



Comments for Non-Equity Modes of Trade (NEM) in Indonesia

27 May 2021

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CHARACTERISTICS OF NON-EQUITY MODES IN INDONESIA

Industry (representative example)	Rubber	Footwear	Convenience store	Hotel
Number of companies (NEM-related estimation)	75 companies 60 companies (2020)	39 companies 27 companies (2020)	34,023 stores 624 stores (2019)	18,829 hotels 13,180 hotels (2016)
Estimated export volume (estimated exports by NEM)	\$2.9 billion \$2.3 billion (2017)	\$4.4 billion \$3 billion (2019)	\$12 billion \$165.5 million(2019)	\$4.5 billion \$3.1 billion (2019)
NEM mode	Contract farming	Subcontracting	Franchising	Management contract
Estimated employment	2.5 million	643,000	31,900	610,000
Annual average export growth	4% (2009–2019)	11% (2010–2019)	12% (2017–2019)	9.9% (2010–2019)
Product or services scope	2nd largest natural rubber producer in the world	3rd largest footwear exporter in Asia	More convenient stores open	Asian country with thousands of natural landscape destinations and cultural heritage

Characteristics of NEM, Contract farming: Rubber

Main actors in Indonesia

Role of association or government organizations
e.g. UPPBs, GAPKINDO



Roles of local firms who have NEM relationship with foreign TNCs

- As a integrator
- As a contractor with small scale farmers

Contribution to Indonesia

Broadly to employment
32% of global production
2nd largest agricultural commodity exports

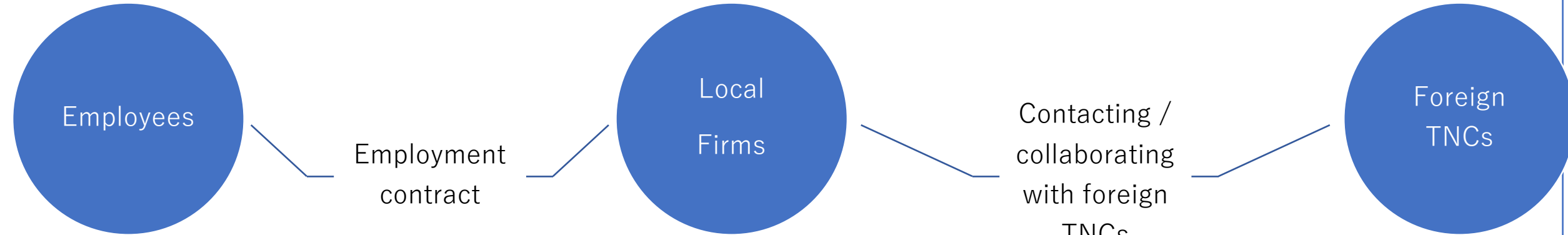
Possibilities of Capacity building

- More than 50,000 different products are from natural rubber
- Possibilities for creating own brand

Characteristics of NEM, Subcontracting: Footwear

Role of association or government organizations
e.g. the Indonesian Footwear Association (APRISINDO)

Main actors in Indonesia



Labour-intensive industries

Roles of local firms who have NEM relationship with foreign TNCs

- As original equipment manufacturing (OEM)
- As original brand name manufacturing (OBM)

Exports to 142 countries around the world

Contribution to Indonesia
Broadly to employment
Export growth

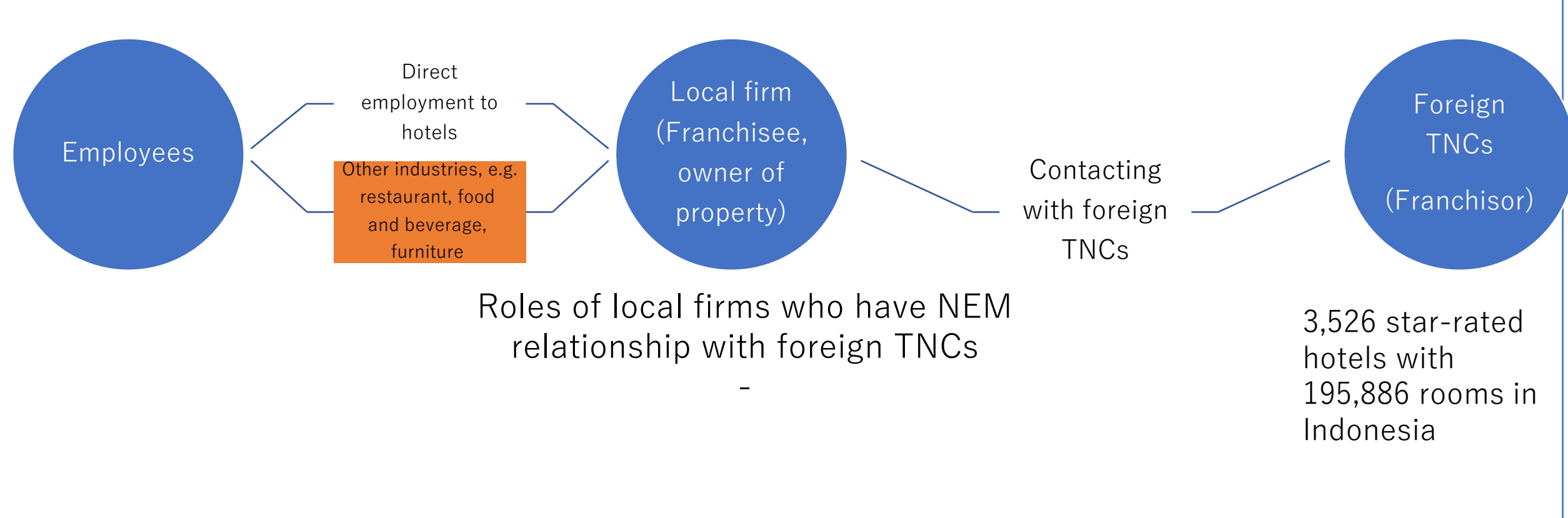
Possibilities of Capacity building

- Possibilities for creating own brand

Characteristics of NEM, Management Contract: Hotels

Main actors in Indonesia

Role of association or government organizations



Contribution to Indonesia

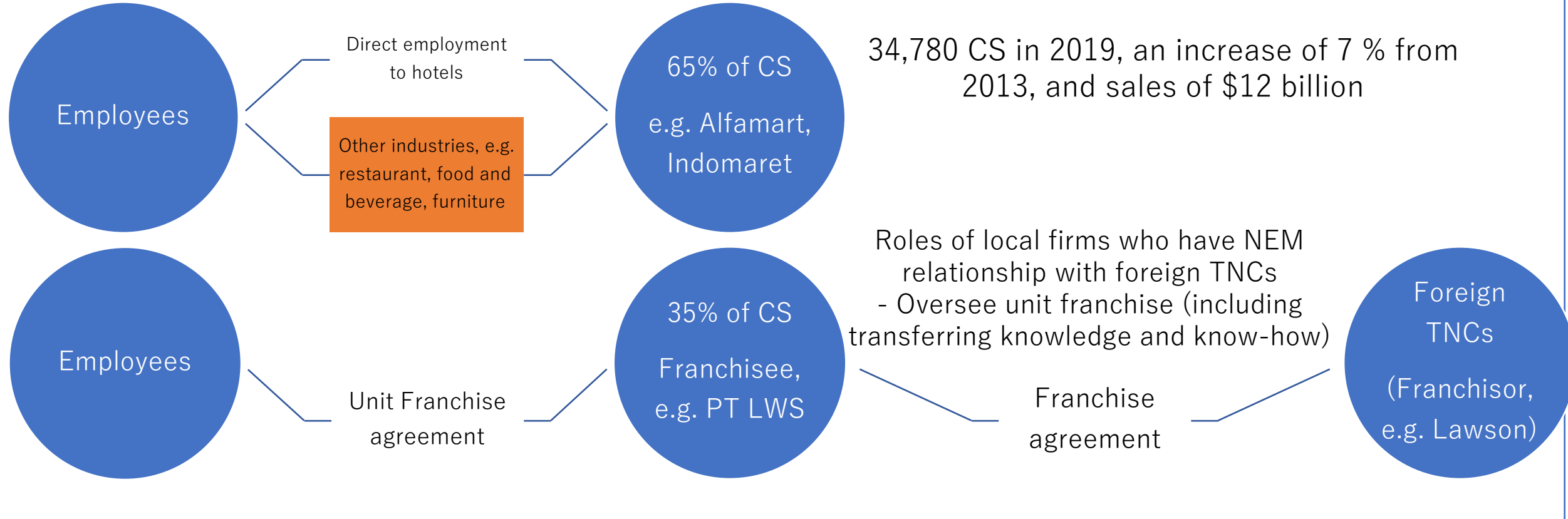
- Job creation
- Development of related industries

Possibilities of Capacity building

Characteristics of NEM, Franchising: Convenience stores (CS)

Main actors in Indonesia

Role of association or government organizations



Contribution to Indonesia

- Job creation
- Development of entrepreneurship mind
- Development of related industries

Possibilities of Capacity building

Arguments for NEM over FDI

- Decision to choose NEMs over FDI is done by foreign TNCs
- According to Ease of Doing Business Rankings data in 2020
 - Indonesia ranks 6th out of ASEAN countries
 - 73rd globally
 - due to such restrictive local regulations
- In 2017, Indonesia only managed to attract 10 out of 137 Japanese TNCs moving into Southeast Asia (World Bank, 2019)
 - Due to bureaucratic difficulties involved in Indonesian inward FDI.
- UNCTAD(2011)
 - NEMs, like FDI, have various types of development implications, including employment creation, increase in local value added, export generation, technology and skills acquisition, social and environmental impacts and long-term capacity building.
- Combs et al. (2004)
 - Franchising enhances growth and survival of the franchisee's business.
- Bellemare(2012)
 - Besides franchising, contract farming led to higher household income.
- Miyata et. al., (2009)
 - Contract farmers earn higher yields due to technical assistance and specialized inputs
- Kim (2008)
 - Hotels that participated in contract management had higher financial performance in terms of profitability, stability and operating indicators.

Opportunities and Challenges: Comments for some common features

The Pursuit of
Industrialization in
Indonesia

Ownership

Control

Localization Strategies

Relationships between
NEM Modalities and
Industries

- (1) Continuity issues
- (2) Typical NEMs issues
- (3) Capacity-building issues
- (4) Local firm initiatives and local embeddedness issues

Comments for Policy Implications

Enhancing the Capability of Local Firms



Improving Investment Regulations



Promoting and Upgrading Skills and Expertise



Promoting Connectivity and Coordination



Promoting Integration into Global Markets

Thank you.