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Digitalization, SMEs, and GVC in Indonesia: a short intro

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SMEs in Indonesia

- Indonesian SMEs is larger than SEA average and employs most of Indonesian workforce.
- Any improvement to SMEs will improve the majority of Indonesian.
- Can internationalization of SMEs via GVC-participation helps? What is the role of technology?

Statistics	Indonesia (2010-2019)	Southeast Asia Average (2010-2021)
Share to total GDP	59.2%	40.5%
Share of Bank lending to total GDP	6.8%	14.1%
Non-Performing Loan (NPL)	3.7%	4.2%
Share of employment	97.1%	67.0%
Share of export	15.3%	19.2%

Source: ADB Asia SME Monitor Database

GVC definition

“A global value chain or GVC consists of a **series of stages** involved in **producing a product or service** that is sold to consumers, with each stage adding value, and with **at least two stages being produced in different countries**. A firm participates in a GVC if it produces **at least one stage in a GVC**”

- Antras (2020)



Leather

- China
- Vietnam

Synthetic leather

- China
- Taiwan

Manufacturing

- China
- Vietnam
- **Indonesia**
- Thailand



Cotton

- China
- India
- Turkey
- USA

Rubber

- Thailand
- **Indonesia**
- Malaysia

EVA Foam

- China

Polyester

- China
- India

What GVC allows:

- Country with no know-how & capital can participate in the production of complex goods.
 - Aside from shoes, think of electronics and other design-intensive goods.
 - Generate jobs for work previously was not possible.
- Economies of scale without getting bigger.
 - Small firms do not need an R&D department or marketing.
 - can focus on manufacturing.
- (Some) Firms able to learn and move up the value chain.
 - Nike suppliers can also manufacture other design, including their own.
 - There are some evidence of 'learning by doing' (Pane & Patunru, 2021).

Digitalization and GVC

- The use of ICT is important for joining the GVC.
 - Faster, richer communication with buyers, suppliers, and governments (think of e-mail, e-invoicing, CAD-CAM files, INSW).
- Gopalan, Reddy & Sasidharan (2022) on emerging markets:
 - Having website & high-speed internet is associated with 6-10% chance of joining GVC.
 - Firms with credit constraint has better chance of joining GVC with digitalization.
- Falentina, Resosudarmo, Darmawan & Sulistyningrum (2021) on SMEs in Yogyakarta:
 - Internet use increases revenue per worker by about 58%.
 - and increases profit per worker by about 34%.
 - Increase share of exported outputs.
 - Social media acts as a pseudo-website/portfolio.



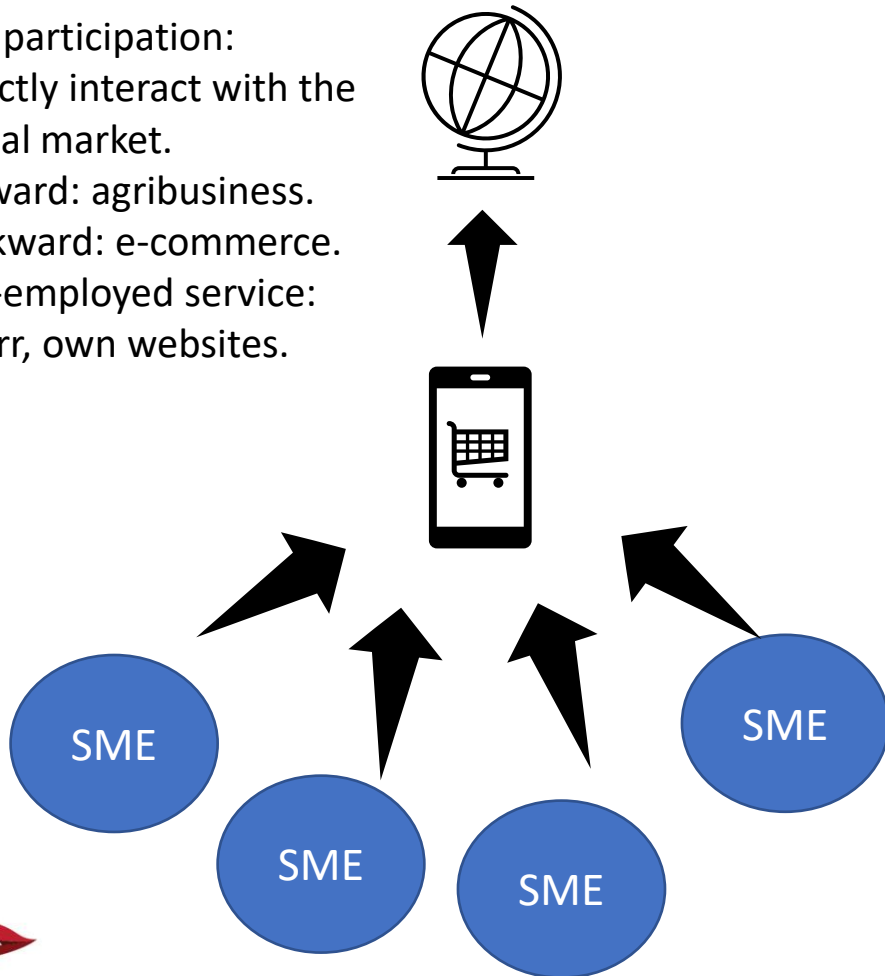
Challenges for SMEs

- Joining GVC often associated with larger, more productive firms (World Bank, 2020).
- Informality remains the top challenge, often comes with low productivity, detection avoidance (e.g., tax, minimum wage, docs), and corruption (Cusolito, Safadi & Taglioni, 2017).
- Other often cited problems with SMEs:
 - Lack specialized workforces.
 - Lack of business network.
 - Financially constrained.
 - Inconsistent production.

SME and GVC: 2 models

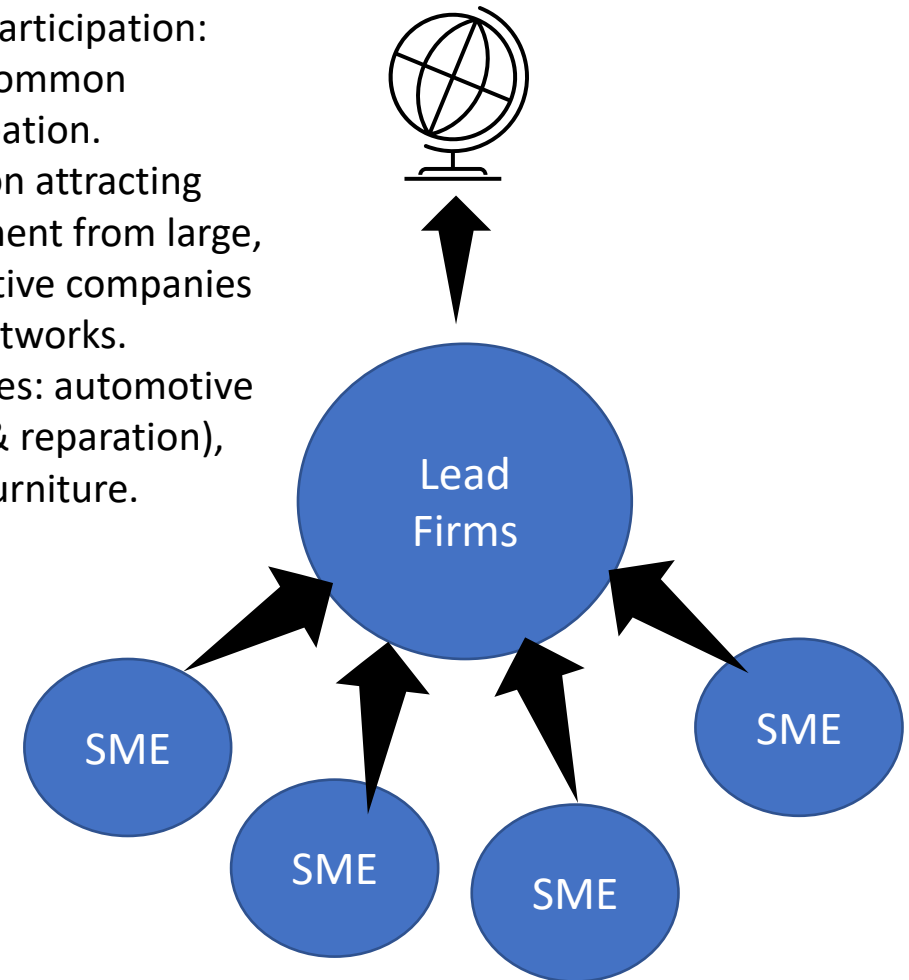
Direct participation:

- Directly interact with the global market.
- Forward: agribusiness.
- Backward: e-commerce.
- Self-employed service: Fiverr, own websites.



Indirect participation:

- More common participation.
- Relies on attracting investment from large, productive companies with networks.
- Examples: automotive (parts & reparation), dairy, furniture.



4 Lessons:

- Invite leaders (MNEs in particular) with good partnership programs:
 - Leader pools large number of SMEs to tackle inconsistency problem.
 - Leader spills know-how and networks.
- Provide incentives to go formal & grow bigger.
 - How SMEs after the omnibus law?
- Broaden internet access more generally.
 - Complement with better edu&training material, make them open source & updated (especially on government regulations).
- Improve financing & financial education.

SMEs is so large, improving people in general will benefit SMEs

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Thank You

Jalan Terogong Raya No. 6B
Cilandak, Jakarta Selatan 12430, Indonesia
Tel: +62 21 2276 9233
www.cips-indonesia.org