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## **Time for An ASEAN Digital Currency?**

*By Dylan MH Loh*

### **SYNOPSIS**

*Countries around the world are increasingly alert to the potential social and financial benefits of Central Bank Digital Currencies (CBDCs), which are sovereign cryptocurrencies. ASEAN should start thinking of a regional-digital currency to stay ahead and deepen regional economic integration.*

### **COMMENTARY**

CHINA MADE waves recently in financial circles when it trialed its Digital Currency Electronic Payment (DCEP) – a digital renminbi – across four cities in April 2020. The trial was expanded when the People's Bank of China announced that the city of Shenzhen will distribute RMB10 million (around S\$2 million), for free, in a lottery system to residents, which they can spend the e-renminbi in selected merchants and in their city's metro system. The lottery was oversubscribed with two million registrants vying for 50,000 digital 'red packets', each worth 200 Chinese yuan.

The Chinese experience catalysed a wave of discussions by central banks around the world – how best to harness and implement a Central Bank Digital Currency (CBDC), and what good will it bring to the state? It is worth bearing in mind that CBDCs are not the sole remit of nation states as regional groupings are showing keen interest as well.

### **Regional Interests & ASEAN Digital Currency?**

The European Union, for example, has accelerated its efforts into studying how a digital euro could be initiated and public consultations have taken place since 12 October this year. While the Economic Community of West African States (ECOWAS) recently introduced a single currency (the eco), crypto-enthusiasts pointed out how this was a missed opportunity to digitalise the currency on blockchain technology. It is

timely, then, for ASEAN to kickstart discussions on the possibility of a CDBC and how such an 'ASEAN Coin' might look like.

The most obvious benefit of an ASEAN digital currency is that it would dramatically lower cross-border transactions and payments. Where a company would previously exchange currency to pay for cross-border goods or services, an ASEAN digital currency promises to cut out middleman costs for currency exchanges and make payments instantaneously.

Plugged in with the latest developments in the sphere of 'decentralised finance' and 'smart contracts', it has the potential to be radically transformative. This would also be synergistic with existing ASEAN projects such as the ASEAN Free Trade Area (AFTA), ASEAN Investment Area (AIA) and the ASEAN Connectivity 2025 roadmap. An ASEAN Coin can certainly be catalytic to the emphasis on establishing ASEAN as a "single market and production base" and having a "free and open investment regime".

Second, a [2019 Bain report](#) suggests that seven out of 10 Southeast Asians are underbanked or unbanked, having "no access to credit cards or have no long-term savings product" or "without access to a basic bank account". An ASEAN digital currency can bring financial inclusion to the millions of unbanked and underbanked ASEAN citizens and small businesses.

For example, a fisherman in Indonesia could theoretically be plugged into the ASEAN financial ecosystem with a smartphone – and do business directly with other ASEAN companies and end consumers - without holding a bank account.

### **Promoting ASEAN Financial & Political Centrality**

Third, an ASEAN digital currency can help the bloc preserve its financial and political centrality. Given the maturity of the Chinese e-renminbi, it is only a matter of time before it gets rolled out nationally. When that happens, the next natural step is to blend the e-renminbi into its Belt and Road Initiative (BRI) and regional diplomatic efforts.

It is [reported](#) that merchants in Seoul's Myeongdong District (which sees substantial Chinese tourists) are open to transacting in the e-renminbi. Given that Alipay and WeChat are already common payment options in much of Southeast Asia, it would be rather frictionless to transit into the e-Renminbi system.

In any event, having an ASEAN CBDC could bolster the regional group's financial autonomy – ensuring that it does not have to rely on any major power for financial inclusion or be overly dependent on extra-mural forces for its fintech architecture. To be sure, ASEAN countries are already at various stages of developing their own CBDCs.

Singapore and Thailand's experimentations with CBDCs are at a very mature stage and could see pilot implementations shortly. Other ASEAN countries such as the Philippines are considering introducing a CBDC. In that way, technical know-how and expert knowledge already exist at the ASEAN level to get things going.

### **Vision of ASEAN Coin & Its Challenges**

Notwithstanding the potential for ASEAN countries to create an ASEAN Coin, there remain considerable challenges to realising this vision. First, digital infrastructures differ significantly. A few countries are substantially ahead of others in having robust and technically sound digital eco-systems.

Singapore, for instance, ranks fourth worldwide in the global connectivity index and has a mobile penetration rate of around 150 per cent. This is far higher than Laos, which saw its mobile penetration rates reach only 54 per cent in 2017, while Internet penetration rates stood at 43 per cent in January 2020.

Next, and perhaps the biggest challenge is to convince political leaders that an ASEAN digital currency do not necessarily have to entail a pooling of sovereignty nor having a single monetary system. An ASEAN wide digital currency could model itself after Facebook's Libra template – pegging it to a basket of ASEAN currencies – thus ensuring price stability and without the need for countries to give up their national currencies.

The central banks of member states must then ensure that this ASEAN coin is liquid and easily exchangeable to respective national currencies. In any event, previous infrastructural, financial, and economic disparities have not prevented ASEAN from setting ambitious goals such as the realisation of an ASEAN Economic Community.

### **Unintended Consequences**

As with any novel ideas, the prospects of unintended consequences remain. An ASEAN Coin, could, foreseeably throw the national monetary policies of ASEAN countries out of whack. Even so, adoption could take a staggered approach where it is trialled with selected ASEAN industries before being rolled out to other sectors.

Implementation could also be fraught and questions over money laundering with such a regional currency must also be confronted. Nevertheless, the pandemic has shown in very stark terms how cookie-cutter solutions that have worked for so long, needs serious re-thinking.

While it may be some way off before an ASEAN-wide digital currency becomes a reality, it is imperative that ASEAN member states start thinking about this possibility in a post-physical currency world. As various political actors around the globe advance their CBDC projects, the defining inequity of the near future may not be financial inequality but technological inequality. As such, conversations about an ASEAN currency, centered on financial inclusion with ASEAN know-how, should start now.

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*Dylan M.H Loh, an RSIS alumnus, is an Assistant Professor with the Public Policy and Global Affairs programme at Nanyang Technological University (NTU). He has received a research grant to study the international political effects of cryptocurrencies. He contributed this to RSIS Commentary.*

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