

The Indo-Pacific Economic Framework & Digital Trade in Southeast Asia

By Andreyka Natalegawa and Gregory B. Poling

Introduction

In October 2021, the Biden administration [announced](#) the development of an Indo-Pacific Economic Framework (IPEF) with partner nations to “define our shared objectives around trade facilitation, standards for the digital economy and technology, supply chain resiliency, decarbonization and clean energy, infrastructure, worker standards, and other areas of shared interest.” Details on the framework are still being worked out, but it now seems that those six areas of focus have been distilled into four negotiating “pillars.” Deputy U.S. Trade Representative Sarah Bianchi [said in early February](#) that these would include “fair and resilient trade, supply chain resilience, infrastructure and decarbonization, and tax and anticorruption.” The Office of the U.S. Trade Representative (USTR) will likely lead negotiations on the first, while it appears that the Commerce Department will take the lead on the other three.

The details of each pillar will be worked out in the months ahead, but the Biden administration is certain to face challenges and trade-offs across each, given the diversity of economies and political constraints across the region. USTR has said the trade pillar will be “high-ambition” and include binding commitments. But this will be complicated by the fact that the administration plans to roll out the IPEF through executive action rather than as a traditional trade deal requiring congressional approval. This pathway will help the framework sidestep political obstacles that agreements like the [Trans-Pacific Partnership](#) faced before Congress, but it also means that the administration cannot offer increased market access or any other concessions that would require changes to U.S. law. Moreover, moving forward with the IPEF through executive action has led to concerns among partners that the framework could be vulnerable to U.S. domestic politics or that a future administration may well roll back or abandon the framework. Given these self-imposed constraints, the administration will face headwinds trying to convince countries

to sign on to high-standard provisions on digital trade, labor, and environmental standards that might run counter to their perceived short-term political or economic interests.

One possible solution would have been to make the involvement in the other three pillars, where there are likely to be more tangible benefits for other countries, contingent on an agreement in the trade pillar. But that would run counter to the desire to get as many countries on board as possible. So, the administration has instead indicated that countries will be invited to engage in each pillar a la carte. And while like-mindedness in and of itself does not immediately guarantee their support for the IPEF, the **likely result** is that only Japan, Australia, New Zealand, Singapore, and perhaps South Korea—the most developed economies which already share U.S. standards on digital trade, environment, and labor—will engage with USTR on the trade pillar. But a wider array of economies will likely join the talks with the Commerce Department on the other three.

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In Southeast Asia, the digital economy and technology area of focus initially announced in October is uniquely urgent and potentially impactful. That digital component is now mostly in USTR's court, but some digital economy-related initiatives could find their way into the infrastructure and supply chain pillars under the Commerce Department's purview. It is also still possible that the administration might bend to pressure both at home and abroad to separate the digital economy from the broader trade agenda to create a fifth, more attractive, pillar. Making some progress on the digital economy front will be critical to the overall success of the IPEF. Most economies in the region are rapidly digitizing—a trend that has accelerated under the Covid-19 pandemic—and regional governments are eager to seize the opportunities of the digital economy while mitigating the political risks of free data flows. U.S.-favored standards for a free and open internet are competing with the Chinese model of walled online gardens and data sovereignty, as well as the European model centered on data privacy and consumer protection. Whether and how the Biden administration can seize this opportunity to rally regional support for its preferred standards in data governance is a key challenge.

Debates on Cyber Governance and Digital Trade

The Biden administration's focus on digital trade is well placed. As digital trade and the internet economy become increasingly important to overall growth and economic development, governments in Southeast Asia have sought to adopt frameworks for cyber governance. Countries now face a choice between widely divergent paths, ranging from U.S.-inspired models that prioritize openness and the free flow of data (in line with the **Data Free Flow with Trust framework** articulated by Japanese prime minister Shinzo Abe in 2019), European models that emphasize consumer protection and data privacy, and Chinese models that apply the concept of national sovereignty to cyberspace and emphasize the local storage of data.

The adoption of a patchwork of digital regimes across the Indo-Pacific, including some modeled on European or Chinese standards that restrict the flow of data, would **negatively impact** the competitive edge of companies both in the United States and across the region. It would introduce onerous downstream

costs on businesses, limit their ability to harness economies of scale in data processing and analysis, and undermine cybersecurity by storing data in specific geographic locations vulnerable to targeted cyberattacks. And despite the usual focus on “Big Tech,” these burdens would fall most heavily on micro, small, and medium-sized enterprises least able to foot the bill for compliance with different regulatory frameworks across the region.

The United States and like-minded partners like Japan and Singapore have an opportunity through swift action to encourage key developing economies in Southeast Asia to move toward their preferred standards rather than those of Beijing (or Brussels, though Washington may have to accommodate itself to European-style digital privacy regimes already adopted by some regional partners). The IPEF not only adds a much-needed economic dimension to the Biden administration’s broader [Indo-Pacific Strategy](#) but also serves as a critical tool to advance these standards and maintain openness in the digital space.

Given the opportunities presented by digital trade, many policymakers across the Indo-Pacific have already pushed to include high-standard digital provisions in trade agreements. While the [Regional Comprehensive Economic Partnership \(RCEP\)](#) and [Comprehensive and Progressive Agreement for Trans-Pacific Partnership \(CPTPP\)](#) both contain chapters on e-commerce, the latter agreement is considerably more substantive on digital issues, as it is across the board. While not a party to the CPTPP, the United States incorporated provisions on digital trade into [its U.S.-Mexico-Canada Agreement \(USMCA\)](#) and the [U.S.-Japan Digital Trade Agreement](#). Meanwhile, the [Digital Economy Partnership Agreement \(DEPA\)](#) between Singapore, Chile, and New Zealand—all CPTPP members—represents the next step in digital trade agreements, with modules that extend beyond previous frameworks by covering issues like artificial intelligence and digital inclusivity.

The digital trade components of the IPEF will invariably be judged against these past efforts. Whether the Biden administration can make significant progress beyond them, either in terms of substance or a broadening of membership, will be taken as one measure of success. The administration’s decision to eschew a traditional trade agreement and take increased market access off the table probably makes it impossible to meet those expectations through the trade pillar as currently envisioned. Breaking digital trade out as a standalone pillar could be a partial solution—several Southeast Asian governments will still likely reject U.S. demands on the digital front without greater market access, but a few who would not join the overall trade pillar might sign onto a standalone digital effort. And there could still be digital economy-related benefits offered to partners in the pillars of infrastructure and supply chain resiliency, some of which might make U.S.-favored digital standards more attractive in future trade negotiations.

[Case Studies](#)

Southeast Asia is not a monolith when it comes to digital trade. Each country is at a different stage of digital development and has staked out a different position on models of data governance and other key standards. This variance will complicate the Biden administration’s efforts to attract countries to a single set of standards on digital trade and necessitates a review of domestic views on digital trade and what actions governments have taken toward greater integration in this space. The following section provides an overview of the importance of digital trade to key economies in the region and how governments view efforts to integrate into the broader global digital economy. This paper focuses on the six largest economies in the region: Vietnam, Indonesia, Singapore, Malaysia, Thailand, and the Philippines. The growing importance of the digital economy to each of these countries should make them desirable targets for inclusion in the IPEF.

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VIETNAM

According to the [e-Conomy SEA 2021](#) report published by Google, Temasek, and Bain, Vietnam's internet economy has achieved a gross merchandise value (GMV) of roughly \$21 billion and is expected to grow to \$57 billion by 2025. Meanwhile, AlphaBeta and the Hinrich Foundation in 2019 estimated that the economic value of [Vietnam's digital trade](#) amounted to \$3.5 billion, equivalent to 1.6 percent of the country's GDP. These projections indicate that the value of digital trade to Vietnam's economy could [increase to \\$42 billion by 2030](#), or 9 percent of the country's projected GDP. The opportunities presented by digital trade have been [tempered](#) by the fact that Vietnam maintains "extensive data policies that substantially restrict cross-border data flows." Moreover, Vietnam's onerous licensing and registration requirements for digital service providers have hindered the country's overall competitiveness and are key roadblocks to deeper integration into the global digital economy.

Vietnam in recent years has issued a series of regulations that govern the flow of data; these provisions can be found across three key pieces of legislation: the Law on Cybersecurity of 2018, the "Cybersecurity Decree" clarifying provisions of the 2018 Cybersecurity Law, and the Draft Personal Data Protection Decree (PDPD). The 2018 Cybersecurity Law [mandates](#) that "[enterprises] providing services on telecommunication networks or the internet and value-added services in cyberspace in Vietnam must store such data [here] for a period specified by the government," while "foreign enterprises under this scope must also establish a branch or a representative office in Vietnam." Widespread concern regarding the broad applicability of the Cybersecurity Law led Vietnam to [narrow the scope of its provisions](#), such that a company would only be subject to localization requirements if it met a series of conditions, including failing to take remedial action after being notified of violations by the government. Despite this, the [draft PDPD](#) issued in February 2021 stipulated that the personal data of Vietnamese citizens can only be transferred out of the country if all the following requirements have been met: the data subject/owner has consented to the transfer; the original data is stored in Vietnam; the data processor can prove that the recipient country has equal or higher personal data protection standards than those in Vietnam; and written approval of the transfer has been issued by the Personal Data Protection Committee under Vietnam's Ministry of Public Security.

Vietnam's restrictions on cross-border data transfers have complicated the country's emergence as a partner in digital trade agreements. Vietnam is a signatory of the CPTPP and ratified the agreement in November 2018 but is not complying with the agreement's digital provisions. Vietnam has signed [side instruments](#) with other CPTPP members affirming that countries shall refrain from seeking recourse on measures adopted in line with Vietnam's cybersecurity law or any related legislation on cybersecurity. Were the United States a party to the agreement, it would likely refuse such concessions and pursue action to press Vietnam to meet the agreement's digital standards, but Washington gave up that leverage when it withdrew from the original Trans-Pacific Partnership (TPP) that eventually evolved into the CPTPP.

Beyond its participation in the CPTPP, in June 2021, Vietnam established a [joint working group](#) with Singapore to develop bilateral agreements on the digital economy. It has also signed a [letter of intent](#) with

the United Kingdom on enhancing cooperation in the digital economy. Vietnam's push to forge cooperative agreements on digital trade while it continues to impose a restrictive regulatory regime highlights the tension inherent in Hanoi's approach to digital trade. While the Vietnamese government understands the considerable benefits that digital trade and the digital economy could bring, policymakers balance these interests against concerns about cybersecurity, cybercrime, and the ability to monitor and censor online content. The first two are concerns with which the United States should sympathize. Vietnam [routinely faces cyberattacks](#), including those facilitated by [state-sponsored hackers in China](#).

Helping to address those concerns, including through the IPEF pillars led by the Commerce Department, could help shift the balance of interests within Vietnam away from the Chinese model of internet governance and toward that of the United States. That balance will not shift decisively without increased market access, so Vietnam is unlikely to be a party to the IPEF trade pillar or even a standalone digital pillar. But the IPEF could help Vietnam address concerns about cybersecurity and bridging the "digital divide"—the gap between those with reliable, high-quality internet access and those without—hopefully keeping it from fully embracing the walled online gardens favored by China until the United States is again willing to engage in traditional trade negotiations.

INDONESIA

Indonesia's internet economy in recent years has surged to become the largest in the region by a wide margin, achieving a [GMV of \\$70 billion in 2021](#) with forecasts projecting an increase up to \$146 billion by 2025. Digital trade in 2019 [supported up to \\$9.3 billion in economic benefit in Indonesia](#), or 0.9 percent of the country's GDP, "suggesting untapped potential considering other ASEAN economies such as Malaysia are experiencing economic benefits of about 2 percent of their GDP." Estimates [further project](#) that benefits derived from digital trade could expand eighteenfold to \$172 billion by 2030. However, despite the growing importance of digital services to the country's economic outlook, Indonesia generally views digital trade integration with skepticism and has been slow to pursue bilateral or multilateral cooperative agreements. President Joko "Jokowi" Widodo has [criticized the digital trade system](#) for its impact on Indonesia's micro, small, and medium-sized enterprises, saying, "digital transformation must maintain the nation's sovereignty and independence" and "Indonesia should not be a victim of unfair digital trade."

President Jokowi's remarks reflect the fact that Indonesia has generally adopted a protectionist outlook on matters related to digital trade, including by enacting measures that impose restrictions on cross-border data flows. In 2012, Indonesia issued Government Regulation 82, which mandated that all electronic system operators who provide public services establish data centers in the country. These restrictions [were later clarified](#) and loosened in 2019 with the issuance of Government Regulation 71, which distinguished between "public" and "private" electronic service providers and imposed data localization requirements only on the former.

The loosening of Indonesia's data localization measures came in tandem with the signing of the 2019 Indonesia-Australia Comprehensive Partnership Agreement, which included provisions restricting Indonesia's ability to limit the [cross-border transfer of data](#). But while these lines of effort appear to signify an increasingly open approach to data transfers, Indonesia has issued regulations that [impose either indirect or de facto data localization requirements](#), contravening existing regulations like Government Regulation 71. The regulatory framework covering data localization could see further revision in the near term as Indonesia continues to debate its long-gestating data privacy law. The current draft of the law, which remains under review by the parliament, [imposes additional requirements](#) on data transfers and

restricts cross-border data flows to “countries and international organizations that have data protections equal to or higher than Indonesia.”

Underpinning Indonesia’s approach to digital trade is its general aversion to trade liberalization and penchant for protectionism. While Jokowi has aggressively sought foreign capital and investment, his administration remains intent on keeping domestic industry safe from international competition—including in the digital space. These protectionist impulses, as well as the government’s stated focus on consumer protection and privacy, have led Indonesia to [pursue digital standards](#) inspired by the European Union’s General Data Protection Regulation (GDPR) framework. These preferences mean that Indonesia is unlikely to sign on to the trade pillar of the IPEF, or any standalone digital pillar. But as with Vietnam, the United States could find some carrots in the Commerce Department-driven pillars of the IPEF that would be attractive to Indonesia while also incentivizing Jakarta to move closer to Washington’s preferred standards. These could include programs to bridge the digital divide and bolster cybersecurity capabilities, which could help Indonesian officials and businesses see more value than threat in competing in an open digital economy.

Issues related to privacy and consumer protection, on which Indonesia appears to favor the European model, will prove a harder nut to crack. GDPR-style consumer privacy protections are undeniably attractive to many publics and governments, including at the [state level](#) in the United States. On that front, the United States and like-minded partners may have to settle for managing differences with Indonesia, as they are now with European capitals. But the sheer size of Indonesia’s economy and its potential in the digital space will make it well worth the effort.

SINGAPORE

Singapore’s internet economy currently stands at a [GMV of \\$15 billion](#), with expected growth up to \$27 billion by 2025. Reflecting the importance of the internet economy to its future, Singapore has emerged as a pioneer in establishing cooperative agreements on digital trade. To date, Singapore has concluded negotiations on four digital economy agreements: DEPA (with Chile and New Zealand), the Singapore-Australia Digital Economy Agreement, the United Kingdom-Singapore Digital Economy Agreement, and the Korea-Singapore Digital Partnership Agreement. Singapore’s efforts in the digital space are both ambitious and scalable. Multiple countries, including [China](#) and [South Korea](#), have expressed interest in joining DEPA, and Prime Minister Lee Hsien Loong has [highlighted the agreement’s potential](#) to become a “building block towards a larger regional or global architecture,” similar to the TPP’s origins as the [Trans-Pacific Strategic Economic Partnership Agreement](#) between Brunei, Chile, Singapore, and New Zealand.

Singapore’s drive to establish these agreements is [rooted in the desire](#) to “align digital rules and standards and facilitate interoperability between digital systems; support cross border data flows and safeguard personal data and consumer rights; and encourage cooperation between Singapore’s economic partners in nascent areas such as digital identities, Artificial Intelligence (AI) and data innovation.” Singapore’s ambitious efforts to forge digital economy agreements predate Covid-19 but have intensified in response to the economic fallout of the pandemic. Prime Minister Lee in August 2020 [highlighted](#) the island nation’s vulnerability to supply chain and trade flow shocks, saying, “we will not be returning to the open and connected global economy we had before any time soon” and calling for Singapore to instead “prepare for a very different future” by pursuing the digitalization of trade. Singapore is well-placed to make the transition from a global trading hub to a hub for the global digital economy. For instance, the city-state has taken significant steps toward boosting [paperless transactions and e-invoicing systems](#) over the course of the pandemic. Moreover, while Singapore maintains relatively strict personal data protections, it has

long been a [champion of the free flow of data](#) and “leans towards protecting data through ‘data adequacy’ requirements” like the Asia Pacific Economic Cooperation (APEC) Cross-Border Privacy Rules (CBPR) and Privacy Recognition for Processors Systems.

The maturity of Singapore’s regulatory framework, as well as its adoption of regional and multilateral standards in data governance, has enabled the country to strike a balance between the need to secure data while also maintaining the openness required to empower the private sector. Singapore is a signatory to the CPTPP and has already ratified the agreement, including its chapter on digital trade. Meanwhile, initiatives like DEPA and the United Kingdom-Singapore Digital Economy Agreement represent the cutting edge of digital trade agreements, and their modules, while still works in progress in terms of depth, extend beyond the standards previously set by agreements like the USMCA and the United States-Japan Digital Trade Agreement. Singapore’s pursuit of digital economy agreements is facilitated by their modular approach; for instance, DEPA features a series of [modules on specific issue areas](#), allowing signatories to “elaborate on the specific characteristics of a component and segment it from other components while ensuring that they all fit within the wider framework of an agreement.” This [modularity](#), coupled with the agreement’s nonbinding nature, allows partners to “address new issues quickly without getting bogged down in cumbersome trade negotiations.”

Singapore’s forward-leaning attitude makes it the ideal partner for Washington’s efforts on digital trade. Singapore is likely to be the only Southeast Asian partner to support the trade pillar of the IPEF, given the depth of its prior commitments to digital and other standards and its deeply held interests in maintaining openness and the free flow of data. While harmonizing digital provisions in the IPEF with Singapore’s preexisting commitments on digital issues might be easier said than done, policymakers in Washington should harness Singapore’s leadership in this space and consider ways to collaborate on digital trade at the regional level, particularly given the country’s leadership on these matters within ASEAN and across the region at large.

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MALAYSIA

Valued at [\\$21 billion in GMV in 2021](#), Malaysia’s internet economy stands as the third largest in the region, behind those of Indonesia and Thailand, and roughly on par with Vietnam’s. Estimates by AlphaBeta and the Hinrich Foundation in 2019 found that digital trade enabled [\\$5.6 billion in economic benefit](#) to Malaysia or roughly 1.8 percent of the country’s GDP. Malaysia’s rate of internet penetration has room to grow, meaning that this figure could [increase more than ninefold by 2030](#), reaching approximately \$51.6 billion.

Like Singapore, Malaysia has adopted a relatively forward-looking approach to digital trade. The [Malaysia Digital Economy Blueprint](#) released in February 2021 highlights the need to “incorporate comprehensive digital economy elements in international trade arrangements and cooperation” to support the productivity and competitiveness of micro, small, and medium-sized enterprises in regional and global markets. The document calls for “all new trade agreements to incorporate cross-border data protection elements,” demonstrating the extent to which the Malaysian government views cooperation

on digital trade as essential to next-generation trade agreements. As chair of APEC in 2020, then-prime minister Muhyiddin Yassin [highlighted](#) the need to “bolster the digital economy” and the [forum’s leaders’ declaration](#) acknowledged the “importance of cooperation in facilitating the flow of data and strengthening consumer and business trust in digital transactions.”

U.S. commerce secretary Gina Raimondo’s visit to Malaysia in November 2021 led to a [joint statement](#) with Azmin Ali, Malaysia’s senior minister for international trade and industry, affirming the desire to collaborate on issues related to digital trade. The secretary’s meeting with Annuar Musa, Malaysia’s minister of communications and multimedia, also [highlighted opportunities](#) to “enhance collaboration on cross-border data flows such as through participation in the APEC Cross-Border Privacy Rules System.” While Malaysia’s regulatory framework does not mandate localization restrictions on companies, it does impose qualified GDPR-like restrictions on the transfer of personal data outside of the country. [Malaysia’s Personal Data Protection Act 2010](#) states that a “data user cannot transfer personal data out of Malaysia except to places specified by the Minister of Communications and Multimedia,” with the requirement that “these places have laws that are similar to the Malaysia [Personal Data Protection Act], or that confer at least an equivalent level of protection to personal data.”

That Malaysia has centered digital trade as part of its overall trade outlook is of little surprise given its membership in the CPTPP, which sets forth robust provisions on digital trade. However, Malaysia has yet to ratify the CPTPP and remains in the process of [amending local regulations](#) to align with the country’s obligations and commitments under the agreement. While Malaysia’s private sector has called on the government to [ratify the CPTPP](#) as soon as possible to boost economic recovery from the Covid-19 pandemic, ongoing political turmoil and the overall fragility of the current ruling coalition could roil any forward movement in the near term. Moreover, in spite of Malaysia’s commitment to include digital economy elements in international trade agreements, it has not pursued such agreements with the same vigor as Singapore.

Overall, Kuala Lumpur largely aligns with the United States on matters related to digital trade, but it seems unlikely to adopt the high standards USTR will require for the overall trade pillar of the IPEF—and engage in a politically bruising ratification effort at home as the country heads into an election period—when increased market access to the United States is off the table. There is a better chance Malaysia would take part in negotiations under a standalone digital trade pillar, though success is far from guaranteed. Absent that, Malaysia, like most of Southeast Asia, is likely to seek tangible benefits from the infrastructure/decarbonization and supply chain resiliency pillars of the IPEF, hear what the United States has to say on the taxation and anti-corruption pillar, and sit out trade talks until Washington has more to offer.

THAILAND

With a [GMV of \\$30 billion](#) in 2021, Thailand’s internet economy stands as the second largest in the region and will grow by 17 percent to \$56 billion by 2025. Prime Minister Prayuth Chan-ocha in 2018 [called for the development](#) of a “region-wide digital trade ecosystem” for mainland Southeast Asia, including “the region’s own e-commerce platforms, efficient cross-border transport and logistics, payment systems as well as common standards and interoperability.” In late 2020, Prayuth repeated this call before the ASEAN Business and Investment Summit, [proposing the establishment](#) of a “New Economic Ecosystem” by “promoting comprehensive digital trade connectivity to support a full digital integration towards becoming ‘Digital ASEAN.’”

Despite these proclamations, Thailand’s progress in forging cooperative agreements on digital trade has been slow. While Thailand has ratified RCEP, it is not a party to the CPTPP, nor has it pursued agreements

on digital trade on either a bilateral or a multilateral basis. Although Thailand has aggressively pursued the digitization of its economy through the [Industry 4.0 framework](#), these efforts have largely been inward-looking rather than focused on forging cooperative agreements with foreign partners. Much like Malaysia, Thailand's leadership remains preoccupied with navigating domestic political turmoil, giving them little time or political capital to invest in broadening cooperation on digital trade.

Thailand does not currently impose measures forcing the localization of data but does impose restrictions on the cross-border transfer of [personal data](#), with the transfer of such data only being permissible under a specific set of circumstances. Thailand's regulations on personal data are rooted in the country's Personal Data Protection Act, which takes [significant inspiration](#) from the European Union's GDPR regime. While the act was introduced in 2019 and was initially expected to come into effect by May 2020, [enforcement has been deferred](#) twice to June 2022.

There is little incentive for Thailand to engage in the IPEF trade talks with USTR, which means it will not be agreeing to high-standard digital trade standards unless they are dealt with in a standalone pillar. The United States can probably find things to offer Thailand in the infrastructure and supply chain pillars led by the Commerce Department that would provide benefits for the Thai digital economy and create some goodwill, incentivizing Bangkok to lean toward most U.S.-preferred standards over time. But like Indonesia, Thailand's embrace of GDPR-like standards on privacy and consumer protection could be irreversible and will need to be managed.

PHILIPPINES

The Philippines' internet economy reached a [GMV of \\$17 billion](#) in 2021 and is expected to grow by 24 percent to \$40 billion by 2025, representing one of the fastest-growing markets in the region. Digital trade in the Philippines [supported](#) up to \$3.2 billion in economic value in 2019, or roughly 1.8 percent of GDP, and is expected to grow to \$37 billion by 2030. The Philippines is not only an emerging hub for e-commerce but also a major player in [business process outsourcing](#) and other key services, including call centers.

The Philippines has adopted a relatively open stance on issues related to digital trade and the regulation of data flows. Manila has not adopted regulations limiting the free flow of data, and the Philippines is a participant in the APEC CBPR system that facilitates cross-border data flows while protecting consumer privacy. However, the Philippines has been slow to engage in multilateral agreements on digital trade. The Philippines has not yet ratified the RCEP and is not a party to the CPTPP, and thus is not subject to the provisions on e-commerce included in these agreements. And while the Philippine Department of Trade and Industry's [e-Commerce Roadmap Philippines 2022](#) identifies advancing cooperation on cross-border digital trade as a core process, the roadmap's [ambitions are limited](#) to ratifying the United Nations Electronic Commerce Convention and strengthening the ASEAN consumer protection network, rather than the sort of next-generation digital trade agreements that others in the region have pursued.

Views in Manila on the importance of digital trade and the free flow of data appear to largely cohere with those of Washington, but constitutional limits on foreign ownership in the Philippine market present an obstacle to deeper integration with the global internet economy. A 2021 study by the [Philippine Institute for Development Studies](#) found that "the Philippines has consistently imposed strong restrictions on foreign direct investments in sectors relevant for digital trade," and that "bans on foreign investment can impede the digital economy's growth, thereby making digital trade integration difficult." Thus, even if Manila stands ready to adopt high-standard provisions on cross-border data flows, it is unclear whether the Philippines' restrictive investment environment would allow the country to take full advantage of greater harmonization and digital trade integration. The recent [passage of an amendment](#) to the

Philippines' Public Service Act that removes some foreign equity restrictions in telecommunications and other services is a step in the right direction, and Manila will need to continue making improvements in regulatory implementation and governance to capitalize on cross-border digital integration.

In addition, like many other countries in the region, the Philippines has faced major hurdles in building out its [digital infrastructure](#) and [consumer trust in digital services](#), and the digital divide remains a key challenge. While slow progress on digital inclusivity in the Philippines represents an obstacle to greater digital trade integration, it also represents an area of opportunity for the United States. The Philippines is unlikely to engage in the trade pillar of the IPEF, as it would find it politically impossible to make the concessions necessary to get such a deal done with no market access offered in exchange. But it probably would join in a standalone digital effort, as its positions on most digital economy issues are already closely aligned with those of the United States. Aside from that, the inclusion of provisions in the non-trade pillars of the IPEF on bridging the digital divide could significantly enhance the attractiveness of the overall framework to policymakers in Manila and ensure that the Philippines continues to embrace an open digital economy.

Recommendations

Maintain an “open-door” policy, allowing countries to accede to all components of the IPEF provided they have met certain benchmarks.

USTR has made clear that its goal for the IPEF trade pillar is to lock in high standards on digital economy, labor, and environment, although this approach will offer few tangible benefits for countries that do not already meet those standards. This is likely to result in most of Southeast Asia engaging with the other pillars but not the one dedicated to trade. Nevertheless, it is important that the administration maintain an “open-door” approach to all parts of the framework.

Key Southeast Asian partners will likely decide that there are few benefits to joining the trade portions of the IPEF, but it is critical that they be the ones to make that decision. They must at least be asked to join and play a consultative role in the overall process. The IPEF is a strategic initiative by the Biden administration, not just a trade deal. The administration in its first year made significant progress mending regional alliances and partnerships left out in the cold during the Trump administration; excluding those partners from the IPEF now would derail that. For instance, failing to invite the Philippines to join all parts of the framework would create an unnecessary point of contention with the new administration that will take office in Manila in June and would play into existing narratives that the Philippines must look to China for economic benefits.

Moreover, while the Biden administration has thus far focused its efforts on negotiations with the larger economies of Southeast Asia, an open-door policy would allow smaller countries like Cambodia and Laos to enter negotiations when ready. Shutting these smaller economies out of negotiations now without providing a clear pathway for future participation would alienate Southeast Asian governments who wish to see the United States engage with all ASEAN member states and would be particularly damaging given Cambodia's chairmanship of ASEAN this year and Laos's chairmanship in 2024.

Break out digital negotiations from other trade issues as a standalone pillar.

As Matthew Goodman and Aidan Arasasingham have noted, “to many less-developed countries in South and Southeast Asia, [digital issues in the trade pillar may represent less of an offer and more of a request from the United States.](#)” Indonesia and Vietnam, in particular, are likely to see digital standards as a U.S.

stick, not a carrot, in the negotiations. For other Southeast Asian countries, the prospect of a digital trade agreement may be an inducement, but not enough to get on board with what they will see as other onerous provisions of the trade pillar such as labor and environmental standards. Only increased market access could do that.

Locking negotiations on digital standards into the broader trade talks seems like the worst of both worlds: it is unlikely to bring additional partners into the trade pillar, and it passes up the chance to get a digital economy agreement with some Southeast Asian governments who might be willing to negotiate one. The administration should break out the digital component of the IPEF as a standalone pillar to maximize the odds of success with partners like Malaysia, the Philippines, and Thailand.

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Include programs addressing digital infrastructure, cybersecurity, capacity building, and next-generation technologies in the non-trade pillars of the IPEF.

Variations in how Southeast Asian governments view matters related to digital trade and data governance will complicate the Biden administration's efforts to secure support for high-standard provisions. Some countries in the region are unlikely to sign on to either the currently envisioned trade pillar or a standalone digital pillar. But the Biden administration should still pack the infrastructure/decarbonization and supply chain resiliency pillars with programs to incentivize partners to maintain open digital economies and free data flows. This would provide mutual benefits in the short term and make it easier to negotiate high standards in a future U.S.-led trade deal that includes market access provisions.

These incentives could include commitments to enhance the region's digital infrastructure through the Build Back Better World initiative or the U.S. International Development Finance Corporation and cooperation on training and capacity building with a focus on bridging the digital divide. Focusing on these issues would also provide an opportunity for enhanced collaboration with Quad members, given their [extensive engagement](#) in this space. Cybersecurity and countering cybercrime would also be an area of interest for Southeast Asian partners, not least because of the threat posed by both state and non-state actors. Moreover, the Biden administration could use the non-trade sections of the IPEF to establish provisions on next-generation and emerging technologies like the blockchain and artificial intelligence, similar to DEPA.

Strengthen institutional connections between U.S. cyber and technical standards agencies and their counterparts in the region.

Deeper integration of digital trade will require robust coordination between relevant agencies in the U.S. government and their counterparts in the region. This regulatory coordination is particularly pertinent on issues related to cybersecurity, the cross-border flow of personal information, and technical standards. The Biden administration should identify specific enforcement agencies with authority to work with key

partners on these issues and establish comprehensive and regular lines of communication to strengthen regulatory cooperation. This also could include broadening cooperation between the National Institute of Standards and Technology and equivalent agencies and industry stakeholders in partner nations in a bid to boost cooperation on technical standards for emerging and critical technologies.

Center digital inclusion and the elimination of the digital divide in the IPEF.

Southeast Asia's digital transformation has taken place at a different pace and scale in each country. While some, like Singapore, are already highly digitized and are well positioned to benefit from digital trade, other countries have a long road ahead in terms of bridging the digital divide. Building on [USAID's Digital Strategy 2020–2024](#), the IPEF should include provisions on matters related to digital inclusion, including removing barriers to access for Indigenous peoples, women, rural populations, and low socioeconomic groups. Enhancing access to digital services and digital literacy and fostering inclusive economic growth represent areas of interest for governments in the region, and the Biden administration should make them a core component of the framework. Moreover, including provisions on digital inclusion and bridging the digital divide would allow Southeast Asian leaders to credibly present the IPEF to their constituencies as offering tangible benefits, rather than only serving as a one-way vehicle for promoting the adoption of Washington's preferred standards.

Develop an IPEF fellowship program for STEM students.

The United States remains a global leader in innovation, technology, and education and should leverage these advantages in both building people-to-people ties and enhancing the technological capacities of allies and partners. Modeled on the [Quad Fellowship](#) scholarship program for U.S., Japanese, Australian, and Indian students, the Biden administration should develop an IPEF fellowship for students from across the region to undertake advanced degrees in STEM at leading universities in the United States. The fellowship would help meet a skills and capacity gap in the region and foster collaboration across the private, public, and academic sectors between and within IPEF countries.

Pursue the enhancement of multilateral cooperation on cross-border data privacy rules, including through APEC.

The latticework of cross-border data regulations complicates efforts to develop multilateral digital trade arrangements. Southeast Asian governments face a set of political, economic, and security incentives that have led some to pursue restrictions on the free flow of data. The administration will have a hard time convincing some partners to adopt provisions restricting data localization, regardless of where they are included in the IPEF. But it could still promote the adoption of established and cross-border data privacy rules, including APEC's CBPR system. To date, only two Southeast Asian economies participate in the CBPR (Singapore and the Philippines). The provision of technical assistance and knowledge-sharing to non-CBPR members could empower them to meet [the standards required](#) to join that framework. Initial moves to [expand the CBPR](#) both within and beyond APEC are welcome, and the Biden administration should pursue a global CBPR declaration in the near term.

Short of offering market access and tariff adjustments, the IPEF should explore ways to enhance two-way trade and investment flows.

Southeast Asian partners have emphasized their desire to see increased access to the U.S. market as part of IPEF negotiations. But the Biden administration has made clear that market access is off the table. Beyond tariff adjustments, however, the United States still has an array of tools related to trade

facilitation that could incentivize countries to participate in the IPEF. This includes the simplification of customs procedures and licensing requirements or technical training for Southeast Asian micro, small, and medium-sized enterprises that seek to enter the global market. Such provisions would help regional governments view the IPEF as a win-win arrangement, rather than a laundry list of U.S. requests.

View the IPEF as a building block, not a be-all and end-all strategy.

The domestic political conditions that preclude the United States from offering market access as part of the framework mean that the IPEF will fall short of expectations in the region. Both the United States and Indo-Pacific governments should thus view the framework as the starting point for future, more comprehensive efforts, in terms of not just membership but also benefits. For the United States, this also entails seeking ways to demonstrate the durability of the IPEF amid the unpredictability of U.S. domestic politics on trade. Ultimately, the non-trade pillars of the framework should be structured to provide the most benefits to partner nations to take the sting out of their disappointment on trade, show U.S. leadership in other areas, and incentivize progress toward high standards that will facilitate future trade agreements with market access provisions when the political winds shift in Washington.

Avoid framing the IPEF as an explicitly anti-China strategy.

While the Biden administration should use the framework as an opportunity to advance its preferred standards, which on many issues including the digital economy differ from those pursued by Beijing, the framework should not be framed as an explicitly anti-China strategy. Zhao Lijian, spokesperson for the Chinese Ministry of Foreign Affairs, has [decried](#) U.S. efforts on digital trade as part of a plot to “gang up against China and contain its development and obstruct the common development of countries in the region.” Indo-Pacific economies, all of which maintain extensive economic ties to China, will be sensitive to this narrative. Most are happy to see the IPEF as a sign of U.S. reengagement with economic rulemaking but are also nervous about its implicit role in strategic competition with China. The Biden administration should avoid playing into China’s narrative and keep the focus on its positive agenda for the region, emphasizing the benefits that the IPEF would bring to the parties involved rather than on how it relates to U.S. strategy toward China. ■

Andreyka Natalegawa is a research associate for the Southeast Asia Program at the Center for Strategic and International Studies (CSIS) in Washington, D.C. Gregory B. Poling is a senior fellow and director for the CSIS Southeast Asia Program and the Asia Maritime Transparency Initiative.

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