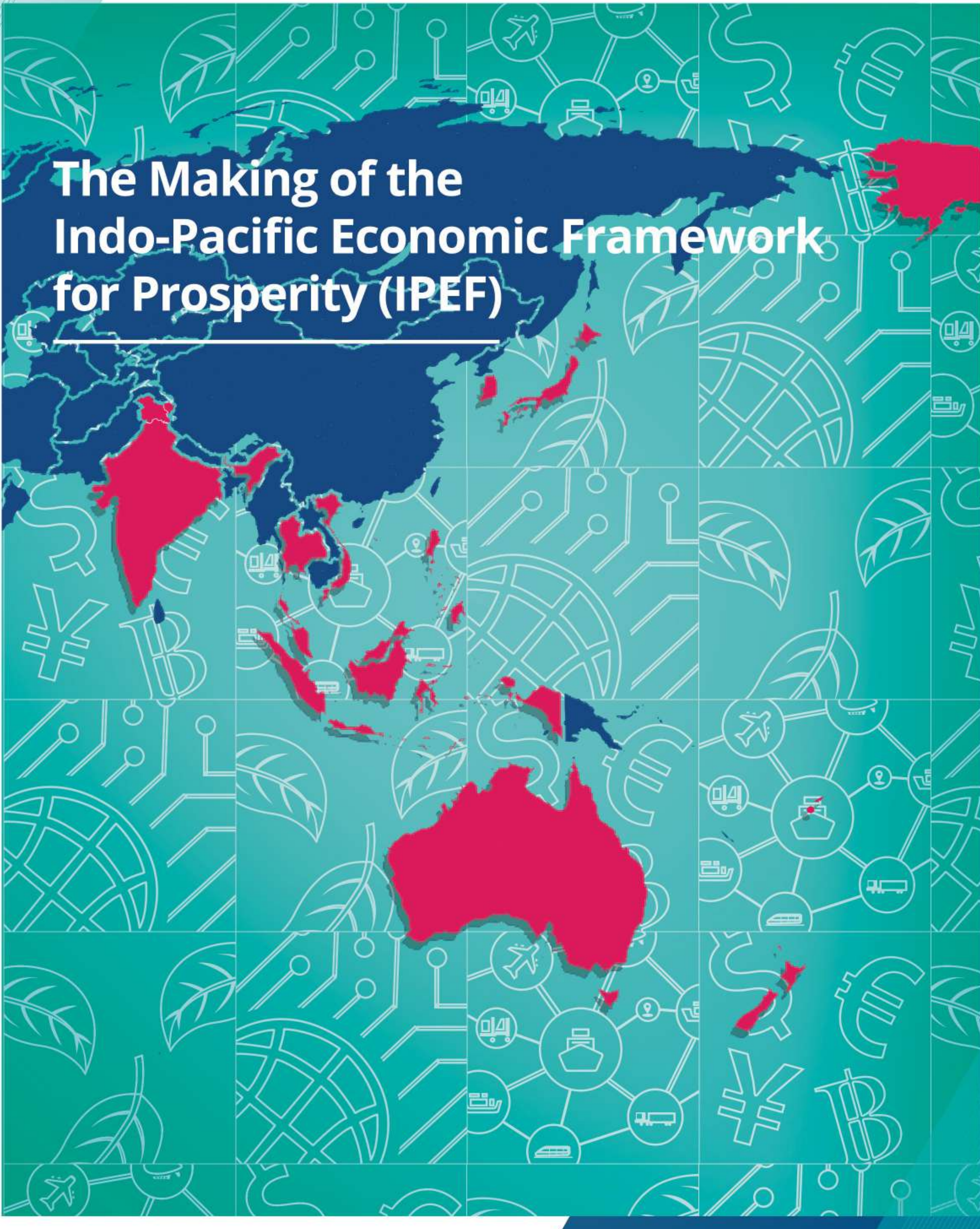
NUS National University of Singapore | ISAS Institute of South Asian Studies | KONRAD ADENAUER STIFTUNG

# The Making of the Indo-Pacific Economic Framework for Prosperity (IPEF)



# The Making of the Indo-Pacific Economic Framework for Prosperity (IPEF)

# Publisher Information

*The Making of the Indo-Pacific Economic Framework for Prosperity (IPEF)* is jointly published by the Konrad-Adenauer-Stiftung's Regional Economic Programme Asia (SOPAS) and the Institute of South Asian Studies - National University of Singapore (ISAS-NUS).

**Editors**: Amitendu Palit, Ramita Iyer
**Publication Coordination**: Cristita Marie Perez, Sakuya Iwakawa, Johanna Bieger
**Design, Layout, and Typeset Artist**: Paula Dianiña  Duman


ISBN 978-4-910690-11-7

**Publisher**
Konrad-Adenauer-Stiftung Japan Office / Regional Economic Programme Asia (SOPAS)
Sanno Park Tower 25F, 2-11-1 Nagatacho, Chiyoda-ku, Tokyo, 100-6125 Japan

KAS-Tokyo@kas.de

+81 3 6426 5041

https://kas-japan.or.jp/

# The Making of the Indo-Pacific Economic Framework for Prosperity (IPEF)

Amitendu PALIT, Ramita IYER (Editors)

# Contents

# Foreword | KAS

The launch of the Indo-Pacific Economic Framework (IPEF) in Tokyo last May 2023 marked a renewed commitment of the United States to actively engage in trade rule-making in the region. The IPEF's 14 economies account for over forty percent of the world's economy measured in nominal GDP (2020). The diverse group is composed of high income economies (i.e., Australia, Brunei, Japan, New Zealand, Singapore, South Korea, and the US), large developing economies (i.e., India, Indonesia, Malaysia, Philippines, Thailand, and Vietnam) and island economies (i.e., Fiji). The IPEF also pioneers an unconventional free trade discussion format by setting standards in four work pillars: *connected* economy; *resilient* economy; *clean* economy and *fair* economy.

***"The Making of the Indo-Pacific Economic Framework for Prosperity (IPEF)"*** is a series of discussion papers jointly produced by the Konrad Adenauer Stiftung's Regional Economic Programme Asia (SOPAS) and the Institute of South Asian Studies (ISAS) at the National University of Singapore (NUS). Demographic trends, technological advancements, progress towards regional integration and the region's rise as an economic powerhouse is discussed against a backdrop of rising geopolitical tensions. Emphasis is placed on the value of multilateralism and the role of international cooperation and diplomacy in maintaining stability and sustaining economic gains.

The IPEF Discussion Papers represent the diverse perspectives and viewpoints offered by scholars in each of the IPEF member countries. The collection includes contributions from various disciplines such as economics, political science, international relations, and others. This interdisciplinary approach enriches our understanding of the depth and breadth of the emerging Indo-Pacific Economic Framework.

The ideas and research presented in the papers could influence economic policies, international relations, and regional development strategies. These discussion papers are only an initial foray into the potential trends, challenges, and opportunities that will shape the region's economic trajectory in the years to come. Continued research and collaboration is important to define a common, prosperous, and fair economic future.

We are grateful to the scholars and authors for their insightful contributions. We would also like to thank the researchers, their affiliated institutions, the reviewers and all others who have supported the development of this publication.

We encourage the readers to look into the IPEF Discussion Papers and explore the diverse range of topics covered, engage in discussions and share insights, and consider the implications of the Indo-Pacific Economic Framework in your own work or studies.

**Rabea BRAUER**
Representative Tokyo Office, Director Regional Economic Programme Asia (SOPAS)
Konrad Adenauer Stiftung

# Foreword | NUS - ISAS

The IPEF, announced by the United States (US) President Joe Biden on 23 May 2022, has become the centrepiece of the Biden administration's economic strategy for the Indo-Pacific. Coming five years after the US withdrew from the Trans-Pacific Partnership (TPP), the IPEF is seen as a tool to re-emphasise Washington's economic engagement in the region by advancing rulemaking in frontier areas of trade and investment. At the same time, the countries that are part of the IPEF do not view it simply as a means of maintaining a balance between the US and China. The IPEF is also welcomed as it could provide opportunities for inclusive growth, minimise supply chain disruptions, advance sustainability, and provide a framework for economic diplomacy by setting the "rules of the road".

The IPEF is a formidable economic bloc with considerable strategic influence. Its potential significance is reflected in the fact that it comprises 14 members drawn from Southeast Asia, South Asia, the Pacific Islands and the broader Indo-Pacific region, and accounts for more than 40 per cent of the global Gross Domestic Product (GDP).

Significantly, the IPEF deviates from the framework of traditional Free Trade Agreements that have focused on market access concessions and tariff liberalisation. As a framework focusing on standard-setting and rulemaking, it attempts to provide a blueprint for a new, albeit untested, method of economic engagement in the region. The IPEF negotiations, which are being conducted in a modular approach, have made robust progress through the various negotiating rounds. The Supply Chain Agreement has been a notable outcome with more decisions and outcomes expected very soon.

For the Institute of South Asian Studies (ISAS) at the National University of Singapore (NUS) - an autonomous research institute working on contemporary South Asia – the IPEF is a core subject of research. At ISAS, we are committed to tracking the latest developments around the world and analysing their impacts on South Asia. The IPEF is a major subject of work for the trade and economy research cluster at ISAS. The initiative has a strong South Asian dimension, given India's membership in the framework. Moreover, as an institute situated in Southeast Asia, a region from which several countries are a part of the IPEF, the latter becomes a natural area of interest for the Institute.

We are delighted to be collaborating with the Konrad Adenauer Stiftung's (KAS) Regional Economic Programme Asia (SOPAS) on publishing a series of essays comprising perspectives from IPEF members. The essays collated in this compendium analyse the negotiating goals, expected outcomes, challenges and implementing concerns of the various IPEF member countries, including the impact of domestic political economies. This is, by far, one of the most detailed, exhaustive and rigorous research efforts on the IPEF and will go a long way in contributing to the knowledge and understanding of the framework.

I extend my appreciation to the various contributors, the editors, and the project teams at ISAS and KAS for their contributions and efforts in bringing this publication together. I look forward to noting and engaging in the multiple thought-provoking conversations and discussions this publication would certainly encourage.

**A/P Dr Iqbal Singh SEVEA**
Director
Institute of South Asian Studies
National University of Singapore

# List of Abbreviations

| | |
|---|---|
| **4G/LTE** | Fourth Generation/Long Term Evolution |
| **AAGC** | Asia-Africa Growth Corridor |
| **AANZFTA** | ASEAN-Australia-New Zealand Free Trade Area |
| **ACFTA** | ASEAN-China Free Trade Agreement |
| **ACRC** | Anti-Corruption and Civil Rights Commission |
| **ACTU** | Australian Council of Trade Unions |
| **ACTWG** | Anti-Corruption and Transparency Experts' Working Group |
| **ADB** | Asian Development Bank |
| **AEC** | ASEAN Economic Community |
| **AFTINET** | Australian Fair Trade & Investment Network |
| **AI** | Artificial Intelligence |
| **ALP** | Australian Labor Party |
| **APAC** | Asia Pacific |
| **APEC** | Asia-Pacific Economic Cooperation |
| **APEP** | Americas Partnership for Economic Prosperity |
| **ASEAN** | Association of Southeast Asian Nations |
| **ASEAN-PAC** | ASEAN Parties Against Corruption |
| **ASEAN+** | Association of Southeast Asian Nations Plus |
| **AUKUS** | Australia, UK and US |
| **AVE** | Ad-Valorem tariff Equivalents |
| **BCAs** | Border Carbon Adjustment Measures |
| **BCG** | Bio-Circular-Green |
| **BEPS** | Base Erosion and Profit Shifting |
| **BKPM** | Badan Koordinasi Penanaman Modal (Investment Coordinating Board) |
| **BP** | Bhumjaithai Party |
| **BPO** | Business Process Outsourcing |
| **BPS** | Badan Pusat Statistik (Central Bureau of Statistics) |
| **BRI** | Belt and Road Initiative |
| **BTA** | Bilateral Trade Agreement |
| **CHIPS** | Creating Helpful Incentives to Produce Semiconductors |
| **CII** | Confederation of Indian Industry |
| **CIT** | Corporate Income Tax |

| | |
|---|---|
| **CMIM** | Chiang Mai Initiative Multilateralization |
| **CMTA** | Customs Modernization and Tariff Act |
| **COP** | Conference of the Parties |
| **CPTPP** | Comprehensive and Progressive Agreement for Trans-Pacific Partnership |
| **CRS** | Congressional Research Service |
| **CSIS** | Center of Strategic and International Studies |
| **CSOs** | Civil Society Organisations |
| **CTPAT** | Customs Trade Partnership Against Terrorism |
| **DA** | Department of Agriculture |
| **DAV** | Diplomatic Academy of Vietnam |
| **DEFA** | Digital Economy Framework Agreement |
| **DFAT** | Department of Foreign Affairs and Trade |
| **DFFT** | Data Free Flow with Trust |
| **DMA** | Digital Markets Act |
| **DOC** | Department of Commerce |
| **DPM** | Deputy Prime Minister |
| **DSA** | Digital Services Act |
| **DSM** | Dispute Settlement Mechanism |
| **DTI** | Department of Trade and Industry |
| **EC** | European Commission |
| **EEC** | Eastern Economic Corridor |
| **EFTA** | European Free Trade Association |
| **EIU** | Economist Intelligence Unit |
| **EMI** | Eramen Minerals Inc. |
| **EOs** | Executive Orders |
| **EPA** | Economic Partnership Agreement |
| **ESCAP** | Economic and Social Commission for Asia and the Pacific |
| **ESG** | Environmental, Social and Governance |
| **ETC** | Economic and Technical Cooperation |
| **ETM** | Energy Transition Mechanism |
| **EU** | European Union |
| **EV** | Electric Vehicle |
| **EVFTA** | European Union-Vietnam FTA |
| **EVs** | Electric Vehicles |
| **FADTC** | Foreign Affairs Defence and Trade Committee |
| **FATF** | Financial Action Task Force |

| | |
|---|---|
| **FDI** | Foreign Direct Investment |
| **FICCI** | Federation of Indian Chamber of Commerce and Industry |
| **FOIP** | Free and Open Indo-Pacific |
| **FTA** | Free Trade Agreement |
| **FTE** | Full-Time Equivalent |
| **G20** | Group of Twenty |
| **G7** | Group of Seven |
| **GATT** | General Agreement on Tariffs and Trade |
| **GDI** | Global Development Initiative |
| **GDP** | Gross Domestic Product |
| **GDPR** | General Data Protection Regulation |
| **GE** | General Election |
| **GEA** | Green Economy Agreement |
| **GHG** | Greenhouse Gas |
| **GLCs** | Government Linked Companies |
| **GSI** | Global Security Initiative |
| **GSP** | Generalised System of Preferences |
| **GSP+** | Generalised Scheme of Preferences Plus |
| **GVC** | Gross Value Chain |
| **HS** | Harmonised System |
| **IAP2** | International Association for Public Participation |
| **ICIO** | Inter-Country Input-Output |
| **ICT** | Information and Communication Technologies |
| **IEA** | International Energy Agency |
| **IFANS** | Institute of Foreign Affairs and National Security |
| **IFRI** | Institut français des relations internationales |
| **ILO** | International Labour Organization |
| **IMD** | International Institute for Management Development |
| **IMF** | International Monetary Fund |
| **IP** | Indo-Pacific |
| **IPCs** | IPEF participating countries |
| **IPEF** | Indo-Pacific Economic Framework for Prosperity |
| **IPS** | Indo-Pacific Strategy |
| **IRA** | Inflation Reduction Act |
| **ISDS** | Investor-State Dispute Settlement |
| **ISEAS** | Institute of Southeast Asian Studies |

| | |
|---|---|
| **IT** | Information Technology |
| **ITA** | International Trade Administration |
| **ITPs** | Industry Transformation Plans |
| **JBIC** | Japan Bank for International Cooperation |
| **JET-P** | Just Energy Transition Partnership |
| **JETRO** | Japan External Trade Organization |
| **KCCI** | Korea Chamber of Commerce and Industry |
| **KIET** | Korea Institute for Industrial Economics and Trade |
| **KITA** | Korea International Trade Association |
| **KORUS** | US-Korea Free-Trade Agreement |
| **Lao PDR** | Lao People's Democratic Republic |
| **MAFRA** | Ministry of Agriculture, Food and Rural Affairs |
| **METI** | Ministry of Economy, Trade and Industry |
| **MFAT** | Ministry of Foreign Affairs and Trade |
| **MFN** | Most Favoured Nation |
| **MFP** | Move Forward Party |
| **MITI** | Ministry of International Trade and Industry |
| **MNCs** | Multinational Corporations |
| **MOEF** | Ministry of Economy and Finance |
| **MOF** | Ministry of Oceans and Fisheries |
| **MOFA** | Ministry of Foreign Affairs |
| **MOJ** | Ministry of Justice |
| **MOLEG** | Ministry of Government Legislation |
| **MOTIE** | Ministry of Trade, Industry and Energy |
| **MOU** | Memorandum of Understanding |
| **MSGTA** | Melanesian Spearhead Group Trade Agreement |
| **MSIT** | Ministry of Science and ICT |
| **MSME** | Micro, Small and Medium Enterprise |
| **MSP** | Minerals Security Partnership |
| **NAFTA** | North America Free Trade Agreement |
| **NATO** | North Atlantic Treaty Organisation |
| **NEDA** | National Economic Development Authority |
| **NIA** | National Interest Analysis |
| **NQI** | National Quality Infrastructure |
| **NTMs** | Non-Tariff Measures |
| **NZ** | New Zealand |

| | |
|---|---|
| **OECD** | Organisation for Economic Co-operation and Development |
| **OECD-G20** | Organisation for Economic Co-operation and Development – Group of Twenty |
| **OJK** | Otoritas Jasa Keuangan (Financial Services Authority) |
| **PACER** | Pacific Agreement on Closer Economic Relations |
| **PCAF-CIT** | Philippine Council for Agriculture and Fisheries Committee on International Trade |
| **PDP** | Personal Data Protection |
| **PDP** | Philippine Development Plan |
| **PDPA** | Personal Data Protection Act |
| **PGII** | Partnership for Global Infrastructure and Investment |
| **PH** | Philippines |
| **PH-EFTA** | Philippines-European Free Trade Agreement |
| **PH-EU FTA** | Philippines-European Union Free Trade Agreement |
| **PICTA** | Pacific Island Countries Trade Agreement |
| **PIIE** | Peterson Institute for International Economics |
| **PJEPA** | Philippines-Japan Economic Partnership Agreement |
| **PLI** | Production Linked Incentive |
| **PM** | Prime Minister |
| **PP** | Phalang Pracharath Party |
| **PPP** | Public-Private Partnership |
| **PQF-NCC** | Philippine Qualifications Framework–National Coordinating Council |
| **PQI** | Partnership for Quality Infrastructure |
| **PTAs** | Preferential Trade Agreements |
| **PTP** | Pheu Thai Party |
| **QUAD** | Quadrilateral Security Dialogue |
| **R&D** | Research and Development |
| **RGDP** | Real Gross Domestic Product |
| **RIVA** | Regional Integration Value Chain Analysis |
| **ROK** | Republic of Korea |
| **ROOs** | Rules of Origin |
| **ROW** | Rest of the World |
| **RSCI** | Responsible Supply Chain Initiative |
| **RTAs** | Regional Trade Agreements |
| **SDGs** | Sustainable Development Goals |
| **SEP** | Sufficiency Economy Philosophy |
| **SGD** | Singapore Dollar |

| | |
|---|---|
| **SMEs** | Small and Medium-Sized Enterprises |
| **SNU** | Seoul National University |
| **SOEs** | State-Owned Enterprises |
| **SPARTECA** | South Pacific Regional Trade and Economic Co-operation Agreement |
| **SPOR** | Singapore Public Sector Outcome Review |
| **SPS** | Sanitary and Phytosanitary |
| **STEM** | Science, Technology, Engineering, and Mathematics |
| **TBT** | Technical Barriers to Trade |
| **TC** | Tariff Commission |
| **THAAD** | Terminal High Altitude Area Defense |
| **TICAD** | Tokyo International Conference on African Development |
| **TINA** | Trade Intelligence Negotiations Adviser |
| **TiVA** | Trade in Value Added |
| **TPA** | Trade Promotion Authority |
| **TPP** | Trans-Pacific Partnership |
| **TRIMs** | Trade-Related Investment Measures |
| **TRIPs** | Trade-Related Aspects of Intellectual Property Rights |
| **TSD** | Trade and Sustainable Development |
| **TTC** | Trade and Technology Cooperation |
| **TTC** | Trade and Technology Council |
| **TTIP** | Trans-Atlantic Trade and Investment Partnership |
| **UAE** | United Arab Emirates |
| **UK** | United Kingdom |
| **UKVFTA** | Vietnam – UK FTA |
| **UN** | United Nations |
| **UNCAC** | United Nations Convention against Corruption |
| **UNGA** | United Nations General Assembly |
| **US** | United States |
| **USMCA** | United States-Mexico-Canada Agreement |
| **USTDA** | US Trade and Development Agency |
| **USTR** | United States Trade Representative |
| **UTN** | United Thai Nation Party |
| **VND** | Vietnamese Dong |
| **WITS** | World Integrated Trade Solution |
| **WROs** | Withhold Release Orders |
| **WTO** | World Trade Organization |

1

# Introduction

Amitendu PALIT and Ramita IYER

## Introduction

The Indo-Pacific Economic Framework for Prosperity (IPEF) was launched by United States (US) President Joe Biden on 23 May 2022.[1] Announced on the sidelines of the Summit meeting between the Heads of States of Australia, India, Japan, and the US, as part of the Quadrilateral Security Dialogue (Quad), the IPEF is the first formal articulation of a rules-based trade and economic framework for the Indo-Pacific region. The initial members of the Framework included Australia, Brunei, India, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, the US, and Vietnam. Fiji joined the group after its launch. The IPEF aims to set regional rules for effectively addressing a variety of contemporary and new-generation trade and economic issues.

The IPEF is a formidable bloc in both economic and strategic heft. It includes three of the world's largest economies as measured by market size (Gross Domestic Product [GDP]) – the US, Japan, and India – along with some of the world's wealthiest economies, as measured by national per capita incomes – Singapore, the US and Australia. India, the US, and Indonesia – three of the world's most populous countries - are part of the IPEF. The group comprises advanced Organisation for Economic Co-operation and Development (OECD) economies (Australia, Japan, South Korea, New Zealand, and the US), large developing economies (India, Malaysia, Indonesia, Philippines, Thailand) and relatively small economies from the Indo-Pacific region, each with distinct characteristics (Brunei, Fiji, Vietnam). The presence of diverse economies with varying degrees of economic, social and institutional features makes the IPEF noteworthy for its heterogeneity.

Accounting for around two-fifth of the world economic output, the IPEF is the world's largest economic bloc. It exceeds two other prominent blocs in the region – the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) – in economic size. This, by itself, makes it a group with substantial clout in the global and regional economic spaces.

The economic clout of the IPEF is compounded by its strategic clout. It comprises several members from two of the world's most influential groupings, the Group of Twenty (G20) and the Group of Seven (G7), respectively. The G20 members of the IPEF include Australia, India, Indonesia, Japan, South Korea, and the US. Japan and the US are members of the G7 as well. From a wider regional perspective, Australia, India, Japan and the US, all members of the IPEF, are also bonded through the Quad, which has a comprehensive agenda spanning across traditional and non-traditional security and strategic issues.[2] The IPEF is also distinct in being a bloc comprising US defence partners and its key strategic allies drawn from the Indo-Pacific region.

There are obvious ramifications of the evolution of a regional rulemaking framework with as distinct economic and strategic characteristics as the IPEF. These ramifications are far-reaching for the global economic and political orders. While the full extent of the upshots will be comprehended over time, more so after the IPEF negotiations conclude and its outcomes are announced, there is

1 "Fact Sheet: In Asia, President Biden and a Dozen Indo-Pacific Partners Launch the Indo-Pacific Economic Framework for Prosperity (IPEF)", The White House, May 23 2022, https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/23/fact-sheet-in-asia-president-biden-and-a-dozen-indo-pacific-partners-launch-the-indo-pacific-economic-framework-for-prosperity/#:~:text=Today%20in%20Tokyo%2C%20Japan%2C%20President,represent%2040%25%20of%20world%20GDP

2 Sheila A. Smith, "The Quad in the Indo-Pacific: What to Know", *Council on Foreign Relations*, 27 May 2021, https://www.cfr.org/in-brief/quad-indo-pacific-what-know

considerable curiosity over its long-term impact. The curiosity is enhanced by the novel approach of the IPEF to rulemaking, which is experimental in its adoption of a flexible attitude, and a conscious shift from the more familiar structure of conventional Free Trade Agreements (FTAs).

## Issues and approach

The IPEF is discussing four core sets of issues organised across four verticals, or Pillars. These overarching Pillars encompass a large variety of issues in Trade, Supply Chains, Clean Economy, and Fair Economy, respectively. The negotiating agenda for each Pillar was set out through Ministerial Statements delivered at the in-person meeting of the IPEF member economy Ministers in Los Angeles, US in September 2022.[3] The first round of negotiations commenced in Brisbane, Australia, in December 2022, following which further negotiating rounds comprising senior officials from all members were held in New Delhi, India (February 2023, special round); Bali, Indonesia (March 2023, second round); Singapore (May 2023, third round) and Busan, South Korea (July 2023, fourth round). The second in-person meeting of Ministers at Detroit, US, held during 26-27 May 2023, announced a substantial conclusion of negotiations on Pillar 2 (Supply Chains).[4]

The quick conclusion of negotiations on supply chains has surprised many. This is where the IPEF's distinct difference from traditional FTAs assumes significance. One of the reasons for the negotiations having concluded fast is the absence of discussions on market access.

### Dumping market access

Market access issues, typically, are among the most contentious ones in FTA negotiations. The latter usually commence after exchange of offers among partners indicating sectors where members are willing to offer tariff cuts and concessions. Negotiations prolong when offers often do not match expectations, leading to protracted deliberations. Several FTAs have 'negative lists' comprising items where market access is denied to other partners. Negotiations also prolong and get complicated in discussions over criteria for determining the Rules of Origin (ROOs) that estimate the amount(s) of value added within a particular member country (or among FTA partners) in the making of a product, for deciding its eligibility for preferential rates of tariffs or tariff-free entry in other partner markets. Currently active FTAs in the Indo-Pacific region, such as the RCEP, CPTPP and other Association of Southeast Asian Nations Plus (ASEAN+) FTAs,[5] along with numerous bilateral FTAs, have devoted significant attention to eliminating tariffs and fixing appropriate ROOs for fostering greater access to members in each other's markets. However, the IPEF has conspicuously avoided this agenda.

The IPEF's conscious avoidance of tariffs and ROOs in its Trade and Supply Chain Pillars underscores its assumption of not considering these issues critical in achieving its objectives. In Supply Chains, for example, instead of deliberating value addition, the focus has been on enhancing the resilience

---

3 "United States and Indo-Pacific Economic Framework Partners Announce Negotiation Objectives", Office of the United States Trade Representative, 9 September 2022, https://ustr.gov/about-us/policy-offices/press-office/press-releases/2022/september/united-states-and-indo-pacific-economic-framework-partners-announce-negotiation-objectives

4 "Substantial Conclusion of Negotiations on Landmark IPEF Supply Chain Agreement", US Department of Commerce, 27 May 2023, https://www.commerce.gov/news/press-releases/2023/05/substantial-conclusion-negotiations-landmark-ipef-supply-chain

5 These include ASEAN's existing FTAs implemented bilaterally between ASEAN and non-ASEAN regional economies (Australia & New Zealand; China, India, Korea and Japan).

of supply chains, with specific emphasis on improving logistics and expanding information-sharing among various actors of supply chains. The focus has clearly been influenced by the disruptions experienced during the COVID-19 pandemic, which highlighted the importance of safeguarding supply chains, particularly critical ones, such as semiconductors, food, energy, and pharmaceuticals. There is, therefore, no surprise in the IPEF discussing the identification of critical sectors and ways for making them shock-proof through better trade facilitation, logistics and information exchange. These are priorities that appeal to all members and are considerably easy to agree and advance on, unlike tariff-focused market access issues, which, in many cases, entail inviting adverse reactions from domestic constituencies that would be affected by imports.

### Not the typical FTA

Dropping market access, though, has sent confusing signals about the IPEF. There are hardly any FTAs that do not discuss market access. Is the IPEF not an FTA then? Ostensibly no, since until now, there are no allusions in the negotiations to market access. For many traditional trade watchers, the IPEF's efforts to make rules on trade and cross-border business without deliberating on market access, and not calling itself an FTA, has been baffling.

The fact that the IPEF has not been visualised as a traditional FTA was made amply clear at the outset by the Biden Administration.[6] Notwithstanding the clarification, for most other members of the IPEF, who are used to negotiating trade issues through the structured framework of FTAs, comprehending the IPEF has not been easy. The US articulation of the IPEF as 'a 21st century economic arrangement designed to tackle 21st century economic challenges' – comprising chiefly digital economy, resilient supply chains, clean energy infrastructure and energy transition, and transparency and anti-corruption – marks a specific delineation of '21st century economic challenges', along with an understanding of an effective approach for addressing them. It is not yet sure whether the larger IPEF community, in spite of several months of negotiations in a different framework, have been able to fully subscribe to the IPEF template.

The IPEF, though, is not exactly the first of its kind. A new-generation trade agreement like the Digital Economic Partnership Agreement (DEPA) signed by Singapore, Chile and New Zealand on 28 December 2020[7] excludes market access, in the way it arises in traditional FTAs, through tariff cuts for goods. However, the scope of market access in a non-traditional sense is possible to locate within a digital economy rules-based framework like the DEPA that enables service providers to extend cross-border services digitally in partner country markets. In this respect, the IPEF's approach to 21st century economic challenges, while refraining from direct engagement with traditional market access issues of tariffs, can well extend to other market access, such as digital economy. Rulemaking efforts in digital economy, and even in supply chains and clean economy, will have significant bearing on market access in these areas. In this respect, while not being a typical FTA, IPEF could well be one of the first ones to flag off a new-generation of trade agreements.

6 "On-the-Record Press Call on the Launch of the Indo-Pacific Economic Framework", The White House, 23 May 2022, https://www.whitehouse.gov/briefing-room/press-briefings/2022/05/23/on-the-record-press-call-on-the-launch-of-the-indo-pacific-economic-framework/

7 "Digital Economy Partnership Agreement (DEPA)", Ministry of Trade and Industry Singapore, https://www.mti.gov.sg/Trade/Digital-Economy-Agreements/The-Digital-Economy-Partnership-Agreement

## US leadership

The announcement of the IPEF received a mixed response. The Biden Administration celebrated its launch by declaring it an economic framework addressed for tackling '21$^{st}$ century challenges' and advancing 'fair and resilient' trade. However, the euphoria of the US Administration was not accompanied by similar exultation from all other members. This was presumably due to the disappointment in the region over the US withdrawal from the Trans-Pacific Partnership (TPP) in January 2017.

The withdrawal from a comprehensive new-generation trade framework like the TPP, which had been proactively led by the US under President Obama, went down as a signal of US disengagement from Southeast Asia and the Asia-Pacific region. Subsequent articulation of the US' Indo-Pacific strategy by President Trump,[8] and the emphasis on Southeast Asia's centrality in the strategy, could not obliterate the disappointment over the US exit from the TPP. The disappointment persisted as throughout the Trump Presidency, the US made little effort to compensate for its exit from the TPP through other meaningful initiatives for advancing regional rulemaking on trade issues. Neither did it – under President Trump, or later under President Biden – display the intention of returning to the TPP, which was persevered with by its other members, and became functional as the CPTPP from 30 December 2018,[9] without the US.

### Moving on from the TPP

The IPEF was greeted with cautious optimism by Southeast Asia. There were, however, other voices that were more enthusiastic about the initiative. These included the Indian Prime Minister Narendra Modi, who was present during the launch of the initiative and commended it for its intention to make the Indo-Pacific 'an engine of global economic growth'.[10] Modi also indicated India's intentions of working with all IPEF members for ensuring its flexibility and inclusivity.

Japanese Prime Minister Fumio Kishida described the IPEF as confirmation of 'the economic engagement of the US with the Indo-Pacific region even after its withdrawal from the Trans-Pacific Partnership (TPP)',[11] thereby seeking to dispel doubts of several other members on the durability of the US commitment to regional rulemaking. Indeed, the enthusiasm for the IPEF during its launch was much more visible among its Quad members, who, in their joint statement issued a couple of days before the announcement of the IPEF, alluded to it through their shared commitment for acting on climate and clean energy transition.[12]

---

8 Sebastian Strangio, "What does the US Indo-Pacific Framework Say About Southeast Asia?", *The Diplomat*, 13 January 2021, https://thediplomat.com/2021/01/what-does-the-us-indo-pacific-framework-say-about-southeast-asia/

9 "The Comprehensive and Progressive Agreement for Trans-Pacific Partnership", Ministry of Trade and Industry Singapore, https://www.mti.gov.sg/Trade/Free-Trade-Agreements/CPTPP

10 "PM Modi underlines 3Ts for resilient supply chains at Indo Pacific Economic Framework Meet in Tokyo", *The Times of India*, 23 May 2022, https://timesofindia.indiatimes.com/india/pm-modi-underlines-3ts-for-resilient-supply-chains-at-indo-pacific-economic-framework-meet-in-tokyo/articleshow/91740814.cms

11 "PM Kishida's Vision for Building a New International Order from Asia", Kizuna – The Government of Japan, 26 May 2022, https://www.japan.go.jp/kizuna/2022/06/new_international_order_from_asia.html

12 "Joint Statement by President Biden, Prime Minister Anthony Albanese of Australia, Prime Minister Narendra Modi of India, and Prime Minister Fumio Kishida of Japan on the Quadrilateral Security Dialogue Leaders Summit in Hiroshima, Japan", 20 May 2023, *The American Presidency Project – UC Santa Barbara*, https://www.presidency.ucsb.edu/documents/joint-statement-president-biden-prime-minister-anthony-albanese-australia-prime-minister-0

The US proactivity in leading the IPEF negotiations might have been motivated by the desire to win back the 'good faith' it lost after exiting the TPP. A return to the CPTPP will, perhaps, be the best way to recover the lost faith. This is evident from Kishida's iteration – on the same occasion where he affirmed the US commitment to the Indo-Pacific through the IPEF notwithstanding the American exit from the TPP – to continue 'to persistently push for the return of the US to the TPP'.[13] For the US, though, returning to the TPP framework, appears to be a remote possibility. This is primarily on account of the domestic politics in the US that is unsupportive of an economic policy agenda advancing American engagement in FTAs.

The lack of domestic enthusiasm for the US engagement in FTAs is as bipartisan and broad-based as the scepticism over China. The appeal of a framework like the IPEF – not billed as a traditional FTA – for counterbalancing the economic influence of China in the Indo-Pacific has a strong buy-in among domestic constituencies. Setting and driving the rules agenda in the IPEF provides substantial ground for justifying the US engagement in the Framework, ostensibly for balancing the Chinese role in regional rulemaking, an argument advanced forcefully by President Obama in his bid to push the TPP through the US Congress in 2016.[14] Counterbalancing China, though, is a distinctly awkward prospect for several IPEF members, who, despite being US defence allies and strategic partners, prefer staying out of the US-China great power competition in their larger national interests.

## Specific sensitivities

The IPEF negotiations are being driven by the Office of the United States Trade Representative (USTR) and the US Department of Commerce (DOC). The USTR is leading negotiations for Pillar 1, while the Department of Commerce is doing the same for Pillars 2,3 and 4. The IPEF's character of not being a traditional FTA is further reinforced from the simultaneous engagement of the USTR and the DOC in the same framework, in contrast to the usual custom of the USTR overseeing US FTA negotiations.

With the IPEF being substantively driven by the USTR and the DOC, it is only natural that core American interests will feature prominently in the IPEF.[15] Central to these interests is the welfare of American workers, a priority resonating strongly in the US Trade Policy Agenda.[16] The IPEF is negotiating labour standards with the objective of institutionalising standards across the Indo-Pacific. Similarly, other US core interests, such as standards for environmental sustainability and decarbonisation, and rules for digital economy, competition policy, and tax practices, are also prominently featured in the IPEF consultations.

---

13 *op. cit.*

14 Barack Obama, "The TPP would let America, not China, lead the way on global trade", *The Washington Post*, 2 May 2016, https://www.washingtonpost.com/opinions/president-obama-the-tpp-would-let-america-not-china-lead-the-way-on-global-trade/2016/05/02/680540e4-0fd0-11e6-93ae-50921721165d_story.html

15 Amitendu Palit, "IPEF's early fanfare masks risks in the US approach", *Hinrich Foundation*, 26 October 2022, https://www.hinrichfoundation.com/research/article/ftas/ipef-s-early-fanfare-masks-risks-in-the-us-approach/

16 "Fact Sheet: USTR Releases 2022 President's Trade Policy Agenda and 2021 Annual Report", https://ustr.gov/sites/default/files/USTR%20Trade%20Policy%20Agenda-Annual%20Report%20Fact%20Sheet.pdf

### Standard-setter vs standard-taker

Several IPEF members will hesitate in accepting US-led standards in politically sensitive issues such as labour, environment, and digital economy. India, which has till now, stayed disengaged from Pillar 1, while engaging with the remaining Pillars, is an example. India's decision might well have been motivated by its hesitation to negotiate new-generation complex trade issues like labour standards and cross-border data flows, since its own domestic regulations are yet to be institutionalised in these areas.[17] The obvious outcome of engaging on these subjects in the absence of adequate domestic regulations would be to accept US proposed standards as given. The default choice of being a 'standard taker' is not an appealing proposition and is worrying for several other IPEF members too.

New-generation trade issues, such as labour and environment, have encountered major negotiating roadblocks in structured FTAs. The US-led TPP negotiations are an example. The problem in dealing with such issues arises from the economic heterogeneity and variation in regulatory systems among members, particularly in large blocs such as the IPEF and the TPP. Several members have comparative advantages in production that are derived from their abilities to use domestic labour more efficiently than others. Agreeing on certain labour standards, particularly those that might entail pegging the cost of domestic labour on par with US labour, can imply these countries losing out on productivity and efficiency. Similarly, standards proposed for environmental sustainability might be costly and inefficient for many developing country members of the IPEF to adopt.

The IPEF is expected to offer sufficient flexibilities to its members for 'leaving' or 'taking' standards. The emphasis on flexibility and a non-binding approach contrasts with the binding character of several major FTAs, such as the CPTPP and the United States-Mexico-Canada Agreement (USMCA). While flexibility is a happy prospect for many members, it might refrain the IPEF from achieving a comprehensive region-wide set of rules, with members picking rules in bits and pieces. Time will reveal whether the IPEF's commitment to flexibility dilutes its achievements elsewhere.

## From the members' eyes

The IPEF focuses on issues that are among the most preoccupying for global trade and business policy and regulations. Whether it be labour, environment, trade facilitation and competition policy in the Trade Pillar, or resilient supply chains, energy security and sustainable solutions, anti-corruption and taxation practices in the other Pillars, the issues are high priorities for multilateral and global bodies (for example, at the G20, G7 and the World Trade Organization [WTO]). The Framework's dedicated focus on these subjects, and the speed at which it has proceeded since its inception, demonstrates its intentions of staying ahead of the multilateral rulemaking processes and creating rules for the Indo-Pacific that become templates for wider adoption. It clearly aspires to be a trend-setter in global rulemaking.

The IPEF's efforts will produce a new generation of economic and business rules for the Indo-Pacific region. Rules implemented across the Indo-Pacific – the most economically vibrant region of the world – can, over time, become global rules in their respective spheres. As some of the world's largest and major economies – both developed and developing – start engaging economically on a common set of rules, the latter can evolve into benchmarks for upcoming as well as existing economic frameworks.

17 Amitendu Palit, "The IPEF Advances – Is India ready?", *ISAS Brief*, 4 August 2022, https://www.isas.nus.edu.sg/papers/the-ipef-advances-is-india-ready/

While its objectives are laudable, the IPEF's goals are challenging. Pronounced economic heterogeneities among members make its negotiating objectives daunting. In digital economy, for example, the IPEF members have major differences in domestic capacities and high variations in domestic regulations. It is the same with respect to national standards for tackling carbon emissions, green technologies and labour management practices. The differences in national capacities and the state of evolution of domestic standards will generate significant challenges in reaching common regional standards.

The challenges for IPEF negotiations are enhanced by the complexities of regional and national political economies. As developing standards imply engaging on 'behind the border' issues and delving into domestic regulations, the national political economies can pose hurdles for implementing new standards. These can be particularly visualised for labour, environment and data standards. Furthermore, legal procedures for implementing the IPEF outcomes will vary among its members and can pose specific challenges.

A proactive US leadership of the IPEF project also has far-reaching implications. The geopolitical and strategic implications of the leadership will remain with the IPEF as it evolves into a mature Framework. These implications will shape the regional political and security dynamics in the Indo-Pacific region, impacting various strategic choices of its members.

Understanding the IPEF closely is essential for obtaining clearer insights on its implications. This understanding requires specific perspectives on the IPEF reflected from the vantage points of its individual members. The discussion papers in this series aim to provide these perspectives. They look closely at negotiating challenges and anticipated outcomes for the IPEF in the areas of digital economy, resilient supply chains, clean energy and decarbonisation, and financial practice; implementation challenges for the IPEF arising from domestic regulatory complexities and political economies of members; the IPEF's compatibility with existing regional frameworks and prospects of the IPEF's engagement with extra-regional actors like Europe in the foreseeable future. Between them, these papers comprise a remarkable set of informed perspectives that are instrumental for understanding the IPEF.

## Thinking aloud

The conclusion of negotiations in Pillar 2 has been a rather remarkable achievement, given the delays that normal trade negotiations experience. The conclusion has brightened the prospects of similar declaration of outcomes for other Pillars too. Pillars 3 and 4 are likely to be ahead of Pillar 1 in this regard. The Trade Pillar might experience more delays as achieving meaningful outcomes in complex issues like digital economy and labour standards will not be easy. Indeed, in this regard, the US Administration might also prefer a somewhat cautious approach, given the impending domestic elections in the US, and the possibility of certain issues, such as technology, labour and climate rules, having some impact on electoral prospects.

There is also speculation over whether the US would stay committed to the IPEF in the event of the Biden Administration being voted out of office. The spectre of a TPP-like scenario unfolding for the IPEF continues to be a worry. Notwithstanding such fears, there is no doubt that the IPEF process will survive. The stakes – both commercial and political – in a rules-based economic framework for the Indo-Pacific are too substantial, making it a process that is unlikely to get crippled. Future US Administrations will be aware of the strategic compulsions that justify the IPEF. So will be its other members. It will, therefore, be a process that will continue to evolve and keep posing questions.

Getting to learn the IPEF is a strategic necessity, not just for the Indo-Pacific region, but also for all other extra-regional global actors. As a new-generation experimental rulemaking process, the IPEF’s successes and failures will be precious knowledge for all future efforts aiming to address 21st century economic challenges.

## About the authors

**Dr Amitendu PALIT** is Senior Research Fellow and Research Lead (Trade and Economics) at the Institute of South Asian Studies, National University of Singapore. He is an economist specialising in international trade and investment policies, free trade agreements, supply chains, connectivity, cross-border data flows and the Indian economy. He sits on the World Economic Forum's Global Future Council on Trade and Investment. He is Senior Research Fellow (Honorary) at the Wong Centre for Study of MNCs and Adviser for Athena Infonomics.

Earlier, Dr Palit worked for several years in the Ministry of Finance, Government of India, and in the Ministries of Industry and Civil Supplies. He managed macroeconomic policies, including trade, investment, industrial development, Small and Medium Enterprises, entrepreneurship and futures trading. He wrote annual economic surveys and participated in annual budgetary consultations. He was on Advisory Committees of the Planning Commission of India and the International Labour Organization.

Dr Palit has edited and authored several books. The latest ones are Seeking Middle Ground: Land, Markets and Public Policy (OUP, 2019; co-edited); Seven Decades of Independent India (Penguin, 2018; co-edited) and Employment Policy in Emerging Economies (Routledge, 2017; co-edited). His other books include The Trans-Pacific Partnership, China and India: Economic and Political Implications (Routledge, 2014), China India Economics: Challenges, Competition and Collaboration (Routledge, 2011) and Special Economic Zones in India: Myths and Realities (Anthem Press, 2008; co-authored). He has published in several peer-reviewed academic journals. He is a columnist for India's Financial Express and a regular contributor for East-West Centre, East Asia Forum and China Daily. He is an expert for BBC, Bloomberg News, CNA, CNBC, ABC, CGTN and Doordarshan (India). He has been a resource person for Commonwealth Secretariat, ILO, UNDP, Copenhagen Consensus and IIFT India.

**Ms Ramita IYER** is a Research Analyst at the Institute of South Asian Studies (ISAS), National University of Singapore (NUS). Her research focus is on geoeconomic and geopolitical developments in the Indo-Pacific region. In addition to conducting research at ISAS, Ms Iyer also oversees and manages the ISAS weekly podcast – South Asia Chat – that offers a quick analytical take on contemporary political and economic developments in the region.

Prior to joining ISAS, Ms Iyer worked with a number of Indian and international organisations on public policy issues including global health policies for transwomen, education and skill development, and trade issues, among others. She has presented in various conferences, notably at the Global Public Policy Network Conference in London School of Economics, United Kingdom, and the STI-HIV 2019 Conference in Vancouver, Canada.

Ms Iyer graduated with a Master in International Affairs from the Lee Kuan Yew School of Public Policy in NUS and holds a Bachelor of Arts (Honours) in Political Science from Delhi University.

2

# Asia Pacific, South Asia and Pacific Islands

# Much Ado about Something? Australia's Views on IPEF's Prospects

Peter DRAPER

The Indo-Pacific Economic Framework for Prosperity (IPEF) negotiations represent an opportunity for Australian stakeholders, albeit one relatively less tantalising – or costly – than traditional free trade agreements. The IPEF's market access content is limited to digital trade, and less ambitious than the current United States (US) benchmark in the United States-Mexico-Canada Agreement (USMCA). Moreover, the IPEF's regulatory initiatives are largely cooperative, rather than binding. While the US may intend to use the IPEF to spread its preferred standards agenda, unless the adoption of those standards is firmly linked to both finance and investment flows from advanced IPEF members, developing country counterparts may remain aloof. Consequently, Australian business stakeholders seem to have downgraded their expectations of the outcomes, whereas civil society stakeholders remain wary of the IPEF's potential regulatory content. Nonetheless, Australian stakeholder groups are largely united around using the IPEF to anchor the US in regional economic arrangements. Therefore, eventual ratification will not present insurmountable obstacles.

## Introduction

The Indo-Pacific Economic Framework for Prosperity (IPEF) represents an eclectic combination of old and new in the world of trade agreements. While clearly not constituting a traditional market access-oriented free trade agreement (FTA) of the kind the region is familiar with, it does contain a partial market access agenda in Pillar 1's digital focus. The other three Pillars traverse regulatory terrain and emphasise the construction of cooperative frameworks based on adopting common standards: an agenda familiar to non-trade officials working in multilateral settings such as the Organisation for Economic Co-operation and Development's (OECD) Base-Erosion and Profit-Shifting initiatives (BEPS)[1] *vis-à-vis* the IPEF Pillar 4's focus on tax and anti-corruption.

Therefore, while there are good reasons to be sceptical about the IPEF's utility, its substance is not unfamiliar to Australian negotiators. Moreover, in recent years, Australia has been at the forefront of negotiating sectoral regulatory pacts containing combinations of market access and regulatory frameworks, albeit on a bilateral basis and with the like-minded Singapore.[2]

A core difference between the IPEF and multilateral negotiation settings, however, is that the United States (US) is driving it, in contrast to its relative neglect of the World Trade Organization (WTO), in particular. From a negotiating perspective, a multilateral setting offers greater balancing potential or coalitional settings and the opportunity to arbitrage amongst large trading powers whose economic sizes roughly offset each other, particularly for middle powers such as Australia. While the IPEF does contain significant economic powers, in Japan and India particularly, the US remains dominant. Hence, to the extent that the US sees the IPEF as an opportunity to entrench its standards in the region, channelling that agenda in ways that are productive for the Australian economy would be more difficult where US standards diverge from Australian norms. Moreover, Australian negotiators are very interested in further embedding the US into regional economic frameworks, not least to counter China's growing regional influence. Therefore, they need to balance their own economic objectives, which are often aligned with those of the US, with the need to occasionally blunt US demands that might alienate IPEF partners. This has been a longstanding issue on the WTO, notably concerning US Democratic Administrations' pursuing of stronger environment and labour rights in trade agreements – a core factor in the collapse of the WTO's 1999 Seattle Ministerial conference. This makes for a complex negotiation dance, particularly in relation to the more sensitive issues on the table.

This paper discusses Australian perspectives on the IPEF's anticipated outcomes, negotiation challenges and implementation issues. Given that these negotiations are still underway and at an early stage, the material is sourced primarily from internet sources and confidential background interviews with Australian stakeholders. Thereafter, Australia's participation in the IPEF negotiations is assessed, including a limited case-study on the Pillar 3 – Clean Economy – negotiations. The final section concludes.

---

1 "Inclusive Framework on Base Erosion and Profit Shifting", Organisation for Economic Co-operation and Development, https://www.oecd.org/tax/beps/. The BEPS concerns corporate tax planning strategies to shift profits from higher tax jurisdictions to lower tax jurisdictions in order to maximise group profits, thereby eroding higher tax jurisdictions' revenue bases.

2 "Australia-Singapore Digital Economy Agreement", Australian Government – Department of Foreign Affairs and Trade, 8 December 2020, https://www.dfat.gov.au/trade/services-and-digital-trade/australia-and-singapore-digital-economy-agreement;

"Singapore-Australia Green Economy Agreement", Australian Government – Department of Foreign Affairs and Trade, 18 October 2022, https://www.dfat.gov.au/geo/singapore/singapore-australia-green-economy-agreement

## Anticipated Outcomes

At the broadest level, the IPEF is a cooperative framework (Pillars 2 to 4) with market access features (Pillar 1). As such, the anticipated outcome is the establishment of a matrix of cooperation agreements, and limited market access. The high-level anticipated outcomes per Pillar are represented in Figure 1.

**Figure 1:** Summary of IPEF's Negotiation Foci

| PILLAR 1 | PILLAR 2 | PILLAR 3 | PILLAR 4 |
|---|---|---|---|
| **Trade** | **Supply chains** | **Clean energy** | **Tax & anti-corruption** |
| High-standard | Transparency | Technology deployment | Fair competition |
| Free | Diversity | Decarbonisation | Enforcement |
| Fair | Security | Resilience | Sharing expertise |
| Sustainable | Sustainability | Finance | Capacity building |
| Workers | Resilience emphasis | Infrastructure | |
| Digital emphasis | | Technical assistance | |

**Source**: IPEF Ministerial Statements

Clearly, the Pillar 1 market access agenda has limited scope and applicability, with the emphasis on workers' interests, as well as fairness, representing a particular framing that circumscribes stakeholder interest and engagement. Still, the anticipated outcome is binding market access, particularly for digital services, and associated rules to govern cross-border data flows and storage.

Pillars 2 and 3, on the other hand, respond to current concerns being expressed by many countries over economic resilience and decarbonisation, and as such enjoy much wider buy-in. In both cases, anticipated outcomes are anchored on the establishment of cooperative frameworks, for example, consultation mechanisms and information sharing, and elaboration of common standards — particularly concerning decarbonisation technologies — over time.

Pillar 4's emphasis on fair competition resonates with the BEPS conventions and derivative global minimum tax[3] in relation to tax, and OECD as well as other multilateral codes covering corruption. As such, the overall objective is the focused implementation of existing arrangements and the provision of assistance to the IPEF's developing country members for this purpose. This is in keeping with western economies' generalised shift to more values-based approaches to the governance of their large firms supply chains.

3 "International community strikes a ground-breaking tax deal for the digital age", OECD Tax, 8 October 2021, https://www.oecd.org/tax/international-community-strikes-a-ground-breaking-tax-deal-for-the-digital-age.htm

## Negotiation Challenges

At least four negotiation challenges are clearly discernible.

### No market access agenda (except Pillar 1)

This is a well-known IPEF limitation. In a traditional FTA negotiation, there is generally abundant market access on the table covering both goods and services. This creates scope for the trade-offs to ensure there is enough for everyone to sign the deal.

The IPEF does have a very limited market access agenda in Pillar 1, but it concerns an issue — digital trade governance — that is highly sensitive for some members. For example, India and Indonesia advocate for stronger domestic data storage provisions and the right to impose taxes on digital trade flows, and / or e-commerce. By contrast, the US has historically pursued free data flows and prevention of data storage provisions in its trade agreements. Furthermore, the other Pillars contain distinct regulatory domains with the emphasis being on establishing cooperative frameworks rather than market access per se. This means there is little scope for reciprocity within each pillar, never mind across the Pillars. That said, since each Pillar effectively stands alone in principle there is nothing to prevent concluding them distinctly, and out of sequence. Notably, this has already occurred for Pillar 2.

### Is the US pursuing a 'Brussels effect' outcome?

In its public statements on the IPEF, US representatives consistently emphasise their expectation that the IPEF signatories will adopt high standards across the four pillars, anchored in US preferences for a 'worker-centric' trade policy, in what could be construed as a 'Washington effect' to mirror the well-known 'Brussels effect'[4]. Is this realistic? And what could it mean in practice?

The answers to these questions depend on how the other participants respond, especially developing country members such as India and Indonesia. Obviously, that is also contingent on the Pillar in focus, with some (market access for digital trade) being particularly difficult, and others (Pillar 2's supply chain resilience) less so. This arguably also explains why Pillar 2 was substantively concluded first, and quickly. Each country will have to make its own judgments concerning the implementation requirements and adjustment costs, in relation to the potential benefits on offer through locking into higher standards, on an issue-by-issue basis.

### Many countries, and diverse economies and needs

The regulatory agenda is complex. It encompasses largely private (voluntary) standards as well as mandatory standards, across a wide domain. Countries are positioned very differently within this rapidly evolving complexity, and given their diverse economic structures and needs, they will be looking for different things from the negotiations. By contrast, notwithstanding this heterogeneity, it is likely that there will be common interests in adopting common standards approaches in certain areas, for example, in relation to the uptake of green hydrogen as an energy source. The IPEF can provide a focus for such identified common interests, and by establishing cooperative frameworks, the details can be worked out in subsequent detailed working groups.

4 Anu Bradford, The Brussels Effect: *How the European Union Rules the World* (Oxford University Press, 2020)

### Would standards alignment deliver the anticipated investment outcomes?

The 'standards uptake for investment' principle is a core bargain at the heart of IPEF's standards agenda. In essence, this means that by adopting cutting-edge standards, developing countries expect investment from private sector firms to flow to their economies. They also expect that developed countries will facilitate the uptake of those standards through implementation support packages. Against this, developing countries have budget constraints and opportunity costs for scarce funds. It raises the question on whether capacity building, technical and financial assistance promise sufficient incentives to promote uptake of higher standards, given the institutional resourcing requirements to implement such packages, versus, for example, deploying scarce funds to build more schools. These trade-offs are present in all four Pillars although their manifestations will vary from developing country to developing country, depending on each country's domestic institutional and political economy constraints.

## Implementation Issues

These really depend on the outcomes, specifically, who stays the course and on what issues, and the content of agreed outcomes. Put another way, this will be a function of levels of ambition and associated implementation appetite. Considering the anticipated outcomes, we can speculate about the resultant mix of outcomes.

First, developed countries and US security allies, including Australia, Japan, New Zealand, Singapore, South Korea, and the Philippines, are likely to stay the course and commit to a package of outcomes. In the US case, this would be primarily to satisfy geopolitical imperatives, namely remaining economically engaged in the region. US security allies share this motivation and hope for meaningful economic concessions. The Australian case is discussed in the next section.

Second, and for a variety of reasons already canvassed above, the remaining developing countries are more likely to go for an *à la carte* approach. The three prominent reasons are:

1. They may struggle to reach the regulatory 'bar'.
2. While financial and technical assistance will help, design and implementation capacities are important and sometimes lacking.
3. In this light, would recipients prioritise this agenda over other, potentially more pressing, governance matters and resourcing trade-offs?

Given that the IPEF is designed to be amenable to opt-in and opt-out approaches, this means that there is no longer the need for an overarching IPEF Agreement per se, but rather a collection of full and partial scope architectures with developing countries occupying different points of the implementation spectrum.

## Australian Perspectives

### General observations

According to one stakeholder consulted for this research, Australia's embrace of the IPEF cements the evolution of Australian trade policy away from a singular focus on achieving commercial outcomes, towards privileging security considerations.[5] Australia's top trade priority is US engagement in the Indo-Pacific region to buttress the US-anchored rules-based order and resist Chinese dominance. First prize is for the US to return to the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) Agreement, but that is not going to happen. The IPEF, notwithstanding the negotiation challenges, is the only game in town. These dynamics are reflected in the evolving Pillar 1 digital trade negotiations, with Australian business groups consulted for this research preferring to prioritise existing regulatory frameworks, notably the CPTPP, rather than the likely 'worker-centric' provisions to be established under the IPEF. One business stakeholder noted that the IPEF is relatively marginal in terms of Australian trade policy priorities and the country's extensive domestic regulatory agenda. That said, Australian businesses will participate, but in support of the security alliance, not because they expect meaningful commercial outcomes.

The Australian Labour Party (ALP) government, by contrast, is comfortable with a 'worker-centric' trade project as espoused by the Biden Administration. One stakeholder interviewed for this research observed that the US' trade policy approach is evolving towards the European model, with similarities across approaches to labour and human rights, as well as digital trade, becoming apparent. Moreover, Australian civil society groups and trade unions — the core of the ALP's voting base — are in favour of embedding labour, environmental, and inclusivity provisions into trade agreements and in this regard, they see the IPEF as an opportunity. The Australian Council of Trade Unions (ACTU)[6] is enthusiastic, and advocates for embedding strong, enforceable, labour rights across all four Pillars. Moreover, they see an opportunity to develop a robust labour rights framework for future trade agreements, building on the IPEF platform. In this light, the IPEF could be made to work to the current Australian government's advantage.

Nonetheless, civil society, while broadly supportive of the IPEF's goals, has expressed some scepticism. On top of the list is the legal non-enforceability of the final set of IPEF agreements, with the probable exception of Pillar 1, meaning that the agreed texts will be aspirational.[7] Similarly, with the IPEF's core value proposition consisting of a 'reforms for investment' bargain, civil society has expressed concerns that implementation of IPEF's values content (labour rights for example) will exclude them.[8] Similarly, there are concerns over the negotiations process and associated decision-making, specifically the secrecy provisions that will govern access to negotiations texts that are seen as more stringent than those governing CPTPP negotiations.[9]

There are broader concerns in the Australian trade policy community. One centres on whether the IPEF will compete with existing initiatives, notably the Asia-Pacific Economic Cooperation (APEC) process. In this view, the IPEF may contribute to regional fragmentation by promoting standards that diverge from evolving regional norms. Moreover, while the US remains strongly supportive of the APEC, it may no longer be driving the organisation in the ways it used to, since its energies have diverted to driving the IPEF.

---

5 Robert Glasser, Cathy Johnstone and Anastasia Kapetas (eds), Australian Strategic Policy Institute, *The geopolitics of climate and security in the Indo-Pacific*, (Canberra: Australian Strategic Policy Institute), 24 February 2022, https://www.aspi.org.au/report/geopolitics-climate-and-security-indo-pacific

6 "Indo-Pacific Economic Framework", Australian Council of Trade Unions (ACTU), 12 January 2023, https://www.dfat.gov.au/sites/default/files/ipef-submission-actu.pdf

7 "AFTINET Submission to the Department of Foreign Affairs and Trade on the Indo-Pacific Economic Framework", Australian Fair Trade and Investment Network, 2 November 2022, http://aftinet.org.au/cms/sites/default/files/221024%20%20AFTINET%20IPEF%20submisssion%20to%20DFAT%20fiinal.pdf

8 *Ibid.*

9 *Ibid.*

Nonetheless, the lead government agency, the Department of Foreign Affairs and Trade (DFAT) is supportive of the IPEF, which is seen as a new kind of trade agreement that responds to the post-COVID-19 era by addressing contemporary concerns over supply chain resilience, green economy, and digital trade. Moreover, together with Japan and Singapore, DFAT negotiators are focused on assisting the US to find landing zones for the various pillars that would work in the regional context.

### Pillars 1, 2 and 4

Regarding Pillar 1, several positives have been identified by various Australian stakeholders. First, unlike the other Pillars, a single undertaking approach will be applied, meaning that nothing is agreed until everything is agreed. In principle, this widens the scope for trade-offs within the Pillar, although not across Pillars, and ensures commitment to the whole package. As a result, some Australian stakeholders advocating for strong outcomes on digital trade issues express optimism that the Pillar 1 Agreement may end up buttressing Australia's Digital Trade Strategy,[10] thereby bolstering Australian competitiveness.[11] In this regard, it could conceivably be a useful supplement to existing bilateral arrangements such as the digital trade provisions in the CPTPP. Furthermore, it could conceivably leverage Australian strengths in cyber-security capacity-building (*inter alia*) to assist the IPEF's developing country participants with bolstering their cyber-security defences.[12]

However, at the time of writing, Australian business stakeholders were sceptical that an ambitious outcome could be achieved, with US official negotiation positions apparently being 'United States-Mexico-Canada Agreement (USMCA) minus', and noted that their US counterparts were considering exiting the negotiations. According to several stakeholders consulted during the course of conducting research for this paper, the issue has become highly politicised in the US Congress and is anchored on a tacit alliance between liberal Democrats led by Senator Warren, and the extreme right, led by Senator J. D. Vance.

These US politics are reflected in some Australian stakeholder criticisms. Civil society worries that the emphasis on food security will be used to bolster investments into the IPEF's developing country participants from countries that heavily subsidise their agriculture, thus potentially undermining their production capabilities.[13] Similarly, civil society and labour groups expressed concerns regarding the potential digital trade provisions of Pillar 1, notably that these might mirror those in the USMCA, where the provisions strongly favour free data flow and minimal restrictions on the US technology giants. These groups worry that it would represent a substantial step back for Australian regulation of those companies, given that prior Australian trends were towards regulating for more accountability, gig-economy workers' rights, higher privacy standards, more stringent cyber-security obligations, and greater market contestability.[14] Moreover, the civil society submission expressed concern that Pillar 1 might be used to negotiate access to public services, thereby restricting governments' rights to regulate,[15] and that market access negotiations might

10 "Digital Trade Strategy", Australian Government – Department of Foreign Affairs and Trade, 1 April 2022, https://www.dfat.gov.au/trade/services-and-digital-trade/e-commerce-and-digital-trade/digital-trade-strategy#executive-summary.

11 Huon Curtis, Samantha Hoffman, and Gatra Priyandita "Australian views on the Indo-Pacific Economic Framework", *ASPI Strategic Insights*, 171, July 2022, https://ad-aspi.s3.ap-southeast-2.amazonaws.com/2022-07/Australian%20views%20on%20the%20IPEF_0.pdf?VersionId=i5uDFFh3AJOPG8a5rphC0rkXakarNeQs

12 *Ibid.*

13 *op. cit.*

14 *op. cit.*

15 *op. cit.*

extend to restrictions on government procurement programmes acting as industry development programmes.[16] Given the US's own 'Buy America' procurement provisions, such concerns seem misplaced.

There is broader support for Pillar 2's objectives. In the wake of the COVID-19 pandemic and China's economic coercion of Australia, the opportunity to address Australian supply chain vulnerabilities is embraced.[17] Moreover, the ALP government's election platform included rebuilding the domestic manufacturing base, towards which end, several subsidies have already been developed. And as other nations look to reduce their own supply chain vulnerabilities, substantial opportunities are emerging for Australia to play a key role, notably in the mining and production of critical minerals. Therefore, Pillar 2 builds on existing momentum and will complement other initiatives such as the India-Japan-Australia Supply Chain Resilience Initiative.[18]

However, in its submission to DFAT's stakeholder consultations, the Australian Fair Trade & Investment Network (AFTINET) expressed concerns that the US goal of 'decoupling' from China will be expressed through the IPEF in ways that could negatively affect partner countries, including Australia. Moreover, the ACTU recommends that companies in IPEF countries be obliged to undertake human rights due diligence investigations to access any Pillar 2 benefits. In this light, the Pillar 2 deal struck at Detroit[19] was positively received in Australia and seemed to push the right political buttons in terms of keeping all stakeholders on board. The establishment of three structures to oversee implementation[20] will bring focus and engagement, if implemented in good faith by all parties. Moreover, the Australia-Republic of Korea joint initiative to boost IPEF partners' capacities for identifying, monitoring, and managing critical supply chain vulnerabilities, gives practical expression to Pillar 2's objectives.[21]

Finally, Pillar 4 is not controversial in Australia, since the country has long advocated for a good governance agenda and has implemented various development assistance projects towards this end. Corruption can not only undermine Australian business participation in the region, but also democratic norms, institutions, and the rule of law. Given this, Australian stakeholders are aligned with the IPEF's objective of promoting shared norms, based on common definitions and practices, for dealing with these issues.[22]

---

16 *Ibid*.

17 "Vulnerable Supply Chains", Study Report, Productivity Commission – Australian Government, 22 July 2021, https://www.pc.gov.au/inquiries/completed/supply-chains/report

18 "Joint statement on the Supply Chain Resilience Initiative by Australian, Indian and Japanese trade ministers", Australian Government – Department of Foreign Affairs and Trade, 27 April 2021, https://www.dfat.gov.au/news/media-release/joint-statement-supply-chain-resilience-initiative-australian-indian-and-japanese-trade-ministers

19 "Substantial Conclusion of Negotiations on Landmark IPEF Supply Chain Agreement", US Department of Commerce, May 27 2023, https://www.commerce.gov/news/press-releases/2023/05/substantial-conclusion-negotiations-landmark-ipef-supply-chain

20 An IPEF Supply Chain Council to oversee development of sector-specific action plans; an IPEF Supply Chain Crisis Response Network to act as an emergency communications channel; and a "tripartite" IPEF Labor Rights Advisory Board to address labour rights concerns.

21 "IPEF Supply Chains Agreement – more resilient supply chains for uncertain times", Senator the Hon Don Farrell, Minister for Trade and Tourism, Special Minister of State, 28 May 2023, https://www.trademinister.gov.au/minister/don-farrell/media-release/ipef-supply-chains-agreement-more-resilient-supply-chains-uncertain-times

22 *op. cit.*

### Some reflections on ratification issues and processes

Regarding concerns over the US political system and whether it might arbitrarily overturn the IPEF, Australian negotiators note that the IPEF generally does not touch on 'hot button' US domestic political issues and as such, it is not likely to be controversial. That said, the digital trade-competition interface is well-known to be sensitive in the US, and this may affect the construction of Pillar 1 as well as its reception in Congress. Similarly, if an attempt is made to use Pillar 3 to grant access to the US' green subsidies via the Inflation Reduction Act (IRA), that could invite some Congressional scrutiny.

In Australia, given the bipartisan consensus on the centrality of the Australia-US military alliance, eventual ratification and implementation is not likely to be controversial, possibly excepting Pillar 1 – depending on what is eventually agreed. Since the Pillars are likely to be separated out and ratified, potentially four ratification procedures could be required. This would be cumbersome, but will not likely result in substantial controversy, potentially barring Pillar 1.

## Case Study: Pillar 3 — Clean Economy

### Australian Approaches

Recent extreme weather events, combined with the election of an ALP government facing pressure from an independent climate activist political movement (the 'Teals')[23] delivered a government favourably inclined to take substantial action on decarbonisation and addressing climate change more generally. This builds on several prior policy and regulatory pillars established by previous governments, most significantly the Safeguard Mechanism,[24] as recently reformed.

On the foreign policy front, the new government is keen to push back on Chinese diplomatic incursions into Southeast Asia and the South Pacific. Climate change is the South Pacific Islands' single most important foreign policy priority, and thus, being seen to take visible action to address the issues is consequential not only for the planet but also for Australia's regional positioning. Fiji's participation in the IPEF is notable in this regard. These imperatives are captured in the Australian government's Climate Change Action Strategy,[25] which gives priority to mainstreaming climate change mitigation into Australia's development assistance. Other trade-related initiatives are important. Australia and Singapore recently concluded their 'Green Economy' Agreement (GEA)[26].

23 Sam Hawley and Stephen Smiley, "Who are the 'teal independents'? Your questions answered about the candidates fighting for some of Australia's wealthiest electorates", ABC News, 20 April 2022, https://www.abc.net.au/news/2022-04-20/teal-independents-who-are-candidates-what-electorates/101000412. Funded by billionaire climate activist Simon Holmes à Court, these Members of Parliament prioritise ambitious action on climate issues.

24 The Safeguard Mechanism covers the 215 largest heavy industry carbon emitters, for whom an annually declining carbon budget is set.

"Safeguard Mechanism", Australian Government – Department of Climate Change, Energy, the Environment and Water, https://www.dcceew.gov.au/climate-change/emissions-reporting/national-greenhouse-energy-reporting-scheme/safeguard-mechanism#:~:text=The%20Safeguard%20Mechanism%20is%20the,gas%20emissions%20of%20these%20facilities

25 "Climate Change Action Strategy", Department of Foreign Affairs and Trade – Australian Government, November 2019, https://www.dfat.gov.au/about-us/publications/climate-change-action-strategy

26 "Australia Singapore Green Economy Agreement", Australian Government – Department of Foreign Affairs and Trade, 18 October 2022, https://www.dfat.gov.au/sites/default/files/singapore-australia-gea-official-text-signed.pdf

In broad outline, this has a similar foundation to IPEF's Pillar 3, being constructed along practical and implementation-oriented lines.[27]

A review of select stakeholder Parliamentary testimony on the GEA reveals broad support for it. The bilateral institutional arrangements are seen to bring focus and certainty to private sector exchanges in relation to the rapidly evolving regional decarbonisation landscape and the regulatory, as well as business uncertainties this gives rise to.[28] Moreover, Australia can learn from Singapore in some areas, notably the adoption of international reporting standards and frameworks in relation to financial disclosure, potentially unlocking environmental, social and governance (ESG) funds Australian companies do not currently have access to.[29] Similarly, the two parties – both IPEF members – could use the Agreement to develop linked carbon offset markets, in close collaboration with regulators and stakeholders, to pioneer Article 6 of the Paris Agreement[30] carbon trading mechanisms.[31] Similarly, the Hydrogen Council sees the GEA as an opportunity to internationalise the emerging Australian hydrogen certification scheme, or Guarantee of Origin, thereby facilitating export of green hydrogen produced in Australia.[32]

Still, the GEA is not without its critics, with one stakeholder observing that it runs the risk of adding to the 'noodle bowl' of trade agreements already in place whilst not adding additional value given that other forums are pioneering most of the issues covered by the GEA.[33] In this regard, one stakeholder argued that other forums such as the Group of Seven (G7) and the OECD are likely to result in more consequential outcomes than what the IPEF is likely to produce *vis-a-vis* Pillar 3.

---

27 The overarching purpose is to promote cooperation in seven targeted areas of common interest to advance economic growth whilst transitioning to net zero emissions. These are:

1. Trade and investment
2. Standards and conformance
3. Green and transition finance
4. Carbon markets
5. Clean energy decarbonisation and technology
6. Skills and capabilities for green growth
7. Engagements and partnerships, especially with the private sector.

Annex A of the Australia Singapore Green Economy Agreement contains a list of joint initiatives meant to give practical expression to these cooperation objectives, with the implementation status of each initiative also provided.

28 "Singapore-Australia Green Economy Agreement Submission", Business Council of Australia, 27 January 2022, https://www.dfat.gov.au/sites/default/files/singapore-gea-submission-business-council-australia.pdf;

"Singapore-Australia Green Economy Agreement: Export Council of Australia Submission", Export Council of Australia, 31 January 2022, https://www.dfat.gov.au/sites/default/files/singapore-gea-submission-export-council-australia.pdf

29 "Singapore-Australia Green Economy Agreement Submission", Carbon Disclosure Project, n.d, https://www.dfat.gov.au/sites/default/files/singapore-gea-submission-carbon-disclosure-project.pdf

30 "Article 6 acknowledges that countries can pursue voluntary cooperation in the implementation of their Nationally Determined Contributions to allow for higher mitigation ambition and to promote sustainable development." See Alexandra Soezer, "What is Article 6 of the Paris Agreement, and why is it important?", *United Nations Development Programme*, 9 November 2022, https://www.undp.org/energy/blog/what-article-6-paris-agreement-and-why-it-important#:~:text=Article%206%20acknowledges%20that%20countries,and%20to%20promote%20sustainable%20development

31 *op. cit.*

32 Australian Hydrogen Council, Letter to Kathryn Campbell AO CSC, Secretary Department of Foreign Affairs and Trade, 20 December 2021.

33 "Singapore Green Economy Agreement: Submission to the Department of Foreign Affairs and Trade", Australian Chamber of Commerce and Industry, January 2022, https://www.dfat.gov.au/sites/default/files/singapore-gea-submission-acci.pdf

Nonetheless, the Australian government's ambition is for the GEA to serve as the template for the IPEF's Clean Energy Pillar. In this regard, Australian negotiators see Pillar 3's outcome as being establishment of cooperative frameworks, using standards development to give content. Subsequent work programmes would lead to concrete activities including the development of specific standards, with countries' participation motivated by the desire to attract investments into decarbonisation initiatives. There will be substantial crossover with Pillar 2, for example that Pillar's hydrogen initiative. An example of concrete activities might be a clean economy investment conference, designed to lead to investment pledges. Similarly, Australia is pioneering standards development in key low-carbon technologies. It is far down the track in designing a hydrogen guarantee of origin and moving towards standardisation of carbon emission accounting frameworks.

If the IPEF members were to adopt Australian designs, then Australia would have a first-mover advantage: a potential 'Canberra effect'.

### Issues

For trade and investment to flow smoothly in relation to clean energy products, common carbon emissions accounting approaches are required. As per the Paris Agreement, developed countries are required to abate their greenhouse gas emissions at a faster pace than developing countries, with the latter being accorded 'Common but Differentiated Responsibilities'.[34] This builds on and replaces the 1997 Kyoto Protocol,[35] which exempted developing countries from implementing greenhouse gas (GHG) emissions abatement.[36] Therefore, it is generally true that developed countries, such as Australia, are substantially ahead of developing countries in measuring GHG emissions, including through the operation of value chains. Moreover, to the extent that developed countries have national approaches to the measurement of GHG emissions along value chains, or embedded emissions accounting –Australia does not have one – each has its own design and measurement problems. By contrast, developing countries are further behind in measuring carbon emissions, never mind accounting for them through value chains. This raises the premium on developing common approaches, although it does not make it easier. In addition, it is not clear what role the IPEF might play in this relative to multilateral forums, particularly the OECD, which is already quite far down the track with developing its Inclusive Forum on Carbon Mitigation Approaches,[37] for which the agenda seems to be similarly framed to the IPEF's Pillar 3.

As the OECD's Inclusive Forum reiterates, countries are pursuing both priced and non-priced approaches to carbon mitigation, a broad divergence that is consistent with the Paris Agreement. However, as developed countries start to develop and implement Border Carbon Adjustment Measures (BCAs) to minimise potential carbon leakage, with these schemes based on carbon price differentials, developing country movements towards adopting carbon mitigation policies becomes more complicated. In fact, to the extent that they rely on exports from carbon-intensive industries

34 "The Explainer: The Paris Agreement", *United Nations Framework Convention on Climate Change*, 26 February 2021, https://unfccc.int/blog/the-explainer-the-paris-agreement

35 "KYOTO PROTOCOL TO THE UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE", *United Nations Framework Convention on Climate Change*, 1998, https://unfccc.int/resource/docs/convkp/kpeng.pdf

36 "Marking the Kyoto Protocol's 25th anniversary", United Nations, https://www.un.org/en/climatechange/marking-kyoto-protocol%E2%80%99s-25th-anniversary

37 "Inclusive Forum on Carbon Mitigation Approaches", *Organisation for Economic Co-operation and Development*, https://www.oecd.org/climate-change/inclusive-forum-on-carbon-mitigation-approaches/

to developed countries implementing BCAs, developing countries are in effect being pushed to adopt domestic carbon pricing and at levels like their developed country trading partners. This raises the tricky question: Given the core ‘common but differentiated responsibilities’ principle embedded in the Paris Agreement process, should this be a priority for developing countries? It will be interesting to see if, and if so how, these dynamics might play out in the IPEF.

Overall, these dynamics raise the premium on adopting regulatory best practice, forcing the issue up developing countries’ domestic policy agendas. That raises the bar on their expectations, particularly for the “policy reforms for investment nexus” at the heart of the IPEF’s construction.

## Conclusion

Clearly, the IPEF is not like the FTAs traditionally negotiated by IPEF partners, whether developed or developing, although it does contain elements of old and new. This gives rise to a complex negotiation dynamic, but one not likely to seriously threaten ultimate success, given the emphasis on establishing cooperative frameworks rather than binding market access arrangements subject to dispute settlement. For Australia, it offers the additional benefit of keeping the US engaged in the region via negotiation of economic arrangements, and as such is welcomed. That said, certain issues under negotiation will be closely scrutinised by civil society groups as well as business organisations, albeit their motivations and concerns differ substantially. However, the level of business interest in the IPEF appears to be lower than for the traditional deep FTAs pursued by Australia in the past. Overall, given the relative lack of controversy, the likely piecemeal adoption of Pillars as they are concluded, and cross-party support for keeping the US engaged in regional processes, ratification procedures are unlikely to be controversial. It only remains to be seen what the content of the outcomes will be.

## About the author

**Professor Peter DRAPER** is Professor and Executive Director of the Institute for International Trade (IIT) in the Faculty of the Professions, University of Adelaide, Australia. He holds a Jean Monnet Chair in Trade and Environment and directs the IIT's Jean Monet Centre in Trade and Global Affairs. He is also Deputy Dean – International – of the Faculty of Arts, Business, Law, and Economics at the University of Adelaide.

Professor Draper is a Board member of the Australian Services Roundtable, and member of the South Australia Committee of the Australia-India Chamber of Commerce. He is a member of the Board of Trustees of the International Chamber of Commerce's Research Foundation; non-resident senior fellow of the Brussels-based European Centre for International Political Economy; Associated Researcher at the German Development Institute (DIE); and a Board member of the Australian Services Roundtable. For ten years he was, respectively, member, chair, vice chair, and co-chair of the World Economic Forum's Global Future Council on the Global Trade and FDI system.

Professor Draper was also a Senior Research Fellow at the South African Institute of International Affairs. In South Africa's national Department of Trade and Industry he was head of bilateral economic relations (East Asia then Mercosur), and head of the economic analysis and research unit in the Department's International Trade and Economic Development Division. Prior to that he was an academic teaching economic history and political economy and headed the Department of Economics and Economic History at the then University of Durban-Westville (now University of KwaZulu-Natal). He is a recipient of an honorary Doctorate degree from the Friedrich-Schiller-University in Jena, Germany.

# **The IPEF:** Japan's Economic Realism and Approach to Indo-Pacific Engagement, Resilience, and Rule-Setting

Stephen NAGY

Japan has wedded its Free and Open Indo-Pacific (FOIP) Vision to various initiatives, including the Indo-Pacific Economic Framework (IPEF), to embed itself in the regional political economy. However, several factors such as COVID-19, geopolitics, policy choice, and costs are shaping Japan's engagement. The IPEF is an inclusive agenda that sets rules and lays the foundation for the American-led economic framework, anchoring the United States (US) in the region. It should be viewed through several initiatives, including the Resilient Supply Chain Initiative (RSCI), Data Free Flow with Trust (DFFT), and the Japan-European Union (EU) Economic Partnership Agreement (EPA) amongst others. The Japan-US alliance informs all aspects of the Indo-Pacific engagement, but Japan has its own nuanced view of the region. Japan seeks to build resilience into the relationship with China through selective diversification and economic engagement while rejecting zero-sum approaches, decoupling and containment policies toward the world's second largest economy.

## Introduction

Japan's interest in the Indo-Pacific Economic Framework for Prosperity (IPEF) stems from its strategic priorities to maintain economic growth and economic security in the region. These strategic priorities are based on two realities.

First, the economic relationship between Japan and China. In 2021, bilateral trade relations reached a record high of US$391.4 billion (S$524.9 billion) for the first time in 10 years since 2011, according to the Japan External Trade Organization (JETRO).[1] Chinese state-run newspapers like *China Daily* and *Global Times* highlighted the fact that Japan and China are not only neighbours but also inseparable economic partners,[2] with more than 30,000 Japanese companies active in China.[3]

Second, despite China's disapproval of Japan's involvement in the IPEF, which China views as posing risks to Japan's economic and trade cooperation[4] not only with China but also with the United States (US), Japanese businesses hope that their participation will lure the US back to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)[5] or a Trans-Pacific Partnership (TPP) 2.0 led by the US. According to Japan's Foreign Minister Yoshimasa Hayashi, it is the US that shaped the TPP into its current form of strategic importance and therefore, the US should return to the broad cross-Pacific free trade agreement.[6]

To achieve these strategic priorities, the Kishida administration is practising economic realism, which suggests that the maintenance of the *seikei bunri* (separation of politics and economics) relationship with China at the highest levels of government seems unlikely.[7] The use of nationalism in both China and Japan to consolidate political support for the current leadership makes it difficult for political leaders to return to conducting bilateral relations with a singularly economic focus.[8] This shift is based on a growing track record of economic coercion,[9] supply chain disruptions,[10]

1 Kenji Munekane and Rei Kobayashi, Japan External Trade Organization, *Japan-China trade in 2021 hits record high for first time in 10 years since 2011*, 25 March 2022, https://www.jetro.go.jp/biz/areareports/2022/ef313e747ccd01d8.html

2 Yang Bojiang, "Build Japan-China relations for next 50 years", *China Daily*, 26 September 2022, https://www.chinadaily.com.cn/a/202209/26/WS6330dfd6a310fd2b29e799b6_3.html

3 Zhang Wei, "Japan's proposed export controls on semiconductors to disrupt supply chain, undermine economic order", *Global Times*, 29 April 2023, https://www.globaltimes.cn/page/202304/1289973.shtml

4 Yu Hailong, "Japan's embrace of IPEF brings no benefits and only risks", *Global Times*, 26 May 2022, https://www.globaltimes.cn/page/202205/1266648.shtml

5 Rumi Aoyama, "Will Tokyo's IPEF membership mix with Japan–China relations?", *East Asia Forum*, 14 July 2022, https://www.eastasiaforum.org/2022/07/14/will-tokyos-ipef-membership-mix-with-japan-china-relations/

6 Sayumi Take, "US should be at center of CPTPP, Japanese foreign minister says," *Nikkei Asia*, 22 October 2022, https://asia.nikkei.com/Politics/International-relations/Indo-Pacific/U.S.-should-be-at-center-of-CPTPP-Japanese-foreign-minister-says

7 Stephen Nagy, 'Balancing Trade and Security Relationships in the Asia Pacific: The Advent of a Trilateral Seikei Bunri Relationship between Japan, China, and the US', *Journal of Asian Politics & History*, no.6 (April 2015): 5-24.

8 *Ibid*., 21.

9 "China's economic coercion: Evolution, characteristics and countermeasures", Think Tank European Parliament, 15 November 2022, https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2022)738219

10 Christina Lai, 'Acting one way and talking another: China's coercive economic diplomacy in East Asia and beyond', *The Pacific Review*, Vol.31, no.2 (July 2017): 169-187.

weaponisation,[11] and erratic policy decisions in China during the COVID-19 pandemic.[12] It is also related to the energy and food security-related issues that emerged following Russia's invasion of Ukraine on 24 February 2022.[13]

For Tokyo, the IPEF represents a new era of economic engagement driven by concerns about economic security, resilience, and the prioritisation of rule-setting in the areas of trade, supply chains, clean economy and fair economy.[14] Through the IPEF, Japan hopes to inculcate the US into the Indo-Pacific region, build shared institutions and norms, and strengthen its economic synergies with the region for bolstering its economic security and resilience *vis-à-vis* China while staying economically engaged with the latter. As a US-led, China-excluding coalition, the IPEF could also have a major impact on the Japanese economy by encouraging member countries to leave or decrease their economic reliance on China.[15]

This paper examines Japan's strategic priorities pertaining to the IPEF, their connection to Japan's relationship with China and the US, and the actions being taken for successful implementation of the IPEF.

## Why does the IPEF matter to Japan?

Japan's interests in the IPEF can be traced back to its long-standing commitments to free trade and open markets. Since it became a major trading nation in the late 1800s, with limited natural resources, Japan has relied heavily on international trade to fuel its economic growth.[16] This reliance has necessitated a rules-based order and access to resources and consumer markets.

With the US stepping away from the TPP in January 2017, Japan and other TPP partners were left standing at the trade altar. Even though the possibility was unlikely, many had hoped that the US would return to the TPP. In an exclusive interview with *CNBC* and Broadcast Satellite Japan, former Prime Minister Shinzo Abe said, "Since the US understands the importance of having free and fair trade rules, it is our wish, by all means our strong wish is that the US will return to TPP."[17]

The Biden administration, understanding that advocating for joining the CPTPP was a non-starter for the US due to domestic political divisions, launched the IPEF in May 2022 with 14 diverse partner countries representing 40 per cent of global Gross Domestic Product (GDP) and 28 per cent

11 Dechun Zhang and Ahmed Jamali, 'China's Weaponized Vaccine: Intertwining Between International and Domestic Politics', *East Asia*, Vol.39 (January 2022): 279-296.

12 Arendse Huld, "Are China Port Closures to Blame for Continued Supply Chain Disruption?", *China Briefing*, 25 January 2022, https://www.china-briefing.com/news/china-port-closures-to-blame-for-continued-supply-chain-disruption/

13 Xi-Yin Zhou, Gang Lu, Zhicheng Xu, Xiaoqing Yan, Soon-Thiam Khu, Junfeng Yang and Jian Zhao, "Influence of Russia-Ukraine War on the Global Energy and Food Security", Science Direct, Vol.188 (January 2023), https://www.sciencedirect.com/science/article/abs/pii/S0921344922004906

14 "Indo-Pacific Economic Framework for Prosperity (IPEF) Ministerial", Ministry of Foreign Affairs of Japan, 27 May 2023, https://www.mofa.go.jp/press/release/press4e_003269.html

15 Kazuma Kishikawa and Kensuke Hosoda, "Impact of Indo-Pacific Economic Framework (IPEF) on Japan", Daiwa Institute of Research, 1 December 2022, https://www.dir.co.jp/english/research/report/analysis/20221201_023441.html

16 Yasuo Masai, Shigeki Hijino and Gil Latz, "Economy of Japan", *Encyclopedia Britannica*, 14 March 2023, https://www.britannica.com/topic/economy-of-Japan

17 Akiko Fujita, "Japanese PM Abe says it is his 'strong wish' that the US returns to the TPP", *CNBC*, 17 May 2017, https://www.cnbc.com/2017/05/15/japanese-pm-abe-says-it-is-his-strong-wish-that-the-us-returns-to-the-tpp.html

of global goods and services.[18] Despite not discussing market access,[19] the IPEF offers numerous advantages to its members that distinguish it from traditional trade agreements. These include the ability for IPEF participants to choose from a range of initiatives falling under the IPEF umbrella, as well as its focus on trade, supply chains, the clean economy, and a fair economy. The emphasis on these areas aims to promote sustainable economic growth and development for all participating countries.[20] The *à la carte* approach to the IPEF membership ensures that states with different politico-economic systems and at different levels of development can join the Framework without being compelled to adopt all parts of the initiative. This feature contributes to the IPEF's inclusivity.

The four pillars of the IPEF are core foundations for stable and rules-based growth in the region that will translate into a clean, green, resilient, technological, and fair economy.

The Trade Pillar[21] stresses "trade and technology policies that advance a broad set of objectives and that fuel economic activities and generate investments; promote resilient, sustainable, and inclusive economic growth and development; and benefit workers, consumers, indigenous peoples, local communities, women, and micro-, small-, and medium-sized enterprises (MSMEs)." The Pillar links the growing theme of economic security to technology and development to resilience. In the former, Tokyo sees its economic security related to being at the forefront of technological development and also in setting of rules for inculcating these technologies into the Indo-Pacific's economic growth. In the latter, the Pillar links development to building resilience into economies reducing their vulnerabilities to economic destabilisation from financial crises, natural disasters, supply chain breakdowns, or economic coercion by other states.

The Supply Chains Pillar[22] aims to "ensure secure and resilient supply chains and to minimise disruptions and vulnerabilities, which may require evolving our public institutions and improving coordination with the private sector. Recognising the different economic characteristics and capacity constraints of Members, we seek to coordinate crisis response measures and to expand cooperation to better prepare for, and mitigate the effects of, disruptions to better ensure business continuity and improve logistics and connectivity, particularly in critical sectors."

The realisation of acute vulnerabilities of an overconcentration of supply chains in one country is related to economically coercive behaviour, conflict, and erratic policy choices in China over the COVID-19 pandemic. With regard to economic coercion,[23] Japan, South Korea, Australia, Canada,

18 "FACT SHEET: In Asia, President Biden and a Dozen Indo-Pacific Partners Launch the Indo-Pacific Economic Framework for Prosperity", The White House, 23 May 2022, https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/23/fact-sheet-in-asia-president-biden-and-a-dozen-indo-pacific-partners-launch-the-indo-pacific-economic-framework-for-prosperity/

19 Aidan Arasasingham and Emily Benson, "The IPEF gains momentum but lacks market access", *East Asia Forum*, 30 June 2022, https://www.eastasiaforum.org/2022/06/30/the-ipef-gains-momentum-but-lacks-market-access/

20 "Statement on Indo-Pacific Economic Framework for Prosperity", The White House, 23 May 2022, https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/23/statement-on-indo-pacific-economic-framework-for-prosperity/

21 "Pillar I – Trade: Ministerial Text for Trade Pillar of the Indo-Pacific Economic Framework for Prosperity", US Department of Commerce, https://ustr.gov/sites/default/files/2022-09/IPEF%20Pillar%201%20Ministerial%20Text%20(Trade%20Pillar)_FOR%20PUBLIC%20RELEASE%20(1).pdf

22 "Pillar II – Supply Chains: Ministerial Text for Supply Chains Pillar of the Indo-Pacific Economic Framework for Prosperity", US Department of Commerce, https://www.commerce.gov/sites/default/files/2022-09/Pillar-II-Ministerial-Statement.pdf

23 Duanjie Chen, "Countering China's Economic Coercion", Macdonald-Laurier Institute, 5 September 2019, https://macdonaldlaurier.ca/countering-chinas-economic-coercion-new-mli-report-duanjie-chen/

Taiwan[24] and other states have experienced coercion by China,[25] and see selective diversification of supply chains[26] as being essential for building resilience into their economies.

Conflict – current and possible in the case of Taiwan – also weighs heavily in the minds of Japan and other IPEF members. The downstream effects of Russia's invasion of Ukraine on food security[27] and energy security have amplified concerns about global supply chains with Prime Minister Kishida Fumio stressing "today's Ukraine could be tomorrow's East Asia",[28] an indirectly labelled concern about China's assertive behaviour and militarisation in the region as threats towards Taiwan. The supply chains disruptions experienced after the COVID-19 pandemic and those associated with China's Dynamic Zero COVID-19 policies[29] have also led to the realisation that politically-based policy choices within China can destabilise supply chains prompting the IPEF members to diversify, build resilience and de-risk from volatile policy environments.

The Clean Economy Pillar[30] aims to promote "clean energy transitions, scaling and reducing the cost of innovative technologies, and advancing low greenhouse gas emissions in priority sectors. Specifically, the proposal seeks to create a framework through which [the] IPEF [p]artners can identify new opportunities and advance existing efforts in shared areas of interest to promote the resiliency, innovation, sustainability, and security of a clean economy and to support ongoing collaboration among IPEF Partners and stakeholders." The Pillar recognises that sustainable and environmentally friendly growth is a prerequisite for developed and developing nations with many of the latter (for example, the Pacific Island countries) facing existential climate change challenges.[31]

24 Ja Chong, David Huang and Wen-Chin Wu, "Stand up like a Taiwanese!: PRC coercion and public preferences for resistance", *Japanese Journal of Political Science*, 24 March 2023, https://www.cambridge.org/core/journals/japanese-journal-of-political-science/article/stand-up-like-a-taiwanese-prc-coercion-and-public-preferences-for-resistance/845D4D81B481C7E141771AF00519F941?utm_source=hootsuite&utm_medium=twitter&utm_campaign=JJP_Mar23

25 Fergus Hunter, Daria Impiombat, Yvonne Lau, Adam Triggs, Albert Zhang and Urmika Deb, "Countering China's coercive diplomacy: prioritising economic security, sovereignty and the rules-based order", Australian Strategic Policy Institute, 22 February 2023, https://www.aspi.org.au/report/countering-chinas-coercive-diplomacy

26 Stephen Nagy and Hanh Nguyen, 'Asymmetric Interdependence and the Selective Diversification of Supply Chains', *Journal of Contemporary Eastern Asia*, Vol.20, no.2 (2021).

27 Caitlin Welsh, "Russia, Ukraine, and Global Food Security: A One-Year Assessment", Center for Strategic and International Studies, 24 February 2023, https://www.csis.org/analysis/russia-ukraine-and-global-food-security-one-year-assessment

28 "War in Ukraine has bolstered Japan's support for a stronger army", *The Economist*, 15 September 2022, https://www.economist.com/asia/2022/09/15/war-in-ukraine-has-bolstered-japans-support-for-a-stronger-army?utm_medium=social-media.content.np&utm_source=twitter&utm_campaign=editorial-social&utm_content=discovery.content

29 John Manners-Bell, "China's zero Covid policy still causing supply chains chaos", Foundation for Future Supply Chain, https://futuresupplychains.org/chinas-zero-covid-policy-still-causing-supply-chains-chaos/

30 "Pillar III – Clean Economy: Ministerial Statement for Pillar III of the Indo-Pacific Economic Framework for Prosperity", US Department of Commerce, https://www.commerce.gov/sites/default/files/2022-09/Pillar-III-Ministerial-Statement.pdf

31 Busani Bafana, "Climate Change is No 'Future Scenario' for Pacific Island Nations; Climate Change is 'Real'", *Inter Press Service*, 15 November 2022, https://www.ipsnews.net/2022/11/climate-change-is-no-future-scenario-for-pacific-island-nations-climate-change-is-real/?utm_source=rss&utm_medium=rss&utm_campaign=climate-change-is-no-future-scenario-for-pacific-island-nations-climate-change-is-real

Lastly, the Fair Economy Pillar[32] recognises that "fairness, inclusiveness, transparency, the rule of law, and accountability are essential to improving the investment climate, ensuring shared prosperity, and promoting labo[u]r rights based on the ILO Declaration on Fundamental Principles and Rights at Work, which the Partners have adopted." Overlapping with the labour components of the CPTPP,[33] the Pillar aims to create a level playing field for the IPEF members, for ensuring economies compete on mutual understanding of labour rights and the necessity to invest in greener and labour-friendly economic practices.

## Multi-layered approach to Indo-Pacific economic engagement

Japan's support for this initiative was unsurprising given its abiding interest in promoting a rule-based order through the Free and Open Indo-Pacific Vision (FOIP)[34] since its inception in 2017. Recently, Japan has updated the FOIP through its "New Plan for a Free and Open Indo-Pacific (FOIP)",[35] which includes enhancing the connectivity of the Indo-Pacific region and fostering the region into a place that values freedom and rule of law, is free from force or coercion, and prosperous.

The Economic Partnership Division under the Ministry of Economy, Trade and Industry (METI) of Japan described the IPEF as a new approach to regional collaboration, where diverse countries from the region work together to create a balanced package between rules and cooperation, and tackles contemporary issues such as digital economy, strengthening supply chain resilience, decarbonisation and clean energy. As such, Japan will cooperate with individual countries to realise innovative, inclusive, and sustainable economic growth in the Indo-Pacific region.[36]

A key driver of Japan's interests in the IPEF is the growth of the digital economy. Tokyo views the digital economy rapidly becoming a key contributor of economic growth[37] and job creation.[38] It also sees the global digital economy as underregulated and believes the IPEF will be useful in allowing Japan, alongside like-minded members within the IPEF, to be the first movers in standard-setting for laying ground rules on operations of the digital economy, the relationships of data with

32 "Pillar IV – Fair Economy: Ministerial Statement for Pillar IV of the Indo-Pacific Economic Framework for Prosperity", US Department of Commerce, https://www.commerce.gov/sites/default/files/2022-09/Pillar-IV-Ministerial-Statement.pdf

33 "Consolidated TPP Text – Chapter 19 – Labour", Government of Canada, https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/tpp-ptp/text-texte/19.aspx?lang=eng

34 "The Future of the Indo-Pacific: Japan's New Plan for a Free and Open Indo-Pacific – Together with India, as an Indispensable Partner", Speech by Kishida Fumio, Prime Minister of Japan, 20 March 2023, https://www.mofa.go.jp/files/100477739.pdf

35 "New Plan for a Free and Open Indo-Pacific (FOIP)", Ministry of Foreign Affairs of Japan, March 2023, https://www.mofa.go.jp/files/100484990.pdf

36 "Basic Economic Knowledge: The Indo-Pacific Economic Framework (IPEF), a New Framework for Economic Collaboration", Ministry of Economy, Trade and Industry, https://www.meti.go.jp/english/mobile/2022/20221107001en.html

37 Piyaporn Sodsriwiboon, Purva Khera and Rui Xu, "Japan's Digitalization Can Add Momentum for Economic Rebound", International Monetary Fund, 1 June 2022, https://www.imf.org/en/News/Articles/2022/05/31/CF-Japan-Digitalization-Can-Add-Momentum-for-Economic-Rebound

38 "How Japan can make digital 'big moves' to drive growth and productivity", *McKinsey Digital*, 24 February 2021, https://www.mckinsey.com/capabilities/mckinsey-digital/our-insights/how-japan-can-make-digital-big-moves-to-drive-growth-and-productivity

data protection, and between government and citizens' data.[39] Japan recognises the importance of the digital economy and is keen to ensure that it can fully participate in this growing sector. Another key driver of Japan's interests in the IPEF is the increasing importance of data in the global economy. With data becoming a key asset in the global economy,[40] and the ability to collect, analyse, and utilise data becoming increasingly important for businesses and governments alike, Japan is committed to fully participating in the global data economy[41] while maximising the benefits that data can provide.

Essentially, by participating in the IPEF, Japan aims to promote the digital economy and ensure the free flow of data across borders. This goal encompasses the advancement of digital infrastructure, such as 5G networks[42] and data centres,[43] as well as the development of digital technologies and services.[44]

## Japan's strategic priorities

Japan has for long been a regional economic power. However, its economic growth has slowed considerably in the current century, particularly in the last decade, with the economy contracting sharply after the COVID-19 pandemic.[45] To sustain its economic position and achieve sustainable economic growth, Tokyo has sought to increase economic ties with other countries in the region through multiple trade agreements and economic partnerships such as the Regional Comprehensive Economic Partnership (RCEP), the CPTPP, and the Japan-European Union (EU) Economic Partnership. The US has been noticeably absent from all these agreements. The IPEF, tabled by the US, aims to promote economic cooperation in the Indo-Pacific, as well as advance objectives that are congruent with Japan's economic and national security interests.

A major strategic priority for Japan is maintaining its security in the region. Japan is geographically vulnerable, with China to the west and North Korea to the north. In recent years, China has challenged the rules-based order in sea lines of communication in the South China Sea, the Taiwan Strait, and the East China Sea.[46] Collectively, these critical arteries transport approximately

39 Clete Willems and Niels Graham, "TTC, IPEF, and the road to an Indo-Pacific trade deal: A new model", *Atlantic Council*, 27 September 2022, https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/ttc-ipef-and-the-road-to-an-indo-pacific-trade-deal-a-new-model/

40 "A Nation's Drive Towards a Data-first Digital Society Future", Japan External Trade Organization, https://www.jetro.go.jp/en/invest/insights/japan-insight/nation-drive-datafirst-digital-society-future.html

41 Kazuaki Nagata, "Japan looks to enable cross-border data flows at G7 tech meeting", *The Japan Times*, 28 April 2023, https://www.japantimes.co.jp/news/2023/04/28/business/g7-tech-ministers-crossborder-data/

42 "Japan, U.S. to agree to promote open 5G standards in Indo-Pacific", *The Yomiuri Shimbun*, 21 May 2022, https://japannews.yomiuri.co.jp/politics/politics-government/20220521-30476/

43 "Japan's booming data center market draws multinationals as digitization, 5G and AI drive growth", Japan External Trade Organization, https://www.jetro.go.jp/en/invest/insights/japan-insight/booming-data-center-market-draws-multinatioals.html

44 Lena Broeckaert, "Digital Transformation in Japan: Assessing business opportunities for EU SMEs", EU-Japan Center for Industrial Cooperation, https://www.eu-japan.eu/sites/default/files/publications/docs/Digital-Transformation-Japan-Assessing-opportunities-forEU-SMEs.pdf

45 The World Bank, "GDP growth (annual %) – Japan", https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=JP

46 Stephen Nagy, "Deepening the Japan-NATO Partnership: Connecting synergies and concerns to promote rules-based stability", *Japan Up Close*, 10 February 2023, https://japanupclose.web-japan.org/policy/p20230210_1.html

US$5.5 trillion (S$7.3 trillion) in imports and exports annually.[47] They also transport critical energy resources fuelling the Japanese, Chinese and the South Korean economies. This has led Japan to seek closer security ties with the US and other countries in the region.

Japan also prioritises enhancing regional connectivity, particularly in the Indo-Pacific region, to facilitate trade and investment. To achieve this goal, Japan is keen on promoting the development of physical infrastructure,[48] such as ports and airports, and digital infrastructure,[49] including high-speed internet connections.

To sum up, Japan's strategic priorities include sustaining economic growth, maintaining regional security and the rules-based order.

## Japan's strategic priorities in relation to its relationship with China and the US

### Relationship with China

Japan's relationship with China is complex. The two countries have a history of conflict, dating back to the second Sino-Japanese War in the 1930s and 1940s.[50] More recently, tensions have risen over territorial disputes in the East China Sea.[51] However, Japan also has a significant economic relationship with China, with Beijing being its largest trading partner.[52] Additionally, China is also the top trading partner for more than 120 countries.[53]

Japan's engagement in the IPEF has implications for its relationship with China, given that China is a key player in the Indo-Pacific region and is not a member of the initiative.[54] This has led some to speculate that the IPEF aims to contain China's economic influence in the region.[55] Launched in Tokyo, the IPEF excludes China and some of its close Southeast Asian partners such as Cambodia, Laos, and Myanmar, not least because the IPEF is meant to counter the geo-economic rise of

---

47 "How Much Trade Transits the South China Sea?", *China Power*, https://chinapower.csis.org/much-trade-transits-south-china-sea/

48 Anita Prakash, "Connectivity Plans in Indo-Pacific: Infrastructure for Expanded Supply Chains and Resilient Growth", ERIA Research Project Report, March 2023, https://www.eria.org/uploads/media/Research-Project-Report/RPR-2022-19-Regional-Integration-in-Indo-Pacific%3A-Connectivity%2C-Cooperation%2C-and-New-Supply-Chain-Linkages/06_Ch.2-Connectivity-Plans-in-Indo-Pacific.rev.pdf

49 Jonathan Soble, "It's time to reset Japan's digital infrastructure", *The Japan Times*, 2 August 2020, https://www.japantimes.co.jp/opinion/2020/08/02/commentary/japan-commentary/digital-infrastructure-reset/

50 "Second Sino-Japanese War 1937-1945", *Encyclopedia Britannica*, https://www.britannica.com/event/Second-Sino-Japanese-War

51 Yoichiro Sato and Astha Chadha, "Understanding the Senkaku/Diaoyu Islands Dispute: Diplomatic, Legal, and Strategic Contexts", in *Asian Territorial and Maritime Disputes: A Critical Introduction*, ed. by Moises Souza, Gregory Coutaz and Dean Karalekas (E-International Relations, 2022), 48-64.

52 "China passes US as top Japanese export buyer, topping 20%", *Nikkei Asia*, 22 January 2021, https://asia.nikkei.com/Economy/Trade/China-passes-US-as-top-Japanese-export-buyer-topping-20

53 Mark Green, "China Is the Top Trading Partner to More Than 120 Countries", *Wilson Center*, 17 January 2023, https://www.wilsoncenter.org/blog-post/china-top-trading-partner-more-120-countries#:~:text=China%20is%20the%20largest%20trading,like%20South%20Africa%20and%20Kenya

54 Wang Xu, "US agenda seen as no more than move to contain China", *China Daily*, 2 June 2022, https://global.chinadaily.com.cn/a/202206/02/WS6297f49fa310fd2b29e605ab.html

55 Dingding Chen and Yingfan Chen, "Will IPEF Help the US Counter China?", *The Diplomat*, 15 June 2022, https://thediplomat.com/2022/06/will-ipef-help-the-us-counter-china/

China.[56] However, Japanese officials have denied this, stating that the initiative is open to all countries that share its goals of promoting economic cooperation and connectivity in the region based on a common set of transparent rules.[57]

Japan's participation in the IPEF can be seen as a way to promote economic growth and regional supply chain connectivity without over-reliance on China. Hence, the IPEF's design aligns with Japan's vision and targets the wider Indo-Pacific region, rather than focusing solely on Japan and China. By promoting regional connectivity through the Indo-Pacific Framework, Japan can reduce its dependence on China and promote greater economic and political diversity in the region. Simultaneously, Japan's interest in the IPEF is not necessarily incompatible with its relationship with China. Both Japan and China recognise the importance of the digital economy and the free flow of data, and both nations are making substantial investments in these domains.[58] Japan's interest in the IPEF may provide an opportunity for greater cooperation[59] between Japan and China in these areas. This can be carried out through positioning of Tokyo as a digital economy norm-maker within the IPEF which create conditions that may shape Beijing's digital economy standards and regulations so that they are more in-line with IPEF members.

### Relationship with the US

Japan's relationship with the US is also important in the context of the IPEF. The US has historically been Japan's closest security ally, and the two countries have a strong economic relationship. In 2022, Japan enjoyed a US$47 million (S$63 million) trade surplus with the US but registered a US$42 million (S$56.3 million) deficit with China.[60] The election of Donald Trump as US President in 2016 had brought some uncertainty to the relationship,[61] as Trump was critical of Japan's trade policies[62] and called for Japan to pay more for its own defence.[63]

Despite these challenges, Japan has continued to prioritise its relationship with the US. The two countries have a shared interest in maintaining stability in the region, and Japan sees the

56 Mohammadbagher Forough, "Born in Tokyo, Indo-Pacific Economic Framework Crawls in LA; Will it Ever Walk?", *Institute for Security and Development Policy*, 14 September 2022, https://www.isdp.eu/born-in-tokyo-indo-pacific-economic-framework-crawls-in-la-will-it-ever-walk/

57 "Indo-Pacific Economic Framework for Prosperity (IPEF) Ministerial", Press Release, Ministry of Foreign Affairs of Japan, 27 May 2023, https://www.mofa.go.jp/press/release/press4e_003269.html

58 Yi Wu, "Understanding China's Digital Economy: Policies, Opportunities, and Challenges", *China Briefing*, 11 August 2022, https://www.china-briefing.com/news/understanding-chinas-digital-economy-policies-opportunities-and-challenges/

59 "Extensive Cooperation between China and Japan in Digital Society and AI", *Science and Technology Daily*, 1 November 2021, https://www.prnewswire.com/news-releases/extensive-cooperation-between-china-and-japan-in-digital-society-and-ai-301413030.html

60 "Japan Posts Record ¥20 Trillion Trade Deficit in 2022", *Nippon*, 1 February 2023, https://www.nippon.com/en/japan-data/h01569/

61 Shimbun Akahata, "Trump victory throws uncertainty into Japan-US relations", *People's World*, 22 November 2016, https://peoplesworld.org/article/trump-victory-throws-uncertainty-into-japan-u-s-relations/

62 Aurelia Mulgan, "The 'Trump Factor' in the US–Japan trade deal", *East Asia Forum*, 13 October 2019, https://www.eastasiaforum.org/2019/10/13/the-trump-factor-in-the-us-japan-trade-deal/

63 Lara Seligman and Robbie Gramer, "Trump Asks Tokyo to Quadruple Payments for US Troops in Japan", *Foreign Policy*, 15 November 2019, https://foreignpolicy.com/2019/11/15/trump-asks-tokyo-quadruple-payments-us-troops-japan/

US as an important partner in countering China's assertiveness.[64] In addition, Japan has sought to strengthen its economic ties with the US through initiatives such as the US-Japan Economic Dialogue,[65] which was launched in 2017.

Japan's interest in the IPEF can be seen as a tool to promote greater economic cooperation and supply chain connectivity with the US. The IPEF is designed to promote economic growth and regional supply chain connectivity across the Indo-Pacific region, including between Japan and the US. By promoting greater economic cooperation and supply chain connectivity through the IPEF, Japan can strengthen its relationship with the US and promote greater economic and political stability in the region. Japan's involvement in the IPEF can be interpreted as an attempt to anchor the US into the region through shared trade priorities.[66]

Overall, Japan recognises the importance of maintaining good relations with both the US and China. The IPEF provides a framework for greater cooperation with the US and the IPEF partners while it concurrently continues to engage with China through the RCEP.

### Japan's concrete steps to translate the IPEF into reality

Japan has taken several concrete steps to ensure the realisation of the IPEF. By way of example, Japan has the capacity to transfer capabilities for managing and strengthening supply chains in the manufacturing sector and infrastructure projects, making it well-suited to support sustainable development efforts around the world.[67] Japan hosts the Tokyo International Conference on African Development (TICAD),[68] which provides an open forum for stakeholders to engage in innovative discussions related to African development programmes. Since its inception in 1993, TICAD has made significant contributions to socio-economic development in Africa through aid grants and technical assistance.[69] Another important initiative is the Partnership for Quality Infrastructure (PQI),[70] which was launched by Japan in 2015. The PQI aims to promote high-quality infrastructure development in the region, with strong emphasis on transparency, openness, and sustainability.[71] One aspect of this Partnership is the focus on quality. The PQI sets itself apart by prioritising the

64 Thomas Christensen, 'China, the US-Japan Alliance, and the Security Dilemma in East Asia', *International Security*, Vol.23, no.4 (1999): 49-80.

65 Matthew P. Goodman, "US-Japan Economic Dialogue: Two Steps Forward, More Needed", *Center for Strategic and International Studies*, 30 November 2021, https://www.csis.org/analysis/us-japan-economic-dialogue-two-steps-forward-more-needed

66 Stephen Nagy, "Invigorating ASEAN-US relations: The necessity of mutual understanding and proactive reciprocity", *Tuoi Tre News*, 14 November 2022, https://tuoitrenews.vn/news/politics/20221114/invigorating-aseanus-relations-the-necessity-of-mutual-understanding-and-proactive-reciprocity/70004.html

67 *Ibid*.

68 "What's TICAD", Japan International Cooperation Agency, https://www.jica.go.jp/TICAD/en/ticad/whats/index.html#:~:text=Tokyo%20International%20Conference%20on%20African,leadership%20of%20the%20Japanese%20government

69 "Three Decades of Promoting Ownership and Partnership: A Look at the History of TICAD", Japan International Cooperation Agency, 14 July 2022, https://www.jica.go.jp/TICAD/en/approach/special_report/news_220714.html

70 "Quality Infrastructure Investment", Ministry of Foreign Affairs of Japan, 10 May 2023, https://www.mofa.go.jp/files/000117998.pdf

71 Ibid.

quality of investments over quantity.[72] This approach ensures that investments are made with a long-term perspective, taking into account the sustainable development character of the projects.[73]

The Government of Japan has committed to investing US$110 billion (S$148.7 billion) for quality infrastructure investment in Asia over the next five years, in collaboration with the Asian Development Bank (ADB).[74] According to the Ministry of Foreign Affairs of Japan, this investment is expected to have a catalytic effect on mobilising financial resources from private companies around the globe to support Asia's development needs. To this end, Japan will expand and accelerate assistance through a range of organisations and aid tools, while also enhancing the role of the Japan Bank for International Cooperation (JBIC) and strengthening collaboration with the ADB.[75] By leveraging its expertise and resources, Japan is well-positioned to play a leadership role in promoting sustainable economic development in a multipolar Indo-Pacific.[76] Furthermore, environmentally sustainable infrastructure investment initiatives can complement the environmental initiatives associated with Pillar 3 of the IPEF.

In addition to these initiatives, Japan has sought to strengthen its economic ties with other countries in the region through bilateral and multilateral trade agreements.[77] One of the most significant is the CPTPP,[78] which was signed in 2018 by 11 countries, including Japan. With member countries representing 13 per cent of the global GDP,[79] the CPTPP is a landmark agreement that aims to lower trade barriers in goods and services, promote economic cooperation, and enhance regional integration.[80] It is noteworthy that Japan played a significant role in saving the TPP after the sudden withdrawal of the US under the Trump administration.[81] Japan's efforts to revive the Agreement demonstrate its commitment to promoting free trade and economic development, even in the face of significant challenges and uncertainties.[82]

---

72 Amelia Duggan, "Japan, China and the Contest for Influence in Contemporary Asia", *Asia Pacific Foundation of Canada*, 6 November 2018, https://www.asiapacific.ca/fr/blog/japan-china-and-contest-influence-contemporary-asia

73 Motoko Aizawa, 'Sustainable development through quality infrastructure: emerging focus on quality over quantity', *Journal of Mega Infrastructure & Sustainable Development*, Vol.1, no.2 (2019): 171-187.

74 "Quality Infrastructure Investment", White Paper 2015-ODA Topics, Ministry of Foreign Affairs of Japan, https://www.mofa.go.jp/files/000175945.pdf

75 *Ibid*.

76 Hiroyuki Suzuki, "Japan's Leadership Role in a Multipolar Indo-Pacific", *Center for Strategic and International Studies*, 23 October 2020, https://www.csis.org/analysis/japans-leadership-role-multipolar-indo-pacific

77 Shin Ito, "Japan's Critical Leadership Role on Free and Fair Trade", *Center for Strategic and International Studies*, 15 May 2018, https://www.csis.org/analysis/japans-critical-leadership-role-free-and-fair-trade

78 Aurelia Mulgan, "CPTPP a boost for Japan's regional trade leadership", *East Asia Forum*, 27 February 2018, https://www.eastasiaforum.org/2018/02/27/cptpp-a-boost-for-japans-regional-trade-leadership/

79 Jeffrey Schott, "Which countries are in the CPTPP and RCEP trade agreements and which want in?", *Peterson Institute for International Economics*, 3 April 2023, https://www.piie.com/research/piie-charts/which-countries-are-cptpp-and-rcep-trade-agreements-and-which-want

80 Ibid.

81 Terada Takashi, "How and Why Japan Has Saved the TPP: From Trump Tower to Davos", *The Asan Forum*, 19 February 2018, https://theasanforum.org/how-and-why-japan-has-saved-the-tpp-from-trump-tower-to-davos/

82 Robbie Gramer, "Japan Wants to Revive the Trans Pacific Partnership Even Without the US", *Foreign Policy*, 24 April 2017, https://foreignpolicy.com/2017/04/24/japan-wants-to-revive-trans-pacific-partnership-even-without-united-states-asia-trade-agreements/

The IPEF proposed by the US and the FOIP strategy introduced by Japan both aim to address China's growing influence in the region. China's Belt and Road Initiative (BRI),[83] a massive infrastructure development project, has been a cause for concern for many countries in the region, including Japan[84] and the US. China's BRI has been criticised for its lack of transparency, the potential to create debt traps[85] for developing countries, and strategic implications for China's regional influence.[86] In response, the IPEF and FOIP strategies seek to provide an alternative and more transparent approach to infrastructure development and economic integration in the region.[87]

The IPEF and FOIP strategies prioritise the development of quality infrastructure[88] that is sustainable and benefits local communities. This contrasts with China's BRI, which has been criticised for focusing on low-quality infrastructure[89] that may not be sustainable in the long term.[90] By focusing on quality infrastructure, the IPEF and FOIP strategies seek to promote economic development that benefits all countries in the region, rather than just China. The IPEF and FOIP strategies also emphasise the importance of regional connectivity and integration through the development of transport infrastructure such as ports, airports, and highways, to facilitate trade and economic growth. By promoting regional connectivity, the aim is to reduce barriers to trade and investment, which can help to counter China's growing economic influence in the region.

Furthermore, both strategies recognise the significance of regional security in promoting economic development and connectivity. This includes promoting the rule of law, freedom of navigation, and maritime security. By enhancing regional security, the strategies seek to counter China's growing military assertiveness in the region and promote greater stability and cooperation among countries in the Indo-Pacific region.

## Conclusion

Japan's interests in the IPEF are driven by its strategic priorities to maintain economic growth and security in the Indo-Pacific region. Given Japan's significant economic and security relationships with both China and the US, its involvement in the initiative is of significance. To ensure the

83 Aurelio Insisa and Giulio Pugliese, 'The free and open Indo-Pacific versus the belt and road: spheres of influence and Sino-Japanese relations', *The Pacific Review*, Vol.35, no.3 (2022): 557-585.

84 Jakob Grissler and Lars Vargö, "The BRI vs FOIP: Japan's Countering of China's Global Ambitions", Institute for Security and Development Policy, February 2021, https://www.isdp.se/publication/the-bri-vs-foip-japans-countering-of-chinas-global-ambitions/

85 Jessica Liao, "How BRI Debt Puts China at Risk", *The Diplomat*, 27 October 2021, https://thediplomat.com/2021/10/how-bri-debt-puts-china-at-risk/

86 Xue Gong, 'The Belt & Road Initiative and China's influence in Southeast Asia', *The Pacific Review*, Vol.32, no.4 (2019): 635-665.

87 Stephen Nagy, 'Sino-Japanese Reactive Diplomacy as Seen Through the Interplay of the Belt Road Initiative (BRI) and the Free and Open Indo-Pacific Vision (FOIP)', *China Report: A Journal of East Asian Studies*, Vol.57, no.1 (February 2021): 7-21.

88 Mikkal Herberg, "High-Quality Infrastructure and the Free and Open Indo-Pacific Vision", The National Bureau of Asian Research, 17 December 2020, https://www.nbr.org/publication/high-quality-infrastructure-and-the-free-and-open-indo-pacific-vision/

89 Teddy Ng, "China's Belt and Road Initiative criticised for poor standards and 'wasteful' spending", *South China Morning Post*, 12 June 2019, https://www.scmp.com/news/china/diplomacy/article/3014214/chinas-belt-and-road-initiative-criticised-poor-standards-and

90 Alice Politi, "How Green is China's Belt and Road Initiative?", *Istituto Affari Internazionali*, 12 April 2021, https://www.iai.it/en/pubblicazioni/how-green-chinas-belt-and-road-initiative

realisation of the IPEF, Japan has already taken several concrete steps, including the development of initiatives such as the Asia-Africa Growth Corridor and the Partnership for Quality Infrastructure, as well as bilateral and multilateral trade agreements, including the CPTPP.

Although the IPEF is still in its early stages, Japan's strong commitment to the initiative indicates that it is likely to maintain a leading role in the region's economic and security landscape in the years to come. This follows Japan's previous success in salvaging the TPP and negotiating the CPTPP.

## About the author

**Professor Stephen NAGY**[91] is Senior Associate Professor at the Department of Politics and International Studies, International Christian University in Tokyo, Japan. He is also a Distinguished Fellow at the Asia Pacific Foundation (APF) in Canada, a Fellow at the Canadian Global Affairs Institute, and a Visiting Fellow at the Japan Institute for International Affairs (JIIA). Professor Nagy obtained his PhD from Waseda University in International Relations (2009) and worked at the Department of Japanese Studies at the Chinese University of Hong Kong as an Assistant Professor from December 2009 to January 2014. His recent research projects have included Sino-Japanese Relations in the Wake of the 2012 Territorial Disputes: Investigating changes in Japanese Business' trade and investment strategy in China and Non-traditional Security Cooperation in Northeast Asia.

In conjunction with his research focus on Asian regional integration, in March 2010, he was appointed a Senior Fellow with the Global Institute of Asian Regional Integration, Waseda University. He is also a member of the Hong Kong Institute of Asia Pacific Studies' International Affairs Research Centre at the Chinese University of Hong Kong.

91 The author would like to acknowledge the editorial assistant of Ms Linh HA, MA graduate from the International Christian University.

# **IPEF:** An Indian Perspective

R V ANURADHA

The Indo-Pacific Economic Framework for Prosperity (IPEF) is a predominantly United States (US) driven initiative that intertwines the economic and geopolitical strategic dimensions. The overall strategic dimension appears to be the driving force for India's IPEF engagement as well. The mobilisation of inbound investments, the potential shift of production centres in critical sectors, deeper integration with global supply chains, and access to low cost and long-term climate finance, are some of the expectations that India has from the IPEF. But there are several challenges as well. India has so far not acceded to labour conditionalities in any agreement pertaining to trade or economic cooperation, the underlying concern being the potential for the use of labour standards for protectionist purposes. The IPEF will, however, necessitate commitments on labour-related issues across each of the IPEF Pillars. While India has stayed out of the IPEF Trade Pillar, the substantial conclusion of the IPEF's Supply Chain Pillar indicates the possibility of advance notice of changes to tariffs and curtailment of export restrictions. The IPEF's Fair Economy Pillar is likely to necessitate adherence to digital taxation rules – an area where India and the US had called for a temporary truce pending the multilateral outcome of the Organisation for Economic Co-operation and Development – Base-Erosion and Profit-Shifting (OECD-BEPS) negotiations, which is yet to materialise. Finally, while the IPEF may not result in enforceable dispute settlement, it is likely to rely on monitoring of its rules through various institutional bodies and committees. Implications of this new architecture for global rules remains to be seen.

## Introduction

Twelve months after the launch of the Indo-Pacific Economic Framework for Prosperity (IPEF), it has achieved "substantial conclusion of the negotiations of a first-of-its-kind international IPEF Supply Chain Agreement", in one of its four Pillars.[1] The remaining three Pillars are Trade, Clean Economy and Fair Economy (taxation/anti-corruption). Significant progress on each of these remaining Pillars has also been announced, raising the expectation of conclusions by the end of this year.

This paper reflects on what the IPEF means for India. The structure of the paper is as follows: the first part traces the principal drivers for engagement in the IPEF, both from the United States (US) and the Indian perspectives; the second part identifies some of the key challenges for negotiation, anticipated outcomes as well as implementation challenges for India across its four Pillars, while dwelling deeper into the Supply Chain Pillar, which has seen substantial conclusion; the third part is the concluding section for assessing the future evolution of the IPEF.

As of now, the IPEF can best be characterised as a fluid arrangement that is still evolving. While the "substantial conclusion" of the Supply Chain Pillar has been announced, the publicly available statements only summarise its broad elements, and not the draft legal texts. This assessment is therefore a guestimate on what the IPEF is all about.

## The IPEF Way: Its Underlying Principles

The IPEF presents a new US vision for economic agreements, and a significant departure from traditional free trade agreements (FTAs). Starting with the basic premise that the Indo-Pacific is vital to US security and prosperity, the US' Indo-Pacific Strategy lays down other objectives including a free and open region with connections within and outside of the region, and regional resilience to transnational threats.[2]

The fact that the IPEF was launched in Japan signifies that, along with the US, Japan too has strong commitment to ensure its emergence as a framework for regional security and partnership. The joint US-Japan statement welcoming the launch of the IPEF in May 2022, highlights the "challenges of the 21st century", including an acknowledgment of the threats to international law arising from Russia's invasion of Ukraine, reaffirmation of the United Nations (UN) as presenting the foundation of a "rules-based international order based on shared principles and universal values", recognition of the Indo-Pacific as vital to the international economic order, including to respond to a challenging regional security environment, and specific reference to the need to address China's actions relating to coercion by "economic and other means".[3]

The economic rationale for the IPEF, as exemplified in this statement, lies not only in the shared economic interests of the Indo-Pacific countries (IPCs), but also in the interlinked geopolitical interests. In the absence of any draft legal texts, the official statements of the governments of

1 "Substantial Conclusion of Negotiations on Landmark IPEF Supply Chain Agreement", US Department of Commerce, 27 May 2023, https://www.commerce.gov/news/press-releases/2023/05/substantial-conclusion-negotiations-landmark-ipef-supply-chain

2 "Indo-Pacific Strategy", The White House, February 2022, https://www.whitehouse.gov/wp-content/uploads/2022/02/U.S.-Indo-Pacific-Strategy.pdf

3 "Japan-U.S. Joint Leaders' Statement: Strengthening the Free and Open International Order", The White House, 23 May 2022, https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/23/japan-u-s-joint-leaders-statement-strengthening-the-free-and-open-international-order/

the IPCs perhaps offer the closest insights into the thinking and expectations from the IPEF. For instance, in a recent speech, the United States Trade Representative (USTR) Ambassador Katherine Tai noted that aggressive liberalisation and tariff elimination have seen benefits, but have also resulted in significant costs and side-effects, particularly in making the world dependent on China, shipping jobs overseas, decimating manufacturing communities, and making supply chains dispersed and fragile.[4] She also noted that the US' key theme in its new story on trade is "strengthening our cooperation with like-minded economies to forge a fairer and more sustainable future for our people".[5]

A similar theme from the Indian side was expressed in India's Minister for External Affairs S. Jaishankar's recent interview with *The Economist*. Noting that the India-US relationship is not just about the trade and economic dimension, but the overall strategic dimension, he explained that the strategic dimension is the "centrepiece" of bilateral ties.[6] He stressed on the increasing significance of India's emergence as a "political strategic partner" of the US in the Indo-Pacific, in the context of "a changing world".[7] At the same time, he also emphasised the growing trade and investment relationship, and the close interconnectedness between technological security and economic security.[8]

### The uniqueness of the IPEF

The IPEF is not an FTA. It stands out from the traditional model of an FTA on two counts: first, it does not deal with tariff related issues; and second, it is not backed by the relevant authority under US laws for negotiating FTAs. A recent report by the US Congressional Research Service (CRS) notes that the basis for the IPEF is that it would be an executive agreement drawn pursuant to US executive authority, for which there is no requirement for implementing legislation under US laws, particularly since it does not address any tariff related matters.[9] Being the first of its kind, there is scepticism even within the US on the IPEF's scope and impact. The CRS report notes the divergence of views and scepticism within the US on the legal basis of the IPEF and issues arising from the lack of congressional debate and discussion on the IPEF.[10] At the same time, it notes the view of US officials that the lack of tariff issues does not necessarily dent the IPEF's ability to secure market access, given its focus on facilitating trade and market access (for example, addressing nontariff barriers, digital trade, and small and medium-sized enterprises activities).[11]

The IPEF cannot be seen in isolation. It is one of the several initiatives by the US to redefine and redraw economic partnership agreements. The US deviation from the traditional FTA model can be seen in at least three other arrangements: the Americas Partnership for Economic Prosperity

4 "Remarks by Ambassador Katherine Tai at American University Washington College of Law", Office of the United States Trade Representative, 5 April 2023, https://ustr.gov/about-us/policy-offices/press-office/speeches-and-remarks/2023/april/remarks-ambassador-katherine-tai-american-university-washington-college-law

5 *Ibid*.

6 "In conversation with Subrahmanyam Jaishankar | Transcript of the Economist's interview with Mr. Jaishankar", by The Economist, 15 June 2023, https://www.economist.com/asia/2023/06/15/in-conversation-with-subrahmanyam-jaishankar

7 *Ibid*.

8 *Ibid*.

9 "Indo-Pacific Economic Framework for Prosperity (IPEF)", US Congressional Research Service, 10 August 2023, https://crsreports.congress.gov/product/pdf/IF/IF12373

10 *Ibid*.

11 *Ibid*.

(APEP) with Barbados, Canada, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Mexico, Panama, Peru, and Uruguay, is premised on a similar series of negotiations aimed at producing a similar set of commitments as the IPEF;[12] the Minerals Security Partnership (MSP) is an initiative to bolster critical mineral supply chains with key partner countries, Australia, Canada, Finland, France, Germany, Japan, the Republic of Korea, Sweden, the United Kingdom (UK) and the European Union (EU),[13] which India also recently joined,[14] and the Trade and Technology Cooperation (TTC) between the US and the EU aims at fostering cooperation in trans-Atlantic trade and investment, specifically focused on emerging technologies and infrastructure.[15] A recent assessment notes that the US-EU TTC follows the approach that is very similar to the IPEF, and the only missing element in the TTC is the IPEF's fourth Pillar on Fair Economy dealing with anti-corruption and taxation aspects.[16]

In this context, the IPEF can perhaps best be summarised as the US' exploration of non-traditional formats of economic partnership agreements, with what seems to be a higher focus on regulatory harmonisation across a variety of aspects, including labour, environment, supply chains and clean energy.

## India and the IPEF: Challenges and Opportunities

India is an active participant in three of the four Pillars of the IPEF: Pillar II (Supply Chains), Pillar III (Clean Economy) and Pillar IV (Fair Economy). It is an observer in Pillar I on Trade. Recent reports indicate that the decision of whether or not India would formally join the Trade Pillar continues to be an open one.[17]

While there are synergies in the vision of both India and the US with regard to the strategic and economic partnership in the Indo-Pacific, it is important to underscore that it is a US-led initiative, and an attempt by the US to set out a new framework of rules governing economic relationships. Even prior to the formal launch of the IPEF, detailed stakeholder consultations were initiated by the International Trade Administration (ITA)[18] and the USTR.[19] As noted by the US Chamber of

12 "FACT SHEET: President Biden Announces the Americas Partnership for Economic Prosperity", The White House, 8 June 2022, https://www.whitehouse.gov/briefing-room/statements-releases/2022/06/08/fact-sheet-president-biden-announces-the-americas-partnership-for-economic-prosperity/

13 "Minerals Security Partnership", US Department of State, 14 June 2022, https://www.state.gov/minerals-security-partnership/

14 "Joint Statement from the United States and India", The White House, 22 June 2023, https://www.whitehouse.gov/briefing-room/statements-releases/2023/06/22/joint-statement-from-the-united-states-and-india/

15 "U.S.-EU Trade and Technology Council (TTC)", US Department of State, https://www.state.gov/u-s-eu-trade-and-technology-council-ttc/

16 Clete Willems and Niels Graham, "TTC, IPEF and the Road to an Indo-Pacific Trade Deal", Atlantic Council, 2022, https://www.atlanticcouncil.org/wp-content/uploads/2022/09/TTC_IPEF_and_the_Road_to_an_Indo-Pacific_Trade_Deal___-.pdf

17 Sidhartha, "Govt. weighs options on trade under Indo-Pacific framework", *Times of India*, 3 May 2023, https://timesofindia.indiatimes.com/business/india-business/govt-weighs-options-on-trade-under-indo-pacific-framework/articleshow/99946268.cms?from=mdr

18 "Notice for Comments on Indo-Pacific Economic Framework", US International Trade Administration, 11 March 2022, (ITA-2022-0001-0001), https://www.regulations.gov/document/ITA-2022-0001-0001

19 "Fair and Resilient Trade Pillar for the Indo-Pacific Economic Framework", USTR, 10 March 2022, (USTR 2022-0002), https://www.regulations.gov/document/USTR-2022-0002-0001/comment

Commerce, the private sector and other stakeholders are the Administration's eyes and ears on the ground in the Indo-Pacific when it comes to commercial and economic issues.[20]

The IPEF, in the Indian discourse, has so far been dominated by statements and updates from the government. While Indian business chambers like the Confederation of Indian Industry (CII) and the Federation of Indian Chamber of Commerce and Industry (FICCI) have welcomed recent FTAs entered into by India,[21] there has been no specific assessment of what the IPEF would translate into. There appears to be an underlying assumption that commitments based on strategic interests as determined by the Indian government would naturally benefit the realisation of economic objectives for the private sector as well.

While voices from the Indian industry have been muted, voices of caution against India's engagement in the IPEF have also been expressed particularly from civil society organisations (CSOs). In a communication to the government, farmers groups and other CSOs have reportedly raised concerns with regards the lack of adequate scrutiny of the IPEF and the need for parliamentary scrutiny with respect to the IPEF's implications for "India's economic and development policy space".[22] It also notes that the IPEF's wide-ranging Pillars are arguably more 'intrusive' than FTAs, and that even though the IPEF may not deal with market access, its emphasis on regulations and standards, would indirectly lead to market access.[23]

Notwithstanding the scepticism, the government-to-government level of engagement between the US and India, which had been gradually deepening through the US-India Comprehensive Global and Strategic Partnership, is perhaps the strongest it has ever been. This has significant implications for India's engagement in the IPEF. During the 21-24 June 2023 visit by the Indian Prime Minister to the US, the joint statement of Prime Minister Narendra Modi and President Joe Biden touched upon a range of issues including defence, technology, clean energy transition, deepening strategic convergence through a rules based international order, deeper trade and investment partnership, and significantly, India's entry into the exclusive MSP initiated by the US.[24] The statement also emphasised the IPEF as central to the interests of both countries.[25] On the trade side, both countries concluded mutually agreed solutions of six outstanding World Trade Organization (WTO) disputes.[26]

As noted above, as of now, India is not a part of the IPEF's Trade Pillar. A year ago, when India had opted out of the IPEF's Trade Pillar, India's Minister for Commerce and Industry Piyush Goyal had indicated that the reasons holding India back were the expectations of commitments under the

---

20 "Indo-Pacific Economic Framework: Business Recommendations", US Chamber of Commerce, 25 February 2022, https://www.uschamber.com/international/indo-pacific-economic-framework-business-recommendations

21 "Negotiating deeper free trade agreements", Financial Express, 16 May 2023, https://www.financialexpress.com/opinion/negotiating-deeper-free-trade-agreements/3088923/

22 "Farmers outfit, civil society caution government against joining IPEF trade pillar", *The Economic Times*, 26 May 2023, https://economictimes.indiatimes.com/news/economy/policy/farmers-outfit-civil-society-caution-government-against-joining-ipef-trade-pillar/articleshow/100536225.cms?from=mdr

23 *Ibid*.

24 *op. cit*.

25 *Ibid*.

26 "India-US WTO disputes trade-off", Ministry of Commerce and Industry, Government of India, https://commerce.gov.in/press-releases/india-us-wto-disputes-trade-off/

Trade Pillar on "environment, labour, digital trade and public procurement".[27] In this context, it is important to underscore that labour-related issues are imbued in each of the IPEF Pillars, and not limited to the Trade Pillar. The Ministerial Statements in May 2022 in each of the Pillars emphasise "promoting labo[u]r rights based on the ILO [International Labour Organization] Declaration on Fundamental Principles and Rights and Work", among other worker-related aspects.[28]

It is also worth noting here that India is already negotiating FTAs with the UK and the EU which are likely to have chapters on labour, environment, gender and Micro, Small and Medium Enterprises (MSMEs). Indian business chambers like the CII and FICCI have not resisted the intertwining of non-trade issues such as these in FTAs. However, they have highlighted the need for building adequate safeguards while agreeing to any new commitments.[29]

It is in this context that it would be interesting to examine the publicly available information on the IPEF's Supply Chain Pillar.

### The Supply Chain Pillar: Mapping what we know

While the text of the substantially concluded IPEF Supply Chain Agreement is not available in the public domain, press releases from the US and the Indian governments provide a glimpse of its scope and coverage. The agreement is expected to present a unique bottom-up approach with each country engaging with businesses and utilising technical assistance and capacity building to increase investment in critical sectors, key goods, physical and digital infrastructure, transportation and workforce projects.[30]

The Government of India's press release on this subject lists a positive and forward-looking vision of the agreement, including that it would lead to the potential shift of production centres in key goods/critical sectors to India, thereby bolstering domestic manufacturing capabilities and giving a boost to *Aatmanirbhar Bharat* (self-reliant India). It is also expected to benefit from Production

---

27 "Indo-Pacific Economic Framework (IPEF) for Prosperity ministerial meet was inclusive and fruitful: Shri Piyush Goyal", Ministry of Commerce and Industry, India, 10 September 2022, https://pib.gov.in/PressReleasePage.aspx?PRID=1858243

28 The four Ministerial Statements are as follows:

"Ministerial Statement for Pillar I of the Indo-Pacific Economic Framework for Prosperity, Pillar I- Trade", 22 May 2022, https://ustr.gov/sites/default/files/2022-09/IPEF%20Pillar%201%20Ministerial%20Text%20(Trade%20Pillar)_FOR%20PUBLIC%20RELEASE%20(1).pdf; "Ministerial Statement for Pillar II of the Indo-Pacific Economic Framework for Prosperity, Pillar II- Supply Chains", 22 May 2022, https://www.commerce.gov/sites/default/files/2022-09/Pillar-II-Ministerial-Statement.pdf; "Ministerial Statement for Pillar III of the Indo-Pacific Economic Framework for Prosperity, Pillar IIII- Clean Economy", 22 May 2022, https://www.commerce.gov/sites/default/files/2022-09/Pillar-III-Ministerial-Statement.pdf; and "Ministerial Statement for Pillar IV of the Indo-Pacific Economic Framework for Prosperity, Pillar IV- Fair Economy", 22 May 2022, https://www.commerce.gov/sites/default/files/2022-09/Pillar-IV-Ministerial-Statement.pdf

29 *op. cit*.

30 "Press Statement on the Substantial Conclusion of IPEF Supply Chain Agreement Negotiations", Ministry of Foreign Affairs of Japan, 27 May 2023, https://www.mofa.go.jp/files/100510680.pdf;

"PRESS STATEMENT FOR THE INDO-PACIFIC ECONOMIC FRAMEWORK'S CLEAN ECONOMY PILLAR, FAIR ECONOMY PILLAR, AND ON THE SUBSTANTIAL CONCLUSION OF IPEF SUPPLY CHAIN AGREEMENT NEGOTIATIONS", Press Information Bureau, Government of India, 27 May 2023, https://static.pib.gov.in/WriteReadData/specificdocs/documents/2023/may/doc2023528205801.pdf

Linked Incentive (PLI) schemes.[31] The press release also highlights the potential of the IPEF to ensure India's deeper integration into Global Supply and Value chains, and thereby mitigate risks of economic disruptions and enhance India's exports within a seamless regional trade ecosystem.[32] Additionally, it also highlights the possibility of joint Research and Development (R&D) and workforce development.[33]

Actualisation of this wish-list will be clear only from the IPEF legal texts which, as of now, are not available.

The publicly available press statement only dwells on the institutional framework under the Supply Chain Pillar, comprising the following three IPEF Supply Chain bodies:[34]

1. IPEF Supply Chain Council, which is tasked with the development of sector-specific action plans designed to build resilience in critical sectors, including through private sector reporting of supply chain vulnerabilities;
2. IPEF Supply Chain Crisis Response Network that will facilitate early response mechanisms to any supply chain threats, including by establishing emergency communications channels, and facilitating information sharing and collaboration, especially in times of crisis; and
3. IPEF Labor Rights Advisory Board consisting of government, worker, and employer representatives, as well as a subcommittee composed of government representatives, to support the IPEF partners' promotion of labo[u]r rights in their supply chains, promotion of sustainable trade and investment, and facilitation of opportunities for investment in businesses that respect labo[u]r rights.

From a brief review of available information, implementation challenges for India arise in at least two specific contexts.

First, the basis for the Supply Chain agreement is that each IPC member will identify critical sectors and key goods (such as raw materials, or other inputs relevant for those sectors). It is perhaps then logical to anticipate obligations on those IPC members supplying key goods for critical sectors of another IPC member, to not impose trade restrictions such as export restraints. Recent reports indicate that the Government of India has sought the industry's views on the US' proposal for advance notices on tariff changes and possible curtailment of export restrictions under the Supply Chain Pillar.[35] These requests need to be considered with caution, keeping in view the policy space available under the multilateral rules of the WTO to impose export restrictions or prohibitions, as legitimate tools to prevent critical shortages of foodstuffs or other products essential for a country.

Another development is the US' ambitious plan of up to US$369 billion in subsidies under its recently enacted Inflation Reduction Act (IRA), to support electric vehicles, key minerals, clean energy and power generation facilities production, with incentives based on production and

31 "Negotiations for the Supply Chains (Pillar-II) Agreement substantially concluded during 2nd IPEF Ministerial Meeting", Press Information Bureau, Government of India, 1 June 2023, https://pib.gov.in/PressReleasePage.aspx?PRID=1929184

32 *Ibid*.

33 *Ibid*.

34 *op. cit*.

35 *op. cit*.

sales in the US or North America.[36] The IRA skews the conditions of competition in favour of the US industries. Certain preferential treatment is, however, allowed for US' FTA partners. During the recent dialogue between Modi and Biden, India has sought to be recognised as a "Trade Agreements Act-designated country" by the US,[37] which could potentially entitle it to specific benefits under US law. However, this is unlikely without an underlying trade agreement with the US, and a consequent change in US law to implement this, an aspect which, as explained above, the US plans to avoid in its IPEF engagement.

The second issue is about the IPEF's focus on labour rights. India is a member of the ILO and has ratified more of its core labour conventions than the US itself.[38] The Constitution of India also guarantees several protections including against forced labour and child labour. However, India has so far not agreed to conditions relating to labour as part of trade or economic partnership agreements, the concern being that labour standards in trade agreements could manifest as protectionist measures in the guise of humanitarian concerns.

An underlying issue is that labour as a factor of production, leads to comparative advantages. In fact, at the behest of India and several other developing economies, a WTO Ministerial Declaration at the Singapore Ministerial held in 1996 had emphasised that labour standards should not be used for protectionist purposes, and that the comparative advantage of countries, particularly low-wage developing countries must in no way be put into question.[39] Recent US FTAs, which have exalted the need for labour-centric approaches, are a response to core labour concerns within the US, the rationale being that if a trade deal cannot result in more prosperity of the workforce, it is a futile agreement. To achieve this, however, the US appears to be considering upending the very notion of comparative advantage. A stark example of this is the US-Mexico-Canada Agreement's (USMCA) labour value content criteria which require vehicle producers seeking USMCA preferential treatment to certify that a certain percentage of the imported automobile's content (by value) is sourced from manufacturing facilities in the USMCA parties that pay workers at least US$16 per hour.[40] While there is nothing in the IPEF negotiating agenda texts to suggest that a similar approach may evolve in any of the IPEF outcome texts, nevertheless, it is an aspect to remain cognisant about, given the centrality of labour across each of the IPEF Pillars.

The IPEF Labor Rights Advisory Board under the Supply Chain Pillar is likely to translate into close scrutiny over domestic regulatory practices, not only by the governments of the IPCs, but by the private sector entities of the IPCs. The advisory board itself will be tripartite with members from the government, industry and workers. Thereafter, a second-tier sub-committee of government

36 The Inflation Reduction Act (IRA) of 2022 is a legislation slated to bolster American energy security and address the climate crisis. It contains a new corporate minimum tax, multiple green energy credits and enhanced enforcement resources. Therefore, it is expected to reduce energy costs for businesses and households and generate manufacturing jobs for Americans. See "Inflation Reduction Act of 2022", *Public Law* 117-169, 16 August 2022, https://www.congress.gov/117/plaws/publ169/PLAW-117publ169.pdf

37 *op. cit*.

38 The Core/Fundamental ILO Conventions ratified: India - 6/10 (C029, C100, C105, C111, C138 and C182) and the US - 2/10 (C105 and C182). See "Ratifications for India", International Labour Organization, https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:11200:0::NO::p11200_country_id:102691;

"Ratifications for United States of America", International Labour Organization, https://www.ilo.org/dyn/normlex/en/f?p=1000:11200:0::no:11200:p11200_country_id:102871

39 "SINGAPORE WTO MINISTERIAL 1996, WT/MIN(96)/DEC", World Trade Organization, 18 December 1996, https://www.wto.org/english/thewto_e/minist_e/min96_e/wtodec_e.htm

40 "USMCA Automotive Sector", US International Trade Administration, https://www.trade.gov/usmca-auto-report

representatives would oversee its role in assessing businesses that respect labour rights, and incentivise investment into such businesses.

To the extent that the Labour Rights Advisory Board and its sub-committee are deferential to the government's assessment as regards the compliance of labour laws, the implementation challenges would likely be limited to mechanisms for monitoring and communication. However, if such external scrutiny is with a view of an implementation of labour standards that are higher than that provided under domestic laws, there are likely to be several sensitivities on the desirability of such external scrutiny and the determination of what is lawful or not, under Indian law.

### The IPEF Pillar on Clean Economy

The IPEF's Clean Economy Pillar will be one of the most consequential ones for the path to green development of each of the IPCs, especially the developing country members. It would be logical to see the natural linkages between the Clean Economy and Supply Chain Pillars, particularly for India which is seeking access to key goods and technology transfers in critical sectors for environmentally sustainable development. It would also be good to see an alignment between the Clean Economy Pillar with international climate change negotiations, particularly as a means to further implement obligations relating to emission reduction, and to achieve the same through financial and technical assistance and capacity building initiatives between the IPCs. Low cost and long-term carbon finance is part of India's wish-list for this Pillar.[41] The press release of May 2023, which announced "good progress" on Pillar III, also indicated the launch of a green hydrogen initiative among interested IPCs, which includes India.[42]

### The IPEF Pillar on Fair Economy

The IPEF's Pillar IV on Fair Economy covers two broad areas: anti-corruption and taxation. But there is little information on what the "Fair Economy Agreement" would look like. The May 2022 Ministerial Statement launching the IPEF, references two international conventions under this Pillar: the United Nations Convention Against Corruption (UNCAC) that India has ratified; and the Organisation for Economic Co-operation and Development's (OECD) Anti-Bribery Convention, which India is not a party to. India is a member of the Financial Action Task Force (FATF), an intergovernmental standard-setting body, which also evaluates compliance of its signatories. Since FATF standards are recommendatory in nature, and since India is not a signatory to the OECD convention, it would be important to ensure that obligations under this Pillar are worded in a manner that ensures adequate policy flexibility.

Pillar IV's taxation component refers to support for the OECD/Group of Twenty (G20) Inclusive Framework on Base Erosion and Profit Sharing (BEPS) negotiations, which is focused on finding a global understanding on taxation in a digital economy. The OECD discussions had commenced in 2013, but sluggishness in progress, including because of the US' own lack of engagement, had led to India and several other countries implementing their own laws for taxing entities engaged in digital services. India's equalisation levy on digital advertising has been implemented since 2016.

---

41 "Successful and substantial conclusion of text-based negotiations of IPEF Pillar-II (Supply Chains); good progress under other Pillars, Shri Piyush Goyal calls for expeditious implementation of action-oriented elements of the Agreement including mobilizing of investments in IPEF supply chains, Regional Hydrogen Initiative introduced by some IPEF partners", Press Information Bureau, Ministry of Commerce and Industry, Government of India, 28 May 2023, https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1927826

42 *Ibid*.

A two per cent equalisation levy on non-resident digital entities engaged in e-commerce supply of services was introduced in 2020.[43] The US initiated "Section 301" proceedings against India, the EU, the UK, Indonesia, and several other countries, since the impact of this tax was on digital corporations headquartered in the US. Section 301 of the Trade Act of 1974 grants the USTR the authority to investigate and take action to enforce US rights under trade agreements and respond to certain foreign trade practices. Such unilateral action, clearly, is against any multilateral rules and in case of the equalisation levy, impinged directly on the sovereign right to impose appropriate taxation measures. Nevertheless, the US succeeded in forging an agreement with India which obligates India to withdraw the two per cent levy in March 2024, subject to conclusion of the multilateral convention at the OECD.[44]

While negotiations at the OECD are progressing, there is still no sign of the multilateral convention which was expected to be finalised by mid-2023. The issue has significant implications for law and policy in India, as it is expected that agreeing to the multilateral convention at the OECD will require passing of a new law in India, as well as being subject to binding dispute resolution.[45] There are concerns that the rules of the agreement will be predominantly dictated by the US, and will impinge on significant revenue potential for countries like India.[46] In view of this uncertainty, it is unclear whether the IPEF Fair Economy Agreement would simply reference a commitment to ensure the conclusion of the OECD agreement, or arrive at more concrete obligations. It also remains to be seen whether India would discontinue its two per cent levy by March 2024, even in the absence of an OECD conclusion.

It is interesting to note that digital tax is an area where there continues to remain significant divergences between the EU and the US. It is perhaps for this reason that the US-EU TTC covers elements of the first three IPEF Pillars but is silent on the issue of digital taxation.

## What Next for the IPEF

The US and the EU had a significant role in shaping the rules of the multilateral system, under the UN, the Bretton Woods institutions, the General Agreement on Tariffs and Trade and subsequently, the WTO. While the emergence of other economic powers, including India, has, to a certain extent diluted the ability of the US to have a unilateral reign as rule-maker, it is not a significant dent. The IPEF is a prime example of the US' attempt at reclaiming the space as a rule-maker through an intelligent linkage of the economic with the geopolitical strategic interests of countries in the Indo-Pacific, which constitute 40 per cent of the world economy.

The IPEF, however, is clearly not an exclusive club of best friends. This is evidenced in the US' multi-pronged approach to secure its strategic interests with like-minded countries. With the EU, this is most clearly manifested in the US-EU TTC. As the assessment by the Atlantic Council notes, the

43 "Equalisation Levy", Income Tax Department, https://incometaxindia.gov.in/booklets%20%20pamphlets/equalization-levy-english.pdf

44 "India and USA agree on a transitional approach on Equalisation Levy 2020 ", Press Information Bureau, Ministry of Finance, Government of India, 24 November 2021, https://pib.gov.in/PressReleasePage.aspx?PRID=1774692#:~:text=India%20and%20United%20States%20have,regarding%20the%20said%20Equalisation%20Levy

45 Rashmin C. Sanghvi, "India should not adhere to the proposed global rules on digital tax", *The Economic Times*, 26 June 2023, https://economictimes.indiatimes.com/opinion/et-commentary/why-india-should-not-adhere-to-the-proposed-global-rules-on-digital-tax/articleshow/101262049.cms

46 *Ibid*.

IPEF and the TTC have a "heavy issue overlap",[47] ranging from addressing supply chain disruptions and enhancing its resilience to coordinating on rules and standards for the digital economy to green technology development.

India's role and strategic geopolitical significance has been increasing over the years, in terms of the growing size of its economy, an increasingly attractive investment destination, and as a possible counter to the dependence of other countries on China. India is part of both the IPEF and the MSP – two new initiatives by the US to redefine multilateral rules. While these are indicative of India's growing strategic relevance for the US, the rules of these new frameworks and initiatives are as yet unclear.

Any international negotiation involves the ceding of sovereign space and agreeing to a common set of rules. This weighing and balancing however depends on the nitty-gritties of the legal obligations, and a clear cost-benefit assessment. It is here where the uncertainties of the IPEF appear daunting. Contrast this with the fact that during the negotiations leading up to the WTO in 1995, the 'Dunkel Draft' was released in 1991.[48] This allowed for public scrutiny, debate and discussion, and consequent refinements. One would expect that 21st century rules would be subject to a higher level of transparency and scrutiny. Instead, the IPEF appears to demand implicit trust and faith in the ability of governments to set the rules for the benefit of all. It is this element of the unknown that makes the IPEF somewhat worrisome. This is particularly because of the challenges it poses for domestic law and policy, and possible changes that would need to be considered, in respect of each of the IPEF Pillars that are agreed to.

Very little is known as of now regarding the enforcement of the IPEF obligations. Unlike traditional FTAs that focus on enforcement through binding dispute settlement, the current range of statements in the public domain indicate that the IPEF is likely to be focused on cooperation and dialogue, rather than on binding dispute settlement. But as USTR Tai noted, the focus of the IPEF is on mechanisms for verifying that the rules are being followed and looking beyond traditional dispute settlement.[49] Perhaps this is the role of each of the institutional bodies notified under the IPEF Supply Chain Pillar, which are likely precursors to similar bodies under the other Pillars. This, clearly, is not without consequence. The fact that something is a soft obligation does not make it meaningless. At a minimum, this would entail subjecting domestic law and policy open to external scrutiny, not only by foreign governments, but by the private sector as well, as is likely to be the consequence of the IPEF Labor Rights Advisory Board for supply chains.

The underlying philosophy of the IPEF is laudable: enhanced cooperation for collective resilience. The USTR hailed the IPEF as a new chapter in the story of resilience, "focused on raising the tide for all our citizens, not only now, but also for future generations".[50] That same principle should govern India's engagement as well; the legal texts will have implications for both current and future generations. Ultimately, any speculation about the IPEF remains woefully incomplete without the benefit of an assessment of those underlying legal texts.

---

47 *op. cit*.

48 The then GATT director-general, Arthur Dunkel, who chaired the Uruguay Round negotiations at officials' level, tabled the draft "Final Act" in 1991, which became the basis for negotiations.

49 "Indo-Pacific framework will 'push envelope' on enforcement: USTR ", interview by Taisei Hoyama, Nikkei Asia, 29 May 2022, https://asia.nikkei.com/Editor-s-Picks/Interview/Indo-Pacific-framework-will-push-envelope-on-enforcement-USTR

50 "Remarks by Ambassador Katherine Tai at the 2023 Indo-Pacific Business Forum", Office of the United States Trade Representative, May 2023, https://ustr.gov/node/12515

## About the author

**Ms R V ANURADHA** is a Partner at Clarus Law Associates, New Delhi and heads her firm's practice in International Trade and Investment Law and Policy. She also advises on Environmental law and policy, including on carbon financing and renewable energy. Ms Anuradha has been recognised by Chambers and Partners as a leading practitioner in her field. She is a member of the Asia WTO Research Network, the Society for International Economic Law and the Trade Policy Committee of the Confederation of Indian Industries (CII).

Ms Anuradha advises companies, industry associations and the Government of India on issues arising under the World Trade Organization (WTO) Agreements, Free Trade Agreements, and Bilateral Investment Protection Agreements, including disputes arising under such agreements. She also undertakes studies for the Commonwealth Secretariat, the International Trade Centre, the Centre for WTO Studies and export promotion associations in India.

She also teaches at various training sessions and capacity-building programs on trade law and policy, including at the Joint Academy on international trade law and policy conducted by the Centre for WTO Studies in collaboration with the World Trade Institute, Berne. Additionally, Anuradha is a visiting faculty at the National Law University, New Delhi, National Law School of India University, Bengaluru and the National Law University, Odisha.

# **Indo-Pacific Economic Framework:** Negotiating and Implementation Challenges for the US

Stephen OLSON

As the Indo-Pacific Economic Framework (IPEF) negotiations intensify, significant challenges await the United States (US), both in successfully concluding an agreement that achieves US objectives, as well as ensuring successful implementation of the agreement once concluded. Complicated negotiating dynamics will deny the US important leverage that it has used in the past to get trade agreements over the finish line. Unique institutional features of the agreement call into question whether some objectives can be achieved and enforced. Divergent domestic interests on some issues will require US negotiators to walk a tightrope between energetic and diametrically opposed domestic constituencies. The IPEF is freighted with heavy geopolitical baggage which could complicate negotiations. The unorthodox use of Executive Orders (EOs) to effectuate the agreement will raise several significant implementation challenges of which the IPEF partners should take clear note. Ultimately, the most important impact of the IPEF could lie far beyond the Indo-Pacific. The IPEF could be an important bellwether for how US-European Union (EU) trade relations are handled in this post-Free Trade Agreements (FTA), post-World Trade Organization (WTO) world.

As the Indo-Pacific Economic Framework (IPEF) negotiations intensify, what are the key negotiating and implementing challenges facing the United States (US)?

## Setting the stage: a different US approach to trade

The US approach to the IPEF has to be understood in the context of the broader – and profoundly different – approach to trade being pursued by the Biden Administration. After four years of the erratic, norm-shattering, and frequently bombastic trade policy of the Trump Administration, many US trade partners hoped for a return to traditional free trade policies under the Biden Administration. Although Biden has dropped the over-the-top rhetoric, his administration has demonstrated no interest in returning to the free trade policies historically pursued by the US.

Quite to the contrary, the Administration has explicitly pursued a US worker-centric trade policy, Buy-American regulations, and most recently, expansive industrial policies that tilt the playing field in favour of US workers and US production.[1] Cumulatively, these policies represent a sharp rebuke of anything approaching 'free trade'. Indeed, the pursuit of traditional free trade agreements (FTAs) has been effectively ruled out by the Biden Administration. It has not even attempted to secure Congressional approval of the Trade Promotion Authority (TPA) – the mechanism under which FTAs are typically negotiated by the executive branch and approved by Congress in the US. Without the TPA in place, comprehensive FTAs are essentially a non-starter for the US.

## Ambassador Tai spells out a new course

The US Trade Representative (USTR) – and lead US negotiator on the Trade Pillar of the IPEF – Katherine Tai has been forceful, articulate and entirely consistent in explicitly spelling out the fundamentally different US approach to trade being pursued by the Biden Administration. According to Tai:[2]

> "It is clear today—even to many who are accustomed to a more traditional approach to trade policy—that we must adapt to the realities of today's global economy.
>
> The traditional approach to trade … prioriti[s]ed aggressive liberali[s]ation and tariff elimination… produced significant benefits—massive increases in economic activity and historic reductions in poverty in some regions. But we must also acknowledge that the focus on maximum efficiency above all else had significant costs and side effects.

1 "Remarks of Ambassador Katherine Tai Outlining the Biden-Harris Administration's "Worker-Centered Trade Policy", Office of the United States Trade Representative, June 2021, https://ustr.gov/about-us/policy-offices/press-office/speeches-and-remarks/2021/june/remarks-ambassador-katherine-tai-outlining-biden-harris-administrations-worker-centered-trade-policy;

"Remarks by Ambassador Katherine Tai at the Roosevelt Institute's Progressive Industrial Policy Conference", Office of the United States Trade Representative, October 2022, https://ustr.gov/about-us/policy-offices/press-office/speeches-and-remarks/2022/october/remarks-ambassador-katherine-tai-roosevelt-institutes-progressive-industrial-policy-conference

2 "Remarks by Ambassador Katherine Tai at American University Washington College of Law", Office of the United States Trade Representative, April 2023, https://ustr.gov/about-us/policy-offices/press-office/speeches-and-remarks/2023/april/remarks-ambassador-katherine-tai-american-university-washington-college-law

> Prosperity without inclusiveness contributed to rising inequality and wealth concentration. Trade also played a role in shipping jobs overseas, which decimated manufacturing communities.  And our supply chains became more dispersed and fragile.
>
> All of this has fuel[l]ed resentment and mistrust in global institutions and the international economic system here in the United States and elsewhere."

In Tai's view, the IPEF is not "just any traditional trade deal—it is our vision for how countries can collaborate to deliver real opportunities for our people. Trade should work for the common good and help set responsible standards on labo[u]r, the environment, and other priorities that reflect American values. It should also promote fair and healthy cooperation that lifts up workers and communities, and that is the focus for IPEF."[3]

In Tai's judgment at least, "our IPEF partners are on board to negotiate high-standard rules that can spur inclusive economic growth and resilience throughout the region."[4] Presumably, the other 13 participants will have something to say about exactly how high those standards will be and the extent to which the agreement should reflect 'American values'.

In any case, lest anyone was still clinging to the notion that the US would be returning to traditional free trade policies any time soon, Tai closed a recent speech at American University by saying: "Let us not be content with reruns of old. Let us write a new script".[5] The IPEF is intended to be the opening scene in that new script.

## Challenges and impact

Significant challenges await the US, both, in successfully concluding an agreement that achieves the US' objectives, as well as ensuring successful implementation of the agreement once concluded:

1. Complicated negotiating dynamics will deny the US important leverage that it has used in the past to get trade agreements over the finish line.

2. Unique institutional features of the agreement call into question whether some objectives can be achieved and enforced.

3. Divergent domestic interests on some issues will require US negotiators to walk a tightrope between energetic and diametrically opposed domestic constituencies. For instance, consumer groups and big tech companies have different visions for what should be accomplished under the digital provisions. Progressives and supporters of traditional free trade have different views on the inclusion of social- and values-laden issues in the IPEF, such as the inclusion of anti-whaling language that is culturally very sensitive in Japan.[6]

4. The IPEF is freighted with heavy geopolitical baggage which could complicate negotiations.

5. The unorthodox use of Executive Orders (EOs) to effectuate the agreement will raise several significant implementation challenges of which the IPEF partners should take clear note.

3 *Ibid.*
4 *Ibid.*
5 *Ibid.*
6 Demetri Sevastopulo and Kana Inagaki, "US-Japan whaling spat threatens Indo-Pacific trade deal", *Financial Times*, 11 August 2023, https://www.ft.com/content/bad6fb05-8836-4f9e-9b71-1a5183be816c

Traditional FTAs are subject to Congressional approval. The Administration has taken the stance that the IPEF is not a traditional FTA and therefore does not require Congressional approval. It intends to implement the IPEF through EOs, which only require the President's signature.

6. Ultimately, the most important impact of the IPEF could lie far beyond the Indo-Pacific. The IPEF could be an important bellwether for how US-European Union (EU) trade relations are handled in this post-FTA, post-World Trade Organization (WTO) world.

Each of these issues deserves a closer look.

### Complicated negotiating dynamics[7]

The modular approach of the IPEF completely upends the most cherished *cliché* about trade negotiations: 'nothing is agreed until everything is agreed.' Under traditional FTAs, this essentially means that everything is interconnected, and no portion of the agreement is considered to be 'agreed' until the entire deal – down to the last detail – is done. A standoff in one area can sink the whole agreement. There can be 'horse trading' across chapters (for instance, one party gives up a little more under the investment chapter in order to secure what it really wants under services). This forces negotiators to be pragmatic and provides an incentive to work towards agreements with balanced benefits, or else run the risk of the whole deal unravelling.

The modular IPEF approach removes that dynamic. The IPEF will not be negotiated as a 'single undertaking' as is the case with most traditional FTAs. There will be no connection, for example, between the package of benefits and concessions negotiated under the Trade Pillar and the benefits and concessions under the Supply Chain Pillar. In fact, any member can be uncompromising under one pillar, or indeed walk away from the negotiating table, without jeopardising its seat at the broader IPEF table or its ability to secure benefits under the other pillars. It remains to be seen exactly how this will play out, but one plausible scenario is that the inability to exert pressure for higher standard outcomes across pillars could produce a lowest common denominator agreement.

The extremely tight negotiating timeline unfortunately also increases the probability of a low-ambition agreement. It is unofficially understood that the US would like to have the IPEF substantially, if not entirely, completed by the time it hosts the Asia-Pacific Economic Cooperation (APEC) Leaders' meeting in San Francisco in November 2023. The limited time available for negotiations, combined with the complexity of the issues of the diversity of viewpoints among participants, will make it challenging to achieve deep and significant progress.

The other interesting negotiating dynamic to keep an eye on is that unlike any previous FTA negotiation, the US will not be offering market access concessions, at least not in the traditional sense of tariff reductions. Typically, granting access to the largest single consumer market in the world provides the US with considerable leverage to secure concessions in other areas from its negotiating partners. In the absence of that critical piece of leverage, how will the US convince partners to agree to provisions they might find difficult, for instance, in digital trade?

7 This section is heavily drawn from Stephen Olson, "Three things to know as IPEF negotiations heat up", *Hinrich Foundation*, 28 March 2023, https://www.hinrichfoundation.com/research/article/ftas/three-things-of-ipef-negotiations-heat-up/

It should be noted however that although market access will not be granted through the traditional means of tariff reductions, it is entirely possible that other provisions, for instance, regulatory convergence or supply chain cooperation, could indirectly result in a degree of *de facto* market access. If this in fact does materialise, it could prove to be a significant IPEF accomplishment. It would demonstrate that non-traditional means – that is, measures other than the elimination of tariffs and quantitative restrictions – can be used to achieve market access, perhaps changing the way negotiators think about these issues. This would hold important implications for future trade agreements both within and beyond the region.

### Unique features[8]

More so than any agreement the US has ever negotiated, the IPEF will require substantial buy-in and cooperation from the private sector, especially under the Supply Chain Pillar. One primary focus under that pillar will be supply chain mapping, especially in critical products. This would allow members to be better prepared to cope with – and ideally avoid – future disruptions. To do this in a comprehensive and granular manner, however, would require private companies to share a good deal of data and operational information they might not be comfortable divulging.

Also, it is important to note that the overriding objective of the pillar is to create more resilient supply chains. But governments do not build supply chains. Private companies do – through dozens of decisions about sourcing, investments, and the location of production facilities. Governments can prod and encourage, but at the end of the day, the key decisions – on information sharing or logistics – will rest in the hands of private business executives. No previous trade agreement has ever been this dependent on the private sector for its success. If businesses are not willing to play ball, the achievements of the IPEF could be limited.

Perhaps the most unique feature of the IPEF is the ambiguity over whether there will be a meaningful enforcement mechanism. Traditional FTAs contain legalistic dispute settlement provisions which ultimately can result in trade sanctions being applied if a member fails to honour its commitments. In the absence of meaningful enforcement provisions, there is a risk that whatever is agreed under the IPEF remains just words on paper that are never fully enforced or implemented. When asked about enforceability, Commerce Secretary Raimondo recently said: "Is it enforceable? I would say yes and no. It's not enforceable insofar as the tariffs don't come back up if there's non-compliance, but it is enforceable because countries that don't follow the rules or live up to their commitments don't see the benefits."[9]

### Domestic challenges within the US

The IPEF negotiations will intersect an intensifying domestic policy debate in the US over digital policy. It is unclear how the US will resolve divergent domestic interests, let alone reach a consensus with the IPEF negotiating partners.

Consumer and other civil society groups in the US are taking aim at Big Tech as more is being learned about the extent to which technology giants like Facebook, Google, and Twitter collect,

---

8 *Ibid.*

9 "A Conversation on the Indo-Pacific Economic Framework with Secretary of Commerce Gina Raimondo", interview by Dr. Sadek Wahba, Wilson Centre, 25 July 2023, https://www.wilsoncenter.org/event/conversation-indo-pacific-economic-framework-secretary-commerce-gina-raimondo?utm_medium=social&utm_source=twitter.com&utm_campaign=wilson

manipulate, and sell data on their users. Concerns over data privacy are morphing with rising questions about the power wielded by large technology companies and their potentially monopolistic practices. While previously concluded trade agreements like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the United States–Mexico–Canada Agreement (USMCA) contained digital provisions that largely aligned with the interests and objectives of Big Tech companies, a rising tide of political and civil groups seem determined to prevent these 'tech-friendly' provisions from being included in the IPEF. A consortium of 18 such groups wrote to President Biden in March, expressing their concerns on the IPEF negotiations:

> "It is essential that digital trade rules do not undermine Congress's ability to protect online privacy or data security. That is why we urge you not to replicate the Big-Tech-favo[u]red terms that were slipped into the U.S.-Mexico-Canada Agreement (USMCA) and the Trans-Pacific Partnership (TPP) that cede control of our personal data to firms, including rights to move, process, and store personal data wherever they choose."[10]

On the other side of the issue are the tech firms themselves, along with companies whose business plans rely on their platforms. The powerful Coalition of Service Industries, for example, is pushing for the IPEF to replicate – if not expand upon – the tech-friendly provisions from the previous agreements.[11] They point out that those agreements contain exceptions that would permit regulatory agencies to review things like source code, and that it is not their intention to limit Congress' ability to legislate in this area. That is a particularly important point as Congress is considering legislation that would impose curbs on Artificial Intelligence (AI) technology, and address privacy, content moderation and antitrust enforcement.[12] Critics charge that Big Tech is pushing for commitments in trade deals that would circumscribe Congress' ability to subsequently impose curbs. Influential legislators, including Senator Elizabeth Warren, are intently focused on this issue, and will be holding the USTR's 'feet to the fire' to ensure that this does not happen.

In order to ensure at least a requisite level of domestic US support for the digital provisions of the IPEF, US negotiators will need to structure nuanced positions that will be acceptable to both Big Tech and the various interests that would like to reign them in. The IPEF negotiating partners are unlikely to accept these US proposals at face value and will counter-propose modifications or alternative provisions. Any digital agreement the US is ultimately able to secure with its IPEF partners could prove to be far from acceptable to one or more of the strong advocacy interests in the US that will pore over every small detail in the digital trade section of the agreement.

It remains to be seen if US negotiators will be able to successfully triangulate between the IPEF partners and their two opposing domestic constituencies. This task will be made more difficult by the fact that digital issues are increasingly becoming a political 'hot button' issue in the US and elections are approaching.

10 "Letter to President Biden: Don't Replicate Big-Tech-Favored Terms in IPEF!", *Rethink Trade*, 10 March 2023, https://rethinktrade.org/wp-content/uploads/2023/03/IPEFdigitalrulesletter.pdf

11 "Big Tech's Big Con: Rigging Digital Trade Rules to Block Antitrust Regulation", Office of Senator Elizabeth Warren, May 2023, https://www.warren.senate.gov/imo/media/doc/USTR%20REPORT.pdf

12 Diane Bartz and David Shepardson, "U.S. Congress to consider two new bills on artificial intelligence", *Reuters*, 10 June 2023, https://www.reuters.com/technology/us-congress-consider-two-new-bills-artificial-intelligence-2023-06-08/

### Impact of geopolitical baggage on negotiations[13]

From its inception, the IPEF has been freighted with heavy geostrategic baggage. Taiwan was eager to join the negotiations, but the US judged – correctly, in all probability – that the inclusion of Taiwan would preclude other members from joining for fear of antagonising China. The US politely rebuffed Taiwan's interest and is instead working on a separate deal. For the partner countries that have joined the US, it is fair to wonder to what extent the IPEF is actually about the IPEF, and to what extent it is about encouraging a deeper US engagement in the Indo-Pacific. For most countries in the region, their best interests are served by balancing the US and China, benefiting from economic and strategic ties with both, and avoiding a definitive tilt towards one or the other. For many in the region, greater US engagement in the region would be a desirable counterweight to China's growing assertiveness. While there is undoubtedly interest in the substantive agenda that the IPEF will tackle, the geopolitical realities are playing a role as well. If a key objective is to simply 'get something done' with the US to draw it more deeply in the region – even just symbolically – then it is fair to wonder how much appetite there will be for hammering through the tough issues and pushing the substantive agenda.

### Significant implementation challenges for the US

The Biden Administration does not intend, at least as of now, to submit the IPEF for Congressional approval. The typical route for approval and implementation of traditional FTAs in the US has been under the TPA. Under the TPA, the administration is obligated to consult closely with Congress on negotiating objectives, engage in detailed and regular consultations with Congress as the negotiations unfold, and ultimately submit the agreement to Congress for approval. In exchange for playing a partnership role with the administration during the course of the negotiations, Congress agrees to take a simple up or down vote on the agreement, without a possibility to offer amendments. The longstanding belief has been that if the 535 members of the US Congress were able to amend an FTA, it would quickly unravel. TPA – or Fast Track – as it was previously known – has been traditionally seen as a practical solution which allows the executive branch to lead negotiations rather than coping with the impossible situation of having 535 different *de facto* 'lead' negotiators in Congress.

As part of the Congressional approval process, so-called implementing legislation is also approved. This provides legal authority to effectuate the commitments contained in the trade agreement. Since the IPEF will not include typical features of an FTA such as tariff reductions, the Administration has taken the position that Congressional approval is not needed. Not surprisingly, many in Congress disagree and have been sharply critical of what they see as usurpation of Congressional authority under Article 1, Section 8 of the US Constitution which gives Congress authority for regulating "commerce with foreign nations".[14]

The disagreement hinges on differing views over whether the IPEF should be considered a full-blown, comprehensive 'trade agreement'. Traditionally, comprehensive trade agreements have required Congressional approval. More limited trade actions have usually been interpreted to fall within the President's executive authority, in which case the executive branch can largely run

13 *op. cit.*

14 "Menendez, Colleagues Raise Concerns About Process To Approve And Implement Indo-Pacific Trade Pact And Other Trade Agreements", Bob Menendez, 1 December 2022, https://www.menendez.senate.gov/newsroom/press/menendez-senate-finance-committee-members-raise-concerns-about-process-to-approve-and-implement-indo-pacific-trade-pact-and-other-trade-agreements

the show. If this scenario applies to the IPEF, the administration would implement the agreement through one or more EOs. These are orders issued by the President directing federal agencies to take certain actions – but only in areas clearly under the President's authority. For example, a US president could not attempt to use an EO to amend the US Constitution because that power resides with Congress and the states. The President could, however, issue an EO directing the Commerce Department, for example, with instructions on how specifically to administer trade restrictions on high technology products. Over the course of recent administrations, Presidents have attempted to push the envelope on what actions they can authorise under EOs. President Obama in particular was accused of executive overreach on issues ranging from homeland security to workplace protections.[15] Attempting to implement the IPEF through EOs would be a further broadening of the scope and has already (and will continue to) elicit Congressional pushback.

The question of implementation through an EO versus Congressional approval is not merely an esoteric administrative detail. It holds import implications for the US' 13 IPEF partners as well as the ability of the US to actually implement the agreement. Three potential complications should be well understood.

### Executive Orders are easily overturned

The President effectuates an EO through the stroke of a pen, that is, by signing the order. Since no laws have been passed, the EO can be undone without legislative action. A subsequent President can rescind any EO signed by a predecessor in the same manner. Given the current political mood in Washington, should President Biden fail to be re-elected, it is entirely possible – if not likely – that his successor will undo the IPEF with a stroke of a pen after assuming office in January 2025, as Donald Trump did with the TPP on his first full day in office. This is a reflection of both the highly partisan nature of the US political system as well as ambivalence about the IPEF itself. Supporters of free trade feel that it does not go far enough; opponents of free trade feel it goes too far. The IPEF partners should be aware that the durability of the IPEF could rest to a large degree on President Biden successfully gaining re-election.

### Executive Orders can create legal ambiguities

With the scope of EOs being expanded, a complex legal question has arisen without any clear resolution. If the President issues an EO which requires a federal agency to contradict a law duly passed by Congress, which takes precedent? If the EO takes precedent, then the US President essentially has power to unilaterally override US law. If the EO does not take precedent, then the ability of the US to fulfil the commitments contained in the IPEF might be impaired in any place where it differs from existing US law. The IPEF partners will have to carefully monitor and weigh the extent to which the US will actually be able to live up to its obligations under the IPEF.

### Use of Executive Orders could lead to a stand-off

Congress and the Biden Administration have been talking past each other on the question of Congressional approval. In hearing after hearing, members of Congress have routinely repeated their strongly held belief that the agreement will require a vote. Trade officials, principally the USTR Tai, have avoided answering the question with respectful niceties but offer absolutely no indication that they would consider going the Congressional route.

15 Erin Hawley, "Obama's curtain call: A look back on a legacy of executive overreach", The Hill, 24 December 2016, https://thehill.com/blogs/pundits-blog/the-administration/311608-obamas-curtain-call-a-look-back-on-a-legacy-of/

There would be significant complications even if the Biden Administration was to switch gears and seek Congressional approval. The mechanism for Congressional approval – TPA – has expired and an extension would need to be passed by Congress. This would be far from *pro forma*, as negotiating objectives and timelines would need to be agreed between the legislative and executive branches. The process can become contentious or at the very least, time-consuming. It is unlikely that it could be completed fast enough to be relevant for the IPEF – even if the Biden Administration was inclined to move in that direction.

For now, Congress and the White House remain at loggerheads on the question of legislative approval. It remains to be seen how Congress would react – and what means of disruption they might employ – if their entreaties are ignored. The fact that elections are drawing close only heightens the stakes and the political appeal of drawing contrasts – and sometimes picking fights – with political opponents. In the worst case, the IPEF could spark a mini-brawl between the executive and legislative branches. The US' IPEF negotiating partners need to be acutely aware of how this issue plays out in the US for an additional reason. If legislative approval is ultimately not sought, it could signal that the US does not intend to make any changes under the IPEF that would require changes to US law. It is unclear how this would sit with the IPEF partners, especially those that might be called on to make substantial changes to their legal or regulatory regime in order to meet IPEF commitments.

## IPEF outcomes could shape US engagement with the EU

One interested outside observer to the IPEF negotiations will be the EU. The outcomes – both in terms of substance and format – could provide a useful point of reference for how the US and the EU will manage similar issues themselves.

Despite the apparent overwhelming logic, the US and the EU have never been able to conclude an FTA. The most recent attempt, the Trans-Atlantic Trade and Investment Partnership (TTIP) was foundered during the Obama Administration, and no serious efforts to revive the initiative have been undertaken since. At least for the foreseeable future, prospects for a comprehensive, traditional FTA between the US and the EU appear close to zero. Recognising, however, the imperative for the two trans-Atlantic partners to work together on trade and related issues, they have settled on an alternative format: a looser framework known at the US-EU Trade and Technology Council (TTC) – a concept which bears at least some similarity to the approach of the IPEF. The US-EU TTC was established in June 2021 to coordinate approaches to key global trade, economic and technology issues, and to deepen transatlantic trade and economic relations.

Depending on what precisely is accomplished in the IPEF, a couple of different scenarios might present themselves. If the IPEF produces a maximalist outcome – significant and meaningful progress on issues of shared interest – there is nothing to prevent the parties from considering EU admission to the IPEF. The rationale would be to avoid 'reinventing the wheel' and simply utilise the proven framework at hand. The United Kingdom's (UK) admission to the CPTPP has already demonstrated that geographic indicators applied to trade deals do not preclude prospective members from outside the region from successfully seeking membership. Undoubtedly, neither the agendas nor the respective interests are identical across the IPEF and the TTC. The TTC could perhaps hope for greater progress in some areas and less in others. A more likely outcome than EU membership might be that US and EU officials pick and choose what might be relevant from the IPEF and apply and incorporate them into their workstream in the TTC.

In the worst-case scenario, if the IPEF comes up short on concrete deliverables or falters altogether, it could be viewed as a cautionary tale for US-EU efforts in the TTC. Both, the IPEF and the TTC represent ambitious new attempts to address pressing trade and economic integration challenges in a far more amorphous, less-structured and less legalistic framework than have been previously undertaken. It is entirely unclear how successful this looser approach will be. In either event, however, EU interlocutors should closely follow the progress (or lack thereof) of the IPEF negotiations.

### Supply Chain Pillar "substantially concluded"[16]

Meeting on the fringes of an APEC Ministerial in Detroit in May, the IPEF negotiators announced that they had "substantially concluded" the Supply Chain Pillar.[17] Although complete details are not yet available, the successful conclusion of the Supply Chain Pillar is good news and reflects a Herculean effort on the part of undoubtedly exhausted negotiators. It would, however, be premature to celebrate an IPEF victory. Based on what we know so far, there are reasons for both optimism and pessimism.

### Reasons for optimism[18]

The agreement ostensibly accomplishes several useful things, including the establishment of measures intended to limit supply chain disruptions in the event of future pandemics or other disasters. A Crisis Response Network will be established to send up an early warning signal as potential supply chain disruptions are forming on the horizon and facilitate collective responses to shortages of critical materials.

According to a US Commerce Department press release, the agreement "would establish an emergency communications channel for the IPEF partners to seek support during a supply chain disruption and to facilitate information sharing and collaboration among the IPEF partners during a crisis, enabling a faster and more effective response that minimi[s]es negative effects on their economies".[19]

IPEF members will also share information during non-crisis periods to increase procurement among members and provide assistance when shortages do arise.

IPEF members will cooperate on technical assistance and capacity building to strengthen regional supply chains. The parties intend to mobili[s]e investments and promote regulatory transparency in order to help prevent significant future supply chain and economic disruptions.

The parties will cooperate on the promotion of high labo[u]r standards, upskilling workers, and making customs procedures more compatible. Members will engage with business to manage and ideally avoid supply chain bottlenecks.

16 This section is heavily drawn from Stephen Olson, "IPEF seals supply chain deal. Don't pop the champagne yet.", *Hinrich Foundation*, 30 May 2023, https://www.hinrichfoundation.com/research/article/ftas/ipef-seals-supply-chain-deal

17 "Press Statement on the Substantial Conclusion of IPEF Supply Chain Agreement Negotiations", US Department of Commerce, 27 May 2023, https://www.commerce.gov/news/press-releases/2023/05/press-statement-substantial-conclusion-ipef-supply-chain-agreement

18 *op. cit.*

19 *op. cit.*

The supply chain pillar generates positive momentum for the other three pillars and ensures that the new, innovative IPEF approach will produce at least one concrete outcome.

Although it is a fairly limited agreement, this is the first substantial agreement the US has reached in the region since the Trump Administration's decision to pull the US out of the Trans-Pacific Partnership (TPP)[20]. It could therefore be interpreted as a signal that the US is committed to working with partners in the region. Proponents of a more robust US engagement in the Indo-Pacific will point to this – correctly or incorrectly – as evidence that the US is "back".

### Reasons for pessimism[21]

It appears the agreement will contain a good deal of aspirational language ("IPEF partners will seek to…") rather than concrete, enforceable commitments. Will such provisions actually be implemented?

It is as yet unclear as to whether the councils or advisory boards established by the agreement will be sufficiently empowered to actually accomplish anything meaningful, or if they will simply become bureaucratic talk shops.

The agreement may or may not be a done deal. The US Commerce Department press release announced only the "substantial conclusion" of the agreement.[22] Parties will now engage in domestic consultations and legal review in order to prepare a final text for signature. Modifications are possible, perhaps likely.

## Where are things headed?

One should exercise extreme caution in attempting to draw too many conclusions about ultimate outcomes when trade negotiations are still ongoing. Yet, while considerable twists and turns will undoubtedly play out as the IPEF negotiations gather steam, several initial propositions can be cautiously articulated.

The IPEF is an important test case. If the IPEF succeeds, it will provide a template for how future trade agreements – certainly any involving the US – are negotiated and structured. As the USTR Tai has made abundantly clear, the US is out of the business of pursuing traditional FTAs at least for the foreseeable future. Yet, the desire to form blocs and to fragment along geopolitical dividing lines is unfortunately intensifying. Framework agreements modelled after the IPEF could become the preferred means for attempting to accomplish that goal. On a more micro-level, the IPEF has the opportunity to play a path-finding role on trade issues where comprehensive multilateral rules are lacking. Irrespective of its breadth or depth on other issues, if useful progress is made on – for instance – digital trade, expect other initiatives, both regional and global, to borrow liberally from what has been accomplished in the IPEF.

Should, however, the IPEF either fail to be concluded or fail to achieve meaningful results, the US' economic and strategic interests in the Indo-Pacific will be set back dramatically for years if not decades to come. An IPEF misfire would appear to validate the point of view that suggests that the US is a waning power in the Indo-Pacific, while China is ascendant. Having started this journey, the US will need to do everything in its power to bring it to a successful conclusion.

20 *op. cit.*
21 *op. cit.*
22 *op. cit.*

## About the author

**Mr Stephen OLSON** is Senior Research Fellow at the Hinrich Foundation. His areas of expertise are in sustainable trade, the World Trade Organization, trade negotiations, free trade agreements, and tariffs and non-tariff barriers.

Mr Olson began his career in Washington DC as an international trade negotiator and served on the United States negotiating team for the North American Free Trade Agreement negotiations. He subsequently became president of the Hong Kong-based Pacific Basin Economic Council, and vice-chairman of Cairo-based ARTOC Group for investment and development. He is also a visiting scholar at the Hong Kong University of Science and Technology. He has a master's degree in International relations from the Johns Hopkins School of Advanced International Studies and a BA from the State University of New York.

# The Republic of Korea and the IPEF

Tony MICHELL

The Indo-Pacific Economic Framework (IPEF) was announced as newly elected President Yoon began a tilt towards the United States (US), endorsing it as a chance to write rules and not take them. Extensive consultations between business and ministries ensured that each Pillar was examined, but showed little evidence of rule writing until May 2023. The Korean Ministry of Trade and Industry was also protesting the impact of the Inflation Reduction Act (IRA) and the Creating helpful incentives to produce semiconductors (CHIPS) Act with the same US negotiators as for the IPEF. Minister Ahn of the Ministry of Trade, Industry and Energy (MOTIE) sees opportunities to draw the US closer to the international position especially by creating a carbon trading zone in the Clean Economy Pillar, and played a role in the Supply Chain committee creation. Korea covered the same issues with the Chinese on a bilateral basis ensuring that Korea was not drawn fully into any decoupling strategy. Discussion in Korea in June showed MOTIE optimistic, but business doubtful about the efficacy of the IPEF which could be challenged in Congress with Executive Orders which could be abandoned by the next US President.

## Introduction

Before May 2023, the existing text for the four Pillars at the IPEF was so bland that it is hard to quarrel with the words, although India saw problems and will not sign the Trade chapter. The Indo-Pacific Economic Framework for Prosperity (IPEF) is undermined by the lack of benefit or compensation for members in terms of the two major United States (US) trade policy measures that appeared after the IPEF was announced – the Inflation Reduction Act (IRA) or the Creating helpful incentives to produce semiconductors (CHIPS) Act. Despite the constant reference to the World Trade Organization (WTO) in the text, the US is a notable violator of WTO global rules.[1]

At the outset of the negotiations, Deputy Prime Minister Choo Kyung-ho assured Korean legislators that Seoul would defend its national interests while maintaining strong relations with all parties during any IPEF discussions. He said that while it is important to join the group to strengthen supply networks, Korea should "at the same time input our position from the start in forming regulations."[2]

## Korea's unique trajectory from 1945 to 2023

Given South Korea's position as a trading nation – the sixth largest exporter in 2022 – its unique trajectory tends to be overlooked. Korea was a colony of Japan from 1910 to 1945, divided into South and North by occupying forces. The Korean War became a proxy hot-cold war, and ended in the longest armed armistice in history. US domination in Korea forced a market opening to US companies in 1985, and in 1991, a détente was forged with China and Russia in expectation of progress between North and South Korea.[3] China became Korea's largest market by 2000. Hence, the thesis that Korea is a *prisoner of geography* faded. First pronounced by Tim Marshall, as the global economy appears to be refreezing into an incipient Cold War mode the iron bars of geography seem to be descending again.[4] As late as in April 2022, the outgoing Korean President fretted over the remaining Cold War structures between the North and the South, calling for a Peace Treaty. However, by May 2023, some were accusing the new President as being at the forefront of creating a new Cold War.[5]

1 "A WTO Member cannot waive unilaterally its own WTO obligations whenever it considers that another Member is acting "unfairly" and that the WTO Agreement does not provide adequate remedies. Such unilateral responses to perceived unfair acts of another Member are themselves both unfair and illicit under the WTO Agreement." See " United States — Tariff Measures On Certain Goods from China (WT/DS543/R/Add.1)", World Trade Organization, 15 September 2020, https://www.wto.org/english/tratop_e/dispu_e/543r_a_e.pdf;

Failing to appoint judges to the panels paralysing the WTO's dispute resolution process. See "The World Trade Organization: The Appellate Body Crisis", *Center for Strategic & International Studies*, https://www.csis.org/programs/scholl-chair-international-business/world-trade-organization-appellate-body-crisis

2 Lee Ho-jeong, "Korea will join IPEF on its own terms: Finance Minister Choo", *Korea JoongAng Daily*, 21 August, 2022, https://koreajoongangdaily.joins.com/2022/08/21/business/economy/IPEF-Korea-USChina-tensions/20220821170204012.html

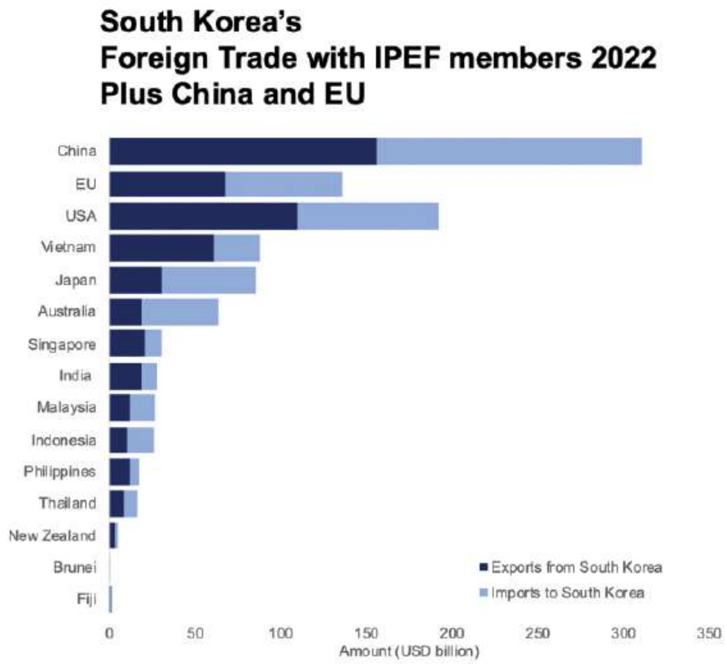
3 Progress with the North after the US signing of the Geneva Agreed Framework was thwarted by the US 1994 midterms and then dogged by the North's resumption of nuclear investigations later in the 1990s.

4 Tim Marshall, *Prisoners of Geography: Ten Maps That Tell You Everything You Need To Know About Global Politics* (New York: Scribner, an imprint of Simon & Schuster, Inc., 2015), 208-229. "how do you solve a problem like Korea? You don't, you just manage it…"

5 Keeho Yang, "Rethinking South Korea-Japan Relations", *EAF Policy Debates – East Asia Foundation*, 29 June 2023, https://www.keaf.org/en/book/EAF_Policy_Debates/Rethinking_South_Korea_Japan_Relations?ckattempt=1

Three decades of relations with China, Korea's largest trading partner, was celebrated in 2022. The US is the second largest partner, followed by the European Union (EU) and Vietnam. Trade with China is conducted under a bilateral Free Trade Agreement (FTA) with ongoing active negotiations to include services. When exports via Hong Kong are added, which mainly go into Southern China, China takes almost 30 per cent of Korea's trade.[6] Figure 1 shows the degree of trade connectivity with China, the EU and then the members of IPEF.

**Figure 1:** South Korea's foreign trade connectivity with China, the EU and IPEF members




**Source:** Korea International Trade Agency[7]

## President Yoon's tilt towards the US

Usually, Korea has had a progressive President whenever there is a Republican President of the US and vice versa. Geopolitics and 'America First' have upset this rule. The abrupt change in both domestic and international policy, however, did not make it appear out of sync when the opposite happened: conservative President Yoon Suk-yeol taking office in May 2022, with the US having Democrat Joe Biden as its President. The alliance has spilled over into a tripartite agreement between the US, Japan and Korea enshrined in the August 2023 Camp David Agreement which goes beyond geopolitics and calls for closer technological cooperation with 20 different initiatives.[8]

6 "Global trade statistics service K-stat", K-Stat, https://stat.kita.net/

7 *Ibid*.

8 The language of the later paragraphs of this agreement implies that Japan, Korea and US will go beyond the IPEF in coordination. See "The Spirit of Camp David: Joint Statement of Japan, the Republic of Korea, and the United States", The White House, 18 August 2023, https://www.whitehouse.gov/briefing-room/statements-releases/2023/08/18/the-spirit-of-camp-david-joint-statement-of-japan-the-republic-of-korea-and-the-united-states/

The earlier Moon Jae-in's administration had been strongly in favour of trade agreements and oversaw the renegotiation of the US-Korea (KORUS) FTA at the insistence of Donald Trump. This period also witnessed the signing of a number of FTAs plus the larger Regional Comprehensive Economic Partnership (RCEP), application for membership of the Digital Economy Partnership Agreement (DEPA), completion of a digital trade agreement with Singapore, a digital policy agreement with the EU and a last-minute bid for the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which is now stalled over agricultural issues.[9] Korea, through strong social control and distancing which avoided actual lockdowns during the COVID-19 pandemic, experienced the smallest drop in the Gross Domestic Product (GDP) amongst major Organisation for Economic Co-operation and Development (OECD) members. In 2023 Korea is experiencing low growth due to contraction of trade, and a sluggish domestic economy.

The election of Yoon Suk-yeol who ran partly on an 'anything but Moon' programme, aimed to repair relations with the US and create a smaller government. However, it was not clear what relations with the US had been damaged by Korean action during Moon's administration as opposed to damage to the relationship by Trump who put sanctions on Korean washing machines, and steel and aluminium, and also threatened to withdraw troops. The Koreans had agreed to swap a higher tariff for a quota arrangement, but when Biden became President and super tariffs elsewhere were dropped, the US refused to amend the quota agreement on Korean steel.[10]

Announced by Biden in May 2022, the same month that Yoon took office, the IPEF seemed to be the perfect instrument for the new administration to endorse. Yoon saw the IPEF as 'all about rules' and stated that it was necessary to join the IPEF since Korea aims to be a rule-maker rather than a rule-taker.[11] This fitted in nicely with his advisors' concept of an active global Korea led by National Security Advisor Kim Sung-hwan, who was one of the architects of the concept and especially of the tilt to the US.[12] Kim Tae-hyo, Deputy head of the National Security Office, commented, "In playing a leading role, Korea will propose new standards of creation, invite other countries and reali[s]e its national interests within [the] IPEF."[13]

## The IPEF talks begin

During the formative months of the Administration, there was a debate as to whether the Trade Bureau of the Ministry of Trade, Industry and Energy (MOTIE) should have moved back to the Ministry of Foreign Affairs (MOFA), an experiment conducted during 2009-2014 under President Lee Myung-bak.[14] MOTIE retained the department, which is led by an official with the western title of a 'Minister' while using a Korean title subordinate to the 'Vice Minister'. The new Minster of Trade,

9 The current administration has a minority in the National Assembly with a high proportion of rural seats. See Oh Seok-min, "S. Korea's accession to CPTPP likely to boost real GDP, damage agricultural sector", *Yonhap News Agency*, 25 March 2022, https://en.yna.co.kr/view/AEN20220325005100320

10 Andrea Shalal, "U.S. not looking to renegotiate Trump-era steel quotas with S.Korea, says Raimondo", *Reuters*, 24 March 2022, https://www.reuters.com/business/us-not-looking-renegotiate-trump-era-steel-quotas-with-skorea-says-raimondo-2022-03-23/

11 Lee Haye-ah, "Yoon says S. Korea's participation in IPEF is only natural", Yonhap News Agency, 23 May 2022, https://en.yna.co.kr/view/AEN20220523004200315

12 Kim Sung-han was replaced suddenly in March 2023 for unclear reasons but possibly for opposing Kim Tae-hyo more pro Japanese and US views.

13 Kim Eun-young and Yoon Hee Young, "Tech cooperation with US to boost comprehensive strategic alliance", *Korea.net*, 19 May 2022, https://www.korea.net/NewsFocus/policies/view?articleId=214970

14 Many of the Ministers and Vice Ministers appointed had last served in government in his administration in 2013.

Ahn Duk-geun, had been a professor at Seoul National University (SNU) until nominated on May 9 2022.[15] It is obvious from his past academic and official work, and his enthusiastic endorsement of the IPEF that Minister Ahn felt he could shape this opportunity to meet the needs of the twenty-first century in an empirical way that could suit Korea.

After the launch of the IPEF, on the occasion of the 23 May 2022 Korea-US summit meeting, the government claimed it had been actively engaging in the member states' preliminary negotiations process, proceeding with what must have been a very cursory economic feasibility evaluation (May-June 2022), and thereafter, held a public hearing (8 July 2022).[16] Public hearings are held almost secretly at very short notice in Korea to avoid the embarrassment of the opposition, so only major bodies are notified. A 'hearing is part of a process of collecting ideas on the matter and not an occasion for the government to offer a final resolution.'[17] Ministers of the countries invited to be members of the IPEF held an informal virtual meeting on 26-27 July 2022, and the plan to negotiate the IPEF was passed at a Korean Ministerial Meeting on international economic affairs on 19 August 2022.[18]

The MOTIE made a report to the National Assembly on 18 August 2022 that "once IPEF negotiations officially commence, the Ministry will strive in full measure to maximi[s]e national interest through sufficient communication with interested parties and experts."[19] The basic documents for the Four Pillars were described by MOTIE as the outcome of intensive negotiations that have taken place since the launch of the Framework in May. MOTIE spoke of the Pillars as outlining the cooperation mechanisms of a new economy for tackling digital and supply chain issues, and climate change.[20] The Korean audience was not given any indication of changes that went into the initial US drafts before the innocuous Pillar documents were published in September last year.

Recognising that the negotiating rounds starting in December 2022 would be crucial, MOTIE announced that "all relevant ministries (MOTIE, the Ministry of Economy and Finance (MOEF), Ministry of Foreign Affairs (MOFA), Ministry of Agriculture, Food and Rural Affairs (MAFRA), Ministry of Oceans and Fisheries (MOF), Ministry of Science and ICT (MSIT), Ministry of Justice (MOJ), Ministry of Government Legislation (MOLEG) and the Anti-Corruption and Civil Rights Commission (ACRC), et cetera.) and industry experts will be working in tandem as One Team."[21]

---

15 Oh Seok-min, "(profile) Professor with expertise in int'l trade tapped as new trade minister", *Yonhap News Agency*, 9 May 2022, https://en.yna.co.kr/view/AEN20220509010000320

16 "MOTIE submits IPEF plan to National Assembly", Ministry of Trade, Industry and Energy, 31 August 2022, https://english.motie.go.kr/en/pc/pressreleases/bbs/bbsView.do?bbs_cd_n=2&bbs_seq_n=1054

17 "IPEF public hearing", *Yonhap News Agency*, 8 July 2022, https://en.yna.co.kr/view/PYH20220708141700325. The press photo shows a larger audience.

"Administrative Procedures Act", *Korea Legislation Research Institute*, 31 December 1996, https://elaw.klri.re.kr/eng_service/lawView.do?hseq=335&lang=ENG. The term "public hearing" means the procedure by the administrative agencies of extensively collecting the opinions of parties, persons with expert knowledge and experience, and the general public regarding any administrative functions through open discussions" Administrative Procedures Act Article 2.

18 *op. cit.*

19 *Ibid*.

20 "IPEF ministerial statement outlines four pillars for economic cooperation", Ministry of Trade, Industry and Energy, 13 September 2022, https://english.motie.go.kr/en/pc/pressreleases/bbs/bbsView.do?bbs_cd_n=2&bbs_seq_n=1064

21 *Ibid*.

After attending the IPEF meeting on 22 September 2022, Ahn asked a former colleague Prof. Lee Si-wook at the KDI School to undertake a series of discussions with academics, businessmen and government agencies. The results of the meeting, focused on the political-economic view of the IPEF, were discussed at a domestic symposium on 6 October 2022, "Supply Chain Realignment Era, the Meaning of Indo-Pacific Economic Framework for Prosperity (IPEF) and Role of Korea."[22] One can assume that businesses welcomed the idea in principle but were wary of an agreement with no clear benefits to the parties joining in terms of trade. Equally, they were concerned about both the exclusion of China, and China's possible reaction. Businesses questioned the effectiveness of a fiat as opposed to a free-market Supply Chain Pillar and whether the proposals for anti-corruption were necessary in view of the OECD Bribery Convention.[23] Other academics queried how a worthwhile agreement could be passed by the US Presidential Decree and not by the US Congress, and how a group of countries which were a mix of OECD and non-OECD countries would work.[24] Would the agreement cut across or support the WTO rules, given the record of the US in not supporting the WTO, and actively blocking the appointment of judges?

The second, third and fourth Pillars' special negotiation round was an intersessional round in Delhi preceding the official second round of the IPEF negotiations centred around three of the four IPEF areas, namely Supply Chain, Clean Economy and Fair Economy. The MOTIE aimed to actively engage in the negotiations to incorporate into the agreement the rules that will help expand domestic companies' Indo-Pacific exports and market presence. Ahn did not go to the Delhi round in February due to being embroiled in the IRA negotiations with the US to save the Korean Electric Vehicle (EV) industry.[25] Instead, MOTIE's Deputy Minister for FTA Negotiations Roh Keon-ki led the delegation aiming to "make efforts to advance the negotiations in a way that the IPEF can play a central role in resolving pressing challenges facing the Indo-Pacific region through a balanced approach based on rules and cooperation, while also securing Korea's core interests."[26]

When Minister Ahn attended the fourth public-private joint strategic meeting of the IPEF on June 7 2023 at the Korea Chamber of Commerce and Industry (KCCI) after the Detroit Round on 31 May 2023, his opening message was that "through the IPEF Supply Chain Agreement, the basics for joint response has been established among IPEF member states" and added that "more efforts will be made to see further outcomes in other areas like improving trade rules, raising transparency in anti-corruption and taxation, and clean energy transition, to provide a stable business environment for firms."[27]

---

22 "Trade Minister attends IPEF Strategy Symposium", Ministry of Trade, Industry and Energy, https://english.motie.go.kr/en/tp/tradeinvestrment/bbs/bbsView.do?bbs_seq_n=1090&bbs_cd_n=2&view_type_v=TOPIC&&currentPage=1&search_key_n=&search_val_v=&cate_n=

23 "Convention on Combating Bribery of Foreign Public Officials in International Business Transactions", *Organisation for Economic Co-operation and Development*, https://www.oecd.org/corruption/oecdantibriberyconvention.htm#

24 This issue remains a theme of Korean conversation despite the fact that 11 of the countries are members of the CPTPP, see discussion on the Busan round below.

25 At this moment the USTR announced that Korean EVs currently made in the US would not get the IRA subsidy and neither would Korean imports. See Yoon Young-sil, "Hyundai, Kia Scrambling as They Get Excluded from US Subsidies", *Business Korea*, 19 April 2023, https://www.businesskorea.co.kr/news/articleView.html?idxno=113135#

26 "MOTIE attends IPEF Pillars 2-4 special negotiation round", Ministry of Trade, Industry and Energy, 9 February 2023, https://english.motie.go.kr/en/pc/pressreleases/bbs/bbsView.do?bbs_cd_n=2&bbs_seq_n=1197

27 "Trade Minister attends 4th public-private joint strategic meeting for IPEF", Ministry of Trade, Industry and Energy, 7 June 2023, https://english.motie.go.kr/en/pc/photonews/bbs/bbsList.do?bbs_cd_n=1&bbs_seq_n=1626

The meeting was attended by representatives of relevant organisations, including the Korea International Trade Association (KITA) and Korea Institute for Industrial Economics and Trade (KIET).[28] After the session, the progressive *The Hankyoreh* (a Korean newspaper) ran an article titled, *Can the IPEF deliver the US dream of an Asian economy without China?* The authors noted "It [the Supply Chain Agreement] is the first between the countries participating in the IPEF, which was launched in May 2022, and the first international agreement regarding supply chains," but questioned whether China could really be excluded by such an agreement.[29]

## IPEF issues in Korea before the Busan round

Before the Busan round started on July 9 2023, Minister Ahn said that he expected agreements to be made comparable to those in the Detroit session. In fact, the Busan round was inconclusive and did not discuss these issues. According to observers, it was mainly concerned with differences between the CPTPP text preferred by the seven countries and the proposed US text.[30] There remain two main issues which had circulated in Korea since the early days of the IPEF. These are: where does Korea's China relationship stand as the IPEF takes shape; and what is the practical use of the IPEF and how does it serve the Korean national interest?

### One: Where does Korea's China relationship stand as the IPEF takes shape?

As of 2021, the trade volume between Korea and the remaining 13 IPEF member nations had come to US$498.4 billion, accounting for 39.6 per cent of Seoul's total trade that year.[31] Trade with China including Hong Kong came to about 30 per cent. From day one, voices throughout Korea had questioned how being part of the IPEF – seen as reshaping the Indo-Pacific to exclude China – was going to affect China trade relations. Already in May 2022, the government was 'bracing for a possible backlash from China, which claims that the initiative is aimed at countering Beijing by excluding the country from global supply chains and rearranging them.'[32]

"I think that China is unhappy about the IPEF," Park Jin, Minister of Foreign Affairs said during a meeting of the Assembly's Foreign Affairs and Unification Committee, having just completed a video call with Chinese Foreign Minister Wang Yi. According to Chinese reports, Wang told Park that the two sides must oppose moves to decouple economically and ensure that the world's supply chains remain stable and smooth.[33] *The Korea Times* (a Korean newspaper) wrote, "Although the Yoon administration stresses that South Korea's participation in the IPEF is a decision based on national interests and is not intended to contain China, the opposition party is expressing concerns about possible diplomatic and economic retaliation."[34]

28 "Trade Minister attends 4th public-private joint strategic meeting for IPEF", Ministry of Trade, Industry and Energy, 7 June 2023, https://english.motie.go.kr/en/pc/photonews/bbs/bbsList.do?bbs_cd_n=1&bbs_seq_n=1626

29 Kim Hoe-seung and Kim So-youn, "Can the IPEF deliver the US dream of an Asian economy without China?", *Hankyoreh*, 30 May 2023, https://english.hani.co.kr/arti/english_edition/e_business/1093886.html

30 Interviews with observers from foreign embassies in Korea involved in the Busan round. Korea not being a member of CPTPP to date was left on the sidelines of this issue.

31 "Korea holds public-private meeting on IPEF developments, future strategies", *The Korea Times*, 31 May 2023, https://www.koreatimes.co.kr/www/nation/2023/06/113_352040.html

32 "South Korea to join US-led Indo-Pacific economic initiative", *The Korea Times*, 18 May 2022, https://www.koreatimes.co.kr/www/nation/2023/06/113_329387.html

33 *Ibid*.

34 *Ibid*.

Korean trade suffered in 2018 over the Terminal High Altitude Area Defense (THAAD) missile location in Korea in Chinese retaliation which stopped tours to Korea, and forced the Lotte Group to give up its multibillion dollar business in China.[35] Kim Tae-hyo, as seen by some as a hardest pro-US voice proclaimed "The IPEF is not aimed at forcing countries to decouple from China."[36] A day later, Kim Tae-hyo said that "Seoul and Beijing are discussing follow up agreements to their bilateral free trade agreement pertaining to supply networks, investments, and the service sector."[37] He also added that they were in discussions with China to update the FTA in preparation to smoothly open up not only the service sector but other markets as well. When asked to elaborate, an official in the Presidential Office told *The Hankyoreh*, "We've instructed the trade officials at the Ministry of Trade, Industry and Energy who are negotiating the Korea-China FTA to set up a cooperative mechanism to stabili[s]e our supply chains with China."[38]

As for China possibly pursuing economic retaliation against South Korea for its IPEF membership, as it had following the US' deployment of its THAAD anti-missile system in South Korea, Kim said circumstances surrounding the two cases are very different. The presidential aide added that the government will proactively communicate with both the US and China to avert backlash from Beijing."[39] MOTIE had earlier funded a Peterson Institute for International Economics (PIIE) study by Mary E. Lovely and Abigail Dahlman on the impact of the US decoupling from China and its impact on Korea's trade. The study was given an IPEF twist when it was published in July 2022. Lovely and Dahman had used the Trade in Value Added (TiVA) database of the OECD for their statistical analysis.[40] "The Policy Brief therefore focuses on the entanglement of Chinese and Korean supply chains for unsanctioned goods and assesses how the US demands to "build China out" could affect Korean manufacturers. It highlights Korean engagement in China-linked supply chains for computer, electronic, and optical equipment, a sector in which technology tensions between the [US] and China are growing." The conclusions of this study are complex but indicate that Korea's supply chain in some of its most dynamic Information Technology (IT) products could be seriously affected in case of the supply chain being diverted from its present course by US policy, especially damaging to Korean investment in China with consequent cost penalties. However, these diversions are likely to come from other aspects of the US policy rather than the

---

35 "South Korea's Lotte seeks to exit China after investing $9.6 billion, as Thaad fallout ensues", *The Straits Times*, 13 March 2019, https://www.straitstimes.com/asia/east-asia/south-koreas-lotte-seeks-to-exit-china-after-investing-96-billion

36 Kim Mi-na, "National security advisor's ouster could afford hard-liner Kim Tae-hyo stronger influence", *Hankyoreh*, 31 March 2021, https://english.hani.co.kr/arti/english_edition/e_national/1086055.html; *op. cit.*

37 "Top Office Dismisses Claims IPEF Membership Jeopardizes China Ties", *KBS World*, 19 May 2022, http://world.kbs.co.kr/service/news_view.htm?lang=e&Seq_Code=169765

38 *Ibid*.

39 Jung In-hwan, Seo Young-ji and Lee Bon-young, "S. Korea confirms intent to join IPEF, prompting fears of backlash from China", *Hankyoreh*, 19 May 2022, https://english.hani.co.kr/arti/english_edition/e_international/1043541.html

40 The latest TiVA indicators were generated using the 2021 release of the OECD Inter-Country Input-Output (ICIO) tables, which extend to 2018 relationships in place before the COVID-19 pandemic. Although somewhat dated, they reflect the most recently available information.

IPEF Supply Chain chapter agreement.[41] Nevertheless, the Korean opposition may blame the IPEF for the end result, quoting Lovely and Dahlman's ascription of these impacts to the IPEF.[42]

Korea and China have continued to talk about extending their FTA in services and Ahn confirmed that a Supply Chain Agreement was being negotiated with China to maintain stability of trade. Korea signed a Memorandum of Understanding (MOU) with China on 27 August 2022 on supply chain relations and appointed a new high-level body. The MOU calls for the establishment of the new director-level group on supply chains to discuss related issues 'in time' when any supply disruptions take place and to enhance policy consultations, according to the Ministry, along with joint proposals to open the services sector. This was signed at the 17th Korea-China Meeting on Economic Cooperation by Deputy Prime Minister (DPM) Mr Choo and Foreign Minister Park Jin who led the negotiations with China. It appears, in outline, to be similar to what the Committee agreed in Detroit for the IPEF.

During the first half of 2023, Korea and China have continued discussions on matters such as chip supplies and other investments. China's commerce minister said after meeting with South Korean Trade Minister Ahn Duk-geun on the sidelines of the Asia-Pacific Economic Cooperation (APEC) conference in Detroit in May 2023, that they have agreed to strengthen dialogue and cooperation on semiconductor industry supply chains amid broader global concerns over chip supplies, sanctions and national security. They exchanged views on maintaining the stability of the industrial supply chain and strengthening cooperation in bilateral, regional and multilateral fields, according to a statement from the Chinese Ministry of Commerce.[43]

World media and President Yoon tend to trumpet every move by the US, and about the US and Korea, while agreements between China and Korea tend to be under-reported under Korea's attempt to maintain a balance by the Foreign Minister and Deputy Prime Minster/Finance Minister.[44] Whether this will be enough depends partly on their skill and partly on the answer to the second question.

### Two: What use is the IPEF anyway?

This serious conversation raised the issue of whether Korea could truly be a rule-maker rather than a rule-taker. With the IRA and the CHIPS Act, and the realisation that Biden and Trump are cut from a similar protectionist mould from a Korean perspective, resulted in real popular anger

41 Mary E. Lovely and Abigail Dahlman, "22-8 South Korea Should Prepare for Its Exposure to US-China Technology Tensions [Policy Brief]", *Peterson Institute for International Economics*, July 2022, https://www.piie.com/sites/default/files/documents/pb22-8.pdf. About 60% of Korea's semiconductor exports go to China of which about half are processed in China and then exported by Korean local affiliates and Chinese companies.

42 *Ibid*. Throughout the paper as published, Lovely and Dahlman write as though the IPEF rather than other US policy such as IRA, CHIPS Act or USTR directives will result in these changes which does not seem to be the case with the current agreement.

43 "China, South Korea agree to strengthen talks on chip industry, Chinese commerce ministry says", *Reuters*, 27 May 2023, https://www.reuters.com/technology/china-south-korea-agree-strengthen-talks-chip-industry-chinese-commerce-ministry-2023-05-27/

44 Choi Hyun-june and Kim Hoe-seung, "Chip powerhouse S. Korea struggles to strike balance between China's demands, US pressure", *Hankyoreh*, 1 June 2023, https://english.hani.co.kr/arti/english_edition/e_international/1094267.html

on the Korean side.[45] The IRA and the CHIPS Act directly challenged Korea's core interests. This was not part of the IPEF or any known formal discussions during the IPEF though the subject must have surfaced during discussions. Minister Ahn was now thrown into the position of being aggressive towards the Office of the United States Trade Representative (USTR), while the same organisation was promoting the IPEF.

Reporters at the 28 May 2023 session with Minister Ahn came away asking what use the IPEF was when it was all agreed. Ahn had been enthusiastic about one of the three committees set up under the Supply Chain Pillar, which would create a framework for discussion about supply chain disruption. "The deal on supply chains lays the foundation for joint responses to any global supply chain disruptions among the member nations. The government will strive for making tangible results in the other sectors so as to provide our companies with stable business circumstances," Ahn said. [46]

He said he hoped that the Busan round in July would create further useful outcomes. As noted above, the Busan round achieved almost no concrete results and therefore, all these issues were left to the Bangkok round. As noted, a dispute arose over the wording of chapters deviating from the CPTPP agreement despite the fact that each chapter's document is bland and says most of the right things. Possibly through inputs by the 13 non-US members including frequent insertion of references to the WTO (despite the US' obstructionism in not appointing judges bringing trade disputes to a halt) and the widespread US outcry at the WTO's condemnation of the US' use of tariffs to block trade.[47]

Ahn also briefed the participants on ongoing negotiations on the three remaining fields of Trade, Clean Economy and Fair Economy, and exchanged opinions about Korea's stance on the future path "and policy measures to maximi[s]e benefits for domestic companies."[48] This latter comment implies that Korea might change its internal policies to make any IPEF measures more attractive to Korea's interests although exactly what form these changes might take are unclear.

Some were excited about the prospective digital agreement while for others, Ahn's proposal for an IPEF carbon trading market[49] based on the Paris Agreement was more unique. It seems that Ahn's thinking was now about driving agreements which would pull the IPEF closer to the global vision rather than making rules that worked against them.[50] On the digital agreement, KITA published its *Analysis and Implications of Digital Trade Norms of Indo-Pacific Economic Framework (IPEF) Participating Countries* on 16 June 2023. It outlines the importance of extending digital rules to developing countries, but also stresses on the upcoming battle over international or localised data.[51] The CPTPP already has a good digital chapter and if the seven IPEF members who are also CPTPP members (Korea is currently only an applicant for membership) are consistent, they appear

45 Jaemin Lee, "How a Biden Legislative Achievement Jeopardized Relations With South Korea", *The Diplomat*, 6 January 2023, https://thediplomat.com/2023/01/how-a-biden-legislative-achievement-jeopardized-relations-with-south-korea/

46 *op. cit.*

47 Paul Krugman, "Why America Is Getting Tough on Trade", *The New York Times*, 12 December 2022, https://www.nytimes.com/2022/12/12/opinion/america-trade-biden.html

48 *op. cit.*

49 As indicated in press reports on the Minister's briefing meeting with Korean industry.

50 Jeong Seok-joon, "[Exclusive] Government starts designing IPEF carbon market... take the initiative", *The Digital Times*, 13 June 2023, http://www.dt.co.kr/contents.html?article_no=2023061302109958063004

51 Ryu Eun-joo, "Conclusion of IPEF Digital Trade Negotiation, Creation of Business Opportunities for One Company", *ZDNET Korea*, 14 June 2023, https://zdnet.co.kr/view/?no=20230614100620

to being insist on compatibility. One could read the USTR comment on the Bangkok round in this light. Building on the discussions that took place during the fourth negotiating round in Busan, South Korea, in July 2023, the IPEF partners continued to make progress on negotiations towards high-standard outcomes.[52] The Korean comment was that the "fifth round will focus on narrowing down the issues of Pillar 1 (trade), Pillar 3 (clean economy) and Pillar 4 (fair economy), as well as the participating countries' differences of opinion over core issues."[53]

Fundamentally, the issue that underlay Koreans' minds as the Korean National Assembly was briefed on each stage is that on the US' side, the IPEF rests on Executive Action and the US Congress is not involved. No US law would be changed. On the Korean side, changes in the law to take account of the IPEF if any Acts required modification would need approval by the National Assembly which at least until May 2024 is with the opposition.

One issue that Koreans have either hardly noted or hardly commented on is the labour standards which underlies part of the US initiative. President Yoon is currently at war with Korea's labour unions and with parts of the workforce itself and he is unlikely to favour conditions for more labour inspections from the US.[54]

## Korea, the EU and the IPEF

Together, China and the EU make up about 45 per cent of Korea's export trade, outweighing the IPEF countries. The EU as a rule giver may see several challenges in the IPEF. On 22 May 2023, at a summit in Seoul, President Yoon and Ursula von der Leyen (President of the European Commission) and Charles Michel (President of the European Council) signed or confirmed a landmark set of agreements.[55] Further, as stated in Korea's own Indo-Pacific Strategy, cooperation with the EU plays a vital part in establishing a rules-based international order.[56]

The recent legislative activities by the US, such as the IRA, the Science Act, and sanctions on exports to China are in line with the 'America First' policy but burden its allies and partners. While Korea is participating in the establishment of trade rules in newly emerging areas through the IPEF, the future trajectory of the IPEF remains uncertain. Dr Jaewoo Choo of the Institute of Foreign Affairs and National Security (IFANS) in an *Institut français des relations internationales* (IFRI) paper states

52 "Joint USTR and U.S. Department of Commerce Readout of Fifth Indo-Pacific Economic Framework Negotiating Round in Thailand", Office of the United States Trade Representative, 18 September 2023, https://ustr.gov/about-us/policy-offices/press-office/press-releases/2023/september/joint-ustr-and-us-department-commerce-readout-fifth-indo-pacific-economic-framework-negotiating

53 "Korea participates in the 5th round of IPEF negotiations", Ministry of Trade, Industry and Energy, 12 September 2023, https://english.motie.go.kr/en/tp/ftaeconomiccooperration/bbs/bbsView.do?bbs_seq_n=1422&bbs_cd_n=2&view_type_v=TOPIC&&currentPage=1&search_key_n=&search_val_v=&cate_n=4

54 Shin Ji-hye, "Yoon wages war against labor unions, once the force behind Korea's democratization", *The Korea Herald*, 14 March 2023, https://www.koreaherald.com/view.php?ud=20230314000517;

No Kyung-min, "[News Focus] What's really driving Yoon's war on unions?", *The Korea Herald*, 12 June 2023, https://www.koreaherald.com/view.php?ud=20230612000643

55 "EU-Republic of Korea summit, 22 May 2023", Council of the European Union, 22 May 2023, https://www.consilium.europa.eu/en/meetings/international-summit/2023/05/22/;

"Factsheet: EU-Republic of Korea", European Union External Action, 22 May 2023, https://www.eeas.europa.eu/eeas/factsheet-eu-republic-korea_en

56 "Strategy for a Free, Peaceful, and Prosperous Indo-Pacific Region", Ministry of Foreign Affairs, 28 December 2022, https://www.mofa.go.kr/eng/brd/m_5676/view.do?seq=322133. Original drafts had concentrated on the US, and later drafts added China, SE Asia and EU.

that “a different discussion on the trade environments needs to happen that distances itself from the future protectionist approach taken by the US. In this context, a partnership between the EU and the [Republic of Korea (ROK)] is called for more than ever.”[57] In addition to the ROK-EU FTA platform, the EU may consider including the ROK as the third partner of the EU’s Trade and Technology Council (TTC) negotiation, currently conducted with the US and discussed with India.[58]

## Conclusion

Ahn Duk-geun appears to be beginning the formulation of a new dynamic for the IPEF, with an attempt to inject a Korean perspective into the negotiations. Korea is statistically going to be a victim of any decoupling between China and the US; he may help to mollify this. But much depends on other ongoing negotiations between Korea and China and between Korea and the EU. Certainly, the real future of the IPEF also hangs on the May 2024 Korean elections for Seoul, and the November 2024 elections in the US, for all the IPEF members.

57 Jaewoo Choo, ‘South Korea and IPEF: Rationale, Objectives and the Implications for Partners and Neighbors’, *Center for Asian Studies, Institut français des relations internationales (IFRI)*, Asie.Visions, No. 133 (February 2023). https://www.ifri.org/en/publications/notes-de-lifri/asie-visions/south-korea-and-ipef-rationale-objectives-and-implications. This article suggests, first, that South Korea and France must find ways to cooperate to “manage” the United States. Second, it argues that South Korea should take the lead in building a collective mechanism to manage and control the US, which must be made more aware of the external effects of its legislation. Third, it suggests that South Korea and France share information with respect to developments around shaping the IPEF in the United States.

58 *Ibid*. This was a proposal made by the previous administration before Minister Yeo was replaced by Minister Ahn. See János Allenbach-Ammann, “South Korean trade minister calls for closer ties with the EU”, *Euractiv*, 13 October 2021, https://www.euractiv.com/section/economy-jobs/news/south-korean-trade-minister-calls-for-closer-ties-with-the-eu/

## About the author

**Dr Tony MICHELL** is a British businessman, entrepreneur, and pioneer for early Korean development. He is the Managing Director of Korea Associates Business Consultancy. Prof Michell is also associated with the Korea Development Institute (KDI) School of Public Policy. He has been with KDI to create policies for the government since 1978. Prof Michell is considered a prime reference point on North Korea issues and has been featured regularly on Korean broadcasting networks and the *BBC*. He also works with Korean companies and Korean government departments on international issues, and was the first Western company to set up a Pyongyang office.

Dr Michell was the Economist Groups Korea Associate for almost 10 years and continues to run a thriving senior business executive programme in Seoul. He has organised and chaired several business investment forums including three Korean Government Roundtables (under the Economist Conferences brand) as well as various other business conferences and seminars in Seoul. His company, Euro-Asian Business Consultancy, is part of a research and advisory network, Asian Expertise, advising on regional syndicated projects.

He has published a number of papers on Korea and Northeast Asia including regular reports on chaebol reform, success factors for foreign firms investing in Korea and opportunities for Mergers and Acquisitions. Dr Michell is interviewed regularly on radio and television including *CNN*, *CNBC*, *BBC* and *Bloomberg*, and in print media including the *International Herald Tribune*.

# Perspectives on IPEF from *Aotearoa* New Zealand

Mia MIKIC

This paper articulates the rationale behind New Zealand's decision to join the Indo-Pacific Economic Framework for Prosperity (IPEF) based on a study of official documents, publicly available submissions and other printed materials, as well as conversations with a number of experts. It discusses the challenges that might be faced in the negotiation process and later in the implementation of the negotiated agreements. The paper argues that the rationale is not to be found in the conventional market opportunity (or trade creation) arguments. Instead, it is linked to opportunities to pursue non-trade and non-economic objectives incorporated in the strategies put in place by New Zealand in recent years. These include, inter alia, the Industry Transformation Plans, Trade for All, and Trade Recovery Strategy 2.0. The fact that the IPEF was introduced as an unconventional trade agreement while still incorporating trade-related instruments has opened an avenue for New Zealand to find support in international agreements for its package of developmental objectives. Among several negotiation and implementation issues, the paper examines the obligations to Māori under *Te Tirity o Waitangi*/Treaty of Waitangi on the negotiation side, and the potential difficulty to bring it into implementation due to its 'non-trade agreement' status.

## Introduction

For the last four decades, *Aotearoa*[1] New Zealand has been a poster child for an open and fair-playing economy in the world.[2] One of the fastest trade policy reformers in the late 1980s, the country became a zealous pursuer of bilateral and plurilateral trade agreements in the period of 'the golden weather for New Zealand trade'.[3] With the trade skies turning grey even before the COVID-19 pandemic, New Zealand, cognisant of the critical importance of trade for long-term prosperity, intensified its engagements with various economies around the region and the world to ease its navigation through an increasingly uncertain global trade and investment environment.

While a staunch advocate of the multilateral approach to trade governance, New Zealand embraced the so-called 'concerted open plurilateralism'.[4] This approach enabled New Zealand to seek and leverage market opportunities through bilateral and plurilateral trade agreements. It also allowed for promoting the multilateral system by building the World Trade Organization (WTO) rules into these trade agreements as well as working with partners on modernisation of some outdated rules and building forward-looking rules. Trade has been helpful as an engine of growth, and economic and social scarring from the COVID-19 pandemic certainly requires trade to heal and move on. For New Zealand, this means engaging in trade that is based on principles of inclusivity, including the interests of women and Māori, and the principles of sustainability. New Zealand utilised its hosting role of the Asia Pacific Economic Cooperation (APEC) in 2021 to, whenever possible, insert these principles into the region's initiatives and escalate them to the global level.[5]

In the context of deepening policy uncertainty and worsening of global geoeconomic tensions, the proposal for the Indo-Pacific Economic Framework for Prosperity (IPEF) initiated by the United States (US) in October 2021 was welcomed by New Zealand and others interested in safeguarding economic relations with the US and with each other, for the purpose of boosting the post-COVID-19 recovery. Most of these economies were also not averse to placing resilience, inclusivity and sustainability squarely onto the trade agenda of the region. Moreover, the IPEF proposal was interpreted as a chance for the US' pivot to Asia for the second time, after several years of the 'region's neglect'.[6]

---

1 *Aotearoa* is one of the names that the indigenous Māori use to refer to New Zealand. See "Trade Policy Review – Report by Country New Zealand," WT/TPR/G/426, World Trade Organization, 6 April 2022, https://www.wto.org/english/tratop_e/tpr_e/g426_e.pdf

2 "Trade Policy Review Report by the Secretariat - New Zealand," WT/TPR/S/426, World Trade Organization, 6 April 2022, https://www.wto.org/english/tratop_e/dispu_e/find_dispu_cases_e.htm. This document refers to New Zealand as "one of the most open economies in the world" (p.11). As of 1 June 2023, there is no record of New Zealand being an object of a complaint in the WTO Dispute Settlement process.

3 This period refers to 1994-2018. See "A key-note address at the opening of the seventh session of the Committee on Trade and Investment United Nations ESCAP" speech by Vangelis Vitalis, Deputy Secretary, Trade and Economic Group, Ministry of Foreign Affairs and Trade, New Zealand, 27 January 2021, https://www.unescap.org/sites/default/d8files/event-documents/V%20Vitalis%20opening%20transcript_clean.pdf

4 Jonathan de Leyser, "The case for Concerted Open Plurilateralism", *Institute for Free Trade*, https://ifreetrade.org/article/the_case_for_concerted_open_plurilateralism1

5 See more details on these initiatives (sections 3, 5 and 7) in the "Trade Policy Review – Report by Country New Zealand," WT/TPR/G/426, World Trade Organization, 6 April 2022, *(op. cit)*.

6 The US' economic relations with the Asia-Pacific was heavily interrupted by its withdrawal from the Trans-Pacific Partnership (TPP) agreement in January 2017. Some commentators suggest the US failed to counterbalance China's increasing presence in the region from much earlier. See Mohammadbagher Forough, "America's Pivot to Asia 2.0: The Indo-Pacific Economic Framework," *The Diplomat*, 26 May 2022, https://thediplomat.com/2022/05/americas-pivot-to-asia-2-0-the-indo-pacific-economic-framework/

## New Zealand's trade patterns and the use of trade instruments relevant to the IPEF

As a small economy, New Zealand is expected to be dependent on global trade. However, its distance to markets and the small size of its manufacturing sector have prevented it from growing into a key actor in regional and Global Value Chains (GVC). Nevertheless, prior to the COVID-19 pandemic, in 2019, the share of external trade in its Gross Domestic Product (GDP) was 55 per cent. By 2021, this fell to 44.5 per cent, with four-fifths of it contributed by merchandise trade, signalling a much slower recovery of commercial services trade after the COVID-19 pandemic.[7]

In 2021, almost 60 per cent of the merchandise exports went to four destinations: China (31.7 per cent), Australia (12.4 per cent), the US (10.6 per cent), and the European Union (EU) (5.1 per cent). This reflects a continued geographical concentration of the country's exports as, in 2015, these four markets absorbed only 53 per cent of exports. From 2015 - 21, China's share increased by 14 percentage points at the cost of a reduced share of all other traditional export markets of New Zealand.[8] It is important to note that this growing reliance on China happened while the country's total exports expanded by US$10 billion. At present, China is New Zealand's largest trading partner on both the export and import side.[9]

Services trade has still not recovered after the serious contraction caused by disruptions during the COVID-19 pandemic, especially in international travel and education sectors. The figures for 2020 show somewhat smaller geographical concentration, with 50 per cent of exports of commercial services destined to Australia, the US, United Kingdom (UK), India and Singapore. The largest trading partner in services trade is Australia, followed by the US.[10]

Despite strongly supporting the multilateral trade governance under the WTO, New Zealand has used bilateral and plurilateral trade negotiations for enlarging market access opportunities for its exports. Out of its 15 signed or enforced trade agreements,[11] only the agreement with Australia predates the establishment of the WTO. Nine agreements are bilateral (all but the one with the UK are with Asian economies) and six are plurilateral (including the one with the EU).

Figure 1 shows that about 72 per cent of total merchandise exports goes to economies with whom there are major bilateral and plurilateral trade agreements in force or signed. Signing bilateral trade agreements with the US and India would increase that coverage by about 12 percentage

7 "Trade Profiles 2022", World Trade Organization, 2022, 262-263, https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/NZ_e.pdf;

"Asia-Pacific trade and investment trends brief 2022/2023 : New Zealand", 9 January 2023, United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), https://www.unescap.org/kp/2023/asia-pacific-trade-and-investment-trends-brief-20222023-new-zealand

8 *op. cit.*

9 China is the largest goods trading partner of most IPEF members (excluding Brunei Darussalam, Fiji, India and the US). See Han-Koo Yeo and Wendy Cutler, "Strengthening Regional Supply Chain Resiliency

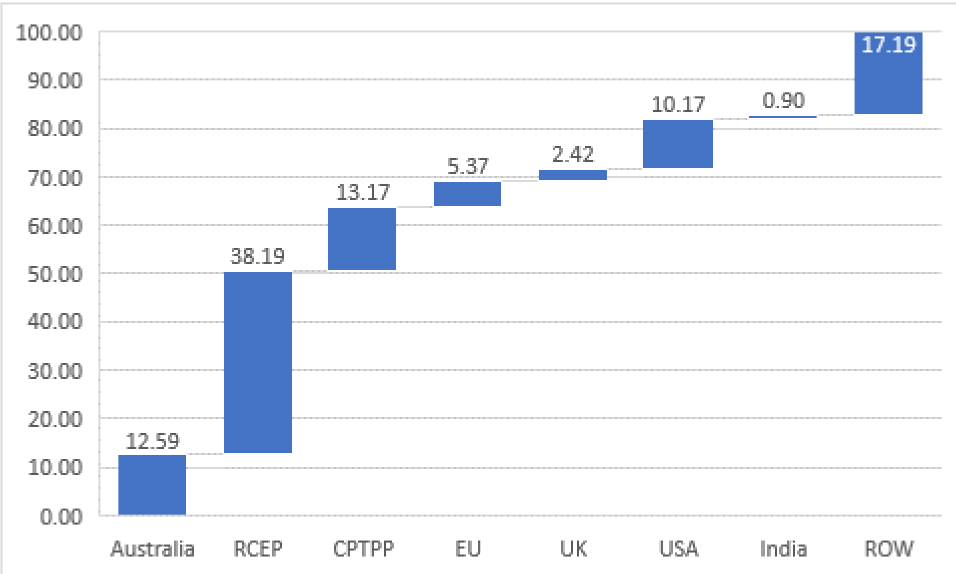
Through the Indo-Pacific Economic Framework (IPEF)", Asia Society Policy Institute, Issue Paper, May 2023.

10 *Ibid.*

11 As of June 2023, 13 out of these 15 agreements have been notified to the WTO. Agreements with the EU and UK are yet to be ratified.

points.[12] India and the US are members of the IPEF and if the IPEF were a conventional trade agreement, negotiating trade under it would have allowed access to both markets. However, the IPEF is conceptualised as a non-traditional agreement which does not seek to create market access through tariff reductions among members. From the beginning, this feature of the IPEF did not sit well with most of its developing country members.[13] Increasingly – and most likely as the response to not only the Asian developing country members, but also some of the US' businesses – it has been pointed out that market access could (and should) be leveraged through instruments other than tariff concessions.[14]

**Figure 1:** Contribution of Regional Trade Agreements (RTAs) to total exports (% averages for 2019-2021, merchandise exports)[15]




**Source:** Calculated by author using UNCOMTRADE data downloaded from World Integrated Trade Solution, June 2023

12 As observed with the expansion of trade with China after the signing of the China-New Zealand Free Trade Agreement (FTA) in 2008 (upgraded in 2022), the share of bilateral trade with China in New Zealand's total trade has doubled since 2015. While it is highly unlikely that bilateral trade with India and the US would follow the same trajectory, they can rise faster with, than without, agreement-based preferences.

13 Gary Clyde Hufbauer and Megan Hogan, "Security not economics is likely to drive US trade engagement in Asia," *East Asia Forum*, 9 Jan 2022, https://www.eastasiaforum.org/2022/01/09/security-not-economics-is-likely-to-drive-us-trade-engagement-in-asia/

14 In the press conference announcing the completion of the IPEF Supply Chains Agreement, US Commerce Secretary Gina Raimondo and the USTR Katherine Tai argued that the absence of focus on tariff elimination is not a weakness of the IPEF. Instead, the USTR argued that "from the very beginning, [the IPEF] is not a traditional trade deal. We're not just trying to maximi[s]e efficiencies and liberali[s]ation. We're trying to promote sustainability, resilience and inclusiveness." See "Indo-Pacific nations vow to fortify supply chains for critical items", *The Japan Times*, 28 May 2023, https://www.japantimes.co.jp/news/2023/05/28/business/us-indo-pacific-deal/

15 To prevent double-counting, the RCEP excludes Australia and the CPTPP excludes Australia, Brunei Darussalam, Japan, Malaysia, Singapore, and Vietnam. Rest of the World (ROW) includes some economies with whom New Zealand has trade agreements (for example, Hong Kong, China, Chinese Taipei, and members of the Pacific Agreement on Closer Economic Relations [PACER plus])

An evidence-based view on the value of a trade deal can be obtained from the openness of one's own and potential partners' markets. Traditionally, tariffs were the main trade policy instrument. At present, various forms of non-tariff measures (NTMs) claim attention of both trade negotiators and businesses.[16]

Table 1 shows that New Zealand's Most Favoured Nation (MFN) applied tariff rate averages 1.9 per cent across all tariff lines. The country does not impose any tariffs on about 66 per cent of its tariff lines, leaving less than 35 per cent of tariff lines as the potential object of negotiations for tariff elimination or reduction.[17] These lines contain commercial value for trading partners to negotiate with New Zealand. The average applied rate for these tariff lines is 5.7 per cent (2021) with relatively small number of domestic peaks (5.6 per cent) and no international peaks. This does not give much negotiating power to the New Zealand trade negotiators as, in addition to the small domestic market, entry barriers in the form of tariffs are not high enough for partners to offer much reciprocating access. Understandably, in the agreements already negotiated, almost all these tariff lines were made duty-free.[18]

The structure of tariff protection in other IPEF members varies (see Table 1). Simple average applied MFN ranges from 0 for Singapore to 18.3 per cent for India; the share of zero duties in all tariff lines ranges from 100 per cent for Singapore to 1.9 per cent for India; the share of tariff rates higher than 15 per cent ranges from 0 (Australia, Brunei, New Zealand and Singapore) to 37.7 per cent for India, and the maximum rates go from 45 per cent in New Zealand to over 1000 per cent in Fiji and Malaysia. This shows that despite relatively low applied tariffs, there is scope for commercial gains from negotiations on tariff reductions among countries that do not have free trade agreements with each other (mostly with respect to Fiji and the US). For example, New Zealand does not have a Regional Trade Agreement (RTA) with either India or the US; the Association of Southeast Asian Nations (ASEAN) members of the IPEF (except Singapore) and Korea do not have an RTA/FTA with Fiji and the US. Therefore, the benefits to be harvested from the elimination of tariffs, while not negligible, would vary among the IPEF members. Nonetheless, tariff elimination is not only about market access; it contributes to improving predictability and stability of the business environment, especially for GVC-linked producers operating with thin profit margins.

16 This does not mean that tariffs are unimportant. Low level of bindings, tariff peaks, as well as nuisance tariffs and uncontrolled unilateral increase of tariffs can significantly increase trade costs and consumers' prices, as seen with the US tariffs under President Trump. See Inu Manak, et. al., "The Cost of Trump's Trade War with China Is Still Adding Up", *Council on Foreign Relations*, 18 April 2023, https://www.cfr.org/blog/cost-trumps-trade-war-china-still-adding

17 New Zealand's most protected industries are footwear, textiles, and textiles articles, with the highest simple average applied MFN rate for clothing at 9.6%. According to the WTO, New Zealand's tariffs show positive escalation, suggesting more processed goods enjoy higher protection than raw materials or semi processed goods. See "Trade Policy Review Report by the Secretariat - New Zealand", WT/TPR/S/426, World Trade Organization, 6 April 2022, https://www.wto.org/english/tratop_e/tpr_e/s426_e.pdf

18 *Ibid.* (See Table 3.5 Summary analysis of New Zealand's preferential tariffs, 2021).

**Table 1:** Tariff structure of New Zealand and other IPEF members

| Country | Simple average MFN applied (%) | Duty free (shares) MFN applied* (%) | Tariff rate applied >15$ (%) | Max. duty MFN applied (%) |
|---|---|---|---|---|
| Australia | 2.4 | 52.0 | 0.0 | 22 |
| Brunei Darussalam | 0.3 | 95.8 | 0.0 | 135 |
| Fiji | 7.9 | 26.1 | 5.3 | > 1000 |
| India | 18.3 | 1.9 | 37.7 | 328 |
| Indonesia | 8.1 | 13.1 | 9.8 | 150 |
| Japan | 4.2 | 53.1 | 3.6 | 628 |
| Korea, Rep. | 13.6 | 17.1 | 10.7 | 887 |
| Malaysia | 5.6 | 66.5 | 13.1 | > 1000 |
| New Zealand | 1.9 | 66.1 | 0.0 | 45 |
| Philippines | 6.1 | 12.8 | 3.3 | 65 |
| Singapore | 0.0 | 100.0 | 0.0 | 91 |
| Thailand | 11.5 | 37.0 | 26.7 | 226 |
| United States | 3.4 | 47.3 | 2.7 | 350 |
| Vietnam | 9.6 | 35.3 | 24.4 | 135 |

**Source**: Prepared by author from data in WTO, World Tariff Profiles, Summary tariff tables, 2022

**Notes**:
* Share of HS 6-digit subheadings in per cent
$ Share of HS 6-digit subheadings in per cent

While tariffs still matter, NTMs matter much more. Often seen as being distortionary, they are associated with adverse impacts on trade costs/efficiency as well as transparency. However, they are also credited with achieving non-economic objectives that are part of public policies.[19]

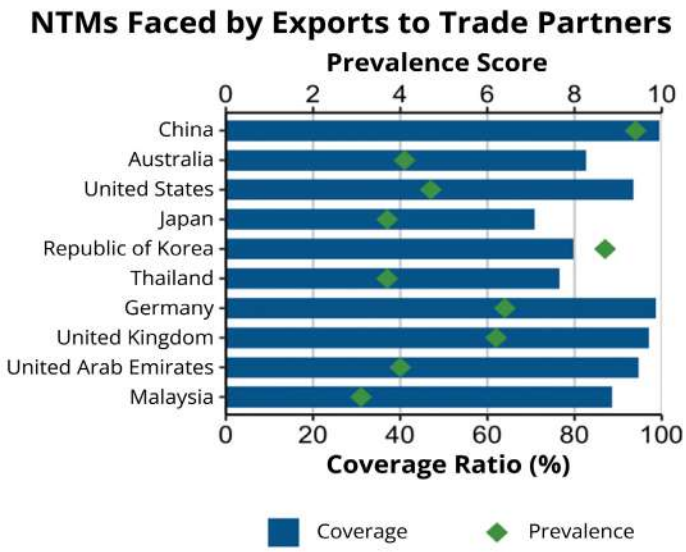
NTMs encompass a range of different border and behind-the-border instruments. Ad-valorem tariff equivalents (AVE) are used for assessing the impact of NTMs on trade costs and various prevalence indicators to gauge potential distortionary impacts. According to data from the United Nations Conference on Trade and Development (UNCTAD) Trade Analysis and Information System (TRAINS) database, 95 per cent of New Zealand's exports to the US, and 82.6 per cent of its exports to Australia, faced at least one NTM. For all other trade partners, the average coverage ratio was around 78 per cent. Exports to the US and Australia faced 4.8 and 4.1 NTMs on average, respectively. The prevalence score for all other trade partners was 2.7 NTMs on average (Figure 2).

19 "Navigating non-tariff Measures towards Sustainable Development", United Nations, Asia-Pacific Trade and Investment Report 2019, 2019, https://www.unescap.org/publications/APTIR2019;

"Non-tariff measures - Impacts, trends and effects on exports from New Zealand", Sense Partners, January 2022, https://www.mfat.govt.nz/assets/Trade-General/Trade-stats-and-economic-research/Non-tariff-measures-Impacts-trends-and-effects-on-exports-from-New-Zealand-January-2022.pdf

The cost impact of NTMs on exporters are only indicative[20] since compliance costs of NTMs vary widely between sectors and countries, and even between firms within countries. Nonetheless, higher NTM AVEs have the same impact as high tariffs in terms of conferring a competitive advantage on some exporters. Indeed, it is useful to note in the context of the IPEF: "Established traders from countries that have strong commercial, social and cultural connections (that is, better networks) may well be less affected by NTMs than those in less well-connected countries."[21] For New Zealand, exports with highest costs from NTMs are beverages, wool, and other animal products.

**Figure 2:** NTMs faced by New Zealand's exports to trade partners (Coverage ratio in % and prevalence scores)




**Source**: UN ESCAP, "New Zealand Trade Brief," Asia-Pacific Trade and Investment Trends 2022/202322

Subsidies, as NTMs, have caused deep concerns given the significant rise in their number, as they are often distortionary, trade-restrictive and difficult to be dialled down.[23] There is growing reliance on the use of distortive subsidies by some IPEF members (for example, the US) as a chosen instrument of new industrial policy for promoting strategic sectors in pursuit of greater resiliency. As argued elsewhere, this can bring into play even more subsidies if the IPEF members choose a competitive subsidisation path, and it is not clear how the IPEF would be able to deal with this potential problem.[24]

20 *Ibid*.

21 *Ibid*., p. 21.

22 *op. cit.*

23 "Subsidies, Trade and International Cooperation", IMF, OECD, World Bank and WTO, 2022, https://www.wto.org/english/news_e/news22_e/igo_22apr22_e.pdf

24 More subsidies put smaller and financially weaker developing countries at a disadvantage, as they cannot afford to compete against industrialised countries with more resources.

## How does the IPEF fit into New Zealand's 'Trade for All' agenda?

When Minister Damien O'Connor announced the launch of IPEF negotiations on 10 September 2022, he emphasised "a strong overlap between the underlying objectives of IPEF and New Zealand's Trade for All Agenda as well as our Trade Recovery Strategy 2.0."[25] Earlier in May 2022, the then Prime Minister Jacinda Ardern had pointed to the importance of New Zealand contributing to the making of future rules for digital trade. She said that digitalisation offers opportunities for addressing challenges that New Zealand still has due to its distance from the major markets.[26] Indeed, the four pillars of the IPEF – Trade, Supply Chains, Clean Economy and Fair Economy (Figure 3) – present a cooperative forum with a potential of rulemaking and norm-setting in the future-shaping areas of digital trade, carbon pricing and border adjustment measures, and critical minerals governance. Furthermore, it can provide a new impetus for addressing old issues related to NTMs, including subsidies, and better link advances in trade facilitation to supply chain resilience. All these are significant for the three instruments of new approach to New Zealand's trade policy.

### Trade for All Agenda

The Trade for All Agenda was launched in March 2018 in response to public concerns regarding the country's participation in trade agreements and ensuring that trade policy delivers for all New Zealanders. The initiative benefited from broad public consultations over several months in 2018, providing feedback from stakeholders on how to approach all phases of trade policy, from design to monitoring and evaluation to ensure fairer impacts. A Trade for All Advisory Board was established, which produced an independent report with recommendations to the government. The findings and recommendations of the report and the core principles approved by the Cabinet are the foundation of the Agenda, which, along with other policies, aims to support sustainable and inclusive economic development.

The core principles are:

1. Open conversation with the public and key stakeholders around the future direction of New Zealand's trade policy, including consultation with the Māori, consistent with their role as a Treaty partner
2. Creating new and more sustainable economic opportunities for New Zealanders of all incomes and backgrounds
3. Supporting the international rules-based system and New Zealand's contribution to its modernisation
4. Supporting multilateral negotiations as a first-best option for New Zealand, followed by open plurilateral negotiations
5. Enhancing New Zealand's economic integration with the Asia-Pacific region, and economic connections to other regions, including through RTAs and FTAs

25 "IPEF Negotiations Launched", Speech by Damien O'Connor, Minister for Trade and Export Growth of New Zealand, 10 September 2022, https://www.beehive.govt.nz/release/ipef-negotiations-launched

26 Sam Sachdeva, "NZ eyes on US-led trade initiative as ministers meet", *newsroom*, 9 September 2022, https://www.newsroom.co.nz/nz-eyes-on-us-led-trade-initiative-as-ministers-meet

6. Supporting trade policy for maximising the opportunities and minimising risks associated with global issues[27]

7. Preserving the right of governments to regulate in the public interest, including for national land markets, taxation of multinational businesses and public services

8. Developing specific directives for future trade policies and negotiations to operationalise Trade for All.

### Trade Recovery Strategy 2.0

The Trade Recovery Strategy was launched in response to the COVID-19 pandemic in 2020. It was enhanced into the Trade Recovery Strategy 2.0 in 2022. The Strategy encompasses four work areas under the organising framework STAR:[28]

1. *Sustainable and inclusive trade* aligned with the Trade for All agenda

2. *Trade and export lift* focused on assisting New Zealand exporters to compete in international markets by utilising economic diplomacy and trade mission

3. *Architecture* comprising all three levels of governance of trade (bilateral, plurilateral and multilateral) requiring continued and enhanced efforts in modernising the chapters on Economic and Technical Cooperation contained in trade agreements for use by New Zealand in working with others for promoting new priorities and principles[29]

4. *Resilience* addressing vulnerabilities exposed or exacerbated by the COVID-19 pandemic and strengthening New Zealand's trade against future shocks by promoting diversification of trade, mitigating supply chain pressures, and working with other cross-government economic strategies, particularly for emissions reduction.

### Industry Transformation Plans 8

The Government introduced the Industry Transformation Plans (ITPs) in 2019 to support its economic goal of building a productive, sustainable and inclusive economy.[30] The ITPs aim to transform key industries through partnerships between government, industry (businesses and workers) and the Māori. Eight ITPs are in progress: agri-tech, advanced manufacturing, construction, digital technologies, fisheries, food and beverage, forestry and wood processing, and tourism. ITPs

27 Global issues include: Environmental issues such as climate change, Protecting New Zealanders' health and wellbeing, Labour rights, Gender equity, The rights of indigenous peoples, SME participation in international markets, Inclusive regional economic growth, poverty reduction and sustainable job creation, Protecting traditional knowledge.

28 "Trade Recovery Strategy 2.0", Ministry for Foreign Affairs and Trade, 2022, https://www.mfat.govt.nz/en/trade/trade-recovery-strategy/trade-recovery-strategy-2-0/

29 See for example an updated version of AANZFTA or the new agreements with the United Kingdom and the European Union.

30 According to the Ministry of Business, Innovation and Employment, the ITPs are a key mechanism for implementing the Government's industry policy adopted in 2019. They involve partnership of multi-stakeholders (business, workers, Māori, and Government). They are focused on long-term transformation and target industries with significant potential to contribute to high productivity, high wage, and lower emissions economy. See "Industry Transformation Plans", Ministry of Business, Innovation and Employment, 2022, https://www.mbie.govt.nz/business-and-employment/economic-development/industry-policy/industry-transformation-plans/

have 20-30-year visions for lifting productivity by scaling up highly productive and internationally competitive clusters in areas where New Zealand has a comparative advantage, and to transform environmental and labour market outcomes.

By joining the IPEF, New Zealand is seeking opportunities and mechanisms for addressing several critical issues facing Indo-Pacific economies, including itself. While tariff cuts are not on the agenda, New Zealand anticipates meaningful commercial gains that could be obtained from addressing other obstacles and barriers to trade and cooperation. Most importantly, there is an overlap between the IPEF and New Zealand's objectives of expanding inclusive and sustainable trade, harnessing the benefits of the digital economy, strengthening resilience of regional supply chains, and boosting collective climate action.

Figure 3: **Synergies between New Zealand's trade objectives and IPEF**


**Source**: Compiled by author

New Zealand stakeholders are aware of possible adverse spillovers from the IPEF. This includes the possibility of the IPEF being an instrument of *friend-shoring*. The underlying motivation for the IPEF (or at least some of the pillars) can be seen as 'to collaborate to reduce dependencies on unreliable sources of strategic supply, promote reliable sources in our supply chain cooperation, and engage with trusted partners'.[31] If this is accompanied by putting in place IPEF-wide instruments for restricting trade with these 'unreliable' sources, then the IPEF could be perceived as adding to the fragmentation of the world economy and weakening, rather than strengthening regional stability. This would also adversely impact the health of the multilateral trading system and the WTO.

Another possible cost of the IPEF could be weakening of the APEC process. Given the diversity of members in their development and the associated negotiating ambition and capacity, it is unlikely that the agreed text under any of the four pillars of the IPEF contain binding language. If that is so, then the impact of the IPEF for New Zealand and other APEC members of the IPEF will be more similar to what was experienced from the membership in the APEC. New Zealand both benefited from the APEC process, and used its standing of an open and fair-playing economy to influence the

31 Halit Harput, "The hidden costs of friend-shoring", *Hinrich Foundation,* 15 Nov 2022, https://www.hinrichfoundation.com/research/article/trade-and-geopolitics/the-hidden-costs-of-friend-shoring/

evolution of the APEC. Given that after the Russian invasion of Ukraine the APEC could not operate smoothly due to difficulties in achieving consensus-based decisions, the IPEF members, which are also APEC members (except Fiji and India), could see this weakening of the APEC as additional motivation for speeding the work to fill in the space.

## Potential negotiation and implementation issues

Based on the discussion above, several negotiation and implementation challenges could be identified for New Zealand. On negotiations, possible issues could be both procedural and substantive. With respect to procedural issues, the concerns might be raised about meeting some of the principles of the Trade for All agenda, such as:

a) Ensuring that consultation with stakeholders and the Māori meet the standards laid out by the Trade for All agenda[32]

b) Notwithstanding negotiating constraints, releasing draft negotiation texts and keeping the public engaged throughout the process

c) Allocating sufficient resources in the responsible government departments for supporting frequent and intensive negotiations

The Ministry of Foreign Affairs and Trade (MFAT) that negotiates trade agreements called upon New Zealand stakeholders, including businesses, the public, and civil society, to comment on New Zealand's membership and the upcoming negotiations guided by the following questions:

1. What issues would you want to see prioritised in negotiations on the scope of IPEF?
2. Are there specific issues you would want to see addressed through New Zealand's participation in IPEF?
3. Are there any areas where New Zealand and IPEF members could cooperate more closely to enhance regional economic integration and / or climate action?
4. As a New Zealander, what outcomes would you like to see for New Zealand businesses, or for the general population, through the IPEF?

The call was open from 3 to 20 June 2022 and 13 submissions were received. Further opinions can be placed through the MFAT's *Have Your Say* website.[33]

Lack of adequate transparency is always an issue in negotiating trade agreements. While the negotiation process (driven still by mostly mercantilist interests) must allow for some of the content to be withheld from the public eye, New Zealand has committed, through a new approach

32 "Report of the Trade for All Advisory Board", Trade for All Advisory Board, November 2019, 62-72, https://www.mfat.govt.nz/assets/Trade-General/Trade-policy/Trade-for-All-report.pdf

Recommendation 19 states: "Because New Zealand has a population that is increasingly diverse, culturally and linguistically, MFAT needs to develop and apply a superdiversity lens to all consultation and engagement processes. Engagement on trade must be consistent with guidance from the International Association for Public Participation (IAP2) and in line with the New Zealand Open Government Partnership commitments. This needs to be done with genuine openness to the diversity of ideas about trade policy and its implementation."

33 "Indo-Pacific Economic Framework for Prosperity", Ministry of Foreign Affairs and Trade, https://www.haveyoursay.mfat.govt.nz/

to trade, to more transparency, especially to the Māori. In the communication between the US and New Zealand on the treatment of documents related to negotiations, New Zealand indicated its intention of sharing its own information related to negotiation prior to the expiry of the non-disclosure five-year period (with the condition of not revealing any information about the positions of other participants or the agreed text); and also indicated that negotiating participants will be able to "develop their positions and communicate internally with each other, and engage with their public, and in New Zealand's case, with Māori, as they consider appropriate in developing and communicating their own positions".[34]

The issue of allocation of appropriate resources has been discussed in the Parliament.[35] The MFAT has appointed a dedicated Senior Official/Chief negotiator and 3.0 full-time equivalent (FTE) of staff resource. It is also relying on expertise of other staff from within and outside the Ministry. More resources might be needed depending on the complexity of negotiations as they evolve.

Given that the texts under negotiations (included the closed text on Pillar 2) are not publicly available, it is difficult to comment on possible content-related negotiation issues. Review of the submissions received by the Government in June 2022 reflects that stakeholders share concerns about the absence of market access negotiation with the US. This is regarded as a lost opportunity not so much for the domestic exporters but for the US to unambiguously show its economic commitment to Asia and the Pacific. At the same time, the IPEF provides the opportunity to steer negotiation towards binding rules on at least some of the NTMs.[36]

Digital economy is part of the Trade pillar. This is the only pillar where negotiations are led by the Office of the United States Trade Representative (USTR) (as opposed to the Department of Commerce for the other three pillars). The Singapore Round of negotiations held in May 2023 was reportedly expected to discuss the text on the digital economy. However, there was no agreement among the countries on how to proceed after the developing countries refused to endorse the proposed text for further negotiations.[37] From the point of view of one stakeholder in New Zealand, if the proposed text would follow the CPTPP chapter on e-commerce, then it might be a potential problem for New Zealand as it would constitute a breach of state obligations to *Te Tiriti o Waitangi* / Treaty of Waitangi.[38] The impacts that are deduced on the CPTPP text, other US agreements[39] and further consultations would be in a form of a closure of policy space and options, implicit preference to big-tech companies, perpetuation of profiling and the biases through allowing secrecy of codes, and transparency rules that empower big tech and the lobbies, preventing change in laws.[40]

---

34 "IPEF Treatment of Documents Related to Negotiations", United States Trade Representative, 13 April 2022, https://ustr.gov/sites/default/files/foia/US-New%20Zealand%20Signed%20IPEF%20Confidentiality%20Arrangement_04132022.pdf

35 MFAT, Estimates 2022-23, Post-Hearing Questions (209-217), Vote Foreign Affairs

36 "IPEF Public Submissions Summary - June 2022", Ministry of Foreign Affairs and Trade, June 2022, https://www.mfat.govt.nz/assets/Trade-agreements/IPEF/IPEF-Summary-of-Written-Public-Submissions-June-2022.pdf

37 Su-Lin Tan, "Disagreements between US, Asian nations complicate IPEF negotiations", *South China Morning Post*, 23 May 2023, https://www.scmp.com/week-asia/economics/article/3221547/disagreements-between-us-asian-nations-complicate-ipef-negotiations

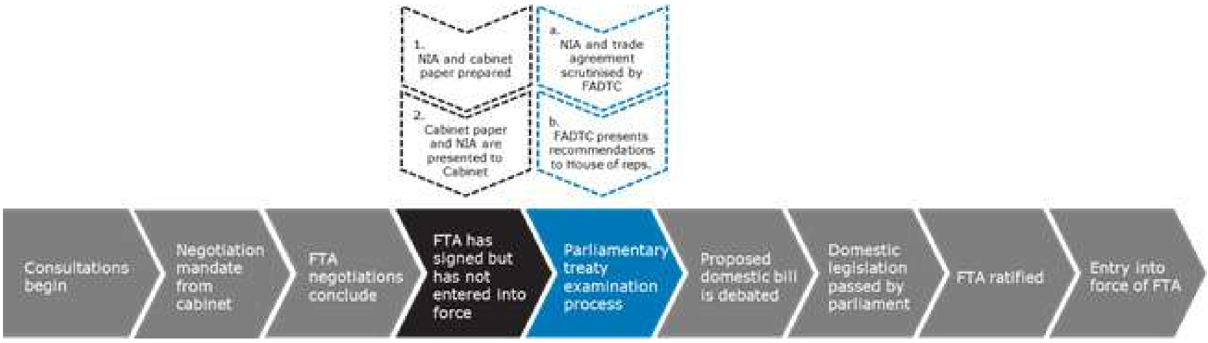
38 "The Treaty in brief", New Zealand History – Ministry for Culture and Heritage, https://nzhistory.govt.nz/politics/treaty/the-treaty-in-brief; Ngā Toki Whakarururanga, "Briefing Paper on Digital Sovereignty and Governance," IPEF – Singapore Round, May 2023, https://static1.squarespace.com/static/62d0af606076367ebf83b878/t/6455ef867c527350f5c68e4e/1683353482072/NTW+IPEF+Digital+paper+3+May+2023.pdf

39 *Ibid*.

40 *Ibid*.

Among the implementation issues, most arise due to uncertain political circumstances in the US. However, even if the CPTPP history repeats itself and the US withdraws from the IPEF process after 2024, there are advantages to engaging in this process, including providing smaller countries with additional confidence for pushing their trade agenda forward. There also might be some lack of clarity on the ratification process of the completed agreements; at present, only Pillar 2 on the Supply Chains falls into this category. There is a set process in New Zealand before the trade agreement, after signing, is ratified and put into force (Figure 4). Concerns arise because this process is designed for trade agreements ("multilateral or major bilateral treaty of particular significance"[41]). However, since the IPEF is not being treated as a trade agreement, it is unclear if this process would apply. The Minister of Foreign Affairs has the discretion to decide which agreements need to go through this scrutiny.

Figure 4: **Scrutiny process before trade agreements is enforced**




**Source**: MFAT, Trade Engagement

**Notes**:
NIA – National Interest Analysis
FADTC – Foreign Affairs Defence and Trade Committee

## Concluding caveats

With the adoption of a new approach to trade based on Trade for All, Trade Recovery 2.0 and ITP8, New Zealand has begun transforming its economy from volume-based to value-based, that is, by creating more productive companies with higher value jobs and higher incomes, based on sustainability principles that can result in a better quality of life for New Zealanders.[42] Trade remains vital in this process as one in four New Zealanders' jobs (and one in three Māoris') depend on exports and trade is considered the critical enabler of post-COVID-19 recovery and decarbonisation.

Obstacles facing New Zealand exporters in the global market are more from NTMs than tariffs. These are being faced increasingly in the form of subsidies and export restrictions, labour and environmental regulations and other behind-the-border destination country regulations. It is just a matter of time before new instruments for addressing climate change, digital economy and

41 "International Treaty Making", ISBN: 978-0-477-10258-2, Ministry of Foreign Affairs and Trade, September 2021, p.5, https://www.mfat.govt.nz/assets/About-us-Corporate/Treaties-Model-instruments/International-Treaty-Making-Guide-2021.pdf

42 Tim Green, "Moving from volume to value: how do we make it happen", *New Zealand Trade and Enterprise*, 16 August 2021, https://www.nzte.govt.nz/blog/moving-from-volume-to-value-how-do-we-make-it-happen

labour markets come up. It is troubling to visualise that these instruments might be motivated more by a somewhat fuzzy concept of national security rather than economic factors.

As a small and trade-reliant economy, New Zealand rightly understands the importance of having a seat at the table where these new rules will be created. It remains a strong supporter of multilateral trading rules and contributes proactively to their modernisation. It also uses the architectures of its bilateral and plurilateral trade agreements and the new arrangements and initiatives (in areas of gender equality, fossil fuel subsidies, environmental services, and digital economy, to name some) for shared and sustainable prosperity.

The IPEF has the opportunity of working with a subset of WTO members, most of whom are interested in finding solutions to new problems in the post-COVID-19 world. As experienced in the APEC process, new policy options and rules take time to finetune and are thus adopted by countries on a voluntary basis, almost as a learning-by-doing. The IPEF has the potential to serve as a laboratory for yet untested approaches for building resilience while promoting diversification, inclusivity and sustainable growth. The key to its success will be in its willingness to allow positive spillover effects from its new regulatory solutions to reach the developing and developed countries outside the Framework. If successful in this, it just might be a new dynamo both regionally and globally.

## About the author

**Dr Mia MIKIC** is a Research Fellow at Waikato University, New Zealand, and Advisor at Large, at the Asia-Pacific Research and Training Network on Trade (ARTNeT). She is a trade economist with a keen interest in sustainable development and has a proven track record and experience in academia and international civil service. She coordinated the ARTNeT from 2009 to 2021. She also served as a Director of Trade, Investment and Innovation Division at the UNESCAP.

Prior to her United Nations tenure, Dr Mikic was the Head of the Department of Economic Theory, Professor of International Economics and Director of Economic and Business International Program at the University of Zagreb, and Senior Lecturer at the University of Auckland. She is the author of a number of reports and papers and has edited or co-edited several volumes on international economics, regional integration and development. She also oversaw the preparation of the Asia-Pacific Trade and Investment Report (APTIR), a flagship publication in the area of trade and investment.

Dr Mikic's current research and advisory work focus on the impact of the COVID-19 pandemic on trade and global value chains, frontier technologies and inclusive future of work, advocating for women as influencers in policymaking, services trade, and promotion of evidence-based policymaking. She is collaborating with several universities on modernising trade curricula. She has a Doctorate in Economics from the University of Zagreb.

# Analysis of the Indo-Pacific Economic Framework for Prosperity for Fiji

Radika KUMAR

This paper discusses the implications of Indo-Pacific Economic Framework for Prosperity (IPEF) for Fiji. The members of the IPEF are at different stages of development and thus the welfare gains from the framework would vary between countries. Fiji is among the smallest economies in the IPEF and stands to gain market opportunities for trade and investment through integration with Asia and the United States (US). However, realising these benefits necessitates substantial reforms. The IPEF offers potential market access, but Fiji's private sector must comply with regulatory requirements to trade effectively. Consequently, Fiji needs technical and financial assistance for these reforms. A key recommendation is for Fiji to strengthen or propose an overarching IPEF development chapter with specific assistance areas across the Trade, Supply Chains, Clean Economy, and Fair Economy Pillars. This assistance should supplement existing aid from developed countries. If Fiji volunteers under all four Pillars, it must request an action plan for assistance provision over time from the developed IPEF members.

## Introduction

In May 2022,[1] the United States (US) initiated the Indo-Pacific Economic Framework for Prosperity (IPEF) in collaboration with 13 countries – Australia, Brunei Darussalam, Fiji, India, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and Vietnam. The framework aims to bolster the resilience, sustainability, inclusiveness, economic growth, fairness, and competitiveness of the economies.

The primary objective of the IPEF is to foster cooperation, stability, prosperity, development, and peace within the region. It is noteworthy that the 14 IPEF partners collectively account for 40 per cent of global Gross Domestic Product (GDP) and 28 per cent of the global goods and services trade.

The members of the IPEF are at different stages of development and as a result the benefits accrued from the partnership would vary among countries. This paper therefore provides an analysis of the implication of the IPEF on developing countries with a focus on Fiji. The rest of the paper is as follows: Section I of the paper provides an overview of the Fijian economy and international trade, Section II of the paper provides an assessment of Fiji's integration with IPEF members using UN Comtrade and the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) Regional Integration Value Chain Analysis (RIVA) database. Section III of the paper discusses the implications of the different pillars of the IPEF on Fiji and the final section concludes the paper with recommendations.

## The Fijian Economy and International Trade

Fiji is a small island state located in the Pacific region. It has a limited export base and is highly dependent on imports, including fuel. The island's distance from major markets also raises the cost of doing business and access to markets. Additionally, it has a limited commodity and services base. The major exports of Fiji include agriculture products, fisheries, and travel and tourism. According to the Fijian Trade Policy,[2] with a population of 884,887[3] Fiji is classified as a middle-income country and operates as an open economy. The country's real gross domestic product (RGDP) per capita is FJ$6,246.22 (US$2864.88).

After gaining independence in 1970, Fiji implemented several new economic policies. Initially, during 1970-late 1980s, economic policies focused on import-substitution, self-sufficiency, and included significant government involvement in the business sector. The period witnessed robust growth followed by a prolonged phase of low average growth. From late 1980s, Fiji transitioned to a more market-oriented approach, emphasising trade liberalisation, deregulation, investment promotion, and an increased role for the private sector. To continue fostering an efficient and outward-looking economy, it is crucial to reduce or eliminate well-established interventions such as tariffs, tax and customs exemptions, and incentives. Given this, the ongoing commitment to these reforms is essential for Fiji's economic development. In this vein, participating in the IPEF

1 "Indo-Pacific Economic Framework for Prosperity (IPEF)", Office of the United States Trade Representative, https://ustr.gov/trade-agreements/agreements-under-negotiation/indo-pacific-economic-framework-prosperity-ipef

2 "Fijian Trade Policy Framework (2015-2025)", Ministry of Industry, Trade and Tourism – Republic of Fiji, July 2015, https://www.mitt.gov.fj/wp-content/uploads/2018/10/Fijian-Trade-Policy-Framework-min.pdf

3 "Census of Population and Housing", Fiji Bureau of Statistics, 2017, https://www.statsfiji.gov.fj/statistics/207-census-of-population-and-housing.html

and expanding its market potential will contribute to the ongoing reform agenda for Fiji. Fiji has been a member of the World Trade Organization (WTO) since 1996. It is part of a major grouping of the small vulnerable economies and the African, Caribbean Group, which share similar trade and economic challenges.

Fiji is part of regional and sub-regional trade agreements, including the Pacific Agreement on Closer Economic Relations (PACER Plus)[4] with Australia, New Zealand and the Pacific. The PACER Plus comprises trade in goods, services, investment, sanitary and phytosanitary (SPS) measures, technical barriers to trade (TBT), labour mobility, and economic and development chapters. Furthermore, among the small states of the Pacific, Fiji is also a member of the Pacific Island Countries Trade Agreement (PICTA)[5] Trade in Goods agreement, which aims to provide duty-free and quota-free market access to goods traded among the 12 small states of the Pacific region, excluding Australia and New Zealand. Apart from these, Fiji has signed and ratified the Economic Partnership Agreement (EPA) with the European Union (EU) which aims to ensure duty-free and quota-free access to goods into the EU market.[6]

At the sub-regional level, Fiji is a signatory to the Melanesian Spearhead Group Trade Agreement (MSGTA) among the four members of the Melanesia group, comprising Papua New Guinea, Vanuatu and Solomon Islands.[7] Fiji is also a beneficiary of the South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA) with Australia and the US' Generalized System of Preferences (GSP) scheme.[8] Radika Kumar

Based on the IMF's *Direction of Trade Statistics* database,[9] Fiji typically exports nearly US$1 billion annually, with the US purchasing around 20 – 25 per cent of the total exports. The primary export from Fiji to the US is drinking water, commonly sold under the brand 'Fiji Water'. Australia and New Zealand also form a significant market for Fijian goods, along with other Pacific islands. Fiji's major exports to New Zealand include textile clothing, taro, pharmaceutical products and kava while its exports to Australia include clothing and textiles, gold, and agricultural produce.[10]

4 "Pacific Agreement on Closer Economic Relations Plus", Australian Government – Department of Foreign Affairs and Trade, https://www.dfat.gov.au/trade/agreements/in-force/pacer/pacific-agreement-on-closer-economic-relations-plus

5 "Regional Trade Development and Integration", Pacific Islands Forum, https://www.forumsec.org/regional-trade-agreements/

6 *Ibid*.

7 "Excelling together towards a progressive and prosperous Melanesia", Melanesian Spearhead Group, https://msgsec.info/about-msg/

8 The GSP scheme includes 13 Pacific countries accounting for over 10 per cent of all 119 current GSP beneficiary countries; the GSP imports from the group is low comprising of US$10 million to US$20 million over the last decade. Also see "SPARTECA (South Pacific Regional Trade and Economic Cooperation Agreement)", Investment Policy Hub – United Nations Conference on Trade and Development (UNCTAD), https://investmentpolicy.unctad.org/international-investment-agreements/groupings/1/sparteca-south-pacific-regional-trade-and-economic-cooperation-agreement-

9 Ed Gresser, "Pacific Islands Trade: Options for U.S. Policy", The Progressive Policy Institute, 14 February 2023, https://www.progressivepolicy.org/publication/pacific-islands-trade-options-for-u-s-policy/#:~:text=Thirteen%20of%20these%20are%20GSP,Vanuatu%2C%20and%20Wallis%20and%20Futuna.

10 "Exporting to New Zealand", Fiji Consulate General & Trade Commission – Australia & New Zealand, https://www.investinfiji.today/exporting-to-new-zealand/;

"Exporting to Australia", Fiji Consulate General & Trade Commission – Australia & New Zealand, https://www.investinfiji.today/exporting-to-australia/

Fiji has achieved success as a beneficiary of the GSP in exporting processed foods and certain agricultural products.[11]

Fiji's fisheries industry is also substantial, including fish processing plants. Fijian officials have expressed interest in making canned tuna eligible for GSP benefits, as it currently faces high US Most Favoured Nation (MFN) tariffs, reaching up to 35 per cent. While canned tuna already qualifies for the GSP program for least-developed countries, expanding its eligibility to all beneficiary countries has been politically sensitive due to the significance of tuna cannery employment in American Samoa. Additionally, including canned tuna in the GSP without ensuring preferential benefits for Pacific Island countries might yield limited results, as larger producers like Thailand and the Philippines would also qualify and may be preferred sources due to lower costs.

In 2022, Fiji exported US$815.34 million to the world with top destinations being the US (20.51 per cent), Australia (16.51 per cent) and New Zealand (8.23 per cent). With respect to imports, Fiji imported US$2.12 billion from the world with top sources being Singapore (17.07 per cent), Australia (16.09 per cent) and China (15.04 per cent).[12]

The IPEF is a unique partnership deal for Fiji as it comprises its major export and import destination markets along with new and emerging markets such as India, Indonesia and other Asian countries, providing Fiji with opportunities for greater market access.

## Section II: Analysis of Fiji's Integration with IPEF Members

This section analyses Fiji's integration with the IPEF members using  data from the UN Comtrade database and the ESCAP RIVA database.[13] The analysis focuses on Fiji's integration levels in trade and investment, value chain, infrastructure and connectivity.

### Major Export and Import Destinations of Fiji

The US, Australia and New Zealand constitute more than 40 per cent of Fiji's exports (Figure 1). In 2021, Fiji's exports to the US stood at 20.5 per cent, Australia 16.5 per cent and New Zealand at 5.7 per cent. Other markets for Fiji included Asia (Japan and China) and the Pacific Island countries. It is interesting that Fiji's exports to China[14] were around 5.7 per cent, despite China having a major geopolitical presence in the region. China has heavily supported infrastructure development in Fiji and other countries in the Pacific. In the context of the IPEF, however, while China is not a major exporter in goods, it may still have an influence in services and other related trade aspects. Within the IPEF membership, three of the IPEF members are major export destinations for Fiji, the agreement may yield further benefits for the country, depending on the final deal of the agreement.

Fiji also has the potential to deepen its trade integration with its major exporting partners. Despite

11 Notably, these include above-quota cane sugar (1.46 cents/kg), fresh and chilled taro (2.3 per cent Most Favoured Nation [MFN] tariff), candied and sushi-quality ginger (2.4 per cent MFN tariff), bakery products (4.5 per cent MFN tariff), and canned fish product (6.0 per cent). GSP imports from Fiji to the US typically range between US$10 million and US$20 million per year, accounting for approximately 5 – 10 per cent of Fiji's total exports to the US.

12 Note: Data is from UN World Trade but analysed in Trade Intelligence Negotiations Adviser (TINA) portal.

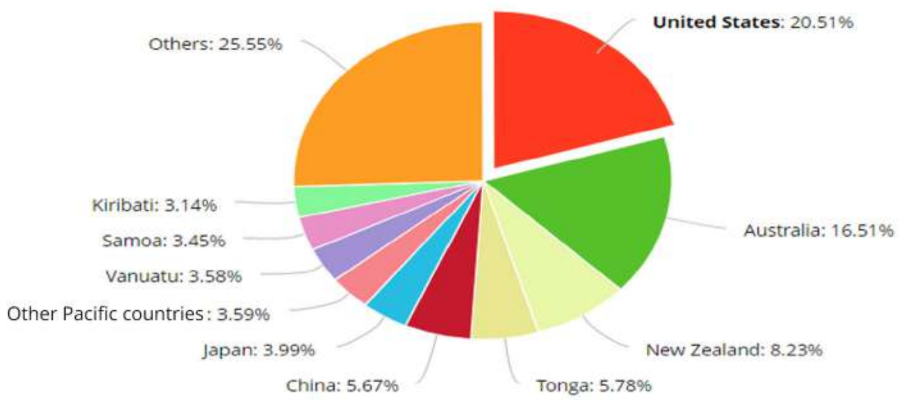
13 "Regional Integration and Value Chain Analyzer (RIVA)", UN Economic and Social Commission for Asia and the Pacific (UNESCAP), https://riva.negotiatetrade.org/#/

14 *Ibid*.

Fiji negotiating the PACER Plus with Australia and New Zealand, it has only been signed and not been ratified so far. As such, through the IPEF, Fiji may have the potential to access the Australian and New Zealand markets without the PACER Plus. Furthermore, securing a bilateral Free Trade Agreement (FTA) with the US may be an arduous and prolonged process. The USA GSP scheme has stringent rules for Fiji to export, so despite the agreement in place it is not that effective. The requirements for GSP plus is burdensome to have market access. Fiji is a small country and does not have the capacity like Asia does to compete in US GSP. So the IPEF gives a level of comfort in market access if negotiated well.

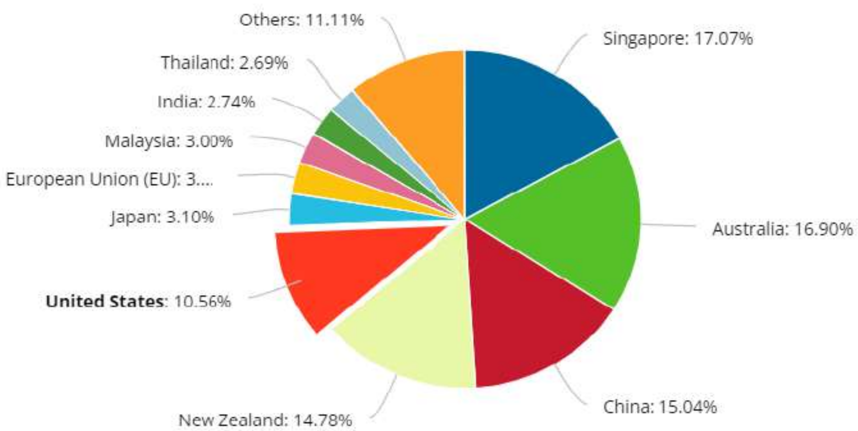
Figure 2 analyses Fiji's major import destination for 2021. Singapore, Australia, China, New Zealand and the US are major importing countries constituting more than 70 per cent of imports. Singapore, Australia and China are the top three importing countries. Other countries include Thailand, India, Malaysia, the EU and Japan. With China being one of the major importing destinations for Fiji, the IPEF may create a shift in Fiji's import markets. Depending on the negotiations, other countries in Asia, including India, may be able to substitute some of the imports from China. The IPEF may create import diversification opportunities for Fiji.

**Figure 1:** Major Export Destinations of Fiji




**Source**: UN Comtrade

**Figure 2:** Major Import Sources of Fiji

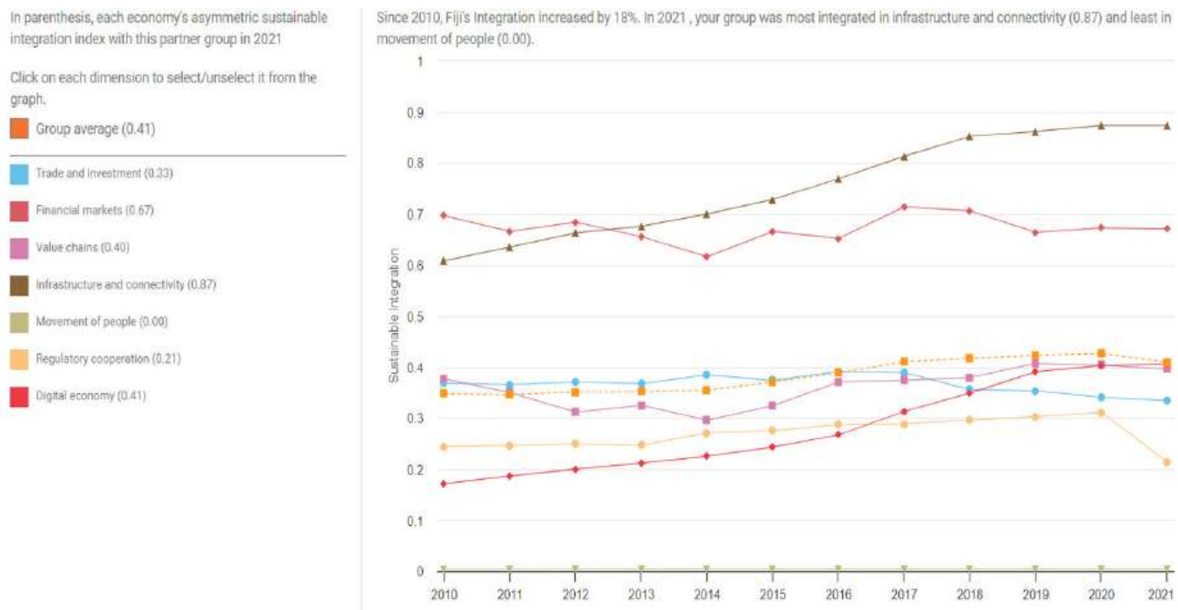



**Source:** UN Comtrade

### Trade and Investment Integration for Fiji

The data from the ESCAP RIVA database[15] assesses the current level of trade and investment integration of Fiji with IPEF members (refer to Figure 3). In comparison to 2010, Fiji's integration with the IPEF members has increased by 18 per cent. However, the depth of integration varies across the different indicators. The current levels of Fiji's integration are highest in connectivity and the financial sector, followed by digital economy, trade and regulatory cooperation (Figure 3). While there has been an improvement in integration across different variables, there are opportunities for deeper integration.

**Figure 3:** Trade and Investment Integration for Fiji with IPEF Members Excluding the US



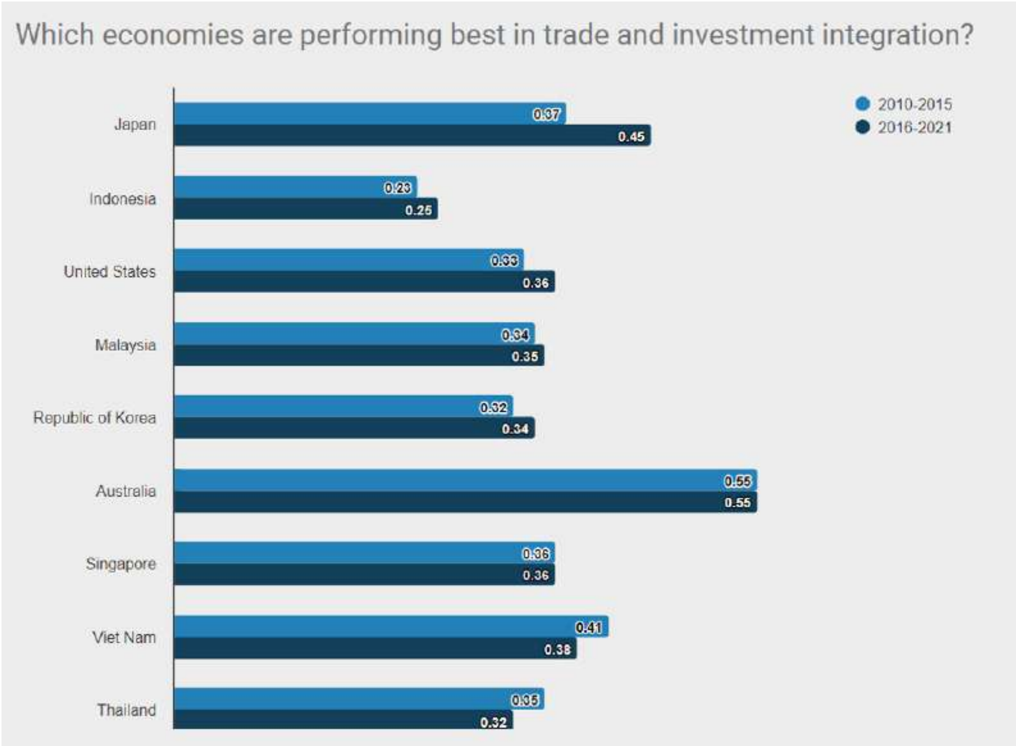

**Source**: RIVA database

### Performance of IPEF Members on Trade and Investment

Figure 4 shows the economic performance in relation to trade and investment for IPEF member countries. In comparison to the period of 2010 - 15 and that of 2016 - 21, Australia, Japan, Singapore, the US, Malaysia and Indonesia have expanded integration, while Vietnam and Thailand have contracted trade and investment integration. The IPEF may provide an option for Fiji to expand its integration level with IPEF members.

15 *Ibid*.

**Figure 4:** IPEF Members' Performance in Trade and Investment

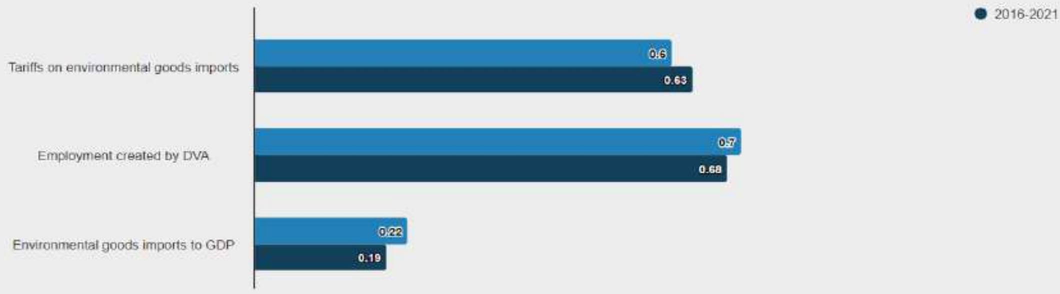



**Source**: RIVA database

**Figure 5:** Fiji's Trade and Investment Integration

From 2010-2015 to 2016-2021, your reporter group's integration with your partner group in Trade and investment dimension decreased by 0.00 from 0.01 to 0.01. Environmental goods exports to GDP ( -0.00 ) progressed the most. Environmental goods imports to GDP (-0.03) progressed the least.

Click on any indicator to breakdown performance by individual economies.



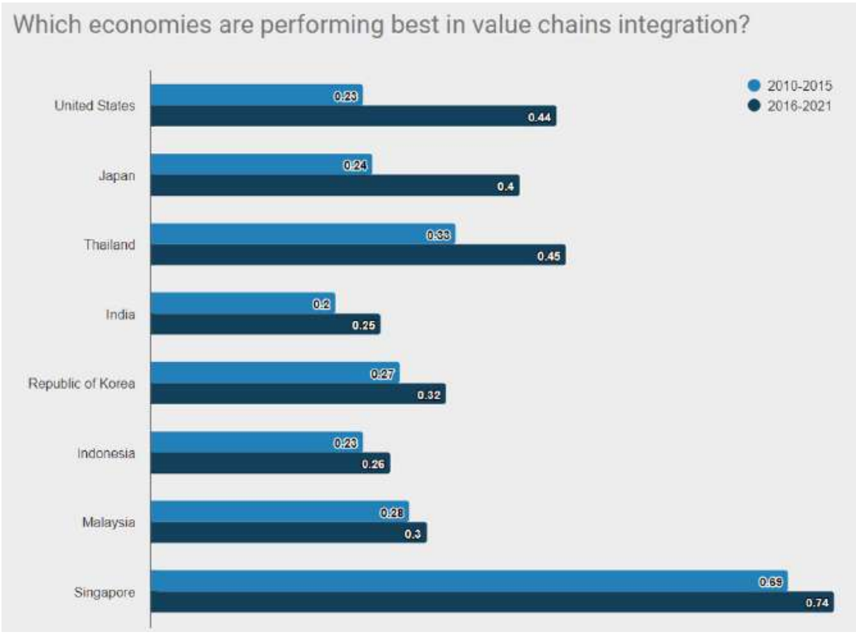

| Indicator name | Maximum (score = 1) | Minimum (score = 0) | Unit of measurement |
|---|---|---|---|
| Environmental goods exports to GDP | ≥ 0.44% | 0% | Percentage |
| Environmental goods imports to GDP | ≥ 0.8% | 0% | Percentage |
| Tariffs on environmental goods imports | 0.00% | ≥ 20.31% | Percentage (symmetric) |
| Employment created by DVA | 96.22% | ≤ 36.9% | Percentage |

**Source:** RIVA database

### Performance of IPEF Members on Value Chain Integration

Figure 6 depicts the value chain integration levels between 2010 - 15 and 2016 - 21. At the aggregate level, the value chain integration index for all the IPEF members has improved between the periods. Singapore and the US are leading in the value chain integration, with the US demonstrating the most substantial improvement. The rest of the IPEF members have different levels of value chain integration developments. The IPEF may benefit countries to integrate further. However, this would depend on the provisions of the supply chain agreements.

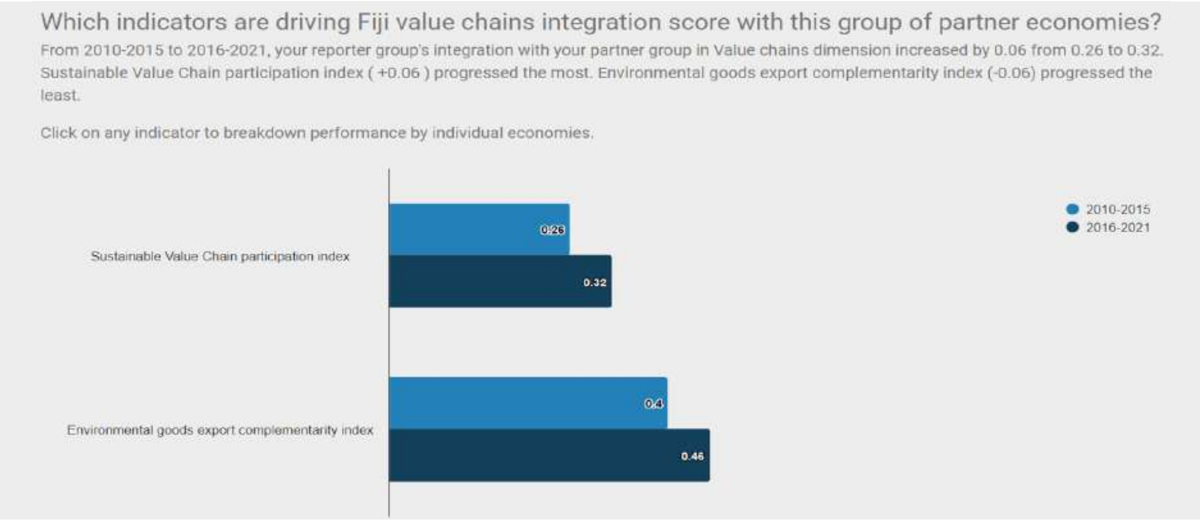
**Figure 6:** Value Chain Integration of IPEF Members




**Source**: RIVA database

Figure 7 provides some evidence of Fiji's sustainable value chain participation index with IPEF members. Over the same period, Fiji's participation has improved from 0.26 - 0.32, an increase of 0.06. As such, the IPEF may provide further potential for Fiji to enhance its value chain integration competitiveness and diversification.

**Figure 7:** Fiji's Value Chain Integration with IPEF Members

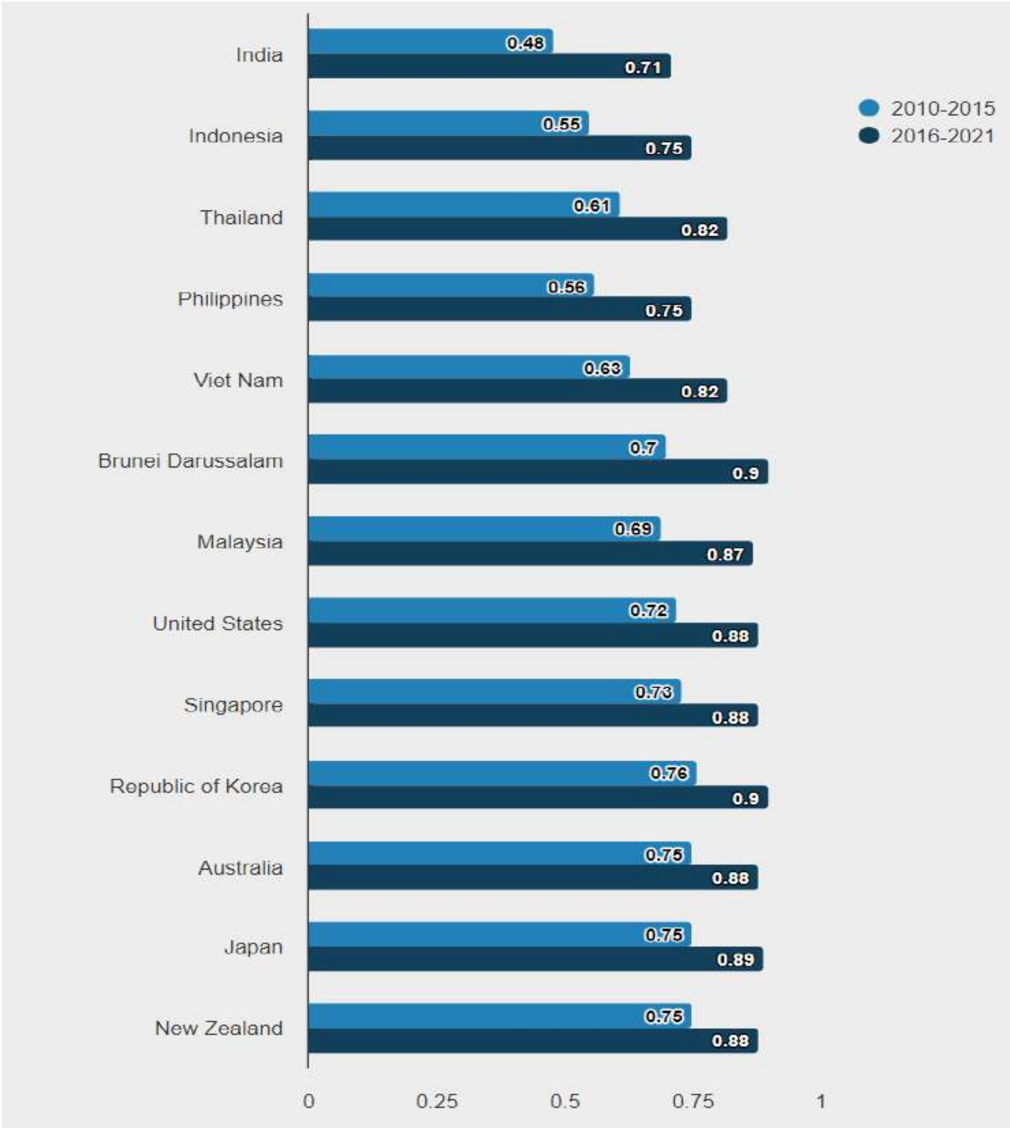



**Source**: RIVA database

### Performance of IPEF Members on Infrastructure and Connectivity Integration

Figure 8 depicts the infrastructure and connectivity integration for IPEF members between the period 2010 - 15 and 2016 - 21. Between the two periods, the IPEF members have improved their infrastructure and connectivity integration with South Korea, Singapore, Japan, the US, Australia, New Zealand, Vietnam, and Thailand with index score of 0.8 and above between 2016 - 21. Other economies like India and Indonesia have also made substantial progress with scores of 0.71 and 0.75 respectively.

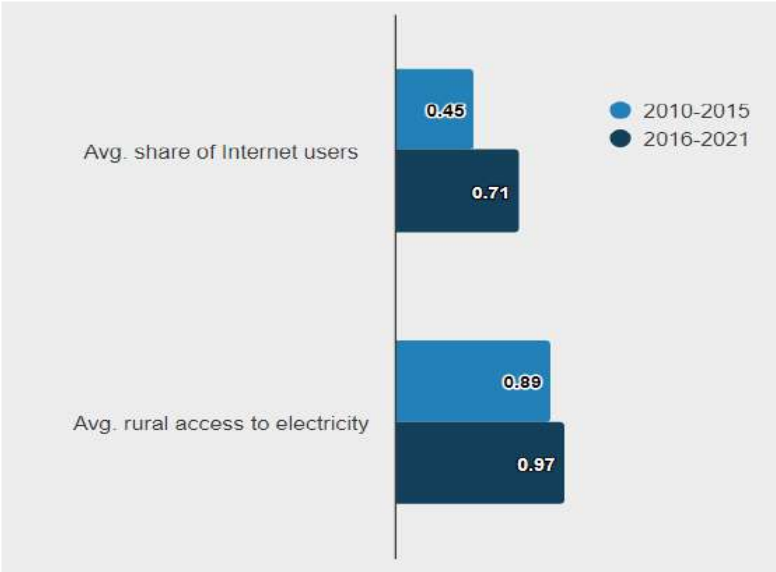
**Figure 8:** Infrastructure and Connectivity Integration




**Source**: RIVA database

Figure 9 shows Fiji's integration on infrastructure and connectivity over the same period as well. In terms of average rural access to electricity and internet Fiji has also improved in the areas. It is therefore indicative that for IPEF integration, Fiji has the potential to integrate with the rest of the members and benefit from market access and supply chain integration. This, however, would be contingent upon the scope and depth of the finalised text.

**Figure 9:** Fiji's Infrastructure and Connectivity Integration




**Source**: RIVA database

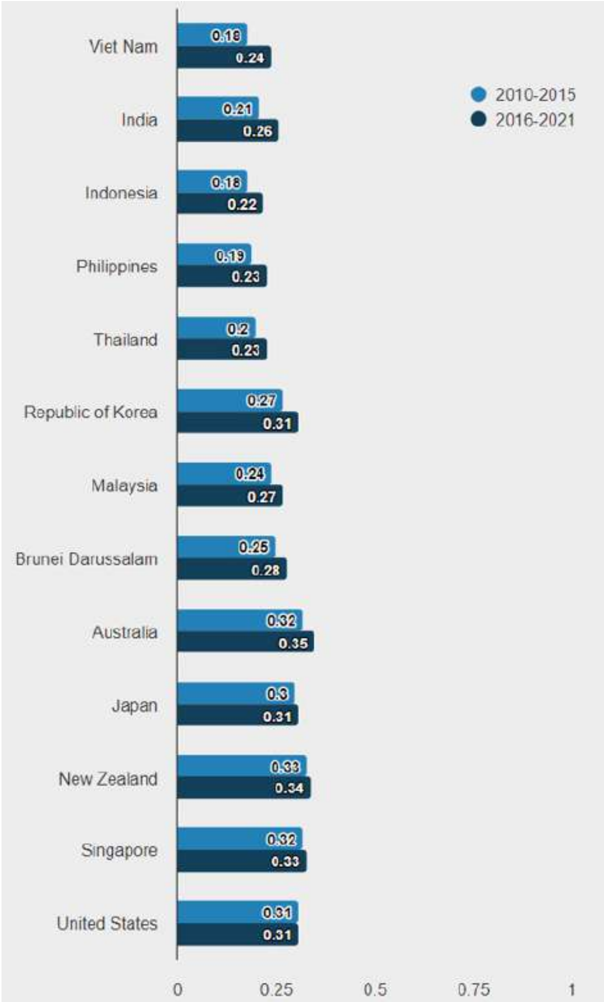
### Performance of IPEF Members on Regulatory Connectivity[16]

Figure 10 depicts the regulatory connectivity among the IPEF members. Within the IPEF members, this index has been the lowest in comparison with the other areas. Regulatory reforms usually require political and legal will to be implemented. During the periods 2010 - 15 and 2016 - 21, Australia, South Korea, New Zealand, Singapore and the US have been leading. Figure 11 shows Fiji's Regulatory Connectivity Integration. In comparison to other IPEF members, Fiji's performance on regulatory connectivity is better, with an index score of 0.57 during the time period 2016 - 21. Overall, the IPEF may provide additional opportunities for further regulatory coherence and reforms for the countries.

16 Regulatory connectivity is one of the seven indicators of regional integration dimensions from the RIVA database. It comprises of sustainable FTA scores, average rule of law index, SDG trade and regulatory distance from partners and average IIA score.

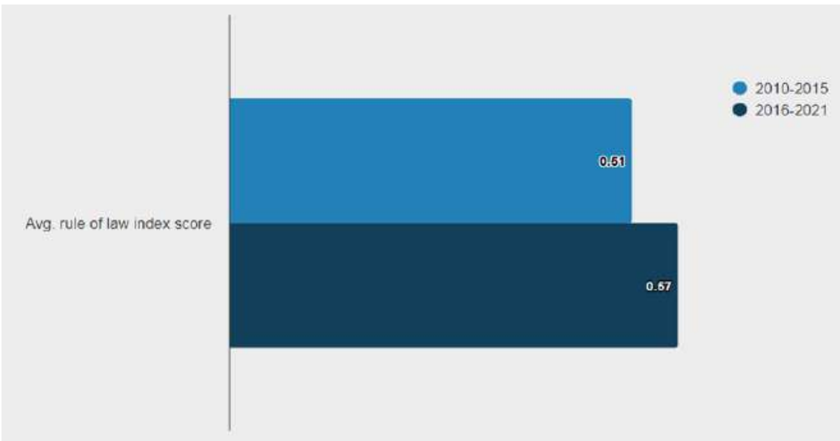
See "Regional Integration Analyzer", UN Economic and Social Commission for Asia and the Pacific, https://riva.negotiatetrade.org/#/rioverview

**Figure 10:** Regulatory Connectivity Integration




**Source**: RIVA database

**Figure 11:** Fiji's Regulatory Connectivity Integration

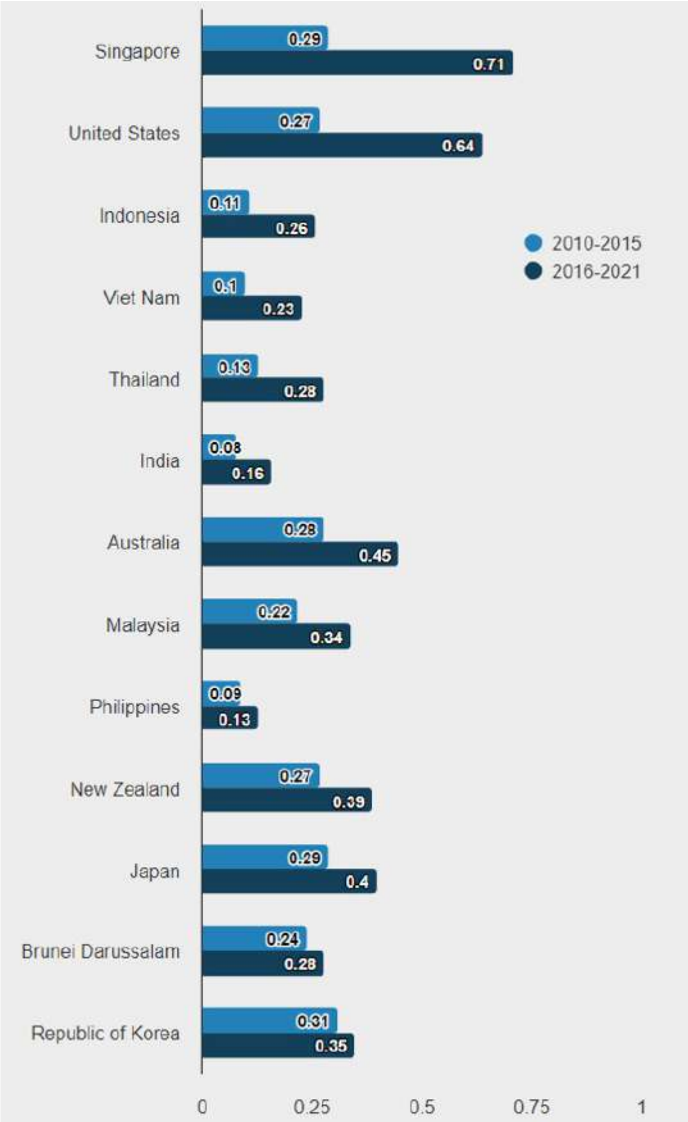



**Source**: RIVA database

## Digital Economy Integration

Figure 12 depicts the digital economy integration of the IPEF members. Within the periods 2010 - 15 and 2016 - 21, Singapore and the US are the most integrated in the digital economy with index scores of 0.71 and 0.64 respectively. The rest of the IPEF members have on average integrated at a slower pace in the digital economy than the rest, with mean scores at 0.4 during 2016 - 21.

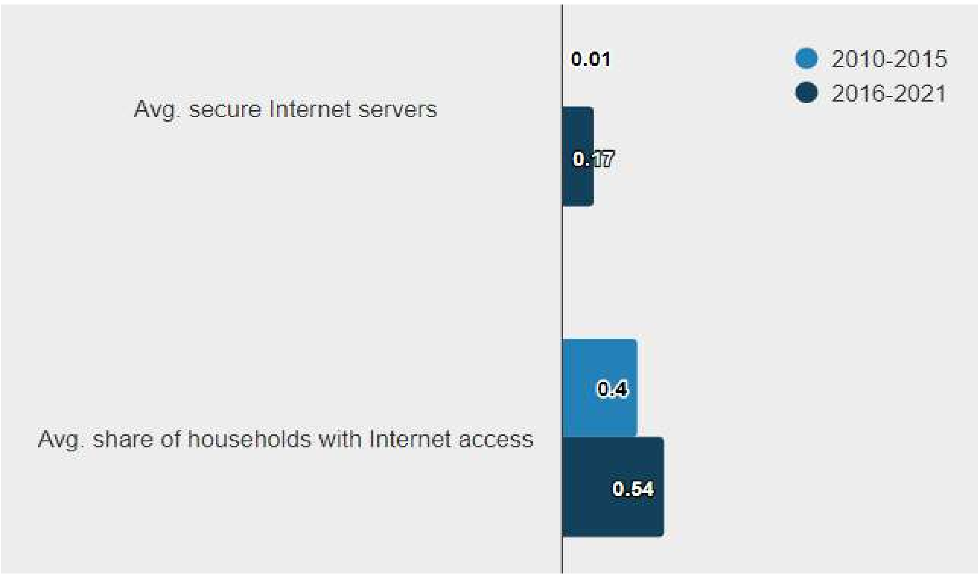
**Figure 12:** IPEF Members Digital Economy Integration




**Source**: RIVA database

Figure 13 provides the specific situation for Fiji on digital economy integration. Fiji's integration into the digital economy is low, based on access to secure internet and average access to internet per household with scores of 0.17 and 0.54 respectively. The IPEF may provide opportunities for further integration. However, it will depend on the trajectory of discussions over the coming months on this subject.

**Figure 13:** Fiji's Digital Economy Integration




**Source**: RIVA database

## Section III: Implications of the IPEF for Fiji

### The Supply Chain Agreement

The Supply Chain Agreement of the IPEF is considered to be the world's first multilateral supply chain agreement.[17] It aims to develop resilient and competitive supply chains and establish a framework for lasting cooperation on issues including workforce development, supply chain monitoring and investment promotion.

Along with the Supply Chain Agreement, the members have committed to several initiatives including digital shipping pilot projects, including one with the Port of Singapore;[18] expansion of the US Customs Trade Partnership Against Terrorism (CTPAT) program in the Indo-Pacific,[19] an IPEF Science, Technology, Engineering, and Mathematics (STEM) Exchange Program, and additional trainings, symposiums, and two-way trade missions with IPEF partners. Beyond these specific measures, the US also hopes to grow public and private sector engagement and investment in the region. In return, the US hopes that the IPEF Supply Chain Agreement will better position IPEF partners to reshape their supply chains to meet US interests, including resilience and competitiveness, in line with the broader US 'friend-shoring' agenda that incentivises supply chain reshuffling to countries that do not pose a national security threat.

17 Aidan Arasasingham, Emily Benson, Matthew P. Goodman and William Alan Reinsch, "Assessing IPEF's New Supply Chains Agreement", *Center for Strategic & International Studies*, 31 May 2023, https://www.csis.org/analysis/assessing-ipefs-new-supply-chains-agreement

18 *Ibid*.

19 The digital shipping pilot project links to trade facilitation and digital trade in IPEF. The US Customs Trade Partnership is a way to shift the power dynamics back to USA and to an extent what IPEF aims to achieve too.

### Implications of the Supply Chain Agreement for Fiji

In relation to value chain integration, the IPEF members are at different stages of development and integration. Fiji also has the potential to integrate with the members of the IPEF through this agreement. However, the degree of trade creation and trade diversion would depend on the level of trade between Fiji and the rest of the IPEF members. Fiji's major trading partners include Australia, New Zealand, the US and China. Though the former three economies are members of the IPEF, China is not a member.

The IPEF also has stringent structures in place to ensure the integration of members into the supply chain. Fiji, being a small economy with limited resources and capacity, may need to be cautious about the implementation of the agreement. For example, information in relation to the action plan for the Supply Chain Council is not yet clear. The action plan implementation would have a burden on the private sector if resources were not sufficiently allocated. The Supply Chain Response Network has merits given the COVID-19 pandemic during which Fiji as well as the rest of the world encountered major disruptions in supply chains, especially for essential goods. While the response mechanism laid down by the IPEF aims to address such disruptions, the coordination mechanism needs to be clearly outlined for ease of implementation.

At the regional level, Fiji has negotiated the PACER Plus with Australia and New Zealand. However, it has not ratified the agreement to date. The PACER Plus agreement does not have a strong linkage on trade and labour issues within the Agreement, whereas the IPEF has. As such, the cost and benefit for Fiji in relation to the compliance on labour laws within the supply chain will determine the level of success under the IPEF with its trading partners. Given that China is not part of the IPEF, Fiji may need to carefully consider the ways in which its exports from value added products would be integrated into the IPEF supply chain and whether it would meet the rules of origin requirements. Fiji imports raw materials from the rest of the world to process and export final goods to Australia and New Zealand and the rest of the world, particularly for textile and clothing. If the supply chain requirements become stringent and constrains Fiji from importing raw materials from China, then it will affect the local cost of production, as importing from China is cheaper.

At the multilateral level, Fiji is a member of the WTO since 1996. At the 1st WTO Ministerial Conference in Singapore in December 1996, in relation to issues surrounding labour rights within supply chains of partner countries, ministers renewed the commitment to observe internationally recognised core labour standards.[20] Labour rights issues are critical for any country and must be upheld. The IPEF members, including Fiji, recognise this, which is a positive step towards fair and equitable trade. However, in tandem, it should also ensure that these are not deemed as disguised restrictions on trade. For Fiji, in finalising the agreement on supply chains, it must request for a strong mechanism for capacity building and technical assistance in order to ensure that its private sector is in a position to comply with the required labour standards. Such reforms may take time. However, if they are progressively achieved, it could provide Fiji with the competitive advantage in relation to fair and sustainable trade. As such technical assistance and capacity building must be part of the text with a clearly stated work programme for implementation.

20 "Singapore Ministerial Declaration", World Trade Organization, 13 December 1996, https://www.wto.org/english/thewto_e/minist_e/min96_e/wtodec_e.htm

### Implications of the Trade Pillar for Fiji

The Trade Pillar of the IPEF intends to negotiate provisions addressing labour, environment, competition policy, agriculture, transparency, digital economy and emerging technology, trade facilitation, good regulatory practices, gender, indigenous populations, and development and economic cooperation. The Trade Pillar will be one of the most comprehensive frameworks should members decide to have an outcome on all these areas. But integrating these issue into a trade agreement framework may have its own implications; it would depend on the scope and depth of the agreement.

As it stands, it is deemed that the IPEF negotiators have high ambition in these areas. The framework reflects the consolidation of new and existing issues at the WTO with varying interests among developed and developing countries. For example, on trade and labour, members in the IPEF aim to achieve high-standard commitments that benefit workers, including those related to implementing and enforcing internationally recognised labour rights, corporate accountability in cases of labour law violations, public engagement and cooperative mechanisms on emerging labour issues, including with respect to workers in the digital economy. At the WTO, for example, in the fisheries subsidy agreement, the US had a previous proposal on forced labour.[21] However, certain members were of the view, that though the labour issues are critical to address, these must be done so in the relevant forum of the International Labour Organization (ILO).

In relation to environmental issues within the Trade Pillar, the aim is to achieve trade-related commitments that meaningfully contribute to environmental protection and effective responses to common sustainability challenges, including those that are climate-related. The issues include obligations on trade and environment, enhanced environmental cooperation, protection of the marine environment, conservation of wild fauna and flora, climate change and renewable energy, circular economy, promotion of 'green' data centres and data transmission, voluntary market mechanisms for promoting sustainability of information and communications technologies, promotion of lower carbon sourcing in supply chains, corporate accountability and responsible business conduct, and implementation of obligations under multilateral environmental agreements.

Several issues being discussed in the Trade Pillar are being deliberated in the Committee on Trade and Environment in the WTO. The scope of environment-related issues are new under the WTO. Despite the importance of addressing environmental issues, members need to also weigh the cost of implementation for developing countries. Furthermore, the scope further focuses on digital infrastructure greening and data transmission, which require further reflection, and an assessment of the capacity of members. The developed economies of the IPEF have the required infrastructure to undertake reforms, however, the costs would be high. A way would perhaps be for transitionally-phased implementation with technical and financial assistance as conditions for implementation.

The aim is also to promote equitable growth of the digital economy in a manner that supports labour and environment objectives, sharing best practices on regulatory approaches and policy issues, and promoting responsible use of emerging technologies. For Fiji, in order to develop the digital economy, the development of digital infrastructure ecosystem is important.

21 "United States Urges WTO Members to Address Forced Labor on Fishing Vessels in Ongoing Fisheries Subsidies Negotiations", Office of the United States Trade Representative, 26 May 2021, https://ustr.gov/about-us/policy-offices/press-office/press-releases/2021/may/united-states-urges-wto-members-address-forced-labor-fishing-vessels-ongoing-fisheries-subsidies

The issues on trade and an agreement on digital trade covers a plethora of issues which are trade-related and beyond the scope of the traditional trade agreements. There is an ongoing discourse on this at the multilateral level and in particular, under the plurilateral on the Joint Statement Initiative.[22] Despite the importance of the digital economy and digital trade agreement, developing countries in the IPEF including Fiji must exercise caution with respect to the commitments they undertake without adequate regulatory and infrastructure reforms in place. Figures 10 and 11 show the digital economy integration levels among the IPEF and also for Fiji, revealing that there is scope for IPEF members to integrate in this area. In this regard, a step wise approach of prioritisation may be better than a full-fledged agreement. Developing countries could also demand technical and financial assistance to develop their digital infrastructure environment first and foremost, and then move progressively in other areas.

For developing countries, including Fiji, agriculture is a vital sector for economic development. The issues surrounding non-tariff measures for market access have been a challenge for Fiji. The discussion of the text focuses on enhanced transparency, regulations, SPS and TBT measures. Depending on the requirements of countries, the cost of compliance may be high. As such, agriculture and related infrastructure development assistance is needed to ensure that Fiji is able to benefit from the market access of the IPEF countries. Fiji must also ensure that the baseline on discussions in relation to agriculture are aligned with the WTO Agreement on Agriculture.

In relation to transparency and regulatory practices, the text aims to focus on commitments on the publication of proposed regulations and allowing a meaningful opportunity for public comment by interested persons, improving public accessibility to information about regulations and regulatory processes, having processes and mechanisms for internal coordination, and reliance on high quality information, and science and evidence in rulemaking. The members further aim to use this arrangement as an opportunity to cooperate on the adoption of sound and transparent regulatory practices, thereby promoting good governance. It further aims to build on the Joint Statement Initiative on Services Domestic Regulation of the WTO. Despite the fact that good regulatory practices and coherence would facilitate trade, developing countries, including Fiji, need to ensure that their right to regulate the domestic sector is not compromised. Furthermore, adhering to the process of high quality, scientific and evidence-based rule making would also require resources and capacity. This will affect the ability of market access for services. The issues surrounding these are currently under debate at the WTO. Should Fiji consider progressing in this area, it needs to do so progressively, ensuring that the required regulatory and institutional capacities are developed, and the private sector is also empowered to undertake the required regulatory reforms first and foremost.

On competition policy, the Trade Pillar focuses on members maintaining competition laws to ensure open, fair and competitive markets, including digital markets and cooperating on competition enforcement and policy issues. The issue of competition policy is one of the issues from the 1996 Singapore Ministerial Conference of the WTO. The issues surrounding anti-competitive behaviour have elements in the Trade-Related Aspects of Intellectual Property Rights (TRIPS) and Trade-Related Investment Measures (TRIMs) Agreements. The issue, however, is to ensure that developing countries including Fiji have the technical and financial capacity to negotiate and implement these policies in their domestic markets effectively. The discussions would also include the competition policy of digital markets which is a new area and would first require capacity building before arriving on any commitments.

22 "Joint Initiative on E-commerce", World Trade Organization, https://www.wto.org/english/tratop_e/ecom_e/joint_statement_e.htm

For developing countries including Fiji, trade facilitation is crucial for overall trade. Fiji has signed and ratified the WTO Trade Facilitation Agreement and is in the process of implementing its commitment. The scope of the IPEF trade facilitation agreement, however, is beyond the traditional trade facilitation commitment, in particular on the digitalisation aspect, which has other related issues such as data protection and cross-border flow of data. To undertake digital trade facilitation, further domestic reforms on regulation and infrastructure would be key. For these, Fiji would require regulation and infrastructure development capacities.

The Trade Pillar has a development and economic cooperation element which focuses on the ongoing development and economic cooperation, including the existing bilateral- and regional trade-related technical assistance and capacity building. The IPEF commitments are robust and beyond the scope of the traditional frameworks or agreements. As such, developing countries including Fiji have to demand additional technical and financial assistance for the full implementation of the IPEF.

### Implications of the Clean Economy Pillar for Fiji

The US has tabled a proposal which seeks to promote a clean economy, including by accelerating IPEF partner countries' clean energy transitions, scaling and reducing the cost of innovative technologies and advancing low greenhouse gas emissions in priority sectors. The text also aims to enhance collaboration with the private sector to take advantage of the market, investment, industrialisation, and quality job opportunities related to a clean economy transition.

In the case of developing countries including Fiji, whilst the commitment to clean energy transition is vital to tackle climate change, they have to ensure that the commitments in relation to the regulations and infrastructure requirements do not burden the private sector. Relative to the US, the private sector in Fiji is mostly composed of small and medium enterprises. Furthermore, investing in clean energy infrastructure will also require enormous capital investment. In the textual proposal and discussions, Fiji has to consider these aspects and include a development chapter to cover the specifics of the technical and financial assistance needed for the clean economy transition. Fiji must undertake a phased approach towards these transitions.

### Implications of the Fair Economy Pillar for Fiji

The US has tabled a proposal that seeks to prevent and combat corruption and related financial crimes, improve tax administration and increase cooperation, information sharing and capacity building in these areas. The aim of the text is to promote inclusiveness, transparency, the rule of law and accountability, all of which are essential to levelling the playing field for workers and enterprises in the Indo-Pacific region and ensuring that the benefits of economic growth and investment are broadly shared.

For developing countries including Fiji, a fair economy is vital for international trade. The US proposal, however, covers several areas and also requires compliance with various international standards. For Fiji, while combating corruption, ensuring transparency, and adhering to labour rights are at the core of a well-functioning economy, it has to also ensure that sufficient technical and capacity building assistance are provided for it to undertake the required regulatory and institutional reforms. As such, Fiji will need to strengthen or propose a pillar on economic and development assistance to cover specific areas of assistance for fair economy.

## Conclusion

The IPEF is a new generation agreement which covers new and emerging issues and has geopolitical and economic agendas intertwined. The members of the IPEF are at different levels of development, with the US, Australia, New Zealand, Singapore, South Korea, Malaysia and India being major economies. Fiji is one of the smallest economies among the IPEF members. The framework does provide an opportunity for Fiji to integrate with Asia and the US and create new market opportunities for trade and investment. However, these benefits would only be realised if Fiji is able to bear the cost of the reforms (which are substantial) to effectively integrate and benefit from the Supply Chain Agreement, and the available proposals for the Trade, Clean Energy and Fair Economy Pillars.

For Fiji, the IPEF, on the one hand, has potential for market access, with access to Asia and the US market, which would not be feasible if Fiji had to negotiate FTAs with each member separately. However, the requirements for regulatory, infrastructure and institutional reforms of the IPEF may be burdensome for Fiji and may act as a barrier to fully utilising its potential. The private sector of Fiji will need to comply with the regulatory requirements in order to be able to trade. As such, Fiji would require technical and financial assistance to undertake the required reforms over time if it aims to benefit from the IPEF.

A key recommendation for Fiji would be to strengthen or propose an overarching pillar as the IPEF development chapter with specific areas of technical and financial assistance across the various pillars of trade, supply chain, clean energy and fair economy. It must also ensure that the assistance is in addition to the existing assistance provided by various developed countries. Given that the IPEF is proposing new areas of commitments by members which are beyond the scope of traditional trade agreements including the WTO, Fiji could provide such justification. Furthermore, should Fiji decide to volunteer under all the four pillars, within the development assistance pillar, it needs to further request developed members to provide an action plan for the provision of assistance over time. Fiji must also condition its commitment to technical and financial assistance by developed IPEF members.

*Views expressed in the paper are of the author and not of any persons or organisations.*

## About the author

**Dr Radika KUMAR** is an expert in international trade and economics. She specialises in trade negotiations in particular fisheries subsidies and digital infrastructure policy for the digital economy. She holds a PhD in Economics from the University of the South Pacific. She served as an Economist and Special Adviser to the Minister for Foreign Affairs of Fiji in the early years of her career. Dr Kumar has also been the first adviser for Hub and Spokes to be appointed from the Pacific region under the EU-Funded Hub and Spokes programme for the Commonwealth Secretariat in 2014. She served in the Marshall Islands where she assisted the countries in implementing trade policies and undertaking capacity building trainings.

Dr Kumar has experience in negotiating Trade Agreements including the Pacific Agreement on Closer Economic Relations, EU-Economic Partnership Agreement, Pacific Island Countries Trade Agreements, the Micronesian Trade and Economic Committee and US-Compact agreement. She later served as Deputy Head of Mission in Geneva and worked with various organisations including UNESCAP, ITC, WTO WIPO and also was instrumental in WTO negotiations including the Fisheries Subsidies negotiations for members. She coordinated with ACP, SVE, G-90 and LDC group of countries.

She is also an academic and was lecturer in Economics at the University of the South Pacific teaching international economics. Currently, she holds the position of Adviser, Artificial Intelligence and Transformative Technology at the Commonwealth Secretariat in London. She is also an author and publisher, and a frontend developer.

# 3

# Southeast Asia

# **Malaysia's Interests in the IPEF:** Managing Trade Frictions and Restoring Market Access

Jayant MENON

To re-engage economically with the Indo-Pacific region, United States (US) President Biden launched the Indo-Pacific Economic Framework for Prosperity (IPEF) in May 2022. For Malaysia, the IPEF could help restore market access to the US by relaxing Withhold Release Orders (WROs) that ban exports of companies facing forced labour allegations. Malaysia also expects that the ease and frequency with which trade sanctions are applied in the future will be better managed as a result of the IPEF. These potential benefits of the IPEF need to be weighed against a worst case scenario where the creation of the IPEF further fuels US-China tensions. Another problem is that the IPEF without China is almost economically meaningless to countries with China-centred supply chains like Malaysia. Worse than that, any potential benefits could be more than offset if it fuels US-China tensions leading to actions that further disrupt supply chains and trade.

## Introduction

In a bid to re-engage economically with the region, United States (US) President Biden launched the Indo-Pacific Economic Framework for Prosperity (IPEF) in Tokyo on 23 May 2022. Malaysia joined six other Association of Southeast Asian Nations (ASEAN) members – Brunei Darussalam, Indonesia, the Philippines, Singapore, Thailand and Vietnam – to sign on as participating countries, together with Australia, Fiji, Japan, India, Republic of Korea, and New Zealand.

The much-awaited return of the US to the region as an economic partner was met with great expectations, and the standards by which the IPEF was to be judged were set accordingly high, also leaving a lot of room for disappointment, especially in terms of perceived benefits and costs. Expectations may be unreasonably high because they are probably still based on the view that the US is the original guarantor of a rules-based trading order, rather than its more recent performance that has seen it undermine the World Trade Organization's (WTO's) Dispute Settlement Mechanism and disregard some of its rulings, among other things.

The Framework comprises four policy pillars: Trade; Supply Chains; Clean Economy (energy, decarbonisation and infrastructure); and Fair Economy (tax and corruption). Employing a modular approach, member countries can choose which policy pillar to sign up for but have to abide by all the commitments within the selected pillar(s). The price for this flexibility is possible 'cherry-picking', which has already seen India pull out of the Trade Pillar and could leave difficult reforms behind.[1]

The IPEF is not a Free-Trade Agreement (FTA) or a traditional trade agreement. In this respect, the lack of market access provisions through exchange of concessions is greatly lamented and calls for reconsideration to bring them back onto the negotiating agenda are frequent. The IPEF is very much about market access, however, but just not in the way that it is traditionally understood. While it may not improve market access of the IPEF members to the US, it will certainly affect market access of US firms to other members' markets, because almost every other item on the agenda, from digital trade rules to environmental or labour standards, will affect competitiveness. In the same vein, Malaysia's interpretation of market access is also slightly different and the IPEF could be used to serve its interests in this area.

For Malaysia,[2] the IPEF is important in at least two ways, as it relates to the Trade and Supply Chain Pillars. The first relates to market access. In Malaysia's case, it is not so much about increasing market access to the US but about restoring market access where it has been denied and then preserving it. That is, reversing the remaining Withhold Release Orders (WROs)[3] that currently ban exports to the US market and ensuring that the ease and frequency with which trade sanctions are applied in the future is better managed.

1 Jayant Menon, Tham Siew Yean and Maria Monica Widharja, "Biden wants Asia to trade with the US as an 'alternative to China' but details are scant", *Channel News Asia Commentary*, 3 June 2022, https://www.channelnewsasia.com/commentary/us-biden-ipef-asean-indopacific-china-trade-economic-partnership-2722771

2 Malaysia does not have an explicit Indo-Pacific strategy, although the Indo-Pacific is frequently referred to in various defence and other non-economic policies and strategies. Therefore, apart from participating in the ASEAN Outlook on the Indo-Pacific, it is the IPEF that will form the basis of any formal economic engagement with the US and the Indo-Pacific region.

3 "Withhold Release Orders and Findings List", US Customs and Border Protection, https://www.cbp.gov/trade/forced-labor/withhold-release-orders-and-findings

Second is balancing key relationships and managing the fallout from the escalating US-China trade and technology war. With the Regional Comprehensive Economic Partnership (RCEP), the world's largest FTA, Malaysia may hope that the IPEF will provide greater balance in managing its relationship with its two key trade and investment partners, China and the US. Thus, jumping on the IPEF bandwagon now may be part of its 'balancing' strategy as it avoids having to pick sides and therefore risk being cut off from either the US or China. But will the IPEF's creation or Malaysia's membership of it help with or hinder this balancing act? Only time will tell.

At the very least, the IPEF should not fuel US-China tensions and worsen the fallout on regional trade and supply chains. At the 2023 Group of Seven (G7) Summit in Tokyo, President Biden tried to clarify that the US objective was not to decouple (from China), but to de-risk and diversify.[4] This statement would have been welcomed by Malaysia and other ASEAN countries whose manufacturing supply chains are intricately linked to China. The big question, however, is whether this statement will translate into action, with a stalling of punitive measures initially, followed quickly by a reduction in them, or whether it will turn out to be a play on words. If it turns out to be just ratcheting of the rhetoric, as many fear, then the real risk to the ASEAN region will quickly shift from China to the US.

The paper is divided into five parts. The next section provides context by examining the political economy of the IPEF and the underlying motivation of the US in proposing it in the way that it has. This section also provides an overview of Malaysian trade policy, focusing on its FTAs, and trade governance. Section 3 deals with the two most important pillars for Malaysia, Trade and Supply Chains. The discussion on these two pillars is combined because it does not make sense to separate the two from an economic point of view for a country like Malaysia, although it might from a national security or geopolitical standpoint, for a country like the US. The pillars on Clean and Fair Economy are discussed in Section 4. The discussion on these two pillars is combined because there is little here that is likely to have a material impact on Malaysian policy making. A final section concludes.

## Political Economy of the IPEF and Malaysian Trade Policy

To understand the likely impact of the IPEF on Malaysia and other members, it is important to first come to terms with the motivation underlying it. To do this, it is useful to understand the environment within which it was created, by reviewing recent changes that have occurred in the trade policy setting agenda in the US under President Biden.

For decades, US trade policy was run by the US Trade Representative's (USTR's) office. The USTR negotiated all key trade agreements and was strongly pro-trade and liberalisation. Under the Biden Administration, some argue that the power to set the trade agenda has shifted to the Commerce Department.[5] This shift in power has already had a profound influence on US trade policy. Unlike the USTR, whose mission is to promote trade and investment through advancing liberalisation and maintaining a rules-based order, the Commerce Department is focused on the defence and

4 At the closing press conference of the G7 meetings in Japan on 21 May 2023, President Biden stated that: "We're not looking to decouple from China. We're looking to de-risk and diversify our relationship with China,". See Trevor Hunnicutt and Jeff Mason, "Biden sees shift in ties with China 'shortly'", *Reuters*, 21 May 2023, https://www.reuters.com/world/biden-sees-shift-relations-with-china-shortly-says-g7-wants-de-risk-not-decouple-2023-05-21/

5 Edward Alden, "Why the U.S. Trade Office No Longer Runs Trade", *Foreign Policy*, 7 March 2023, https://foreignpolicy.com/2023/03/07/ustr-tai-trade-biden-america-first-china-decoupling/

promotion of US companies and the protection of US technologies. It has also been overseeing the rollout of the massive subsidies being offered to re-shore semiconductor manufacturing, restricting sales of advanced US technologies to various Chinese companies and various other distortionary and protectionist policies. In addition to semiconductors, the subsidies being offered to the production of clean energy and electric vehicles is already affecting competitors not just in China but also US allies in Europe.[6] This had led one commentator to conclude that "the US shift to a more nationalist trade policy, driven by domestic industrial interests and national security concerns, will be durable".[7]

The stark contrast between the USTR and the Commerce Department is also why the IPEF is a White House initiative. The USTR and Commerce Department simply could not come to agreement on how the IPEF should be structured and the White House was forced to take it over.

Malaysia is a small, open economy that has a long history of embracing free and open trade and investment policies. In fact, prior to the 1997 - 98 Asian Financial Crisis, Malaysia was often hailed as a model worthy of emulation by the developing world of how such liberal trade and investment policies could transform economies and avoid the middle income trap.

Malaysia has pursued liberalisation through its participation in the WTO, unilateral actions and FTAs. As of June 2023, Malaysia is implementing 18 FTAs (Table 1) and is negotiating five more.[8] It has bilateral FTAs with four IPEF member countries – Australia, India, Japan and New Zealand – and is in the process of negotiating with two others – Republic of Korea and the US. Despite negotiations having commenced in 2006, Malaysia does not look like concluding an FTA with the US anytime soon. The question that then arises is by what extent the IPEF can effectively substitute the absence of a bilateral FTA with the US. The short answer appears to be "very little, if at all". So far, the US is not providing the same treatment to the IPEF members as it is to countries with whom it has an FTA. A stark contrast that highlights this discrepancy arises in relation to the Clean Economy Pillar and 'green' investments (see Section 4).

6 Edward Alden, "Biden's 'America First' Policies Threaten Rift with Europe", *Foreign Policy*, 5 December 2022, https://foreignpolicy.com/2022/12/05/biden-ira-chips-act-america-first-europe-eu-cars-ev-economic-policy/

7 *op. cit.*

8 The five FTAs that Malaysia is negotiating are with the European Union, the Gulf Cooperation Council, Iran, Republic of Korea and the US.

**Table 1:** Malaysia's trade agreements in effect, June 2023

| IPEF MEMBERS (1) | TRADE AGREEMENT | ENTRY INTO FORCE |
|---|---|---|
| IPEF (7) | ASEAN Free Trade Area | 1993 |
| IPEF (9) | ASEAN-Australia and New Zealand Free Trade Agreement | 2010 |
| -- | ASEAN-Hong Kong, China Free Trade Agreement | 2019 |
| IPEF (8) | ASEAN-India Comprehensive Economic Cooperation Agreement | 2010 |
| IPEF (8) | ASEAN-Japan Comprehensive Economic Partnership | 2008 |
| -- | ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement | 2005 |
| IPEF (8) | ASEAN-Republic of Korea Comprehensive Economic Cooperation Agreement | 2007 |
| IPEF (2) | Australia-Malaysia Free Trade Agreement | 2013 |
| IPEF (7) | Comprehensive and Progressive Agreement for Trans-Pacific Partnership | 2018 |
| IPEF (2) | India-Malaysia Comprehensive Economic Cooperation Agreement | 2011 |
| IPEF (2) | Japan-Malaysia Economic Partnership Agreement | 2006 |
| -- | Malaysia-Chile Free Trade Agreement | 2012 |
| -- | Malaysia-Pakistan Closer Economic Partnership Agreement | 2011 |
| -- | Malaysia-Türkiye Free Trade Agreement | 2015 |
| IPEF (2) | New Zealand-Malaysia Free Trade Agreement | 2010 |
| IPEF (2) | Preferential Tariff Arrangement-Group of Eight Developing Countries | 2011 |
| IPEF (11) | Regional Comprehensive Economic Partnership | 2022 |
| -- | Trade Preferential System of the Organization of the Islamic Conference | 2022 |

**Note**: The number in parentheses refers to the number of countries participating in the IPEF.

**Source**: Asia Regional Integration Center, ADB[9]

The question of overall value-addition combined with the recent political and policy climate in Malaysia may also affect its appetite to aggressively pursue a new and challenging agreement like the IPEF. Since 2020, Malaysia has had four Prime Ministers and three Ministers of the Ministry of International Trade and Industry (MITI). To provide context, it has had the same number of Prime Ministers and Ministers of MITI in the last three years as it has had in the preceding three decades. In short, the political and trade policy environment has been in a state of flux over recent years. This is why Malaysia kept delaying ratification of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) until 30 September 2022, making it the ninth (out of 11) members to do so.

Some stability has returned with the current Anwar Ibrahim Administration, with Tengku Zafrul Azis, the former Finance Minister, in charge of MITI. The CPTPP came into effect on 29 November 2022, soon after the Anwar Administration took office. The current administration has reiterated

9 "Free Trade Agreements", Asia Regional Integration Center, https://aric.adb.org/fta

support for the CPTPP, despite some concerns from domestic lobbies. The Minister of MITI said in January 2023, “There were obviously some issues that were raised by various groups, and we have addressed that by taking action to mitigate some of the concerns, so we are very much committed to participating in [the CPTPP]”.[10] This bodes well for the current administration’s free trade credentials, and therefore, for the IPEF.

Malaysia is already a beneficiary of the IPEF’s technical assistance and capacity-building activities, even claiming some responsibility for bringing it onto an agenda that has very few unilateral concessions. The IPEF Upskilling Initiative aims to provide seven million training opportunities to women across the region to acquire digital skills that prepare them for high-quality jobs. Malaysia has also called for the establishment of an IPEF Centre for Excellence to provide training and capacity building in areas covered by the various pillars such as supply chain resilience, energy transformation and decarbonisation.[11] These types of initiatives may go some way towards providing more incentives in the form of carrots in an agreement that is heavy on sticks.

## Pillars 1 and 2 – Trade and Supply Chains

As noted, Pillars 1 and 2 on Trade and Supply Chains, respectively, are the most important to Malaysia. In fact, most of Malaysia’s trade involves supply chains and separating the two does not make much economic sense for it. Nevertheless, the issues in the Trade Pillar are already having a significant impact on trade relations with the US, particularly as they relate to labour and environmental standards.

Former MITI Minister Azmin Ali has indicated that Malaysia sees the IPEF as providing a platform to open engagement with the US in seeking a solution to the WROs that have been imposed by US authorities on Malaysian exports. US authorities currently have six active WROs on Malaysian companies, four on rubber gloves and two on palm oil, due to allegations of forced labour. The WROs prohibit the import of products originating from companies facing forced labour allegations. Will the IPEF be able to deliver on helping address the WROs or other punitive trade measures? Two out of the six WROs have been modified in early 2023 and there is another precedent of sorts that provides room for optimism that the IPEF can help. Just two weeks after the IPEF was launched on 23 May 2022, the Biden Administration lifted a transshipment ban that had been imposed following a complaint by a US-based solar company.[12] Malaysia (and Cambodia, Thailand and Vietnam) were suddenly provided 24-month duty-free access to the US market for their exports of solar cells and modules.

Therefore, even if the IPEF does not include the exchange of market access concessions in the traditional sense, it may provide the opportunity to reverse binding restrictions and restore market access for countries like Malaysia. It may also allow Malaysia an avenue to better manage similar issues should they arise in the future. The recent relaxation of WROs on two companies and the removal of the transshipment ban on solar products suggest that this might be possible.

---

10 Quoted in “Malaysia ‘fully committed’ to CPTPP, says Tengku Zafrul”, *Free Malaysia Today*, 5 January 2023, https://www.freemalaysiatoday.com/category/highlight/2023/01/05/malaysia-is-fully-committed-to-cptpp-says-tengku-zafrul/

11 “FACT SHEET: IPEF Upskilling Initiative”, US Department of Commerce, https://www.commerce.gov/sites/default/files/2022-09/IPEF-Upskilling-Fact-Sheet.pdf

12 See Nichola Groom, “US places tariffs on some big solar companies for dodging China duties”, *Reuters*, 19 August 2023, https://www.reuters.com/sustainability/us-slaps-tariffs-some-big-solar-companies-dodging-china-duties-2023-08-18/

Nevertheless, the increasing influence of the US Department of Commerce in setting the trade agenda (see Section 2) has increased the *weaponisation* of trade policy and this needs to be checked and better managed. Otherwise, its impacts on a growing number of non-trade related areas will cause significant disruption to countries on the receiving end.

Malaysia is keen to grow its digital economy, and the rules relating to it coming from the IPEF may be significant. If the IPEF negotiations on digital trade and data flows can further the agenda beyond that of other bilateral (for example, the Framework of Cooperation with Singapore), regional (CPTPP, but also ASEAN, Asia-Pacific Economic Cooperation [APEC], et cetera.), or multilateral (WTO) frameworks, then the impact of the IPEF could be transformative. Details are still sparse but the potential is certainly there to make the IPEF a significant part of Malaysia's trade policy. The negotiations in this area, however, are not without risk. With the European Union and China also pursuing their own approaches to digital governance, the possibility of a 'splinternet' emerging, which fractures the global system, needs to be avoided.

Malaysia will also be impacted by the first tangible results of the year-long negotiations, relating to supply chain resilience. Following the meeting in Detroit on 27 May 2023, US Commerce Secretary Gina Raimondo announced "substantial progress" towards an IPEF Supply Chains Agreement, although the final text is yet to be agreed upon.

Three new structures are being created to operationalise the agreement:

The first is the IPEF Supply Chain Council for better coordination of supply chain activities and building resilience and competitiveness in certain critical sectors. The Council will oversee the development of 'action plans' for these sectors that may help companies identify and address supply chain vulnerabilities.

The second is an IPEF Supply Chain Response Network for giving early warnings to members on potential supply disruptions. With a new 'emergency communications channel', it is expected that the IPEF members can streamline communication and coordinate a response when one or more IPEF parties face a supply chain crisis.

Finally, an IPEF Labo[u]r Rights Advisory Board made up of government, worker, and employee representatives is being proposed. This Board is to identify areas where certain labour rights are being violated. Analysing the language in the agreement's press statement, some experts suggest the board can recommend action under a new facility-specific mechanism for addressing allegations of labour rights inconsistencies similar to that in the United States-Mexico-Canada Agreement's (USMCA's) Facility-Specific Rapid-Response Labo[u]r Mechanism.[13] An important difference with the USMCA's Rapid-Response mechanism relates to enforcement, however, as the IPEF mechanism is unlikely to be binding or reciprocal.

Although a tangible outcome such as the IPEF Supply Chain Agreement after just one year should be welcomed, the operational details, once available, need to be studied before reaching conclusions on its practical use. The Press Statement on the Substantial Conclusion of the IPEF Supply Chain

13 Aidan Arasasingham, Emily Benson, Matthew P. Goodman, and William Alan Reinsch, "Assessing IPEF's New Supply Chains Agreement", CSIS, Washington, DC., 31 May 2023, https://www.csis.org/analysis/assessing-ipefs-new-supply-chains-agreement

Agreement Negotiations, posted on the US Department of Commerce official website,[14] reveals very little of substance, unfortunately. Indeed, the announcement, which is all that is available as of June 2023, has been described as "a mass of abstract verbiage with a tangle of subclauses festooned with adjectives and adverbs layered two or three deep".[15] It is mostly aspirational and very thin on practical details, with whatever little details provided being so heavily qualified that they can be interpreted to suit a diverse range of interests.[16]

China's not being a part of the IPEF and the Supply Chain Agreement is a major concern for Malaysia and the other ASEAN members involved in regional supply chains. This is because almost all manufacturing supply chains that involve Malaysia and other ASEAN countries are China-centred. It is with this Pillar that the exclusion of China is most significant, and greatly undermines its value to a country like Malaysia. The high level of interdependence that characterises supply chains highlight the importance of including all players, especially critical ones like China. The exclusion of China can undermine the usefulness of this pillar to ASEAN members of the IPEF, including Malaysia.

More than being of limited use due to the exclusion of China, the Supply Chain Agreement could actually harm Malaysia and other countries with China-centred supply chains. This is because the US expects to get the IPEF members to buy into its 'resilience and competitiveness' framework and support its national security interests by limiting engagement and dependency on China. The US hopes the agreement will encourage other members to also start reshaping their supply chains in line with the broader US 'friend-shoring' agenda that incentivises supply chain relocation to countries that do not pose a perceived national security threat.[17] In exchange for this, members are being offered various capacity building and training programmes, and the possibility of greater Foreign Direct Investment (FDI) flows during an unspecified future. This is not a bargain that countries like Malaysia are likely to find beneficial.

When it comes to regional supply chains, an early warning system will be useful only if its predictions are reliable. This in turn will depend on the willingness of member states to share information on a timely basis. Although supply chain networks are highly interdependent, countries involved can sometimes operate more as competitors than collaborators, and may be unwilling to share information on a timely basis, especially if the information is sensitive or proprietary in nature. An example of the problem that can arise is illustrated by the ASEAN+3 financial and economic surveillance process, which is also supposed to provide an early warning system of emerging risks and vulnerabilities for ensuring pre-emptive actions to avert a contagious financial crisis. The process has become a beauty contest of sorts, with members tending to highlight strengths rather than potential vulnerabilities, with the latter seen as failures of economic management. It appears that members are reluctant to air their dirty laundry in public and would rather prefer either

14 "Press Statement on the Substantial Conclusion of IPEF Supply Chain Agreement Negotiations", US Department of Commerce, 27 May 2023, https://www.commerce.gov/news/press-releases/2023/05/press-statement-substantial-conclusion-ipef-supply-chain-agreement

15 Alan Beattie, "The US trade pledge to the Indo-Pacific is empty", *Financial Times*, 8 June 2023, https://www.ft.com/content/42a87796-8228-445b-8ad5-63a5c35d5144

16 To illustrate the point, consider the following statement, which is representative of many of the pledges made in the press release: "ensure that workers and the businesses, especially micro-, small-, and medium-sized enterprises, in the economies of IPEF partners benefit from resilient, robust, and efficient supply chains by identifying disruptions or potential disruptions and responding promptly, effectively, and, where possible, collectively."

17 *op. cit*. As in 10 earlier.

disguising or glossing over them, while focusing on the positive aspects, which undermines the purpose of the surveillance.

Another problem illustrated by the ASEAN+3 process, which could equally apply to the IPEF's early warning initiative, is the absence of effective remedial and response measures for addressing risks emerging from the early warning system. The Multilateralised Chiang Mai Initiative (CMIM), which is supposed to provide emergency liquidity support in the event of a rapidly evolving crisis, has never been used because the operational procedures remain unclear and arduous, almost as if it is designed not to be used.[18] Similarly, the global climate crisis was not due to any lack of early warning, but rather inter-generational choices and trade-offs.

The supply chain initiative should be able to not only identify emerging risks but also to respond to them in an effective and timely manner. The details must be examined before it is hailed as a breakthrough, as the US Commerce Secretary Gina Raimondo already has : "I can tell you I would have loved to have had that Crisis Response Network during [the COVID-19 pandemic]. It absolutely would have helped us secure American jobs and keep supply chains moving".[19] How a Crisis Response Network that excludes a critical player like China might have helped keep supply chains moving during a global pandemic that shut down economies around the world for months on end is difficult to comprehend. If anything, the pandemic demonstrated how resilient supply chains already were, despite the incredible pressures they faced.[20] A properly functioning early warning system may at best help in limiting the fallout from a country- or region-specific shock, given the highly interdependent nature of supply chain networks, but certainly not a global shock.

As noted earlier, embedded within the Supply Chains Agreement is a new labour rights advisory board aimed at raising labour standards in supply chains. Labour issues were meant to be part of Pillar 1 on Trade but have found their way into Pillar 2 on Supply Chains and might arise in other pillars as well, further emphasising the so-called 'worker-centric' nature of the IPEF. The extent to which this body will raise standards to protect workers, as opposed to removing the cost competitiveness that developing countries have with labour supply, is yet to be seen. It would suffice to say that developing countries tend to view the introduction of labour standards into trade negotiations with a high level of suspicion.

## Pillars 3 and 4 – Clean Economy and Fair Economy

For the issues covered in the pillars on Clean and Fair Economy, Malaysia's main policy response will be determined by either national actions and priorities, or commitments to existing international agreements, rather than the IPEF. For Clean Economy, Malaysia has updated its Nationally Determined Contribution target to reach net-zero greenhouse gas emissions by 2050.

18 Jayant Menon and Hal Hill, "Does East Asia Have a Working Financial Safety Net?", *Asian Economic Journal*, Vol. 28, no. 1, (2014): 1-17, https://researchprofiles.anu.edu.au/en/publications/does-east-asia-have-a-working-financial-safety-net

19 Quoted in David Lawder, "U.S.-led Indo-Pacific talks produce deal on supply chain early warnings", *Reuters*, 28 May 2023, https://www.reuters.com/markets/asia/us-led-indo-pacific-talks-produce-deal-supply-chain-early-warnings-2023-05-27/

20 Jayant Menon, "Supply chains are more resilient than they appear", *East Asia Forum*, 3 July 2022, https://www.eastasiaforum.org/2022/07/03/supply-chains-are-more-resilient-than-they-appear/

This is a major challenge.[21] The IPEF can play a complementary role in helping Malaysia meet its commitments, but not with its current configuration. At the moment, the IPEF will not have much of an impact, unless it is upgraded to at least the standard applied in US FTAs.

The US has comprehensive FTAs in force with 20 countries, of which four are with IPEF members, namely Australia, Republic of Korea, Japan and Singapore. Since Malaysia has not concluded an FTA with the US, it will not receive the same treatment as these four IPEF members, or other non-IPEF countries that have FTAs with the US, and this discrepancy is at its greatest in relation to the green economy. The Inflation Reduction Act (IRA) grants tax credits to companies if a certain percentage of the value of critical minerals in electric vehicle batteries, for instance, is extracted or processed in the US or FTA partner countries.[22] This does not automatically extend to the IPEF members. The fact that the US signed a critical minerals agreement bilaterally with Japan in March 2023 that allows Japan to access IRA tax credits erodes the relevance of the IPEF to other members. It is this type of discrepancy and discrimination that is undermining the value of the IPEF in this area in particular, and as a serious attempt to economically re-engage with the region, in general.

With respect to the Fair Economy Pillar, it should be noted that Malaysia is already a signatory to the Multilateral Instrument to Prevent Base Erosion and Profit Shifting (BEPS). There are also various governance issues relating to corruption and the performance of Government Linked Companies (GLCs) that need to be addressed but this will mainly require national actions.[23] Furthermore, with Malaysia ratifying the CPTPP, there may be little that the IPEF can add to the binding commitments already made to the reform agenda in this area.

What is missing from the Fair Economy agenda is a mechanism for addressing the unintended consequences of industrial policy actions of one (or more) member(s) on the other(s). The question arises as to how a pillar on fair economy can be consistent with uncompensated impacts on the IPEF members of actions by the US targeting China for non-economic reasons, for instance. Malaysia and other supply chain partners may suffer the indirect consequences of actions designed to safeguard perceived threats to US national security, and there is no mechanism in place for redress or compensation. This issue needs attention because the measures being employed may not be fully covered by global trade rules, as they mostly relate to subsidies and export controls, not traditional measures such as tariffs or other import restrictions.

Although discriminatory subsidies are forbidden under WTO disciplines, contraventions have been widely ignored. Even when an attempt is made to justify such measures on national security grounds – as permitted under Article XXI of the General Agreement on Tariffs and Trade (GATT) – the legitimacy of the claim is often suspect. If a WTO ruling determines the national security claim spurious, the US has simply ignored the decision, as it did with the ruling on the Trump-era tariffs on steel, for instance. Indeed "US decisions as to whether a country, company, product or technology

21 The International Renewable Energy Agency has noted that meeting the target would require a doubling in investments in renewable energy transition to at least US$375 billion in order to expand renewables capacity, infrastructure and energy efficiency. See Mei Mei Chu, "Malaysia needs to invest $375 bln in renewables to reach 2050 climate goals – report", *Reuters*, 9 March 2023, https://www.reuters.com/business/energy/malaysia-needs-invest-375-bln-renewables-reach-2050-climate-goals-report-2023-03-09

22 See "Inflation Reduction Act of 2022 (IRA): Provisions Related to Climate Change", Congressional Research Service, 3 October 2022, https://crsreports.congress.gov/product/pdf/R/R47262

23 Jayant Menon and Thiam Hee Ng, "Do State-Owned Enterprises Crowd Out Private Investment: Firm Level Evidence from Malaysia", *Journal of Southeast Asian Economies*, Vol. 34, no. 3, (September 2017): 507-522.

threatens US national security are shielded both from public and judicial scrutiny and deliberately ignore economic costs".[24] These costs, however, are not confined to the US but are also imposed on the country being targeted as well as its trading and supply chain partners. When the supposed original guarantor of the rules-based trading order becomes one of its major violators, any new proposals purporting to promote fair trade or fair economy needs to be carefully scrutinised.

## Conclusion

Using trade agreements for pursuing non-economic ends, whether through formal FTAs or frameworks like the IPEF, is neither new nor unique to the US. In fact, most trade agreements probably have more to do with international diplomacy and politics than with trade or investment. The IPEF is not an exception. The outstanding difference with the IPEF, however, is how much it asks of its members in return for how little it promises to provide – it is almost all stick and no carrot. This is particularly problematic since there is no mechanism to bind countries to make good on their commitments. Unless this changes, the policy impact of the IPEF, as opposed to the fanfare that is likely to accompany the conclusion of negotiations, will be vast. The IPEF may happen but will hardly be noticed in practical terms. There is still time to negotiate a better agreement. But even if little changes between now and its conclusion, expected at the APEC Summit in San Francisco in November 2023, the impact of the IPEF will vary by country and sector.

What Malaysia expects to derive from the IPEF may differ from other members. For Malaysia, participation in the IPEF could serve as insurance against punitive trade policy actions by the US and could provide the opportunity to resolve existing trade frictions. Therefore, Pillars 1 and 2 on Trade and Supply Chains will be most significant. With the Trade Pillar, it is not so much about increasing market access to the US, which the IPEF does not currently provide, but rather with restoring and preserving market access by reversing the remaining WROs that currently ban exports to the US market by targeted companies. Malaysia also expects that the ease and frequency with which trade sanctions are applied in the future will be better managed due to the IPEF. The recent relaxation of WROs on certain companies and the removal of the transshipment ban on solar products suggest that this might be possible.

A remaining unknown relates to digital trade. The potential exists for the IPEF to be transformative for countries like Malaysia if it can deliver in this area in a way that moves the frontier while avoiding the risk of a 'splinternet' emerging. These potential benefits of the IPEF need to be weighed against a worst case but highly plausible scenario where the creation of the IPEF further fuels US-China tensions that lead to further retaliatory actions. This is likely if the IPEF is viewed as an attempt by the US to export its national security agenda to the region. If retaliatory actions further disrupt the operations of regional supply chains, leading to possible bifurcation, then the cost to Malaysia and other ASEAN countries will be high enough to outweigh any benefits.

The reality, however, is that the IPEF without China is, to a large extent, economically meaningless to countries like Malaysia, and potentially disruptive and costly. To expect that this might change in the future would be unrealistic if a key underlying motivation of its main proponent(s) is to counter the rise of China's influence in the region.

24 Gary C. Hufbauer, "Washington's turn to neo-mercantilism", *East Asia Forum*, 4 June 2023, https://www.eastasiaforum.org/2023/06/04/washingtons-turn-to-neo-mercantilism/?utm_medium=email&utm_campaign=newsletter2023-06-03

## About the author

**Dr Jayant MENON** is Senior Fellow, Regional Economic Studies, at ISEAS-Yusof Ishak Institute. At ISEAS, Dr Menon continues his work on trade and investment issues and economic development in the Asian region. His current research areas include economic impacts of COVID-19 in Southeast Asia, COVID-19 and the poor, the United States-China trade war and restructuring of Global Value Chains in Asia and the evolving regional economic architecture.

His last post was at the Asian Development Bank (ADB) as Lead Economist in the Office of the Chief Economist. He was also at the ADB Institute in Tokyo from 2005 to 2008. He started work as an academic in Australia, spending almost a decade at the Centre of Policy Studies at Monash University at its original campus in Clayton, Melbourne. He has also worked at the University of Melbourne, Victoria University, and the American University in Washington, DC. He holds adjunct appointments with the Australian National University, University of Nottingham, United Kingdom and IDEAS, Malaysia.

# Thailand’s Perspectives on the IPEF

Kaewkamol PITAKDUMRONGKIT

This chapter investigates Thailand’s perspective on the Indo-Pacific Economic Framework for Prosperity (IPEF). It introduces different views on the Framework from the Thai government, businesses, and civil society. The negotiation challenges facing the country and some anticipated outcomes of each Pillar are highlighted. Thailand will likely find it difficult to partake in the IPEF in the areas of digital economy, labour standards, environmental cooperation and anti-bribery practices. Yet, some difficulties can be ameliorated by the other IPEF members’ capacity building programmes. The domestic political factors stemming from the General Election (GE) in May 2023 and how they will shape the country’s implementation of the IPEF are also examined. This chapter ends with the discussion of the prospects of engaging Europe from Thailand’s viewpoint. The analysis finds that the state prefers to advance its economic ties with Europe via regular Free Trade Agreements (FTAs) rather than the IPEF.

This paper investigates Thailand's perspectives on the Indo-Pacific Economic Framework for Prosperity (IPEF). It scrutinises how the government, the private sector, civil society and other stakeholders view the Framework. It also reflects on the key challenges facing Thailand during the talks and anticipated negotiation outcomes. The recent changes in Thai politics and how they will affect the implementation of the IPEF are also examined. The paper concludes with views on Thailand's IPEF membership in relation with other global actors and the prospects of the framework's implementation in the next five years.

## What the IPEF Means for Thailand

### Government Sector

From the government's viewpoint, Thailand does not see the IPEF as a replacement for Free Trade Agreements (FTAs). Yet, it can serve as a scheme that can mint out innovative initiatives against the backdrop of the post-COVID-19 economic recovery and changing geopolitics. The benefits of the IPEF include generating new trade and investment opportunities for the region and Thailand.[1] In other words, the cooperation will improve the business environment, which can attract more foreign direct investment (FDI) and create new jobs.[2] This will in turn enable Thailand to obtain the objectives outlined in the 13th Nation Economic and Social Development Plan (2023 – 27) including boosting per capita income, narrowing income inequality, and lessening greenhouse gas emissions.[3]

Bangkok also sees its Eastern Economic Corridor (EEC) gaining from the IPEF. EEC is striving to transform the nation's eastern part into the Indo-Pacific region's production hub of 12 targeted industries: Next-Generation Automotive, Intelligent Electronics, Advanced Agriculture and Biotechnology, Food for the Future, High-Value and Medical Tourism, Robotics, Aviation and Logistics, Medical and Comprehensive Healthcare, Biofuel and Biochemical, Digital, National Defence, and Education and Human Resource Development.[4] The IPEF could better the business environment and raise investors' confidence, allowing the country to attract more investment in these sectors.

The Thai authorities are aware of the geopolitical underpinnings of this Washington-led initiative. The IPEF is a product of the intensifying United States (US)-China power contestation. In May 2022, US Secretary of State Anthony Blinken labelled China as "the most serious long-term challenge to the international order" and revealed the US' three-pronged strategy – "invest, align, compete".[5]

1 Author's conversation with the Thai government officers, 24 February 2023.

2 "ASEAN Digest", *Bangkok Bank*, June 2022, https://www.bangkokbank.com/-/media/files/international-banking/aec-connect/asean-digest/2022/asean-digest_-jun2022.pdf

3 Kavi Chongkittavorn, "Behind the scenes: Thailand's IPEF talks", *Bangkok Post*, 24 May 2022, https://www.bangkokpost.com/opinion/opinion/2314838/behind-the-scenes-thailands-ipef-talks;

"Parliament okays NESDC's new development plan for Thailand", *The Nation*, 30 August 2022, https://www.nationthailand.com/in-focus/national/40019519

4 "Developing EEC to Support MICE Industry and the Investment of 12 Focused Industries", Thailand Convention and Exhibition Bureau, 2022, https://www.businesseventsthailand.com/en/support-solution/success-story/detail/631-developing-eec-to-support-mice-industry-and-the-investment-of-12-focused-industries

5 "The Administration's Approach to the People's Republic of China", Speech by Anthony Blinken, Secretary of State at George Washington University, Washington D.C., 26 May 2022, https://www.state.gov/the-administrations-approach-to-the-peoples-republic-of-china/

Under the 'align' aspect, the Biden Administration intends to promote an alternative vision of the regional order different from Beijing's. The IPEF was cited as a mechanism to revitalise the US rule-making leadership for emerging matters such as "digital economy, supply chains, clean energy, infrastructure, and corruption".[6] In short, Washington attempts to lean on the IPEF to counterweigh China in the Indo-Pacific economic governance area.

Due to the US-China rivalry, global supply chain calculations will likely be based more on strategic than economic factors as exemplified by the concept of *friendshoring*. Bangkok welcomes this trend as an opportunity for it to attract more investments as other states reconfigure their production networks. This would entail windfall gains for Thailand as it will receive more investments in EEC's key sectors.

Regarding Pillar 1 (Trade), while the IPEF is not a regular FTA, the country's view is that it can be another mechanism that Bangkok can leverage to craft international rules and standards for its own and regional interests. The state must partake in this Framework especially after it suspended its plan to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). Due to the anti-CPTPP domestic backlash, Bangkok postponed its formal application to join the pact.[7] As a result, the IPEF is regarded a practical pathway that Thailand can utilise to deepen its economic engagement with other regional states. As far as the US-Thailand trade relations are concerned, this initiative has come after the US-Thailand FTA talks stalled.[8] Thus, the IPEF can be a forum for Bangkok to cooperate economically with Washington, voice its concerns with the latter (for example, US protectionism), and sort out joint solutions.

Thailand's participation in Pillar 2 (Supply Chains) stems from the latter's focus on supply chain resilience, which Bangkok sees as a new area that has not been adequately addressed by other frameworks.[9] Thailand's comparative advantages in certain sectors can be further exploited if cooperation on Pillar 2 comes into fruition. Thailand's exports to and imports from the other IPEF members in 2018 – 21 accounted for 42.7 per cent and 52 per cent of the country's total exports and imports respectively.[10] Moreover, the nation's outward investment to and inward investment from the other IPEF members in 2018 – 22 amounted to 46.8 per cent and 45.4 per cent of the country's total outward and inward investment respectively.[11] The collaboration on Pillar 2 will permit companies in these industries to expand abroad, raise funds for their future investments, and deepen their supply chains in the region. Furthermore, Bangkok aims to foster new and

6 *Ibid*.
7 *op. cit.*
8 The US-Thailand FTA talk commenced in October 2003. Six negotiation rounds took place from October 2003 to January 2006. In February 2006, the negotiation was suspended after the military putsch ousted the democratically-elected Thaksin Shinawatra government.
9 Author's conversation with the Thai government officers, 24 February 2023.
10 "Trade Data", UN Comtrade Database, https://comtradeplus.un.org/TradeFlow?Frequency=A&Flows=all&CommodityCodes=TOTAL&Partners=764&Reporters=all&period=all&AggregateBy=none&BreakdownMode=plus

The top traded goods during this period were: (1) Machinery, boilers, nuclear reactors and mechanical appliances; parts thereof (HS Code 84); (2) Electrical machinery and equipment and parts thereof; sound recorders and reproducers; television image and sound recorders and reproducers, parts and accessories of such articles (HS Code 85); and (3) Vehicles; other than railway or tramway rolling stock, and parts and accessories thereof (HS Code 87).
11 The most invested sectors were: manufacturing, wholesale and retail trade, repair of motor vehicles and motorcycles, financial and insurance, accommodation and food services, and real estate. The information was gathered from the Bank of Thailand database.

emerging supply chains via the EEC. For instance, electrical vehicles (EVs) are under the EEC's Next-Generation Automotive industry, whose growth and expansion the government encourages. The IPEF will raise investments in EVs, allowing the state to maintain and bolster its position as the 'Detroit of Asia.'

Pillar 3 (Clean Economy) is seen as complementary to Thailand's pursuit of a bio-circular-green (BCG) economy.[12] BCG economy is a new model enabling the state to accomplish inclusive and sustainable growth and development. This approach rides the country's strengths in biological diversity and cultural richness, and employs technology and innovation to transform Thailand into a value-based and innovation-driven economy. The model conforms with the United Nations (UN) Sustainable Development Goals (SDGs) and aligns with the Sufficiency Economy Philosophy (SEP), the key principle of Thailand's social and economic development.[13] The country has been practising this model domestically and advocating it internationally. For instance, as the host of the Asia-Pacific Economic Cooperation (APEC) Summit last year, it played a pivotal role in making the APEC adopt the Bangkok Goals on the BCG Economy at the APEC Economic Leaders' Meeting in November 2022.[14] With its experience and expertise on sustainability, the state intends to make contributions to the cooperation under this Pillar.

Thailand views Pillar 4 (Fair Economy) as important for upgrading the regional economies' anti-corruption and taxation legislations. Also, successful cooperation in Pillar 4, will enhance both transparency and good governance, improving the Indo-Pacific business climate and making the region a more attractive FDI destination. Another reason undergirding Bangkok's engagement in the IPEF pertains to capacity-building. The government believes that the participation will boost its capabilities to better implement international initiatives such as the Paris Agreement, the UN Conventions, and the Organisation for Economic Cooperation and Development (OECD)'s two-pillar solutions.[15]

### Private Sector

Thailand's private sector generally welcomes the Framework. The business community feels the IPEF will lead to some degree of regional standard upgrading. However, it has difficulty conducting usual cost-benefit analyses because the IPEF is not an FTA. Put differently, this framework's unique nature poses challenges to the Thai firms' abilities to anticipate their potential gains and losses. These stakeholders are uncertain over whether they will emerge as winners or losers from the Framework. As a result, they are unable to plan strategies such as lobbying with the government to refrain from engaging in any arrangements that undercut their interests.[16]

The private sector is optimistic about the IPEF yielding tangible and beneficial outcomes. The Upskilling Initiative for Women and Girls launched in September 2022 is a case in point.[17] This programme strives to train 7 million women and girls in the IPEF middle-income and emerging economies by 2032. Fourteen American tech firms such as Apple, Amazon, Cisco, Dell, IBM, and

---

12 Author's conversation with the Thai government officers, 24 February 2023.

13 "Bio-Circular-Green Economic Model (BCG)", The Royal Thai Embassy, Washington D.C., August 2021, https://thaiembdc.org/bio-circular-green-bcg/

14 "2022 Leaders' Declaration", Asia-Pacific Economic Cooperation (APEC), Bangkok, Thailand, 19 November 2022, https://www.apec.org/meeting-papers/leaders-declarations/2022/2022-leaders-declaration

15 Author's conversation with the Thai government officers, 24 February 2023.

16 *Ibid*.

17 "FACT SHEET: IPEF Upskilling Initiative", US Department of Commerce, https://www.commerce.gov/sites/default/files/2022-09/IPEF-Upskilling-Fact-Sheet.pdf

HP will boost digital skills of at least 500,000 of these individuals during the ten-year period. The Thai female workforce will receive training from this initiative. From the businesses' perspective, this will galvanise their long-term development and competitiveness in the increasingly digitalised world economy. Consequently, businesses hope for additional concrete public-private partnership (PPP) projects like the Upskilling Initiative to come out of the Framework.[18]

### Civil Society

The Thai civil society actors are either unsure or positive about the impact of the IPEF on the economy and society. There is no obvious domestic backlash. The sentiments manifest in the 2023 survey conducted by the Institute of Southeast Asian Studies (ISEAS) - Yusof Ishak Institute which gathers the opinions of Southeast Asian academic and thinktank scholars, business communities and civil society actors. This study reveals that 46.5 per cent and 41.7 per cent of the Thai respondents said they were unsure, and positive, respectively, about the IPEF's benefits on the country.[19] Among those expressing a positive stance, more than one-third articulated that the IPEF "will complement existing ASEAN [Association of Southeast Asian Nations] initiatives" and signal Washington "to be economically engaged in the region." Among those unsure, the key factors were "[t]here is little information available" and "[i]t depends on what emerges from the negotiations".[20]

## Negotiation Challenges and Anticipated Outcomes

### Pillar 1 (Trade)

This analysis foresees two main challenges facing Thailand under Pillar 1. The first one concerns the digital economy. While the country's e-commerce market is the second largest in Southeast Asia and is projected to reach US$32 billion by 2025,[21] the progress of fostering transnational digital governance architectures via international arrangements is relatively sluggish when compared to other Indo-Pacific states such as Australia and Singapore. While Bangkok is a signatory to the Regional Comprehensive Economic Partnership (RCEP) that has an e-commerce chapter, it is neither a member of the CPTPP, nor is it pursuing any digital economy agreements. It is also not participating at the WTO (World Trade Organization) talks on the trade-related aspects of e-commerce. The gaps in rulemaking would hinder Thailand's participation under this Pillar.

A possible outcome in digital economy will depend on how the IPEF stakeholders decide to adopt elements from different existing frameworks such as the United States-Mexico-Canada Agreement (USMCA), the CPTPP and other arrangements. The final outcomes might also reflect some influence from the Digital Economic Partnership Agreement (DEPA) signed in June 2020 between Chile, New Zealand, and Singapore. The DEPA has 14 sections and is built on the modular approach.[22] Such modality allows states to pick and choose among these modules to construct their own

18 Author's conversation with the Southeast Asian trade consultant, 24 February 2023.

19 "The State of Southeast Asia: 2023 Survey Report", Institute of Southeast Asian Studies (ISEAS) - Yusof Ishak Institute, 9 February 2023, https://www.iseas.edu.sg/wp-content/uploads/2025/07/The-State-of-SEA-2023-Final-Digital-V4-09-Feb-2023.pdf

20 *Ibid*.

21 "Thailand's roaring digital economy set to hit THB1.28 trillion this year", *The Nation*, 10 November 2022, https://www.nationthailand.com/business/tech/40021907

22 "Digital Economy Partnership Agreement (DEPA)", Ministry of Trade and Industry – Singapore, 2020, https://www.mti.gov.sg/-/media/MTI/Microsites/DEAs/Digital-Economy-Partnership-Agreement/Text-of-the-DEPA.pdf

arrangements. This advantage-by-design will facilitate the making of subsequent agreements including the IPEF.

Thai domestic legislations are more restrictive in terms of cross-border data flows. The Personal Data Protection Act (PDPA) of 2019, which has been in effect since June 2022, is a case in point. The Act is largely derived from the EU's General Data Protection Regulation (GDPR). The GDPR is in force since May 2018 and is regarded as *the world's toughest data privacy and security legislation as it offers the most restrictive provisions regarding these matters*.[23] Illustratively, similar to the GDPR, the Thai PDPA's Section 28 puts restrictions on transnational transfers of personal data. The transmissions are permitted only to the destinations that provide an adequate level of protection.[24] Such a provision clashes with the CPTPP and the USMCA. The CPTPP's Article 14.11 mandates all CPTPP parties to "allow the cross-border transfer of information by electronic means, including personal information, when this activity is for the conduct of the business."[25] Likewise, USMCA's Article 19.11 posits that "[n]o Party shall prohibit or restrict the cross-border transfer of information, including personal information, by electronic means if this activity is for the conduct of the business."[26] Hence, the discrepancies among the Thai laws, CPTPP and USMCA (coupled with a high likelihood that Washington will ride on the latter's modality to advance the IPEF talks) may prevent Bangkok from reaching agreeable details pertaining to cross-border data transmission.

But there is room for collaboration. The Digital Upskilling Initiative is welcomed by Bangkok since it lags behind its regional peers in the area of digital workforce. Illustratively, according to the 2022 International Institute for Management Development (IMD)'s World Digital Competitiveness Index, the country ranks 38 among 64 economies, and 10 among 14 Asian economies surveyed.[27] Going forward, Thailand will likely call for additional capacity-training programmes especially those catered towards entrepreneurs, which the US and other advanced IPEF nations can offer.

Another negotiation challenge for Thailand in Pillar 1 is labour standards. With the United States Trade Representative (USTR) leading negotiations in Pillar 1, this issue will be contentious, as the USTR has a strong pro-labour position. In June 2021, USTR Katherine Tai clarified the Biden Administration's worker-centred trade policy.[28] She contended that it involves "addressing the damage that [US] workers and industries have sustained from competing with trading partners that do not allow workers to exercise their internationally recogni[s]ed labo[u]r rights... We will be more effective if our trading partners also commit to promoting, protecting, and enforcing

23 "What is GDPR, the EU's new data protection law?", The European Union, 2023, https://gdpr.eu/what-is-gdpr/

24 Personal Data Protection Act, B.E. 2562 (2019), Section 28, Government of Thailand, 27 May 2019, https://thainetizen.org/wp-content/uploads/2019/11/thailand-personal-data-protection-act-2019-en.pdf

25 "Electronic Commerce", Article 14.11, Chapter 14 in CPTPP, https://www.mfat.govt.nz/assets/Trade-agreements/TPP/Text-ENGLISH/14.-Electronic-Commerce-Chapter.pdf

26 "Digital Trade", Article 19.11, Chapter 19 in USMCA, https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/19-Digital-Trade.pdf

27 "IMD World Competitiveness Yearbook 2022 – Thailand" International Institute for Management Development (IMD), 2022, https://wwwcontent.imd.org/globalassets/wcc/docs/wco/pdfs/countries-landing-page/TH.pdf

28 "Remarks of Ambassador Katherine Tai Outlining the Biden-Harris Administration's 'Worker-Centered Trade Policy'", Office of the United States Trade Representatives, 10 June 2021, https://ustr.gov/about-us/policy-offices/press-office/speeches-and-remarks/2021/june/remarks-ambassador-katherine-tai-outlining-biden-harris-administrations-worker-centered-trade-policy

internationally recogni[s]ed workers' rights as part of their trade policies".[29] On another occasion in June 2021, Tai praised the USMCA as "a better deal for workers and a new model for trade agreements able to secure a broad base of support".[30] This stance will likely entail that Washington would press for the USMCA-styled high labour standards at the IPEF talks. This is reflected by the fact that all IPEF Pillars call for the promotion of labour rights under the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work.

Bangkok can face some challenges stemming from the discrepancies between its degree of compliance or conformity, on the one hand; and what is stipulated in the ILO Conventions, and what the IPEF and USMCA cover, on the other. The USMCA's Chapter 23 (Labour) does not require the adoption of the Convention. Nevertheless, it stresses that '[t]he Parties affirm their obligations as members of the ILO, including those stated in the ILO Declaration on Rights at Work and the ILO Declaration on Social Justice for a Fair Globali[s]ation.' A close look at the ILO Declaration on Rights at Work[31] divulges that the parties are mandated to uphold the labour principles and rights as outlined in the ILO Conventions. According to the text, 'all Members, even if they have not ratified the Conventions in question, have an obligation arising from the very fact of membership in the Organi[s]ation, to respect, to promote and to reali[s]e, in good faith and in accordance with the Constitution, the principles concerning the fundamental rights which are the subject of those Conventions, namely:

(a) freedom of association and the effective recognition of the right to collective bargaining;

(b) the elimination of all forms of forced or compulsory labour;

(c) the effective abolition of child labour;

(d) the elimination of discrimination in respect of employment and occupation; and

(e) a safe and healthy working environment.'[32]

Regarding the ILO Conventions, Bangkok ratified several ILO conventions including minimum age, child labour, and forced labour. The amended Anti-Trafficking Act No 2 of 2015 increases the penalties for human traffickers. The national labour protection laws cover minimum wages, maximum working hours, and entitlement to sick and maternity leaves.[33]

However, Bangkok has not ratified the Freedom of Association and Protection of the Right to Organise Convention, 1948 (ILO No. 87) and the Right to Organise and Collective Bargaining Convention, 1949 (ILO No. 98). The government is working to conform with these laws. "[T]he Ministry of Labour is proposing a draft amendment to the Labour Relations Act and the State Enterprise Labour Relations Act. The draft amendments are being examined by the Office of

29 "Remarks of Ambassador Katherine Tai at the 'USMCA at One' Event at the Wilson Center", Office of the United States Trade Representatives, 30 June 2021, https://ustr.gov/about-us/policy-offices/press-office/speeches-and-remarks/2021/june/remarks-ambassador-katherine-tai-usmca-one-event-hosted-wilson-center

30 *Ibid*.

31 The full name is the Declaration on Fundamental Principles and Rights at Work and Follow-up to the Declaration

32 "ILO Declaration on Fundamental Principles and Rights at Work", International Labour Organization, 2022, https://www.ilo.org/declaration/lang--en/index.htm

33 "Thailand joins the global movement to combat forced labour", Press Release, International Labour Organization, 4 June 2018, https://www.ilo.org/global/standards/information-resources-and-publications/news/WCMS_631435/lang--en/index.htm

the Council of State."[34] At the IPEF talks, if Washington fervently rejects Thailand's equivalent legislations or demands the latter to upgrade or adjust its domestic laws to be closer to what the US aspires, this could lead to clashes during the negotiation. Without market access offer, it will be difficult for the US to extract buy-ins from Thailand.[35]

### Pillar 2 (Supply Chains)

On 27 May 2023, the members announced the substantial conclusion of negotiation on an IPEF Supply Chain Agreement which is the first multilateral deal striving to galvanise resilience and connectivity of supply chains.[36] This proposed deal will establish three mechanisms. First, the IPEF Supply Chain Council is a crisis-prevention entity which will devise sector-specific action plans to bolster the resilience of critical industries and essential goods. The second one is the IPEF Supply Chain Crisis Response Network – a crisis-management body. It will create emergency communication channels to help the parties address supply chain disruptions. Finally, the IPEF Labo[u]r Rights Advisory Board will ensure that supply chain cooperation promotes labour rights.[37] At the fourth Negotiation Round in South Korea on 9-15 July 2023, the government "advanced the legal review of the proposed IPEF Supply Chain Agreement".[38]

This outcome is unsurprising because of convergence of interest among the Indo-Pacific nations including Thailand. Recent global events, especially the intensifying Sino-American rivalry, the COVID-19 pandemic, and the conflict in Ukraine have taught the regional states the importance of diversifying supply chains for their economic resilience. The stakeholders believe that the Framework would set rules and offer a pathway to obtain such resilience. In other words, this mechanism would further augment their ability to weather future market uncertainties and crises. Another reason stems from the fact that no prior multilateral framework has focused on transnational supply chain collaboration, such as establishing an early warning system. This apparatus would enable the participating economies to collectively identify supply chain bottlenecks and re-configure their production lines to ensure smooth and timely flows of goods. For Thailand, creating such a system at the regional level is significant, as the current cooperation in this regard is bilateral through the Memorandum of Understandings (MOUs). Because supply chains are multilateral in nature, multilateral mechanisms should be more effective than bilaterals for achieving economic diversification and resilience.[39]

Although this Agreement is a positive development, negotiation challenges remain. The details concerning how these entities will operate are subject to further talks which can cause clashes among the members. For one thing, the IPEF nations may not be able to reach a common ground

34 "Country Baseline under the ILO Declaration Annual Review – Thailand – 2021 (Freedom of Association and the Effective Recognition of the Right to Collective Bargaining)", International Labour Organization, 2021, https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---normes/documents/genericdocument/wcms_857831.pdf

35 Author's conversation with the Thai government officers, 24 February 2023.

36 "Press Statement on the Substantial Conclusion of IPEF Supply Chain Agreement Negotiations", US Department of Commerce, 27 May 2023, https://www.commerce.gov/news/press-releases/2023/05/press-statement-substantial-conclusion-ipef-supply-chain-agreement

37 *Ibid*.

38 "Joint USTR and U.S. Department of Commerce Readout of Fourth Indo-Pacific Economic Framework Negotiating Round in South Korea", The United States Trade Representative, 16 July 2023, https://ustr.gov/about-us/policy-offices/press-office/press-releases/2023/july/joint-ustr-and-us-department-commerce-readout-fourth-indo-pacific-economic-framework-negotiating

39 Author's conversation with the Thai government officers, 24 February 2023.

concerning how the Supply Chain Crisis Response Network handles data. In other words, they may disagree on the modality of sharing and protecting confidential business data. Due to their dissimilar data privacy and protection laws, their ideas about how to store, transfer and safeguard data diverge. Also, issues concerning an enforcement mechanism to monitor and ensure that all participants comply with the Agreement will be contentious. This matter can trigger concerns over sovereignty which some ASEAN members at the IPEF talks dearly guard. Therefore, if the stakeholders cannot arrive at a common approach to share and protect the information, it can hinder the progress of concluding the Agreement.

This analysis anticipates that the actual cooperation under this Agreement will likely begin among more advanced IPEF stakeholders first. It is because they have capacities to collect, store, share and protect the international flows of confidential business data. These IPEF members, such as Australia, New Zealand, Japan, South Korea and Singapore focus on the economic security of the IPEF.[40] Given the high level of economic advancement of these countries, their collaboration will tend to concentrate on high-technology and knowledge-intensive products such as semiconductors and large capacity batteries.

### Pillar 3 (Clean Economy)

The Pillar 3 cooperation highly aligns with Thailand's BCG model which has been rolled out in 2021. As mentioned earlier, the country has been adopting this model and promoting it abroad. It is because the state is suffering from global warming and threatening weather conditions. According to the 2021 Global Climate Risk Index, Thailand ranked ninth in the *extreme risk* list of countries most vulnerable to the effects of climate change in the next three decades.[41] The recent haze incident in the Chiang Mai province leaving 1.7 million people ill further triggered public concerns over the environment.[42] One of the BCG model's goals is to attract investment into four cluster industries: 1) agriculture and food, 2) wellness and medicine, 3) energy, materials and biochemicals, and 4) tourism and creative economy.[43] As this Pillar seeks to mobilise investment and sustainable finance for clean energy and green projects, this will be welcomed by Bangkok.

Regarding the domestic legal landscape, the authorities have adjusted and enacted legislations to steer the country towards green economy. Illustratively, the Ministry of Energy is implementing the *Alternative Energy Development Plan* of 2018 – 37. The Plan promotes the domestic use and production of renewable energy. Moreover, the revised *Building Energy Code* in effect since March 2021 requires all new constructions of commercial and government buildings to reduce greenhouse gas emissions and meet the energy conservation and efficiency targets.

Concerning the aspect of 'Sustainable Land, Water, and Ocean Solutions' under this Pillar, while Thailand is not a signatory to the International Convention for the Prevention of Pollution from Ships, it has domestic rules and regulations addressing this issue. For instance, the Navigation

40 Sang Chul Park, "The Biden Administration and Expectations for IPEF", *Australian Outlook*, Australian Institute of International Affairs, 16 December 2022, https://www.internationalaffairs.org.au/australianoutlook/the-biden-administration-and-expectations-for-ipef/

41 "Global Climate Risk Index 2021", *Germanwatch*, 25 January 2021, https://www.germanwatch.org/en/19777

42 Kocha Olarn and Heather Chen, "Smoke from forest fires blankets northern Thailand in thick pollution", CNN, 5 April 2023, https://edition.cnn.com/2023/04/05/asia/chiang-mai-air-pollution-thailand-intl-hnk/index.html

43 "BCG Concept: Background", National Science and Technology Development Agency, 2021, https://www.bcg.in.th/eng/background/

in the Thai Waters Act (No. 14) of 1992 mandates that "[i]f the Thai or foreign vessel or object contains substance that causes or may cause pollution to the environment, the owner or his or her agent shall clean or prevent such pollution within a period specified by the Master of Harbour."[44] Also, the 2017 Civil Liability for Oil Pollution Damage Caused by Ships Act further sets up rules governing the oil spill problems in the territorial waters.[45] The Climate Change Act, which is being drafted, outlines the action plans for greenhouse gas mitigation and adaptation as well as citizens' rights concerning these matters.[46]

These domestic achievements notwithstanding, Thailand's international commitments lag behind other Indo-Pacific nations. It has ratified the Montreal Protocol on Substances that Deplete the Ozone Layer, the Convention on Trade in Endangered Species, and the Paris Agreement. Nevertheless, the government's pledges for the latter, namely, to peak its greenhouse gas emissions in 2030 and reach carbon neutrality by 2065, pale in comparison to the other signatories' targets. Also, Bangkok did not ink the 2021 United Nations Climate Change Conference (COP 26)'s deal to end deforestation by 2030 and is not part of the Forests and Climate Leaders' Partnership at the 2022 United Nations Climate Change Conference (COP 27) which will deliver the countries' pledges at COP 26.[47]

Therefore, the state may face challenges when partaking in Pillar 3 due to differences between its own and other IPEF members' climate change ambitions and implementation timelines. A close look at Thailand's moves above reveals that the issue can be attributed to the country's lack of manpower and financial support that is needed to uphold international commitments. For example, it may not have sufficient research and development (R&D) capacities and technologies to expand clean energy production and storage. As a result, Bangkok may not be able to cooperate on some aspects of this Pillar.

The outcome would partially depend on the technical and financial assistance that developing IPEF nations including Thailand will receive. ASEAN countries and Fiji reportedly expressed their desire for US support in helping them develop clean energy technologies.[48] Washington is also looking to fund IPEF's decarbonisation efforts via its entities such as the Export-Import Bank and International Development Finance Corporation.[49] Such assistance would allow Bangkok and other developing members to foster environment collaboration more effectively under the IPEF.

---

44 "Navigation in Thai Territorial Waters Act (No. 14), B.E. 2535. (1992)", Government of the Kingdom of Thailand.

45 "Civil Liability for Oil Pollution Damage Causes by Ships Act, B.E. 2560. (2017)", Government of the Kingdom of Thailand.

46 Nuanporn Wechsuwanarux, Supavadee Sirilerkwipas, and Punika Dasom, "Thailand's First Climate Change Bill to be Submitted for Approval", *Chandler MHM*, 1 August 2022, https://www.chandlermhm.com/content/files/pdf/Newsletter/2022/CMHM%20Newsletter%20-%20Thailand%20First%20Climate%20Change%20Bill%20to%20be%20Submitted%20for%20Approval%201%20August%202022.pdf

47 "News story: World Leaders Launch Forests and Climate Leaders' Partnership at COP27", The Government of the United Kingdom, 8 November 2022, https://www.gov.uk/government/news/world-leaders-launch-forests-and-climate-leaders-partnership-at-cop27

48 Du Juan, "Experts: India not alone in difficulties lying ahead for IPEF", *China Daily*, 21 September 2022, https://global.chinadaily.com.cn/a/202209/21/WS632a414aa310fd2b29e78c4e.html

49 Andrew Schwartz, Scott Miller, and William Alan Reinsch, "Nothing is complete without a 301 investigation", Podcast, Center of Strategic and International Studies (CSIS), The United States of America, 15 September 2022, https://www.csis.org/podcasts/trade-guys/nothing-complete-without-301-investigation

### Pillar 4 (Fair Economy)

As far as Pillar 4 is concerned, Thailand is a party to or has endorsed some international arrangements outlined under this Pillar. For example, it ratified the United Nations Convention against Corruption (UNCAC) in March 2011. Since then, the government has adjusted domestic legislations to conform with the UNCAC. In 2017, Bangkok endorsed the OECD/G20 Inclusive Framework for Implementing Measures against Base Erosion and Profit Shifting (BEPS). It also agreed to the Two-Pillar Solution to Address the Tax Challenges Arising from digitalisation of the economy. Moreover, the authorities have participated in several anti-corruption groupings such as the Asia-Pacific Economic Cooperation (APEC) Anti-Corruption and Transparency Experts' Working Group (ACTWG) and ASEAN Parties Against Corruption (ASEAN-PAC).

Nonetheless, Bangkok can face some negotiation challenges as it lags behind other IPEF nations in certain areas. For example, Thailand scored 36 out of 100 (100 score indicates 'very clean' while 0 means 'highly corrupt') in the Corruption Perceptions Index of 2022, putting it behind several IPEF peers.[50] Regarding anti-money laundering, Thailand is not a member of the Financial Action Task Force (FATF). Its revised Anti-Money Laundering Act (No 6) B.E. 2565 (2022) purposed to tackle the funding of illicit activities in Thailand came into effect on 23 December 2022.[51] In addition, Thailand is not a signatory to the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions of the Organisation for Economic Cooperation and Development (OECD Anti-Bribery Convention). The country is attempting to make headway on this front. For example, it signed the inaugural three-year Thailand Country Programme with OECD on 31 May 2018. Sponsored by the Organisation, this scheme's main objective is to enhance Bangkok's structural reform efforts in four aspects: good governance and transparency, business climate and competitiveness, Thailand 4.0, and inclusive growth.[52] As a result, Thailand may not be able to comply with all obligations mentioned under Pillar 4. The negotiation outcomes will partly depend on how the country bargained for its implementation timelines to espouse the international conventions as well as the capacity training programmes which other members will provide to Bangkok to accelerate its adoption of these treaties.

## Implementation Challenges

The General Election (GE) was held on 14 May 2023. All 500 seats in the House of Representatives were up for grabs. However, all 250 seats in the House of Senate were not up for contestation as their term is yet to expire. The implementation of the IPEF's commitments will largely depend on the composition of a coalition government and the choice of the Prime Minister (PM). These outcomes will set the tone and direction of the country's international economic policy going forward, including the IPEF.

Defying all the polls, the opposition parties won most seats in the House of Representatives. Move Forward Party (MFP) gained 151 seats. Pheu Thai Party (PTP) came second with 141 seats. Because it won most seats, MFP was given an opportunity to form the next government. On 18 May 2023,

---

50 "Corruption Perceptions Index 2022", Transparency International, https://images.transparencycdn.org/images/Report_CPI2022_English.pdf

51 "Thailand Issues a New Anti-Money Laundering Act", *Mahanakorn Partners Group*, 12 January 2023, https://mahanakornpartners.com/thailand-issues-a-new-anti-money-laundering-act/

52 "A solid partnership between Thailand and the OECD", Organisation for Economic Co-operation and Development (OECD), 2023, https://www.oecd.org/southeast-asia/countries/thailand/

the MFP (together with PTP and other parties) announced an 8-party coalition. This pact possessed 313 out of 500 House seats. It also nominated Mr Pita Limjaroenrat as the PM candidate.[53]

However, Pita's path to the premiership was blocked by the Senate and Constitutional Court. According to the current Constitution, at least 376 out of the 750 votes from both parliamentary chambers are needed to elect the PM. In short, 250 senators cast their votes along with 500 representatives in the PM selection.

Concerning the senators' decision, military-linked parties, namely the Phalang Pracharath Party (PP) and the United Thai Nation Party (UTN), have influence over this matter. It is because all of these individuals were appointed by the National Council for Peace and Order, which overthrew the democratically-elected government in May 2014.

Thus, the 8-party grouping must get at least 63 votes from the Senate to meet the 376 vote threshold. It turned out that it was unable to secure sufficient votes from the Upper House. On 13 July 2023, most senators either voted down or abstained their votes. As a result, Pita lost his first PM bid.[54] On 19 July 2023, the Parliament refused his requested second try.[55] The final blow to his premiership was delivered by the Constitutional Court. On 16 August 2023, the Court dismissed a petition challenging the Parliament's blockade of Pita's second bid, sealing his fate of becoming the PM. Because Pita is the only MFP's PM candidate and his party is not allowed to nominate another candidate after the GE, such verdict in effect prevented MFP from being part of the new government.

The first runner-up PTP then had a chance to form the government. It eventually decided to break away from the 8-party pact and unite with ten other parties including the military-linked ones – PP and UTN – which gained only 40 and 38 seats respectively. Thanks to the senators' linkages to PP and UTN outlined above, this PTP-led coalition received enough votes in the Upper house to pass the 376-vote threshold. On 22 August 2023, the Parliament chose the PTP's candidate Mr Srettha Thavisin – a businessman-turned-politician – as the PM.[56] On 5 September 2023, he and his cabinet were sworn into office.[57]

This outcome bodes well for the IPEF implementation. PTP is known for its pro-market stance. Its predecessor, Thai Rak Thai Party, was widely praised for its significant role in spearheading Thailand's economic recovery after the Asian Financial Crisis of 1997 - 98. Just a week after he was elected as the PM, Srettha started implementing plans to boost tourism such as easing the visa requirement rules for Chinese and Indian travellers and permitting long-stay for all sojourners in the last quarter of 2023.[58] With regard to the IPEF, his Administration will likely amend the

53 Tan Hui Yee, "Thailand's Move Forward Party announces 8-party coalition, aims to form government", *The Strait Times*, 18 May 2023, https://www.straitstimes.com/asia/se-asia/thailand-s-winning-move-forward-party-announces-8-party-coalition-with-eye-on-forming-government

54 "Pita loses first PM vote", *Bangkok Post*, 13 July 2023, https://www.bangkokpost.com/thailand/politics/2611078/pita-loses-first-pm-vote

55 "Thai parliament refuses opposition leader Pita second PM vote", *Le Monde*, 19 July 2023, https://www.lemonde.fr/en/international/article/2023/07/19/thailand-s-opposition-leader-pita-suspended-from-parliament_6058859_4.html

56 "Srettha Thavisin elected Thailand PM as Thaksin returns from exile", *Al Jazeera*, 22 August 2023, https://www.aljazeera.com/news/2023/8/22/srettha-thavisin-elected-thailand-pm-as-thaksin-returns-from-exile

57 "Thailand's king swears in new PM and cabinet", *The Straits Times*, 5 September 2023, https://www.straitstimes.com/asia/thailands-king-swears-in-new-pm-and-cabinet

58 "Thailand mulls easing visa rules to lure Chinese, Indian tourists", *Bangkok Post*, 30 August 2023, https://www.bangkokpost.com/business/general/2638495

domestic rules and regulations to comply with Thailand's commitments and create more feasible conditions for doing business in the country.

## Prospects for the Future

Looking ahead, how will Thailand's IPEF membership alter the other FTAs that Bangkok is negotiating especially with countries outside the Framework such as Canada and the EU? Regarding Canada, it applied to join the IPEF and all existing members expressed support for its bid.[59] However, when Ottawa will officially accede to the Framework remains unclear. From Thailand's point of view, it will continue to negotiate the Thailand-Canada FTA slated to be completed in 2024. The progress will likely be made due to the complementary nature of the bilateral goods trade which reached US$6.4 billion in 2022 and both sides' desire to diversify.[60] The Thai government strives to increase its exports of electrical appliances, canned seafood and processed food, steel, and rubber.[61] With such FTA, Ottawa can boost its exports of fertilizers, paper products, grains and cereals, and machinery.[62]

The EU is Thailand's fourth-biggest trading partner behind China, the US and Japan. The two-way goods trade in 2022 figured at US$53 billion.[63] While the grouping's probability of entering the IPEF is unknown, Bangkok plans to tighten the bilateral ties with the bloc via an FTA. Their FTA talk was recommenced on 15 March 2023 and both sides aim to conclude it by 2025.[64][65] Bangkok wants to increase its exports of food, raw materials, and electronic products to the EU's market of 447 million people. Yet, the success of this negotiation will partially rely on how both sides reach a deal. On the one hand, it would depend on how much the Thai government can offer to the grouping, namely additional market access for the latter's financial, insurance, and information and communication sectors as well as loosening government procurement requirements. On the other hand, it would rely on whether the EU opens more markets for Bangkok's exports namely agricultural and electronics goods.[66]

---

59 "U.S.-led Indo-Pacific Economic Framework backs Canada's bid to join", *Kyodo News*, 16 December 2022, https://english.kyodonews.net/news/2022/12/870e187f6d92-update2-us-led-indo-pacific-economic-framework-backs-canadas-bid-to-join.html

60 "Canada-Thailand relations", The Government of Canada, 15 August 2023, https://www.international.gc.ca/country-pays/thailand-thailande/relations.aspx?lang=eng#a2

61 "ASEAN-Canada Tok kem FTA Rob See Keubna Duay Dee Tang Pao Pid Deal Pee Hokjed" [*ASEAN-Canada FTA Progressing, Expected to Conclude in 2025*], Press Release, The Department of Trade Negotiation, The Government of Thailand, 29 June 2023, https://www.dtn.go.th/th/content/category/detail/id/22/iid/12205

62 Julie Beun, "3 markets to watch: Vietnam, Thailand and the Philippines," *Export Development Canada*, 6 September 2023, https://www.edc.ca/en/article/markets-to-watch-indo-pacific.html

63 Francesca Regalado, "Thailand, EU agree to restart trade talks halted by 2014 coup", *Nikkei Asia*, 16 March 2023, https://asia.nikkei.com/Economy/Trade/Thailand-EU-agree-to-restart-trade-talks-halted-by-2014-coup

64 The talk originally commenced in 2013 but was suspended after Thailand's coup in May 2014. The negotiation was later restarted after the latter made progress towards democracy. The EU's goal to re-engage Bangkok was mentioned in the 2021 European Commission's Report. See "Joint Communication to the European Parliament and the Council: The EU strategy for Cooperation in the Indo-Pacific", European Commission, 16 September 2021, https://www.eeas.europa.eu/sites/default/files/jointcommunication_2021_24_1_en.pdf

65 "Thailand, EU to resume FTA talks in March", *Vietnam Investment Review*, 27 January 2023, https://vir.com.vn/thailand-eu-to-resume-fta-talks-in-march-99411.html

66 Author's conversation with a trade expert involved in the Thailand-EU FTA, 29 March 2023.

As mentioned above, Thailand just has a new government led by the pro-business PTP. However, this 11-party coalition looks less stable. It is mainly because the PTP and the military-linked PP and UTN are long-time rivals which joined hands to specifically prevent the MFP from becoming the government. Their feud will likely exacerbate rifts within the Srettha Administration. This risks entailing a Parliamentary dissolution and another GE within the next five years. If it happens, it could disrupt the country's IPEF implementation going forward.

## About the author

**Dr Kaewkamol "Karen" PITAKDUMRONGKIT** is Head and Assistant Professor at the Centre for Multilateralism Studies, S Rajaratnam School of International Studies (RSIS) at the Nanyang Technological University, Singapore. She is also a Non-Resident Fellow at the National Bureau of Asian Research, United States. Her research interests include international economic negotiation, Indo-Pacific economic governance and integration, regional-global economic governance dynamics, ASEAN Economic Community, and ASEAN's external relations (ASEAN-Plus frameworks). She has published in various outlets such as The Singapore Economic Review, The International Relations of the Asia-Pacific, The Pacific Review, Australian Outlook, Review of International Political Economy, The Diplomat, and East Asia Forum. Her media interviews include Bangkok Post, Bloomberg, Business Times, Channel News Asia, CNBC Asia-Pacific, New Straits Times, The Strait Times, South China Morning Post, and Xinhua.

# Indonesia's Perspective on the IPEF

Siwage Dharma NEGARA and Maria Monica WIHARDJA

This paper provides an analysis of the Indonesian perspective on joining the Indo-Pacific Economic Framework for Prosperity (IPEF). Using official documents, other available published materials, and conversations with several policymakers and experts, it highlights potential challenges in the negotiation process and later in the implementation of the agreements from Indonesia's viewpoint. The paper argues that Indonesia sees the IPEF as an opportunity to engage with the United States (US) in shaping common rules and standards to support regional stability. At the same time, it wants to ensure that the IPEF agreements align with the country and the Association of Southeast Asian Nations' (ASEAN) principles, inclusivity and complementarity. While the IPEF is seen as an 'empty vessel' that could increase US-China competition in the region and threaten ASEAN centrality and integrity, Indonesia nevertheless expects the IPEF to become a new platform to promote the US' economic re-engagement in the Indo-Pacific, boost regional competitiveness and standards, and address emerging global issues collaboratively.

## Introduction

This paper aims to provide Indonesia's perspective on the Indo-Pacific Economic Framework (IPEF). Specifically, the paper will try to identify negotiation challenges and anticipated outcomes for the IPEF negotiations in the four key areas of trade (especially in the digital economy), resilient supply chains, clean economy (clean energy and decarbonisation), and fair economy (tax, financial and fiscal practices). It will also try to examine some implementation challenges for the IPEF arising from domestic regulatory complexities and political economies in Indonesia. And finally, it looks at the prospects of the IPEF's engagement with Europe in the foreseeable future.

## What the IPEF Means for Indonesia

The Indonesian government perceives the IPEF as an opportunity to maintain good economic relations with the United States (US) and the other IPEF members. Airlangga Hartarto, the Coordinating Minister of Economic Affairs, stated that he hoped the IPEF would promote economic growth and resilience of its member states and also trigger new ideas and innovation for more intensive cross-border trade and investment.[1]

Here, the IPEF is seen by the government as both, an economic and strategic goal for Indonesia to support the country's development objectives, such as expediting its clean economy development, integrating its economy with the global supply chain, and improving its ease of doing business. The government expects that the IPEF will help Indonesia and other member economies in shaping common rules and standards to support regional trade and investment. This will in turn supplement other trade rules, for example, from the World Trade Organization (WTO) or the Regional Comprehensive Economic Partnership (RCEP). The IPEF could also help fill in the slow progress in economic cooperation under the more binding fora, including the WTO and the traditional Free Trade Agreements (FTAs), and serve as a laboratory test for new forms of economic cooperation to address emerging issues such as supply chain fragmentation.

Interestingly, Indonesia-US economic relations have been growing since the COVID-19 pandemic. Indonesia's exports to the US reached more than US$28 billion in 2022, while imports reached almost US$12 billion in the same period. Over the years, the trade balance has been tilted towards Indonesia, with a US$16 billion trade surplus in 2022 (Figure 1). So, the question is: will the IPEF change this trade pattern by way of reducing the surplus and making it more balanced? There is also the question of whether the IPEF will reduce Indonesia's trade dependency with China. Currently, according to Statistics Indonesia *(Badan Pusat Statistik [BPS])*, China accounts for 26-27 per cent of Indonesia's total trade value, while the US only accounts for 12-13 per cent of its total trade value.[2]

---

1 "Coordinating Minister Airlangga hopes that IPEF will strengthen the economic resilience of partner countries", *Antara*, 15 March 2023, https://www.antaranews.com/berita/3442251/menko-airlangga-harap-ipef-perkuat-ketahanan-ekonomi-negara-mitra

2 "Balance of Trade of Selected Countries (Million US$), 2020-2022", Statistics Indonesia *(BPS)*, https://www.bps.go.id/indicator/8/336/1/neraca-perdagangan-beberapa-negara.html

## Could the IPEF increase Indonesia's bilateral trade with the US without additional market access?

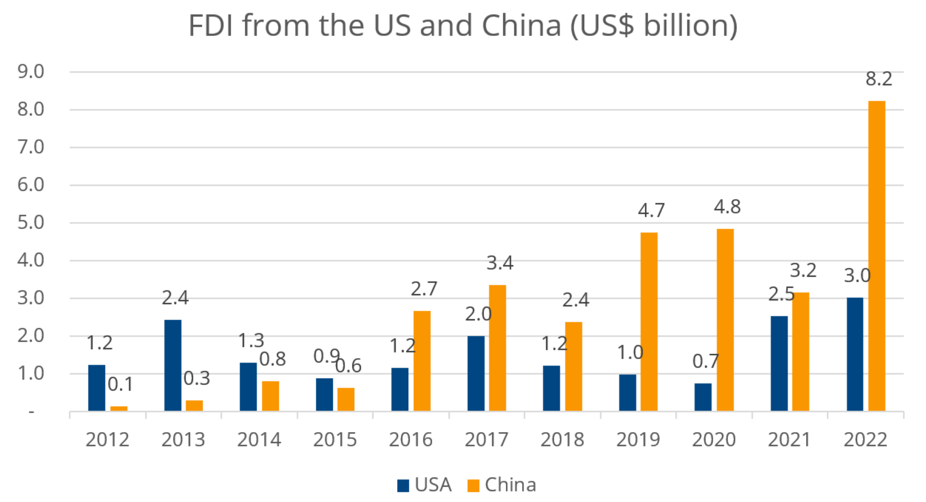
**Figure 1:** Trade with the US (US$ billion)


**Source**: Statistics Indonesia (Badan Pusat Statistik [BPS]).

Indonesia's Foreign Direct Investment (FDI) from the US significantly increased between 2020 and 2022, reaching US$3 billion in 2022 (Figure 2). Compared to FDI from China, which reached US$8.2 billion in the same period, the figure is relatively low. So, the question is: will the IPEF change this investment pattern by way of increasing FDI from the US and making it more balanced with China's FDI?

## Will the IPEF further increase FDI from the US and make it more equal with China's?

**Figure 2:** FDI from the US and China (US$ billion)




**Source**: Indonesia Investment Coordinating Board[3] *(Badan Koordinasi Penanaman Modal [BKPM])*.

From the data above, there is a solid economic rationale for Indonesia to join the IPEF – to strengthen economic relations with the US and other members. At the same time, the government perceives joining the IPEF as critical amid rising US-China geopolitical competition. Indonesia, with its independent and active foreign policy, wants to work with both superpowers to maintain stability and peace. Through this strategic balancing act, Indonesia hopes there will be healthy competition in the region that will emerge with various economic cooperations and agreements, and subsequently promote economic competitiveness, efficiency and productivity in the region. This development, however, should not come at the cost of the region's stability and peace. The country believes that it is critical to maintaining the Association of Southeast Asian Nations (ASEAN) Centrality and neutrality in the IPEF.

The private sector, however, has a rather muted view of the benefit of joining the IPEF. While many Multinational Corporations (MNCs) operating in Indonesia expect that the IPEF will lead to a better business environment through improved standards and regulations, the local business communities seem more cautious.[4] This is because the latter is more interested in their own survival in the domestic market. Many local companies, especially the Micro, Small and Medium Enterprises (MSMEs), are still struggling to meet the existing national standards and regulations. The IPEF, which will offer higher standards and rules for trade and investment, will certainly create additional challenges for them.

3 "National Single Window for Investment", Indonesia Investment Coordinating Board *(BKPM)*, https://nswi.bkpm.go.id/data_statistik

4 "Civil Society Intervenes Indo-Pacific Economic Framework (IPEF) Stakeholder Event Due to Absence of Meaningful Participation", *Solidaritas Perempuan*, 17 March 2023, https://www.solidaritasperempuan.org/masyarakat-sipil-mengintervensi-stakeholder-event-indo-pacific-economic-framework-ipef-akibat-absennya-partisipasi-bermakna/

Overall, many Indonesians see the IPEF with scepticism or are unsure about its benefit or even its feasibility in implementation.[5] The scepticism is worsened by the lack of information about the IPEF and the lack of communication between the negotiators and stakeholders.

## Key Negotiation Challenges

In Pillar 1 (Trade), the key challenges for Indonesia are related to cross-border data flow. Indonesia's data localisation policy will not align with the IPEF's objective of seamless data flow.[6] For instance, under Indonesia's Financial Services Authority *(Otoritas Jasa Keuangan, OJK)* regulations, all banks and non-banking financial institutions located in Indonesia must place their electronic system in Indonesia (data localisation).[7] This means all 109 banks and 1,333 non-banking financial institutions must own or use data centres in Indonesia's territorial geography. Certainly, building physical data centres in Indonesia may not be economically viable for foreign financial companies. Indonesia passed Law No. 27 of 2022 concerning Personal Data Protection (PDP).[8] The law still requires clearer mechanisms, as well as derivative regulations, on different categories of data, such as sensitive personal data. The IPEF's standard of free data flow will face serious challenges, or most likely, will not be accepted by Indonesia's policymakers due to concerns over its security and safety. It is important to note that the country has rampant cyber security issues.[9]

Like the other IPEF members, Indonesia is unlikely to adopt the United States-Mexico-Canada Agreement (USMCA) regarding labour standards.[10] Using the USMCA labour standards in the IPEF will bring opposition from Indonesia as it is seen as a way of protecting production in the US where minimum wages are higher than the prevailing wages in Indonesia. Moreover, Indonesia fears that the adoption of a USMCA-like model could lead to the US government's ability to impose sanctions unilaterally and directly on companies overseas, like in the case of the US-Mexico Rapid Response Mechanism in the USMCA which bypasses the government of Mexico. The US could potentially use this as an 'economic weapon' on countries or companies deemed as threats. As such, the Indonesian government will not agree to the adoption of the USMCA labour rules.

Concerning Pillar 2 (Supply Chains), the key challenge is that Indonesia has the ambition to develop its downstream industry by controlling exports of critical minerals and materials.[11] The country wants to take advantage of its vast mineral resources by banning critical mineral exports while

5 Sharon Seah, Joanne Lin, Melinda Martinus, Sithanonxay Suvannaphakdy, Pham Thi Phuong Thao, "The State of Southeast Asia: 2023 Survey Report", *ISEAS-Yusof Ishak Institute* (9 February 2023), https://www.iseas.edu.sg/wp-content/uploads/2025/07/The-State-of-SEA-2023-Final-Digital-V4-09-Feb-2023.pdf

6 Mochamad Januar Rizki, "Menyoal Kejelasan Aturan Main dalam Aliran Data Lintas Batas", *Hukumonline.com*, 5 January 2023, https://www.hukumonline.com/berita/a/menyoal-kejelasan-aturan-main-dalam-aliran-data-lintas-batas-lt63b64bac556b1/

7 "About Consumer and Public Protection in the Services Sector Finance *(Tentang Perlindungan Konsumen Dan Masyarakat Di Sektor Jasa Keuangan)* – No. 6, POJK.07", Indonesian Financial Services Authority *(OJK)*, 2022, https://www.ojk.go.id/id/regulasi/Documents/Pages/Perlindungan-Konsumen-dan-Masyarakat-di-Sektor-Jasa-Keuangan/POJK%206%20-%2007%20-%202022.pdf

8 "About Personal Data Protection *(Tentang Pelindungan Data Pribadi)* – No. 7", Laws of the Republic of Indonesia *(Undang-Undang Republik Indonesia)*, 2022, https://jdih.setkab.go.id/PUUdoc/176837/Salinan_UU_Nomor_27_Tahun_2022.pdf

9 Nur Janti, "Data breaches still haunt Indonesia as BSI becomes latest victim", *The Jakarta Post*, 16 May 2023, https://www.thejakartapost.com/paper/2023/05/16/data-breaches-still-haunt-indonesia.html

10 "U.S. – Mexico – Canada Agreement (USMCA)", US Customs and Border Protection, https://www.cbp.gov/trade/priority-issues/trade-agreements/free-trade-agreements/USMCA

11 "Minister of Industry: Industrial downstreaming is the key to national economic progress", *Kementarian Perindustrian*, 23 December 2022, https://kemenperin.go.id/artikel/23792/Menperin:-Hilirisasi-Industri-Adalah-Kunci-Kemajuan-Ekonomi-Nasional

attracting foreign investment in the local downstream industry. This policy has strong domestic political support, but it will not align with the idea of the IPEF's supply chain resilience. The downstreaming policy through export bans of critical minerals has been followed in retaliations by other countries.[12] For instance, Indonesia lost in the WTO against the European Union's (EU) claims concerning the nickel export ban.[13] It is currently appealing in this regard. Nevertheless, trade retaliations were imposed by the EU and China through anti-dumping duties on steel exports from Indonesia.

The Indonesian government plans to ban all critical metal ore exports to encourage investment in the downstream industry.[14] After banning exports of nickel ore last year, Indonesia continues banning exports of bauxite in June this year.[15] Moving forward, the government will target other critical minerals. However, export bans on other metal ores need to wait until the smelter industries to process these raw minerals are completed.[16]

Another challenge is Indonesia's local content requirements, which have intensified in recent years and target several strategic sectors, such as mineral, oil and gas, and digital sectors.[17] Similar to the downstreaming industrial policy, the local content policy has a strong domestic political support base and will be difficult to reconcile with the IPEF's supply chain standards and regulations. For example, in the manufacturing of Information and Communication Technologies (ICT) goods, Indonesia has a local content requirement policy, which requires around 30-40 per cent of local content for Fourth Generation/Long Term Evolution (4G/LTE) equipment.[18] This means that foreign companies who want to sell their 4G/LTE products must either build a factory or find a local partner in Indonesia. This policy aims to spur innovation in local industry in manufacturing 4G/LTE products.

---

12 "Critical Minerals: challenges for diversification, climate change and development", Presentation by Mari Pangestu, University of Indonesia for Peterson Institute for International Economics Webinar, 27 April 2023, https://www.piie.com/sites/default/files/2023-04/2025-04-27pangestu-ppt.pdf

13 "WTO panel rules against Indonesia's export limitations on raw materials", European Commission, 30 November 2022, https://ec.europa.eu/commission/presscorner/detail/en/ip_22_7314

14 "The Ban will Not Stop Exports of Key Raw Minerals Copper, Zinc, Iron Ore from Indonesia, But Bauxite Shipments will Stop in June", *Hellenic Shipping News Worldwide*, 26 May 2023, https://www.hellenicshippingnews.com/the-ban-will-not-stop-exports-of-key-raw-minerals-copper-zinc-iron-ore-from-indonesia-but-bauxite-shipments-will-stop-in-june/

15 "Bauxite Ore Export Ban; Developing a Domestic Mineral Refining & Processing Industry in Indonesia", *Indonesia Investments*, 6 July 2023, https://www.indonesia-investments.com/news/news-columns/bauxite-ore-export-ban-developing-a-domestic-mineral-refining-processing-industry-in-indonesia/item9638#:~:text=On%2010%20June%202023%20the,bauxite%20processing%20and%20refining%20industry

16 Erwida Maulia, "Indonesia bets on critical mineral export bans as deadline nears", *NIKKEI Asia*, 23 May 2023, https://asia.nikkei.com/Spotlight/Asia-Insight/Indonesia-bets-on-critical-mineral-export-bans-as-deadline-nears?utm_campaign=GL_editor_in_chief_picks&utm_medium=email&utm_source=NA_newsletter&utm_content=article_link&del_type=2&pub_date=20230526150007&seq_num=11&si=__MERGE__user_id__MERGE__

17 "Note! Electric Cars Must Have Local Components of At Least 35%", *CNBC Indonesia*, 8 August 2019, https://www.cnbcindonesia.com/news/20190808141026-4-90690/catat-mobil-listrik-wajib-komponen-lokal-minimal-35;

Ignacio Geordi Oswaldo, "Komponen Lokal Wajib Digenjot, Ini Pentingnya, *detikfinance*, 27 July 2022, https://finance.detik.com/berita-ekonomi-bisnis/d-6201534/komponen-lokal-wajib-digenjot-ini-pentingnya

18 Siwage Dharma Negara, 'The Impact of Local Content Requirements on the Indonesian Manufacturing Industry', *ISEAS Yusof Ishak Institute*, Economics Working Paper No. 2016-4 (October 2016), https://www.iseas.edu.sg/images/pdf/ISEASEWP2016-04Negara.pdf

Although the Pillar 2 (Supply Chains) Ministerial Statement[19] will need to undergo domestic consultation and legal review, the abovementioned non-tariff trade measures (barriers) could stifle the resilience, efficiency and fairness of the supply chains of the IPEF member countries and hence become a point of contestation and tension if the provisions in the agreements were to become binding.

In Pillar 3 (Clean Economy), the key challenge is to phase out many fossil fuel-based power plants and large state subsidies to the sector. Around 60 per cent of the country's energy industry is still based on coal while renewable energy sources account for only 14 per cent by 2022. The latter is dominated by hydropower, geothermal and biofuels. Fossil fuel-based power plants are critical to providing affordable access to electricity for the population. Meanwhile, fuel and energy subsidies have helped to maintain prices at lower levels, given the current high energy prices. This is in turn important for the government to maintain political stability as removing fossil fuel subsidies will be politically costly for any government. And going into next year's Presidential Election, there will be no incentive to reduce it. Ironically, more than 70 per cent of the current fuel subsidies benefitted the middle and upper classes.[20] The IPEF could potentially be used to encourage a critical shift in the current fuel subsidies policy towards more pro-poor (Pillar 4) and pro-environment spending. It is important to note, however, that coal and fossil fuels industries have contributed to state revenue through tax and export earnings.[21] The coal sector has a very powerful lobby in the government, and they will certainly challenge any rules that adversely affect their business operation in Indonesia.

Finally, in Pillar 4 (Fair Economy), while there seems to be no significant challenge regarding the value of improved transparency, accountability and the rule of law (good governance) as the foundation for inclusive and sustainable development, the implementation of such rules and regulations will be not easy in Indonesia. Indonesia has been among the first countries to sign the United Nations Convention against Corruption (UNCAC) and has ratified it through Law No. 7 of 2006. In 2011, Indonesia became one of the first countries reviewed by other member countries in the UNCAC scheme. Yet, Indonesia's Corruption Perceptions Index score fell by a record amount according to the 2022 Transparency International's ranking, bringing the country nearly all the way back to its 2012 rating. In fact, Indonesia's position is closer to the group of the most corrupt countries in the world, such as Angola, El Salvador and Mongolia.[22]

Under Pillar 4, Indonesia could use the IPEF to push for domestic reforms in slowly phasing out the costly, poorly targeted and environmentally unfriendly fuel subsidies. One of the key factors in successfully phasing out fuel subsidies will be through a robust social registry system to improve the targeting of social protection programmes. In this regard, Indonesia's social registry that targets poor and vulnerable households needs significant improvement,[23] and the country could

19 "Ministerial Statement for Pillar II of the Indo-Pacific Economic Framework for Prosperity", US Department of Commerce, September 2022, https://www.commerce.gov/sites/default/files/2022-09/Pillar-II-Ministerial-Statement.pdf

20 Sekretariat Presiden, "Konferensi Pers Presiden Jokowi dan Menteri Terkait perihal Pengalihan Subsidi BBM", 3 September 2022, https://www.youtube.com/watch?v=gsL6-YtDObA

21 "Bos Adaro Puji Luhut yang Lobi China Agar Ekspor Batu Bara RI Meningkat", *Kumparan BISNIS*, 20 October 2020, https://kumparan.com/kumparanbisnis/bos-adaro-puji-luhut-yang-lobi-china-agar-ekspor-batu-bara-ri-meningkat-1uQfnkmoaM2

22 "Corruptions Perceptions Index", *Transparency International*, 2022, https://www.transparency.org/en/cpi/2022

23 "Improving Data Quality for an Effective Social Registry in Indonesia", World Bank and Australian Government, 2022, https://openknowledge.worldbank.org/handle/10986/38157

use the IPEF as a platform to support the development of a robust, dynamic and high-quality social registry system.

The evolving international standard on global taxation under the Organisation for Economic Cooperation and Development – Group of Twenty (OECD-G20) Inclusive Framework on Base Erosion and Profit Shifting (BEPS)[24] - may require Indonesia to adjust its tax collection mechanism and tax-incentive policies. The tax collection system adjustment may require new regulations related to the digital economy, while adjustment to tax-incentive policies will need to consider Indonesia's overall business climate and equal distribution of tax revenues within and across countries.

Pillar 4 also includes anti-terrorism financing. Indonesia faces high terrorism financing risks, although it has developed risk-based policies and strategies for mitigating them.[25] Indonesia has been seeking full membership in the Financial Action Task Force (FATF) since 2017. In 2022, it underwent a Mutual Evaluation Review to assess its fitness.[26] The report, published in April 2023, shows that although Indonesia has prepared a legal framework to tackle money laundering and terrorist financing, and makes good use of financial intelligence as well as domestic and international cooperation, it still needs to focus on improving asset recovery, risk-based supervision, and proportionate and dissuasive sanctions. Given this gap, Indonesia could use the IPEF to support its capacity in the above aspects, thus achieving the FATF's standards.

## Potential Outcomes

With a tight negotiation timeline since the US intends for it to be concluded by the end of the year, the outcomes are likely to be in the form of loose partnerships to allow various interests from member states. In this regard, the Ministerial Meeting in Singapore (8-15 May 2023) did show an encouraging sign that the IPEF negotiations might be concluded quite soon. Yet, the imposition on labour standards may continue to become a sticking point.[27] The Ministerial Meeting in Detroit on 27 May 2023 concluded with a deal to keep the supply chains 'resilient and secure' by forming a Council to coordinate and monitor supply chain activities and a Crisis Response Network to coordinate actions in the case of potential supply disruptions.[28] The supply chains management deal 'slips in' a new Labo[u]r Rights Advisory Board, which could lead to a highly sensitive and contentious area for many IPEF member countries.[29]

24 BEPS recommends avoiding new direct taxes on digital activity, and envisages other actions to be generalised to tackle the digital economy. For indirect taxes, it recommends a shift to tax collection in the jurisdiction of consumption.

25 "Anti-money laundering and counter-terrorist financing measures – Indonesia,

Fourth Round Mutual Evaluation Report", FATF, 2023, https://www.fatf-gafi.org/content/fatf-gafi/en/publications/Mutualevaluations/MER-Indonesia-2023.html

26 Agatha V, Kenzu, "Minister Indrawati, FATF president discuss Indonesia's full membership", *Antara*, 17 April 2023, https://en.antaranews.com/news/278925/minister-indrawati-fatf-president-discuss-indonesias-full-membership

27 Su-Lin Tan, "Disagreements between US, Asian nations complicate IPEF negotiations", *South China Morning Post*, 23 May 2023, https://www.scmp.com/week-asia/economics/article/3221547/disagreements-between-us-asian-nations-complicate-ipef-negotiations

28 "Readout of Indo-Pacific Economic Framework for Prosperity Virtual Ministerial", US Department of Commerce, 29 June 2023, https://www.commerce.gov/news/press-releases/2023/06/readout-indo-pacific-economic-framework-prosperity-virtual-ministerial

29 David Lawder, "U.S.-led Indo-Pacific talks produce deal on supply chain early warnings", *Reuters*, 28 May 2023, https://www.reuters.com/markets/asia/us-led-indo-pacific-talks-produce-deal-supply-chain-early-warnings-2023-05-27/

To succeed in the negotiation process, Indonesia needs to be proactive and clear about what it wants from the IPEF, especially when the US has not been transparent in terms of what it wants from the IPEF other than economic re-engagement in the region. Below are some recommendations of what Indonesia could push for in the IPEF.

For Pillar 1, Indonesia could use the IPEF to improve its digital governance standards, such as cybersecurity, so that it could take advantage of cross-border data flows because leveraging data flows has many benefits for businesses, individuals and the government. With the ASEAN Digital Economy Framework Agreement (DEFA) just launched in early September,[30] Indonesia could ensure that the IPEF digital economy standards do not diverge from those of the ASEAN DEFA.

For Pillar 2, it is clear that Indonesia wants to convince the other IPEF members to support its downstreaming policy and attract investment at home. However, without competitiveness, such an industrial policy will become costly for the government and the consumers. Restrictive trade policies leveraging on natural resources alone will not be sufficient to develop Indonesia's downstream industry. Indonesia could instead use the IPEF to support a more competitive downstreaming industry in exchange for a less restrictive export ban policy (for example, export tariff instead of the blanket export ban), including by improving basic infrastructure, talents and technologies.

For Pillar 3, Indonesia could use the IPEF as a platform to attract cross-border finance, trade and investment in green technology, among which is by enhancing the clean energy business environment and streamlining the implementation of the Energy Transition Mechanism (ETM) and the Just Energy Transition Partnership (JET-P)[31].

For Pillar 4, Indonesia could use the IPEF as a platform to build a robust, dynamic and high-quality social registry system. Well-targeted social assistance programmes should be less costly than subsidising fossil fuels, most of which benefitted non-poor households. This will help Indonesia move towards a fairer economy. Indonesia could also use the IPEF to continue improving the elements in the FATF that are still below standards, namely improving asset recovery, risk-based supervision and, proportionate and dissuasive sanctions.

Overall, in order to achieve what it wants, Indonesia needs competent negotiators and experts in the four main Pillars to advance and safeguard Indonesia's interests. Unfortunately, they are currently lacking as the existing negotiators are overwhelmed with several other priority agendas within the ASEAN, especially given that Indonesia currently holds the chairmanship of the Association.

## Concluding Thoughts

IPEF negotiations should be made more transparent. It should provide more information on what is on the plate for member states and give sufficient time for public consultation, especially if the implementation of new rules requires parliamentary approval. So far, there are no clearly defined policy proposals, except perhaps the Ministerial Statement on Supply Chains (Pillar 2). The US, as

30 "Leaders' Statement on the Development of the ASEAN Digital Economy Framework Agreement (DEFA), ASEAN, September 2023, https://asean.org/wp-content/uploads/2023/09/Leaders-Statement-DIGITAL-ECONOMY-FRAMEWORK-AGREEMENT.pdf

31 "Towards a Win-Win Cooperation: ASEAN Centrality and Indonesia's Role in the Indo-Pacific Economic Framework", Presentation by Dr Edi Prio Pambudi, Deputy Minister for Coordination of International Economic Cooperation for Yusof Ishak Institute ISEAS Studies Programme Webinar, 6 April 2023, https://www.iseas.edu.sg/wp-content/uploads/2025/07/ISEAS-Presentation-Edi-Pambudi.pdf

the initiator, has not been clear on how its approach can promote trade and investment among the IPEF members, balance the interests of workers and businesses, protect the environment, promote innovation and strengthen competitiveness. These multiple objectives will certainly not be easy to achieve. So, it is important to be more realistic about what can be achieved and what may take a long time to achieve.

While the US wants high standards and rules in the IPEF, it also needs to consider the different development stages of the IPEF member states. Imposing the US employment or environmental model for trade or investment initiatives will face serious opposition from other member states, including Indonesia. It is important to ensure the legally binding provisions of the agreement to make it credible and to have clear enforcement mechanisms. At the same time, there is a need to give sufficient time for members to achieve the capacity to implement the binding provisions effectively.

The IPEF needs to provide clarity on the definition of 'critical sector(s)' and the criteria to determine such a sector. Establishing criteria to identify critical sectors and goods has been agreed in Pillar 2 (Supply Chains) Ministerial Statement[32]. Clearly, different countries have different opinions about the critical sector. For instance, unlike the US, Indonesia does not consider semiconductors as one of the critical sectors. In this case, there is a need to provide some flexibility for member states to determine their respective critical sectors.

Apart from this, there is wide variation in implementation capacity, for example, in areas such as digital technology capability. Many MSMEs do not have the advanced digital capacity as the MNCs, highlighting a need for different standards or mechanisms to ensure interoperability of standards. Higher standards could be accompanied by some means to lower barriers or improve access, including through capacity building and technical assistance. Moreover, by 'descaling' technologies, it is possible to 'upscale' access to these technologies by allowing more disadvantaged groups to onboard. It is important to consider that imposing higher standards should not mean higher costs, or even exclusion, of some segments of businesses, especially MSMEs.

To be successful, the IPEF will require the US' long-term commitment, especially in the post-Biden Administration era. To begin with, will the US commit to providing a sufficient budget for implementing the IPEF? Learning from the US withdrawal from the Trans-Pacific Partnership (TPP), member states will remain sceptical if the US has a long-term political commitment to implement multilateral agreements. Also, its own Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act[33] and the Inflation Reduction Act[34] will likely have significant implications for, if not hinder, the success of the IPEF.

Various activities surrounding trade liberalisation are taking place between the IPEF members and third parties outside of the framework, such as the CPTPP and the RCEP, among others. This will make the IPEF less relevant in shaping regional supply chains and trade and investment flows, and influencing broader relationships and regional dynamics. The challenge for the IPEF is how to

32 *op. cit*.

33 "FACT SHEET: CHIPS and Science Act Will Lower Costs, Create Jobs, Strengthen Supply Chains, and Counter China", The White House, 9 August 2022, https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/09/fact-sheet-chips-and-science-act-will-lower-costs-create-jobs-strengthen-supply-chains-and-counter-china/

34 "One Hundred Seventeenth Congress of the United States of America – H.R. 5376", Authenticated US Government Information, 3 January 2022, https://www.congress.gov/117/bills/hr5376/BILLS-117hr5376enr.pdf

ensure that the agreement will provide tangible benefits, especially if the US will not offer the kind of market access that has traditionally been the trade-off for developing countries to accept new high-standard rules.

Lastly, as the ASEAN Chairman this year, Indonesia's leadership to keep ASEAN Centrality and unity during the IPEF negotiation process is imperative. It needs to balance between reaping benefits from the IPEF and preserving ASEAN Centrality and ASEAN Outlook on the Indo-Pacific at the heart of the negotiation process and outcomes. Indonesia should continue to promote the inclusion of the other three ASEAN countries currently not in the IPEF, and make the framework more inclusive.

While the IPEF may turn out to be a weak partnership and has little chance of success to be a high-standard agreement, the EU should follow the key issues under negotiations closely. The US-framed rules for digital trade and technology could have some ramifications for European interests if they eventually create standards that may not necessarily be aligned to those of the EU. For example, the right-based EU and the market-based US Artificial Intelligence (AI) governance and other digital governance standards, such as data protection policy, are not always in line. With or without the IPEF, participating members, excluding the US, may have to choose whether to follow the EU or the US digital governance standards (or in between these standards). The narrower the gaps, the better for the rest of the IPEF members. It also means the closer we are to having global standards in digital governance, which is ideal, it highlights the need to bring China to the negotiation table.

The EU has been an important investor, trading partner, and development cooperation actor in the Indo-Pacific region. Some areas of cooperation under the IPEF could be relevant and could be strengthened, particularly the post COVID-19 economic recovery and climate crisis, and supporting a rules-based order. More importantly, concerning trade, the EU can fulfill some of the needs of participants in the IPEF when the US is unable or unwilling to do so. The EU has concluded trade negotiations with almost all IPEF participants, including on issues such as renewable energy and resilient infrastructure. The EU's initiative to promote Global Gateway and Strategy for Cooperation in the Indo-Pacific[35] should be moved forward for concrete implementation. Given this, the EU could be involved in developing standards for future green trade and new technologies in the Indo-Pacific region. Also, the EU and the IPEF countries could jointly establish dialogue on mechanisms to monitor and strengthen the application of sustainable trade and investment policies. Certainly, further integrating economic ties with Indo-Pacific countries could enhance regional stability, security, prosperity, and sustainable development.

35 European Union External Action, "EU Strategy for Cooperation in the Indo-Pacific", 21 February 2022, https://www.eeas.europa.eu/eeas/eu-strategy-cooperation-indo-pacific_en

## About the authors

**Dr Siwage Dharma NEGARA** is Co-Coordinator of the Indonesia Studies Programme and Coordinator for the Singapore APEC Study Centre at the ISEAS Yusof Ishak Institute. He is an editorial member of the *Journal of Southeast Asian Economies*. His research focuses on macroeconomic and development issues, and industrial and trade policies with a special focus on Indonesia. Before joining the institute, he worked as a researcher at the Indonesian Institute of Sciences (LIPI) and economist consultant for the World Bank Office Jakarta. He received his PhD (Economics) from the University of Melbourne, Australia.

**Dr Maria Monica WIHARDJA** is a visiting fellow at ISEAS Yusof Ishak Institute and a former World Bank Economist in the World Bank's Poverty and Equity Global Practice. She was the recipient of the Nikkei Asia Scholarship 2023. In 2017, she was seconded to the Executive Office of the President of the Republic of Indonesia as a senior advisor to the Deputy Chief Staff in charge of strategic economic issues, where she oversaw the food policy reforms and stunting prevention agenda. She has a PhD in Regional Science from Cornell University, an MPhil in Economics from Cambridge University, and a BA in Applied Mathematics-Economics from Brown University.

# Philippine Perspective on the IPEF Agreement

Francis Mark A. QUIMBA

This paper aims to contribute to the discussion on the Indo-Pacific Economic Framework (IPEF) through five parts. The first is through the identification of anticipated outputs from each of the IPEF Pillars that the Philippines can expect from participating in the agreement. Second, the paper then outlines the opportunities presented by the agreement by its alignment to key Philippine development plans and trade and industry development strategies. Third, there are issues that need to be addressed to avoid being obstructions to the IPEF negotiations and even implementation of IPEF provisions such as muddling talks related to other discussions with the United States (US), shifts the Philippines' focus away from traditional bilateral Free-Trade Agreements (FTAs). Here, data sharing challenges, and low levels of stakeholder awareness of the agreement are also discussed. Fourth, the paper proceeds to discuss how the IPEF may affect relations with Europe. To conclude, strategies to reap the benefits of the IPEF are presented.

Launched in May 2022 involving 14 member partners – Australia, Brunei, Fiji, India, Indonesia, Japan, South Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, United States (US), and Vietnam – the Indo-Pacific Economic Framework for Prosperity (IPEF) is an agreement that endeavours to come up with an 'economic arrangement designed to tackle 21st-century challenges' by establishing 'high-standard commitments' around four main Pillars. These include trade (largely on the digital economy); supply chain resilience; clean energy, decarbonisation and infrastructure; and tax and anti-corruption.

The negotiations are conducted such that mutually beneficial outcomes, and a boost in trade and investment opportunities in the region are ensured.

At the Ministerial Meeting of the IPEF in September 2022, the ministers provided broad guidance on the negotiating objectives of partner countries in achieving an inclusive and high-standard economic regional framework. Due to the varied levels of development across partner countries, members have committed to ensuring mutually beneficial outcomes, and boosting trade and investment opportunities for peoples and markets within the region, and in particular, for the partner countries.

During the various negotiating rounds held so far, representatives from the US have met with Philippine officials on various occasions to discuss areas for cooperation and to reinforce the ties of the US with partners in the Indo-Pacific region. This includes the September 2022 meeting of the Philippine Secretary of Trade and Industry Alfredo Pascual with US Commerce Secretary Gina Raimondo, and the 17 and 18 April 2023 visit of the US Trade Representative Katherine Tai to the Philippines as part of the Biden Administration's efforts to strengthen ties with key partners in the Indo-Pacific region.

The most recent development (27 May 2023) in the IPEF negotiations is the announcement by the 14 partners of the substantial conclusion of negotiations on the Supply Chains Agreement (Pillar II). The agreement fosters avenues for coordination among partner countries to identify potential supply chain challenges before they become widespread disruptions.[1] In addition, the Supply Chain Agreement includes forming an IPEF Supply Chain Council tasked to coordinate supply chain action plans designed to build resilience and competitiveness in critical sectors such as semiconductors and critical minerals; establishing an IPEF Supply Chain Crisis Response Network to share information and prepare crisis responses when one or more partners face acute supply chain crisis; and creating an IPEF Labo[u]r Rights Advisory Board to promote skills training and development in critical sectors while ensuring facility-specific allegations of labour rights inconsistencies are addressed.[2]

Other Pillars have also progressed in their negotiations. Negotiations on Trade (Pillar I) have achieved commitments to craft high-standard, inclusive, free, fair, and open trade commitments that build upon the rules-based multilateral trading system. The IPEF partners seek to develop new and creative approaches to trade and technology policies that advance a broad set of objectives. Recognising different levels of economic development and capacity constraints, the Trade Pillar partners have committed to consider flexibilities where appropriate, and to work with partners

1 "Substantial Conclusion of Negotiations on Landmark IPEF Supply Chain Agreement", US Department of Commerce, 27 May 2023, https://www.commerce.gov/news/press-releases/2023/05/substantial-conclusion-negotiations-landmark-ipef-supply-chain#:~:text=IPEF%20will%20help%20the%20United,market%20for%20American%2Dmade%20goods

2 *Ibid*.

on providing technical assistance and capacity building. The press releases of various economies (Singapore and the US) have reported that substantial progress has also been made regarding the text on Technical Assistance and Economic Cooperation.[3]

Regarding Pillar III, the IPEF partners have put forward a variety of innovative ideas and approaches to accelerate their transition to a clean economy. Also, they are concurrently identifying and developing initiatives and proposals to advance cooperation in key areas that are critical to realising country-specific[4] pathways towards net zero emission economies.

One specific pathway introduced by a group of interested IPEF partners is the regional hydrogen initiative to encourage widespread deployment of low-carbon and renewable hydrogen and its derivatives in the region.[5] The IPEF partners are eager to work together, combining their knowledge from both the public and private sectors. This collaboration is anticipated to stimulate fresh investments, industrial development, and job prospects, which will subsequently drive innovation and productivity as they strive to achieve economies with net-zero emissions. Additional IPEF partners may choose to participate in the initiative when they are prepared to do so.

On Pillar IV, the IPEF partners have made good progress toward the development of the text of an agreement that will strengthen the implementation of effective anti-corruption and tax measures to boost commerce, trade, and investment among IPEF economies. The IPEF partners look forward to intensifying their efforts in the subsequent negotiating rounds to achieve a high-standard and mutually beneficial Fair Economy Agreement.[6]

Given the developments, this paper aims to contribute to the discussion through the identification of anticipated outputs of the IPEF; an assessment of the possible challenges to ratification and implementation of the IPEF; and prospects of the IPEF's engagement with Europe in the foreseeable future.

## Philippines' Expectations

Based on the documents released by the US Department of Commerce, countries can expect a forward-looking agreement that addresses various aspects of regional integration and trade in goods and services (despite excluding market access provisions). Fuelled by this, the Philippines has actively participated in the negotiations.

According to the Undersecretary Ceferino S. Rodolfo of the Philippines' Department of Trade and Industry (DTI), the framework can be used to provide "incentives to our stakeholders, tied up with the reforms that we are already undertaking domestically, through having a mechanism to link the Trade Pillar with Pillars on supply chain resiliency and green energy transition. We also see this

---

3 "Minister Gan Kim Yong attends the Indo Pacific-Economic Framework For Prosperity (IPEF) Ministerial Meeting In Detroit, Michigan, 26 – 27 May 2023", Ministry of Trade and Industry Singapore, https://www.mti.gov.sg/-/media/MTI/Newsroom/Press-Releases/2023/05/MTI-Press-Release-on-IPEF-Ministerial-Meeting.pdf

4 The pathways recognise the unique national circumstances and development needs of each IPEF partner.

5 "Press Statement for the Trade Pillar, Clean Economy Pillar, and Fair Economy Pillar", Ministry of Economy, Trade and Industry, 27 May 2023, https://www.meti.go.jp/press/2023/05/20230528001/20230528001-29.pdf

6 "IPEF Joint Statement for the Trade Pillar, Clean Economy Pillar, and Fair Economy Pillar", Office of the United States Trade Representative, 27 May 2023, https://ustr.gov/about-us/policy-offices/press-office/press-releases/2023/may/ipef-joint-statement-trade-pillar-clean-economy-pillar-and-fair-economy-pillar

as a vehicle to spur investments from the private sector in these areas."[7] Additionally, the Trade Pillar may help address concerns on labour rights and ensuring human capital development. For instance, the Pillar is expected to include provisions that "identify and collaborate on emerging labo[u]r issues, including related to promoting labo[u]r rights of workers in the digital economy and inclusive and equitable workforce development",[8] which is particularly significant for the Philippines on account of a growing number of its workforce employed in Information and Communications Technology (ICT) and the digital economy.[9] Separately, the new DTI Secretary Alfredo Pascual welcomed Secretary Raimondo's IPEF Upskilling Initiative in which 14 of the largest US digital companies such as Apple, American Towers, and Amazon will provide digital skills training to seven million women and girls in less-developed IPEF member countries, including the Philippines.[10]

Based on the public summaries[11] of Pillar I, it is expected to effectively promote inclusive digital trade by guaranteeing the safety and fairness of the digital economy by addressing data protection, consumer protection, and artificial intelligence. Access to digital infrastructure, equipment and software will also be promoted to ensure that all citizens in partner countries can fully participate in and benefit from the digital economy. The proposed text includes provisions that promote access to the Internet and online services and information, and addresses the challenges of closing the digital divide by promoting digital equity and inclusion and investing in education and training. This is in line with the Philippines' goal of promoting the growth of the digital economy and enhancing opportunities for digital trade.[12]

Regarding the pillar on supply chains, DTI Secretary Pascual believes[13] that the grants that the Philippines has received [for example, the US Trade and Development Agency (USTDA) grants[14]]

7 Kris Crismundo, "Pillars of US-led economic framework aligned with PH policies", *Philippine News Agency*, 14 June 2022, https://www.pna.gov.ph/articles/1176672

8 "IPEF Pillar 1 text summaries USTR April 2023", Office of the United States Trade Representative, April 2023, https://ustr.gov/sites/default/files/2023-04/IPEF%20Pillar%201%20text%20summaries%20USTR%20April%202023.pdf

9 The number of employed persons in the Philippine digital economy has grown by 8 percent from 5.59 million in 2021 to 6.02 in 2022.

See "Philippine Statistics Authority", Republic of the Philippines, https://psa.gov.ph/digital-economy

10 "*The Asia Foundation* Partners with U.S. Commerce Department to Launch Indo-Pacific Economic Framework for Prosperity Upskilling Initiative", The Asia Foundation, 9 September 2022, https://asiafoundation.org/2022/09/09/the-asia-foundation-partners-with-u-s-commerce-department-to-launch-indo-pacific-economic-framework-for-prosperity-upskilling-initiative/

11 op. cit.

12 "Philippine Development Plan 2023-2028", National Economic Development Authority (NEDA), https://pdp.neda.gov.ph/wp-content/uploads/2023/01/PDP-2023-2028.pdf

13 Catherine Talavera, "Pascual highlights Philippines role in supply chain resilience", *The Philippine Star*, 15 January 2023, https://www.philstar.com/business/2023/01/15/2237625/pascual-highlights-philippines-role-supply-chain-resilience

14 To advance the clean energy transition by producing critical minerals that are key elements in the supply chain for batteries and energy storage systems, US Vice President Kamala Harris launched a USTDA grant to Eramen Minerals, Inc. (EMI), a Filipino mining company, for a feasibility study to develop of an environmentally sustainable nickel processing facility in the Philippines. This project advances the goals of the Biden-Harris Administration's Partnership for Global Infrastructure and Investment and the Indo-Pacific Economic Framework, through the development of clean energy supply chains including the responsible mining of metals and critical minerals.

See "Vice President Harris Launches USTDA Critical Minerals Processing Project in the Philippines", *US Trade and Development Agency*, 22 November 2022, https://ustda.gov/vice-president-harris-launches-ustda-critical-minerals-processing-project-in-the-philippines-2/

can be expanded under the IPEF to support additional investments that would increase the country's participation in value chains of high-value critical products such as electronics, cathodes, refined copper and chemicals. The Philippines can expect new economic opportunities through greater collaboration on logistics and connectivity,[15] emergency preparedness and coordinated responses to mitigate supply chain disruptions. By improving the security and resilience of local and regional supply chains, businesses will be more confident in investing in the country and engaging in cross-border trade.

The Supply Chain Agreement can also stimulate innovation in the region. By promoting collaboration among partner governments with technical and financial assistance, the agreement can help foster innovative solutions to supply chain challenges, further driving economic growth and competitiveness. Another economic impact is the potential for increased efficiency and cost savings by allowing businesses to better manage supply chain risks and reduce costs associated with disruptions and delays.[16]

The US has already identified several activities in support of the goals of the Agreement. These would include:

1. Holding a series of trainings and symposiums on issues related to supply chain monitoring and operations which would involve discussions by IPEF partner experts on cargo risk assessment practices, best practices in incident response planning, and identifying import dependencies and other potential supply chain bottlenecks.

2. Launching an IPEF STEM Exchange Program which would match early- and mid-career professionals from IPEF countries with professional development opportunities related to supply chain operations.

3. Linking American exporters to opportunities in sectors that IPEF Partners are seeking increased diversification and resilience.

4. Supporting cooperation on digital shipping including pilot projects with IPEF Partners starting with the Port of Singapore.

5. Conducting reverse trade missions which brings experts from IPEF markets to the United States to meet with leading US exporters to support supply chain modernisation in IPEF markets.[17]

While the Philippines should expect to participate in these activities and strategies, it is more important that the country maximises its participation by identifying the internal goals that it wants to achieve as it participates in these activities.

Related to the third Pillar, the Philippines looks at the IPEF and the US grants as a means of expanding investments in green and renewable energy. One such grant involves the processing of nickel ore through a partnership with an American company that owns patents in the manufacture

15 Logistics has often been cited as a main bottleneck in Philippine industry development. While the Philippines' Logistics Performance Index is at 3.2, besting Indonesia, it is still below Malaysia (3.6), Thailand (3.7), China (4), Japan (4.2) and Singapore (4.6). Vietnam is tied with the Philippines at 3.2.

16 Cyn-young Park, "Global Supply Chains Need Fixing: Help Is on The Way", *Asian Development Blog*, 2023, https://blogs.adb.org/blog/global-supply-chains-need-fixing-help-way

17 *op. cit.*

of batteries.[18] The US firm supplies US military and critical industries including hyperscale data centres, renewable energy projects, and long-haul trucking companies. Another is the grant for a feasibility study on the Philippines' first offshore wind farm and cited this as indicative of the US' vision for the IPEF.[19]

It is expected that the framework will eventually be beneficial in lowering energy costs by tapping into renewable energy sources. In November 2022, US Vice President Kamala Harris launched the USTDA grant to Eramen Minerals Inc. (EMI), a Filipino-based mining company, to assess the viability of developing an ore-to-battery grade nickel sulphate/hydroxide and cobalt sulphate processing facility to produce battery grade precursor materials.[20]

The IPEF is also expected to leverage Philippine strengths in electronics manufacturing and further expand the industry's capabilities. "It's also proximate and reachable that [we will] be able to create wafer fabrication in the Philippines. [We have] already proven the capabilities of Filipino engineers through internal circuit design. There is an American company operating with one thousand IC [Integrated Circuit] design engineers here," Pascual said in a forum.[21]

The Philippines can also expect to lessen information asymmetries through mechanisms that promote commercially oriented knowledge-sharing platforms aimed at developing Micro, Small and Medium Enterprise (MSME)-inclined ecosystems through the utilisation of carbon credit markets and green financing instruments. The country, likewise, supports 'green lanes' and other investment facilitation vehicles for existing and future grants dedicated to establishing cross-border private joint venture partnerships in the region.

Broadly, the Philippines looks forward to the US sharing its expertise with the IPEF Partners on areas such as laws, regulations, and policies that would help economies advance low- and zero-greenhouse gas emissions solutions, and promote energy transition.[22]

## The IPEF as an Opportunity

The Philippines, in general, perceives the IPEF as an opportunity to increase economic cooperation and integration with the countries in the region, promote trade and investment, and support infrastructure development and growth. This is manifested in the speech delivered by the then Secretary of Trade and Industry, Ramon Lopez, in the virtual launch of the IPEF in May 2022 where he highlighted that the broad themes of the IPEF and the Philippines' economic and development priorities are generally aligned. The IPEF's focus on advancing resilience, sustainability, inclusiveness, and competitiveness are consistent with the Philippines' interests and development objectives. In addition, the Secretary of Trade and Industry Alfredo Pascual expressed the need to promote emerging areas in trade, technology, and the digital economy.[23]

18 "PH pushes for green metal processes, renewable energy investments in IPEF Ministerial Meeting", *BusinessChannel.ph*, 16 September 2022, https://businesschannel.ph/2022/09/16/ph-pushes-for-green-metal-processes-renewable-energy-investments-in-ipef-ministerial-meeting/

19 *Ibid*.

20 "Trade Chief Highlights PH's Role in Attaining Resilient Supply Chains", *Mindanao Daily News Network*, 16 January 2023, https://mindanaodailynews.com/trade-chief-highlights-phs-role-in-attaining-resilient-supply-chains/

21 *Ibid*.

22 "IPEF Public Summary: Pillar III (Clean Economy)", US Department of Commerce, 2023, https://www.commerce.gov/sites/default/files/2023-03/IPEF-Pillar-III-Clean-Economy-Public-Summary.pdf

23 Bernie Cahiles-Magkilat, "Pascual to focus on innovation, digitalization," *Manila Bulletin*, 31 May 2022, https://mb.com.ph/2022/05/30/pascual-to-focus-on-innovation-digitalization/

The administration of President Marcos, Jr., which came to power in May 2022, continues this positive view of the agreement as it is aligned with key strategies identified in the Philippine Development Plan (PDP) 2023 – 28, which work towards the achievement of the Philippine long-term vision of a *Matatag* (strongly rooted)*, Maginhawa* (comfortable) *at Panatag na buhay* (secure life).[24] These strategies include revitalising industry by linking industrial policy with trade and investment policy, and promoting trade and investments by advancing purposive, assertive, and forward-looking Free Trade Agreement (FTA) strategies.

Trade strategies that support industrial development include pursuing FTAs and arrangements to create an enabling environment for facilitating investments from target-source countries, like the US and South Korea, in terms of capital and technology. By actively participating in negotiations with the innovation- and technology-rich countries, the Philippines aims to support key industrial clusters, particularly those related to transport manufacturing, ICT, creative industries, and health sciences. Strengthening the supply chains of these sectors is a particular strategy that is strongly associated with the IPEF. Apart from this, participating in the discussions and crafting disciplines on digital economy, e-commerce and other related issues is closely related to the Philippines' strategy of positioning itself as a hub for knowledge and technology-intensive export industries.

Although not necessarily a trade agreement, IPEF negotiations are aligned with the Philippine strategy of advancing purposive, assertive, and forward-looking FTAs. For the Philippines, trade negotiations in the IPEF would help the country strengthen its National Quality Infrastructure (NQI) to the benefit of local producers, enhancing in turn their capability to conform to technical regulations, and sanitary and phytosanitary standards. The government sees the IPEF as an avenue to negotiate the sharing of knowledge, technology, and best practices to comply with standards in foreign markets and maximise the market access offered through FTAs.

Furthermore, the Philippines, as a member of the Association of Southeast Asian Nations (ASEAN), is pleased that the vision of the IPEF is in line with the 2020 ASEAN Comprehensive Recovery Framework,[25] the ASEAN Outlook for the Indo-Pacific[26] and the ASEAN Economic Community (AEC) Blueprint 2025[27] as the Agreement would provide avenues for the achievement of these goals.

## Negotiation and Implementation Challenges

### The IPEF muddles the talks related to other discussions with the US

The Philippines is facing a delay[28] in the renewal of the US Generalized System of Preference (US-GSP) program due to issues in the US Congress and the focus on the IPEF. The US-GSP is crucial

24 "Ambisyon Natin 2040 A long-term vision for the Philippines", (Manila: NEDA), National Economic Development Authority, https://2040.neda.gov.ph/wp-content/uploads/2016/04/A-Long-Term-Vision-for-the-Philippines.pdf

25 "ASEAN Comprehensive Recovery Framework", Association of Southeast Asian Nations, 2020, https://asean.org/book/asean-comprehensive-recovery-framework/

26 "ASEAN Outlook on the Indo-Pacific", Association of Southeast Asian Nations, 22 June 2019, https://asean.org/asean2020/wp-content/uploads/2021/01/ASEAN-Outlook-on-the-Indo-Pacific_FINAL_22062019.pdf

27 ASEAN Secretariat, "ASEAN Economic Community Blueprint 2025", *Association of Southeast Asian Nations*, 2021, https://asean.org/book/asean-economic-community-blueprint-2025/

28 Catherine Talavera, "Philippines sees delay in renewal of US GSP", *The Philippine Star*, 1 February 2023, https://www.philstar.com/business/2023/02/01/2241591/philippines-sees-delay-renewal-us-gsp

for the Philippines as it offers zero duties on 3,500 tariff lines,[29] and the country is among the top five beneficiaries of this programme. The Philippines is collaborating with fellow ASEAN members like Thailand and Vietnam[30] to advocate for the renewal of their respective GSPs. However, progress has been slowed down by the IPEF's trade-related developments. The hope remains for reauthorisation of the US-GSP as it has consistently benefited the Philippines by serving as a major supplier of affordable imports for American manufacturers and consumers, as noted by Trade Secretary Pascual in November 2022.[31]

This delay, however, may be viewed as an opportunity for the Philippines. According to Leanardo A. Lazona, an economist from the Ateneo de Manila University, the Philippines' potential readmission into the US preferential trading scheme could interfere with efforts to diversify its export base as the US-GSP program "creates a dependency on the US markets, making [the country] more vulnerable to changes and uncertainties of the US economy".[32] Lanzona suggests that the country focus its efforts on making its existing trade agreements work for the country.

### The discussions on the IPEF shifts the Philippines' focus away from traditional bilateral FTAs

USTR Ambassador Tai has stated that a bilateral FTA between the Philippines and the US government was not on the negotiating table as the Biden Administration was more focused on its IPEF initiative.[33] "In terms of a more 'traditional' FTA, we're not currently negotiating any such agreements with trading partners in particular because we do not see that traditional [FTA] being appropriate for the types of challenges and opportunities that we're facing right now," Tai told members of the Philippine media in a briefing in Makati City on 18 April 2023.

### Establishing the IPEF Supply Chain Crisis Response Network would have data sharing challenges

Challenges to the implementation of the agreements in the Supply Chain Pillar would be related to the information requirements necessary to set up the crisis response network. Yeo and Cutler alluded to this challenge when they deduced that "countries may need domestic legislation or regulations to deal with information sharing of the private sector".[34] The Philippines' Data Privacy Act[35] provides protection to the businesses and private companies but the stringent application of the provisions of the law may prevent the effective implementation of the crisis response sharing because of limited data sharing.

29 "Generalized system of preferences", Department of Trade and Industry, https://www.dti.gov.ph/generalized-system-of-preferences/

30 *op. cit.*

31 *Ibid*.

32 Kyle Aristophere T. Atienza, "US GSP could disrupt PHL export diversification", *Business World*, 7 May 2023, https://www.bworldonline.com/economy/2023/05/07/521330/us-gsp-could-disrupt-phl-export-diversification/

33 Revin Mikhael D. Ochave, "US not keen on PHL free trade deal", *Business World*, 19 April 2023, https://www.bworldonline.com/top-stories/2023/04/19/517678/us-not-keen-on-phl-free-trade-deal/

34 Han-Koo Yeo and Wendy Cutler, "Strengthening Regional Supply Chain Resiliency Through the Indo-Pacific Economic Framework (IPEF)", *Asia Policy Society Institute*, May 2023, https://asiasociety.org/policy-institute/strengthening-regional-supply-chain-resiliency-through-indo-pacific-economic-framework-ipef

35 Republic Act 10173 Data Privacy Act of 2012, National Privacy Commission, https://privacy.gov.ph/data-privacy-act/

### Low levels of awareness of the agreement would slowdown implementation

One of the observations during negotiations for the various trade agreements of the Philippines is the low levels of awareness of Filipinos (across all sectors) of the Philippine's participation in the trade agreements. One of the major criticisms hurled at the DTI during the discussions for Senate concurrent to the ratification of the Regional Comprehensive Economic Partnership (RCEP) was that "very little information on the contents of the agreement [were] made available to the public".[36] A related issue raised by critics of the RCEP is the alleged lack of consultations with agricultural stakeholders. Consultations, after all, are of prime importance in any trade negotiation since they guide the development of the country's negotiating position. In contrast, the Department of Agriculture (DA) reported that consultations with agricultural stakeholders have been undertaken[37] through the Philippine Council for Agriculture and Fisheries Committee on International Trade (PCAF-CIT) since the launch of RCEP negotiations in November 2012. These consultations were reportedly attended by different agricultural sector groups. Also, the Tariff Commission (TC) conducted a public consultation[38] in May 2015 as well which was in accordance with Section 1609 of the Customs Modernization and Tariff Act (CMTA) to allow stakeholders to express their concerns and to submit positions papers which were considered in the Commission's report on its findings and recommendations about the agreement.

While the level of awareness has been improving over time and the discussions conducted during the deliberations for Senate concurrence of RCEP seem to reflect improvements in Filipinos' awareness of international agreements, it is noteworthy that Filipinos tend to become aware of and interested in the participation of the government towards the completion of negotiation processes. Around this stage of discussions, however, critics of the agreement[39] perceive that little can be done anymore to address their issues in the text so they would push for the non-concurrence or non-ratification of the agreement. This can all be avoided if there is a consultative process undertaken at every step of the negotiation process to ensure that all concerns are addressed while the negotiations are taking pace.

## How the IPEF Will Affect Engagement with Europe?

While not necessarily an FTA, the formation of the IPEF creates frictions between IPEF partners and non-IPEF partners. IPEF negotiations are then influenced by broader diplomatic considerations. A closer relationship with the US and other Asia-Pacific Economic Cooperation (APEC) partner countries could have implications for the Philippines' relations with other countries in Europe. It is therefore important that as the Philippines pursues stronger ties with IPEF partners, it also explores ways to further strengthen its relationship with the European Union (EU).

36 Joseph Purugannan, "[ANALYSIS] Debunking government claims on RCEP", *Rappler*, 3 November 2021, https://www.rappler.com/voices/thought-leaders/analysis-debunking-government-claims-on-rcep/

37 "The Regional Comprehensive Economic Partnership", Senate Economic Planning Office , November 2022, https://legacy.senate.gov.ph/publications/SEPO/Policy%20Brief%20on%20RCEP_Final.pdf

38 *Ibid*.

39 Catherine Talavera, "Farmers seek consultations before RCEP ratification", *The Philippine Star*, 4 November 2021. https://www.philstar.com/business/2021/11/04/2138737/farmers-seek-consultations-rcep-ratification

One such way is by pursuing the resumption of the Philippines-European Union (PH-EU) FTA negotiations.[40] DTI Secretary Pascual calls the FTA an essential mechanism in the Philippines' engagement with the EU.[41] With the US putting a halt to the PH-US FTA discussions, it may do well for the Philippines to focus its energies on the pursuit of other FTA agreements such as the PH-EU FTA. The pursuit of the PH-EU FTA resumption of negotiations comes at an opportune time as well. The administration of President Marcos, Jr. appears to have better relations with the EU compared to the previous administration. This is evidenced by the President having already visited Brussels early in his term.[42]

In addition, since the IPEF muddles the discussion on the US GSP, the pursuit for the continuation of the Generalised Scheme of Preferences Plus (GSP+) afforded by the EU becomes more critical. As one of its strategies is to encourage the import of goods from developing countries, the EU implemented the GSP+, which went into force in 2014. Eight countries benefit from the scheme, which is branded as a "special incentive arrangement for sustainable development and good governance."[43]. The EU GSP+ is a special incentive arrangement for sustainable development and good governance in the form of zero duties. It is a unilateral trade arrangement, which offers zero tariffs on 6,274 products or 66 per cent of all EU tariff lines. It is a part of the broader Generalised System of Preferences (GSP) of the EU and, as a developmental tool, it seeks to encourage export diversification in developing countries, including Armenia, Bolivia, Cape Verde, Kyrgyzstan, Mongolia, Pakistan, the Philippines, and Sri Lanka. The Philippines reports several communities benefiting from the GSP+ such as the areas with economic zones (that is, Laguna, Rosario Cavite and Batangas). Foreign companies have also established operations in the Philippines in order to maximise the opportunities of the GSP+.[44]

Thus, given the significance of the GSP+ and the absence of the US GSP to the Philippine arsenal for exporters, it would do well for the Philippines to exert efforts in ensuring that the GSP+ is renewed.

## Reaping the Benefits of the IPEF

To conclude, this paper provides some recommendations that may help maximise the benefits from future negotiations and are based on lessons from previous negotiations conducted by the Philippines. The Philippines has had a history of participating in international trade agreements both bilateral (Philippines – Japan Economic Partnership Agreement [PJEPA], Philippines-European Free Trade Agreement [PH-EFTA], Philippine-Korea FTA [PH-Korea] [forthcoming]) and multilateral (World Trade Organization [WTO], ASEAN+1, RCEP). To achieve more fruitful negotiations with the IPEF partners, the Philippines can draw upon several lessons from previous negotiations. These would include the following:

40 The Philippines and the EU also launched exploratory talks on bilateral FTA in 2013. While there have been two negotiations conducted (Brussels in 2016 and Cebu in 2017), talks have been on hiatus since 2017.

41 Revin Mikhael D. Ochave, "DTI's Pascual calls free trade agreement 'essential' to European Union relationship", *Business World*, 16 February 2023, https://www.bworldonline.com/economy/2023/02/16/505381/dtis-pascual-calls-free-trade-agreement-essential-to-european-union-relationship/

42 Zacarian Sarao, "Marcos to push for PH priorities at ASEAN-EU Summit in Brussels", *Inquirer.net*, 11 December 2022. https://globalnation.inquirer.net/209034/bongbong-marcos-to-push-for-ph-priorities-at-asean-eu-summit-in-brussels

43 "Generalized system of preferences", Department of Trade and Industry, https://www.dti.gov.ph/generalized-system-of-preferences/

44 *Ibid*.

### Balancing national interest with regional goals

Trade negotiations require careful consideration of the balance between national interests and regional goals. In the past FTA negotiations, the Philippines has had to consider how to maintain its national interests while contributing to the broader objective of regional economic integration. By utilising the Agreements' provisions to Philippines' domestic goals, the country can work towards achieving national interest along with regional goals. The country can further align strategies identified in the Philippine Development Plan to the agreements and principles outlined in the IPEF.

### Consider the various interests of various stakeholders

Trade negotiations impact various stakeholders, including different industries, workers and consumers. It is crucial to ensure that the interests of these groups are taken into account in the negotiation process. This could involve engaging in consultations with industry groups, labour unions and other stakeholders to understand their concerns and priorities.

### Addressing sensitive industries

Some sectors of the economy may be more sensitive to changes in policy or international shocks than others. In the IPEF, the environment and mining sector may be considered sensitive areas in negotiations as it can be vulnerable to shifts in policy in other countries. The Philippines should have a strategy for dealing with these sensitive industries. Relatedly, trade agreements can lead to job displacement in certain sectors due to increased competition. However, they can also create job opportunities in other sectors. The government should have plans in place to help workers transition to new jobs, if necessary. This could involve measures like retraining programmes and social safety nets. An example would be the Lifelong Learning Development Bill which aims to develop a Lifelong Learning Framework through the Philippine Qualifications Framework–National Coordinating Council (PQF-NCC). The PQF–NCC shall determine and set standards for developing action components and desirable success measures for promoting lifelong learning in cities, municipalities, and educational institutions.[45]

### Leveraging competitive advantage

The Philippines, like all countries, has industries where it has a comparative advantage. These industries, which might include areas like Business Process Outsourcing (BPO), electronics and certain green metals sectors, should be leveraged in the negotiation process. The Philippines should also negotiate disciplines that would maintain its strength in the digital services trade.[46]

### Investing in capacity building

To maximise the benefits from trade agreements, it is important to invest in capacity building for both the public and private sector. Summary of the IPEF texts have all mentioned the presence of technical assistance and economic cooperation. It would do well for the Philippines to utilise these opportunities to enhance the skills of workers, improving infrastructure, and promoting innovation in industries.

45 *op. cit.*

46 Francis Mark A. Quimba, Sylwyn C. Calizo Jr, Jean Clarisse T. Carlos and Jose Ramon G. Albert, "How Ready Are We? Measuring the Philippines' Readiness for Digital Trade Integration with the Asia-Pacific", *Philippine Institute for Development Studies*, June 2021, https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidsdps2117.pdf

## About the author

**Dr Francis Mark A. QUIMBA** is a Research Fellow at the Philippine Institute for Development Studies (PIDS) and the Director of Philippine APEC Study Center Network. He has worked on several research topics including agriculture, trade, and rural development. His current research interest is in innovation activity of local firms. He has participated in round table discussions on issues of trade, industrial development, innovation and e-commerce.

Dr Quimba obtained his master's in International Development from the International University of Japan. He obtained another master's degree and his PhD in Development Economics from the National Graduate Institute for Policy Studies, Tokyo, Japan.

# **Vietnam and the IPEF:** Negotiating Prospects, Opportunities and Challenges

Linh H. DANG and Linh T. T. TRAN

This paper provides an in-depth analysis of Vietnam's economic development and its potential participation in the Indo-Pacific Economic Framework for Prosperity (IPEF). Vietnam is an emerging economy in the Indo-Pacific, actively engaged in trade agreements and regional economic integration. Led by the United States (US), the IPEF aims to foster a connected, clean, fair, and resilient economy in the region, aligning with Vietnam's long-term economic policies. Participation in the IPEF offers promising prospects for addressing critical issues like supply chain diversification, technology innovation, climate change mitigation, and green development. Vietnam's active role in the Association of Southeast Asian Nations (ASEAN) enhances its leadership and influence in the region. The paper highlights potential benefits for Vietnam's resilient and clean economy, but challenges like low localisation rates and resource limitations need attention. Vietnam's participation in the IPEF can offer support for improving competitiveness and achieving sustainability goals. Overall, the paper provides insights into Vietnam's economic strengths, challenges, and the potential benefits of joining the IPEF for sustainable and inclusive economic growth.

## Introduction

Vietnam has made substantial strides in economic development, establishing itself as one of the key emerging economies in the Indo-Pacific region. Its unwavering commitment to multilateralism has been demonstrated through active participation in various trade agreements, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP).[1] These agreements signify Vietnam's dedication to regional economic integration, facilitating market access expansion, increased trade opportunities, and potential economic growth.

Vietnam's economic development perspective, as outlined in its 13th Party Congress, prioritises building a self-reliant economy by renewing the growth model and restructuring the economy; promoting qualified human resources; supporting agricultural enterprises; promoting research, technology transfer, fostering the digital economy and proactive international integration.[2] As President Nguyen Xuan Phuc said at the United Nations General Assembly (UNGA), Vietnam values multilateralism, international solidarity, and upholds principles of 'Partnership for sustainable peace', based on the UN Charter and international laws on the global stage.[3]

Aligning with the Indo-Pacific Economic Framework for Prosperity (IPEF) can be an opportunity for Vietnam to restructure, upgrade its economy, and address critical regional and global issues such as supply chain diversification, technology innovation, climate change mitigation, green development, tax matters and corruption. In May 2022, during the announcement ceremony to kick off the discussion on the IPEF, Prime Minister Pham Minh Chinh emphasised the urgent need to adjust Vietnam's growth model and economic linkage to create a more sustainable and self-reliant economy that maximises internal resources while optimising external forces.[4] The IPEF, led by the United States (US), can help in moulding a mechanism with regional and global influence. Any participating member can benefit from a common high-standard environment. In September 2022, Minister of Industry and Trade Nguyen Hong Dien confirmed at the Ministerial Meeting for IPEF members that Vietnam's participation in the IPEF is entirely possible, depending on further discussions to clarify the Initiative's role and alignment with Vietnam's multilateral economic foreign policies.[5] At the Ministerial Meeting for IPEF partners in May 2023, he also highly appreciated the US' reception of opinions from member countries and stated that Vietnam will continue to work closely with the other IPEF countries, including those from the Association of Southeast Asian Nations (ASEAN) to complete basic negotiations of the Initiative this year.[6]

---

1 "Vietnam's FTAs as of May 2023", Center for WTO and International Trade, Vietnam Chamber of Commerce and Industry, 10 May 2023, https://wtocenter.vn/thong-ke/13814-vietnams-ftas-summary-as-of-april-2019

2 'The 13th National Congress Resolution', *Communist Review*, No.959, https://www.tapchicongsan.org.vn/web/english/focus/detail/-/asset_publisher/FMhwM2oQCZEZ/content/the-13th-national-party-congress-resolutionp

3 "Speech of President Nguyen Xuan Phuc at the UN General Assembly", ASEAN Vietnam Portal, 23 September 2021, https://aseanvietnam.vn/en/post/speech-of-president-nguyen-xuan-phuc-at-the-un-general-assembly

4 "Vietnam premier attends launching ceremony of Indo-Pacific Economic Framework for Prosperity", *Tuoi Tre News*, 24 May 2022, https://tuoitrenews.vn/news/politics/20220524/vietnam-premier-attends-launching-ceremony-of-indopacific-economic-framework-for-prosperity/67282.html

5 "Vietnam willing to join efforts for CPTPP elevation, IPEF negotiations", *Vietnamplus*, May 29 2023, https://en.vietnamplus.vn/vietnam-willing-to-join-efforts-for-cptpp-elevation-ipef-negotiations/253797.vnp

6 *op. cit.*

Vietnam's prospects to participate in all four Pillars are promising, but they come with their respective challenges. Under the Supply Chains Pillar, despite Vietnam attracting significant Foreign Direct Investment (FDI) in recent years[7] and demonstrating a strong export performance[8], low localisation rates[9] and a low-skill workforce[10] remain crucial challenges. These issues need to be addressed through collaboration in the IPEF. In the Clean Economy Pillar, Vietnam has shown a strong commitment to reducing emissions, as reiterated in the Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCC) (COP27).[11] But it faces capacity and resource challenges. Collaboration in the Clean Economy Pillar can help facilitate Vietnam's transformation and provide the necessary assistance. While progress has been made in fighting corruption, reforming the tax system, and improving institutional mechanisms,[12] there is still a long way to go for Vietnam. Among all Pillars, the one on Fair Economy may have the least potential for Vietnam to catch up with. Vietnam's active participation in Free Trade Agreements (FTAs) and the need to upgrade the Bilateral Trade Agreement (BTA), which went into effect in 2001,[13] contribute to its prospects in the Trade Pillar.

As an active ASEAN member, Vietnam plays a crucial role in IPEF negotiations. Both US-led and China-led economic initiatives cannot exist as a whole without the support of ASEAN. Together with the other ASEAN members, Vietnam is upgrading the ASEAN-China Free Trade Agreement (ACFTA)[14] and negotiating the Global Development Initiative (GDI)[15] while maintaining a neutral stance and considering national interests.[16] In this regard, at a high-level forum with US President Joe Biden in March 2023, General Secretary Nguyen Phu Trong emphasised Vietnam's welcome for the US support to ASEAN' centrality. Together with the US and the other ASEAN countries, the country aims to promote the ASEAN Vision for the Indo-Pacific.[17]

---

7 "Vietnam's foreign direct investment powers economy into the future", TTWTO VCCI, 13 February 2023, https://wtocenter.vn/chuyen-de/21346-vietnams-foreign-direct-investment-powers-economy-into-the-future#:~:text=In%202020%2C%20Vietnam%20was%20among,27.72%20billion%20USD%20in%202022

8 "Strong 2022 export results set to continue on front foot", *Vietnam Investment Review*, 15 February 2023, https://vir.com.vn/strong-2022-export-results-set-to-continue-on-front-foot-99764.html

9 "Low localisation rate hindering progress", *VietNamNet News*, 17 March 2023, https://vietnamnet.vn/en/low-localisation-rate-hindering-progress-2121255.html

10 "Vietnam ranks low in total workforce index ranking in 2022, *VietNamNet News*, 22 December 2022, https://vietnamnet.vn/en/vietnam-ranks-low-in-total-workforce-index-ranking-in-2022-2093317.html

11 COP27: Viet Nam reiterates strong commitments to climate change, *en.baochinhphu.vn*, 9 November 2022 https://en.baochinhphu.vn/cop27-viet-nam-reiterates-strong-commitments-to-climate-change-111221109161831911.htm

12 Nguyen Khac Giang, "Vietnam's Anti-corruption Campaign: Economic and Political Impacts", ISEAS-Yusof Ishak Institute, 18 May 2023, https://www.iseas.edu.sg/articles-commentaries/iseas-perspective/2023-41-vietnams-anti-corruption-campaign-economic-and-political-impacts-by-nguyen-khac-giang/

13 "Vietnam - Country Commercial Guide", International Trade Administration, 15 December 2022, https://www.trade.gov/country-commercial-guides/vietnam-trade-agreements

14 "ASEAN and China meet to upgrade ASEAN-China Free Trade Area", The ASEAN Secretariat, 12 April 2023, https://asean.org/asean-and-china-meet-to-upgrade-asean-china-free-trade-area/

15 "China and ASEAN join hands to bring the 'Asian moment' in global governance", Mission of the People's Republic of China to ASEAN, 23 November 2022, http://asean.china-mission.gov.cn/eng/stxw/202211/t20221123_10979831.htm

16 Kasit Piromya, "Neutrality and Non-alignment Are the Way Forward For ASEAN", *The Diplomat*, 9 February 2023, https://thediplomat.com/2023/02/neutrality-and-non-alignment-are-the-way-forward-for-asean/

17 "Readout of President Joe Biden's call with General Secretary Trong of Vietnam", The White House, 29 March 2023, https://www.whitehouse.gov/briefing-room/statements-releases/2023/03/29/readout-of-president-joe-bidens-call-with-general-secretary-trong-of-vietnam/

## The geopolitical and regional context

Currently, the world economy is at a significant turning point into a new era. This process is being driven by many trends including international realignment, energy transition to renewables and global supply chain restructuring.

Global competition among major countries has intensified, especially in safeguarding supply chains. After the US pledged US$52 billion for the domestic semiconductor industry in August 2022 through its Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act, in April 2023, the European Parliament passed the CHIPS Act for reducing dependencies on foreign suppliers.[18] The trend of shifting from traditional energy to renewable energy for reducing climate change effects is becoming more and more obvious. The COVID-19 pandemic has caused a severe breakdown in global supply chains, causing production to stagnate and a host of companies to become non-functional and go bankrupt. Hence, the world has been taking 'resilience' as a major imperative for supply chains. Regardless of the causes, whether pandemic, natural disaster, or conflict, in an unstable world like today, the risk of supply chain disruption is significant. This has given rise to new trends including reshoring, nearshoring, and *friend-shoring*, for protecting supply chains.

Amid current trends, the Indo-Pacific region is a key area where major powers are implementing strategies to increase political and economic influences. The most notable strategic competition is between the US and China. While China's foreign policy is following the roadmap that progresses from economy to security, the US is deploying a roadmap to compete for influence with China, but in the opposite direction, shifting from defence and security to economics. China has reaped some success with the Belt and Road Initiative (BRI), which promotes the signing and implementation of the RCEP. It has also applied for accession to the CPTPP. In September 2021, President Xi Jinping announced the Global Development Initiative (GDI) at the UNGA, and the Global Security Initiative (GSI) a few months later, which aims to build a security architecture fostering balance, stability, and sustainability. According to the Ministry of Foreign Affairs of the People's Republic of China, more than 80 countries and international organisations have expressed their appreciation and support for the GSI.[19] This shows that China's foreign policy orientation, from economy to security, is posing challenges to the US in its strategy of competing for influence in the region in the near future.

In contrast, on 11 February 2022, in order to restore 'leadership' and restructure the Asia-Pacific order, US President Joe Biden announced the new Indo-Pacific Strategy (IPS).[20] The US strategy in competing for influence with China involves shifting from defence and security to economy.

18 Susan Caminiti, "After the CHIPS Act: U.S. still has a long road ahead to rival Asia in semiconductor manufacturing", *CNBC*, 2 August 2022, https://www.cnbc.com/2022/08/02/after-chips-act-us-has-long-road-to-rival-asia-in-semiconductors.html#:~:text=Technology%20Executive%20Council-,After%20the%20CHIPS%20Act%3A%20U.S.%20still%20has%20a%20long%20road,rival%20Asia%20in%20semiconductor%20manufacturing&text=After%20three%20years%20of%20stops,and%20improve%20competitiveness%20with%20China; "Chips Act: Council and European Parliament strike provisional deal", Council of the European Union, 18 April 2023, https://www.consilium.europa.eu/en/press/press-releases/2023/04/18/chips-act-council-and-european-parliament-strike-provisional-deal/

19 "Global Security Initiative: China's Proposal for Solving Security Challenges", Ministry of Foreign Affairs of the People's Republic of China, 3 April 2023, https://www.fmprc.gov.cn/eng/wjb_663304/zwjg_665342/zwbd_665378/202304/t20230410_11056912.html

20 "Indo-Pacific Strategy of the United States", The White House, February 2022, https://www.whitehouse.gov/wp-content/uploads/2022/02/U.S.-Indo-Pacific-Strategy.pdf

This was evident from announcement of economic initiatives, such as the Partnership for Global Infrastructure and Investment (PGII), during the 48th Meeting of the Group of Seven (G-7) held at Schloss Elmau in Germany in June 2022. As part of this initiative, the G-7 aims to mobilise approximately US$600 billion to invest in infrastructure projects in developing countries over the next five years (until 2027).[21]

The IPEF is the US' instrument for increasing its economic influence in the Indo-Pacific region. With President Donald Trump's withdrawal from the Trans-Pacific Partnership (TPP), the US' economic presence in the region is no longer significant. The challenge facing the US today is to reach a high-standard economic agreement that supports its domestic economy and is also appealing enough for attracting partners in the Indo-Pacific. The IPEF is different in that it is not following the path of creating a traditional multilateral trade agreement framework for the region, but instead focusing on establishing overarching regional rules for economics and trade. The biggest drawback of the IPEF so far is that, while it aims to establish standards, principles, and obligations to shape an economy under four Pillars, there is a lack of US market access for member countries.

Both the US and China will engage in competition focusing on ASEAN through the implementation of the IPEF and the GDI. In the long term, the competition will expand to cover the entire Indo-Pacific region. For China, ASEAN is not only geographically close but also its largest global trading partner. The maintenance and promotion of stable economic, trade, and geopolitical relations between China and the ASEAN contribute to the development of both ASEAN and China. To further enhance their partnership, ASEAN and China have conducted initial consultations for upgrading the ASEAN-China FTA in February 2023.[22] These negotiations cover various areas such as trade, investment, digital, and green economy, aiming to build a more comprehensive, modern, and inclusive ASEAN-China FTA that benefits both sides. The content of the ASEAN-China FTA and the GDI align closely with the objectives of the IPEF.

On the other hand, if the US is not supported by ASEAN, both the IPS and the IPEF will have significant gaps. The global strategic focus of the US is in the Indo-Pacific region, particularly Southeast Asia, where its biggest long-term strategic competitor, China, is located. As a key member of ASEAN, Vietnam believes that the IPEF "should be based on open, comprehensive and transparent principles in line with international law, while ensuring ASEAN's central role and supplementing existing economic links", stated Foreign Ministry Spokesperson Le Thi Thu Hang.[23] These links also include the upgraded ASEAN-China FTA.

Vietnam plays a significant role in the Indo-Pacific region due to its extensive economic engagement, supply chain restructuring, geopolitical significance, balancing act, and critical leadership role in ASEAN. With rapid economic growth and active participation in initiatives like the CPTPP and the RCEP, Vietnam promotes trade liberalisation and economic cooperation. As a manufacturing hub attracting foreign investments, it diversifies supply chains and deepens integration into the global supply chain network. Geographically located in Southeast Asia with land borders with China and

21 "The G7 stands united alongside Ukraine", *G7 Germany*, 27 June 2022, https://www.g7germany.de/g7-en/g7-summit

22 See "ASEAN and China meet to upgrade ASEAN-China Free Trade Area", Association of Southeast Asian Nations, 12 April 2023, https://asean.org/asean-and-china-meet-to-upgrade-asean-china-free-trade-area/

23 "IPEF should be based on open, inclusive, transparent principles: Spokesperson", The World and Viet Nam Report, 26 May 2022, https://en.baoquocte.vn/ipef-should-be-based-on-open-inclusive-transparent-principles-spokesperson-185086.html

a coastline along the South China Sea, Vietnam actively addresses regional security concerns while maintaining stability. Its foreign policy emphasises maintaining friendly relations with major powers, leveraging its position in the ever-evolving regional dynamics. Vietnam's leadership in ASEAN further showcases its commitment to regional economic integration and inclusive growth through active involvement in ASEAN-centred initiatives.

## Brief Overview of Vietnam's Economy

The year 1975 was an important historical milestone when North and South Vietnam were unified, officially ending the war in this country. Thereafter, the country embarked on building a closed and self-sufficient economy; however, the government soon realised the weaknesses of this model. During the 'Renewal period' that began in the mid-1980s, Vietnam implemented various economic policies to transition from a centrally-planned economy to a 'Socialist-oriented market economy'. Since then, Vietnam has consistently adopted a multilateral viewpoint at all levels of international integration, particularly economic, with the goal of constructing an independent and autonomous regional economy, actively engaging and cooperating with the world.

The above points are important in shaping the core views of the economic policies of the Vietnamese government, leading to strategies, plans and actions. Currently, Vietnam is heading towards an open, integrational, and autonomous economy. The spirit of independence is deeply ingrained in the Vietnamese people. The Vietnamese government understands the value of peace and independence, and therefore adopts a multilateral stance at all levels of international integration. Vietnam's difficulties during its period as a closed economy motivates the goal of eradicating poverty and fostering strong cooperation. This spirit encourages the country to welcome opportunities that have benefits for all.

The Vietnamese economy's openness is demonstrated by its participation in numerous bilateral and multilateral economic cooperation mechanisms in the region and around the world. To date, it has signed 15 FTAs covering more than 60 countries and territories, including some of the largest markets globally,[24] the latest being an FTA with Israel in April 2023.[25] Three more FTA talks are on with a group of four countries in Europe (Switzerland, Norway, Iceland, and Liechtenstein), Canada and the UAE. Two important FTAs in the Indo-Pacific that Vietnam has joined are the CPTPP and the RCEP. Additionally, Vietnam is now one of the 14 countries participating in the negotiations on the IPEF. Becoming a member of two mega FTAs like the RCEP and the CPTPP demonstrates Vietnam's strong commitment to regional economic integration and free trade. These agreements provide Vietnam with expanded market access, increased trade opportunities, and the potential for greater economic growth. By joining these regional trade agreements, Vietnam enhances its attractiveness as a foreign investment destination in the Asia-Pacific.

Vietnam's viewpoint when participating in any multilateral cooperation mechanism is maintaining an independent and objective stance without choosing sides. This is also reflected in the economic development perspective of Vietnam's 13$^{th}$ Party Congress: Building a self-reliant economy based on technological advances, proactive integration, market diversification, and enhancing the adaptability of the economy.[26] However, there are still untapped potentials, including human

24 *op. cit.*

25 "Vietnam's FTAs as of August 2023", WTO Center, 10 August 2023, https://wtocenter.vn/thong-ke/13814-vietnams-ftas-summary-as-of-april-2019

26 *op. cit.*

and natural resources as well as obstacles related to technological advancement, labour skills, infrastructure, and financial capacity.

## The Prospect of Vietnam Joining the IPEF

The IPEF aligns with current global trends and Vietnam's long-term foreign economic policies. When the idea of the IPEF was first announced, it was assessed that while the Framework creates obligations, it falls short in delivering the benefits to its member countries.[27] However, as mentioned, at the Ministerial Meeting for IPEF partners in May 2023, Minister of Industry and Trade Nguyen Hong Dien underscored Vietnam's positive perspective on the IPEF.[28]

In May 2022, during the announcement ceremony to kick off the discussion on the IPEF, Prime Minister Pham Minh Chinh stressed the importance of upholding multilateralism and strengthening international solidarity based on sincerity, trust, and responsibility.[29] In this regard, the IPEF can create a platform for initiating and promoting collaboration among countries in the Indo-Pacific. Through active exchanges and discussions, members can join forces to address significant regional and global issues. These include the diversification and sustainability of supply chains, fostering technology innovation, driving digital transformation, promoting e-commerce, combating climate change, reducing emissions, advancing green development, addressing tax matters, and combating corruption. The Ministry of Foreign Affairs of Vietnam believes that the IPEF will promote a positive and efficient economic environment, benefitting people and contributing to regional and global security and peace. Ministry spokesperson Hang Le reaffirmed that the country's participation in the IPEF will depend on the outcomes of the discussions among the parties.[30]

The attitude and level of participation of seven ASEAN nations, including Vietnam, that are members of the IPEF will determine its progress. These ASEAN countries, along with the remaining three ASEAN member states, are discussing upgrading of the ASEAN-China FTA and negotiating the GDI on the basis of conformity with their national interests, without setting out the principle of choosing sides. General Secretary Nguyen Phu Trong has emphasised that Vietnam welcomes the US to support ASEAN's central role, and together with the ASEAN countries promote the ASEAN Vision for the Indo-Pacific.[31]

27 Anh T. Nguyen, "Khuôn khổ kinh tế Ấn Độ Dương - Thái Bình Dương vì thịnh vượng: Xu hướng liên kết kinh tế mới trong khu vực", *Communist Review*, 12 April 2023, https://www.tapchicongsan.org.vn/web/guest/the-gioi-van-de-su-kien/-/2018/827256/khuon-kho-kinh-te-an-do-duong---thai-binh-duong-vi-thinh-vuong--xu-huong-lien-ket-kinh-te-moi-trong-khu-vuc.aspx

28 *op. cit.*

29 "Vietnam premier attends launching ceremony of Indo-Pacific Economic Framework for Prosperity", *Tuoi Tre News*, 24 May 2022, https://tuoitrenews.vn/news/politics/20220524/vietnam-premier-attends-launching-ceremony-of-indopacific-economic-framework-for-prosperity/67282.html

30 "Discussion outcomes will determine Vietnam's accession to Indo-Pacific economic initiative: Ministry of Foreign Affairs", *Vietnam Law & Legal Forum*, 27 May 2022, https://vietnamlawmagazine.vn/discussion-outcomes-will-determine-vietnams-accession-to-indo-pacific-economic-initiative-ministry-of-foreign-afairs-48635.html

31 "Readout of President Joe Biden's call with General Secretary Trong of Vietnam", The White House, 29 March 2023, https://www.whitehouse.gov/briefing-room/statements-releases/2023/03/29/readout-of-president-joe-bidens-call-with-general-secretary-trong-of-vietnam/

The IPEF negotiations are advancing intensively and several outcomes have been achieved, especially the Supply Chain agreement.[32] [33] Speaking at the Ministerial Meeting for IPEF members in 2023, Minister of Industry and Trade Nguyen Hong Dien mentioned that Vietnam supports the shared goal of the IPEF to conclude negotiations on the remaining Pillars as soon as possible and aims for positive outcomes by the end of this year. Vietnam values the US' efforts in coordinating and organising discussions, and respects the opinions of member countries to achieve commitments and regulations that are high-standard, balanced, and considerate of institutional differences and levels of development among nations.

Vietnam's expectations for the IPEF reflect its commitment to promoting regional cooperation and sustainable development. Its leadership has stressed the importance of creating a framework that benefits the people, ensures peace and security for the region and the world. This requires an open, inclusive, and a balanced process that is responsive to the justifiable interests of stakeholders and in alignment with international law. Vietnam values the importance of working together with other nations to address common challenges and achieve shared objectives. This approach is reflected in its participation in various regional and international frameworks and by being one of the negotiating members of the IPEF from the beginning.

Vietnam also recognises the importance of leveraging digital technologies to boost economic growth and improve the well-being of its citizens. The country has made significant progress in this regard in recent years, but there is much work to be done. By joining the IPEF and sharing experiences and sustainable solutions with other members, Vietnam hopes to achieve a sustainable digital society. Indeed, with resilient Supply Chains and Clean Economy emerging as the two primary Pillars, the IPEF holds the potential to digitally empower Vietnam and achieve sustainable development goals.

## The Supply Chain Pillar

Vietnam is considered a rising star in the global supply chain network due to several key factors.

First, it has attracted significant FDI and is undergoing a shift in its industrial structure. In 2022, the country received US$17,889.9 million, ranking third after Singapore (US$141,181.2) and Indonesia (US$21,968.2).[34] Additionally, there has been a noticeable transition in FDI inflow away from traditional industries like garments and towards hi-tech manufacturing sectors such as computers, electronic equipment, and information/communication.[35] This shift reflects Vietnam's growing capabilities and attractiveness in higher-value manufacturing.

Secondly, Vietnam has demonstrated robust export performance compared to other Southeast Asian countries. In 2022, the country's total trade (import and export) was US$732.5 billion, representing a 9.5 per cent increase from the previous year. Vietnam's commodity exports have

32 "Press Statement for the Trade Pillar, Clean Economy Pillar, and Fair Economy Pillar", US Department of Commerce, 27 May 2023, https://www.commerce.gov/news/press-releases/2023/05/press-statement-trade-pillar-clean-economy-pillar-and-fair-economy

33 "Substantial Conclusion of Negotiations on Landmark IPEF Supply Chain Agreement", US Department of Commerce, 27 May 2023, https://www.commerce.gov/news/press-releases/2023/05/substantial-conclusion-negotiations-landmark-ipef-supply-chain

34 "Flows of Inward Foreign Direct Investment (FDI) to ASEAN Countries (in million US$)", ASEANStatsDataPortal, https://data.aseanstats.org/indicator/FDI.AMS.TOT.INF

35 "FDI Firms Continue to Recover and Shift into High-tech Industries", Vietnam Chamber of Commerce and Industry, 15 May 2023, https://vccinews.com/news/49233/fdi-firms-continue-to-recover-and-shift-into-high-tech-industries.html

positioned it as the second-highest in ASEAN-6, surpassing countries like Malaysia, Indonesia, Thailand, and the Philippines. Its total exports of US$371.5 billion exceeded the combined exports of Thailand (US$287.07 billion) and the Philippines (US$78.84 billion).[36] The strong export performance marks its ability to capture large shares of the global markets and its growing integration into the global supply chain. Vietnam benefits from its strategic geographic location with easy access to international shipping routes. This makes it an appealing destination for global businesses seeking to diversify their supply chains and optimise logistics operations. Vietnam has also displayed a welcoming attitude towards trade and investment, significantly reducing policy restrictions on FDI over the past decade.

Nevertheless, Vietnam still faces challenges, particularly in terms of localisation rates.[37] The Vietnam Association of Supporting Industry Enterprises' data shows that the localisation rate supporting industry products of Vietnamese enterprises is quite low. Currently, Vietnam has only about 500 enterprises engaged in supporting industry production, accounting for more than 0.2 per cent of the total of nearly 1 million enterprises.[38] Improving the localisation rate is crucial to enhance the competitiveness of Vietnamese enterprises on the global stage. To achieve this, Vietnam must prioritise improving the quality of its human resources and preparing its workforce for the digital economy. This requires a focus on digital transformation and equipping many workers with the necessary skills. When participating in the IPEF, through an initiative led by a technologically advanced country like the US, Vietnam can gain access to various benefits, including expertise, technology, education, and legal frameworks, which can help enhance Vietnamese labour skills and technological capabilities. As a result, Vietnamese businesses can maintain their competitive edge and achieve sustainable economic growth.

The Supply Chain Pillar of the IPEF can provide Vietnam with vital support in improving its localisation rate and preparing its workforce for the digital economy. It would enhance the competitiveness of Vietnamese enterprises and ensure that it remains an attractive destination for foreign investors seeking to diversify their supply chains. Ultimately, these efforts will contribute to Vietnam's pursuit of sustainable and inclusive economic growth, aligning with its ambitious goal of becoming a high-income economy by 2045.

## The Clean Economy Pillar

In recent years, Vietnam has made significant progress, in transitioning from one of the world's poorest countries to a dynamic emerging market. But environmental challenges remain a serious threat to its economic development. According to the World Bank, Vietnam will need to invest approximately 6.8 per cent of its Gross Domestic Product (GDP) each year, amounting to US$368 billion, during 2022 – 40, for building resilience and achieving decarbonisation.[39]

---

36 Thái Bình/Quynhlan, "Reaching US $ 700 billion, Vietnam's import and export surpassed Thailand and Indonesia, ranking 2nd in ASEAN", *Customs News*, 21 December 2022, https://english.haiquanonline.com.vn/reaching-us-700-billion-vietnams-import-and-export-surpassed-thailand-and-indonesia-ranking-2nd-in-asean-24848.html

37 Localisation rate or local content rate is defined as percentage of "added value" of products processed domestically.

38 Tran Thuy, "Vietnam's supporting industry needs a revolution", *Vietnamnet Global*, 7 February 2022, https://vietnamnet.vn/en/vietnams-supporting-industry-needs-a-revolution-813801.html

39 "Key Highlights: Country Climate and Development Report for Vietnam", World Bank, 1 July 2022, https://www.worldbank.org/en/country/vietnam/brief/key-highlights-country-climate-and-development-report-for-vietnam

Vietnam's commitment to cut emissions to net zero by 2050, as announced in COP26 and reaffirmed in COP27 by Minister of Natural Resources and Environment Tran Hong Ha, shows the high determination of the country in pursuing sustainable economic development.[40] The 13th Party Congress of Vietnam has also emphasised the need to build a green economy, protect biodiversity and ecosystems, and eliminate projects causing environmental pollution.[41] The commitment is quite ambitious considering Vietnam's current capacity in terms of technology, labour skills, infrastructure, and finance. Therefore, Clean Economy might be the Pillar that draws much attention of the Vietnamese government. The IPEF can generate a good opportunity for Vietnam in its decarbonisation efforts as it is led by the US, a global leader in advanced technology and financial capacity.

To support decarbonisation goals, Vietnam has passed several laws and policies in 2022, including the Law on Environmental Protection,[42] which outlines the responsibilities of businesses, organisations, and individuals in reducing greenhouse gas emissions and combating climate change. However, a close and synchronous linkage between the central and local levels of the government is still lacking, which poses a significant challenge for foreign donors and investors.

The concern over negative effects of artificial materials in food such as additives, preservatives, colourings, flavourings, and other synthetic substances is growing among Vietnam's consumers. A survey by Nielsen Vietnam found that approximately 80 per cent of consumers are willing to spend more on clean and green products produced from environmentally friendly ingredients.[43] This trend indicates that awareness and actions towards green growth and a green economy are spreading throughout Vietnam's economy, from governmental policies to business execution and consumer behaviours. Vietnam's strong emphasis on building a clean economy, combined with its recognition of the importance of international cooperation, makes it an active participant in the Clean Economy Pillar of the IPEF.

## Vietnam and the Fair Economy Pillar

The Fair Economy Pillar of the IPEF presents challenges for Vietnam due to necessary commitments, including effective tax systems and anti-corruption mechanisms.

Corporate Income Tax (CIT) Incentives are considered one of the most attractive features of the Vietnamese business landscape. The two main CITs are preferential tax rates, which are reduced tax rates and tax holidays, which are tax exemptions.[44] However, businesses and individuals face

40 "COP27: Viet Nam reiterates strong commitments to climate change", *Social Public of Viet Nam Government News*, 9 November 2022, https://en.baochinhphu.vn/cop27-viet-nam-reiterates-strong-commitments-to-climate-change-111221109161831911.htm

41 "Major Breakthroughs and Orientations of the Socio - Economic Development Strategy for the Period of 2021 – 2030", National Institute for Finance, The Ministry of Finance of the Socialist Republic of Vietnam https://mof.gov.vn/webcenter/portal/vclvcstcen/pages_r/l/detailnews?dDocName=MOFUCM199333

42 "Law on Environmental Protection and Decree No 08/2022/ND-CP", Winrock International, 2022, https://winrock.org/document/law-on-environmental-protection-and-decree-no-08-2022-nd-cp/#:~:text=2022%2FND%2DCP-,Law%20on%20Environmental%20Protection%20and,08%2F2022%2FND%2DCP&text=The%20project%20is%20implemented%20for,through%20a%20collective%20impact%20approach

43 "Green consumption – key for plastic waste reduction", *Vietnam Plus*, 16 September 2022, https://en.vietnamplus.vn/green-consumption-key-for-plastic-waste-reduction/237439.vnp

44 "Vietnam - Corporate - Tax credits and incentives", PwC, 3 April 2023, https://taxsummaries.pwc.com/vietnam/corporate/tax-credits-and-incentives

many difficulties in paying taxes. Even though the country has made efforts to simplify the tax system by approving tax system reform strategy up to 2030,[45] its efficiency is doubtful. According to the World Bank, it takes businesses 384 hours to pay taxes in Vietnam compared to 64 hours in Singapore, 174 hours in Malaysia and 191 hours in Indonesia.[46]

Tax evasion is another big challenge for the Vietnamese tax system. According to Nguyen Thi Thu Huong, senior governance program manager of Oxfam in Vietnam, tax evasion and avoidance practices led to annual losses of up to VND20.7 trillion (US$872.3 million) to Vietnam's tax revenue in 2013.[47]

Participating in the IPEF offers several opportunities for Vietnam such as enhanced transparency, exchange of information, capacity building, and technical assistance. It can also support international tax reform efforts. However, implementing and complying with the Framework's provisions, coordinating with other members, and assessing the impact on domestic tax policies pose challenges. Vietnam must balance its participation in global tax initiatives while maintaining a competitive and attractive tax system for investment.

While the Vietnamese people desire to combat bribery and corruption, progress in this area has been slow. General Secretary Nguyen Phu Trong's anti-corruption campaign, known as the 'burning furnace' has achieved some success.[48] However, rumours about the General Secretary's health and his potential term extension until 2026 could undermine the campaign's continuity and impact.

Vietnam also faces sensitivity towards certain sub-themes within the Fair Economy Pillar and government officials may hesitate to engage in dialogues on anti-corruption measures. In 2022, Vietnam intensified its fight against corruption, resulting in significant progress. The focus was on personnel management, strict handling of violations, and dismissals of officials in line with party and state regulations. Institutional mechanisms were improved, and various resolutions and regulations were implemented to strengthen party building and combat corruption.[49]

Vietnam's stable political system provides a safe environment for foreign investors. It needs to continue making progress in implementing effective tax systems, anti-money laundering measures, and anti-corruption mechanisms by engaging actively in the Fair Economy Pillar.

---

45 Tax system reform strategy up to 2030 approved, PwC, 9 May 2022, https://www.pwc.com/vn/en/publications/news-brief/220509-tax-reform.html

46 "Vietnam: Doing Business 2020, Challenges and Solutions", World Bank, 8 January 2020, https://www.worldbank.org/en/news/speech/2020/01/08/speech-by-ousmane-dione-world-bank-country-director-for-vietnam-at-the-event-vietnam-doing-business-2020-challenges-and-solutions

47 "Tax evasion causes annual losses to US$900 million in Vietnam's tax revenue", *Hanoitimes*, 28 April 2020, https://hanoitimes.vn/tax-evasion-causes-annual-losses-to-us900-million-in-vietnams-tax-revenue-311914.html

48 "Vietnam's Institutional Corruption: Why Nguyen Phu Trong's "Blazing Furnace" Will Be Meaningless In The Long Term", *The Vietnamese Magazine*, 21 April 2021, https://www.thevietnamese.org/2021/04/vietnams-institutional-corruption-why-nguyen-phu-trongs-blazing-furnace-will-be-meaningless-in-the-long-term/

49 "Hundreds of Party members disciplined for corruption and wrongdoings in 2022", *Vietnam News*, 12 January 2023, https://vietnamnews.vn/politics-laws/1449269/hundreds-of-party-members-disciplined-for-corruption-and-wrongdoings-in-2022.html

## Vietnam and the Trade Pillar

Vietnam's strengths lie in the expansive free markets and reduced trade barriers created by its FTAs, particularly the newer generation agreements such as the European Union-Vietnam FTA (EVFTA) and the Vietnam – UK FTA (UKVFTA). However, it is important to note that even though the US is Vietnam's largest export market with exports of US$109.1 billion in 2022,[50] it does not have any FTA with the US, which represents a significant gap in its FTA network. A BTA was signed in 2000 between Vietnam and the US but the terms and conditions have not been upgraded since then. The IPEF presents a good opportunity for Vietnam to upgrade its trading network and potentially establish a cooperative agreement with the US.

Working in the Trade Pillar will align with Vietnam's active participation in FTAs and its commitment to high-standard, inclusive, free, fair, and open trade commitments. Vietnam can benefit from the flexibilities, technical assistance, and capacity building support offered by the Trade Pillar partners, which can help address specific challenges that the country may face in meeting the high-ambition commitments. Vietnam's involvement in the Trade Pillar will also expand opportunities for workers, companies, and people in other markets. It would offer a platform to boost trade and investment flows, enhance standards, and reduce trade barriers, which would contribute to the country's economic growth and development.

To ensure that Vietnam and the other members stay well engaged in the Trade Pillar, the US and other major members of the IPEF must be proactive. The US, being a key player in the international economic landscape, should take the initiative to engage with Vietnam and the other members.

Overall, by actively engaging in the IPEF, Vietnam stands to harness opportunities for economic resilience, environmental sustainability, and regional leadership, while addressing inherent challenges such as localisation rates and resource constraints. Embracing the IPEF signifies a promising path towards sustainable and inclusive growth, while aligning with Vietnam's long-term economic vision.

50 Pham Huan, "The US is Vietnam's largest export market in 2022", *VOV World*, 31 December 2022, https://vovworld.vn/en-US/news/the-us-is-vietnams-largest-export-market-in-2022-1164819.vov

## About the authors

**Dr Linh H. DANG**, a distinguished economist and educator, holds a PhD in Economic Geography from the University of Hannover, Germany (2009), and achieved the rank of Associate Professor in Economics in 2015. His impactful contributions span academia, research, and leadership. Dr Linh has held notable positions, including heading the Department of International Economics at the Diplomatic Academy of Vietnam and serving as Deputy Director of the Training Department.

With a robust research profile, Dr Linh has authored eight international papers and over 50 articles in domestic journals. His international involvement encompasses presentations at diplomatic events, dialogue with foreign dignitaries, and language skills evaluation for diplomatic personnel. Dr Linh's impact resonates through his leadership, research excellence, and diplomatic endeavours, with his notable contributions in the fields of economics, education, and international relations.

**Ms Tran T. T. LINH** is a lecturer at the Faculty of International Economics at the Diplomatic Academy of Vietnam (DAV) where she teaches subjects relating to international finance. She is also currently pursuing her PhD at the DAV on the current global supply change trends and the impacts on international politics, primarily focused on the Indo-Pacific region. Prior to teaching at the DAV, she worked across several companies specialising in education and finance.

Ms Tran holds a master's degree in International Business from Ulster University, United Kingdom and a bachelor's degree in Financial Investment & Analysis.

# **Engaging and Path-Finding:** A Singapore Perspective on the IPEF

Simon TAY

The paper discusses the strategic and economic reasons of the Indo-Pacific Economic Framework for Prosperity (IPEF) from a Singaporean perspective. Assessments of the IPEF differ, especially considering the lack of market access, but this paper argues that the IPEF provides other avenues for more robust trade relations. The initiative provides an opportunity for the Biden Administration to re-engage with the region and vice versa. The IPEF also represents a return to a stable, open, and rules-based order with the United States (US) as the status-quo world power, an environment that Singapore has done exceedingly well in. Negotiations on key issues also complement Singapore's efforts to pursue green, digital, and trade resilience through a combination of other bilateral and mini-lateral agreements. Ultimately, it is not an issue of choosing between the IPEF or engagement with China and other trading partners but rather about pursuing all avenues that are available with willing and enthusiastic partners.

## Introduction: One Agreement, Different Assessments

The Indo-Pacific Economic Framework for Prosperity (IPEF) has attracted considerable attention since it was first proposed by the United States (US) in May 2022. With 14 countries in the region participating in the negotiations for the agreement, the IPEF is being regarded as the economic flagship initiative of the Biden administration. Yet, assessments of the IPEF differ.

To its proponents, the IPEF has the potential to deepen commercial linkages, green economic growth and development, and strengthen supply chains. Another reason some welcome the IPEF is strategic: to increase American commitment to the region. The IPEF adds an economic layer in addition to improving security relationships within the region and the US over the last few years. They also point to the flexibility of the arrangements. The IPEF allows for participating countries to choose which Pillars they would like to join and provides a layer of flexibility to countries at different stages of development and regulatory levels to join where possible. As countries develop and improve their internal rules, they could then seek to join other Pillars over time. As the intent of the IPEF is to be as inclusive as possible, the flexibility provided by the different Pillars would be an incentive for any country looking to leverage the benefits of the IPEF.

Inclusivity and flexibility, however, have limits. American proponents are explicit that the IPEF is intended to counter Beijing's economic clout in the region.[1] There are also limits on what the US is prepared to do. The IPEF is not about market access or new trade agreements. It is an executive agreement under Biden's Presidential authority. As such, it is subject to change in a future administration.

Consider the fate of the Trans Pacific Partnership (TPP), so strongly pushed through the years of the Obama administration (in which Biden was the Vice President). It was abandoned summarily by President Donald Trump, on his very first day in office. While the remaining partners, led by Japan, continued to completion as the renamed Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the *volte face* has led to questions about the consistency and dependability of the US in committing to comprehensive trade frameworks. The IPEF is not inured from similar potential setbacks arising from American domestic politics and a potential change in leadership.

Moreover, while the IPEF was not fettered as a trade agreement, it is certainly seen as a trade facilitation agreement by the countries joining it, though the lack of improved market access or any reduction in tariffs is held as a mark against it by critics of the IPEF. Without the prospect of market access, there appears to be limited benefits from the IPEF. The lack of market access may disincentivise countries and slow down progress in some of the Pillars. The nature of the IPEF appears to be aspirational with countries signing up to Pillars that they would like to participate in and as such will have to adjust national policies for. This sort of benchmark-led agreement sets the stage for coalitions of countries that have similar interests, goals and aspirations. While gains

---

1 The Chinese Foreign Ministry issued a statement saying "Facts will prove that the so-called 'Indo-Pacific strategy' is essentially a strategy for creating divisions, a strategy for inciting for inciting confrontation, and a strategy for destroying peace." This statement reveals that the Chinese administration perceives that part of the reason for the IPEF is to counter China and to build around China.

See Teddy Ng, "China says Washington's 'divisive' Indo-Pacific strategy doomed to fail", *South China Morning Post*, 23 May 2022, https://www.scmp.com/news/china/diplomacy/article/3178764/china-says-washingtons-divisive-indo-pacific-strategy-doomed?campaign=3178764&module=perpetual_scroll_0&pgtype=article

may not be instantaneous, it does allow for the development of common rules and frameworks for better market interactions.

Against this background, this chapter considers Singapore's participation in the US-led negotiations, examining its trade and economic policy in relation to, first, engaging the US and, secondly in three areas of specific interest to the country: growing the digital economy, increasing supply chain resilience and greening growth. The discussion is set within the context of Singapore's national interests, as a small and highly trade-dependent economy, and one that is invested in a rules-based international order.

## Engaging America: Strategic and Economic Dimensions

Singapore has long regarded the US as an essential and valued offshore balancer and a key contributor to the stability of the region. While no one is naive about US power and prerogatives, on balance, Singaporean policy makers have regarded the US as a status-quo power and acknowledged the American role in creating and maintaining the international rules-based order.

At the launch of the IPEF in May 2022, Prime Minister Lee Hsien Loong shared that Singapore welcomed the IPEF. He spelt out the reasons: Singapore has always been a country that has supported an open, inclusive, and rules-based order that builds stability and a shared prosperity.[2] In that context, Singapore's engagement in the IPEF is first and foremost founded on strategic consideration. The Biden administration presents the IPEF as a manifestation of its return to a leadership role in rules-setting within the region and Singapore is prepared to participate in the IPEF as a means to engage America. This is undertaken even after the experience of the TPP, for which Singapore was an early and strong advocate.

After the American withdrawal from the TPP, Singapore proceeded with the CPTPP that emerged. It has also been, as part of the Association of Southeast Asian Nations (ASEAN), a keen participant in the creation of the Regional Comprehensive Economic Partnership (RCEP), which includes China as its largest member. Bilaterally with China, Singapore has strengthened its long-standing relationship with large investment and trade flows.[3]

Singapore has also engaged in economic and trade agreements with more distant but key partners outside the region. There is, for example, a Free-Trade Agreement (FTA) with the EU. Singapore is also the first partner state for the Pacific Alliance that brings Chile, Columbia, Mexico, and Peru together. For the digital economy, Singapore has embarked on the Digital Economy Partnership Agreement (DEPA) with Chile and New Zealand, as well as the Singapore-UK Digital Economy

---

2 "Intervention by PM Lee Hsien Loong at the virtual launch of the Indo-Pacific Economic Framework on 23 May 2022", Prime Minister's Office Singapore, 23 May 2022, https://www.pmo.gov.sg/Newsroom/Intervention-by-PM-Lee-Hsien-Loong-at-the-Virtual-Launch-of-the-Indo-Pacific-Economic-Framework

3 Singapore and China shared a total merchandise trade of US$127.26 billion in 2022, representing the largest merchandise trade between Singapore and another country. Singapore and China shared a total trade in services of US$36.87 billion in 2021. This represents the fourth largest services trade that Singapore has with a partner country. Excluding a number of Caribbean countries that are likely to be offshore centres, China is the third largest Foreign Direct Investor in Singapore.

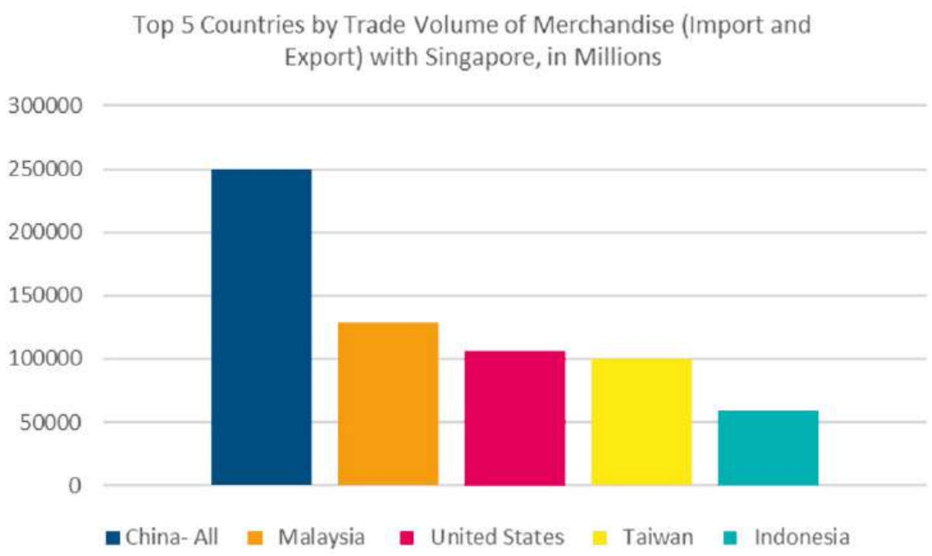
See "Singapore's International Trade", Department of Statistics Singapore, https://www.singstat.gov.sg/modules/infographics/singapore-international-trade;

"Investment", Department of Statistics Singapore, https://www.singstat.gov.sg/publications/reference/ebook/trade-and-investment/investment

Agreement, which represents new approaches to trade agreements. The country has and is, in this regard, pursuing multiple and diverse avenues to continue, and where possible, deepen economic ties. These multiple engagements are especially energised by signs that the global system is slowing and fragmenting, with regional blocs and clusters potentially emerging. In this context, the IPEF is of considerable interest to Singapore as a means to further engage the US in the region.

Trade between Singapore and the US is also significant. The US is Singapore's number one trade partner for goods and services. Combined, this accounts for approximately US$894.51 billion, or 9.2 per cent of Singapore's merchandise trade and 18.3 per cent of Singapore's services trade and 12.5 per cent of Singapore's total cumulative trade volume.[4] While the US is not No.1 in the trade of goods (Figure 1) (that distinction falls to China), the US has the largest trade of services with Singapore (Figure 2). There is, moreover, headroom for this to grow. The US is also the single largest source of Foreign Direct Investment (FDI) in Singapore, with a total stock of US$449.8 billion (as of 2021) cumulatively invested in Singapore. Notably, this is more than the total stock of FDI that has been invested in Singapore by Asian countries.[5]

**Figure 1:** Top 5 Countries by Trade Volume of Merchandise with Singapore

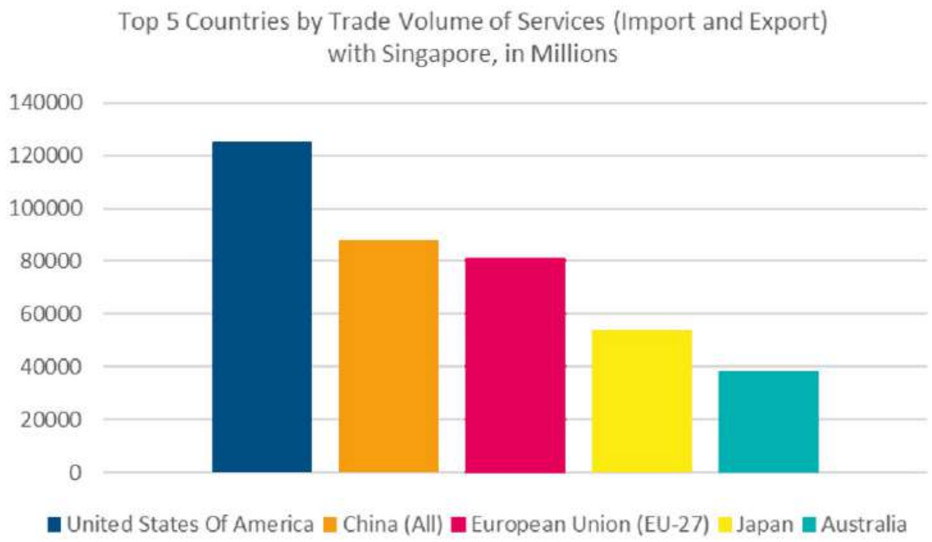



**Source**: SingStat – Department of Statistics Singapore

4 *op. cit*.

5 SingStat Table Builder, Department of Statistics Singapore, 21 June 2023, https://tablebuilder.singstat.gov.sg/table/TS/M083801

**Figure 2:** Top 5 Countries by Trade Volume of Services with Singapore




**Source**: SingStat – Department of Statistics Singapore

Consider the US-Singapore FTA that came into force in January 2004. Following its implementation, trade in goods has increased by almost 65 per cent[6] or at an annualised basis of 2.8 per cent a year. The US enjoys a positive trade surplus of US$14.5 billion[7] with Singapore, which should ease concerns about the fairness of trade that many Americans raise. The previous administration constantly raised the issue that the US had been taken advantage of in the global trade environment where their open markets had been flooded by global goods and in doing so it has killed many local business and driven unemployment and ballooned the trade deficit. China in particular bore the brunt of that assessment though most of Asia faced that accusation in some form. If the IPEF can succeed and open new avenues for continued engagement, especially on newer and growing sectors, this can further accelerate economic ties.

Yet, commercial considerations are not the only reason for Singapore to welcome the IPEF. The flexibility of the IPEF – wherein countries are able to choose which Pillars to join – is also welcome as this allows more countries to accede to new Pillars as their laws and economic development priorities allow. This is appealing to Singapore as a hub in the region, and for ASEAN. The IPEF has brought in seven ASEAN member states to participate in negotiations (as compared to the TPP/CPTPP which includes only four and RCEP which includes all 10 members of ASEAN). While this is not all 10 ASEAN members, the seven represent the vast bulk of the group's economy. Further, since the IPEF is an open agreement, there is always the possibility that the other three countries will eventually join. While the IPEF itself does not strengthen ASEAN centrality, it can be a particularly useful tool for establishing common rules, roadmaps and potentially new projects for ASEAN countries that are part of the Framework. Increased economic collaboration along newer trade areas like the green and digital economies and building more resilient supply chains have the potential to improve linkages between ASEAN members as well as other parties to the agreement, further expanding potential economic gains.

6 *op. cit*.

7 "Trade in Goods with Singapore", United States Census Bureau, https://www.census.gov/foreign-trade/balance/c5590.html

Singapore also places some hope in the American aspiration that the IPEF can be a way to strengthen the rules-based order. While the IPEF does not have a formal dispute resolution mechanism that some associate with a rules-based order, its efforts can help establish norms and more harmonised approaches in new frontiers that are yet to be included and governed by international agreements. In this regard, the IPEF represents a relatively new approach to formalising and normalising cooperation in newer areas such as digital trade, the green economy and supply chains – all of which are of interest to Singapore.

## Progressing the Digital Economy

Emerging from the COVID-19 pandemic, Singapore has recognised the importance of growing the digital economy, embracing a 'must-have' approach not only for technology companies but for transforming all sectors. The digital economy in Singapore has grown on the backs of increased data flows in the region, driven by a growing and younger demographic in the wider ASEAN region, widespread internet access at close to 71 per cent[8] penetration and increased smartphone penetration, with the digital economy predicted to grow to be as large US$1 trillion by 2030.[9] It has therefore sought to increase trade linkages with countries in the region through new and diverse initiatives. Of special note are the digital agreements, including the minilateral Digital Economy Partnership Agreement (DEPA) with Chile and New Zealand, as well as bilateral agreements with different partners like the EU and South Korea. Efforts are underway for wider digital agreements, including one amongst ASEAN members.[10]

It is in this context that the IPEF is also welcome. The US, through the IPEF, shows some ambition to set and lead on new rules on the digital economy. The American approach and interests in this sector can be discerned in the US-Japan Digital Trade Agreement (USJA) and the US-Mexico-Canada Agreement (USMCA), with the USMCA[11] having, in fact, stricter clauses, for example around intellectual property rights as well as custom duties on digital transactions for instance, while it allows domestic taxes on digital trade as long as it is non-discriminatory. There are also American fingerprints in the digital provisions in the TPP.

This is not to say that Singapore will accept the American standards and approaches in toto. But for its own national interest, Singapore potentially gains if there can be established common rules or practices on issues like consumer protection, personal data safeguards, the promotion of reliable artificial intelligence capabilities and security rules. While it is unlikely that Singapore's digital agreements with the UK or Korea will feature prominently in the IPEF, as it will likely lean heavily on the language of its US counterparts like the USJA and the USMCA, Singapore is in a better negotiating position having already made such agreements before. The country is therefore supportive of efforts to create shared rules for the region and will see participation and dialogue in the IPEF as helping bring on board more countries.

8 "Internet usage in Southeast Asia - statistics & facts", *Statista*, 31 August 2023, https://www.statista.com/topics/9093/internet-usage-in-southeast-asia/#topicOverview

9 "e-Conomy SEA 2022", Bain&Company, Google and Temasek, 2022, https://services.google.com/fh/files/misc/e_conomy_sea_2022_report.pdf

10 "Digital Economy Framework Agreement (DEFA): ASEAN to leap forward its digital economy and unlock US$2tn by 2030", *Association of Southeast Asian Nations*, 19 August 2023, https://asean.org/asean-defa-study-projects-digital-economy-leap-to-us2tn-by-2030/

11 "United States-Mexico-Canada Agreement", International Trade Administration, https://www.trade.gov/usmca#:~:text=United%20States%2DMexico%2DCanada%20Agreement,economic%20growth%20in%20North%20America

## Resilient Supply Chains

Another effort within the IPEF is to make supply chains more resilient. This is important, given the experience during the COVID-19 pandemic as well as the effects of the war in Ukraine and the sanctions against Russia. Looking forward, the splitting of supply chains, imposition of import and export restrictions as well as disruptions and shortages that can arise from climate impacts can further stress global supply chains.

Against this background, the importance of making supply chains more resilient is commonly recognised. For Singapore, as a trade hub, and also with very limited land and resources for production within the country, the issue can be critical. In a Singapore Public Sector Outcome Review (SPOR),[12] strengthening of Singapore's supply chain resilience was highlighted as a key part of Singapore's ability to globally integrate and play a part in the overall global economic system.

The IPEF does aim to make progress on this front. It is developing a framework[13] that would potentially allow participating countries to share information and increase supply chain transparency. While this does not ironclad supply chains, such transparency requires companies to be aware and able to map the activities both upstream and downstream, internally and externally. This is being increasingly demanded by consumers as they are more sensitive to issues such as environmental degradation, labour issues and concerns over governance. This effort is being undertaken under the Second Pillar of the IPEF.[14]

As part of this work, Singapore is establishing an information-sharing and crisis response mechanism that will allow for more timely exchange of information between the government and private sector. This ties in with proposed efforts[15] in the Supply Chain Pillar to promote taking stronger steps to strengthen IPEF supply chains and add regulatory transparency through increased collaboration. This early warning mechanism will allow the government to be more aware of potential disruptions to supply chains and take more appropriate and efficient actions to prevent or respond to the circumstances early. The IPEF can therefore assist these efforts by building both the policies and technical framework for the exchange of information to help Singapore identify and work more closely with trusted partners who would likely continue to supply even during a crisis. It would also allow Singapore to engage with a wide range of stakeholders to mitigate the impact of disruptions.

This could be a significant complement to Singapore's existing strategy:[16] to increase the diversification of sources to ensure a reliable supply of critical goods. This diversification increases Singapore's adaptability to shocks and allows it to work with other trusted and cultivated partners to ensure that critical supplies continue to flow even under the most strained circumstances.

Singapore has also continued to invest heavily in new and existing connectivity infrastructure to

---

12 "Strengthening Our Supply Chain Resilience", Singapore Public Sector Outcomes Review, https://www.mof.gov.sg/singapore-public-sector-outcomes-review/citizens/our-shared-future-and-place-in-the-world/strengthening-our-supply-chain-resilience

13 "U.S. Department of Commerce Publishes Text of Landmark Indo-Pacific Economic Framework for Prosperity (IPEF) Supply Chain Agreement", US Department of Commerce, 7 September 2023, https://www.commerce.gov/news/press-releases/2023/09/us-department-commerce-publishes-text-landmark-indo-pacific-economic

14 *Ibid*.

15 *Ibid*.

16 *op. cit*.

strengthen its role as a global trading and logistics hub. The investments and improvements in the supply chain logistics, including infrastructure, border and transport linkages, and the building of common frameworks will help to address existing or potential roadblocks.

These internal actions would be greatly enhanced by the IPEF's efforts, in particular, the proposed Articles 2 and 3 of the Supply Chain Pillar[17], with both private and public sector stakeholders to provide access and share data relevant to supply chains while maintaining the protection and confidentiality of data. This new approach would be potentially challenging since the mapping of supply chains has largely only been done for commodities or agricultural products rather than more complex manufactured goods. Private and public stakeholders would need to develop some trust with each other as companies may be asked to provide sensitive corporate information to their public sector counterparts as part of the mapping process of critical materials or linkages. While Singapore's public and private stakeholders have a particularly good working relationship so far, there would likely need to be assurances given by the government that confidential information that is shared with other countries in the IPEF would be secured and protected. Another potential benefit is to enable Singaporean Micro, Small and Medium Enterprises (MSMEs) to be better integrated into global supply chains across critical sectors, without having to impose additional unnecessary costs.

## Strengthening the Green Economy

The green economy is another area where Singapore's priorities can gain from the IPEF's efforts. As part of Singapore's 2030 Green Plan, the Green Economy represents one of six pillars.[18] Singapore is looking to leverage the acceleration in the global green economy to create new jobs, transform industries and remain competitive. The global transition to a low-carbon economy brings about new opportunities in economic sectors such as green finance, carbon services and trading as well as the decarbonisation of the industrial sectors. Within the IPEF and through collaboration with other IPEF members, there is potential to accelerate this transition. In particular, Singapore would look to work with other IPEF partners, such as Japan which is looking to build out a hydrogen supply chain or Australia which is looking to become a regional battery and renewable energy export hub, to improve energy security and transition to a low-carbon energy source.

Examining Singapore's specific circumstances contributing to its energy policy is useful in understanding the country's position. Singapore does not have energy resources of its own and it currently generates 95 per cent of its electricity from imported natural gas.[19] While natural gas does have a lower greenhouse gas (GHG) footprint than coal, it is still carbon-based. Turning to different sources, from solar to geothermal energy and hydrogen, is a key pathway to reduce the country's carbon footprint. Of these, the solar option is constrained, given the country's limited size and other necessary uses of land.

---

17 *op. cit*.

18 "Sustainable Development – A Core Belief", Singapore Green Plan 2030, https://www.greenplan.gov.sg/vision/

19 In 2021, Singapore imported 10.6 Mtoe of natural gas via pipelines with Malaysia and Indonesia as well as in the form of LNG from Australia, USA, Eqypt and Qatar among other countries. Of the total natural gas imported, 7.4 Mtoe was Piped Natural Gas and 3.4 Mtoe was Liquefied Natural Gas.

See "Chapter 1: Energy Supply" in Singapore Energy Statistics 2022, Energy Market Authority of Singapore, 2022, https://www.ema.gov.sg/resources/singapore-energy-statistics/chapter1;

"Singapore", US Energy Information Administration, August 2021, https://www.eia.gov/international/analysis/country/SGP

Steps to explore hydrogen are being taken. In October 2022, a large Singapore company, Sembcorp Industries, entered a strategic collaboration with the Japanese government and several Japanese firms to develop hydrogen and other initiatives.[20] As Singapore's largest importer of natural gas, Sembcorp's move to develop a hydrogen solution adds another major decarbonisation pathway. While these arrangements were in place before the IPEF was agreed upon, IPEF partners are also introducing a regional hydrogen initiative to further accelerate the adoption of low-carbon and renewable hydrogen and its derivative products in the region. IPEF partners could look forward to better collaboration, such as tapping on the expertise of both the public and private sectors, increasing investments, job prospects, and developing new pathways towards a lower emissions future.

More broadly, there are prospects that technological partnerships and bilateral assistance might be provided. These forms of incentives and assistance may not necessarily be captured in the statements on the IPEF negotiations. But in many cases, these examples of concrete cooperation arose under the aegis of the IPEF. They potentially constitute, in that sense, deliverables from the initiative.

## Conclusion: Path-Finding and Many Paths

The world and the Asian region are facing a number of concurrent and interactive crises – which some dub a 'poly crisis.' Some of these include Sino-American tensions, the stress on supply chains, the slowing of trade and globalisation concurrent to the rise of 'home-shoring.' There are also many pressures on the international rules based order as well as the need to have dialogue and work towards agreement in dealing with newer issues like the digital and green economy.

The IPEF represents an effort for dialogue and path-finding on a number of key issues. Some view the IPEF as a new type of trade agreement for countries to set common rules as well as express common interest to drive greater trade while others state that it is an attempt to make 'something out of nothing'; – since the US and the Biden administration do not have the political will to negotiate a more traditional trade agreement.

Known to be pragmatic, Singaporean policymakers are not likely to spend too much time on what is not on the table. Their focus is to make the most of what is on the agenda, set by the Biden administration, given its priorities as well as constraints. As reviewed, from this menu, Singapore can find a number of initiatives on issues that resonate with Singaporean priorities and interests. These provide reasons for Singapore's active participation and support for the IPEF.

However, the attention and effort given to the IPEF should not blind observers to other undertakings by Singapore. Whether through FTAs with partners further afield or in the newer green economy and digital agreements, the country is pursuing multiple opportunities. It is not a question of choosing the IPEF and the US over engagement with China and others. It is 'and' and not 'either/or' that best describes the Singaporean response to the IPEF.

With that basic strategic response, Singapore can therefore accept that the IPEF is far from perfect; whether the concern is that there is no market access or that the IPEF itself might prove to be ephemeral if there is a change of administration in the US. For Singapore, it is sufficient that the

20 "Sembcorp Enters Strategic Collaborations with Japan on Low-Carbon Hydrogen Initiatives", *Sembcorp*, 25 October 2022, https://www.sembcorp.com/en/media/765433/sembcorp-enters-strategic-collaborations-with-japan-on-low-carbon-hydrogen-initiatives.pdf

IPEF does engage the US for now, and that the negotiations and initiatives under the IPEF – or some of them at least – may link to and complement the efforts made by Singapore and align with the country's own priorities.

While traditional FTAs dominated the trade agreements of the 1980s and 90s, more specialised trade agreements have risen to occupy attention. While this is partly due to the concerns over potential bifurcation of global trade between competing global powers like the US and China, it is also because countries at different developmental levels are able to find common ground on rules, regulations and investments, without having or wanting to give up market access. A path to move ahead, amidst negative global conditions, is critical and Singapore has been very active in pathfinding, taking steps down many diverse pathways, of which the IPEF – alongside the US and other countries – is one to be explored.

## About the author

**Associate Professor Simon Tay** is Chairman of the Singapore Institute of International Affairs. He is concurrently a tenured Associate Professor, teaching international law at the National University of Singapore Faculty of Law.

His book, *Asia Alone: the Dangerous Post Crisis Divide from America* (Wiley 2010), was well reviewed in the *Economist*, *Financial Times* and regional media. His commentaries feature regularly in regional newspapers. Professor Tay is also a prize winning author with five books of stories and poems. In 2010, his novel, *City of Small Blessings* was awarded the Singapore Literature Prize. He recently published a collection of short stories titled *Middle and First*.

From 1992 to 2008, he served in a number of public appointments for Singapore. These included serving as Chairman of Singapore's National Environment Agency; and as an independent Nominated Member of Parliament (1997-2001). In 2006, Professor Tay received a National Day Award.

4

# External Perspectives

# **The EU, the Indo-Pacific and the US-led IPEF:** Which Way Forward?

Françoise Nicolas

The paper provides a European Union (EU) perspective on the Indo-Pacific Economic Framework (IPEF). First, the recent progress made by the IPEF has given new momentum to the EU's engagement with the Indo-Pacific (IP) partners and to its recently launched Indo-Pacific strategy. In terms of substance, two issues appear to be at the forefront of the IPEF as well as of the EU's Indo-Pacific strategy, namely supply chain resilience enhancement and various aspects of the digital economy. There is probably scope for convergence and cooperation between the EU and the IPEF countries on the former issue, which is addressed indirectly in different EU's digital partnerships, while it is the area where the IPEF has made most substantial progress. However, the differences between the EU's and the United States' (US) approaches to some aspects of the digital economy may act as stumbling blocks and give rise potentially to some form of competition in the IP region, making cooperation on data-based efforts to enhance supply-chain resilience rather complicated.

## Introduction: Why the Indo-Pacific and the IPEF Matters for the EU

### The Indo-Pacific region, a priority for the EU

For the European Union (EU), the Indo-Pacific region is of utmost importance, both economically and strategically. Due to its growing economic, demographic, and political weight, the Indo-Pacific region is perceived both by individual member states and by the European Commission (hereafter the Commission or EC) as a key player in shaping the international order and in addressing global challenges.

France was the first member state to use the 'Indo-Pacific' concept and develop a specific strategy vis-à-vis the region (2018), and it was soon followed by Germany and the Netherlands (2020)[1]. As a result, the EC has also decided to step up its strategic engagement with the Indo-Pacific region through the definition of a new strategy issued in September 2021. As set out in the *EU Strategy for Cooperation in the Indo-Pacific*[2] (hereafter EU's IP strategy), the EU considers its relations in the region as a priority. The futures of the two regions are inextricably linked given the interdependence of the economies and the common global challenges.

The EU has a broader definition of the Indo-Pacific than the US; in the EU strategy the IP extends from the Eastern coast of Africa all the way to the South Pacific, including seven Group of 20 (G20) members – Australia, China, India, Indonesia, Japan, the Republic of Korea and the Republic of South Africa – as well as the Association of Southeast Asian Nations (ASEAN). Also, unlike the US Indo-Pacific strategy, "the EU strategy does not address the root cause of the Indo-Pacific discourse: the rise of China and its challenge to the US-led order in Asia." [3] The EU's real added value is building inclusive, rules-based multilateralism and providing economic, health, physical and digital infrastructure.

The EU's engagement with Indo-Pacific partners is already important: the EU is the top investor, the leading development partner and one of the biggest trading partners in the Indo-Pacific region. However, it is among the EU's ambitions to further deepen its relations with the region and to diversify supply chains with reliable partners, in particular after the COVID-19 pandemic and the Russian war of aggression against Ukraine, as well as in the context of the green transition.

### Potential implications of the IPEF for the EU

While the US approach to the Indo-Pacific had shifted almost exclusively towards security and away from economic issues after President Trump withdrew from the Trans-Pacific Partnership (TPP) agreement in 2017, it has changed quite dramatically under the Biden administration, especially with the launch of the IPEF in May 2022. This initiative marks the US' comeback in the economic sphere. The first-of-its-kind framework includes relatively challenging US requests for higher labour, environmental, and other standards that are not counterbalanced by market access. In this respect, it differs substantially from the EU's approach. In spite of differences, there

1 Gudrun Wacker, "European Approaches to the Indo-Pacific, Same, Same, But Different", in *European Strategic Approaches to the Indo-Pacific*, ed. by Christian Echle and Jan Kliem (Panorama: Insights into Asian and European Affairs, KAS, Singapore, 2022), 7 - 23.

2 "Joint Communication to the European Parliament and the Council", European Union External Action, 16 September 2021, https://www.eeas.europa.eu/eeas/joint-communication-indo-pacific_en

3 Frederick Kliem, "The EU Strategy on Cooperation in the Indo-Pacific: A Meaningful Regional Complement?", in *European Strategic Approaches to the Indo-Pacific*, ed. by Christian Echle, Jan Kliem (Panorama: Insights into Asian and European Affairs, KAS, Singapore, 2022) 55 – 69.

is undeniably an increased alignment in views between the EU and the US on the importance of the Indo-Pacific and of economic engagement in the region, with the US moving, on the latter point, closer to the EU.

The objective of this paper is to examine how the EU is engaging Indo-Pacific partners today, and how it will engage them in the future, while taking into account the existence of the IPEF. A key issue is to figure out whether and how the EU's and US' initiatives may dovetail (or not) with respect to the Indo-Pacific region.

## The EU's Current Engagement with IPEF Countries

### EU's Free Trade Agreements with IPEF countries

The EU's IP strategy as a framework provides broad directions to be followed in the multiple bilateral relations with Indo-Pacific partners, but it does not offer any details on how these relations should be operationalised. Even before the EU's IP strategy was defined, the number of Free Trade Agreements (FTAs) negotiations launched with IP partners is a testament to the EU's long-standing interest in deepening its trade engagement with the Indo-Pacific region. The EU has FTAs or Economic Partnership Agreements (EPAs) in force or under negotiation with nine of the 14 IPEF countries.

FTAs with South Korea, Japan, Singapore and Vietnam have been in force for some time already, while the EU-New Zealand (NZ) FTA was concluded recently (late June 2022). The EU has had an EPA in force with Fiji since 2014, and negotiations with Australia were restarted in late 2022, after their abrupt interruption due to the Morrison government's French submarine decision.[4] Moreover, negotiations are still ongoing with Indonesia and India. Lastly, although some serious obstacles must be overcome, EU negotiators are still assessing the possibility of the resumption of FTA negotiations with Malaysia, the Philippines, and Thailand, and perhaps even on a region-to-region basis with ASEAN.

Although the degree of commitment may vary from one agreement to another, all of them offer standard trade liberalisation; tariff reduction and market access commitments are at the heart of these arrangements. Moreover, new issues are now almost systematically included in FTAs negotiated by the EU, such as sustainable development (environmental) or labour rights considerations, and deals with IP partners are no exceptions.[5] In contrast, rules on digital services and e-commerce are rather thin in these agreements. Since 2021, the EU has developed a 'model' digital chapter that advances its own digital trade regulatory agenda, which has only been included in the most recent deals.

As a preliminary attempt to upgrade existing FTAs, the EC seeks to build Digital Partnerships with some of its IP partner countries to enhance reciprocal technical, policy, and Research and

4 Justin Brown, "EU in the driver's seat on Indo-Pacific trade deals", *The Interpreter*, 10 October 2022, https://www.lowyinstitute.org/the-interpreter/eu-driver-s-seat-indo-pacific-trade-deals

5 For instance, the recently concluded EU-NZ agreement integrates the new approach on trade and sustainable development (TSD) with strong sustainability commitments. The TSD commitments are legally binding and enforceable through dispute settlement, and for the first time in an EU trade agreement, as a matter of last resort, there is the possibility of trade sanctions for serious violations of core TSD commitments like the International Labor Organization fundamental principles and rights at work and the Paris Agreement on Climate change.

Development (R&D) cooperation on key technologies, such as artificial intelligence, the digital transformation of businesses and public services, and the facilitation of digital trade. The main goal is to develop and entrench standards for emerging technologies in line with EU principles and values. Such partnerships have been negotiated with Japan, South Korea and Singapore, and creating a digital partnership with ASEAN is also part of the EU's IP strategy.[6] The aim of these partnerships is to advance cooperation on the full range of digital issues, including trade facilitation, trusted data flows and data innovation, digital trust, standards, digital skills for workers, and the digital transformation of businesses and public services. Although these digital partnerships are initially non-committal, they are expected to pave the way towards binding rules covering diverse aspects of digital trade.

Importantly, the EU-NZ FTA[7] includes a full-fledged digital trade chapter, which contains, among other things, details provisions on cross-border data flows, the protection of privacy and personal data, customs duties on electronic transmissions, electronic contracts, electronic authentication and trust services, the transfer of or access to source code, online consumer trust, unsolicited direct marketing communications, open government data, and regulatory cooperation on digital trade. This will facilitate cross-border data flows by prohibiting unjustified data localisation requirements while preserving a high level of personal data and privacy protection. It also includes ambitious articles on the protection of source code, the use of e-contracts, and e-invoicing or paperless trading.

### The EU as a normative power

The EU is used to developing new rules on trade policy in its bilateral FTAs with the hope that some of these rules – for example on subsidies and sustainability – will eventually make it to the World Trade Organization (WTO) rulebook. The exclusive supranational power of the Commission to negotiate trade deals on behalf of the member states comes with significant regulatory power through setting trade, industrial, labour, and human rights standards, and its large market (the EU is the second largest economy in the world) gives Brussels a great deal of political leverage in the pursuit of its objectives.

With respect to its IP partners, the EU's aim is to engage them to build more resilient and sustainable global value chains by diversifying trade and economic relations, and by developing technological standards and regulations that are in line with its values and principles. As a normative actor, in both self-perception and practice, the EU's strengths lie in setting and raising regional standards of good governance, equitable trade, and capacity building in many non-traditional security areas as well as in advancing ecological sustainability and high-quality infrastructure. This regulatory objective is reflected in the increasing width and depth of trade agreements.

The EU's overall IP strategy is meant to compensate for the lack of an economic strategy vis-à-vis the region. However, in concrete terms, the EU still relies on an array of bilateral agreements. In contrast to the US, the EU is approaching its IP partners in a patchy way, on a bilateral basis. This is a major difference compared to the IPEF, which works as a platform.

6 In the Plan of Action to Implement the ASEAN-EU Strategic Partnership (2023-2027), which was issued in early 2022, the two regional organisations reaffirmed their commitment to cooperate in the realm of the digital economy, and a joint working group has been created to scope out the parameters of a future deal.

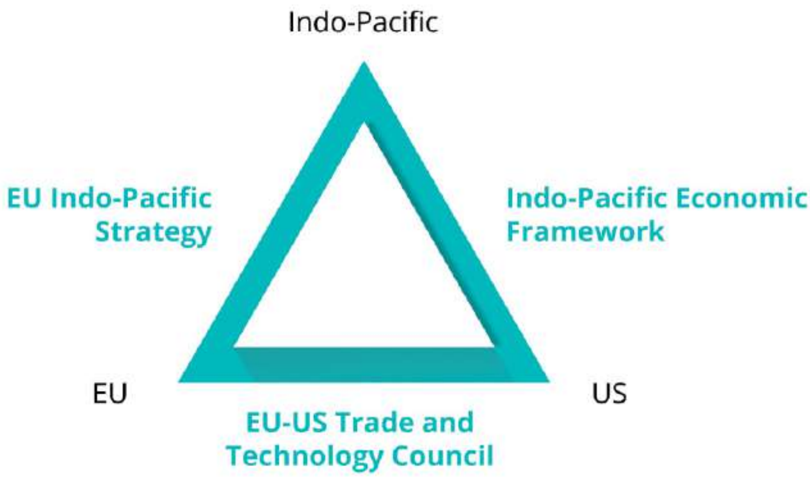
7 "Key elements of the EU-New Zealand trade agreement", European Commission – Directorate-General for Trade, 30 June 2022, https://policy.trade.ec.europa.eu/news/key-elements-eu-new-zealand-trade-agreement-2022-06-30_en

### The EU-US Trade and Technology Council (TTC)

At the same time, the EU has also set up a platform together with the US (EU-US Trade and Technology Council - TTC)[8] where various trade-related issues (also covered in the IPEF) will be discussed. Interestingly, the EU-US TTC will not exclusively focus on bilateral trade-related tensions but will also potentially contribute to upholding the international order based on the rule of law, multilateral institutions, and free trade, and contribute to addressing the challenges raised by non-market economies. What happens between the EU and the US also must be taken into consideration for two reasons. First, because the EU-US TTC format is quite close to the IPEF format: both of them work as platforms of discussion to address specific trade-related issues. Secondly, the outcome of the discussions conducted in the EU-US TTC may shed light on the respective positions of the two partners.

Three simultaneous dialogues are thus currently being conducted with implications for the IP region (see Figure 1): i) between the EU and its IP partners (under the umbrella of EU's Indo-Pacific Strategy), ii) between the US and several IP partners (through IPEF), and iii) between the EU and the US (through the TTC).

**Figure 1:** Various discussion formats between IP partners




**Source**: Compiled by author

## Two dreams in one bed: contrasting IPEF and the EU's IP strategy

Both the EU and the US are engaging their IP partners, but through different instruments and with different objectives. This section focuses on two interrelated issues, namely supply-chain resilience, which is the area where the US has progressed the most, and the digital economy.

8 The TTC is a diplomatic forum aimed at harmonising the US-EU approach to trade and technology policy, including by developing a common approach to supply chain issues and emerging technology areas where regulation is sparse. See (from TTC, IPEF and the Road to... 2022, Atlantic Council.)

## Different approaches to supply-chain resilience

### The IPEF Supply Chain Agreement

Although the IPEF is a recent endeavour, it has made unexpectedly quick progress, leading as early as May 2023 to the substantial conclusion of the negotiations of a first-of-its-kind international Supply Chain Agreement.[9] Through this agreement, the IPEF partners aim to identify items that are at risk of supply network disruption, share information in normal times, expand sources for the procurement of important goods and items among participating countries, as well as allow for flexible procurement during crises.[10]

The supply chain agreement would establish an emergency communications channel for the IPEF partners to seek support during a supply chain disruption and to facilitate information-sharing and collaboration among the IPEF partners during a crisis. The proposed mechanisms include (1) an *IPEF Supply Chain Council* to oversee the development of sector-specific action plans designed to build resilience in critical sectors, and (2) an *IPEF Supply Chain Crisis Response Network* that can serve as an emergency communications channel. In addition, a tripartite body made up of government, worker, and employee representatives *(IPEF Labour Rights Advisory Board)* is to be set up to help identify areas where labour rights concerns pose risks to the resilience and competitiveness of partners' supply chains.[11]

### EU's supply-chain cooperation with IP partners

In parallel to the IPEF progress, there has also been some degree of US-EU convergence, most notably on supply chain issues and export controls.[12] On the former issue, there is a clear overlap between the IPEF and the EU-US TTC. Under working group 10 of the TTC, the US and the EU have agreed to establish early warning and monitoring mechanisms to prevent and prepare for possible supply chain disruptions.

Supply chain security, controls over technology transfers, industrial policy, and strategic sectors are at the heart of the EU's public debate. Cooperation on supply chain resilience is also part of the strategic partnerships between the EU and several of its IP partners (such as South Korea or India).[13] While EU's and US' goals appear to be clearly aligned on the need to enhance supply-chain resilience through cooperation with IP partners, the difficulty will lie in the operationalisation or the definition of the measures to be put in place to achieve the set goal.

---

9 "Press Statement on the Substantial Conclusion of IPEF Supply Chain Agreement Negotiations", US Embassy and Consulates in Indonesia, 31 May 2023, https://id.usembassy.gov/press-statement-on-the-substantial-conclusion-of-ipef-supply-chain-agreement-negotiations/

10 Seiya Sukegawa, "Can the IPEF Protect Corporate Supply Chains?", *The Diplomat*, June 12, 2023, https://thediplomat.com/2023/06/can-the-ipef-protect-corporate-supply-chains/

11 Aidan Arasasingham, Emily Benson, Matthew P Goodman and William Alan Reinsch, "Domestic Perspectives on IPEF's Digital Economy Component", Center for Strategic and International Studies, *CSIS Briefs*, 26 January 2023, https://www.csis.org/analysis/domestic-perspectives-ipefs-digital-economy-component

12 Frances Burwell and Andrea G. Rodríguez, "The US-EU Trade and Technology Council: Assessing the record on data and technology issues", *Issue Brief*, The Atlantic Council, 20 April 2023, https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/us-eu-ttc-record-on-data-technology-issues/

13 The EU and India are working together on resilient value chains as part of the EU-India Trade and Technology Council. See "First EU-India Trade and Technology Council focused on deepening strategic engagement on trade and technology", European Commission, 16 May 2023, https://ec.europa.eu/commission/presscorner/detail/en/ip_23_2728

The issue of supply-chain resilience has primarily been addressed by the EU through the digital partnerships mentioned earlier. These instruments are meant, among other things, to facilitate supply-chain cooperation. The EU-Japan Digital Partnership,[14] that was concluded in May 2022, is not a treaty but "an ambitious statement of intent to develop the relationship in the digital economy."[15] This effort furthers the 'Data Free Flow with Trust' agenda, aimed at facilitating safe and secure cross-border data flows. In a joint statement, the two partners stressed that "they intend to work towards achieving joint monitoring, exchange of information in anticipation of disruptions in the supply chain, effective early warning mechanisms, crisis preparedness, exchange of information on long-term investment strategies and coordination of export controls among the relevant authorities."[16]

Similarly, through the EU-Korea[17] and the EU-Singapore[18] Digital Partnerships, the two parties have agreed to work together on a range of diverse issues including semiconductors, trusted data flows and data innovation, digital trust, standards, and digital trade facilitation. The two parties will work together to make safe data exchange possible and use digital solutions to enhance supply chain resilience. The two digital partnerships (with South Korea and Singapore) have an important trade-aspect and include as a key deliverable Digital Trade commitments between the EU and its two partners. They demonstrate a high level of convergence with the EU's approach to digital trade,[19] and are designed to provide a common framework for digital strategies.

Whether the EU's approach to supply-chain resilience enhancement fits with all IP partners' objectives remains to be seen.

## EU – US divergences on the digital economy

### The digital noodle bowl in the Indo-Pacific

With the development of the digital economy, data has become a key factor of production that has been the basis for new services such as cloud computing or the Internet of Things. Different categories of data may be part of digital trade transactions, including data that can be used to identify natural persons, that is, personal data. A key aspect of digital trade concerns the cross-border flow of data.

Digital economy issues constitute one of the nine sub-components of the IPEF's trade pillar and are arguably its most consequential facets. The IP is witnessing the world's fastest growth in digital

---

14 "Joint Statement EU-Japan Summit 2022", European Council, 12 May 2022, https://www.consilium.europa.eu/en/press/press-releases/2022/05/12/joint-statement-eu-japan-summit-2022/

15 Mathieu Duchâtel, "Economic Security: The Missing Link in EU-Japan Cooperation", *Policy Paper*, Institut Montaigne, April 2023.

16 Dreyer on digital partnerships 2023.

17 "Joint statement European Union - Republic of Korea Summit 2023", European Commission, 22 May 2023, https://ec.europa.eu/commission/presscorner/detail/en/statement_23_2863

Ramon Pacheco-Pardo, "The EU-ROK Digital Partnership", *Brussels School of Governance*, 1 December 2022 https://brussels-school.be/publications/other-publications/eu-rok-digital-partnership

18 Goh Yan Han, "New Singapore-EU pact to boost cooperation and establish common framework in digital realm", *The Straits Times*, 15 December 2022, https://www.straitstimes.com/singapore/politics/new-singapore-eu-pact-to-boost-cooperation-and-establish-common-framework-in-digital-realm

19 "Recommendation for a COUNCIL DECISION authorising the opening of negotiations for digital trade disciplines with the Republic of Korea and with Singapore", Council of the European Union, 14 April 2023, https://data.consilium.europa.eu/doc/document/ST-8304-2023-INIT/en/pdf

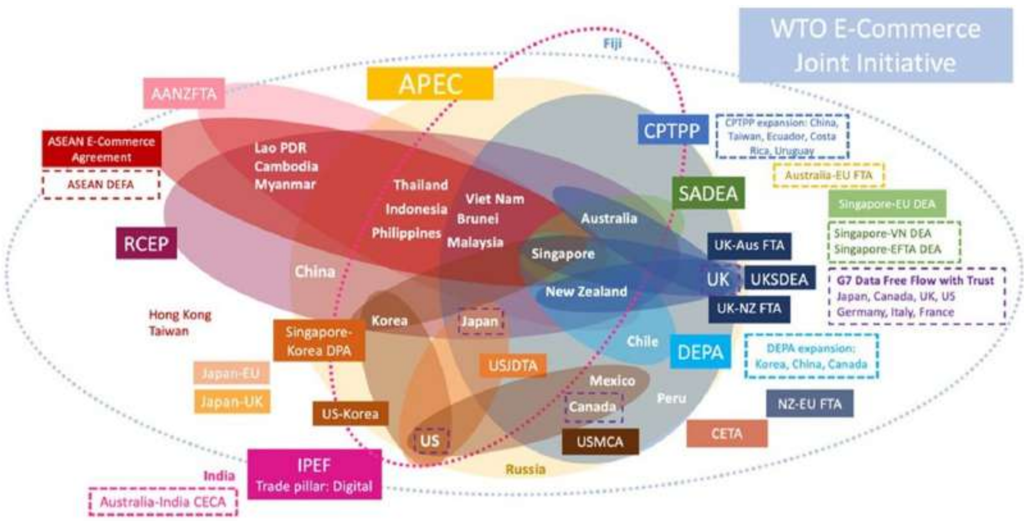
connectivity and internet access, and evolving digital rules are poised to shape the development of industries and national economies. E-commerce and digital services make up a growing contribution to economic growth across the region, and digital skills development is increasingly a priority for regional economies.[20]

Countries in the IP region have been, in the last few years, developing a rich network of regional and bilateral agreements that are progressively building standards on digital trade. These standards are sometimes set out in a dedicated chapter with digital trade rules of a comprehensive free trade agreement providing detailed rules on market access.[21] In other cases, IP countries have concluded specific agreements on digital trade, as in the case of the Digital Economy Partnership Agreement (DEPA) between Singapore, New Zealand and Chile.

While all the major regional models ostensibly support cross-border flows of data and reject forced data localisation, there may be substantial differences on other points. Furthermore, the existing agreements provide different levels of commitments on digital trade, with a variety of rules and formulations resulting in a spaghetti bowl that may lead to a fragmentation of the rules applied to digital trade.[22]

For instance, the Regional Comprehensive Economic Partnership (RCEP) allows broad and self-judging exceptions to the ban on forced data localisation[23] while the United States-Mexico-Canada Agreement (USMCA) contains more limited exceptions. Similarly, the US pushes for the elimination of barriers to digital trade while the EU seeks to maintain a more cautious stance on allowing the transfer of personal data.

**Figure 2:** The 'Digital Noodle Bowl'




**Source**: Hinrich Foundation[24]

20 *op. cit.*

21 This is for instance the case in the CPTPP.

22 Hyo-Young Lee, "Digital Trade Rules in the Asia-Pacific Region: Fragmentation of Rules and the Way Forward", *Ifans Perspectives*, no. 02 (24 January 2022).

23 To be more specific, the twin provisions on data flows and data localization allow members to adopt any measures considered necessary to protect national security.

24 Stephanie Honey, "The long road to a seamless global digital economy", *Hinrich Foundation*, 30 May 2023, https://www.hinrichfoundation.com/research/article/digital/the-long-road-to-a-seamless-global-digital-economy/

China, the EU, and the US are each pursuing their own approach to digital governance. The 'US approach' (or the "firm sovereignty model", as reflected in the CPTPP/USMCA), the 'Chinese approach' (or the state sovereignty model), and the 'EU approach' (or the "individual sovereignty model") form three distinct global 'data realms' or 'digital kingdoms'.[25]

The IPEF trade pillar is expected to include comprehensive digital trade rules building upon the far-reaching digital commitments in the USMCA's digital trade chapter[26] and the US – Japan Digital Trade Agreement.[27] But aligning all the IPEF countries on digital policy will require intensive dialogue, and achieving a convergence of views on issues such as data privacy, cross-border data flow, digital payments, and taxation may prove elusive.

While for different reasons and through different means, Beijing and Brussels are both restricting free cross-border data flows in ways that are unacceptable to the US. The EU seeks to regulate the market for industrial data and restrict that for private data,[28] while the US does not have a settled policy. With regards to digital platforms, the EU seeks to constrain their behaviour, while the US favours a more *laissez-faire* approach. Achieving regulatory convergence in this area seems almost out of reach.

### The EU as a digital norm-setter

With respect to the digital economy, the EU defends a human-centric vision that seeks to ensure that technology serves the people, that human rights are respected, and that societies are open, democratic, and sustainable.[29] This is exemplified by the enactment of the Global Data Protection Regulation (GDPR) in 2018[30] and confirmed by several other measures such as the Digital Services Act (DSA) of 2022.[31] The EU approach has become a *de facto* global standard for many countries

25 Susan Ariel Aaronson and Patrick Leblond , "Another Digital Divide: The Rise of Data Realms and its Implications for the WTO", *Journal of International Economic Law*, vol. 21, June, 2018, pp. 245-72;

Henry Gao, "Data sovereignty and trade agreements: Three digital kingdoms", *Hinrich* Foundation, January 2022, https://www.hinrichfoundation.com/research/article/digital/data-sovereignty-trade-agreements-digital-kingdoms/

26 Tech companies managed to add digital trade rules to the US-Mexico-Canada Agreement that prohibits parties from reviewing the source code for artificial intelligence programmes, and there are efforts to include similar provisions in the IPEF trade talks.

27 "U.S.-Japan Digital Trade Agreement Text ", Office of the United States Trade Representative, 7 October 2019, https://ustr.gov/countries-regions/japan-korea-apec/japan/us-japan-trade-agreement-negotiations/us-japan-digital-trade-agreement-text

28 EU diverges from the CPTPP approach to data flows by seeking to enjoin partners to recognise that data privacy is a human right and to carve out privacy protection from any necessity or proportionality test.

29 "Responsible digitalisation", European Commission, https://international-partnerships.ec.europa.eu/policies/digital-and-infrastructure/responsible-digitalisation_en

30 The landmark legislation of the GDPR set the global standard for the fundamental rights of data privacy and data protection.

31 Florina Pop, Jannigje Bezemer and Laura Grant, "The Digital Services Act: creating accountability for online platforms and protecting users' rights?", *European Institite of Public Administration*, 6 September 2022, https://www.eipa.eu/blog/the-digital-services-act-creating-accountability-for-online-platforms-and-protecting-users-rights/

when it comes to designing data protection rules.[32] This 'Brussels effect'[33] is reflected in many countries either adopting GDPR-like frameworks or negotiating adequacy decisions.[34]

**EU's and US' approaches to the digital economy: can they be reconciled?**

There are clear differences in the philosophy underlying the EU's and the US approaches to data governance and to the digital economy at large. On the one hand, the EU seeks to regulate the market for industrial data (and restrict that for personal data), while on the other hand, the US does not have a settled data policy (although the Biden administration has recently endorsed the idea of a privacy law at the federal level).[35] Also, the EU seeks to constrain the behaviour of platforms through its regulations (The Digital Markets Act [DMA] and the DSA), while the US favours a more *laissez-faire* approach.[36] The EU's digital regime is characterised by heavy regulation, which may be in contradiction with the US vision and US digital companies' interests.[37]

The divergence between the EU and US approaches is discussed in the EU-US TTC, with Working Group 5 in charge of Data Governance and Technology Platforms. But until now, no agreement has been reached on sensitive regulatory areas, such as platform regulation or data governance. The TTC's work in this area is a prime example of values alignment (defence of democracy, of a free, open global internet, et cetera) without requiring regulatory convergence or harmonisation.

## A Perspective on EU's Future Engagement with IPEF Countries

### EU's scepticism about the IPEF

Both EU experts and EU officials follow the development of the IPEF with some scepticism. First, they tend to anticipate a difficult negotiation for many reasons that have to do with the negotiation method of the IPEF. The *à la carte* approach is expected to prevent potential trade-offs and to give rise to a weak agreement since it will, by definition, not be signed and ratified in full by all negotiating parties. EU officials' scepticism is primarily due to their strong preference for FTAs,

32 This may be in the hope to be accorded adequacy status by the EU in the future, and therefore, facilitate the access to the EU market, and/or it may reflect a view that the EU approach constitutes good practice.

33 After the title of Anu Bradford's book (*The Brussels Effect – How the EU Rules the World*, New York, Oxford University Press, 2020), which makes the EU the world's regulator by default;

"Is the EU overreaching with new digital regulations?", *The Economist*, 1 September 2022, https://www.economist.com/europe/2022/09/01/is-the-eu-overreaching-with-new-digital-regulations

34 An adequacy decision is one of the tools provided under the GDPR to transfer personal data from the EU to third countries guaranteeing a comparable level of protection of personal data to that in the EU. The decision covers both data transfers for commercial and regulatory purposes. Adequacy does not require the third country's data protection system to be identical to the one of the EU but is based on the standard of 'essential equivalence'.

35 Gerhard Peters and John T. Woolley, "Joseph R. Biden, Op-Ed by the President: Republicans and Democrats, Unite Against Big Tech Abuses", *The American Presidency Project*, 11 January 2023, https://www.presidency.ucsb.edu/documents/op-ed-the-president-republicans-and-democrats-unite-against-big-tech-abuses

36 op. cit.

37 "US/EU data flows stuck between surveillance and privacy", *Economist Intelligence Unit (EIU)*, 29 March 2022, https://viewpoint.eiu.com/analysis/article/1331989516, "Transatlantic data flows are only one area of conflict between the US and the EU when it comes to data and digital trade. Another is the idea of sovereign cloud. The 2018 Cloud Act and a following court order gives US authorities the right to access data hosted by a US company anywhere in the world, without informing the country involved."

which are still perceived by most as the best instrument to improve European resilience. The EU's approach (through FTAs and a more normative approach) is unlikely to be questioned.

Secondly, the asymmetrical nature of the negotiation, with many US requests and only few US offers, is again expected to make the negotiation more complicated and the opportunities for bargaining and trade-offs limited. Moreover, the IPEF seems to be about the US offering adhesion to its own standards, without offering anything in exchange. Usually, market access is provided as an incentive for partner countries to trade off economic reforms as part of an FTA. With the absence of such an incentive, getting partners to agree to engage in economic reforms may be daunting.

Thirdly, there is a problem of durability of the agreement in the absence of support from the US Congress. This will create uncertainty both for the parties as well as for their partners (including the EU).

Fourthly, the substantial development gaps between the negotiating parties will make it difficult for all of them to be on the same page, particularly with regards to digital, labour and environmental standards. The digital economy is arguably one of the most important facets of the agreement, but it may also be one of the most difficult to agree on.

### The IPEF giving new momentum to EU's Indo-Pacific economic engagement

The EU will no doubt continue its engagement with the IPEF countries. Interestingly, the progress made by the IPEF has supposedly given renewed momentum to the EU's initiatives in the region, as exemplified by the acceleration in the FTA negotiation with Australia, and the multiplication of digital partnerships with Japan, South Korea and Singapore.

With the IPEF advancing, the EU is probably feeling the need to be more proactive *vis-à-vis* its IP partners. As argued by Dreyer,[38] the EU cannot expect the 'Brussels effect' of the EU's new regulations – as with its GDPR for data privacy – to work 'just by magic'. What has worked for data governance and digital trade regulation may be replicated in other domains, but if the EU wants to promote its basic regulatory principles for other issues such as artificial intelligence platforms and the like, then it needs to be more proactive, engage in negotiations and do deals.

Interestingly, the Commission and the business sector clearly do not see eye to eye on how to approach the IP region. To be fair, the EU used to favour a bloc-to-bloc approach (in particular, between the EU and ASEAN), but this is no longer the case for essentially pragmatic reasons. The business community, by contrast, would undoubtedly like to see the Commission approach the IP region as one single entity. As explained by the European Services Forum's Managing Director Pascal Kerneis, "There is frustration in the business community with the EU's Indo-Pacific strategy. They fail to see the coherence in holding discussions on a digital partnership agreement separately instead of jointly with all interested partners, so as to create synergies in terms of regulation and standardisation of the digitalisation of the economy."[39]

38 Iana Dreyer, "Digital Partnerships in Asia -Pacific: EU needs to be more than non-committal", *Borderlex*, 12 May 2022.

39 "Interview with Pascal Kerneis: EU and Singapore need to upgrade their trade agreement", interview by Iana Dryer, Borderlex, 3 October 2022, https://borderlex.net/2022/10/03/interview-eu-and-singapore-need-to-upgrade-their-trade-agreement/

### Whither EU's engagement with IP partners?

The EC will keep an eye on the progress made under the IPEF and adjust its strategy accordingly. Moreover, the existence of IPEF negotiations will likely have an impact on how the EU deals with the region.

Due to the divergences highlighted earlier, both in terms of approach and of content, joining the IPEF is out of the question for the EU, at least for the time being. But further engagement with IP partners may also go through joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), for instance, even though the membership differs to some extent. This is an option that has been advocated for by former Commissioner Cecilia Malmström[40] as well as by the European Parliament[41], but the violent and negative reactions generated by this proposal make it also highly unlikely. A major reason for opposing the EU joining the CPTPP is that the latter is no longer at the cutting edge of trade policy. As a result, there may be better alternatives such as deepening dialogues with IP partners on genuinely new trade issues.

Perhaps another direction would be to expand the EU-US TTC to bring other countries (such as Japan, South Korea and Singapore) into its fold.

40 Cecilia Malmström, "The EU should expand trade with the Indo-Pacific region", *Peterson Institute for International Economics*, 7 November 2022, https://www.piie.com/blogs/realtime-economics/eu-should-expand-trade-indo-pacific-region

41 "European Parliament resolution of 5 July 2022 on the Indo-Pacific strategy in the area of trade and investment (2021/2200(INI))", European Parliament, 5 July 2022, https://www.europarl.europa.eu/doceo/document/TA-9-2022-0276_EN.html

## About the author

**Dr Francoise NICOLAS** has been with the French Institute of International Relations (IFRI) since 1990. She also teaches at Langues' O, Sciences Po Paris (Europe-Asia programme, Le Havre campus) and Sciences Po (Lyon) and is a consultant to the Directorate for Financial, Fiscal and Enterprise Affairs of the Organization for Economic Cooperation and Development focusing on Southeast Asian non-member countries. In the past, Dr Nicolas was an assistant Professor in international economics at the University of Paris-Est (Marne-la-Vallée) from 1993 to 2016 and taught at the Graduate Institute of International Studies (GIIS, Geneva – 1987-1990), at the Ecole Nationale des Ponts et Chaussées (1991-1995), as well as at the HEC School of Management (2000-2002).

Dr Nicolas holds a PhD in international economics (1991) and an MA in political science (1985) from the Graduate Institute of International Studies (Geneva, Switzerland), as well as a diploma in translation from the University of Geneva (1980). She has also studied at the University of Sussex (1980-81) and has spent some time as a visiting fellow at the Institute of Southeast Asian Studies in Singapore (1999) and at the Korea Institute for International Economic Policy in Seoul (2004).

# Impact of regional trade agreements on the IPEF

Priyanka KISHORE

The Indo-Pacific Economic Framework (IPEF) seeks to establish the United States (US) as the primary rule-setter in the Asia Pacific (APAC), a position it has ceded to China in recent years. The reciprocal benefits for the APAC are not so evident. Many in the region are not keen to choose sides and as a trade pact, it compares poorly with the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). On its side, the IPEF has reminded detractors that it is not a traditional Free-Trade Agreement (FTA), but a new generation economic agreement. This has some appeal and the APAC allies have signed on quickly. But the IPEF's flexible approach means that having signed on, there is no compulsion to follow through. Importantly, for now, there are no clear incentives for the private sector to part with the sensitive supply chain information that is central to the IPEF's success. Future negotiations will benefit from the US's willingness to sweeten the terms and position IPEF as an economic arrangement complementing existing trade pacts rather than upending those.

## Introduction

Trade has been the driving force of the Asia Pacific (APAC)[1] region's economic development over the last couple of decades. The region's rising share in global goods and services trade, from 27 per cent in 2005 to 33.4 per cent in 2022,[2] has boosted domestic manufacturing, created employment, and raised household incomes. Several studies corroborate its important, if not leading, role in lifting millions out of poverty, especially in East Asia.[3]

Sixty two per cent of APAC's trade is now within the region,[4] which buffers it from the rising global headwinds of economic fragmentation and makes it resilient. Still, the APAC cannot afford to turn its back on globalisation and trade liberalisation. By 2030, the APAC's share in the global Gross Domestic Product (GDP) is expected to increase to 40 per cent from 34 per cent currently,[5] and trade will play an important role in achieving this as the region charts its path to recovery from the COVID-19 pandemic's economic and social scars. That the governments in East Asia feel the same way is evident from their support of free-trade agreements (FTAs). But even India, that has shied away from multilateral agreements, has signed bilateral FTAs[6] with Mauritius, United Arab Emirates (UAE) and Australia in the last couple of years and is in talks with the United Kingdom (UK), the European Union (EU) and Canada to conclude trade deals, underlining the importance of trade as an engine of growth.

## Multilateral trade agreements in the APAC

The Economic and Social Commission for Asia and the Pacific (ESCAP) finds that the APAC accounts for almost half of the global preferential trade agreements (PTAs)7 and that more than 300 APAC PTAs include at least one party from the region. This includes the two largest multilateral trade agreements currently in existence, the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

---

1 There is no one definitive description of the APAC region. This chapter uses the IMF's definition that includes greater China, ASEAN, South Asia, Korea, Japan and Oceania. See "About the Office for Asia and the Pacific (OAP)", International Monetary Fund, https://www.imf.org/en/Countries/ResRep/OAP-Home/oap-about. ASEAN comprises of Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. Further, ASEAN, greater China, Japan and the Republic of Korea, are referred to as East Asia.

2 "WTO issues 2023 edition of the World Trade Statistical Review", World Trade Organization, 31 July 2023, https://www.wto.org/english/news_e/news23_e/stat_31jul23_e.htm; Author's calculations.

3 Jayant Menon and Anna Cassandra Melendez, "When Does Trade Reduce Poverty? Revisiting the Evidence for East Asia", ISEAS-Yusof Ishak Institute, June 2020, https://www.iseas.edu.sg/wp-content/uploads/2020/05/ISEAS_EWP_2020-4_Menon_and_Melendez.pdf

4 UNCTAD STAT, https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx

5 Author's calculations based on national accounts statistics and the "World Economic Outlook Database", International Monetary Fund, April 2023, https://www.imf.org/en/Publications/WEO/weo-database/2023/April

6 "India has signed 13 Regional Trade Agreements (RTAs)/Free Trade Agreements (FTAs) with various countries/regions", Press Information Bureau, Government of India, Ministry of Commerce and Industry, 20 July 2022, https://pib.gov.in/Pressreleaseshare.aspx?PRID=1843902

7 "Trade Agreements in Asia and the Pacific: Bigger, Deeper, Digital and More Supportive of Sustainable Development?", Asia-Pacific Trade and Investment Trends, ESCAP, 10 November 2022, https://www.unescap.org/kp/2022/trade-agreements-asia-and-pacific-bigger-deeper-digital-and-more-supportive-sustainable-20222023

The CPTPP is a modified version of the Trans-Pacific Partnership (TPP), which was announced by the United States (US) President Barack Obama in 2016. The US exited the TPP under President Donald Trump on 23 January 2017, but this did not deter the remaining members from continuing their talks. Eventually, under Japan's leadership, the CPTPP was signed in March 2018 by 11 nations – Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.[8] With the last original signatory, Brunei, ratifying the deal on 13 May 2023, the agreement is now in force.

The door has been left open for the US to re-join the CPTPP. But that is not likely. Meanwhile, a number of other economies have lined up for membership. The UK became the first non-founding member on 16 July 2023.[9] China's membership application is pending since 16 September 2021.[10] Taiwan, Uruguay, Costa Rica are also in waiting, and Ukraine has expressed an interest. The probability of China gaining admission appears low, given the rising disunity within the APAC on alignment with Beijing. There are also concerns about whether China will be able to implement the necessary reforms to comply with the CPTPP's trade and policy standards, which are much more stringent than China's. Nonetheless, the CPTPP is already a substantial trade bloc with 13 per cent of the global GDP, 16 per cent of the global population, and 15 per cent of its trade. Its economic prowess will only increase with the addition of more nations.

Seven signatories of the CPTPP are also part of the RCEP, which is the first major APAC multilateral trade agreement with members from only the west side of the Pacific Rim.[11] After eight years of discussions that saw India quit the deal, Brunei, Cambodia, Indonesia, Lao People's Democratic Republic (Lao PDR), Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam, Australia, China, Japan, South Korea, and New Zealand signed the Agreement on 15 November 2020.[12]

The RCEP is the world's largest trade bloc, accounting for around 30 per cent of the world's GDP and population, and 28 per cent of global goods trade. India's inclusion would have boosted the RCEP's market size to 33 per cent, population size to 47 per cent and global trade share to 30 per cent.[13] But despite strong efforts by its ally Japan and the Association of Southeast Asian Nations (ASEAN) countries to accommodate its demands, India cited issues around labour mobility and limited services trade liberalisation as reasons for opting out. It was also worried about being flooded with cheap Chinese imports. This suggests that the return of India to the RCEP is unlikely.

8 "Comprehensive and Progressive Agreement for Trans-Pacific Partnership Ministerial Statement", New Zealand Ministry of Foreign Affairs and Trade, 8 March 2018, https://www.mfat.govt.nz/assets/Trade-agreements/CPTPP/CPTPP-Ministerial-Statement-Santiago.pdf

9 "UK signs Comprehensive and Progressive Agreement for Trans-Pacific Partnership", GOV.UK, 17 July 2023, https://www.gov.uk/government/news/uk-signs-comprehensive-and-progressive-agreement-for-trans-pacific-partnership

10 "China officially applies to join CPTPP", *Xinhua*, 16 September 2021, http://www.news.cn/english/2021-09/17/c_1310192180.htm

11 The 21 member Asia-Pacific Economic Cooperation (APEC) includes the US, Canada, Chile, Mexico and Peru, but leaves out Cambodia, Lao and Myanmar. See "Asia-Pacific Economic Cooperation (APEC)", Australian Government – Department of Foreign Affairs and Trade, https://www.dfat.gov.au/trade/organisations/apec/asia-pacific-economic-cooperation-apec

12 "Joint Leaders' Statement on the Regional Comprehensive Economic Partnership (RCEP)", Association of Southeast Asian Nations, 15 November 2020, https://asean.org/joint-leaders-statement-on-the-regional-comprehensive-economic-partnership-rcep-2/

13 Author's calculations and UNCTAD STAT

Into this mix, the US President Joe Biden added the Indo-Pacific Economic Framework for Prosperity (IPEF) on 23 May 2022. The IPEF is a first-of-its-kind agreement and departs from the norms of usual trade agreements in many ways, starting with its very coverage. It attempts to lay the first rules-based economic framework for the Indo-Pacific, which includes the Asia-Pacific and Indian Ocean regions. This has traditionally been a domain of security issues. But perhaps its most distinguishing feature is that it does not follow the pattern of a traditional market-access based trade agreement, which has also led many to question its goals and benefits for the APAC members.

To be sure, the diversity of the APAC region makes it difficult to present a unified view on the IPEF. The perspectives shared in this chapter lean towards those of the ASEAN nations, as currently they account for half of the membership. The ASEAN's strong economic ties with China and the desire to remain politically neutral have a significant bearing on how it perceives the IPEF. The drivers likely differ for the other members. For the traditional security allies of the US that have an increasingly fractious relationship with the mainland – Japan, South Korea and Australia – the IPEF represents an opportunity to check China's rising economic dominance in the region.

## The motivation for the IPEF

In its defence, the IPEF aims to fill an important gap in the US-APAC relationship. The US is a significant trading partner for many in the region, not just China; 23.4 per cent of US' trade was with the APAC (excluding China) in 2022.[14] Also, the US businesses are heavily reliant on Asian supply chains. Yet, its recent overtures towards the region have focused on security partnerships and mini-laterals such as the Quad (the Quadrilateral Security Dialogue comprising the US, India, Japan and Australia) and the AUKUS (trilateral security pact between Australia, the UK and the US). Initially perceived as the Asian version of the North Atlantic Treaty Organisation (NATO), the Quad has broadened its mandate to supply chain security, climate and other economic issues.[15] Still, it is not a trade alliance. Neither is the AUKUS, which is akin to a defence pact.[16]

A concrete trade policy is the missing link in the US' engagement with the APAC. It has bilateral trade agreements with a handful of APAC nations – Australia, South Korea, Singapore, Japan (only for critical minerals), but none with the emerging Asian economies. Meanwhile, its growing rivalry with China limits the utility of its Asia-Pacific Economic Cooperation (APEC) membership. Hence, the US is keen to establish a multilateral APAC framework that excludes China, and will facilitate trade, investment and other flows with the rest of the region.

The TPP, which was signed by 12 Pacific Rim economies – Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the US – in 2016, was expected to achieve this. President Obama saw it as key to countering China's rising influence in the APAC region and securing the US' leading position in global trade. However, it did not survive the turn in domestic US sentiment against free trade. Trade was seen as the primary cause of de-industrialisation and job losses by a majority of the Americans and President Trump withdrew the

14 "Table 2.3. U.S. International Trade in Goods by Area and Country, Not Seasonally Adjusted Detail", US Bureau of Economic Analysis, 22 June 2023, https://apps.bea.gov/iTable/?ReqID=62&step=2#eyJhcHB-pZCI6NjIsInN0ZXBzIjpbMiw2XSwiZGF0YSI6W1siVGFibGVMaXN0IiwiMzEwMDIiXV19

15 "Quad Leaders' Joint Statement", The White House, 20 May 2023, https://www.whitehouse.gov/briefing-room/statements-releases/2023/05/20/quad-leaders-joint-statement/

16 "Joint Leaders Statement on AUKUS", The White House, 13 March 2013, https://www.whitehouse.gov/briefing-room/statements-releases/2023/03/13/joint-leaders-statement-on-aukus-2/

US from the TPP on his first day of office. But this is not all he did. Under Trump, the US grew more and more estranged from Asia. He paid little attention to Southeast Asia, imposed tariffs that did not just hit China but also traditional US allies (South Korea, Australia), and threatened to withdraw US military support from South Korea and Japan. Trump's actions led to a serious setback in the US-APAC relationship and triggered an erosion of the US influence in the region, while China used the opportunity to increase its heft, particularly in Southeast Asia.

The Biden Administration has stayed with the Trumpian decision to not join the TPP (or the CPTPP now). But it sees the geopolitical and economic risks of being absent from Asia. These have been magnified by the RCEP, which includes China. It also does not want to completely close the door on trade. So, it has come up with the middle path of a 'worker-centric' trade policy[17] that aims to keep the US trade agenda alive without angering the domestic voters.

The IPEF is an outcome of this. It marks a renewed effort on the part of the US to regain lost ground in the APAC region and engage with regional allies on key trade, supply chain, climate, and economic security issues.

## Comparison to the CPTPP and the RCEP

The addition of another large multilateral agreement to the already crowded Asian trade policy space has understandably raised doubts about its value-add, especially when it does not seem to provide any direct benefits to the members.[18] In his influential 1995 paper on trade policy, Jagdish Bhagwati famously referred to overlapping and ever-increasing trade arrangements as a 'spaghetti bowl' phenomenon.[19] The idea being that increasing number of trade treaties between nations makes it difficult for participating countries to disentangle their benefits and could even impact businesses negatively by thwarting trade creation and resulting in trade diversion. This has become a topic of intense debate in the APAC region, although there is no clear empirical evidence that too many trade agreements are hurting businesses operating in the region.

The effectiveness concerns extend to the RCEP and the CPTPP. But their provisions to lower barriers and facilitate trade and investment overtime make it possible to reasonably assess their economic contributions.

The CPTPP is a high-quality agreement and represents a new generation of trade deals that expands the scope of the talks beyond just a negotiation on tariffs and rules of origin (ROOs). It includes 30 chapters that encompass physical and digital trade of goods and services, investment and intellectual property rights, labour and environment standards, e-commerce, regulation of state-owned enterprises (SOEs), transparency and anti-corruption measures, and a chapter specifically

17 "2021 Trade Policy Agenda and 2020 Annual Report", Office of the United States Trade Representative, 1 Mar 2021, 1-6, https://ustr.gov/sites/default/files/files/reports/2021/2021%20Trade%20Agenda/Online%20PDF%202021%20Trade%20Policy%20Agenda%20and%202020%20Annual%20Report.pdf

18 Aidan Arasasingham and Emily Benson, "The IPEF gains momentum but lacks market access", *East Asia Forum*, 30 June 2022, https://www.eastasiaforum.org/2022/06/30/the-ipef-gains-momentum-but-lacks-market-access/

19 Jagdish N. Bhagwati, "US Trade Policy: The Infatuation with FTAs", *Columbia University*, Discussion Paper Series no. 726 (April 1995), 5-10, https://academiccommons.columbia.edu/doi/10.7916/D8CN7BFM

for how small and medium-sized enterprises (SMEs) can benefit from the agreement[20]. The CPTPP has broader ambitions than the RCEP, but that also makes it more challenging to implement. With no dedicated Secretariat, progress has been slow.

The RCEP is a shallower agreement in comparison. It comprises 20 chapters[21] and as an ASEAN-led FTA, is much more accommodating on special safeguards depending upon individual conditions of members. This is in sharp contrast to the more binding nature of the US-style FTAs that the CPTPP mirrors. Notwithstanding the long timeline of 20 years that the RCEP proposes to eliminate tariffs and restrictions within the bloc, member countries have already lobbied to delay the implementation of certain provisions, according to their individual requirements. Its services trade liberalisation commitments are much weaker than the CPTPP. Of the 15 members, eight have currently agreed to a positive list for services liberalisation and will transition to a negative list in six years. The CPTPP does not follow this mixed approach, and all countries have to adhere to the negative list. There are also no provisions for digital trade, labour and environmental regulations or support for SOEs and SMEs in the RCEP. It has a Dispute Settlement Mechanism (DSM) that reflects its overall cooperation approach and is simpler than the CPTPP's more legalised investor-state dispute settlement (ISDS) approach. With the establishment of an interim bureau in February 2023,[22] which will eventually transition to a full-fledged Secretariat, the RCEP implementation is ready to gather force.

The less stringent standards of the RCEP have their own advantages and have allowed it to have a wider regional membership than the CPTPP. At the same time, the built-in agenda for renegotiations creates scope for the agreement to upgrade itself as it evolves. The distinguishing feature of the RCEP is the unified set of ROOs criteria, that qualifies products manufactured in any RCEP member country for tariff-free treatment across the bloc. This creates opportunities for more global production hubs in the region, at a time when the US and allies are actively looking to diversify their China-centric supply chains. Altogether, the RCEP paves the path for greater regional economic integration and is likely to give a positive boost to the APAC and the global GDP growth over the long-term.[23]

Viewed from this lens, the IPEF indeed falls short of the mark. Here is how it compares with the RCEP and the CPTPP on key parameters:

1. **Coverage and scope**: The IPEF currently includes 13 Indo-Pacific nations and the US. Together they comprise 40 per cent of the world's GDP, around 30 per cent of its population and 28 per cent of the global trade. This makes it larger in market size than both the RCEP and the CPTPP and comparable in population size to the RCEP. In scope, it rivals the CPTPP. Although it comes with just the four Pillars of Trade, Supply Chains, Clean Economy and Fair Economy, it aims to cover considerable ground under each of these Pillars, including digital trade, labour and environment protection, establishing critical minerals supply chains, and regulations for

20 "Comprehensive and Progressive Agreement for Trans-Pacific Partnership text and resources", Ministry of Foreign Affairs and Trade, New Zealand, https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/cptpp/comprehensive-and-progressive-agreement-for-trans-pacific-partnership-text-and-resources/

21 "RCEP text", Australian Government – Department of Foreign Affairs and Trade, 15 November 2020, https://www.dfat.gov.au/trade/agreements/in-force/rcep/rcep-text

22 Paul Rujopakarn and Paphamon Arayasukawat, "RCEP Interim Bureau Opens at ASEAN HQ", *National News Bureau of Thailand*, 6 February 2023, https://thainews.prd.go.th/en/news/detail/TCATG230206104625448

23 Priyanka Kishore, "RCEP sends a strong message, just when needed", *Unravel*, 24 November 2020, https://unravel.ink/rcep-sends-a-strong-message-just-when-needed/

transparency and criminalisation of corruption. However, unlike the CPTPP, it is more flexible. Members have the option to choose which Pillars they want to engage in.

2. **Market access**: There are no direct provisions to expand market access between members or reduce tariff or non-tariff barriers, which has led to protests even from some US businesses.[24]

3. **Setting standards and rule-making**: Through the IPEF, the US aims to become the chief rule-setter in the Indo-Pacific region. Like the CPTPP, which kept many of the provisions of the US-led TPP, the IPEF aims to elevate labour, environment and regulatory standards in the region to that of the US. But its goal of setting similar operating standards across a diverse set of economies at different stages of development is problematic and will not be achieved easily. A case example is India opting out of the Trade Pillar.

4. **Private sector participation**: The utilisation of FTAs, especially by the micro, small and medium-sized enterprises (MSMEs), can be a challenge. In the ASEAN, companies have cited lack of information and privacy issues as top reasons for not using FTAs. This poses a big hurdle for the IPEF. A key requirement for achieving the goal of resilient supply chains is information-sharing between governments and the private sector to develop early warning signals of supply chain disruptions. To this end, the substantial conclusion of the negotiations of the Supply Chain Pillar on 27 May 2023[25] proposed the establishment of two bodies – the IPEF Supply Chain Council and the IPEF Supply Chain Crisis Response Network – to facilitate the development of sector-specific action plans during normal times and emergency communication in case of crisis. While this is a step forward, it is not clear whether the bodies will act largely as facilitators or will have a stronger role in implementing the supply chain provisions. In the end, the success of the Supply Chain Pillar depends on a large commitment from the businesses to share private data. So far, the IPEF has failed to outline a strong motivation for doing so.

5. **Enforcement and dispute settlement**: Unlike the CPTPP, the IPEF does not come with a robust enforcement mechanism. The RCEP too does not have a binding enforcement clause. However, it incorporates a DSM that allows for the establishment of a panel to resolve disputes that cannot be resolved by consultations. No such built-in provisions exist in the IPEF. While the Fair Economy Pillar talks about anti-corruption measures and tax transparency, these are to be monitored and resolved by members within their domestic legal frameworks, as per the applicable IPEF standards. This leaves the outcome of the IPEF very much dependent on the motivations of the members to cooperate.

6. **Motivation and impact**: Both the CPTPP and the RCEP include tangible measures that make it possible to assess and quantify the economic benefits they might deliver. They are largely seen as liberalising trade and boosting the region's economic prospects in the long run. But the IPEF's architecture makes it difficult to make such predictions. This focuses more attention on its political motives. By keeping the Mainland and its allies out of the agreement,[26] the US

24 "Business and Agriculture Community Letter to the Administration on the Indo-Pacific Economic Framework (IPEF)", US Chamber of Commerce, 26 May 2023, https://www.uschamber.com/international/business-and-agriculture-community-letter-to-the-administration-on-the-indo-pacific-economic-framework-ipef

25 "Press Statement on the Substantial Conclusion of IPEF Supply Chain Agreement Negotiations", US Department of Commerce, 27 May 2023, https://www.commerce.gov/news/press-releases/2023/05/press-statement-substantial-conclusion-ipef-supply-chain-agreement

26 Charles Dunst, "Spotlight - Cambodia and Laos", *Center for Strategic and International Studies*, 1 August 2022, https://www.csis.org/blogs/latest-southeast-asia/spotlight-cambodia-and-laos-august-1-2022

has positioned the IPEF as an alternative to the China-led economic order. This could result in lower cooperation from some members, such as the ASEAN nations, that seek to maintain a balanced relationship with the dominant external powers. Such a development would be a setback for the IPEF's economic goals.

## Reconciling the IPEF with existing trade agreements

Despite these issues, the APAC countries that have been invited to join the IPEF have embraced it quickly. There are also no overwhelming dissents against the pact amongst commentators and observers. Most see the presence of the US in the region as an important check to rising Chinese dominance and observe no downside in joining the IPEF, including in the ASEAN, as highlighted by the 2023 State of Southeast Asia report.[27] 46.5 per cent of the respondents see a positive impact of the IPEF on the region while 41.8 per cent are unsure of the impact. Only 11.7 per cent consider it negative. This coincides with a decline in the perception of China as the key economic, political and strategic influence in the ASEAN, while the view on the position of the US in the region has improved.

The positive reception of the IPEF can partly be attributed to the Biden Administration's foresight to emphasise that it is not a trade but an economic agreement. It is difficult to fully come to terms with this description as it has many aspects of a trade policy, and the US is leveraging it to set rules across a gamut of trade, digital economy, labour and environment-related issues.

However, if we look at the IPEF as not being mutually exclusive to existing trade agreements, some advantages become visible:

1. **Large reach**: The barrier to joining the IPEF is low. Prospective members just have to decide whether they want to join one of the Pillars and they can sign up to others later. In an increasingly nationalistic and fragmented world, this gives governments much more power and space to drive negotiations at home to join a multilateral agreement. Because of its flexible approach, the IPEF has the potential to become a much larger bloc than the RCEP and the CPTPP. This would mean that the countries participating in all three agreements (seven currently) will have access to a very wide set of markets spanning three continents. This could encourage more nations to make efforts to join all of them, leading to more improved and uniform standards across a multitude of trade and economic areas.
2. **An inroad to India**: In addition to bringing the US back to the table in Asia, the IPEF also provides its members a segue into India, which has shunned multilateral agreements so far and has also stayed out of the Trade Pillar of the IPEF. This is especially a welcome development for New Zealand, which currently does not have a bilateral FTA with India.
3. **The incentive of more US foreign direct investment (FDI)**: While the IPEF lacks direct market access measures, it brings prospects of more US FDI into the APAC region and the benefits of knowledge-sharing in niche technologies like advanced biofuels, green hydrogen, and carbon

27 "The State of Southeast Asia 2023 Survey Report", ASEAN Studies Centre at the ISEAS-Yusof Ishak Institute, 9 February 2023, 21-23, https://www.iseas.edu.sg/wp-content/uploads/2025/07/The-State-of-SEA-2023-Final-Digital-V4-09-Feb-2023.pdf

capture and storage. This is already happening as 'China+1'[28] is pushing not only US companies, but also firms in Japan and South Korea, to look elsewhere to de-risk and diversify their supply chains. US FDI in the APAC stood at nearly a trillion in 2021, double of that at the start of the decade. The IPEF could give this an added push by creating a bridge between the US and the APAC companies. The RCEP's common ROOs will be an added advantage and will magnify the trade benefits for the US firms.

4. **A shared rule-setting approach**: The IPEF includes areas such as digital economy and oversight on corruption, which are not necessarily included in traditional FTAs. This positions it well to set common rules for cross-border data flows and create a framework of digital interoperability within the bloc. However, these rules might not necessarily be set by the US. India, Indonesia and Thailand have relatively strict existing digital economy rules and it will serve the IPEF well to take these into consideration. This is true for other Pillars as well. For instance, the Singapore Australia Green Economy Agreement[29] could become a template for the Clean Economy Pillar.

5. **Lifting the standards of members**: Like the CPTPP, a well-designed and meaningful IPEF will motivate less developed countries on the roster to speed up the implementation of important reforms to tap into opportunities from the Agreement. Countries could use the RCEP as a stepping stone to upgrade to the IPEF's more stringent standards. Overtime, this will also aid the RCEP to raise its standards and shed its tag of a low-quality agreement.

## Conclusion

With the Supply Chain Pillar already finalised in June 2023, the IPEF is on its way to become the fastest trade treaty negotiated in history. Its simple framework and flexible participation approach is serving it well in attracting members and closing negotiations. However, this also makes it a weaker proposition as compared to traditional multilateral trade agreements like the RCEP and the CPTPP. With no direct measures to increase the APAC's market access to the US and a weak enforcement mechanism for its ambitious agenda, it is not clear how the IPEF will generate the necessary interest in the private sector, which is critical for its success.

Its chances will be much better if it does not position itself as an arbiter of the economic order in the region and more as an economic agreement complementing the existing trade agreements. A good way to start this will be by extending invites to Cambodia and Lao PDR to join the group as well as by sharing rule-setting responsibilities with other members within the IPEF. The latter will allow it to adopt appropriate templates of existing agreements that match its standards and objectives. The APAC businesses will likely then be more willing to view the IPEF as a conduit for US FDI in the region and knowledge transfer, which will make it a more appealing proposition for them. The IPEF can facilitate the US goal of developing an alternate set of value chains in critical industries like chips and semiconductors. But it must do so without upsetting the current relationships and equilibrium in the APAC. For the ASEAN, which is inclined to maintain a balanced relationship with the US and China, this is of paramount importance.

28 China+1 refers to the strategy of companies diversifying their operations away from China. Initially, prompted by rising labour costs in China, it has gathered more steam in recent years due to rising geopolitical tensions between the US and China that has also spilled over to other regions, such as the EU and UK.

29 "Singapore-Australia Green Economy Agreement", Australian Government – Department of Foreign Affairs and Trade, 18 October 2022, https://www.dfat.gov.au/geo/singapore/singapore-australia-green-economy-agreement

Overtime, the US should consider other options to increase the attractiveness of the IPEF if it is to stay meaningful alongside the RCEP and the CPTPP. These can include easing non-tariff barriers to trade, indirect trade benefits such as concessions under the Inflation Reduction[30] and the CHIPS and Science Acts,[31] ensuring meaningful progress on technology transfer, and aiding research and development.

In the end, it is in the US interest to make the IPEF attractive to the other negotiators. If the US government goes missing again in the APAC, the US businesses will increasingly be forced to rely more on their Asian subsidiaries to get trade benefits via the CPTPP or the RCEP. This will mean shifting more production to the APAC region.[32] Currently, only 40 per cent of RCEP value-added content is required to avail of the trade benefits in many categories, but this could be raised going forward. This will not only be a setback for the Biden Administration's new worker-centric trade policy but also the overall re-industrialisation ambitions of the US.

30 "U.S. Secretary of Commerce Gina Raimondo Statement on Signing of Inflation Reduction Act", US Department of Commerce, 16 August 2022, https://www.commerce.gov/news/press-releases/2022/08/us-secretary-commerce-gina-raimondo-statement-signing-inflation

31 "The Passage of the CHIPS and Science Act of 2022", US Department of State, 9 August 2022, https://www.state.gov/the-passage-of-the-chips-and-science-act-of-2022/

32 Dr. Deborah Elms, "Testimony before the U.S.-China Economic and Security Review Commission Hearing on 'Challenging China's Trade Practices: Promoting Interests of U.S. Workers, Farmers, Producers, and Innovators'", Asian Trade Centre, Panel III: Regional Economic and Trade Engagement, 14 April 2022, https://www.uscc.gov/sites/default/files/2022-04/Deborah_Elms_Testimony.pdf

## About the author

**Ms Priyanka KISHORE** has more than a decade's experience in macroeconomic research and forecasting across Asia. Her expertise lies in analysing and forecasting macro fundamentals over the short and long-term, with a special focus on trade, debt sustainability and macro policy. In addition, she specialises in macro-modelling and scenario analysis, aimed at quantifying the impact of exogenous shocks on economies.

Ms Kishore is an independent economic advisor for corporates, central banks, governments and institutional investors. Previously she was the Economic and Forum Director for a CEO peer group forum, IMA Asia. Prior to this, she led Oxford Economics' Singapore Global Macro Services team and was responsible for overseeing the firm's South and Southeast Asia research. She is an accomplished speaker and conducts regular economic briefings for corporate boards, industry associations and policymakers. Ms Kishore makes regular appearances on Bloomberg, CNBC, BBC, CNA and other business channels. She is also frequently quoted by major global and Asian publications such as FT, WSJ, NYT, The Straits Times, NAR and SCMP, and often pens op-eds in economic magazines and business journals.

Ms Kishore has worked as a strategist and economist in the banking sector. She was in charge of South Asia FX views and trading strategies at Standard Chartered Bank. Prior to that, she was Head of Emerging Asia Research and Senior Economist at ICICI Bank, India's largest private bank. She holds a Master's degree in Economics from the Delhi School of Economics, India.

Scan the QR Code to
share your feedback!

KONRAD
ADENAUER
STIFTUNG