

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



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A large, stylized number '10' is the central focus, rendered in a light blue, hatched font. The background features abstract geometric shapes in shades of teal and blue, with a white space containing the number. The overall design is clean and modern.

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Indonesia's Perspective on the Indo-Pacific Economic Framework (IPEF)

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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.

List of Abbreviations

4G/LTE	Fourth Generation/Long Term Evolution
AI	Artificial Intelligence
ASEAN	Association of Southeast Asian Nations
BEPS	Base-Erosion and Profit-Shifting
BKPM	<i>Badan Koordinasi Penanaman Modal</i> (Investment Coordinating Board)
BPS	<i>Badan Pusat Statistik</i> (Central Bureau of Statistics)
CHIPS	Creating Helpful Incentives to Produce Semiconductors
DEFA	Digital Economy Framework Agreement
ETM	Energy Transition Mechanism
EU	European Union
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FTAs	Free Trade Agreements
ICT	Information and Communication Technologies
IPEF	Indo-Pacific Economic Framework
JET-P	Just Energy Transition Partnership
MNCs	Multinational Corporations
MSMEs	Micro, Small and Medium Enterprises
OECD-G20	Organisation for Economic Co-operation and Development – Group of Twenty
OJK	<i>Otoritas Jasa Keuangan</i> (Financial Services Authority)
PDP	Personal Data Protection
RCEP	Regional Comprehensive Economic Partnership
TPP	Trans-Pacific Partnership
UNCAC	United Nations Convention against Corruption
US	United States
USMCA	United States-Mexico-Canada Agreement
WTO	World Trade Organization

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.

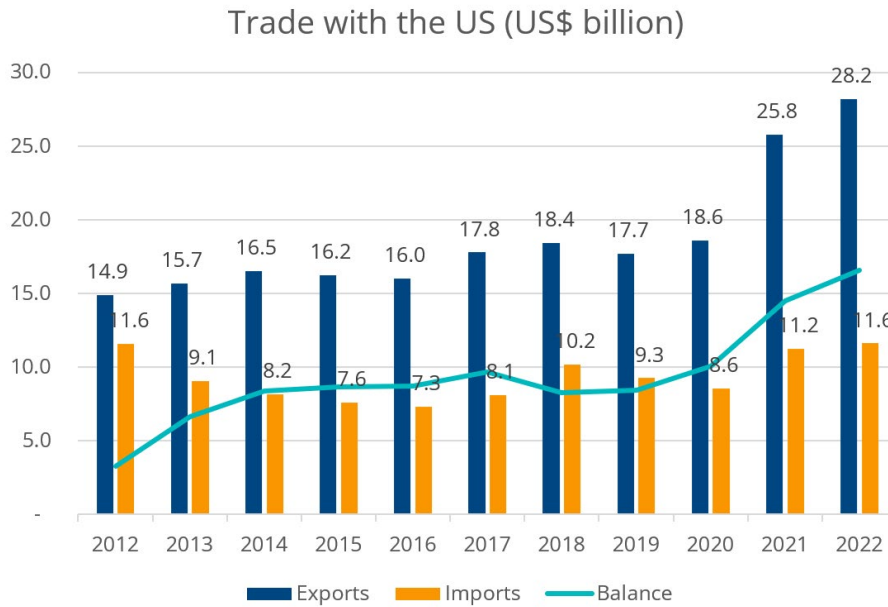
Interestingly, Indonesia-US economic relations have been growing since the COVID-19 pandemic. Indonesia's exports to the US reached more than US\$28 billion in 2022, while imports reached almost US\$12 billion in the same period. Over the years, the trade balance has been tilted towards Indonesia, with 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)

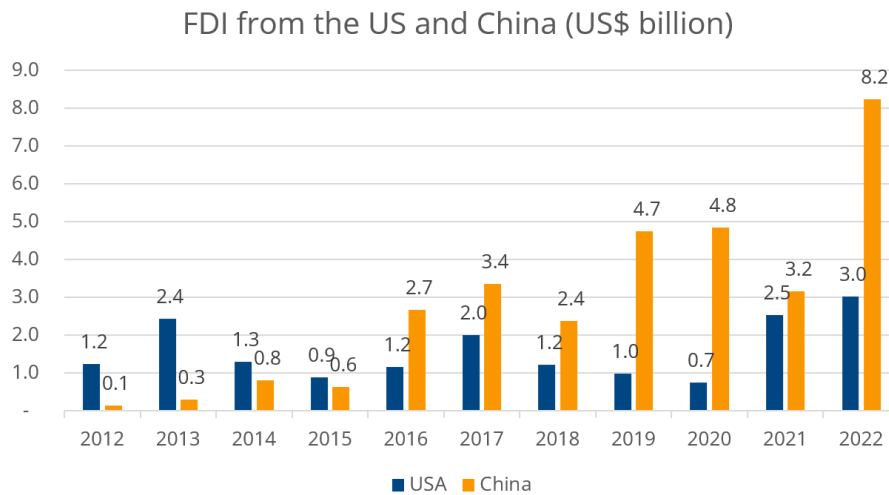


Source: Statistics Indonesia (Badan Pusat Statistik [BPS]).

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 Board³ (*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

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- 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>

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 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

11 "Minister of Industry: Industrial downstreaming is the key to national economic progress", *Kementerian Perindustrian*, 23 December 2022, <https://kemenperin.go.id/artikel/23792/Menperin:-Hilirisasi-Industri-Adalah-Kunci-Kemajuan-Ekonomi-Nasional>

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>

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.

Although the Pillar 2 (Supply Chains) Ministerial Statement¹⁹ 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

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>

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 Meningkatkan", *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>

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 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

23 "Improving Data Quality for an Effective Social Registry in Indonesia", World Bank and Australian Government, 2022, <https://openknowledge.worldbank.org/handle/10986/38157>

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>

coordinate actions in the case of potential supply disruptions.²⁸ The supply chains management deal ‘slips in’ a new Labor Rights Advisory Board, which could lead to a highly sensitive and contentious area for many IPEF member countries.²⁹

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

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/>

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>

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 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 Statement³². 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

32 *op. cit.*

(CHIPS) and Science Act³³ and the Inflation Reduction Act³⁴ 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 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-Pacific³⁵ 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.

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>

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

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