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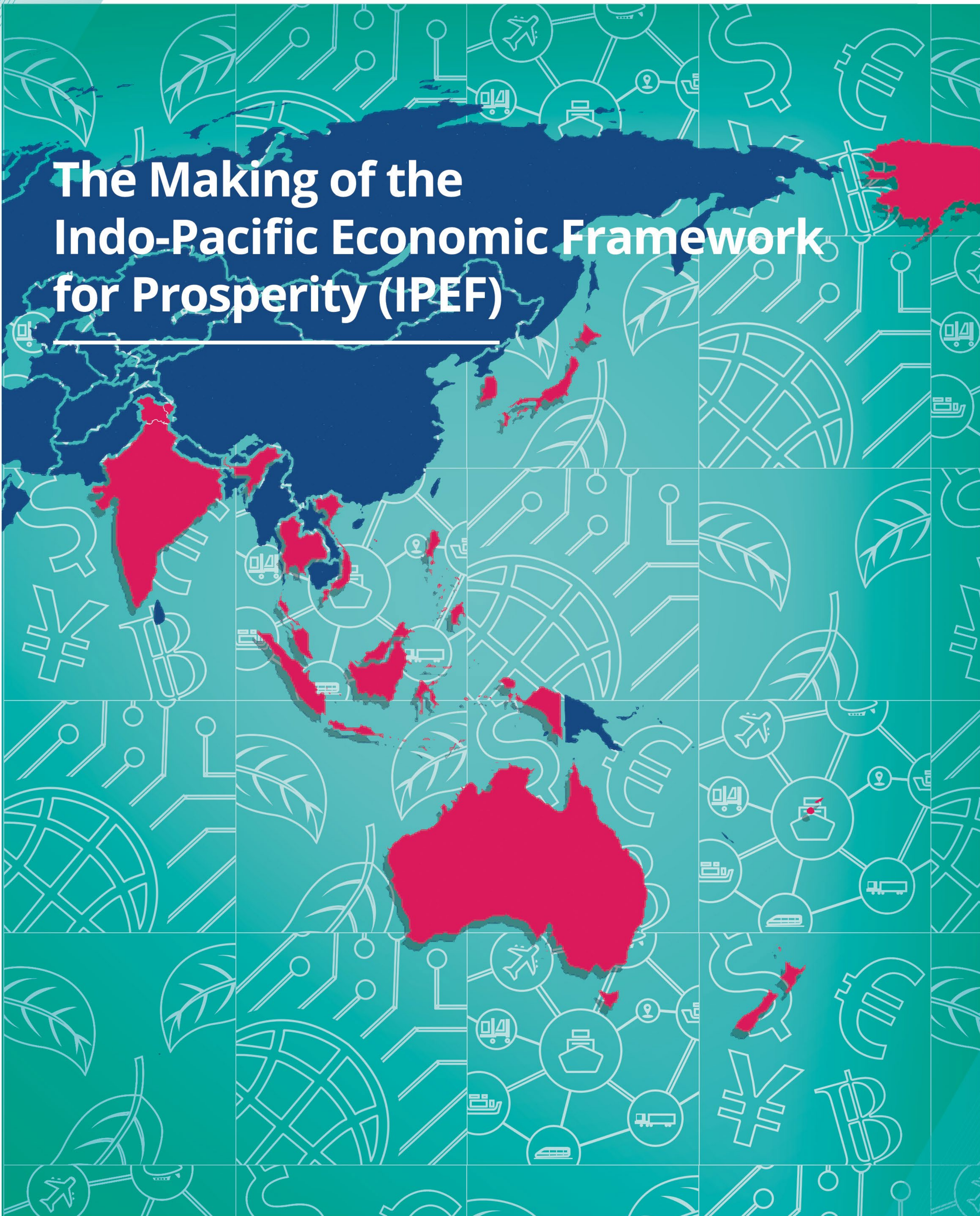
# The Making of the Indo-Pacific Economic Framework for Prosperity (IPEF)



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The Indo-Pacific Economic Framework (IPEF) seeks to establish the United States (US) as the primary rule-setter in the Asia Pacific (APAC), a position it has ceded to China in recent years. The reciprocal benefits for the APAC are not so evident. Many in the region are not keen to choose sides and as a trade pact, it compares poorly with the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). On its side, the IPEF has reminded detractors that it is not a traditional Free-Trade Agreement (FTA), but a new generation economic agreement. This has some appeal and the APAC allies have signed on quickly. But the IPEF's flexible approach means that having signed on, there is no compulsion to follow through. Importantly, for now, there are no clear incentives for the private sector to part with the sensitive supply chain information that is central to the IPEF's success. Future negotiations will benefit from the US's willingness to sweeten the terms and position IPEF as an economic arrangement complementing existing trade pacts rather than upending those.

## List of Abbreviations

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

## Introduction

Trade has been the driving force of the Asia Pacific (APAC)[1] region's economic development over the last couple of decades. The region's rising share in global goods and services trade, from 27 per cent in 2005 to 33.4 per cent in 2022,[2] has boosted domestic manufacturing, created employment, and raised household incomes. Several studies corroborate its important, if not leading, role in lifting millions out of poverty, especially in East Asia.[3]

Sixty two per cent of APAC's trade is now within the region,[4] which buffers it from the rising global headwinds of economic fragmentation and makes it resilient. Still, the APAC cannot afford to turn its back on globalisation and trade liberalisation. By 2030, the APAC's share in the global Gross Domestic Product (GDP) is expected to increase to 40 per cent from 34 per cent currently,[5] and trade will play an important role in achieving this as the region charts its path to recovery from the COVID-19 pandemic's economic and social scars. That the governments in East Asia feel the same way is evident from their support of free-trade agreements (FTAs). But even India, that has shied away from multilateral agreements, has signed bilateral FTAs[6] with Mauritius, United Arab Emirates (UAE) and Australia in the last couple of years and is in talks with the United Kingdom (UK), the European Union (EU) and Canada to conclude trade deals, underlining the importance of trade as an engine of growth.

## Multilateral trade agreements in the APAC

The Economic and Social Commission for Asia and the Pacific (ESCAP) finds that the APAC accounts for almost half of the global preferential trade agreements (PTAs)7 and that more than 300 APAC PTAs include at least one party from the region. This includes the two largest multilateral trade agreements currently in existence, the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

1 There is no one definitive description of the APAC region. This chapter uses the IMF's definition that includes greater China, ASEAN, South Asia, Korea, Japan and Oceania. See "About the Office for Asia and the Pacific (OAP)", International Monetary Fund, https://www.imf.org/en/Countries/ResRep/OAP-Home/oap-about. ASEAN comprises of Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. Further, ASEAN, greater China, Japan and the Republic of Korea, are referred to as East Asia.

2 "WTO issues 2023 edition of the World Trade Statistical Review", World Trade Organization, 31 July 2023, https://www.wto.org/english/news_e/news23_e/stat_31jul23_e.htm; Author's calculations.

3 Jayant Menon and Anna Cassandra Melendez, "When Does Trade Reduce Poverty? Revisiting the Evidence for East Asia", ISEAS-Yusof Ishak Institute, June 2020, https://www.iseas.edu.sg/wp-content/uploads/2020/05/ISEAS_EWP_2020-4_Menon_and_Melendez.pdf

4 UNCTAD STAT, https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx

5 Author's calculations based on national accounts statistics and the "World Economic Outlook Database", International Monetary Fund, April 2023, https://www.imf.org/en/Publications/WEO/weo-database/2023/April

6 "India has signed 13 Regional Trade Agreements (RTAs)/Free Trade Agreements (FTAs) with various countries/regions", Press Information Bureau, Government of India, Ministry of Commerce and Industry, 20 July 2022, https://pib.gov.in/Pressreleaseshare.aspx?PRID=1843902

7 "Trade Agreements in Asia and the Pacific: Bigger, Deeper, Digital and More Supportive of Sustainable Development?", Asia-Pacific Trade and Investment Trends, ESCAP, 10 November 2022, https://www.unescap.org/kp/2022/trade-agreements-asia-and-pacific-bigger-deeper-digital-and-more-supportive-sustainable-20222023

The CPTPP is a modified version of the Trans-Pacific Partnership (TPP), which was announced by the United States (US) President Barack Obama in 2016. The US exited the TPP under President Donald Trump on 23 January 2017, but this did not deter the remaining members from continuing their talks. Eventually, under Japan's leadership, the CPTPP was signed in March 2018 by 11 nations – Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.[8] With the last original signatory, Brunei, ratifying the deal on 13 May 2023, the agreement is now in force.

The door has been left open for the US to re-join the CPTPP. But that is not likely. Meanwhile, a number of other economies have lined up for membership. The UK became the first non-founding member on 16 July 2023.[9] China's membership application is pending since 16 September 2021.[10] Taiwan, Uruguay, Costa Rica are also in waiting, and Ukraine has expressed an interest. The probability of China gaining admission appears low, given the rising disunity within the APAC on alignment with Beijing. There are also concerns about whether China will be able to implement the necessary reforms to comply with the CPTPP's trade and policy standards, which are much more stringent than China's. Nonetheless, the CPTPP is already a substantial trade bloc with 13 per cent of the global GDP, 16 per cent of the global population, and 15 per cent of its trade. Its economic prowess will only increase with the addition of more nations.

Seven signatories of the CPTPP are also part of the RCEP, which is the first major APAC multilateral trade agreement with members from only the west side of the Pacific Rim.[11] After eight years of discussions that saw India quit the deal, Brunei, Cambodia, Indonesia, Lao People's Democratic Republic (Lao PDR), Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam, Australia, China, Japan, South Korea, and New Zealand signed the Agreement on 15 November 2020.[12]

The RCEP is the world's largest trade bloc, accounting for around 30 per cent of the world's GDP and population, and 28 per cent of global goods trade. India's inclusion would have boosted the RCEP's market size to 33 per cent, population size to 47 per cent and global trade share to 30 per cent.[13] But despite strong efforts by its ally Japan and the Association of Southeast Asian Nations (ASEAN) countries to accommodate its demands, India cited issues around labour mobility and limited services trade liberalisation as reasons for opting out. It was also worried about being flooded with cheap Chinese imports. This suggests that the return of India to the RCEP is unlikely.

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8 "Comprehensive and Progressive Agreement for Trans-Pacific Partnership Ministerial Statement", New Zealand Ministry of Foreign Affairs and Trade, 8 March 2018, https://www.mfat.govt.nz/assets/Trade-agreements/CPTPP/CPTPP-Ministerial-Statement-Santiago.pdf

9 "UK signs Comprehensive and Progressive Agreement for Trans-Pacific Partnership", GOV.UK, 17 July 2023, https://www.gov.uk/government/news/uk-signs-comprehensive-and-progressive-agreement-for-trans-pacific-partnership

10 "China officially applies to join CPTPP", *Xinhua*, 16 September 2021, http://www.news.cn/english/2021-09/17/c_1310192180.htm

11 The 21 member Asia-Pacific Economic Cooperation (APEC) includes the US, Canada, Chile, Mexico and Peru, but leaves out Cambodia, Lao and Myanmar. See "Asia-Pacific Economic Cooperation (APEC)", Australian Government – Department of Foreign Affairs and Trade, https://www.dfat.gov.au/trade/organisations/apec/asia-pacific-economic-cooperation-apec

12 "Joint Leaders' Statement on the Regional Comprehensive Economic Partnership (RCEP)", Association of Southeast Asian Nations, 15 November 2020, https://asean.org/joint-leaders-statement-on-the-regional-comprehensive-economic-partnership-rcep-2/

13 Author's calculations and UNCTAD STAT

Into this mix, the US President Joe Biden added the Indo-Pacific Economic Framework for Prosperity (IPEF) on 23 May 2022. The IPEF is a first-of-its-kind agreement and departs from the norms of usual trade agreements in many ways, starting with its very coverage. It attempts to lay the first rules-based economic framework for the Indo-Pacific, which includes the Asia-Pacific and Indian Ocean regions. This has traditionally been a domain of security issues. But perhaps its most distinguishing feature is that it does not follow the pattern of a traditional market-access based trade agreement, which has also led many to question its goals and benefits for the APAC members.

To be sure, the diversity of the APAC region makes it difficult to present a unified view on the IPEF. The perspectives shared in this chapter lean towards those of the ASEAN nations, as currently they account for half of the membership. The ASEAN's strong economic ties with China and the desire to remain politically neutral have a significant bearing on how it perceives the IPEF. The drivers likely differ for the other members. For the traditional security allies of the US that have an increasingly fractious relationship with the mainland – Japan, South Korea and Australia – the IPEF represents an opportunity to check China's rising economic dominance in the region.

## The motivation for the IPEF

In its defence, the IPEF aims to fill an important gap in the US-APAC relationship. The US is a significant trading partner for many in the region, not just China; 23.4 per cent of US' trade was with the APAC (excluding China) in 2022.[14] Also, the US businesses are heavily reliant on Asian supply chains. Yet, its recent overtures towards the region have focused on security partnerships and mini-laterals such as the Quad (the Quadrilateral Security Dialogue comprising the US, India, Japan and Australia) and the AUKUS (trilateral security pact between Australia, the UK and the US). Initially perceived as the Asian version of the North Atlantic Treaty Organisation (NATO), the Quad has broadened its mandate to supply chain security, climate and other economic issues.[15] Still, it is not a trade alliance. Neither is the AUKUS, which is akin to a defence pact.[16]

A concrete trade policy is the missing link in the US' engagement with the APAC. It has bilateral trade agreements with a handful of APAC nations – Australia, South Korea, Singapore, Japan (only for critical minerals), but none with the emerging Asian economies. Meanwhile, its growing rivalry with China limits the utility of its Asia-Pacific Economic Cooperation (APEC) membership. Hence, the US is keen to establish a multilateral APAC framework that excludes China, and will facilitate trade, investment and other flows with the rest of the region.

The TPP, which was signed by 12 Pacific Rim economies – Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the US – in 2016, was expected to achieve this. President Obama saw it as key to countering China's rising influence in the APAC region and securing the US' leading position in global trade. However, it did not survive the turn in domestic US sentiment against free trade. Trade was seen as the primary cause of de-industrialisation and job losses by a majority of the Americans and President Trump withdrew the

14 "Table 2.3. U.S. International Trade in Goods by Area and Country, Not Seasonally Adjusted Detail", US Bureau of Economic Analysis, 22 June 2023, https://apps.bea.gov/iTable/?ReqID=62&step=2#eyJhcHBpZCI6NjIsInN0ZXBzIjpbMiw2XSwiZGF0YSI6W1siVGFibGVMaXN0IiwiMzEwMDIiXV19

15 "Quad Leaders' Joint Statement", The White House, 20 May 2023, https://www.whitehouse.gov/briefing-room/statements-releases/2023/05/20/quad-leaders-joint-statement/

16 "Joint Leaders Statement on AUKUS", The White House, 13 March 2013, https://www.whitehouse.gov/briefing-room/statements-releases/2023/03/13/joint-leaders-statement-on-aukus-2/

US from the TPP on his first day of office. But this is not all he did. Under Trump, the US grew more and more estranged from Asia. He paid little attention to Southeast Asia, imposed tariffs that did not just hit China but also traditional US allies (South Korea, Australia), and threatened to withdraw US military support from South Korea and Japan. Trump's actions led to a serious setback in the US-APAC relationship and triggered an erosion of the US influence in the region, while China used the opportunity to increase its heft, particularly in Southeast Asia.

The Biden Administration has stayed with the Trumpian decision to not join the TPP (or the CPTPP now). But it sees the geopolitical and economic risks of being absent from Asia. These have been magnified by the RCEP, which includes China. It also does not want to completely close the door on trade. So, it has come up with the middle path of a 'worker-centric' trade policy[17] that aims to keep the US trade agenda alive without angering the domestic voters.

The IPEF is an outcome of this. It marks a renewed effort on the part of the US to regain lost ground in the APAC region and engage with regional allies on key trade, supply chain, climate, and economic security issues.

## Comparison to the CPTPP and the RCEP

The addition of another large multilateral agreement to the already crowded Asian trade policy space has understandably raised doubts about its value-add, especially when it does not seem to provide any direct benefits to the members.[18] In his influential 1995 paper on trade policy, Jagdish Bhagwati famously referred to overlapping and ever-increasing trade arrangements as a 'spaghetti bowl' phenomenon.[19] The idea being that increasing number of trade treaties between nations makes it difficult for participating countries to disentangle their benefits and could even impact businesses negatively by thwarting trade creation and resulting in trade diversion. This has become a topic of intense debate in the APAC region, although there is no clear empirical evidence that too many trade agreements are hurting businesses operating in the region.

The effectiveness concerns extend to the RCEP and the CPTPP. But their provisions to lower barriers and facilitate trade and investment overtime make it possible to reasonably assess their economic contributions.

The CPTPP is a high-quality agreement and represents a new generation of trade deals that expands the scope of the talks beyond just a negotiation on tariffs and rules of origin (ROOs). It includes 30 chapters that encompass physical and digital trade of goods and services, investment and intellectual property rights, labour and environment standards, e-commerce, regulation of state-owned enterprises (SOEs), transparency and anti-corruption measures, and a chapter specifically

17 "2021 Trade Policy Agenda and 2020 Annual Report", Office of the United States Trade Representative, 1 Mar 2021, 1-6, https://ustr.gov/sites/default/files/files/reports/2021/2021%20Trade%20Agenda/Online%20PDF%202021%20Trade%20Policy%20Agenda%20and%202020%20Annual%20Report.pdf

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

19 Jagdish N. Bhagwati, "US Trade Policy: The Infatuation with FTAs", *Columbia University*, Discussion Paper Series no. 726 (April 1995), 5-10, https://academiccommons.columbia.edu/doi/10.7916/D8CN7BFM

for how small and medium-sized enterprises (SMEs) can benefit from the agreement[20]. The CPTPP has broader ambitions than the RCEP, but that also makes it more challenging to implement. With no dedicated Secretariat, progress has been slow.

The RCEP is a shallower agreement in comparison. It comprises 20 chapters[21] and as an ASEAN-led FTA, is much more accommodating on special safeguards depending upon individual conditions of members. This is in sharp contrast to the more binding nature of the US-style FTAs that the CPTPP mirrors. Notwithstanding the long timeline of 20 years that the RCEP proposes to eliminate tariffs and restrictions within the bloc, member countries have already lobbied to delay the implementation of certain provisions, according to their individual requirements. Its services trade liberalisation commitments are much weaker than the CPTPP. Of the 15 members, eight have currently agreed to a positive list for services liberalisation and will transition to a negative list in six years. The CPTPP does not follow this mixed approach, and all countries have to adhere to the negative list. There are also no provisions for digital trade, labour and environmental regulations or support for SOEs and SMEs in the RCEP. It has a Dispute Settlement Mechanism (DSM) that reflects its overall cooperation approach and is simpler than the CPTPP's more legalised investor-state dispute settlement (ISDS) approach. With the establishment of an interim bureau in February 2023,[22] which will eventually transition to a full-fledged Secretariat, the RCEP implementation is ready to gather force.

The less stringent standards of the RCEP have their own advantages and have allowed it to have a wider regional membership than the CPTPP. At the same time, the built-in agenda for renegotiations creates scope for the agreement to upgrade itself as it evolves. The distinguishing feature of the RCEP is the unified set of ROOs criteria, that qualifies products manufactured in any RCEP member country for tariff-free treatment across the bloc. This creates opportunities for more global production hubs in the region, at a time when the US and allies are actively looking to diversify their China-centric supply chains. Altogether, the RCEP paves the path for greater regional economic integration and is likely to give a positive boost to the APAC and the global GDP growth over the long-term.[23]

Viewed from this lens, the IPEF indeed falls short of the mark. Here is how it compares with the RCEP and the CPTPP on key parameters:

1. **Coverage and scope**: The IPEF currently includes 13 Indo-Pacific nations and the US. Together they comprise 40 per cent of the world's GDP, around 30 per cent of its population and 28 per cent of the global trade. This makes it larger in market size than both the RCEP and the CPTPP and comparable in population size to the RCEP. In scope, it rivals the CPTPP. Although it comes with just the four Pillars of Trade, Supply Chains, Clean Economy and Fair Economy, it aims to cover considerable ground under each of these Pillars, including digital trade, labour and environment protection, establishing critical minerals supply chains, and regulations for

20 "Comprehensive and Progressive Agreement for Trans-Pacific Partnership text and resources", Ministry of Foreign Affairs and Trade, New Zealand, https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/cptpp/comprehensive-and-progressive-agreement-for-trans-pacific-partnership-text-and-resources/

21 "RCEP text", Australian Government – Department of Foreign Affairs and Trade, 15 November 2020, https://www.dfat.gov.au/trade/agreements/in-force/rcep/rcep-text

22 Paul Rujopakarn and Paphamon Arayasukawat, "RCEP Interim Bureau Opens at ASEAN HQ", *National News Bureau of Thailand*, 6 February 2023, https://thainews.prd.go.th/en/news/detail/TCATG230206104625448

23 Priyanka Kishore, "RCEP sends a strong message, just when needed", *Unravel*, 24 November 2020, https://unravel.ink/rcep-sends-a-strong-message-just-when-needed/

transparency and criminalisation of corruption. However, unlike the CPTPP, it is more flexible. Members have the option to choose which Pillars they want to engage in.

2. **Market access**: There are no direct provisions to expand market access between members or reduce tariff or non-tariff barriers, which has led to protests even from some US businesses.[24]

3. **Setting standards and rule-making**: Through the IPEF, the US aims to become the chief rule-setter in the Indo-Pacific region. Like the CPTPP, which kept many of the provisions of the US-led TPP, the IPEF aims to elevate labour, environment and regulatory standards in the region to that of the US. But its goal of setting similar operating standards across a diverse set of economies at different stages of development is problematic and will not be achieved easily. A case example is India opting out of the Trade Pillar.

4. **Private sector participation**: The utilisation of FTAs, especially by the micro, small and medium-sized enterprises (MSMEs), can be a challenge. In the ASEAN, companies have cited lack of information and privacy issues as top reasons for not using FTAs. This poses a big hurdle for the IPEF. A key requirement for achieving the goal of resilient supply chains is information-sharing between governments and the private sector to develop early warning signals of supply chain disruptions. To this end, the substantial conclusion of the negotiations of the Supply Chain Pillar on 27 May 2023[25] proposed the establishment of two bodies – the IPEF Supply Chain Council and the IPEF Supply Chain Crisis Response Network – to facilitate the development of sector-specific action plans during normal times and emergency communication in case of crisis. While this is a step forward, it is not clear whether the bodies will act largely as facilitators or will have a stronger role in implementing the supply chain provisions. In the end, the success of the Supply Chain Pillar depends on a large commitment from the businesses to share private data. So far, the IPEF has failed to outline a strong motivation for doing so.

5. **Enforcement and dispute settlement**: Unlike the CPTPP, the IPEF does not come with a robust enforcement mechanism. The RCEP too does not have a binding enforcement clause. However, it incorporates a DSM that allows for the establishment of a panel to resolve disputes that cannot be resolved by consultations. No such built-in provisions exist in the IPEF. While the Fair Economy Pillar talks about anti-corruption measures and tax transparency, these are to be monitored and resolved by members within their domestic legal frameworks, as per the applicable IPEF standards. This leaves the outcome of the IPEF very much dependent on the motivations of the members to cooperate.

6. **Motivation and impact**: Both the CPTPP and the RCEP include tangible measures that make it possible to assess and quantify the economic benefits they might deliver. They are largely seen as liberalising trade and boosting the region's economic prospects in the long run. But the IPEF's architecture makes it difficult to make such predictions. This focuses more attention on its political motives. By keeping the Mainland and its allies out of the agreement,[26] the US

24 "Business and Agriculture Community Letter to the Administration on the Indo-Pacific Economic Framework (IPEF)", US Chamber of Commerce, 26 May 2023, https://www.uschamber.com/international/business-and-agriculture-community-letter-to-the-administration-on-the-indo-pacific-economic-framework-ipef

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

26 Charles Dunst, "Spotlight - Cambodia and Laos", *Center for Strategic and International Studies*, 1 August 2022, https://www.csis.org/blogs/latest-southeast-asia/spotlight-cambodia-and-laos-august-1-2022

has positioned the IPEF as an alternative to the China-led economic order. This could result in lower cooperation from some members, such as the ASEAN nations, that seek to maintain a balanced relationship with the dominant external powers. Such a development would be a setback for the IPEF's economic goals.

## Reconciling the IPEF with existing trade agreements

Despite these issues, the APAC countries that have been invited to join the IPEF have embraced it quickly. There are also no overwhelming dissents against the pact amongst commentators and observers. Most see the presence of the US in the region as an important check to rising Chinese dominance and observe no downside in joining the IPEF, including in the ASEAN, as highlighted by the 2023 State of Southeast Asia report.[27] 46.5 per cent of the respondents see a positive impact of the IPEF on the region while 41.8 per cent are unsure of the impact. Only 11.7 per cent consider it negative. This coincides with a decline in the perception of China as the key economic, political and strategic influence in the ASEAN, while the view on the position of the US in the region has improved.

The positive reception of the IPEF can partly be attributed to the Biden Administration's foresight to emphasise that it is not a trade but an economic agreement. It is difficult to fully come to terms with this description as it has many aspects of a trade policy, and the US is leveraging it to set rules across a gamut of trade, digital economy, labour and environment-related issues.

However, if we look at the IPEF as not being mutually exclusive to existing trade agreements, some advantages become visible:

1. **Large reach**: The barrier to joining the IPEF is low. Prospective members just have to decide whether they want to join one of the Pillars and they can sign up to others later. In an increasingly nationalistic and fragmented world, this gives governments much more power and space to drive negotiations at home to join a multilateral agreement. Because of its flexible approach, the IPEF has the potential to become a much larger bloc than the RCEP and the CPTPP. This would mean that the countries participating in all three agreements (seven currently) will have access to a very wide set of markets spanning three continents. This could encourage more nations to make efforts to join all of them, leading to more improved and uniform standards across a multitude of trade and economic areas.

2. **An inroad to India**: In addition to bringing the US back to the table in Asia, the IPEF also provides its members a segue into India, which has shunned multilateral agreements so far and has also stayed out of the Trade Pillar of the IPEF. This is especially a welcome development for New Zealand, which currently does not have a bilateral FTA with India.

3. **The incentive of more US foreign direct investment (FDI)**: While the IPEF lacks direct market access measures, it brings prospects of more US FDI into the APAC region and the benefits of knowledge-sharing in niche technologies like advanced biofuels, green hydrogen, and carbon

27 "The State of Southeast Asia 2023 Survey Report", ASEAN Studies Centre at the ISEAS-Yusof Ishak Institute, 9 February 2023, 21-23, https://www.iseas.edu.sg/wp-content/uploads/2025/07/The-State-of-SEA-2023-Final-Digital-V4-09-Feb-2023.pdf

capture and storage. This is already happening as 'China+1'[28] is pushing not only US companies, but also firms in Japan and South Korea, to look elsewhere to de-risk and diversify their supply chains. US FDI in the APAC stood at nearly a trillion in 2021, double of that at the start of the decade. The IPEF could give this an added push by creating a bridge between the US and the APAC companies. The RCEP's common ROOs will be an added advantage and will magnify the trade benefits for the US firms.

4. **A shared rule-setting approach**: The IPEF includes areas such as digital economy and oversight on corruption, which are not necessarily included in traditional FTAs. This positions it well to set common rules for cross-border data flows and create a framework of digital interoperability within the bloc. However, these rules might not necessarily be set by the US. India, Indonesia and Thailand have relatively strict existing digital economy rules and it will serve the IPEF well to take these into consideration. This is true for other Pillars as well. For instance, the Singapore Australia Green Economy Agreement[29] could become a template for the Clean Economy Pillar.

5. **Lifting the standards of members**: Like the CPTPP, a well-designed and meaningful IPEF will motivate less developed countries on the roster to speed up the implementation of important reforms to tap into opportunities from the Agreement. Countries could use the RCEP as a stepping stone to upgrade to the IPEF's more stringent standards. Overtime, this will also aid the RCEP to raise its standards and shed its tag of a low-quality agreement.

## Conclusion

With the Supply Chain Pillar already finalised in June 2023, the IPEF is on its way to become the fastest trade treaty negotiated in history. Its simple framework and flexible participation approach is serving it well in attracting members and closing negotiations. However, this also makes it a weaker proposition as compared to traditional multilateral trade agreements like the RCEP and the CPTPP. With no direct measures to increase the APAC's market access to the US and a weak enforcement mechanism for its ambitious agenda, it is not clear how the IPEF will generate the necessary interest in the private sector, which is critical for its success.

Its chances will be much better if it does not position itself as an arbiter of the economic order in the region and more as an economic agreement complementing the existing trade agreements. A good way to start this will be by extending invites to Cambodia and Lao PDR to join the group as well as by sharing rule-setting responsibilities with other members within the IPEF. The latter will allow it to adopt appropriate templates of existing agreements that match its standards and objectives. The APAC businesses will likely then be more willing to view the IPEF as a conduit for US FDI in the region and knowledge transfer, which will make it a more appealing proposition for them. The IPEF can facilitate the US goal of developing an alternate set of value chains in critical industries like chips and semiconductors. But it must do so without upsetting the current

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28 China+1 refers to the strategy of companies diversifying their operations away from China. Initially, prompted by rising labour costs in China, it has gathered more steam in recent years due to rising geopolitical tensions between the US and China that has also spilled over to other regions, such as the EU and UK.

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

relationships and equilibrium in the APAC. For the ASEAN, which is inclined to maintain a balanced relationship with the US and China, this is of paramount importance.

Overtime, the US should consider other options to increase the attractiveness of the IPEF if it is to stay meaningful alongside the RCEP and the CPTPP. These can include easing non-tariff barriers to trade, indirect trade benefits such as concessions under the Inflation Reduction[30] and the CHIPS and Science Acts,[31] ensuring meaningful progress on technology transfer, and aiding research and development.

In the end, it is in the US interest to make the IPEF attractive to the other negotiators. If the US government goes missing again in the APAC, the US businesses will increasingly be forced to rely more on their Asian subsidiaries to get trade benefits via the CPTPP or the RCEP. This will mean shifting more production to the APAC region.[32] Currently, only 40 per cent of RCEP value-added content is required to avail of the trade benefits in many categories, but this could be raised going forward. This will not only be a setback for the Biden Administration's new worker-centric trade policy but also the overall re-industrialisation ambitions of the US.

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30 "U.S. Secretary of Commerce Gina Raimondo Statement on Signing of Inflation Reduction Act", US Department of Commerce, 16 August 2022, https://www.commerce.gov/news/press-releases/2022/08/us-secretary-commerce-gina-raimondo-statement-signing-inflation

31 "The Passage of the CHIPS and Science Act of 2022", US Department of State, 9 August 2022, https://www.state.gov/the-passage-of-the-chips-and-science-act-of-2022/

32 Dr. Deborah Elms, "Testimony before the U.S.-China Economic and Security Review Commission Hearing on 'Challenging China's Trade Practices: Promoting Interests of U.S. Workers, Farmers, Producers, and Innovators'", Asian Trade Centre, Panel III: Regional Economic and Trade Engagement, 14 April 2022, https://www.uscc.gov/sites/default/files/2022-04/Deborah_Elms_Testimony.pdf

## About the author

**Ms Priyanka KISHORE** has more than a decade's experience in macroeconomic research and forecasting across Asia. Her expertise lies in analysing and forecasting macro fundamentals over the short and long-term, with a special focus on trade, debt sustainability and macro policy. In addition, she specialises in macro-modelling and scenario analysis, aimed at quantifying the impact of exogenous shocks on economies.

Ms Kishore is an independent economic advisor for corporates, central banks, governments and institutional investors. Previously she was the Economic and Forum Director for a CEO peer group forum, IMA Asia. Prior to this, she led Oxford Economics' Singapore Global Macro Services team and was responsible for overseeing the firm's South and Southeast Asia research. She is an accomplished speaker and conducts regular economic briefings for corporate boards, industry associations and policymakers. Ms Kishore makes regular appearances on Bloomberg, CNBC, BBC, CNA and other business channels. She is also frequently quoted by major global and Asian publications such as FT, WSJ, NYT, The Straits Times, NAR and SCMP, and often pens op-eds in economic magazines and business journals.

Ms Kishore has worked as a strategist and economist in the banking sector. She was in charge of South Asia FX views and trading strategies at Standard Chartered Bank. Prior to that, she was Head of Emerging Asia Research and Senior Economist at ICICI Bank, India's largest private bank. She holds a Master's degree in Economics from the Delhi School of Economics, India.