

CHAPTER I

INTRODUCTION

A. Background

Indonesia is a developing country where the Indonesian government carries out many planned and gradual developments. In recent years, ongoing development has focused on technology-scale development. In the current era of globalization, technology plays an important role in supporting life. Industrial revolution 4.0 brings about new changes in many areas of human life, such as education, health, finance, trade, and others. This is in accordance to the Qur'an Surah Al-Anbiya' verse 80 as follows:

وَعَلَّمْنَاهُ صَنْعَةَ لَبُوسٍ لَّكُمْ لِنُحْصِنَكُمْ مِنْ بَأْسِكُمْ فَهَلْ أَنْتُمْ شَاكِرُونَ

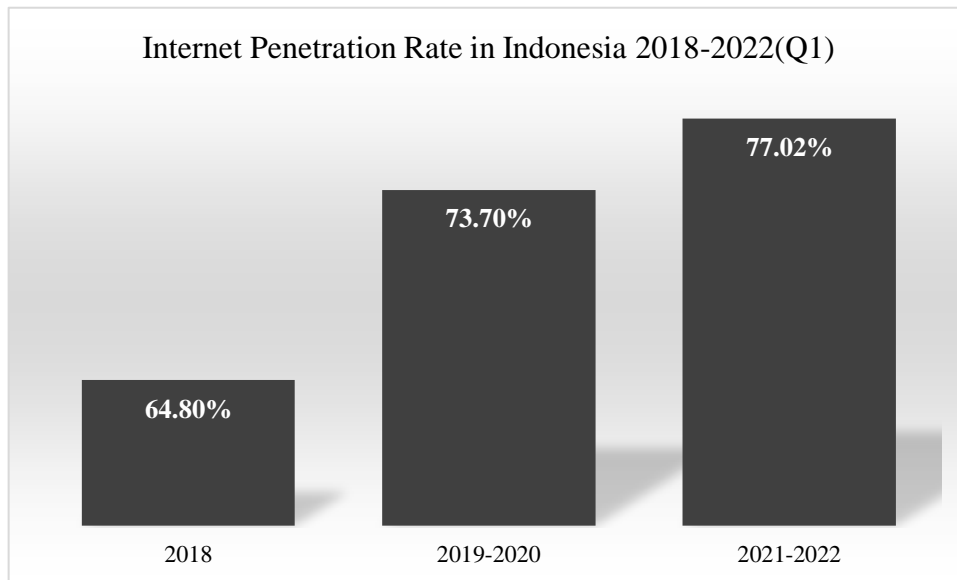
Meaning:

And We taught (also) Dawud how to make armor for you, to protect you in battle. Are you grateful (to Allah)?

The verse explained that Allah SWT. taught Prophet David A.S. to make armor to protect him and the soldiers during battle or war. In this case, technology is one form of convenience given by Allah SWT. to support human life. Therefore, we should be grateful for one of them by developing science and technology into something that can be useful for humans.

Furthermore, community activities will gradually continue to switch from offline to online during the development of digitalization, especially to fulfil government recommendations in an effort to prevent the massive spread of

COVID-19, either by social distancing or physical distancing. Both in routine and non-routine activities, digitalization has become part of social life. The development of industry 4.0 in Indonesia is supported by the Indonesian Ministry of Industry. This is related to the goal of increasing the Indonesian economy into the top 10 in the world by 2030 by increasing export activities. One of the things that needs to be prepared by the Indonesian government is the internet network.



Source: APJII, 2022

FIGURE 1.1

Internet Penetration Rate in Indonesia 2018-2022(Q1)

Based on data on internet penetration in Indonesia, there has been an increase in the percentage in recent years. It was recorded that in 2018 the percentage of penetration in Indonesia was 64.80%, then increased by 8.9% in 2019 and 2020 to 73.70%. The same thing also happened in 2021–2022, which experienced an increase in the percentage of penetration by 3.32% to 77.02%, or equivalent to 210,026,769 people from the total population of 272,682,600

Indonesians in 2021. This is a significant step forward for the progress of information technology through the digitalization that is being carried out.

Digitalization is a familiar thing and continues to grow among the Indonesian people in various provinces. This can open up opportunities and value through innovation in terms of the efficient allocation of community trade productivity. According to the CISCO APAC SMB Digital Maturity Index for 2019, the very first stage of digital transformation is Digital Indifferent, whereby businesses are growing in response to market changes but are not utilizing any digital technology. The following phase is Digital Observer, in which businesses are beginning to use digital technology in a tactical manner in order to grow and thrive in the market. In the third phase, Digital Challenger, businesses have begun to use digital technology strategically and have begun to automate key business processes. The last phase is the phase where the business is already supported by strong analytical capabilities and is fully automated in its business operations. In this last phase, the business is well digitized with a centralized system, so the business is ready to provide continuous innovation.

The continuous development of the flow of digital technology and information means that the government is optimizing this so that it can provide positive things, especially in the digital economy sector. The digital economy is an activity or economic activity based on internet digital technology, in other words, economic activity utilizing the development of artificial intelligence, in this case, digital devices and internet networks. This term was introduced by Don Tapscott in 1996 through his book entitled *The Digital Economy: Promise and*

Peril in the Age of Networked Intelligence. According to Wijoyo et al (2020), the era of the digital economy developed from the knowledge of human resources to reach global transactions in the form of a connected economy by utilizing information technology as a strategic weapon.

According to Don Tapscott (1996), there are various types of attributes in the digital economy. First, is knowledge, which is expected by business people to have the power of knowledge in taking advantage of opportunities to create superior new innovations so that they can be competitive in the market. Second, digitization, where customers and sellers begin to switch to using digital devices to conduct business transactions using digital technology and digital information, applies to companies selling goods and services as digital enterprises. Third, virtualization, where almost all aspects of the digital economy are possible to be converted into digital, such as digital capital, virtual goods, and all activities are carried out through digital, which is minimally cost-effective and efficient. Afterwards, molecularization, in the digital economy, traditional organizations shift to organizations that are flexible and adaptable to the environment and market conditions. Internetworking, where the internet network can be used to build interconnections as a way to expand business or economic scale. After that, disintermediation occurs when digitization facilitates direct transaction services between the humans concerned, such as sellers and buyers, so there is no need for transaction intermediaries. Furthermore, convergence means the formation of interactive multimedia is very much needed through the convergence of computing, communication, and useful content as one of the important platforms.

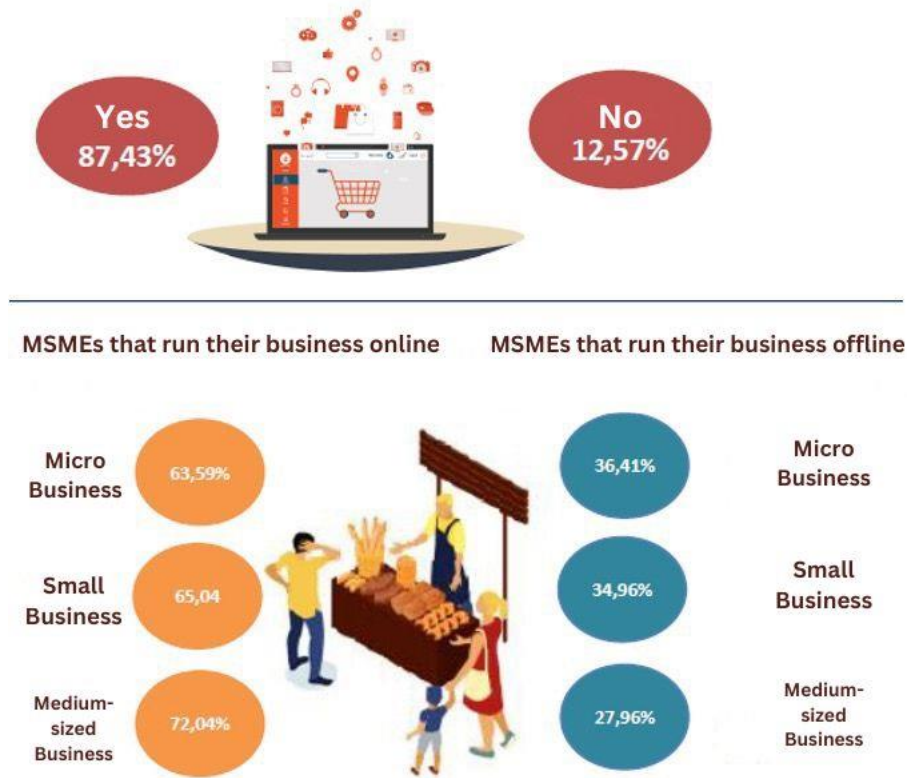
In addition, innovation, one of the main sources of value for creating economic innovations is human creativity, which is very necessary for running the digital economy. Prosumption is also part of the attributes of the digital economy where there is a difference between producers and customers and every customer can also be a producer. Furthermore, there is immediacy, where digital technology enables an increase in the speed of the transaction process that occurs between production, ordering, and delivery. The next attribute is globalization. There are no boundaries for global transactions, so that various transactions in various regions, provinces, and parts of the world can occur more efficiently. Lastly, discordance, e distribution of the digital economy in various areas, must be done so that there is no gap between those who understand the technology and those who do not understand it. When all players in the digital economy are technologically literate, they will be able to keep up with technological and market developments so that every individual and region can feel the maximum benefit from the digital economy.

Innovative new experiences continue to become a habit for business people along with the digitalization that is created. This is expected to be the foundation for local MSMEs (Micro, Small, and Medium-sized Enterprises) to continue to develop and be able to compete well on a national and international scale. Given that MSMEs have an important strategic role in the national economy, where MSMEs play a role in the absorption of labors and the distribution of economic development results. MSMEs are expected to be more productive and competitive, along with the development of globalization. Furthermore, Febriantoro (2018),

one way to increase the competitiveness of MSMEs is through the adoption of ICT (information, communication, and technology). Whereas APJII (2022) stated that the highlight of internet usage behavior based on internet content accessed by social media is the most frequently accessed with a percentage of 89.15%, and online shopping is at the third level with a percentage of 21.26%. This is sufficient to explain that social media and online shopping can be a good opportunity for the community, especially for MSMEs in various provinces in Indonesia. The implementation of digital operations and marketing is able to make it easier for MSMEs to reach more people in a more practical, efficient, and minimally cost-effective manner.

A digital business is carried out by business people or MSMEs based on electronic commerce. E-commerce (electronic commerce) is the activity of selling, purchasing, and marketing products (goods and services) by utilizing telecommunications networks from various devices. In other words, e-commerce is an activity or process of selling or buying products that are done electronically. E-commerce has gradually grown and replaced traditional (offline) stores in recent years. E-commerce activities include the process of promotion, buying, selling, and marketing of products that distinguishes it from traditional retail is the trading system used, namely electronic media or the internet. All trade processes carried out through e-commerce, from product ordering processes, data exchange to payment processes, are made electronically. In a broad sense, e-commerce is defined not only to include commercial activities but also to include collaboration

with business partners and job vacancies. Online shopping and trading activities in Indonesia are quite high and continue to increase every year.



Source: APJII, 2022

FIGURE 1.2

The Use of E-Commerce Among MSMEs

In the data on the use of e-commerce above, it can be seen that the use of e-commerce among MSMEs has a fairly large percentage. E-commerce is used in the form of social media, marketplaces, websites, and others. Data on internet usage by MSMEs has a percentage of 87.43%, of which the percentage of micro-businesses that run their business online is 63.59%, small businesses that run their business online are 65.04%, and medium-sized businesses that run their business online have the largest percentage at 72.04%. In addition, the percentage of

MSMEs selling online through social media is greater than in the marketplace. Based on the attributes of the digital economy described by Don Tapscott, globalization is one thing that opens up opportunities for local MSMEs. What is meant is the unlimited space, distance, and time between sellers and potential buyers on various national and international scales. National and global markets can be reached efficiently and at minimal cost through e-commerce (Cassia and Magno, 2022). The ease of facilities provided by e-commerce makes the percentage of e-commerce usage large in 10 provinces in Indonesia. Thus, the provinces used in this study are based on the 10 provinces with the largest percentage of the use of e-commerce.

TABLE 1.1

The Use of E-Commerce Data For 10 Provinces in Indonesia

Provinces	Year	The Use of E-commerce (%)
Lampung	2018	18.48
	2019	92.25
	2020	34.13
Bangka Belitung Islands	2018	12.08
	2019	88.74
	2020	24.84
Riau Islands	2018	17.23
	2019	94.95
	2020	33.27
DKI Jakarta	2018	17.85
	2019	96.58
	2020	41.23
West Java	2018	20.46
	2019	88.25
	2020	32.29
Central Java	2018	17.02
	2019	95.53
	2020	29.3

Provinces	Year	The Use of E-commerce (%)
Special Region of Yogyakarta	2018	27.88
	2019	90.65
	2020	33.29
East Java	2018	19.92
	2019	90.31
	2020	29.71
Banten	2018	15.39
	2019	83.38
	2020	25.37
Bali	2018	17.44
	2019	87.61
	2020	24.83

Source: Central Statistics Agency (BPS)

According to the table above, data on MSMEs in 10 provinces in Indonesia shows that the use of e-commerce from 2018 to 2019 experienced a significant increase with the percentage is more than 80%. However, from 2019 to 2020, the use of e-commerce among MSMEs in 10 provinces in Indonesia experienced a significant decrease due to the emergence of the COVID-19 pandemic which made the activities temporarily halted.

The use of e-commerce also allows MSMEs to expand their businesses products through the export, which has continued to grow in recent years. According to Freunda and Weinhold (2004), in their research entitled "The Effect of the Internet on International Trade", it is explained that every 10% increase in web host growth grows exports by 0.2%, which means that internet use has an impact on activities related to customers, distribution channels, and markets for exporters. As a result, when the export process occurs, it increases asset turnover, market share, sales growth, and attracts new customers. In particular, e-commerce

is an easy way to internationalize MSMEs. According to Alarc_ondel-Amo et al (2018), the rapid development of e-commerce is able to make it easier for MSMEs to increase their international activities by accelerating market entry, enriching internationalization capabilities, and supporting customer relationship management. In line with the research of Ma et al. (2021), the development of exports through e-commerce can have a positive effect on increasing the regional economy in a province.

The development of e-commerce is supported by the increasing number of internet users and the activities that occur on them (Wibowo, 2020 in Pratiwi, K. D., 2022). Based on a survey released by We Are Social and Hootsuite (2019) in Pratiwi, K. D. (2022), indicates that internet users in Indonesia have searched for and purchased goods or services online with a percentage of 93% and 86%, respectively. Based on the president's statement, Jokowi Widodo, Indonesia has 65.4 million MSMEs in 2021. MSMEs have an important role in building the national economy, with a contribution of 61% and employment of 97% (Novianto, R. D., 2022). According to research by Maisaroh and Risyanto (2018), the development of information technology as an effort to expand national MSMEs in various provinces is expected to increase the participation of local labors as capital for regional development and encourage regional economic growth.

MSMEs have an important role as an alternative to the movement of the Indonesian economy. This is due to the flexible and easy nature of MSMEs to innovate both in business and by applying appropriate technology. In addition, MSMEs produce products or services that are needed by people in various regions

so that they are able to reduce the economic gap between the poor and the rich in rural and urban areas. MSMEs' productivity also utilizes local resources, both local labors and local raw materials.

According to Bustam (2016), MSMEs are a business sector that has good business potential where the more MSMEs develop, the absorption rate of labors also increases. Based on data from the Ministry of Cooperatives and Small and Medium Enterprises, the number of MSME business units is 99.9%, with a labors absorption rate of 97.22%. MSMEs are an alternative to absorbing labors and reducing the current unemployment rate through entrepreneurship because, on average MSMEs are able to absorb 3-5 labors. The nature of MSMEs businesses that are resistant to various kinds of economic shocks is also flexible, making this business sector very easy to innovate and develop under dynamic market conditions.

Because of the importance of developing MSMEs, the Indonesian government pays high attention to MSMEs through the G-20 presidency program by issuing a Business Identification Number for MSMEs actors. This one is the first step for business actors to be able to export. This is done to provide convenience for local MSMEs in developing their businesses, one of which is by exporting.

The export trend that followed was driven by the development of technology in the trade sector. MSMEs' digitalization is one way to develop their business as a way to enter the international or global market. Production effectiveness using advanced technology makes it easier for business actors to

produce their business results. Product marketing efficiency through e-commerce also makes it easier for business actors to introduce their products to potential consumers on a global scale.

Economic digitalization is starting to play an important role that has a positive impact on regional and national economic growth. The development of information technology has been able to create e-commerce as a facility that is able to provide its users with various conveniences. The development of e-commerce is then able to provide significant changes to regional and national economic activities. According to Parikesit (2020), this is in line with the 2020-2024 National Medium-Term Development Plan, where the strengthening of the digital economy is one of the efforts to encourage Indonesia's economic growth. Therefore, this study aims to see how the influence of economic digitalization on regional economic growth in 10 provinces (Lampung, Bangka Belitung Islands, Riau Islands, DKI Jakarta, West Java, Central Java, Special Region of Yogyakarta, East Java, Banten, and Bali) in Indonesia.

Based on the explanation above, it can be concluded that further research is needed using different methods and samples so that they can be used as references or comparisons for further researchers. For this reason, the author takes the title "An Analysis of the Influence of Micro, Small, and Medium-sized Enterprises (MSMEs) Digitalization and the Number of Labors on Regional Gross Domestic Product".

B. Limitation of Problems

In this study, researchers limit their research:

1. Case studies conducted at 10 provinces in Indonesia namely, Lampung, Bangka Belitung Islands, Riau Islands, DKI Jakarta, West Java, Central Java, Special Region of Yogyakarta, East Java, Banten, and Bali.
2. The variables studied are as follows:
 - a. The dependent variable (Y) is RGDP (Regional Gross Domestic Product)
 - b. The independent variables are internet user (X1), the use of e-commerce (X2), e-commerce export (X3), and the number of labors (X4).

C. Problem Formulations

Based on the background description above, the research problem formulation is as follows:

1. How does the internet user variable influence RGDP (Regional Gross Domestic Product)?
2. How does the use of e-commerce variable influence RGDP (Regional Gross Domestic Product)?
3. How does the e-commerce export variable influence RGDP (Regional Gross Domestic Product)?
4. How does the number of labors variable influence RGDP (Regional Gross Domestic Product)?

D. Purpose

Based on the above problem formulation, the objectives of this study are as follows:

1. To analyze the influence of internet users on RGDP (Regional Gross Domestic Product).
2. To analyze the influence of the use of e-commerce on RGDP (Regional Gross Domestic Product).
3. To analyze the influence of e-commerce export on RGDP (Regional Gross Domestic Product).
4. To analyze the influence of the number of labors on RGDP (Regional Gross Domestic Product).

E. Benefit

1. For Authors

This study is to add insight, knowledge, and mindset in understanding the influence of MSME digitalization on the growth rate of RGDP. In addition, this research can also be a forum for researchers in implementing all the knowledge that has been gained while on the lecture bench with the actual situation in the field.

2. For the Government

This research can be used as material for analysis and evaluation of policies on the use of electronic commerce among MSMEs in Indonesia as a new point of economic growth.

3. For Readers

This research can provide information and can be a reference for further similar research.