STUDY ON THE ASEAN DIGITAL ECONOMY FRAMEWORK AGREEMENT

Prepared by the Boston Consulting Group, and supported by the Australian Government through the Australia for ASEAN Futures Economic and Connectivity

21 October 2023
ASEAN Digital Economy Framework Agreement

The ASEAN Digital Economy Framework Agreement (DEFA) aims to accelerate ASEAN's transformation into a leading digital economy, that fosters greater digital cooperation and paving the way for regional digital integration and inclusive growth and development.

Based on the consultants’ understanding of ASEAN’s strengths, current efforts on digital economy and consultation with private sector and member states, this study outlines elements that may inform the negotiation process ahead and served as basis for the launch of the negotiations in September 2023 on a without prejudice basis.
The digital economy ecosystem is interconnected and multi-layered, with a multiplier effect on the broader economy.

- **Induced benefits**
  - Uplift from core digital sectors i.e., hardware, software & services in telecommunications, information technology, emerging technologies, data and AI, DeepTech, and operational technologies.
  - Uplift from digitalisation across other sectors from new digital business models e.g., e-commerce, fintech, agritech and end to end digital use cases i.e., digital customer interactions, payments, operations.
  - Non-economic activities and secondary benefits reliant on or significantly enhanced by digital e.g., social mobility, lower carbon footprint, improved resilience.

- **Digitally enabled economy**
  - Ancillary employment, social mobility, improved access and inclusivity.
At current trajectory, ASEAN Digital Economy will grow 3X to reach $1Tn+ by 2030

Forward-looking and aspirational DEFA can double the value of Digital Economy to ~$2Tn

A forward-looking and aspirational DEFA can grow the digital economy to ~$2Tn by 2030...

Size of the Digital Core and Digitally-Enabled Economy ($Tn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Current</th>
<th>Current trajectory</th>
<th>Baseline DEFA</th>
<th>North Star DEFA (enabling a leapfrog)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>0.3-0.4</td>
<td>1-1.1</td>
<td>1.4-1.6</td>
<td>+$400-600 Bn</td>
</tr>
<tr>
<td>2030F</td>
<td></td>
<td></td>
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Digital Penetration

<table>
<thead>
<tr>
<th>Country</th>
<th>Value Multiplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>BN</td>
<td>9-11%</td>
</tr>
<tr>
<td>CM</td>
<td>14-15%</td>
</tr>
<tr>
<td>ID</td>
<td>19-22%</td>
</tr>
<tr>
<td>LA</td>
<td>26-28%</td>
</tr>
<tr>
<td>MY</td>
<td>9-11%</td>
</tr>
<tr>
<td>MM</td>
<td>14-15%</td>
</tr>
<tr>
<td>PH</td>
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</tr>
<tr>
<td>SG</td>
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</tr>
<tr>
<td>TH</td>
<td></td>
</tr>
<tr>
<td>VN</td>
<td></td>
</tr>
</tbody>
</table>

Value Multiplier can be as high as 6.5x for lower-middle income ASEAN countries

Source: Oxford Economics; Gartner; IDC; VMWare; Straits Research; EDBI; BCG Analysis;
Massive additional benefits expected through digital economy - not all quantifiable, but highly valuable.

**Positive climate impact**
Estimates show, if brought to scale, digital technologies could potentially create $12-30 Bn in social cost savings.

**Improved resilience**
Economies with high digital readiness showed better resiliency to crisis during COVID. This was especially true for ASEAN businesses/companies; highlighting the need for greater digital inclusivity.

**Employment and social mobility**
Digital adoption can create new jobs and income opportunities in rural communities, promoting poverty reduction.

**Improved access and inclusivity**
Digital technology has made it easier for people to access educational resources, access information and more effectively participate in civic life.

Source: WEF, IDC, IMD World Digital Competitiveness Ranking 2021, World bank, Bloomberg, BCG Analysis
5 guiding principles that informed the DEFA study

1. Impact first: Target big unlocks and barriers to drive impact, with a focus on bringing tangible impact for businesses and people in the region

2. Inclusive growth for ASEAN: Focus on growth for all ASEAN Member States with participation from businesses and citizens across income, sector, and gender groups

3. Build on progress made by ASEAN: Complement existing commitments and ongoing efforts

4. Forward-looking: Accommodate the changing digital environment & broader ASEAN ambition

5. Bring tangible benefits: Bring tangible benefits to businesses and people in the region by operationalizing use cases through concrete digital initiatives
The DEFA recommendations were developed through an eight-month process including several rounds of private sector and public sector consultations.

1. **Fact-based benchmarking analysis**
   - 5 guiding principles to inform the approach
   - Starting points of all ASEAN member states

2A. **Insights from private sector engagements...**
   - 2000+ MSMEs engaged through surveys and focus group interviews
   - 60+ Large corporate business leaders and executives engaged through surveys and interviews
   - 5+ Joint business councils, including ASEAN Business Advisory Council, US-ASEAN Business Council

2B. **...combined with inputs from AMS, ASEAN existing efforts and global DEAs...**
   - AMS and ASEAN sectoral bodies
     - Collected inputs from all AMS and 10+ sectoral bodies
   - ASEAN existing efforts and agreements
     - Reviewed ASEAN signed agreements and strategic action plans
   - Global Digital Economy Agreements
     - Examined provisions across 30+ agreements

3. **...to arrive at the DEFA recommendations and capacity build measures**

**Recommendations for ASEAN DEFA**
- Nine (9) DEFA elements
Nine (9) core DEFA elements endorsed without prejudice through various engagements.

Descriptions follow from the next page.

Core DEFA elements:

- Digital trade
- Cross-border E-commerce
- Payments
- Digital ID and authentication
- Cross-border data flows and data protections
- Online safety and cybersecurity
- Talent mobility and cooperation
- Cooperation on emerging topics
- Competition policy
Digital trade
Aims to facilitate cross-border trade by creating a seamless trade experience with electronic documents and interoperable processes

Cross-border E-commerce
Aims to create a more efficient and fairer environment for cross-border e-commerce, including digital goods and services

Payments and E-Invoicing
Aim to promote digital payments and electronic invoicing by fostering technical interoperability, encourage innovation and competition, and developing relevant regulation

Digital ID and Authentication
Aim to develop a mutual recognizable and interoperable digital identity and electronic authentication framework within the region

Key provisions to enable MSME participation in cross border digital economy
Ensuring responsible digital growth

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<thead>
<tr>
<th>Number</th>
<th>Topic</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Cross-border Data Flows and Data Protections</td>
<td>Aim to facilitate cross-border data flow and establish frameworks to protect data privacy</td>
</tr>
<tr>
<td>6</td>
<td>Online Safety and Cybersecurity</td>
<td>Aim to improve cooperation in cybersecurity and create an open and secure online environment, with comprehensive protection to parties in a digital transaction</td>
</tr>
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Strengthening cooperation between nations

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<tr>
<td>7</td>
<td>Cooperation on Emerging Topics</td>
<td>Aims to establish mechanisms for regulatory cooperation for relevant standards and regulations to keep up with technological innovations in emerging topics such as AI</td>
</tr>
<tr>
<td>8</td>
<td>Talent Mobility and Cooperation</td>
<td>Aim to facilitate digital talent mobility between countries and close collaboration on talent building</td>
</tr>
<tr>
<td>9</td>
<td>Competition Policy</td>
<td>Aims to create a fair/non-discriminatory, transparent competitive environment with consistent guidelines on enforcement and better choice for consumers</td>
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Nine (9) elements were endorsed without prejudice at the 55th AEM and DEFA negotiations were launched at the 23rd ASEAN Economic Community (AEC) Council.

Through the DEFA, ASEAN will be able to leverage the benefits of regional complementarity, promote economic growth and drive opportunities for a more inclusive and safer digital economy.
Next Steps:

Negotiations between ASEAN member states will formally begin in December 2023, with the target to conclude negotiations by end 2025.

DEFA will need to remain a living document that adapts to a constantly evolving socio-economic and technology landscape.