Further steps for Asean’s digital economic integration

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ON SEP 3, negotiations on the Asean Digital Economy Framework Agreement (Defa) were launched. First envisioned in 2021, the agreement aims to set the foundations for the region’s digital economy to double in value from US$1 trillion to an expected US$2 trillion.

The goal of completing Defa negotiations by 2025 is timely, as Asean and its member states are becoming part of an increasingly dense network of economic and trade agreements with digitally related provisions.

These include the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Regional Comprehensive Economic Partnership, and several bilateral digital economy agreements.

It is high time the region consolidates its position as a key node for the global digital economy by signing Defa, the world’s first major region-wide digital economy agreement.

Defa will likely build on existing efforts by member states and follow the blueprint for regional digital integration laid out in the Asean Digital Integration Framework and Action Plan.

Here are some ways that Defa can improve upon existing initiatives in digital trade facilitation, digital payments and data regulations.

Digital trade facilitation has been a longstanding priority for Asean. Policies such as the Asean Single Window (ASW) and Asean Customs Transit System leverage digital technologies to enhance regional trade integration, reduce trade costs and improve regional competitiveness.

Asean has already seen successes such as the operation of the ASW in all member states. Allowing for the electronic exchange of trade documents between national windows, the platform has attracted the interest of major global partners such as China, Japan, South Korea and the US, all keen to expand on the initiative.

Another success is the conclusion of the world’s first fully paperless cross-border trade from Singapore to Thailand, using an electronic bill of lading enabled by Singapore’s TradeTrust framework.

Yet, the ASW still has much room for improvement. Documents such as phytosanitary certificates, animal health certificates and customs declarations have not been fully adopted. Defa provides an opportunity to review the ASW and bring all trade documents onto the platform.

More trade financing

Then there is trade finance facilitation, an area assessed to be sorely lacking by the 2023 United Nations Economic and Social Commission for Asia and the Pacific Asean joint report on digital and sustainable trade facilitation.

This would make Defa more inclusive by creating an avenue for companies – particularly micro, small and medium-sized enterprises – to seek financing, enabling them to access the growing regional economy.

In this area, two leaders have emerged. In November 2021, Singapore conducted the world’s first digital trade financing pilot with the Abu Dhabi Global Market through Tradenet. In November 2022, Thailand launched a National Digital Trade Platform that has partnered financial institutions to offer trade financing.

Asean aims to strengthen cross-border payment infrastructure, but faces challenges such as diverse financial regulations and the lack of a unified currency. One pivotal action would be to establish a harmonised regulatory framework for digital payments.

Standardised rules, guidelines, and regulations would streamline operations for financial institutions and fintech firms, with no need to navigate diverse national regulations.

This also instils confidence in businesses and consumers that make cross-border digital transactions.

A few member states have bilateral arrangements to facilitate cross-border retail payments, but there is still some way to go for an Asean-wide payment system.

To scale up cross-border payments, a complement to the existing regulatory framework would be a standardised digital identity verification system. This could drastically simplify user authentication processes across borders, ensuring that transactions are both secure and expedited.

The emphasis should be on an Asean-wide digital identity, which would be essential in reducing fraud and fostering trust in cross-border digital payments.

Interoperability is another crucial aspect. Future policies should advocate for the creation and adoption of interoperable payment systems.

Such systems, whether digital wallets or other payment mechanisms, should function seamlessly across the region. When a consumer in, say, Thailand uses a digital wallet, it should be as effortless to make a payment in Vietnam as it is domestically.

Cross-border data regulations

Both digital trade and digital payment hinge upon smooth cross-border data flows – yet inconsistent data regulation regimes pose a great challenge to Defa negotiations.

Some member states have opted for free data flows, ensuring smooth delivery of digital services such as cloud computing; others favour data localisation due to national security concerns.

Businesses grapple with compliance issues due to inconsistent national data regulations across the region. Asia Competitiveness Institute research shows that existing mechanisms, such as the Asean Model Contractual Clauses (MCCs), fail to bridge these gaps effectively.

Member states can customise MCCs, deferring the purpose of having unifying mechanisms for cross-border data transfers. Furthermore, legal uncertainty abounds, as most countries have not formally clarified the legal status of MCCs in conjunction with their domestic laws.

It would be interesting to see how far Defa can progress in addressing these challenges. Up to 2020, more than 20 trade agreements with provisions on free data flows have been signed by countries in the region – but cross-border data flow frictions persist, as these agreements are riddled with exceptions.

Perhaps Defa can follow the CPTPP in acknowledging different public policy priorities across countries and allowing legitimate exceptions to free data flow provision. This creates a middle ground that accommodates the interests of all parties.

Channels for resolving contentions should also be created, such as the CPTPP’s dispute mechanism for what constitutes legitimate public policy goals. Formalising the legal status of MCCs and international certification schemes in Defa will strengthen the effectiveness of existing mechanisms, too.

These areas are merely the building blocks for successful Defa negotiations. As the digital economy evolves and new technology is adopted, more diverse issues will arise.

As a pivotal piece of the regional architecture that addresses an ever-changing technological frontier, the Defa should endeavour to be a living document that responds to developments.

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