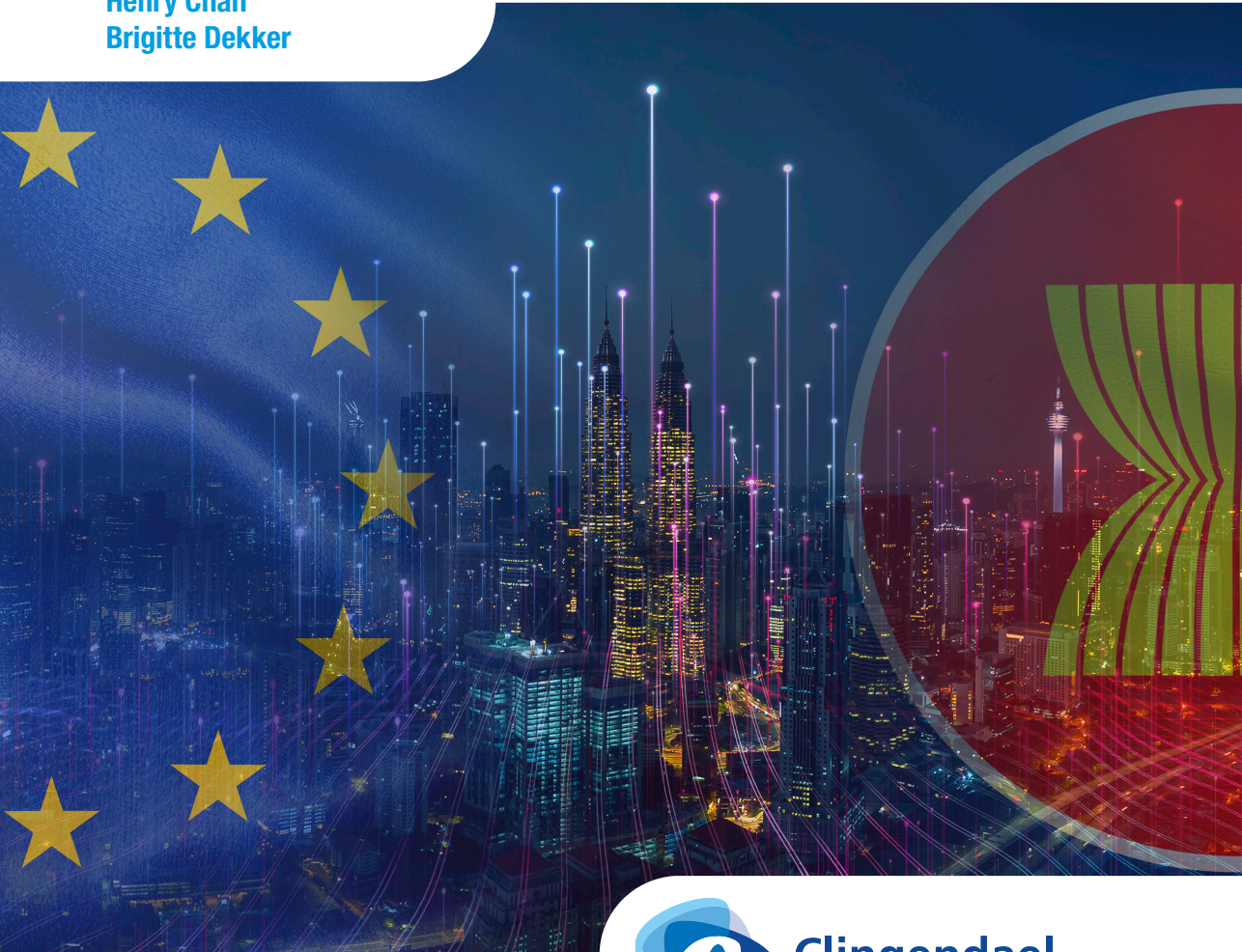


Growing stronger together

Towards an EU–ASEAN
digital partnership?

Maaïke Okano-Heijmans
Henry Chan
Brigitte Dekker

Clingendael Report



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Summary

In December 2021, the EU and Singapore launched talks towards a digital partnership agreement that could prove a building block for broader EU–ASEAN cooperation. This Report assesses the strategic value of increased cooperation in the field of digital connectivity, also acknowledged in the EU’s Indo-Pacific strategy of September 2021, and considers the practical challenges and opportunities of stronger ties between the two blocs and their member states in this increasingly important realm. The authors argue that three domains could form the basis of a future, shared, EU–ASEAN approach to digital connectivity: (1) digital infrastructure; (2) data governance and digital trade regulation; and (3) the digital economy and financial technologies (fintech). A bloc-to-bloc approach should run in parallel with strengthened ties by the EU and its member states with specific ASEAN member states. Together, these building blocks will serve EU and ASEAN long-term interests, promoting economic competitiveness and inclusive growth, as well as openness, transparency and freedom in the digital realm.

Introduction

Faced with an increasingly volatile international environment, the European Union (EU) and the Association of Southeast Asian Nations (ASEAN) in recent years stepped up cooperation between their two blocs and member states. This Report assesses the strategic value of increased cooperation in the field of digital connectivity, as well as the practical challenges and opportunities of stronger ties in this increasingly important domain. The EU and ASEAN formalized cybersecurity cooperation in 2019 and adopted a joint ministerial statement on connectivity the following year, while in December 2021 the EU and Singapore launched talks towards a digital partnership agreement.¹ These three agreements form building blocks for the broader EU–ASEAN cooperation that was also stipulated in the EU’s Indo-Pacific strategy of September 2021.²

Both sides stand to benefit from open, safe and inclusive digital connectivity and deeper engagement between the regions’ thriving digital economies. ASEAN’s rapid economic and demographic growth, and the growing political weight of the Indo-Pacific more broadly, make the region a focal point of the great powers’ strategic initiatives – the United States (US) and China – which seek to bind countries and their (digital) economies to them. Much is at stake: the digital transition comes with opportunities and disruptions that require forward-looking responses.

The EU’s Indo-Pacific strategy sets the tone for Europe’s engagement for the years to come and highlights ASEAN as a key partner. The EU proposes a joint EU–ASEAN approach for digital connectivity and science, research, technology and investment in innovation. This approach includes digital infrastructure and skills development; digital trade facilitation; cyber resilience; government services; and the alignment of digital standards, regulations and general principles, as well as a push for these in international fora. What is the purpose of a joint approach for the two blocs and their member states, as well as for the two partners together? And what practical steps are required to develop and deliver on these objectives?

1 [EU–ASEAN Statement on Cybersecurity Cooperation](#), 1 August 2019; [EU–ASEAN Joint Ministerial Statement on Connectivity](#), 1 December 2020; and [Joint Statement: EU and Singapore agree to strengthen bilateral partnership on digital trade](#), 7 December 2021. For a detailed analysis of the EU’s digital connectivity in the wider Indo-Pacific region, see: [Fostering Digital Connectivity in and with the Indo-Pacific, Clingendael Report, April 2021](#).

2 [EU Strategy for Cooperation in the Indo-Pacific](#), 16 September 2021, p. 10.

Building on the momentum of emerging digital cooperation between the EU and ASEAN, the Clingendael Institute and the Cambodian Institute for Cooperation and Peace (CICP) in 2021 organized a series of dialogues that served as building blocks towards such a joint approach to digital connectivity.³ This report presents the key findings of those debates and assesses the feasibility of enhanced cooperation and coordination on digital connectivity between the EU and ASEAN, as well as practical steps towards that aim.

The dialogues displayed broad agreement among experts that working together in digital areas is beneficial for both ASEAN and the EU, while differences between ASEAN and the EU must be acknowledged as they are very different organizations. ASEAN's insistence on intergovernmental consensus-based decision-making and non-interference contrasts with the EU countries' transfer of sovereignty to supranational institutions. As a result, ASEAN countries do not have a common policy in, for instance, the fields of digital rights and privacy, whereas the EU is increasingly active in joint policymaking. Nevertheless, the EU–ASEAN strategic partnership and the EU–Singapore talks about a digital partnership agreement display a willingness to cooperate despite the existing differences.

The report begins with an outline of key aspects of EU and ASEAN digital strategies and action. Three domains are then highlighted that, together, could form the basis of a future, shared, EU–ASEAN approach to digital connectivity. These are: (1) digital infrastructure; (2) data governance and digital trade regulation; and (3) the digital economy and financial technologies (fintech). The authors argue that concrete action, fact-based policymaking and mutually agreed shared objectives are a requirement and instrument for the development of an EU–ASEAN approach to digital connectivity. As well as a bloc-to-bloc approach, engagement by the EU and individual EU member states with specific ASEAN member states can help to ensure that discussions on digital trade, resilience and principles are of the highest quality. Ultimately, the agreements with specific ASEAN member states should be building blocks for broader, interregional agreements and coordinated action that will serve EU and ASEAN interests best in the long term, promoting economic competitiveness and inclusive growth, as well as openness, transparency and freedom in the digital realm.

3 Between February and October 2021, [Clingendael](#) and the [CICP](#) brought together experts, business representatives, civil society stakeholders and government officials from the EU and ASEAN in four online dialogues. Dialogues will continue throughout 2022, with a focus on green technologies.

Caught in the middle: the EU and ASEAN

In recent years, the Indo-Pacific has emerged as a key battleground in the US–Chinese competition for technological hegemony. The region's rapid economic and demographic growth and increasing political weight have made it a focal point of strategic initiatives by the great powers, which seek to bind countries and their (digital) economies to them. The most prominent examples of this are China's Digital Silk Road (DSR), the US's Clean Network Initiative and the Australia-led Quad Technology Network (QTN).

The EU and ASEAN are seeking to uphold their own economic competitiveness and resilience and are resisting the push to take sides in the great-power rivalry. Both regional organizations are investing in their own digital sovereignty, with approaches that stress openness, security and inclusion in the digital transformation. In 2021, ASEAN adopted its Digital Masterplan 2025, while the EU unveiled its 2030 Digital Compass.

Throughout their longstanding relationship, starting as Dialogue Partners in 1977, the EU and ASEAN have emphasized multilateralism, a rules-based system and global cooperation. This has not changed as countries in both regions go through digital transformation. Against a backdrop of US–China rivalry in the Indo-Pacific region, closer ties have been developed in recent years, including through the ASEAN Digital Index (ADIX, since 2018) and cybersecurity cooperation – at both regional and country levels.⁴ The COVID-19 pandemic added further momentum, as the lockdowns accelerated online working by citizens, businesses and governments.

Significant differences still exist, however, in the economic and social development levels of both regions and within them. In the EU, the overall level of economic and social development is relatively high, with the 2019 nominal GDP per capita at almost US\$35,000, compared to the global average of US\$18,000 and the ASEAN average of US\$5,000. Separately, the Human Development Index average for the EU stands at 0.897,

⁴ For details on ADIX, see <https://adix.tech4i2.com>. The Digital Index is discussed in more detail in the paragraph below on EU–ASEAN cooperation (and in footnote 11). Key examples of cybersecurity cooperation include the [EU–ASEAN Statement on Cybersecurity Cooperation](#), 1 August 2019; and the [First Indonesia–Netherlands Cyber Policy Dialogue](#) (2021).

which is much higher than the median score of 0.741 of the 189 countries worldwide and the average score of 0.713 in ASEAN.⁵

Looking at individual member states, the level of digitalization in both regions varies significantly. Advanced digital economies like Denmark, Finland, Sweden and the Netherlands lead in the digital revolution, while Bulgaria and Greece lag behind.⁶ The Digital Economy and Society Index (DESI) shows that the percentage of citizens in 2020 with at least basic digital skills stagnated at 56 per cent in the EU, while 91 per cent of households had access to the internet at home and 86 per cent of people used the internet regularly.⁷ The EU's banking population hit 410 million in 2019, meaning that more than 92 per cent of EU citizens has access to a bank account, but great differences also exist here among countries.⁸ Gaps are particularly evident between the skills of younger and older generations and citizens living in urban and rural areas of Europe.

The ASEAN region is one of the fastest-growing internet user bases in the world.⁹ The Southeast Asian digital economy is exceeding expectations and is currently on track to grow to US\$300 billion in 2025. Moreover, ASEAN has a noticeably young population (as of 2019, one-third of ASEAN citizens are under 19 years of age) and the adult literacy rate in the majority of ASEAN countries stands at over 94 per cent. These two factors will drive increased digital consumption in the coming years. That said, great differences exist in ASEAN members' economic and social circumstances, and this is also reflected in the widely disparate levels of digital infrastructure of ASEAN countries.

Singapore has become a hub of digital infrastructure (submarine cables) and the digital economy. It hosts 15 of ASEAN's 35 'unicorns'.¹⁰ Moreover, the city-state participates actively in setting global rules in the digital domain, including Digital Economic Partnership Agreements (DEPAs). As shown in Figure 1 below, Singapore's internet and, to a lesser extent, digital service usage indicators top those of other ASEAN countries by a wide margin. Most of the other ASEAN countries are catching up, however, in the

5 The United Nations Development Programme's [Human Development Index](#) (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life; being knowledgeable; and having a decent standard of living. The averages for the EU and ASEAN fall within a range of 0.813–0.947 and 0.583–0.983, respectively, meaning that the gap in human development of people in ASEAN countries is relatively wide.

6 [The Digital Economy and Society Index \(DESI\)](#), European Commission, 2021.

7 [The Digital Economy and Society Index \(DESI\)](#), European Commission, 2021: pp. 21–22.

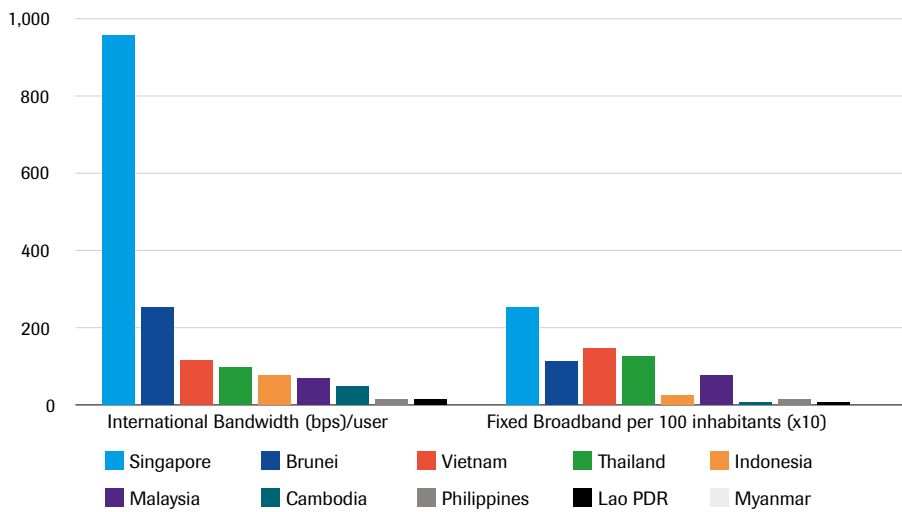
8 'Europe's Banking Population hits 409.46 Million', *The Paypers*, 22 May 2020; 'The Global Findex Database 2017', The World Bank, 2017; and F. Norrestad, 'Share of Unbanked Population Worldwide 2021, by Country', *Statista*, 7 December 2021.

9 [Southeast Asia's Internet Economy to Cross \\$100 Billion This Year: Industry Report](#), *Reuters*, 10 November 2022.

10 In business, 'unicorn' is a term for a privately held start-up company valued at over US\$1 billion.

three domains of digital infrastructure: data governance; fintech; and digital economy. Indonesia is the most active e-commerce player in the region and has the biggest market (see Figure 2 below). The urgency of supporting digital transformation in all ASEAN countries was underlined in the ASEAN leaders' statement of October 2021 on advancing digital transformation in ASEAN. The ASEAN leaders agreed, among other things, to deepen digital cooperation and reinforce cybersecurity cooperation, and that all ASEAN countries are committed to promoting quality, accessibility and affordability of digital connectivity in ASEAN.¹¹

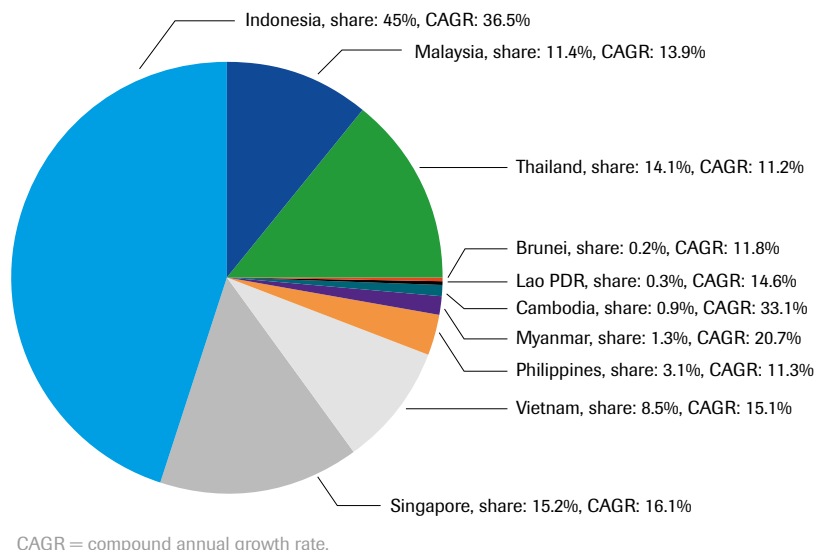
Figure 1 Internet and digital usage indicators of ASEAN countries



Source: *ASEAN Digital Masterplan 2025*, p. 69, drawing on International Telecommunication Union (ITU) and ADIX figures.

11 [ASEAN Leaders' Statement on Advancing Digital Transformation in ASEAN](#), ASEAN, October 2021.

Figure 2 ASEAN countries' share of the regional e-commerce market



Source: *E-Commerce Connectivity in ASEAN*, ERIA, p. 8.

Notwithstanding the varying levels of development of the EU and ASEAN, and of the countries within them, approaches towards digital policymaking (at home) and digital connectivity (abroad) converge in important ways. Specifically, commonalities exist in their assessment of the challenges and objectives that digital policies should serve.

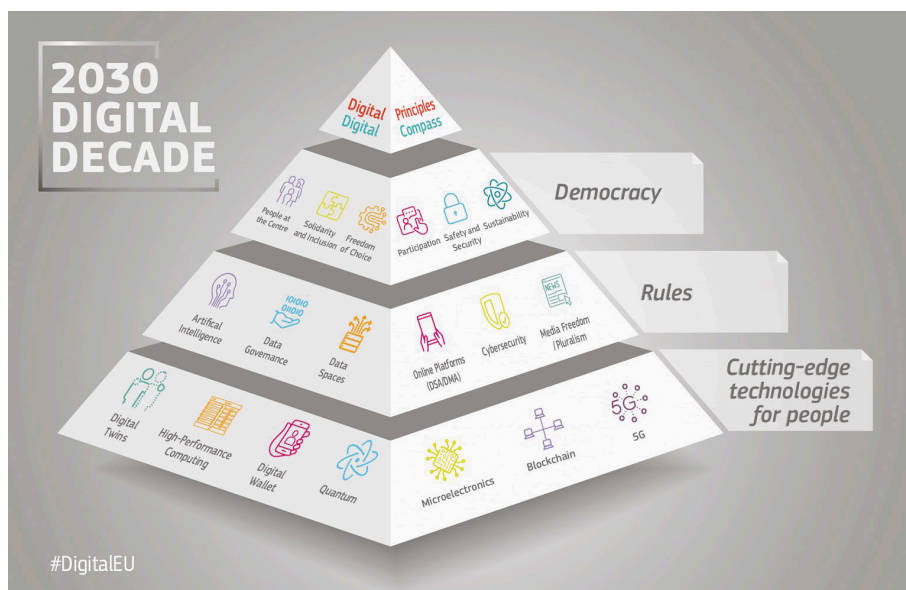
The EU Digital Compass and ASEAN Digital Masterplan

An inclusive digital domain is at the heart of both regions' agendas, even if the focus of action differs because of the EU's and ASEAN's differences in economic development, political realities and organizational structures – with the EU having far greater policymaking competence.

The EU's '2030 Digital Compass: the European way for the Digital Decade' of March 2021 sets clear and quantitative digitalization goals for EU member states in four areas: skills; infrastructure; business; and government. To help achieve these targets, the European Parliament and European Council are to adopt a governance framework,

based on projected trajectories and annual cooperation between the Commission and the member states.¹²

Figure 3 The EU's Digital Compass and Digital Principles



Source: [The EU's Digital Compass](#).

In line with its 2030 Digital Compass, the EU now seeks to establish digital partnerships in the Indo-Pacific region, initiating talks with Singapore, Japan and South Korea. These partnerships aim to enhance technical, policy and research cooperation on the four points of the compass – regulatory cooperation; research; innovation; and investments in connectivity – as well as on digital trade. The EU and like-minded partners can thereby ensure the development of standards for emerging technologies, including for artificial intelligence, in line with the EU's democratic principles and fundamental rights (see Figure 3 above). These standards will be underpinned by a toolbox, drawing on regulatory cooperation, capacity building and skills, as well as investment in international cooperation and research partnerships. In developing countries, digital partnerships may be underpinned by digital economy packages. These will be financially supported by Team Europe Initiatives that combine resources

12 The full text of the EU's Digital Compass and related documents, including the 'Policy Programme: a Path to the Digital Decade', can be found at <https://digital-strategy.ec.europa.eu/en/policies/europes-digital-decade>.

from the EU, its member states, financial institutions and EU companies. A Digital for Development (D4D) Asia is now in the making and eventually, the Commission is aiming to create a Digital Connectivity Fund to support action.

The road towards an ASEAN digital economy has been long but steady. The E-ASEAN Framework Agreement adopted in 2000 and the establishment of the ASEAN Digital Ministers' Meeting (ADGMIN) in 2019 show the bloc's determination to guide the region towards a digitally enabled economy and society. The 2021 ASEAN Digital Masterplan (ADM 2025) is a significant departure from the earlier ASEAN ICT Masterplan 2020 of 2015, moving beyond a mere declaration of intentions with generic wish lists. Instead, ADM 2025 contains many more specifics and presents a vision for developing the ASEAN region into a leading digital community and economic bloc, empowered by secure and transformative digital services, technologies and ecosystems. Renaming this ASEAN vision from 'ICT cooperation' to 'digital cooperation' reflects the political momentum of ASEAN member states and their intention of accelerating the digital transformation beyond traditional information and communications technology, including standards, norms and bridging the digital divide.

A key difference between the EU Digital Compass 2030 and ASEAN's ADM 2025 is that the EU document sets specified numerical targets in its objective and has funding secured, while ADM 2025 does not. With the absence of hard targets and funding, the ASEAN Digital Masterplan runs the danger of the plan not meeting its goals. The absence of hard targets may be explained by the fact that all ASEAN programmes are executed on a voluntary soft-target basis by individual member states, and ASEAN has no mechanism for common budget or resources transfer among members. Even more so than in the EU, ASEAN plans thus depend on member countries' efforts, and most individual member plans are not coordinated among ASEAN countries. It is also not clear how ADM 2025 is coordinated with individual members' country strategies. Therefore it is not possible to include hard targets in the Digital Masterplan.

With vast segments of the population still lacking access to digital infrastructure and bank accounts, bridging the digital divide is a top priority for most ASEAN governments other than Singapore and Brunei.¹³ In the EU, where both internet penetration and the number of citizens with a bank account are high, digital inclusion is primarily about implementing an open, transparent and secure digital domain that is regulated with a view to protecting the interests of the individual and civil society. Opportunities for governments that come with greater access to data, such as monitoring and controlling the pandemic by way of triangulation of health and location data, are secondary. Aiming to strengthen citizens' rights online, the interests of Big Tech are also increasingly

13 That is, allowing more people to benefit from the digital transformation opportunities and tackling the problems of availability, affordability, content relevance and lack of digital skills.

subject to scrutiny and new legislation to protect citizens' rights regarding data protection and data portability. Amid a booming digital economy, ASEAN governments have shown a desire to learn from this approach, even if they wish to maintain a greater role for their governments in the digital economy.

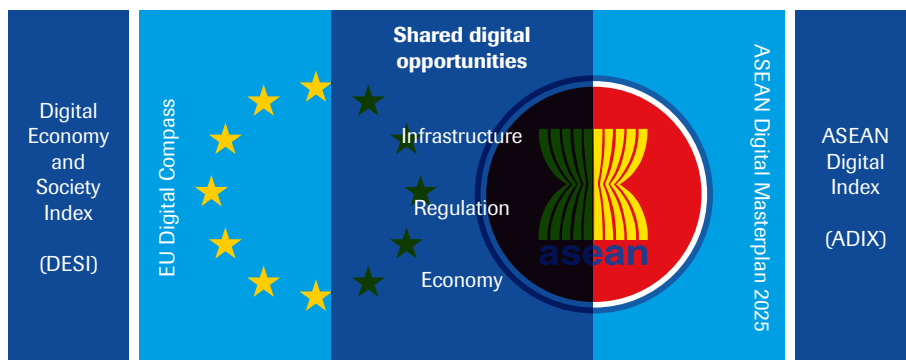
Towards greater EU–ASEAN digital cooperation

The EU–ASEAN Joint Ministerial Statement on Connectivity, adopted in December 2020, shows the willingness of both regions to work together, particularly in the digital domain. Digital dialogues took place in the margins of the ASEAN Digital Senior Officials' Meeting (ADGSOM) in January 2021, and the EU initiated a capacity-building process to create an ASEAN Digital Index (ADIX)¹⁴ that aims to assist ASEAN governments in steering policies towards areas that require the most attention and investment. Awareness of this important building block to informed policymaking appears to be scant in ASEAN member states, however, even though efforts to build the ADIX have been ongoing since 2018. One reason may be that the EU worked with the ASEAN Secretariat and member state representatives, and less so at the individual member state level, where policies are ultimately enacted and where the tool is to be used for informed policymaking. ADIX will soon move into a phase where data are collected by National Statistics Agencies in the ten ASEAN member states, which should enhance its visibility.

The EU and ASEAN are now seeking to establish a joint digital connectivity approach. Delivering on this requires policymakers to offer clarity to stakeholders (especially in the private sector, as well as to citizens) about the benefits of such a joint approach to individual member states in both blocs and the two sides together.

14 For details on ADIX and an online visualization tool, see <https://adix.tech4i2.com/> and <https://adix.tech4i2.com/adix-data-visualization>. Note that in August 2021, USAID and ASEAN launched the ASEAN Digital Integration Index (ADII), which is newer and narrower in scope, and worked closely with the ASEAN Consultative Committee on e-commerce on the economic track.

Figure 4 EU–ASEAN engagement towards a digital partnership: cooperating on shared objectives and norms in three key domains, building on intra-regional initiatives



Source: authors' compilation.

Building blocks for an EU–ASEAN digital connectivity approach

The following paragraphs propose three domains that stand out as particularly promising for EU–ASEAN cooperation. Taken together, they could form the basis of a future, shared, EU–ASEAN approach to digital connectivity that delivers to the people. These domains are (1) digital infrastructure; (2) data governance and digital values; and (3) financial technologies and the digital economy.

Digital infrastructure

The COVID-19 pandemic demonstrated the importance of a well-functioning and secure digital environment for the economic resilience of countries. Across Europe and Southeast Asia, as elsewhere, the rapid shift towards the digital domain exposed challenges now, as well as in the years to come. Basic challenges for enhanced cooperation and coordination on digital connectivity are telecommunications networks (which need updating to cover hybrid societies and economies), the effective monetization of 5G and the lack of basic digital skills in the EU and ASEAN.

The number of internet users in ASEAN grew by an unprecedented 40 million in 2020, and one in three of all digital services' consumers are new because of the pandemic. However, the pandemic also revealed weaknesses in the existing digital infrastructure: in most ASEAN countries, telecommunications networks cannot provide satisfactory work-from-home, study-from-home and video-conferencing facilities for users. The dominant micro-, small and medium-sized enterprises (MSME) in ASEAN have been hit particularly hard. They account for 98 per cent of ASEAN businesses, yet their digital transition is much slower than in larger companies and hence they have suffered disproportionately during the pandemic.

To meet the demand of the hybrid work model of both online and offline workspaces, an internet speed of at least 30 megabits per second (mbps) has become indispensable.¹⁵ This is a significant challenge for ASEAN countries that have leapfrogged directly to

15 The average mobile download speed in ASEAN stands at 18.1 mbps, while its average broadband speed is 39.2 mbps; source: <https://adix.tech4i2.com/>.

mobile broadband rather than fixed technologies, which offer higher speed and more stable connections. The developed ASEAN countries with enough financial resources, such as Singapore, are pushing both fixed-line fibre optics and fixed wireless access mobile solutions in urban and rural areas to narrow the digital divide. However, most ASEAN countries do not have the resources to embark on both fibre optic layout and 5G mobile deployment at the same time. Many ASEAN experts are supporting the use of low-band and mid-band 5G in the initial deployment, as a cost-effective way of quickly rolling out wideband connectivity in their countries.¹⁶

ASEAN must develop more innovative ways to fund the rolling out of 5G, and European companies such as Nokia and Ericsson can help. The most pressing problems of ASEAN member states in the digital transformation are physical infrastructure building and digital skills building. If the EU can work out cooperation in these two areas with either the community as a whole or through individual countries, the results can be mutually beneficial. That is, ASEAN will increase its digital footprint and the EU can enhance interoperability, compatibility and shared norms, while creating new markets in which digital companies can flourish.

Hence, as well as investments in fixed broadband (hardware), the governments of EU and ASEAN countries must also focus on citizens' ability to access and use the internet and further development of the online environment. After all, an internet subscription – or the opportunity to use the hardware – is required to tackle the digital divide effectively. Next, citizens need digital skills to operate effectively and safely online. When access to the internet is assured, training programmes through mobile phones – rather than computer-based training – can help to elevate the skills of higher numbers of potential internet users. Currently, more than 3,500 training courses are organized throughout the ASEAN region, but more are needed, and quality must be improved. Better mutual communication about this tuition and the inclusion of cheaper subscriptions to follow these courses could be improved.

Third, ASEAN has a large pool of young and increasingly well-educated youth. They are key to ASEAN's flourishing digital economy and can contribute to it by properly training their application development skills. Offline and online training programmes in two

16 See, for example, a report on digital transformation published by the Economic Research Institute of ASEAN and East Asia (ERIA), in which Kalamullah Ramli, a former chairman of the Indonesia Telecommunication Regulatory Body (BRTI), advocated the use of low-band and mid-band to speed up rural broadband connection. See: [E-commerce Connectivity in ASEAN](#), ERIA, 2020: chapter 3.

categories will thus be of value: basic digital skills to participate in the digital economy; and more advanced digital application development skills to allow people to contribute to the e-economy.¹⁷

Data governance and digital trade regulation

Digital infrastructure is closely connected to data governance and digital trade regulation. Key subsets of digital regulation in which the EU and ASEAN can cooperate are data protection and data sharing, digital trade agreements and digital business regulations. Dialogues on digital regulation, and in particular data governance, will be a crucial step forward in connecting the two regions digitally. Creating an interoperable system enables EU and ASEAN companies and governments to transfer cross-border data freely, without the bureaucratic hassle of binding corporate rules, contractual arrangements, codes of conduct or certification mechanisms.¹⁸

Once people are online, they inherently start to share data. The EU became a pioneer of data governance when it created the General Data Protection Regulation (GDPR) as a mechanism to govern the use of European citizens' data in 2016.¹⁹ The GDPR has a strong focus on privacy and users' rights, values that the EU likes to refer to as 'human-centred'. While this regulation was designed without expectations of an extraterritorial effect, the international regulatory impact of the GDPR has made the bloc more conscious of its regulatory influence beyond EU borders. After all, European norms and standards are incorporated in the EU's digital regulation. Key elements are freedom of speech (governed in the Digital Services Act), market fairness (in the Digital Markets Act), trustworthy and ethical artificial intelligence (AI), promotion of an open democratic (debate on the) internet and empowering citizens to manage their data through a European digital identity.

The GDPR inspired ASEAN to develop its ASEAN Digital Data Governance Framework. ASEAN also kept a close eye on India's handling of data-protection regulations. The issue of data privacy is becoming more urgent with the move towards smart cities, in which even more data on many aspects of life are being collected. Although rules may be premature at this point because we have yet to understand what kind of data are needed to make what aspects of smart cities work, there is a need to differentiate the privacy levels of different kinds of data collected. This is an important topic for discussion in the frame of EU and ASEAN digital coordination.

17 [Google Launches 5,000 Scholarships Worth \\$3M for Virtual Courses Covering 'In-Demand Digital Skills'](#), *The Straits Times*, 12 January 2022; and [Google Scholarship Recipients: Build Your Future with Google](#).

18 [What Rules Apply if my Organization Transfers Data Outside the EU?](#), European Commission (europa.eu).

19 [General Data Protection Regulation](#), European Parliament and Council, 27 April 2016.

The ASEAN Framework on Personal Data Protection of 2016 and the ASEAN Framework on Digital Data Governance of 2018 are key to building interoperable and principles-based data-protection and privacy regulation and frameworks that work for the EU and ASEAN. They can smooth cross-border data flows and facilitate digital trade. In the ASEAN Digital Masterplan 2025, the ultimate aim is to ensure the interoperability of standards with the Asia-Pacific Economic Cooperation's Cross-Border Privacy Rules (CBPR) system and the EU's GDPR, so that data can be shared freely between the two regions.²⁰

For the EU, working together with Indonesia and Singapore could be an entrance to more advanced data-governance talks with the ASEAN. Still, as with trade negotiations, the challenge of moving from engagement with the ASEAN bloc as a whole will be substantial.²¹ Indonesia has made digital transformation one of the three pillars of its 2022 G20 Presidency, and it could do the same as ASEAN Chair in 2023. Indonesia will thus play a key role in digital regulation negotiations in the coming years, also because of the global minimum corporation tax (that seeks to ensure, in particular, that digital business activities are taxed in a fair and growth-friendly way), on which more than 130 countries agreed in 2021 and is anchored in the G20. For its part, Singapore has established itself as a hub of digital economy partnership agreements (DEPAs) and other areas of digital regulation, such as data governance and digital finance. Singapore's success in this area is evidenced by China's application in November 2021 to join the DEPA between Singapore, Chile and New Zealand, and the EU's push to elevate its free-trade agreement with Singapore to the next level by pursuing also a comprehensive digital partnership.

Digital economy and fintech cooperation

The growing interest in DEPAs attests to the fact that the digital economy is flourishing globally. In Europe, 73 per cent of citizens who have internet access shopped online in 2020 – an increase of 5 per cent since 2019. Physical goods account for 98 per cent of their purchases, especially clothes, furniture and food delivery services. The remaining 2 per cent concerns streaming services such as films or music.²² In the ASEAN region,

20 [ASEAN Digital Masterplan 2025](#), ASEAN, 2021: p. 22.

21 Negotiations on an agreement between the EU and ASEAN first started in 2007. As the bloc-to-bloc approach failed to make much headway, the EU opted for a bilateral approach that resulted in the trade and investment agreements with Singapore (2018) and Vietnam (2020). Negotiations with Indonesia are ongoing, while talks with Thailand, Malaysia and the Philippines are currently on hold.

22 [2021 European E-commerce Report](#), *E-commerce Europe and EuroCommerce*, 2021: p. 14.

e-commerce and food delivery have been – and still are – the growth drivers of the ASEAN e-economy.²³

With e-commerce stronger than ever, digital financial services and financial technology (fintech) companies are also on the rise globally. In Europe, constructive interaction and mutually beneficial relationships between banks and fintech companies are yet to be established. Nevertheless, fintech companies in Europe had an unprecedented year in 2020 especially, thanks to the COVID-19 pandemic; Dutch payment platform Adyen, for example, reported a 34 per cent surge in its first-quarter 2020 revenue.²⁴ That said, disruptive innovation is more marginal in Europe compared to in the ASEAN, owing to Europe's strong traditional financial industry, which has started to integrate fintech companies or their solutions.²⁵

While the focus of fintech companies in Europe is primarily on making all kinds of services more transparent, faster and cheaper, in Southeast Asia fintech attracts a lot of venture capital investment to cut the costs of financial intermediation. Fintech companies' promises to reduce the high frictional costs of cross-border remittances, for example, are of great value to the many overseas workers in and from ASEAN who send money to their families at home. While the individual amounts sent are generally small, frictional costs are high – ranging from more than 1 per cent of GDP for Indonesia to 6 per cent for Cambodia and more than 10 per cent for the Philippines. Fintech drastically cuts such expenses and proves the benefits of these new technologies for citizens.

Relatedly, digital currencies are taking off in the ASEAN and other parts of the Indo-Pacific. Singapore, Vietnam and Thailand are taking the lead in promoting blockchain-based crypto currencies.²⁶ Developing countries with inadequate traditional banking services are more eager to adopt new forms of banking service delivery when they are more cost-effective, secure and easy to use. This discrepancy is also reflected in the willingness to test digital currencies, with 60 per cent of Indonesian citizens reacting positively to using digital currencies, compared to only 24 per cent in the US and 14 per cent in Germany.²⁷ Cambodia has adopted a blockchain-based payment system, Bakong, and Thailand is joining central banks from China, Hong Kong and the

23 [e-Economy SEA 2021](#), report by Google, TEMASEK and Bain & Company, 2021.

24 [COVID-19 and E-Commerce: Will the Rise in Digital Payments Continue?](#), CAPCO report, 11 May 2020.

25 [The Geopolitics of Digital Financial Technologies: A Chance for Europe?](#), Clingendael Institute, 18 January 2022.

26 [Southeast Asia Eyes Digital Currencies as Financial Institutions Look to the Future](#), *ASEAN Today*, 29 January 2021.

27 [Outlook 2022: Shaping a CBDC Future for Consumers and Businesses](#), OMFIF, 12 January 2022.

United Arab Emirates in a digital currency cross-border payment project.²⁸ Some ASEAN members will likely soon adopt China's Central Bank Digital Currency (CBDC), as their economic linkages with China are deep. If proven to be safe, cheap and convenient to cross-border use, China's digital currency may accelerate cross-border trade between China and the ASEAN in the coming years.

Fintech holds great promise for future cooperation between the EU and ASEAN. Singapore and Indonesia are leading the fintech revolution in Southeast Asia – owning about 50 per cent of the fintech firms in the region.²⁹ Singapore has created a beneficial start-up climate for fintech companies by providing a FinTech Regulatory Sandbox framework to financial institutions and fintech players. This allows them to experiment and create financial products and services in a live environment with limited legal and regulatory requirements for a pre-defined space and duration.³⁰ Singapore has also invested heavily in in-house experts that allow the government to be in sync with the latest developments and remain ahead of the curve with policymaking. In 2020, the Indonesian government pushed for standards in payments involving QR codes to ensure interoperability, and is now working on modernizing and digitalizing payment systems along the lines of the 2019 Indonesia Payment Systems Blueprint 2025.³¹

The EU can engage with the ASEAN region to smooth regulatory hurdles – which would be complementary to overcoming differences in digital business regulation and data governance. In addition to this, the EU and ASEAN could facilitate greater private-sector cooperation between their regions in the area of fintech. The EU has a booming fintech landscape, but the widespread use of fintech is still limited. The ASEAN countries offer vast market opportunities for European start-ups to scale up. As ASEAN's fintech hub, Singapore can be used as an entrance point. Greater cooperation on fintech could enable European businesses to use Singapore as a test environment for their fintech solutions before expanding to other countries in the region. European fintech companies – which are active in sectors such as mobile banking, mobile cross-border payments and investing – could learn from ASEAN counterparts about their best practices, regulatory sandboxes to test innovations, and on how to operate effectively across different foreign financial markets, and vice versa. Finally, Singapore is an interesting reference point for governments in Europe, which have for many years outsourced tech-related knowledge and now struggle to develop expertise.

28 [China's PBOC Joins Cross-border Digital Currency Project](#), *CNBC*, 24 February 2021.

29 [FinTech in ASEAN: Get, Reset, Go!](#), UOB, PWC and SFA, 2020.

30 [Overview of Regulatory Sandbox](#), Monetary Authority of Singapore, n.d.

31 [FinTech in ASEAN: Get, Reset, Go!](#), UOB, PWC and SFA, 2020.

Conclusion: towards an EU–ASEAN digital partnership agreement?

ASEAN's central position in the Indo-Pacific region and its increased interest in digital cooperation with like-minded partners have created a renewed emphasis on the longstanding EU–ASEAN relationship. Building on this momentum, the EU proposed the idea of an EU–ASEAN approach to digital connectivity in its Indo-Pacific strategy. A digital partnership agreement would be a next step towards deeper and broader cooperation that is more formal, but still not legally binding.

The EU has longstanding experience with regulatory issues, as well as cross-border cooperation, while the ASEAN region is home to a vibrant digital ecosystem and the largest and one of the fastest-growing internet user bases in the world. Enhanced synergies, coordination and cooperation in the digital domain are feasible, despite significant differences in economic and social development levels, as well as the influence of governments in the digital domain. Digital infrastructure, digital regulation and the digital economy and fintech are three promising areas for deepening and further developing a mutually beneficial relationship between the two regions, as well as between EU and ASEAN member states individually. Figure 4 above illustrates this schematically.

When it comes to **digital infrastructure**, differences in mobile and fixed broadband connections between the regions stand out. ASEAN countries are still primarily dependent on mobile broadband networks, so a shift towards fixed broadband complemented by a 5G wireless network in urban areas and 5G fixed wireless access for rural areas will be necessary to meet internet speed demands for hybrid work models and smart-city development. The EU and ASEAN could work together in this domain in various ways:

- **Identify the needs and gaps** in ASEAN countries' telecommunications infrastructure and improve understanding of the governments' priorities in improving (access to) digital infrastructure. The **ASEAN Digital Index (ADIX)**, which was created with EU support, is one valuable tool for this purpose, and ADIX indicators must be developed, discussed and deployed with ASEAN member states individually, as well as in a region-to-region setting.

- European companies such as Nokia and Ericsson could assist ASEAN countries to **develop more innovative ways to fund the roll-out of 5G**. For example, partnering with national network providers to help educate ASEAN citizens on 5G.
- To **tackle the existing digital divide**, more focus should be given to internet subscriptions rather than internet access. This means including internet subscription costs and the affordability of the internet in discussions on digital inclusion. Governments can focus on providing digital connectivity with a public utility mindset and adopt a price point with a social objective in addition to encouraging digital consumption. This implies that monitoring parameters must shift from coverage to actual usage, as proposed in ADIX.
- **Elevate digital skills and offer digital training programmes** – either in basic digital skills or advanced application development skills – to allow more people to participate in, and contribute to, the e-economy.

In the field of **data governance and digital trade regulation**, the EU and ASEAN need to enhance their cooperation on data governance to improve much-needed interoperability between EU and ASEAN countries. This is becoming more urgent, especially with the move towards smart cities, in which data on many aspects of life are being collected. Practical steps include:

- **Multistakeholder dialogues and agreements** on easing cross-border data flows and digital trade facilitation, which could contribute to enhanced digital trade flows and investment and the competitiveness of European and ASEAN companies.
- **Enhanced cooperation and coordination in the G20 and other international fora**, which can contribute to the adoption of shared goals in key fields, including digital taxation and digital finance.
- **Improving technical knowledge among policymakers**, which is needed for discussions on what areas digital regulation should cover and what is conceived as public or private data.

Lastly, the **digital economy** and particularly financial technology (fintech) hold great promise for practical business-to-business cooperation and public-private partnerships:

- **Enhance awareness and use of ADIX indicators** in ASEAN countries to develop and strengthen further the digital economy and governance.
- Invest in mutual learning and best practice **exchange between European fintech companies and ASEAN counterparts** on how to operate effectively across different foreign financial markets, to strengthen region-to-region ties and market presence.

- Simultaneously, the booming **ASEAN fintech market provides great opportunities** for European fintech start-ups that want to scale up in a new region.
- Enhance awareness and understanding of the adoption by some ASEAN countries of China's **digital currency and cross-border payment projects**, as well as the long-term consequences.

Multistakeholder cooperation involving ASEAN governments, private actors and civil society is a necessity in digital cooperation between the regions. A pluralistic and inclusive approach, with regional and country-level joint action programmes, is essential for an effective EU–ASEAN digital strategy and action plan. The gap between the EU and ASEAN on economics and technology means the former can adopt a leading role in the connectivity work, as digital technology involves cutting-edge technical knowledge.

Concrete action, fact-based policymaking and mutually agreed shared objectives are requirements and instrumental to the development of an EU–ASEAN approach to digital connectivity. A bloc-to-bloc approach that emphasizes the exchange of best practices, the development of up-to-date digital indicators to inform policies and voluntary agreements on digital governance is vital. In parallel, engagement by the EU and specific EU member states with individual ASEAN member states can help to ensure that discussions on digital trade, resilience and principles are of the highest quality. Negotiations between the EU and Singapore on a digital partnership agreement could prove such a step towards broader and deeper EU–ASEAN cooperation. While these tracks must run in parallel, care must be taken that the agreements with specific ASEAN member states are building blocks for broader, interregional agreements that will serve EU and ASEAN interests in the long term.