Indonesia

By the middle of 2018, Indonesia's economy was growing at a rate of 5.3% year on year[1]. The Financial Times quotes Capital Economics as warning against expectations of a sustained recovery (after the global recession, Indonesia's growth rates peaked at over 6%[2]), quoting the continued low prices of key commodities, including palm oil.

There were signs at the start of 2018 that increased demand for palm oil might boost exports, helping to drive growth. Alas, it was not to be. Tariffs imposed by India, a major market, saw exports fall by 2% in the first half of the year[3]. Indonesia is the world's largest exporter of palm oil, with the industry accounting for around 2% of GDP[4], so whether a rise in exports is enough to offset low prices will play a big part in determining how much the economy grows over the next year.

Indonesia is the largest economy in South East Asia and the sixteenth biggest economy in the world (its nearest regional competitor is Thailand, with the twenty-fifth biggest economy)[5]. In 2016, Indonesian President Widodo liberalised rules governing foreign investment, making it easier for outsiders to invest in thirty-five previously restricted economic sectors, including e-commerce[6]. By the third quarter of 2018, consumer confidence in Indonesia was falling, dropping from 122 points in September to 119 points in October[7]. Unemployment rose from 5.1% in January 2018 to 5.3% by October[8], still lower than the averages for 2015 and 2016[9]. Retail sales rose in the last period for which data is available (September 2018), up 4.8% on the previous year[10].

Like many industrialising countries, Indonesia has seen its middle class expand rapidly in recent years, encompassing 19.6 million households today, a figure expected to rise treble million by 2030[11]. As its consumer base and economy grow, this populous maritime republic, with its mainly moderate Muslim population and abundance of natural resources will become not only a major regional power but also an important market for foreign investors.

The Indonesian e-commerce market

The Indonesian e-commerce market is worth $11 billion and is growing at an amazing rate of 37.5% a year[12]. A recent report by a German analyst predicted that Indonesia would be the fastest-growing e-commerce market in Southeast Asia between 2018 and 2021, a growth driven by rising connectivity and the expansion of the middle class[13]. By summer 2017, a study by the Better Than Cash Alliance (funded by the UN and the Bill & Melinda Gates Foundation) found that Indonesia's mobile-commerce sector was the world's fastest growing[14]. Already, 46% of all online purchases are made on a mobile device[12]. The most popular purchase category for Indonesian consumers is electrical goods with an 16% market share[12]. Next is clothing, with just under 16%, and then homeware and furniture with 9%[12].

The local payment culture

The most popular way to pay for an online purchase in Indonesia is with card which has a 35% market share[12]. Bank transfers are used in 24% of transactions, e-wallets are used in 14% of transactions and cash in 13%[12]. The remaining 14% of the market is taken up by a range of smaller alternative payment methods (APMs). Looking at the card market: Visa and Mastercard are tied for first place with 45%, American Express has 1% and the remainder is made up of various local schemes[12].

Enabling and limiting factors

49% of Indonesians have a bank account and just 2.4% have a credit card (which rather puts the market share enjoyed by Visa and Mastercard into perspective)[12]. In 2016, the government announced a new National Strategy for Financial Inclusion. Its objective is to achieve a bank-account penetration of 75% by 2019[15]. The strategy seems to be working. According to the World Bank, Indonesia leads the region in increasing financial inclusion, with around half of Indonesians now having a bank account, compared to just 36% a few years ago[16].

Internet penetration sits at 54% and 43% have an Internet capable smartphone[12]. A 2017 report found that Internet usage was growing in Indonesia at a faster rate than anywhere else in the world, by 51% a year[17]. This growth is mainly down to the boom in smartphone usage, with the number of mobile Internet users expected to rise from 55 million in 2015 to 92 million in 2019[18].

Indonesia is ranked 46 out of 160 countries on the World Bank's Global Logistical Performance Index[19]. A country composed of 17,400 islands and with a land area almost as large as that of continental Europe, shipping is always likely to present a challenge outside of major metropolitan centres. Other potential limiting factors include both domestic and political challenges. In January 2018, Indonesia's finance minister expressed concern that President Trump's 'America First' policy might see the US impose import tariffs that could hurt the Indonesian economy. Indonesia runs a trade surplus of $13.3 billion with the US[20]. Internally, the rise of the right-wing religious movement raises concerns of destabilising and the deterioration of the current pro-business climate[21].

Conclusion

Indonesia is an extremely exciting market. Its economy is growing and its digital and e-commerce sectors booming, albeit from a modest start. However, to succeed newcomers will need to localise, and they will need to have an offering that is adapted to the preferences not just of Indonesians generically but to the specific local cultures. And they'll need to offer alternative, particularly cash-based, payment methods.

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