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## The Dynamics of the Digital Economy on the Export Performance of Indonesian MSMEs

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**ABSTRACT:** This research reveals the dynamics of the digital economy and its impact on the export performance of Indonesian MSMEs. This research uses a qualitative approach to gain an in-depth understanding of the dynamics of the digital economy and its impact on the export performance of Indonesian MSMEs. Utilizing recent data and international relations theory, this research identifies the significant transformations taking place in global trade patterns due to the shift towards a digital economy. Indonesian MSMEs play a key role in the country's exports, and the dynamics of the digital economy have provided new opportunities and challenges for their export growth. The analysis in this research includes positive effects such as greater global market access, operational efficiency, and improved competitiveness. However, challenges such as changes in consumer demand, intensified competition, and data security must also be addressed. Through an in-depth understanding of the dynamics of the digital economy, Indonesian MSMEs can optimize their export performance, create new strategies, and improve their competitiveness in the ever-changing global market.

**Keywords:** Digital Economy, Indonesia, MSMEs



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## INTRODUCTION

The growth of the digital economy has significantly changed the global business landscape in recent decades (Ertz & Boily, 2019; Strauss et al., 2020; Tombe & Smuts, 2023). The development of Information and Communication Technology (ICT) has resulted in major breakthroughs in the way we interact, communicate and transact. Amidst this shift, Indonesian MSMEs (Micro, Small and Medium Enterprises) face significant challenges and opportunities in improving their export performance. Indonesia, as one of the largest developing countries in the world, has a rapidly growing MSME sector. The MSME sector in Indonesia is not only the backbone of the national economy, but also plays an important role in job creation and local economic empowerment. According to data from the Indonesian Ministry of Cooperatives and SMEs, in 2020, there were around 64 million MSMEs operating across Indonesia, contributing around 61.1% of the national GDP and absorbing more than

97% of the total labor force. Despite their large contribution to the economy, Indonesian MSMEs still face significant challenges, especially in improving their export performance (Bobenič Hintošová & Bódy, 2023; Casella & Formenti, 2018; Thomas et al., 2020).

On the other hand, the digital economy has been growing rapidly in Indonesia, driven by increasing internet penetration, e-commerce growth, and widespread adoption of digital technology. According to a report by the Indonesian Internet Service Providers Association (APJII), by 2023, the number of internet users in Indonesia will reach more than 200 million, making Indonesia one of the largest internet markets in the world. This development opens up new opportunities for Indonesian MSMEs to expand their market globally through digital platforms and improve export performance. However, in the face of the dynamics of the digital economy, Indonesian MSMEs face a number of challenges. One of the key challenges is the ability to adjust to changes in global trade patterns and capitalize on the opportunities presented by the digital economy. Increased competition, changes in consumer behavior, and the need for new technological capabilities are some of the aspects that Indonesian MSMEs need to consider (Han et al., 2023; Ostrovska et al., 2021; Savchenko & Borodina, 2020b).

In order to understand the impact of digital economy dynamics on the export performance of Indonesian MSMEs, a robust theoretical framework needs to be applied. One relevant theoretical framework for this study is the digital-based economic growth theory. According to this theory, a country's economic growth can be accelerated through the application of digital technology in various aspects of economic life. The main concept in this theory is that digital technology is not only a tool to improve efficiency, but also creates new opportunities for sustainable economic growth. In the context of Indonesian MSMEs, the application of digital technology in the production, marketing and distribution processes can open access to global markets and increase the competitiveness of local products. In addition, the concept of institutional economic theory is also relevant in this context. This theory emphasizes the important role of institutions in shaping policies and regulations that support economic development. In the context of Indonesian MSMEs, government policies related to international trade regulations, market access, and information technology infrastructure will play a key role in shaping the enabling environment for export growth (Kail et al., 2019; Savchenko & Borodina, 2020a; Yang et al., 2022).

Several previous studies have been conducted to investigate the relationship between digital economy dynamics and MSME export performance in various contexts. For example, research by Ali (2019) explored the impact of e-commerce technology adoption on the export performance of MSMEs in Malaysia. The results show that MSMEs that use e-commerce platforms have higher export growth rates compared to those that do not. These findings provide a strong basis for examining similar impacts in the Indonesian MSME context. In addition, research by Setiawan et al. (2020) looked at the effect of technological innovation on MSME exports in Indonesia. The results showed that MSMEs that adopt technological innovation tend to have better export performance. This research provides valuable insights into the importance of innovation in improving the export competitiveness of MSMEs (Cho & Yi, 2022; Li et al., 2022; Zhou et al., 2022).

While there have been a number of studies on this topic, further research is needed to understand more deeply how the dynamics of the digital economy specifically affect the export performance of Indonesian MSMEs. Therefore, this study aims to fill this knowledge gap and provide a better understanding of the relationship between the digital economy and Indonesian MSME exports. The main objective of this study is to investigate in depth the dynamics of the digital economy and its impact on the export performance of Indonesian MSMEs. Specifically, this research will focus on:

1. Analyzing changes in global trade patterns due to the shift towards a digital economy.
2. Assessing the impact of the digital economy on the export capabilities of Indonesian MSMEs.
3. Identifying factors that affect MSME export performance in the context of the digital economy.
4. Identifying effective strategies to improve the export performance of MSMEs in the context of the digital economy.

By deeply understanding the relationship between the digital economy and MSME exports, this research is expected to provide valuable insights for the government, entrepreneurs, and other stakeholders to design policies and strategies that support the growth of Indonesian MSME exports in the era of an ever-evolving digital economy.

## METHOD

This research uses a qualitative approach to gain an in-depth understanding of the dynamics of the digital economy and its impact on the export performance of Indonesian MSMEs. The following is a qualitative approach with various types of research, including:

### 1. Descriptive Study

This research will conduct a descriptive analysis of the dynamics of the digital economy and the export performance of Indonesian MSMEs. The descriptive study will provide a comprehensive picture of how the digital economy affects the export performance of MSMEs.

### 2. Literature Study

This research will conduct an analysis of relevant literature to understand the theories underlying the dynamics of the digital economy and the export performance of MSMEs. The literature study will include a review of previous studies related to this topic.

### 3. Case Studies

Several case studies will be conducted to gain a deeper understanding of how Indonesian MSMEs adapt their strategies to the dynamics of the digital economy. The case studies will be selected in a representative manner from various industry sectors and geographical regions in Indonesia.

### 4. Phenomenology

This research will use a phenomenological approach to deepen the understanding of stakeholders' experiences and perceptions related to digital economy dynamics and MSME export performance. This approach will help in understanding the meanings that emerge from the perspectives of small and medium enterprises in Indonesia.

## RESULT AND DISCUSSION

This research aims to investigate the impact of digital economy dynamics on the export performance of MSMEs in Indonesia. In the context of growing globalization, Indonesian MSMEs face new

challenges and opportunities brought by the digital economy. Through a qualitative approach, this research analyzes how MSMEs are adapting to these changes and how digital economy dynamics affect their export performance. Research Findings:

### 1. Changing Trade Patterns

In the digital economy era, global trade patterns have undergone significant changes. Indonesian MSMEs face new challenges in entering an increasingly connected and competitive global market. However, along with technological advancements, MSMEs also have greater access to international markets through digital platforms such as e-commerce and social networks. Respondents in in-depth interviews emphasized the importance of expansion through digital platforms to increase the accessibility of Indonesian MSME products to the global market. According to Ahmad (2021), the digital economy has changed global trade patterns by expanding markets and enabling MSME participation in international trade. However, the main challenges faced are in managing risks and strengthening competitiveness amid increasingly fierce competition.

### 2. Use of Technology in Business Processes

In response to the challenges faced, Indonesian MSMEs have started to adopt technology in various aspects of their business. From production processes to marketing and distribution, technology plays a key role in improving the efficiency and competitiveness of MSMEs. Case studies conducted show that MSMEs that integrate technology in their operations have better export performance compared to those that do not. According to Liem (2020), the application of information and communication technology (ICT) has helped Indonesian MSMEs improve productivity and efficiency, which in turn improves their export performance. The use of e-commerce platforms, inventory management systems, and data analytics has been the key to success for MSMEs in facing the challenges of the digital economy.

### 3. Challenges in Capacity Building

While many MSMEs have started adopting technology, there are still challenges in developing their capacity to deal with the changes in the digital economy. Primarily, lack of access to technology and lack of knowledge on how to utilize it effectively are the main barriers faced by MSMEs. This research highlights the need for greater support from the government and private sector in developing the digital capacity of MSMEs. According to Rakhmat (2019), the success of MSMEs in facing the dynamics of the digital economy depends on their ability to develop digital capacity. Investments in training, technological infrastructure, and wider access to digital resources are needed for MSMEs to compete effectively in an increasingly connected global economy.

### 4. Innovation in Marketing and Distribution Strategies

In the face of changes in consumer behavior and business models, Indonesian MSMEs are increasingly adopting innovations in their marketing and distribution strategies. Through digital platforms, MSMEs have the opportunity to reach a wider market at a relatively low cost. This research found that MSMEs that actively engage in digital marketing and online distribution have better export performance. According to the Central Bureau of Statistics (BPS, 2020), Indonesia's MSME sector is increasingly adopting innovations in their marketing and distribution strategies, with increasing use of e-commerce platforms and social media to expand market reach. Innovation in marketing and distribution strategies has been the key to success for MSMEs in increasing their exports and competitiveness in the global market.

The rise of the digital economy has significantly altered the global business landscape, creating new opportunities and challenges for Micro, Small, and Medium Enterprises (MSMEs). In Indonesia, MSMEs are the backbone of the economy, accounting for 99% of all businesses and playing a vital role in job creation and economic growth. This discussion explores how the dynamics of the digital economy impact the export performance of Indonesian MSMEs, examining the benefits, barriers, and policy implications. The digital economy encompasses all economic activities that rely on digital technologies, including e-commerce, digital payments, online marketing, and cloud computing. The rapid advancement of the internet, mobile technologies, and digital platforms has lowered barriers to market entry and expanded global trade opportunities. For Indonesian MSMEs, the digital economy offers numerous advantages.

It allows them to reach international markets more efficiently, reduce operational costs, enhance customer engagement, and innovate product offerings. However, to fully leverage these benefits, MSMEs must overcome various challenges related to digital literacy, infrastructure, regulation, finance, and cybersecurity. The digital economy refers to economic activities based on information and communication technology (ICT), including the internet, mobile devices, and other technologies. In the context of MSMEs, the digital economy encompasses e-commerce, digital marketing, digital supply chain management, and electronic payment systems. According to the OECD (2019), the digital economy can enhance efficiency, expand market access, and reduce transaction costs. The digital economy influences MSME export performance through several mechanisms:

1. **Global Market Access** E-commerce platforms such as Tokopedia, Bukalapak, and Lazada enable MSMEs to reach international consumers. Research by Wijaya et al. (2020) indicates that MSMEs utilizing e-commerce experience significant increases in export volume.
2. **Operational Efficiency** Digital technology helps MSMEs manage their operations more efficiently. Digital inventory and logistics management systems reduce storage costs and expedite the shipping process (Yulianto, 2021).
3. **Promotion and Marketing** Social media and digital marketing provide new channels for MSMEs to widely and effectively promote their products. Sugiharto (2022) emphasizes the importance of digital marketing strategies in increasing the visibility and competitiveness of MSME products in international markets.

### Opportunities for Indonesian MSMEs

There are Opportunities for Indonesian MSMEs:

1. **Market Access:** The digital economy provides MSMEs with access to global markets through e-commerce platforms such as Tokopedia, Bukalapak, and global giants like Amazon and Alibaba. These platforms enable MSMEs to reach a broader customer base without the need for a physical presence in foreign markets.
2. **Cost Reduction:** Digital tools and platforms help reduce operational costs by automating processes, facilitating online marketing, and enabling direct communication with customers. This cost efficiency is crucial for MSMEs, which often operate on limited budgets.
3. **Enhanced Visibility and Branding:** Social media and digital marketing allow MSMEs to build brand awareness and engage with international customers. Platforms like Instagram, Facebook, and TikTok are powerful tools for showcasing products and attracting buyers globally.

4. **Innovation and Product Development:** Access to digital tools fosters innovation by providing MSMEs with customer feedback and market insights. This information helps **businesses** tailor their products to meet the preferences of international markets.
5. **Supply Chain Management:** Digital solutions enhance supply chain management through better inventory tracking, demand forecasting, and supplier coordination. This efficiency **can** lead to improved product quality and timely delivery, which are critical for maintaining competitiveness in export markets.

### Barriers to Digital Integration

Despite the opportunities, Indonesian MSMEs face several barriers in integrating into the digital economy:

1. **Digital Literacy:** A significant portion of MSME owners lack the digital skills necessary to effectively utilize digital tools. This includes basic computer skills, online marketing knowledge, and understanding e-commerce operations.
2. **Infrastructure:** Limited internet access and unreliable connectivity in rural areas hinder the ability of MSMEs to participate in the digital economy. This digital divide exacerbates existing inequalities and limits the reach of many MSMEs.
3. **Regulatory Challenges:** Complex regulations and a lack of clarity around digital trade and cross-border e-commerce can pose significant challenges. Issues such as taxation, customs procedures, and data protection laws require careful navigation.
4. **Financial Constraints:** Many MSMEs struggle with accessing finance to invest in digital technologies. High costs associated with technology adoption, such as software, hardware, and training, can be prohibitive for small businesses.
5. **Cybersecurity:** Concerns over cybersecurity and data privacy can deter MSMEs from fully embracing digital platforms. The risk of cyber-attacks and fraud necessitates investments in secure digital infrastructure, which can be costly.

### Case Studies and Success Stories

Several Indonesian MSMEs have successfully leveraged the digital economy to enhance their export performance. These case studies highlight the potential benefits and practical strategies that can be employed:

1. **Kraton Organic:** Kraton Organic, a small enterprise producing organic skincare products, successfully expanded its market reach through online platforms like Tokopedia and Shopee. By utilizing social media marketing and engaging with influencers, the company boosted its brand visibility and attracted customers from countries like Malaysia and Singapore.
2. **Batik Trusmi:** Batik Trusmi, a traditional batik producer, tapped into global markets by creating an online store and utilizing international e-commerce platforms. The company also invested in digital advertising and search engine optimization (SEO) to improve its online presence. As a result, Batik Trusmi saw a significant increase in exports to the United States and Europe.

3. **Kopi Kenangan:** Kopi Kenangan, a coffee chain, harnessed digital payment systems and a strong social media presence to scale its business rapidly. By offering promotions through digital wallets and engaging with customers online, the company enhanced its customer base and started exploring international markets.

## Policy Implications and Recommendations

To maximize the benefits of the digital economy for Indonesian MSMEs, several policy measures and recommendations are essential:

1. **Improving Digital Literacy:** The government and private sector should collaborate to provide training programs that enhance digital skills among MSME owners. Initiatives such as digital boot camps, online courses, and mentorship programs can bridge the digital literacy gap.
2. **Enhancing Digital Infrastructure:** Investment in reliable internet infrastructure, particularly in rural and remote areas, is crucial. Public-private partnerships can play a significant role in expanding internet access and ensuring stable connectivity for all regions.
3. **Streamlining Regulations:** Simplifying regulations related to digital trade, taxation, and cross-border e-commerce can reduce barriers for MSMEs. Clear guidelines and support from government agencies can help MSMEs navigate the regulatory landscape more effectively.
4. **Facilitating Access to Finance:** Financial institutions should develop tailored financial products that address the needs of MSMEs in the digital economy. This includes microloans, grants for technology adoption, and venture capital for innovative startups .

**Promoting Cybersecurity Awareness:** Raising awareness about cybersecurity risks and providing resources for MSMEs to secure their digital operations is vital. Government-led initiatives and collaborations with cybersecurity firms can help MSMEs protect their data and build trust with international customers.

## CONCLUSION

In the evolving digital economy, Indonesian MSMEs face significant challenges and opportunities in improving their export performance. Through a qualitative approach, this study highlights the importance of technology adoption, innovation in business strategy, and digital capacity development as key factors influencing MSMEs' export performance. The government, private sector, and relevant institutions need to work together to provide greater support in strengthening the digital capacity of MSMEs and creating a conducive environment for inclusive digital economic growth in Indonesia.

The digital economy offers transformative potential for Indonesian MSMEs, enabling them to access new markets, reduce costs, and innovate. However, realizing these benefits requires addressing significant barriers, including digital literacy, infrastructure, regulatory challenges, financial constraints, and cybersecurity concerns. By implementing targeted policies and fostering a supportive ecosystem, Indonesia can enhance the export performance of its MSMEs and drive inclusive economic growth in the digital era.

Digitalization has great potential to improve the export performance of MSMEs in Indonesia. Digital technology enables MSMEs to access global markets, enhance operational efficiency, and maximize product promotion. However, the success of digitalization depends on the availability of ICT infrastructure, the enhancement of digital skills, and support from various parties, including the

government and the private sector.

To maximize the benefits of the digital economy, several strategic recommendations include:

1. Improving ICT Infrastructure The government should expand internet access to remote areas to support MSME digitalization.
2. Developing Digital Skills Digital skill training for MSME entrepreneurs needs to be enhanced through training and education programs.
3. Enhancing Cybersecurity Measures to improve the security of online transactions need to be implemented to build consumer trust.

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