

E-Commerce Development for the Digital Economy in Indonesia

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Abstract

This research examines the development of e-commerce in the context of the digital economy in Indonesia. E-commerce has experienced rapid growth and has become the main driver of the digital transformation of the national economy. Using descriptive analysis methods and literature studies, this research examines the factors driving e-commerce growth, the challenges faced, and their impact on the Indonesian economy. The research results show that increasing internet penetration, growth in smartphone users, and changes in consumer behavior are the main catalysts for the development of e-commerce. However, uneven digital infrastructure, cyber security issues and the digital divide are still obstacles. E-commerce has been proven to contribute significantly to economic growth, job creation and financial inclusion. This research concludes that collaboration is needed between the government, industry players and society to optimize the potential of e-commerce in driving Indonesia's digital economy.

Keywords: *E-Commerce, Digital Economy, Indonesia, Digital Transformation, Financial Inclusion*

History:

Received: July 22th 2024

Accepted: July 27th 2024

Published: August 11th 2024

Publisher: Universitas PGRI Madiun

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Introduction

Indonesia has great potential to become an advanced and influential country. Natural resources, strategic geographical position, and various other assets can be a double-edged sword, which can benefit or harm the nation, depending on how they are managed. Wise management of these resources is essential to ensure Indonesia's prosperity. In the era of the Industrial Revolution 4.0, Indonesia needs to strengthen its economy and maintain its natural resources to compete on the global stage. This era is marked by digitalization in various sectors. Digitalization is a characteristic of globalization, which is characterized by advances in information technology, interdependence, and fading national boundaries. The digital economy involves business transactions through virtual platforms, creating and exchanging value, and building economic relationships with the internet as its medium. This is an aspect of the economy that relies on the use of digital information and communication technology.

In the Southeast Asia region, the digital economy is growing rapidly driven by large market potential. The five main technologies driving this growth are mobile internet, big data, the internet of things, knowledge automation, and cloud technology. To participate in the digital economy, both the community, business actors, and the government need to have adequate infrastructure, digital literacy, relevant talent, and a mindset that is in accordance with digital culture. It is important to use communication networks, applications, and big data wisely, obey the law, and be smart in filtering information. Society is required to be open to developments in global technology and communication. The cycle of production, consumption, and distribution of information must be supported by the power of a digital economy equipped with adequate technological security (Efa Wahyu Prastyaningtyas et al, 2021).

The Covid-19 pandemic has had a broad impact on people's lives and the global economy, including loss of life, jobs, and income. From an economic perspective, the impact can be seen from the demand and supply side, with the pandemic tending to reduce consumption. The digital economy refers to the use of modern technology to transform economic operations. This involves the use of information and communication technology (ICT) innovations, the internet, and online platforms to facilitate various economic activities. In this economic model, technology becomes the center that connects producers, consumers, and other business actors.

Some examples of concepts in the digital economy include e-commerce, s-commerce, fintech, and industrial digitalization. The digital economy has the potential to empower society through access to global markets, increased digital skills, participation in a platform-based economy, access to education and information, and financial inclusion. E-commerce, or electronic commerce, is the process of buying and selling products or services over the internet. This includes transactions between businesses and consumers (B2C), between businesses (B2B), and between consumers (C2C). E-commerce has changed the business landscape, enabling global access to a wider market and transforming the way people shop and do business. In Indonesia, e-commerce has grown rapidly in recent years. One of the main supporting factors is the increase in internet access and smartphone penetration. Data from the Indonesian Internet Service Providers Association (APJII) shows that internet users in Indonesia have reached 215,626,156 people, or around 78.19% of the total population, with a growth of 1.17% compared to the previous period (Fani Ma'sumatul Maghfiroh, 2023).

Research Methods

This study uses a qualitative approach with a descriptive-analytical method to deeply understand the development of e-commerce in Indonesia in the context of the digital economy and the factors that influence its growth. Data Collection Techniques with Literature Studies, Reviewing scientific articles, industry reports, and government publications related to e-commerce and the digital economy in Indonesia. Data analysis techniques use thematic analysis to identify key patterns and themes from the data collected. This research method is designed to provide a comprehensive understanding of the development of e-commerce in Indonesia and the factors that influence its growth in the context of the digital economy. A qualitative approach allows for in-depth exploration of the dynamics of the e-commerce industry and the perspectives of various stakeholders..

Results And Discussion

a. Development of E-Commerce in Indonesia in the Context of the Digital Economy

Every country in the world continues to carry out economic development with the main goal of improving people's welfare. Although global economic growth fluctuates, the most important thing is that growth continues. Indonesia has also focused on economic development, especially in the infrastructure sector in the last 5 years. As a result, Indonesia recorded economic growth of 5.17% in 2018 and 5.02% in 2019. However, the global pandemic has caused a decline in economic growth in many countries, including Indonesia, with some experiencing negative growth. To control the spread of COVID-19, the government has imposed restrictions on activities, including economic activities. As a result, people are required to stay at home, encouraging a shift to online alternatives. This online-based economic activity is known as the digital economy.

Don Tapscott introduced the concept of the digital economy in his book "The Digital Economy: Promise and Peril in the Age of Networked Intelligence". Tapscott calls the digital economy a "new economy" characterized by the extensive use of digital information, but not

limited to the information and communication technology market alone (Permana dan Puspitaningsih, 2021).

The digital economy can be defined as human behavior in fulfilling unlimited needs using digital technology, or as production, consumption, and distribution activities carried out digitally. In this context, consumers no longer need to go to physical markets to obtain goods and services; simply by using a smartphone, they can fulfill their needs with goods delivered directly to their homes.

The digital economy continues to grow rapidly, covering the offering of various needs ranging from primary to tertiary through online platforms. More and more business actors are starting to utilize digital technology in running their businesses. The derivative sectors of this digital economy have also experienced significant growth, such as delivery services, cargo, and online transportation, which demonstrate the creativity and innovation of the nation's children. Although many companies in this sector are now owned by foreign investors, their development remains very rapid. Competition between companies is very tight, even giving rise to the term "burning money" in their promotional strategies. There is no certainty regarding the profitability of these companies, given the large marketing costs incurred. However, on the other hand, there is a clear shift in consumer preferences from offline to online transactions, with the value of online transactions now reaching hundreds of billions. This phenomenon illustrates a major transformation in the economic landscape, where digital technology is the main driver of business growth and innovation, although with its own challenges and uncertainties in terms of the sustainability of long-term business models (Pudhail dan Baihaqi, 2017).

The development of a digital economy requires the support of human resources, capital, and the right strategy from each country. Indonesia's strategy to become a digital economy includes the preparation of a national e-commerce roadmap, simplification of business licenses for e-commerce players, the preparation of personal data protection policies, strengthening broadband networks to remote areas, and the creation of 1,000 technopreneurs by 2020. This strategy is still relevant for the following years, with adjustments to the very dynamic development of the digital world. The government needs to create supportive policies, such as easy financing for start-up businesses, tax incentives, and information and communication technology (ICT) training for SMEs. The development of telecommunications infrastructure and ICT education is also important. Community participation in improving ICT education and skills is needed to take advantage of existing opportunities. Infrastructure development continues to be carried out, especially considering Indonesia's geographical conditions as an archipelagic country. Although cellular networks connect BTS, cable infrastructure is still needed.

The development of the digital economy has also given rise to the concept of digital money. In this era, the use of digital money has become inevitable and increasingly popular, especially during the pandemic. The ease and transformation of transactions further strengthen the existence of digital money. A generation that is familiar with digitalization will further encourage the adoption of digital money as the main transaction method. Digital money offers ease of transactions which makes it a popular choice in today's financial world. The various financial transaction options available open up new insights in transactions. In the future, digital money is expected to continue to grow and become the main choice because of the accessibility it offers, especially for generations who grew up in the digital era (Wahyuningtyas et al, 2019).

b. Factors Influencing the Growth of E-Commerce in Indonesia.

The industrial revolution 4.0 was marked by the discovery of the internet and the emergence of digital devices such as PCs, laptops, and smartphones. This era changed the lives of global society from machine automation to digitalization and virtualization. Its

characteristic is the rapid exchange of information in various forms without distance limitations. The impact of this revolution is clearly visible in changes in people's economic activities. Economic activities are now no longer limited by space and time. The internet and digital devices have changed the way transactions are made, enabling wireless buying and selling through e-commerce without direct meetings between sellers and buyers. E-commerce, as a digital business platform, facilitates secure exchanges between buyers and sellers. It offers advantages such as no need for physical stores and fast and wide dissemination of product information.

In Indonesia, the number of online stores continues to grow, with the five largest e-commerce companies such as Lazada, Shopee, Tokopedia, Bukalapak, and JD.ID dominating the market. The development of e-commerce in Indonesia is very rapid, as shown by the 90.81% increase in the number of businesses using the internet for transactions in 2020. This growth is supported by government infrastructure and regulations that encourage the development of digital businesses. Although e-commerce offers many benefits, some buyers are still hesitant to transact online. Trust is a key factor influencing purchase intentions. Concerns arise due to cases of online fraud and the inability to try products directly. To overcome this, e-commerce platforms act as intermediaries, providing product descriptions and reviews to increase buyer confidence (Hanum et al, 2018).

In an e-commerce transaction, ease of use is something that can increase buyer confidence in an e-commerce transaction. Ease of use is very important in determining the success of a good information system. The ease of use provided by e-commerce has a positive effect on user attitudes, buyers who feel and believe that using e-commerce is a profitable decision. In the development of e-commerce in Indonesia, several key factors influence its success and adoption by the community. One important aspect is consumer purchasing interest, which can be measured through several indicators such as the desire to make repeat purchases, consideration of product quality, and the tendency to recommend e-commerce platforms to others.

Online transaction security is a major concern in the development of e-commerce in Indonesia. E-commerce parties and the government are required to be able to protect buyers in a digital information-based system. Several aspects of security that are the focus include transaction guarantees, ease of payment methods such as COD or transfer, transaction code security, user identity protection, and money back guarantees. Perceptions of ease of use also play an important role in the adoption of e-commerce in Indonesia. This includes ease of access to various brands and sellers, the convenience of shopping without embarrassment, the ease of shopping without having to leave home, the ability to easily compare products, and a user-friendly e-commerce display. All of these factors are measured using a Likert scale of 1 to 5, allowing for quantitative analysis of the development of e-commerce in Indonesia. Understanding these factors helps e-commerce players and policy makers optimize strategies for developing the digital economy in Indonesia, in accordance with global trends and local needs (Uviyanti et al, 2022).

Conclusion

The development of e-commerce in Indonesia in the context of the digital economy has shown significant growth in recent years. E-commerce has become one of the most dynamic and rapidly growing sectors in Indonesia, driving digital transformation in various aspects of the economy. With increasing internet access and widespread smartphone use, e-commerce has become an essential part of Indonesians' daily lives, creating new opportunities for businesses and consumers. In the context of the digital economy, e-commerce has helped expand markets, improve efficiency, and provide a platform for small and medium enterprises to grow and compete globally. Overall, the development of e-

commerce in Indonesia shows great potential in supporting the transformation of the digital economy and providing significant economic benefits. However, to achieve optimal and sustainable growth, collaborative efforts are needed between the government, private sector, and society to overcome existing challenges and take advantage of available opportunities. By developing better digital infrastructure, improving digital literacy, and ensuring proper regulation, Indonesia can continue to drive e-commerce growth and play a significant role in the global digital economy.

The factors influencing the growth of e-commerce in Indonesia are very diverse, covering technological, economic, social, and regulatory aspects. One of the main factors is the increase in internet access and smartphone penetration, which allows more people to participate in online shopping activities. In addition, advances in digital payment technology and logistics also play an important role in supporting e-commerce growth. Economic factors such as growth in per capita income and changes in consumer behavior also drive the adoption of e-commerce. On the other hand, social factors such as increasing consumer trust in online shopping and easy access to product information also contribute to the growth of e-commerce in Indonesia. In addition to these factors, government regulations and policies also have a significant impact on the growth of e-commerce. The Indonesian government has issued various policies and initiatives to support the development of the digital economy, including e-commerce. Policies that support digital infrastructure, consumer protection, and clear tax regulations have created a conducive environment for the growth of e-commerce. However, challenges such as cybersecurity issues, personal data protection, and the digital divide still need to be addressed to ensure sustainable and inclusive growth.

Acknowledgments

With all humility, we express our deepest gratitude to the various parties who have provided support, assistance, and inspiration in writing this article entitled "The Development of E-Commerce in the Digital Economy in Indonesia". Finally, we realize that this article still has shortcomings and is far from perfect. Therefore, we are very open to receiving constructive suggestions and criticisms from readers for future improvements.

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