

The Government's Policy in Encouraging the Global Competitiveness of Indonesian MSMEs through the Digital Ecosystem

ABSTRACT

Digital platforms or marketplaces are part of digital economy which is very developed in Indonesia. This digital economy can be an advantage for Indonesian MSMEs, as one of the potential economic driving actors.

Aims: This research is conducted to analyze how the government's policy in encouraging the global competitiveness of Indonesian MSMEs through the digital ecosystem.

Methodology: This is a descriptive qualitative research, using library research methods. Data collected then described the situation or the phenomena in detail using descriptive analysis methods.

Results: To encouraging the global competitiveness of Indonesian MSMEs, the government launched MSMEs go global and go digital through synergies between various main players to provide financing, coaching and markets. The government establishes policies that lead to increased technological progress, socioeconomic adjustments by utilizing geopolitics, and supports environmental changes that encourage MSMEs to adapt to the digital ecosystem.

Conclusion: The government as regulatory institutions need to ensure those providing digital ecosystem apply sufficient protection to the MSMEs growth. As the digital economy spreads around the world, it will be interesting to see how businesses adjust, adapt and adopt available digital tools to their daily activities. It is important about how the government policy of a nation respond this phenomenon, while the whole economy becomes more digitally inter-connected going forward.

Keywords: competitiveness, digitalization, Indonesia, MSMEs, government policy.

1. INTRODUCTION

The main issues of the Fourth Industrial Revolution **are** the digitization of economic transactions and markets. The Fourth Industrial Revolution is fundamentally changing the way we live, work and create value around the world. New technologies and applications are connecting individuals, organizations and machines at unprecedented scale and speed. This revolution is transforming the service sector with widespread applications in retail markets, finance, manufacturing, agricultural production and value chains (ADB, 2021). Digital platforms or marketplaces are part of this new digital economy which is very developed in various countries, including in Indonesia.

Indonesia, Southeast Asia's largest economy, saw a significant increase in the value of its digital industry from US\$41 billion in 2019 to US\$77 billion in 2022. This value is expected to increase to US\$130 billion by 2025. The national economic is gaining, mostly due to the e-commerce industry. Such forecasts put a strong spotlight on the potential of the country's

digital economy especially by the huge number of micro, small and medium enterprises (MSMEs) (Negara & Sugiana, 2022).

To gauge Indonesia's digital progress, McKinsey conducted research and analysis in 20 selected markets around the world. Its results show that Indonesia is in the early stages of digitization. But this country presents a strange contradiction. Digital residents are one of the most active nations in the world, and while the country boasts a vibrant startup ecosystem, it lags behind in terms of reaping the benefits of modern technology. ICT infrastructure is low, and digital penetration is uneven within and across different economic sectors. Indonesia's connected population is tech-savvy, but internet penetration is weak. In short, Indonesia still has a long way to go in the digital age (Das et al., 2016).

The digital economy plays an important role in promoting sustainable economic development. There are reasons why Indonesia is a soft market for economic players. First, Indonesia's e-commerce market is growing well. Second, the population continues to grow, with 70% of her 213 million people under her 40s. Third is the rapid increase in social media users in Indonesia. Fourth is the rapid population growth of middle and upper class people (Aniqoh, 2020).

In addition, COVID-19 pandemic, is impacting the production of many companies and raising concerns about the resilience of their supply chains. Much of the discussion on this topic in developed countries focuses on reshoring and relocation. 16% to 26% of exports worth \$2.9 trillion to \$4.6 trillion in 2018 could go to new countries, according to MGI research. Economic arguments are generally the most rational for changing labor-intensive value chains (Tonby et al., 2020). This condition indicates that there is an opportunity to achieve global competitiveness by utilizing the existing digital ecosystem. For Indonesia, which already has a very large number of MSMEs, this opportunity is increasingly open to encourage MSMEs to compete and increase their competitiveness in the global market.

According to the ASEAN Investment Report released in September 2022, Indonesia has the most MSMEs in the ASEAN region. The report notes that the number of MSMEs in Indonesia in 2021 will reach around 65.46 million units. This number is much higher than Indonesia's neighboring countries. In fact, in 2021 Indonesian MSMEs are recorded to be able to contribute 14.4% to national exports (Ahdia, 2022). Moreover, cumulatively, in 2021 there will already be 21 million or around 32% of the total 64 million MSMEs in Indonesia who are utilizing digital technology (Yusuf, 2022). This provides a great opportunity for Indonesia to increase the competitiveness of MSMEs to compete at the global level, especially by utilizing the existing digital ecosystem.

In line with this rapid growth and opportunity, the government has ambitions to promote the country as a digital hub in Southeast Asia. To achieve this objective, it is planned to increase investment in digital infrastructure, data center construction and digital talent. In addition, the government aims to attract more MSMEs into the digital market, reaching 30 million MSMEs by 2030 (Negara & Sugiana, 2022). The value chain is subject to maximum scrutiny and possibly state intervention due to the perceived importance of high quality cutting edge technology and national competitiveness.

The unequal sharing of the benefits of digital transformation is widening the digital divide between companies and industries at the national level, exacerbating global development gaps and imbalances. Therefore, to understand the current state of digital transformation, there is an urgent need to create a country-level analytical model that goes beyond company-level analysis. It is also important to diagnose existing government's role in encouraging the global competitiveness of MSMEs through the encouraging digital ecosystem in Indonesia.

Therefore, although the situation remains difficult, Indonesia, including all its components, is committed to achieving a sustainable economy, both at the administrative (central and local) level and at the community level, both as a producer and as a consumer. It is hoped that the government will continue to strongly commit to the realization of development. Not just from an industrial player perspective, but also from a digital ecosystem. This background is the

basis of this research to analyze how the government's policy in encouraging the global competitiveness of Indonesian MSMEs through the digital ecosystem.

2. MATERIAL AND METHODS

Considering the characteristics of the research and the appropriate way of obtaining research data in this study, this research was conducted using a qualitative descriptive method. In regard to this method, the researchers wished to observe and describe the how the government's policy in encouraging the global competitiveness of Indonesian MSMEs through the digital ecosystem specifically. The researchers also wanted to discover and interpret the Indonesian policy in responding the issues about this digital ecosystem, which in turn can influence the policies taken by the government.

This research is based on Literature Research and data collection is done by collecting secondary data that discusses the Indonesian government's role, strategy and policy in conducting efforts to create a digital ecosystem to encourage MSME capacity building. This research is limited to looking at the role of Indonesian government on MSMEs by building a digital ecosystem.

Besides, the data analysis was completed through a process of systematically in finding and organizing the literature review or the library research. Then, the data were sorted and grouped to establish the research focus and theory to find the conclusion. In data analysis, the researcher described the situation or the phenomena that form the character in detail.

3. RESULTS AND DISCUSSION

In recent decades, the world's industries have faced technological change that has not only created opportunities for increased flexibility, responsiveness and product customization, but also rapid technological change, increased complexity and customer. They also face diverse challenges such as changing tastes and regulatory requirements. This creates a difficult situation within the economic players, both in local and global environment.

The digital economy, made possible by rapid advances in information and communication technologies such as the Internet. Internet is creating a new digital ecosystem in which all companies, from digital economy leaders to digitally cautious companies, must compete. In the scientific literature, the changing business environment influenced by the digital economy is called Industry 4.0, or the Fourth Industrial Revolution, and is considered a symbiosis between the traditional physical world and the virtual world (Alexandrova et al., 2020).

In Indonesia, this digital economy owns the high popularity of its activity, especially by small medium enterprises that have no official offline store. They have also contributed to the rising popularity of the growing number of digital economy. Even more, the COVID-19 pandemic shows an increase in online shopping activities by 320% (Aristi & Pratama, 2021). The surge of Internet users has given a broad opportunity to many Indonesians to be part of that digital economy. Indonesia is a very dynamic market in the digital economy and the digital economy's contribution to the global economy continues to grow. According to the Global Digital Economy Development Report 2021, Indonesia's digital economy is the largest in Southeast Asia, accounting for 40% of the entire Southeast Asian market (Yuning et al., 2023).

The Indonesian government realizes the huge potential that Indonesian MSMEs have to go global. Therefore, various policies continue to be strengthened for the development of MSMEs which have a strategic role in the economy through the pillars of corporatization, capacity and financing so as to support strong and inclusive economic growth. Efforts to transform MSMEs are pursued through the use of digitalization to increase resilience and capacity to be more productive and innovative. MSME development policies are also

supported by synergies that continue to be strengthened between various main actors (Bank Indonesia, 2020).

MSMEs are the most important pillar in the Indonesian economy. The contribution of MSMEs to the Indonesian economy is that they have the ability to absorb 97% of the total workforce and can collect up to 60.42% of the total investment. However, the export capability of MSMEs is still limited to around 14.37% of total exports and the utilization of e-commerce is also still low at around 21%. Based on exporter data for 2020, there were 12,234 SME exporters or 83.3% of the total exporters with an export value of USD 5.3 billion. In general, MSME export potential is still dominated by products such as accessories, batik, crafts, fashion, and processed food and beverages (Limanseto, 2021).

Even though MSMEs are ready to export, they still experience various obstacles such as a lack of knowledge of foreign markets, consistency of product quality and capacity, certification, and logistical problems. The government continues to strive to help MSMEs in order to overcome these obstacles. Ministries, Institutions and other related parties have launched the Program to Create 500 thousand New Exporters by 2030 (Kominfo, 2021).

Within this framework, the Indonesia Ministry of Cooperatives and SMEs launch four main program pillars align with the strategic planning document (2020-2024), namely Go Digital, Go Formal, Go Modern, and Go Global (Soepardjo, 2023). Through these pillars, MSMEs are encouraged to have increased capacity, especially to achieve global competitiveness through digital media. The two main pillars that are emphasized in this research, and which are most often echoed in various government programs and policies are UMKM Go Digital and UMKM Go Global. These two pillars are an important synergy to support the competitiveness of Indonesian MSMEs towards the export market. This means that the Indonesian government requires a series of policies to support the establishment of a digital ecosystem for MSMEs or digitization.

The definition of digitization itself can be interpreted as "Digitalization is the process of converting analogue data into digital data sets which exploits digital opportunities like digital transformation. Used for restructure economies, institutions and society at system level" (Rachinger et al., 2019). In order to encourage digitalization, a supportive digital ecosystem is needed. Inspired by Rust, research by Wichmann et al. (2022) identify three fundamental shifts that have important role in the digital ecosystem: (i) advances in technology, (ii) socioeconomic and geopolitical shifts, and (iii) environmental changes. These three things are also the basis for this research to identify government policies in creating a digital ecosystem to support the global competitiveness of Indonesian MSMEs.

3.1. Policy for Advances in Technology

A company's competitiveness is determined by its competitive advantage. The more competitive advantages an economy operator can achieve, the more likely it is to be competitive. At the current stage of digital economy development, there is no doubt about the importance and necessity of digital economy technology. Digital economy technology is important matter to encourage businesses to take a more responsible approach to gaining competitive advantage.

Indonesia has an increasing acceptance of all advanced technologies such as: mobile internet, cloud technology, internet of things, and advanced big data analytics. These four technologies effectively provide a solid foundation for future investment and productivity gains. Although this is still in its early stages, the digital revolution has already arrived in Indonesia since 2015 (Das et al., 2016). Despite Indonesia making progress in each of her four disruptive technologies, the country still has a long way to go.

A key area that Indonesia needs to focus on to sustain the growth of the digital economy is improving the country's digital infrastructure in both software and hardware. Digital services need to becoming "infrastructural", by means of cheaper, smaller, more powerful, networked technology (Heidlund & Sundberg, 2023). These include more effective regulation and

enforcement to combat illegal and fraudulent websites that provide financial services online, increased public awareness of the downsides of going online, and digital literacy, especially outside of Java, including the promotion of the latter through free or discounted online digital literacy courses and workshops. Additionally, regulators must ensure that companies that provide online services provide adequate protection against cyberattacks, cybercrime, and the loss of personal data. Infrastructure technology has great potential to further extend online services to remote and sparsely populated areas (Negara & Sugiana, 2022).

E-commerce in Indonesia is growing rapidly but is constrained by limited access to technology, a lack of technological savviness (Das et al., 2016). This makes policies to build an adequate digital ecosystem in Indonesia an important matter. As a result of the embedded use of this emerging digital technology, companies can optimize resource utilization, reduce costs, increase employee productivity and labor efficiency, optimize supply chains, improve customer retention and satisfaction, and more (Rachinger et al., 2019).

To advance technology, Indonesia is also trying to improve existing digital infrastructure facilities. The Indonesian government attaches great importance to the development of the country's network communications industry infrastructure and has made it an important strategic area for national connectivity in its 15-year medium-term construction plan for the national economy (2011-2025), and is committed to promoting global fiber optic network coverage, broadband network connectivity in Indonesia, and promoting the convergence and development of the Internet with other regions. Other key areas, currently, 4G service is developing well in Indonesia and the main networks used by Indonesian consumers are 4G and WIFI, and the impact of 5G will be huge on the development of the Internet in Indonesia, the explorations remote technology, smart home and smart car in Indonesia in the future, taking into account the current trend of the digital economy (Yuning et al., 2023).

Various steps taken by Indonesia have shown efforts to encourage technological improvements to support MSMEs Go Global and Go Digital. Nevertheless, the infrastructure construction policy currently proposed by the Indonesian government is still at a popular stage, and the construction of transportation and logistics continues to improve strongly. Indonesia's current big data computing and analytics capabilities are still building and developing a weak cultural environment. On the World Bank's Digital Adoption Index, Indonesia is ranked poorly. However, as money pours into their economies and governments set up significant programs to support digitization, their adoption rates are among the highest. From less than 5 percent in 2011 to 80 percent in 2018, mobile e-commerce penetration in Indonesia increased significantly—a significant shift in a short period of time (Tonby et al., 2020).

Indonesia has just started construction in this area. It can be seen that the policy direction of Indonesia's digital economy is more geared towards transforming and optimizing the underlying environment for the development of the digital economy. Indonesian economies are at a relatively early stage in their technology development. With everything that has been achieved, efforts are still needed to further increase synergy in achieving the target of Go Digital and Go Global for its MSMEs.

3.2. Policy for Socioeconomic and Geopolitical Shifts

In the policy for Socioeconomic and Geopolitical Shifts, Indonesia seeks to create an ecosystem that is able to encourage competitiveness, interest and efforts for MSMEs to enter the global market. The government has a Program to Create 500 thousand New Exporters until 2030. In an effort to achieve this target, the Proud Made in Indonesia National Movement (Gernas BBI) program has been launched which aims to encourage digitalization (onboarding) for offline MSMEs and encourage national branding of superior MSME products in various marketplace. This movement is expected to increase exports of MSME products to the global market (Bank Indonesia, 2020).

In this case, social and environment interests must be put on par with economic interests. The social interests of communities need to align more closely with individual interests. Market failures need to be fixed and social and environmental costs need to be internalized in the form of economic costs. Government policy must be overcome through a triangular relationship of equals between government, business and civil society (Aniqoh, 2020). Government policy is important in efforts to build a digital ecosystem as expected.

In socioeconomics and geopolitics, good synergy is needed between the main actors in this activity, including government agencies, ministries, MSME actors and related private institutions. The government in this case provides funding support which is distributed through Bank Indonesia and other financial institutions. Realization of support is also carried out by providing funding support for MSMEs. In 2020, the realization of funding support for MSMEs has reached IDR 112.26 trillion. Taking into account fluctuations in economic growth and in order to support MSMEs to continue to grow, the budget allocation for MSMEs and corporations in 2021 increases by IDR 171.77 trillion (Limanseto, 2021).

In order to open up greater opportunities in the global market, especially in the regions of neighboring countries, Indonesia is making use of geopolitics as a step towards opening up the Indonesian MSME market. The government welcomes all efforts to increase the ability of MSMEs to penetrate global markets such as: Among other things, the government held an agenda: (1) "Kreasi Nusantara, From Local to Global" which facilitated the sale of local products to Malaysia and Singapore; (2) "BukaGlobal" which facilitated the purchase of local products by customers from Malaysia, Singapore, Brunei, Hong Kong, and Taiwan; (3) "ASEAN Online Sale Day" which aims to increase e-commerce cross-border transactions in the Southeast Asian region.

In program "Kreasi Nusantara", Indonesian MSME products are invited to dominate the Southeast Asian market, by exploring markets such as the Philippines, Vietnam and Thailand, to Taiwan. In line with these activities, the government also received support from the global marketplace Shopee. Through the support of collaboration with the Shopee e-commerce platform, Indonesian MSMEs have successfully exported more than 5,000 curated Kreasi Nusantara products in 2019 to Singapore and Malaysia. Since the launch of the Kreasi Nusantara program for the first time with an 8-fold increase in MSME daily transactions through the "From Local to Global" channel. This platform also supports government policies through the Shopee Campus Program which has succeeded in fostering more than 40,000 MSMEs in Indonesia as a platform to be able to apply a digital literacy approach to businesses run on the Kreasi Nusantara channel (SetnasAsean, 2020).

Indonesia also encourages MSMEs to be involved in Expansion of Indonesian Export Products Via Asean Online Sale Day (AOSD). ASEAN Budget Spending Day or ASEAN Online Sale Day is a simultaneous budget spending activity held from an e-commerce forum with ten ASEAN members. The event coincides with the date of birth of the Association of Southeast Asian Nations on August 8 2020. Representatives from each country are commercial executors in the ASEAN region who offer products and services in the form of electronic transactions or e-commerce. This event is an opportunity for Indonesia to market and introduce the uniqueness of the archipelago's national goods in international arenas while promoting and developing the Indonesian goods export movement (Rahmadhani et al., 2023).

This activity is a way that can encourage the opening of new markets for Indonesian MSMEs. Products from Indonesian MSMEs are introduced overseas. This opening of new market opportunities is quite effective as evidenced by increasing the number of export shipments from MSMEs. The number of Indonesian MSMEs continues to increase (Yusuf, 2022). MSME export shipments do have differences from large company exports, because they have to partner with expedition companies that are capable of providing permits and shipping efficiency. The Indonesian government is also pushing for increased facilitation from freight forwarding service companies that focus on serving exports, continuing to strive to improve their services to customers, especially micro, small and medium enterprises

(MSMEs) in all corners of Indonesia. One of them is by cooperating with the Abang Express export expedition. The government together with the expedition socialized the ease of sending exports to MSMEs. Through his business, export shipments via Abang Express from 2021 to 2022 will experience an increase of 30 to 40 percent (Media Indonesia, 2022). These various government policies are important to encourage the MSME sector to grow and compete globally. This is because MSMEs with all their limitations will certainly find it difficult to go global without support. In a global world dominated by large exporters, managing these issues involves complex interactions between powerful private and public sector actors, value chain enterprises, civil society, national and international regulations. Here, Indonesia can built a strong position in the regional market for larger digital economic for MSMEs with the backing of government policy.

3.3. Policy for Environmental Changes

The digital economy is indeed a thing that is developing rapidly. However, the digital environment is also not familiar to the whole community, including MSMEs in Indonesia. Therefore, government efforts are needed to create environmental changes that support the digital ecosystem. Within the digital infrastructure framework, the development of the nation's network communications industry infrastructure is highly valued by the Indonesian government, who has designated it as a crucial strategic area for national connection in its 15-year medium-term construction plan for the national economy (Yuning et al., 2023).

Furthermore, various supporting policies were launched to support overall environmental changes for the competitiveness of MSMEs in the digital market globally. 2021 will be an important year for Indonesia's business environment. The enactment of Decree No. 5 of 2021 lays the groundwork for the transition of the business licensing system to a risk-based approach that greatly simplifies the registration and licensing of SMEs. This decree is one of the derivative regulations of the Omnibus Law or Job Creation Law (Law No. 11/2020) enacted in 2020. The effectiveness of various micro and small business empowerment programs needs to be optimized to sustain and increase this momentum. These programs have traditionally been managed in an intermittent, asynchronous and unstructured manner by multiple ministries and agencies at both national and regional levels (Soepardjo, 2023).

The government through Customs and Excise also has the slogan "Export is Easy" which is intended to support the performance of the domestic industry. Customs and Excise offers convenience in various customs facilities, such as fiscal facilities and procedural facilities, which can encourage MSMEs to enter the global market. Customs and Excise also opened international markets for Indonesian MSMEs, including bridging the activities of visits by Japanese businessmen with the Indonesian Embassy (KBRI) in Tokyo to Trangsan Rattan Tourism Village, Sukaharjo Regency, by cooperating with Surakarta Customs; carry out the signing of a joint contract with the Kriya Giri Sejahtera Cooperative fostered by the collaboration of Gresik Customs and Gresik Regency Government; development of potential MSME entrepreneurs in Probolinggo Regency, Batam and others (Bea Cukai, 2022).

This policy is a concrete step to support the success of the export program for MSMEs. By showing that shipping abroad is easy and inexpensive, MSMEs will have an idea to determine their attitude. MSMEs also have greater opportunities because they do not have to export on a large scale. This is because, like most MSMEs, the production capacity and capital owned by Indonesian MSMEs are often still limited.

The government also encourages increasing the competitiveness of MSMEs through various capacity building programs. The forms of programs most frequently implemented by agencies/institutions are digital marketing training, financial training, vocational training, entrepreneurship training, marketing training, Standard Operating Procedure (SOP) training, branding training, production training, and working with educational institutions to initiate programs entrepreneurial studies. In the marketing access program, the programs that are most often implemented are creating a special marketplace for MSME products, featured

product galleries, MSME exhibitions/ bazaars, and bringing together MSMEs with marketplaces (Soepardjo, 2023).

MSMEs need to have a broader understanding of the government's targets in the go global MSME or go digital MSME programs. Therefore, counseling or socialization is one important aspect that is often carried out by the government. A digital ecosystem is an interconnected whole that satisfies consumer needs with an integrated experience, and includes companies from different sectors that collectively offer a wide range of products and services. Startups and digitally native companies are growing rapidly, some offering ride-hailing, grocery delivery, groceries, logistics, healthcare, lifestyle, financial services and more through integrated experiences. Governments recognize the opportunities of digital ecosystems and are using partnerships and strategic alliances to share resources, data and skills to build digital ecosystems that can compete with other nations.

Indonesia has taken many policies to support the global competitiveness of its MSMEs. Through the creation of the right digital ecosystem, many changes have been achieved by Indonesia. Indonesia has experienced an increase in exports by MSMEs. Moreover, Indonesia are identified as the fastest digital adopter among major digital economies in Asia (Tonby et al., 2020). However, there are still some limitations and challenges facing Indonesia. the development of digital ecosystems in Indonesia is still limited due to suboptimal infrastructure. With less investment in technology, less IP being created, and fewer tech firms represented, these economies are still in the early stages of technological growth. While, the digital economy continues to grow and innovate as national regulatory frameworks catch up. One key area for Indonesia to focus on to sustain the growth of the digital economy is the improvement of the country's digital infrastructure according to the needs of SMEs.

4. CONCLUSION

The Indonesian digital economy continues to grow. This is an important target for the government and innovate as national regulatory frameworks to catch up. The government is trying to raise the number of digital platforms offering a variety of integrated services to wider or consumers globally. This important agenda is supported by the existence of MSMEs which are considered as important economic driving actors in Indonesia. MSMEs are the spearhead of the national macro economy, so the government is trying to increase the competitiveness of MSMEs to go global and go digital through synergies between various main players to provide financing, coaching and markets.

The government launched an economic pillar by prioritizing MSMEs to go global and MSMEs to go digital. This is aimed at increasing the global competitiveness of Indonesian MSMEs. Various policies are carried out to build an adequate digital ecosystem. Among these policies include: (1) efforts to advance technology by creating digital infrastructure and related investments, (2) building a socio-economy that supports MSME performance and opens global markets through the Kreasi Nusantara, Buka Global, and Asean Online Day Sale programs; (3) Creating changes in the environment that are conducive to developing the competitiveness and thinking of MSME actors so that they are better trained and facilitated in penetrating the global market through digital access.

With the efforts made by SME business actors, coupled with support from the government, SME businesses can develop quickly and can expand market share. The government has an important role to play in supporting the competitiveness of MSMEs, due to the limitations of MSMEs, which generally exist in terms of capital and capabilities. The evolution of the digital age can be considered one of the major reasons for the growth of the opportunity of MSMEs to enter the global economy. However, it is very important for a country to be able to provide adequate policy support for economic actors in the country, through the creation of a

supportive digital ecosystem. Furthermore, the government as regulatory institutions need to ensure those providing digital ecosystem apply sufficient protection to the MSMEs growth. In this digitalization era, none of economic actor is immune to the digital phenomena, including the traditional industries. As the digital economy spreads around the world, it will be interesting to see how businesses adjust, adapt and adopt available digital tools to their daily activities. Moreover, it is important about how the government policy of a nation respond this phenomena, while the whole economy becomes more digitally inter-connected going forward.

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