

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



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



15

Engaging and Path-Finding:
A Singapore Perspective
on the IPEF

Simon TAY

Engaging and Path-Finding: A Singapore Perspective on the IPEF

Simon TAY

The paper discusses the strategic and economic reasons of the Indo-Pacific Economic Framework for Prosperity (IPEF) from a Singaporean perspective. Assessments of the IPEF differ, especially considering the lack of market access, but this paper argues that the IPEF provides other avenues for more robust trade relations. The initiative provides an opportunity for the Biden Administration to re-engage with the region and vice versa. The IPEF also represents a return to a stable, open, and rules-based order with the United States (US) as the status-quo world power, an environment that Singapore has done exceedingly well in. Negotiations on key issues also complement Singapore's efforts to pursue green, digital, and trade resilience through a combination of other bilateral and mini-lateral agreements. Ultimately, it is not an issue of choosing between the IPEF or engagement with China and other trading partners but rather about pursuing all avenues that are available with willing and enthusiastic partners.

List of Abbreviations

ASEAN	Association of Southeast Asian Nations
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
DEPA	Digital Economy Partnership Agreement
EU	European Union
FDI	Foreign Direct Investment
FTA	Free-Trade Agreement
GHG	Greenhouse Gas
IPEF	Indo-Pacific Economic Framework for Prosperity
MSMEs	Micro, Small and Medium Enterprises
RCEP	Regional Comprehensive Economic Partnership
SGD	Singapore Dollar
SPOR	Singapore Public Sector Outcome Review
TPP	Trans-Pacific Partnership
USA	United States of America
USD	United States Dollar
USJA	United States-Japan Digital Trade Agreement
USMCA	United States-Mexico-Canada Agreement

Introduction: One Agreement, Different Assessments

The Indo-Pacific Economic Framework for Prosperity (IPEF) has attracted considerable attention since it was first proposed by the United States (US) in May 2022. With 14 countries in the region participating in the negotiations for the agreement, the IPEF is being regarded as the economic flagship initiative of the Biden administration. Yet, assessments of the IPEF differ.

To its proponents, the IPEF has the potential to deepen commercial linkages, green economic growth and development, and strengthen supply chains. Another reason some welcome the IPEF is strategic: to increase American commitment to the region. The IPEF adds an economic layer in addition to improving security relationships within the region and the US over the last few years. They also point to the flexibility of the arrangements. The IPEF allows for participating countries to choose which Pillars they would like to join and provides a layer of flexibility to countries at different stages of development and regulatory levels to join where possible. As countries develop and improve their internal rules, they could then seek to join other Pillars over time. As the intent of the IPEF is to be as inclusive as possible, the flexibility provided by the different Pillars would be an incentive for any country looking to leverage the benefits of the IPEF.

Inclusivity and flexibility, however, have limits. American proponents are explicit that the IPEF is intended to counter Beijing's economic clout in the region.¹ There are also limits on what the US is prepared to do. The IPEF is not about market access or new trade agreements. It is an executive agreement under Biden's Presidential authority. As such, it is subject to change in a future administration.

Consider the fate of the Trans Pacific Partnership (TPP), so strongly pushed through the years of the Obama administration (in which Biden was the Vice President). It was abandoned summarily by President Donald Trump, on his very first day in office. While the remaining partners, led by Japan, continued to completion as the renamed Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the *volte face* has led to questions about the consistency and dependability of the US in committing to comprehensive trade frameworks. The IPEF is not inured from similar potential setbacks arising from American domestic politics and a potential change in leadership.

Moreover, while the IPEF was not fettered as a trade agreement, it is certainly seen as a trade facilitation agreement by the countries joining it, though the lack of improved market access or any reduction in tariffs is held as a mark against it by critics of the IPEF. Without the prospect of market access, there appears to be limited benefits from the IPEF. The lack of market access may disincentivise countries and slow down progress in some of the Pillars. The nature of the IPEF appears to be aspirational with countries signing up to Pillars that they would like to participate in and as such will have to adjust national policies for. This sort of benchmark-led agreement sets the stage for coalitions of countries that have similar interests, goals and aspirations. While gains

1 The Chinese Foreign Ministry issued a statement saying "Facts will prove that the so-called 'Indo-Pacific strategy' is essentially a strategy for creating divisions, a strategy for inciting confrontation, and a strategy for destroying peace." This statement reveals that the Chinese administration perceives that part of the reason for the IPEF is to counter China and to build around China.

See Teddy Ng, "China says Washington's 'divisive' Indo-Pacific strategy doomed to fail", *South China Morning Post*, 23 May 2022, https://www.scmp.com/news/china/diplomacy/article/3178764/china-says-washingtons-divisive-indo-pacific-strategy-doomed?campaign=3178764&module=perpetual_scroll_0&pgtype=article

may not be instantaneous, it does allow for the development of common rules and frameworks for better market interactions.

Against this background, this chapter considers Singapore's participation in the US-led negotiations, examining its trade and economic policy in relation to, first, engaging the US and, secondly in three areas of specific interest to the country: growing the digital economy, increasing supply chain resilience and greening growth. The discussion is set within the context of Singapore's national interests, as a small and highly trade-dependent economy, and one that is invested in a rules-based international order.

Engaging America: Strategic and Economic Dimensions

Singapore has long regarded the US as an essential and valued offshore balancer and a key contributor to the stability of the region. While no one is naive about US power and prerogatives, on balance, Singaporean policy makers have regarded the US as a status-quo power and acknowledged the American role in creating and maintaining the international rules-based order.

At the launch of the IPEF in May 2022, Prime Minister Lee Hsien Loong shared that Singapore welcomed the IPEF. He spelt out the reasons: Singapore has always been a country that has supported an open, inclusive, and rules-based order that builds stability and a shared prosperity.² In that context, Singapore's engagement in the IPEF is first and foremost founded on strategic consideration. The Biden administration presents the IPEF as a manifestation of its return to a leadership role in rules-setting within the region and Singapore is prepared to participate in the IPEF as a means to engage America. This is undertaken even after the experience of the TPP, for which Singapore was an early and strong advocate.

After the American withdrawal from the TPP, Singapore proceeded with the CPTPP that emerged. It has also been, as part of the Association of Southeast Asian Nations (ASEAN), a keen participant in the creation of the Regional Comprehensive Economic Partnership (RCEP), which includes China as its largest member. Bilaterally with China, Singapore has strengthened its long-standing relationship with large investment and trade flows.³

Singapore has also engaged in economic and trade agreements with more distant but key partners outside the region. There is, for example, a Free-Trade Agreement (FTA) with the EU. Singapore is also the first partner state for the Pacific Alliance that brings Chile, Columbia, Mexico, and Peru together. For the digital economy, Singapore has embarked on the Digital Economy Partnership Agreement (DEPA) with Chile and New Zealand, as well as the Singapore-UK Digital Economy

2 "Intervention by PM Lee Hsien Loong at the virtual launch of the Indo-Pacific Economic Framework on 23 May 2022", Prime Minister's Office Singapore, 23 May 2022, <https://www.pmo.gov.sg/Newsroom/Intervention-by-PM-Lee-Hsien-Loong-at-the-Virtual-Launch-of-the-Indo-Pacific-Economic-Framework>

3 Singapore and China shared a total merchandise trade of US\$127.26 billion in 2022, representing the largest merchandise trade between Singapore and another country. Singapore and China shared a total trade in services of US\$36.87 billion in 2021. This represents the fourth largest services trade that Singapore has with a partner country. Excluding a number of Caribbean countries that are likely to be offshore centres, China is the third largest Foreign Direct Investor in Singapore.

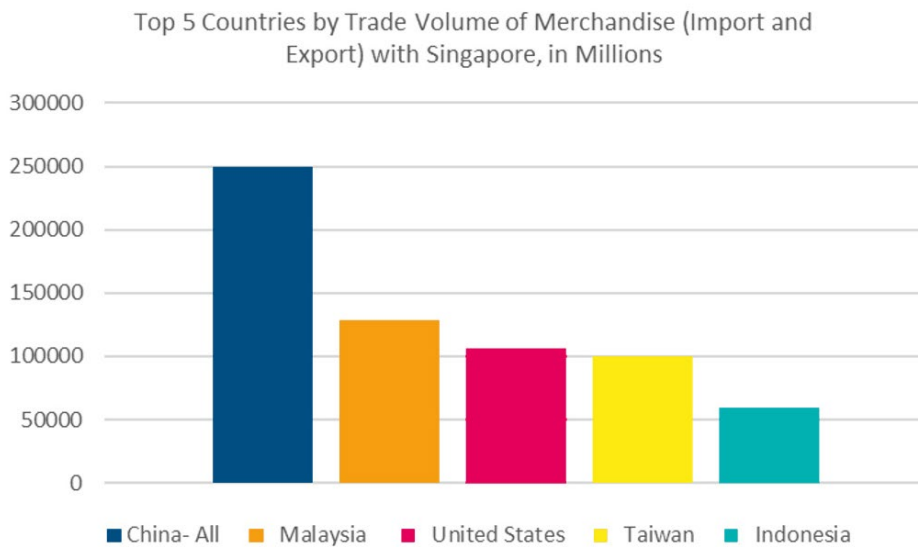
See "Singapore's International Trade", Department of Statistics Singapore, <https://www.singstat.gov.sg/modules/infographics/singapore-international-trade>;

"Investment", Department of Statistics Singapore, <https://www.singstat.gov.sg/publications/reference/ebook/trade-and-investment/investment>

Agreement, which represents new approaches to trade agreements. The country has and is, in this regard, pursuing multiple and diverse avenues to continue, and where possible, deepen economic ties. These multiple engagements are especially energised by signs that the global system is slowing and fragmenting, with regional blocs and clusters potentially emerging. In this context, the IPEF is of considerable interest to Singapore as a means to further engage the US in the region.

Trade between Singapore and the US is also significant. The US is Singapore's number one trade partner for goods and services. Combined, this accounts for approximately US\$894.51 billion, or 9.2 per cent of Singapore's merchandise trade and 18.3 per cent of Singapore's services trade and 12.5 per cent of Singapore's total cumulative trade volume.⁴ While the US is not No.1 in the trade of goods (Figure 1) (that distinction falls to China), the US has the largest trade of services with Singapore (Figure 2). There is, moreover, headroom for this to grow. The US is also the single largest source of Foreign Direct Investment (FDI) in Singapore, with a total stock of US\$449.8 billion (as of 2021) cumulatively invested in Singapore. Notably, this is more than the total stock of FDI that has been invested in Singapore by Asian countries.⁵

Figure 1: Top 5 Countries by Trade Volume of Merchandise with Singapore

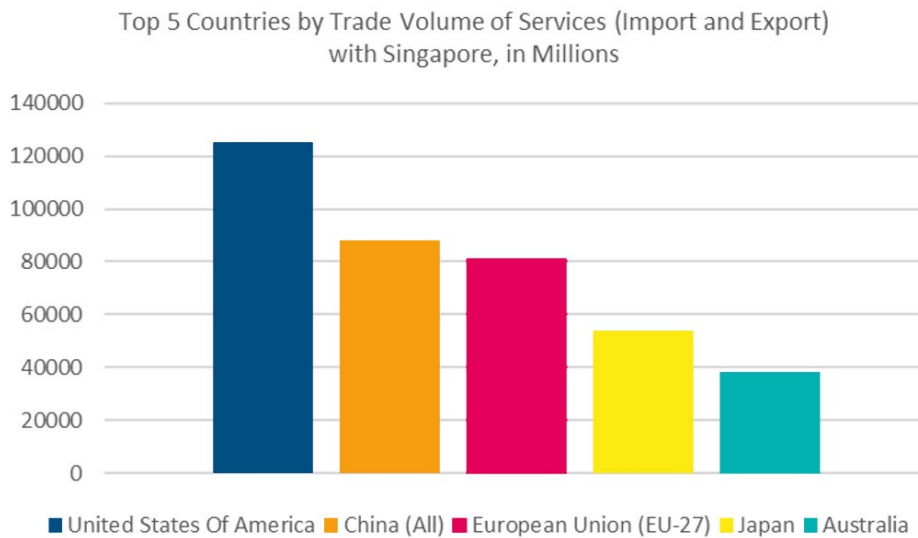


Source: SingStat – Department of Statistics Singapore

4 *op. cit.*

5 SingStat Table Builder, Department of Statistics Singapore, 21 June 2023, <https://tablebuilder.singstat.gov.sg/table/TS/M083801>

Figure 2: Top 5 Countries by Trade Volume of Services with Singapore



Source: SingStat – Department of Statistics Singapore

Consider the US-Singapore FTA that came into force in January 2004. Following its implementation, trade in goods has increased by almost 65 per cent⁶ or at an annualised basis of 2.8 per cent a year. The US enjoys a positive trade surplus of US\$14.5 billion⁷ with Singapore, which should ease concerns about the fairness of trade that many Americans raise. The previous administration constantly raised the issue that the US had been taken advantage of in the global trade environment where their open markets had been flooded by global goods and in doing so it has killed many local business and driven unemployment and ballooned the trade deficit. China in particular bore the brunt of that assessment though most of Asia faced that accusation in some form. If the IPEF can succeed and open new avenues for continued engagement, especially on newer and growing sectors, this can further accelerate economic ties.

Yet, commercial considerations are not the only reason for Singapore to welcome the IPEF. The flexibility of the IPEF – wherein countries are able to choose which Pillars to join – is also welcome as this allows more countries to accede to new Pillars as their laws and economic development priorities allow. This is appealing to Singapore as a hub in the region, and for ASEAN. The IPEF has brought in seven ASEAN member states to participate in negotiations (as compared to the TPP/CPTPP which includes only four and RCEP which includes all 10 members of ASEAN). While this is not all 10 ASEAN members, the seven represent the vast bulk of the group’s economy. Further, since the IPEF is an open agreement, there is always the possibility that the other three countries will eventually join. While the IPEF itself does not strengthen ASEAN centrality, it can be a particularly useful tool for establishing common rules, roadmaps and potentially new projects for ASEAN countries that are part of the Framework. Increased economic collaboration along newer trade areas like the green and digital economies and building more resilient supply chains have the potential to improve linkages between ASEAN members as well as other parties to the agreement, further expanding potential economic gains.

6 *op. cit.*

7 “Trade in Goods with Singapore”, United States Census Bureau, <https://www.census.gov/foreign-trade/balance/c5590.html>

Singapore also places some hope in the American aspiration that the IPEF can be a way to strengthen the rules-based order. While the IPEF does not have a formal dispute resolution mechanism that some associate with a rules-based order, its efforts can help establish norms and more harmonised approaches in new frontiers that are yet to be included and governed by international agreements. In this regard, the IPEF represents a relatively new approach to formalising and normalising cooperation in newer areas such as digital trade, the green economy and supply chains – all of which are of interest to Singapore.

Progressing the Digital Economy

Emerging from the COVID-19 pandemic, Singapore has recognised the importance of growing the digital economy, embracing a ‘must-have’ approach not only for technology companies but for transforming all sectors. The digital economy in Singapore has grown on the backs of increased data flows in the region, driven by a growing and younger demographic in the wider ASEAN region, widespread internet access at close to 71 per cent⁸ penetration and increased smartphone penetration, with the digital economy predicted to grow to be as large US\$1 trillion by 2030.⁹ It has therefore sought to increase trade linkages with countries in the region through new and diverse initiatives. Of special note are the digital agreements, including the unilateral Digital Economy Partnership Agreement (DEPA) with Chile and New Zealand, as well as bilateral agreements with different partners like the EU and South Korea. Efforts are underway for wider digital agreements, including one amongst ASEAN members.¹⁰

It is in this context that the IPEF is also welcome. The US, through the IPEF, shows some ambition to set and lead on new rules on the digital economy. The American approach and interests in this sector can be discerned in the US-Japan Digital Trade Agreement (USJA) and the US-Mexico-Canada Agreement (USMCA), with the USMCA¹¹ having, in fact, stricter clauses, for example around intellectual property rights as well as custom duties on digital transactions for instance, while it allows domestic taxes on digital trade as long as it is non-discriminatory. There are also American fingerprints in the digital provisions in the TPP.

This is not to say that Singapore will accept the American standards and approaches in toto. But for its own national interest, Singapore potentially gains if there can be established common rules or practices on issues like consumer protection, personal data safeguards, the promotion of reliable artificial intelligence capabilities and security rules. While it is unlikely that Singapore’s digital agreements with the UK or Korea will feature prominently in the IPEF, as it will likely lean heavily on the language of its US counterparts like the USJA and the USMCA, Singapore is in a better negotiating position having already made such agreements before. The country is therefore supportive of efforts to create shared rules for the region and will see participation and dialogue in the IPEF as helping bring on board more countries.

8 “Internet usage in Southeast Asia - statistics & facts”, *Statista*, 31 August 2023, <https://www.statista.com/topics/9093/internet-usage-in-southeast-asia/#topicOverview>

9 “e-Conomy SEA 2022”, Bain&Company, Google and Temasek, 2022, https://services.google.com/fh/files/misc/e_conomy_sea_2022_report.pdf

10 “Digital Economy Framework Agreement (DEFA): ASEAN to leap forward its digital economy and unlock US\$2tn by 2030”, *Association of Southeast Asian Nations*, 19 August 2023, <https://asean.org/asean-defa-study-projects-digital-economy-leap-to-us2tn-by-2030/>

11 “United States-Mexico-Canada Agreement”, International Trade Administration, <https://www.trade.gov/usmca#:~:text=United%20States%2DMexico%2DCanada%20Agreement,economic%20growth%20in%20North%20America>

Resilient Supply Chains

Another effort within the IPEF is to make supply chains more resilient. This is important, given the experience during the COVID-19 pandemic as well as the effects of the war in Ukraine and the sanctions against Russia. Looking forward, the splitting of supply chains, imposition of import and export restrictions as well as disruptions and shortages that can arise from climate impacts can further stress global supply chains.

Against this background, the importance of making supply chains more resilient is commonly recognised. For Singapore, as a trade hub, and also with very limited land and resources for production within the country, the issue can be critical. In a Singapore Public Sector Outcome Review (SPOR),¹² strengthening of Singapore's supply chain resilience was highlighted as a key part of Singapore's ability to globally integrate and play a part in the overall global economic system.

The IPEF does aim to make progress on this front. It is developing a framework¹³ that would potentially allow participating countries to share information and increase supply chain transparency. While this does not ironclad supply chains, such transparency requires companies to be aware and able to map the activities both upstream and downstream, internally and externally. This is being increasingly demanded by consumers as they are more sensitive to issues such as environmental degradation, labour issues and concerns over governance. This effort is being undertaken under the Second Pillar of the IPEF.¹⁴

As part of this work, Singapore is establishing an information-sharing and crisis response mechanism that will allow for more timely exchange of information between the government and private sector. This ties in with proposed efforts¹⁵ in the Supply Chain Pillar to promote taking stronger steps to strengthen IPEF supply chains and add regulatory transparency through increased collaboration. This early warning mechanism will allow the government to be more aware of potential disruptions to supply chains and take more appropriate and efficient actions to prevent or respond to the circumstances early. The IPEF can therefore assist these efforts by building both the policies and technical framework for the exchange of information to help Singapore identify and work more closely with trusted partners who would likely continue to supply even during a crisis. It would also allow Singapore to engage with a wide range of stakeholders to mitigate the impact of disruptions.

This could be a significant complement to Singapore's existing strategy:¹⁶ to increase the diversification of sources to ensure a reliable supply of critical goods. This diversification increases Singapore's adaptability to shocks and allows it to work with other trusted and cultivated partners to ensure that critical supplies continue to flow even under the most strained circumstances.

Singapore has also continued to invest heavily in new and existing connectivity infrastructure to strengthen its role as a global trading and logistics hub. The investments and improvements in the

12 "Strengthening Our Supply Chain Resilience", Singapore Public Sector Outcomes Review, <https://www.mof.gov.sg/singapore-public-sector-outcomes-review/citizens/our-shared-future-and-place-in-the-world/strengthening-our-supply-chain-resilience>

13 "U.S. Department of Commerce Publishes Text of Landmark Indo-Pacific Economic Framework for Prosperity (IPEF) Supply Chain Agreement", US Department of Commerce, 7 September 2023, <https://www.commerce.gov/news/press-releases/2023/09/us-department-commerce-publishes-text-landmark-indo-pacific-economic>

14 *Ibid.*

15 *Ibid.*

16 *op. cit.*

supply chain logistics, including infrastructure, border and transport linkages, and the building of common frameworks will help to address existing or potential roadblocks.

These internal actions would be greatly enhanced by the IPEF's efforts, in particular, the proposed Articles 2 and 3 of the Supply Chain Pillar¹⁷, with both private and public sector stakeholders to provide access and share data relevant to supply chains while maintaining the protection and confidentiality of data. This new approach would be potentially challenging since the mapping of supply chains has largely only been done for commodities or agricultural products rather than more complex manufactured goods. Private and public stakeholders would need to develop some trust with each other as companies may be asked to provide sensitive corporate information to their public sector counterparts as part of the mapping process of critical materials or linkages. While Singapore's public and private stakeholders have a particularly good working relationship so far, there would likely need to be assurances given by the government that confidential information that is shared with other countries in the IPEF would be secured and protected. Another potential benefit is to enable Singaporean Micro, Small and Medium Enterprises (MSMEs) to be better integrated into global supply chains across critical sectors, without having to impose additional unnecessary costs.

Strengthening the Green Economy

The green economy is another area where Singapore's priorities can gain from the IPEF's efforts. As part of Singapore's 2030 Green Plan, the Green Economy represents one of six pillars.¹⁸ Singapore is looking to leverage the acceleration in the global green economy to create new jobs, transform industries and remain competitive. The global transition to a low-carbon economy brings about new opportunities in economic sectors such as green finance, carbon services and trading as well as the decarbonisation of the industrial sectors. Within the IPEF and through collaboration with other IPEF members, there is potential to accelerate this transition. In particular, Singapore would look to work with other IPEF partners, such as Japan which is looking to build out a hydrogen supply chain or Australia which is looking to become a regional battery and renewable energy export hub, to improve energy security and transition to a low-carbon energy source.

Examining Singapore's specific circumstances contributing to its energy policy is useful in understanding the country's position. Singapore does not have energy resources of its own and it currently generates 95 per cent of its electricity from imported natural gas.¹⁹ While natural gas does have a lower greenhouse gas (GHG) footprint than coal, it is still carbon-based. Turning to different sources, from solar to geothermal energy and hydrogen, is a key pathway to reduce the country's carbon footprint. Of these, the solar option is constrained, given the country's limited size and other necessary uses of land.

17 *op. cit.*

18 "Sustainable Development – A Core Belief", Singapore Green Plan 2030, <https://www.greenplan.gov.sg/vision/>

19 In 2021, Singapore imported 10.6 Mtoe of natural gas via pipelines with Malaysia and Indonesia as well as in the form of LNG from Australia, USA, Egypt and Qatar among other countries. Of the total natural gas imported, 7.4 Mtoe was Piped Natural Gas and 3.4 Mtoe was Liquefied Natural Gas.

See "Chapter 1: Energy Supply" in Singapore Energy Statistics 2022, Energy Market Authority of Singapore, 2022, <https://www.ema.gov.sg/resources/singapore-energy-statistics/chapter1>;

"Singapore", US Energy Information Administration, August 2021, <https://www.eia.gov/international/analysis/country/SGP>

Steps to explore hydrogen are being taken. In October 2022, a large Singapore company, Sembcorp Industries, entered a strategic collaboration with the Japanese government and several Japanese firms to develop hydrogen and other initiatives.²⁰ As Singapore's largest importer of natural gas, Sembcorp's move to develop a hydrogen solution adds another major decarbonisation pathway. While these arrangements were in place before the IPEF was agreed upon, IPEF partners are also introducing a regional hydrogen initiative to further accelerate the adoption of low-carbon and renewable hydrogen and its derivative products in the region. IPEF partners could look forward to better collaboration, such as tapping on the expertise of both the public and private sectors, increasing investments, job prospects, and developing new pathways towards a lower emissions future.

More broadly, there are prospects that technological partnerships and bilateral assistance might be provided. These forms of incentives and assistance may not necessarily be captured in the statements on the IPEF negotiations. But in many cases, these examples of concrete cooperation arose under the aegis of the IPEF. They potentially constitute, in that sense, deliverables from the initiative.

Conclusion: Path-Finding and Many Paths

The world and the Asian region are facing a number of concurrent and interactive crises – which some dub a 'poly crisis.' Some of these include Sino-American tensions, the stress on supply chains, the slowing of trade and globalisation concurrent to the rise of 'home-shoring.' There are also many pressures on the international rules based order as well as the need to have dialogue and work towards agreement in dealing with newer issues like the digital and green economy.

The IPEF represents an effort for dialogue and path-finding on a number of key issues. Some view the IPEF as a new type of trade agreement for countries to set common rules as well as express common interest to drive greater trade while others state that it is an attempt to make 'something out of nothing'; – since the US and the Biden administration do not have the political will to negotiate a more traditional trade agreement.

Known to be pragmatic, Singaporean policymakers are not likely to spend too much time on what is not on the table. Their focus is to make the most of what is on the agenda, set by the Biden administration, given its priorities as well as constraints. As reviewed, from this menu, Singapore can find a number of initiatives on issues that resonate with Singaporean priorities and interests. These provide reasons for Singapore's active participation and support for the IPEF.

However, the attention and effort given to the IPEF should not blind observers to other undertakings by Singapore. Whether through FTAs with partners further afield or in the newer green economy and digital agreements, the country is pursuing multiple opportunities. It is not a question of choosing the IPEF and the US over engagement with China and others. It is 'and' and not 'either/or' that best describes the Singaporean response to the IPEF.

With that basic strategic response, Singapore can therefore accept that the IPEF is far from perfect; whether the concern is that there is no market access or that the IPEF itself might prove to be ephemeral if there is a change of administration in the US. For Singapore, it is sufficient that the

20 "Sembcorp Enters Strategic Collaborations with Japan on Low-Carbon Hydrogen Initiatives", *Sembcorp*, 25 October 2022, <https://www.sembcorp.com/en/media/765433/sembcorp-enters-strategic-collaborations-with-japan-on-low-carbon-hydrogen-initiatives.pdf>

IPEF does engage the US for now, and that the negotiations and initiatives under the IPEF – or some of them at least – may link to and complement the efforts made by Singapore and align with the country's own priorities.

While traditional FTAs dominated the trade agreements of the 1980s and 90s, more specialised trade agreements have risen to occupy attention. While this is partly due to the concerns over potential bifurcation of global trade between competing global powers like the US and China, it is also because countries at different developmental levels are able to find common ground on rules, regulations and investments, without having or wanting to give up market access. A path to move ahead, amidst negative global conditions, is critical and Singapore has been very active in pathfinding, taking steps down many diverse pathways, of which the IPEF – alongside the US and other countries – is one to be explored.

About the author

Associate Professor Simon Tay is Chairman of the Singapore Institute of International Affairs. He is concurrently a tenured Associate Professor, teaching international law at the National University of Singapore Faculty of Law.

His book, *Asia Alone: the Dangerous Post Crisis Divide from America* (Wiley 2010), was well reviewed in the *Economist*, *Financial Times* and regional media. His commentaries feature regularly in regional newspapers. Professor Tay is also a prize winning author with five books of stories and poems. In 2010, his novel, *City of Small Blessings* was awarded the Singapore Literature Prize. He recently published a collection of short stories titled *Middle and First*.

From 1992 to 2008, he served in a number of public appointments for Singapore. These included serving as Chairman of Singapore's National Environment Agency; and as an independent Nominated Member of Parliament (1997-2001). In 2006, Professor Tay received a National Day Award.