

**Background**

Through the recently expanded Association of Southeast Asian Nations (ASEAN), Southeast Asia continues its path to strong economic growth.

As the regional and global operating environment becomes more contested and more climate-affected, modernised free trade agreements (FTAs) can help Australia and Southeast Asia reduce transaction costs, strengthen supply chain resilience, and expand commercially meaningful cooperation in priority growth sectors—while ensuring that businesses on both sides can actually use the agreements in practice.

**Recommendation 1:****Expand bilateral and minilateral FTA partnerships**

There is significant opportunity to forge FTAs specifically with Vietnam and the Philippines, the two other large economies in the region with which Australia does not currently have agreements in force. Agreements with these countries can enhance bilateral relationships in services trade (in the case of the Philippines<sup>1</sup> business process outsourcing industry) and electronics trade (in the case of Vietnam's<sup>2</sup> electronics industry). These sectors are critical in supporting digital business, thus strengthening Australia's role in promoting the growth of the digital economy.

In addition to bilateral agreements, there is an opportunity to forge minilateral agreements (for example, with Mekong countries) to harness synergies in sub-regional country clusters. This creates scope to consider pathways where policy challenges and commercial opportunities are shared across a sub-region (for example, connectivity, logistics corridors, power interconnection, or climate adaptation infrastructure), while still remaining consistent with ASEAN-centred economic integration.

**Recommendation 2:****Align FTA modernisation priorities with ASEAN's economic agenda**

ASEAN's *AEC Strategic Plan 2026–2030*<sup>3</sup> frames a forward agenda that is explicitly framed around resilience, sustainability, and adaptability in a more uncertain global environment.

Against this backdrop, Australia's FTA modernisation agenda can be most effective where it maps to ASEAN's own priorities—reducing regulatory friction, supporting digital and physical connectivity, and strengthening resilience—so that commitments are not only ambitious on paper but also implementable across diverse ASEAN economies.

While the Plan is broad-based and applies across highly diverse economies, it articulates several core priority areas that are directly relevant to Australia's FTA modernisation objectives. Aligning FTA upgrades with these priorities would improve policy coherence, strengthen buy-in from ASEAN partners, and increase the likelihood that commitments are implemented and utilised in practice.

The major priorities in the Plan, and corresponding opportunities for Australian FTA enhancement, can be summarised as follows:

**1. Deepening economic integration and reducing trade and investment frictions**

The Plan emphasises further reducing barriers to the seamless flow of goods, services, investment, capital and skilled labour across the region. This includes tackling behind-the-border regulatory frictions, improving transparency, and strengthening implementation of existing commitments to ensure integration delivers real economic gains.

Australia can thus prioritise FTA modernisation provisions that:

- simplify and harmonise rules of origin administration across overlapping agreements, reducing compliance costs for firms operating across multiple ASEAN markets;
- strengthen transparency obligations (for example, advance notice of regulatory changes and accessible regulatory information portals); and

- enhance investment facilitation disciplines that reduce administrative delays rather than focusing solely on market access.

These measures directly support DFAT's stated objective of improving FTA utilisation and addressing practical barriers to trade.

## **2. Building a resilient and agile ASEAN economy**

A central theme of the Plan is resilience—enhancing ASEAN's capacity to withstand external shocks, including economic volatility, supply chain disruption and climate-related events. The emphasis is on agility, adaptability and cooperation rather than on static liberalisation commitments.

Australian FTA modernisation can contribute by:

- embedding cooperation mechanisms focused on supply chain resilience, including information-sharing and coordination during periods of disruption (particularly climate-related disruption);
- linking trade facilitation commitments with disaster preparedness and recovery objectives, particularly for critical trade-related infrastructure; and
- enabling rapid temporary measures (consistent with WTO obligations) to maintain essential trade flows during crises.

This approach reinforces Australia's interest in resilient regional supply chains while responding directly to ASEAN's resilience agenda.

## **3. Advancing the digital economy and innovation**

The Plan highlights the digital economy as a key driver of future growth, productivity and inclusion. It underscores the importance of digital connectivity, interoperable systems, and innovation to support businesses—particularly SMEs—across ASEAN.

Australian FTA modernisation can strengthen digital economy initiatives by:

- expanding commitments on digital trade facilitation, including electronic documentation and interoperable customs systems;
- supporting cooperation on data governance and regulatory coherence in ways that reduce compliance uncertainty for cross-border services; and
- embedding SME-focused digital cooperation initiatives that translate legal commitments into practical business capability.

These enhancements align with DFAT's explicit interest in digital economy issues as part of the modernisation review.

## **4. Promoting sustainability, the green economy and climate responsiveness**

Sustainability is integrated throughout the Plan, including commitments to support environmentally sustainable growth, climate responsiveness, and long-term economic viability in the face of environmental stress.

Building on ASEAN's priorities and regional climate vulnerability, Australian FTA modernisation can:

- move beyond aspirational sustainability language towards operational cooperation on climate adaptation and mitigation relevant to trade and investment;
- incorporate provisions that support green infrastructure development, sustainable transport, and low-emissions energy systems; and
- align sustainability commitments with financing and investment facilitation mechanisms that help mobilise private capital.

This reinforces the case for embedding climate adaptation and green economy cooperation as a core element of FTA modernisation rather than a peripheral add-on.

## **5. Supporting inclusive growth and SME participation**

The Plan recognises that integration gains must be inclusive, with particular attention to SMEs, less developed members, and uneven capacity across the region. Effective participation in regional trade is a recurring concern.

Australian FTA modernisation can reinforce inclusivity by:

- strengthening SME-specific provisions with practical cooperation measures (training, information sharing, digital tools) beyond declaratory commitments;
- ensuring utilisation support is explicitly two-way, enabling and empowering ASEAN SMEs to engage more effectively with the Australian market; and
- aligning capacity-building initiatives with areas where low utilisation is most evident.

This directly supports DFAT's objective of improving FTA utilisation and ensuring agreements deliver real commercial outcomes.

#### **6. Strengthening connectivity and regional cooperation**

The Plan underscores physical, institutional and people-to-people connectivity as enablers of integration, resilience and long-term competitiveness.

Australia can leverage FTA modernisation to:

- support trade-enabling infrastructure development through investment facilitation and standards cooperation;
- explore minilateral or sub-regional cooperation models (for example, Mekong sub-region connectivity) within the broader ASEAN-centred framework; and
- align transport, logistics and infrastructure cooperation with climate resilience objectives.

Such measures complement Australia's strategic interest in stable, well-connected Southeast Asian markets while remaining consistent with ASEAN's own integration pathway.

Taken together, aligning FTA modernisation with these articulated ASEAN priorities increases the likelihood that upgraded agreements will be viewed not merely as trade instruments, but as practical tools that support ASEAN's economic agenda—while advancing Australia's objectives of utilisation, resilience and sustainable growth.

### **Recommendation 3:**

#### **Mainstream climate risk management and climate adaptation in FTA modernisation**

Southeast Asia's growth is highly trade- and export-oriented and deeply embedded in global value chains. However, the same geography that supports trade also amplifies climate risk<sup>4</sup>, particularly from tropical cyclones and associated flooding. Economic impacts are material and persistent, with continued disruption affecting agriculture, infrastructure, tourism and transport, and spillovers beyond the region.

It is clear that infrastructure and utilities are a binding constraint on resilience. Even where industrial facilities are reinforced, vulnerabilities in power, telecommunications, roads, ports and logistics can shut down production and trade flows. There is thus an important opportunity for Australian FTA modernisation to incorporate a coherent, outcomes-oriented component on climate adaptation and resilience that is commercially relevant and operationally implementable. This could include:

- structured cooperation on resilient infrastructure standards and project pipelines that support trade and investment continuity (ports, airports, roads, power, telecoms);
- improved disciplines and cooperation pathways that enable rapid movement of essential goods and services during climate-related disruption (consistent with DFAT's focus on "making trade easier" and addressing barriers); and
- mechanisms that help firms—especially SMEs—understand and manage climate-related operational risk in cross-border supply chains.

Further building on DFAT's interest in emerging issues (green economy, digital economy, sustainable agriculture), and ASEAN's forward economic integration agenda, other FTA modernisation packages could prioritise:

- transportation and trade connectivity: targeted commitments and cooperation to reduce logistics frictions and improve reliability of cross-border movement (particularly relevant given climate disruption and supply-chain volatility);
- energy transition and the green economy: cooperative pathways that support investment certainty, standards cooperation and technology diffusion relevant to the region's transition needs;
- digital economy: interoperability, digital trade facilitation, and practical measures that reduce compliance costs for cross-border services and e-commerce; and

- development of regional financial markets: cooperation that supports deeper capital market integration and risk financing tools, including for climate resilience—consistent with the case for redesigning financial models to support exposed operators and supply chains.

#### **Recommendation 4:**

##### **Strengthen support for FTA utilisation for Australian and Southeast Asian businesses**

Australia's FTA modernisation agenda should treat utilisation as a core design constraint, not an implementation afterthought. Priority actions include:

- the reduction of practical barriers to use by simplifying rules-of-origin processes where feasible, improving clarity of guidance, and ensuring that business-facing materials are useful for SMEs (including sector-specific case studies);
- targeting known friction points that prevent preference uptake, including documentary requirements and inconsistent interpretations across jurisdictions, to the extent these can be addressed through upgraded disciplines or agreed implementation practices;
- building two-way utilisation capability by supporting not only Australian exporters/investors but also Southeast Asian firms seeking to use FTA provisions to trade and invest with Australia, which in turn strengthens commercial interdependence and supply-chain integration; and
- using overlapping management as a utilisation lever in order to identify and resolve overlaps between bilateral and regional agreements—an area where complexity directly reduces business uptake.

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#### **Sydney Southeast Asia Centre (SSEAC)**

The Sydney Southeast Asia Centre (SSEAC) at the University of Sydney supports research, education and partnerships in Southeast Asia, and builds collaborations across a large multidisciplinary community of University of Sydney academics specialising in the region. SSEAC fosters partnerships between researchers and practitioners focused on grand challenges in Southeast Asia, including climate resilience, the clean energy transition, agricultural development and sustainable use of natural resources, healthy and resilient societies, digital transformation and AI, culture and heritage.

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<sup>1</sup><https://www.forbes.com/councils/forbesbusinesscouncil/2025/10/10/the-top-countries-powering-the-outsourcing-industry/>

<sup>2</sup> <https://tradingeconomics.com/vietnam/exports-by-country>

<sup>3</sup><https://asean.org/book/asean-economic-community-aec-strategic-plan-2026-2030-of-the-asean-community-vision-2045/>

<sup>4</sup> <https://eastasiaforum.org/2025/02/07/weathering-the-economic-storms-of-the-asean-climate/>