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<th>ASEAN Digital Economy: A New Pillar?</th>
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ASEAN Digital Economy: A New Pillar?

By Phidel Vineles

Synopsis

As ASEAN chairman this year, Singapore is focusing on the digital economy. How can the digital economy become a key driver to achieve a highly integrated and dynamic ASEAN Economic Community (AEC)?

Commentary

SINGAPORE PRIME Minister Lee Hsien Loong inaugurated the country’s chairmanship of ASEAN for 2018 with the themes of resilience and innovation. This is to promote innovation through the use of technology as well as collective resilience against terrorism, cybercrime, and climate change. This year’s chairmanship will also focus on advancing the digital economy of ASEAN member states to make the region globally competitive while achieving sustainable growth.

Hence, it is necessary to know the opportunities that digital innovation brings to the ASEAN economies. Roadblocks between ASEAN and the digital economy must be identified as well to ensure effective policy formulation. However, doing all these requires a critical understanding of the trends that shape today’s digital economy.

ASEAN’s Digital Economy

Where does ASEAN stand in the push for the digital economy today? ASEAN’s strong regional economy, favourable demographics, and Information and Communication (ICT) investments lead the region to become a potential global leader in the digital economy.

Collectively, ASEAN is the sixth largest economy in the world, with a combined GDP of US$2.5 trillion. Its total population of some 628 million people represents 10 percent
of the world. Moreover, 40 percent of its citizens are under 30 years of age, and 90 percent of them have access to the Internet. Studies show that this group is technologically savvy who contributes significantly to the growth of the digital economy, using the Internet extensively for shopping, banking, booking hotels and hailing taxis.

ASEAN’s digital economy currently generates approximately $150 billion in revenues annually, according to a joint study by AT Kearney, a leading global management consulting firm, and Axiata, a Malaysian telecommunication conglomerate. The largest share of revenue comes from connectivity and online services, each accounting for 35 up to 40 percent of overall revenues.

They are followed by user interface (20 percent of revenues), which includes devices, software, and systems. Another component of revenue comes from content and enabling technologies, which constitute the remaining 10 percent.

ICT investments also boosted the region’s digital economy. According to the AT Kearney-Axiata study, ICT investment in the region has amounted to more than $100 billion in 2014, which grows at over 15 percent annually.

However, much more should be done to address the digital divide in the region. For example, Singapore is the only ASEAN member state in the top 10 of the United Nations’ ICT Index, and also the only ASEAN country that has been categorised as a “Stand out” or possessing high digital development in Tufts University’s Digital Evolution Index.

**Promoting a Dynamic Economy**

Promoting the digital economy will help the bloc’s member-states propel their economic growth. Using the Internet will help entrepreneurs to gain access to new markets as well as construct new businesses. Moreover, according to the study, if ASEAN has successfully transformed itself into a global digital powerhouse, it could potentially generate an additional $1 trillion in ASEAN’s GDP by 2025.

Interestingly, digital innovation is already present in ASEAN. For example, Singapore’s Olam International, a conglomerate engaged in agri-business, has successfully promoted smart farming through the use of digital technology. The conglomerate’s Olam Farmer Information System (OFIS), which registered more than 100,000 farmers in 21 countries in the system, serves as an online platform that provides a comprehensive view of operations in different farms.

This technology is useful for analysing the collected data for mapping the exact location of farms, determining appropriate amount of fertilisers, and identifying which types of shade trees should be planted for better cocoa production.

Digital technology also creates new industries such as mobile financial services, e-commerce, big data analytics, cybersecurity solutions, and transport services. The presence of ride-sharing services through mobile applications — Uber, Grab, and Go-Jek — illustrates how digitalisation reshapes transport services in ASEAN. The
widespread adoption of e-commerce and mobile financial services also boosted the growth of local business activities in the region.

Developing smart cities through digital technology will also help ASEAN address the influx of people migrating into cities. It is projected that around 34.5 million people in the region will migrate into cities by 2025, which could intensify the problems of pollution and traffic congestion.

Addressing the issues stemming from the growing urban population requires the use of smart technology. Singapore’s electronic road pricing (ERP) system for managing traffic congestion is a case in point and can be used in other ASEAN member states.

**Accelerating Broadband Access**

Improving Internet access must be a top priority to address the gap between ASEAN countries. The AT Kearney-Axiati study showed that close to 417 million people in ASEAN do not have access to basic Internet services. Lack of access is more severe in CLMV (Cambodia, Laos, Myanmar and Vietnam) countries.

For example, the OECD’s Science, Technology and Innovation Outlook 2016 revealed that less than 20 percent of individuals are using Internet in Laos and Cambodia, which is lower than in Singapore (more than 80 percent) and Malaysia (over 70 percent).

The low number of Internet users in Laos and Cambodia might discourage attracting investments, especially for firms which need broadband access for operating their websites and selling their products online. Therefore, ASEAN should pursue a universal mobile broadband access across the region to address its limited Internet access, especially in the less developed countries.

However, doing so requires a harmonised broadband plan that will commit each ASEAN member state to have common specific targets. A good example is when member states committed themselves to transfer to digital broadcasting by 2020.

There should also be a special body within the ASEAN Secretariat to serve as an advisory board for setting up a strategic direction towards the development of digital economy. The A.T. Kearney-Axiati study proposed an independent advisory board to provide market analyses and directions for ASEAN’s digital economy.

A digital competitiveness index, which is similar to the European Union’s Digital Economy and Society Index (DESI), could be established for tracking and measuring ASEAN’s digital economic performance.

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