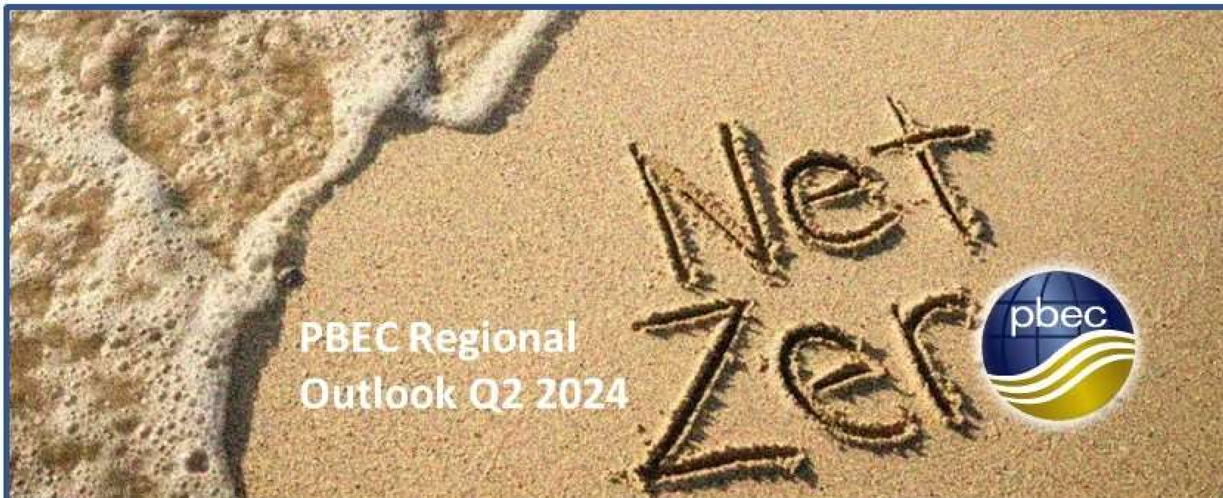

Businesses identified Scope 3 emissions as a major barrier to net-zero commitments.

Dear PBEC members,

Despite the uncertainty about what lies ahead for global trade, there are still reasons for optimism about its resilience and its enduring role as a catalyst for positive change, and these are encapsulated in the current trends that are shaping the landscape.

As 2024 Q2 draws to a close, economies in Asia Pacific are facing what is projected to be a modest slowdown to approximately between 3.5% to 4.2% on average according to the IMF. But this paints over some of the risks within individual economies such as the deeper property sector corrections in China and Vietnam which remain important factors in both. This trend reflects macroeconomic factors but also the impact of persistent corruption and untethered growth of the last decade in these sectors. Geopolitical tensions, including the conflicts in Ukraine and the Middle East and security threats to shipping in the Red Sea, have continued to disrupt global supply chains, and shipping/container prices which get passed on to consumers.

In addition to these challenges, 2024 is proving to be one of the biggest election years in history and the results of some already show it's not all plain sailing for those in power (India case in point). With France announcing a snap election in July alongside the UK, both during the European Football Championships commencing in Germany on the 14th June and right before the Olympics which commence on the 26th July, the chances are both will see a low turnout and what that might been for both. India's result wiped several Billion dollars off company share values in a day.

As half of the world's population heads to the polls with the big one in November in the USA, debates over globalisation are being reignited in major trading economies, the prospect of new tariffs are materializing with the latest China EV restrictions imposed by the EU and further trade barriers around what is described are critical national security sectors such as rare earths and microchips.

Some of the critical issues facing international suppliers is the [Carbon Border Adjustment Mechanism (CBAM).]

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To be clear: PBEC is fully supportive of the European Union's ambitious efforts to accelerate climate action globally – and, moreover, recognise the potential challenge posed by carbon leakage given existing asymmetries in domestic policies. However, to be effective, PBEC believes it is imperative to ensure that the CBAM does not create unnecessary barriers to global commerce – which risk stoking severe trade frictions and undermining cooperative action to secure a net-zero future.

Of particular note, the following challenge have been raised with PBEC by a broad spectrum of members since the turn of the year.

- Access to the CBAM reporting platform: Technical issues have impeded many companies from accessing the platform. Technical challenges have also been encountered once the platform was accessed, for example validation errors with commodity codes when using default values for direct emissions.
- High administrative burden: Due to the low de minimis threshold of €150, a large number of transactions are captured in the scope of the CBAM including those traded in low volumes resulting in disproportionately high compliance costs which are particularly challenging for smaller businesses.
- Collection of required data and calculation of embedded emissions: Even though many companies, globally, are already monitoring and calculating their embedded emissions, they are based on other methodologies, whose use is only possible until the end of 2024. For the CBAM collection method, it's regarded as too complicated for most suppliers.
- Obtaining the required data across supply chains: There is also a real issue with collecting data across different tiers of the supply chain as many suppliers outside of the EU are reluctant to provide critical information and may even risk violating domestic data protection laws. Especially for non-European companies, there is a difficulty to identify the scope for importation performed in an European country where the company is not established but registered only for VAT purposes.

Plurilateralism on the rise - New Asian regionalism in motion

The legalization of the ASEAN – Association of Southeast Asian Nations plus six framework has propelled the New Regional Economic Order (NREO), which has reinforced a trade-development nexus alternative to the Washington Consensus and is having far-reaching normative, economic, and geopolitical effects on the world of trade.

Plurilateral soft-law agreements can be transformed into multilateral hard-law obligations. This is not new, APEC crystallized the WTO Information Technology Agreement (ITA), which covers 97 per cent of global trade in pertinent products. The APEC ministerial meeting decided on the main components of this first sectoral, plurilateral agreement of the WTO, including its product coverage and formulas for reducing tariffs. Later, the APEC caucus pushed for the binding ITA at the WTO. Following the ITA model, APEC members have been engaged in negotiating the WTO Environmental Goods Agreement (EGA) since 2014. Similar to the ITA, the EGA includes the most-favored-nation (MFN) design that will result in spillover benefits for other WTO members. Outside the APEC arena, the trilateral Supply Chain Resilience Initiative and the US-led 'Chip 4' alliance will restructure the landscape of international trade.

PBEC wrote a piece this month on the benefits for businesses if Hong Kong joins RCEP and has its application finally approved. We should not ignore that the mega FTA that is RCEP harmonizes the rules

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of origin under the ASEAN Plus Six agreements which alone starts to bring immediate and substantive benefits to businesses in the first 18 months since it came into force. Along with the APEC and ASEAN Secretariats, the prospective launch of the RCEP Secretariat will also galvanize the normative framework for new Asian regionalism. There are though the non-tariff constraints that hinder the RCEP's ability to support trade in climate-friendly products.

Despite the uncertainty about what lies ahead, there are still reasons for optimism about the resilience of global trade and its enduring role as a catalyst for positive change, and these are encapsulated in the current trends that are shaping the landscape.

Emerging corridors for trade movements are creating opportunities for inclusive and near shore growth

Despite the prevailing narrative of deglobalisation and fragmentation, business leaders continue to have faith in globalisation. The overwhelming majority of PBEC & ABAC community members we have engaged with told us they believe in the benefits of trade for Asian economies and trade agreements still play an important catalyst to facilitate cross-boundary trade like RCEP and CPTPP.

The possible merits of a new southern air cargo link are being discussed between China/SE Asia air cargo freight consolidation hubs and Latin America airports via Australia and New Zealand. As trade ties between Australia and China warm up,

As businesses diversify their supply chains and move beyond traditional markets to mitigate risks, they are also enabling the benefits of trade to reach more people. Emerging markets such as Brazil, Argentina, Mexico, Vietnam, the Philippines, Malaysia, Thailand, Indonesia, Kenya, Nigeria, Bangladesh and India once on the periphery of global discussions, are now at the centre, offering new opportunities and pathways for inclusive growth. The rising prominence of trade corridors in Asia, Latin America, the Middle East and Africa are a testament to the dynamic nature of global trade, and a beacon of hope for a more equitable future.

Efficiencies in trade finance are being unlocked by Digitalization

Innovation will be a cornerstone of this year's narrative as the pace of digital transformation accelerates. Building on the groundwork laid by initiatives like the Monetary Authority of Singapore-led Project Guardian, rapid advances in the adoption and use of tokenised assets promise to solve for real challenges in trade – as PBEC's corporate member Standard Chartered's successful pilot to unlock liquidity for participants in the supply chain demonstrated.

Project Guardian is a collaborative initiative between policymakers and the financial industry to enhance liquidity and efficiency of financial markets through asset tokenisation. Its main objectives are to formulate industry standards for asset tokenisation on a commercial scale. Establish policy guidelines and frameworks by defining an acceptable governance model or accountability and provide technical standards for digital assets. Finally to develop a sound and sustainable digital asset ecosystem with commercial use-cases, guided by policy considerations and frameworks.

The continued roll-out of central bank digital currencies (CBDCs) this year and the expansion of Project mBridge by the Hong Kong Monetary Authority will lay the groundwork for more streamlined cross-border transactions, while the flow of data along new rails will inject greater transparency and visibility

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into the world's supply chains, fostering a more interconnected global trade ecosystem, bringing trade, payment, sustainability data into one place. Project mBridge continues its development and has reached the minimum viable product (MVP) stage, while broadening its international reach. The project aims to explore a multi-central bank digital currency (CBDC) platform shared among participating central banks and commercial banks, built on distributed ledger technology (DLT) to enable instant cross-border payments and settlement.

Project mBridge which PBEC endorses, is the result of extensive collaboration starting in 2021 between the BIS Innovation Hub, the Bank of Thailand, the Central Bank of the United Arab Emirates, the Digital Currency Institute of the People's Bank of China and the Hong Kong Monetary Authority. The Saudi Central Bank has joined mBridge as a full participant after an MoU was signed in April after a high level delegation visit to Riyadh as part of the growing renewed linkages between Saudi Arabia/UAE and GCC economies with Greater China on developing two way trade and digital asset transfers. There are also now more than 26 observing members.

The project aims to tackle some of the key inefficiencies in cross-border payments, including high costs, low speed and operational complexities. It also addresses financial inclusion concerns, particularly in jurisdictions where correspondent banking (which connects countries to the global financial system) has been in retreat, causing additional costs and delays. Multi-CBDC arrangements that connect different jurisdictions in a single common technical infrastructure offer significant potential to improve the current system and allow cross-border payments to be immediate, cheap and universally accessible with final settlement.

We have witnesses the paperless drive in logistics and AI is paving the way for greater automation

The popularity of ChatGPT has demonstrated just how useful artificial intelligence (AI) can be in helping with a wide range of administrative and reporting tasks. As the technology continues to mature, use cases are emerging across trade, from the generation and verification of crucial trade documents and regulatory reports to the correction of cross-border payment messages which speeds up settlements.

PBEC is excited about the possibilities AI can bring to supply chains covering vast distances and for helping brands monitor scope emission disclosure tracking and performance of suppliers. Through our associated members in the Veritas consortium in Singapore, we hear that regulators across Asia have issued non-binding guidance or principles, and have encouraged collaboration among financial institutions and technology partners to build understanding of how existing controls and governance can be strengthened to implement and demonstrate good practices of responsible AI.

This principles-based, technology-neutral regulatory approach can be seen most clearly in Singapore and Hong Kong, echoing the approach globally by jurisdictions like the UK.

Real action on sustainability efforts by businesses are being enabled and monitored

As businesses and governments navigate continued volatility and uncertainty, a new model of trade that values resilience and sustainability as much as efficiency and profit is taking shape. More and more companies have taken actions to shore up their supply and diversify from single sourced economies. In the process it has also created opportunities to yield emission efficiency improvements through technological advancements when building new factories, automated production lines or facilities which

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bodes well for the planet and many businesses sustainability efforts. And through collaborative efforts, policymakers and financiers alike are delivering new ways to support sustainable outcomes.

Last year, we launched our Charting a New Course in Asia Pacific – Regional Trends in global sourcing report which was well received that highlighted a lot of these trends by global and regional MNC businesses and PBEC has followed this with our soon to be published *"Unlocking the Scope 3 opportunity: insights from Asia Pacific businesses"* – many businesses identified scope 3 emission disclosures and reporting as a major barrier to achieving their net-zero commitments. PBEC felt it timely to assess what MNC's are doing already in a voluntary capacity before international public exchanges bring out mandatory regulations around Scope 3 reporting. With the support of ICAEW, KPMG and Hinrich Foundation we are able to share the top 10 strategies and provide recommendations to businesses which are just embarking on this journey now in Asia.

There is still a funding gap for ESG improvements in supply chains from what our members tell us, that some banks are looking to address through launching sustainability-focused trade loans, however a lot more liquidity is needed to address the disparities.

The World Trade Organization last year released a set of trade policy tools for climate action, offering governments a range of strategies to align trade policies with climate change mitigation and adaptation goals. Meanwhile, our partner in the International Chamber of Commerce (ICC) has broadened its trade finance sustainability standards to include three high-risk sectors, a major step in its plans to develop a global benchmark for measuring the sustainability of trade transactions. The ICC digital standards Initiative also released its first Global Trade Modernization Index in March 2024 in association with Asia Global Institute and Milken Institute which highlighted the progress of Paperless Trade, trade openness, business readiness, human capital available and regulatory environment. Singapore came out top in the index with Hong Kong 4th however the parameters where somewhat questioned given some economies don't release such data in a timely fashion.

A collaborative approach reaffirms that trade is a force for good

Despite business leaders facing a mounting in tray of complexities and challenges, PBEC is witnessing an increasing level of collaboration among various stakeholders, Think Tanks and institutions at multiple levels. This cooperation is evident across the spectrum, as banks, regulators, industry bodies, and corporates join forces to foster innovation, establish new standards, and share best practices. As we look ahead to the 2nd half of 2024, the journey of globalisation continues, evolving in the face of challenges. And if the past few years have taught us anything, it's that by working together, we can overcome even the most daunting obstacles.

Important Announcements:

PBEC has welcomed the launch of a G20 Bali Global Blended Finance Alliance turning outcomes of the 2022 G20 Bali Leaders' declaration into reality. The mission of the G20 Bali GBFA is to scale and replicate blended finance instruments for developing countries by accelerating investments, modernize the development finance system by reducing transaction costs, unlock opportunities for transition finance, capacity building and strengthen network across relevant actors. It will work on the premise of the G20 Blended Finance Principles.

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SOUTH KOREA & UAE SIGN TRADE AGREEMENT: South Korea and the United Arab Emirates in June 2024 formally signed a bilateral closer economic partnership agreement. It was signed in Seoul. Meanwhile Australian and UAE officials have been meeting in Dubai to progress their CEPA negotiations.

SOUTH KOREA & NEW ZEALAND TALK TRADE: South Korean and New Zealand officials met in Seoul on Tuesday for their 6th FTA Joint Committee meeting. It was their first meeting in four years. Trade between the two economies has grown by 85% since a bilateral free trade agreement entered into force in 2015.

CHINA, JAPAN & SOUTH KOREA TO ACCELERATE FTA TALKS: Leaders from China, Japan and South Korea met in Seoul on Monday and agreed to accelerate negotiations for a trilateral free trade agreement. They will also encourage the RCEP Joint Committee to accelerate discussion on new member procedures.

SINGAPORE ESTABLISHES TRADE WORKING GROUP: Singapore has formed a working group with Lao and Cambodia to facilitate cross-border electricity trade as part of an ASEAN Power Grid. Its work focus will include regulatory approvals and commercial arrangements for the export and import of electricity.

TAIWAN SECURES BIG GAS SUPPLY: Taiwan's oil supplier CPC has signed with Qatar Energy to secure a 27-year supply of four million tonnes per annum of liquefied natural gas. CPC will also take a five per cent stake in a Qatar Energy expansion project. China, Japan and South Korea are major LNG buyers from Qatar.

CHINESE ELECTRIC VEHICLES FACE EU SUBSIDY TARIFFS: The European Commission has determined electric vehicles from China benefit from unfair government subsidies. It has indicated it will levy countervailing duties of up to 38.1 per cent if it is unable to negotiate an effective solution by early July.

US WIDENS CHINA TRADE BAN: The US Department of Homeland Security has this week added three China-based companies producing seafood, footwear and aluminium to its Uygur Force Labor Prevention Act Entity List. This means goods produced by the companies will be unable to be exported to the US.

UPCOMING EVENTS:

PBEC will be hosting a webinar on July 10th July 2024 on the following topics: "**APEC Peru Chair 2024 YTD and APEC Business Advisory Council Meetings ABAC II meeting outcomes which was held in HK as well as looking ahead to ABAC III meeting priorities"** being held in Tokyo, Japan in early August.

So far we have APEC's Executive Director **Tan Sri Datuk Dr. Rebecca Fatima Sta Maria** confirmed alongside our own MD of Standard Chartered Bank **Peter Burnett OBE BBS** PBEC BoD as well as Brunswick Group Partner and CEO APAC **Michaela Browning** ABAC Australia (Former Vice President and the Regional Head of Government and Public Policy for Asia Pacific at Google) confirmed to speak.

You can join us either in person (first come first serve basis) or online. Kindly DM me if you plan to attend in person, but please also register online.

To register for either online or in person please click HERE: https://us02web.zoom.us/meeting/register/tZcvf-qhqDgiGNEuI18w5zhYBOGa8vnwVlO7

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When: **Wed 10th July 2024 @ 2pm to 4pm HK/SG/KL/PH local time**. (The briefing will go live online around 2.25pm - chance to network beforehand for those attending physically)

Where: Online Zoom meeting and in person: **8/F Board Room, Princes Building, Central, Hong Kong**.

PBEC will host two live Webinar launch and dialogue discussion sessions on July 16 & 17th 2024 *(Save the dates)* exact timings TBC of our highly anticipated Annual Report which this year is focused on: **"Unlocking the Scope 3 opportunity: insights from Asia Pacific businesses"** – Many businesses identified scope 3 emission disclosures and reporting as a major barrier to achieving their net-zero commitments.

PBEC will share the report findings and invite subject matter experts led by **Dr. Professor Neale O'Connor** Forensic and Sustainable Accounting, Department of Accounting, Data Analytics, Economics and Finance at La Trobe Business School, La Trobe University, Melbourne Australia, to share their thoughts and where this is all heading for MNC's ESG reporting requirements and best practices in Asia Pacific.

With the support of ICAEW, KPMG and Hinrich Foundation we are able to share the top strategies of the leading economies and businesses and provide recommendations to those business leaders which are just starting to embark on this journey in Asia.

This concludes this quarterly update briefing. PBEC hopes that this brief will be helpful to readers in the Asia-Pacific region and beyond, thus fostering critical dialogues and exchanges of ideas on the complexity of trade as a force for good.

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