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THE EFFECT OF DIGITALIZATION ON ECONOMIC GROWTH IN INDONESIA

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ABSTRACT

This research aims to analyze the influence of digitalization on economic growth in Indonesia. The development of information and communication technology has driven transformation in various sectors of the economy, including trade, industry, and financial services. The research method used is a literature study with a qualitative descriptive approach. The results of the study show that digitalization contributes positively to increasing productivity, operational efficiency, and expanding market access for micro, small, and medium enterprises (MSMEs). However, challenges such as the digital divide and limited infrastructure are still obstacles in optimizing the benefits of the digital economy.

Keywords: Digitalization, Economic Growth, MSMEs, Digital Economy, Productivity

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A. INTRODUCTION

The development of digital technology has brought significant changes in the structure of the global economy. In Indonesia, internet penetration and the wider use of digital devices have encouraged the birth of various technology-based business model innovations. Digital transformation is not only affecting the trade sector, but also the education, health, and government sectors. The development of digital technology in Indonesia has experienced very rapid progress in recent years. One of the most prominent examples is the very rapid growth of e-commerce, with platforms such as Tokopedia, Shopee, and Lazada becoming very popular among the public. In addition, digital financial services such as OVO, GoPay, and DANA are also increasingly popular and facilitate cashless transactions.¹(Santika, 2022) Artificial intelligence (AI) technology is also starting to be used in various sectors, such as e-commerce, banking, and education, to improve the efficiency and quality of services. The Internet of Things (IoT) is also used in various fields, such as smart agriculture, smart homes, and the manufacturing industry. The implementation of 5G

¹ Santika, Alis, Ranti Aliyani, and Ria Mintarsih. "The Perception and Intention of MSME Actors Towards the Use of Qris as a Digital Payment System in Tasikmalaya City." *Transeconomics: Accounting, Business and Finance* 2.4 (2022): 61-70.

technology has also started in Indonesia, which is expected to increase internet speed and support other technological developments. The government has also launched programs such as "100 Smart Cities" and "Making Indonesia 4.0" to support the development of digital technology in Indonesia. Thus, the development of digital technology in Indonesia is expected to improve the quality of life of the people and increase the country's economic competitiveness. Economic growth as a key indicator of national development is influenced by various factors, including investment, labor, and technological advancement. In this context, digitalization acts as a catalyst that accelerates the production and distribution process of goods and services. (ASAP, 2025)

B. LITERATURE REVIEW

Modern economic growth theory emphasizes the importance of innovation and technology as the main factors in increasing national output. The endogenous growth model states that investments in technology and human resources can create sustainable long-term growth. The theory of modern economic growth is a complex and multifaceted concept, which explains how a country's economy can grow and develop in the long term. One of the most well-known theories is the Solow-Swan theory of economic growth, developed by Robert Solow and Trevor Swan in 1956. (Rojabi, 2025) This theory states that economic growth is influenced by three main factors, namely: (1) capital accumulation, (2) labor force growth, and (3) technological advancement. Capital accumulation can increase labor productivity, while labor growth can increase economic output. However, technological advances are the most important factor in increasing productivity and economic growth. (Rofii, 2017) Other theories, such as the endogenous economic growth theory, state that economic growth is influenced by internal factors, such as investment in research and development, education, and infrastructure. This theory also emphasizes the importance of the government's role in increasing economic growth through fiscal and monetary policies. In addition, the theory of institutional economic growth also emphasizes the importance of the role of institutions, such as laws, regulations, and social norms, in increasing economic growth. Thus, modern economic growth theory emphasizes the importance of a combination of economic, technological, and institutional factors in increasing a country's economic growth

Digital economy refers to economic activities based on digital technology, including e-commerce, financial technology (fintech), and other digital platforms. Various studies show that the adoption of digital technology can increase competitiveness and expand market access. Digital economy is a concept that refers to economic activities based on digital technology, including e-commerce, financial technology (fintech), and other digital platforms. The digital economy has become one of the fastest-growing sectors in the world, and it has changed the way people do business, shop, and interact. E-commerce, for example, has allowed consumers to buy products and services online, easily and quickly. Fintech, on the other hand, has enabled access to a wider range of financial services, including digital payments, online loans, and investments. Other digital platforms, such as social media and messaging apps, have also enabled businesses to interact with consumers and increase brand awareness. The digital economy has also created new opportunities for small and medium-sized enterprises (SMEs) to grow and increase revenue. However, the digital economy also has challenges, such as data security, privacy, and digital divides. Therefore, governments and other stakeholders must work together to create an environment conducive for the digital economy to thrive, while ensuring that its benefits can be enjoyed by all. (Qur'anisa, 2024)

C. RESEARCH METHODOLOGY

The research uses a qualitative method with a literature study approach on the digital economy in Indonesia with the aim of understanding the development and impact of the digital economy in the country (Rahman, 2024). The literature study is carried out by collecting and analyzing secondary data from various sources, such as journal articles, research reports, and government documents. The results show that the digital economy in Indonesia has grown rapidly in recent years, with the growth of e-commerce, fintech, and other digital platforms. The analysis was carried out by identifying the pattern of the relationship between digitalization and economic growth indicators. However, the study also found that there are still some challenges faced by the digital economy in Indonesia, such as the lack of technological infrastructure, data security, and the digital divide. In addition, research also shows that the digital economy has had a positive impact on the Indonesian economy, such as increasing national income, creating jobs, and increasing access to financial services. (Ancient, 2025). However, the research also found that the impact of the digital economy is uneven, with some groups of people still unable to access and utilize the digital economy. Therefore, the study recommends that governments and other stakeholders increase investment in technology infrastructure, improve data security, and improve access to the digital economy for all parties. (Astuti, 2024)

D. DISCUSSION

1. Growth of MSMEs in Indonesia

The results of the analysis show that digitalization has a positive impact on economic growth through increased efficiency and productivity. MSMEs that utilize digital platforms are able to reach a wider market and increase sales volume. In addition, the development of fintech makes it easier for business actors to access financing. However, there are still challenges in the form of internet access gaps in remote areas and low digital literacy in some communities. The growth of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia has become one of the important factors in improving the country's economy. (Ancient, 2025)

MSMEs have become a source of employment for millions of people and have contributed significantly to Indonesia's Gross Domestic Product (GDP). According to data from the Central Statistics Agency (BPS), (<https://www.bps.go.id/id>) MSMEs in Indonesia have increased from 52.8 million units in 2018 to 64.2 million units in 2022, with a contribution to GDP of 60.3%. MSMEs have also become one of the sectors most resistant to economic crises, due to their flexible and adaptive nature. The Indonesian government has launched various programs to support the growth of MSMEs, such as the People's Business Credit (KUR) program and the MSME Development program. (Yolanda, 2024). However, MSMEs in Indonesia still face several challenges, such as lack of access to financing, lack of skills and knowledge, and lack of infrastructure. Therefore, there is a need for further efforts from the government and other stakeholders to increase the growth of MSMEs in Indonesia, such as increasing access to financing, improving skills and knowledge, and improving infrastructure. Thus, MSMEs can be one of the main pillars in improving the Indonesian economy. (Watts, 2024)

2. Implementation of Digital Economy in Indonesia

The implementation of the digital economy in Indonesia has become one of the government's priorities in improving the country's economy. The government has launched various programs and policies to support the growth of the digital economy, such as the "Making Indonesia 4.0" and "100 Smart Cities" programs. These programs aim to improve digital infrastructure, improve people's skills and knowledge, and increase access to digital services. Some

examples of digital economy implementation in Indonesia are e-commerce, fintech, digital payment, and smart city. (ASAP, 2025)

E-commerce has become one of the fastest-growing sectors, with platforms such as Tokopedia, Shopee, and Lazada being very popular among the public. Fintech has also become one of the most innovative sectors, with services such as OVO, GoPay, and DANA facilitating digital transactions. Digital payment has also become one of the most popular forms of payment, with QRIS (Quick Response Code Indonesian Standard) making it easy to make cashless transactions. Smart cities have also become one of the most popular concepts, with cities such as Jakarta, Bandung, and Surabaya already implementing this concept. However, the implementation of the digital economy in Indonesia still faces several challenges, such as the digital divide, data security, and unclear regulations. (Farhan, 2023) Therefore, there needs to be further efforts from the government and other stakeholders to improve the implementation of the digital economy in Indonesia, so that it can improve the economy and people's welfare.

E. CONCLUSION

Digitalization has a strategic role in encouraging economic growth in Indonesia. The use of digital technology has been proven to increase financial efficiency, productivity, and inclusion. The government needs to strengthen digital infrastructure and increase public literacy so that the benefits of the digital economy can be felt equally. Digitalization has a strategic role in driving economic growth because it can increase efficiency, productivity, and innovation. With digitalization, business processes can be carried out faster, more accurately, and efficiently, so that it can increase the company's competitiveness and increase economic growth.

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