

Indonesia digital economy: Growth and opportunities 2023

Indonesia has dramatically influenced Southeast Asia's (SEA) digital economy. Being the largest economy in SEA, the country's digital industry has skyrocketed from US\$ 41 billion in 2019 to US\$ 77 billion in 2022. Moreover, e-commerce looks to further increase growth up to US\$ 130 billion by 2025.

Its digital economy also recorded the largest GMV (Gross Merchandise Value) among its SEA counterparts and is 4x bigger than Singapore's, a key digital economy. And as more users and digital natives come online, Indonesia is on track for a higher growth trajectory and is far from hitting its plateau.

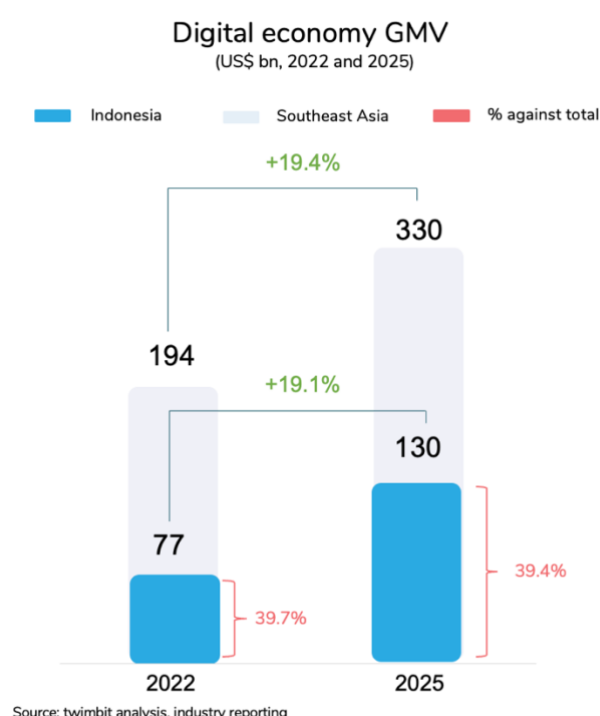


Figure 1: SEA vs. Indonesia digital economy

Another highlight of the SEA superstar is how DKI Jakarta has ranked first in the digital competitiveness index for three consecutive years. This success is made possible by achieving immense growth in the pillars of:

- Digital utilization awareness for entrepreneurship and productivity
- Information, Communication and Technology (ICT) expenditure supported by the wage increase in the digital economy sectors
- Human Resources and Digital Literacy
- Digital Infrastructure, Finance, and Government regulations that support even distribution of digital competitiveness between provinces.

IT penetration in Indonesia

As of 2021, the internet penetration in Indonesia stood at around 70%. This makes Indonesia ripe for digital transformation. Several favourable circumstances have contributed to the tremendous expansion of Indonesia's digital economy. Firstly, a substantial young population that is digital savvy has been significant. Secondly, the relatively high mobile penetration facilitates the frequent use of e-commerce and social media sites to buy and sell products and services. Thirdly, the growing Indonesian middle class. Finally, the government has introduced supportive policies to boost the digital economy, accompanied by improvements in the digital infrastructure which led to significant increase in number of internet users.

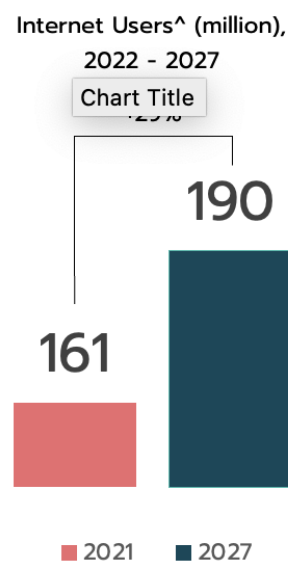


Figure 2: Internet users in Indonesia

^ Internet users aged 15 and above

Source: Statistik Telekomunikas 2022i, APJII, Statistik Karakteristik Usahah 20201, twimbit analysis

In addition to a massive number of Internet users, Indonesia has a substantial percentage of smartphone users.

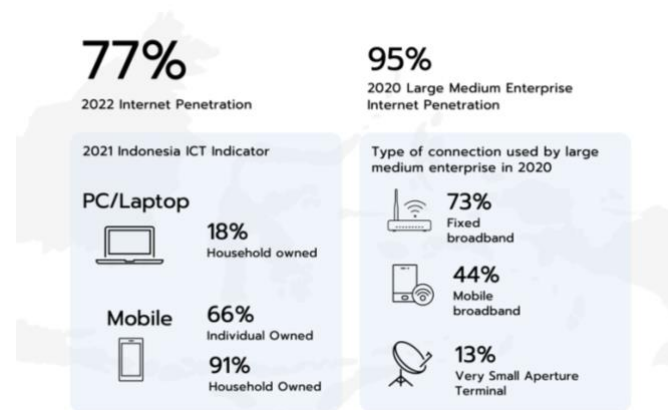


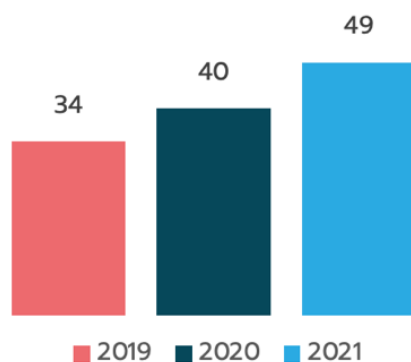
Figure 3: IT penetration in Indonesia

Key drivers in elevating Indonesia's digital economy key drivers

A. Government-led initiative to increase network accessibility in rural areas

1. Indonesia aims to expand internet connectivity for rural communities.
2. Physical transportation and the development of higher-level network infrastructure in rural areas will result in greater accessibility.
3. Spending power from rural has also increased, which indicates a huge potential in driving the digital economy.
4. Social media has served as a springboard for rural communities to become more fluent in digital services through advocacy and information sharing.

Internet Penetration by Rural Areas (%)



Average Monthly Expenditure by Rural Areas (thousand rupiah)

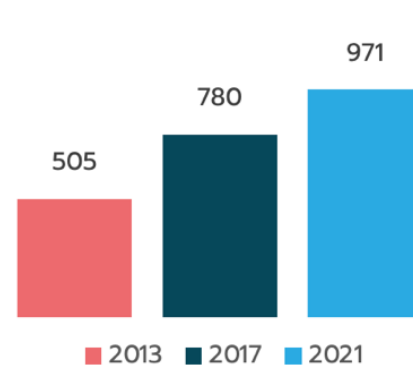
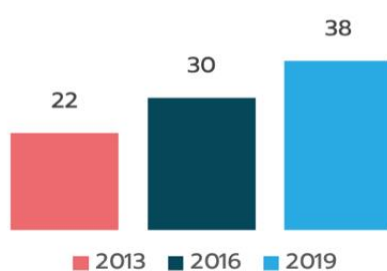


Figure 4: Internet penetration in rural areas and average monthly expenditure by rural areas
Source: Statistik Telekomunikasi 2021, Statistik Indonesia 2022, National Financial Literacy and Inclusion Report 2019

B. The middle class will determine the state of Indonesia's digital economy

1. The rise of middle class income group which has also become more financially literate over the years, creating more demand in wealth management such as investment, insurance etc.
2. Total individual outstanding savings of \$150 billion could stimulate the capital market and further grow the economy with fintechs as the key enabler.

Financial Literacy Index (%)



Middle Class Income by Population (million)

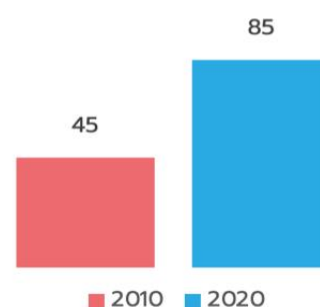


Figure 5: Percentage of financial literacy index and rise in middle income class population in Indonesia
 Source: Statistik Telekomunikasi 2021, Statistik Indonesia 2022, National Financial Literacy and Inclusion Report 2019

C. Educational institutions embed ICT to cultivate a digital culture

1. Nearly 1 million higher education graduates join the workforce annually.

Tertiary Education Graduates (thousand)

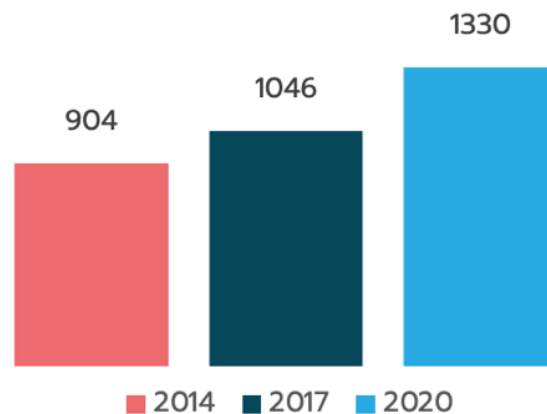
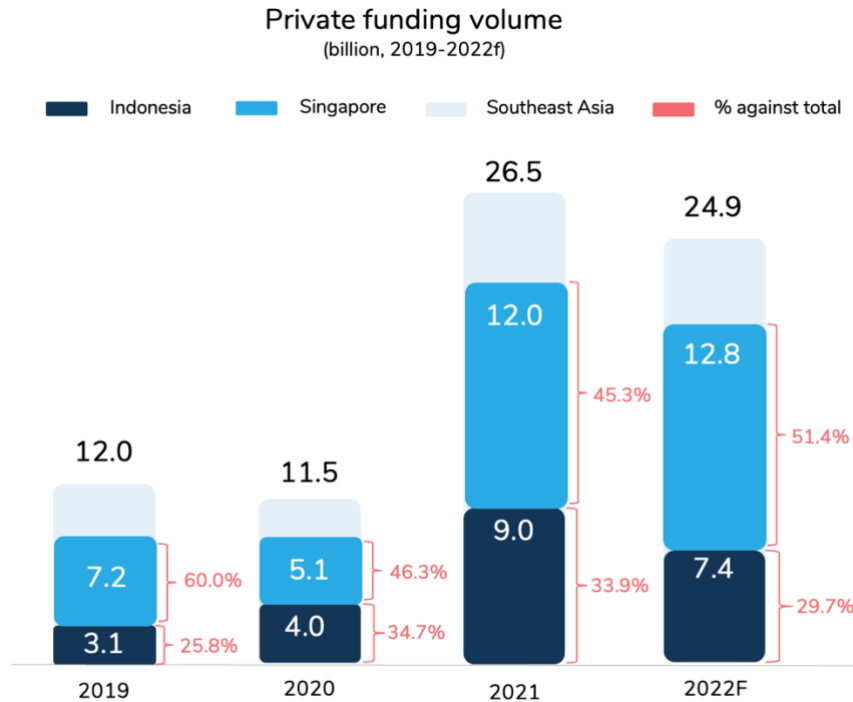


Figure 6: Rise in higher education graduates in Indonesia
 Source: Statistik Telekomunikasi 2021, Statistik Indonesia 2022, National Financial Literacy and Inclusion Report 2019

The high potential to grow continues to keep many invested in Indonesia's future despite the lows

From 2019 to 2022, Singapore has continued to lead ahead of Indonesia in private funding. This is because Indonesia's interest rate increase and stagnant economy have led the country to be more conservative in its investments. As a result, some investors have begun moving their investments away in favour of financial sustainability.

Fortunately, most investors continue to remain excited about Indonesia's future as the leading digital economy because of its dynamic technology, start-up ecosystem and favourable geographical factors. Most notably, investors have begun to invest more in the emerging digital natives of Indonesia.

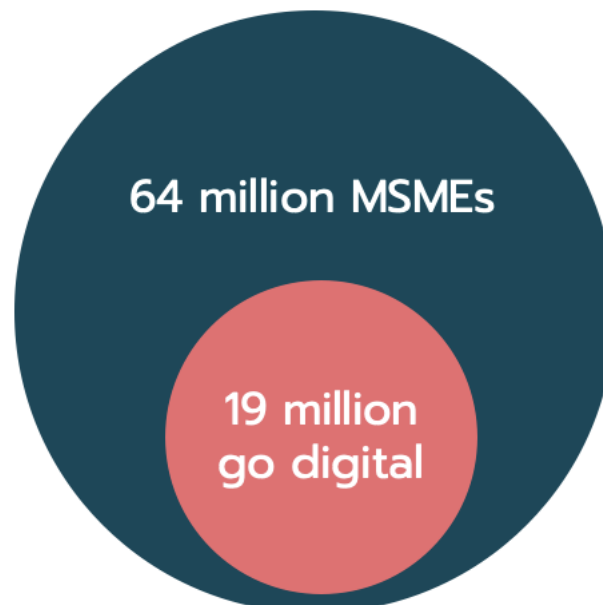


Source: twimbit analysis, industry reporting

Figure 7: Comparison of private funding volume in Indonesia, Singapore and SEA

Empowering MSMEs in Indonesia to go digital

Today, there are at least 90 million online shoppers in Indonesia. The downside – only 30%(19 million) of MSMEs in Indonesia have gone digital. Digitalization is essential to reduce imports, arguably one of the most important pillars of the country's economy. This explains why Indonesia has been hard at work to onboard MSMEs in the following areas:



1. Embedding MSMEs in online marketplaces as it allows them to connect to mass online shoppers.
2. Ensuring MSMEs are versed in digital payments since almost 60% of e-commerce transactions happen online.
3. Educating MSMEs on operational digital tools for finance, accounting, or payroll to help improve efficiency and extend business continuity.

Still, many MSMEs cannot go digital because of their limited capital to expand a business online and a lack of digital literacy.

To address this issue, Indonesia needs to equip MSMEs with sufficient tools and devices, adequate labour and ensure they're clear about the procedures and processes of digitalization.

6 strategies for Indonesia to soar as the largest digital economy

While the country's regulatory system continues to catch up, the digital economy continues to grow and innovate. As a result, more digital platforms will be available to consumers offering various integrated services, with expectations that Indonesia's digital economy will contribute 14% of its GDP by 2027.

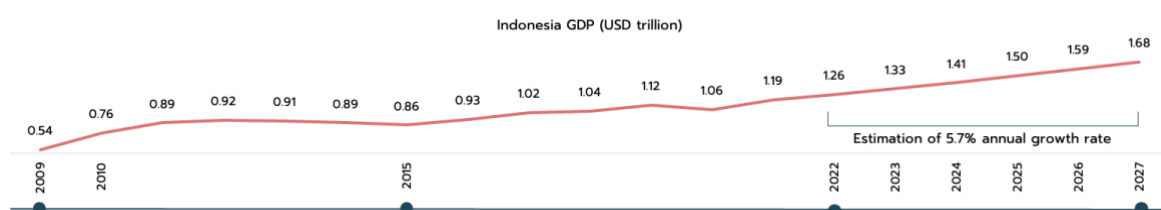


Figure 8: Expected rise in Indonesia's GDP over the next years

Source: World Bank, Kementerian PPN Visi Indonesia 2045, twimbit analysis

A well-executed '*Visi Indonesia 2045*' and digital technology could also help Indonesia achieve high-income status by 2036. And there are 6 strategic areas Indonesia can focus on to get a headstart:

1. Develop a secure and reliable digital infrastructure and connectivity with high-quality services
2. Increase digital capabilities in priority sectors to increase geostrategic competitiveness and promote inclusive growth
3. Transform Indonesia from a consumer to a technology producer through investment in data centres, cloud infrastructure, and national digital identities

4. Build open and integrated digital government institutions to improve public services
5. Harmonise regulations and increase funding to advance innovation
6. Cultivate a digital culture in Indonesia

As the digital economy grows, it will be exciting to see how businesses evolve, adapt and incorporate accessible digital technologies into their daily activities.