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Digital economy, cross-border trade and taxation

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Cross-border trade is an important consequence of the growing digital economy. Indonesia, like other countries, has been impacted by this growth, as seen in the high cross-border trade activity. A new government regulation on import duties and import-related tax within online cross-border trade became effective on Feb.1.

The new finance ministerial regulation cuts the maximum value of duty-exempt imported goods ordered online to US$3 per delivery note from $75, thereby making it one of the most restrictive measures on online cross border trade. But considering the potential increase in online imports of consumer goods, such a restriction is necessary to reduce imports and protect the domestic industry.

For import-related tax, while VAT is now imposed on imported goods of any value, while the income tax is not applicable anymore. Also, to increase literacy and support education, educational textbooks are exempt from duty and import taxes.

The new regulation will increase the end-price of shoes.

Indonesia’s e-commerce market size is forecast going to be the biggest at $53 billion (41 percent growth for 2015-2025) based on Google-Temasek e-economy SEA 2018. This will account for 52 percent of the Southeast Asian e-commerce market in 2025. This is due to the fact that the Indonesian market has become very online and mobile-based with 47 percent of the total population (265 million) using smartphones with internet time of almost four hours a day.

Based on an Asian Development Bank study in 2019, Indonesia will record a growth gain of 0.53 percentage points above the normal growth level in 2020-2030 due to Industry 4.0 adoption. E-commerce, in particular, is expected to have a positive impact on the economy as it could increase a company's sales and profit – irrespective of the size of the firm. The ADB study shows firms that use online commerce have 12.8 percent higher sales growth than conventional firms.

The fast e-commerce growth in the world has affected Indonesia, such as its consumer behavior. For instance, Indonesia recorded a very high growth of small-value goods import (ordered online) as evidenced by an increasing number of consignment notes from about 849 percent to 57.9 million documents in 2019 while in value terms, they grew by 132 percent to $673 million in 2019, which was actually only 0.3 percent of Indonesia's total imports.

Aside from the fact that the imported goods are relatively cheaper than local goods, this high growth also reflected different taxation treatment between imported and local goods as well as indication of tax avoidance as evidenced by the decreasing import value of one delivery unit from $47.54 in 2017 to $13.8 or a decline of almost 80 percent in two years.

If not managed, this behavior will continue and affect our local distributors of similar goods. As most of these items are consumer goods such as bags, shoes and garments, one should look at the impact of these particular goods imports on the domestic manufacturing industry, and consequently on employment creation and GDP growth.

Based on the Input-Output Table by Statistics Indonesia (BPS), the output multiplier of leather bags, shoes and garment are 1.78, 1.65 and 1.7, while the employment multiplier for garment and leather goods are 1.54 and 1.31, respectively. That means every increase of Rp 1 billion in the investment of the goods could add Rp 1.78 billion, 1.65 billion and 1.7 billion, respectively, to Indonesian GDP. For the employment multiplier, it means every 1 billion rupiah increase in investment in garment and leather goods contributed to the employment of about 1,540 and 1,311 people.

Hopefully then, the new restrictive regulation on the online imports of consumer goods will stimulate the growth of local small and medium enterprises, which are eventually expected to become competitive internationally.

At the multilateral level, the G20 for example, placed the taxation of digital economy as one of its main concerns, while the OECD has also strengthened international cooperation on this issue. One of the principles the OECD promotes is to ensure a level playing field and discourage double taxation as well as regulatory uncertainty – which Indonesia should follow.

But the tax regulation on online cross border transactions needs to be continuously evaluated. Based on a study by ECIPE, Indonesia is the fourth-most restrictive country in term of fiscal policy based on the Digital Restrictiveness Index for digital trade.

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