



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



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

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This paper provides an analysis of the Indonesian perspective on joining the Indo-Pacific Economic Framework for Prosperity (IPEF). Using official documents, other available published materials, and conversations with several policymakers and experts, it highlights potential challenges in the negotiation process and later in the implementation of the agreements from Indonesia's viewpoint. The paper argues that Indonesia sees the IPEF as an opportunity to engage with the United States (US) in shaping common rules and standards to support regional stability. At the same time, it wants to ensure that the IPEF agreements align with the country and the Association of Southeast Asian Nations' (ASEAN) principles, inclusivity and complementarity. While the IPEF is seen as an 'empty vessel' that could increase US-China competition in the region and threaten ASEAN centrality and integrity, Indonesia nevertheless expects the IPEF to become a new platform to promote the US' economic re-engagement in the Indo-Pacific, boost regional competitiveness and standards, and address emerging global issues collaboratively.

List of Abbreviations

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

Introduction

This paper aims to provide Indonesia's perspective on the Indo-Pacific Economic Framework (IPEF). Specifically, the paper will try to identify negotiation challenges and anticipated outcomes for the IPEF negotiations in the four key areas of trade (especially in the digital economy), resilient supply chains, clean economy (clean energy and decarbonisation), and fair economy (tax, financial and fiscal practices). It will also try to examine some implementation challenges for the IPEF arising from domestic regulatory complexities and political economies in Indonesia. And finally, it looks at the prospects of the IPEF's engagement with Europe in the foreseeable future.

What the IPEF Means for Indonesia

The Indonesian government perceives the IPEF as an opportunity to maintain good economic relations with the United States (US) and the other IPEF members. Airlangga Hartarto, the Coordinating Minister of Economic Affairs, stated that he hoped the IPEF would promote economic growth and resilience of its member states and also trigger new ideas and innovation for more intensive cross-border trade and investment.¹

Here, the IPEF is seen by the government as both, an economic and strategic goal for Indonesia to support the country's development objectives, such as expediting its clean economy development, integrating its economy with the global supply chain, and improving its ease of doing business. The government expects that the IPEF will help Indonesia and other member economies in shaping common rules and standards to support regional trade and investment. This will in turn supplement other trade rules, for example, from the World Trade Organization (WTO) or the Regional Comprehensive Economic Partnership (RCEP). The IPEF could also help fill in the slow progress in economic cooperation under the more binding fora, including the WTO and the traditional Free Trade Agreements (FTAs), and serve as a laboratory test for new forms of economic cooperation to address emerging issues such as supply chain fragmentation.

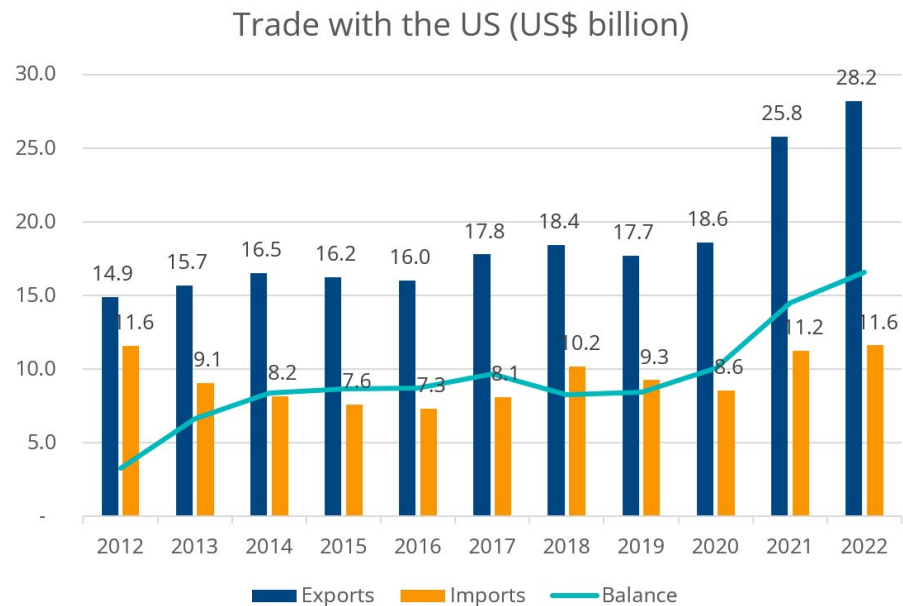
Interestingly, Indonesia-US economic relations have been growing since the COVID-19 pandemic. Indonesia's exports to the US reached more than US\$28 billion in 2022, while imports reached almost US\$12 billion in the same period. Over the years, the trade balance has been tilted towards Indonesia, with a US\$16 billion trade surplus in 2022 (Figure 1). So, the question is: will the IPEF change this trade pattern by way of reducing the surplus and making it more balanced? There is also the question of whether the IPEF will reduce Indonesia's trade dependency with China. Currently, according to Statistics Indonesia (*Badan Pusat Statistik [BPS]*), China accounts for 26-27 per cent of Indonesia's total trade value, while the US only accounts for 12-13 per cent of its total trade value.²

1 "Coordinating Minister Airlangga hopes that IPEF will strengthen the economic resilience of partner countries", *Antara*, 15 March 2023, <https://www.antaranews.com/berita/3442251/menko-airlangga-harap-ipef-perkuat-ketahanan-ekonomi-negara-mitra>

2 "Balance of Trade of Selected Countries (Million US\$), 2020-2022", Statistics Indonesia (*BPS*), <https://www.bps.go.id/indicator/8/336/1/neraca-perdagangan-beberapa-negara.html>

Could the IPEF increase Indonesia’s bilateral trade with the US without additional market access?

Figure 1: Trade with the US (US\$ billion)

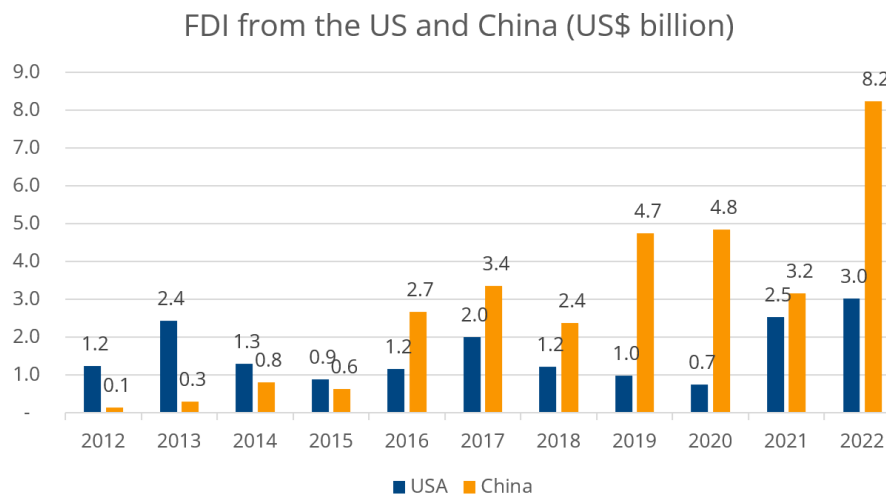


Source: Statistics Indonesia (Badan Pusat Statistik [BPS]).

Indonesia’s Foreign Direct Investment (FDI) from the US significantly increased between 2020 and 2022, reaching US\$3 billion in 2022 (Figure 2). Compared to FDI from China, which reached US\$8.2 billion in the same period, the figure is relatively low. So, the question is: will the IPEF change this investment pattern by way of increasing FDI from the US and making it more balanced with China’s FDI?

Will the IPEF further increase FDI from the US and make it more equal with China's?

Figure 2: FDI from the US and China (US\$ billion)



Source: Indonesia Investment Coordinating Board³ (*Badan Koordinasi Penanaman Modal [BKPM]*).

From the data above, there is a solid economic rationale for Indonesia to join the IPEF – to strengthen economic relations with the US and other members. At the same time, the government perceives joining the IPEF as critical amid rising US-China geopolitical competition. Indonesia, with its independent and active foreign policy, wants to work with both superpowers to maintain stability and peace. Through this strategic balancing act, Indonesia hopes there will be healthy competition in the region that will emerge with various economic cooperations and agreements, and subsequently promote economic competitiveness, efficiency and productivity in the region. This development, however, should not come at the cost of the region's stability and peace. The country believes that it is critical to maintaining the Association of Southeast Asian Nations (ASEAN) Centrality and neutrality in the IPEF.

The private sector, however, has a rather muted view of the benefit of joining the IPEF. While many Multinational Corporations (MNCs) operating in Indonesia expect that the IPEF will lead to a better business environment through improved standards and regulations, the local business communities seem more cautious.⁴ This is because the latter is more interested in their own survival in the domestic market. Many local companies, especially the Micro, Small and Medium Enterprises (MSMEs), are still struggling to meet the existing national standards and regulations. The IPEF, which will offer higher standards and rules for trade and investment, will certainly create additional challenges for them.

3 "National Single Window for Investment", Indonesia Investment Coordinating Board (BKPM), https://nswi.bkpm.go.id/data_statistik

4 "Civil Society Intervenes Indo-Pacific Economic Framework (IPEF) Stakeholder Event Due to Absence of Meaningful Participation", *Solidaritas Perempuan*, 17 March 2023, <https://www.solidaritasperempuan.org/masyarakat-sipil-mengintervensi-stakeholder-event-indo-pacific-economic-framework-ipef-akibat-absennya-partisipasi-bermakna/>

Overall, many Indonesians see the IPEF with scepticism or are unsure about its benefit or even its feasibility in implementation.⁵ The scepticism is worsened by the lack of information about the IPEF and the lack of communication between the negotiators and stakeholders.

Key Negotiation Challenges

In Pillar 1 (Trade), the key challenges for Indonesia are related to cross-border data flow. Indonesia's data localisation policy will not align with the IPEF's objective of seamless data flow.⁶ For instance, under Indonesia's Financial Services Authority (*Otoritas Jasa Keuangan, OJK*) regulations, all banks and non-banking financial institutions located in Indonesia must place their electronic system in Indonesia (data localisation).⁷ This means all 109 banks and 1,333 non-banking financial institutions must own or use data centres in Indonesia's territorial geography. Certainly, building physical data centres in Indonesia may not be economically viable for foreign financial companies. Indonesia passed Law No. 27 of 2022 concerning Personal Data Protection (PDP).⁸ The law still requires clearer mechanisms, as well as derivative regulations, on different categories of data, such as sensitive personal data. The IPEF's standard of free data flow will face serious challenges, or most likely, will not be accepted by Indonesia's policymakers due to concerns over its security and safety. It is important to note that the country has rampant cyber security issues.⁹

Like the other IPEF members, Indonesia is unlikely to adopt the United States-Mexico-Canada Agreement (USMCA) regarding labour standards.¹⁰ Using the USMCA labour standards in the IPEF will bring opposition from Indonesia as it is seen as a way of protecting production in the US where minimum wages are higher than the prevailing wages in Indonesia. Moreover, Indonesia fears that the adoption of a USMCA-like model could lead to the US government's ability to impose sanctions unilaterally and directly on companies overseas, like in the case of the US-Mexico Rapid Response Mechanism in the USMCA which bypasses the government of Mexico. The US could potentially use this as an 'economic weapon' on countries or companies deemed as threats. As such, the Indonesian government will not agree to the adoption of the USMCA labour rules.

Concerning Pillar 2 (Supply Chains), the key challenge is that Indonesia has the ambition to develop

- 5 Sharon Seah, Joanne Lin, Melinda Martinus, Sithanonxay Suvannaphakdy, Pham Thi Phuong Thao, "The State of Southeast Asia: 2023 Survey Report", *ISEAS-Yusof Ishak Institute* (9 February 2023), <https://www.iseas.edu.sg/wp-content/uploads/2025/07/The-State-of-SEA-2023-Final-Digital-V4-09-Feb-2023.pdf>
- 6 Mochamad Januar Rizki, "Menyoal Kejelasan Aturan Main dalam Aliran Data Lintas Batas", *Hukumonline.com*, 5 January 2023, <https://www.hukumonline.com/berita/a/menyoal-kejelasan-aturan-main-dalam-aliran-data-lintas-batas-lt63b64bac556b1/>
- 7 "About Consumer and Public Protection in the Services Sector Finance (*Tentang Perlindungan Konsumen Dan Masyarakat Di Sektor Jasa Keuangan*) – No. 6, POJK.07", Indonesian Financial Services Authority (*OJK*), 2022, <https://www.ojk.go.id/id/regulasi/Documents/Pages/Perlindungan-Konsumen-dan-Masyarakat-di-Sektor-Jasa-Kuangan/POJK%206%20-%2007%20-%202022.pdf>
- 8 "About Personal Data Protection (*Tentang Pelindungan Data Pribadi*) – No. 7", Laws of the Republic of Indonesia (*Undang-Undang Republik Indonesia*), 2022, https://jdih.setkab.go.id/PUUdoc/176837/Salinan_UU_Nomor_27_Tahun_2022.pdf
- 9 Nur Janti, "Data breaches still haunt Indonesia as BSI becomes latest victim", *The Jakarta Post*, 16 May 2023, <https://www.thejakartapost.com/paper/2023/05/16/data-breaches-still-haunt-indonesia.html>
- 10 "U.S. – Mexico – Canada Agreement (USMCA)", US Customs and Border Protection, <https://www.cbp.gov/trade/priority-issues/trade-agreements/free-trade-agreements/USMCA>

its downstream industry by controlling exports of critical minerals and materials.¹¹ The country wants to take advantage of its vast mineral resources by banning critical mineral exports while attracting foreign investment in the local downstream industry. This policy has strong domestic political support, but it will not align with the idea of the IPEF's supply chain resilience. The downstreaming policy through export bans of critical minerals has been followed in retaliations by other countries.¹² For instance, Indonesia lost in the WTO against the European Union's (EU) claims concerning the nickel export ban.¹³ It is currently appealing in this regard. Nevertheless, trade retaliations were imposed by the EU and China through anti-dumping duties on steel exports from Indonesia.

The Indonesian government plans to ban all critical metal ore exports to encourage investment in the downstream industry.¹⁴ After banning exports of nickel ore last year, Indonesia continues banning exports of bauxite in June this year.¹⁵ Moving forward, the government will target other critical minerals. However, export bans on other metal ores need to wait until the smelter industries to process these raw minerals are completed.¹⁶

Another challenge is Indonesia's local content requirements, which have intensified in recent years and target several strategic sectors, such as mineral, oil and gas, and digital sectors.¹⁷ Similar to the downstreaming industrial policy, the local content policy has a strong domestic political support base and will be difficult to reconcile with the IPEF's supply chain standards and regulations. For example, in the manufacturing of Information and Communication Technologies (ICT) goods, Indonesia has a local content requirement policy, which requires around 30-40 per

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

12 "Critical Minerals: challenges for diversification, climate change and development", Presentation by Mari Pangestu, University of Indonesia for Peterson Institute for International Economics Webinar, 27 April 2023, <https://www.piie.com/sites/default/files/2023-04/2025-04-27pangestu-ppt.pdf>

13 "WTO panel rules against Indonesia's export limitations on raw materials", European Commission, 30 November 2022, https://ec.europa.eu/commission/presscorner/detail/en/ip_22_7314

14 "The Ban will Not Stop Exports of Key Raw Minerals Copper, Zinc, Iron Ore from Indonesia, But Bauxite Shipments will Stop in June", *Hellenic Shipping News Worldwide*, 26 May 2023, <https://www.hellenicshippingnews.com/the-ban-will-not-stop-exports-of-key-raw-minerals-copper-zinc-iron-ore-from-indonesia-but-bauxite-shipments-will-stop-in-june/>

15 "Bauxite Ore Export Ban; Developing a Domestic Mineral Refining & Processing Industry in Indonesia", *Indonesia Investments*, 6 July 2023, <https://www.indonesia-investments.com/news/news-columns/bauxite-ore-export-ban-developing-a-domestic-mineral-refining-processing-industry-in-indonesia/item9638#:~:text=On%2010%20June%202023%20the,bauxite%20processing%20and%20refining%20industry>

16 Erwida Maulia, "Indonesia bets on critical mineral export bans as deadline nears", *NIKKEI Asia*, 23 May 2023, https://asia.nikkei.com/Spotlight/Asia-Insight/Indonesia-bets-on-critical-mineral-export-bans-as-deadline-nears?utm_campaign=GL_editor_in_chief_picks&utm_medium=email&utm_source=NA_newsletter&utm_content=article_link&del_type=2&pub_date=20230526150007&seq_num=11&si=__MERGE__user_id__MERGE__

17 "Note! Electric Cars Must Have Local Components of At Least 35%", *CNBC Indonesia*, 8 August 2019, <https://www.cnbcindonesia.com/news/20190808141026-4-90690/catat-mobil-listrik-wajib-komponen-lokal-minimal-35;>

Ignacio Geordi Oswaldo, "Komponen Lokal Wajib Digenjot, Ini Pentingnya", *detikfinance*, 27 July 2022, <https://finance.detik.com/berita-ekonomi-bisnis/d-6201534/komponen-lokal-wajib-digenjot-ini-pentingnya>

cent of local content for Fourth Generation/Long Term Evolution (4G/LTE) equipment.¹⁸ This means that foreign companies who want to sell their 4G/LTE products must either build a factory or find a local partner in Indonesia. This policy aims to spur innovation in local industry in manufacturing 4G/LTE products.

Although the Pillar 2 (Supply Chains) Ministerial Statement¹⁹ will need to undergo domestic consultation and legal review, the abovementioned non-tariff trade measures (barriers) could stifle the resilience, efficiency and fairness of the supply chains of the IPEF member countries and hence become a point of contestation and tension if the provisions in the agreements were to become binding.

In Pillar 3 (Clean Economy), the key challenge is to phase out many fossil fuel-based power plants and large state subsidies to the sector. Around 60 per cent of the country's energy industry is still based on coal while renewable energy sources account for only 14 per cent by 2022. The latter is dominated by hydropower, geothermal and biofuels. Fossil fuel-based power plants are critical to providing affordable access to electricity for the population. Meanwhile, fuel and energy subsidies have helped to maintain prices at lower levels, given the current high energy prices. This is in turn important for the government to maintain political stability as removing fossil fuel subsidies will be politically costly for any government. And going into next year's Presidential Election, there will be no incentive to reduce it. Ironically, more than 70 per cent of the current fuel subsidies benefitted the middle and upper classes.²⁰ The IPEF could potentially be used to encourage a critical shift in the current fuel subsidies policy towards more pro-poor (Pillar 4) and pro-environment spending. It is important to note, however, that coal and fossil fuels industries have contributed to state revenue through tax and export earnings.²¹ The coal sector has a very powerful lobby in the government, and they will certainly challenge any rules that adversely affect their business operation in Indonesia.

Finally, in Pillar 4 (Fair Economy), while there seems to be no significant challenge regarding the value of improved transparency, accountability and the rule of law (good governance) as the foundation for inclusive and sustainable development, the implementation of such rules and regulations will be not easy in Indonesia. Indonesia has been among the first countries to sign the United Nations Convention against Corruption (UNCAC) and has ratified it through Law No. 7 of 2006. In 2011, Indonesia became one of the first countries reviewed by other member countries in the UNCAC scheme. Yet, Indonesia's Corruption Perceptions Index score fell by a record amount according to the 2022 Transparency International's ranking, bringing the country nearly all the way back to its 2012 rating. In fact, Indonesia's position is closer to the group of the most corrupt countries in the world, such as Angola, El Salvador and Mongolia.²²

18 Siwage Dharma Negara, 'The Impact of Local Content Requirements on the Indonesian Manufacturing Industry', *ISEAS Yusof Ishak Institute*, Economics Working Paper No. 2016-4 (October 2016), <https://www.iseas.edu.sg/images/pdf/ISEASEWP2016-04Negara.pdf>

19 "Ministerial Statement for Pillar II of the Indo-Pacific Economic Framework for Prosperity", US Department of Commerce, September 2022, <https://www.commerce.gov/sites/default/files/2022-09/Pillar-II-Ministerial-Statement.pdf>

20 Sekretariat Presiden, "Konferensi Pers Presiden Jokowi dan Menteri Terkait perihal Pengalihan Subsidi BBM", 3 September 2022, <https://www.youtube.com/watch?v=gsL6-YtDObA>

21 "Bos Adaro Puji Luhut yang Lobi China Agar Ekspor Batu Bara RI Meningkatkan", *Kumparan BISNIS*, 20 October 2020, <https://kumparan.com/kumparanbisnis/bos-adaro-puji-luhut-yang-lobi-china-agar-ekspor-batu-bara-ri-meningkat-1uQfnkmoaM2>

22 "Corruptions Perceptions Index", *Transparency International*, 2022, <https://www.transparency.org/en/cpi/2022>

Under Pillar 4, Indonesia could use the IPEF to push for domestic reforms in slowly phasing out the costly, poorly targeted and environmentally unfriendly fuel subsidies. One of the key factors in successfully phasing out fuel subsidies will be through a robust social registry system to improve the targeting of social protection programmes. In this regard, Indonesia's social registry that targets poor and vulnerable households needs significant improvement,²³ and the country could use the IPEF as a platform to support the development of a robust, dynamic and high-quality social registry system.

The evolving international standard on global taxation under the Organisation for Economic Cooperation and Development – Group of Twenty (OECD-G20) Inclusive Framework on Base Erosion and Profit Shifting (BEPS)²⁴ - may require Indonesia to adjust its tax collection mechanism and tax-incentive policies. The tax collection system adjustment may require new regulations related to the digital economy, while adjustment to tax-incentive policies will need to consider Indonesia's overall business climate and equal distribution of tax revenues within and across countries.

Pillar 4 also includes anti-terrorism financing. Indonesia faces high terrorism financing risks, although it has developed risk-based policies and strategies for mitigating them.²⁵ Indonesia has been seeking full membership in the Financial Action Task Force (FATF) since 2017. In 2022, it underwent a Mutual Evaluation Review to assess its fitness.²⁶ The report, published in April 2023, shows that although Indonesia has prepared a legal framework to tackle money laundering and terrorist financing, and makes good use of financial intelligence as well as domestic and international cooperation, it still needs to focus on improving asset recovery, risk-based supervision, and proportionate and dissuasive sanctions. Given this gap, Indonesia could use the IPEF to support its capacity in the above aspects, thus achieving the FATF's standards.

Potential Outcomes

With a tight negotiation timeline since the US intends for it to be concluded by the end of the year, the outcomes are likely to be in the form of loose partnerships to allow various interests from member states. In this regard, the Ministerial Meeting in Singapore (8-15 May 2023) did show an encouraging sign that the IPEF negotiations might be concluded quite soon. Yet, the imposition on labour standards may continue to become a sticking point.²⁷ The Ministerial Meeting in Detroit on 27 May 2023 concluded with a deal to keep the supply chains 'resilient and secure' by forming a Council to coordinate and monitor supply chain activities and a Crisis Response Network to

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

24 BEPS recommends avoiding new direct taxes on digital activity, and envisages other actions to be generalised to tackle the digital economy. For indirect taxes, it recommends a shift to tax collection in the jurisdiction of consumption.

25 "Anti-money laundering and counter-terrorist financing measures – Indonesia, Fourth Round Mutual Evaluation Report", FATF, 2023, <https://www.fatf-gafi.org/content/fatf-gafi/en/publications/Mutualevaluations/MER-Indonesia-2023.html>

26 Agatha V, Kenzu, "Minister Indrawati, FATF president discuss Indonesia's full membership", *Antara*, 17 April 2023, <https://en.antaranews.com/news/278925/minister-indrawati-fatf-president-discuss-indonesias-full-membership>

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

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

To succeed in the negotiation process, Indonesia needs to be proactive and clear about what it wants from the IPEF, especially when the US has not been transparent in terms of what it wants from the IPEF other than economic re-engagement in the region. Below are some recommendations of what Indonesia could push for in the IPEF.

For Pillar 1, Indonesia could use the IPEF to improve its digital governance standards, such as cybersecurity, so that it could take advantage of cross-border data flows because leveraging data flows has many benefits for businesses, individuals and the government. With the ASEAN Digital Economy Framework Agreement (DEFA) just launched in early September,³⁰ Indonesia could ensure that the IPEF digital economy standards do not diverge from those of the ASEAN DEFA.

For Pillar 2, it is clear that Indonesia wants to convince the other IPEF members to support its downstreaming policy and attract investment at home. However, without competitiveness, such an industrial policy will become costly for the government and the consumers. Restrictive trade policies leveraging on natural resources alone will not be sufficient to develop Indonesia’s downstream industry. Indonesia could instead use the IPEF to support a more competitive downstreaming industry in exchange for a less restrictive export ban policy (for example, export tariff instead of the blanket export ban), including by improving basic infrastructure, talents and technologies.

For Pillar 3, Indonesia could use the IPEF as a platform to attract cross-border finance, trade and investment in green technology, among which is by enhancing the clean energy business environment and streamlining the implementation of the Energy Transition Mechanism (ETM) and the Just Energy Transition Partnership (JET-P)³¹.

For Pillar 4, Indonesia could use the IPEF as a platform to build a robust, dynamic and high-quality social registry system. Well-targeted social assistance programmes should be less costly than subsidising fossil fuels, most of which benefitted non-poor households. This will help Indonesia move towards a fairer economy. Indonesia could also use the IPEF to continue improving the elements in the FATF that are still below standards, namely improving asset recovery, risk-based supervision and, proportionate and dissuasive sanctions.

Overall, in order to achieve what it wants, Indonesia needs competent negotiators and experts in the four main Pillars to advance and safeguard Indonesia’s interests. Unfortunately, they are currently

28 “Readout of Indo-Pacific Economic Framework for Prosperity Virtual Ministerial”, US Department of Commerce, 29 June 2023, <https://www.commerce.gov/news/press-releases/2023/06/readout-indo-pacific-economic-framework-prosperity-virtual-ministerial>

29 David Lawder, “U.S.-led Indo-Pacific talks produce deal on supply chain early warnings”, *Reuters*, 28 May 2023, <https://www.reuters.com/markets/asia/us-led-indo-pacific-talks-produce-deal-supply-chain-early-warnings-2023-05-27/>

30 “Leaders’ Statement on the Development of the ASEAN Digital Economy Framework Agreement (DEFA), ASEAN, September 2023, <https://asean.org/wp-content/uploads/2023/09/Leaders-Statement-DIGITAL-ECONOMY-FRAMEWORK-AGREEMENT.pdf>

31 “Towards a Win-Win Cooperation: ASEAN Centrality and Indonesia’s Role in the Indo-Pacific Economic Framework”, Presentation by Dr Edi Prio Pambudi, Deputy Minister for Coordination of International Economic Cooperation for Yusof Ishak Institute ISEAS Studies Programme Webinar, 6 April 2023, <https://www.iseas.edu.sg/wp-content/uploads/2025/07/ISEAS-Presentation-Edi-Pambudi.pdf>

lacking as the existing negotiators are overwhelmed with several other priority agendas within the ASEAN, especially given that Indonesia currently holds the chairmanship of the Association.

Concluding Thoughts

IPEF negotiations should be made more transparent. It should provide more information on what is on the plate for member states and give sufficient time for public consultation, especially if the implementation of new rules requires parliamentary approval. So far, there are no clearly defined policy proposals, except perhaps the Ministerial Statement on Supply Chains (Pillar 2). The US, as the initiator, has not been clear on how its approach can promote trade and investment among the IPEF members, balance the interests of workers and businesses, protect the environment, promote innovation and strengthen competitiveness. These multiple objectives will certainly not be easy to achieve. So, it is important to be more realistic about what can be achieved and what may take a long time to achieve.

While the US wants high standards and rules in the IPEF, it also needs to consider the different development stages of the IPEF member states. Imposing the US employment or environmental model for trade or investment initiatives will face serious opposition from other member states, including Indonesia. It is important to ensure the legally binding provisions of the agreement to make it credible and to have clear enforcement mechanisms. At the same time, there is a need to give sufficient time for members to achieve the capacity to implement the binding provisions effectively.

The IPEF needs to provide clarity on the definition of 'critical sector(s)' and the criteria to determine such a sector. Establishing criteria to identify critical sectors and goods has been agreed in Pillar 2 (Supply Chains) Ministerial Statement³². Clearly, different countries have different opinions about the critical sector. For instance, unlike the US, Indonesia does not consider semiconductors as one of the critical sectors. In this case, there is a need to provide some flexibility for member states to determine their respective critical sectors.

Apart from this, there is wide variation in implementation capacity, for example, in areas such as digital technology capability. Many MSMEs do not have the advanced digital capacity as the MNCs, highlighting a need for different standards or mechanisms to ensure interoperability of standards. Higher standards could be accompanied by some means to lower barriers or improve access, including through capacity building and technical assistance. Moreover, by 'downscaling' technologies, it is possible to 'upscale' access to these technologies by allowing more disadvantaged groups to onboard. It is important to consider that imposing higher standards should not mean higher costs, or even exclusion, of some segments of businesses, especially MSMEs.

To be successful, the IPEF will require the US' long-term commitment, especially in the post-Biden Administration era. To begin with, will the US commit to providing a sufficient budget for implementing the IPEF? Learning from the US withdrawal from the Trans-Pacific Partnership (TPP), member states will remain sceptical if the US has a long-term political commitment to implement multilateral agreements. Also, its own Creating Helpful Incentives to Produce Semiconductors

32 *op. cit.*

(CHIPS) and Science Act³³ and the Inflation Reduction Act³⁴ will likely have significant implications for, if not hinder, the success of the IPEF.

Various activities surrounding trade liberalisation are taking place between the IPEF members and third parties outside of the framework, such as the CPTPP and the RCEP, among others. This will make the IPEF less relevant in shaping regional supply chains and trade and investment flows, and influencing broader relationships and regional dynamics. The challenge for the IPEF is how to ensure that the agreement will provide tangible benefits, especially if the US will not offer the kind of market access that has traditionally been the trade-off for developing countries to accept new high-standard rules.

Lastly, as the ASEAN Chairman this year, Indonesia's leadership to keep ASEAN Centrality and unity during the IPEF negotiation process is imperative. It needs to balance between reaping benefits from the IPEF and preserving ASEAN Centrality and ASEAN Outlook on the Indo-Pacific at the heart of the negotiation process and outcomes. Indonesia should continue to promote the inclusion of the other three ASEAN countries currently not in the IPEF, and make the framework more inclusive.

While the IPEF may turn out to be a weak partnership and has little chance of success to be a high-standard agreement, the EU should follow the key issues under negotiations closely. The US-framed rules for digital trade and technology could have some ramifications for European interests if they eventually create standards that may not necessarily be aligned to those of the EU. For example, the right-based EU and the market-based US Artificial Intelligence (AI) governance and other digital governance standards, such as data protection policy, are not always in line. With or without the IPEF, participating members, excluding the US, may have to choose whether to follow the EU or the US digital governance standards (or in between these standards). The narrower the gaps, the better for the rest of the IPEF members. It also means the closer we are to having global standards in digital governance, which is ideal, it highlights the need to bring China to the negotiation table.

The EU has been an important investor, trading partner, and development cooperation actor in the Indo-Pacific region. Some areas of cooperation under the IPEF could be relevant and could be strengthened, particularly the post COVID-19 economic recovery and climate crisis, and supporting a rules-based order. More importantly, concerning trade, the EU can fulfill some of the needs of participants in the IPEF when the US is unable or unwilling to do so. The EU has concluded trade negotiations with almost all IPEF participants, including on issues such as renewable energy and resilient infrastructure. The EU's initiative to promote Global Gateway and Strategy for Cooperation in the Indo-Pacific³⁵ should be moved forward for concrete implementation. Given this, the EU could be involved in developing standards for future green trade and new technologies in the Indo-Pacific region. Also, the EU and the IPEF countries could jointly establish dialogue on mechanisms to monitor and strengthen the application of sustainable trade and investment policies. Certainly, further integrating economic ties with Indo-Pacific countries could enhance regional stability, security, prosperity, and sustainable development.

33 "FACT SHEET: CHIPS and Science Act Will Lower Costs, Create Jobs, Strengthen Supply Chains, and Counter China", The White House, 9 August 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/09/fact-sheet-chips-and-science-act-will-lower-costs-create-jobs-strengthen-supply-chains-and-counter-china/>

34 "One Hundred Seventeenth Congress of the United States of America – H.R. 5376", Authenticated US Government Information, 3 January 2022, <https://www.congress.gov/117/bills/hr5376/BILLS-117hr5376enr.pdf>

35 European Union External Action, "EU Strategy for Cooperation in the Indo-Pacific", 21 February 2022, https://www.eeas.europa.eu/eeas/eu-strategy-cooperation-indo-pacific_en

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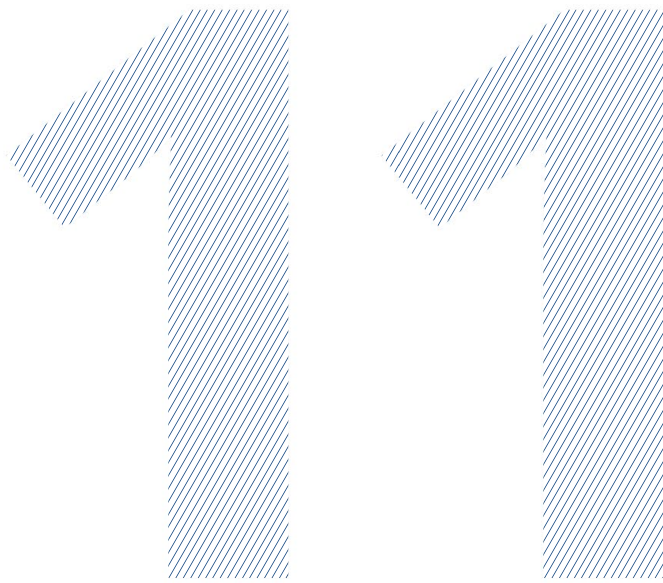
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The Making of the Indo-Pacific Economic Framework for Prosperity (IPEF)



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



The EU, the Indo-Pacific and the US-led IPEF: Which Way Forward?

Françoise NICOLAS

The EU, the Indo-Pacific and the US-led IPEF: Which Way Forward?

Françoise Nicolas

The paper provides a European Union (EU) perspective on the Indo-Pacific Economic Framework (IPEF). First, the recent progress made by the IPEF has given new momentum to the EU's engagement with the Indo-Pacific (IP) partners and to its recently launched Indo-Pacific strategy. In terms of substance, two issues appear to be at the forefront of the IPEF as well as of the EU's Indo-Pacific strategy, namely supply chain resilience enhancement and various aspects of the digital economy. There is probably scope for convergence and cooperation between the EU and the IPEF countries on the former issue, which is addressed indirectly in different EU's digital partnerships, while it is the area where the IPEF has made most substantial progress. However, the differences between the EU's and the United States' (US) approaches to some aspects of the digital economy may act as stumbling blocks and give rise potentially to some form of competition in the IP region, making cooperation on data-based efforts to enhance supply-chain resilience rather complicated.

List of Abbreviations

| | |
|----------------|---|
| ASEAN | Association of Southeast Asian Nations |
| CPTPP | Comprehensive and Progressive Agreement for Trans-Pacific Partnership |
| DMA | Digital Markets Act |
| DSA | Digital Services Act |
| EC | European Commission |
| EIU | Economist Intelligence Unit |
| EPAs | Economic Partnership Agreements |
| EU | European Union |
| FTA | Free-Trade Agreement |
| G20 | Group of Twenty |
| GDPR | General Data Protection Regulation |
| IP | Indo-Pacific |
| IPEF | Indo-Pacific Economic Framework |
| NZ | New Zealand |
| R&D | Research and Development |
| RCEP | Regional Comprehensive Economic Partnership |
| TPP | Trans-Pacific Partnership |
| TSD | Trade and Sustainable Development |
| TTC | Trade and Technology Council |
| US | United States |
| USMCA | United States-Mexico-Canada Agreement |
| WTO | World Trade Organization |

Introduction: Why the Indo-Pacific and the IPEF Matters for the EU

The Indo-Pacific region, a priority for the EU

For the European Union (EU), the Indo-Pacific region is of utmost importance, both economically and strategically. Due to its growing economic, demographic, and political weight, the Indo-Pacific region is perceived both by individual member states and by the European Commission (hereafter the Commission or EC) as a key player in shaping the international order and in addressing global challenges.

France was the first member state to use the 'Indo-Pacific' concept and develop a specific strategy vis-à-vis the region (2018), and it was soon followed by Germany and the Netherlands (2020)¹. As a result, the EC has also decided to step up its strategic engagement with the Indo-Pacific region through the definition of a new strategy issued in September 2021. As set out in the *EU Strategy for Cooperation in the Indo-Pacific*² (hereafter EU's IP strategy), the EU considers its relations in the region as a priority. The futures of the two regions are inextricably linked given the interdependence of the economies and the common global challenges.

The EU has a broader definition of the Indo-Pacific than the US; in the EU strategy the IP extends from the Eastern coast of Africa all the way to the South Pacific, including seven Group of 20 (G20) members – Australia, China, India, Indonesia, Japan, the Republic of Korea and the Republic of South Africa – as well as the Association of Southeast Asian Nations (ASEAN). Also, unlike the US Indo-Pacific strategy, "the EU strategy does not address the root cause of the Indo-Pacific discourse: the rise of China and its challenge to the US-led order in Asia."³ The EU's real added value is building inclusive, rules-based multilateralism and providing economic, health, physical and digital infrastructure.

The EU's engagement with Indo-Pacific partners is already important: the EU is the top investor, the leading development partner and one of the biggest trading partners in the Indo-Pacific region. However, it is among the EU's ambitions to further deepen its relations with the region and to diversify supply chains with reliable partners, in particular after the COVID-19 pandemic and the Russian war of aggression against Ukraine, as well as in the context of the green transition.

Potential implications of the IPEF for the EU

While the US approach to the Indo-Pacific had shifted almost exclusively towards security and away from economic issues after President Trump withdrew from the Trans-Pacific Partnership (TPP) agreement in 2017, it has changed quite dramatically under the Biden administration, especially with the launch of the IPEF in May 2022. This initiative marks the US' comeback in the economic sphere. The first-of-its-kind framework includes relatively challenging US requests for higher labour, environmental, and other standards that are not counterbalanced by market access. In this respect, it differs substantially from the EU's approach. In spite of differences, there

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- 1 Gudrun Wacker, "European Approaches to the Indo-Pacific, Same, Same, But Different", in *European Strategic Approaches to the Indo-Pacific*, ed. by Christian Echle and Jan Kliem (Panorama: Insights into Asian and European Affairs, KAS, Singapore, 2022), 7 - 23.
 - 2 "Joint Communication to the European Parliament and the Council", European Union External Action, 16 September 2021, https://www.eeas.europa.eu/eeas/joint-communication-indo-pacific_en
 - 3 Frederick Kliem, "The EU Strategy on Cooperation in the Indo-Pacific: A Meaningful Regional Complement?", in *European Strategic Approaches to the Indo-Pacific*, ed. by Christian Echle, Jan Kliem (Panorama: Insights into Asian and European Affairs, KAS, Singapore, 2022) 55 - 69.

is undeniably an increased alignment in views between the EU and the US on the importance of the Indo-Pacific and of economic engagement in the region, with the US moving, on the latter point, closer to the EU.

The objective of this paper is to examine how the EU is engaging Indo-Pacific partners today, and how it will engage them in the future, while taking into account the existence of the IPEF. A key issue is to figure out whether and how the EU's and US' initiatives may dovetail (or not) with respect to the Indo-Pacific region.

The EU's Current Engagement with IPEF Countries

EU's Free Trade Agreements with IPEF countries

The EU's IP strategy as a framework provides broad directions to be followed in the multiple bilateral relations with Indo-Pacific partners, but it does not offer any details on how these relations should be operationalised. Even before the EU's IP strategy was defined, the number of Free Trade Agreements (FTAs) negotiations launched with IP partners is a testament to the EU's long-standing interest in deepening its trade engagement with the Indo-Pacific region. The EU has FTAs or Economic Partnership Agreements (EPAs) in force or under negotiation with nine of the 14 IPEF countries.

FTAs with South Korea, Japan, Singapore and Vietnam have been in force for some time already, while the EU-New Zealand (NZ) FTA was concluded recently (late June 2022). The EU has had an EPA in force with Fiji since 2014, and negotiations with Australia were restarted in late 2022, after their abrupt interruption due to the Morrison government's French submarine decision.⁴ Moreover, negotiations are still ongoing with Indonesia and India. Lastly, although some serious obstacles must be overcome, EU negotiators are still assessing the possibility of the resumption of FTA negotiations with Malaysia, the Philippines, and Thailand, and perhaps even on a region-to-region basis with ASEAN.

Although the degree of commitment may vary from one agreement to another, all of them offer standard trade liberalisation; tariff reduction and market access commitments are at the heart of these arrangements. Moreover, new issues are now almost systematically included in FTAs negotiated by the EU, such as sustainable development (environmental) or labour rights considerations, and deals with IP partners are no exceptions.⁵ In contrast, rules on digital services and e-commerce are rather thin in these agreements. Since 2021, the EU has developed a 'model' digital chapter that advances its own digital trade regulatory agenda, which has only been included in the most recent deals.

As a preliminary attempt to upgrade existing FTAs, the EC seeks to build Digital Partnerships with some of its IP partner countries to enhance reciprocal technical, policy, and Research and

4 Justin Brown, "EU in the driver's seat on Indo-Pacific trade deals", *The Interpreter*, 10 October 2022, <https://www.lowyinstitute.org/the-interpreter/eu-driver-s-seat-indo-pacific-trade-deals>

5 For instance, the recently concluded EU-NZ agreement integrates the new approach on trade and sustainable development (TSD) with strong sustainability commitments. The TSD commitments are legally binding and enforceable through dispute settlement, and for the first time in an EU trade agreement, as a matter of last resort, there is the possibility of trade sanctions for serious violations of core TSD commitments like the International Labor Organization fundamental principles and rights at work and the Paris Agreement on Climate change.

Development (R&D) cooperation on key technologies, such as artificial intelligence, the digital transformation of businesses and public services, and the facilitation of digital trade. The main goal is to develop and entrench standards for emerging technologies in line with EU principles and values. Such partnerships have been negotiated with Japan, South Korea and Singapore, and creating a digital partnership with ASEAN is also part of the EU's IP strategy.⁶ The aim of these partnerships is to advance cooperation on the full range of digital issues, including trade facilitation, trusted data flows and data innovation, digital trust, standards, digital skills for workers, and the digital transformation of businesses and public services. Although these digital partnerships are initially non-committal, they are expected to pave the way towards binding rules covering diverse aspects of digital trade.

Importantly, the EU-NZ FTA⁷ includes a full-fledged digital trade chapter, which contains, among other things, details provisions on cross-border data flows, the protection of privacy and personal data, customs duties on electronic transmissions, electronic contracts, electronic authentication and trust services, the transfer of or access to source code, online consumer trust, unsolicited direct marketing communications, open government data, and regulatory cooperation on digital trade. This will facilitate cross-border data flows by prohibiting unjustified data localisation requirements while preserving a high level of personal data and privacy protection. It also includes ambitious articles on the protection of source code, the use of e-contracts, and e-invoicing or paperless trading.

The EU as a normative power

The EU is used to developing new rules on trade policy in its bilateral FTAs with the hope that some of these rules – for example on subsidies and sustainability – will eventually make it to the World Trade Organization (WTO) rulebook. The exclusive supranational power of the Commission to negotiate trade deals on behalf of the member states comes with significant regulatory power through setting trade, industrial, labour, and human rights standards, and its large market (the EU is the second largest economy in the world) gives Brussels a great deal of political leverage in the pursuit of its objectives.

With respect to its IP partners, the EU's aim is to engage them to build more resilient and sustainable global value chains by diversifying trade and economic relations, and by developing technological standards and regulations that are in line with its values and principles. As a normative actor, in both self-perception and practice, the EU's strengths lie in setting and raising regional standards of good governance, equitable trade, and capacity building in many non-traditional security areas as well as in advancing ecological sustainability and high-quality infrastructure. This regulatory objective is reflected in the increasing width and depth of trade agreements.

The EU's overall IP strategy is meant to compensate for the lack of an economic strategy vis-à-vis the region. However, in concrete terms, the EU still relies on an array of bilateral agreements. In contrast to the US, the EU is approaching its IP partners in a patchy way, on a bilateral basis. This is a major difference compared to the IPEF, which works as a platform.

6 In the Plan of Action to Implement the ASEAN-EU Strategic Partnership (2023-2027), which was issued in early 2022, the two regional organisations reaffirmed their commitment to cooperate in the realm of the digital economy, and a joint working group has been created to scope out the parameters of a future deal.

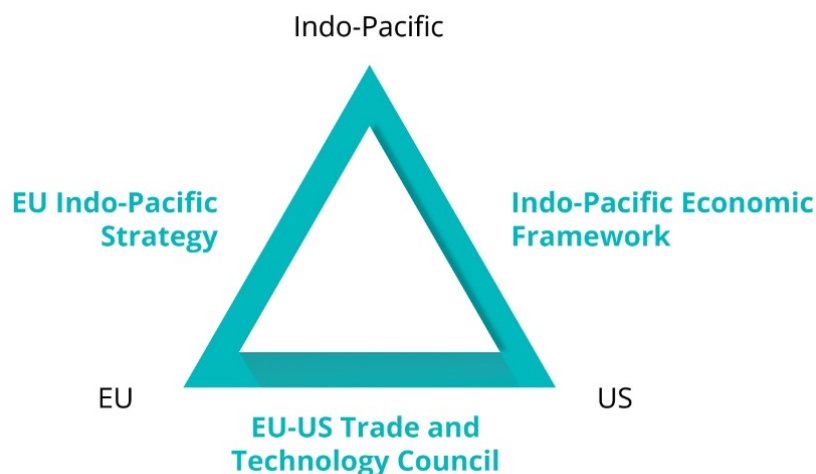
7 "Key elements of the EU-New Zealand trade agreement", European Commission – Directorate-General for Trade, 30 June 2022, https://policy.trade.ec.europa.eu/news/key-elements-eu-new-zealand-trade-agreement-2022-06-30_en

The EU-US Trade and Technology Council (TTC)

At the same time, the EU has also set up a platform together with the US (EU-US Trade and Technology Council - TTC)⁸ where various trade-related issues (also covered in the IPEF) will be discussed. Interestingly, the EU-US TTC will not exclusively focus on bilateral trade-related tensions but will also potentially contribute to upholding the international order based on the rule of law, multilateral institutions, and free trade, and contribute to addressing the challenges raised by non-market economies. What happens between the EU and the US also must be taken into consideration for two reasons. First, because the EU-US TTC format is quite close to the IPEF format: both of them work as platforms of discussion to address specific trade-related issues. Secondly, the outcome of the discussions conducted in the EU-US TTC may shed light on the respective positions of the two partners.

Three simultaneous dialogues are thus currently being conducted with implications for the IP region (see Figure 1): i) between the EU and its IP partners (under the umbrella of EU's Indo-Pacific Strategy), ii) between the US and several IP partners (through IPEF), and iii) between the EU and the US (through the TTC).

Figure 1: Various discussion formats between IP partners



Source: Compiled by author

Two dreams in one bed: contrasting IPEF and the EU's IP strategy

Both the EU and the US are engaging their IP partners, but through different instruments and with different objectives. This section focuses on two interrelated issues, namely supply-chain resilience, which is the area where the US has progressed the most, and the digital economy.

8 The TTC is a diplomatic forum aimed at harmonising the US-EU approach to trade and technology policy, including by developing a common approach to supply chain issues and emerging technology areas where regulation is sparse. See (from TTC, IPEF and the Road to... 2022, Atlantic Council.)

Different approaches to supply-chain resilience

The IPEF Supply Chain Agreement

Although the IPEF is a recent endeavour, it has made unexpectedly quick progress, leading as early as May 2023 to the substantial conclusion of the negotiations of a first-of-its-kind international Supply Chain Agreement.⁹ Through this agreement, the IPEF partners aim to identify items that are at risk of supply network disruption, share information in normal times, expand sources for the procurement of important goods and items among participating countries, as well as allow for flexible procurement during crises.¹⁰

The supply chain agreement would establish an emergency communications channel for the IPEF partners to seek support during a supply chain disruption and to facilitate information-sharing and collaboration among the IPEF partners during a crisis. The proposed mechanisms include (1) an *IPEF Supply Chain Council* to oversee the development of sector-specific action plans designed to build resilience in critical sectors, and (2) an *IPEF Supply Chain Crisis Response Network* that can serve as an emergency communications channel. In addition, a tripartite body made up of government, worker, and employee representatives (*IPEF Labour Rights Advisory Board*) is to be set up to help identify areas where labour rights concerns pose risks to the resilience and competitiveness of partners' supply chains.¹¹

EU's supply-chain cooperation with IP partners

In parallel to the IPEF progress, there has also been some degree of US-EU convergence, most notably on supply chain issues and export controls.¹² On the former issue, there is a clear overlap between the IPEF and the EU-US TTC. Under working group 10 of the TTC, the US and the EU have agreed to establish early warning and monitoring mechanisms to prevent and prepare for possible supply chain disruptions.

Supply chain security, controls over technology transfers, industrial policy, and strategic sectors are at the heart of the EU's public debate. Cooperation on supply chain resilience is also part of the strategic partnerships between the EU and several of its IP partners (such as South Korea or India).¹³ While EU's and US' goals appear to be clearly aligned on the need to enhance supply-chain resilience through cooperation with IP partners, the difficulty will lie in the operationalisation or the definition of the measures to be put in place to achieve the set goal.

9 "Press Statement on the Substantial Conclusion of IPEF Supply Chain Agreement Negotiations", US Embassy and Consulates in Indonesia, 31 May 2023, <https://id.usembassy.gov/press-statement-on-the-substantial-conclusion-of-ipef-supply-chain-agreement-negotiations/>

10 Seiya Sukegawa, "Can the IPEF Protect Corporate Supply Chains?", *The Diplomat*, June 12, 2023, <https://thediplomat.com/2023/06/can-the-ipef-protect-corporate-supply-chains/>

11 Aidan Arasasingham, Emily Benson, Matthew P Goodman and William Alan Reinsch, "Domestic Perspectives on IPEF's Digital Economy Component", Center for Strategic and International Studies, *CSIS Briefs*, 26 January 2023, <https://www.csis.org/analysis/domestic-perspectives-ipefs-digital-economy-component>

12 Frances Burwell and Andrea G. Rodríguez, "The US-EU Trade and Technology Council: Assessing the record on data and technology issues", *Issue Brief*, The Atlantic Council, 20 April 2023, <https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/us-eu-ttc-record-on-data-technology-issues/>

13 The EU and India are working together on resilient value chains as part of the EU-India Trade and Technology Council. See "First EU-India Trade and Technology Council focused on deepening strategic engagement on trade and technology", European Commission, 16 May 2023, https://ec.europa.eu/commission/presscorner/detail/en/ip_23_2728

The issue of supply-chain resilience has primarily been addressed by the EU through the digital partnerships mentioned earlier. These instruments are meant, among other things, to facilitate supply-chain cooperation. The EU-Japan Digital Partnership,¹⁴ that was concluded in May 2022, is not a treaty but “an ambitious statement of intent to develop the relationship in the digital economy.”¹⁵ This effort furthers the ‘Data Free Flow with Trust’ agenda, aimed at facilitating safe and secure cross-border data flows. In a joint statement, the two partners stressed that “they intend to work towards achieving joint monitoring, exchange of information in anticipation of disruptions in the supply chain, effective early warning mechanisms, crisis preparedness, exchange of information on long-term investment strategies and coordination of export controls among the relevant authorities.”¹⁶

Similarly, through the EU-Korea¹⁷ and the EU-Singapore¹⁸ Digital Partnerships, the two parties have agreed to work together on a range of diverse issues including semiconductors, trusted data flows and data innovation, digital trust, standards, and digital trade facilitation. The two parties will work together to make safe data exchange possible and use digital solutions to enhance supply chain resilience. The two digital partnerships (with South Korea and Singapore) have an important trade-aspect and include as a key deliverable Digital Trade commitments between the EU and its two partners. They demonstrate a high level of convergence with the EU’s approach to digital trade,¹⁹ and are designed to provide a common framework for digital strategies.

Whether the EU’s approach to supply-chain resilience enhancement fits with all IP partners’ objectives remains to be seen.

EU – US divergences on the digital economy

The digital noodle bowl in the Indo-Pacific

With the development of the digital economy, data has become a key factor of production that has been the basis for new services such as cloud computing or the Internet of Things. Different categories of data may be part of digital trade transactions, including data that can be used to identify natural persons, that is, personal data. A key aspect of digital trade concerns the cross-border flow of data.

Digital economy issues constitute one of the nine sub-components of the IPEF’s trade pillar and are arguably its most consequential facets. The IP is witnessing the world’s fastest growth in digital

14 “Joint Statement EU-Japan Summit 2022”, European Council, 12 May 2022, <https://www.consilium.europa.eu/en/press/press-releases/2022/05/12/joint-statement-eu-japan-summit-2022/>

15 Mathieu Duchâtel, “Economic Security: The Missing Link in EU-Japan Cooperation”, *Policy Paper*, Institut Montaigne, April 2023.

16 Dreyer on digital partnerships 2023.

17 “Joint statement European Union - Republic of Korea Summit 2023”, European Commission, 22 May 2023, https://ec.europa.eu/commission/presscorner/detail/en/statement_23_2863

Ramon Pacheco-Pardo, “The EU-ROK Digital Partnership”, *Brussels School of Governance*, 1 December 2022 <https://brussels-school.be/publications/other-publications/eu-rok-digital-partnership>

18 Goh Yan Han, “New Singapore-EU pact to boost cooperation and establish common framework in digital realm”, *The Straits Times*, 15 December 2022, <https://www.straitstimes.com/singapore/politics/new-singapore-eu-pact-to-boost-cooperation-and-establish-common-framework-in-digital-realm>

19 “Recommendation for a COUNCIL DECISION authorising the opening of negotiations for digital trade disciplines with the Republic of Korea and with Singapore”, Council of the European Union, 14 April 2023, <https://data.consilium.europa.eu/doc/document/ST-8304-2023-INIT/en/pdf>

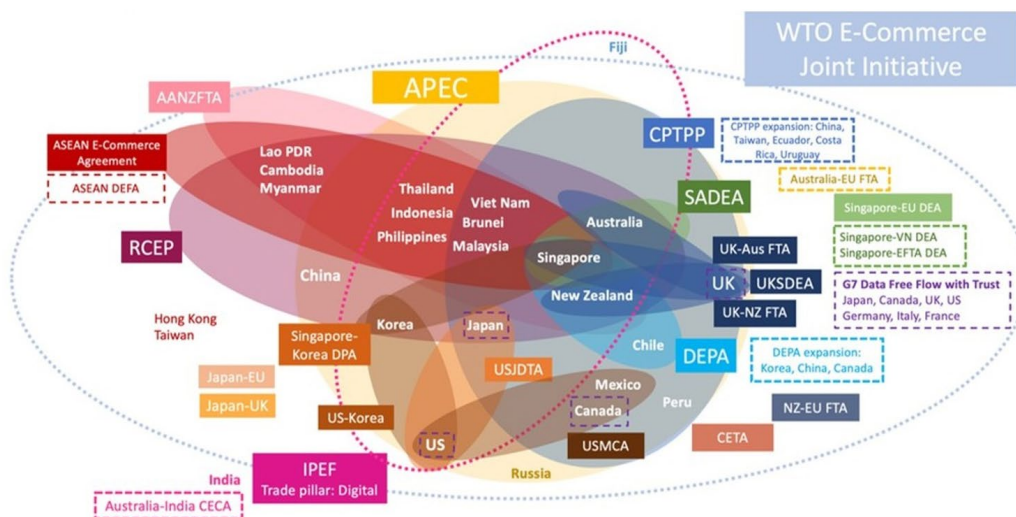
connectivity and internet access, and evolving digital rules are poised to shape the development of industries and national economies. E-commerce and digital services make up a growing contribution to economic growth across the region, and digital skills development is increasingly a priority for regional economies.²⁰

Countries in the IP region have been, in the last few years, developing a rich network of regional and bilateral agreements that are progressively building standards on digital trade. These standards are sometimes set out in a dedicated chapter with digital trade rules of a comprehensive free trade agreement providing detailed rules on market access.²¹ In other cases, IP countries have concluded specific agreements on digital trade, as in the case of the Digital Economy Partnership Agreement (DEPA) between Singapore, New Zealand and Chile.

While all the major regional models ostensibly support cross-border flows of data and reject forced data localisation, there may be substantial differences on other points. Furthermore, the existing agreements provide different levels of commitments on digital trade, with a variety of rules and formulations resulting in a spaghetti bowl that may lead to a fragmentation of the rules applied to digital trade.²²

For instance, the Regional Comprehensive Economic Partnership (RCEP) allows broad and self-judging exceptions to the ban on forced data localisation²³ while the United States-Mexico-Canada Agreement (USMCA) contains more limited exceptions. Similarly, the US pushes for the elimination of barriers to digital trade while the EU seeks to maintain a more cautious stance on allowing the transfer of personal data.

Figure 2: The 'Digital Noodle Bowl'



Source: Hinrich Foundation²⁴

20 *op. cit.*

21 This is for instance the case in the CPTPP.

22 Hyo-Young Lee, "Digital Trade Rules in the Asia-Pacific Region: Fragmentation of Rules and the Way Forward", *Ifans Perspectives*, no. 02 (24 January 2022).

23 To be more specific, the twin provisions on data flows and data localization allow members to adopt any measures considered necessary to protect national security.

24 Stephanie Honey, "The long road to a seamless global digital economy", *Hinrich Foundation*, 30 May 2023, <https://www.hinrichfoundation.com/research/article/digital/the-long-road-to-a-seamless-global-digital-economy/>

China, the EU, and the US are each pursuing their own approach to digital governance. The 'US approach' (or the "firm sovereignty model", as reflected in the CPTPP/USMCA), the 'Chinese approach' (or the state sovereignty model), and the 'EU approach' (or the "individual sovereignty model") form three distinct global 'data realms' or 'digital kingdoms'.²⁵

The IPEF trade pillar is expected to include comprehensive digital trade rules building upon the far-reaching digital commitments in the USMCA's digital trade chapter²⁶ and the US – Japan Digital Trade Agreement.²⁷ But aligning all the IPEF countries on digital policy will require intensive dialogue, and achieving a convergence of views on issues such as data privacy, cross-border data flow, digital payments, and taxation may prove elusive.

While for different reasons and through different means, Beijing and Brussels are both restricting free cross-border data flows in ways that are unacceptable to the US. The EU seeks to regulate the market for industrial data and restrict that for private data,²⁸ while the US does not have a settled policy. With regards to digital platforms, the EU seeks to constrain their behaviour, while the US favours a more *laissez-faire* approach. Achieving regulatory convergence in this area seems almost out of reach.

The EU as a digital norm-setter

With respect to the digital economy, the EU defends a human-centric vision that seeks to ensure that technology serves the people, that human rights are respected, and that societies are open, democratic, and sustainable.²⁹ This is exemplified by the enactment of the Global Data Protection Regulation (GDPR) in 2018³⁰ and confirmed by several other measures such as the Digital Services Act (DSA) of 2022.³¹ The EU approach has become a *de facto* global standard for many countries

25 Susan Ariel Aaronson and Patrick Leblond, "Another Digital Divide: The Rise of Data Realms and its Implications for the WTO", *Journal of International Economic Law*, vol. 21, June, 2018, pp. 245-72;

Henry Gao, "Data sovereignty and trade agreements: Three digital kingdoms", *Hinrich Foundation*, January 2022, <https://www.hinrichfoundation.com/research/article/digital/data-sovereignty-trade-agreements-digital-kingdoms/>

26 Tech companies managed to add digital trade rules to the US-Mexico-Canada Agreement that prohibits parties from reviewing the source code for artificial intelligence programmes, and there are efforts to include similar provisions in the IPEF trade talks.

27 "U.S.-Japan Digital Trade Agreement Text ", Office of the United States Trade Representative, 7 October 2019, <https://ustr.gov/countries-regions/japan-korea-apec/japan/us-japan-trade-agreement-negotiations/us-japan-digital-trade-agreement-text>

28 EU diverges from the CPTPP approach to data flows by seeking to enjoin partners to recognise that data privacy is a human right and to carve out privacy protection from any necessity or proportionality test.

29 "Responsible digitalisation", European Commission, https://international-partnerships.ec.europa.eu/policies/digital-and-infrastructure/responsible-digitalisation_en

30 The landmark legislation of the GDPR set the global standard for the fundamental rights of data privacy and data protection.

31 Florina Pop, Jannigje Bezemer and Laura Grant, "The Digital Services Act: creating accountability for online platforms and protecting users' rights?", *European Institute of Public Administration*, 6 September 2022, <https://www.eipa.eu/blog/the-digital-services-act-creating-accountability-for-online-platforms-and-protecting-users-rights/>

when it comes to designing data protection rules.³² This ‘Brussels effect’³³ is reflected in many countries either adopting GDPR-like frameworks or negotiating adequacy decisions.³⁴

EU’s and US’ approaches to the digital economy: can they be reconciled?

There are clear differences in the philosophy underlying the EU’s and the US approaches to data governance and to the digital economy at large. On the one hand, the EU seeks to regulate the market for industrial data (and restrict that for personal data), while on the other hand, the US does not have a settled data policy (although the Biden administration has recently endorsed the idea of a privacy law at the federal level).³⁵ Also, the EU seeks to constrain the behaviour of platforms through its regulations (The Digital Markets Act [DMA] and the DSA), while the US favours a more *laissez-faire* approach.³⁶ The EU’s digital regime is characterised by heavy regulation, which may be in contradiction with the US vision and US digital companies’ interests.³⁷

The divergence between the EU and US approaches is discussed in the EU-US TTC, with Working Group 5 in charge of Data Governance and Technology Platforms. But until now, no agreement has been reached on sensitive regulatory areas, such as platform regulation or data governance. The TTC’s work in this area is a prime example of values alignment (defence of democracy, of a free, open global internet, et cetera) without requiring regulatory convergence or harmonisation.

A Perspective on EU’s Future Engagement with IPEF Countries

EU’s scepticism about the IPEF

Both EU experts and EU officials follow the development of the IPEF with some scepticism. First, they tend to anticipate a difficult negotiation for many reasons that have to do with the negotiation method of the IPEF. The *à la carte* approach is expected to prevent potential trade-offs and to give rise to a weak agreement since it will, by definition, not be signed and ratified in full by all negotiating parties. EU officials’ scepticism is primarily due to their strong preference for FTAs,

32 This may be in the hope to be accorded adequacy status by the EU in the future, and therefore, facilitate the access to the EU market, and/or it may reflect a view that the EU approach constitutes good practice.

33 After the title of Anu Bradford’s book (*The Brussels Effect – How the EU Rules the World*, New York, Oxford University Press, 2020), which makes the EU the world’s regulator by default;

“Is the EU overreaching with new digital regulations?”, *The Economist*, 1 September 2022, <https://www.economist.com/europe/2022/09/01/is-the-eu-overreaching-with-new-digital-regulations>

34 An adequacy decision is one of the tools provided under the GDPR to transfer personal data from the EU to third countries guaranteeing a comparable level of protection of personal data to that in the EU. The decision covers both data transfers for commercial and regulatory purposes. Adequacy does not require the third country’s data protection system to be identical to the one of the EU but is based on the standard of ‘essential equivalence’.

35 Gerhard Peters and John T. Woolley, “Joseph R. Biden, Op-Ed by the President: Republicans and Democrats, Unite Against Big Tech Abuses”, *The American Presidency Project*, 11 January 2023, <https://www.presidency.ucsb.edu/documents/op-ed-the-president-republicans-and-democrats-unite-against-big-tech-abuses>

36 op. cit.

37 “US/EU data flows stuck between surveillance and privacy”, *Economist Intelligence Unit (EIU)*, 29 March 2022, <https://viewpoint.eiu.com/analysis/article/1331989516>, “Transatlantic data flows are only one area of conflict between the US and the EU when it comes to data and digital trade. Another is the idea of sovereign cloud. The 2018 Cloud Act and a following court order gives US authorities the right to access data hosted by a US company anywhere in the world, without informing the country involved.”

which are still perceived by most as the best instrument to improve European resilience. The EU's approach (through FTAs and a more normative approach) is unlikely to be questioned.

Secondly, the asymmetrical nature of the negotiation, with many US requests and only few US offers, is again expected to make the negotiation more complicated and the opportunities for bargaining and trade-offs limited. Moreover, the IPEF seems to be about the US offering adhesion to its own standards, without offering anything in exchange. Usually, market access is provided as an incentive for partner countries to trade off economic reforms as part of an FTA. With the absence of such an incentive, getting partners to agree to engage in economic reforms may be daunting.

Thirdly, there is a problem of durability of the agreement in the absence of support from the US Congress. This will create uncertainty both for the parties as well as for their partners (including the EU).

Fourthly, the substantial development gaps between the negotiating parties will make it difficult for all of them to be on the same page, particularly with regards to digital, labour and environmental standards. The digital economy is arguably one of the most important facets of the agreement, but it may also be one of the most difficult to agree on.

The IPEF giving new momentum to EU's Indo-Pacific economic engagement

The EU will no doubt continue its engagement with the IPEF countries. Interestingly, the progress made by the IPEF has supposedly given renewed momentum to the EU's initiatives in the region, as exemplified by the acceleration in the FTA negotiation with Australia, and the multiplication of digital partnerships with Japan, South Korea and Singapore.

With the IPEF advancing, the EU is probably feeling the need to be more proactive *vis-à-vis* its IP partners. As argued by Dreyer,³⁸ the EU cannot expect the 'Brussels effect' of the EU's new regulations – as with its GDPR for data privacy – to work 'just by magic'. What has worked for data governance and digital trade regulation may be replicated in other domains, but if the EU wants to promote its basic regulatory principles for other issues such as artificial intelligence platforms and the like, then it needs to be more proactive, engage in negotiations and do deals.

Interestingly, the Commission and the business sector clearly do not see eye to eye on how to approach the IP region. To be fair, the EU used to favour a bloc-to-bloc approach (in particular, between the EU and ASEAN), but this is no longer the case for essentially pragmatic reasons. The business community, by contrast, would undoubtedly like to see the Commission approach the IP region as one single entity. As explained by the European Services Forum's Managing Director Pascal Kerneis, "There is frustration in the business community with the EU's Indo-Pacific strategy. They fail to see the coherence in holding discussions on a digital partnership agreement separately instead of jointly with all interested partners, so as to create synergies in terms of regulation and standardisation of the digitalisation of the economy."³⁹

38 Iana Dreyer, "Digital Partnerships in Asia -Pacific: EU needs to be more than non-committal", *Borderlex*, 12 May 2022.

39 "Interview with Pascal Kerneis: EU and Singapore need to upgrade their trade agreement", interview by Iana Dreyer, *Borderlex*, 3 October 2022, <https://borderlex.net/2022/10/03/interview-eu-and-singapore-need-to-upgrade-their-trade-agreement/>

Whither EU's engagement with IP partners?

The EC will keep an eye on the progress made under the IPEF and adjust its strategy accordingly. Moreover, the existence of IPEF negotiations will likely have an impact on how the EU deals with the region.

Due to the divergences highlighted earlier, both in terms of approach and of content, joining the IPEF is out of the question for the EU, at least for the time being. But further engagement with IP partners may also go through joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), for instance, even though the membership differs to some extent. This is an option that has been advocated for by former Commissioner Cecilia Malmström⁴⁰ as well as by the European Parliament⁴¹, but the violent and negative reactions generated by this proposal make it also highly unlikely. A major reason for opposing the EU joining the CPTPP is that the latter is no longer at the cutting edge of trade policy. As a result, there may be better alternatives such as deepening dialogues with IP partners on genuinely new trade issues.

Perhaps another direction would be to expand the EU-US TTC to bring other countries (such as Japan, South Korea and Singapore) into its fold.

40 Cecilia Malmström, "The EU should expand trade with the Indo-Pacific region", *Peterson Institute for International Economics*, 7 November 2022, <https://www.piie.com/blogs/realtime-economics/eu-should-expand-trade-indo-pacific-region>

41 "European Parliament resolution of 5 July 2022 on the Indo-Pacific strategy in the area of trade and investment (2021/2200(INI))", European Parliament, 5 July 2022, https://www.europarl.europa.eu/doceo/document/TA-9-2022-0276_EN.html

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



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12

The Republic of Korea and the IPEF

Tony MICHELL

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

List of Abbreviations

| | |
|--------------|---|
| ACRC | Anti-Corruption and Civil Rights Commission |
| APEC | Asia-Pacific Economic Cooperation |
| CHIPS | Creating helpful incentives to produce semiconductors |
| CPTPP | Comprehensive and Progressive Agreement for Trans-Pacific Partnership |
| DEPA | Digital Economy Partnership Agreement |
| DPM | Deputy Prime Minister |
| EU | European Union |
| EV | Electric Vehicle |
| FTA | Free-Trade Agreement |
| GDP | Gross Domestic Product |
| ICIO | Inter-Country Input-Output |
| ICT | Information and Communications Technology |
| IFANS | Institute of Foreign Affairs and National Security |
| IFRI | Institut français des relations internationales |
| IPEF | Indo-Pacific Economic Framework |
| IRA | Inflation Reduction Act |
| IT | Information Technology |
| KCCI | Korea Chamber of Commerce and Industry |
| KIET | Korea Institute for Industrial Economics and Trade |
| KITA | Korea International Trade Association |
| KORUS | US-Korea Free-Trade Agreement |
| MAFRA | Ministry of Agriculture, Food and Rural Affairs |
| MOEF | Ministry of Economy and Finance |
| MOF | Ministry of Oceans and Fisheries |
| MOFA | Ministry of Foreign Affairs |
| MOJ | Ministry of Justice |
| MOLEG | Ministry of Government Legislation |
| MOTIE | Ministry of Trade, Industry and Energy |
| MOU | Memorandum of Understanding |
| MSIT | Ministry of Science and ICT |
| OECD | Organisation for Economic Co-operation and Development |
| PIIE | Peterson Institute for International Economics |
| RCEP | Regional Comprehensive Economic Partnership |

| | |
|--------------|-------------------------------------|
| ROK | Republic of Korea |
| SNU | Seoul National University |
| THAAD | Terminal High Altitude Area Defense |
| TiVA | Trade in Value Added |
| TTC | Trade and Technology Council |
| US | United States |
| USTR | United States Trade Representative |
| WTO | World Trade Organization |

Introduction

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

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

Korea’s unique trajectory from 1945 to 2023

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

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

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

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

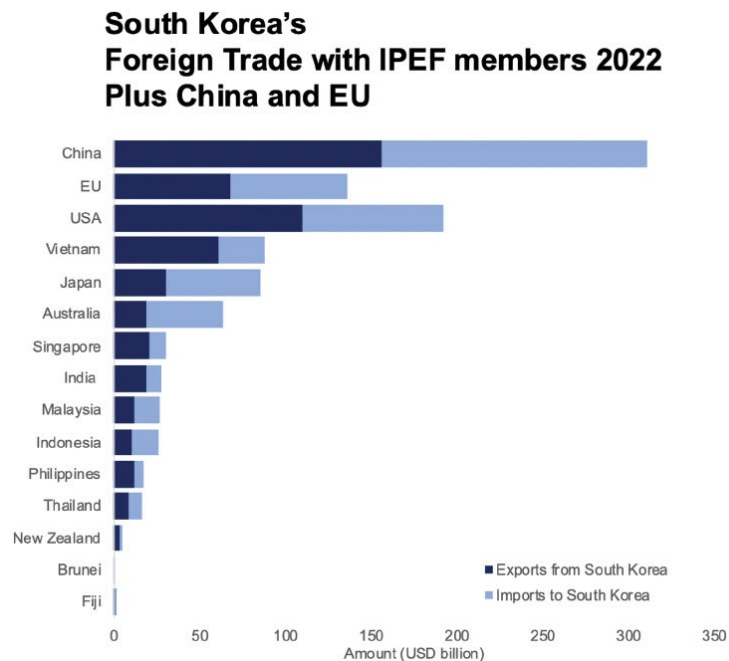
3 Progress with the North after the US signing of the Geneva Agreed Framework was thwarted by the US 1994 midterms and then dogged by the North’s resumption of nuclear investigations later in the 1990s.

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

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

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

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



Source: Korea International Trade Agency⁷

President Yoon's tilt towards the US

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

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

⁷ *Ibid.*

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

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

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

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

The IPEF talks begin

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

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

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

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

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

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

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

Ahn Duk-geun, had been a professor at Seoul National University (SNU) until nominated on May 9 2022.¹⁵ It is obvious from his past academic and official work, and his enthusiastic endorsement of the IPEF that Minister Ahn felt he could shape this opportunity to meet the needs of the twenty-first century in an empirical way that could suit Korea.

After the launch of the IPEF, on the occasion of the 23 May 2022 Korea-US summit meeting, the government claimed it had been actively engaging in the member states' preliminary negotiations process, proceeding with what must have been a very cursory economic feasibility evaluation (May-June 2022), and thereafter, held a public hearing (8 July 2022).¹⁶ Public hearings are held almost secretly at very short notice in Korea to avoid the embarrassment of the opposition, so only major bodies are notified. A 'hearing is part of a process of collecting ideas on the matter and not an occasion for the government to offer a final resolution.'¹⁷ Ministers of the countries invited to be members of the IPEF held an informal virtual meeting on 26-27 July 2022, and the plan to negotiate the IPEF was passed at a Korean Ministerial Meeting on international economic affairs on 19 August 2022.¹⁸

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

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

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

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

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

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

18 *op. cit.*

19 *Ibid.*

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

21 *Ibid.*

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

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

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

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

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

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

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

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

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

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

IPEF issues in Korea before the Busan round

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

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

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

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

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

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

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

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

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

33 *Ibid.*

34 *Ibid.*

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

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

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

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

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

38 *Ibid.*

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

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

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

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

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

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

Two: What use is the IPEF anyway?

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

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

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

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

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

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

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

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

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

Some were excited about the prospective digital agreement while for others, Ahn's proposal for an IPEF carbon trading market⁴⁹ based on the Paris Agreement was more unique. It seems that Ahn's thinking was now about driving agreements which would pull the IPEF closer to the global vision rather than making rules that worked against them.⁵⁰ On the digital agreement, KITA published its *Analysis and Implications of Digital Trade Norms of Indo-Pacific Economic Framework (IPEF) Participating Countries* on 16 June 2023. It outlines the importance of extending digital rules to developing countries, but also stresses on the upcoming battle over international or localised data.⁵¹ The CPTPP already has a good digital chapter and if the seven IPEF members who are also CPTPP members (Korea is currently only an applicant for membership) are consistent, they appear

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

46 *op. cit.*

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

48 *op. cit.*

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

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

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

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

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

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

Korea, the EU and the IPEF

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

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

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

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

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

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

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

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

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

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

Conclusion

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

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

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

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