

MIDDLE ECONOMIC GROWTH TOWARDS TO DEVELOPMENT OF E-COMMERCE IN SOUTHEAST ASIA

Ika Sri Hastuti¹, Asep Kusdiman Jauhari²

¹International Relations, Pasundan University, Bandung,
West Java, Indonesia
ika.srihastuti@unpas.ac.id

²Public Administration, Pasundan University, Bandung,
West Java, Indonesia
HAK.Jauhari@yahoo.co.id

Abstract

The rapid development of information and communication technology has resulted in the emergence of a new economy marked by the phenomenon of internet-based business or e-commerce. The economic growth of the middle class of Southeast Asian people in the digital economy era is moving towards a non-cash transaction system and changing the lifestyle of people who depend on the internet for traveling, shopping and doing business online as well as creating new phenomena for the growth of the e-commerce industry or electronic commerce is attractive and growing rapidly. What is interesting is how the influence of middle class economic growth on the development of e-commerce in Southeast Asia. The method used in conducting this research is descriptive qualitative which aims to describe the phenomenon of the growth of the middle class in the development of e-commerce in Southeast Asia systematically for research and problem solving. The estimation results of this study are that with the increasing number of middle class people who use technology for business activities in the network, the development of e-commerce in ASEAN is marked by the use of electronic payment methods or cashless payments where business transaction processes become more efficient and stimulate economic growth. The emergence of new startups. The challenge for the use of e-commerce is readiness in overcoming problems related to ICT such as cyber security, internet networks and adequate ICT infrastructure. Every country in Southeast Asia has advantages and limitations in the use of e-commerce but digital globalization forces countries in Southeast Asia that are experiencing an economic growth to be prepared to build e-commerce infrastructure, especially for MSMEs by utilizing e-commerce to open new markets that are more and the government must prepare infrastructure and regulations that support entrepreneurs to compete in the current e-commerce era.

Keywords: E-Commerce, Middle Economy, ICT

1. Introduction

In 2012 there were approximately 190 million people in Southeast Asia who could be defined as middle class people with disposable income of \$ 16- \$ 100 per day. More money means more homes, cars, technology, education and a greater need for financial services. It also means that this new consumer class is migrating to more developed and opportunity-rich urban areas. There is also the economic growth of the middle class of society in the era of the

Digital Economy by moving on to using the cashless transaction system and changing the lifestyle of people who depend on the internet for traveling, shopping, and online business (both sellers and buyers meet through internet media). The New Economic Era is present on the emergence of the development of ICT (information, communications, and technology) and globalization which causes the level of productivity and economic growth of both companies and countries to increase. The growing economy is

increasingly globalized and digitalized, which encourages businesses to change their competitive strategies, marketing techniques, and business models. In the digital economy era, e-commerce must be utilized and empowered as an instrument of economic growth. Differences in the attitudes of ASEAN countries in addressing regional e-commerce barriers, it is necessary to form several regulations regarding the implementation of cross-border e-commerce transactions. Through e-commerce, small companies can provide flexibility in production, enable faster and more efficient shipping processes, and support fast paperless transactions (Ashariyadi, 2016).

E-commerce trends in the markets of Southeast Asian countries show that e-commerce is at a different stage in each country, with a different set of opportunities and challenges. Logistics remains a major hurdle to face in Indonesia and the Philippines, while Singapore, which has no such infrastructure constraints, still has a relatively low online retail adoption rate due to the ease of accessing traditional retailers. (Wu & Hui, 2015) Then in Malaysia it is a matter of cyber security and consumer preference for physically checking goods, and internet retailers in Thailand remain fragmented with many small online retailers. The potential threat from online sales is still low in Malaysia, Indonesia and Thailand, but there is a lot of potential for retailers to use online as an additional channel to increase sales.

The development of e-commerce is represented by the development of the value of e-commerce transactions, the development of the number of business sites, and the number of internet users that have a positive effect on Indonesia's economic growth using the Auto-Regressive Distributed Lag (ARDL) approach. (Dianari, 2017)

A large middle class economy is believed to be able to promote development, because first, the middle class provides entrepreneurship that creates employment and productivity growth in society. Second, middle class values, namely the accumulated value of human capital and savings are very important for economic growth. Third, the middle class drives demand for high quality

consumer goods with an increasing scale of production. (Nizar, 2015)

The development of e-commerce in the Southeast Asian region is still underdeveloped accounting for less than one percent of total retail sales compared to levels of six to eight percent in Europe, China and the United States. In the coming years as purchasing power increases, internet penetration spreads and online offerings improve, online retail in the ASEAN market could grow by as much as 25% per year. (AT Kearney, 2015)

The view of class division in society then develops in various countries depending on the emphasis on political, economic, social, or cultural criteria so that middle class groups emerge. This middle class trend started from developed countries in Europe and America and then moved to the eastern region, including Southeast Asia. (Ningrum et al., 2014) According to Geoff Gertz, who defines the middle class as residents with daily expenses between \$ 10 to \$ 100 per person in purchasing power parity terms. (Kharas, 2015). In line with this definition, there are changes in the lifestyle of the consumptive community in using the cashless transaction system in buying and selling by involving technological advances and networks or what is known as electronic trading.

The digital economy refers to digital access to goods and services, and the use of digital technology to help businesses. Where is the stage of production, distribution, marketing, sales or delivery of goods and services by electronic means. In line with the definition of e-commerce transactions according to the Organization for Economic Cooperation and Development (OECD) that: "The sale or purchase of goods or services is carried out through a computer network with a method specifically designed for the purpose of receiving or placing orders" (OECD, 2002a).

International trade has many advantages because the reach of the market and trading area will be wider so that it will increase the income of traders. There are two main data items used in the concept of international trade which are: "imports and exports. Imports of goods measure the value of goods entering a country's domestic territory

regardless of their final destination. Exports of goods also measure the value of goods leaving the domestic territory of a country, regardless of whether they have been processed domestically or not. Imports (and exports) of services reflect the value of services provided to residents of other countries.(OECD, 2002b)

2. Method

This research uses the Neoliberalism paradigm. The logic of neoliberalism is a market mechanism needed to create efficiency and effectiveness. In the implementation of the market mechanism, regulations are needed that support the existence of the market mechanism in the market system itself. So it is necessary to have an institutional framework where there is a set of rules that are managed through an organization to ensure that a perfect free market can be implemented and free from distortion by the state. The word neo in neoliberalism actually refers to the revival of the old form of economic liberalism which was triggered by Adam Smith's landmark work "The Wealth of Nations" in 1776. Adam Smith uses the theory of the "invisible hand" according to him. will organize and organize all economic relations and life and also encourage every individual to seek the maximum economic benefits. (Khudori, 2004)

While the use of descriptive analysis method aims to describe, analyze, and clarify symptoms based on observations from the study in a systematic, factual manner, regarding the facts and nature and the relationship between the phenomena being investigated. In other words, it focuses more on problems as they are when the research is carried out, the results of the research are then processed and analyzed to draw conclusions so that they can be understood.

The data collection technique used by researchers was obtained through literature study. Tracing data sourced from written materials, whether books, information based on literature review or good references from articles, newspapers, scientific journals, and online research pages on the internet. The data analysis technique uses triangulation of data to correlate empirical data, review literature to obtain analysis results from the

increase in economic growth affecting the use of e-commerce in Southeast Asia.

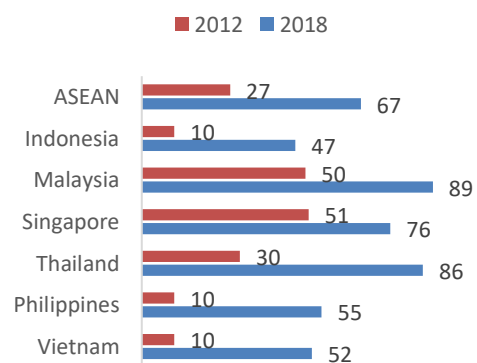
3. Result and Discussion

Middle Class Growth in Southeast Asia

Middle class is the term socio-economic class between the working class and the upper class. Usually the middle class includes professionals, skilled workers, and lower and middle management. The overall population of ASEAN countries is also not only large, but also young with less than 60% of the group under 35 years of age. The working population, between the ages of 15 and 64, accounts for 65% and that proportion continues to be low. (Lee, 2016)

These large demographic developments have important implications for productivity and potential growth. Most ASEAN countries are in the process of gaining a "demographic dividend", as younger working populations become dominant. Such demographics offer a competitive supply of labor, while a low dependency ratio implies that more resources will be available for consumption and investment, providing a boost to economic growth.(Lee, 2016)

Middle Class Growth of ASEAN Countries in Per Cent (2012-2018)



Sources: *The Hong Kong and Shanghai Banking Corporation, Asian Development Bank, Euromonitor, and the Central Provident Fund*

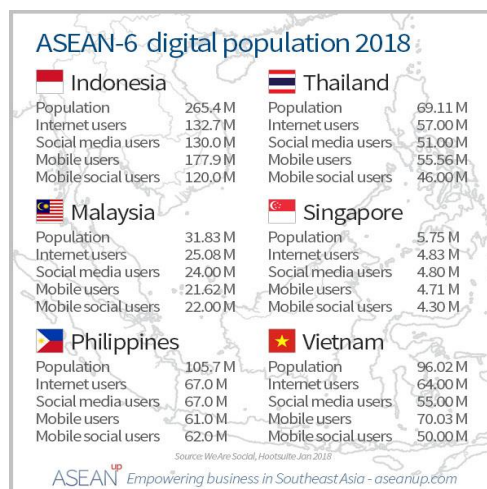
The above shows the growth table for the middle class in several ASEAN countries where there is a significant increase in the middle class population that occurred in almost the six ASEAN countries. This growth is the capital for increasing the competitiveness of the e-commerce market

for both startups and consumers in the Southeast Asia region.

During its development, the payment system, which is one of the pillars of support for financial system stability, has developed rapidly in line with technological developments. On the other hand, technological developments have also stimulated the development of payment instruments from cash based to non-cash based. Furthermore, this non cash based instrument has become so sophisticated that it is no longer paper based but has evolved into a paperless form. Of course, paperless payment instruments require high technology infrastructure and also a legal regime that is different from paper-based payment instruments.

Development of E-Commerce in Southeast Asia

With the third largest population in the world and relatively low but growing Internet connectivity, Southeast Asia is a new market for e-commerce. Still in its infancy, the ASEAN e-commerce market presents many growth opportunities for businesses. Southeast Asia is currently a very attractive market for companies involved globally in the e-commerce sector and smaller local players. In terms of internet and mobile penetration, Southeast Asian (Fanzyl, 2016) populations are rapidly adjusting their behavior to take advantage of the new opportunities available to purchase products and services online.



commerce in several ASEAN countries above which has also experienced a significant increase in the development of e-

commerce in the Southeast Asia region. This is influenced by the high demand and trend towards buying and selling transactions as well as internet / web-based electronic payment systems which have become a new lifestyle for the middle class in Southeast Asia. E-commerce in Southeast Asia seems to follow the same pattern even though it seems overlapping because everything happens simultaneously in a short time. Even so, currently B2C (Business to Consumers is e-businesses in direct services to consumers through goods or services) still controls or dominates the world of e-commerce in Southeast Asia, especially B2C which sells third party brands. The e-commerce pattern in Southeast Asia will evolve into Brand.com. Basically, Brand.com is not much different from B2C marketplaces like Lazada or Zalora, it's just that Brand.com is an independent brand site like Estee Lauder and Burberry. (Zaky et al., 2018)

With 600 million people, a growing middle class and increasing internet penetration, Southeast Asia is often seen as the next goldfield for e-commerce. The size of the ASEAN B2C e-commerce market is small but fast growing, with CAGR (Compound Annual Growth Rate) is a business and investment concept that smooth the annual growth of investment or business in a period. The simple concept of CAGR is to view growth year after year at a smooth pace, thus ignoring volatility or changes in growth. Of the Southeast Asian countries (Singapore, Malaysia, Thailand, Indonesia, Thailand and Vietnam) it is projected at 37.6% from 2013 to 2018, growing from \$ 7 billion to \$ 34.5 billion. Singapore and Malaysia generate nearly half of the total online retail sales in the region, even though they account for 8% of the region's population. (Nguyen, 2017)

Middle Class Economic Growth Influences the Development of E-Commerce in Southeast Asia

E-commerce is emerging as a new way to help business firms compete in markets that contribute to economic growth by increasing business opportunities and increasing competitiveness and better market access. The relatively young population of Southeast Asia and better access to the internet on mobile devices can drive the growth of social

commerce. According to a 2017 study by Hootsuite and We Are Social, around 47% (306 million) people in Southeast Asia are active social media users. Of these, 42% (273 million) access social media networks via mobile devices.

Seven Southeast Asian countries have social media penetration rates that are higher than the global average of 37%, namely Brunei Darussalam, Singapore, Malaysia, Thailand, Philippines, Vietnam and Indonesia. In fact, the growth in the number of active social media users in these countries between January 2016 and January 2017 was above 20%. Indonesia (39%), Philippines (32%), and Vietnam (41%) were among the top ten countries with the highest growth of mobile social media users during the same period. (Nguyen, 2017)

By engaging customers online directly and making business communications more direct, social media can help build consumer trust in the online transaction process and partly address the lack of security and trust around online payments and shipping. Low levels of financial account ownership and credit / debit card penetration in Southeast Asian countries remain major challenges. Currently, e-commerce is still largely held by local players. Ultimately, for social media to drive more e-commerce across borders, Southeast Asia must significantly expand consumer access to advanced payment systems operating in several countries, and develop strong logistics networks.

4. Conclusion

It can be concluded that the growth of the middle class in the Southeast Asian region can have a positive effect on the development of e-commerce in ASEAN by utilizing technological and information advances in the digital economy era as follows: The economic growth of ASEAN has made countries in the Southeast Asian region move up the ranks of the middle class, which is indicated by an increase in per capita income between 4% and 7%. Increasing the use of internet and mobile phone technology that supports digital trade by utilizing internet technology for marketing. This has an impact on the growth of e-commerce in Southeast Asia, both as a consumer and as a business. The growth of e-commerce in Asia provides

significant market opportunities in addition to potential markets because the population, which is mostly dominated by millennials, also opens opportunities for small and medium enterprises to expand domestic markets to Asian markets through e-commerce. Key policy recommendations for Southeast Asian countries that wish to capitalize on social media and the volume potential of the middle class for e-commerce, namely increasing market access by removing digital trade barriers, introducing legal, regulatory and institutional reforms to accommodate e-business, facilitating access and connectivity, and enable e-payment, foster an enabling environment for digital businesses through investment, especially in local networks / ecosystems and improve the availability and quality of cross-border connectivity infrastructure.

5. References

- Ashariyadi. (2016). Geliat UMKM di Era MEA. In *Masyarakat Asean*. [https://www.kemlu.go.id/Majalah/Majalah Masyarakat ASEAN edisi 12.pdf](https://www.kemlu.go.id/Majalah/Majalah%20Masyarakat%20ASEAN%20edisi%2012.pdf)
- AT Kearney. (2015). *Lifting the Barriers to E-Commerce in ASEAN*. 1–23. <http://tinyurl.com/nf7uhw2>
- Dianari, R. G. F. (2017). the Impact of E-Commerce on Indonesia ' S Economic Growth. *Universitas Katolik Parahyangan Fakultas Ekonomi Program Studi Sarjana Ekonomi Pembangunan*, 211.
- Fanzyl, A. (2016). *Overview of e-commerce in Southeast Asia*. <https://aseanup.com/overview-of-e-commerce-in-southeast-asia/>
- Kharas, H. (2015). The Emerging Middle Class in Developing Country. *OECD Developing Center*, 02(03), 131–133. <https://doi.org/10.32677/ijch.2015.v02.i03.009>
- Khudori. (2004). *Neoliberalisme Menumpas Petani* (Pertama). Resist Book.
- Lee, K. (2016). *Modern Consumerism in ASEAN: An Overview*. <https://hkmb.hktdc.com/en/1X0A76ZJ>
- Nguyen, Q. (2017). Cross-border B2C e-commerce in Southeast Asia: Key trends and solutions. *Fast Forward Advisor*. <https://medium.com/fast-forward-advisors-blog/cross-border-b2c-e-commerce-in-southeast-asia->

key-trends-and-solutions-
bcf34cdae939

Ningrum, V., Adhi, I., Putri, P., & Ekaputri, A. D. (2014). Penduduk Muda Kelas Menengah , Gaya Hidup , dan Keterlibatan Politik : Studi Empiris Perkotaan di Jabodetabek (Young Middle Class Population , Lifestyle and Political Participation : Em ... Peningkatan Penduduk Usia Muda dan Kelas Menengah. *Jurnal Kependudukan Indonesia*, 9(2), 97–107.

https://www.researchgate.net/publication/289970139_Penduduk_Muda_Kelas_Menengah_Gaya_Hidup_dan_Keterlibatan_Politik_Studi_Empiris_Perkotaan_di_Jabodetabek_Young_Middle_Class_Population_Lifestyle_and_Political_Participation_Empirical_Evidence_from_urba

Nizar, M. A. (2015). Kelas Menengah (Middle Class) Dan Implikasinya Bagi Perekonomian Indonesia. *Bunga Rampai Ekonomi Keuangan*, June, 173–191.

OECD. (2002a). ANNEX 4. The OECD definitions of internet and e-commerce transactions. *Measuring the Information Economy*, April 2000, 89–90.

OECD. (2002b). International Trade. *Glossary OECD*. <https://stats.oecd.org/glossary/detail.asp?ID=1405>

Wu, C., & Hui, M. (2015). *E-Commerce In Asia*. October.

Zaky, M. A., Nuzar, I., Saputro, W. E., Praysuta, B. D. S., Wijaya, S. B., & Riswan, M. (2018). Mapping & Database Startup Indonesia 2018. *Badan Ekonomi Kreatif*, 1–202.