



# Asean's DEFA: An engine for pandemic recovery

The region's latest push for digital integration can build on Singapore's DEA experience. **BY XIE TAOJUN, KEVIN CHEN AND QUAH SAY JYE**

**F**OR a region still reeling from the fallout of the Covid-19 pandemic, the digital economy represents not only a novel means of remaining connected but an economic lifeline for Asean's businesses.

The region boasts the world's fastest growing digital economy, with a gross merchandise value expected to treble between 2020 and 2025 to reach US\$300 billion. Indeed, the pandemic only accelerated the adoption of digital services – over 40 million new users joined in 2020 alone.

To facilitate this growth, Asean leaders have formulated a series of digital masterplans, action plans and roadmaps, of which the Asean Digital Economic Framework Agreement (DEFA) is the latest. The agreement can be seen as a regional government-to-government partnership to standardise digital trade rules and functions such as cross-border data flows, which would allow businesses to operate more efficiently between partner economies. This is a commendable policy initiative for Asean to pursue a post-pandemic recovery.

Studies on the DEFA's implementation are only scheduled to commence in 2023, but our research at the Asia Competitiveness Institute (ACI) points to the areas that most urgently require reforms.

Understanding the different challenges faced by regional and bilateral agreements, as well as the experiences of countries with Digital Economy Agreements (DEAs) of their own, can also be instructive.

## LAYING THE GROUNDWORK

We recently completed a study named "Gauging readiness for digital economy agreements" which benchmarks the Asean-6 economies vis-a-vis external partners who signed DEAs with Singapore – namely Chile, New Zealand and Australia.

We take a tiered approach, looking closely into the areas of fundamental groundwork, which necessitate cross-border collaboration such as digital payments. We then further assess nascent areas such as advances in artificial intelligence (AI) which enhance collaboration.

We find that the developmental standards of Singapore and its external partners are roughly on par. This is particularly in paperless trade, which is key to enabling smoother cross-border transactions.

However, the balance between Singapore and its Asean neighbours is less equitable. Consider e-payments – Singapore and Malaysia lead in this area, with the number of real-time transactions from 2019 growing 48 per cent to 138.38 million and 864 per cent to 68 million respectively in 2020. Yet other Asean members have yet to catch up. In 2019, cash was still the primary payment method for e-commerce in countries such as Vietnam (72 per cent) and the Philippines (67 per cent). Though the pandemic forced many to adopt digital payments, with the use of digital banking transactions growing 42.3 per cent year on year in Indonesia, the gulf between the countries remains formidable.

There is some hope that trends could bridge this gap by 2023. HSBC noted that Asean digital pay-

ments could treble to US\$1.5 trillion by 2030. The launching of the world's first real-time payment system link between Singapore's PayNow and Thailand's PromptPay could also be a model for interoperability between other member states.

Nonetheless, more groundwork can and should be done. Governments should continue to promote e-payment solutions in accordance with domestic conditions, whether it be through regulatory reforms in Indonesia or trust-building exercises in Thailand. Governments should also explore more bilateral,

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if not multilateral, agreements as a building block for a regional partnership.

## RAMPING UP – FROM DEA TO DEFA

Groundwork alone does not guarantee success, however. Concluding a region-wide DEFA would not only demand equitable standards of fundamental policies, but interoperable standards as well.

Take, for example, the issue of

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data privacy. While four of the Asean-6 have specific laws on this issue, there are vastly different standards behind their usage. In Singapore, organisations are required to notify users of a breach if it is likely to result in "significant harm". Contrast this to the Philippines, where references to "serious harm" imply a higher threshold for notification.

Governments have issued statements that data privacy laws can be amended to conform to external standards. However, the wider challenge of arriving at a new standard remains to be discussed. Care needs to be taken such that policy speed bumps do not derail a promising enterprise.

## SINGAPORE AS A ROLE MODEL

As the sole Asean member with experience in crafting DEAs, Singapore is in a unique position to share its experience on how to best proceed with these plans. This not only extends to the kind of conditions that would best facilitate the conclusion of such agreements, but also how they can be best approached.

Beyond fundamental policies, the ACI study also compared nascent areas such as AI. It is significant that differences in capabilities in this area, with Singapore far ahead of the three in terms of AI development, did not affect the signing of the DEAs. As the study presents, these areas are still emerging and the thresholds for partnership are not as stringent as with the fundamental areas.

Evidently, rather than trying to make national policy landscapes mirror images of each other, it is more prudent to focus on achieving understanding in fundamental policy areas first.

This touches upon another key finding: the modular nature of DEAs. Unlike the linear path of building a house from its foundations upwards, countries can choose the most compatible policy area to begin deepening cooperation. Countries that have interoperable data privacy regulations can commence cooperation in that area, with an eye on coming around to working together on cross-border digital payments later.

A regional DEFA will be much more complex than a bilateral DEA. The long timeframe for studying the DEFA, let alone for negotiations to start, hints at the challenge behind this enterprise. Yet such an agreement will be a major

step for Asean to fulfil its digital ambitions. In this regard, the Singapore experience could prove invaluable in driving and guiding the negotiations.

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