




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



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



4

The IPEF:

Japan's Economic Realism and Approach
to Indo-Pacific Engagement, Resilience,
and Rule-Setting

Stephen NAGY



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.

List of Abbreviations

AAGC	Asia-Africa Growth Corridor
ADB	Asian Development Bank
AI	Artificial Intelligence
BRI	Belt and Road Initiative
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
DFFT	Data Free Flow with Trust
EPA	Economic Partnership Agreement
EU	European Union
FOIP	Free and Open Indo-Pacific
G7	Group of Seven
GDP	Gross Domestic Product
IPEF	Indo-Pacific Economic Framework
JBIC	Japan Bank for International Cooperation
JETRO	Japan External Trade Organization
METI	Ministry of Economy, Trade and Industry
MSMEs	Micro, Small and Medium Enterprises
PQI	Partnership for Quality Infrastructure
RCEP	Regional Comprehensive Economic Partnership
RSCI	Responsible Supply Chain Initiative
TICAD	Tokyo International Conference on African Development
TPP	Trans-Pacific Partnership
US	United States

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 cooperation⁴ 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](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 Pillar²¹ 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 Pillar²² 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](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/>

Taiwan²⁴ and other states have experienced coercion by China,²⁵ and see selective diversification of supply chains²⁶ 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 security²⁷ 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 policies²⁹ 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 Pillar³⁰ 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 Pillar³² recognises that “fairness, inclusiveness, transparency, the rule of law, and accountability are essential to improving the investment climate, ensuring shared prosperity, and promoting labour 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 growth³⁷ 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 economy⁴¹ 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 networks⁴² 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-multinationals.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-for-EU-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 cooperation⁵⁹ 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 policies⁶² 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 Mohammad 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 Japan⁸⁴ and the US. China's BRI has been criticised for its lack of transparency, the potential to create debt traps⁸⁵ 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 infrastructure⁸⁸ that is sustainable and benefits local communities. This contrasts with China's BRI, which has been criticised for focusing on low-quality infrastructure⁸⁹ 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 Mikal 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 NAGY⁹¹ 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.



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



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



Impact of regional trade agreements on the IPEF

Priyanka KISHORE

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.

List of Abbreviations

APAC	Asia Pacific
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
AUKUS	Australia, UK and US
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
DSM	Dispute Settlement Mechanism
ESCAP	Economic and Social Commission for Asia and the Pacific
EU	European Union
FDI	Foreign Direct Investment
FTAs	Free-Trade Agreements
GDP	Gross Domestic Product
IPEF	Indo-Pacific Economic Framework
ISEAS	Institute of Southeast Asian Studies
ISDS	Investor-State Dispute Settlement
Lao PDR	Lao People's Democratic Republic
MSMEs	Micro, Small and Medium-Sized Enterprises
NATO	North Atlantic Treaty Organisation
PTAs	Preferential Trade Agreements
QUAD	Quadrilateral Security Dialogue
RCEP	Regional Comprehensive Economic Partnership
RTAs	Regional Trade Agreements
SMEs	Small and Medium-Sized Enterprises
SOEs	State-Owned Enterprises
TPP	Trans-Pacific Partnership
UAE	United Arab Emirates
UK	United Kingdom
US	United States
WTO	World Trade Organization

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 FTAs⁶ 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-pZCI6NjlsInN0ZXBzIjpbMiw2XSwiZGF0YSI6W1siVGFiGVMaXN0IiwzMzEwMDIiXV19>

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 2023, <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 policy¹⁷ 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 agreement²⁰. 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 chapters²¹ 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 2023²⁵ 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 Agreement²⁹ 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

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>

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.

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 Reduction³⁰ 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.



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



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



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

Stephen OLSON

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.

List of Abbreviations

AI	Artificial Intelligence
APEC	Asia-Pacific Economic Cooperation
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
EOs	Executive Orders
EU	European Union
FTAs	Free-Trade Agreements
IPEF	Indo-Pacific Economic Framework
NAFTA	North America Free Trade Agreement
TPA	Trade Promotion Authority
TPP	Trans-Pacific Partnership
TTC	Trade and Technology Council
TTIP	Trans-Atlantic Trade and Investment Partnership
UK	United Kingdom
US	United States
USMCA	United States–Mexico–Canada Agreement
USTR	United States Trade Representative
WTO	World Trade Organization

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 ... prioritized aggressive liberalization 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[le]d 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 labor, 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 dynamics⁷

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 features⁸

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 negotiations¹³

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 as 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 optimism¹⁸

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 pessimism²¹

It appears the agreement will contain a good deal of aspirational language (“IPEF partners will seek to...”²²) 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, export 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.