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## Article

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# INTERNATIONAL TRADE IN THE COVID-19 OUTBREAK: IS THE DIGITAL ECONOMY WORKING?

*DIANA LESTARI, DIO CAISAR DARMA, SITI AMALIA, MADE SETINI*

## Abstract:

This paper presents the strengthening of the digital economy which acts as a stabilizer in the trade sector during the Covid-19 outbreak. In a contactless world, most interactions between customers and employees must occur virtually. While still making exceptions to some things, operating digitally is the only way to survive restrictions on activities by the government, including in the economic sector. The instructions for switching in a digitizing pattern are nothing new, they are simply brought into sharp focus. The most recent event, the Covid-19 outbreak, has accelerated a transformation, as evidenced by the sharp strengthening in the digitizing economic sector. Based on a literature study, the conclusions explain the opportunities for the digital economy to support the trade sector which experienced inconsistencies in growth tabulations during this outbreak. Through the perspective of neoliberalism, it can be used to explain how it is related to strengthening the digital economy with the stability of international trade at macro and micro levels.

## Keywords:

International trade, Digital economy, Neoliberalism, Covid-19

**JEL Classification:** B22, E00, B52

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## 1 Introduction

The coronavirus outbreak in 2019 (Covid-19) is still spreading almost globally. A number of countries are still experiencing a fairly rapid increase in cases. It has been more than half a year that the virus outbreak originating in the city of Wuhan (China) has become a health threat to the world community. The virus that attacks the human respiratory system has also spread in 215 countries.

Recorded until September 2, 2020, this outbreak has infected 25,602,665 people in the world, of which 852,758 people (3.34%) have been confirmed dead. The good news, the healing rate is 17,704,454 people. When compared to each country, the United States is currently in first place for the highest number of positive cases, which is more than 6 million cases. Meanwhile, Anguilla is a country with the number of cases and the number of people who have recovered the least among others (3 people). Thus, Covid-19 not only threatens global health conditions but also greatly impacts the global economy if serious steps are not taken (WHO, 2020; Darma et al., 2020).

Economic factors that experience a recession, over time, will lead countries to new problems (education, environment, culture, and legal certainty). For example, those who work in the trade sector play a major role in the progress of the country's economy. If production, distribution, and consumption patterns are hampered, then the key to a country's success in meeting the needs of its population will be disrupted. Micro, Small, and Medium Enterprises (MSMEs) have had a significant impact so far because they do not have much capital, so they experience a decrease in turnover spikes. The Gross Domestic Product (GDP), which is highly dependent on independent activities, will collapse and there will be many reductions in wages and massive employee layoffs. The supplement that needs to be taken is to revitalize it with a policy (from previously traditional to modern). After all, it was not only trade that collapsed, but primary sectors (such as agriculture) were also affected. A bold breakthrough (such as subsidies, business guarantees, and technical assistance) in the short term, is considered a solution rather than not taking concrete steps in order to save the economy (Muliadi, 2020; Darma et al., 2020).

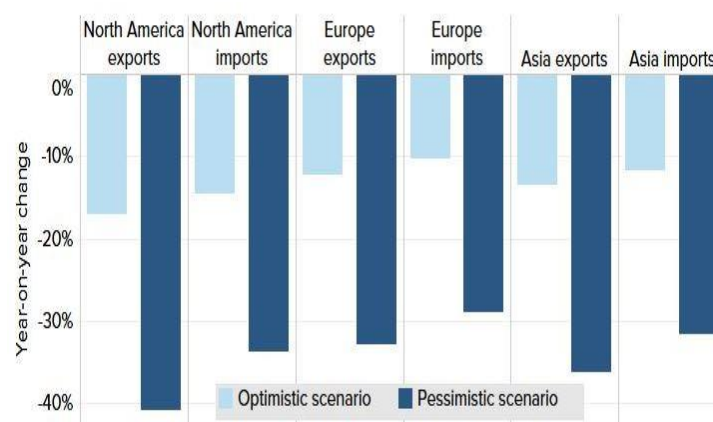
To explain this phenomenon, we use the theoretical framework of neoliberalism in international relations. Based on the proportions of the neoliberalism framework, we argue that the strengthening of the digital economy is one of the contemporary-based international relations phenomena that are interesting to discuss, especially in the current era. Obtaining statistical data from various institutions shows a significant increase in consumers of digital service providers in various parts of the world. This paper will then be divided into three parts, namely a section on the framework of thinking about neoliberalism in international relations, a discussion section with a description of the strengthening of the digital economy as a phenomenon of contemporary international relations in relation to the perspective of neoliberalism, and the last part is a conclusion.

## 2 Introduction Neoliberalism and international relations

The presence of neoliberalism is a form of actualization as well as a criticism of its predecessor theory, neorealism, which is considered too pessimistic so that it is unable to predict changes in

the global political situation after the end of the last cold war. This triggered the interest of a number of researchers to revisit the formula presented by the liberalism perspective in overcoming global problems through the form of cooperation. In this way, neoliberalism is present as a new perspective that focuses on the operationalization scheme of international organizations and non-state actors through international cooperation (Mammadov & Hasanov, 2016; Nye, 1988; Simon, 1995; Stephen, 2011).

Neoliberalism recognizes the state as the main actor in international relations but rejects its position as a single actor and emphasizes that the presence of non-state actors plays a significant role. This departs from the international political and economic reality which is basically institutionalized. This institution acts as a mediator in realizing cooperation between actors in the international system. In addition, the existence of international institutions and regimes is very important in order to facilitate cooperation between countries that present principles, norms, rules, and procedures in the decision-making process (Lamy, 2005).



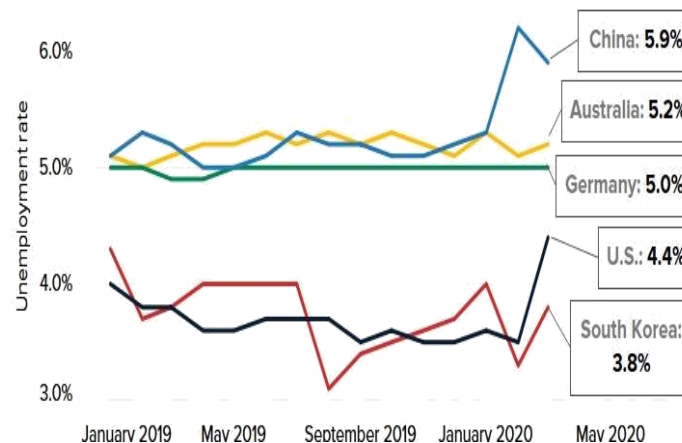
**Figures 1 Expected decline in global merchandize trade in April 2020**

*Sources: CNBC of Indonesia (2020)*

Diversity in various fields ranging from economic, social, environmental to political causes various problems and interests which then require collaboration to find solutions. Thus, dependence on these various fields encourages inter-actors to then carry out a collaboration. The interdependence of both parties will create itself when each of them is familiar in establishing a cooperative relationship. The conditions of the international order competitive in nature, a driving factor for the state to maximize its achievements. Even so, the state tends to heed the benefits obtained in this cooperation but still tries to get absolute benefits (Castañeda & Shemesh, 2020; Tauss, 2012; Wills, 2014).

Each country is interdependent with other countries and has their respective comparative advantages. This advantage makes them an opportunity to join in international trade. The value of export commodities and services will increase the trade balance of exporting and importing countries. As a result of the Covid-19 phenomenon, Figure 1 and Figure 2 present that the decline in trade fell drastically. Both scenarios (optimists and pessimists) both indicate an inevitable recession. For example, the intensity of export trade from the North American Continent reaches around 40% and the export value of the Asian Continent is up to the level of 36%. In

terms of imports, only the European Union experienced the lowest loss of 12%. The domino effect due to the collapse of the global trade pattern also has fatal consequences for the unemployment rate. The occurrence of a massive reduction in the workforce of 5.9% can be explored for the Chinese case. In general, the prediction of global trade volume could fall by 12.9% in 2020 (it could even reach 31.9%). The USA is not alone in facing the increasing number of unemployed. Australia and South Korea also noted an increase in the unemployment rate and the situation would be even worse.



**Figures 2 Covid-19 outbreak hit jobs**

Sources: CNBC of Indonesia (2020)

Based on this description, we take the current case through the strengthening of the digital economy as a phenomenon in contemporary international relations. In essence, digital transformation in the economic sector is nothing new. Prior to this outbreak, the shift towards economic digitization had already occurred in various countries. However, the existence of recent events has been able to accelerate the digital economy transformation so as to achieve extraordinary performance and experience significant strengthening. When viewed from the perspective of neoliberalism, this strengthening can occur due to interests in the economic sector which causes inter-factors to cooperate in order to gain profits. Economic digitization has succeeded in bridging social distances that are now turning virtually.

### 3 Contemporary international relations with the role of the digital economy

Industrial revolution 4.0 has brought significant changes to various areas of life. One of them is digital transformation innovation carried out in line with business competencies and involving digital technology in the implementation stage. The concept of the digital economy explains that the socio-political situation and economic system have the characteristics of an intellectual space, including access to instruments, capacity, and ordering information. The digitalization era is now growing rapidly by blurring the boundaries between networks. This was followed by a collaboration that was able to give birth to the concept of sharing economy, the internet of things, e-commerce, and financial technology in the economic field (Tapscott, 1995; Maria et al., 2019).

Covid-19 has brought humanity around the world into an unprecedented phase of isolation. Various efforts were made including social restrictions which were considered the most effective in slowing the spread of the virus until the discovery of a Covid-19 control vaccine. This forced business managers to transform their business into digital form. For example, the food and beverage producing industry in China have expanded take away options by up to 40% where this was first applied when times were difficult. In addition, according to data compiled by QuantumMetric, the level of urgency for online shopping increased by 8.8% in February (Sheth, 2020; Ye & Kulathunga, 2019; Wardhono et al., 2019).

Not only consumption in terms of fashion and food, but digital content also experienced a surge in users to reach 51% through streaming services. For example, during the first quarter of 2020, Netflix has recorded 16 million new user registrations for its services worldwide. In Indonesia itself, the use of digital services has increased during the period of social distancing. Consumers decide to buy daily necessities through an online platform in the form of e-commerce. As a comparison, the development of e-commerce in Indonesia is able to penetrate the figure of IDR 40 billion in 2019 which makes Indonesia the country with the largest digital economy value in Southeast Asia and is predicted to increase to IDR 130 billion in 2025 (BDO United States, 2020).

Millions of people choose to change their behavior in terms of meeting economic needs at the same time for reasons of time effectiveness and personal convenience. Economic digitization has proven to have a positive impact related to efficiency, productivity, reduced production costs, and agility of excellence by quickly connecting one party to another. In fact, the utilization of digital technology is able to optimize activities so that they are more focused and reduce waste of resources. In addition, the existence of instructions from international institutions to carry out Work From Home (WFH) is able to maximize workforce productivity while maintaining company credibility. And last but not least, the application of data-based technology has the flexibility for customers so that they are able to make or change decisions more quickly.

This phenomenon then proves that the existence of non-state actors has a significant influence on international relations. Especially at this time, the digital economy is capable of playing a key role in stabilizing the economic sector through micro and macro policies. Even though the neoliberals believe in an anarchist international system, they still show optimism about the possibility of a collaboration. Neoliberalism also embraces utility value in the economic sector which is based on this case manifested through digital economic services by involving the e-commerce platform as an actor. The wide-open opportunities in international trade during the Covid-19 outbreak caused the market to act as the rulers, especially in this case digital service providers.

#### **4 Conclusions**

We conclude that the existence of Neoliberalism as a theory of international relations provides an opportunity for non-state actors to contribute to the sector of life. The existence of an interest in the economic sector is one of the factors causing inter-factors to cooperate in order to gain profits. In strengthening the digital economy that occurred during the Covid-19 outbreak, the government left the matters of determining wages and reciprocity to work owners. In addition to increasing profits by service providers, consumers also get various advantages in carrying out transactions. The digital economy has succeeded in becoming a key role in stabilizing the trade

sector at both micro and macro levels. Thus, we have proven that the perspective of neoliberalism can be used to explain how its role and relationship are to strengthen the digital economy as a stabilizer for the trade sector that was affected during the Covid-19 outbreak.

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