ASEAN 4.0. ERA: DEVELOPMENT IN DIGITAL ECONOMY AND TRADE SECTOR

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Abstract

The ASEAN Free Trade Area (AFTA) is the first step towards economic liberalization in Southeast Asia. Through AFTA, ASEAN member countries reduce to abolish tariffs on certain products in regional trade schemes. AFTA is a facility for the government to regulate what products will be exported and imported in accordance with applicable tariff rules, it makes the community very dependent on the government and large companies for these products. As technology develops and Southeast Asia's population grows, a digital era is formed in the trade sector that promotes more dynamic e-commerce. E-commerce makes people not dependent on the government and more independent in regional markets. Because it covers each individual and MSME with the convenience of digitalized cross-border transactions. The existence of e-commerce caused the trend to change, from where initially the community was very dependent on the government to becoming independent of the products set by the government. This study uses a qualitative-descriptive method with data collection techniques from literature studies from books, journals, official websites, and so on. The results of the study indicate that there has been a change in the trend of trade in ASEAN. This trend is due to the occurrence of digital transformation which provides opportunities for the MSME community to enter regional and global trade. Participation in regional trade in ASEAN is not only followed by state actors but also enlivened by non-state actors, especially all levels of ASEAN society who take advantage of developing e-commerce platforms.

**Keywords:** Transformation, digital, e-commerce, trade, ASEAN

INTRODUCTION

In 1992 countries in the Southeast Asian Region countries that were members of ASEAN agreed to the ASEAN Free Trade Agreement (AFTA). The establishment of AFTA is proof of the implementation of the initial steps to enact
free trade in the Southeast Asian region. Later, AFTA became a form of cooperation in the economic sector in Southeast Asia which resulted in the formation of a free trade area in which there were many programs to reduce trade tariffs (Bowles, 1997).

The establishment of AFTA by member countries aims to eliminate tariffs and non-tariff barriers on various types of goods and services. AFTA is a facility or forum for the government to make arrangements on what products will be imported and exported according to applicable tariff rules and tend to be static for consumers or citizens. However, to provide buyers in ASEAN with more variety of choices and product quality, AFTA also focuses on increasing the level of production efficiency as well as expanding intra-regional trade (Bowles, 1997).

On the other hand, the high growth of the population using the internet in the Southeast Asian region forms a potential to realize innovation in the world of commerce. As time goes by, the high population growth, the high potential of human resources, and the high development of technology have succeeded in making the use of social media and the internet high. This growth can drive the economic growth of the Region. Based on these digitalization changes, the ASEAN community is encouraged to continue innovating to help economic growth in ASEAN. Due to convenience through technology, people from MSMEs have the sense to compete in the trade sector, so that they can reach regional markets easily. A sign of a change in trend or digital transformation in the trade sector in Southeast Asia is the emergence of start-up businesses or companies such as Shopee, Tokopedia, Lazada, Traveloka, and others. Along with the development of technology, it is increasingly encouraging digital transformation, especially in the trade sector (Alfujri, 2019).

Across Southeast Asia, the Covid-19 pandemic has pushed many traditional businesses in the region to accept digitization to accelerate overall transformation so that they adopt new ways of buying and selling transactions. As economic conditions improve due to the pandemic, regional governments need to seize the opportunity to help MSMEs build resilience and emerge
stronger by accelerating digitalization and building an inclusive digital future. The priority is to create the best possible ecosystem for MSMEs to thrive in the digital economy so that it can drive the region’s economic recovery.

Maximizing the huge potential of the digital economy will be crucial to the region's economic recovery efforts. Several governments in the ASEAN region have also placed restrictions on data flow, including data localization which can hamper prospects for inclusive economic growth, dampen foreign investment, and limit opportunities for local businesses to grow domestically and globally. For many MSMEs across the region, technology is a life-changer during the pandemic, providing businesses with plenty of access to customers when traditional storefronts are temporarily closed and safe distancing measures are in place during social distancing until the shops finally re-open. Therefore, digitizing regional MSMEs can contribute more significantly to the digital economy.

In this study, researchers used the theory of liberalism as a tool to see the roots of the phenomena raised. Liberalism is the paradigm of writing this research because liberalism itself in international relations has a concept as humans have optimism. It explains that the international world can work without war. Liberalism arose because of the trauma of World War I and World War II. Liberalism arose when Woodrow Wilson proposed to form the League of Nations where an institution has the task of being the body to maintain world security. This liberalist concept hopes for peace in the international world by building cooperation between countries, so that they can form a collective security agency simultaneously (Jackson & Sorensen, 2013).

In the variant theory of international relations, liberalism has a more important position. In the theory of sociological liberalism focusing on the plurality of actors, these sociological liberals view international relations as transnational relations which is not only involve a state but also non-state actors. Meanwhile, interdependence liberalism sees this theory of liberalism as a relationship that requires the existence of humans. It is because humans are
members of a collective community, and society and government need each other, from here the theory of interdependence liberalism sees economic cooperation as important.

Meanwhile, institutional liberals focus their attention on the function of law and the role of international organizations. Moreover, their view of international law and institutions is encouraging international cooperation. The last is republican liberalism. This liberalism assumes that political institutions and regimes are the focus (Jackson & Sorensen, 2013). In Liberalism, there is a view of free trade which has two categories. First, it is a classic process and was developed by Adam Smith and also David Ricardo. Second, the stream is the neoclassical school, which is an update of the first process mentioned earlier. Neoclassical characters, for example, Samuelson and Paul Krugman. Free-flowing figure Adam Smith mentions his concept of absolute advantage, in which the rich and powerful core of a country is seen from economic growth, and to create this is through international trade. According to him, in international trading, a division of labor or specialization is important, where each country must create products according to its capacity (Maiwan, 2015).

**Research Method**

In this study, the researcher used qualitative methods. This method is used by utilizing qualitative data on how transformations are carried out in the ASEAN region related to digital transformation in the trade sector, and how AFTA turns into e-commerce, then explained descriptively. This research focuses on the transformations carried out in the present. Massive digital developments, especially in the trade sector. In this qualitative research, the researcher also used a descriptive data explanation process. This research is aimed at exploring and understanding what meanings arise from a phenomenon, situation, or problem that arises in human life (Gunawan, 2013). The researcher also involved other efforts in finding supporting data through literature study data collection techniques, observations, and interviews with several relevant informants. To maintain the validity of the data, the researcher conducted data validity with
triangulation techniques. Thus, the data obtained is data that is intersubjective and can maintain its validity.

**DISCUSSION**

Currently, the worldwide trend is towards a digital economy that is automatically connected to the era of the industrial revolution 4.0 (Box & Lopez-Gonzalez, 2017). The industrial revolution 4.0 is entering the automation phase where computers and machines are aligned with artificial intelligence so that they can understand and control problems with minimal involvement of human operators (Sung, 2018). Digital technology is increasingly spreading massively as a form of easy and effective operation. Activities that were previously separate have become integrated so as to provide convenience and cost efficiency (Teece, 2018). Therefore, there is a need for flexibility in pursuing a balance between digital innovation and regulation. This is because many companies are active in the digital sector and are used to building platforms that can adapt to new technologies available.

The condition of Covid-19 Pandemic has had a massive impact on the world economy. All countries in the world are faced with a number of challenges, including negative economic growth. At the ASEAN Business and Investment Summit 2020, Indonesia assured that there are still great opportunities amidst the current difficulties. Precisely in the context of post-Covid-19 economic recovery, this has brought opportunities to accelerate the development of digitalization. This encourages the world community to reduce in-store shopping and choose online, in addition to producers and sellers optimizing their product marketing through digital. It is predicted that in 2025, ASEAN's digital economy will be in the range of US$200 billion, while for the same period in Indonesia, it is estimated to reach US$133 billion (Kemenkominfo, 2020). ASEAN countries are currently massively creating a digital startup phase, especially in the economic field. Economic Research Institute for ASEAN and East Asia (2020) shows that the Southeast Asian region has become a global hub for the
development of digital financial services (fintech) and e-commerce platforms. This condition has a positive impact on the growth of MSMEs in the region.

Certainly challenges in digital transformation must be faced by ASEAN countries. Several companies in the unicorn category were born and developed in the Southeast Asian region so that their valuations have soared from year to year. Such as Gojek, Shopee, Tokopedia, Grab, which already control almost the entire Southeast Asian market share with a valuation that continues to increase to exceed US$ 1 billion. This digital startup phase certainly has an impact on the economic pace of countries in Southeast Asia. Transaction habits are now starting to shift from cash transactions to non-cash transactions. This cannot be separated from the massive flow of information development driven by the internet. Google Inc report and Temasek Holdings Pte, November 2018 estimated that the digital economy in Southeast Asia would reach 200 billion dollars in 2025. However, this report changed in 2018 by looking at the drastic acceleration of the Southeast Asian market so that the changing estimates will increase to reach 240 billion dollars in 2025. The Gross Merchandise Volume (GMV) of the digital economy has contributed 2.9% of GDP in the Indonesian region. In the Southeast Asia region itself, Indonesia is the country with the largest and fastest growing digital economy reaching US$27 billion in 2018 and is ready to grow to US$100 billion in 2025 (Qorri, 2020). Of course, it needs acceleration from various stakeholders in each ASEAN country so that they can coordinate properly so that the desired acceleration is achieved.

Thus, in building a capable digital economy ecosystem, ideal cooperation between governments, the digital business community, and multilateral organizations is indispensable in order to ensure the benefits of the digital economy. However, the challenge being faced is that based on a World Bank report, the potential of the digital economy in the Southeast Asian region cannot be fully realized due to policy constraints at the national level in each country (Doherty, 2019). Apart from that, digital infrastructure gaps are still being created, institutional structures in digital finance, data protection and security,
and the absence of adequate supporting regulations. Regarding data protection and security, at the ASEAN Ministerial Conference on Cyber Security forum, it was agreed that there is a need for cross-sectoral cooperation among ASEAN member countries to increase capacity in cyber security. The issue of data confidentiality is also an important matter and needs to be legislated domestically in each ASEAN country.

One thing that cannot be separated from economic development is technology. Technology in the economy brings up the concept of digitization. At this time, the mechanism of the global economy has changed. This transformation must be immediately responded to by ASEAN to become one of the actors of this development so as not to be left behind by other regions. Heng Swee Keat (Singapore’s Minister of Finance) said developments in ASEAN are very encouraging. Because currently, ASEAN countries are starting to improve their digital capabilities. Brunei, Myanmar, and Cambodia already have a strategy to respond to these developments. Built on national initiatives, this must be able to take advantage of ASEAN’s strengths as a region for the development of the digital economy. Heng said this in his remarks at the 14th ASEAN Ministers Responsible for Information Conference. In 2021, ASEAN member countries committed to developing a work plan to improve data management capabilities for business activities, as well as encourage innovation in the flow of data and information in the digital economy. Accompanied by rapid technological developments in recent years, ASEAN is considered to have more opportunities to become part of its regional economic development and growth. In addition, E-CONOMY SEA Spotlight Report in 2017 shows that the contribution of the internet-based economy in Southeast Asia reached 2% of ASEAN’s total gross domestic product (Suwiknyo, 2018).

Regarding ASEAN data governance, policy regimes are underdeveloped and fragmented in various countries causing many fundamental problems. All this time, ASEAN countries do not have the same position in regulating cross-border data flows and several countries are far more advanced in setting
domestic rules. Indonesia, Malaysia, the Philippines, and Singapore recently passed new laws. Brunei Darussalam and other countries do not have personal data protection laws or regulations. Meanwhile, Thailand is considering the rule. Due to the different positions and steps of the 10 ASEAN Member States in related regulatory arrangements, reaching a consensus on data governance to facilitate ASEAN digital connectivity is difficult, but not impossible (Chen & Ruddy, 2020).

Digital connectivity is a broad topic and in the context of supporting economic development, it must consider many things, not only data connectivity. Logistics provide facilities for the free flow of goods and services, connectivity to facilitate cash flow, and a seamless connection between cyberspace and the physical part of the e-commerce network also need to consider (Itakura, 2014). In this digital transformation, every country has to think about the speed of the internet connection. From the data obtained regarding network coverage, the internet network in ASEAN is still very uneven, ranging from 81% in Singapore to 22% in Laos. It means that a large number of people in ASEAN have no internet activity. The development of 4G networks and access to electricity is still a critical issue, especially in KLM countries (Cambodia, Laos, and Myanmar).

Connectivity is an important factor in supporting digital transformation in ASEAN to help equalize the level of economic development which focuses on the domain of physical development, financial flows, as well as information (GICA, 2018). Mr. Qu Xing (President of the China Institute of International Studies) stated that connectivity is one of the levels of effectiveness that comes from a network in the Region, which functions to facilitate the flow or access of the exchange of goods, services, mobility, to knowledge exchange, or transfer of knowledge (UN ESCAP, 2019). On the other hand, connectivity apparently also has an important role in connecting transportation that crosses between countries to achieve trade efficiency, ease of access for community distribution, and so on (Vines & RSIS, 2018).
In this case, digital transformation, especially in the ASEAN Region, cannot be separated from efforts to increase connectivity in the Region. The role of connectivity in trade transformation and trade digitalization will encourage a lot of cooperation from the involvement of external parties with the aim of increasing domestic to regional production growth through trade or economic digitalization (UN ESCAP, 2019). Apart from this, connectivity will also help increase the acceleration of development and the absorption of quality human resources who have high competence in any sector, such as information, technology, and communications.

As previously explained briefly, there is free trade in the ASEAN region, that is the ASEAN Free Trade Area (AFTA). AFTA is concrete evidence of ASEAN member countries that agree to form a free trade area. To increase economic competitiveness, ASEAN is the main region of world production and also forms a more competitive regional market for more than 600 million people (Hehaitu, 2015).

In the 5th ASEAN Summit that was held in Singapore in 1992, the Framework Agreement on Comprehensive Economic Cooperation was successfully signed, declaring the launch of the ASEAN Free Trade Area (AFTA) and Common Effective Tariff (CEPT) on January 1, 1993. In the CEPT program, as long as trade is believed to be dangerous to national security, the environment, individual health, public morals, archaeological values, artistic values, and historical values, then any country cannot open trade. The main mechanism for the establishment of AFTA is to provide concrete evidence of implementation in the form of reducing tariffs, eliminating non-tariff barriers, and improving facilitation policies in conducting international trade (Stubbs, 2010). As time progresses, the focus of AFTA is not only centered on the liberalization of trade in goods but also on trade in the service sector and investment or investment (Elliott & Ikemoto, 2004).

The AFTA practice mechanism is only a vessel or facility for the government to regulate what products are eligible for export and import with
applicable tariff reduction regulations (Stubbs, 2010). These goods and services include products and services originating from large companies with certain legalities, such as not covering all elements of society such as Micro, Small, and Medium Enterprises or MSMEs. Based on this, in AFTA the needs of the people in a country still depend heavily on the role of the government in selecting what products will be exported or imported by the respective governments. On the other hand, in the AFTA mechanism, the role of the state is quite reduced because what was originally the government as regulator of tariff provisions, is no longer valid because the rate determinant is within AFTA itself (Elliott & Ikemoto, 2004).

The development of technology in the 21st century encourages all people to continue to innovate to adapt to the environment. This innovation then resulted in digital transformation, especially in Southeast Asia and ASEAN Regions. It has encouraged many private sectors to produce internet-based trade or what is commonly referred to as online retail. Online retail covers three major sectors, namely e-commerce, ride-hailing, and e-payments which can support people's needs in their daily activities such as the economy, entertainment, education, health, etc.

There are several e-commerce that is developing in ASEAN member countries and has expanded such as Gojek, Grab, Traveloka, Shopee, Lazada, Tokopedia, and Sea Ltd (Anandan et al., 2018). The rapid growth of technology-based startups in the trade sector has certainly brought benefits to the pioneering countries, as well as to their trading partner countries. Indonesia, as the country with the most population in Southeast Asia, seems to hold the highest figure in terms of economic digitalization growth and obtained the largest revenue in the region, namely with a total of US$ 27 billion. Vietnam with US$ 9 billion, Malaysia with US$ 8 billion, and the Philippines with US$ 5 billion (Google TEMASEK, 2017).

Another advantage obtained for e-commerce startups such as Tokopedia, Shopee, Lazada, GoJek, Grab, and others is that they are included as unicorns.
Unicorn is a business entity with an information-technology base that has a total valuation of more than $1 billion. This certainly makes ASEAN a very fertile region for the growth of the digital economy. In this case, the existence of digital transformation has changed the trend on market-driving subjects, especially in the Region that focuses more on productivity in foreign trade (exports). It shows that in addition to continuing to make improvements in terms of productivity. In the future, it will be accompanied by encouragement to expand the product range in regional economic openness to the global economy, due to the smoothness of cross-border transactions which of course have undergone a digitalization process (OECD Southeast Asia, 2017).

A large number of e-commerce, especially in Southeast Asia, makes the region’s potential for large market acceleration through smartphones that can connect to the internet. E-commerce allows all elements of society to carry out buying and selling activities only by using their mobile phones. In particular, Tokopedia, Shopee, and Lazada also initiate and implement mechanisms whereby Micro, Small, and Medium Enterprises can easily reach markets and consumers from within the country to abroad (Google TEMASEK, 2017). MSMEs play a vital and important role because according to data, 87% to 99% of business models in the Southeast Asian Region belong to the MSME type, so it is said that it is only natural that profits from the e-commerce sector are now more dominant (OECD, 2019).

In response to this changing trend, The ASEAN Coordinating Committee for Electronic Commerce (ACCEC) was also formed in 2016 which aims to strengthen the coordination mechanism. ACCEC consists of government officials related to trade and trade facilities such as customs, transportation, consumer protection, and management of micro, small and medium enterprises. ASEAN also formed the ASEAN Agreement on Electronic Commerce in November 12th, 2018. This agreement aims to create a conducive environment for the advancement of e-commerce in ASEAN while at the same time encouraging MSMEs and startups in ASEAN. AAEC also develops and encourages the use of
e-commerce to create inclusive growth and reduce disparities in ASEAN. The
formation of the e-ASEAN Task Force is clear evidence of the implementation of
ASEAN’s readiness in transforming digital trade. The E-ASEAN Task Force is a
legal entity whose function is to oversee digital trade. This entity consists of
representatives from government and private parties from 10 ASEAN member
countries which have many objectives. One of them is the aim of supporting the
emergence of e-commerce.

The establishment of the ASEAN School Network, e-entrepreneurship
seminars, the ASEAN World Master portal network, business or industry
exchange programs, and regional trade are implementations to realize these
goals (ASEAN, 1999). The establishment of the ASEAN Agreement on Electronic
Commerce also has the following objectives: (1) to provide facilities and
convenience for intra-ASEAN trade transactions with e-commerce, (2) to create
a competitive and conducive environment for the development of e-commerce,
(3) to carry out increasing cooperation in member countries to develop e-
commerce to create inclusive economic growth to reduce high economic
disparities in ASEAN (Hehaitu, 2015).

This agreement applies to all activities driven by member countries related
to e-commerce, except for those in the system regulated by the domestic
government. Beyond this, this agreement also acts as a law enforcement agency
and also issues rules in the form of laws to regulate e-payments or electronic
and digital transactions by looking at the side of international law which is based
on the field of e-commerce.

Finally, in 2023, Indonesia will become the chair of ASEAN. In this context,
Indonesia again wants to make people centered as a central entity to ground the
concepts and benefits of ASEAN that can be felt directly by the people of ASEAN
member countries at large. This task will certainly face various challenges and
dynamics that have occurred over the past few years, both at regional and
international levels, including the implications of the COVID-19 pandemic crisis
on the economic and health sectors. Indonesia’s leadership is a determinant of
policy implementation in ASEAN. Therefore, one of the agendas that needs to be further strengthened and developed is to optimize ASEAN e-commerce economic partnerships and cooperation which are the pillars of the economy including the MSME sector. This is because MSMEs have proven to be able to survive in the midst of the Covid-19 pandemic. ASEAN also needs to navigate the e-commerce sector in the midst of different digital economy regulatory trends in each ASEAN country as an effort to post-Covid-19 economic recovery. For Indonesia, of course the government needs to push for a balance between taxation and incentives for MSMEs as an effort to encourage MSMEs to access foreign markets, both the ASEAN region and the global market. This certainly can increase Indonesia's participation in global value chains.

**CONCLUSION**

As a region with a high rate of population growth and technological development, ASEAN is a fertile region to boost its economy in the digital trade sector. Before rapid technological development occurred, ASEAN initiated free trade by forming the ASEAN Free Trade Area (AFTA). As it is known, AFTA is economic integration in Southeast Asia that reduces tariffs and non-tariff barriers to trade in goods and services that enter and exit from one country to other ASEAN member countries (Stubbs, 2010). In this case, market actors in the context of AFTA are only the government and large companies that have the ability and capability to export their products, resulting in the dependence of small communities outside the subject on those in power for export and import goods that enter a country (Alfujri, 2019).

However, as technology develops in the Southeast Asia Region, especially in ASEAN, it provides opportunities for many residents to hone their skills and creativity to advance the regional economy. It caused there to be technology-based trade or e-commerce. E-commerce is developing in ASEAN which is a unicorn company, among others; Shopee, Tokopedia, Lazada, and so on. In this case, e-commerce is much easier than just AFTA because basically, e-commerce reaches up to MSMEs to become regional market players (Alfujri, 2019). MSMEs
can trade independently without any restrictions from the government and large companies as before.

In addition, there needs to be encouragement for stakeholders in ASEAN countries to pay attention to internet users who are not only consumers but also create business opportunities to build start-ups so that economic growth in ASEAN can increase. In addition, the need for openness to the GDP of ASEAN countries in order to open up opportunities for investors to invest so that the goal of establishing the ASEAN Economic Community for the welfare of ASEAN countries can be achieved. In addition, it is hoped that strong synergy will be created between countries in ASEAN to create a conducive digital ecosystem in the region. Included in this are digital trade barriers that must be eliminated, increased legal certainty, concise bureaucracy for investment licensing procedures and systems, to the need to strengthen public and private partnerships to strengthen digital connectivity.

This paper concludes that there has been a change in trend between before and after the digital transformation in the trade sector in ASEAN. Before the digital transformation, to be more precise in the scope of AFTA alone, the point of view from the side of society they only depended on export and imported products whose quality and quantity was determined by the government and also large companies that did have the ability and access to trade with regional and global markets. This happened because AFTA is a forum for the government to regulate what products will be exported and imported for a country, thus making people very dependent on the government. After digitalization occurred, there was a transformation from the habit of buying a product because of the emergence of e-commerce to embracing the MSME community more in trading regionally and globally. Therefore, the existence of e-commerce after digitization is more comprehensive to all elements of society in trading both domestically and abroad with these platforms.

In writing this research, researchers certainly do not escape from shortcomings. The researcher hopes that other researchers can continue to
develop this research according to the times so that it can continue to be accepted by a large audience. The researcher also hopes that researchers out there will continue to contribute to Southeast Asia, especially ASEAN.

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