

## Chapter 9

# Mapping the E-Business Ecosystem in Indonesia: A Comprehensive Analysis

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### ABSTRACT

*Indonesia's e-business sector is one of the fastest growing in the world, with a burgeoning middle-income class population that is very active online and projected to become the third largest economy among the emerging markets by 2050, offering businesses and investors alike with plenty of opportunities going forward. However, the country also faces some of the most perplexing challenges that e-business entities in the market must navigate, from a host of regulatory issues, poor financial literacy and inclusion, unskilled labors, high infrastructure gaps, expensive logistic costs, and so on. Therefore, this chapter will discuss the regulatory basis for e-business in Indonesia, followed by a breakdown and analysis of the industry's landscape and challenges. Finally, the chapter will conclude by discussing the findings of some of the authors' previous case studies on e-business in Indonesia.*

### INTRODUCTION

As a rapidly developing country with the largest economy and population in the Association of Southeast Asian Nations (ASEAN) and the tenth largest market in the world in terms of purchasing power parity (The World Bank, 2019), Indonesia is strategically positioned to lead the region forward in terms of trade and business, especially in the midst of the e-business revolution in a region wherein the internet economy is estimated to be worth USD 240 billion by 2025 (Anandan, Rohit, Saini, Aryasomayajula, & Smittinet, 2018). In fact, according to BusinessWire (2019), Indonesia currently has the highest online retail sales

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volume in ASEAN, which is largely attributable to the rise of mobile commerce with which Indonesians carry out their e-commerce (Export.gov, 2019). This is important since the introduction of e-commerce typically alters the state of the industrial structure and competitiveness for the better (Chang Shia, Chen, Ramdansyah, & Wang, 2015) as well as eradicating the barriers of time and space (Mohammed & Tejay, 2017), resulting in diminished transaction costs since businesses are able to bypass intermediaries and access the international supply chains (Molla & Licker, 2005). By 2023, according to Statista (2019), the number of e-commerce users in Indonesia alone will reach 212.3 million people, which is equivalent to around 75.3 percent penetration rate. Additionally, a recent study by the Institute for Development of Economics and Finance (INDEF) and research institute *Laboratorium Data Persada* projected that Indonesia's digital economy will be worth USD 101 billion by 2024 (Adwani, 2019). Indonesia is also home to some of the world's most active and dynamic startup ecosystems and social media users, with Jakarta being widely regarded as the Twitter capital of the world (Lamb, 2016).

However, the digital Indonesia also has its fair share of challenges, such as: the limited internet coverage and slow connection speed which results in a massive digital divide (Kinda, 2019; Rastogi, 2019; Rumata & Sastrosubroto, 2017); the poor logistics infrastructure which is still lagging behind its regional counterparts, ranking 46<sup>th</sup> globally in 2018 (The World Bank, 2018); the lack of highly competent talents to grow the digital business partly due to the "brain drain" phenomenon wherein a lot of the country's best talents leave the country for a better opportunity abroad (Paterson, 2019); the relatively poor financial inclusion and literacy in the country due to the low bank penetration at just 48 percent, with only 0.07 credit cards per capita, resulting in the low adoption of cashless payment (J.P. Morgan, 2019; Rastogi, 2019); the relatively limited level of e-commerce awareness (Molla & Licker, 2005); the persistent concern with regard to online payments and transactions (Simanjuntak, 2019); among many others.

With this backdrop, this chapter will discuss about the state of e-business ecosystem in Indonesia, especially with regards to the bustling digital economy in the country. The authors will start off the chapter by navigating the regulatory frameworks set up by the government with regard to e-business, understanding the readiness of the industry to serve the growing market demand, as well as discussing about the myriad of challenges and opportunities that lie ahead by incorporating some recent case studies/research on selected e-business companies in the country.

## **THE E-BUSINESS LANDSCAPE IN INDONESIA**

### **Legal Basis**

The state of e-business in Indonesia is governed by several regulatory regimes meant to protect the application of e-business and e-commerce in the country. The original law dealing with the telecommunication sector is the Telecommunication Law No. 36 of 1999, which mainly covered wide-ranging telecommunication issues such as operation, licenses, network provision, among other things. However, it did not cover fundamental aspects of cyberlaws that could be used as a basis for doing commercial activities online. This is a widespread challenge faced by policymakers across the globe to reach the "middle ground" in regulating e-commerce which benefits the people, while taking into account international conventions to manage potential cross-border disagreements (Braga, 2005). In Indonesia, it was not until 2008, when the government issued the Law No. 11 of 2008, that the country finally had an

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