

ISAS-KAS Workshop

THE IPEF AND THE CONTOURS OF ECONOMIC SECURITY IN THE INDO-PACIFIC

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OUTCOME DOCUMENT

Opening Session

The Indo-Pacific Economic Framework (IPEF) was announced by President Joe Biden in 2022 in Tokyo. It brings together 14 developed and developing countries, comprising about 40% of the global economy, and home to a population of about 6.2 billion. The framework is not a traditional free trade agreement (FTA) but its *ala carte* approach has the potential to be a model for future trade negotiations. It also remains to be seen if the IPEF can be considered as a framework for future economic diplomacy. Observers point out that the IPEF is Biden's geopolitical strategy to re-engage with and in the Indo-Pacific. But critics also point out that the effectiveness of this reengagement is contingent on US domestic politics.

The IPEF is about 70% concluded, with the Trade Pillar, the only remaining pillar to be finalized. The roundtable will discuss challenges that the IPEF members face in implementing the framework as well as the perspectives of external actors, such as the European Union, other members of the G20, and the APEC. Questions on rule-making in the Indo-Pacific will be tackled, specifically on supply chain resilience and the clean economy. Who sets the rules and how? How can critical supply chains be protected? Did the IPEF's supply chain construct convey a sense of security? How will the IPEF handle challenges on the environment and sustainability? Political developments and their impact on the IPEF will also be discussed. To what extent will US domestic politics impact the character of the IPEF? How will changes in the US administration impact the IPEF's outlook? Are external actors such as the EU and Taiwan interested in the IPEF's developments?

Session I: The IPEF and Regional Economic Security – Supply Chains

The IPEF and Regional Rule-Setting

Opinions differ on the effectiveness of the IPEF as a rules-based framework. Some assert that the IPEF is a cooperative framework that may lead to rules formation overtime, but it is not necessarily the right forum for rule-making. Harmonization in the regional context is very difficult. Rather, than attempting to set rules, the IPEF can bring officials, business groups, and other stakeholders to discuss how to cooperate on forward-looking issues such as identification mechanisms for critical supply chains and crisis response mechanisms through standard settings or convergence.

Important issues impacting critical supply chains such as export restrictions, subsidies, and local content regulations should be taken up at the WTO. But the WTO is also beset with internal issues that it is unlikely that it'll be able to tackle any of these concerns. Most significant to the current discussion would be the unilateral actions that big economies such as the US and the EU are taking or

planning to take in response to China and how these unilateral actions can be harnessed from the standpoint of middle powers in the context of the IPEF.

China-centric Supply Chains and the IPEF's Limitations on Compliance

For small countries like Malaysia, Pillars 1 (Trade) and 2 (Supply Chains) are the most important; these are interrelated, and it doesn't make sense to separate them. But these are separated in the IPEF because of a US-driven geopolitical standpoint. Although the IPEF does not include the traditional exchange of market access concessions, it provides opportunities to reverse binding restrictions and restore market access for countries like Malaysia.

Supply chains in the ASEAN have been and are likely to remain China-centered. Any supply chain agreement that is perceived to isolate China could be highly disruptive for ASEAN countries. The IPEF's supply chain early warning system has the possibility to be useful, but experience from past ASEAN+3 initiatives showed that parties are often very reluctant to share data, hence, limiting the effectiveness of early warning systems. Digital trade in the region is growing and will add tremendous value if a "splinternet" is avoided.

The main challenge facing the IPEF members is how much the IPEF asks of them in return for how little it promises. This "all stick, no carrots approach" paired with the absence of enforcement mechanisms increases the likelihood of widespread non-compliance. Any agreement based on aspirational language, and vague pledges of cooperation will need political will power to make anything happen. A substantial discussion on how the political aspirations of member states affect the IPEF and what happens when political and geopolitical calculations for IPEF members point in the opposite direction of what the IPEF says they should be doing needs to be undertaken.

Limited Cooperation on Critical Supply Chains

The IPEF aims to be a more diversified, non-China option for the region. While the sectors under the clean economy are overarching and can mean different sectors based on interest and prioritization, sectors identified under the supply chain pillar are key goods and services that impact national security, health and safety, and economic resilience. These also have a high degree of dependence on a single or small group of suppliers, and the availability and reliability of alternative suppliers and supplies is erratic. There is also limited domestic production capacity, and finally, these are interconnected with other critical sectors or key goods.

Key raw materials for future industries from green energy technology to electric vehicles (EV) and artificial intelligence (AI) are mostly concentrated geographically making these resources very valuable bargaining chips for countries which possess large quantities of these minerals. There is limited international cooperation on critical supply chains; most agreements are bilateral in nature. The IPEF offers a bigger platform and can bring in lots of players and encourage other players to join.

Several challenges show up in the IPEF supply chains pillar. First, resource nationalization and in particular, export restrictions and domestic interests drive most countries' foreign policy agenda. Second, the private sector does not have the motivation and interest to share sensitive information to help detect early warning signals of supply chain disruption. Also, supply chains and sustainability issues surrounding them have implications for manufacturing in Asia. A significant issue in need of examination would be to discuss if the IPEF will end up adopting European standards through the Carbon Border Adjustment Mechanism (CBAM).

Important Elements to Move Technical Discussions Moving Forward

The IPEF pillars are interrelated. US actions show that it is no longer interested in trade multilateralism but is more interested in bilateral and regional trade partnerships. It can be argued that it is using this strategy to put more of their weight on partnerships, and on the “leader-follower” model. In addition, trade, and developments on the global economy in general, are heavily focused on national economic security and the competition with China.

There are three important elements to keep in mind when moving technical discussions forward and when looking at the larger context of the IPEF. First, would be the regulatory set-up when it comes to discussions on workers’ welfare (and its implications to market access) and environmental sustainability. Second, would be the process of defining critical sectors. Lastly, would be a discussion on the seeming bent towards a more strategic trade policy regime.

An implementation audit, especially on sectors covered under the supply chain pillar, will help identify and understand implementation challenges. Trade facilitation in services also needs to be discussed as supply chains involve both trade in goods and trade in services. Perhaps the basic WTO structure on trade facilitation can be improved upon under the IPEF. Trade creation and/or diversion in the IPEF context also needs to be examined when discussing sector- or product-specific supply chains. Questions on welfare impact also needs to be tackled and challenges on joint prosperity seriously addressed. Technical assistance and capacity building can also be integrated into the IPEF’s implementation.

Session II: The IPEF and Regional Economic Security – Clean Economy

IPEF’s Potential to Support Members’ Clean Economy Transition

The IPEF can focus on supporting its members’ transition to the clean economy by accelerating the employment of clean technologies and facilitating investments. Initiatives developing and employing green technology to cut greenhouse emissions, carbon capture utilization storage can be supported. However, the success of this pillar rests on the availability of funds and investments, the role of technological transfer and capacity building.

Countries are becoming more systematic and strategic in directing parts of their economies. The implications of both industrial policy and innovation policy also need to be discussed. In addition, IPEF member countries do not have same capacity level. It is still doubtful if they would actively engage in the clean economy and resilient trade. Although a regional approach is important, the Indo-Pacific is very heterogeneous. Perhaps, first movers can focus on norm-setting and overtime, developing countries will share these norms.

Contradictions between Resilient Supply Chains and the Pursuit of a Clean Economy

It seems that there is a significant contradiction in the efforts towards a resilient supply chain and sustainable and clean economy. Some countries want a resilient supply chain with minimal China-related risks, but China needs to play a crucial role in the transition to a cleaner economy. The best and cheapest way to tackle climate change is to work with China and invest with China. But this has become a very contentious and geopolitical issue for both the US and the EU. Should the green transition be slowed down to build domestic capacity? Or should working with China to combat climate change be prioritized? Can cooperation within the IPEF reduce China’s advantage and fight

climate change at the same time? Also, there are various definitions of economic security at the national level; issues of power distribution, national governance, and finance, make it even more complicated to translate economic security at the regional level.

Country Perspective: Indonesia and Resource Nationalization

Indonesia just finished their general elections and although there is still no official decision, Prabowo will win as President with Gibran, Jokowi's son, emerging as the Vice President. Prabowo's win mean stability and continuity as far as the IPEF is concerned. President Jokowi's policies and programs will continue and so will the government's resource nationalist approach. However, Prabowo will use the network of oligarchs to support key projects rather than harness state-owned enterprises. Indonesia's relations with China will continue considering that Beijing is a strong supporter of Indonesia's industrial policy and energy transition policies. Negotiations with the US will continue under the IPEF and its engagement will continue through the creation of common rules pertaining to critical minerals (nickel), EV batteries, and supply chains. Indonesia will continue its non-alignment policies, aiming to maintain good relations with both China and the US, Australia, and the Middle East.

There are three main challenges to Indonesia's transition to a cleaner economy. First is the need for political commitment to reduce the use of fossil fuels and fuel subsidies. The coal industry supported Prabowo's campaign and their interest in maintaining the fossil fuel-based economy will be a significant constraint in Indonesia's move towards cleaner sources of energy. Second, Indonesia does not have enough fiscal space to finance big programs associated with the green transition And lastly, there remains significant regulatory uncertainties as well as the lack of institutional capacity to implement these programs.

Country Perspective: IPEF can Support Philippines' Green Transition

The clean economy pillar within the IPEF aims to address climate change, promote clean energy by sustainable methods which are critical aspects for countries like the Philippines. It aligns with the Philippine government's priorities by focusing on clean energy, sustainable infrastructure, and clean technology.

The IPEF's clean economy pillar can support the Philippines' green transition and address the broader objective of development through (1) enhancing environmental sustainability and climate resilience, (2) providing access to climate finance, (3) transferring green technologies and best practices, (4) building institutional and industrial capacity in adopting green energy and sustainable practices, and (5) fostering sustainable trade and investment.

Country Perspective: Vietnam's Hesitations on the Clean Economy Pillar

Vietnam's strategic location contributes to the transportation network in the Indo-Pacific. It is rich in natural resources, has an increasingly educated population, and is becoming more open to international trade. The IPEF's high standards on the clean economy is difficult for developing countries such as Vietnam to attain. Developing countries have limited financial and institutional capacities and will prioritize raising incomes over sustainability. Hence, there is a hesitation from Vietnam to fully commit to implementing this pillar.

Session III: Political Developments and Their Impact on the IPEF

US Politics and the IPEF

US politics and governance is increasingly dominated by parties (progressive democratic leftward leaning wing vs rightward leaning “Make America Great” republicans). Both sides distrust trade agreements. The progressive left-leaning wing is concerned about labor and environmental issues and is concerned that these trade agreements give too much power to big tech, potentially limiting the ability of Congress to rein in big tech. The “Make America Great” group recoil against globalization and is concerned about the impact of these trade agreements (real or perceived) on working class jobs. There is no coherent “United” States of America, no type of coherent pro IPEF, pro free trade constituencies anymore.

The Biden Administration committed a political blunder by not getting the IPEF approved through traditional trade promotion authorities’ routes. Members of Congress felt left out and are concerned that their considerations were not adequately addressed. At best, the IPEF can be used as a communication platform and a standard export mechanism for the US on issues such as emissions control, decarbonization, digital taxes, and corruption. Many countries feel the need to be included in the IPEF.

However, The IPEF’s prospects especially on trade looks grim as nothing substantial gets done during an election year. Resuscitating the IPEF will be entirely dependent on Biden’s reelection. If Trump becomes President again, the IPEF will suffer the same fate as the TPP.

The reliability of the US as a major player in keeping the IPEF functional is opens a lot of questions. First, at what point do US regional partners, simply give up on working constructively with the United States? Second, to what extent would China be able to capitalize on US missteps from a trade and geopolitical perspective? And lastly, what are the implications for global trade of a US that is no longer able to lead?

It is also worthwhile to examine the IPEF without IS involvement. An alternative would be to revisit the WTO’s Multi-Party Interim Appeal Arbitration Arrangement (MPIA) to settle trade disagreements among members. And perhaps, countries should sometimes just proceed without the US and then let the US see the value in coming back to it.

Japan’s Regional Approach to Economic Security

Japan wants to anchor the US in the region and would like to see it be more multi-polar. At the same time, it wants to constrain China through supply chain resilience, selective diversification, and strategic engagement. Japan is already on the forefront of resilient supply chains initiative, environment, regulation. It is engaged in these initiatives through many different instruments and not just through trade agreements. It is thinking about regional engagement, not just through the IPEF, and how it can complement this approach without US involvement. There will be no significant change in Japan’s approach to the region regardless of who wins the next election.

Domestic Politics Will Impact the IPEF’s Implementation

Outcomes of national elections in major IPEF members can impact the IPEF’s implementation prospects. Security figures prominently in most country’s national foreign policy and entanglement in enhanced in times of national elections. The sustainability and longevity of the IPEF is uncertain. As

repeatedly pointed out during the previous sessions, the IPEF as a Washington-driven initiative is susceptible to changes in the US administration. As a non-FTA, the IPEF's effectiveness and legitimacy is doubtful because of its non-binding nature. This raises concerns about equity and access to privileges. Also, the scarcity of compensations in the form of reduced tariffs and market access raises questions about the economic feasibility of compliance. Finally, skeptics brand the IPEF as an anti-China alliance. They see the IPEF as creating division and increasing confrontation. The potential for IPEF to intensify US-China competition in the Indo-Pacific poses risk to regional stability and security. Sustainability, effectiveness and inclusivity can be seen as tradeoffs to national and regional security and economic security but paying attention to these three factors is the best way to increase the IPEF's chances of success.

Session IV: Engaging with the Indo-Pacific and the IPEF

The EU's De-risking Strategy

A country's economic security strategy is packaged into 3Ps (protect, promote, and partner). "Protect" refers to its trade defense mechanisms, "promote" refers to its industrial policy. However, industrial policy is against the EU's ideology based on free trade and open economy, and not part of the EU's toolkit. The promotion of an industrial policy depends on the member states and not the Commission. In addition, financing industrial policy at the EU level is complex.

But the IPEF can play a role in the EU's "partner (partnership)" strategy. The EU fears that its power is declining in economic and normative terms. Its industrial base is also shrinking as competition is increasing from China, the US, and the rising Asian economics. The EU is very concerned about how to preserve and enrich its industrial base. It uses the Indo-Pacific to engage with older Asia (without China) and the wider Asian region and to contain China.

The EU still finds value in engaging with the IPEF because it sees India as an important player and would like to engage more with it. In addition, China's increasing manufacturing might and its large investments in clean technology and other cutting-edge technologies are forcing other countries to cooperate more in the IPEF. The EU needs to find a solution to de-risking. If the IPEF wants to be attractive, it needs to be a safe harbor for reducing the cost of de-risking. The EU and other countries in IPEF should also consider a strategy of re-risking that doesn't count on the US.

The EU will also continue engaging with individual IPEF countries, not only through the IPEF. This is currently being done through several bilateral agreements. Also, there are various mechanisms that can be used for the EU to engage without formally being a member of IPEF. These are useful because if IPEF crumbles, the EU can still engage with IPEF countries through these various mechanisms.

IPEF as Avenue to Increase South Korea-Japan-India Cooperation

South Korea sees the IPEF as another avenue to bolster trilateral cooperation between India, South Korea and Japan. Excluding the US, India is the most important strategic partners for South-Korea and Japan. For South-Korea and Japan, India is the most obvious China+1 and the most important development cooperation partner (ODA).

Cooperation can be fostered through the IPEF's clean energy pillar through a green hydrogen joint development project. India has advantages in hydrogen production, Japan also can produce hydrogen and has transportation-related facilities and technologies while South Korea can utilize it for its

hydrogen mobility and smart city initiatives. Among the three countries, a green hydrogen value chain can be set-up and sustained. In addition, the cooperation in clean energy can continue to be promoted without the IPEF. Its promotion as a bilateral or multilateral cooperation could create greater synergy.

Concluding Session

There seems to be a general agreement about which sectors and supply chains are important from an economic security perspective. Further examination can delve into the choke points of these sectors and whether current initiatives are adequate in addressing these bottlenecks. There is no agreement though on to what extent the IPEF will be able to deliver its promises on the environment and clean economy. The US elections and IPEF member countries' domestic policies are also impacting the IPEF and signaling that a certain degree of political convergence and consensus among members hasn't happened yet. Much also needs to be done to look at how the G20, APAC, and other external actors will engage with the IPEF and how it can be a framework for economic diplomacy.