

THE IMPACT OF DIGITAL ECONOMY IN DRIVING ECONOMIC GROWTH AND DEVELOPMENT IN INDONESIA

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Abstract

The digital economy has been proven to have a significant impact on economic growth and national development in Indonesia, and with effective management, the digital economy can become a key driver of economic growth in the future. This research aims to analyze the impact of digital economic transformation on Indonesia's economy, focusing on how digital technology can improve productivity, innovation, and market access for various sectors. Data were collected from various relevant sources, including journals, government reports, articles, and case studies. The qualitative method combined with the literature review and triangulation approach facilitated an in-depth understanding of the complex and evolving dynamics of digital economy in Indonesia. The study aimed to provide nuanced insights and actionable policy recommendations to support the sustainable development of the Indonesian digital economy. Through a comprehensive approach, this research could explore access to digital tools, funding, and training as critical elements for MSME success in the digital era.

Keywords: digital economy, development, economic growth

INTRODUCTION

The development of the digital economy has become one of the main drivers of economic growth in many countries, including Indonesia. This rapid digital transformation covers a wide range of sectors, from trade, financial services, to education, all of which are undergoing significant changes thanks to information and communication technology. With a large population and increasing internet penetration, Indonesia has great potential to leverage the digital economy as a catalyst in achieving higher economic growth and more equitable development (Rohmana, 2023).

Indonesia is one of the largest digital markets in Southeast Asia, with an ever-increasing number of internet users. The Indonesian Internet Service Providers Association (APJII) (2024) announced that the number of Indonesian internet users in 2024 will reach 221,563,479 people out of a total population of 278,696,200 people in Indonesia in 2023. The presence of the digitalization era creates new opportunities for businesses, especially small and medium enterprises (SMEs), to reach consumers more widely through digital platforms. By leveraging online channels, SMEs can increase visibility and access to markets, which may have previously been difficult to reach (Huda, 2021). However, while the potential of the digital economy is very promising, significant challenges remain. One of the main issues is the lack of digital skills among the workforce, which can hinder the adoption of technology and innovation. In addition, digital infrastructure problems in some regions are still an obstacle, resulting in inequality in access to technology. Therefore, special attention is needed from the government and other stakeholders to create an environment conducive to the growth of the digital economy and ensure that the benefits can be felt by all levels of society (Prasetyo, 2024).

The digital economy plays a crucial role as a driver of economic growth and social development in Indonesia, considering the great potential that the country has in utilizing information and communication technology. With the increasing internet access and the use of digital devices, various sectors such as e-commerce, fintech, and healthcare are undergoing significant transformations, allowing companies to improve efficiency and competitiveness. In

addition, the digital economy creates new opportunities for employment, especially for the younger generation who are skilled in technology (Nurhayani et al., 2024).

Previous research by Lubis & Efendi (2023) stated that the potential of the digital economy has a significant impact on Indonesia's economic growth, especially with the increasing use of technology in various sectors, such as e-commerce, fintech, and other digital services. The role of skilled workforce or human resources (HR) in the field of technology is one of the crucial basic pillars in utilizing this potential. The existence of human resources who have special skills is not only able to optimize the use of technology, but also increase productivity and innovation, which in turn encourages national economic competitiveness. With the right training and education, Indonesia can prepare a workforce that is able to adapt to technological developments, thereby strengthening the foundation for sustainable and inclusive economic growth.

This research aims to analyze the impact of the digital economy on economic growth and development in Indonesia, focusing on how digital technology can improve productivity, innovation, and market access for various sectors. The novelty of the research lies in the emphasis on the integration of digital technology in various economic layers, as well as its impact on social welfare, which has not been widely discussed in the Indonesian context. With a comprehensive approach, this research is expected to provide relevant policy recommendations to maximize the benefits of the digital economy in supporting inclusive and sustainable economic growth.

RESEARCH METHOD

The research method utilized in this study was qualitative, employing a literature review approach. Data were collected from various relevant sources, including journals, government reports, articles, and case studies related to the digital economy in Indonesia. The study focused on gathering and analyzing information about the impact of the digital economy on economic growth and development by exploring diverse perspectives and existing findings. Through the systematic examination of these sources, the research aimed to construct a robust theoretical framework and identify trends and challenges in implementing the digital economy in Indonesia.

Data analysis was conducted using a triangulation approach, integrating data from multiple sources to enhance the validity of the research findings. This involved comparing information from primary and secondary sources, alongside qualitative analysis of the gathered data. The qualitative method combined with the literature review and triangulation approach facilitated an in-depth understanding of the complex and evolving dynamics of the digital economy. This approach allowed for a holistic analysis of phenomena and an exploration of underlying meanings within the data.

By synthesizing various perspectives from the literature, the study aimed to provide nuanced insights and actionable policy recommendations to support the sustainable development of Indonesia's digital economy. This method ensured a comprehensive understanding of the subject matter, enabling the research to address key challenges and opportunities effectively.

RESULT AND DISCUSSION

The digital economy in Indonesia has currently experienced significant growth, driven by the widespread use of the internet, the adoption of information technology, and the expansion of the e-commerce and fintech sectors. Riyana et al. (2024) describe the digital economy as a business activity that takes place virtually, where value is created, exchanged, as well as transactions and interactions between economic actors who use the internet as the main means. This means that in general, the digital economy is based on the use of digital

information and communication technology in its operations. Changes in people's behavior that increasingly rely on digital platforms in various sectors are also the main drivers of digital economic growth in Indonesia (Pramono et al., 2022). This shows that the transformation towards the digital economy is important in terms of technology, but it is also very relevant in meeting the needs and habits of an increasingly digitally connected society.

In the Southeast Asian region, the digital economy is also growing rapidly thanks to the large market potential. There are five technologies that are the main drivers of this growth, namely mobile internet, big data, internet of things, knowledge automation, and cloud technology. In response, the Government of Indonesia has issued various policies and initiatives to optimize the potential of the digital economy, accelerate development, and increase the country's competitiveness at the international level (Kemenko Perekonomian RI, 2022).

The development of information and communication technology has changed the way we do business, interact, and consume. With these advancements, many things can now be controlled remotely through internet networks and devices such as smartphones. Supriyanto (2023) noted that this change also has a significant impact on the economic sector, in accelerating the transition to a digital economy. Digital economic transformation has an important role in improving Indonesia's national economy, especially in the midst of uncertain global economic conditions. The digital economy offers new hope with strong resilience even in times of recession. According to a McKinsey report cited by Nizar & Sholeh (2021), if Indonesia can make optimal use of digitalization, it is projected that the country can realize economic potential worth around USD 150 billion by 2025, with Gross Domestic Product (GDP) growth of 10 percent per year. Therefore, the development of the digital economy is one of the important strategies to change the structure of the Indonesian economy.

The digital economy in Indonesia has a significant impact on economic growth and national development. One of the impacts is the acceleration of economic growth. Digitalization makes it easier for entrepreneurs to introduce brands and market company products through digital platforms. In the past, finding suppliers could be challenging, but now, almost all goods can be found easily through electronic commerce platforms (Supriyanto, 2023). Then the digital economy also opens up opportunities for market expansion. In Southeast Asia, the digital economy is growing rapidly with great market potential. A digital market that is not limited by geographical boundaries facilitates micro, small, and medium enterprises (MSMEs) to reach consumers at the domestic and international levels (Maria et al., 2024). Technological advances help access to information and remote transactions easily, facilitating consumers in conducting economic transactions that benefit producers and economic actors.

In addition, the digital economy also increases productivity by encouraging efficiency in various sectors. Massive digital transformation, triggered by the development of information technology, has driven the emergence of business expansion on e-commerce platforms, with many digital companies entering various industries. Such include the large trade and retail sectors, vehicle repair and maintenance, accommodation and food services, mining, as well as processing industries and other services such as transportation and warehousing (Munawarah et al., 2022). Digital transformation has a complex and interconnected impact on society and the economy, where digital platforms are one of the best ways for companies to maximize the added value of their products.

After increasing company productivity, the digital economy also has the potential to create new jobs. The emergence of startups, e-commerce, and other digital platforms has opened up job opportunities on a large scale. Riyana et al. (2024) noted that the digital economy is expected to be a solution to the challenges of unstable economic development. The Indonesian government is committed to supporting community-based economic development,

in which business actors play a leading role. The use of digital technology is expected to increase the country's economic competitiveness and create new jobs through entrepreneurial development. Then the digital economy encourages faster innovation for companies. The dynamic digital environment requires companies to continue to innovate, creating new products and services that can ultimately boost economic growth (Samingan et al., 2024). These innovations are forcing companies to stay relevant and compete in an increasingly competitive global economy.

The digital economy has also had a significant impact on increasing financial inclusion in Indonesia, by facilitating payments and expanding access to financial services. One of the impacts of the digital economy is the ease of making transactions. Fast and easy digital transactions are driving the growth of informal economic sectors, including social businesses that are growing through platforms such as Facebook and Instagram. Aprilia (2021) noted that the use of social media increased the number of transactions in the digital economy space, which ultimately had an impact on increasing the revenue of companies based on electronic business models. Revenue growth in online businesses can help ensure business continuity as well as support economic sustainability. Companies with online business models have greater financial flexibility, which helps maintain the stability of the economic wheels at the macro level.

In addition to the ease of payments, the digital economy also opens up wider access to financial services, especially for companies that were previously unreachable by traditional banking services. Digital financial services such as e-wallets and fintech make it possible for people who do not have bank accounts to access various financial services. Fintech has facilitated broader financial inclusion, providing opportunities for individuals and businesses to take advantage of banking, lending, and investment services more easily (Faj'ri et al., 2024). So that the digital economy plays an important role in expanding financial inclusion to improve individual welfare and then encourage more inclusive economic growth.

Furthermore, the digital economy can also have an impact on strengthening micro, small, and medium enterprises (MSMEs). Through digitalization, there is a key role in supporting the competitiveness of MSMEs and restraining the pace of imported products. Supriyanto (2023) explained that through digitalization, MSMEs have the ability to expand their global market reach at a lower cost, making them more efficient in facing competition from foreign products. Digital technology facilitates MSMEs to run business operations more efficiently, from inventory management to marketing. This means helping MSMEs increase productivity without having to significantly increase operational costs. Not only that, technology helps MSMEs to penetrate the international market without having to have a large and complex physical infrastructure as required by large companies (Faj'ri et al., 2024).

The impact of the digital economy on MSMEs means that it is not only limited to increasing competitiveness and market expansion, but also contributing to improving the quality of life of the community. The development of MSMEs through digitalization creates new job opportunities, people's incomes increase, and access to more diverse products and services is opened. In the end, the growth of MSMEs supported by digital technology contributes to improving the social and economic welfare of the people in Indonesia. However, although the digital economy plays an important role in supporting economic growth and development in Indonesia, there are various challenges that must be overcome immediately so that the benefits of the digital economy can be optimized. According to Faj'ri et al. (2024), the main challenges include infrastructure limitations, digital skills gaps, and regulatory uncertainty.

One of the big challenges faced is the digital divide, which is still happening in Indonesia. Although the number of digital users in Indonesia is quite large, the gap in internet access between rural and urban areas remains a significant problem (Jayanthi & Dinaseviani, 2022).

Onitsuka et al. (2018) defined the digital divide as a difference in an individual's ability to access and use digital technology, which causes some people to have difficulty utilizing such technology or become 'tech-stuttering.'

Not everyone has equal access to digital technology. Major cities in Indonesia tend to be faster in adopting digital technology, thus creating a gap between regions. Research by Ariansyah et al. (2019) shows that this gap occurs between provinces in Indonesia, especially related to access and understanding of digital technology. Provinces such as Papua, East Nusa Tenggara (NTT), and Central Sulawesi have a fairly high gap index.

Another challenge is that the government needs to formulate the right regulations to support healthy and sustainable digital economic growth (Sidiq, 2023). The growth of the digital economy also poses challenges in terms of personal data protection. According to Yunita et al. (2023), the misuse of personal data can occur unknowingly due to people's negligence in daily activities, such as when registering a SIM card through a counter clerk, downloading an application, or filling out a form on a digital platform. These data can be misused by irresponsible parties, potentially harming the data owner. In the era of science and technology development, big data management is one of the important issues in protecting privacy and personal data.

Based on these challenges, there are recommendations to overcome obstacles and maximize the potential of the digital economy in Indonesia, strategic steps that can be taken, such as:

- 1) **Improving digital infrastructure:** Reliable and equitable infrastructure is the foundation for digital economic growth. Indonesia needs to build a wider internet network, especially in rural and remote areas. Fast and stable internet access will narrow the digital divide and facilitate more people to connect with digital economic opportunities.
- 2) **Increasing digital literacy:** Good digital literacy is very important so that people can make optimal use of technology. The government and the private sector can work together to increase public awareness of the use of digital technology through training, seminars, and educational programs. The impact of better digital literacy makes people better prepared to face challenges in the digital era, including in the use of technology for economic and social purposes.
- 3) **Strengthening MSMEs:** Micro, Small, and Medium Enterprises (MSMEs) are the backbone of Indonesia's economy. In the digital era, it is important for MSMEs to be able to adapt to technology. The government can provide support in the form of training, access to capital, and digital platforms that can help MSMEs transition to digital-based businesses, so that they can compete in the global market.
- 4) **Strengthen cybersecurity:** As the digital economy grows, threats to cybersecurity are also increasing. Therefore, Indonesia needs to strengthen its cybersecurity system to protect personal data and digital infrastructure. These steps include the development of stricter cybersecurity policies, capacity building in the field of information technology, and law enforcement against cybercrime. This protection is very important to build public trust in transacting in the digital world.

These recommendations can be implemented by the government with the support of various parties, including the private sector and the public, to encourage the growth of the digital economy in Indonesia. Collaboration between the government, the private sector, and the public is essential to ensure that the digital economy develops optimally. The digital economy has been proven to have an impact on economic growth and national development, and with effective management, the digital economy has the potential to become a key driver of economic growth and sustainable development in the future.

CONCLUSION

The digital economy significantly impacts Indonesia's economic growth and development, transforming sectors such as trade, services, and creative industries through increased adoption of information and communication technology. It enhances operational efficiency, expands market access, and fosters product and service innovation, while creating jobs and advancing workforce skills critical for addressing global challenges. Digital platforms empower MSMEs to reach broader audiences and enable the government to deliver more effective and transparent public services, thus supporting economic, social, and infrastructure development for equitable prosperity. Future research should address regional disparities in digital adoption, sector-specific impacts, workforce development, sustainability, and the role of digital platforms for MSMEs. Additionally, studies on infrastructure, regulatory frameworks, financial inclusion, and the social implications of the digital economy, along with longitudinal analyses, are essential to provide comprehensive insights and policy recommendations for fostering a sustainable and inclusive digital economy in Indonesia.

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