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Report

# ASEAN Digital Economy Framework Agreement: Unlocking Southeast Asia's Potential

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# About This Report

The ASEAN Digital Economy Framework Agreement (DEFA), which is expected to be the world's first region wide digital economy agreement, seeks to integrate Southeast Asia as an innovative, interoperable and investable region in the digital age. The DEFA strives to provide a comprehensive and high-quality roadmap to accelerate digital trade, govern data, promote innovation and drive productivity-led inclusive growth. Negotiations for the DEFA are anticipated to span two years, with the framework agreement set to be finalised by 2025. Progressive implementation of the DEFA is expected to unlock US\$2 trillion by 2030 in the region's digital economy.<sup>1</sup>

This report synthesises insights from the 10th ASEAN Economic Dialogue: Unpacking ASEAN's Digital Economy Framework Agreement, organised by the ASEAN Secretariat, with support from the Australian Government through the Australia for ASEAN Futures – Economic and Connectivity (Aus4ASEAN Futures (ECON)), and with the Tech for Good Institute (TFGI) as a knowledge partner. The dialogue encompassed insights from international organisations, governments, businesses, civil society organisations, research institutes and academia.

Given the rapid pace of innovation in the digital economy, engagement with stakeholders across the digital ecosystem is integral to formulating a high-quality, meaningful and implementable framework agreement. Consequently, this report serves as a valuable resource for stakeholders seeking to contribute to ongoing discussions regarding the next phase of Southeast Asia's digital trajectory. It also advocates for ASEAN to empower these stakeholders to support the process of shaping and realising a landmark digital economy agreement for the region.



## Acknowledgements

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We are also thankful to the the following organisations for sharing their insights at the dialogue: the DEFA Negotiating Committee, United Nations Commission on International Trade Law, Ministry of Trade and Industry of Singapore, the Coordinating Ministry for Economic Affairs of Indonesia, ISEAS-Yusof Ishak Institute, Future of Privacy Forum, Microsoft, Grab, VIDA and Macquarie Group.

TFGI further acknowledges Grab's support for our mission of leveraging the promise of technology and the digital economy for inclusive, equitable and sustainable growth in Southeast Asia. Funders do not influence research findings or the insights and recommendations of research.

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This report is a synthesis from the Tech for Good Institute of the 10th ASEAN Economic Community Dialogue, and does not necessarily reflect the views of the ASEAN Secretariat and the Australia for ASEAN Futures – Economic and Connectivity.

## About the Tech for Good Institute

The Tech for Good Institute is a non-profit organisation working to advance the promise of technology and the digital economy for inclusive, equitable and sustainable growth in Southeast Asia.

With a population twice the size of the US and strong demographics, Southeast Asia's digital economy is evolving rapidly. At the same time, the region's trajectory will be unique, shaped by its diverse cultural, social, political and economic contexts. The Tech for Good Institute serves as a platform for research, conversations and collaborations focused on Southeast Asia while maintaining global connections. Our work is centred on issues at the intersection of technology, society and the economy, and is intrinsically linked to the region's development. Through research, effective outreach and evidence-based recommendations, we seek to understand and inform policy with rigour, balance and perspective.

The Institute was founded by Grab to advance the vision of a thriving and innovative Southeast Asia for all. We welcome opportunities for partnership and support, financial or in-kind, from organisations and individuals committed to fostering responsible innovation and digital progress for sustainable growth in the region.

More information about the Institute can be found at [www.techforgoodinstitute.org](http://www.techforgoodinstitute.org).



# Executive Summary

## ➔ Southeast Asia's digital economy continues its impressive digital economy growth.

At its current rate, the region's digital economy is expected to deliver US\$1 trillion in value by 2030.<sup>2</sup> However, this growth is uneven against a backdrop of different readiness levels for digital integration and disparate governance approaches across the region.

## ➔ ASEAN has recognised the importance of digital integration to achieve regional integration.

ASEAN Member States (AMS) have worked to facilitate collaboration, coordination and cooperation in the digital economy. These initiatives include framework agreements for data protection, cybersecurity, data governance, e-commerce, enabling startups and governance of emerging technologies, such as artificial intelligence (AI). These regional initiatives complement existing trade agreements, such as the ASEAN Free Trade Area (FTA) and the Regional Comprehensive Framework Agreement. Progress made by ASEAN in these areas form the foundation for a comprehensive digital economy agreement, such as the Digital Economy Framework Agreement.

## ➔ The DEFA has the potential to unlock the next phase of growth for Southeast Asia.

By promoting digital integration, the DEFA aims to enhance ASEAN's competitiveness, drive economic development, and contribute to national, regional and global sustainable development goals. The DEFA also aims to position the region as an attractive investment destination globally by facilitating scale across AMS and interoperability with the global market. It seeks to align efforts for digital transformation to further accelerate the region's digital economy growth to US\$2 trillion by 2030.<sup>3</sup>

## ➔ ASEAN, however, needs to navigate key challenges to fully realise the benefits of the DEFA.

Bridging the region's diversity is critical. A principle-based and outcome-focused approach with a view towards interoperability will ensure that the DEFA is acceptable and effective. Progressive alignment through a modular approach can be pursued by AMS, especially in areas where there is clear alignment. On the other hand, cross-border cooperation mechanisms can be established in areas where there are diverging positions. The DEFA is an opportunity to show global stakeholders that digital integration is possible despite the diversity of the region.

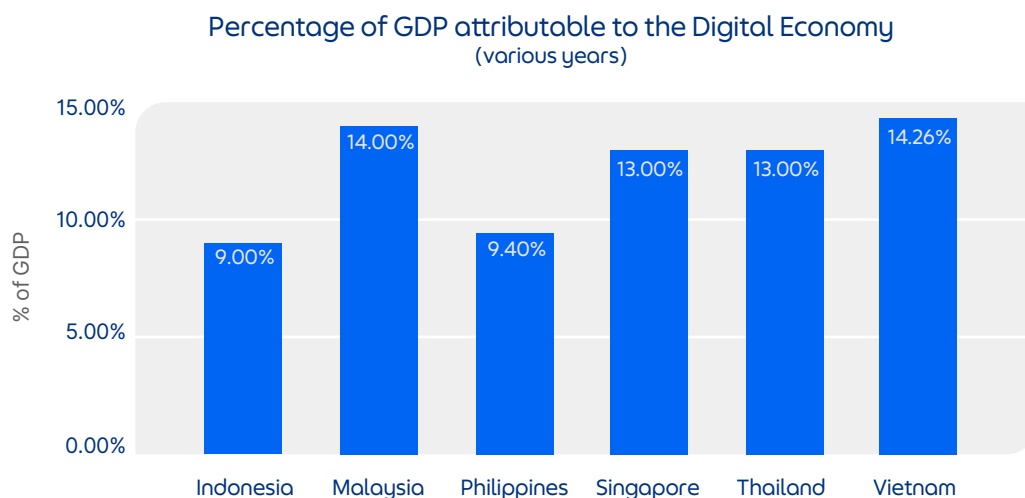
## ➔ As negotiations for the DEFA continue, a platform for transparent and consistent stakeholder consultation will ensure a quality agreement that is fit for purpose and future-proof.

The path towards digital integration is not only a job for governments. Expertise and perspectives from the private sector and academia can help support and inform the negotiation process, as well as garnering support for capacity-building and implementation. Creating opportunities for multi-stakeholder consultations and listening sessions for each negotiating round would ensure that provisions in the agreement are fit for purpose, future-proof, responsive, responsible and flexible.

# 1. Growing ASEAN's Digital Economy through Digital Integration

Despite global macroeconomic headwinds, Southeast Asia's digital economy continues to grow. The region is projected to reach a value of US\$218 billion in 2023, an 11% increase from the previous year.<sup>4</sup> This growth is fueled by high internet penetration, increase in digital consumers, rising e-commerce transactions, and continued innovation in technology and technology-enabled business models. Across the region, the digital transformation is expected to add US\$1 trillion to Southeast Asia's economy by 2030.<sup>5</sup>

Figure 1. Contribution of the Digital Economy to Total GDP Across SEA-6



Note: Figures used are latest data available from various years: Indonesia (2021), Malaysia (2022), Philippines (2022), Singapore (2020), Thailand (2021) and Vietnam (2022). Data unavailable for Brunei, Cambodia, Laos, and Myanmar.

Source: Tech for Good Institute, 2023

**There is, however, room for growth.** The current trajectory of Southeast Asia's growth is taking place against the backdrop of diverse levels of digital integration readiness and different approaches to digital governance. ASEAN Member States (AMS) have their own regulatory frameworks, industrial structures, economic systems and social contexts. In addition, each AMS is at a different stage of developing, implementing and updating its technology policies.

**The region's potential can be realised with a framework that aligns initiatives and efforts of AMS to achieve a more digitised, digitalised, data-driven and digitally-integrated region.** This is why the ASEAN Digital Economy Framework Agreement (DEFA) is important. It seeks to further enable the development, adoption and governance of technology and technology-enabled business models with a regional approach. The DEFA seeks to strengthen ASEAN's competitiveness, advance economic development for all ASEAN Member states, and make progress toward national, regional and global sustainable development goals through digital integration.





## 2. ASEAN's Journey Towards Digital Integration

**ASEAN has been on the journey of digital integration for many years.** As reflected in their national priorities, AMS have recognised the importance of digital transformation and the potential it brings to drive economic growth and sustainable development.<sup>6</sup> Regionally, there have been numerous efforts to achieve regional integration through specific aspects of digital integration (Table 1).

In 2016, for example, the ASEAN Framework on Personal Data Protection was adopted to strengthen the importance of personal data protection and facilitate the information exchange within ASEAN Member States.<sup>7</sup> The framework lays out a set of non-binding principles to guide the formulation of personal data protection measures, both at the national and regional levels.

The following year, the ASEAN Cybersecurity Cooperation Strategy (2017-2020) was created to ensure a secure and safe ASEAN cyberspace. Its purpose was to enhance Information and Communications Technology (ICT) security within ASEAN and align priorities based on the ASEAN ICT Masterplan 2020. The ASEAN Cybersecurity Cooperation Strategy (2021-2025) was subsequently released as an update.<sup>8</sup>

Table 1. Existing ASEAN Initiatives for the Digital Economy

Digital Economy Pillar	ASEAN Initiatives
Comprehensive	<ul style="list-style-type: none"> <li>• Bandar Seri Begawan Roadmap</li> </ul>
Digital Infrastructure	<ul style="list-style-type: none"> <li>• ASEAN Agreement on Electronic Commerce</li> </ul>
E-Commerce	<ul style="list-style-type: none"> <li>• ASEAN Agreement on Electronic Commerce</li> <li>• Regional Comprehensive Economic Partnership (Chapter 12 covers three principles of e-commerce provisions, namely (1) data free flow, (2) prohibiting requirements for data localisation, and (3) prohibiting requirements for source codes)</li> </ul>
Data Protection	<ul style="list-style-type: none"> <li>• ASEAN Framework on Personal Data Protection</li> <li>• Digital Economy Framework Agreement - in discussions</li> </ul>
Cybersecurity	<ul style="list-style-type: none"> <li>• ASEAN Cybersecurity Cooperation Strategy</li> <li>• Digital Economy Framework Agreement - in discussions</li> </ul>
Entrepreneurship	<ul style="list-style-type: none"> <li>• ASEAN Framework for Promoting the Growth of Digital Startups</li> </ul>
Cross-border Data Flows	<ul style="list-style-type: none"> <li>• ASEAN Data Management Framework and Model Contractual Clauses</li> <li>• Digital Economy Framework Agreement - in discussions</li> </ul>
Artificial Intelligence	<ul style="list-style-type: none"> <li>• ASEAN Guidelines on AI Ethics and Governance - in discussions</li> </ul>

Note: List not exhaustive.

Source: Tech for Good Institute (2023)

In 2018, the ASEAN Framework on Digital Data Governance was endorsed to set out the strategic priorities, principles and initiatives to guide AMS in its policy and regulatory approaches towards digital data governance.<sup>9</sup> Key priorities include data life cycles, cross-border data flows, emergent technologies, and legal and regulatory policies. This led to the approval of the ASEAN Data Management Framework (DMF)<sup>10</sup> and Model Contractual Clauses for Cross Border Data Flows (MCCs)<sup>11</sup> in 2021. The DMF and MCCs can be regarded as a guidance for entities engaging in business across ASEAN, providing a framework that organisations can adopt for effective data management.

Recognising the importance of cross-border digital transactions to grow the digital economy at scale, the ASEAN Agreement on Electronic Commerce was signed in 2019 and became effective in 2021.<sup>12</sup> Notably, the Bandar Seri Begawan Roadmap was endorsed in 2021, identifying priority action areas to realise an ASEAN-wide digital economy.

ASEAN has also recently endorsed the Framework for Promoting The Growth of Digital Startups in 2023, serving as a voluntary and non-binding reference to enable a vibrant digital startup ecosystem.<sup>13</sup> The region is also expected to release the ASEAN Guidelines on AI Ethics and Governance in 2024 to uphold the ethical utilisation of AI within the rapidly evolving technological landscape.<sup>14</sup>

**These initiatives are examples of ASEAN's efforts to chart pathways to create an interoperable and integrated digital economy in the region.** It also complements existing trade agreements, such as the ASEAN Free Trade Agreement and the Regional Comprehensive Economic Partnership (RCEP) Agreement, which seeks to further bolster trade, increase market access and attract investments in Southeast Asia. Hence, while the beginning of negotiations for the DEFA is an important milestone, progress made by ASEAN on various agreements and frameworks serves as a strong foundation for success.





### 3.

## Unpacking the ASEAN Digital Economy Framework Agreement

**The DEFA is expected to be the world's first region-wide and legally-binding digital economy agreement.** The framework agreement aims to provide a comprehensive roadmap to accelerate trade, foster innovation, enhance interoperability and drive inclusive growth. With the vision of strengthening collective efforts towards digital transformation, DEFA is expected to double the projected value of Southeast Asia's digital economy to US\$2 trillion by 2030. For lower-middle income AMS, the potential benefit can be as high as 6.5x the current value of their respective digital economies.<sup>15</sup> This further enhances the region's standing as a competitive economic bloc globally.

**The driving purpose of the ASEAN DEFA is to create a sustainable digital economy ecosystem underpinned by common principles, enabling rules and responsive regulations in ASEAN.** The ASEAN Economic Community Council endorsed the Framework for Negotiating DEFA on 3 September 2023<sup>16</sup>, with negotiations expected to conclude in 2025.

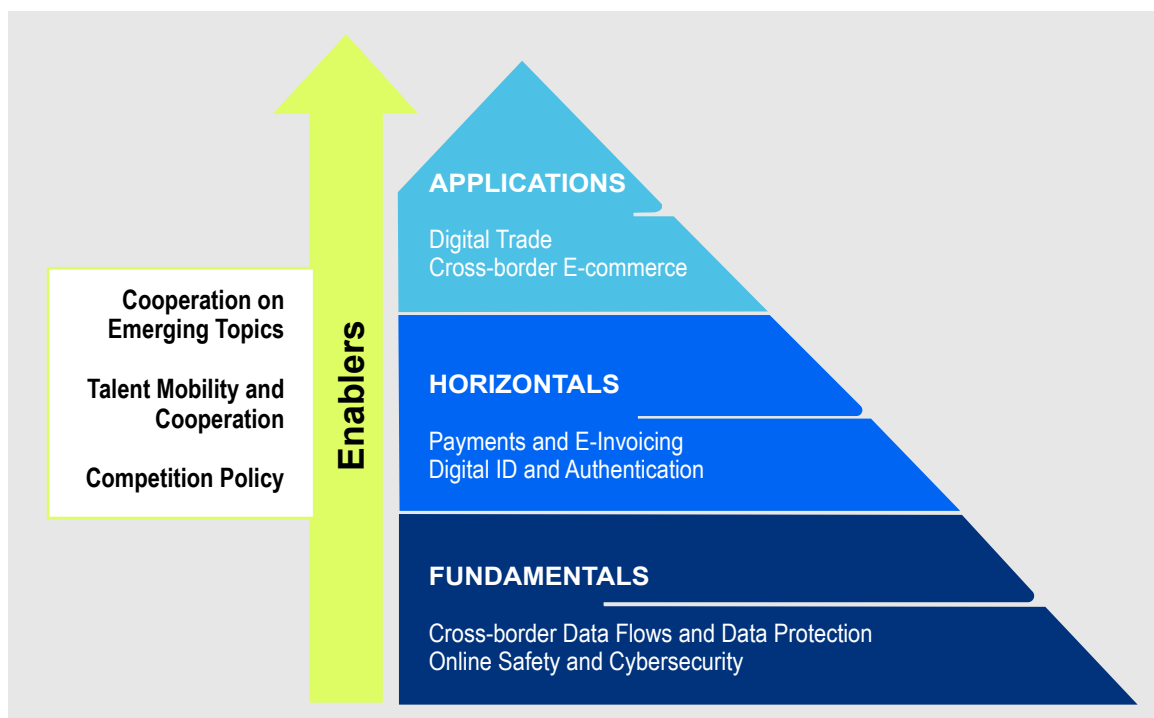
The framework agreement is grounded on several key principles as identified in the Study on DEFA<sup>17</sup>:

- **Impact First:** Solve the urgent and pressing needs to boost growth, well-being and resilience.
- **Inclusive Growth:** Drive substantial and sustainable growth for all AMS.
- **Build on Progress:** Leverage existing commitments and advancements made by ASEAN.
- **Forward-Looking:** Respond to and accommodate the evolving digital landscape and broader ASEAN goals.
- **Tangible Benefits:** Deliver real benefits for the economy and its citizens.



To achieve this, nine core elements serve as the starting point of negotiations for the DEFA Negotiating Committee.<sup>18</sup> These nine elements aim to build a stable foundation for a safe and secure digital economy, support digital horizontals and drive economic growth through digitalisation while enabling innovation (Figure 2).

Figure 2. Elements of the ASEAN Digital Economy Framework Agreement



Source: Tech for Good Institute, 2023

## Building a Safe and Secure Foundation

To encourage the use of digital technologies, it is important for the region's digital economy to be **safe, secure and resilient**. This is key given the rapid digital adoption in the region, with approximately 100 million users coming online for the first time in the last three years.<sup>19</sup> A free flow of information can support business growth as it allows access to new markets and a wider customer base. Data flows also facilitate seamless transactions across borders. This is particularly important for micro, small and medium enterprises (MSMEs) which can be established locally, but operate regionally. AMS' commitment to robust data governance and data protection policies is crucial for facilitating data flows. As such, DEFA negotiations should consider provisions for:

### ➤ Online Safety and Cybersecurity

To improve cooperation in cybersecurity and create an open and secure online environment, with comprehensive protection to parties in a digital transaction, and;

### ➤ Cross-border Data Flows and Data Protection

To facilitate cross-border data flow and establish frameworks to protect data privacy.



## Supporting the Digital Horizontals

With the foundations in place, the DEFA can also support digital economy horizontals to further build trust and increase efficiencies. These are general technologies that can benefit multiple sectors. For example, digital identities can further encourage the adoption and use of digital financial services, the platform economy, e-commerce and digital healthcare. Users are more likely to continue to engage in online transactions and interactions when they are confident that their identities are protected and that the transactions are authenticated. Mutual recognition of digital identities between AMS will enable a seamless user experience for digital consumers across the region, facilitating not only travel but also disaster response and emergency services. Digital identities however are not merely limited to individuals. With over 97% of firms across Southeast Asia classified as MSMEs,<sup>20</sup> ASEAN highlights the importance of digital business identifiers for a trusted digital ecosystem. The 55th ASEAN Economic Ministers Meeting endorsed the Benchmarking Guidelines on Unique Business Identification Numbers in ASEAN in 2023.<sup>21</sup>

**Digital identities will also underpin greater adoption of digital financial services, such as digital payments and e-invoicing.** In Southeast Asia, approximately more than 70% of the population are still either unbanked or underbanked.<sup>22</sup> Since the pandemic however, there has been an exponential rise in the adoption of digital payment solutions. It is estimated that the digital payments market in the region will have an annual growth rate of 14.42% from 2023 until 2027.<sup>23</sup> With a focus on regional approach, the DEFA can provide the needed boost to further promote digital financial inclusion through digital financial services. Meanwhile, more AMS are also implementing e-invoicing systems mainly for tax administration. Singapore and Thailand, for example, have voluntary systems for e-invoicing, while the Philippines and Malaysia are expected to pilot its systems in 2023 and 2024 respectively.<sup>24</sup>

To further support these digital horizontals, the DEFA should cover provisions for:

### Digital ID and Authentication

To develop a mutually recognisable and interoperable digital identity and electronic authentication framework within the region, and;

### Payments and E-Invoicing

To promote digital payments and electronic invoicing by fostering technical interoperability, encouraging innovation and competition, and developing relevant regulation.

# Driving Economic Growth through Digitalisation

**Digital integration will facilitate cross-border trade through digitalisation and paperless trade.** This involves digitalising permits, licences, declarations and other documents necessary for the movement of goods across borders. The ASEAN Single Window (ASW) is a key initiative on this front, with all 10 AMS joining the ASW Live Operation in 2019.<sup>25</sup> The challenge for the region is to expand the operations to include more trade-related documents, such as ASEAN Customs Declaration Document (ACDD) and electronic Phytosanitary (e-Phyto) certificates.<sup>26</sup> As of 2022, it is estimated that the digitalisation of trade processes saved six million business days with a value of US\$15 million in cost savings.<sup>27</sup> The challenge for ASEAN is to continue efforts that will simplify clearances and align standards across several regulatory agencies.

**One positive trend in cross-border trade is the continued growth of the e-commerce segment in the region's digital economy.** From 2016 to 2021, e-commerce sales grew 40% annually.<sup>28</sup> Furthermore, alternative e-commerce channels, such as business messaging, peer-to-peer commerce and live selling, are gaining popularity.<sup>29</sup> These have also spurred a vibrant logistics market to fulfil the last-mile delivery of products to consumers.<sup>30</sup>

**However, the potential impact of digital integration is not only limited to digitalising trade processes of physical goods. There is also an opportunity for ASEAN to leverage technology to create an interoperable market for goods and services that are digital.**<sup>31</sup> This creates an integrated market for a wide-range of digital economy companies (DECs). DECs include companies that are focused on information and communications technology (e.g. Facebook, Google, LinkedIn), tech-enabled businesses relying on digital inputs to create new business models (e.g. Grab, Goto), and offline-to-online businesses that uses digital technologies to enhance operations (e.g. MSMEs using platform companies to access a new customer base).

With these developments, the DEFA should aim to foster economic growth by considering provisions for:

## Digital Trade

To facilitate cross-border trade by creating a seamless experience with electronic documents and interoperable processes, and;

## Cross-border E-commerce

To create a more efficient and fairer environment for cross-border e-commerce, including digital goods and services.



## Enabling Innovation

**The innovation-intensive and data-driven nature of digital business models mean that DECs often rely on a larger scale to be viable.** For inclusive and equitable growth to encourage innovation, competition policy across AMS should maintain a level playing field for large and small businesses, and incumbents and startups that are digital-first and digitally-enabled. The DEFA negotiations should include provisions for:

### Competition Policy

To create a fair, non-discriminatory and transparent competitive environment with consistent guidelines to ensure better options for consumers.

**Another key enabler for the digital economy is developing talent across the region.** It is vital for ASEAN to have a roadmap for creating a digital workforce throughout the economy. This includes an emphasis on digital skills training, investments in life long education for the population, and reskilling and upskilling of the existing workforce. The private sector plays an important role in this regard by sharing technical expertise through training workshops and apprenticeship programmes. Talent is also vital for the development of a competitive and vibrant digital startup ecosystem. Supporting home-grown and local founders and companies will further catalyse innovation for AMS. In Southeast Asia, more than 1,000 second generation startups have been founded by the first generation tech companies, contributing to the growth of the region's tech ecosystem.<sup>32</sup>

**Talent mobility will accelerate innovation transfer and knowledge sharing.** Emerging digital economies can take advantage of talent mobility to increase its “brain network”.<sup>33</sup> The DEFA negotiations should consider provisions for:

### Talent Mobility and Cooperation

To facilitate digital talent mobility between countries and close collaboration on talent building.

**Finally, there is a need to future-proof the framework agreement to consider technological breakthroughs that may happen in the years to come.** The rise of generative AI applications in 2023 is just one current example of how quickly technology can outpace the creation of a responsive regulatory environment to mitigate unintended consequences. ChatGPT reached 100 million monthly users in just two months, while Facebook took around four and a half years to reach the mark and Twitter took over five years.<sup>34</sup> AMS must work together to benefit from technological advancement, while safeguarding trust in the digital ecosystem. One initiative AMS can consider is the implementation of sandbox initiatives. Sandboxes create an environment for live testing of a digital technology or business model before it is widely deployed.<sup>35</sup> It also allows for regulatory learning that enables governments to craft fit for purpose policies to address the risks of emerging technology. The DEFA should recognise the importance of cooperation and collaboration in this area, with provisions for:

### Cooperation on Emerging Topics

To establish mechanisms of regulatory cooperation for relevant standards and regulations to keep up with technological innovations in emerging topics, such as AI.



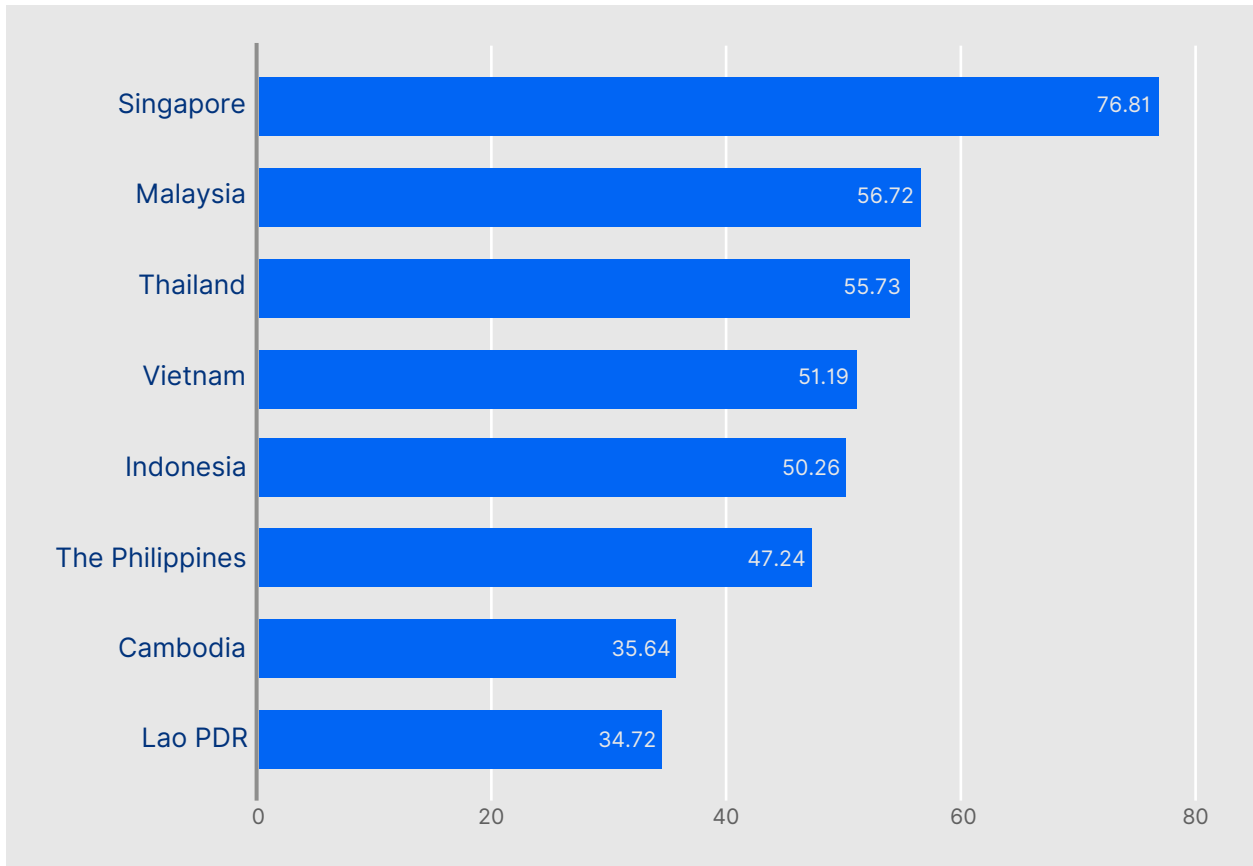
## 4. Navigating Key Challenges

**Negotiations for the DEFA covers a wide range of issues in the digital economy. There is a recognition that reaching alignment will be a tall order, yet a must-win challenge for the region.** A key consideration for the DEFA is that AMS do not have a common starting point. An inclusive framework agreement should not merely accommodate but also embrace the region's diversity, encompassing not just its population and culture, but also variations in readiness for digital integration, existing commitments and approaches to digital governance.

### Diversity in Digital Integration Readiness

**Southeast Asian economies have varying levels of readiness for digital integration.** The latest 2023 Network Readiness Index shows the different stages of digital development in the region. The Index, shown in Figure 3, covers technology, people, governance and impact.







Figure 3. Network Readiness Index, SEA, 2023



Source: Network Readiness Index, 2023

Another measure to gauge integration readiness is the ASEAN Digital Integration Index (ADII). The ADII covers the implementation of digital integration measures of AMS as identified by the ASEAN Digital Integration Framework. The index covers six pillars, including: digital trade and logistics, data protection and cybersecurity, digital payments and identities, digital skills and talent, innovation and entrepreneurship, and institutional and infrastructural readiness. The ADII pillars include the core elements of the DEFA and are shown on Table 2.

Table 2. ASEAN Digital Integration Index

	 Digital Trade & Logistics	 Data Protection & Cybersecurity	 Digital Payments & Identities	 Digital Skills & Talent	 Innovation & Entrepreneurship	 Institutional & Infrastructural Readiness
ASEAN	55.27	62.81	58.84	48.21	49.32	62.85
Brunei Darussalam	54.97	<u>67.46</u>	<u>87.56</u>	<u>53.31</u>	42.99	<u>62.85</u>
Cambodia	33.91	24.76	41.20	36.56	38.19	50.97
Indonesia	49.67	<u>78.43</u>	<u>59.73</u>	45.64	48.81	62.44
Lao PDR	23.22	32.58	44.53	43.89	36.91	38.27
Malaysia	<u>67.35</u>	<u>91.27</u>	<u>79.20</u>	<u>57.85</u>	<u>59.22</u>	<u>82.18</u>
Myanmar	<u>18.51</u>	<u>20.41</u>	<u>32.93</u>	19.58	44.65	44.60
The Philippines	<u>60.61</u>	<u>72.49</u>	31.89	<u>53.13</u>	46.93	58.89
Lao PDR	<u>82.64</u>	<u>89.70</u>	<u>86.60</u>	<u>63.79</u>	<u>71.08</u>	<u>90.36</u>
Thailand	<u>83.34</u>	<u>87.91</u>	<u>69.73</u>	43.76	<u>56.09</u>	62.61
Lao PDR	<u>78.50</u>	<u>63.05</u>	58.33	38.38	44.55	60.72

Note: Bold scores are above ASEAN average.  
Source: ASEAN Digital Integration Index Report 2021

**A key observation is the need for the region to bridge the digital divide.** Data protection and cybersecurity, for example, shows the largest difference between the highest scoring and the lowest scoring countries. There is a need to lower this gap for interoperability and policy alignment to make this possible. As the region moves towards digital integration, it is critical to ensure that proper baseline cybersecurity measures are in place in order to preserve the trust of various stakeholders of digital technologies.

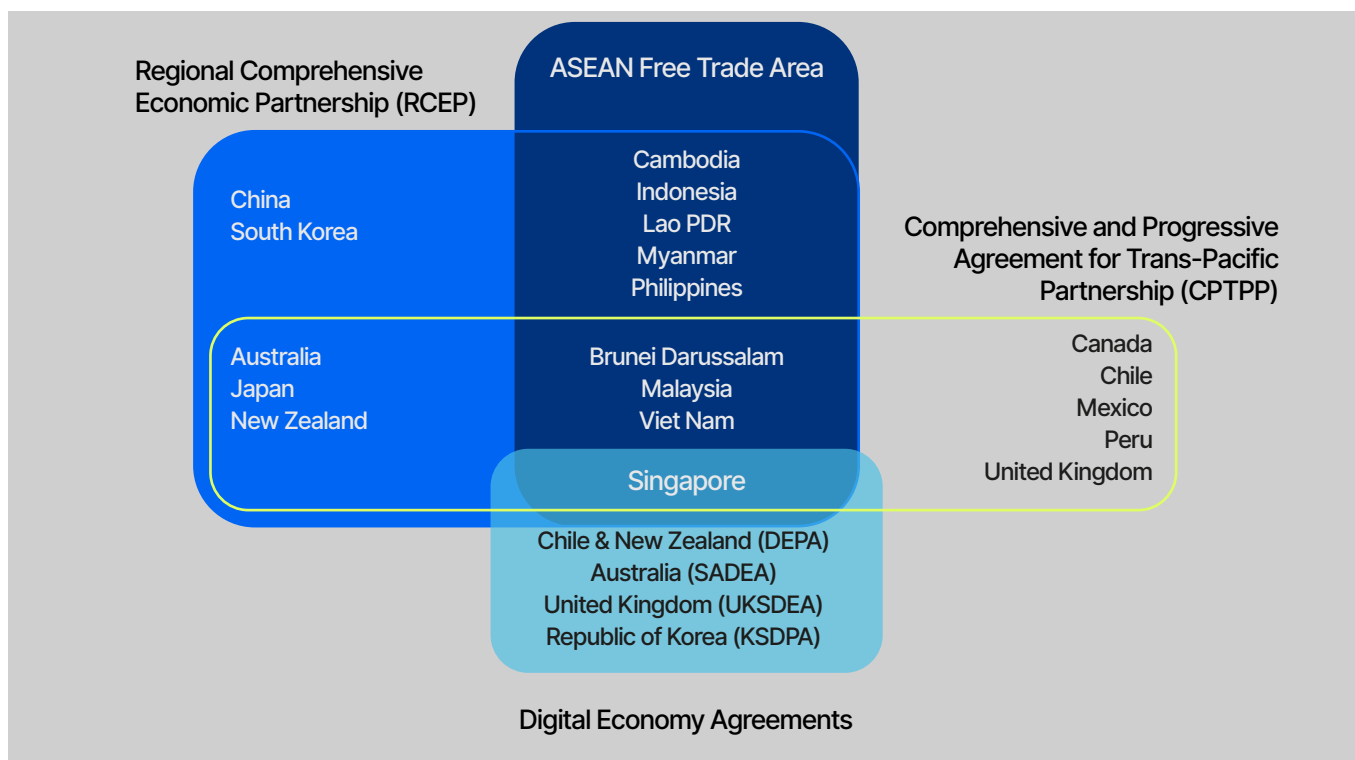
**Moreover, digital skills and talent is a collective challenge for the region.** The pillar has the lowest overall ASEAN average among the digital integration pillars. This reflects the need for AMS to work together closely to digitally-enable entire workforces. There is an opportunity for the private sector to work closely with governments to launch partnerships in training, technical assistance and knowledge sharing.

**Bridging the gap among AMS is important as it affects the level of interoperability that can be achieved by the DEFA.** Large disparities in digital integration readiness will impact the rate at which integration can be realised. The framework agreement needs to ensure that the digital economy will not exacerbate existing inequalities and that the benefits will be distributed equitably across the region.

## Diversity in Existing Commitments

Aside from the diversity in digital integration readiness, AMS also have differing existing commitments that inevitably have different timelines. For example, some AMS are party to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, while others are not. This has implications on the negotiations, especially given the competing models of digital governance approaches a global scale.

Figure 4. ASEAN Member Countries' Commitment to Various Agreements



Source: Tech for Good Institute

**Singapore is the most active country in signing digital economy agreement.** Currently, it has digital economy agreements with countries outside the region, including Chile, New Zealand, Australia, United Kingdom and Republic of Korea. No other AMS has a digital economy agreement in place.

**Nevertheless, there are efforts between AMS for interoperability through bilateral agreements.** For example, Singapore and Malaysia have concluded a framework for cooperation on personal data protection and cybersecurity.<sup>36</sup> Additionally, Singapore and Thailand have launched an integrated real-time retail payment system, allowing customers from these two countries to transfer payments seamlessly.<sup>37</sup> Singapore also has signed a memorandum of understanding with Malaysia on a cross-border work program for young tech professionals to further develop digital skills and mobility.<sup>38</sup>

**In consideration of various commitments, the DEFA should consider identifying shared outcomes underpinned by common principles and values.** This would help AMS navigate through the diversity of commitments, while agreeing on the policy directions for the framework agreement.

## Diversity in Digital Governance Approaches

As mentioned above, individual countries in ASEAN have differing approaches in governing the digital economy. The ASEAN gives way for AMS to determine local laws and regulations. For example, AMS have different viewpoints when it comes to data localisation laws. The Philippines and Singapore allow for any data, including personal data, to flow freely.<sup>39</sup> Indonesia and Vietnam have varying requirements for data localisation, citing public and national security concerns.<sup>40</sup> Malaysia and Thailand implement a conditional approach to cross-border data flows.<sup>41</sup>

**With differing governance approaches, the DEFA should pursue digital integration in a phased and progressive manner.** Areas where there is clear alignment can be prioritised, while principle-based cooperation mechanisms can be established in areas of diverging approaches.



## 5.

# The Aspirations for the Digital Economy Framework Agreement

**While there are significant challenges to be addressed, digital economy stakeholders recognise the value of a regional approach towards digital integration.** Given the fast-evolving nature of the digital economy, a mindset of co-creation could complement traditional negotiation approaches. During the dialogue, the private sector, think tanks, civil society and academia expressed interest to support AMS governments to co-create a **quality framework agreement that is fit for purpose and future-proof.**

Digital economy stakeholders highlighted the potential of the DEFA to position Southeast Asia as an inclusive, innovative, interoperable and investable market. Key insights from the dialogue are as follows:

## Southeast Asia as an Inclusive Market

➤ **The benefits of the DEFA should be equitably distributed across all countries, sectors and individuals.** To ensure inclusive growth, the DEFA should not only benefit tech companies or digitally-enabled businesses, but also include MSMEs and smaller players in the ecosystem to fully leverage tech solutions. Moreover, the DEFA should also empower individuals to have meaningful participation in the digital economy in order to access sustainable and resilient livelihoods.

## Southeast Asia as an Innovative Market

➤ **The DEFA should foster technology, business and policy innovation in the region.** As companies test innovative solutions and scale across the region safely, emerging topics may require ongoing learning. Sandboxes as a tool can be used to promote regulatory learning and to encourage innovation to drive growth and serve the needs of the region. Sandbox initiatives across several countries can also encourage alignment at scale. For example, a technology or business model relevant to multiple countries may be sandboxed simultaneously with shared regulatory learnings. Crucial to this arrangement is a mutual recognition of initiatives and policies amongst AMS.

➤ **The DEFA should be evolving, forward-looking, agile and flexible enough to accommodate new technologies.** While best practices from existing trade agreements exist, the DEFA is an opportunity to build a digital-first agreement from the ground up. It is important for the DEFA to be future-proofed and technology-neutral. This preserves the DEFA's relevance even when technological breakthroughs, new digital solutions or innovative business models disrupt the current landscape.

## Southeast Asia as an Interoperable Market

➤ **DEFA elements that are more developed and have the greatest impact can be the priority for cooperation initiatives.** Harmonisation is not an "all-or-nothing" option for ASEAN. Instead, progressive alignment through a modular approach can be pursued. This means that not all countries or DEFA elements need to be at the same level of readiness before the framework agreement can be finalised. DEFA elements with clear pathways for alignment and greatest potential impact should be prioritised for implementation, while nascent areas of the digital economy can be subject to principle-based collaborations. For example, progress has already been made in digital trade and logistics, such as the ASEAN Free Trade Agreement and Regional Comprehensive Economic Partnership. Negotiations can build on these existing trade agreements to shape the digital trade provisions under the DEFA. On the other hand, digital identity and authentication initiatives in ASEAN may need further conversation on cross-border recognition, but AMS can agree on common values and principles that would serve as the foundation of these policies.



➤ **Trusted free flow of data is integral to the DEFA's goal of digital economic integration.** Data is the backbone of the digital economy. Data flows are critical to realising complete digital integration and digital economy growth, making the region more attractive to global investors. However, data localisation laws and disparities in data regulations would dampen the potential for free flow of data. To maintain trust in the digital economy, common frameworks, standards and principles for online safety, cybersecurity and personal data protection should be in place.

## Southeast Asia as an Investable Market

➤ **To foster an investable digital economy, the DEFA should promote ease of doing business in Southeast Asia.** Ease of doing business includes a level playing field for all, both large and small companies. The private sector noted that policy certainty enables growth, as companies look to operate across multiple AMS. The agreement should also ensure that provisions, especially for digital trade, remain minimally restrictive.

➤ **The DEFA can help develop Southeast Asia's tech talent, including thorough capacity building and knowledge exchanges.** Globally, digital talent is in high demand. AMS have various capacities in nurturing digital talent in order to keep pace with innovation. Commitment to capacity building initiatives is vital to foster knowledge-sharing and training sessions with other countries. These initiatives should not only include reskilling, but also upskilling that would make it easier for the existing workforce to transition into jobs in the digital economy. In addition, capacity-building for civil servants should not be overlooked. Public-private partnerships for technical assistance across the region are recommended, with several private sector participants offering support.

A photograph of two young women with long hair, wearing maroon tops, looking at a smartphone together. They are smiling and appear to be in a festive outdoor setting with colorful string lights and lanterns in the background. The image is partially obscured by a dark blue overlay on the right side.

6.

## Moving Forward: An Opportunity for Co-creation

**The DEFA is an opportunity to show global stakeholders that cooperation is possible despite the diversity across the region.** It can set an ambitious goal of regional digital integration, while remaining practical and feasible implementation across AMS. The DEFA also needs to be practical, high quality and responsive, benefiting businesses in the region. Correspondingly, the private sector can support the process by providing not just perspectives, but also insights on emerging trends to regulators and ASEAN. A value-focused and inclusive dialogue between the public and private sector will foster and maintain trust throughout the process.

**Given the diversity of the region, the DEFA should strive to be a principle-based and outcome-focused agreement rather than a prescriptive treaty.** It could be the basis for a framework on cooperation and interoperability, with ample policy space for AMS to determine governance approaches that best fit their respective local contexts. It is crucial, however, to ensure that the framework agreement is underpinned with clear principles, commitment from all AMS and a common vision of enabling an inclusive, innovative, interoperable and investable Southeast Asia.

**A platform for transparent and consistent stakeholder consultations should be put in place as negotiations continue for the DEFA.** The framework agreement can lay the foundations for a future ASEAN with technologies, business models and use cases that are yet unknown. To guard against the risk of “rapid redundancy”, the private sector can support the process by providing perspectives and insights on emerging trends to regulators and ASEAN. Much innovation is taking place in academia and in the private sector, groups that have offered to share perspectives and expertise to support and inform the negotiation process.

**The DEFA needs to be practical, high quality and responsive, benefiting businesses in the region.** A value-focused and inclusive dialogue between the public and private sectors will foster and maintain trust throughout the process. To ensure that provisions in the framework will be fit-for-purpose, future-proof, responsible and flexible, various stakeholders should hold active discussions during each negotiation round. The 10th ASEAN Economic Community Dialogue is just the beginning.

**In general, Southeast Asia's potential hinges upon being a market that is globally competitive and fully integrated to the global economy.** We do not need to wait for negotiations to conclude to realise the benefits of the DEFA. Open engagement and commitment to work towards shared outcomes for the DEFA will create a much-needed policy momentum to drive continued transformation of the digital ecosystem. The public, private and civil sectors to responsibly and collaboratively craft an ASEAN digital trajectory that is regionally-oriented, multicultural, locally fit-for-purpose and inclusive, all at the same time.

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