>
<td></td>
</tr>
<tr>
<td>- Digital friendly policy: Stable government, 14th economic policy package to promote digital companies, embrace of technology by president Etc. have created a conducive climate for both foreign and domestic investors to invest in Indonesia. However we recently hear new private investments are being put on hold until the next presidential elections.</td>
<td></td>
</tr>
<tr>
<td><strong>Economical</strong></td>
<td></td>
</tr>
<tr>
<td>- Strong digital content laws: Electronic Information and Transactions (EIT) law stipulates that electronic systems providers are prima facie liable for everything that takes place on their electronic systems (that is, website, mobile app, and so on), unless they can prove it was the wrong doing of a third party.</td>
<td></td>
</tr>
<tr>
<td>- Changing digital business taxation policy: Import Duty Exemption from USD 100 to USD 75 per Day. E-Commerce tax on online marketplaces, classified ads, daily deal and online retail.</td>
<td></td>
</tr>
<tr>
<td><strong>Social</strong></td>
<td></td>
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<tr>
<td>- Mass acceptance of Internet: In 2017, internet penetration rate was 39.7%(105 million mobile phone users) out of which 72.5%(76.11 million mobile phone users) is from mobile. Further the Internet penetration is projected to be around 50% by 2022. As per Google-Temasek research report in 2017, users in Indonesia spend an average of 3.9 hours per day on mobile Internet which is double of USA users, 4 times of Japan users.</td>
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</tr>
<tr>
<td><strong>Technological</strong></td>
<td></td>
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<tr>
<td>- Strong digital buyer growth: Penetration of smartphone has helped in faster growth of digital buyers. In 2017, smartphone penetration was 23.7%(62.7 million users) and projected to increase to 32.1%(89.9 million users) by 2022. In 2017, digital buyers number is 28.1 million and projected to increase to 43.9 million by 2022. In 2017, e-Commerce market is USD 7.1 billion and projected to increase to USD 16.5 billion in 2022.</td>
<td></td>
</tr>
</tbody>
</table>
will fund e-Commerce startups, strengthen cybersecurity, and aim to significantly increase online transactions. Indonesia aims to create 1,000 technology startups by 2020.

Chart 1 explains the trends in political, economic, social, and technological areas which are driving the Indonesia digital economy like stable government, nine-point development agenda, embrace of technology by president, strong GDP growth, embracing of internet, smartphone penetration etc.

Chart 2 explains the 14th economic policy package which has helped in providing funding to startups, making taxation policies transparent, protecting consumers from fraud, creating skilled workforce, improving infrastructure etc. Recently Indonesia government has launched 16th economic package to support the economic growth further amid monetary tightening in the USA. The package concentrated on relaxing policies to further attract new foreign investment in addition to assuring current investors the strength of Indonesian economy.

Overall we think a digital business friendly government, growing domestic consumption, acceptance of digital technologies by the people, strong foreign investment is helping the Indonesia digital economy grow faster and will continue to do so at least for some more years. We will see new businesses models disrupting the traditional business models. At the same time, we see government facing strong pressure from traditional businesses to regulate digital businesses.

Now, we believe there are 2 challenges; physical issues such as infrastructure maintenance and political issues such as conflicts with existing businesses.

The lack of transportation and IT infrastructure and the digital divide issue are major challenges to economic growth. Transportation infrastructure has a large impact such as creation of production activities, employment promotion, consumption increase by income increase, investment and tax revenue. Currently, Indonesia’s transportation infrastructure development status is positioned below neighboring countries such as Thailand, Vietnam and Malaysia. In addition, the development of the Internet environment outside urban areas in Indonesia has been delayed, and the usage rate remains low. As a result, they are facing the gap between people who can and cannot use information communication technology between downtown and suburbs (so-called “digital divide problem”). Now that digitization is progressing in Indonesia and the Internet business is prosperous, the risk that digital divide will directly affect the difference between rich and poor is not small.

### Physical issues

The lack of transportation and IT infrastructure and the digital divide issue are major challenges to economic growth. Transportation infrastructure has a large impact such as creation of production activities, employment promotion, consumption increase by income increase, investment and tax revenue. Currently, Indonesia’s transportation infrastructure development status is positioned below neighboring countries such as Thailand, Vietnam and Malaysia. In addition, the development of the Internet environment outside urban areas in Indonesia has been delayed, and the usage rate remains low. As a result, they are facing the gap between people who can and cannot use information communication technology between downtown and suburbs (so-called “digital divide problem”). Now that digitization is progressing in Indonesia and the Internet business is prosperous, the risk that digital divide will directly affect the difference between rich and poor is not small.
Digitalization in Indonesia

**Political issues**

While Indonesia is accelerating its digitization, there is a conflict with existing businesses. For example, GO-JEK dramatically reduced the driver’s wait time and also improved the user’s convenience. However, the income from major taxi companies and motorcycle riders has fallen sharply, and large-scale demonstrations and competitions by local drivers and riders have occurred. Unfortunately it is said that some people have died. To harmonize with existing businesses is an issue that must not be avoided in order to make digitization smooth.

**Opportunities in digital economy**

Above graph shows the breakdown of digital revenues in Indonesia. e-Travel and e-Commerce markets have the biggest share of digital revenues. As per projections, internet economy is projected to become a USD 100 billion in 2025 with CAGR of 28% compared to 2015.

In below section, we would like to discuss on e-Commerce as we see there are a lot of opportunities in this segment. In addition, we would like to discuss digital payments which is going to be the backbone of digital economy.

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**State of e-Commerce in Indonesia**

In 2017, the share of e-Commerce in overall digital businesses in Indonesia is around 42.6% with USD 7.1 Billion in revenues. Compared to 2016, e-Commerce has grown by 22%. The market is further expected to grow in double digits for some more years and projected to be USD 16.475 billion in 2022. Around 75% of the online buyers are in the age group of 18 to 34 years. Majority of them shopped through smartphone. As shown in below chart, the top 2 item categories bought online are Fashion and Toys, Hobby, DIY with an individual share of 35% and 20.3% of the total e-Commerce in 2017 and the 2 item categories are forecasted to be in the top until 2022.

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**Digital Revenues by Segment in million USD**

<table>
<thead>
<tr>
<th>Segment</th>
<th>2017</th>
<th>2022</th>
<th>CAGR 2017-22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fashion</td>
<td>2,466</td>
<td>16,475</td>
<td>20.1%</td>
</tr>
<tr>
<td>Electronics &amp; media</td>
<td>593</td>
<td>1,208</td>
<td>15.3%</td>
</tr>
<tr>
<td>Food &amp; personal care</td>
<td>2,609</td>
<td>1,288</td>
<td>15.2%</td>
</tr>
<tr>
<td>Furniture &amp; appliances</td>
<td>1,208</td>
<td>3,903</td>
<td>15.2%</td>
</tr>
<tr>
<td>Toys, Hobby &amp; DIY</td>
<td>1,436</td>
<td>4,288</td>
<td>22.1%</td>
</tr>
</tbody>
</table>

Source: Statista

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[23] Digitalization in Indonesia
Current state of digital payments

In 2017, the transaction value of FinTech market was USD 18,645 million. The largest segment is digital payments. As shown in Chart 5, compared to other South East Asian countries Indonesia ranks number one is digital payments. Digital payments are projected to reach USD 37.1 billion in 2021 at a CAGR of 18.8%.

Recently we are seeing an increase in usage of payments solutions provided by digital businesses especially go-pay. go-pay is a mobile payment service created by GO-JEK bike taxi hailing company by taking advantage of its big network across Indonesia. Similarly, there are other payment services becoming popular like GrabPay from ride hailing company Grab, T-cash from Indonesian largest mobile operator Telkomsel etc.

Currently, Indonesia’s e-Commerce sales share is only about 5 percent of total domestic retail sales. In addition, cash settlement accounts for 85% and there is a large room for digitization. With the strength of people’s purchasing power by solid macroeconomic growth, the spread of smartphones, and the size of the digital-savvy youth population, the e-commerce market and digital payment will leap in a few years and become huge in the next few years.

Conclusion

For as sustainable digital economy, it is necessary to create a skilled labor force especially in technology. We think there will be demand for digital education from the younger generation who are going to join the digital labor force in next 5 to 10 years. Similarly, fast penetration of smartphone will increase demand for digital services in areas like music & video subscriptions, online games, online advertising, digital health, insurance, peer to peer lending etc. With so many opportunities, we believe this is the right time for global companies to enter Indonesian market. To enter market fast, it is necessary to collaborate with eco-systems. For example, ride hailing apps like GO-JEK and Grab with big user database have created eco-systems like one-stop service app for consumers. Consumers can use the app not only for ride hailing but also for payments, e-Commerce, beauty services, banking etc. A one-service app will be a win-win for both digital businesses and consumers.

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