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ASEAN's Digital Economy: Development, Division, Disruption

By Amalina Anuar

SYNOPSIS

What do US-China tensions in the technological sphere mean for ASEAN's digital ambitions and how can it respond?

COMMENTARY

BOASTING AN increasingly wired and growing middle class, as well as a wealth of data stemming from a 642-million-strong population, ASEAN's digital economy is ripe for the picking. By 2025, it will be worth an estimated [US\\$240 billion](#).

The prospects of market dominance and significant data pools to be mined for developing future technologies, combined with ASEAN's geostrategic location, have lured greater major power interest into the region's digital economy. Though global tech titans are more visible players in ASEAN's digital space, greater government-to-government cooperation is emerging as economics and security become increasingly intertwined. What then might this mean for ASEAN?

Development Opportunities

Boosting financing for ASEAN's infrastructure, digital or otherwise, could increase digital economy take-up. Competing infrastructure partnerships such as China's Digital Silk Road (DSR) and the Washington-initiated Indo-Pacific Economic Vision (IPEV) could help service hard and soft infrastructure gaps across the region.

Under the DSR, fibre-optic cables have boosted data-carrying speeds, improving telecommunications connectivity. In Malaysia, Alibaba's Digital Free Trade Zone serves as a cross-border logistics and e-commerce centre, with another digital trade

hub servicing Cambodia, Laos, Myanmar, Vietnam, and Thailand mooted for Thailand's Eastern Economic [Corridor](#).

Generating soft infrastructure, Alibaba has promoted SME (small and medium-sized enterprise)-friendly trading initiatives via the Electronic World Trading Platform— a move that may heighten SMEs' [10%-30%](#) contribution to ASEAN's exports.

Benefits could further trickle in for ASEAN's smart city initiatives. Aside from DSR initiatives, the November 2018 US-ASEAN Smart City partnership followed on the heels of the IPEV launch in July 2018, which allocated [US\\$25 million](#) to prime private sector investment in regional digital connectivity and cybersecurity.

Where Washington's commitment has lagged, moreover, other Quad members – Japan, Australia, India – have stepped up to fill the gap. Besides the smart city partnerships slated for [2019](#), Japan will train [80,000](#) ASEAN high-tech specialists. Meanwhile, Tokyo's upcoming G20 Global Data Governance Agenda, along with 2018's ASEAN-Australia Digital Trade Standards Initiative, could aid in hammering out multilateral regulatory infrastructure for ASEAN's internet economy.

Divisive Risks

Yet intense major power rivalry to build and control the infrastructure of the future, specifically 5G networks and their concomitant technologies, could risk a divided ASEAN digital economy.

So far, ASEAN's response to US pressure to ban Chinese-built 5G networks has been mixed, with the Philippines [greenlighting](#) its Huawei-serviced 5G networks, while [Thailand](#) and [Malaysia](#) have approved Huawei's 5G trials. Though President Trump recently struck a more conciliatory tone on Huawei, calling for greater competition rather than 'blocking out currently more advanced [technologies](#)', pressure to aid continued US technological market hegemony may not abate given underlying geopolitical tensions.

A lack of 5G market competition could result in costlier technology and stymied innovation. Delays in rolling out 5G networks may be more detrimental, as 5G is instrumental for harnessing Industrial Revolution 4.0. In countries where 3G is still relatively prominent, ASEAN members could leapfrog to higher levels of economic development by transitioning to 5G — though expectations should be tempered as 5G's transformative impact may not be felt in the short-term until applications such as smart factories become more ubiquitous.

Another concern is the interoperability of Chinese versus non-Chinese 5G technology. While both types of networks must interact in the future regardless, cross-network transaction and operation costs could rise without seamless connectivity. While global standard setting bodies can craft multilateral frameworks, the tussle over technological rulemaking could stymie progress and adoption.

Hardware aside, competing digital standards split between US-supported liberal versus protectionist rules could undermine the competitiveness of ASEAN's digital economy, if businesses must tailor operations to disparate regulatory regimes.

Exacerbated socioeconomic divides pose another a risk. Smaller local enterprises may struggle to compete against the various foreign tech titans advancing into ASEAN's digital sphere, who are bolstered by greater investment capabilities, digital-savvy talent pools, and access to data.

Unpredictable Disruptions & ASEAN's Response

As technology becomes more integrated into supply chains, security concerns and greater politicisation of market operations via policy-driven economic decoupling will likely continue to disrupt the business landscape. However, the extent of disruption remains unclear.

As businesses adjust, trends to localise or re-shore supply chains in the hopes of avoiding non-tariff security measures may pick up speed. Though ASEAN could benefit from these supply chain redistributions, it could also herald a period of greater business uncertainty and hence, lower economic growth.

Soft infrastructure such as competition policy should be updated for inclusive growth in the digital age. Developing an ASEAN framework to ensure infrastructure projects align with ASEAN interests and economic development visions, as voiced in the Master Plan for ASEAN Connectivity and ASEAN Economic Community goals respectively, would not be remiss.

This could cover monitoring the impact of digital trade and infrastructure projects on SMEs for a people-centric ASEAN with an eye towards including micro-enterprises, dovetailing with Thailand's goals of [Digitising Micro-enterprises](#) as 2019's ASEAN Chair. Enhanced logistics and market access alone are insufficient for growth without addressing traditional, offline pain points such as lacking SME export strategies and trade financing.

Way Forward

With cybersecurity underpinning the trustworthiness of ASEAN's digital economy, enhancing ASEAN's capabilities on this front will become even more critical, especially if the region's supply chains are to withstand stricter security probes.

Going forward, cybersecurity could be an added consideration under the Thai Chair's prioritised Digital Integration Framework Action [Plan](#) (DIFAP). This could include devising regional security standards applicable to multi-vendor 5G network providers, as excluding Chinese technology from ASEAN's nascent digital space is not viable in the larger context of the region's economic interdependence and the potential repercussions of jettisoning neutrality.

Lastly, increasing ASEAN's appeal as a single market— including by implementing DIFAP— would reduce the risks of a divided digital economy and strengthen its credibility as a production base of choice for businesses, better preparing the region for both the best and worst of times in the digital era.

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