

POLICY PAPER

Behind The DEFA Agreement: MSMEs, Big Tech, and Indonesia's Digital Sovereignty at Stake



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The Focus of ASEAN Economic Community Negotiating

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GLOSARIUM

ACFTA	: ASEAN-China Free Trade Area
ADII	: ASEAN Digital Integration Index
AI	: Artificial Intelligence
ART	: Agreement on Reciprocal Trade
ASEAN	: Association of Southeast Asian Nations
BCG	: Boston Consulting Group
CBDF	: Cross-Border Data Flows
DEFA	: Digital Economy Framework Agreement
DFFT	: Data Free Flow with Trust
ERIA	: Economic Research Institute for ASEAN & East Asia
FTA	: Free Trade Agreement
IGJ	: Indonesia for Global Justice
MSMEs	Micro, Small, and Medium Enterprises
PDP	: Personal Data Protection
RCEP	: Regional Comprehensive Economic Partnership
WTO	: World Trade Organization



PREFACE

Digital transformation has become a crucial element of global and regional economic development. Modern trade is no longer limited to the conventional exchange of physical goods and services; it has evolved through digital technology into an economic model that transcends national borders. This shift has prompted countries to establish cooperative frameworks to govern the development of the digital economy, particularly in the ASEAN region.

In this context, ASEAN is developing the ASEAN Digital Economy Framework Agreement (DEFA) as an effort to create an integrated regional digital market. ASEAN asserts that DEFA will drive the growth of digital trade across the region. However, beneath this optimistic narrative lie fundamental questions that are rarely addressed: who truly stands to benefit and gain the most from the DEFA agreement? Do all member states have equal capacity to reap these benefits? And will digital economic integration through DEFA strengthen the digital independence of ASEAN countries, or instead create a new form of dependence on digital platforms?

These questions are particularly relevant given the varying levels of readiness, capacity, human resources, and digital infrastructure among ASEAN countries. Unifying digital regulations within a single regional framework could lead to unequal consequences for member states, especially if harmonization occurs amidst widening gaps in digital capacity and competitiveness. Countries with advanced digital ecosystems can easily capitalize on open digital markets, whereas countries with developing digital capacities face challenges in adapting and competing, potentially bearing the burden of the adjustments required for integration under the digital agreement.

Prompted by these critical questions, Indonesia for Global Justice (IGJ) has prepared this policy brief to foster a critical perspective on the ASEAN DEFA. It examines not only the agreement's objectives and substance but also its broader perspectives and contexts, particularly the dynamics of various digital trade agreements that have developed across Southeast Asia and globally. Through this approach, the policy brief seeks to identify the various implications of DEFA for national policy space, digital sovereignty, MSME development, and the potential strengthening of global technology companies' (Big Tech) dominance within the ASEAN digital economy.

IGJ hopes that this policy brief will contribute to a more reflective and critical discussion regarding the direction of ASEAN digital economic integration and to ensure that the establishment of regional digital governance is oriented not merely toward market expansion, but also toward economic justice, digital sovereignty, and national development interests.

Rahmat Maulana Sidik

Executive Director Indonesia for Global Justice (IGJ)

INTRODUCTION

Digital transformation over the past two decades has fundamentally altered the global economic landscape. Trade activity is no longer dominated by physical goods; instead, it has increasingly shifted toward platform-based digital transactions underpinned by cloud computing, artificial intelligence, digital payments, and other digital technologies. These developments have established the digital economy as a primary driver of global growth while giving rise to new forms of trade that transcend national borders. In Southeast Asia (ASEAN), the digital economy is expanding rapidly, fueled by rising internet penetration, the adoption of digital platforms, and investment in the technology sector. However, this growth has not been matched by greater policy alignment among ASEAN member states.

With the development of the digital economy, ASEAN has already built cooperation and digital frameworks that regulate electronic and digital issues, through between ASEAN countries and with external partners. The existence of the International agreement such as the ASEAN Agreement on Electronic Commerce (AAEC) and other Free Trade Agreements (FTAs) shows that DEFA exists in the middle of digital commitments that already existed and were regulated through other cooperation frameworks. In that term, DEFA is not only an effort in integrating the digital market in the ASEAN, but also as a new development that potentially deepens and aligns digital commitment that previously gave a room for the member states to decide its national policy.

This has become important because some of its provisions about data free flow, source code, and digital trade facilitate big tech to operate across borders without any compensation to the developing country. Meanwhile, the developing countries, especially Indonesia, potentially experience limitation of its policy space in regulating the digital sector that developed massively.

The benefits of its openness are not always accompanied by balanced benefits for the ASEAN member countries, especially when actors and global digital corporations outside ASEAN also enjoy benefits from ASEAN market integration without giving market access concessions that are proportional to the ASEAN member countries. Thus, DEFA must be positioned in a wider context, namely to see whether the digital integration deepens to truly strengthen digital capacity and sovereignty for the ASEAN or if it will widen space for the big tech actor to strengthen its domination in the ASEAN digital market.



WHAT IS THE DEFA AGREEMENT?

DEFA is the Digital Economic Framework Agreement, which is a regional digital economic agreement initiated by ASEAN member countries to establish an integrated digital economic governance framework in Southeast Asia. The DEFA negotiations officially began in September 2023 and were completed in May 2026, with the signing planned to take place at the ASEAN Summit in November 2026.

DEFA is actually present in the midst of overlapping digital regulation frameworks that already tied ASEAN. Since 2021, the ASEAN Agreement on Electronic Commerce has already come into force and regulated ASEAN electronic trade. Moreover, e-commerce clauses in the RCEP and ACFTA have also become a layer of agreement that limits the scope for digital policy movement among ASEAN member countries. There are several important issues discussed in DEFA, namely: e-commerce, cross-border data flow, private data protection, cybersecurity, SME development, and other agreements to expand artificial intelligence technology.

ASEAN DEFA is expected to be signed in November 2026. According to the ASEAN official release, the agreement contains a number of key provisions, starting from digital trade regulation and standardisation, security and data flow, to business competition policy. ASEAN also claimed that DEFA will give further access for domestic businesses to enter the regional digital market, while also strengthening the digital capabilities of countries across Southeast Asia.

However, these claims need to be critically examined. Of the various clauses listed in the BCG study summary that become the main reference for the formulation of DEFA cannot become concrete mechanisms that guarantee that the access and capacity strengthening is truly realized. For example, there is no commitment by the countries that have high digital capacity, like Singapore, to fund the electricity and internet infrastructure development in the-



least developed ASEAN member states. Without a clear technological transfer mechanism, narration about “digital capacity strengthening” is at risk of becoming merely rhetorical discourse that is not accompanied by concrete realization on the ground. In another word, DEFA may end up as an agreement that only benefits states with high digital readiness, while developing countries only act as markets for foreign digital products and services, without being truly involved in the global digital trade chain and gain significant benefits.

Since its launch at the 43rd ASEAN Summit in Jakarta in September 2023, the ASEAN DEFA negotiation process has progressed rapidly. Following several rounds of negotiation led by the ASEAN DEFA Negotiating Committee, ASEAN member states have reached a substantial conclusion or resolution of the main negotiation substance at the 57th ASEAN Senior Economic Officials' Meeting (SEOM) which was held in Manila, Philippines, on May 29, 2026. This achievement marks the conclusion of the technical negotiation phase and serves as the foundation for the signing of the DEFA, which is targeted to take place at the ASEAN Summit in November 2026, before being subsequently ratified by each member country in accordance with its domestic legal procedures.

Thus, DEFA is no longer at the stage of concept formulation, but has entered the final phase before becoming one of the legal instruments that will shape ASEAN's digital economy governance in the future. Nevertheless, the ASEAN DEFA negotiation process also raises various questions that deserve to be examined critically. DEFA itself is touted to become the driving force behind regional economic growth, yet there has been little discussion about how these benefits can be distributed among ASEAN countries, which have varying levels of digital readiness. Will DEFA truly strengthen the digital competitiveness of all ASEAN countries, or will it instead benefit countries that already possess more advanced digital infrastructure? An equally important question is whether the integration of digital markets through DEFA will strengthen the digital economic sovereignty of ASEAN member states, or if it will instead create greater opportunities for domination by big technology companies (Big Tech) over market access, data, and the digital economy in the ASEAN region? Therefore, it becomes important to first examine which actors stand to benefit the most from the implementation of ASEAN DEFA, as well as which countries must bear the consequences of the digital trade liberalization it brings.

DEFA AND ITS CORRELATION WITH REGIONAL FTAS AND OTHER TRADE AGREEMENTS

ASEAN DEFA is often promoted as an instrument that will accelerate the growth and integration of ASEAN's digital economy, enhancing the efficiency of digital trade. As a trade agreement, ASEAN DEFA is not merely an agreement born in a vacuum. It emerges on the swell of trade agreements that have previously regulated digital issues in various regions, particularly the Regional Comprehensive Economic Partnership (RCEP) and the update of the ASEAN-China Free Trade Area (ACFTA 3.0). Understanding the position of DEFA also means understanding how DEFA functions as a global trade architecture that gradually shapes and constrains the policy space of developing countries, such as Indonesia.

In recent decades, the issue of digital trade has become a new arena for global geopolitical and economic competition. While in the previous era liberalization focused on the reduction of tariffs and services, in the current era, trade focuses on cross-border data flows (CBDF), artificial intelligence, data localization, and digital algorithm governance. These rules are often promoted by governments in developed countries and can reflect the interests of major technology companies, particularly Big Tech. Through various trade agreements, these actors seek to establish international standards that allow for the relatively unrestricted flow of data and minimize cross-border regulatory barriers, in order to secure space for the expansion of their digital businesses while reducing obligations that are perceived as constraints on their cross-border operations.

One of the agreements relevant in this context is the RCEP Agreement, which has been ratified by Indonesia since September 27, 2022, through Law Number 24 of 2022 on the Ratification of the Regional Comprehensive Economic Partnership Agreement (hereinafter referred to as the "RCEP Ratification Law") and came into effect in January 2023. The RCEP agreement includes Chapter 12 on E-Commerce, which regulates cross-border data flows (CBDF) and the localization of computing facilities.

In Article 12.16 RCEP concerning Dialogue on Electronic Commerce, cross-border data flow and data localization in the financial sector are designated as "current and emerging issues" to be discussed in the dialogue forum. Further, source code provision is also only issued at dialogue provision. When RCEP agreed, these issues became more flexible and can be negotiated any time and did not have tied obligations on its framework. This was done in order to maintain policy space for regulating data governance in each state. The existence of DEFA raises another criticism and question does this framework -

create an instrument that links and binds each state into one framework. This condition will limit each state authority for its data governance regulation.

Under the Dialogue on Electronic Commerce set out in Article 12.16 of the RCEP, CBDF and data localization in the financial sector are identified as "current and emerging issues" to be discussed in the dialogue forum. This indicates that these issues were not considered resolved when the RCEP was agreed upon, in order to maintain policy space in regulating data governance. Therefore, the existence of DEFA needs be critically examined and questioned, as it has the potential to become an instrument that complements or even deepens digital commitments that were initially limited and non-binding.

The liberalization direction was further expanded when the ACFTA agreement was ratified and subsequently updated through the ASEAN-China Free Trade Area Upgrade Protocol (ACFTA 3.0) signed in 2025. For the first time, ACFTA included a chapter on the Digital Economy as one of the main pillars of ASEAN-China economic cooperation. The inclusion of digital economy issues in ACFTA indicates that digital trade is no longer viewed as a technical matter but has become a strategic instrument in regional economic competition.

Chapter 9 of the ACFTA on the Digital Economy discusses: digital trade, digital payments, cybersecurity, and cross-border data flows. Consequently, Indonesia's policy space to formulate digital policies that differ from the standards emerging in the trade agreement process will become increasingly limited. On the other hand, countries and business actors that have mastered digital technology and infrastructure, cloud services, data centers, and digital platforms are likely to be the parties that benefit the most from the increasingly open integration of digital markets in the Southeast Asian region.

The tendency towards liberalization and deregulation of the digital economy has increasingly strengthened since the signing of the Trump Administration's Agreements on Reciprocal Trade (ARTs) with some Southeast Asian countries, including Indonesia. Unlike RCEP and ACFTA, which still emphasize dialogue and cooperation, the ART contains a number of specific commitments which are immediately and directly enforceable once the ART is ratified and comes into force.

It is important to note that the RCEP contains hard obligations in its e-commerce chapter, including the prohibition of data localization under Article 12.14 of the RCEP and the commitment to CBDF under Article 12.15. However, the entire RCEP e-commerce chapter is currently not enforceable through the state-to-state dispute settlement mechanism under Article 12.157 of the RCEP. These provisions will only become binding in the future if the parties agree to make them subject to dispute settlement through the periodic review conducted every five years. In other words, although the RCEP contains hard obligations in textual terms, these obligations remain soft commitments in practice because they cannot currently be enforced.

Meanwhile, the ART differs fundamentally from the RCEP. It contains commitments that become immediately and directly enforceable once the agreement is ratified and enters into force, without waiting for a periodic review or additional agreement. For example, Article 3.2: Facilitation of Digital Trade, which obliges Indonesia to facilitate digital trade with the US, including ensuring that electronic data transfers can cross national borders (transfer of data by electronic means across trusted borders) as well as prohibiting Indonesia from adopting measures that discriminate against US digital services.

Furthermore, Article 3.4: Market Entry Conditions imposes a total ban on the Indonesian government's ability to require US companies to transfer technology, production processes, or source code as a condition for conducting business activities in Indonesia. This prohibition applies across all sectors, with the sole exception of government procurement, and critically prevents Indonesia from enforcing even existing contractual requirements for technology transfer. While regulatory bodies may still request source code for specific investigations or law enforcement purposes, this provision effectively eliminates the policy instruments available to the Indonesian government to promote technology transfer and strengthen the capacity of national industries. The ART contains no exception allowing Indonesia to require the transfer of source code, or any technology incorporating software, to any party other than regulators, and even then, only for narrowly defined purposes related to specific investigations or law enforcement.

Furthermore, Article 3.3: Digital Trade Agreements requires Indonesia to consult with the United States before entering into new digital agreements with other countries. This clause deserves critical attention when discussing Indonesia's position in DEFA, which is a new digital agreement negotiated by Indonesia together with ASEAN countries. The existence of the communication obligation in Article 3.3 ART could potentially affect Indonesia's diplomatic space and bargaining position in regional trade negotiations, in this case, DEFA.

On the other hand, there is also Article 3.5: Customs Duties on Electronic Transmissions, which requires Indonesia to support the immediate and unconditional adoption of a permanent moratorium on customs duties on electronic transmissions at the WTO. Article 3.5 also prohibits Indonesia from imposing customs duties on electronic transmissions originating from anywhere in the world. In fact, the moratorium has long been criticized by many developing countries, including Indonesia, in various WTO forums, because it has the potential to eliminate state revenue from digital trade and narrow fiskal-



Indonesia, in various WTO forums, because it has the potential to eliminate state revenue from digital trade and narrow fiscal space. Thus, in this case, ART is not merely a new bilateral commitment, but also has the potential to lock Indonesia's position in various digital trade forums, including when negotiating DEFA.

Thus, DEFA cannot be understood as a standalone trade agreement, but rather as a gradual accumulation within each trade agreement regulating digital trade issues such as RCEP, ACFTA, and ART. In this context, DEFA has the potential to become an instrument that consolidates various commitments in each digital trade agreement. If this harmonization process is not accompanied by adequate data protection and other provisions effectively safeguarding public interests and national sovereignty, DEFA risks reinforcing digital trade liberalization without providing guarantees of fair digital economic benefits that are enjoyed by all developing countries in ASEAN, including Indonesia.

The important question to ask is no longer to what extent DEFA can enhance ASEAN digital trade, but rather who the actual actors benefiting from and gaining significant advantages through the integration of the digital trade agreement are, and to what extent Indonesia still has room to maintain data sovereignty and independently determine its own digital direction and regulations in many sectors affected by DEFA.

A concrete example is the provision on source code, which, although still under negotiation, could potentially weaken the regulatory capacity of various ministries and agencies, with implications extending far beyond the information technology sector. Its potential impact extends to the Ministries of Health, Environment, Agriculture, Industry, and Finance, as well as ministries responsible for regulating artificial intelligence, patent law, disclosure and discovery in court proceedings, and cybersecurity. It could also affect regulators in the stock market and gambling sectors, competition authorities, and anti-discrimination authorities.

In other words, the source code provision in DEFA is not merely a technical issue, but a fundamental question of who has the right to access, manage, and regulate the technologies that underpin various sectors of society. Without sufficient safeguards, Indonesia risks losing control over policies in these strategic areas, ultimately threatening its regulatory sovereignty as a whole.

ASEAN ECONOMIC MINISTERS' 37th AFTA COUNCIL MEETING
SEMARANG, CENTRAL JAVA (19 AUGUST 2023)



WHAT IS AT STAKE THROUGH DEFA?

In a digital economic agreement, data emerges as a component that is taken into account, including in ASEAN DEFA. In ASEAN DEFA, digital data such as personal data appears as a component present within the framework of this cooperation. From the concept of data security, a country will view digital data, including personal data, as a component that should rightfully be stored in physical form within its own territory; in this context, it is referred to as data localization. Data localization is a mechanism that requires personal data to be stored in the form of physical servers within the country.

DEFA seeks to transform this concept by offering a mechanism based on Data Free Flow with Trust (DFFT). DFFT is a concept in which each country respects and grants companies and digital enterprises the freedom to operate without the need to build physical servers in the destination country, allowing them to simply have storage or data servers in their country of origin. According to reports and studies from the Boston Consulting Group, DEFA will encompass this. DEFA will implement the DFFT scheme for all digital trade in ASEAN, aimed at facilitating various enterprises in ASEAN countries to mutually open up and expand their markets in the region.

DEFA will stipulate that only personal data that is based on and oriented toward business and market activities is eligible for the DFFT scheme. DEFA will provide opportunities for business entities to freely possess such capabilities aimed at analyzing market trends, target market habits, and interests in a particular product. The DFFT argues that cross-border data convenience can reduce localization costs for local businesses and ASEAN MSMEs. But, this argument ignores the crucial impact from the free flow of cross-border data. Without clear protection and regulation, this scheme could potentially undermine national data sovereignty, weaken privacy protection and expand the dominance of foreign Big Tech companies over domestic businesses.

The DFFT scheme is intended to facilitate local business entities in each country in reducing the costs associated with localization in other countries, thereby gradually fostering and developing local businesses, including SMEs in each ASEAN member country.

In the MSME sector, DEFA introduces a standardization mechanism regarding the digital economy in ASEAN. It starts with an integrated digital payment scheme, an organized e-invoicing system, and the enhancement of digital capabilities carried out through the ASEAN SME Academy. With the various conveniences offered by DEFA, MSMEs, especially those in Indonesia, are expected to develop their businesses and possess high digital capacity.

ASEAN DEFA, if viewed from various points, indeed appears to favor MSMEs and domestic enterprises of each country. However, there are several gaps that have the potential to make DEFA increasingly ineffective and merely a regulation on paper. In terms of data security, several ASEAN countries such as Indonesia, Vietnam, and Thailand have very strong data localization regulations. These countries, in their national regulations, require the establishment of local data by various existing enterprises. Furthermore, these countries demand digital capabilities that are equal to or higher than their own in order to access their digital markets.

In addition to the existing disparities, DFFT as explained at the Harvard Kennedy School by Burcu Kilic (2025), the DFFT narrative is often employed as a narrative used on the international stage to facilitate large corporations in exploiting and circumventing data localization laws present in various developing countries. The term "trust" is often used to sideline civil data protection rights, which should be a priority for every country.

When this imbalance exists, the DFFT, which was initially considered to facilitate processes, instead has the potential to benefit only a select few, particularly large companies from countries with high digital capabilities. SMEs and local entities are ultimately forced to adapt to this situation, and SMEs may struggle to compete with large companies from countries with more advanced digital capabilities. This will eventually create a new hegemony/dominance of influence in the region, with countries possessing very high digital capabilities dominating the ASEAN market with their products, while small SMEs from countries with lower digital capabilities and standards will merely become 'spectators,' and those countries will serve merely as digital markets.

This is in line with what is stated in the Discussion Paper by ERIA, which explains that Data Free Flow with Trust believes that the smooth flow of data must be guaranteed, including supply chain data and data regarding consumer habits, which must be protected. Upon further analysis, supply chain data and consumer interest data can easily flow to foreign businesses, especially large companies. Consequently, these large companies are the ones who benefit. Ultimately, what happens is that MSMEs will gradually be sidelined due to their failure to meet and adapt to competitiveness against the surveillance capitalism ecosystem established by existing large companies.

WHO CAN POTENTIALLY BENEFIT FROM THE DEFA AGREEMENT?

When we talk about the digital economy, the main sector in the DEFA Agreement, the fundamental sector that must be considered: What is the percentage of internet users in a country? According to World Bank data, the percentage of internet users relative to the total population in ASEAN varies widely, from Malaysia at 98%, Brunei at 96%, Singapore at 94%, to Timor-Leste at 35%. The imbalance in percentages between ASEAN countries raises new critical questions: who actually benefits from the ASEAN DEFA? When only a few ASEAN countries reach a high percentage, even up to 90%, how about the ASEAN countries that have a lower percentage? Countries with a higher proportion of their population using the internet will find it easier to access digital markets and conduct economic activities within them.

The Boston Consulting Group (BCG) projects that the implementation of ASEAN DEFA could boost the region's digital economy to US\$2 trillion by 2030. This figure is frequently cited as a basis for optimism regarding the agreement's potential success and the benefits it promises for all participating ASEAN member states. However, this claim raises fundamental questions, as the full documentation regarding the methodology and assumptions behind the projection has not been transparently made available to the public.

This raises a more critical question: is DEFA truly designed to foster equitable economic growth among ASEAN member states, or is it also driven by the agendas of external actors? This concern is particularly relevant given that the study in question was funded by the Australian government and prepared through extensive consultations with major global technology firms such as Google, Amazon, and Microsoft. To answer this question, BCG's projections need to be viewed alongside the ASEAN Digital Integration Index (ADII). This index measures the digital readiness of each ASEAN country through six pillars, namely Digital Trade & Logistics, Data Protection & Cybersecurity, Digital Payments & Identities, Digital Skills & Talents, Innovation & Entrepreneurship, as well as Institutional & Infrastructure Readiness. Unlike BCG, which views the potential economic growth of the region as a whole, ADII instead looks from the perspective of the digital capabilities of ASEAN countries, which are still very uneven between one country and another. The following table shows a comparison of the capabilities of countries in the Southeast Asian region:

Based on the data presented in the table below, Singapore emerges as one of the ASEAN countries with the strongest digital capabilities. However, the majority of ASEAN countries show a very significant disparity, as seen in the Digital Trade & Logistics pillar; Thailand recorded a score of 83.34 and Singapore 82.64, while Myanmar only scored 18.51.

In Data Protection & Cybersecurity, Malaysia reached 91.27, whereas Cambodia and Myanmar scored only 24.76 and 20.41, respectively. This stark difference indicates that DEFA will be implemented on an unequal regional foundation. Under these conditions, digital trade liberalization has the potential to strengthen the position of countries that already possess mature infrastructure, regulations, and digital capacity, while countries with low readiness are at greater risk of functioning primarily as markets for digital products, platforms, and services originating from more competitive countries.

Table 1.
Comparison of Digital Capabilities of ASEAN Countries

PILAR	SNG	MLY	PHI	BRN	CAM	IDN	LAO	MYN	THA	VNM	Score ASEAN
Digital Trade & Logistics	82,64	67,35	60,61	54.97	33.91	49.67	23.22	18.51	83.34	78.50	55.27
Data Protection & Cybersecurity	89,70	91,27	72,49	67.46	24.76	78.43	32.58	20.41	87.91	63.05	62,81
Digital Payments & Identities	86,60	79,20	31,89	87.56	41.20	59.73	44.53	32.93	69.73	58.33	58,84
Digital Skills & Talent	63,79	57,85	53,13	53.31	36.56	45.64	43.89	19.58	43.76	38.38	48,21
Innovation & Entrepreneurship	71,08	59,22	46,93	42.99	38.19	48.81	36.91	44.65	56.09	44.55	49,32
Institutional & Infrastructural Readiness	90,36	82,18	58,89	71.42	50.97	62.44	38.27	44.60	62.61	60.72	62,85

Source: Data processed from the USAID study about ASEAN Digital Integration Index Measuring Digital Intergration to Inform Economic Policies (ADII)

In the table, Singapore is one of the countries that consistently achieves the highest level of capability in the ASEAN region. The country obtained the highest score in 4 out of 6 indicators assessed based on the analysis and data from ADII, which evaluates the digital capabilities of ASEAN countries. Singapore has the highest scores in the indicators of Digital Payments & Identities, Digital Skills & Talent, Innovation & Entrepreneurship, as well as in the Institutional & Infrastructural Readiness indicator.

The implementation of DEFA, especially when it has the potential to facilitate the flow of data and open up the ASEAN digital market as widely as possible, raises a further question of who actually benefits from the existence of DEFA itself. When looking at ADII data, digital readiness in ASEAN is highly uneven between one country and another, with Singapore dominating digital capabilities in ASEAN, while other ASEAN countries such as Myanmar, -

Laos, Cambodia, and even Indonesia still face various limitations in their digital ecosystem readiness.

Therefore, it is necessary to further analyze whether the liberalization of digital trade through DEFA will produce evenly distributed benefits. Although trade liberalization has the potential to increase efficiency and expand market access, domestic companies in countries with lower levels of digital readiness may face difficulties in competing with businesses from countries that already possess far more advanced infrastructure, innovation, and digital capacity.

Speaking about the growth of the digital economy up to as much as US\$2 trillion projected by BCG, it should not be understood as a benefit that will automatically be experienced by all ASEAN countries. This figure reflects the potential growth of the regional economy as a whole, but it does not explain how the benefits will be distributed. Without efforts to reduce the digital capacity gap between countries, DEFA risks generating uneven benefits, where countries with high digital readiness will gain greater advantages, while other countries, including Indonesia, still have to strive to improve competitiveness so as not to merely become markets within the ASEAN digital economy. This projection needs to be reviewed more critically, particularly regarding the potential beneficiaries of the DEFA implementation. The figures are built on projections of regional growth in aggregate, and therefore do not fully reflect the disparities in digital capacity among member countries that occur in practice.

For Indonesia, the findings from the ADII 2.0 data serve as a signal to detect potential risks arising from DEFA agreements. Indonesia only obtained a score of 49.67 in Digital Trade & Logistics, which is still below the ASEAN average of 55.27, and 45.64 in Digital Skills & Talent, indicating that the support for digital logistics and the quality of talent remain areas that require improvement. In an increasingly open digital market situation, Indonesian MSMEs not only gain access to regional markets but also must directly face foreign companies that possess superior technology, logistical efficiency, and capital capacity. Without adaptive protection policies, the strengthening of business actors' capacity, and investments capable of closing the digital gap, the benefits of DEFA have the potential to be concentrated in countries that are already prepared, while Indonesia faces the risk of weakened MSME competitiveness and increased dependence on digital services from abroad.

In various indicators, Singapore consistently ranks at the top. The country scored 90.36 in Institutional & Infrastructure Readiness, 89.70 in Data Protection & Cybersecurity, and 86.60 in Digital Payments & Identities. These figures are well above the ASEAN average. This position demonstrates that Singapore already possesses digital infrastructure, data centers, regulations, and a digital business ecosystem that are far more prepared compared to most other member countries. If DEFA increasingly opens the flow of digital trade and cross-border data exchange in the future, a country with more mature -

readiness like Singapore is considered to have a greater opportunity to become a primary beneficiary of this agreement.

Based on the data, the existing gap is quite evident. In the Digital Trade & Logistics pillar, Thailand scored 83.34 and Singapore 82.64, whereas Myanmar only scored 18.51. In terms of Data Protection & Cybersecurity, Malaysia reached 91.27, while Cambodia and Myanmar scored only 24.76 and 20.41, respectively. This significant disparity indicates that ASEAN countries are entering DEFA from different starting points. Some countries already have mature digital infrastructure and regulations, while others are still striving to build their foundational base. This then raises another question. When digital trade barriers start to be reduced through DEFA, who will be more ready to take advantage of these opportunities? Logically, countries that already have digital infrastructure, talent, and a strong business ecosystem will find it easier to expand their services, platforms, and investments to other ASEAN countries. Conversely, countries that are still underdeveloped actually have the potential to become markets for digital products and services originating from more advanced countries.



For Indonesia, this situation presents its own set of challenges. According to the ASEAN Digital Integration Index (ADII) 2.0, Indonesia scored 49.67 in Digital Trade & Logistics, remaining below the ASEAN average of 55.27. In the Digital Skills & Talent pillar, Indonesia scored only 45.64, indicating that the quality of its digital workforce still requires significant improvement. Under these conditions, the opening of the ASEAN digital market certainly provides Indonesian businesses with opportunities to reach a broader regional market. At the same time, however, they must compete directly with foreign companies that already possess more advanced technology, stronger logistics networks, and greater capital capacity. Therefore, when considering digital readiness and supporting infrastructure, Singapore is likely to be one of the countries that stands to benefit the most from the implementation of DEFA in ASEAN, alongside multinational technology companies (Big Tech) identified in the BCG study.

CONCLUSIONS AND RECOMMENDATIONS

Ultimately, the Digital Economy Framework Agreement (DEFA) should not be viewed merely as an instrument to accelerate economic growth. While DEFA has the potential to deepen digital market integration across ASEAN, its benefits are not guaranteed to be distributed equitably. Differences in digital capabilities, infrastructure, human resources, and industrial capacity may result in countries and business actors with greater digital readiness and competitiveness capturing a disproportionate share of the benefits.

Against this backdrop, the Government of Indonesia should ensure that DEFA commitments go beyond market opening and liberalisation, with concrete measures to strengthen Micro, Small and Medium Enterprises (MSMEs), protect data, address the growing market power of Big Tech, and preserve the state's fiscal capacity in the digital economy, including through the removal of the e-commerce moratorium.

Indonesia for Global Justice (IGJ) recommends that the Government of Indonesia

- Preserve national policy space for digital industrial development and MSMEs in line with Article 33 of the 1945 Constitution, including through affirmative policies, technology transfer, accessible financing, and strengthened digital infrastructure and productive capacity.
- Ensure DEFA data protection commitments remain consistent with Law No. 27/2022 on Personal Data Protection (PDP Law). Commitments on Cross-Border Data Flows (CBDF) must remain subject to Article 56 of the PDP Law, and Indonesia should reject commitments that lower or undermine national data protection standards, particularly on cross-border data transfers.
- Safeguard the state's fiscal authority in the digital economy. DEFA should preserve policy space for ASEAN Member States, particularly Indonesia, to tax digital economic activities and engage in international tax cooperation, in accordance with Article 32 of Law No. 7/2021 on the Harmonisation of Tax Regulations.
- Conduct a comprehensive assessment of DEFA before its acceptance and ratification. Beyond a comprehensive cost-benefit analysis, the Government should conduct Human Rights Impact Assessments (HRIAs) and assess DEFA commitments against the PDP Law and other relevant legislation on digital taxation, MSME protection, cybersecurity, competition, and anti-monopoly policy. It should also assess DEFA against Indonesia's existing commitments under the Regional Comprehensive Economic Partnership (RCEP), ASEAN-China Free Trade Area 3.0 (ACFTA 3.0), and the Agreement on Reciprocal Trade (ART) to prevent regulatory overlaps, conflicting obligations, or new commitments that could undermine national interests and policy space.

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