

# **The Role of the Indonesian Government in Increasing Startup Growth in Indonesia**

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## **Abstract**

This article analyzes and explains economic growth through startups in Indonesia from 2018-2021. With the aim of writing to understand the role of the government in responding to startups to Indonesia's economic growth. By using descriptive qualitative research methodology, the use of secondary data sources and the author's data collection in the form of Library studies, we add the concept of international business and economic growth theory as a basis for understanding this article. The results of the study show that startups have a very important role in economic growth, the growth of increasingly widespread startups has a positive impact on the welfare of the Indonesian people with a fairly large total economic contribution, but because the growth of startups in the early stages and the development period is fairly vulnerable, startups are very easy to fail, which of course will also have some negative impacts on the people who earn their living from these startups. Thus, the role of the government is very important to support the growth and development of startup companies in Indonesia.

**Keywords:** Start-up, Economic Growth, Indonesia.

## **1. INTRODUCTION**

The rapid development of the internet in Indonesia and the increasing advancement of globalization can be utilized by young people as a boost to increase productive age, where the demographic bonus creates opportunities to increase economic growth. The emergence of jobs from start-ups opens the human resources needed. Development of innovation and ideas for the market, as well as business development to improve the economy and public welfare. To realize this, the role of the state is very important in the development of start-ups in Indonesia.

In the study of international relations, economic instruments cannot be separated from theories of international relations, especially in international economic theory. International economics is a pattern of systems and institutions in the process of the flow of goods and services and money between nation states in the world (international system). According to William D. Coplin, international economics can be viewed from three elements (Coplin, 1973), namely: First, that international economics controls and is interconnected (interdependence) between international trade markets. Second, international capital markets. And third, international money markets (international currency markets). Each is a market in the sense that the market involves buyers and sellers whose transactions underlie future transactions between buyers and sellers (Sitepu, 2011).

The international market consists of elements of the flow of goods and services that transcend national sovereignty or in other words are called "across national boundaries". A flow that is determined by

economic and political conditions (Sitepu, 2011). So, in relation to the international market, it is also related to the capital market as part of the international economic and international political instruments. According to Coplin, sellers want to develop their business by exceeding their invested capital (improve business) while buyers want or seek "a return on investment greater than they would otherwise receive by investing in their own country" (Sitepu, 2011). In the startup world, this is very much related to their business model, sellers of goods and services that cross national borders will benefit economically and the development of the company, especially with the existence of an international capital market related to the flow of capital investment that crosses national borders. Then, with the many and growing startups, Indonesia can become a country with the best economy, especially in the digital economy. Indonesia in the fastest development of the digital economy and industry 4.0 in Southeast Asia, has around 2,193 startups, the fifth largest in the world and has 5 unicorns and has 1 decacorn. This ranking will lead Indonesia in 2025 to contribute to the gross domestic product (GDP) with an amount of 133 billion US dollars (Public Relations of the Cabinet Secretariat, 2021). Next, the role of this startup is very influential for Indonesia, especially since this company can attract foreign investors because of the large consumption value of the development of the digital economy.

Therefore, this article will examine the important role of startups that are increasing and influencing Indonesia's economic growth. As well as examining how the government's role in supporting the formation of start-ups from 2018-2021 as one of the drivers of the economy in the current digital era. This study uses a descriptive qualitative method, the author describes the phenomena that occur with relevant data, then develops it into a hypothesis without giving treatment or manipulation to the variables to be studied. By using this type of research, the author develops data and describes it along with the current situation, namely regarding the role of the government in responding to the start-up innovations being developed.

## **2. Literature Survey: Bisnis Internasional dan Pertumbuhan Ekonomi Indonesia**

In the book written by Budi Rustandi Kartawinata, Aditya Wardhana and Syahputra entitled International Business, several concepts are collected regarding the concept of international business according to Griffin, who says that international business is a business transaction between several parties in more than one country. Meanwhile, according to Hadi, international business is a study of economic transactions that include international trade (export and import) and foreign investment (direct or indirect) carried out by individuals and companies or organizations with the aim of obtaining certain benefits and advantages.

Meanwhile, according to Cavusgil, international business is a trade and investment activity carried out by companies crossing the borders of one country with another (Kartawinata et al, 2014). Finally, we can interpret international business as investment and international trade where international trade itself refers to the exchange of products and services across national borders, this directly involves exchanges in international trade in the form of exports and imports. So, international business is all business transactions by the private sector, government and involving two or more countries. In the study of international relations, international business can be explained as the involvement of international companies which are separated again into several groups: importer, promotion, and supporter groups.

Economic growth according to Kuznets is an increase that occurs in the long term in a country's ability to provide various types of economic commodities to the community, this ability can grow along with the development of technology ideology, and adjustments to related state institutions (Fogel, 2014). It can be explained where the first is that the continuous increase in national output is a manifestation of economic growth and the ability to provide various types of economic goods is a sign of economic maturity.

Furthermore, technological progress is a prerequisite for sustainable economic growth, but it is not a sufficient condition. To realize the growth potential contained in new technology, institutional, attitudinal, and ideological adjustments must be made (Yuliani, 2011). Technological innovation without social innovation is like a light bulb without electricity. The potential is there but without complementary input it will mean nothing. In short, the contribution of startups drives the pace of the Indonesian economy and can compete internationally and plays a fairly important role in the country's economic growth.

Throughout 2017, Indonesian start-ups received USD 4.93 billion in investment. Indonesia's digital economy is currently still in its early stages, although one estimate of the potential impact of digital technology in the country suggests an increase in GDP of \$150 billion (IDR 2,160 trillion, which is a 16% growth on current GDP) by 2025 and 3.7 million additional jobs (Barata, 2019). Compared to established companies operating in well-known markets seeking to optimize efficient operational execution, start-ups are always looking for business ideas and operate in a search mode, creating something from scratch. Then, start-ups show high potential in the medium and long term through their active contribution to a country's sustainable economic development. Several scientific papers have shown that promoting start-ups is a key action point to drive economic growth. Innovative products and services are the inspiration for many start-ups.

### 3. Methods

This study uses secondary data sources where researchers take from various forms such as books, journals, news, government publications or an organization, as information materials and reference materials to explain this issue. The data collection technique used by the author in this study is a literature study, by analyzing and utilizing all information and thoughts that are relevant to the research used and containing a systematic description of the literature review and previous research results. Descriptive analysis techniques are used by reading news, articles and collecting important things that are relevant to analyze and prove the arguments or directions and results of this study.

### 4. Startups in Indonesia

From the total number of Indonesian startups until 2021, there are approximately 2,100 startups. Some of these companies have developed into unicorns and decacorns, which are companies that are not only in the financial technology services sector, but also in several other sectors, the development of these companies is driven by the existence of policies from interests that support digital invasion (Sidik, 2021).



**Figure 1. Total Startups in Indonesia in 2018**

**Source: MIKTI**

According to data from the Indonesia Digital Creative Industry Society in 2018, there were approximately 992 startups from various fields developing in Indonesia. Among them are transportation, education, technology, and tourism. The high demand for services provided by these startup companies has finally attracted the attention of investors to invest their capital so that startups can develop and become innovative (Ahandini, 2020).

**Figure 2. Indonesian Startup Investment**



Source: DailySocial.id, 2021

According to funding transactions announced to the public and recorded with the regulator, throughout the third quarter (Q3) of 2021 there were 68 startup fundings that recorded a nominal value of up to \$974,220,000 or more than IDR13.8 trillion from 45 transactions whose funding value was stated. This is an interesting indication that the pandemic continues to have an accelerating effect on the startup investment climate in Indonesia, but this development shows a trend that continues to increase. In 2021, MIKTI again conducted data collection and surveys on the conditions and development of digital startups, which according to the data, in 2021 there was a significant increase in Indonesian startups, which became 1,190 startups spread throughout Indonesia.

The increase that occurred in various business fields, including general business fields around 32.70%, content creators 16.48%, media 4.92%, digital tourism 6.97%, digital logistics 1.48%, e-Commerce 14.59%, fintech 8.52%, game developers 2.62%, edutech 6.36%, healthtech 3.20%, and aggrotech 2.13%. Which is divided into various large, medium, small, and micro businesses that occupy the most positions around 48.1%, with the average age of the founders varying from 17 to over 40 years (Mikti, 2021). Next, startups play an important role in national economic growth, especially the digital economy where in 2019 in Indonesia, which was around 8 billion USD, seeing from this figure, the contribution of the digital economy to national economic growth is quite significant, some of which are driven by startups (Ahandini, 2020). Startup growth is closely related to funding that allows startups to have valuation or value.

## 5. The Role of Government in Increasing Start-Up in Indonesia

Indonesia as a country that is rising in the wave of the era of globalization that is increasingly rapid and has developed significantly in the Southeast Asia region. This allows digital entrepreneurship to develop human resources. The explosion of startup growth in Indonesia is followed by the growth of the internet every year, the use of technology and aspects of digitalization also play a role and change the paradigm of conventional business models. The presence of startups with unicorn to decacorn status also enlivens the

atmosphere of the digital ecosystem in Indonesia, various startups in Indonesia are now present in all fields, such as clothing, food, transportation, media, education, health, finance, and others (Insight, 2021).

In 2015, internet usage was 260M and increased in 2019 to approximately 360M in Southeast Asia and Indonesia itself became one of the largest internet users, which in 2015 was around 92M and in 2019 it became 152M, beating several neighboring countries in the Southeast Asia region. This is one of the drivers of the increase in startups, especially since funding in Southeast Asia is dominated by e-Commerce and ride hailing players, some of these companies come from Indonesia, where there is Gojek for ride hailing and several unicorn e-Commerce companies from Indonesia (Stephanie et al, 2019).

The potential for startup growth in Indonesia is in line with the government's vision to make Indonesia the country with the strongest digital economy in Southeast Asia by 2020. According to the latest submission from Economy Southeast Asia (SEA) announced by Google, Temasek and Bain Company, in 2019, Indonesia's digital economy reached US\$40 billion or equivalent to Rp560 trillion. Randy Jusuf, executive director of Google SEA, said the increase was more than fivefold since 2015, reaching only US\$8 billion (Ahandini, 2020).

Various roles of the government in responding to this potential include making laws in Presidential Regulation Number 44 of 2016 concerning the list of closed and open business fields with requirements including the investment sector and presidential regulation number 74 of 2017 concerning the roadmap for the national electronic-based trading system Road Map E-commerce (JDIH BPK). Next, through the Ministry of Communication and Information creating a safe harbor policy, to protect owners, traders, and users of online shopping platforms.

In the circular letter of the Minister of Communication and Information No. 5 of 2016 concerning the Limitation of the responsibility of platform providers and merchants (Mercants) through the system formed by User Generated Content (JDIH Komdigo). Through this regulation, it is also expected to provide direction for startup companies to prepare their ecosystem. In the form of funding, the Indonesian government opens direct investment access to startups in the form of loans operated by the Government Investment Operator to public service agencies, business entities and local governments. This step is the government's best attempt at startup funding, direct investment is used to support government programs in developing startups whose target from the national development planning agency is 3,500 by 2024 (Myeong, 2021).

In addition, the role of the government is also seen in the National Movement of 1000 Digital Startups. This movement is carried out to realize Indonesia's potential to become "The Digital Energy of Asia" by creating 1000 startups that provide solutions to various problems by utilizing digital technology. Finally, this movement was initiated by KIBAR or PT. Kibar Kreasi Indonesia and supported by the Ministry of Communication and Information of the Republic of Indonesia, with the aim of building a technology ecosystem in Indonesia through capacity building initiatives, mentoring, and incubation in various cities (Diskominfo, 2028). Former President of the Republic of Indonesia, Joko Widodo has launched a vision to make Indonesia "The Digital Energy of Asia' in Silicon Valley." This movement is targeted to create new companies with a total business valuation of USD 10 billion, the strategy implemented is through intensive mentoring and coaching through systematic stages in 10 cities that have strong digital infrastructure. The initial step starts from 'ignition', namely a seminar to instill entrepreneurial thinking, which targets 4,000 participants each year (Kominfo, 2021).

By encouraging startups to enter the stock exchange, the offering is carried out by the creative economy agency through an Initial Public Offering (IPO), by conducting an IPO on a startup company, it encourages



it better than targeting startups to become unicorns with a budget of IDR 6 billion. To develop Indonesian startups, the Government funds 30 startups by providing a maximum platform of IDR 200 million for startups. There is also government incentive assistance with 4 fields, namely digital, games, fashion, craft, and culinary. BEKRAF (Tourism and Creative Economy Agency) has also prepared the Go Startup Indonesia (GSI) platform that unites various parties in the startup ecosystem (Noverla, 2018).

In addition, one form of government appreciation for Indonesian unicorn companies is that in 2019, an honorary award was given in the form of the Stayalancana Wira Karya award to each unicorn according to the Decree of the President of the Republic of Indonesia No. 87/TK/YEAR 2019, where in that decision each unicorn company was considered to have made a major contribution to Indonesia's economic growth. This award was given to the Founder and CEO of Tokopedia, Bukalapak, Gojek and Traveloka (Dirjen, 2019).

## 6. Conclusion

The digital era has made the growth of start-ups start to increase, this certainly requires the role of the government to oversee the process of developing new entrepreneurs or businessmen. Then, the increase in start-up companies requires the development of infrastructure as a digital connector, so that connectivity is the key to the development of the marketplace to all corners of the region in Indonesia. After going through various challenges from the vulnerabilities they have, start-ups will make a good start to economic growth, with the growth of start-ups which are considered the backbone of the economy in the national and regional industrial sectors.

This growth will have an impact on the attractiveness of investors to Indonesian start-up companies to provide their funds, this is also because Indonesian unicorns get billions of dollars in market competition. Furthermore, the government plays a role in helping, building, and facilitating the development of start-ups, one of which is the efforts of BEKRAF, namely infrastructure development, government funding, the National Movement of 1000 start-ups which is proof that Indonesia strongly supports the growth rate of start-ups in its country.

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