

US-ASEAN BUSINESS COUNCIL



# RECOMMENDATION PAPER TO THE 55TH ASEAN ECONOMIC MINISTERS (AEM) MEETING

*Building a Digital and Sustainable Economy  
Ecosystem for ASEAN*



## Executive Summary

ASEAN's prominence in the Indo-Pacific continues to take the center stage despite the evolving geopolitical and geoeconomics trends that bring about uncertainty to global economy. Despite post-pandemic recovery, the world continues to grapple with increasing frequency of global shocks resulting from largescale threats from the Russia-Ukraine war, inflation surges, and the lingering dangers of economic downturns. Diverging views on trade policies and their implementation add heavily to these uncertainties, with potentials to trigger significant socio-economic consequences. This calls for coordinated action to counteract the possibilities of disruptions to business continuity.

In line with Indonesia's ASEAN Chairmanship agenda and priorities, US-ASEAN Business Council and members present this recommendations paper to help ASEAN build digital and sustainable economy ecosystems.

# 1

**ASEAN Digital Economy Ecosystem.** The Council and members believe that an ASEAN Digital Economy Framework Agreement (DEFA) is fundamental to establish high standard rules governing digital economy across the region, including provisions that enable cross-border data flows, promote adoption of digital tools such as cloud, artificial intelligence (AI) and online payments, facilitate e-commerce shipments, promote strong cybersecurity, and advance MSMEs participation. In this regard, a swift conclusion of its negotiation is crucial to ensure the relevance of the agreement with the rapidly evolving digital environment. Key to an effective digital economy ecosystem in ASEAN includes work towards the digitalization of trade processes that could be done in parallel to support DEFA outcomes. With increasing digital transactions across borders, ASEAN governments need to collaborate with industry to promote standards towards building digital trust among the key players, including consumers. It is, therefore, important that ASEAN governments work closely with the private sector to ensure that ASEAN digital economy promotes inclusive growth and economic prosperity for all.

# 2

**A Sustainable Economy for ASEAN.** The Council and members also support the work of ASEAN towards creating a sustainable and circular economy. This could be achieved through close private-public collaborations in advancing a more sustainable supply chain and mobilizing sustainable financing in critical and emerging sectors e.g. transportation and healthcare, among others. In line with ASEAN's economic priorities, the business community is also ready to support the development of a regional electric vehicle ecosystem, including the development and use of renewable energy. In addition, it is critical for ASEAN governments to take actions with regards to regulating circular economy for plastics and driving sustainable consumer behavior. In the efforts to support circularity of products, the U.S. industry is in particular encouraging ASEAN Member States (AMS) to participate actively in the Basel Convention discussions, which details are enclosed to this paper.

## Current Operating Environment

ASEAN's preponderance in the Indo Pacific is rising, given its impressive economic growth and stability amidst geopolitical turbulences. By statistics, ASEAN is currently the third largest economy in the Indo Pacific and the fifth largest in the world. The region's economy is projected to grow over 5.5% per year, forecasted to overtake India and Japan to become the fourth largest economy in the world by 2030. For American business community, the region remains a top destination for investment and two-way trade, providing the global manufacturers with an alternative to their regional diversification strategy.

While the world continues to grapple with differing trends and pronounced uncertainty, Foreign Direct Investment (FDI) in ASEAN returned to its record-equaling pre-pandemic high of US\$174 billion in 2021<sup>1</sup> — a figure that has climbed steadily from US\$120 billion in 2013. ASEAN Manufacturing Purchasing Managers' Index (PMI) data has remained above 50 since the end of 2021, with only a couple of months of contraction at the end of 2022<sup>2</sup> and GDP projections remaining strong for 2023.

ASEAN countries are key diplomatic, economic and security partners for the U.S. ASEAN ranks fourth after Canada, Mexico and China as a goods export market for the U.S. and the U.S. is the second largest trading partner for ASEAN. More than 20% of the U.S. total merchandise trade and more than US\$20 billion of FDI comes from within ASEAN each year. Intra-regional FDI is the second highest source of investment inflows, and the U.S. remains the largest source of inward investment to the region. In total, ASEAN has received more than US\$338 billion in total U.S. FDI, more than the United States has invested in China, India, Japan, and South Korea combined.<sup>3</sup>

Global sourcing remains a priority for multinational firms, but there is a strong emphasis on resilience strategies in light of supply chain shocks and concerns around geopolitical tensions. Aspects of the strategies include geographic diversification to avoid single sourcing, higher levels of inventory, longer term relationships with suppliers and investment in digitalization. In addition, firms are looking to increase the financial resilience of their supply chains, assessing greater use of products like supply chain finance, which uses the higher rating of buying companies to enable suppliers to gain access to funding. This extends finance further into the supply chain to reach smaller suppliers that need it most. Critical aspects to enable supply chain finance include a legal framework that incorporates secured transaction laws, allowing for the collateralization of movable assets; a modern legal framework for factoring; and effective enforcement mechanisms in case of default.

All these could be made possible and effective with a close collaboration between government and industry towards establishing a future-proof economy, leveraging upon the region's digitalization and sustainability initiatives.

For 24 years, our annual engagement with the ASEAN Economic Ministers (AEM) has served as the centerpiece of the Council's ASEAN Committee and our efforts to support a more integrated and prosperous region through harmonized rules and technical regulations to support cross-border trade between the U.S. and ASEAN. The Council and our members are committed to strengthening our presence in the region by driving digital transformation, supporting ASEAN SMEs and women in businesses, and bolstering the U.S. and ASEAN people to people connectivity through human capital development, among others.

---

<sup>1</sup> ASEAN Investment Report 2022 – ASEAN Main Portal

<sup>2</sup> S&P Global ASEAN Manufacturing PMI, January 2023

<sup>3</sup> ASEAN Matters for America 2021

This paper highlights critical areas where ASEAN could draw its strength from if the region could collaborate to capture the opportunities and employ the appropriate strategies to harness the potentials each member state offers. The US-ASEAN Business Council has worked with member companies to identify a set of recommendations to support ASEAN in building a tech-based, green and sustainable trade and economy ecosystem. To this end, we believe that striking a balance in fostering regional integration through harmonization of rules, elimination of tariff and non-tariff barriers, catalyzing digital transformation, and maintaining environmental sustainability are key to build more resilient supply chains and spur economic growth across the region. AMS should also work towards further improving the existing trade agreements, through complete elimination of residual tariffs under the ASEAN Trade in Goods Agreement (ATIGA), as well as committing to further commitments under the Regional Comprehensive Economic Partnership (RCEP).

## ASEAN Digital Economy Ecosystem

ASEAN's digital economy is projected to exceed US\$300 billion by 2025. With over 400 million active internet connections and growing at a double-digit pace, ASEAN is the world's fastest-growing internet market, and one of the largest digital economies in the world. The region is predominantly mobile-first, with over 90% of its internet users connected via smartphone and 915 million active mobile connections, nearly 1.5 times its population. Online spending is expected to more than triple to US\$300 billion by 2025, fuelled by e-commerce, ride hailing apps, online media, and an increasingly innovative online marketplace in part due to the COVID-19 pandemic.<sup>4</sup>

There is tremendous potential to grow public and private partnership, including in the areas of digital trade, investment, digital transformation, regulatory cooperation, and skills training. This will be particularly beneficial for the many MSMEs in ASEAN which can use digital tools and services to export at a low cost and scale globally. Consumers in ASEAN stand to benefit from choices of digital services and financial services providers—domestic and foreign— providing innovative products and services and enhancing inclusion for citizens and business. For U.S.-ASEAN cooperation to be effective, it is important to establish high standard rules of the road for the digital economy, and to work towards achieving harmonization and/or interoperability of standards and digital governance. An overlapping, conflicting, and unnecessarily burdensome regulatory environment will generate barriers to digital commerce, bringing difficulties for companies, especially small businesses to grow and digitalize their operations.

Without enabling regulations such as interoperable cross-border data flow mechanisms, cybersecurity standards, harmonized data classifications and data governance processes, it will be challenging to accelerate the regional development of digital IDs, cross-border e-commerce, payments and invoicing, and digital trade facilitation efforts. The lack of a shared regional approach to these enabling regulations will also impact the growth of emerging technologies at a regional level, such as the practical adoption of artificial intelligence technologies at a business level and the adoption of cloud technologies for business efficiency. This, in turn, can place regional technology and innovation developers and MSMEs across sectors at a disadvantage in the global market.

### *Recommendations:*

- **Pushing for swift conclusion of DEFA negotiations:** ASEAN should establish high standard rules that support seamless and secure cross-border data flows, promote non-discriminatory digital trade practices,

---

<sup>4</sup> ASEAN Matters for America 2021

and encourage harmonization and interoperability in digital regulatory frameworks. The Council welcomes the launch of the DEFA negotiations and calls for its swift conclusion. We also urge AMS to closely consult private sector and other relevant stakeholders in the process to ensure that DEFA is comprehensive, forward-looking, high standard, ensures interoperability, while also maintaining flexibility and providing capacity building opportunities as pathways for individual AMS. The Council has submitted to the 54th AEM last year, a [Whitepaper on Digital Trade Priorities](#) which provides detailed recommendations for DEFA, which we hope could serve as key references for AMS in the upcoming DEFA negotiations.

- For DEFA to be effective, it needs to be binding and capture commercially meaningful provisions. To this end, DEFA should be built upon the existing digital agreements and the breadth of work where AMS have been involved. AMS should seize the opportunity to bring the ASEAN digital economy to the next level, benefitting consumers and businesses alike, including facilitating cross-border data flows and the development of new business models.
  - Due to varying stages of development among AMS, it is crucial to establish a capacity building framework that supports the adherence of AMS to high standard rules that will be negotiated in the DEFA. the adherence of AMS to high standard rules that will be negotiated in the DEFA. This could include public-private partnerships to develop use cases, skilling initiatives, training workshops.
  - ASEAN should promote transparency in the design and implementation of digital regulations, encouraging greater industry participation to develop policies that encourage investments. The Council has offered support to the ASEAN Coordinating Committee on E-Commerce and Digital Economy (ACCED) to conduct technical workshops that would help to synthesize discussions on the real problems and policy solutions that DEFA could address. We look forward to working with the DEFA negotiators on this initiative.
- **Digitalizing trade processes:** New and emerging technology is an enabler of growth and resilience and is fast transforming global value chains. Governments must keep borders open for trade and investment and allow for hard and soft infrastructure to digitalize business and trade processes. Automated and digitized processes reduce the risk of human error and streamline supply chain processes. There is work that needs to be done in terms of leveraging information and communication technologies to digitize trade processes by enabling electronic exchange information.
    - ASEAN governments should swiftly implement paperless trade models across all AMS that allow for pre-arrival clearance, enhance regional supply chain resilience, and support efficient, transparent, and secure enforcement and revenue collection by customs officials and other government agencies. In this regard, government agencies need to integrate and standardize all documentations through the ASEAN Single Window (ASW) and consider synchronizing the requirements.
      - With paperless trade and digital transformation, data and information can be shared seamlessly between stakeholders across the value chain including the customs authorities at the borders – reducing inefficiencies, streamlining processes, and enhancing visibility and traceability for trade. Such benefits can already be seen in Singapore, with the Networked Trade Platform (NTP) and Singapore Trade Data Exchange (SGTraDex) which streamline information flows for authorities, businesses, and other players in the supply chain ecosystem.
      - We applaud the commitment of AMS to work towards the full implementation (e.g., issuing and receiving) of e-Form D through the ASW by December 2023. The provision to use electronic form as an alternative to the paper-based documentation is not only doubling the time and cost to move goods across borders, but also adding bureaucratic burdens and diluting the goals of simplifying clearance procedures. The perceived lack of

- progress in the expansion of the ASW inhibits trade growth, continues to add cost and complexity, and reduces the region's FDI attractiveness.
- Optimization, automation, and digitization of customs and border processes are among the areas that available technologies can address. The ability of customs agencies to obtain, process, and analyze large amounts of data through automation and in a timely manner is key to ensuring agile and secure regional value chains.
    - The move to digitize documentation will help simplify and speed up the movement of goods around the region. For example, the process of obtaining original documentation to signify authenticity has already moved to the digital space. Doing the same for other customs documents will elevate the ease of doing business and subsequently boost foreign investment in participating countries.
  - Combined with digital tools to ease import and export activities, digitally enabled business networks to connect enterprises and value chains across ASEAN could help to establish regional supply chain excellence in areas of competitive advantage for the region. Collaboration with the private sector can be a key for this.
- **Facilitating E-Commerce:** The rapid growth of e-commerce and digital technologies in ASEAN presents both opportunities and challenges for consumer goods companies. Harmonization of e-commerce policies would help ASEAN countries minimize regulatory barriers, facilitate trade between different countries, and reduce the cost of implementing regulations for governments and industries.
    - To address the potential impact of cross-border e-commerce in overwhelming future supply chains, ASEAN will also need to consider further investment in the digitization of logistics, border clearance, and supply chain management to keep up with digital purchases and enhance visibility. While customs administrations across the region have undergone digital transformation, it is now time for other parts of the value chain – such as port processes, warehouses, transport services – to undergo similar digitization efforts so that customs declaration and clearance are digitally integrated with all other border processes.
    - In 2017, the business community offered ASEAN Low Value Shipment Program (ALVSP) to simplify clearance procedures and facilitate the processing of low value shipments without impacting government revenues. This aligns with the World Customs Organization's (WCO) Cross-Border E-Commerce Framework of Standards #5 on "Simplified Clearance Procedures." The intent of the ALVSP is to enhance intra-regional trade and capture the proportion of trade that is already enjoying zero ATIGA duty rates.
      - While AMS have decided not to pursue a pathfinder approach, we continue to believe that the ALVSP is an optimal way to facilitate faster and simpler processing of low value shipments in the region.
      - The US-ASEAN Business Council requests that AMS continue to review this initiative with the objective of achieving regulatory alignment in a timely fashion.
  - **Enabling digital transactions:** Research by Asia Internet Coalition (AIC) estimated that the use of digital private messaging by businesses in Indonesia, Malaysia, and Singapore lifted economy-wide productivity by US\$6 billion in 2022, and the overall economic activity it enabled, contributed US\$12.5 billion, and supported 1.3 million jobs. These effects were driven by efficiency gains and increased market access for businesses. The study also estimated that supporting the continued growth in business use of digital private messaging could unlock a further US\$38.3 billion in cumulative productivity gains by 2030.
    - ASEAN governments should digitalize back-office processes of business. Increasing business participation in trade will be supported by their increased access to and use of digital technologies.

- ASEAN should continue encouraging a conducive, risk-based approach to developing the policy environment for digital technologies, in context of opening the door to businesses of all sizes to embrace digital solutions that allow them to participate in trade. For example, the SME Digitalization Grant and the Start Digital Pack supported the greater digitalization of businesses in Malaysia and Singapore, respectively.
  - In addition, ASEAN should ensure that digital policies and regulations account for the impact on private messaging applications and the negative implications on the value they bring to the economy and society. A risk-based approach is needed in policy making, including not pursuing regulations that could undermine users' privacy, safety and security.
  - With the rise of fraud and scams in ASEAN, it is also important that cybersecurity education and solutions be enshrined in digitization efforts to engender consumer and business trust in the digital ecosystem.
- **Enabling cross-border data flows:** Past research has demonstrated the importance of strong data flows as an underlying enabler of digital trade. Restricting data flows has a statistically significant impact on a nation's economy. Studies suggest that lifting data restrictions could increase services imports by an average of 5% globally. Information Technology and Innovation Foundation (ITIF) finds that a 1-point increase in a nation's data restrictiveness cuts its gross trade output by 7%, slows its productivity by 2.9%, and hikes downstream prices by 1.5% over five years.<sup>5</sup>

In Southeast Asia, cross border data flow frameworks widely vary across key geographies including Singapore, Thailand, Malaysia, Vietnam, Indonesia and Philippines, prohibiting free flow of data and over-burdening companies with regulatory compliance costs, and at times limiting access to ASEAN markets. Businesses use data to create value, and many can only maximize that value when data can flow freely across borders.

- The cross-border flow of data is required and relied upon by all sectors in an economy in order to operate efficiently, scale and allow capital markets to develop. In particular, with respect to sharing data within companies (i.e., across teams in multiple jurisdictions); data such as risk management, compliance, internal audit and legal data; trading and research; client related data (onboarding and relationship management); technology operations and accounting data; corporate administration, vendor and HR data. The benefits include:
  - Leverage group resources, experiences and best practices;
  - Optimize cost and increase efficiency;
  - Leverage global platforms;
  - Improve customer service and meet the requirements of globalized clients/companies; and
  - Provide opportunities to clients to invest in international markets.
- Restricting data flows across borders will create business disruptions such as failure to service client needs and restrict clients investing and operating in international markets. It can inhibit AML/KYC reviews and adversely impact a company's ability to manage risk and govern. In some cases, it may result in investments, funds and companies withdrawing from a market due to the difficulties of operating within it.
- As a solution, policymakers should expressly permit cross-border data flows where a business has demonstrated that the data transferred remains protected to the same standards. They can also encourage firms to improve consumer trust through greater transparency about how they manage data, support the development of global data-related standards in collaboration with

---

<sup>5</sup> [itif.org/publications/2021/07/19/how-barriers-cross-border-data-flows-are-spreading-globally-what-they-cost/](https://itif.org/publications/2021/07/19/how-barriers-cross-border-data-flows-are-spreading-globally-what-they-cost/)

- industry, and prioritize “interoperability” between different nations regulatory systems as a core policy objective.
- AMS could refer to the existing digital agreements such as the Singapore-Australia Digital Economy Agreement; as well as financial sector focused statements like the United States-Singapore Joint Statement on Financial Services Data Connectivity and the Joint Statement of Intent on Data Connectivity<sup>6</sup> between Bangko Sentral ng Pilipinas and the Monetary Authority of Singapore.<sup>7</sup>
- **Developing MSMEs for digital economy participation:** There are 70 million MSMEs in ASEAN, accounting for between 97.2% – 99.9% of total establishments across AMS, that regionally contribute 85% to employment, 44.8% to GDP and 18% to national exports. For MSMEs to thrive in the future they must be equipped with relevant skills and awareness of opportunities to digitalize and participate in the regional digital economy. This includes efforts on digital skilling relevant for the business realities of these enterprises, and support adoption of relevant technologies to allow them to plug into regional value chains and access regional markets. For example, cloud-based software and digital tools help MSMEs manage inventory, finances, and customer relationship more efficiently, optimizing their overall operations, and leading to cost savings. Continuous improvement of the ASW to create paperless electronic processes to facilitate trade across the region will also be an important driver of MSME growth if they have the digital tools to simplify and automate their own processes.
  - **WTO Moratorium on customs duties on electronic transmissions:** The WTO maintains a Moratorium on customs duties for electronic transmissions, including on the content transmitted (e.g., apps, software), whereby all WTO Members agree to refrain from imposing import tariffs on digital products and services.
    - The Council urges AMS to support the extension of the Moratorium at the 14<sup>th</sup> WTO Ministerial Conference, as well as the exploration of the Moratorium’s permanent adoption.
      - The Moratorium provides predictability and accessibility of digital tools for MSMEs and start-ups. Similarly, it supports the growth of domestic technology providers – particularly those that complement customs modernization and related solutions (e.g., digital identity, digital payments) by lowering export costs to new markets.
      - Imposition of tariffs, customs procedures and documentation requirements will increase the administrative and compliance burden that MSMEs and entrepreneurs must manage, but also create new resourcing and workload burdens on customs agencies themselves. Imposing such burdens would therefore undermine the hard-fought benefits of the WTO Trade Facilitation Agreement for traders and governments alike.
      - As the ASEAN digital economy grows, so will the export opportunity for digital exporters (e.g. apps, software) in the region. Should other countries or even AMS start to introduce tariffs or customs documentation requirements, this will greatly impact the digital export potential of the region.
    - We also suggest the inclusion of a related provision to make the Moratorium permanent in any further bilateral or regional agreements to which AMS are a party to, including DEFA.
  - **Promoting standards and conformity assessments in digital economy/trade and payment:** Divergence in standards with fragmented or bespoke regulations in specific jurisdictions can collectively result in technical barriers to trade and investment, impeding domestic economic growth and digital

---

<sup>6</sup> <https://www.mas.gov.sg/news/media-releases/2020/united-states-singapore-joint-statement-on-financial-services-data-connectivity>

<sup>7</sup> <https://www.mas.gov.sg/news/media-releases/2020/joint-statement-of-intent-on-data-connectivity-between-bsp-and-mas>



transformation. Non-aligned or discriminatory regulatory requirements affecting conformity assessment schemes also create barriers to trade and investment, and can negatively impact domestic access to safe, high-quality goods and services. Together, divergent standards and conformity assessment requirements prevent the MSMEs – which are the key stakeholders in the digital community to grow at scale – from serving the regional and global markets.

- AMS need to adopt industry-led internationally accepted standards and best practices to support greater policy alignment among them and with the external trade partners.
  - AMS must recognize that the choice of conformity assessment procedures for a specific product should include an evaluation of the risks to public health, safety, security, environment, and privacy. This includes consideration of the need to adopt procedures to address those risks, relevant scientific and technical information, and the impact noncompliance will have on society-at-large.
  - AMS need to adopt globally accepted payment system standards and promote interoperability of payment ecosystems to enhance inclusive cross-border payment transactions.
  - In alignment with international trade obligations – such as the WTO General Agreement on Trade in Services (GATS) and Technical Barriers to Trade (TBT) Agreement – AMS should facilitate policies that safeguard the national treatment of conformity assessment bodies. National treatment helps ensure that conformity requirements are non-discriminatory, do not create unnecessary barriers to trade, and facilitate access to safe, high-quality goods.
- **Upgrading trade agreements:** We welcome efforts to review and revamp existing trade agreements to ensure that they holistically encourage and promote investments across AMS, apart from satisfying material requirements, preferential origins and eliminating tariff and non-tariff barriers. We, therefore, encourage AMS to ensure that the existing agreements such as ATIGA and RCEP capture the present realities with the emerging issues and cutting-edge technologies at play.

## A Sustainable Economy for ASEAN

Sustainability is more than seeking to limit environmental degradation or pollution, but also about creating structure and systems that can last and support on-going development efforts which will persist for years to come. Several key imperatives that ASEAN can pursue to realize a sustainable future include low-carbon energy use, green infrastructure, sustainable supply chains, ESG financing, circular economy and sustainable financing. Prioritizing these would help ASEAN to become more resilient for future crises, while at the same time creating new jobs and economic opportunities. The US-ASEAN Business Council and member companies support the work of ASEAN for sustainability and circular economy frameworks and look forward to engaging more deeply with the relevant sectoral bodies as the frameworks become operational.

### *Recommendations:*

- **Advancing sustainable supply chains:** The carbon footprint of FDI varies considerably across the region. FDI CO<sub>2</sub> emissions per unit of output is lower in Vietnam and the Philippines for example, but higher in

Thailand and Indonesia. Renewable power accounted for more than 50% of FDI in Laos and Cambodia in the last ten years, but fossil fuels still make up the vast majority of inward investment in most AMS.<sup>8</sup>

- US-ABC believes Investment Promotion Agencies can take a greater role in encouraging sustainable FDI using sustainability-related indicators to measure activity impact and considering incentives to attract low carbon FDI. The OECD's ASEAN Comprehensive Recovery Framework looks at ways in which AMS can do more to measure the sustainability impact of FDI and implement policy to promote green investment.<sup>9</sup>
  - Buyers in the supply chain can act as an anchor for incentivizing suppliers to improve carbon footprints. Firms are pursuing pilot programs which incorporate sustainability targets. Pricing discounts based on achieving greening milestones are one example of this. International Institutions such as the European Bank for Reconstruction and Development (EBRD) are creating schemes to help firms build internal green management systems.<sup>10</sup> AMS could further pursue the following measures:
    - Assess OECD's ASEAN FDI Restrictions database for reforms which could facilitate greater FDI<sup>11</sup>
    - Undertake reforms suggested by the OECD on attracting sustainable inward investment in ASEAN
    - Consider ways in which Investment Promotion Agencies can encourage sustainable FDI
    - Consider reforms to legal frameworks which encourage the use of supply chain finance
    - Assess the work done by International Financial Institutions on attracting low carbon FDI.
  - The OECD has detailed barriers to inward investment in the region<sup>12</sup> and addressing these could facilitate additional capital flows that can support future economic growth. They include, (i) foreign equity restrictions; (ii) screening or approval mechanisms; (iii) restrictions on the employment of foreigners as key personnel; and (iv) operational barriers such as on capital repatriation or land ownership.
- **Building the electric vehicle (EV) ecosystem:** ASEAN is a very diverse region with contrasting vehicle environments including from the ecological side, which demonstrates the need for a harmonized roadmap for EV development. Recalling the ASEAN Leaders' Declaration on Developing Regional Electric Vehicle Ecosystem, the Council urges AMS to adhere to global standards and interoperability for EV development. Several AMS are already automotive production hubs or have vast critical resources for EV production (cobalt, nickel, etc) – ASEAN is slated to play a key role in the production of EVs. To ensure economics of scale and maintaining its competitiveness, ASEAN should take a leading role to advocate for global standards and regulations for EVs.
    - We encourage AMS to harmonize regional standards for EV as well as look into training and certification based on international standards, including but not limited to technology, safety standards for protection of fire risk, product specifications, infrastructure, charging stations, battery swapping, battery electricity distribution, end-of-life disposal among others, to strengthen

---

<sup>8</sup> Investment has helped to deliver growth in Southeast Asia – can it also deliver sustainable development? Hinrich Foundation, October 2022 <https://www.hinrichfoundation.com/research/article/fdi/foreign-investment-deliver-growth-in-southeast-asia/>

<sup>9</sup> Enabling sustainable investment in ASEAN | OECD Business and Finance Policy Papers | OECD iLibrary ([oecd-ilibrary.org](https://www.oecd-ilibrary.org/))

<sup>10</sup> SUPPLY CHAIN FINANCE: Uncertainty in Global Supply Chains is Going to Stay ([citi.com](https://www.citi.com))

<sup>11</sup> ASEAN FDI Regulatory Restrictions Database ([oecd.org](https://www.oecd.org/))

<sup>12</sup> ASEAN FDI Regulatory Restrictions Database ([oecd.org](https://www.oecd.org/))

- the regional value chain for the EV industry, to enhance trade facilitation as well as ensure interoperability and seamless cross-border mobility.
- AMS should strengthen and facilitate regional supply chains and avoid imposing barriers to trade to key components. The EV ecosystem does not only rely on the production of EVs, but also on the ability to use and charge them. In its nascent phase, AMS should also create the right conditions to create demand locally within ASEAN either by direct or indirect support measures for citizens and companies to green and charge their fleets. AMS should consider allowing for different EV models to enter the market to create the right consumer choice for different applications (private and business).
    - To incentivize EV adoption, governments need to provide financial incentives such as tax deduction/tariff concession for EV purchases to help make EVs more affordable.
    - Governments should encourage and support regional manufacturing of EVs and EV components within ASEAN countries. This will boost employment, reduce dependence on imports outside of the region, and stimulate innovation and technology development.
  - It is crucial to recognize that the operational aspects of electric vehicles involve not only the vehicle itself but also occurs outside of the vehicle which supports the infrastructure, such as charging stations, power grid systems, and renewable energy sources. Therefore, it is recommended that ASEAN collaborates across bodies and entities to reach a consensus to support widespread adoption and promote a successful integration and adoption of EV ecosystem standards in a sustainable manner.
    - Government's subsidy/co-investment is needed to build charging infrastructure especially for remote area that has low financial incentive for private sector.
    - Promoting the integration of renewable energy sources into the EV charging infrastructure will ensure EVs being powered by clean energy and contribute to the reduction of carbon emissions.
    - Enhancing R&D programs will also support the development of advanced EV technologies and energy storage solutions. This can be done through collaborations between government agencies, universities, research institutions, and private sector.
  - It is important for ASEAN to come together and address each AMS' unique challenges to avoid bespoke design, standards, and/or regulations. This would provide a level of certainty to both government and industry knowing the requirements being considered have unique ASEAN input and will be fit for purpose.
    - AMS should look into and participate in the World Forum (WP.29) 1998 Agreement on Global Technical Regulations (GTR). ASEAN can play a significant role in global requirements to develop GTR and provide unique market/regional input to be considered. This requires all AMS' participation to enter the WP. 29 body.
    - AMS can consider to synergize and work with the EV industry on infrastructure standards best practices as consensus is needed to regulate technologies that are essential to EV operation in the region.
    - AMS should also establish harmonized technical standards and regulations for EVs, charging infrastructure, and EV components. This will facilitate seamless inter-operation and ensure safety, quality, and reliability of EVs across ASEAN.
    - It is recommended to use "IEC Type 2" and "CCS 2" as the required standard for all charging stations across ASEAN (other standards such as GB/T, CHAdeMO can be added in the station but IEC Type 2 / CCS2 plug should always be available at a station).
      - AMS to standardize and unify type approval and certification for Vehicle and Charging Equipment. Currently each vehicle model and charging equipment has to be type approved, homologated and certified in each country individually. It

- significantly increased the engineering effort, cost and timeline for EV and charger manufacturers to launch new products to the region. This is a major difference between ASEAN and European Union.
- ASEAN needs to foster collaborations between the government, private sector, and non-profit organizations to promote the development and growth of the EV ecosystem. Public-private partnerships can help leverage resources, expertise, and funding to accelerate the adoption of EVs.
- **Promoting a circular economy for plastics:** Currently, most plastics in ASEAN and elsewhere are not designed for a circular economy nor are they circulated in the region in practice. Yet, the best available scientific analysis shows that known circular economy solutions, if applied at scale, with certain enabling conditions in place, can reduce annual volumes of plastic pollution by at least 80% by 2040 and achieve near-zero plastic pollution by 2060 globally. A comprehensive circular economy approach can address the root causes of plastic pollution and contribute to the global efforts to combat the climate and biodiversity crisis, while delivering economic, environmental and social benefits.
    - Support the United Nations Environment Assembly (UNEA) Resolution “End Plastic Pollution: Towards an International Legally Binding Instrument” and the establishment of an Intergovernmental Negotiating Committee (INC).
    - Promote cooperation among all stakeholders in the plastics value chain, including the informal waste sector, to support development of a well-crafted, flexible agreement that recognizes the beneficial role of plastics to society while addressing the root causes of plastic pollution. Extended Producer Responsibility (EPR) could serve as a vehicle for collective efforts among all stakeholders. ASEAN governments could enhance the trade competitiveness of their exporters countries by adopting coherent EPR regulations that align more with regulations in international trade markets where there are high consumer standards. We also believe that technology is one of key enablers in the plastics value chain e.g. blockchain.
    - Develop a global agreement that provides an apt international policy framework and creates the enabling conditions for the much-needed investments in infrastructure, innovation, and skills throughout the region.
      - Focus on measures to accelerate the transition to a circular economy for plastics globally and include supporting mechanisms for its effective implementation.
      - Allow for the adaptation of solutions to local conditions while also understanding the beneficial nature of harmonized global frameworks supporting certain definitions, policy principles, and goals.
      - Adopt a broad scope, covering both macro- and microplastics as well as addressing all sources and pathways of plastic pollution into the natural environment.
  - **Supporting Basel Convention initiatives:** The Council is encouraged by the progress made in the Basel Convention initiatives and would urge AMS to continue participating in the discussions towards advancing ASEAN’s circular economy initiatives within the global value chain networks. Detailed updates on the Basel Convention initiatives appears in **ANNEX I**.
    - AMS are encouraged to participate in the Prior Informed Consent (PIC) modernization discussions and Small Intercessional Working Group (SIWG) to ensure the ASEAN region’s perspectives and needs are considered, and that any PIC improvements will help to promote circularity across Asia.
    - AMS should also join other Parties who have vocalized concerns about the EU amendment, and support alternative drafting proposals that avoid unnecessary confusion around repair and reuse activities.

- It is important that AMS also support permanent adoption of the Technical Guidelines without substantial revisions to avoid creating uncertainty around the important distinction between UEEE and WEEE.
- **Driving sustainable consumer behavior:** Consumers equally have a role to play in developing a sustainable future for ASEAN. They have wide latitude in what and how much they choose to purchase. Governments can work together with organizations and merchants to enable consumers to track their carbon footprint and in turn switch to more environmentally conscious spending habits. Consumers could also be introduced to the concept of the “circular economy” which involves extending the life cycle of products through sharing, leasing, reusing, repairing, and recycling existing materials and products, in collaboration with businesses.
- **Sustainable financing:** There is a need to radically scale up climate capital in order to help meet the objectives set out in the Paris Agreement. Globally consistent taxonomy and disclosure regimes are critical to ensure that investors are able to identify and meaningfully compare sustainable activities across borders. In that respect, the work of the ASEAN Taxonomy Board is very important and we encourage the alignment of national taxonomies with the ASEAN Taxonomy to help reduce the fragmentation in the region. In regards to disclosure, we support the alignment of disclosure regimes with international standards, especially the ISSB climate and sustainability frameworks to ensure investors are presented with decision useful information and disclosures are able comparable. Policy tools that can help ramp up funding will also be necessary; including carbon pricing and the development of liquid carbon markets, issuing green bonds against frameworks such as the ASEAN principles and using public funding to crowd in private capital. Each of these elements has a role to play in helping to green ASEAN and progress the path towards net zero.

### Sectoral applications of sustainable financing

#### *1.1. Establish sustainable financing models that support the development of an EV ecosystem, driving the transition to clean and sustainable transportation systems across AMS:*

- **Public-Private Partnerships (PPPs):** Encourage public and private sector collaboration through PPPs to fund EV infrastructure development. Governments can provide initial capital and facilitate the participation of the private sector, including EV manufacturers, charging station operators, and energy solution companies. This partnership can help share risks, leverage private sector expertise, and attract more investments in ASEAN.
- **Green Bonds:** Promote the issuance of green bonds by both public and private entities to finance EV-related projects. Governments and financial institutions can play a role in facilitating the issuance and investing in green bonds for EV ecosystem development.
- **AMS should seek financial support from international funding and development agencies** such as the Asian Development Bank (ADB), World Bank, or Green Climate Fund (GCF). AMS can tap into these resources to secure funding and technical expertise.
- **Carbon Credit and Carbon Market:** to generate revenue for EV ecosystem development that can be used to re-invest in EV infrastructure and promote the transition to low-carbon transportation.

#### *1.2. Prioritize and revisit current models to make healthcare financing more sustainable.* The recent global pandemic has reminded us on the impact of health towards promoting greater economic productivity and prosperity. However, traditional funding models are not enough to help address

future needs of healthcare such as the epidemiological transition from infectious to non-communicable diseases (NCDs) in lower-income countries as well as an aging population across Southeast Asia, which increases pressure on healthcare systems while simultaneously generating less revenue in healthcare-oriented taxation; and emerging disease threats, highlighted by the financially burdensome Covid-19 pandemic.

- Traditional funding models, such as taxation-based services and price control mechanisms, are not enough to meet the needs of this new period of sustainable healthcare financing. Extensive research has shown that OOP payments are not an effective way to generate funds, owing to their significant impact on low-income families. Introducing or increasing taxes is rarely considered desirable by all members of a population, while indirect taxes tend to unfairly target lower socioeconomic groups.
- Governments should instead pursue innovative financing models. These include the use of annuities, whereby high-value treatments are paid for on an ongoing basis, rather than via a one-off lump sum. Health and social impact bonds (SIB) are another option, in which private investors provide initial flexible capital to healthcare providers, before being reimbursed by governments based on the outcomes achieved. The private sector can also be used to raise finance for healthcare, through both FDI and blended financing mechanisms.

- **Enabling sustainability with digital technologies:** The economic imperative to link growth and sustainability is apparent. Climate change poses a significant risk to ASEAN economies, and in order to effectively plan for a less carbon-intensive future economy it will be incumbent upon government and businesses to have sufficient transparency into their respective carbon footprints. Digital technologies offer a solution to both providing visibility into the current impact of activities on the environment and allowing businesses to consider future carbon intensiveness at the point of decision-making. In turn, these technologies will enable effective reporting and create consistent and reliable inputs to national carbon reporting.
- **Advancing transition to renewable energy:** Southeast Asia presents a timely opportunity to be a trailblazer for the development and use of renewable energy. Several AMS already have vast resources of feedstock (such as used cooking oil and palm oil mill effluent) that can be used to produce renewable energy such as Sustainable Aviation Fuel (SAF) which is limited in supply and in high demand across the globe. AMS should coordinate their national roadmaps to facilitate the development of the SAF market. The focus should be on enabling the growth of and certainty in demand, so that potential SAF producers can undertake appropriate investments to match demand with supply. To this end, AMS, who are also member states in the International Civil Aviation Organization (ICAO), should work together to identify the opportunities that will enhance the supply of sustainable bio-feedstock, while ensuring that markets remain open, including the potential for instituting carbon-intensity based SAF mandates.

## ANNEX I

# US-ABC Recommendations for ASEAN Member Engagement in Basel Convention Initiatives Advancing Circular and Sustainable Economies

The U.S. ASEAN Business Council (US-ABC) is pleased to share these recommendations for ASEAN Member State engagement in key initiatives underway within the Basel Convention that will impact the circular economy and trade among ASEAN Member States.

Many US-ABC member companies are advancing more circular business models for products and materials. They have ambitious circularity goals that seek to extend the useful life of products and recover materials for use in new manufacturing. These endeavors advance sustainability goals and also contribute to more resilient supply chains for critical materials.

ASEAN Member States host important manufacturing, repair and refurbishment, and material recycling operations relevant to a variety of products, components and commodities (e.g. metals, plastics, glass, etc.) that are vital to advancing circularity in the region. ASEAN Member States have an opportunity to help shape trade rules and other requirements under the Basel Convention in a way that aligns with the sustainability, economic investment, and trade goals of the region.

**Background on the Basel Convention.** The Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal is a global agreement governing trade in certain hazardous and “other” wastes. All ASEAN Member States are among the 190 Parties to the Convention, which provides a legal framework with classification and control measures designed to ensure wastes are managed in an environmentally sound manner. In recent years, the Convention has become the primary legal framework governing the trade flows of valuable recyclables. The Parties added certain streams of plastic waste to Convention controls (effective 2021) and have now expanded the scope of the Convention to include non-hazardous waste electronics (effective 2025).

**We urge ASEAN Member States to participate in Basel work streams and to advance efforts in the region to modernize Basel’s Prior Informed Consent (PIC) procedure.** At the COP-16 (Conference of the Parties) meeting of the Basel Convention in May 2023, Parties formally adopted a new work stream to modernize and streamline the PIC procedure, Basel’s primary waste control mechanism. Basel Parties recognize that, as more materials fall under PIC, the system needs to improve to avoid stifling trade. Without significant reforms, the PIC process could lock waste materials in place and prevent them from reaching destinations where the highest sustainability outcomes can be achieved.

The working group will therefore assess and recommend ways to bring more transparency and efficiency to the PIC procedure to minimize unnecessary friction in trade flows for waste streams destined for environmentally sound management. Options might include additional capacity-building support; new administrative commitments or agreements among interested Parties to expedite PIC procedures; developing electronic systems for PIC notifications; and/or identifying certain types of recoverable materials or receiving facilities that should be authorized for streamlined PIC handling. Facilitating these legitimate trade flows is necessary to promote sustainable management of end-of-life products and materials. US-ABC encourages ASEAN Member States to actively engage in this work stream to ensure any regional challenges with the PIC procedure are addressed and to advance this important work in furtherance of ASEAN’s sustainability and economic goals.

**Avoiding disruptions to trade in used products managed for repair and reuse should be a top priority to advance circularity in the region.** The Basel Convention imposes robust PIC requirements and trade bans on certain waste shipments; it does not cover trade in used products or components that retain useful life. While some ASEAN Member States have enacted more stringent rules that regulate movement of certain used goods, retaining a clear distinction between what is and is not considered waste under the Convention is essential for companies to design and implement global circularity and compliance programs, and to navigate this complex regulatory space.

The current Basel Technical Guidelines on E-Waste (adopted on an interim basis), for instance, provide a useful framework for distinguishing between waste electronics (WEEE) and used electronics (UEEE). Under the Guidelines, properly documented and managed UEEE shipped for repair or refurbishment prior to reuse is not waste and, therefore, not subject to Basel Convention controls. At COP-16, the Parties updated and re-adopted these Guidelines as the interim Basel approach to managing the UEEE/WEEE distinction. The Guidelines thus reflect the consensus of the Parties. Some governments have already put these Guidelines into practice while others are testing them on a pilot basis.

While US-ABC recognizes the flexibility the Basel Convention affords individual countries to regulate UEEE differently, and notes that some ASEAN Member States do exercise that option, we believe it is important to preserve the legal clarity provided in the Guidelines for differentiating UEEE from WEEE at the global level. This clarity is critical to protect flows of valuable UEEE to and from countries that do have the capacity to extend the life of products and that opt to invest in reuse of products as a positive circularity outcome. We therefore ask that ASEAN Member States support ongoing retention of the Guidelines and consider applying them, as appropriate, within the ASEAN region.

**ASEAN Member States should participate in ongoing negotiations regarding European Union (EU) proposals to amend Annex IV of the Convention.** An EU amendment proposal for Annex IV that would add a new waste recovery operation under the Convention – “R20: Preparing for reuse (e.g. checking, cleaning, repair, refurbishment)” – was rejected by Parties at COP-16 with instructions for the EU to submit a revised proposal for consideration at the next COP in 2025.

Many Basel Parties use the Convention’s Annex IV list of waste operations to determine what *is* waste covered by the Convention and what is not. Repair, refurbishment, and reuse are generally recognized under the Basel framework as *non-waste* activities. So, as proposed, the EU amendment would introduce confusion and legal uncertainty into the Convention’s definition of waste and undermine the progress made by Parties on the Technical Guidelines clarifying that UEEE destined for legitimate repair, refurbishment and reuse are products, not wastes.

The EU’s R20 amendment proposal has raised concerns among many Parties because of the confusion and trade disruptions it would likely cause. Similar concerns arise from the EU’s parallel proposal to add a “catch-all” waste operation to Annex IV. A “catch-all” entry would not include clearly defined waste operations, but rather, would create an open-ended category that Parties could interpret and utilize to categorize certain shipments as waste. The confusion and legal uncertainty around this type of entry would, as with the R20 proposal, stifle global trade in non-waste used products and disrupt productive circular economy activities in the ASEAN region and beyond.

US-ABC encourages ASEAN Member States to engage with the EU and other Parties as these proposals are redrafted to ensure that any revised amendments avoid stifling global movement of valuable used products and materials and ensure they can realize their highest and best use.



Finally, we also encourage ASEAN Member States to engage in Basel negotiations on hazardous waste classifications, which have the potential to significantly impact material flows in the region. Parties are actively considering options for amending Annex I (hazardous constituents and waste streams) and Annex III (hazardous characteristics) that together are expected to redefine the scope of wastes deemed “hazardous” under the Basel Convention. Central to these discussions will be developing classifications and environmentally sound management guidelines for spent lithium-ion and other batteries. These negotiations are taking place within an Expert Working Group on the Review of Annexes (EWG-RA), which will continue to meet until the next COP (2025). As this work could impact the classification and trade flows of various types of materials managed for recycling in the region, including high-value materials in different types of batteries, we encourage ASEAN Member States to participate in these ongoing negotiations.

**In conclusion**, the outcomes of these formal Basel deliberations will prove critical to the ability of US-ABC members to meet our circularity goals and to advance sustainable practices in the ASEAN region and beyond. We urge ASEAN governments to engage actively in these Basel work streams, as this work will set the global framework regarding which products and materials can move, and which cannot.



# ABOUT THE US-ASEAN BUSINESS COUNCIL



For more than 35 years, the US-ASEAN Business Council has been the premier advocacy organization for U.S. corporations operating within the dynamic Association of Southeast Asian Nations (ASEAN), serving as the leading voice of the U.S. private sector in promoting mutually beneficial trade and investment relationships between the United States and Southeast Asia. We believe opening and investing in the sustainability of efficient, resilient and competitive markets are critical to the continued growth of our member companies and innovation and job creation in the United States and Southeast Asia. ASEAN now represents more than 650 million people and a combined GDP of US \$2.8 trillion across Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. The Council's members include many of the world's largest American multinational corporations in numerous industries and range from those that have been working in Southeast Asia for more than a century to newcomers entering Asia's most dynamic regional economic community.

The Council has offices in Washington, DC; New York, NY; Bangkok, Thailand; Hanoi, Vietnam; Jakarta, Indonesia; Kuala Lumpur, Malaysia; Manila, Philippines; and Singapore.