

Small Enterprise, Big World: Online presence and Export Performance in Indonesia

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Motivation

A World Bank study¹ indicates that, Small and Medium-sized Enterprises (SMEs) on average are responsible for over 66 percent of permanent full-time employment and 86 percent of new jobs created. According to WTO², despite the fact that more than 90 percent of all firms were SMEs, SMEs accounted for only 34 percent of exports on average in developed economies in 2016. SMEs have historically had much lower rates of participation in international trade than large firms, due to barriers and lack of resources. However, the current development of technology has provided an opportunity for SMEs through the internet. The growing global reach of the Internet provides new opportunities for businesses to engage in international trade and has created new business models that bring users and information together. Online presence provides businesses opportunities to not only sell products abroad but use the Internet to advertise globally, avoiding the need to establish a physical presence in the country of export, something that requires considerable capital and is often not an option for SMEs. So it can be argued that enhancing the online presence of SMEs will likely bring significant impact on economic growth and job creation.

Problem Statement

The main goal of this paper is to assess the association of online presence of Micro-Small Enterprises (MSEs) of Indonesia to their participation in international trade. Our study contributes to the literature by analyzing the growing Indonesian market and focusing on micro and small enterprises that are still adapting to the internet. We want to learn whether using the internet helps MSEs to increase their participation in the international market, taking into account that they are the most affected by barriers such as access to information,

¹Ayyagari, M., Demirgüç-Kunt, A., & Maksimovic, V. (2011). *Small vs. young firms across the world: contribution to employment, job creation, and growth*. World Bank Policy Research Working Paper, (5631).

²Secretariat, W. T. O. (2016). *World trade report 2016: Levelling the trading field for SMEs*. WTO, Geneva.

new markets, and lack of financing. Thus, if there exists a significant barrier that can be overcome by the internet in the context of small Indonesian businesses, we can expect to find an association between online presence and export level, *ceteris paribus*.

Data Source

Our study utilizes the Indonesian 2019 Manufacturing Micro-Small Enterprise Survey. The data has been collected by Statistics Indonesia annually since 2011 which provides nationally representative statistics. The survey is conducted to collect information on the development and growth of the micro-small manufacturing enterprises which is an indicator and material for industrial sector policies. The survey is limited to micro and small enterprises which are defined as enterprises with 1 to 19 workers (including the owner) that are in the manufacturing sector. The sample size is 90,295 enterprises. The sample is collected using a stratified random sampling based on the enterprises' scale (micro and small) and sector which is based on the 2015 Indonesian Standard Industrial Classification (24 sectors) based on the Indonesia 2016 Economic Census. The survey collects data on the enterprises' business conducts (production value, distribution of production, number of workers, beginning year of enterprise operation), enterprise ownership characteristics, credits, hardships faced by the enterprises, and certification.