

#PartnerForTrade

ASEAN Digital Economy Framework Agreement (DEFA)

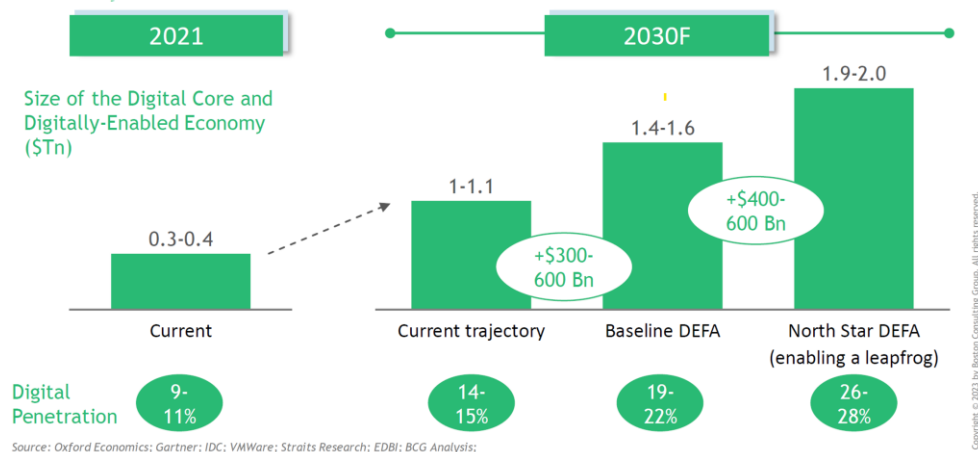
What is DEFA?

The Digital Economy Framework Agreement is a strategic initiative that is currently being negotiated by the member states of the Association of Southeast Asian Nations (ASEAN) to foster digital integration within the region. It aims **to support businesses and stakeholders across Southeast Asia by accelerating (digital) trade growth**, improving interoperability, ensuring online security, and increasing participation and benefits of micro, small and medium enterprises (MSMEs) in the regional digital economy.

Relevance and Objective of DEFA

The **current digital landscape in the region is often described as fragmented**, with many agreements and frameworks operating in isolation. ASEAN Member States (AMS) often developed their own standards and regulations for digital ecosystems, which are not always interoperable, while some states generally significantly lag behind in digital development. The ASEAN Digital Integration Index (ADII) highlights significant disparities among Member States in areas such as technology adoption and infrastructure readiness.

Therefore, a main objective of DEFA is to **foster greater digital cooperation and integration** among ASEAN member states to accelerate digital economy growth. Regularly achieving **double digit growth in gross merchandise value and revenue**, the size and value of the digital economy in ASEAN doubled since 2021 and is currently estimated to sit between 300-400 billion US Dollars. According to projections, it is estimated that **the region's digital economy will grow to at least 1 trillion US Dollars by 2030**. Assuming a positive scenario, an efficient and swift implementation of DEFA could further stimulate growth, ballooning the size of the ASEAN digital economy to up to 2 trillion US Dollars by 2030. For lower-income ASEAN member states, the digital economy's projected growth could even expand by up to 6.5 times its current size.



Key Components According to the official ASEAN framework for negotiating the ASEAN DEFA, **nine key elements** will be covered:

- **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** aims to promote digital payments and electronic invoicing by fostering technical interoperability, encourage innovation and competition, and developing relevant regulation.

- **Digital ID and Authentication** aims to develop a mutual recognisable and interoperable digital identity and electronic authentication framework within the region.
- **Online Safety and Cybersecurity** aim to improve cooperation in cybersecurity and create an open and secure online environment, with comprehensive protection to parties in a digital transaction.
- **Cross-border Data Flows and Data Protection** aims to facilitate cross-border data flow and establish frameworks to protect data privacy.
- **Competition Policy** aims to create a fair/non-discriminatory, transparent competitive environment with consistent guidelines on enforcement and better choice for consumers.
- **Cooperation on Emerging Topics** aims to establish mechanisms for regulatory cooperation for relevant standards and regulations to keep up with technological innovations in emerging topics such as AI.
- **Talent Mobility and Cooperation** aims to facilitate digital talent mobility between countries and close collaboration on talent building.

State of Negotiations

Negotiations for DEFA have officially been launched by Economic Ministers of ASEAN on **3 September 2023** during the 43rd ASEAN Summit. This move came subsequently to the ASEAN Economic Minister (AEM) endorsing a preliminary study on DEFA on 19 August 2023. The member states are **aiming to finish negotiations by the end of 2025**.

In preparation of DEFA negotiations, more than **2000 MSMEs and roughly 60 large corporate business leaders** and executives were engaged through surveys and focus group interviews. In addition, 5 joint business councils were consulted, ensuring that the negotiation framework for DEFA would properly address the needs of the private sector.

Reactions from the Business Community

Based on private sector feedback that was gathered during two focus group discussions in Singapore in 2024, businesses have emphasised the importance of **enabling cross-border data flows** and **prohibiting data localisation** to support global operations, partnerships, and access to advanced technologies such as cloud computing and big data. However, **varying policy positions** among ASEAN Member States, particularly around **data sovereignty and security concerns**, present challenges to regulatory harmonisation.

Companies have suggested a **flexible DEFA structure** that allows for higher-level commitments from more prepared AMS while enabling gradual participation by others, alongside clearer regulations and stronger dispute resolution mechanisms to provide predictability for businesses.

To facilitate growth in e-commerce, company representatives advocated for **harmonised regulations**, such as a standardised and sufficiently high de minimis threshold for cross-border goods. The need for **common standards** (e.g. ISO20022) for enabling seamless digital trade, including paperless trading and e-invoicing, while addressing uneven adoption across AMS, has also been voiced. Expanding e-payment services by improving connectivity and leveraging innovative financial technologies is usually seen as essential, particularly for rural and unbanked populations.

Also, support was expressed for **creating a regional trustmark for data protection** to establish a unified, business-friendly approach, despite challenges related to interoperability and legal constraints. Clearer **guidelines on the transfer of source code** were also called for, aiming to safeguard intellectual property, alongside alignment with international cybersecurity standards. A harmonised approach to **AI governance** was proposed to foster innovation while ensuring ethical use. Furthermore, the need for stronger regional cooperation to develop a **skilled digital workforce** was emphasised, addressing gaps not adequately covered by existing digital economy agreements.

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