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ASEAN's Digital Economy Framework Agreement: Opportunities and Challenges for India

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Key Takeaways

- DEFA is world's first comprehensive regional digital economy agreement, with the objective of expanding ASEAN's digital economy to US$2 trillion by 2030.
- It is likely to reshape regional digital governance through common rules on data flows, digital payments, digital identity and emerging technologies.
- DEFA has important strategic implications as it is expected to influence the evolution of digital governance across the Indo-Pacific
- DEFA has the potential to expand opportunities for Indian firms in information technology, digital services, fintech, digital public infrastructure (DPI), artificial intelligence and cybersecurity.
- India should adopt a proactive strategy by pursuing an ASEAN–India Digital Partnership Framework focused on digital trade, interoperable digital public infrastructure, regulatory cooperation, digital innovation and capacity building

The successful conclusion of negotiations on the ASEAN Digital Economy Framework Agreement (DEFA) marks an important milestone in regional digital integration and digital governance of ASEAN. After more than two years of negotiations, DEFA's substantial conclusion was announced at the 57th ASEAN Senior Economic Officials Meeting in Manila in May 2026[1] and the Agreement expected to be signed at the 49th ASEAN Summit in November 2026. Although the text of the Agreement has not yet been released, DEFA is expected to establish a common digital framework covering e-commerce, cross-border data flows, digital payments, cybersecurity, artificial intelligence, and digital innovation across a market of nearly 680 million people. The economic significance of this initiative is enormous. ASEAN's digital

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economy is currently valued at approximately US$300 billion and is projected to grow nearly US$2 trillion by 2030[2], if DEFA is implemented effectively.

For India, DEFA carries important strategic and economic implications. With bilateral trade reaching US$122.93 billion in 2025[3], ASEAN is India's fourth-largest trading partner. With a globally competitive IT sector and scalable digital public infrastructure [4], India is well positioned to benefit from ASEAN's expanding digital economy. However, DEFA also poses policy challenges for India. As ASEAN adopts a more harmonised digital framework, Indian firms may need to adapt to new rules on data governance and digital trade. DEFA thus offers an opportunity to deepen India's digital engagement with Southeast Asia while testing the resilience of its digital trade strategy.

This commentary examines the emerging architecture of DEFA, analyses its implications for India's digital engagement with ASEAN, identifies the principal opportunities and policy challenges arising from the Agreement, and proposes measures to strengthen ASEAN–India cooperation in the digital economy.

DEFA: Scope and Architecture

Although final text of DEFA has not yet been made public, ASEAN's negotiating framework provides important insights into its likely legal architecture and regulatory direction. The framework suggests that DEFA will be a legally binding framework and is intended to go beyond conventional agreements and function as a dynamic governance instrument for the digital economy. Its guiding principles emphasise not only market integration and economic growth but also inclusivity, flexibility, and the need to accommodate differing levels of digital development across ASEAN Member States. Legally, this reflects ASEAN's longstanding preference for gradual and consensus-based integration rather than rigid harmonisation. The framework's emphasis on flexibility and varying levels of readiness indicate that implementation commitments may be calibrated, allowing Member States of ASEAN to adopt obligations with different timelines while moving towards common regional objectives.

The proposed scope of DEFA is equally noteworthy. By covering areas such as digital trade, cross-border e-commerce, digital payments, e-invoicing, digital identity, data governance, cybersecurity, competition policy, emerging technologies, and talent mobility, the Agreement appears to embrace a comprehensive approach to digital regulation. In legal terms, this signals a shift from regulating specific digital transactions towards creating an integrated ecosystem for the digital economy. Particularly significant will be the provisions envisaged for cross-border data flows, data protection, and digital identity, which have emerged as some of the most contested issues in contemporary digital trade negotiations. At the same time, the inclusion of regulatory cooperation on emerging technologies such as artificial intelligence suggests that DEFA is designed to remain adaptable to future technological developments rather than becoming obsolete with advancements in innovation.

Another notable feature is the framework's repeated emphasis on interoperability and mutual recognition. Whether in relation to digital identities, authentication systems, payments, or e-invoicing, ASEAN appears to favour regulatory compatibility over strict legal uniformity. This approach could lower transaction costs and facilitate cross-border digital activity while allowing Member States of ASEAN to retain a degree of domestic regulatory autonomy. However, it also raises important questions about how differing national rules on privacy, cybersecurity, and consumer protection will be reconciled in practice. The effectiveness of DEFA will therefore depend not only on the obligations it contains but also on the institutional mechanisms established to ensure cooperation, coordination, and dispute resolution among the Member States.

Opportunities for India

The emergence of DEFA presents India with significant opportunities to deepen its economic engagement with Southeast Asia. One of the most immediate opportunities for India lies in the expansion of digital trade and services. Indian companies have established a strong global presence in information technology services, software development, digital consulting, and business process management. As ASEAN countries accelerate their digital transformation efforts under DEFA, demand for digital infrastructure, cloud computing, cybersecurity solutions, artificial intelligence applications, and digital public services is likely to increase significantly. A more harmonized regulatory environment across ASEAN could also reduce the complexity of doing business in the region. Instead of navigating different digital regulations in each country, Indian companies may find it easier to access a larger and more integrated market. Studies have shown that divergent digital regulations are estimated to cost ASEAN businesses US$ 15-20 billion annually in compliance overhead[5]. DEFA's push towards standardised frameworks for e-commerce, data governance, and digital services will lower these costs, making it easier to operate for ASEAN and as well as Indian technology firms. The Agreement also opens new possibilities for deeper technological collaboration between India and ASEAN. Southeast Asia's rapidly growing digital economy offers fertile ground for partnerships in areas such as fintech, digital health, education technology, and logistics. India's strengths in software engineering, digital innovation, and platform development complementing ASEAN's expanding consumer markets and entrepreneurial ecosystems. This could encourage the creation of regional digital value chains in which Indian and ASEAN firms collaborate rather than compete, generating benefits for both sides.

Another area where DEFA creates opportunity for India is digital payments and financial technology. Over the past decade, India has emerged as a global leader in Digital Public Infrastructure (DPI), particularly through initiatives such as the Unified Payments Interface (UPI). UPI is already linked with Singapore's PayNoW, while India's participation in the BIS-led Project Nexus[6] connects its payment system with several ASEAN markets such as Malaysia, Philippines, Singapore and Thailand. By promoting interoperability, DEFA could accelerate the adoption of UPI-linked infrastructure across the region, facilitating cross border payments, enabling seamless payment flows for over 6 million overseas Indian living in ASEAN countries[7], and strengthening India's digital footprint in Southeast Asia. This could also boost tourism, benefiting nearly 6.8 million two-way tourist visits between India and ASEAN each year.[8] Thus, greater cooperation in this field could facilitate cross-border payments, reduce transaction costs, and support small businesses engaged in regional trade. Such developments would not only strengthen economic ties but also contribute to broader financial inclusion across the Indo-Pacific.

Further, DEFA's dedicated provisions on artificial intelligence, governance and emerging technologies may offer an important alignment with India's ambitions in these sectors. The ASEAN-India Fund for Digital Future, launched in 2024, already supports joint digital initiatives in AI, blockchain, and digital health.[9] As DEFA establishes regional AI governance norms, India has an opportunity to position itself as a trusted partner in co-developing these frameworks, especially given that several ASEAN countries have expressed interest in India's experience with large-scale DPI deployment.

Beyond economics, DEFA carries broader strategic significance. The digital economy is becoming a major arena of global competition and cooperation. Countries are increasingly seeking to shape international norms governing data, technology, and digital trade. Although India is not a party to DEFA, the Agreement is likely to influence emerging discussions on digital governance across the Indo-Pacific. For India, engaging with ASEAN's digital initiatives offers an opportunity to strengthen its role in shaping the future digital order while advancing its vision of an open, inclusive, and rules-based region.

Challenges and Concerns

The opportunities presented by DEFA are accompanied by many possible challenges as well. Perhaps the most important relates to differences in regulatory approaches. India has traditionally adopted a cautious stance on issues such as data governance, emphasizing concerns related to data sovereignty, privacy, national security, and regulatory oversight. ASEAN countries, while not uniform in their positions, appear to be moving towards frameworks that facilitate greater cross-border data flows and digital trade integration. If ASEAN's digital rules evolve in directions that diverge from India's regulatory preferences, Indian businesses may face compliance challenges when operating in the region.

Data governance is likely to remain a particularly sensitive issue. Questions surrounding data localization, privacy protection, cybersecurity, and cross-border data transfers have become central to digital policy debates worldwide. India continues to navigate the delicate balance between encouraging innovation and safeguarding national interests. As DEFA develops its own framework for trusted data flows and digital cooperation, differences in regulatory philosophies could become a source of friction. For Indian policymakers, understanding and engaging with these evolving standards will be essential to ensuring that Indian firms remain competitive in regional digital markets.

Further, as DEFA reduces regulatory fragmentation across ASEAN, it is expected to accelerate the flow of foreign digital investment into ASEAN, encouraging global technology firms to increasingly use the region as a hub for digital operations and regional value chains. The data also confirms this trend. In 2023, 71 per cent of all venture capital deals in ASEAN were digital economy-related, and the total value of announced investments in data processing and hosting services grew nearly fivefold between 2015 and 2024.[10] Therefore, this trend highlights the need for India to further strengthen its competitive digital ecosystem while deepening cooperation with ASEAN to foster mutual growth and integration into regional digital value chains.

Towards an ASEAN-India Digital Partnership Framework

Given the stakes, India would need a proactive strategy for DEFA. The ASEAN-India Comprehensive Strategic Partnership Plan of Action (2026-2030), adopted in July 2025[11] with 2026 as its first year of implementation, identifies digital economy cooperation as a priority. This framework can be used to formally align India's DPI stack with DEFA's architecture to elevate current engagement to a dedicated digital partnership framework.

Such a framework should prioritise three areas. First, **payments interoperability**: building on the existing UPI-PayNow linkage and Project Nexus participation, India should pursue formal ASEAN-wide recognition of UPI as an interoperable payment under DEFA's payments framework. Second, **mutual recognition of data governance standards**: India should work towards aligning its own legal framework with ASEAN's emerging data governance framework, that enable trusted data flows without sacrificing regulatory sovereignty. Third, **joint AI and cybersecurity governance**: India and ASEAN should deepen cooperation under the ASEAN-India Digital Work Plan on AI governance frameworks and cybersecurity standards.

ASEAN's DEFA is arguably the most significant digital trade development in Asia in 2026. For India, it offers considerable opportunities to expand digital trade, strengthen technological partnerships, promote fintech cooperation, and deepen engagement with one of the world's most dynamic economic regions. At the same time, it raises important questions about regulatory alignment, data governance, and strategic positioning. The long-term impact of DEFA on India will depend not only on how ASEAN implements the agreement but also on how proactively India responds to the opportunities and challenges it creates. Rather than watching from the sidelines, India should view ASEAN's digital transformation as an opportunity to strengthen regional cooperation and contribute to the development of a more connected, inclusive, and prosperous Indo-Pacific digital economy.

Endnotes

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