Jurnal Ekonomi dan Bisnis Digital (MINISTAL)
Vol. 2, No. 2, 2023: 583-602

The Relations of Economic-Political Power to the Development of Digital Economy in Asia

Halifa Haqqi[1]*, Andika Drajat Murdani[2]
Universitas Slamet Riyadi
Corresponding Author: Halifa Haqqi halifa.haqqi@unisri.ac.id

A R T I C L E I N F O

Keywords: Asia, Digital Economy, Economic Power, Political Power

Received : 18, February
Revised : 22, March
Accepted: 25, April

A B S T R A C T

The relationship between the two is intricate, and this includes how it affects the development of the digital economy. The expansion of the digital economy is performing well throughout Asia. However, very few people have examined it from the viewpoint of political economy. This study focuses on examining the political-economic interactions that take place as Asia's digital economy grows. With library research, the research method takes a descriptive qualitative approach. Political economy analysis was used to conduct the analysis, and it was found that while other Asian nations lack political strength, some of them can to create ecosystems and maintain control of their national digital economies. Therefore, depending on the current political and economic forces, there are differences in several of nations.

DOI: https://doi.org/10.55927/ministal.v2i2.3858
ISSN-E: 2827-8259
https://journal.yp3a.org/index.php/ministal/index

INTRODUCTION

The global economy entered a new phase during the financial crisis of 2007–2008, which started in the United States and then expanded to Europe and Asia. While traditional economic growth was declining, the digital economy—represented by the latest technologies like mobile Internet, cloud computing, big data analytics, and artificial intelligence (AI)—had risen. Due to cross-border innovation and accelerated development, international digitalization and information technology are now entering an innovation- and information-driven era of greater penetration. As a result, the digital economy has fully emerged as a new driver of economic growth (Fourcade & Kluttz, 2020).

Hartman defines the digital economy as "*the virtual arena in which business actually conducted, value is created and exchanged, transactions occur, and one-to-one relationship mature by using any internet initiative as medium of exchange*" (Nasution et al., 2019). As digital technologies foster innovation, expand job opportunities, and spur economic growth, they benefit and efficiently transform an economy for a nation. Additionally, the digital economy permeates every aspect of society, shaping how people interact and resulting in significant sociological changes. The expansion of digital firms, economic prospects, and social activities globally is a reflection of the breadth of high technology breakthroughs, commercial and social revolutions, and information-driven changes (Li et al., 2020).

This digital transformation is also growing rapidly in the Asian region, and has had a major impact on the region's economy. Asian e-commerce transactions account for 25% of the world's business-to-consumer (B2C) market, led by the People's Republic of China (PRC), where companies such as Alibaba and Tencent have grown exponentially over the past twenty years. The transaction volume of the PRC retail e-commerce market has increased from CNY1.32 trillion in 2013 to CNY5.33 trillion in 2016, with an estimated CNY7.57 trillion in 2017 (Asean Development Bank, 2019).

Financial technology, for example, is also giving rise to new ways of providing financial services in Asia, particularly in facilitating payments and loans. This condition promotes financial inclusion in many developing countries in Asia. Fintech-based lending in Asia reached $102.8 billion in 2015 while the proliferation of technology has further increased the efficiency of payment systems and strengthened Asia's position as the world's largest payments market (Asean Development Bank, 2019). Digitalized, networked and intelligent information and communication technologies (ICTs) enable modern economic activities to be more flexible, agile and intelligent.

Asia still reaps the rewards of digital change. However, due to its complexity, comprehending the digital economy continues to be difficult. Big data and digital platforms are just two aspects of the term "digital transformation," which also refers to how these cutting-edge technologies can be used to promote innovation, new business models and procedures, and intelligent goods and services. In keeping with the long-term trend toward market liberalization and the removal of trade obstacles, the digital economy enables regional enterprises to expand from a local to a global level. This

opportunity resulted in an increase in the global value chain in Asia for high-tech firms and their economies (Li et al., 2020).

The complexity of digital economy business development also occurs due to the widening gap in digital skills and the different levels of regulation and infrastructure in Asia. Not all countries can take full advantage of the advantages offered by the digital economy. Often, developing Asian countries do not have control over the development of digital economy businesses that enter their country. The reasons can be many things, such as for example due to the lack of digital devices, forms of identification that are accepted nationally, socio-economic barriers, to infrastructure readiness and related regulations. (Anukoonwattaka et al., 2021). The disparities in access and adoption in various nations must be well understood in order to increase inclusion in the digital economy. As digital revolution accelerates throughout Asia, new challenges of trust, privacy, and transparency must also be addressed.

While much progress has been made in closing the digital divide, Asian countries continue to face complex, multidimensional challenges. A collaborative and multi-stakeholder approach is needed to overcome the main barriers to internet inclusion, such as: infrastructure; affordability; cultural skills, awareness and acceptance; and relevant content (WeForum, 2017). The digital economy has the potential to radically change Asia's social environment and economic activities. The development of a digital economy business with very high value, fast innovation, and broad application to other economic sectors has a significant impact on a country's power.

The great opportunities presented by the digital economy still leave tug-of-war in the political power relations of Asian countries towards the development of the digital business itself. Several countries still face the constraints of poor ICT infrastructure, insufficient skills development, and socio-economic barriers that hinder business adaptation to the digital economy in large parts of Asia. On the other hand, the state has an interest in maintaining its sovereignty so that it still has enough power to control digital economy business activities in its territory (OECD Southeast Asia Regional Forum, 2017).

The economic-political link is complex and intertwined. Understanding this link, known as the political economy, is critical for anyone working in economics. The financial and political landscapes of different countries can differ greatly based on their political ideologies. Political actions have an impact on a country's economy, and how well the economy is performing is frequently considered as a direct reflection of political policies and the effectiveness of the government in power (Drezner, 2021).

Political economy relations in dealing with the development of the digital economy is an interesting matter to study. Business has the ability to shape political landscapes, and economists believe the opposite is also true. The urgency of this research is to analyze the relationship of political power to the development of digital economy business in Asia. Political and economic interests are analyzed by looking at how the political interests of countries in Asia are in facing the presence of a digital economy business that is growing rapidly, as well as how economic power is emerging. Research boundaries are

focused on the last 20 years or from 2012 to 2022. The year 2012 marked the start of the rapid development of digital economy business in the Asian region, such as the economic achievements of e-commerce giant Alibaba from China.

LITERATURE REVIEW

Political Economy Analysis

The study of international relations increasingly confirms that politics and economics are closely interrelated. Regarding which power is greater, this is still often debated. Political-economic relations continue to develop and change, so that analysis in the context of economic and political development becomes increasingly complex. Study and learn how political and economic change influence each other's spheres and what those changes can look like. Political stability is beneficial to economic progress, as disturbances and uncertainties can undermine market confidence. The economy of any country, regardless of where it lies on the political spectrum, will be greatly influenced by its political position. Political and economic relations that influence each other have been widely studied since the 1960s (Miller, 1997).

This economic and political relationship is also heavily influenced by developments in the world of information and communication technology. Entering the twenty-first century, developments in information technology and rapidly improving digital infrastructure have made the costs of trade across borders and people lower; production and circulation of products around the world have gradually integrated and have been integrated more and more tightly. The circulation of resources and even financial capital is increasingly integrated, and the global economy is rapidly integrated (Liu, 2022).

Researchers in international relations are convinced of two things: power is a key notion in the field, and there is disagreement over what it implies. The fact that the majority of international relations academics deliver their assessments of power with underlying assumptions about time may be one reason for the field's current state. Political analysis must consider temporality, as a rising corpus of literature is starting to show. This complicates the idea of power in international politics. Additionally, it is rarely explicitly stated how this power interacts with other forces nearby. Many variations of beliefs about power produce positive or negative feedback effects and their relationship to economic power (Drezner, 2021).

The political economy approach emphasizes the main interest in the world of international politics, which is explained as "International politics, like all politics, is a struggle for power. Whatever the ultimate aim of international politics, power is always the immediate aim" (Goldstein J, 2016). Meanwhile, the rapid development of the economy shows that the impact of economic integration on international relations has a major influence on relations between countries. Changes in the world with increasingly strong economic integration indicate that aspects of economic development will help occupy a dominant position in handling international relations (Liu, 2022).

Trends in economic and political relations raise many questions to analyze. There are indicators that are considered relevant to be able to explore

questions related to the translation of these political and economic relations (Chakravorti et al., 2018):

a. Supply Conditions: How developed is the infrastructure — both digital and physical — needed to facilitate the digital ecosystem? This can include bandwidth availability, quality of roads required for e-commerce fulfillment, and more.
b. Demand Conditions: Are consumers willing and able to be involved in the digital ecosystem? Do they have the necessary tools and skills to connect to the digital economy?
c. Institutional Environment: Do country laws (and government actions) support or hinder the development of digital technologies? Is the government investing in advancing digitization? Do regulations governing data use and storage enable growth, or create barriers?
d. Innovation and Change: What is the state of the key innovation ecosystem inputs (i.e., talent and capital), processes (i.e., collaboration between universities and industry), and outputs (i.e., new scalable digital products and services)?

This research uses the basis of political economy analysis (PEA). The interactions and links between political and economic processes in a society: the distribution of power and income among different groups and individuals, as well as the mechanisms that originate, sustain and modify these relationships over time, are the focus of PEA. PEA contains other analysis frameworks, such as power analysis, but it is broader in scope, placing it in the context of interaction between political and economic processes, actors, and institutions. The usage of PEA is directly related to the shift away from normative perspectives on 'good governance' or best practice models and toward more context-specific 'best fit' methods. PEA has the ability to 'inject greater realism into practice through more open discussions of power, political culture, ethnic differences, corruption, capacity and incentives, sources of opposition and indifference, and so on (Oxfam, 2014).

It is hoped that the theoretical basis used in the study of political economy relations can become an analytical tool to see how the pattern of relations is generated by the development of a digital economy business which is so complex, especially in the Asian region. From the background and existing theory, the authors drew the main research hypothesis. The main hypothesis of the research in this case shows that political and economic relations in Asia in digital business have a great push and pull force. Countries with stable and strong political power are able to influence, encourage and control the development of digital economy businesses in their countries. Meanwhile, countries with more political power will be more easily influenced by the power of digital business.

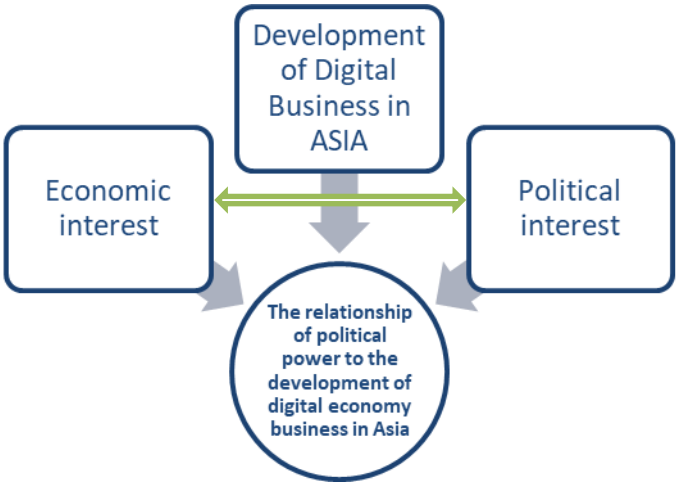

Figure 1. Conceptual Framework

METHODOLOGY

This type of research related to the relationship of political power to the development of the digital economy in Asia is descriptive qualitative research. Qualitative research is a type of research used to produce social and political research analysis by including descriptions and related analyses to capture non-standardized meanings, processes, and contexts of numbers. This type of descriptive qualitative research is considered appropriate in research according to the problems studied in order to explore issues, thoughts, or narratives.

This research with a descriptive qualitative approach seeks to explain the economic interests and political interests of countries in Asia, as well as how they relate to the digital economy business. Competitiveness between strong powers is a matter that deserves to be discussed in depth. This will be precisely translated and understood through descriptive and narrative analysis. The description of the research is described in the study of meaning and context, which includes analysis of processes and causality relationships. The method or approach used is in the form of library research or document study.

THE RESULT

Asia is primed for rapid digital economic change. A significant portion of the increase in technology business income (52%), start-up finance (43%), R&D expenditures (51%), and patent applications (87%) was attributed to the Asian region. This technological revolution was made possible by Asia's extremely adaptive digital consumers, who now make up half of all internet users worldwide. Asia is diverse, having many weaknesses and difficulties as well as complementary strengths. In China and other advanced Asian economies, there has been a growth in large technical businesses and innovative skills (Tonby et al., 2020).

The rapid growth of the digital economy is discussed further by looking at the economic and political forces involved in it. Political power and economic power can be explained by looking at various indicators that explore the conditions of economic and political relations, as mapped by Chakravorti et al.

(2018). These indicators are described in several conditions that occurred in the Asian region:

Supply Conditions

Supply conditions see how the infrastructure needed to facilitate the digital ecosystem. This infrastructure is seen from a physical and digital perspective, so that it can encourage the development of digital business in an area. To be able to develop optimally, a digital business needs an ecosystem that supports in many ways — both digital and physical — that are needed to facilitate a digital ecosystem. This can include bandwidth availability, quality of roads required for e-commerce fulfilment, and more.

A digital ecosystem is a network of connected firms from many industries that together provide a wide range of goods and services to consumers in a single integrated experience. In the digital economy in Asia, its development is described by looking at the extent to which digital ecosystems are formed from the results of digital business activities. Asia's consumers have embraced digital technology, using the internet, social media, and e-commerce platforms steadily and more frequently. The preferred device, smartphones, account for almost 65% of all internet traffic (S Barquin et al., 2018).

More specifically, in Southeast Asia, according to the EY analysis, has seen an increase in collaborative consumerism and the shared economy due to the region's average internet penetration rate of 63% and a burgeoning middle class that is becoming increasingly tech-savvy and advancing up the socioeconomic scale quickly. This is opening the door for shared models in a variety of industries, including real estate, hospitality, travel, and mobility (Minh, 2021).

A combination of various factors has hastened the shift to the digital economy in Asia. Apart from the swift adoption of the internet and smartphones, and the expansion of e-commerce, a robust digitization drive by banks has boosted demand. Liew Nam Soon, the EY Asean regional managing partner, stated that consumer-centric digital ecosystems are emerging throughout Southeast Asia to provide value at an unprecedented pace and magnitude in response to digital disruptions, which have been accelerated by the pandemic. The proliferation of startups and digital natives has been rapid, with some offering integrated services such as ride-hailing, food delivery, grocery, logistics, healthcare, lifestyle, and financial services. (Minh, 2021).

Various infrastructures that support the digital economy continue to grow in Asia. In four technologies—manufacturing, AI and machine learning, the Internet of Things (IoT), and mobile services (including 5G), Asia has a large share of patents and startup financing (Tonby et al., 2020). Super apps like Grab and MoMo are drawing investors' attention after receiving $43 billion in funding between 2016 and 2019. Furthermore, Southeast Asia's expanding digital ecosystems have the potential to increase revenues from around $4 billion in 2019 to $23 billion by 2025. Traditional players are using partnerships and strategic alliances to exchange resources, data, and capabilities to build digital ecosystems to compete with one another after realizing the prospects in the digital ecosystem (Minh, 2021).

The abundance of supporting infrastructure for digital ecosystems in Asia indicates a massive acceleration of digital economic transformation. However, this transformation did not occur evenly. Most people in Brunei Darussalam, Malaysia, and Singapore now have access to the Internet, while more than 70% of people in Cambodia, Indonesia, Lao P.D.R., and Myanmar are still without it, making it impossible for them to fully engage in the digital economy. It is even harder to find high-speed broadband. Because of its high prices, ASEAN lags behind China, Japan, and Korea. Only Singapore is an exception (Feng, 2018).

While some rich nations are pioneering 5G connectivity and investing in cutting-edge technologies, the majority of people in the Asia-Pacific region do not even have access to the Internet. Access of 5G will develop into a "intelligent network" combining IoT, big data, AI, and other cutting-edge technologies as it is typically characterized by ultra-high speed (20 Gbps), ultra-low latency (1 msec), and hyper-connectivity (connecting 1 million devices within 1km2). By 2020, the Asia-Pacific region is a strong digital area, with 56% 4G access. By 2025, it is predicted to enjoy 71% 4G access and 12% 5G access (Jun et al., 2022).

Demand Conditions

Demand conditions talk about whether consumers are willing and able to engage in digital ecosystems, and whether they have the necessary tools and skills to connect to the digital economy. Asia's digital economy can develop because its people have a great interest in digital technology products. This makes digital products have great opportunities to grow. Without value creation, innovation, and financial transformation, the Asian Century cannot succeed. The fundamental components of the new economy that China, Japan, and South Korea are developing for multi-year productivity growth include mobile phones, smart gadgets, e-commerce, software applications, fintech, and robots. Early adopters of these innovative disruptions, Asia innovates, scales them up, and becomes a global leader. Along with broadband internet connectivity, Asia has successfully developed the four digital enablers of digital finance, digital identification, social media, and big data. Because of its huge, youthful population and growing middle class, particularly in China, India, and ASEAN, Asia is experiencing a boom in the digital economy. In Asian nations, it is altering both urban and rural areas (Hoontrakul, 2018).

Violet Chung, a McKinsey partner based in Hong Kong, shared her insights on the top three forces that will have a major impact on China's banking sector in the next decade. According to her, the first disruptive force will be the arrival of digital competitors such as Alibaba and Tencent. These players have revolutionized the way consumers interact with platforms and have eliminated many of the barriers between channels. The second force is the changing expectations of consumers, who now demand personalized products and services on their own terms. Finally, Chung highlights the growing importance of data and analytics as a key competitive advantage that companies must acquire and leverage. (Chung, 2019).

Asian economies have advanced significantly in fintech, frequently outpacing new technologies. For instance, in China, individual mobile payments for goods and services totaled $790 billion in 2016, which is 11 times greater than in the US (Sedik, 2018). While Southeast Asia saw technology transactions of $408.5 billion between 2016 and 2020. Among other tech fields, mobile applications, cloud computing, and analytics got the highest investment (Minh, 2021).

In Indonesia, online banking is well received by customers, especially. Over the past three years, Indonesia has experienced double the growth in monthly usage of digital banking channels compared to other developing Asian markets. Furthermore, 55% of non-digital clients intend to use digital banking within the next six months. Based on the survey results, nearly half of the participants would be willing to switch to a bank without a physical branch, and most of them expressed confidence in moving between 25% to 50% of their funds to a fully digital bank. (Sonia Barquin et al., 2019).

Many customers in many Asian countries are eager to switch to "fully digital" banking, and as a result, a number of digital propositions are emerging to meet the needs of these tech-savvy clients without the constraints of a physical distribution network. Kakao launched Kakaobank in Korea, leveraging the country's over 40 million chat users to sign up a million customers in the first five days. In its first 100 days, the new bank raised up to $3.6 billion in deposits and made over $3 billion in loans. With more than 5.5 million users, $6 billion in deposits, and more than $5 billion in loans given as of February 2018, it is currently the mobile bank with the fastest growth rate in the entire globe. Mortgage, credit cards, and additional payment options are now part of Kakaobank's product expansion. In the effort to build pure digital banking, emerging Asia is not far behind. While Singapore's DBS debuted its mobile-only digital bank, digibank, in India in 2016 and extended to Indonesia in 2017, BTPN in Indonesia introduced Jenius—a stand-alone and first-to-market digital bank—in 2016 (S Barquin et al., 2018).

Institutional Environment

The institutional environment is an important factor in supporting the development of the digital economy in a country. This aspect addresses whether country laws and government actions support or hinder the development of digital technologies, whether governments are investing in advancing digitization, and whether regulations governing the use and storage of data enable growth or create barriers. Even while established, traditional businesses are well-positioned to manage a digital ecosystem due to their extensive user bases, geographic reach, and financial resources, they are frequently surpassed by up-and-coming startups who are more advanced in adopting new technologies and this condition requires support from legislation or the government (Minh, 2021).

Governments in various countries in Asia support and allow various developments in the digital industry. Despite improvements in national policy and digital infrastructure, e-government decision-making is still highly

centralized and made at the highest levels of management. To adopt a more open and experimental culture, there have been some initiatives. A startup within the government, such as Singapore's Open Government Products, describes itself as "an experimental development team built from the ground up to function like a modern tech company working on public-sector problems." (Tony Blair, 2022).

At least, there are a few regulations that hinder the performance of digital economic activities. In result, China used to represent less than 1% of the value of worldwide retail e-commerce transactions, but as of today, that percentage has increased to more than 40%. In China, e-commerce has a 15 percent penetration rate compared to a 10 percent penetration rate in the US for all retail sales. Although e-commerce is less prevalent throughout the rest of Asia, it is expanding quickly, especially in India, Indonesia, and Vietnam. The largest e-commerce market in Southeast Asia, which is located in Indonesia, is being contested by websites like Bukalapak, Lazada, and Tokopedia (Sedik, 2018).

In Vietnam, government encourages digitalization activities with various policies. By 2025, 12 significant ecosystems for institutional and retail services are predicted to be formed in Vietnam based on economic trends and regulatory frameworks, with a combined revenue pool of roughly 2,400 trillion Vietnamese dong ($100 billion). B2C and B2B marketplace platforms are predicted will generate the two most revenue out of those 12 ecosystems (Delteil et al., 2020).

Major e-commerce companies like Rakuten in Japan, Alibaba Group in China, and GoTo Group in Indonesia all have revenues that are comparable to those of Amazon and Walmart. India is a notable example of how to combine digital payments and identity to increase access to credit thanks to its pioneering work in the digital infrastructure sector known as stacks. Rapidly embracing new technology, the expanding youth populations of Bangladesh, Indonesia, and Vietnam represent a sizeable potential market for the digital economy. Due to government assistance, Asia is well-positioned to maintain its leadership in digital innovation. The government is promoting the uptake of new technologies by upgrading the legal environment, including on the protection of data and intellectual property rights, streamlining laws in keeping with the developing digital industry, and facilitating digital trade (Sayeh et al., 2023).

While providing support from domestic regulations, several countries in Asia are also trying to build international cooperation to support the acceleration of digital business in their countries. For example, the Association of Southeast Asian Nations (ASEAN) has played a key role in creating cohesive digital-government frameworks and agreements, including the ASEAN Digital Masterplan 2025, ASEAN ICT Masterplan 2020, ASEAN Declaration on Promotion of Good Governance and Acceleration of an Agile Civil Service in a Digital Economy and Regional Comprehensive Economic Partnership (RCEP) that also aims to foster the development of digital commerce (Mohdari, 2022).

While every South-East Asian (SEA) government has created a national strategy for digital government at the top level, more cooperation and

decentralization to line ministries and subnational governments are required to achieve digital government goals. The Asia-Pacific Economic Cooperation (APEC) forum playing an important role in facilitating regional consensus on digital-economy enablers. Additionally, UN agencies have positively influenced open policymaking and popular participation by establishing accelerator labs and working with national governments to establish policy and innovation labs (such as Sri Lanka's Citra Social Innovation Lab, Indonesia's Pulse Lab Jakarta, and Thailand Policy Lab) (Tony Blair, 2022).

Innovation and Change

This aspect talks about how key innovation ecosystem inputs (such as talent and capital) state, processes (i.e., collaboration between universities and industries), and outputs (i.e., new scalable digital products and services). Being a part of a digital ecosystem allows businesses to leverage the network and create a competitive advantage. To achieve this, businesses must have a sound digital transformation strategy and skills. There are three strategic options available to businesses: acquire, build, and collaborate. The decision is whether to develop or join a digital ecosystem (Minh, 2021).

Asia has welcomed the digital era by introducing inputs, processes, and outcomes that back the growth of the digital economy. For clients both in China and globally, companies like Alibaba, Tencent, and Baidu provide a diverse array of services, which include e-commerce, cloud computing, and fintech. In Indonesia, Go-Jek provides digital logistics, ride-hailing, and payment services. These and other Asian companies are leveraging the latest advancements in artificial intelligence, robots, cryptography, and big data that hold the potential to transform our lives and work, much like the steam engine and electricity did in earlier times. The digital transformation is affecting a broad range of businesses, from manufacturing and transportation to finance and retail. (Sedik, 2018).

Along with digital natives, established Vietnamese businesses are also upending the status quo and competing as ecosystem actors. Masan Group, Techcombank, and VinGroup, three of the seven largest Vietnamese corporations3, founded One Mount Group in 2019 to build the best environment in the nation. One Mount Group's recently launched venture, VinShop, extracts value in the B2B2C market by tackling supply chain inefficiencies rather than competing in the already congested e-commerce industry. VinShop provides thousands of traditional store owners with a digital platform where they may order products from suppliers and merchants that are in high demand. The ecosystem then benefits from the founding firms' wide industry footprint and pre-existing assets, which may allow it to grow more quickly than digital natives (Delteil et al., 2020).

In several Asian economies, digitization is contributing more to GDP. Seven of the top 10 economies in the world with the highest ICT to GDP ratios, including Malaysia, Thailand, and Singapore, are in Asia. Additionally, digitalization can increase efficiency in other industries. According to our empirical research, a 1% increase in China's economic digitalization

corresponds to a 0.3 % boost in GDP growth. Importantly, innovation in Asia is skewed toward the digital sector: if we rank nations according to the percentage of ICT patents in total, Asian economies take up the top five spots, emphasizing the potential of digitalization to accelerate future growth (Sedik, 2018).

DISCUSSION

Economic Change Influencing Politics

E-commerce stimulates investment because it gives companies access to bigger markets and new business prospects. In Asia, participating in online commerce increases total factor productivity—the fraction of output not explained by traditionally measured production inputs such as labor and capital—at the company level in Asia by more than 30%. Online organizations appear to function better when they have access to cash, human capital, and innovation. Lastly, we discover that companies involved in e-commerce export 50 percent more (Sedik, 2018).

Market share leaders commonly develop and dominate digital ecosystems; the approach has its roots in keiretsu and is rapidly driving transformation in a variety of industries, including consumer products, automobiles, and healthcare. The integration of business-to-business (B2B) practices, corporate applications, and data inside an ecosystem enables a company to control new and old technologies, construct automated processes around them, and expand their business consistently. In this condition, economic power can also influence the political condition of a country.

While seeing the huge potential of digital economic industries, some government has introduced supportive policies to boost the digital economy, accompanied by improvements in the digital infrastructure, such as in Indonesia. In keeping with this rapid progress, the Indonesian government seeks to establish the country as a digital hub in Southeast Asia. It plans to achieve this by stepping up investment in digital infrastructure, including building data centers and hiring specialists in the field. Furthermore, the government hopes that by 2030, 30 million micro, small, and medium-sized enterprises (MSMEs) would be active in the digital economy (Negara & Sugiana, 2022).

It cannot be denied that as people's income rises, so does their engagement with the political system. By fostering financial development, inclusivity, and efficiency, financial technologies can also aid in potential growth and the decrease of poverty. Particularly in developing nations, fintech can assist millions of people and small-and medium-sized businesses in gaining inexpensive access to financial services. The financial sector may experience significant efficiency gains as a result of these technologies. For instance, they can offer cross-border payments that lower members' risk and expenses. At leaset, 20 million people could be lifted out of poverty if all of Asia's economies with poor financial inclusion rose to Thailand's emerging-market frontier status (Sedik, 2018).

There have long been worries that the largest firms reroute income through low-tax jurisdictions in order to avoid paying enough tax in industrialized countries. For instance, Facebook, Google, Apple, and Amazon

have all resolved disagreements with national tax authorities about their business practices. According to the aid organization's research, India, Indonesia, Brazil, Nigeria, and Bangladesh are the developing countries having the largest "tax gaps" from Google, Facebook, and Microsoft. The $2.8 billion tax shortfall is merely the tip of the iceberg; this study just looked at three major IT companies. However, by themselves, the money that Facebook, Alphabet (the owner of Google), and Microsoft would provide under more equitable tax laws might revolutionize public services for millions of people (bbc, 2020). With its great economic strength, this condition allows this digital-based company to be able to influence a country's politics. In fact, many start-up companies with great economic power are able to directly negotiate with governments about their interests.

For a country, there are chances to improve public finances as a result of digitization. Government adoption of digitization can boost revenue from value-added taxes (VAT), tariffs, and other sources by improving reporting of transactions. But, it is demonstrates that if Asian economies were to move halfway to the global frontier, VAT revenue could increase by 0.6 percent of GDP. The gains are predicted to be 1.2 percent of GDP for ASEAN members, and 2.5 percent of GDP for minor Asian governments that are often farther away from the ASEAN frontier (Sedik, 2018).

These new technologies are automating more complex tasks that were previously only humanly possible. Future major transformations could be as significant as previous movements away from manufacturing, posing new problems for policymakers. Occupations and skills will change as a result of this latest round of creative destruction, as old firms and occupations vanish and new ones spring up in their place. Gains have historically been dispersed unevenly, and change has historically been difficult to adapt to. If there are no new alternative options for displaced labor with the potential to raise inequality, the new wave of automation also runs the risk of increasing structural unemployment, especially for older and unskilled people. In this condition, politics and government will depend a lot on the economic sector. In fact, the cooperation activities that are built are also based on economic capacity and aim to facilitate even higher economic power.

The world is changing due to the digital revolution more quickly than many laws and regulations have developed. In many Asian countries, governments could profit from procedures to periodically assess and, where necessary, alter their regulatory frameworks to make sure they are suitable for the world that is becoming more and more digital (OECD Southeast Asia Regional Forum, 2017). This makes the government heavily influenced by economic developments, and chooses to try to adapt its regulations to the needs of the digital economy.

Nearly all aspects of digitalization are dominated by Asian players, while other economies lag far behind. The adoption of digital technologies in Asia is the most extensive due to the diversity of income levels across the region. Leading countries in the global digital trend-setting scene include Japan, Korea, Hong Kong Special Administrative Region, and Singapore. Despite being at the

forefront of digitalization at any income level, Asian economies still trail behind their global counterparts. The pace of digitalization is also accelerating in Asia, particularly in countries with less developed economies such as Cambodia and Nepal. (Sedik, 2018).

Future developments in digital technology may restructure global value chains, in which Asian economies have played a significant role. Asian industry has historically relied on the availability of labor that is both inexpensive and unskilled. But it is anticipated that advances in artificial intelligence, robotics, and 3D printing will reduce wage-based competition, change the nature of manufacturing, and possibly encourage the reshoring of production to developed nations. Reshoring, according to anecdotal evidence, is already taking place, and countries with big populations of low-skilled workers may feel compelled to develop completely new growth strategies to control the economic power that rises with digital business.

Political Change Influencing Economics

The challenges that digital ecosystems present in terms of technology, law, and business are enormous. Some of the largest problems are customer communication and data management across the entire ecosystem, service orchestration, delivery, and monetization, and more. Through the use of ecosystems, unlikely pairings of characteristics might become real possibilities. Ecosystem provides the most inventory, the quickest delivery, the best customer experience, and the lowest prices. To ensure the formation of this supportive ecosystem, political stability and strong government support are needed.

A digital ecosystem must be created regardless of where a firm is in its digital journey in order to boost performance and facilitate relationships with other businesses. By eliminating any inconveniences associated with out-of-date, traditional B2B services, the digital ecosystem enables an organization to concentrate its energy on facilitating commercial value. Digital ecosystems also improve customer connections by assisting businesses in reliably upholding service-level agreements, offering speedy solutions, and swiftly identifying expectations.

Supply chains are also changing as a result of digital ecosystems that are built by a country. Digital ecosystems are bringing together supply chains that formerly operated in distinct markets to facilitate the development of new goods and services, thereby forming supplier ecosystems. Although the old supply chain still serves as the basis for the majority of businesses, the new model, known as digital ecosystems, is completely changing how businesses operate by establishing straight lines between suppliers and customers and thereby opening up new business prospects.

Fintech might harm consumer and investor protection, competition, monetary policy, financial stability and integrity, and the financial industry as a whole. These technologies might affect the established financial institutions' business models and force some operations outside the regulated industry. Traditional financial infrastructure, especially bank branches, has a tendency to decline in countries with higher rates of technology leapfrogging. Asia has been

a pioneer in the development of crypto-assets, however there are hazards associated with money laundering, tax evasion, evading capital controls, and other illegal activities.

China is seen as a significant nation with a digital-based economy whose effect has been acknowledged. China Digital is an online data network that helps one directly adapt strategies to the Chinese domestic market while exploding global commodity. China provides a fresh approach to accumulating resources and skills to create a local impact with virtual advantages. The political administration of China has been guiding large international clients to meet and exceed their expectations in internet marketing goals for almost a decade (Altair, 2020). In China, the state continues to be the primary key factor in controlling that speed of complicated cooperation to fit its national objectives, despite the fact that the digitization and intensification of cooperation bind participants to a strategic performance.

Although digital platforms could increase the advantages of e-commerce, they create competition-related problems. When e-commerce platforms grow in size, economies of scale may result in winner-take-all dynamics and cause anti-competitive problems. Additionally, network effects make it difficult for vendors and merchants to transfer platforms, which strengthens their market power. Risks of tax base erosion can also be present with digital platforms. Peer-to-peer platforms like Airbnb and Uber, as well as their Asian rivals GO-JEK, Grab, and Tujia, allow transactions that are often carried out in heavily taxed and regulated industries like the hotel and taxi industries to bypass or evade taxes.

Technological progress has injected vitality into the development of global value chains and provided less-developed countries and regions with access to achieve economic development (Rodrik, 2018). The regulation by the political power, differences in geographic locations, labor forces and technology levels, and the enterprise types present in different countries all affect their market power and profitability in the global value chain. The technological sophistication of firms in different countries plays an important role in decision-making that results in the extent of digital ecosystem (Li et al., 2020).

The upshot is that the digital transformation is unavoidable, however, it will hinge on policies. The fitting equilibrium between encouraging digital expansion and minimizing risks must be attained in policy reactions. Reorganizing education to cater to the call for more flexible expertise, perpetual learning, and novel coaching, particularly for the employees who will be most adversely affected, decreasing the mismatch between the competencies of workers and job requirements, investing in physical and regulatory infrastructure that stimulates competition and novelty, and tackling labor-market and societal predicaments, like the redistribution of income and security nets, are all instances of policies to exploit digital benefits.

By the political power, because new technologies have a built-in global reach, regional and international cooperation will be essential to creating successful policy responses. The faster the speed of innovation that society can support while yet guaranteeing that everyone comes out ahead, the more eager

it will be to help those who are left behind. With the appropriate policies, Asia and the rest of the globe may benefit from the digital revolution as a new source of growth and wealth.

As a result, business transformation and enhancements to the technology infrastructure have turned their attention to the industrial sectors in the various Asian countries. This is as a result of their relative standing within the respective national economies. The growing trend of incorporating the Internet into the manufacturing industry has an impact on this as well. The manufacturing sector in Asia was in a good position to reshape its development after the financial crisis in the 2000s, with modifications made to its unbalanced structure and the re-creation of its competitive advantage (Li et al., 2020).

For example, the Indonesian government wants to position the nation as a digital hub for Southeast Asia in light of this tremendous expansion. It intends to do this by increasing investment in digital infrastructure, such as by constructing data centers and hiring digital expertise. In addition, the government wants to see 30 million micro, small, and medium-sized businesses (MSMEs) participate in the digital economy by 2030 (Negara & Sugiana, 2022). This support has an impact on the digital economy ecosystem.

Political and Economic Power's Drive Digital Economic Transformation

Still, economic change does not always guarantee political change will follow. This is especially true if the authorities are committing to keeping political change from happening. Five important priorities are necessary to grow the digital economy: (1) Universal and cheap access to the internet is a requirement. (2) The corporate environment must promote competition since it fosters innovation. (3) Education systems need to change the way workers are trained to meet the needs of the digital age. (4) To safeguard those made unemployed by automation, stronger safety nets are required. (5) Countries ought to aim to increase financial inclusion through technology and modify their regulatory structures to control the dangers connected with fintech (Feng, 2018).

Many of Asian countries are run as rentier states. Rentier states have governments that buy, or rent, the political rights of the people for economic prosperity. In short, the people don't have to worry about anything like money, but the flip side is that they aren't allowed to change anything. Along with social, economic, political, certain national regulation characteristics have significant effects on the digital economy and e-government development. E-government development and the digital economy providing aid to policymakers in understanding the nature of dynamic relationships between the digital economy, government organisations and citizens' adoption of technologies (Ali et al., 2018).

Political and economic power's can work together to drive digital economic transformation, such as to (1) Faster adoption of technology; (2) Generation of new sources of revenue, and; (3) Reduced costs with better business processes. Digital transformation and the creation of a digital ecosystem improve workflow efficiency and working relationships with

customers and partners. Automated data processes and increased business wide efficiency also reduce operational costs.

While digital ecosystems can greatly improve the effectiveness and efficiency of company processes, a dysfunctional digital environment can severely deplete productivity, resources, and morale. The firm wastes time and resources on activities that do not advance the company's goals if the systems in an ecosystem are not interacting with one another. The greatest strategy to guarantee ecosystem health is to carry out ecosystem audits under the supervision of the state and the public.

One illustration of a digital ecosystem is the current banking application. All services and applications, including expenditure managers, digital wallets, online banking, and digital passbooks, are integrated into the ecosystems made possible by these apps. A system was developed online by Digital Bank that combines client information with real estate listings. This gave potential homebuyers estimates for taxes, electricity, and heating costs, a list of realtors and other service providers, and sound, reliable financial guidance.

Digital ecosystems have also been advantageous to the healthcare sector. Every step of the patient journey is included in a digital healthcare ecosystem, including making appointments, getting reminders, storing test findings, and documenting medications. By ensuring that they have the necessary documentation and audit capabilities to meet with mandates or regulations, as well as the needs of the public, the ecosystems assist healthcare firms in maintaining compliance with industry and governmental obligations. There has never been a better time to bridge the digital divide than now, when Asian country are ready to participate in the digital revolution.

CONCLUSION AND RECOMMENDATIONS

Asia is a region with growing digital economic power. In some countries, economic power influences political conditions a lot. Big digital economy companies get excess facilities and have the ability to make deals with the state. Meanwhile, the political conditions of a country, such as political stability and its ecosystem also greatly affect the ability of the digital economy to grow. A supportive ecosystem can ensure that the digital economy industry is able to move and grow well. Many countries in Asia choose to support digital transformation in their countries by providing a lot of support and convenience for digital-based companies. In addition, the development of digital infrastructure is also mostly carried out by the government.

The economic and political relations of a country in the development of the digital economy depend on their respective strengths. There are times when the state has greater power to control digital economy actors. However, there are times when the state only follows the path of digital economic development, under the pretext of accommodating the national interests of the people to enjoy better digital access.

Given the global impact of these technologies, it is imperative that nations collaborate on effective policy measures. The capacity for society to embrace rapid innovation, while also ensuring equitable benefits for all, will determine

its ability to assist those who may be disadvantaged. With appropriate policies, the digital revolution has the potential to generate economic prosperity for Asia and beyond.

ADVANCED RESEARCH

This study has limitations especially about the depth and focus of the discussion. This research broadly discusses the dynamics of political and economic power in driving digital economic transformation in Asia. The breadth of the discussion and the limitations of the study make this research present an overall picture, but lack depth. This research can be further developed by specifically examining related themes, but focusing on certain countries.

ACKNOWLEDGMENT

Thanks to Slamet Riyadi University for supporting the efforts of the research team to realize this research activity to completion.

REFERENCES

Ali, M. A., Hoque, M. R., & Alam, K. (2018). An empirical investigation of the relationship between e-government development and the digital economy: the case of Asian countries. *Journal of Knowledge Management*, *22*(5), 1176–1200. https://doi.org/10.1108/JKM-10-2017-0477

Altair, B. (2020). China Digital As Counterweight Asia-Pacific Century. *Jurnal Asia Pacific Studies*, *4*(1), 72–85. https://doi.org/10.33541/japs.v4i1.1556

Anukoonwattaka, W., Romao, P., Bhogal, P., Bentze, T., Lobo, R. S., & Vaishnav, A. (2021). Digital Economy Integration in Asia and the Pacific: Insights from DigiSRII 1.0. *Asia-Pacific Sustainable Development Journal*, *28*(2), 113–148.

Asean Development Bank. (2019). *Understanding the Digital Economy: What Is It and How Can It Transform Asia?* ASEAN-India Center (AIC) and Research and Information Systems for Developing Countries (RIS). https://www.adb.org/news/events/understanding-digital-economy-what-it-and-how-can-it-transform-asia

Barquin, S, Vinayak, H. V, & ... (2018). Asia's digital banking race: Giving customers what they want. *Global Banking …*, *April*. https://responsiblefinanceforum.org/wp-content/uploads/2018/05/Asias-digital-banking-race-WEB-FINAL.pdf

Barquin, Sonia, Gantes, G. de, HV, V., & Shrikhande, D. (2019). Digital banking in Indonesia: Building loyalty and generating growth. *McKinsey & Company*, *February*, 6. https://www.mckinsey.com/industries/financial-services/our-insights/digital-banking-in-indonesia-building-loyalty-and-generating-growth

bbc. (2020, October 26). Facebook, Google and Microsoft "avoiding $3bn in tax in poorer nations." *BBC*. https://www.bbc.com/news/business-54691572

Chakravorti, B., Bhalla, A., & Chaturvedi, R. S. (2018). *Which Economies Showed the Most Digital Progress in 2020?* (No. 1; 1). https://hbr.org/2020/12/which-economies-showed-the-most-digital-

progress-in-2020

Chung, V. (2019). *The ecosystem effect on financial services in China*. McKinsey & Company. https://www.mckinsey.com/featured-insights/future-of-asia/videos/the-ecosystem-effect-on-financial-services-in-china

Delteil, B., Le, A., & Miller, M. (2020). Six golden rules for ecosystem players to win in Vietnam. *McKinsey & Company*, *November*, 1–9. https://www.mckinsey.com/vn/our-insights/six-golden-rules-for-ecosystem-players-to-win-in-vietnam

Drezner, D. (2021). Power and International Relations: a temporal view. *European Journal of International Relations*, *27*(1), 29–52. https://doi.org/10.1177/1354066120969800

Feng, J. (2018). *Poised to become digital-first economies, ASEAN countries still face core challenges*. IMF. https://www.imf.org/en/Publications/fandd/issues/2018/09/asean-digital-economy-infographic-feng

Fourcade, M., & Kluttz, D. N. (2020). A Maussian bargain: accumulation by gift in the digital economy. *Big Data & Soc*, *7*(1), 1–16.

Goldstein J, P. J. (2016). *International Relations*. Pearson Longman.

Hoontrakul, P. (2018). Asia's Digital Economy. In *Economic Transformation and Business Opportunities in Asia* (pp. 269–312). Springer International Publishing. https://doi.org/10.1007/978-3-319-58928-2_8

Jun, S., Park, J., & Kim, J. Y. (2022). *Digital Transformation Landscape in Asia and the Pacific: Aggravated Digital Divide and Widening Growth Gap*. 1–69. http://www.unescap.org/kp

Li, K., Kim, D. J., Lang, K. R., Kauffman, R. J., & Naldi, M. (2020). How should we understand the digital economy in Asia? Critical assessment and research agenda. *Electronic Commerce Research and Applications*, *44*(January), 101004. https://doi.org/10.1016/j.elerap.2020.101004

Liu, L. (2022). Impact of Economic Globalization on International Relations under the Background of Wireless Communication and Artificial Intelligence. *Wireless Communications and Mobile Computing*, *2022*, 1–6. https://doi.org/10.1155/2022/6849387

Miller, G. J. (1997). The Impact of Economics on Contemporary Political Science. *Journal of Economic Literature*, *35*(3), 1173–1204. http://www.jstor.org/stable/2729975

Minh, L. T. (2021). *Digital ecosystems the new game-changer in Southeast Asia*. Vietnam Investment Review. https://vir.com.vn/digital-ecosystems-the-new-game-changer-in-southeast-asia-86589.html

Mohdari, M. M. (2022, January). How the world's largest FTA will impact Southeast Asia's digital economy. *Tech For Good Institute*. https://techforgoodinstitute.org/blog/articles/rcep-worlds-largest-fta-southeast-asias-digital-economy/

Nasution, D. S., Ec, M., Aminy, M. M., & Ramadani, L. A. (2019). *Ekonomi Digital*. Fakultas Ekonomi dan Bisnis Islam, Universitas Islam Negeri Mataram.

Negara, S. D., & Sugiana, A. M. (2022). The State of Indonesia's Digital

Economy in 2022. *ISEAS Perspective*, *109*(2022), 1–14.
OECD Southeast Asia Regional Forum. (2017). Opportunities and Policy Challenges of Digitalisation in Southeast Asia. *Oecd*, *August*, 26. https://www.oecd.org/southeast-asia/events/regional-forum/Forum_Note_Digital_Transformation_STI.pdf
Oxfam. (2014). *How Politics and Economics Intersect*.
Sayeh, A. M., Dabla-Norris, E., & Kinda, T. (2023). *Asia's Productivity Needs a Boost That Digitalization Can Provide*. IMF. https://www.imf.org/en/Blogs/Articles/2023/01/09/asias-productivity-needs-a-boost-that-digitalization-can-provide
Sedik, T. S. (2018). *Asia's Digital Revolution*. IMF. https://www.imf.org/en/Publications/fandd/issues/2018/09/asia-digital-revolution-sedik
Tonby, O., Woetzel, J., Kaka, N., Choi, W., Swaminathan, A., Seong, J., Carson, B., & Ma, L. (2020). The future of Asia: How Asia can boost growth through technological leapfrogging. *McKinsey Global Institute*, *3*(3), 301–307. https://doi.org/10.1007/s10308-005-0024-4
Tony Blair. (2022, April). Digital Government in South-East Asia: Greater Collaboration Needed to Reach Regional Integration. *TONY BLAIR INSTITUTE FOR GLOBAL CHANGE*. https://www.institute.global/insights/tech-and-digitalisation/digital-government-south-east-asia-greater-collaboration-needed-reach-regional-integration
WeForum. (2017). *Bringing half of the global population online*. World Economic Forum. https://www.weforum.org/impact/creating-hundreds-of-millions-of-new-internet-users/