

DIGITAL INTEGRATION UNDER PRESSURE: ASEAN, DEFA, AND GREAT POWER COMPETITION

by
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Introduction

To maintain the dynamism of the nearly [\\$1 trillion](#) ASEAN digital economy, regional integration is no longer optional. ASEAN Member States (AMS) have recognized that enabling local firms to tap [regional network effects](#) and other distinctive features of the digital economy are essential for sustaining competitiveness and growth. AMS have repeatedly endorsed this ambition through various instruments, including the soon-to-be-concluded ASEAN Digital Economy Framework Agreement (DEFA).

[DEFA](#) is a first-of-its-kind regional framework aimed at harmonizing digital trade rules across nine core areas, including cross-border data flows, cybersecurity, digital payments, and e-commerce. This framework represents an ambitious initiative to accelerate ASEAN's already [trailblazing efforts](#) at regional integration in the digital realm.

These regional goals, however, often collide with national incentives driven by geo-economic interests. The United States and China increasingly treat digital infrastructure and data governance as instruments of geopolitical influence, while the EU continues to export a stringent regulatory model that shapes how third countries manage data flows.

With roughly two-thirds of [global data-center capacity](#) concentrated in the United States and Europe, and with China holding another sizeable share, Southeast Asian governments recognize that much of their national data ultimately sits under foreign jurisdiction and is therefore subject to the ebbs and flows of great-power dynamics. Concerns about dependence are amplified by the dominance of multinational technology firms whose cloud services and data-processing capabilities give them de facto

authority over how vast quantities of Southeast Asian data are collected and stored.

In response, many AMS have turned inward, adopting digital-sovereignty measures such as mandatory [onshore storage and restrictions](#) on cross-border transfers, alongside efforts to expand domestic data-center capacity. While these policies are framed as reclaiming national control, they risk fragmenting the regional digital market and weakening ASEAN's collective leverage. Indeed, as some commentators have argued, it is precisely [deeper ASEAN-level integration](#) that offers the most credible path to strategic autonomy for the region.

Issues Facing the ASEAN Digital Economy

What structural constraints limit ASEAN's ability to translate ambitious digital-integration goals into practical results? First, is the fact that much of the region still lacks the infrastructure required to support robust digital ecosystems. For example, despite the [sixfold](#) increase in investment in data center infrastructure in the region over the past decade, [one in five](#) new data center projects face delays due to energy constraints caused by a lack of infrastructural capacity. More pressing, perhaps, is the digital-talent gap faced by many ASEAN countries. According to ASEAN's own benchmark [study](#) of its digital-integration progress, 'Digital Skills and Talent' is the weakest of the six components studied. These pressures are not uniform across the region, though, and the gap between more developed and less developed states is stark. For example, Malaysia and Singapore rank in the [top ten](#) for information and communications technology (ICT) ecosystems; in contrast, new ASEAN entrant [Timor-Leste](#)'s digital infrastructure is still in its infancy. The "[development gap](#)" between AMS remain a concern for implementing regional initiatives such as DEFA and leaves certain states more vulnerable to great power pressures.

On the regulatory level, there has also been fragmentation between ASEAN states on issues ranging from personal data protection to cross-border data-flow rules. States like [Indonesia](#) and [Vietnam](#),

for example, mandate that firms keep citizens' data onshore, while [Singapore](#) has adopted a more permissive, cross-border-flow-friendly model. Some commentators have [contended](#) that by moving toward stricter data-localization policies, smaller states can resist data colonialism by major powers and reassert 'digital sovereignty' over their own digital assets. For ASEAN as an organization, however, these moves can go against the bloc's push for deeper economic and digital integration if such regulations are stricter than [necessary](#) and restrict the development of a robust regional digital ecosystem. From regional ICT firms' point of view, the development of stricter national regulations may be welcome, since higher standards can signal [trustworthiness](#) to outside consumers. But these rules also impose significant cross-border compliance costs and can hinder [businesses](#) trying to scale beyond their home markets.

External Pressures and Constraints

Infrastructure development and the setting of regulatory and technological standards have become central instruments of great-power [statecraft](#). By designing, financing, or owning key systems—or by developing the rules and standards that govern them—external actors can create regional dependencies that continue to shape state behavior well after the projects themselves are complete. Currently, ASEAN countries like Vietnam and Thailand rely on Chinese-linked hardware supply chains, which run U.S.-based [software](#). As the U.S.–China strategic rivalry intensifies, these states are left in a precarious position in which they may be forced to make [binary choices](#) between U.S. and Chinese providers when choosing to build or adopt digital infrastructure or regulations. For ASEAN states in particular, the lack of infrastructure and skills required to build indigenously sourced digital ecosystems makes this choice more stark, leading to dependencies on governments and institutions outside the region.

Cambodia offers a clear illustration of how these structural weaknesses can create political dependency. Once democratic erosion in the late 2010s triggered the withdrawal of technological support from the EU and the United States, [Beijing moved quickly](#)

to occupy the resulting space through its Digital Silk Road (DSR) under its Belt and Road Initiative (BRI), culminating in Huawei becoming the architect of Cambodia's 5G rollout and its [first](#) authorized cloud provider. The decision to align with Huawei and the DSR was less a function of economic or developmental benefit than the result of Cambodia's broader reliance on China, reinforced by limited domestic infrastructure and policy alternatives.

By using its economic might, U.S. trade policy has also been used as a foreign policy tool. For instance, in its [bilateral tariff-reduction arrangements](#) with Cambodia, Malaysia, and Thailand, the United States has pushed these governments to avoid digital-services taxes or any rules that disadvantage U.S. digital firms; to permit unrestricted cross-border data flows with trusted partners for commercial activity; and to back a permanent WTO ban on customs duties applied to electronic transmissions. Putting aside the merits of these policies, it is clear that U.S. pressure has limited the policy-making space in the digital realm for many ASEAN states, limiting these countries' moves towards asserting their digital sovereignty and potentially undermining regional integration.

Of course, individual Southeast Asian states are not merely passive recipients of external pressure. As [Malcolmson](#) notes, Malaysia's larger economy and more competitive telecommunications market gave it room to better adapt to China's DSR overtures. Similarly, Singapore's robust ICT ecosystem allows it to balance between both powers. Singapore has managed risk by [diversifying suppliers](#) of digital services and infrastructure, while also strengthening its [digital-security policies](#). Singapore remains an attractive location for U.S. cloud services as it has leaned more towards adopting U.S. data protection and cybersecurity standards. At the same time, it hosts offices and headquarters of many Chinese tech conglomerates such as Huawei and Baidu. Yet strategic competition is increasingly constraining this space; Huawei's R&D OpenLab located in Singapore, for example, was added to the U.S. trade restriction list in August 2020 for activities deemed contrary to U.S. [interests](#).

Whither ASEAN Integration: The Future of DEFA

Despite the provisional [conclusion](#) of DEFA negotiations in October 2025, external powers' competing agendas threaten to undermine the effectiveness of the framework as an effective tool for regional integration. As one [analysis](#) warns, the U.S.–China tech rivalry could cripple DEFA before the word 'go'. In practical terms, if countries like Cambodia move closer to China in terms of digital standards and infrastructure, while other countries, like Malaysia and Singapore, begin leaning towards U.S. digital governance and cybersecurity standards, this could lead to a bifurcation that jeopardizes the goal of a single digital community. While in other areas ASEAN has been quite successful in 'hedging' between the two great powers, digital integration is one area in which it may be difficult to hedge due to the interoperability issues explored above.

The success of DEFA rests on a few key considerations. First, the negotiation should be [concluded and ratified](#) in a timely manner, while also respecting the principles of the 'ASEAN Way', considering the interests of its least developed states. Second, DEFA, as the name suggests, is just a 'framework'. Its success will depend on the implementation of subsequent mechanisms that elaborate on this structure. Within [ASEAN's rules-based order](#), this means not just 'hard law' like binding obligations and dispute-settlement mechanisms, but also robust 'soft law' mechanisms. Like most things, the devil is in the details. If these mechanisms are too vague or aspirational, AMS may be incentivized to pursue unilateral digital policies that diverge from agreed regional principles, risking the hollowing out of DEFA from within and weakening ASEAN centrality.

[Critics](#) of ASEAN centrality point to numerous ASEAN failures in "[hold\[ing\] its nerve](#)" and [remaining "cohesive"](#)", ranging from regional challenges like the military coup in Myanmar to issues in the South China Sea to perceived capitulation by individual AMS to [great power pressure](#). Mechanisms, therefore, should include [robust monitoring and oversight](#) by ASEAN economic ministers, senior officials, and coordinating bodies to ensure that commitments translate into actual digital integration outcomes.

DEFA's ultimate significance extends beyond digital trade facilitation. Its success or failure will be symbolic of ASEAN's broader claim to strategic relevance in an increasingly contested regional order. With intra-regional trade sitting at a measly [23 percent of the region's GDP](#), this agreement has the potential to not just transform the regional economy but also has important implications for ASEAN's strategic autonomy. Recent diplomatic moves, such as [Malaysia's call](#) for a special ASEAN–U.S summit while also calling for an ASEAN–Gulf Cooperation Council summit with China's participation, suggest that ASEAN still retains meaningful room for strategic maneuver. The question remains whether this will continue to be the case.

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