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Increasing Unevenness in Trade-Related Sustainability Policy: The ASEAN Perspective

Institute for International Trade

Introduction

The global drive for sustainable development is increasingly influencing trade, as major economies integrate environmental and social standards into trade policy. The Association of Southeast Asian Nations (ASEAN) faces growing pressure to align with these standards, but progress across its ten member states has been uneven. Some ASEAN countries have advanced national sustainability policies and climate commitments, while others lag behind, creating a policy gap within the region. This unevenness is becoming more pronounced under external pressures such as the European Union's (EU) Green Deal measures and shifting United States (U.S.) sustainability policies. The EU, often termed a regulatory superpower, is leveraging its market size to export environmental norms abroad.[01] By contrast, the trajectory of U.S. trade and climate engagement remains uncertain amid political shifts.[02] These developments raise the stakes for ASEAN: divergent domestic policies could affect members' access to key export markets and their overall trade competitiveness. This policy brief examines ASEAN's internal variation in trade-related sustainability policies and the external benchmarks set by partners, then assesses implications for trade and competitiveness. It concludes with recommendations for greater policy harmonisation within ASEAN and capacity-building measures to ensure all members can meet emerging sustainability standards.

Uneven Sustainability Policies within ASEAN

Divergent National Frameworks

ASEAN as a bloc has embraced sustainable development in principle, yet policy implementation varies widely by country. Eight of the ten ASEAN countries have announced long-term net-zero greenhouse gas (GHG) emission targets, but the target years range from 2050 in Brunei, Malaysia, Singapore, Vietnam, Cambodia and Laos to 2060 in Indonesia and 2065 in Thailand.[03] In contrast, the Philippines and Myanmar have not committed to net-zero timelines.[04] Similarly, climate legislation and strategies are uneven. For example, Singapore has enacted legally binding frameworks — including an enhanced carbon pricing scheme — to drive emissions cuts, whereas several neighbours are only beginning to draft climate change laws or policies.[05]

Countries with stronger governance and institutional capacity, often the more economically advanced ASEAN members, tend to achieve better sustainability outcomes (Ding & Beh, 2022). Energy profiles also differ: some economies, such as Indonesia, Vietnam, remain heavily dependent on coal and face rising emissions, although both are also pursuing renewable energy strategies to diversify their energy mix.[06] Meanwhile, others (Brunei, Laos) have lower emissions or are more advanced in pursuing renewable energy strategies. All ASEAN members have submitted Nationally Determined Contributions under the Paris Agreement, but the ambition levels vary, with only a few setting absolute emission reduction targets or peaking years.[07]

Carbon Pricing and Market-Based Instruments

The adoption of carbon pricing is one telling indicator of uneven progress. As of 2024, Singapore is the only ASEAN nation

^The views expressed here are the author's alone and not those of the Institute for International Trade.

with an operational carbon tax (initially S$5 per tonne CO_2, increased to S$25 from 2024) to directly price emissions.[08] Indonesia legislated a modest carbon tax on coal-fired power generation (at IDR 30,000 or approximately US$2 per tonne) and has piloted an emissions trading system in the power sector, but full implementation has been delayed to around 2025 .[09] Other member states are considerably behind: Malaysia and Vietnam have signalled interest in carbon pricing and are developing frameworks, but no tax or trade system is yet operational.[10] The result is a patchwork of policies where businesses in Singapore already face a carbon price signal, while their counterparts in neighbouring countries do not, potentially leading to cost differentials in production.

Trade and Sustainability Commitments

ASEAN's own trade agreements and regional initiatives reflect a lowest-common-denominator approach to sustainability. Region-wide agreements like the Regional Comprehensive Economic Partnership (RCEP) have only minimal environmental provisions, often expressed as cooperation objectives rather than binding commitments.[11] Unlike recent European or trans-Pacific trade agreements that require adherence to Multilateral Environmental Agreements, RCEP contains no enforceable obligations on climate change or deforestation.[12]

There are nascent efforts to bridge this gap: ASEAN has been developing an ASEAN Taxonomy for Sustainable Finance as a common framework to guide green investment and define sustainable economic activities.[13] ASEAN ministers have also endorsed a Roadmap for Harmonisation of Standards to support the Sustainable Development Goals.[14] Still, these initiatives are at early stages. In practice, sustainability policy in ASEAN remains largely the domain of national governments, resulting in uneven rules and enforcement.

External Benchmarks and Pressures

European Union Green Deal and Regulations

The European Union's far-reaching sustainability agenda under the European Green Deal (EGD) is a prime external driver reshaping trade expectations. Several new EU instruments directly affect ASEAN exporters. The EU Carbon Border Adjustment Mechanism (CBAM), introduced in 2023, is in a transitional phase and will start imposing charges on carbon-intensive imports by 2027. ASEAN governments have voiced concern that CBAM could erode their industries' competitiveness in the EU market by raising the cost of high-emission products.[15] However, analysts note that the CBAM's initial sectoral scope covers a small fraction of ASEAN-EU trade, meaning the near-term direct impact is limited.[16]

Another EU measure raising pressure is the EU Deforestation Regulation (EUDR), adopted in 2023 but with implementation now delayed to 2027, which bans imports of commodities like palm oil, rubber, wood, and coffee if they are linked with recent deforestation. This directly touches key ASEAN exports. Complying with the EUDR requires exporters to implement strict traceability and supply chain verification to prove products are deforestation-free.[17] ASEAN officials have criticised the EUDR as imposing de facto trade barriers and ignoring the principle of "common but differentiated responsibilities".[18]

The EU is also increasingly including enforceable sustainability chapters in its free trade agreements. Notably, the EU's FTAs with Singapore (2019) and Vietnam (2020) oblige those partners to implement international labour and environmental standards and uphold the Paris Agreement. In summary, the EU is exporting its high sustainability standards through regulations and trade deals, effectively setting new benchmarks for ASEAN producers and policymakers.[19]

United States Policy Shifts

The U.S. presents a more fluctuating picture. Under the Biden administration, the U.S. re-entered the Paris Agreement and launched significant climate initiatives, including participation in Just Energy Transition Partnerships (JETP) to fund coal phase-outs in Indonesia ($20 billion) and Vietnam ($15.5 billion).[20] However, the Trump administration's actions since January 2025 have dramatically altered this trajectory. On his first day in office, President Trump withdrew the U.S. from the Paris Agreement for the second time and halted all federal contributions to international climate finance programmes, including the JETP initiative.[21] By March 2025, the U.S. formally exited the JETP framework, notifying Indonesia, Vietnam, and South Africa of its withdrawal and ending its role in the $45 billion multilateral funding mechanism.[22]

This reversal aligns with broader policy shifts rooted in Project 2025, a conservative blueprint advocating the dismantling of climate regulations.[23] The administration has prioritised fossil fuel expansion, exemplified by the January 2025 "Unleashing American Energy" executive order, which fast-tracks oil and gas permitting and revokes the Biden-era electric vehicle mandate.[24] These measures have exacerbated uncertainty for ASEAN countries, which now face a U.S. stance oscillating between disengagement and active opposition to climate action.

Domestic political opposition to overseas climate funding has hardened under Trump, with Congress blocking allocations to the Green Climate Fund and related initiatives.[25] Consequently, ASEAN nations

must contend with a retreating U.S. partner while navigating stricter EU sustainability requirements. However, subnational actors, including California and New York, continue advancing renewable portfolio standards and regional cap-and-trade systems, partially offsetting federal inaction.[26]

Other Partners and Global Norms

Beyond Western powers, ASEAN's trade-related sustainability context is shaped by global norms and the actions of other partners. Major Asian partners like China, Japan, and South Korea — all big markets for ASEAN exports — have also set net-zero targets and may in time impose their own green import requirements. Japan and Korea are already promoting green supply chain guidelines for their companies investing abroad.[27] China has issued standards for greening its Belt and Road investments and has stopped funding new coal power plants overseas.[28]

Furthermore, international investors and multinational companies are increasingly demanding Environmental, Social, and Governance (ESG) compliance throughout supply chains. This means ASEAN exporters of textiles, electronics, or agricultural goods are under pressure from private standards like carbon footprint labelling and sustainability certification demanded by global buyers.[29]

Implications for Trade and Competitiveness

Trade Diversion and Market Access Risks

The divergence in sustainability policies within ASEAN has direct consequences for trade. As import markets enforce stricter environmental and social requirements, ASEAN members with weaker standards risk losing market access. Already, Malaysia and Indonesia have faced restrictions under the EU Renewable Energy Directive due to concerns over deforestation.[30] In contrast, producers from countries with stronger sustainability credentials might enjoy continued or easier access.

When CBAM's financial charges begin, an ASEAN exporter that has no domestic carbon price will effectively pay a tariff to enter the EU, whereas a competitor from a country that has implemented carbon pricing could avoid that cost. This dynamic could divert trade flows in favour of more sustainability-compliant sources. Over time, as global supply chains reorganise around climate goals, lagging ASEAN countries risk becoming less attractive suppliers. Uneven carbon-cost exposure within the bloc could also undercut ASEAN's ambition for a cohesive single market and production base unless members coordinate climate policy—including harmonised carbon-pricing mechanisms—to maintain a level playing field.

Competitiveness and Production Costs

Stricter sustainability policies often entail short-term costs for industries. ASEAN countries that forge ahead with such policies may worry about competitive disadvantages vis-à-vis regional peers. This concern underlies some of the hesitation among ASEAN governments: they fear that unilateral moves (like imposing a carbon tax domestically) could make their exports costlier or drive energy-intensive industries to relocate to less regulated countries in the region.

However, the calculus is changing as external costs are imposed: with mechanisms like CBAM, the cost of inaction also rises, since goods from non-regulating countries will face tariffs abroad. Studies suggest that the competitiveness impact of carbon pricing is modest when applied economy-wide and can be mitigated by recycling revenues or using exemptions for trade-exposed sectors.[31]

Companies operating across ASEAN also face higher compliance costs due to fragmented standards. This fragmentation can discourage foreign investment in sustainable industries, as investors prefer clarity and consistency.

Opportunities for Leaders and Risks for Laggards

ASEAN members that proactively adapt to new sustainability norms can position themselves as regional leaders and tap into emerging green markets. Vietnam's aggressive push into solar and wind energy has made it a leading exporter of solar equipment in ASEAN and attracted foreign clean-tech investment.[32] Likewise, Singapore's early move to establish a carbon trading exchange and green bond standards is turning it into a hub for sustainable finance in Southeast Asia.[33]

On the other hand, laggard countries face compounded disadvantages: not only might they confront trade barriers, but they could also miss out on international climate finance and technology transfer. Countries without credible sustainability plans could be bypassed for international support. Additionally, nations seen as climate laggards could face boycotts or divestment by ethically minded investors.

Policy Recommendations for Harmonisation and Capacity Building

To address these challenges, ASEAN needs a coordinated response that both uplifts lagging members and aligns the whole region with emerging global sustainability norms. Key recommendations include:

1. Develop a Common ASEAN Sustainability Framework

ASEAN should work towards harmonising sustainability standards and regulations across member states. This could start with a unified framework or guidelines on climate change and sustainable trade policy – essentially an "ASEAN Green Deal" vision. Building on existing initiatives, members could agree on minimum standards for issues such as emissions reporting, deforestation-free supply chains, renewable energy targets, and labour rights in manufacturing.

As part of this framework, ASEAN could adopt a regional carbon pricing or offset mechanism. For example, linking national carbon markets when they emerge, or establishing an ASEAN-wide carbon credit trading platform, would encourage broader participation and ensure that businesses face more uniform carbon costs across the region.[34] Common standards could also be incorporated into the upcoming ASEAN Trade in Goods Agreement (ATIGA) upgrade, so that trade facilitation goes together with sustainable development goals.[35]

2. Capacity Building and Technical Assistance

Achieving harmonisation requires lifting the capacity of lesser-developed members to design and enforce sustainability policies. ASEAN should enhance its internal programmes and seek external support for capacity building. This includes technical assistance for developing national climate legislation, setting up measurement, reporting and verification (MRV) systems for emissions, and improving enforcement of environmental laws.

ASEAN can also collaborate with partners like the EU, which has indicated willingness to provide capacity-building as part of its Green Deal diplomacy.36

One practical step is establishing an ASEAN Sustainability Support Fund financed by contributions from dialogue partners to fund projects that help ASEAN Member States meet new trade-related sustainability requirements.

Capacity building should also target data and transparency, helping all countries produce reliable sustainability data. This will be crucial as regimes like CBAM require exporters to calculate and report carbon content — a technical challenge for some.

3. Leverage External Partnerships for Support and Flexibility

ASEAN should actively engage external partners to seek both recognition of its circumstances and resources to meet higher standards. ASEAN as a group could push for mechanisms under the EU CBAM that credit not just explicit carbon prices but other climate actions.37 A unified ASEAN voice can also argue for longer phase-in periods or exemptions for least-developed members in complying with new EU regulations.

ASEAN should deepen climate-focused partnerships with countries like Japan, Korea, and China to access green technology and finance. Japan and Korea have various initiatives that fund clean energy in ASEAN. Coordinating these with ASEAN's regional plans can maximise their impact.

Moreover, ASEAN can use multilateral forums to its advantage. Notably, Indonesia, Malaysia, and Thailand have joined the G7-initiated Climate Club, an international initiative aimed at promoting global cooperation in reducing greenhouse gas emissions and accelerating decarbonization, particularly in high-emitting industries and developing economies. Participation in such forums provides ASEAN members with a platform to influence the establishment of fair standards and collaborate on industry decarbonization efforts.38 International climate finance must be mobilised at scale. Building on the JETP model, ASEAN should advocate for expansion of such partnerships — potentially a regional JETP facility that any member can tap into for transitioning their energy sector.

4. Enhance Regional Coordination and Monitoring

ASEAN should bolster its institutional mechanisms to coordinate sustainability policy. This could involve empowering an existing ASEAN body or a new task force to monitor sustainability initiatives across member states and track progress toward collective targets. An ASEAN Sustainability Monitoring Framework could be established, with indicators reported annually by all members.39

Additionally, ASEAN might consider a periodic Ministerial dialogue on Sustainable Development and Trade dedicated to aligning positions on new international sustainability norms. Internally, this coordination can pave the way for mutual recognition arrangements, e.g. recognising each other's eco-certifications or carbon credits, which facilitate smoother intra-ASEAN trade under sustainability criteria.

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