

RRJ Pilot Research Report

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The Roots Economy:
Flexibility, Stability,
Security





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In our first two research reports, RRJ explored the differences between the formal and informal sectors' provision of key goods and services in central Jakarta. Much of our reports focussed on the different prices, and therefore accessibilities, of each sector. Of course, everybody likes to get a good deal, and lowering prices is likely to see an increasing demand, but the structural significance of lower prices in the roots economy is much greater than many people think.



The Producers, the Suppliers, & the Networks

First, let us be clear, lower prices available from informal sector traders are not simply an indication of lower quality goods and services. It is well known that a low-priced meal at a warung may use exactly the same ingredients as an expensive option at a formal restaurant or cantina, for example. Instead, it is important to recognise that lower costs of entry and doing business for informal traders generate savings which can be passed on to customers. The specific structure of the informal sector generates several key supply-side advantages which together make the informal sector extremely resilient, yet at the same time very flexible. Crucially, this unique economic structure provides benefits to other citizens as well, far more complex than simply a hot meal at a good price in a convenient location.

The 'roots economy' consists of a wide variety of unregistered small trading businesses, but there are several key features which can help us understand this important economic group. To begin, informal traders are usually not registered with any official agency and they do not pay taxes, making the barriers to entry for the informal sector very low. This 'small risk, small profit' business model is reproduced at all levels of the roots economy, and is totally different from the 'profit maximisation' model of most formal enterprises. With each trader able to conduct a small volume of daily business, using their knowledge of local conditions to ensure appropriate goods and services are available where they will be needed most, complex networks of interaction develop which ensure these compound benefits are passed onto consumers in the form of lower prices and strategic availability.

With each trader taking only a small investment, and relying on a network of others doing the same, the risk for each one individually is very low. With these limited operating costs, traders can subsist on a very small numbers of customers each day. Typically, before they reach customers in the formal sector, informal goods and services have already changed hands many times, from traditional markets and mobile produce vendors, to cheap accomodation for local traders, and even the small quantities of strategically located fuel which power our informal transport networks (this topic will be explored in full in our next research study).

Low-risk business models encourage large numbers to engage in informal sector activities, generating a supply-side surplus in which traders can specialise in a particular niche service, position themselves strategically, share key business spaces with competitors or supporting services or conduct business only at certain times during the day, and still ensure sustainable income. Such low-risk, shared between so many individuals across informal networks, allows the roots economy to survive or even ignore economic shocks which might cause serious problems for formalised business enterprises.



The Consumers



In a classic illustration of supply-and-demand economics, the large numbers of informal traders, drawn by low entry costs, ensure a healthy competition and keep prices low across the informal sector. Mobile traders and well-located warungs depend on these low prices for their own low-investment, low-price business model. Those traders, engaging in formal-informal transactions, have already benefited from the informal labour surplus, and while many of us may have enjoyed the convenience of a low-price meal or cheap accommodation, we may not be aware that a long chain of transactions within the roots economy was necessary to make such an option available just when and where we need it. For a detailed breakdown of informal vs. formal sector prices, see our research reports [1] and [2] at rameramejakarta.com

The benefits of a healthy informal sector are obvious for those on a tight budget. The availability of cheap goods, services, accommodation and transportation allows us to save our money for investment in more long-term goals, whether that be education, starting our or own businesses or supporting family life. This is particularly important for new arrivals to the city, who may find the naturally high prices of goods and services in the capital overwhelming relative to their home cities.

Even for those who feel they have limited or no contact with Jakarta's roots economy, the extent to which informal trading supports daily life in the city may be surprising. Firstly, competition with cheap, informal options in markets such as food, property and other services exerts a negative influence on prices in the formal sector too, helping reduce prices for everyone. For those financially sensitive periods in life, however, the roots economy can provide a vital support structure. Financial uncertainty can arise at any time, anticipated or unexpected, and while in many Western nations the state's social security provision is responsible for supporting us through such vulnerable times, in Indonesia the informal sector plays a vital role.

In an uncertain economy, who can give a 100% guarantee of job security? For those between jobs, temporarily unable to work or just beginning their careers in the city, the search for employment can seem a daunting task. Many such people may find the informal sector's low-cost options for food, services and short-term accommodation an important safety net, helping them manage the financial burden while retaining access to the job opportunities in the capital's central districts. For those of us who dream of changing careers also, the informal food and rent market might just provide the extra support we need to follow our ambitions when the time is right. The nation's largest businesses, too, would surely benefit by being able to recruit from the most talented and skilled individuals from across the archipelago, regardless of their ability to commit to a six-month rental contract in an expensive apartment before they start work.

Even for those whose career prospects are bright, financial uncertainty can emerge at any time. Natural disasters, economic recession, medical expenses for ourselves or our loved ones, theft, property damage, inflation and any other unexpected costs are all risks beyond our control. By entering the roots economy as consumers, we benefit from the same low-risk benefits as those who produce informal goods and services for us. In the same way that traders within the network benefit from the low-risk strategies of others, a healthy informal sector provides a low-risk alternative for all urban citizens, helping us survive hard times and build our future in an increasingly uncertain world.

We are always looking for contributions to our research agenda and data sets, so if you would like to get involved by examining the formal and informal food networks in your area of work or residence please contact us.