CHALLENGES AND OPPORTUNITIES OF DIGITAL ECONOMY

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ABSTRACT

The digital economy brings with it a number of opportunities, but also new challenges and rules of the game in the global market. Positioning of the country on the global stage largely depends on its ability to adapt to new conditions. Digital economy brings a new set of benefits, which can make it possible to reduce the differences that exist between rich and poor nations. Developing countries have the opportunity to transform its economy and to contribute to the development of the digital economy. Although these economies are characterized by high added value, faced with numerous obstacles, many developing countries cannot adequately respond to the demands of the digital economy. Inadequate access to the latest technology, sophisticated telecommunications infrastructure, low computer literacy as well as numerous cultural and socio-economic factors are just some of the challenges that developing countries have to face. On the other hand, with a clear policy and specific plans and objectives, it is possible to "skip" a few steps and effectively respond to the demands of the global market. This paper aims to analyze the challenges and opportunities that are facing developing countries in the process of creating the digital economy.

INTRODUCTION

Digital economy has a significant implication in business transformation and creation of new digital businesses. Moreover digital economy offers great opportunities for small and medium enterprises. However, this does not mean that they will definitely have success in the new conditions and electronic market. We should emphasize that the growth of the digital economy means that computers operate in conditions of constant and global competition.

The best way to be safe and to avoid possible errors in this direction is to understand the interrelationship between business risks and opportunities that information technology offers (Berrisha-Namani, 2004, 183-192). An example is Amazon.com digital company which in 1996 brought business in computer networks or the Net, where companies presenting catalogs as brochures, orders received, make payments, accept returns of assist the customers to process business transactions through the Internet. In other words, Amazon provides an example of an electronic market to a private enterprise. Therefore, economically can be explained that the investment in information technology infrastructure almost always turn to increased productivity and profitability of the enterprise.
Using information and communication technology (ICT) contributes significantly to the growth and development, because it raises productivity and work efficiency by enabling creativity and stimulate innovation, and most importantly helps the penetration and the existence in global markets. ICT enables the participation of all stakeholders in the programs and projects regardless of their location and physical distance, if available and have access to the network infrastructure of ICT. Enterprises are often motivated to apply IT in business processes, if it is necessary in internal business processes for better quality information or even the impact on competition. Business processes are a series of activities that transform inputs into outputs, goods, and services. Enterprises are required to improve business processes to stay competitive in today’s market. During the last 10-15 years, companies have been forced to improve their business processes, because we, as clients are demanding products and services better. And if we do not get what we want from a supplier, we have many to choose from other business competitors.

Therefore, many companies begin the process of improving business performance with a continuous improvement model. This model made efforts to understand and measure the actual business process and its performance accordingly. This method for improving business processes is effective. However, during the last 10 years, several factors have accelerated the need to improve business processes with the most appropriate method. Internet technology and its use of which has rapidly increased competition, the opening of global markets and creating opportunities for free trade has extended enterprises make changes in performance and speed of introduction in the market with products and services. The aim of this paper is to present the importance of electronic business, computerization trends which has changed the economy, society and politics. This is the main reason why enterprises today in tighter competition are orientated towards the market and to fill up the requirements of the buyers. Hence, the aim is to describe digital economy, opportunities of Internet usage for business to achieve strategic advantages compared to their competition and how can facilitate the movement of goods and services from producers to customers.

**MERITS OF DIGITAL ECONOMY**

Digital economy has given rise to many new trends and start-up ideas. Almost all of the biggest companies in the world (Google, Apple, Microsoft, Amazon) are from the digital world. Let us look at some important merits of the digital economy.

1. **Promotes Use of the Internet**

   If you think about it, most of your daily work can today be done on the internet. The massive growth of technology and the internet that began in the USA is now a worldwide network. So there is a dramatic rise in the investment on all things related – hardware, technological research, software, services, digital communication etc. And so this economy has ensured that the internet is here to stay and so are web-based businesses.

2. **RISE IN E-COMMERCE**

   The businesses that adapted and adopted the internet and embraced online business in the last decade have flourished. The digital economy has pushed the e-commerce sector into
overdrive. Not just direct selling but buying, distribution, marketing, creating, selling have all become easier due to the digital economy.

3. DIGITAL GOODS AND SERVICES

Gone are the days of Movie DVD and Music CD’s or records. Now, these goods are available to us digitally. There is no need for any tangible products anymore. Same is true for services like banking, insurance etc. There is no need to visit your bank if you can do every transaction online. So certain goods and services have been completely digitized in this digital economy.

4. TRANSPARENCY

Most transactions and their payment in the digital economy happen online. Cash transactions are becoming rare. This helps reduce the black money and corruption in the market and make the economy more transparent. In fact, during the demonetization, the government made a push for online transactions to promote the web economy.

DEMERITS OF DIGITAL ECONOMY

1] Loss in Employment

The more we depend on technology, the less we depend on human resources. The advancement of the digital economy may lead to the loss of many jobs. As the processes get more automated, the requirement for human resources reduces. Take the example of online banking itself.

2] Lack of Experts

Digital economy requires complex processes and technologies. To build the platforms and their upkeep require experts and trained professionals. These are not readily available, especially in rural and semi-rural areas.

3] Heavy Investment

Digital economy requires a strong infrastructure, high functioning Internet, strong mobile networks and telecommunication. All of this is a time consuming and investment heavy process. In a developing country like ours, development of the infrastructure and network is a very slow, tedious and costly process.

IMPORTANCE OF DIGITAL ECONOMY

The digital economy is developing rapidly worldwide. It is the single most important driver of innovation, competitiveness and growth, and it holds huge potential for entrepreneurs and small and medium-sized enterprises (SMEs). Unfortunately, only two percent of European enterprises are currently taking full advantage of new digital opportunities. How businesses adopt digital technologies will be a key determinant of their future growth.
New digital trends such as cloud computing, mobile web services, smart grids, and social media, are radically changing the business landscape, reshaping the nature of work, the boundaries of enterprises and the responsibilities of business leaders.

These trends enable more than just technological innovation. They spur innovation in business models, business networking and the transfer of knowledge and access to international markets. Two billion people are currently connected to the internet and by 2016, this number will exceed 3 billion – almost half of the world’s population. Businesses that fail to get digitally connected will become excluded from the global market.

THE DEVELOPMENT IMPACT OF THE DIGITAL ECONOMY

The aforementioned infrastructure challenges apparently do not hamper the promising growth of the digital economy in Indonesia. At the time of writing, Indonesia has nearly 2,000 start-ups and only behind USA, India, UK and Canada. Interestingly, the majority of those start-ups are led by “millennials” that are passionate to create social impact by harnessing the power of digital technologies. This can be seen from how Nadiem Makarim is successfully growing Go-Jek to empower not only “ojek” drivers but also SMEs and consumers. Go-Pay, mobile wallet system developed by Go-Jek, even contributes in promoting financial inclusion in Indonesia. Another example is evident from how William Tanuwijaya initiates Tokopedia as a platform to enables everyone in starting their own business for free. Both Go-Jek and Tokopedia, together with Traveloka and Bukalapak, are known as start-up unicorn in Indonesia.

Admittedly, the contribution of the ICT sector to GDP in Indonesia is still not significant with only 7.2 per cent. However, the GDP growth from this sector is the highest compared to other sectors with 10 per cent of GDP growth. In fact, this number is much higher than average GDP growth of Indonesia that only reached 5 per cent.

In other report published by Oxford Economics (2016) revealed that by 2020 every one per cent increase in mobile penetration can contribute in creating additional 640 million US$ to Indonesia’s GDP as well as opening up 10,700 additional job opportunities. Hence, it is no surprise that the government has put significant attention to the digital economy sector.

Speaking of the digital economy, there are at least three emerging trends that are currently happening: on-demand services, financial technology, and e-commerce.

1. **On-demand services.** It is impossible to talk about this sector without mentioning Go-Jek, one of the most influential tech start-up in Indonesia. They not only managed to revolutionalize “ojek”, but they also successfully influence behavioural change in our society. Essentially, they facilitate almost everything on-demand, from logistics, food delivery, car wash, and even beauty services. They are now in the process of preparing their own streaming service, which could cement Go-Jek’s position in providing anything that Indonesians need.

2. **Financial technology.** There is a clear challenge in bringing financial services to everyone in Indonesia. Only about one in three adults in Indonesia have access to financial services. In this regard, Financial Technology (Fintech) played an important role not only as an enabler for the digital economy but also promoting financial inclusion through technology. This is evident particularly within the case of a peer-to-peer lending platform that enables small business to get access to financial capital.
Another example is how the mobile payment serves as a mean to promote a cashless society in Indonesia.

3. **E-commerce.** More than 8 million Indonesians loved to shop online, and the numbers are expected to increase in the near future. This is driven by both consumptive and online behaviour of Indonesians as well as the increasing market reach thanks to social media and technology. As a result, many stores are now trying to sell their products through both online and offline channel. People can now buy almost anything easily through their smartphone without having to go to the actual stores, and we can receive our products within hours with the help of instant courier. In the future, we can expect further innovation such as an unmanned store that will transform the way we shop.

**CONCLUSION**

Indonesia has a great potential to become the biggest digital economy nation in ASEAN, even in the world. But, achieving this target requires various stakeholders involved to overcome the following challenges:

1. **Narrowing the digital divide.** Infrastructure is an important enabler in maximizing the benefit of the digital economy, so the government must ensure that everyone can have an equal access to technology. Palapa Ring project is a great starting point, and the quality of our infrastructure will surely get better by the time the project is finished in 2019. But the infrastructure deployment cannot stop there and should focus on providing access to rural areas in Indonesia.

2. **Digital talent.** There is still a mismatch between the supply of university graduates and the demand from tech start-up. This leads to talent war, in which many start-ups have to compete in securing high-quality talents that are lacking in the market. Hence, a collaboration between industry and academia is important to ensure the production of high-quality digital talent that meets the needs of the digital industry.

3. **Regulations.** It is no secret that regulations are always behind technological advancement, as can we see from the case of Go-Jek and Grab. What we need is a guiding principle in designing regulations for those emerging technology. It should be designed in such a way that it will not hamper creativity and innovation in tackling societal challenges. Several cyber security issues should be taken into account, particularly about consumer protection of personal data.