

# IPEF Regulations and their Impact on the Economic Security of the Indo-Pacific Region

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# Publisher Information

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**Editors:** Amitendu Palit, Saeeduddin Faridi

**Publication Coordination:** Cristita Marie Perez

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Konrad-Adenauer-Stiftung Japan Office / Regional Economic Programme Asia (SOPAS)  
Sanno Park Tower 25F, 2-11-1 Nagatacho, Chiyoda-ku, Tokyo, 100-6125 Japan



KAS-Tokyo@kas.de



+81 3 6426 5041



[www.kas.de/en/web/japan](http://www.kas.de/en/web/japan)

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## Editors' Note

All the papers in the report were commissioned and written well before the US Presidential Election was held on 5 November 2024. As a result, several papers allude to the forthcoming election and the impacts of the potential electoral outcomes on the prospects of the IPEF. One of the papers - 'The IPEF Gambit: Can the US Achieve its Geopolitical and Economic Security Objectives?' - presents contrasting scenarios in this regard pertaining to various electoral outcomes. While some of the scenarios are circumstantially irrelevant after the US elections, the sense of the issues discussed in these scenarios, as well as those reflected prospectively in some other papers, are critical in understanding the impact of IPEF rules on economic security of the Indo-Pacific region. The readers are requested to note this important point.

# **IPEF Regulations and their Impact on the Economic Security of the Indo-Pacific Region**

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Amitendu PALIT, Saeeduddin FARIDI (Editors)

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## List of Abbreviations

<b>AAIP</b>	American Association of the Indo-Pacific
<b>ADB</b>	Asian Development Bank
<b>AEC</b>	ASEAN Economic Community
<b>AI</b>	Artificial Intelligence
<b>AIT</b>	American Institute in Taiwan
<b>AP4D</b>	Asia-Pacific Development, Diplomacy & Defence Dialogue
<b>APAC</b>	Asia Pacific
<b>API</b>	Active Pharmaceutical Ingredients
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>ASEAN+</b>	Association of Southeast Asian Nations Plus
<b>ATP</b>	Assembly, Testing and Packaging
<b>AU</b>	African Union
<b>AUKUS</b>	Australia, UK and US
<b>BEV</b>	Battery Electric Vehicles
<b>BIMSTEC</b>	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
<b>BRI</b>	Belt and Road Initiative
<b>BTA</b>	Bilateral Trade Agreement
<b>CAPSAFE</b>	Cambodia Partnership for Sustainable Agriculture and Food Systems
<b>CCF</b>	Catalytic Capital Fund
<b>CEA</b>	Clean Economy Agreement
<b>CET</b>	Critical and Emerging Technologies
<b>CHIPS</b>	Creating Helpful Incentives to Produce Semiconductors
<b>CIT</b>	Corporate Income Tax
<b>CMTA</b>	Customs Modernization and Tariff Act
<b>COP</b>	Conference of the Parties
<b>CPTPP</b>	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
<b>CRN</b>	Crisis Response Network
<b>CSDDD</b>	Corporate Sustainability Due Diligence Directive
<b>CTPAT</b>	Customs Trade Partnership Against Terrorism
<b>CWP</b>	Cooperative Work Programmes
<b>DEA</b>	Digital Economy Agreement
<b>DEFA</b>	Digital Economy Framework Agreement
<b>DEPA</b>	Digital Economy Partnership Agreement
<b>DSA</b>	Digital Services Act
<b>DSM</b>	Dispute Settlement Mechanism
<b>DTA</b>	Digital Trade Agreement
<b>EAS</b>	East Asia Summit
<b>EC</b>	European Commission



<b>EEAS</b>	European External Action Service
<b>EESP</b>	European Economic Security Package
<b>EFTA</b>	European Free Trade Association
<b>EIB</b>	European Investment Bank
<b>EIF</b>	Enhanced Integrated Framework
<b>EMS</b>	European Member States
<b>EPA</b>	Economic Partnership Agreement
<b>ESCAP</b>	Economic and Social Commission for Asia and the Pacific
<b>ESG</b>	Environmental, Social and Governance
<b>ESPA</b>	Economic Security Protection Act
<b>ETC</b>	Economic and Technical Cooperation
<b>EU</b>	European Union
<b>EVs</b>	Electric Vehicles
<b>FCEV</b>	Fuel Cell Electric Vehicle
<b>FDI</b>	Foreign Direct Investment
<b>FOIP</b>	Free and Open Indo-Pacific
<b>FTA</b>	Free Trade Agreement
<b>G20</b>	Group of Twenty
<b>G7</b>	Group of Seven
<b>GASSA</b>	Global Arrangement for Sustainable Steel and Aluminum
<b>GATT</b>	General Agreement on Tariffs and Trade
<b>GBOI</b>	Global Business Optimism Insights
<b>GDP</b>	Gross Domestic Product
<b>GDPR</b>	General Data Protection Regulation
<b>GEA</b>	Green Economy Agreement
<b>GFC</b>	Global Futures Council
<b>GHG</b>	Greenhouse Gases
<b>GSI</b>	Global Security Initiative
<b>GSP</b>	Generalised System of Preferences
<b>GVC</b>	Global Value Chain
<b>IC</b>	Integrated Circuit
<b>ICT</b>	Information and Communication Technologies
<b>IEA</b>	International Energy Agency
<b>ILO</b>	International Labour Organization
<b>IMD</b>	International Institute for Management Development
<b>IMF</b>	International Monetary Fund
<b>IP</b>	Indo-Pacific
<b>IPE</b>	International Political Economy
<b>IPEF</b>	Indo-Pacific Economic Framework for Prosperity
<b>IRA</b>	Inflation Reduction Act
<b>ITA</b>	International Trade Administration
<b>JET-P</b>	Just Energy Transition Partnership
<b>JSI</b>	Joint Statement Initiative

<b>Lao PDR</b>	Lao People's Democratic Republic
<b>LRAB</b>	Labour Rights Advisory Board
<b>MFN</b>	Most Favoured Nation
<b>MNCs</b>	Multinational Corporations
<b>MOU</b>	Memorandum of Understanding
<b>MSME</b>	Micro, Small and Medium Enterprise
<b>MSP</b>	Minerals Security Partnership
<b>MTS</b>	Multilateral Trading System
<b>NAFTA</b>	North American Free Trade Agreement
<b>NTB</b>	Non-Tariff Barrier
<b>NTM</b>	Non-Tariff Measure
<b>NTO</b>	Non-Trade Objectives
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PGII</b>	Partnership for Global Infrastructure and Investment
<b>PLI</b>	Production Linked Incentive
<b>PPE</b>	Personal Protective Equipment
<b>PPP</b>	Public-Private Partnership
<b>PQI</b>	Partnership for Quality Infrastructure
<b>PTA</b>	Preferential Trade Agreement
<b>QUAD</b>	Quadrilateral Security Dialogue
<b>R&amp;D</b>	Research and Development
<b>RCEP</b>	Regional Comprehensive Economic Partnership
<b>ROK</b>	Republic of Korea
<b>ROO</b>	Rules of Origin
<b>RTA</b>	Regional Trade Agreement
<b>RVC</b>	Regional Value Chain
<b>SAF</b>	Sustainable Aviation Fuel
<b>SCA</b>	Supply Chain Agreement
<b>SCC</b>	Supply Chain Council
<b>SCCN</b>	Supply Chain Crises Network
<b>SCRI</b>	Supply Chain Resilience Initiative
<b>SDG</b>	Sustainable Development Goal
<b>SME</b>	Small and Medium Enterprises
<b>SOE</b>	State-Owned Enterprise
<b>STEP</b>	Strategic Technologies for Europe Platform
<b>TBT</b>	Technical Barriers to Trade
<b>TECRO</b>	Taipei Economic and Cultural Representative Office
<b>TPP</b>	Trans-Pacific Partnership
<b>TRIPS</b>	Trade-Related Aspects of Intellectual Property Rights
<b>TTC</b>	Trade and Technology Council
<b>UN</b>	United Nations
<b>UNCAC</b>	United Nations Convention against Corruption
<b>UNGA</b>	United Nations General Assembly

<b>USMCA</b>	United States-Mexico-Canada Agreement
<b>USTDA</b>	US Trade and Development Agency
<b>WHO</b>	World Health Organization
<b>WTO</b>	World Trade Organization

# Foreword | KAS

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The Indo-Pacific region's rapidly growing economies and pivotal trade routes endow its strategic importance in global economic and geopolitical affairs. The increasing tensions among key players that play out in the region, highlight the urgent need for robust frameworks that safeguard not only its economic prosperity but also its security. In this context, the Indo-Pacific Economic Framework (IPEF) represents an initial attempt in creating a rules-based framework that aims to promote economic integration, strengthen resilience, and enhance cooperation among countries within the region.

This joint publication produced by the Konrad-Adenauer-Stiftung's Regional Economic Programme Asia (SOPAS) and the Institute of South Asian Studies (ISAS) at the National University of Singapore (NUS), *"IPEF Regulations and their Impact on the Economic Security of the Indo-Pacific Region"*, provides insights into the evolving rules that govern the IPEF and examines their potential to shape the region's economic landscape. With contributions from experts in international trade, regional politics, and economic security, it provides a comprehensive analysis of the IPEF's potential impact on the economic security of the Indo-Pacific. It goes beyond mere policy discussions, offering insightful perspectives on how the framework can enhance collective efforts to address challenges such as supply chain vulnerabilities, the transition towards clean energy, and rapid, and sometimes overwhelming technological advancements.

We hope that this publication will offer readers a valuable understanding of the IPEF's significance, exploring the framework's influence on regional and global economic security in an era of increasing uncertainty.

**Paul LINNARZ**

Representative Tokyo Office, Director Regional Economic Programme Asia (SOPAS)  
Konrad-Adenauer-Stiftung

## Foreword | ISAS – NUS

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Concerns over economic security and geopolitical tensions are reshaping the global economic landscape. Trade agreements and supply chains are increasingly being impacted by the fragmenting geoeconomic order. Furthermore, the emphasis on economic nationalism has also raised questions over the future trajectories of trade and economic globalisation. In this state of flux, rules of trade and economic engagement among countries are evolving into frameworks for strategic and comprehensive economic relationships, with trade becoming a key enabler of security while facilitating deeper economic integration. The Indo-Pacific Economic Framework (IPEF) embodies these transformative shifts and new approaches.

Motivated by the goal of establishing a US-led rules-based economic order in the region, the IPEF focuses on de-risking supply chains; enhancing trade, investments and innovations in green technologies and clean energy products; and promoting fair and transparent business practices. This is reflected in the four pillars of the framework, notably trade, supply chains, clean economy, and fair economy. Comprising 14 economies from the Indo-Pacific, the IPEF's flexible approach to engaging with 21st-century challenges marks a notable departure from the traditional and more binding market access-based approaches of free trade agreements.

The framework has progressed rapidly since its launch in May 2022, with negotiations for all pillars, except trade, having concluded, and the work programmes taken up for implementation. While this is heartening news, there is concern over whether the new Trump Administration in the US will remain engaged with the IPEF. Irrespective of the US decision, concerted efforts from members over the last two years in getting the deal going, underlines its strategic value for the region. The IPEF's strategic appeal stems from the perceived contribution of its rules in enhancing regional economic security, most prominently through resilient supply chains and transitioning to clean and sustainable economies.

For the Institute of South Asian Studies (ISAS) at the National University of Singapore (NUS) - an autonomous research institute working on contemporary South Asia - the IPEF has been an important area of research. ISAS has been closely tracking developments in the Indo-Pacific, primarily due to the active participation of South Asia's largest economy, India, in regional affairs. As an Institute located in Southeast Asia with a close focus on engagement between South and Southeast Asia, IPEF is an obvious and natural priority, given the significant engagement of Singapore and Southeast Asia in the IPEF process.

We are delighted to collaborate with the Regional Economic Programme Asia (SOPAS) of Konrad-Adenauer-Stiftung (KAS) Japan for publishing this series of thought-provoking and insightful essays on the IPEF's impact on economic security in the Indo-Pacific. This initiative follows our earlier collaborative effort, *The Making of the Indo-Pacific Economic Framework for Prosperity*, which produced a compendium of member country perspectives on the IPEF in 2023, and was the first work of its kind on the IPEF in terms of the diversity of insights on the negotiating challenges. The work was endorsed enthusiastically by various stakeholders from the IPEF community and beyond. I am confident that this new collection of essays comprising rich and diverse perspectives from distinguished experts reflecting on the influence of the IPEF on regional economic security will be received as enthusiastically as its predecessor.

I would like to express my sincere appreciation to the various contributors, editors, and project teams at ISAS and KAS for their valuable contributions and efforts in bringing this publication to fruition. I eagerly anticipate the stimulating conversations and discussions that this publication is sure to inspire and engage with.

**A/P Dr Iqbal Singh SEVEA**

Director  
Institute of South Asian Studies  
National University of Singapore

# Editors' Introduction

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Amitendu PALIT and Saeeduddin FARIDI

## Introduction

The Indo-Pacific Economic Framework for Prosperity (IPEF) has had a short and eventful journey. In a little more than two years of its launch on 23 May 2022 in Tokyo<sup>1</sup>, the framework concluded negotiations on most of its work agenda and announced operational agreements for three of its four work pillars. The brisk pace of progress on the IPEF is distinct and remarkable given the sluggish pace at which negotiations usually advance for most trade and economic frameworks.

As a prominently heterogeneous group comprising some of the world's largest, most wealthy and populous economies, along with several middle-income ones<sup>2</sup>, the IPEF is the first attempt to create a rules-based economic framework in the Indo-Pacific. The group has made rapid progress on making rules on all of its agenda, except on the Pillar I on fair and resilient trade. The fast progress on the other three pillars – supply chains, clean economy and fair economy – can be attributed to various factors. One of the important ones among these is the urgency of creating regional rules in the aftermath of the COVID19 pandemic. The IPEF was launched at a time when the world and the Indo-Pacific was struggling to come to terms with the virus continuing to surface sporadically in various parts of the world. Despite availability of preventive vaccines, the shocks from the pandemic were too recent and deep to forget. As a result, it was essential for stakeholders of the IPEF to move on making rules that would ensure that future potential occurrences of the pandemic, or similar catastrophes, do not cause as much economic and social loss, as the COVID19 did.

The setbacks from the pandemic also made it amply clear when economic systems, processes and networks crash, they not only result in economic losses, but also have serious implications for national securities due to shortages of several essentials. The latter include basic necessities like food, energy and medicines as well as items necessary for household, industrial and military functions, such as critical materials and semiconductors.

In the IPEF's journey, till now, the idea of safeguarding security has been an overpowering objective. This, indeed, might have been one of the key factors in pushing the framework to make quick rules. It is, however, important to reflect on by what extent the rules made for various work agendas will be able to contribute to the objective of enhancing security.

## Economic Security and IPEF: The context

The importance of the IPEF framework from a security perspective can be best understood from

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- 1 "Fact Sheet: In Asia, President Biden and a Dozen Indo-Pacific Partners Launch the Indo-Pacific Economic Framework for Prosperity," The White House, 23 May 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/23/fact-sheet-in-asia-president-biden-and-a-dozen-indo-pacific-partners-launch-the-indo-pacific-economic-framework-for-prosperity/>
  - 2 The group includes Australia, Brunei, Fiji, Japan, Korea, Malaysia, New Zealand, Indonesia, India, Philippines, Singapore, Thailand, the USA and Vietnam.

the larger setting pitched by the former US National Security Adviser Jake Sullivan in his remarks at the Brookings Institution on 27 April 2023.<sup>3</sup> Sullivan identified two specific economic sectors with serious implications for national security of the US. The first of these was semiconductors, where the US accounted for only a tenth of the total global production, making it heavily dependent on external sourcing. Sullivan described it as a ‘critical economic risk and national security vulnerability’.<sup>4</sup> In the same context, he also identified critical minerals and their great significance for producing clean-energy products while underpinning the dependence of the US on imports of these minerals. These examples were used for rationalising the Biden Administration’s signature domestic industrial policies such as the CHIPS and Science Act of 2022<sup>5</sup>, the Inflation Reduction Act (IRA) of 2022<sup>6</sup> and the Bipartisan Infrastructure Law.<sup>7</sup> Sullivan further drove home the key objective of these policies by clarifying ‘*Our objective is not autarky—it’s resilience and security in our supply chains.*’<sup>8</sup>

As a rule-making framework led proactively by the US, it is natural and obvious that US views on economic security play a key role in shaping the rules of the IPEF. Sullivan’s articulation of national security vulnerabilities arising from economic risks is the fundamental economic security premise of the IPEF. The premise, apart from reflecting the American views, also connects closely to those of Japan on economic security.

Japan was the first country in the Indo-Pacific region to announce a legislation on economic security, as early as May 2022, around the same time the IPEF was launched. Japan’s Economic Security Protection Act (ESPA)<sup>9</sup> legislates financial and policy support for businesses engaged in several economic areas crucial for national security. These include supply chains, critical infrastructure, critical technologies and secret patents. The areas and sectors, particularly supply chains for critical goods, connect closely with the US views on economic security that emphasise resilience of supply chains – a priority that has subsequently found its way into the rulemaking of the IPEF.

In the wider context of the IPEF’s role in advancing economic security of the Indo-Pacific region, the ideas of the Quad were also influential. The Quad, or the Quadrilateral Dialogue, comprises the US, Australia, India and Japan.<sup>10</sup> The Quad Foreign Ministers meeting in Tokyo in October 2020<sup>11</sup>

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3 “Remarks by National Security Adviser Jake Sullivan on Renewing American Economic Leadership at the Brookings Institution,” The White House, 27 April 2023, <https://www.presidency.ucsb.edu/documents/remarks-national-security-advisor-jake-sullivan-renewing-american-economic-leadership-the>

4 *Ibid.*

5 “Fact Sheet: CHIPS and Science Act Will Lower Costs, Create Jobs, Strengthen Supply Chains, and Counter China,” The White House, 9 August 2022, <https://kr.usembassy.gov/081022-fact-sheet-chips/>

6 “Inflation Reduction Act of 2022,” US Department of Energy, <https://www.energy.gov/lpo/inflation-reduction-act-2022>

7 “Fact Sheet: Biden-Harris Administration Celebrates Historic Progress in Rebuilding America Ahead of Two-Year Anniversary of Bipartisan Infrastructure Law,” The White House, 9 November 2023, <https://bidenwhitehouse.archives.gov/briefing-room/statements-releases/2023/11/09/fact-sheet-biden-harris-administration-celebrates-historic-progress-in-rebuilding-america-ahead-of-two-year-anniversary-of-bipartisan-infrastructure-law/>

8 As in 3 above.

9 “Japan’s Economic Security Legislation”, European Parliament, 2023 [https://www.europarl.europa.eu/RegData/etudes/ATAG/2023/751417/EPRS\\_ATA\(2023\)751417\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/ATAG/2023/751417/EPRS_ATA(2023)751417_EN.pdf)

10 “The Quad,” Department of Foreign Affairs and Trade, Australian Government, <https://www.dfat.gov.au/international-relations/regional-architecture/quad>

11 Dipanjan Roy Chaudhury, “Quad Ministers vow to make supply chains resilient, Indo-Pacific free and open,” The Economic Times, 6 October 2020, <https://economictimes.indiatimes.com/news/politics-and-nation/quad-ministers-vow-to-make-supply-chains-resilient-indo-pac-free-open/articleshow/78521551.cms>



was the first occasion to declare its intent of safeguarding supply chains. The most emphatic pronouncement in this regard was conveyed through the Joint Statement issued by the Leaders in 2023 that welcomed the Group's efforts to '... develop a guiding framework for ensuring supply chain security and resilience'.<sup>12</sup> The emphasis on addressing cybersecurity risks in the IPEF rules for Pillar II can also be traced back to the similar emphasis of the Quad. It is hardly coincidental that the IPEF was launched in Tokyo a day before the Quad Leaders meeting on 24 May 2022<sup>13</sup> and the fact that all four Quad members are part of the IPEF with three among them – Australia, India, and Japan – having also teamed up for the Supply Chain Resilience Initiative (SCRI).<sup>14</sup>

As the IPEF unfolded, it became obvious that the core ideation of economic security in the framework has been institutionalised through efforts to enhance resilience of supply chains in Pillar II. There have been further tractions of the sense of security in Pillar III (clean economy) as well. The sense is much less pronounced in Pillars I and IV. It is perhaps noteworthy that Pillars II and III were the most discussed among the IPEF exercises and advanced rapidly to become operational before the end of the Biden Presidency in the US.

### IPEF Rules on Supply Chains and Economic Security

The first Ministerial Statement on Pillar II had outlined the intention of the framework to connect the work on enhancing resilience of supply chains to national securities of members: *"We intend to pursue provisions and initiatives, including but not limited to: establishing criteria to identify sectors critical to our national security, the health and safety of our citizens, and economic resilience through the prevention of significant or widespread disruptions to our economies;"*<sup>15</sup>

Looked at in the wider context of economic security discussed earlier, the above emphasis in the Ministerial Statement is in sync with what the US National Security Adviser outlined in his remarks on 27 April 2023. The sync becomes more evident from the connection between national security and economic resilience promoted by the IPEF through the focus on identifying ostensibly 'critical' sectors, whose disruptions have implications for national security and health safeties of citizens of members. The correlation – drawn soon after the launch of the framework in May 2022 in the first Ministerial statement for supply chains announced in September 2022 – has been entrenched in the final Supply Chain Agreement<sup>16</sup> that has become operational from 24 February 2024.<sup>17</sup>

The introduction to the Supply Chain Agreement specifies resilience and security, along with

12 "Quad Leaders Joint Statement," Prime Minister of Australia, 20 May 2023, <https://www.pm.gov.au/media/quad-leaders-joint-statement>

13 "Fact Sheet: Quad Leaders' Tokyo Summit 2022," The White House, 23 May 2022, <https://china.usembassy-china.org.cn/fact-sheet-quad-leaders-tokyo-summit-2022/>

14 "Joint Statement on the Supply Chain Resilience Initiative by Australian, Indian and Japanese Trade Ministers," Department of Foreign Affairs and Trade, Australian Government, 15 March 2022. <https://www.dfat.gov.au/news/media-release/joint-statement-supply-chain-resilience-initiative-australian-indian-and-japanese-trade-ministers-0>

15 Ministerial Statement for Pillar II of the Indo-Pacific Economic Framework for Prosperity (IPEF); Paragraph 4, Page 1. See <https://www.commerce.gov/sites/default/files/2022-09/Pillar-II-Ministerial-Statement.pdf>

16 "Indo-Pacific Economic Framework for Prosperity Agreement Relating to Supply Chain Resilience," U.S. Department of Commerce, <https://www.commerce.gov/sites/default/files/2023-09/2023-09-07-IPEF-Pillar-II-Final-Text-Public-Release.pdf>

17 "U.S. Department of Commerce Announces Upcoming Entry into Force of the IPEF Supply Chain Agreement," US Department of Commerce, Press Release, 31 January 2024, <https://www.commerce.gov/news/press-releases/2024/01/us-department-commerce-announces-upcoming-entry-force-ipef-supply-chain>

efficiency, productivity, sustainability, transparency, diversification and fairness, as being 'indispensable' for 'resilient and robust' supply chains.<sup>18</sup> The Agreement specifies both 'critical sectors' and 'key goods' with both definitions mentioning security as an important parameter for their identifications.

'Critical sectors' are those 'that produce goods and supply any related essential services critical to a party's national security, public health and safety, or prevention of significant or widespread economic disruptions.' 'Key goods' include 'raw, in-process, or manufactured materials, articles, or commodities, the absence of which could have a significant effect on a Party's national security, public health and safety, or prevention of significant or widespread economic disruptions.' Taken together, critical sectors and key goods represent the supply chains that have grave implications for national securities and are obviously the ones that IPEF rules aim to protect. The ideas are further expanded in Article 10 of the Supply Chain Agreement.<sup>19</sup>

The US released an exhaustive list of critical sectors and key goods<sup>20</sup> in August 2024. The list includes several industries ranging from agriculture, chemicals, critical minerals, mining, health products, and energy products, to ICT products, transportation and logistics. The Japanese ESPA, on the other hand, identifies a relatively smaller group of industries as 'specifically designated important supplies'. These industries, apart from semiconductors, storage batteries and rare earths, also include fertilisers, medical supplies, ship and air parts, cloud applications, industrial robots and machine tools.<sup>21</sup>

Soon after the release of the US list, the IPEF Supply Chains Council – one of the three bodies set up by the Supply Chains Agreement for contributing to the work on enhancing resilience – had its first meeting. The Council's emphasis on critical goods/sectors broadly covered semiconductors, critical minerals and chemicals.<sup>22</sup> As the Council moves forward on identifying a bloc-wide group of critical sectors, the US and Japanese identifications of critical industries have provided wholesome working templates for the exercise. The industries identified also resonate with similar recognition by the Quad.

### Will Collective Security be Compromised?

There are, however, distinct imperfections in the IPEF rules that can obstruct the omnibus goal of making supply chains resilient and advancing economic security.

According to Article 12 of the Supply Chain Agreement, the Supply Chain Crisis Response Network set up by the Agreement is tasked to convene emergency meetings of all IPEF members, if any one of them shares information on actual or potential disruptions that are likely to impact national

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18 As in 16 earlier.

19 Article 10; As in 13 earlier. The national security criteria is one of the several mentioned in the Agreement.

20 "U.S. Identifies Critical Sectors and Key Goods for Potential Cooperation under the IPEF Supply Chain Agreement," US Department of Commerce, Press Release, 23 August 2024, <https://www.commerce.gov/news/press-releases/2024/08/us-identifies-critical-sectors-and-key-goods-potential-cooperation>

21 As in 9 earlier.

22 "India attends first in-person IPEF Supply Chain Council and Crisis Response Network meeting at Washington DC," Press Information Bureau (PIB), 23 September 2024. <https://pib.gov.in/PressReleasePage.aspx?PRID=2057965>

securities.<sup>23</sup> The provision is expected to activate a bloc-wise response to managing the disruptions on the perceived assumption that a threat to individual member securities has implications for the collective security of the bloc. But the rule and its goal, can run into conflict with the exceptions provided in Article 15.<sup>24</sup> The latter enables members to refrain from disclosing information 'contrary to its essential security interests' or 'protection of its own essential security interests'.

Taken together, Articles 12 and 15 appear to indicate that while IPEF members can activate the crisis response network if they anticipate supply chain disruptions impacting national securities, they need not share through the same network information that might be critical for their essential security interests. It is then entirely up to the discretion of members to decide, how much information about impending disruptions can/should be shared with the rest of the bloc. This 'thus far, and no further' flexibility can handicap efforts to collectively manage supply chain shocks for the whole bloc as other members might want more information for preventive action. At the same time, other members, in response to a particular member's activation of the crisis response network, can 'support' the said member to the extent by which they consider appropriate, by disclosing that much information that they feel won't compromise their 'essential security interests'. This, again, might hamper the goal of safeguarding collective security by generating critical information and intelligence deficits.

Given the background of the COVID19 pandemic and the economic damage it inflicted on IPEF members, the bloc's desire to maximise collective economic security by making critical supply chains resilient through advance warning systems is obvious and understandable. But the flexibilities allowed to members on sharing information can run contrary to the goal. It is ironical that the goal of collective security might be impaired by the urge to secure individual securities!

Arguably, the flexibilities offered by Article 15 are for ensuring that the private sector, especially the SMEs, are enthused by the framework and commit to sharing critical information, while not feeling compromised by the perceived risks of confidentiality. This 'accommodation' on choosing how much information can be shared is clearly a fall out of the 'non-binding' character of the IPEF that sets it apart from existing major regional rules-based trade agreements like the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) and the United State-Mexico-Canada Agreement (USMCA).<sup>25</sup> Whether the 'non-binding' character of the framework will constrain its ability to address collective economic security will be known over time.

### **Labour rights for security may not work; cyber risks should**

The IPEF's emphasis on safeguarding national security by avoiding disruptions in supply chains is not limited to critical goods and the crisis response network. It extends the stress to other issues, including labour rights and cybersecurity. Labour rights is an area where the immediate relevance with economic security is difficult to identify, especially for most of the developing country members of IPEF.

Article 8 of the Supply Chain Agreement outlines the role of the IPEF Labour Rights Advisory Board. It proposes: '*.....the Board shall identify on an ongoing basis any labor rights concerns that it considers pose a significant risk to the resilience, efficiency, productivity, sustainability, transparency,*

23 Article 12; As in 16 earlier.

24 Article 15; As in 16 earlier.

25 Amitendu Palit and Ramita Iyer, "Introduction," in Amitendu Palit and Ramita Iyer (ed). 'The Making of the Indo-Pacific Economic Framework for Prosperity (IPEF)', ISAS-NUS KAS Japan Discussion Papers. [https://kas-japan.or.jp/wp-content/uploads/2023/09/IPEF-Series\\_Chapter-1.pdf](https://kas-japan.or.jp/wp-content/uploads/2023/09/IPEF-Series_Chapter-1.pdf)

*diversification, security, fairness, or inclusivity of supply chains and shall develop recommendations to address such risks.*<sup>26</sup> Further, Article 9, lays down the rules for addressing facility-specific labour rights issues among partners.<sup>27</sup>

How might labour standards impact resilience of supply chains and economic security? The ostensible idea is variations in labour standards among partners, particularly in hiring and occupational practices, can create differences among enterprises engaged in the same supply chain, but located variously, to recruit, and perform specific functions. This might impact overall comparative advantages of enterprises leading to sourcing concentrations within chains – a tendency that the IPEF will try hard to avoid. Furthermore, weak labour standards would also reduce guarantees for jobs and the bargaining power of labour leading to adverse consequences in the event of disruptions in supply chains, as experienced during the COVID19 pandemic. There can also be labour safety implications for critical supply chains, such as for semiconductors, where hazardous chemicals are used in making chips and lack of appropriate occupational safety measures among partners can impact health of workers.

Labour standards have been a contentious issue in IPEF negotiations. Though the Supply Chain Agreement has been accepted by all members and has become operational, IPEF members continue to have different perceptions on the subject. They also differ vastly in their domestic labour standards. What might be perceived as a labour right concern by one member and therefore identified as a risk to resiliency of supply chains, may not be considered so by many other members. This raises doubts over whether the concern over economic security from a labour rights perspective – predominantly a US viewpoint – will be implementable in action as the IPEF progresses.

An easier understanding among members is foreseen when resilience of supply chains connects to cybersecurity and the challenges arising therefrom. Article 11 specifies the intent among members to collaborate in responding to cybersecurity risks faced by critical sectors, as informed by individual members.<sup>28</sup> Safeguarding against cybersecurity is a non-negotiable imperative and it is expected that the bloc will be particularly alert in this regard. However, it is necessary to ensure that the exceptions provided in Article 15 on the discretion in sharing of information – as discussed earlier – should not hamper efforts to collaborate. It will be a pity if critical information deficits arising from exceptions, as noted earlier, influence the bloc's ability to handle cyber risks, as they are likely to for collective security.

### **IPEF Rules on Clean Economy and Security**

The initial Ministerial Statement on Pillar III of the IPEF devoted to rules for a clean economy had strong emphasis on energy securities of members: “We recognize energy access and affordability, energy efficiency and conservation, demand side management, diversity of energy sources, and system resilience are critical to the region's *energy security* and transition.”<sup>29</sup>

The subsequently negotiated text on Pillar III retains the emphasis on energy security through

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26 Article 8; As in 16 earlier.

27 Article 9; As in 16 earlier.

28 Article 11; As in 16 earlier.

29 “Indo-Pacific Economic Framework for Prosperity Agreement Relating to a Clean Economy,” US Department of Commerce, <https://www.commerce.gov/sites/default/files/2024-03/IPEF-PIII-Clean-Economy-Agreement.pdf>

various provisions. Energy securities of members and that of the bloc are proposed to be enhanced through rules that encourage greater use of clean energy by gradual displacement of fossil fuels and adoption of low-emission production techniques and technologies. Compared with the Supply Chain Agreement, which institutionalises specific rules for safeguarding supply chains and enhancing economic security, the clean economy framework is primarily aspirational with the intention of promoting collaboration among members across a vast range of ideas and activities.

Much of the progress on clean economy is now contingent upon the extent by which the new Trump Administration in the US will stay committed to the framework. At the first Clean Economy Investor Forum held in Singapore in June 2024, several funding streams were announced. Some of the significant ones, such as the Catalytic Capital Fund, which aims to mobilise resources for clean economy infrastructure projects in the emerging and middle-income IPEF members, has initial grant funding from Australia, Japan, Korea and the US.<sup>30</sup> There are also several Cooperative Work Programmes (CWPs) that were announced at the Forum.<sup>31</sup> All these initiatives depend heavily upon the continued participation and commitment of the US. But given the climate scepticism of President Trump, the US commitment to these initiatives might entirely dilute during Trump 2.0.

There are further concerns over whether the clean economy projects will gather momentum. The 29th meeting of the Conference of Parties to the UN Framework Convention on Climate Change, or COP29, held at Baku in Azerbaijan during 11-22 November 2024, underlined the deep division between the Global North and South on addressing climate change. Representative countries from the North and the South are part of the IPEF bloc. It might well be that the overarching lack of trust between the OECD countries and emerging market developing countries from the global arena spills over to the IPEF, particularly in financing of clean economy initiatives.

Divisions between IPEF members are likely to widen if funding support from a major IPEF initiative like the Catalytic Capital Fund mobilised from the wealthier OECD members of the bloc is made contingent on institutionalisation of specific standards by emerging and middle-income members. This can manifest in areas where the Pillar III proposes creating of new markets, such as for low-carbon and renewable hydrogen. It can also arise in the exercise for crafting fresh standards for new energy infrastructure investments, labelling of thermal power, nuclear energy, waste management, energy performance and energy efficiency.<sup>32</sup> Reaching collective consensus on standards is a formidable challenge and can affect progress in carbon credit certifications impacting the bloc-wide growth of a carbon credit market.

Unlike the Supply Chain Agreement that links safeguarding of labour rights to resilience of supply chains and concomitant assurance of security, the Clean Economy Agreement does not draw a similar correlation. But labour rights do get reflected in the rules for clean economy, specifically in Section G of the Agreement that emphasises 'just transition' and urges promotion of decent work in this context. While not being explicit, the rules in this regard underpin protection for labour by mentioning 'The Parties recognize the importance of taking into account the employment impact of policies related to clean economy transitions.'<sup>33</sup> Clearly the understanding of economic security from the perspective of individual labour becomes a priority in this regard with the rules favouring

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30 "Press Statement on Indo-Pacific Economic Framework for Prosperity Ministerial Meeting in Singapore," U.S. Embassy in Singapore, 6 June 2024, <https://sg.usembassy.gov/press-statement-on-indo-pacific-economic-framework-for-prosperity-ministerial-meeting-in-singapore/>

31 *Ibid.*

32 Articles 4 & 5; as in 24 earlier.

33 Article 20, Section G; as in 24 earlier.

sustenance of livelihoods in a trade-off with clean economy transitions. Like for labour rights in the Supply Chains Agreement, it remains to be seen whether adherence to conditions for protecting labour influences the achievements on clean energy transition and energy security.

### **Conclusion**

The conceptual sense of economic security in the rule making of IPEF has been overwhelmingly influenced by the US idea of economic security, complemented by that of Japan, and partly by economic security ideas emanating from the Quad. The common strands of these ideas have found their way into the core goal of making supply chains resilient, mostly in several critical sectors. Enhancing resilience will minimise risks of disruption for critical supply chains thereby augmenting national securities of members. Further convergence across the various notions of security has led to the emphasis on mobilising collective efforts for transition to clean energy, lowering carbon emissions and encouraging wide adoption of clean technologies.

Going ahead, the challenge for IPEF to contribute to economic security of the Indo-Pacific region and its members will depend on the buy-ins from the latter. Proactive leadership by the former Biden Administration and the urge to safeguard economic security has accelerated the IPEF's progress by creating functional rules for supply chains and clean economy. Withdrawal of the US leadership under the Trump Administration will call for alternative and purposeful leadership from other members within the group. In such a scenario, the current disruptions in the global order, namely ongoing military conflicts in Ukraine and the Middle East, and their impacts on supply chains, environment and security for the Indo-Pacific, might help in IPEF members energising efforts for keeping the framework intact and pursuing the goal of collective security.

## About the Editors

**Dr Amitendu PALIT** is Senior Research Fellow and Research Lead (Trade and Economics) at the Institute of South Asian Studies at the National University of Singapore. He is an economist specialising in international trade and investment policies, FTAs, supply chains, connectivity, cross-border data flows and the Indian economy. He is a Senior Associate Fellow with the ISPI Milan and an Adjunct Faculty with the Centre for WTO Studies, India. He has also been a Member of the World Economic Forum's Global Future Council on Trade and Investment.

Earlier, Dr Palit worked for several years in the Ministry of Finance, Government of India, and in the Ministries of Industry and Civil Supplies. He managed macroeconomic policies, including trade, investment, industrial development, Small and Medium Enterprises, entrepreneurship, and futures trading.

Dr Palit has edited and authored several books. These include *India and the Future of G20* (Bloomsbury, 2023, co-edited), *Globalisation Impacts: Countries, Institutions and COVID19* (Springer Nature, 2022), *Seeking Middle Ground: Land, Markets and Public Policy* (OUP, 2019; co-edited), *Seven Decades of Independent India* (Penguin, 2018; co-edited) and *Employment Policy in Emerging Economies* (Routledge, 2017; co-edited). His other books include *The Trans-Pacific Partnership, China and India: Economic and Political Implications* (Routledge, 2014), *China India Economics: Challenges, Competition and Collaboration* (Routledge, 2011) and *Special Economic Zones in India: Myths and Realities* (Anthem Press, 2008; co-authored). He has published in several peer-reviewed academic journals. He writes for various global publications and features as expert on the CNBC, CNA, BBC, NDTV and other prominent media channels.

**Mr Saeeduddin FARIDI** is a Research Analyst at the Institute of South Asian Studies (ISAS) at the National University of Singapore. His research interest includes infrastructure, green transition and environmental governance. Prior to joining ISAS, he was a Research Associate at the Council for Strategic and Defence Research in New Delhi where his work focused on nontraditional security in South Asia and the Indo-Pacific region. He has also worked as a Researcher at Gateway House, Mumbai, engaging in research on green hydrogen, critical minerals supplychains and economic security. He holds a Master's degree in International Politics from the School of Oriental and African Studies, University of London.

# IPEF: Economic Security for Co-prosperity

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Advaiyot SHARMA and Bipul CHATTOPADHYAY

As the world is getting more connected through trade, investment and movement of factors of production, economic security of a country is intertwined with domestic as well as foreign regulatory environments. Countries are in a better position to ensure their economic security when they are bound by a rules-based order. Traditionally, the multilateral trading system (MTS) under the aegis of the World Trade Organisation (WTO) and a web of regional trade agreements has been the glue binding this order together. However, a new set of international instruments is emerging, complementing the existing economic cooperation framework. This form of new-age cooperation blurs conventional lines between trade and non-trade/trade-related issues, and seeks to bring already close economic partners closer. A focus on multi-stakeholder participation in implementation and ensuring that cooperation translates into transformative on-ground projects are other defining features. The emergence of the Indo-Pacific Economic Framework for Prosperity (IPEF) typifies this trend. But what does it mean for the economic security needs of developing countries? This paper argues that the IPEF is embedded in an economic security context, and that IPEF represents a first attempt at arriving at a shared understanding of an intertwined economic future in the region. IPEF seeks to future-proof economic engagement in the Indo-Pacific towards a vision of co-prosperity, and the active participation of developing countries will be central to this conception. Frameworks such as the IPEF can also help developing countries in the region meaningfully contribute to the evolving understanding of economic security.



## Introduction

The notion of economic security has reemerged in the international economic landscape during the past decade.<sup>1</sup> Although the phrase is much in vogue now, there is no treaty-based or multilaterally agreed upon definition of economic security.<sup>2</sup> Even within the rules-based international economic order, the ambit of economic security considerations is different in the multilateral [World Trade Organisation (WTO)] and bilateral/regional [Free Trade Agreement (FTA)/Regional Trade Agreement (RTA)] contexts, and in other modern rules-based frameworks. With the emergence of the Indo-Pacific Economic Framework for Prosperity (IPEF), a new template of what can be termed “embedded economic security” can be seen, with economic security considerations themselves being the primary driving force for shaping the architecture of the rules.

This paper examines the IPEF from this lens of embedded economic security, with a particular focus on its possible implications for developing countries in the Indo-Pacific region. Although there is much literature on the potential of developing countries to take part in standard-setting and rule-shaping in new and emerging areas of regulatory cooperation through platforms such as the IPEF, there is limited work on how frameworks such as the IPEF can help developing countries in the region meaningfully contribute to the evolving understanding of economic security.<sup>3</sup>

## Economic Security: A Country's Geoeconomic Toolbox

In 2021, the WTO devoted its flagship annual World Trade Review to the theme of “economic resilience and trade”.<sup>4</sup> In principle, economic stability, resilience, and security lie on a continuum, without any clearly demarcated boundaries. Effectively, the more stable and resilient an economy is, the more secure it will be. However, differences arise in terms of how these principles take effect in the form of rules.

Any country's geoeconomic toolbox that it can deploy to navigate economic policy churns has broadly three compartments.

The first compartment comprises tools provided by memberships of multilateral and regional trade agreements. As parties to the WTO and a web of FTAs, countries bind themselves to a range of tariff and non-tariff commitments, and agree to respect the regulatory disciplines set out in the

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- 1 Delegates at Bretton Woods were essentially driven by the need to establish ‘economic security’ in the post-War context through the creation of an institutional and normative framework for international economic governance. However, while it still remains an amorphous concept, the notion of economic security has today evolved and expanded significantly from its 1945 understanding.
  - 2 Instruments such as the 2023 G7 Leaders’ Summit in Hiroshima have issued a G7 Leaders’ Statement on Economic Resilience and Economic Security.
  - 3 See, for example, Francis Mark A. Quimba and Mark Anthony A. Barral, “Exploring Regional Integration with Indo-Pacific Economies: A Background Analysis for IPEF Strategies,” PIDS Discussion Paper Series, No. 2023-37, Philippine Institute for Development Studies (PIDS), 2023, <https://www.pids.gov.ph/publication/discussion-papers/exploring-regional-integration-with-indo-pacific-economies-a-background-analysis-for-ipef-strategies>; Juien Chaisse and Pasha L. Hsieh, “Rethinking Asia-Pacific regionalism and new economic agreements,” *Asia Pacific Law Review*, 31(2), 451–468, 2023, <https://www.tandfonline.com/doi/full/10.1080/10192557.2023.2216056>; Lurong Chen “The Indo-Pacific Partnership and Digital Trade Rule Setting: Policy Proposals,” ERIA Discussion Paper Series No. 466, 2023.
  - 4 The report focused on the complex relationships between global trade interdependence and national economic security goals. The [2023 World Trade Report](#), on the theme of “Re-globalization for a secure, inclusive and sustainable future” also devoted a Chapter to “The impact of security concerns on trade”.

covered agreements.<sup>5</sup> Normatively, these agreements are the most stringent, as any unjustifiable deviation from their rules can make a country vulnerable to legal challenge and ultimately, economic sanctions, if breaches are established.

The second compartment includes tools provided by participation in a broad range of other international organisations and instruments. These contain relevant instruments of global administrative law and a number of international partnerships which have emerged in the past few years. These partnerships may be either sectoral or cross-cutting and generally have objectives of diversification, resilience, sustainability and security as the glue that ties them together conceptually.<sup>6</sup>

Finally, the third compartment comprises tools under relevant domestic frameworks, including trade remedy instruments, export controls, investment screening and similar areas which regulate domains that are economic security risk factors. These policies are often the result of domestication of international obligations, but in many cases, particularly in advanced economies, take the shape of unilateral instruments which contain more far-reaching rules.<sup>7</sup>

### Instruments of Economic Security: Different Means and Different Ends

The tools and instruments in a country's geoeconomic toolbox need to guide multi-criteria decision making for achieving stated economic security goals. The various tools in the toolbox not only adopt different means, but also operate towards different ends.<sup>8</sup> In this sense, countries face a two-fold challenge in their economic security decision-making scenarios. Firstly, using the right tool in the right situation to meet the specific goal, and secondly, ensuring optimum use of a combination of tools to achieve multiple goals.

The interaction between the WTO and FTA regimes presents a good starting point to illustrate these challenges. Both are important parts of the economic security framework, acting in complementary yet distinct ways. Being a part of an umbrella framework which serves as a guarantor of predictability and stability in the multilateral trading system is the primary way in which being a WTO member contributes to a country's economic security. FTAs, for their part, offer countries economic security via a path towards preferential tariff liberalisation, more efficient administration of non-tariff measures, and closer cooperation on regulatory and behind-

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5 The WTO's membership has today grown to 166. Various other governments are at various stages of negotiating entry into the WTO. Further, WTO members (and even countries which are not WTO members, such as Iran) have entered into multiple regional trade agreements (RTAs), over 370 of which are in force today. (See Regional Trade Agreements Database, World Trade Organisation).

6 These include, for example, agreements on supply chain resilience (such as the [Supply Chain Resilience Initiative](#)), the green economy (such as the [UK-Singapore Green Economy Framework](#)), digital economy (such as the [Digital Economy Partnership Agreement](#)), critical minerals and raw materials (such as the [U.S.-Japan Critical Minerals Agreement](#)), among others. The Indo-Pacific Economic Framework for Prosperity (IPEF) is an example of a set of cross-cutting agreements on supply chains, clean economy, fair economy and trade.

7 These include, for example, the European Union's (EU's) [Anti-Coercion Instrument](#) and [Foreign Direct Investment \(FDI\) Screening Regulation](#), and U.S. laws such as the [Foreign Investment Risk Review Modernization Act](#) and [Uyghur Forced Labor Prevention Act](#).

8 See generally, "Joint Communication to the European Parliament, the European Commission and the Council on "European Economic Security Strategy"," June 2023, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52023JC0020>.

the-border measures among important trading partners.<sup>9</sup>

This also means that countries can chart distinct approaches to both regimes. It may sometimes be the case that countries remain steadfastly opposed to, for example, innovative negotiation approaches being experimented by groups of WTO members, or to any expansion of the WTO's negotiation agenda to include various emerging issues.<sup>10</sup> However, the same countries may exhibit willingness in adopting innovative approaches in their own bilateral FTAs, for example concluding less-than fully complete 'early-harvest' FTAs, or agreeing to negotiate on the same aspects they may be opposed to discussing in multilateral frameworks.<sup>11</sup> Pushing the envelope during negotiations in bilateral negotiations can provide a testing ground which can provide valuable experience useful in many different contexts.

Yet, for certain elements and their corresponding implications for economic security, the WTO presents the only viable platform for discussion. For example, any less-than multilateral setting will not be able to address the inherent spillover effects of rules disciplining industrial subsidies or agricultural trade rules dealing with domestic support or export subsidies.

Thus, the question is not whether the WTO is a better guarantor of economic security than FTAs or vice-versa, but how a country can leverage both in furtherance of its economic security goals.

It is also interesting to note that there is no specific mention of economic security within the existing WTO framework. It exists only as a subset of the national security exception, which provides a ground for WTO members to derogate from respective WTO rules governing trade in goods, services or trade-related intellectual property rights.<sup>12</sup> Most FTAs incorporate similar language as that of the security exceptions enshrined in the multilateral framework.

After a lull of many decades, jurisprudence on the understanding and interpretation of the WTO national security exception has evolved significantly in the past few years. This has been driven

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9 Establishing a predictable and stable legal and commercial framework which further builds on the WTO framework and supports respective firms in carrying out mutually beneficial trade and investment activities is a key objective of bilateral and regional FTAs. See, for example, Preambles to the Trans-Pacific Partnership (TPP), US-Mexico-Canada Agreement (USMCA), EU-Viet Nam FTA, etc.

10 For example, India and Indonesia both contest the moratorium on levying customs duties on electronic transmissions at the WTO, but do so differently. While India has been leading the opposition to Joint Statement Initiatives (JSIs), including the Electronic Commerce JSI, in principle - arguing that any negotiation for a plurilateral agreement in the WTO cannot proceed without a multilateral mandate, Indonesia is a participant in the Electronic Commerce JSI - it took part in the negotiations, contesting the moratorium, and has not sponsored the stabilised text so far.

11 For example, India has historically been opposed to bringing in discussions on trade-related environmental sustainability aspects at the WTO, but has agreed to include a chapter on trade and sustainable development in its recently signed FTA with the European Free Trade Association (EFTA) countries.

12 See generally, Mona Pinchis-Paulsen, "Let's Agree to Disagree: A Strategy for Trade-Security," *Journal of International Economic Law*, pp. 527-547, 2022; and Mona Paulsen, "The Past, Present, and Potential of Economic Security," *Yale Journal of International Law*, forthcoming 2025.

by overall global trends towards securitisation of economic policy,<sup>13</sup> with major WTO members invoking the security exception and citing potential threats to their 'essential security interests' to justify discriminatory trade policies.<sup>14</sup>

Economic security, as an operational feature in context of the WTO and FTAs, therefore exists only in the realm of an exception, as a subset of a country's essential security interests which can potentially justify a rule deviation.

The interplay between the WTO and FTA regimes acquired a new dimension with the emergence and rise of mega-regional FTAs. Despite overlapping membership, the notion of FTAs as gateways to fragmentation increased and their perception as instruments laying out competing visions of economic blocs took centre stage. In the Indo-Pacific region, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) was shaped by Japanese and Canadian influences, while the Regional Comprehensive Economic Partnership (RCEP) was seen to be shaped by Chinese and Association of Southeast Asian Nations (ASEAN) influences.<sup>15</sup> The embeddedness of an economic security background was gradually becoming more and more visible, if not in the architecture of the rules yet, but certainly in terms of membership, the coverage of the agreements, and the breadth and depth of the rules, along with how these FTAs came to be perceived in the public imagination.

### From FTAs to Framework Agreements: Political Cooperation for Economic Security

The emergence of a number of sectoral and cross-cutting framework agreements defined the next period of the evolution of economic security related instruments. A major action forcer for these was the COVID-19 pandemic, which brought concerns around supply chain disruptions to the fore like few global events before had. Covering diverse areas such as critical minerals and raw materials, and general supply chain resilience, these instruments heralded the beginning of a set of new cooperative frameworks.<sup>16</sup> The prevailing geopolitical context acted as an impetus for many countries to go further down this road. They were driven by the desire for derisking

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13 The securitisation of economic policy has been a defining trend in the geoeconomic order in the past few years. See, for example, Anthea Roberts et al., "Toward a Geoeconomic Order in International Trade and Investment," *Journal of International Economic Law*, 22(4), pp. 655-676, 2019, [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3389163](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3389163); Chad P. Bown, "Trade policy, industrial policy, and the economic security of the European Union," Working Paper 24-2, Peterson Institute of International Economics, 2024, [https://www.piie.com/sites/default/files/2024-01/wp24-2\\_0.pdf](https://www.piie.com/sites/default/files/2024-01/wp24-2_0.pdf); Olga Hryniv, "Export Controls and Securitization of Economic Policy: Comparative Analysis of the Practice of the United States, the European Union, China, and Russia," *Journal of World Trade* pp. 633-656, 2022, <https://kluwerlawonline.com/journalarticle/Journal+of+World+Trade/56.4/TRAD2022026>.

14 For example, Russia and Saudi Arabia have invoked threats to their "essential security interests" to justify trade restrictions imposed on Ukraine and Qatar respectively, in contexts of allowing trade in transit and protection of intellectual property rights. Similarly, the United States invoked national security concerns to defend its imposition of additional customs duties on steel and aluminium imports from various countries.

15 The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), signed on 8 March 2018; and the Regional Comprehensive Economic Partnership (RCEP) Agreement, signed on 15 November 2020.

16 See for example, the [G20 Generic Framework for Mapping GVCs](#), [BRICS Initiative on Enhancing Cooperation on Supply Chains](#), [Supply Chain Resilience Initiative](#), the [US-Japan Agreement on Strengthening Critical Minerals Supply Chains](#), the [Australia-United States Climate, Critical Minerals and Clean Energy Transformation Compact](#), among others. In the multilateral setting, aspects of supply chain resilience have been discussed at meetings, for example, of the WTO Committee on Market Access (CMA).

through diversification of sourcing and production away from China in key sectors (the “China+1” strategy), particularly in areas with overlapping security interests (such as critical technologies, semiconductors etc.) and those essential for driving the green transition.

Ranging from closed bilateral trade and technology councils to open-ended partnerships which could see an expansion in membership over time, these platforms brought up economic security concerns front and centre.<sup>17</sup> Their primary focus was on security of supply, diversification, mapping vulnerabilities, identifying and reducing risks and building resilience in the face of increasing disruptions.

Parallely, framework agreements advancing sectoral cooperation in areas such as digital trade and electronic commerce and green economy and sustainable development also began to emerge.<sup>18</sup> These ‘digital’ or ‘green’ partnerships set out an elaborate structure for new-age cooperation. They also blurred the conventional lines between trade and non-trade/trade-related issues in terms of their structure and architecture.<sup>19</sup>

Apart from innovations in structure, scope, and content, both these sets of framework instruments contain some broader defining features that set them apart: (1) no market access commitments were negotiated; (2) rather than fostering new relationships, these agreements brought already close economic partners closer; (3) there was a focus on ensuring that the cooperation translates into on-ground projects and initiatives, through public-private partnerships and channelising greater investments; and (4) there was a focus on multi-stakeholder participation in implementation.<sup>20</sup>

Driven by these defining features, the legal nature of these agreements generally take the form of soft-law instruments, framed in the language of best-endeavour style political cooperation, rather than legally binding international law. In cases where there were pre-existing FTAs between the parties, these framework agreements sometimes adopted a combination of hard-law (reaffirming the FTA and including binding provisions to update previously agreed FTA obligations) and soft-law (in respect of the new elements of cooperation introduced).<sup>21</sup> In this sense, these instruments both complemented and supplemented the existing economic cooperation framework between the countries.

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17 See for example, the [EU-US](#) and [EU-India](#) Trade and Technology Councils (TTCs), and the [Minerals Security Partnership \(MSP\)](#), among others.

18 See the [Australia-Singapore and UK-Singapore Green Economy \(GEA\)](#) and [Digital Economy Agreements \(DEA\)](#), the [UK-Singapore Green Economy Framework](#), the [Korea-Singapore Digital Partnership Agreement](#).

19 For example, the principles underlying the Australia-Singapore GEA promote bilateral cooperation in areas straddling trade and investment, standards and conformance, green and transition finance, carbon markets, clean energy, decarbonisation and technology, and skills and partnerships for green growth, among others.

20 The MSP, TTCs and the set of GEAs and DEAs are examples of these types of agreements. Another innovation has been a sub-set of bilateral cooperation frameworks which build upon an overarching framework agreement, which itself sought to expand political cooperation for economic security. For example, the [U.S.-Japan Critical Minerals Agreement](#) seeks to lay out in greater detail aspects which would help leverage cooperation under the larger MSP umbrella, to strengthen and diversify critical minerals supply chains.

21 For example, in the Australia-Singapore GEA, parties reaffirm their commitments in various free trade agreements, particularly the Singapore-Australia FTA, and recognise that green economy cooperation through the GEA will form the sixth pillar under the bilateral Comprehensive Strategic Partnership. In another template, the Australia-Singapore DEA amends the Singapore-Australia FTA, modifying provisions in the Chapters on Electronic Commerce and Financial Services.

Thus, a new pattern began to emerge. State practice indicated that major powers were both upgrading and expanding their geoeconomic toolbox in their quest for greater economic security. International partnerships with preferred and trusted partners emerged as a new addition to their arsenal. While these new partnerships were taking many forms, advancing forward-looking cooperation on a range of issues through umbrella agreements became an important pillar. The overarching focus is on enhancing economic integration with trusted partners as a means of meeting domestic economic security goals. The embeddedness of economic security in the normative framework acquired a more prominent shape with these agreements. A combination of greater political cooperation, more involvement of the private sector, and a range of non-governmental stakeholders appeared as the method of choice. These features were to eventually become emblematic of the Indo-Pacific Economic Framework for Prosperity (IPEF), launched in mid-2022.

### Developing Countries and Economic Security Needs

Where did developing countries find themselves amidst all these developments? Participation in the multilateral trading system (MTS) and regional trading arrangements have traditionally constituted the bulk of their geoeconomic toolbox. At the WTO, debates around development concerns remain an important cross-cutting topic for the membership even after 30 years.<sup>22</sup> Trade and development are also domains covered by some FTAs, particularly in terms of highlighting avenues for trade and development-oriented technical assistance and capacity building. From an economic security lens, predictability and stability in market access through tariff bindings, disciplines on the administration of non-tariff measures, and gradually greater regulatory cooperation and coherence have been the crux of developing countries' engagement with the MTS/FTAs.

Beyond trade agreements, the participation of developing countries in the set of emerging framework agreements discussed in the previous section has been limited. Most of the bilateral sectoral agreements have been concluded between developed country partners, in many cases treaty-based allies in the larger geopolitical realm.<sup>23</sup> This is a natural feature, given that the intent of these agreements is to broaden and deepen existing cooperation, particularly in areas involving economic security contestation, rather than to pursue shallow cooperation with new partners.<sup>24</sup>

Similarly, in some of the multi-party framework agreements concluded in the past few years, only major emerging/developing economies are parties, as illustrated in Table 1.

Developing countries have also found it harder to pursue domestic legislation on resilience and

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22 In the absence of any objective criteria for certification of development status, self-designation of developing country status has become a controversial topic. Since this is tied to eligibility for availing special and differential treatment in implementing WTO commitments, much of the conversation has been focused on this aspect. Additionally, given ever-increasing diversity among them, 'developing countries' are no longer a monolithic group, with significant differences in their conception of and terms of engagement with the WTO.

23 See, for example, the [US-Japan Agreement on Strengthening Critical Minerals Supply Chains](#), the [Australia-United States Climate, Critical Minerals and Clean Energy Transformation Compact](#), among others.

24 For example, a key aspect of the US-Japan Critical Minerals Agreement is to increase cooperation on domestic measures to address "non-market policies and practices of other countries" affecting trade in critical minerals. Similarly, the negotiations between the US and EU for a [Global Arrangement for Sustainable Steel and Aluminum \(GASSA\)](#) have a similar thrust, seeking to combine objectives of a green steel deal, while at the same time seeking to take measures to keep the production capacity of "non-market economy countries" in check.

diversification related economic security aspects. This could be for a variety of reasons, but is primarily driven by the fact that any excessive reliance on trusted partners and diversification, apart from critically sensitive supply chains, may prove very costly to a developing economy, especially for smaller developing economies without any cushion to fall back on.<sup>25</sup> Trusted partnerships are not necessarily based on metrics of economic efficiency, and a trusted partnership today gives no guarantee it will remain so in the future.

The net result is that developing economies have not been part of the conversations on important aspects of the economic-security policy nexus taking place through these evolving frameworks. It also raises deeper questions, such as the extent to which developed countries' conception of pursuing economic security through cross-cutting or sectoral frameworks meets the goals and aspirations of developing countries.

**Table 1:** Recent Multi-party Framework Agreements and their Membership, Classified as per Self-Declared Development Status at the WTO

S.No.	Multi-party Framework Agreements	Membership	
		Developed Country Members/ Groupings	Developing Country Members/ Groupings
1	Supply Chain Resilience Initiative	Australia, Japan	India
2	Minerals Security Partnership	Australia, Canada, Estonia, Finland, France, Germany, Italy, Japan, Norway, South Korea, Sweden, UK, USA, EU	India
3	G20 Generic Framework for Mapping GVCs	Australia, Canada, France, Germany, Italy, Japan, Russia, South Korea, UK, USA, EU	Argentina, Brazil, China, India, Indonesia, Mexico, Saudi Arabia, South Africa, Türkiye, AU
4	BRICS Initiative on Enhancing Cooperation on Supply Chains	Russia	Brazil, India, China, South Africa
5	BRICS Statement on Ensuring Effective Functioning of Joint Value Chains	Russia	Brazil, China, Egypt, Ethiopia, India, Iran, South Africa, United Arab Emirates

**Source:** Authors' compilation from host websites of the respective agreements

### IPEF: A shared understanding of an intertwined economic future

It is against this backdrop that the signing of the IPEF must be seen. The IPEF is not just a part of this evolutionary trend, but deserves special attention for two major reasons. First, the number and diversity of participating nations, particularly developing countries that have decided to participate; and second, for the scope and breadth of its coverage.

<sup>25</sup> See, for example, Raghuram G. Rajan, "Just Say No to "Friend-Shoring", Project Syndicate, 3 June 2022; Shiro Armstrong, "A smaller planet": Friendshoring's poorer and less secure world, Hinrich Foundation, 31 October 2023.

For countries in the Indo-Pacific region, the IPEF is the latest addition to their geoeconomic toolbox. However, for the region's developing countries that are members of IPEF, it is also an entry point to an entirely new set of negotiation areas with far-reaching impacts. Through IPEF, participating developing countries for the first time have a chance to shape both the rules architecture as well as the larger economic security paradigm of the region. In a sense, they are parallelly deploying and sharpening their economic tools.

The resulting body of the agreed text – the IPEF Ministerial Statements, the main IPEF Agreement and the three IPEF pillar-based Agreements concluded so far on Supply Chains, Clean Economy and Fair Economy – represent a first attempt at arriving at a shared understanding of an intertwined economic future for the Indo-Pacific. It is also a reflection of the firm embedding of economic security considerations in future economic engagements in the region. Some of the main provisions in the three IPEF pillar-based agreements with a core economic security thrust are contained in Table 2.

**Table 2:** Key IPEF Provisions with Core Economic Security Thrust

S.No.	Key IPEF Provisions with Core Economic Security Thrust <sup>26</sup>
1	<p><b>IPEF Supply Chain Agreement</b></p> <ul style="list-style-type: none"> <li>• Encourage production of key logistics inputs by enterprises in IPEF economies to meet market demand and diversification of source markets</li> <li>• Develop a shared understanding of global supply chain risks</li> <li>• Promote diversification of sources where market concentration exists for sectors/ goods</li> <li>• Facilitate better understanding among the private sector to understand and respond to supply chain vulnerabilities</li> <li>• Encourage supply chain diversification by using multiple suppliers to promote resilience and inclusivity and guard against economic vulnerability from global import concentrations</li> <li>• Intention to use risk and readiness assessments to help enterprises identify risks to supply chains like cybersecurity risks and risks from single- or sole-source providers and diversify inputs into their production</li> </ul>

26 See [Indo-Pacific Economic Framework for Prosperity Agreement Relating to Supply Chain Resilience \(IPEF Supply Chain Agreement\)](#), [Indo-Pacific Economic Framework for Prosperity Agreement Relating to A Clean Economy \(IPEF Clean Economy Agreement\)](#) and [Indo-Pacific Economic Framework for Prosperity Agreement Relating to A Fair Economy \(IPEF Fair Economy Agreement\)](#).



2	<p><b>IPEF Clean Economy Agreement</b></p> <ul style="list-style-type: none"> <li>• Cooperate on achieving energy security and accelerating deployment of clean energy technology</li> <li>• Intention to cooperate on energy market stability and systems resilience through technical cooperation and capacity building and mobilizing investment and sustainable finance in the context of the clean economy transition.</li> <li>• Cooperation and information sharing regarding oil and gas security</li> <li>• Recognition of the importance of diversification, resilience, and sustainability of clean energy supply chains.</li> <li>• Intention to cooperate on reduction of vulnerabilities and risks posed by supply chains adversely monopolized by single suppliers.</li> <li>• Promoting analytical efforts to characterize supply chain challenges and developing pathways to clean energy while enhancing supply chain security</li> <li>• Working together to secure availability of critical minerals or materials, parts, and components of clean energy technologies by building resilient supply chains</li> <li>• Information sharing regarding sources of clean energy technologies and parts and components from non-IPEF Parties, to enhance market-based production in promoting clean energy transition</li> <li>• Cooperate on cross-border energy interconnections to ensure that power sector investment does not compromise the ability of IPEF parties to effectively regulate power systems</li> <li>• Diversify regional sustainable aviation fuel (SAF) production pathways and promote and develop regional SAF feedstocks</li> <li>• Promote secure, diverse, and resilient clean energy supply chains</li> </ul>
3	<p><b>IPEF Fair Economy Agreement</b></p> <ul style="list-style-type: none"> <li>• Taking concrete actions to prevent corrupt actors from funnelling proceeds of their corruption into real estate markets, and exchanging information on how to mitigate abuse of real estate markets by corrupt actors</li> </ul>

**Source:** Authors' compilation from the texts of the respective IPEF Agreements

### Developing Countries in IPEF: From Ambition to Action

Nine of the fourteen IPEF participating economies are developing countries (Brunei Darussalam, Fiji, India, Indonesia, Malaysia, Philippines, Singapore, Thailand, Viet Nam). The fact that they have been a part of an inclusive framework will be central to the IPEF agreements' sustainability as a framework for co-prosperity in the longer term. This will be the basis for the translation of shared ambition into effective and substantive obligations which can align economic goals with political, technological and financial support.

While the IPEF does not grant its developing country participants any market access at this stage, it offers a plurilateral path to economic security in its various dimensions.<sup>27</sup> The IPEF contains a blueprint for cultivating economic interdependencies among participating economies through a set of pacts, but without mandating them to accede or necessarily adhere to its full structure. In theory, a member economy need only accede to any one of the IPEF agreements to formally

<sup>27</sup> A highlight of plurilateral cooperation in this context is the accommodation of a range of priorities and preferences among a diverse group of countries. See, for example, Bernard M. Hoekman and Petros C. Mavroidis, "Plurilateral Agreements, Multilateralism and Economic Development," Working Paper RSC 2024/12, Robert Schuman Centre for Advanced Studies.

remain part of IPEF. In practice, this means that IPEF members can calibrate their levels of engagement with its combination architecture of regulations, standards and rules, as per their evolving regulatory appetites.<sup>28</sup> Further, the IPEF agreements recognise that different member economies have different sets of priorities, and an opt-in/opt-out mechanism will also apply to various projects and initiatives under the different pillar agreements.

At the same time, even in terms of trade-driven economic security, there is no telling what shape a future agreement arising under the IPEF trade pillar could take. The possibility of it evolving in the longer-term to something more akin to a conventional trade agreement cannot be ruled out entirely.

For now, IPEF can be helpful for developing countries, particularly smaller developing economies, for whom making strides in enacting domestic legislation on diversification or resilience is not very feasible. With clearer articulation of more immediate economic benefits, it can also provide a potential engagement template for other developing countries in South and Southeast Asia who are presently not participating in the IPEF.<sup>29</sup>

First and foremost, the IPEF adopts a highly practical approach, with a strong emphasis on collaborating with the private sector in mobilising investments for result-oriented projects. The IPEF thus offers its participating developing economies significant commercial opportunities through greater investment inflows expanding opportunities for enhancing domestic production. This goes to the heart of the multi-faceted approach to economic security that developing countries need – a guarantee of tariff bindings through participation in the MTS and FTAs, and a potential pipeline to attract inward investment through frameworks such as the IPEF.

Through innovative IPEF mechanisms like the IPEF Catalytic Capital Fund, IPEF Investment Accelerator and IPEF Project Preparation Facility, and platforms such as the IPEF Clean Economy Investment Forum, developing countries will be able to secure access to project finance from within and beyond the Indo-Pacific region.<sup>30</sup>

The IPEF will help them improve their investment climate and better network with leading centres of technological innovation.<sup>31</sup> The manner in which the agreements are structured will enable developing countries to approach a range of issues from the vulnerability-threat-risk-resilience approach.<sup>32</sup> Together, this can help in attracting greater inward investment and improved collaboration with technology pioneers towards creating greener and cleaner supply chains, more and better investment to aid the green transition and securing cutting-edge climate solutions and mitigation projects from developed IPEF partners. The IPEF can thus be a path to promote sustainable and inclusive growth in developing countries in the Indo-Pacific region.

Secondly, the IPEF architecture ensures an end-to-end package comprising high-level political engagement on one end, and technical and finance mobilising mechanisms on the other. The

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28 For example, India, a founding IPEF member, has presently opted to remain outside the negotiations for the trade pillar agreement, participating only as an observer.

29 See, for example, Michael Iveson and Keerthi Martyn, "Goeconomic Landscaping: Prospects of Sri Lanka's Engagement with the US Indo-Pacific Economic Framework," *Journal of Indo-Pacific Affairs*, 2024.

30 See, for example, U.S. Trade and Development Agency, "USTDA to Lead IPEF Project Preparation Facility," 16 November 2023, <https://www.ustda.gov/ustda-to-lead-ipef-project-preparation-facility/>.

31 Erin L. Murphy, "The Indo-Pacific Economic Framework Singapore Ministerial: The Private Sector's Role in the Initiative's Durability," CSIS Commentary, 11 June 2024, <https://www.csis.org/analysis/indo-pacific-economic-framework-singapore-ministerial-private-sectors-role-initiatives>.

32 Pradeep S Mehta and Advaiyot Sharma, "What it will take to make the IPEF supply chain deal work," *Moneycontrol*, 18 September 2023, <https://www.moneycontrol.com/news/opinion/what-it-will-take-to-make-the-ipef-supply-chain-deal-work-11385761.html>.

Ministerial-level IPEF Council and Joint Commission and the elaborate institutional framework set up under the IPEF pillar-wise agreements so far, including the IPEF Supply Chain Council, IPEF Supply Chain Crisis Response Network, the tripartite IPEF Labor Rights Advisory Board, IPEF Clean Economy Committee, and the Technical Assistance and Capacity Building Coordination Group under the IPEF Fair Economy Agreement, offer platforms for engagement on a range of economic policy issues. Participation of developing country representatives at these platforms will help expand avenues for both high-level political cooperation and focused technical collaboration. Overall, it gives developing country IPEF participants the opportunity to shape the discourse and a forward-looking economic agenda for the Indo-Pacific.

The IPEF also has a cross-cutting emphasis on need-based technical assistance and capacity building, which will assist developing countries in advancing cooperative activities under the IPEF agenda. Further, there is a clear mandate across all the IPEF agreements for implementation within available resources, recognising the varying levels of development and capacities among its membership.

In the domestic context, the IPEF agreements will spur developing countries to undertake greater inter-ministerial consultations in preparation for engagement with the framework. Developing IPEF economies will require significant coordination and preparatory work within government departments to ensure effective participation in various IPEF fora. Enhancing internal expertise will be vital, but over the longer term this will have positive impacts on developing countries' delegations' participation in other economic forums as well.

This will be particularly important for various facets under the IPEF Supply Chain Agreement which requires authorities to understand supply chain dynamics of businesses to identify opportunities and risks. Notably, the first meetings of the IPEF Supply Chain Council and Crisis Response Network have already set up Action Plan teams on semiconductors, chemicals and critical minerals, with a focus on batteries, based on the critical sectors and key goods identified by IPEF economies.<sup>33</sup> More such Action Plan teams are expected to follow. Supply Chain Crisis Network

At the same time, developing countries will also have to bear some additional burdens. These will relate to costs of participation in various IPEF-related platforms and additional reporting requirements arising from greater information sharing obligations under the IPEF agreements.<sup>34</sup> Given the centrality of a multi-stakeholder approach in many of the IPEF activities, frequent stakeholder consultations with businesses and trade unions will need to be organised to ensure inclusivity and sustain momentum. Finally, in order to ensure effective and meaningful participation at the various IPEF platforms, some internal administrative restructuring in the relevant government departments may also be required.

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33 See, "U.S. and IPEF Partners Hold First In-Person Meetings of the IPEF Supply Chain Council and the IPEF Crisis Response Network," U.S. Department of Commerce Press Release, 14 September 2024, <https://www.commerce.gov/news/press-releases/2024/09/us-and-ipef-partners-hold-first-person-meetings-ipef-supply-chain>

34 Costs of participation may include, for example, greater time costs arising from increased international cooperation leading to additional requests for information through designated contact points, and costs of organising additional business-facing and industry stakeholder interactions, among others.

### Conclusion

The IPEF and its agreements will complement, rather than displace, the existing Indo-Pacific politico-legal economic cooperation architecture. Together with mega-regional FTAs and other international regulatory frameworks, it represents the latest addition to a growing number of geoeconomic projects in the region. It also marks a step towards 'plurilateralising' of economic security within a heterogeneous grouping of countries, with economic security considerations having been embedded into IPEF's architecture. The ideas covered within the IPEF rubric will likely remain relevant in future, even if the agreements evolve in form and substance.

IPEF has been able to broadly align to national interests of major developed and developing Indo-Pacific countries through its focus on sustained multi-stakeholder collaboration to pursue and operationalise initiatives that can help meet longer-term economic goals, instead of emphasising on enforcement of rules.

While each developing country party to IPEF will have distinct geoeconomic and geopolitical motivations in its engagement with it, the framework itself provides a large enough tent to pursue regional economic cooperation without being caught in the middle or choosing sides.

For many of the participating developing countries, the IPEF represents leapfrogging to an elaborate cooperative framework on issues such as labour and environmental standards, supply chain resilience, and anti-corruption. This presents both challenges and opportunities. While domestic pressures on these aspects will be significant, IPEF still represents a platform distinct from more enforcement-oriented, adversarial settings within the MTS or FTA contexts, and it can be a platform to explore cooperation on some of these matters which lie at the interface of trade and trade-related issues.

For developing country participants, IPEF offers opportunities for potentially enhancing the flow of trade, investment, and technology from partners within and beyond the Indo-Pacific region. They particularly stand to gain from the supply chain and clean economy frameworks, with their emphasis on technical assistance, resource pooling and revenue mobilisation to aid and accelerate implementation of clean economy transition and infrastructure projects in developing IPEF economies.

IPEF is taking shape as a regional economic framework that seeks to future-proof economic engagement in the Indo-Pacific towards a shared vision of co-prosperity. The active participation of developing countries is central to this conception. Through IPEF, developing countries in the region have an instrument with which they can not only take part in standard-setting and rule-shaping in new and emerging areas of regulatory cooperation, but also meaningfully contribute to the evolving understanding of economic security.

## About the Authors

**Mr Bipul CHATTOPADHYAY** is Executive Director, CUTS International, a 40-year-old global public policy think- and action-tank on trade, regulation and governance ([cuts-international.org](https://cuts-international.org)). He has Bachelor and Master degrees in Economics from the University of Calcutta and the University of Delhi, respectively, with specialisation in international trade. With more than 30 years of experience, Mr Chattopadhyay works on the political economy of connectivity, trade and development, including trade negotiations. He has written extensively on trade and trade-related aspects of India's economic diplomacy, particularly that in its immediate and extended neighbourhood. He is one of the co-chairs of the sub-topic on "Trade and Investment to Fight Inequality, Poverty and Hunger, and Foster Social Inclusion" under the T20 Brazil's Task Force on Trade and Investment for Sustainable and Inclusive Growth.

**Mr Advaiyot SHARMA** is a researcher with expertise in international economic law and policy. He is presently Assistant Policy Analyst at CUTS International, involved in conceptualising and executing trade policy related projects. He is co-editor of a recently published book on India's economic diplomacy, and has represented CUTS at consultations with the governments of India and U.S. on topics such as the Indo-Pacific Economic Framework for Prosperity (IPEF), and at platforms such as the WTO Ministerial Conference. He has previously worked as a legislative aide to a Member of India's Lower House of Parliament. Advaiyot holds an LL.M. degree from South Asian University, New Delhi and an undergraduate degree in law from National Law University, Jodhpur.

# EU's Economic Security Perspectives and Learnings for the Indo-Pacific

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Filippo FASULO

The European Union's approach to economic security has evolved amidst rising geopolitical tensions and economic dependencies, particularly on China. Historically, interdependence was seen as a bridge between differing political systems, exemplified by policies like Germany's *Wandel durch Handel* with Russia and China. However, as China and Russia increasingly pose strategic risks, the EU has shifted focus toward reducing dependency on critical sectors like technology and energy. This shift, led by initiatives from the European Commission, prioritises resilience and economic security through measures like the European Chips Act and industrial policies. However, divergences within the EU—illustrated by the debate over tariffs on Chinese electric vehicles—reflect conflicting national interests and economic ties with China, notably within Germany's automotive industry. Moreover, balancing economic security with the green transition is challenging, as China dominates renewable energy technologies. These issues necessitate a cohesive EU strategy that reconciles individual member states' priorities with the broader goals of security and sustainable development. The lesson for Indo-Pacific countries is to deal with the uneven costs of derisking before they might cause political misalignments.

## Introduction: The European Perspective on Economic Security

Economic security is a relatively recent concept, even if its principles have been developing for at least a decade.<sup>1</sup> The central idea is that politics is no longer disconnected from the economy, as was the case after the end of the Cold War. This kind of consideration led to the rise of the neoliberal concept of trade, trumping political differences. Moreover, trade was seen even as a tool to bend political differences. There are two prominent examples of this approach: the process that led to the entrance of China to the WTO and Germany's *Wandel durch Handel*.<sup>2</sup> In the first case, as argued by Ho Fung Hung<sup>3</sup>, the US companies lobbied their government to gradually reduce, and then eliminate the limitation on trade for China on human rights. Such a process assumed that China would not constitute a political rivalry and was slowly integrating into the post-Cold War international system. In addition, the potential economic gain was bigger than any other political considerations.

The post-Cold War order reached its peak in 2001. Having already accepted Russia into the G7, which turned into G8 in 1997, China won the bid for the Olympic games in July 2001 and entered the WTO in December 2001. From a Western point of view, China and Russia are the most striking examples of a swinging attitude toward politics with economic implications. The *Wandel durch Handel* model and, generally speaking, the German economic model assumed that Russia would provide cheap energy and China would be an invaluable economic partner, especially as an export destination, starting from the automotive sector.<sup>4</sup> Therefore, the post-Cold War global economic architecture was built on the idea that interdependence could overcome and even prevent political differences. Such a view had economic and political implications for the state and businesses.

Those considerations are relevant to understanding the current political debate in Europe about economic security. Indeed, what is to be considered is the state of geopolitical rivalry, the general economic benefits for states, protection of supply chains, and financial interests of specific sectors. As Francoise Nicolas pointed out<sup>5</sup>, it is possible to witness a misalignment between the national and company interests in pursuing a strategy of de-risking. Germany might be a clear example of this as parts of its economic sector are concurrently those that popularised the label of systemic competition (the German Federation of Industry, BDI<sup>6</sup>), and some other parts (the leading car producers) are the ones currently lobbying the most against the EU duties on Chinese EV vehicles.<sup>7</sup>

1 "Geo-economics Seven Challenges to Globalization," World Economic Forum, January 2015, <https://www.weforum.org/publications/geo-economics-seven-challenges-globalization/>

2 Noah Barkin, "Germany's Strategic Gray Zone with China," Carnegie Endowment for International Peace, 25 March 2020, <https://carnegieendowment.org/research/2020/03/germanys-strategic-gray-zone-with-china?lang=en>

3 Ho-fung Hung, "Clash of Empires From 'Chimerica' to the 'New Cold War,'" Cambridge University Press, March 2022, <https://www.cambridge.org/core/books/clash-of-empires/12211AC3B8957E8DE6C7F26998EB50C3>

4 Sander Tordior and Shahin Vallee, "Germany Needs a New Growth Model," Centre for European Reform, <https://www.cer.eu/insights/germany-needs-new-growth-model>

5 Francoise Nicolas, "The Risk of Weaponized Interdependence and the Benefit of a Cooperative Approach," ISPI, <https://www.ispionline.it/en/publication/risk-weaponized-interdependence-and-benefit-cooperative-approach-34183>

6 "Partner and Systematic Competitor – How do We Deal with China's State-Controlled Economy," Policy Paper, BDI, January 2019, <https://english.bdi.eu/publication/news/china-partner-and-systemic-competitor>

7 Monica Rayumunt, "Germany Auto Lobby Says Tariffs on China Evs Would Threaten Jobs," Bloomberg, 13 April 2024, <https://www.bloomberg.com/news/articles/2024-04-12/german-auto-lobby-says-tariffs-on-china-evs-would-threaten-jobs>

As a consequence, to understand the future of European perspectives on economic security, not only economics but also politics should be considered. Indeed, the rise of the economic security framework results from a series of subsequent events tracing back to the political evolution of China and Russia, from countries on the verge of integrating into the international system to active threats to the current status quo. The shift urged the West and the like-minded countries to reduce their economic exposures to China and Russia and to limit further improvement of their economic statecraft. However, there are at least two main obstacles to Europeans pursuing “non-dependence” on China: competing economic interests and the possible clash over security and climate goals.

### Europe and Economic Security: the Case of Competing Economic Interests

As highlighted above, the relationship between Europe and economic security has multiple dimensions. The most obvious one refers to the European Commission’s specific initiatives to address the issues. The Von der Leyen Commission proved to be consistent in taking seriously the evolution of the economic order as shaped by the rise of the concept of weaponisation.<sup>8</sup> Indeed, since 2020, Von der Leyen has put Europe at the forefront of the return of industrial policies to make the Union more resilient to shocks that kept emerging in the following years, such as the pandemic and the Russian aggression to Ukraine. Several measures taken in those years are coherent with that framework, like the initiatives on critical materials and batteries. When the term economic security became mainstream after the G7 in Japan in May 2023<sup>9</sup>, the EU Commission was quick to present its own Economic security strategy in less than a month<sup>10</sup>.

In general, the European Union’s approach to China has evolved, particularly around the concepts of “decoupling” and “de-risking.” Initially, “decoupling” referred to selective disengagement from strategic sectors, but it has since come to imply a total severance of economic ties, a controversial idea within the EU. In contrast, “de-risking” is now favored, aiming to reduce dependence on China while maintaining some economic ties. The EU’s China policy has shifted significantly since Ursula von der Leyen became President of the European Commission, with China becoming increasingly central to the EU’s strategic concerns. This shift has been influenced by China’s economic practices, human rights record, ties with Russia, and global geopolitical landscape. The EU has adopted various strategies to reduce dependence on China, such as the EU Industrial Strategy, the European Chips Act, and the Global Gateway, all aimed at strengthening Europe’s economic

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8 Filippo Fasulo, Guido Alberto Casanova and Paola Morselli, “Defying Gravity: Is De-Risking from China Possible?” ISPI, 2023, <https://www.ispionline.it/en/publication/defying-gravity-is-de-risking-from-china-possible-150813>

9 “G7 Hiroshima Summit (Session 5 Economic Resilience and Economic Security),” Ministry of Foreign Affairs of Japan, 20 May 2023, [https://www.mofa.go.jp/ecm/ec/page1e\\_000686.html](https://www.mofa.go.jp/ecm/ec/page1e_000686.html)

10 “An EU approach to enhance economic security,” European Commission Press Release, 20 June 2023, [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_23\\_3358](https://ec.europa.eu/commission/presscorner/detail/en/IP_23_3358)



security and resilience against potential Chinese leverage.<sup>11</sup>

The downsides of such a fast decision might be seen in its lack of full support at the state or business level. This is evident from the debate that arose at the time to make the economic security promises concrete actions. The most relevant case is the proposed tariffs on Chinese electric vehicles. On July 4<sup>12</sup>, the European Commission imposed “provisional countervailing duties on imports of battery electric vehicles (BEVs) from China.” This was based on an investigation launched by the Commission on October 2023<sup>13</sup> that stated that Chinese subsidies in the BEV value chain threaten economic injury to EU BEV producers. According to their cooperation in the investigation, the Commission applied ad-hoc duties to the Chinese producers. While the final decision was scheduled to be voted on in October, a preliminary non-binding vote has been cast in July 2024, showing a divided approach between the EU member states. Indeed, it has been reported that a dozen EU members voted in support of the tariffs, four voted against, and 11 abstained. At the time of the binding vote, a qualified majority of 15 member countries representing 65 percent of the EU population need to vote against to turn down the proposal. Therefore, a majority is guaranteed at the moment, but there is a clear disagreement among the major economies. According to sources quoted by Reuters, France, Italy, and Spain supported the measure, while Germany, Finland and Sweden abstained.<sup>14</sup> The divergence is due to different interests in the Chinese markets. The major divide has been drawn between France and Germany, whose position might be understood considering the different presences in China of their leading automotive companies, Stellantis and Volkswagen.<sup>15</sup> In this case, therefore, the rift over whether to impose duties or not is due to national economic interests. The representatives of the German automotive industry lamented a series of concerns regarding the EU's tariff on Chinese EVs that refers to the limitation to Made-by-Germany vehicles exported from China to Europe or the fear of

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- 11 Launched in 2020, the EU Industrial Strategy aims to strengthen Europe's industrial base, ensuring global competitiveness and strategic autonomy. It focuses on fostering resilience in strategic areas, such as raw materials and renewable energy, and reducing dependency on non-EU suppliers by supporting green and digital transformations across industries. For reference see: “European Industrial Strategy,” European Commission, [https://single-market-economy.ec.europa.eu/industry/strategy\\_en](https://single-market-economy.ec.europa.eu/industry/strategy_en); Introduced in 2022, the Chips Act is designed to bolster the EU's semiconductor sector by increasing production capacity and supporting research, development, and supply chain resilience. The goal is to double the EU's global market share of chip production by 2030 to reduce reliance on non-European sources. For reference see: “European Chips Act,” European Commission, <https://digital-strategy.ec.europa.eu/en/policies/european-chips-act>; Launched in 2021, the Global Gateway initiative promotes sustainable infrastructure projects worldwide, particularly in energy, digital, and transport sectors, to strengthen international partnerships. The strategy aims to counterbalance China's Belt and Road Initiative by supporting transparent, values-based investments. For reference see: “Global Gateway,” European Commission, [https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/stronger-europe-world/global-gateway\\_en](https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/stronger-europe-world/global-gateway_en)
- 12 “Commission imposes provisional countervailing duties on imports of battery electric vehicles from China while discussions with China continue,” European Commission Press Release, 4 July 2024, [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_24\\_3630](https://ec.europa.eu/commission/presscorner/detail/en/ip_24_3630)
- 13 “Commission launches investigation on subsidised electric cars from China,” European Commission Press Release, 4 October 2023, [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_23\\_4752](https://ec.europa.eu/commission/presscorner/detail/en/ip_23_4752)
- 14 “FACTBOX German carmakers most exposed to Chinese counter-tariffs,” Reuters, 12 September 2024, <https://www.reuters.com/business/autos-transportation/european-carmakers-exposed-any-chinese-retaliation-eu-tariffs-2024-06-13/>
- 15 Indrabati Lahiri, “Why is Germany opposed to EU tariffs on Chinese electric vehicles?,” Euronews, 14 June 2024, <https://www.euronews.com/business/2024/06/14/why-is-germany-opposed-to-eu-tariffs-on-chinese-electric-vehicles>

retaliatory measures to be taken by China against foreign producers.<sup>16</sup> On October 4 the document has been approved with 10 members backing the tariffs, while 5 voted against and 12 abstained.<sup>17</sup> Notably, Germany<sup>18</sup> led the countries opposing the decision and Spain abstained after a Sanchez-Xi meeting a few weeks earlier.<sup>19</sup> China officially initiated a dispute complaint at the WTO<sup>20</sup> and, according to Reuters, will retaliate stopping investment in the countries that voted for the tariffs.<sup>21</sup>

In addition, the EU tariffs – between 17.4 percent and 37.6 percent<sup>22</sup> – might even be ineffective compared to the 100 percent tariff applied by the Biden administration in May.<sup>23</sup> The German automotive sector is notoriously the most exposed to the Chinese market, with profits and market share in danger. Indeed, according to Stiefel Research, reported by Reuters<sup>24</sup>, countermeasures might cost up to 4-10 percent of their earnings before interest and taxes. However, the effect of a negative image is also to be counted when Chinese producers are increasingly attractive to local customers. The exposure affects all the major German automakers, as Porsche sells a quarter of its cars in China, Volkswagen holds 14.5 percent of the local market, Mercedes-Benz sells 36 percent of its units in China, and BMW a third of its sales.<sup>25</sup>

In comparison, the Swedish and China-owned Volvo makes only 10 percent of its profit from China (and Sweden was cold on the tariffs, too). At the same time, the Franco-Italian Stellantis and the French Renault have a low presence in the country. Consequently, while the Germans attempted to reduce the effect of the tariffs, the French were among its inspirators. It has also been reported that China might leverage those divisions, offering benefits for German companies

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16 "German car industry urges EU to drop tariffs on China-made cars," Automotive News Europe, 3 July 2024, <https://europe.autonews.com/automakers/germanys-vda-urges-eu-drop-china-ev-tariffs-deadline-looms>

17 "How EU governments voted on Chinese EV tariffs," Reuters, 4 October 2024, <https://www.reuters.com/business/autos-transportation/how-eu-governments-plan-vote-chinese-ev-tariffs-2024-10-04/>

18 Agathe Demarais, "Divided we stand: The EU votes on Chinese electric vehicle tariffs," European Council on Foreign Relations, 9 October 2024, <https://ecfr.eu/article/divided-we-stand-the-eu-votes-on-chinese-electric-vehicle-tariffs/>

19 Jose Miguel Blanco, "Sánchez pledges 'constructive efforts' to help bridge China-EU differences," Euractiv, 10 September 2024, <https://www.euractiv.com/section/agriculture-food/news/sanchez-pledges-constructive-efforts-to-help-bridge-china-eu-differences/>

20 "China initiates dispute complaint regarding EU definitive duties on electric vehicles," World Trade Organisation, 6 November 2024, [https://www.wto.org/english/news\\_e/news24\\_e/ds630rfc\\_06nov24\\_e.htm](https://www.wto.org/english/news_e/news24_e/ds630rfc_06nov24_e.htm)

21 "Exclusive: China tells carmakers to pause investment in EU countries backing EV tariffs, sources say," Reuters, 31 October 2024, <https://www.reuters.com/business/autos-transportation/china-tells-carmakers-pause-investment-eu-countries-backing-ev-tariffs-sources-2024-10-30/>

22 "An EU approach to enhance economic security," Press Release, European Commission," European Commission Press Release, 4 July 2024, [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_24\\_3630](https://ec.europa.eu/commission/presscorner/detail/en/ip_24_3630)

23 "FACT SHEET: President Biden Takes Action to Protect American Workers and Businesses from China's Unfair Trade Practices," The White House, 14 May 2024, <https://www.whitehouse.gov/briefing-room/statements-releases/2024/05/14/fact-sheet-president-biden-takes-action-to-protect-american-workers-and-businesses-from-chinas-unfair-trade-practices/>

24 "FACTBOX German carmakers most exposed to Chinese counter-tariffs," Reuters, 12 September 2024, <https://www.reuters.com/business/autos-transportation/european-carmakers-exposed-any-chinese-retaliation-eu-tariffs-2024-06-13/>

25 *Ibid.*

if the government is successful in mitigating the EU measures.<sup>26</sup>

The relevant consideration is that to de-risk is expensive, the cost burden might be uneven among member states, the process might be long, and some countries might secure better conditions for their companies. Unsurprisingly, most European governments are trying to manage the transition towards a scenario dominated by de-risking, minimising costs, and grasping some benefits. Again, there is a relevant role of France and Germany that “decoupled” their China strategy after the pandemic. When Xi Jinping visited Europe in 2019, he stopped first in Italy to sign the Memorandum of Understanding on the Belt and Road Initiative and continued to France. In Paris, Xi Jinping was welcomed by the local host, the French President Emmanuel Macron, along with the German Chancellor Angela Merkel and the President of the EU Commission Jean-Claude Juncker, to represent the unity of the European Union vis-à-vis China (and in contrast to the Italian unilateralism). Since the visit, for a couple of years, the leaders of the two biggest European economies held several trilateral meetings with Xi Jinping until 2022, when Scholz succeeded in being the first and lonely European leader to visit Beijing.<sup>27</sup> The visit aimed to restore economic relations after COVID-19 and in the worsening economic context. The trip was replicated in 2024 to find a proper balance between security and business cooperation for the German economy. Macron also sought a positive relationship with China, promoting a new course of personal bonding with Xi Jinping with a trip to China in 2023 and receiving the Chinese leader in Paris in 2024. During the visit, France and China signed numerous agreements, even in sectors that might be sensitive, such as the battery industry.<sup>28</sup> This data does not stand alone but is part of an ongoing trend. Indeed, according to the yearly report on Chinese FDI to Europe by Merics and Rhodium Group<sup>29</sup>, 2023 has been a significant year for China’s activities in the European value chain of batteries. The report records a total of €4.7 billion invested by Chinese-related entities in Europe in 2023, which amounts to 70 percent of total Chinese FDI to Europe. Even if the top destination for this investment is Hungary – which positions itself as a pro-China country – Chinese EV investment in the last few years also went to France, Germany, Sweden, and the United Kingdom. The lesson that Indo-Pacific countries should learn from the European experience is that de-risking is a costly activity, with expenses impacting each state differently. This varied impact across countries has the potential to create a political divide, which could easily be exploited to break the cohesion of like-minded countries. For example, investment conditions could be tied to political support. It is therefore important to consider a compensation mechanism among the different countries.

The EU policies towards strategic sectors such as EVs might appear uncoherent: on one side, it is trying to reduce dependence on China; on the other, it is welcoming further ties with China in those sectors. That is due to three different goals that should stand simultaneously: to increase security, to sustain companies, and to sustain the economy. The dilemma between security and companies’ interests is the one that is preventing Germany from sustaining the EV tariffs. Still, there is also

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26 Marco Quiroz-Gutierrez, “China goes into panic mode over EU tariffs on electric cars, offers perks for German carmakers if they drop restrictions,” *Fortune*, 26 June 2024, <https://fortune.com/2024/06/25/china-ev-tariffs-eu-german-cars/>

27 Philip Oltermann, “Germany’s Scholz heads to China amid questions over strategy,” *The Guardian*, 3 November 2022, <https://www.theguardian.com/world/2022/nov/03/germany-olaf-scholz-china-visit-questions-over-strategy>

28 “French and Chinese firms ink deals on sidelines of Xi’s Paris visit,” *Reuters*, 7 May 2024, <https://www.reuters.com/markets/french-chinese-firms-ink-deals-sidelines-xis-paris-visit-2024-05-06/>

29 Agatha Kratz et al., “Dwindling investments become more concentrated - Chinese FDI in Europe: 2023 Update,” Report, Merics and Rhodium Group, 6 June 2024, <https://merics.org/en/report/dwindling-investments-become-more-concentrated-chinese-fdi-europe-2023-update>

a potential conflict between company and national interests. This is the case of promoting the localisation of Chinese auto producers in Europe. If the major story for the automotive sector in the past decades was the entry into the Chinese market of the European producers, with a major role played by the German companies, there is currently a reverse phenomenon. According to Reuters<sup>30</sup>, most major Chinese auto companies have already opened manufacturing facilities in Europe or announced future investments. Among them are Chery Auto in Spain, BYD in Hungary, Leapmotor in Poland, and SAIC Motor in France. In the words of Finance Minister Bruno Le Maire, France would also be open to BYD investment in the country.<sup>31</sup> So, if, from one side, Chinese auto producers are seen as a potential threat to the European economy, leading to the tariffs, on the other side, there is a rush to localise production in Europe. An explanation of this process might come from the Italian case.

The Italian relationship with China in the last five years has been quite unstable. In 2019, the Conte I government signed the Memorandum of Understanding on the Belt and Road Initiative with Xi Jinping, which led the major Western countries to denounce an Italian unilateral entente with China right when the great power competition was speeding up. The following Italian governments (Conte II, Draghi, and Meloni) spent the subsequent years distancing themselves from China and proving to the Western allies that Italy was firmly in the Western camp. The last mile of this process, which passed through a de facto freezing of high-level meetings and a strong use of the Golden Power regulation,<sup>32</sup> was the withdrawal from the BRI MOU in late 2023.<sup>33</sup> This choice was one of the most significant achievements of the Meloni government in foreign affairs, along with the support for Ukraine in the context of the Russian aggression. The withdrawal from the MOU needed a long diplomatic negotiation to explain to the Chinese counterpart that it was not an act of hostility but rather a required action for Italy in the context of its alliances. China apparently reacted well to the Italian decision, and no retaliation has been carried out yet.

On the contrary, Italy and China restarted a series of high-level meetings as soon as the MOU expired. The Chinese commerce minister Wang Wentao was in Verona in April 2024, Meloni visited China in July 2024, and the President of the Italian Republic, Sergio Mattarella, visited China in November.<sup>34</sup> The most relevant business agreement discussed in Verona and Beijing was the possible opening of a car plant in Italy by Dongfeng Motors. The Italian representative in charge of this dossier was the Minister for Made in Italy and Economic Development, Adolfo Urso, who cannot be seen as a “Panda Hugger.” Indeed, in the previous legislature, he was the chairman of COPASIR, the Parliament committee focusing on security issues. Therefore, Urso has always been aware of the rise of the concept of economic security and the concerns of the allies regarding the alleged close political relationship between Italy and China in the context of the MOU. Still, he is a strong supporter of a possible Dongfeng investment. The reason lies in the economic condition of

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30 “Chinese EV makers set sights on European production,” Reuters, 10 May 2024, <https://www.reuters.com/business/autos-transportation/chinese-ev-makers-plans-make-cars-europe-2024-05-07/>

31 “BYD is welcome to open factory in France, French finance minister says,” Reuters, 6 May 2024, <https://europe.autonews.com/automakers/france-would-allow-chinas-byd-build-cars-country>

32 “Italy’s Golden Power reform: what’s new for foreign investors,” Decode 39, 19 April 2022, <https://decode39.com/3214/italy-golden-power-reform/>

33 Alessandra Migliaccio and Flavia Rotondi, “Italy Tells China it Will Exit Belt and Road Investment Pact,” Bloomberg, 6 December 2023, <https://www.bloomberg.com/news/articles/2023-12-06/italy-notified-china-it-will-exit-belt-and-road-pact-radiocor?sref=VZPf2pAM>

34 “Xi Jinping Holds Talks with Italian President Sergio Mattarella,” Ministry of Foreign Affairs The People’s Republic of China, 8 November 2024, [https://www.mfa.gov.cn/eng/xw/zyxw/202411/t20241111\\_11524662.html](https://www.mfa.gov.cn/eng/xw/zyxw/202411/t20241111_11524662.html)

Italy and the prospect of manufacturing jobs.

Along with the talks on the Dongfeng investment, there has been a debate on the media between Urso and Carlos Tavares, the CEO of Stellantis, the group controlling the production location of the historical Italian automaker FIAT.<sup>35</sup> Urso is lamenting that Stellantis is reducing the share of its production in Italy and threatening to close factories in Italy in the next few years. While Stellantis is said to oppose a possible Chinese investment in Italy, the Italian government is explicitly calling for producers that can add 100,000 cars per year to the Italian output to preserve manufacturing jobs in the country.<sup>36</sup>

Localising Chinese automotive production in Europe might be seen as a minor evil for Europe because while national companies might suffer from the competition, on the bright side, employment might be preserved and there are hopes of a technological spillover effect on the territory that can foster the creation of start-ups for components in the future. This is even more important for the European governments since traditional national automakers are increasingly more global players and less interested in the social effects at the local level of their decisions on delocalising production.

Based on this experience, maintaining economic security goals will be heavily influenced by the cost impacts of diversification actions, which, however, can be offset by strategic interests. In other words, some countries may forego individual economic advantages in a bilateral relationship with China in exchange for military support in the context of regional territorial disputes. In this regard, however, the new Trump administration, which signals the request for a greater economic contribution from regional countries and calls into question economic agreements like the IPEF, reduces incentives for cohesion in economic security policies.

### Europe and Economic Security: the Case of the Green Transition

The second obstacle European economic security policies face is the dilemma between domestic production and green transition. The situation here is slightly different from the one in the automotive sector. In the former, Europe is losing competitiveness in one of its most important economic sectors, the top sector in terms of trade surplus with China. Broadly, the EU-China economic exchange in the last decades can be described as the EU exporting cars and importing everything else: and this first pillar is in peril.

China already has a dominant position in the market of technologies for green transition. While in automobiles, the EU's goals are reducing dependence and protecting the local market; for green technology, along with reducing dependence, the effort is to create a local market. The EU has set ambitious goals for green transition including increasing the share of solar (600 GW by 2023) and wind in energy production. However, these goals can be better pursued by importing Chinese-made appliances - rather than blocking trade with China to sustain the local economy - as argued by the European solar panel associations.<sup>37</sup> The dilemma is between boosting the local tech sector but slowing down the energy transition by raising costs; or speeding up the green transition, while

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35 "La cinese Dongfeng pronta a produrre 100mila auto in Italia," *Il Sole 24 Ore*, 17 April 2024, <https://www.ilsole24ore.com/art/la-cinese-dongfeng-pronta-produrre-100mila-auto-italia-AFI5drZD>

36 *Ibid.*

37 Jonathan Packroff and Théo Bourgery-Gonse, "Net-Zero Industry Act: Solar sector warns against anti-China clauses," *Euractiv*, 6 December 2023, <https://www.euractiv.com/section/economy-jobs/news/net-zero-industry-act-solar-sector-warns-against-anti-china-clauses/>

it benefits the Chinese manufacturers. Such a scenario is a complication for the China policy of those advocating a stronger boost towards energy transition and, at the same time, taking tough measures on China, such as, for example, the Green Party in Germany.<sup>38</sup>

This debate is also linked to the issue of overcapacity in China and the idea of a coming China Shock 2.0. After the COVID19 pandemic, despite the proclamations about the importance of consumption, Chinese growth has been increasingly dependent on industrial production and exports. The rise in domestic production, notwithstanding higher quality rate, hasn't been matched by domestic demand leading to overcapacity being "unloaded" onto international markets. For this reason, the international press is increasingly talking about China Shock 2.0.<sup>39</sup> This refers to what happened after China entered the WTO in 2001, with Chinese goods outcompeting American and European products, causing deindustrialisation, whose effects are still perceptible today for the economies involved. The difference from twenty years ago is in the type of Chinese goods, which were low value-added in the early 2000s, as opposed to those that are more hi-tech and higher value added now. The Chinese economy is unable to domestically absorb these products leading to overcapacity. This dynamic has become prominent since the second half of 2023 in light of the performance of the Chinese economy.

However, overcapacity is not new for those who follow China's events. The issue of China's excessive production capacity had already arisen as a long wave of the 2008 economic stimulus adopted by Beijing to offset the effects of the international financial crisis. Once the growth in cement, glass, and steel production had been absorbed into national infrastructure and construction, China had to face a long process of industrial restructuring that also found an outlet in the Belt and Road Initiative (BRI) as a plan aimed precisely at giving an external outlet to internal overcapacity. Unlike today, a decade ago, China had both a growing domestic demand capable of absorbing, at least in part, that production capacity and an interest in reviewing its economic structure to increase the quality in production.

Today's technological level in China's industrial production is also a response to the measures adopted to resolve the excess capacity and inefficiencies of the mid-2010s. The situation is structurally different because Beijing does not interpret excess production capacity as a sign of weakness and Xi Jinping does not seem inclined to review the Chinese economic development model in the short term to prefer immediate gains.<sup>40</sup> While Europeans and Americans see overcapacity as the result of distorting practices resulting from unfair industrial subsidies, the Chinese, for their part, describe excess capacity simply as the result of greater efficiency<sup>41</sup> in the industrial fabric of the People's Republic.<sup>42</sup> Furthermore, overcapacity is not the same in all sectors.

While in the "classic" ones, such as cement, steel, and glass, one can also find a point of coordination on international supply, there is profound disagreement in the green technology sectors. Beijing's synthesis is that there is such a demand for renewables and electric cars worldwide that it is only

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38 Jonathan Lehrer, "How China Policy Challenges to German Greens," China Observers, 16 July 2021, <https://chinaobservers.eu/how-the-china-policy-challenges-the-german-greens/>

39 Jacky Wong, "China Shock 2.0 Will be Different," The Wall Street Journal, 11 April 2024, <https://www.wsj.com/world/china/china-shock-2-0-will-be-different-027d5d30>

40 Zongyuan Zoe Liu, "Why China Won't Give Up on a Failing Economic Model," Foreign Affairs, 31 October 2024, <https://www.foreignaffairs.com/china/why-china-wont-give-failing-economic-model>

41 Marius Zaharia et al., "What Overcapacity?," Reuters Analysis, 11 April 2024, <https://www.reuters.com/graphics/CHINA-USA/TRADE/zdvxneaaxv/?utm>

42 Zhou Mi, "Guest Opinion: Overcapacity caused by China -- a false narrative" Xinhua, 23 April 2024, <https://english.news.cn/20240423/131aae523e0f4d23b8befd778e6d9d4a/c.html>

good if Chinese companies can cover this demand at low prices. If Chinese companies dominate green production, it will be due to their economic efficiencies. For Europeans and Americans, however, Chinese dominance results from unfair industrial policies - first and foremost, Made in China 2025 - which have led to a dependence on China.

In the current climate dominated by the concept of economic security – that is, the reduction of economic dependencies to avoid finding oneself in strategic difficulties, as in the case of gas from Russia – it is imperative to create domestic production that protects against the risk of economic coercion. This is precisely why industrial policies have returned on both sides of the Atlantic: to develop internal production capacity that protects from dependence on China. However, if Beijing invests massively in sectors in which it is already a world leader, it will be challenging for Europe and the US to develop internal capacity, having to face insurmountable Chinese competition.

The Indo-Pacific and the European Union thus face common challenges in maintaining economic security goals, namely pursuing de-risking despite its short-term costs. For this reason, a collective diversification effort that includes increased integration between these regions is in the full interest of both. This approach can be pursued without undermining trade relations with China in non-strategic sectors and reduces the likelihood of retaliatory actions against individual countries. A first solution could involve engaging the EU in the Supply Chains Pillar measures of the IPEF. This need will become even more pressing following the start of the Trump presidency, which will expose individual countries to higher costs and thus greater vulnerability to coercion.

### Conclusion

The rise of economic security is the result of a worsening international political scenario. It is the outcome of the failure of interdependence to settle political disputes and promote the political integration of autocratic countries into the neoliberal order. Therefore, it became an unavoidable priority for the EU to pursue a reduction of dependence on China, which is increasingly considered a rival. The measures taken by the European Commission were quick and on point, even if the resources available are significantly lower than what the US and China can deploy.<sup>43</sup>

However, a coherent EU vision is challenged by the specific interests of the member states, which have to deal with the interests of their national business community and conflicting political agendas. Each member state attempts to minimise the costs of making economic security a reality. Such responses can severely affect the EU's goals in favor of small local objectives. At the same time, a potential conflict between companies can force the EU to slow down an expensive de-risking even more. For this reason, it would be important for the EU Commission of Ursula Von der Leyen to specifically pay attention to the individual (either States or private companies) interests to build consensus on the strategic goal of economic security. On the green transition side, the rift is economic and ideological. It will be crucial to assess priorities between security and green transition to overcome this impasse while China is positioning itself to maintain a tech primacy that can potentially be weaponised.

The Indo-Pacific countries face the same risks as the European Union, with the added challenge of lacking centralised mechanisms for economic policy and cost-sharing to promote cohesion. Implementing incentive mechanisms—within the framework of IPEF as well—to discourage prioritising bilateral agreements with Beijing could be crucial for achieving economic security goals.

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43 Margot Schüller, "Disengagement from China: United States and European Union Policies Compared," GIGA Focus Asia, 2023, <https://www.giga-hamburg.de/en/publications/giga-focus/disengagement-from-china-united-states-european-union-policies-compared>

### About the Author

**Dr Filippo FASULO** is Co-Head of ISPI's Geoeconomics Centre and Senior Research Fellow of the Asia Centre. He is also Adjunct Professor at the Catholic University of Milan and Affiliate Researcher at the Sant'Anna School of Advanced Studies in Pisa. He previously served as the director of the Italy-China Foundation's Centre for Business Research (CeSIF) and was a member of the scientific committee and editorial team of the journal *Mondo Cinese*. He holds a doctorate in Institutions and Policies from the Catholic University of Milan and in 2012 was awarded an MSc on China in Comparative Perspective by the London School of Economics (LSE). He was also the academic secretary of the Chinese section of the Ambrosiana Academy's Class of Far Eastern Studies till 2023. He edited CeSIF's Annual Report from 2017 to 2021 and, in 2017, was selected for the Young Sinologist Visiting Programme by the Shanghai Academy of Social Sciences.





# The IPEF Gambit: Can the US Achieve its Geopolitical and Economic Security Objectives?

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Stephen OLSON

The economic security implications of IPEF will be impacted by a number of exogenous factors, prominently including political and geopolitical developments amongst and beyond IPEF members. Of perhaps the greatest direct relevance for the fate of IPEF will be the outcome of the US Presidential election in November 2024, although Congressional elections – which will determine control of both houses of Congress – will also be critical. This paper will explore the possible political scenarios and their impact on whether the IPEF is concluded and implemented and how the negotiating positions of the US might be affected.

Broader regional and global geopolitical developments will also help shape the economic security dimensions of IPEF. These include the US-China geopolitical rivalry, growing coherence amongst developing countries in opposition to developed world's attempts to "export values" on issues such as press freedom and human rights, and growing natural resource nationalism.

## Post-Election Political Landscape in US

Long before any votes had been cast or counted, it had already become clear that the 2024 election in the US would have historical implications for reasons far beyond an incumbent President dropping out of the race only 107 days before the election.<sup>1</sup> The fate of the IPEF and US' overall regional approach to achieving economic security hangs in the balance.

With much at stake in the 2024 election, the following four scenarios present themselves:

### Scenario 1: Democrats resurgent

Under this scenario, President Biden's departure and replacement by a younger candidate injects energy and enthusiasm into flagging Democratic electoral prospects and boosts critical Democratic voter turnout. Vice President Harris wins the Presidency and the Democrats gain control of both Houses of Congress.

This unexpected uptick in the Democrat's political fortunes would generate strong momentum for policy priorities and engender unity within the party in both the executive and legislative branches. Simply shelving the nearly complete IPEF would be seen as an unforced error undermining party cohesion and unnecessarily disrespecting former-President Biden, who would be elevated to near-heroic status if his departure from the race cleared the way for another Democrat candidate to reverse the polls and defeat Donald Trump.

The IPEF negotiations would likely be concluded in the first year of Harris' term, if for no other reason than to close the loop on the previous Democratic administration's signature trade initiative and to clear the way for the new president to put her own stamp on trade policy (although preliminary indications suggest no major deviations from the Biden approach).

Expansion of the IPEF would be possible, if not likely, in the remaining three years. There is no reasonable scenario in which the China rivalry would substantially abate and other than rejoining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership or CPTPP (a political nonstarter), IPEF is the most plausible means to signal US engagement in the region and pushback against China's rising preeminence.

No prominent US political figures, and certainly not Vice President Harris, have articulated a softening of the China policy, so trade tensions with China would continue to intensify as US barriers and restrictions are maintained, if not expanded under a new Democratic President. China has already made clear its intention to respond forcefully to any trade measures put in place by the US.

Congressional Democrats would likely be more accommodating on IPEF, reflecting at least some initial deference to the "top of the ticket" (i.e., Vice President Harris) that led the Democrats to an unlikely political resurgence in both the Executive and Legislative branches. In politics, nothing unifies a party more than winning.

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1 Gabe Hauari, "From dismal debate to dropping out, the biggest moments leading to Biden's decision," USA Today, 22 July 2024, <https://www.usatoday.com/story/news/politics/elections/2024/07/22/biden-drops-out-2024-race-timeline/74495115007/>

### **Scenario 2: Democrats survive - barely**

Under this scenario, the Democrats hold off the Trump challenge and win the presidency but fail to gain control of Congress.

President Harris would be in a historically unique – and in some cases, weaker – position. She will not be given the deference accorded to an incumbent president who has won reelection with long enough “coattails” to also secure Congressional control. Nor would she be seen as having the credibility that comes from having triumphed over the extraordinary rigors of a full primary and electoral cycle. Some within the party would begin to second guess the decision to “coronate” Harris as the Democrat nominee without opening up the nomination process. In the eyes of at least some cynics, she would be seen as an “accidental president”, and should Congress fall to Republican control, a large portion of the blame would be assigned to the “top of the ticket”.

The initial boost to Harris’ political capital would dissipate in the face of partial or complete Republican control of Congress and jockeying amongst potential Democratic rivals in Congress, for the Democratic presidential nomination in 2028 would start almost from day one.

Successful conclusion of the IPEF is likely, but not assured, and could drag beyond the first year. Congressional Democrats will not feel constrained in expressing concerns or complaints on IPEF and could push the new administration into tougher negotiating positions on digital rules, labor, and the environment. Pressure could also build for more robust enforcement mechanisms in the IPEF, especially with regard to labor. The “rapid response” labor provisions in the renegotiated United States-Mexico-Canada Agreement, which allows the US to act against specific production facilities in Mexico could be presented as a model.<sup>2</sup> In the worst case, overly stringent US demands could sink IPEF. Without US market access commitments, there is less incentive for IPEF partners to accommodate tougher US positions.

If Trump loses and contests the election’s legitimacy with the Republicans in control of Congress, the political climate in the US will be more toxic than at any other time since the US Civil War and dysfunction will hit historical levels. Congressional Republicans would take every opportunity to obstruct the Democratic administration on all priorities, including trade, and will use their control of Congress to launch divisive and damaging investigations not only into the 2024 election, but also more broadly into the conduct of the previous Democratic administration. In short, it would be a mess.

### **Scenario 3: Trump wins but faces pushback**

Under this scenario, Trump wins the Presidency but can’t deliver Republican control of Congress. Congressional Democrats would see themselves as the last bulwark against Trumpian excesses and his proclivity for expansive executive action. They would use Congressional powers to their fullest as a check on the executive branch.

US withdrawal from IPEF is virtually certain (undoubtedly in front of television cameras), perhaps on Trump’s first full day in office, as he did with the CPTPP in 2017. Pulling out of IPEF would not require any Congressional action.

With the exception of high trade surplus countries that would face the prospect of punitive

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2 Inu Manak, “Unpacking the IPEF: Biden’s Indo-Pacific Trade Play,” Council on Foreign Relations, 8 November 2023, <https://www.cfr.org/article/unpacking-ipef-bidens-indo-pacific-trade-play>

tariffs, IPEF members will be de-emphasised in US trade policy. Vietnam and Malaysia can expect heightened scrutiny as a base for transshipment of products from China and if so, expect additional tariffs to be applied without hesitation.

Congressional Democrats would abhor giving Trump political “victories” on anything. Although many will agree with Trump on trade, partisan political considerations suggest the party would “pick their battles” in opposing at least some trade policies.

Trade relations with China would become more combative, at least rhetorically. Withdrawal of Permanent Normal Trade Relations (essentially meaning WTO Most Favored Nation status) for China is plausible, if not likely.

However, the transactional nature of Trump’s policy approach opens the possibility of a mercantilist trade “deal” with China which could cool tensions at least temporarily. The basic outline would be similar to the Phase One agreement under Trump’s first term, which committed China to purchase specified levels of US products.<sup>3</sup> Although it failed colossally to achieve its objectives, a second Trump administration would ascribe these failings to the Covid pandemic and mismanagement by Team Biden.

#### **Scenario 4: Trump unchained**

Under this scenario, Trump wins the Presidency and Republicans gain control of Congress.

Should this transpire, Trump will enjoy perhaps the most “imperial” presidency in US history, given the near mythological fealty – if not devotion – he inspires within the Republican party. As a practical matter, there would simply be no meaningful political constraints to the enactment of most protectionist, anti-globalisation US trade policy in 90-plus years.

A number of points would carry through from the previous scenario. US withdrawal from the IPEF is virtually certain, again, perhaps on his first day in office a la CPTPP. The dynamics described in the previous scenario would largely hold true. With the exception of high trade surplus countries, IPEF members would be de-emphasised in US trade policy. Vietnam and Malaysia can expect heightened scrutiny as a base for transshipment of products from China and if so, expect punitive tariffs to be applied without hesitation. Trade relations with China would become more combative; withdrawal of PNTR for China is plausible, if not likely, although a mercantilist trade “deal” with China which could cool tensions at least temporarily.

Most disturbingly, from the perspective of free trade advocates, US withdrawal from the WTO would be plausible, if not likely. Trump publicly mused about withdrawal while in the White House and his most influential trade advisor (and first term Trade Representative) Robert Lighthizer had expressed similar strong feelings about the inadequacy of the WTO.<sup>4</sup> Lighthizer is expected to play a key role in a second Trump administration, potentially in the elevated position of Treasury Secretary.

Congressional Democrats will lack the institutional power to provide anything other than rhetorical opposition to any policies, trade or otherwise, advanced by the Trump administration.

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3 Chad P. Bown, “Anatomy of a flop: Why Trump’s US-China phase one trade deal fell short,” *Peterson Institute for International Economics Blog*, 8 February 2021, <https://www.piie.com/blogs/trade-and-investment-policy-watch/anatomy-flop-why-trumps-us-china-phase-one-trade-deal-fell>

4 “Trump threatens to pull US out of World Trade Organization,” *BBC News*, 31 August 2018 <https://www.bbc.com/news/world-us-canada-45364150>

The cumulative effect on trade would be the deconstruction, in whole or in part, of the post-war, rules-based global trade system. It remains to be seen if IPEF could be salvaged by the remaining members after the departure of the US (as it happened for the CPTPP). But a further weakened WTO, and a trade system in disarray, could boost IPEF's relevance as a comparative "safe harbor" as the global trade system devolves back - at least somewhat - towards a "law of the jungle" scenario.

Although it is perhaps a counterintuitive scenario to contemplate, US withdrawal from IPEF, and an unobstructed assault on the rules-based global trade system under the Trump administration could therefore ultimately rebound to the benefit of IPEF. This would be contingent on the remaining members picking up the pieces without the US and other countries concluding that IPEF offers value not necessarily as a rules-setting alternative to a badly hobbled WTO, but rather as an orderly "norms-setting" group capable of providing a hedge against chaotic trade relations and a boost for economic security.

### **Rising Stakes of US-China Geopolitical Rivalry**

The US-China geopolitical rivalry is a defining feature of the early 21<sup>st</sup> century global landscape, holding deep implications for economic and security configurations and relationships across the region and the world. All indications point to intensification in the US-China rivalry, further elevating the economic security implications of IPEF.

### **IPEF rises from the TPP wreckage**

IPEF – and its broader economic security implications - cannot be properly understood without understanding the dynamics which drove the ill-fated journey of what started out as the Trans-Pacific Partnership (TPP) and ended up morphing into the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). In many respects, IPEF is a direct descendent of TPP, shaped, formed, and motivated by many of the same considerations that drove the US to lead the TPP.

For many of the regional partners participating in IPEF, they are inspired less by the IPEF itself and more by a desire to repair the regional imbalance created by the US withdrawal from TPP and the ongoing rise in China's role and influence.

For both the US and its partners, IPEF is as much about the broader US-China geopolitical rivalry as it is about a regional trade agreement.

### **TPP and the "Pivot" to Asia**

Pursuit of the TPP was initiated as a cornerstone of the Obama administration's "Pivot to Asia",<sup>5</sup> a policy founded on the belief that the US had unwisely become bogged down in the Middle East in the decade-plus since the September 11, 2001 terrorist attacks. According to the theory of the case, while the US had squandered astronomical sums of money, as well as human lives, in ill-considered and ultimately unsuccessful nation-building exercise in Afghanistan and Iraq, China has become a formidable economic and security challenger to the US, certainly in Asia, if not globally.

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5 James McBride, Andrew Chatzky, and Anshu Siripurapu, "What's Next for the Trans-Pacific Partnership (TPP)?," Council on Foreign Relations, 20 September 2021, <https://www.cfr.org/background/what-trans-pacific-partnership-tpp>

The Pivot to Asia signaled a shift in focus from the Middle East to the Asia-Pacific region, where the US intended to more assertively challenge China's rising economic and security influence. TPP constituted the primary economic prong. It was envisioned as a "gold standard" free trade agreement that would push the envelope in establishing new era trade rules in areas like state-owned enterprises (SOEs) and digital trade, and in the process, reassert US regional primacy and bind its members more tightly into the US economic orbit. Preferential access to the US market was the key incentive for many of the other 11 members to go along with a tough new set of trade rules.

President Obama was entirely straightforward in articulating his vision of TPP as a trade and geopolitical bulwark against China. A recurring theme in his public comments on TPP was that "If we don't write the rules, China will write the rules out in that region".<sup>6</sup> TPP was intended to put the pen in the hand of the US and reassert US leadership.

However, a political tsunami in the US – the election of Donald Trump in 2016 – wiped out the TPP. Trump formally withdrew the US from the TPP on his first full day in office in 2017.<sup>7</sup> The remaining 11 members eventually reconstituted the TPP as the CPTPP,<sup>8</sup> and while few saw any realistic chance that Trump would reconsider entry into the CPTPP, hope was very much alive that a future, more conventional administration would.

Hopes for a US-reentry into CPTPP were briefly resuscitated with the election of Obama's Vice President – Joe Biden – in 2020.<sup>9</sup> The political landscape for trade in the US had however profoundly shifted during the Trump years, and Biden unapologetically pursued a US worker-centric trade policy that eschewed traditional free trade agreements. His trade officials gave no indication that reentry into the CPTPP was even being considered.

At the same time however, Biden was intensely focused on the geopolitical rivalry with China, which he described as a contest between the forces of democracy and the forces of autocracy. He maintained most of Trump's punitive tariffs on China and instituted even tougher technology restrictions.

The enhanced market access commitments in the CPTPP rendered that agreement a non-starter due to its inconsistency with Biden's worker-centric trade policy and overall lack of enthusiasm for trade liberalisation. The administration conceived the IPEF as a means to reassert US economic and geopolitical relevance in the region<sup>10</sup> without the now unacceptable political baggage of a traditional free trade agreement.

In essence, IPEF was intended to accomplish the same or similar security and geopolitical goals as the TPP, but in a way consistent with the fundamentally different philosophical approach to trade that had taken hold in the US. Viewed by the US through the lens of the US-China rivalry, IPEF was the new TPP.

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6 Gerald F. Seib, "Obama Presses Case for Asia Trade Deal, Warns Failure Would Benefit China," The Wall Street Journal, 27 April 2015, <https://www.wsj.com/articles/obama-presses-case-for-asia-trade-deal-warns-failure-would-benefit-china-1430160415>

7 Mireya Solís, "Trump withdrawing from the Trans-Pacific Partnership," Brookings Commentary, 24 March 2017, <https://www.brookings.edu/articles/trump-withdrawing-from-the-trans-pacific-partnership/>

8 "Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)," Department of Foreign Affairs and Trade, Australian Government, <https://www.dfat.gov.au/trade/agreements/in-force/cptpp/comprehensive-and-progressive-agreement-for-trans-pacific-partnership>

9 Daisuke Akimoto, "Japan Expects Biden to Rejoin the TPP," The Diplomat, 12 February 2021, <https://thediplomat.com/2021/02/japan-expects-biden-to-rejoin-the-tpp/>

10 Kevin Liptak, "Biden unveils his economic plan for countering China in Asia," CNN, 23 May 2022, <https://edition.cnn.com/2022/05/22/politics/joe-biden-japan-monday/index.html>

From the perspective of most IPEF partners, however, IPEF was a poor consolation prize which omitted what they cared most about: preferential market access in the US. The primary motivation for participation was not the agreement per se, but rather to bolster US engagement in the region in whatever form available in order to counterbalance China's preeminence. Some members, Japan in particular, hoped that IPEF would be a first step towards an eventual US reentry into CPTPP. Two additional IPEF members – Korea and Indonesia – have applied for CPTPP membership, but that seems unlikely to have any meaningful impact on the course of IPEF.

### Implications of a “Go” or a “No Go”

Set against this backdrop of an evolving US-China geopolitical rivalry, what are the implications of IPEF either moving forward with the US under a Democratic administration or ending up on the scrap heap under a Trump administration?

A successfully concluded IPEF under US leadership would accomplish two things that would help shape economic security considerations in the region: 1) it will shift perceptions that the US has disengaged from the region and essentially ceded primacy to China, and 2) it will have at least some impact on the configuration and management of supply chains, although the magnitude of that impact will not become clear until we have several years of observing how IPEF provisions function in reality rather than on paper.

In order to be meaningful, any shift in perceptions about US engagement in the region will have to be followed by concrete action. That will depend on whether IPEF turns out to be the game-changer Biden administration officials promise or if it ends up simply being words on a piece of paper with little actual impact. A successful IPEF would put the US back in the game but would not be determinative of the outcome.

Should IPEF fall by the wayside entirely or move forward without the US, the ripple effects will be profound. US regional partners are still suffering from some degree of post-traumatic stress disorder after the precipitous US about-face on the TPP. It had become an article of faith during the post-war years that the US leads both on multilateral trade liberalisation as well as bilateral and regional free trade agreements.

This was the role that the US was expected to play in TPP. The sudden transformation of the US from being the driving force in the TPP to abandoning the agreement left many in shock. During the subsequent years of the Trump and Biden administrations, questions about the US's interest in, let alone ability to lead on, trade became deeply entrenched.

The US was able to overcome these doubts and entice regional partners to sign up for negotiations on IPEF – a far less attractive proposition than CPTPP. If the US disengages from the less appealing IPEF, its credibility on economic integration efforts would suffer a devastating blow. At least some partners would conclude, on the basis of ample evidence, that a fundamental philosophical realignment (rather than a temporary blip) had transpired in the US and the US could no longer be counted to deliver on trade.

While public comments from regional officials will always be diplomatic and welcoming, it's hard to see any reason for regional partners to seriously engage with the US on economic initiatives. At that point, there would no longer be any meaningful competition between the US and China for economic relevancy in the region. Regional economic destinies would be firmly hitched to China's wagon. A failed IPEF would essentially mean “game over” for US in terms of its efforts to reassert regional influence and economic relevance.



### Growing “natural resource nationalism”

Developing countries are becoming increasingly dissatisfied with previous, quasi-mercantilist models in which wealthier countries would extract critical natural resources but then engage in the higher-valued added processing and manufacturing on their home turf, leaving the resource-rich countries with environmental degradation, exhausted resources, and very little in terms of jobs, technological advancement, and revenue.

Today, there’s noticeable increase in so-called “natural resource nationalism” in which developing countries provide access to natural resources only in exchange for commitments about technology transfer, local production and jobs, and assistance with environmental mitigation. In some instances, there are outright bans or restrictions on the export of certain critical resources.

Indonesia has been at the forefront of this development. Rich in nickel, copper, and bauxite and other critical minerals needed for the green transition, the administration of Joko Widodo enacted a series of restrictions or outright bans on the export of such materials.<sup>11</sup> Indonesia is not alone among IPEF members in this regard. Malaysia also has plans to ban or restrict exports of rare earth minerals.<sup>12</sup>

It remains to be seen how this growing tendency towards restricted or conditional access to critical materials can be meshed with the US’ IPEF vision of integrated, secure, and efficient supply chains.

The US quest for more secure access to critical materials that will enable the green transition and the computing power needed for AI will only intensify and could be on a collision course with the growing trend towards resource nationalism.

Given what is at stake, it’s hard to imagine developing members of IPEF deferring to the essentially aspirational supply chain provisions contained in the accord when their own developmental interest point in a different direction. In Indonesia, Joko Widodo’ successor, Prabowo Subianto, has been an unabashed and energetic supporter of resource nationalism for over a decade.<sup>13</sup> The stakes are even higher today, and Subianto has now ascended to the presidency. It appears that at least some IPEF members are charting a course not entirely in line with the US’ economic security aspirations in IPEF.

### Developing countries cohere in opposition to US/EU attempts to “export values”

A deepening fault-line between developed and developing nations, heavy with geopolitical overtones reminiscent of the heyday of the non-aligned movement, will impact the economic security dimensions of IPEF. Developing nations have become increasingly aggravated by what they see as an attempt by developed countries to “export” their values.

Traditionally, the quest for greater economic efficiencies has been the primary driver of trade relationships. The desire for optimised production and greater profitability for corporations

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11 Leslie Hook, Harry Dempsey, and Ciara Nugent, “The new commodity superpowers,” *Financial Times*, 8 August 2023, <https://www.ft.com/content/0d2fba79-940f-4a28-8f4f-68f1e755200f>

12 A. Ananthalakshmi and Mai Nguyen, “Malaysia to ban export of rare earths to boost domestic industry,” *Reuters*, 11 September 2023, <https://www.reuters.com/markets/commodities/malaysia-ban-export-rare-earths-boost-domestic-industry-2023-09-11/>

13 Eve Warburton, “Resource nationalism in post-boom Indonesia: The new normal?,” *Lowy Institute Analyses*, 27 April 2017, <https://www.lowyinstitute.org/publications/resource-nationalism-post-boom-indonesia-new-normal>

and lower prices and wider product selection for consumers - along with the developmental opportunities expanded trade brings - has largely shaped the basis upon which countries have engaged in trade.

Today, a profound shift is underway. Increasingly, trade is no longer just about trade and economic efficiency. Trade is now also being used as a tool to advance a host of non-trade objectives (NTOs) – oftentimes including broader societal, ideological, strategic and even philosophical issues.<sup>14</sup>

In many instances, these NTOs embed value-laden judgements. Such judgements are evident in complex issues such as human rights, appropriate responses to climate change, labor rights, freedom of religion, governance models, indigenous rights, and diversity and inclusion – all issues which are appearing more prominently on the trade agenda, particularly of the US and the EU.

Developed countries are increasingly requiring compliance with more stringent human rights, labor, and environmental standards in order for developing countries to access trade preferences under programs such as GSP (Generalised System of Preferences). For example, the EU has suspended these benefits for Cambodia over human rights concerns.<sup>15</sup> The US recently suspended duty-free access for four African nations under the African Growth and Opportunities Act, in response to what the US characterised as “gross violations of internationally recognised human rights”, including recently passed anti-gay legislation in Uganda.<sup>16</sup>

Trade is increasingly being used as a cudgel to nudge developing countries into alignment with a particular set of social values and frustration is coalescing against what some characterise as “values imperialism”. This dynamic will seep into IPEF and impact its economic security implications.

IPEF seeks to bolster economic security by setting norms and aspirational guidelines for supply chains, boosting collaboration, and facilitating transparency and information sharing. It also includes a Labor Rights Advisory Board, which in the context of the wider fault line over the “export” of values, could become a flashpoint.

Developing members will want to see over time that once in practice, the supply chain pillar will operate to their benefit, rather than simply providing developed countries with an additional platform on which to pontificate about values. Since operationalisation of the IPEF will depend on the goodwill and enthusiastic implementation of its members rather than a binding set of enforceable rules, any perception of “values imperialism” will weaken the commitment of developing members to fully and faithfully engage on the supply chains provisions and the intended enhancement of economic security.

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14 Much of this section drawn from author’s work: Stephen Olson; “4 questions we must ask as values move to the centre of the trade agenda,” World Economic Forum Opinion, 14 December 2023, <https://www.weforum.org/agenda/2023/12/4-questions-we-must-ask-as-values-move-to-the-centre-of-the-trade-agenda/>

15 “Cambodia loses duty-free access to the EU market over human rights concerns,” Public Affairs Bruxelles, <https://www.pubaffairsbruxelles.eu/eu-institution-news/cambodia-loses-duty-free-access-to-the-eu-market-over-human-rights-concerns/>

16 Gloria Aradi, “US to remove Uganda and three other African countries from Agoa trade deal,” BBC, 31 October 2023, <https://www.bbc.com/news/world-africa-67236251>

## The IPEF Gambit

US influence and relevance in the Indo-Pacific has palpably declined over the last decade. Without the potentially game-changing IPEF initiative, a reversal in that trendline seems implausible. Trade agreements such as IPEF, however, do not exist in a vacuum. Although ostensibly about the pursuit of greater economic efficiency and enhanced economic security, they are shaped in practice by shifting domestic political calculations, evolving societal norms, and wider global and regional geopolitical considerations.

This is especially true in the case of IPEF, an as-yet unproven “new style” trade agreement that will attempt to lift off from the launch pad at a particularly combustible time. Mounting geopolitical tension, extreme political turmoil in the US, a populist backlash against trade, and newly empowered developing countries that are less inclined to follow the developed world lead on economics, governance, and social values all serve to heighten the challenges facing IPEF.

Given this wider and highly complicated context, the advancement of US geopolitical and economic security objectives through IPEF is far from certain. Assuming that most of the variables break favorably for the US, IPEF will only provide a foothold or a beachhead, but will not signal the definitive recalibration in regional strategic or economic dynamics the US seeks. It would instead be a foundational cornerstone, requiring sustained and substantial efforts to construct the regional architecture desired by the US.

Should one or more of these variables break unfavorably for the US – the return of a protectionist president or a successfully concluded IPEF that fails to deliver meaningful results – the most pessimistic assumptions about the ability of the US to regain regional currency will appear to have been validated.

The stakes are therefore quite high. IPEF was a bold risk for the US – which may or may not pay off - but it was one that the US had little choice but to take.

## About the Author

**Mr Stephen OLSON**, over the course of his more than 30-year international career, has lived and worked in Asia, the Middle East, and the United States, holding senior executive positions in the private sector, government, research institutions, and academia. He is a recognised expert on international trade, economic, and business issues. He began his career in Washington DC as a US trade negotiator.

Currently, Mr Olson is a Visiting Fellow at the Institute of Southeast Asian Studies – Yusof Ishak Institute. He is also a visiting lecturer and non-resident fellow at the Clayton Yeutter Institute of International Trade and Finance.

Mr Olson is a member of the World Economic Forum’s Global Futures Council (GFC) on Trade, and he co-leads a joint workstream with the WEF GFC on Geopolitics.

He is also an adjunct professor at the George Mason University Schar School of Policy and Government and lectures in Beijing at the Capital University of Economics and Business as part of a joint program.



# How do the IPEF's supply chain and clean economy pillars' regulations impact the economic security of the region?

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Peter DRAPER and Freddie NAMO

"Economic security" is a contested concept, with formulations as varied as the disciplinary boundaries framing it and underlying ideological perspectives in play. To establish its evolving meanings in the sharply contested Indo-Pacific region this paper reviews the concept through relevant literature. Drawing on United States (US) National Security settings and current debates over how Australia should use economic security concepts to (re)frame its trade and industry policy settings in the context of "friend-shoring" and cementing key US-anchored security alliances, it then interrogates the Indo-Pacific Economic Framework's (IPEF) Supply Chain and Clean Economy pillars. Particular attention is paid to how those pillars interact with economic security concepts, and what would be required — institutionally — to ensure that IPEF delivers economic security in ways that don't unduly undermine Australian, and regional, prosperity.

## Introduction

The Indo-Pacific Economic Framework (IPEF) attracts considerable, mostly sceptical, commentary. Far from being a traditional free trade agreement (FTA) in the style prosecuted by the United States (US) since the mid-1980s when the North American Free Trade Agreement negotiations commenced, IPEF is a flexible cooperative agreement. Consequently, its success depends on the appetite of signatory states to implement it, and their associated cost-benefit analysis of the net benefits to be gained in relation to other pressing state priorities.

What, then, to make of the IPEF's potential to contribute meaningfully to parties' economic security? Since definitions abound, it is important to be clear what is meant by "economic security". The paper commences with a brief literature review of different framings of this slippery concept and then offers the authors' own framework as derived from the literature. The following section then "decodes" the economic security content of IPEF's Pillars 2 and 3, covering supply chains and green transition industries, respectively. It situates these two pillars in a broader, US-sponsored, international economic security architecture that overlaps with IPEF in important ways thereby raising the prospect of porting IPEF's benefits to like-minded states not party to IPEF. However, as briefly argued in the final section, if IPEF's intent is to "derisk" key supply chains by reducing Chinese dominance in them, the jury is still out in considering whether this is a viable path. China is simply so entrenched in the world of global value chains that it will require a Herculean effort to meaningfully shift the needle, albeit there are signs of early success.

## What Does "Economic Security" Mean?

### A Brief Literature Review

Finlayson and O'Rourke's account of the historical interplay between "Power and Plenty" captures the logic and historical dynamic of the system known as "mercantilism".<sup>1</sup> It privileged exports over imports to retain scarce gold supplies for national treasuries to bolster domestic economic and military power for acquiring key resources and control over export markets — at the expense of rival states. Adam Smith's famous free trade treatise<sup>2</sup> aimed squarely at mercantilist thought, although he acknowledged the dependence of domestic prosperity on maintaining robust national defence.<sup>3</sup> Subsequently, David Ricardo cemented the case for free trade in his concept of "comparative advantage", for so long a mainstay of classical, then neoclassical, economic thought. And, still in the nineteenth century, John Stuart Mill argued that trade created mutual beneficial dependencies that would promote peace<sup>4</sup> — a notion that became the foundation of the "liberal peace hypothesis" that underpinned the post-World War Two multilateral and European economic integration projects.

European continental academia, notably the German economist Friedrich List countered the

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1 Ronald Findlay and Kevin O'Rourke, "Power and Plenty: Trade, War, and the World Economy in the Second Millennium," *Princeton University Press*, 2009

2 Adam Smith, "An Inquiry into the Nature and Causes of the Wealth of Nations," An Electronic Classic Series Publication, 1776

3 Albert O. Hirschman, "National Power and the Structure of Foreign Trade," *University of California Press*, 1945

4 Masatomi Fujimoto, "J.S. Mill's idea of international trade: The inheritance from Ricardo's free trade and Torrens' reciprocity," *Routledge*, 2017, <https://www.taylorfrancis.com/chapters/edit/10.4324/9781315168500-13/mill-idea-international-trade-masatomi-fujimoto>

British political economists' free trade thinking by setting out the case for protection from imports to build domestic industrial capacities, and hence economic strength.<sup>5</sup> List's mantle was taken up by post-World War Two economic thinkers railing against "dependency" on advanced capitalist societies, leading Raul Prebisch and others to advocate for post-colonial societies to implement import substitution industrialisation policies to avoid "unequal exchange" precipitated by export dependence on commodities.<sup>6</sup> Albert Hirschman observes these apprehensions dating back to 19th century concerns over the terms of trade and how those might be captured by one or more of the parties involved.<sup>7</sup> Samir Amin, at the extreme Marxist end, advocated for post-colonial societies to "delink" entirely from the "capitalist core" to free space to pursue socialism at home.<sup>8</sup>

Edward Luttwak framed tensions between free trade and protectionism and their expression in policy toolkits, from mercantilism through tariff elimination and industrial policies, as "geoeconomics".<sup>9</sup> With the advent of nuclear weapons and the ending of the Cold War, he considered that geoeconomics would become the dominant framework for inter-state relations in which "the logic of conflict" is subordinated to the "grammar of commerce". This is different from mercantilism, or neomercantilism, the goal of which is to accumulate gold (the former) and trade balance surpluses (the latter). The geoeconomics framework was highly relevant to analysing international relations in the post-Cold War period. The re-emergence of actual and potential great power conflicts in the wake of Russia's recent invasion of Ukraine has sharpened analytical focus on economic security, now framed as "geoeconomics", in a world in which great power conflict is becoming full spectrum.

Written during World War Two, Hirschman's study explicitly dismisses ideological explanations for economic coercion and focuses on how states seek to boost their relative economic power by mobilising trade dependencies, using various available trade instruments.<sup>10</sup> Focusing on Nazi Germany he identified a "supply effect", whereby a state controls imports<sup>11</sup> to build its war machine, and an "influence effect"<sup>12</sup>, whereby states use their dominant position in particular trades to coerce behaviour changes in another state, or states. He argues that the influence effect gives rise to a complex interplay of relative mutual dependencies in which trading partner

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5 Friedrich List, "The National System of Political Economy, translated by Sampson S Lloyd," Longmans Green and Co, 1909

6 Raul Prebisch, "The Economic Development of Latin America and Its Principal Problems," 1950

7 Albert O. Hirschman, "National Power and the Structure of Foreign Trade," *University of California Press*, 1945

8 Samir Amin, "Delinking: Towards a Polycentric World," Bloomsbury Academic, 1990, <https://www.bloomsbury.com/uk/delinking-9780862328030/>

9 Edward Luttwak, "Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce," *The National Interest*, no: 20, 1990, <https://www.jstor.org/stable/42894676>

10 Albert O. Hirschman, "National Power and the Structure of Foreign Trade," *University of California Press*, 1945

11 He develops a taxonomy of Nazi Germany's policies. For the supply effect the state is primarily interested in securing key imports that made the Nazis concentrate imports on these goods, accumulate large stocks of strategic materials and redirect trade to politically friendly or subject nations, and securing control over oceanic trade routes (Hirschman 1945, 34).

12 By designing policies "...to make it more difficult for the trading partner to dispense entirely with the trade". This has several components: increasing the trading partners' gains from trade and/or their adjustment difficulties if trade ceases; cultivating vested interests in the trade in the target country and curtailing the trading partners' diversification options (*Ibid.*). Similarly, by favouring trading partners' exports through importing their commodities when other partners don't, and/or offering higher than world prices or other non-price advantages, and creating dependencies on the coercing country's advanced goods and cultivating bilateral as well as transit trade (op.cit, 35).



selection, domestic production possibilities, multiple constraints in affected trading partners, trade diversification options in both parties, and the roles of vested interests in relation to the disrupted trade(s), play prominent roles. The country seeking to coerce its trading partner(s) must be able to reduce or eliminate those partners' trade diversification options if the influence effect is to work to maximum effect, whereas the targeted partner(s) must seek to reduce their dependencies on the coercing state through opening new trading relationships.

Wagner, and other bargaining theorists such as Odell, argue that market power does not ultimately determine states' assessments of their interests in a negotiation.<sup>13</sup> Rather, what matters is their political assessments of the relative gains to be made through bargaining. This critique was given concrete expression in the recent episode of Chinese trade coercion of Australia, in which the democratically elected Australian government calculated it had far more to lose at the ballot box by capitulating, opting successfully to ride the coercion out. Australia's free-trade economy and flexible firm responses ensured that most targeted products found other markets, although not all did.

Moran reviewed leading post-Cold War theorists views on the "power and plenty" dynamic<sup>14</sup> and identified three core policy arenas: Paul Krugman's strategic trade theory; Gowa's selective liberalisation and formation of alliance blocs; and the "correct" approach to take to multinational corporations' (MNCs) nationalities when states develop policies seeking to influence market outcomes in their favour.<sup>15</sup> In Moran's view this imposes a difficult choice-set on states pursuing grand strategy, between "neomercantilism" and transnational integration. Ultimately, he favours a "rule of minimal activism" in which mutual gains should be maximised while narrowing pursuit of national advantages to "those measures most necessary for national security and least destabilising when deployed by some or all states simultaneously".<sup>16</sup>

Gilpin noted that IPE is grounded in the "persistent clash" between the sovereignty sacrifices this system requires, and states' demands for national autonomy.<sup>17</sup> They also cite Keohane and Nye's distinction between "sensitivity"<sup>18</sup> and "vulnerability"<sup>19</sup> interdependencies, noting that economists generally have the former in mind whereas Hirschman and IPE scholars are mostly concerned with the latter. Also, that states have powerful incentives, both to reduce their dependence on other states (or minimise their vulnerabilities) and maximise other states' dependence (vulnerabilities) on them, with trade, industrial, and foreign aid policies being key instruments.

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13 John S. Odell, "Negotiating the World Economy," Cornell University Press, 2000, <https://www.cornellpress.cornell.edu/book/9780801486463/negotiating-the-world-economy/#bookTabs=1>

14 TheodoreHMoran, "Grandstrategy:thepursuitofpowerandthepursuitofplenty," International Organization, 1996, pp. 175-205, <https://www.cambridge.org/core/journals/international-organization/article/grand-strategy-the-pursuit-of-power-and-the-pursuit-of-plenty/CD0590541EA787CB41E841A013FD0F0E>

15 Paul Krugman, "Introduction," In Strategic trade policy and the new international economics, *The MIT Press*, 1986; Joanne Gowa, "Allies, adversaries and international trade," *Princeton University Press*, 1994, <https://press.princeton.edu/books/paperback/9780691044712/allies-adversaries-and-international-trade?srsltid=AfmBOoph587dmyNef0N25VyBcO0yUC0ruMrNJetuGhz8FpZdS8k34TNY>

16 TheodoreHMoran, "Grandstrategy:thepursuitofpowerandthepursuitofplenty," International Organization, 1996, pp. 175-205, <https://www.cambridge.org/core/journals/international-organization/article/grand-strategy-the-pursuit-of-power-and-the-pursuit-of-plenty/CD0590541EA787CB41E841A013FD0F0E>

17 Robert Gilpin, "Global Political Economy: Understanding the International Economic Order," *Princeton University Press*, 2001

18 To movements in economic variables such as interest rates, or exchange rates. To paraphrase the old saying: The US dollar is America's currency, but everybody else's problem. See: Keohane, RO and Nye, JS Jr. 1987. "Power and Interdependence Revisited", *International Organization* 41, 4, Autumn.

19 Meaning economic dependencies vulnerable to political exploitation.

More concretely, the OECD<sup>20</sup> provides a tight definition of trade dependencies as consisting of "... trade flows combining the following three characteristics: high risk of disruption; high economic (or other) importance; and constrained possibility of substitution." Cable argues this "geo-economic" thinking leads to curtailing international trade relations to a sharply circumscribed set of "friends", or "friend-shoring"<sup>21</sup> and notes multiple challenges involved in implementing impactful economic security measures.<sup>22</sup> He argues that the likely course of evolution is the emergence of a "complex hierarchy of institutions and informal arrangements at national, regional and global level ... the outcome is messy..."<sup>23</sup>

Moran observes that Charles Kindleberger's classic analysis of how enlightened hegemony matters for maintaining global economic stability, in relation to the global leadership vacuum of the inter-wars period, deserved far more credit.<sup>24</sup> Gilpin, and others in the international political economy field, subsequently developed Kindleberger's insight into the theory of hegemonic stability and applied this to US leadership of the liberal international (rules-based) order, in which construction of international economic regimes was a central feature.<sup>25</sup> However, while regime theory was useful in reassuring those invested in the rules-based order that it would survive the US's relative economic decline, critics argued that it was used to justify a system in which the US was the primary beneficiary.<sup>26</sup> Adherents of hegemonic stability theory believe that the hegemon must provide sufficient incentives for other states to participate in international regimes, through construction of global public goods. Notwithstanding problems with how regimes are constructed and whose interests they serve, the liberal economic order required international cooperation amongst ideologically aligned (liberal) states, and American leadership.

Since many now question the US's current commitment to the rules-based order, as well as to the liberal trading system it created, Gilpin's concluding observation that the US, like Great Britain before it, is likely to retrench from its global leadership position through consolidation of a core set of international economic arrangements<sup>27</sup> makes alternative regimes such as the IPEF more important to briefly scrutinise.

### Current US Economic Security Framings

The Biden Administration framed its influential economic security strategy in 2022 under the

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20 Christine Arriola, Mattia Cai, Przemyslaw Kowalski, Sébastien Miroudot and Frank van Tongeren, "Towards Demystifying Trade Dependencies: At What Point do Trade Linkages Become a Concern?" OECD Trade Policy Paper, 2024, <https://doi.org/10.1787/2a1a2bb9-en>.

21 "Remarks by Secretary of the Treasury Janet L. Yellen on Way Forward for the Global Economy | U.S. Department of the Treasury," U.S. Department of the Treasury, 13 April 2022, <https://home.treasury.gov/news/press-releases/jy0714>.

22 Vincent Cable, "What is International Economic Security," *International Affairs*, Vol. 72, no. 4, April 1995, <https://academic.oup.com/ia/article-abstract/71/2/305/2534609>.

23 *Ibid.*

24 Theodore H Moran, "Grandstrategy: the pursuit of power and the pursuit of plenty," *International Organization*, 1996, pp. 175-205, <https://www.cambridge.org/core/journals/international-organization/article/grand-strategy-the-pursuit-of-power-and-the-pursuit-of-plenty/CD0590541EA787CB41E841A013FD0F0E>; Charles Kindleberger, "The world in depression," *University of California Press*, 1973, <https://www.ucpress.edu/books/the-world-in-depression-1929-1939/paper>.

25 Robert Gilpin, "Global Political Economy: Understanding the International Economic Order," *Princeton University Press*, 2001

26 Susan Strange, "Casino Capitalism," Basil Blackwell, 1987

27 *Ibid.* 102.

broader rubric of its national security strategy. In his speech<sup>28</sup> announcing that Strategy, Jake Sullivan, the former National Security Advisor, identified two main strategic challenges: Geopolitical competition, notably from China and Russia, and rapidly propagating large-scale transnational challenges notably climate change — noting that the two are closely intertwined. He observed the US making three strategic responses: investing in the sources of their national strength, building a broad coalition of nations to enhance US influence, and shaping the rules governing the global economy. Considered collectively these three responses are anchored in a broad array of economic security settings and tools, too many to review here, although as he alludes to the term “small yard, high fence” applied to protecting critical technologies runs through the Strategy.<sup>29</sup> The Strategy has its own economic coercion elements, notably export controls on key technologies and the array of economic sanctions applied to Russia, inter alia. These are embedded in a broader context of mobilising allies and partner countries and reshaping economic governance rules to align with US interests.

### Recent Australian Policy Perspectives

The economic security debate is now getting underway in Australia and reflected in three recent think tank reports. These provide some useful Australian framings in relation to regional economic security.

Through the lens of coordinated technology export controls, Mitchell distinguishes between how the industrialised West considered its economic security settings vis a vis the Soviet Union, versus China today.<sup>30</sup> In the Soviet case, strong export controls brought high security benefits at low economic cost, whereas in relation to China the sovereignty and prosperity trade-offs are much higher owing to China's centrality in many global value chains. Hence the G7 industrial countries<sup>31</sup> have tried to carefully establish the parameters of modern economic security settings encompassing:

1. Reliability of resource exchange (“resilience”) and the rules<sup>32</sup> governing them, and
2. The “physical links”<sup>33</sup> through which resource exchange takes place.<sup>34</sup>

Mitchell defines economic security frameworks as “...the range of policies that a state can use to manage global resource flows...”<sup>35</sup> and advocates a “Strategic playbook” for implementing these

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28 “Remarks by National Security Advisor Jake Sullivan on the Biden-Harris Administration's National Security Strategy,” The White House, 13 October 2022, <https://www.whitehouse.gov/briefing-room/speeches-remarks/2022/10/13/remarks-by-national-security-advisor-jake-sullivan-on-the-biden-harris-administrations-national-security-strategy/>

29 These include, inter alia: Supply chains derisking; industrial strategy including subsidies to clean energy infrastructure and new technologies; supporting allies to derisk energy supply chains; investing in the defence industrial base; tightening inward investment screening and establishing outward investment screening; and extending as well as tightening export controls.

30 Helen Mitchell, “Unlocking economic security: A strategic playbook for Australia,” United States Studies Centre Report, March 2024, <https://www.uscc.edu.au/unlocking-economic-security-a-strategic-playbook-for-australia>

31 Canada, France, Germany, Italy, Japan, the US, and the UK, but also including the European Union.

32 “...non-market policies and practices, addressing economic coercion, international standard-setting”.

33 Resilient critical infrastructure, harmful digital practices, and key technology leakages.

34 Helen Mitchell, “Unlocking economic security: A strategic playbook for Australia,” United States Studies Centre Report, March 2024, <https://www.uscc.edu.au/unlocking-economic-security-a-strategic-playbook-for-australia>

35 *Ibid.*

frameworks in a “scan-share-shape” approach. Governments scan the landscape and identify economic security risks, sharing those with the broader non-government community interested in the risks as well as international partners, for shaping decisions across all involved spheres. In Australia’s case she identifies eight shaping activities.<sup>36</sup>

Asia-Pacific Development, Diplomacy & Defence Dialogue (AP4D) argues “...economic statecraft challenges two traditional separations — between economics and security, and between domestic and international”,<sup>37</sup> noting that the Future Made in Australia Act<sup>38</sup>, being debated in the Federal parliament at the time of this writing, explicitly aims to strengthen specific industries for geostrategic purposes. This resonates with the well-known objectives of the US’s Inflation Reduction Act (IRA)<sup>39</sup>, a core purpose of which is to build energy security, and the EU’s “Strategic Autonomy” policy.<sup>40</sup> Australian opinion on recent US industrial strategies is divided between those that see opportunity in privileged free trade partner access to those subsidies, and others that worry about their distortive impacts and potential draining of the Australian talent and capital pools attracted to the US.<sup>41</sup>

The AP4D advocates for a calibrated policy setting, integrating structured responses to other states’ negative economic statecraft with development of Australia’s own positive economic statecraft, to be coordinated by a national mechanism based on a (to be developed) shared vision.<sup>42</sup> It also notes the need to maintain close relationships with regional partners through positive statecraft and help them manage negative statecraft, thereby promoting the rules-based global trading system, and working closely with business to deliver these goals.<sup>43</sup>

### Towards a Working Definition of Economic Security

From the brief literature review above, the following propositions can be derived:

- Free trade delivers the most prosperity and promotes harmonious relations amongst states but must sometimes be subordinated to economic security considerations, notably to build key domestic economic capacities to advance the country’s relative position in the global economy.

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36 Using Australia’s attractive labour market; identifying difficult policy problems involving global resource flows; expanding research incentives; updating Australia’s international development program; sending credible signals of Australia’s longer-term capacity to drive energy transitions and food security; boosting productivity; working with the US to complement its de-risking approach through providing enduring carrots to the Indo-Pacific region; and evaluating as well as coordinating sticks with other countries.

37 “What does it look like for Australia to Navigate a New Era of Economic Statecraft in the Indo-Pacific,” Asia-Pacific Development, Diplomacy & Defence Dialogue (AP4D), July 2024, [https://asiapacific4d.com/wp-content/uploads/2024/07/Economic-Statecraft\\_FINAL-web.pdf](https://asiapacific4d.com/wp-content/uploads/2024/07/Economic-Statecraft_FINAL-web.pdf)

38 “A future made in Australia,” *Prime Minister of Australia Speech*, 11 April, available at , accessed 14 September 2024, <https://www.pm.gov.au/media/future-made-australia>

39 For more information see the US Treasury’s explainer page available at <https://home.treasury.gov/policy-issues/inflation-reduction-act>, accessed 14 September 2024.

40 Peter Draper and Rolf J. Langhammer, “The future of EU trade policy and strategies in a militarised environment,” IIT Working Paper, 2022, <https://iit.adelaide.edu.au/news/list/2022/09/12/the-future-of-eu-trade-policy-and-strategies-in-a-militarised-environment>

41 Hayley Channer and Georgia Edmonstone Edmonstone, “What does ‘economic security’ mean to Australia in 2024?” United States Studies Centre Brief, January 2024, <https://www.ussc.edu.au/what-does-economic-security-mean-to-australia-in-2024>

42 “What does it look like for Australia to Navigate a New Era of Economic Statecraft in the Indo-Pacific,” Asia-Pacific Development, Diplomacy & Defence Dialogue (AP4D), July 2024

43 *Ibid.*

- In a nuclear-armed, mutually assured destruction world, “geoeconomics”, or the use of economic toolkits deployed as weapons in inter-state relations to improve the country's relative economic position, assumes paramount importance in major states' international relations.
- To minimise its exposure to coercion a state must diversify its key supply sources, while maximising its own influence potential in key competitors' political economies and at the same time mobilise non-belligerents to its cause. States should also be cognisant of their relative bargaining power to maximise economic security gains while minimising exposures and/or losses.
- A rules-based international system, or international regimes, constraining power of major states to act unilaterally to undermine others' economic security, is essential. This is likely to work best amongst a group of relatively like-minded states, or allies, if the “system sponsor” or hegemon is perceived to act largely in the interests of all.
- In the modern context the rules-based order is also required to manage transboundary challenges requiring global solutions, particularly the existential climate change threat.

Next, the paper reviews IPEF's trajectory and core frameworks, notably Pillars 2 and 3, in relation to similar US-led initiatives, as well as some recent empirical reports exploring the extent and directions of global and regional value chain relocations underway in response to intensifying geoeconomic competition. This sets the scene for the final section, in which the propositions presented in this section are tested against both IPEF's “tools” and what is going on in global trade.

## Decoding IPEF's “Pillars”

The IPEF's core economic security related legal underpinnings are elaborated below, following which they are situated in the broader context of two other — amongst a rapidly evolving ecosystem of institutional arrangements — initiatives to provide a broad outline of the core economic security undertakings contained in IPEF.

### Pillar 2 — Supply Chains

The Supply Chains Agreement (SCA)<sup>44</sup> can be summarised into three elements: implementing measures to strengthen supply chains of critical sectors and key goods; establishing organs to oversee those supply chains; and establishing processes to monitor the vulnerability of supply chains.

#### *Strengthening Supply Chains*

Disruption of critical sectors or key goods' supply chains can wreak havoc with a country's national security.<sup>45</sup> Articles 2, 3, 4 and 5 of the SCA underscore IPEF members' intentions to collaborate and address critical areas along the supply chains of key goods, such as investments in logistics, provision of technical assistance and capacity building, trade facilitation, risk assessments, joint research and innovation, collaboration with the private sector, increased regulatory transparency, and addressing workers' rights.

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44 *Indo-Pacific Economic Forum Supply Chain Agreement*, opened for signature 14 November 2023 (entered into force 12 September 2024).

45 Vincent Cable, “What is International Economic Security,” *International Affairs*, Vol. 72, no. 4, April 1995, <https://academic.oup.com/ia/article-abstract/71/2/305/2534609>

### *Providing Oversight*

The SCA establishes the IPEF Supply Chain Council (SCC) (Article 6), IPEF Supply Chain Crises Network (SCCN) (Article 7) and an IPEF Labour Rights Advisory Board (LRAB) (Article 8). The SCC is mandated to draw up action plans targeting specific supply chain issues. The SCCN is the supply chains “fire fighter” mandated to conduct supply chains stress tests and respond to chain disruptions. The LRAB’s role is to ensure that member states uphold the SCA’s labour rights provisions.

### *Monitoring*

Articles 10, 11 and 12 operate conjointly to monitor supply chains. Article 10 obliges member states to identify critical sectors and key goods in supply chains. Monitoring and addressing supply chain vulnerabilities are addressed in Article 11. Article 12 stipulates measures IPEF members are to take for ameliorating damages when a supply chain disruption occurs.

## **Pillar 3 — Clean Economy**

The Clean Economy Agreement (CEA)<sup>46</sup> has economic security implications for energy security, Greenhouse-gas technology innovation, and food security.

### *Energy Security*

CEA Articles 4, 5, 6 and 7 are dedicated to ensuring energy security and transition. Article 4 covers clean energy technology development and capacity expansion. Article 5 encompasses electrification, regional grid interconnection, energy efficiency and conservation. Article 6 commits the Parties to addressing energy market stability and system resiliency. Article 7 addresses reduction of methane emissions in the energy sector.

### *Greenhouse Gas Technology Innovation*

Article 8 obliges member states to work towards low-greenhouse-gas emissions and technological solutions in their industries. Article 9 stipulates members’ intention to collaborate and develop innovative technological solutions to curb Green-house gases in the logistics sector. Article 10 focuses on the development of low-Greenhouse-gas technologies and solutions in economic zones of member states.

### *Food security*

Section D of the CEA covers three Articles pertaining to IPEF members’ food security. Article 11 covers sustainable agricultural practices. Article 12 deals with sustainable management of forests and other natural ecosystems. Article 13 outline measures the Parties intend to implement to accelerate sustainable water solutions and ocean-based solutions.

## **Related Initiatives**

The IPEF agreements can be placed in the broader spectrum of similar initiatives in different forums, notably The US and EU Trade and Technology Council (TTC), and the Quad.<sup>47</sup> Both forums also recognised, and pledged to overcome, economic security challenges posed by supply chains.<sup>48</sup> Since it was established, the US and EU TTC, has agreed on five areas of cooperation

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46 *Indo Pacific Economic Forum Clean Economy Agreement*, opened for signature 6 June 2024 (entered into force 11 October 2024).

47 A Heads of State Summit involving the US, India, Australia, and Japan.

48 “Readout of U.S. -EU Trade and Technology Council Fifth Ministerial Meeting”, 31 January 2024, <https://www.whitehouse.gov/briefing-room/statements-releases/2024/01/31/readout-of-u-s-eu-trade-and-technology-council-fifth-ministerial-meeting/>; QUAD Statement of Principles on Clean Energy Supply Chains in the Indo-Pacific, <https://www.mofa.go.jp/mofaj/files/100509241.pdf>

which are directly related to supply chains, such as export controls, foreign direct investment screening, secure supply chains, technology standards and global trade challenges.<sup>49</sup> Similarly, Quad members have focused their attention on issues relating to supply chains and other areas such as maritime security, health security, regional infrastructure and connectivity.<sup>50</sup>

#### *US and EU Trade and Technology Council*

The US and EU Trade and Technology Council (TTC) was established in 2021 as a dialogue platform between US and EU to forge a united action to address areas of common interests. The TTC utilises early warning mechanisms for monitoring possible supply chain disruptions and share information about the support provided to the semi-conductor sector.<sup>51</sup> The Council is working on securing sustainable supply chains for the clean energy transition to reduce vulnerabilities and increase photovoltaic technologies manufacturing capacities to de-risk and diversify supply chains.<sup>52</sup> The TTC has collaborated to diversify US and EU critical minerals supply chains through the Mineral Security Partnership Forum.<sup>53</sup>

#### *Quad*

In 2021 Quad members issued their Common Statement of Principles on Critical Technology Supply Chains establishing a Critical and Emerging Technology Working Group for ensuring the resiliency of critical technology supply chains.<sup>54</sup> In 2023, the Quad released the Quad Statement of Principles on Clean Energy Supply Chains in the Indo-Pacific. The Quad approaches critical minerals through its initiatives to develop and diversify clean energy supply chains.

#### *IPEF, the TTC, and the Quad*

The US is central to the IPEF, TTC, and Quad, and each is anchored on building the economic security of participating states. As such, the US, as the hegemon of the Western economic system, is still working to mobilise key states to manage the rise of its most significant peer competitor in modern times — China. Moreover, the US is deploying a common policy toolbox in each case thus ensuring the potential portability of the net benefits pursued in one forum could be made available in the others. But what are the prospects for success?

### **Can IPEF's Pillars 2 and 3 Deliver Regional Economic Security?**

This section briefly reviews IPEF's trajectory in relation to the two Pillars. While both are in early stages of implementation, some initial signs are apparent, with most progress having been made under Pillar 3. The much discussed and anticipated re-organisation of global supply chains expected to occur as geopolitical contestation intensifies is reviewed through the lens of recent attempts to measure it. The concluding remarks later in this section attempt to capture the core conclusions.

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49 European Commission, "EU-US Trade and Technology Council" [https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/stronger-europe-world/eu-us-trade-and-technology-council\\_en](https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/stronger-europe-world/eu-us-trade-and-technology-council_en)

50 "Joint Statement from the Leaders of Australia, India, Japan and the United States", 21 September 2024, <https://www.pm.gov.au/media/joint-statement-leaders-australia-india-japan-and-united-states>

51 "US and EU Joint Statement of the Trade and Technology Council", The White House, 5 April 2024, <https://www.whitehouse.gov/briefing-room/statements-releases/2024/04/05/u-s-eu-joint-statement-of-the-trade-and-technology-council-3/>

52 *Ibid.*

53 "US and EU Joint Statement of the Trade and Technology Council", The White House, 5 April 2024, <https://www.whitehouse.gov/briefing-room/statements-releases/2024/04/05/u-s-eu-joint-statement-of-the-trade-and-technology-council-3/>

54 "Common Statement of Principles on Critical Technology Supply Chains", Japan Ministry of Foreign Affairs, 21 March 2021, <https://www.mofa.go.jp/files/100347806.pdf>

### What is IPEF's trajectory?

Suominen provides a timely “scorecard” for IPEF’s performance.<sup>55</sup> She notes that members were supposed to identify their critical supply chain vulnerabilities<sup>56</sup> to the SCC by July 2024, but it is not clear whether this was done. She then notes several regional and global challenges that IPEF members could address through the SCC but haven’t, including:<sup>57</sup>

- Clogged shipping lanes and fluctuating shipping prices.
- Promoting and securing Industry 6.0 manufacturing.<sup>58</sup>
- Digitising “handshakes” and electronic payments in trade and logistics corridors. While the SCA prioritises development of digital standards to promote interoperability, there’s far more to be done.
- The SCCN should be focused on mobilising responsive private sector actors and actions to revive crisis-hit supply chains, including provision of working capital.
- Helping supply chain managers to achieve their Scope 3 emissions reduction targets.<sup>59</sup>
- Coordination of individual semiconductor initiatives meant to derisk the supply chain from reliance on Chinese supplies, as well as respond to potential mass Chinese exports of legacy chips that could undermine Asian IPEF members’ production plans.

The Pillar 2 established the IPEF Critical Minerals Dialogue at its Seattle Leaders meeting in November 2023, with an eye on strengthening and diversifying critical minerals supply chains. Moreover, many critical minerals are essential inputs into green technologies, so if this Dialogue results in concrete outcomes that will reinforce work underway under in Pillar 3.

Suominen gives Pillar 3 a better scorecard.<sup>60</sup> The establishment of the IPEF Catalytic Capital Fund by the US, Japan, South Korea, and Australia in June 2024 is meant to promote climate projects in IPEF members. Osaki notes that its initial capital was USD 33 million.<sup>61</sup> This is complemented by the establishment of a private sector coalition to promote green infrastructure investments, with USD 23 billion pledged for 69 projects at the inaugural Singapore meeting in June 2024.<sup>62</sup>

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55 Kati Suominen, . “The scorecard for IPEF”, Hinrich Foundation Report, July 2024, <https://www.hinrichfoundation.com/research/wp/ftas/the-scorecard-for-ipef/>

56 Including identification of critical sectors and products, based on their potential impact on national security should supply be disrupted, dependencies on single suppliers, and relative availability of domestic production capacity. *Ibid.* P7.

57 *Ibid.*

58 Advanced manufacturing enabled by artificial intelligence, quantum computing, and 6G technologies. She also notes that IPEF members could collaborate on cyber security to protect 6G technologies.

59 Kati Suominen, “The scorecard for IPEF”, *Hinrich Foundation Report*, July 2024, <https://www.hinrichfoundation.com/research/wp/ftas/the-scorecard-for-ipef/>

60 Kati Suominen, “The scorecard for IPEF”, *Hinrich Foundation Report*, July 2024, <https://www.hinrichfoundation.com/research/wp/ftas/the-scorecard-for-ipef/>

61 Yuma Osaki, “Is this time different? IPEF and American trade leadership in the Indo-Pacific”, *Indo-Pacific Insight Series*, 22, June 2024, <https://perthusasia.edu.au/research-insights/publications/is-this-time-different-ipef-and-american-trade-leadership-in-the-indo-pacific/>

62 *Ibid.* P11.



Fossil fuel export credit financing still dwarfs that going to renewable energy projects.<sup>63</sup> This reflects a broader reality, that of the funding advantages still widely accorded to fossil fuel energy generation through, inter alia, fossil fuel subsidies. Those incentive structures still constitute a major set of disincentives to the uptake of clean energy technologies.

Nonetheless, given the positive beginning there are grounds for optimism, particularly when the broader US National Security context is considered, as explained in a previous section. The Strategy specifically refers to IPEF as a new kind of trade governance model. Sullivan also notes the G7's US-sponsored Partnership for Global Infrastructure and Investment is intended to mobilise vast financial resources to invest into developing countries' sustainability strategies, notably the clean energy sector.<sup>64</sup> The strategy is clearly anchored in Hirschman's trade coercion model, as well as Luttwak's geoeconomics framework<sup>65</sup>, and is implemented in a context of bi-partisan support in the US Congress for managing systemic competition with China.

However, the US is also turning inward in its trade policy settings, largely owing to domestic political considerations. Moreover, these economic security settings under President Donald Trump will be recalibrated, and the US will double down on its inward trajectory. President Donald Trump has already stated that he would withdraw the US from IPEF.<sup>66</sup> Should that occur, on the plus side the US would remain in the Agreement until 2026, and Trump would likely double-down on his preferred engagement modus operandi, which is bilateral relations with key IPEF countries. However, the damage this would inflict on the US's standing as a trusted trade and investment partner in the Indo-Pacific region, as well as a counterweight to China, is incalculable.

### The shifting geography of global and regional value chains

Excising Chinese suppliers from IPEF-identified supply chains is arguably a much larger challenge. While estimates of Chinese dominance vary widely, according to the supply chain in focus, there is little doubt over China being the manufacturing powerhouse of the world. Moreover, US dependence on Chinese suppliers is perhaps greater than previously thought, even though the US predominantly sources its industrial inputs domestically.<sup>67</sup> The extent of other IPEF countries' reliance on Chinese suppliers is almost certainly large for most, particularly those with less diversified economies, smaller domestic markets, higher trade to GDP ratios and weaker manufacturing sectors.

In this light, the OECD notes that from a global standpoint production has become increasingly concentrated at the product level with China accounting for 15 percent of their members' strategic

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63 Nicholas Frank and Maxfield Peterson, "Mapping networks of export credit for fossil and clean energy infrastructure: trends, persistencies, and policy options", IIT Working Paper 15, 2024, <https://iit.adelaide.edu.au/ua/media/2450/ua31339-energy-infrastructure-working-paper-16-v3.pdf>

64 The White House, "Fact Sheet: Partnership for Global Infrastructure and Investment (PGI) Indo-Pacific Economic Framework for Prosperity (IPEF) Investor Forum", 16 November 2023, <https://www.whitehouse.gov/briefing-room/statements-releases/2023/11/16/fact-sheet-partnership-for-global-infrastructure-and-investment-pgi-indo-pacific-economic-framework-for-prosperity-ipef-investor-forum/>

65 Albert O. Hirschman, "National Power and the Structure of Foreign Trade," *University of California Press*, 1945; Edward Luttwak, "Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce," *The National Interest*, no: 20, 1990, <https://www.jstor.org/stable/42894676>

66 Nathan Layne, "Trump Vows to Kill Asia Trade Deal Being Pursued by Biden if Elected," Reuters, 19 November 2023, <https://www.reuters.com/world/us/trump-vows-kill-asia-trade-deal-being-pursued-by-biden-if-elected-2023-11-19/>

67 Baldwin, R. Freeman, R. and Theodorakopoulos, A., "Hidden Exposure: Measuring US Supply Chain Reliance", Brookings Papers on Economic Activity, 2023

products import dependencies in 2020-21 versus 4 percent in 1997-99.<sup>68</sup> At the same time, the OECD countries accounted for 70 percent of China's strategic products import dependencies, which are dominated by the US and Japan (15 percent and 12 percent, respectively).<sup>69</sup> Clearly dependencies cut both ways.

This objective situation explains why, despite years of trade policies intended to “derisk” US supply chains from Chinese suppliers, the main measured result so far seems to be lengthening those supply chains through relocation of Chinese suppliers into third markets rather than diversification of supplier relationships<sup>70</sup>, giving rise to select “connector countries” aligned to a broadly defined US trading bloc that have benefitted from such investments.<sup>71</sup>

Hence Baldwin et. al advocate focusing supply chain derisking policies on individual products rather than entire sectors per se.<sup>72</sup> And the OECD cautions against adoption of uninformed policy responses meant to mitigate trade dependencies in such products.<sup>73</sup>

### Concluding Remarks

The analytical, diagnostic, and cautious approach that the IPEF Supply Chains Pillar establishes will take time to be appropriately calibrated and unfold. If, as expected, geopolitical tensions between the US and China continue to intensify, it is likely that the SCA will deliver concrete, product-specific outcomes along with broader cooperative endeavours.

This also applies to the energy security supply chains central to Pillar 3. There, cooperation to achieve the broader energy transition objectives needs to move faster and does appear to be — notwithstanding the entrenched advantages enjoyed by incumbent fossil fuel industries across the Indo-Pacific region. Those disincentives could be partially overcome if IPEF members were to negotiate something akin to the Singapore-Australia Green Economy Agreement.<sup>74</sup>

If the US were to withdraw from IPEF that would constitute a body blow; but going by the experience of the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) Agreement after the US exit, the remaining IPEF members are likely to implement it. Moreover, the US would likely still, but more conditionally, support IPEF members' derisking and clean energy objectives albeit in ways that are beyond the scope of this paper to predict.

In conclusion, the IPEF could yet deliver meaningful economic security to its members, as defined in the first section, a task that will become harder should the US withdraw. However, patience is required, particularly in relation to Pillar 2 implementation, which requires careful calibration if all

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68 Christine Arriola et al., “Towards Demystifying Trade Dependencies: At What Point do Trade Linkages Become a Concern?” OECD Trade Policy Paper, p 1, 2024, <https://doi.org/10.1787/2a1a2bb9-en>

69 *Ibid.* P19.

70 Han Qiu, Hyun Song Shin and Leanne Si Ying Zhang, “Mapping the realignment of global value chains,” BIS Bulletin 78, 2023

71 Gita Gopinath et al., “Changing Global Linkages: A New Cold War?”, IMF Working Papers, 2024, <https://www.imf.org/en/Publications/WP/Issues/2024/04/05/Changing-Global-Linkages-A-New-Cold-War-547357>

72 Richard Baldwin, Rebecca Freeman, and Angelos Theodorakopoulos, “Hidden Exposure: Measuring US Supply Chain Reliance”, Brookings Papers on Economic Activity, 2023, <https://www.brookings.edu/articles/hidden-exposure-measuring-us-supply-chain-reliance/>

73 *Ibid.* P1.

74 For the status of the Agreement and implementation updates see “Singapore-Australia Green Economy Agreement,” Australian Government Department of Foreign Affairs and Trade, 2022, <https://www.dfat.gov.au/geo/singapore/singapore-australia-green-economy-agreement>

How do the IPEF's supply chain and clean economy pillars' regulations impact the economic security of the region?

the benefits of open trade postures are not to be eschewed.

## About the Authors

**Professor Peter DRAPER** is Professor and Executive Director of the Institute for International Trade in the School of Economics and Public Policy, The University of Adelaide, Australia. He holds a Jean Monnet Chair in Trade and Environment and directs the Jean Monnet Centre on Trade and Environment. He is a board member of the Australian Services Roundtable. He is also a Director of the Board of Trustees of the International Chamber of Commerce's Research Foundation; non-resident senior fellow of the Brussels-based European Centre for International Political Economy; and Associated Researcher at the German Institute of Development and Sustainability.

Peter has extensive international trade and investment policy research experience, traversing a wide variety of global, regional, and national contexts from the WTO, through various regional economic integration groupings, to country-focused projects. He has also worked on many different aspects of global supply chains, particularly their governance and immersion in trade cooperation arrangements, including the political economy of evolving governance arrangements. He has consulted to many international organizations, including the OECD, the World Bank, the WTO; the United Nations including UNESCAP; the EU, the African Union, and the Southern African Development Community. He has also worked for G7 governments on a bilateral basis, and key developing countries, notably the BRICS, in the G20 context. For ten years he was closely involved in the World Economic Forum's Global Trade and Investment Council, including as Chair, Co-Chair, and Vice-Chair. He has published widely on trade policy, arrangements, and negotiations, and has extensive experience in the think tank world. His expertise lies in international political economy, or the practical study of why states pursue particular forms of integration into the global economy and their approaches to negotiating their terms of engagement (or trade policy settings). He has led and participated in many consulting projects related to these themes.

**Mr Freddie NAMO** is an international trade lawyer and is currently undertaking his doctoral degree in international investment law at the University of Adelaide Law School. He has extensive experience working in international development projects in the South Pacific region.

He joined the Institute for International Trade as a Research and Teaching Assistant and has continued to provide research and teaching support for various projects and courses. His research interests are in international trade law, international investment law, heterodox economics, critical law and political economy, and their interface with cross-cutting issues especially in small island states. He obtained his Masters and Bachelor of Law degree from National Taiwan University in Taiwan.

Prior to pursuing his PhD studies he was working for Nathan Associates as a national consultant in implementing trade and investment programme under the USAID SCALE Project in Solomon Islands. In 2021 he participated as a national expert in the evaluation of WTO Enhanced Integrated Framework (EIF) Projects with Saana Consulting Limited. He was the National Export Market System Facilitator for Solomon Islands under the PHAMA Plus Program in 2019; International trade consultant for the Commonwealth technical assistance to Solomon Islands in 2017 and Legal Officer for the Office of the Chief Trade Advisor during the PACER Plus negotiations in 2015.

How do the IPEF's supply chain and clean economy pillars' regulations impact the economic security of the region?

# The IPEF: Reinforcing Economic Security through Resilient, Diversified and Sustainable Supply Chains?

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Evelyn S. DEVADASON

The IPEF Supply Chain Agreement should be calibrated to the interests and expectations of its participants to achieve tangible outcomes - resilient, diversified and sustainable supply-chains. The lack of economic incentives in IPEF limits the diversification of supply chains of the ASEAN Member States (AMS) in IPEF as supply chain trade improves with the creation of both new trading relationships and new market access. The de-risking of supply chains of the AMS in IPEF away from China is also difficult as China has emerged as the top priority for the AMS in terms of supply chain stability. The decision of the US to pause IPEF negotiations on digital trade rules in November 2023 is another big setback and missed opportunity of the US-led IPEF to stay current since businesses in the AMS that are already digitising their supply chains have expressed shared interests in cross-border data transfer rules to tackle cybersecurity threats. And finally, the flexible approach of IPEF may likely constrain cooperative action to develop sustainable supply chains. It is therefore expected, for now, that the adoption of new digital trade rules and compliance with sustainability standards in supply chains are at best likely to progress through bilateral or regional free trade agreements. To bring about substantive changes in supply chains for the AMS, IPEF should include tangible market incentives to make up for the absence of market access; consider compliance mechanisms to ensure that the rules set are being followed by participants; and leverage public-private partnerships of IPEF partners to move forward with specific ventures, such as developing new supply chains in critical minerals.

## Introduction

The disruptions in supply chains and uncertainties that follow geopolitical tensions and rivalry have led to new strategic alliances, partnerships, and alignments in the Indo-Pacific, a region where multilateralism has been largely ineffective. Driven by common security threats, and arguably common economic interests, these new forms of (loose) cooperation have become more acceptable to the countries in the Indo-Pacific.<sup>1</sup> The combination of traditional alliances [United States (US) and Japan; Australia and South Korea, among others] and new alliances/ alignments [AUKUS<sup>2</sup>: Australia, the United Kingdom (UK) and US; and Quad<sup>3</sup>: US, Australia, Japan and India] have resulted in a complex network that is shaping the regional order.

Launched in May 2022, the demands of the US-led Indo-Pacific Economic Framework (IPEF) were to potentially generate a wider rules-based approach for the region by negotiating common areas of interest of members. Many, however, remain skeptical and critical about the effectiveness of IPEF since there is no market access component in the framework. The concerns on limited effectiveness extend to the uncertainties that surround the US's future engagement in IPEF and the failure of IPEF to progress on the Trade Pillar or Pillar I.<sup>4</sup> That said, IPEF negotiations have proceeded for the remaining three pillars - Supply Chains, Clean Economy and Fair Economy. The Supply Chains Pillar (Pillar II) produced a tangible outcome in the form of a Supply Chain Agreement that went into force on 24 February 2024 - heralded as the 'world's first multilateral supply chain agreement'.<sup>5</sup> Eight IPEF partners – Fiji, India, Japan, Korea, Singapore, US, Malaysia and Thailand – are now Parties to the IPEF Supply Chain Agreement, while the remaining countries are completing their respective domestic processes to deposit their instruments of ratification.

It is therefore timely to assess and compare the IPEF vis-à-vis other multilateral arrangements to inform the policy debate on establishing resilient, diversified and sustainable supply-chains and subsequently reinforcing economic security.<sup>6</sup> The discussion on supply chain implications of IPEF in this paper is focused on Southeast Asia since the seven ASEAN Member States (AMS) make up half of the members in IPEF, and ASEAN has grown into an important supplier, stopover and end-user in global value chains (GVCs). The AMS are also crucial in the Indo-Pacific strategy of the US.

The paper is divided into four parts. The following section provides the context by identifying some key concerns regarding securing supply chains based on the IPEF and the full text of the Agreement and relating them to the contemporary interests and trade dynamics of the AMS in IPEF. Then follows the next section with a comparative assessment of the IPEF vis-à-vis other regional and multilateral arrangements in terms of the scope of provisions and the prospects of IPEF in strengthening supply chains in Southeast Asia. The final section concludes with some key

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1 Barbara Kratiuk, "Strategic alliances and alignments in the Indo-Pacific," *Handbook of Indo-Pacific Studies*, 2023, pp. 248-261, Routledge: India

2 A trilateral security partnership formed in 2021 to promote defense interests and stability in the Indo-Pacific region, including cooperation in making trilateral supply chains more robust and resilient.

3 A diplomatic partnership (formed in 2007, ceased in 2008 and restarted in 2017) that covers a wide engagement of interests in the Indo-Pacific region, including health, security, climate change, infrastructure, critical and emerging technology, cyber security, humanitarian assistance and disaster relief, space, maritime security, countering disinformation, and counter-terrorism.

4 Erin Murphy, "The Indo-Pacific Economic Framework's uncertain future," East Asia Forum, 24 March 2024, <https://eastasiaforum.org/2024/03/24/the-indo-pacific-economic-frameworks-uncertain-future/>

5 *Ibid.*

6 Worth mentioning here that supply chain disruptions are not limited to economic security as they involve other risks and disarrays in connectivity and logistics at the country-level.

takeaways on the relevance of the rules-based approach for building resilient supply chains.

### The Context: Building Secure Supply Chains

The landmark IPEF Supply Chain Agreement seeks to build “resilient, efficient, productive, sustainable, transparent, diversified, secure, fair, and inclusive supply chains.”<sup>7</sup> The principles of the Agreement are somewhat like that of the Group of Seven (G7) network’s principles on resilient and reliable supply chains.<sup>8</sup> Similarly, the IPEF Supply Chain Agreement also emphasises countries to engage with businesses (key players in the supply chain) at the national level and utilise technical assistance and capacity building among members. While the Agreement appears to resonate with the contemporary trade agenda on resilient, secure, and sustainable supply chains, there are some reservations on the potential effectiveness of IPEF as it is still considered work in progress.<sup>9</sup>

First, it is difficult to disengage supply chains (Pillar II) from trade (Pillar I) from an economic standpoint.<sup>10</sup> Trade and supply chains intersect in multiple areas – for example, trade impediments restrict market access and affect supply chain trade and diversification; and digital trade involves the movement of data, and the quality of data, in turn, is important for initiating the digitisation of supply chains and subsequently increasing supply chain efficiency.

Second, the lack of market access in IPEF not only obscures the benefits to the AMS that do not have a free trade agreement (FTA) with the US, more importantly, it minimises the potential for strengthening their supply chains. Evidentially, supply chain trade improves with the creation of both new trading relationships and new market access [either in the form of reduction in tariffs or non-tariff barriers (NTBs) and streamlining of non-tariff measures (NTMs)].<sup>11</sup> Though the Agreement does, at the very least, provide for parties to minimise trade restrictions [Article 3: (1); Article 6: 13(j)], rightfully, this provision should explicitly cover both normal and abnormal circumstances to ensure that there is better coordination of rules during crises or periods of external shocks.<sup>12</sup> For example, the lack of a coordinated regional response during the pandemic, reflected by the rise in unilateral export related NTMs in ASEAN, such as export bans, export licensing etc., worsened the supply chain disruptions propagated by the global health shock.

The above suggests the importance for disciplining trade restrictions for crisis coordination and response, though it is noted that IPEF does grant export control exceptions in the event of an

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7 “IPEF Supply Chain Agreement,” U.S. Department of Commerce, 2024, <https://www.commerce.gov/sites/default/files/2023-09/2023-09-07-IPEF-Pillar-II-Final-Text-Public-Release.pdf>

8 Philip J Palin, “G7: Six principles of supply chain resilience,” 1 May 2023, <https://supplychainresilience.org/g7-six-principles-of-supply-chain-resilience/>

9 Kati Suominen, “The scorecard for IPEF,” Hinrich Foundation, 2024, [https://research.hinrichfoundation.com/hubfs/White%20Paper%20PDFs/The%20scorecard%20for%20IPEF%20\(Kati%20Suominen\)/The%20scorecard%20for%20IPEF%20-%20Hinrich%20Foundation%20-%20Kati%20Suominen%20-%20July%202024.pdf?](https://research.hinrichfoundation.com/hubfs/White%20Paper%20PDFs/The%20scorecard%20for%20IPEF%20(Kati%20Suominen)/The%20scorecard%20for%20IPEF%20-%20Hinrich%20Foundation%20-%20Kati%20Suominen%20-%20July%202024.pdf?)

10 Jayant Menon, “What can Malaysia expect from IPEF?” ISEAS Yusof Ishak Institute Perspective, No. 64. ISEAS Yusof Ishak Institute: Singapore, 1 August 2023, [https://www.iseas.edu.sg/wp-content/uploads/2023/06/ISEAS\\_Perspective\\_2023\\_64.pdf](https://www.iseas.edu.sg/wp-content/uploads/2023/06/ISEAS_Perspective_2023_64.pdf)

11 “The growth of supply chain trade within the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP),” Office of the Chief Economist at Global Affairs Canada for the CPTPP CBF Committee, 2023, <https://www.mfat.govt.nz/assets/Trade-agreements/CPTPP/CPTPP-CBF-Supply-Chains-Analysis-2023.pdf>

12 “IPEF Supply Chain Agreement,” U.S. Department of Commerce, 2024, <https://www.commerce.gov/sites/default/files/2023-09/2023-09-07-IPEF-Pillar-II-Final-Text-Public-Release.pdf>



emergency or supply chain disruption [Article 12: 2(e)].<sup>13</sup> The IPEF members, in turn, have to be transparent about their intended temporary or ad-hoc measures to regulate trade during crises periods for the IPEF Supply Chain Crisis Response Network to function effectively [Article 7: 2(b); Article 12: 2(e)].<sup>14</sup> On the same topic of responses to supply chain disruptions, the emphasis on dialogue with the private sector [Article 12: 3(c), (d)] is an important foundation as companies directly bear the brunt of any adjustment costs.<sup>15</sup> Industry players among IPEF partners should therefore be extensively engaged in building reliable data on corporate health, identifying vulnerabilities to supply chains [Article 11(4)] to facilitate better responses to, and monitoring of supply chain disruptions.<sup>16</sup> Robust and collective responses to cyber issues for example, are also critical for the manufacturing industry in the Indo-Pacific region, which is a key target for cyber-attacks.<sup>17</sup> Cyber outages, irrespective of their origin, whether a (common) localised data breach or a global ransomware attack, can be devastating for supply chains.

Third, the decision of the US to pause IPEF negotiations on digital trade rules in November 2023 can be considered a big setback and missed opportunity of IPEF to stay current as this is the new form of trade engagement.<sup>18</sup> The Supply Chain Agreement, however, is useful in one aspect. It provides for collaborative efforts to adopt digital standards and frameworks that are interoperable by means of technology [Article 2: (10)].<sup>19</sup> Worth noting here is that beyond automating and digitising supply chains, businesses in the AMS also have a shared interest in cross-border data transfer rules to tackle cybersecurity threats as many of them are actively engaged in e-commerce platforms and are now shifting towards online marketplaces to tap cross-border trade opportunities.<sup>20</sup> Without concrete rules in key and complex areas, such as source code protection, data transfer, and cybersecurity standards, IPEF remains as a limiting framework leaving its members to look elsewhere or to opt for other options that tackle these difficult issues. For example, Korea (an IPEF member) has recently (May 2024) become a member of the Digital Economy Partnership Agreement (DEPA – comprising Singapore, New Zealand and Chile),<sup>21</sup> which seeks to facilitate end-to-end digital trade and enable trusted digital systems and data flows.

Fourth, the key to securing supply chains is diversification, that is, to increase the number and capability of suppliers of key materials to mitigate potential supplier disruption. The supply chain trends in Southeast Asia however run counter to diversification. Most of the AMS in IPEF have

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13 *Ibid.*

14 *Ibid.*

15 *Ibid.*

16 *Ibid.*

17 Thomas J. Murphy and Stephen R. Nagy, "Middle-power cybersecurity in the Indo Pacific: An analysis through the lens of neo-middle power diplomacy," *The Journal of Intelligence, Conflict, and Warfare*, 2024, 7(1): 1-24

18 The decision to stall negotiations on digital trade and the uncertainties regarding the course of digital trade post US elections have cast doubts on the possible reforms and collaboration on digital trade rules via the IPEF; see "Washington's hesitancy on digital-trade diplomacy," September 2024, International Institute for Strategic Studies (IISS), <https://www.iiss.org/publications/strategic-comments/2024/09/washingtons-hesitancy-on-digital-trade-diplomacy/>

19 "IPEF Supply Chain Agreement," U.S. Department of Commerce, 2024, <https://www.commerce.gov/sites/default/files/2023-09/2023-09-07-IPEF-Pillar-II-Final-Text-Public-Release.pdf>

20 "How businesses in ASEAN are building resilience against supply chain disruption," HSBC, 14 June 2024, <https://www.business.hsbc.com/en-gb/insights/balancing-supply-and-demand/how-businesses-in-asean-are-building-resilience-against-supply-chain-disruption>

21 "Digital Economy Partnership Agreement," Ministry of Trade and Industry (MTI), Singapore, <https://www.mti.gov.sg/Trade/Digital-Economy-Agreements/The-Digital-Economy-Partnership-Agreement>

not only established China-centric supply chains in semiconductor and green tech industries [electric vehicles (EVs), lithium-ion batteries for EVs, renewable energy (RE) – solar cell and module industry], but the US-China trade disputes have prompted further realignment (more of extensions rather than replacements) of supply chains from China to Southeast Asia, namely to Thailand, Malaysia, the Philippines, Indonesia and Vietnam, to support the Chinese EVs battery production.<sup>22</sup> China has emerged as a top priority for AMS in terms of supply chain stability.<sup>23</sup> With the current intensification of ASEAN's reliance on China's industrial inputs (production side), any diversification or de-risking of supply chains of AMS in IPEF away from China or rather China-free supply chains is going to be difficult or disruptive. For example, ASEAN is highly dependent on China-controlled solar panel supply chains where the latter accounts for nearly 95% of wafer manufacturing.<sup>24</sup>

While the four points raised above relate to the supply chain implications given the framing of the IPEF pillars and the membership of the Framework, it is important to consider what the Supply Chain Agreement per se could plausibly offer in terms of developing sustainable and critical supply chains.

Fifth is on the prospects of IPEF ensuring supply chains meet labour and environmental standards. In the case of labour standards for example, this would require commitment from IPEF partners to reach a consensus on the relevant international labour standards and rights, and to undertake the necessary reforms in their national labour markets. Since the IPEF is supposedly less intrusive than a free trade agreement (FTA), it would be a challenge to ensure regulatory compliance and drive the transformation of supply chains. The reason being while many of the AMS have trended positively on the sustainability space, many of the companies still fail to regard sustainability as a strategic business choice, and therefore are unwilling to commit to costly reforms related to climate change and worker protection rights.<sup>25</sup>

Sixth relates to the identification of critical supply chains, i.e. critical sectors or key goods [Article 10: (1)].<sup>26</sup> Cognisant in the Agreement is that the definition of critical goods is contextual as it is based on factors such as the impact of a potential shortage on a country's national security, the level of dependence on a single supplier, and the availability of domestic production capacity. The IPEF submissions of critical goods would be relevant to the AMS if the first impending list is an extended list of the 351 tariff lines of essential goods (consisting of agricultural and food products, and goods relating to the manufacturing and distribution of vaccine) in the *Memorandum of Understanding (MoU) on the Implementation of the Non-Tariff Measures on Essential Goods under the Hanoi Plan of Action on Strengthening ASEAN Economic Cooperation and Supply Chain Connectivity in Response to the COVID-19 Pandemic*,<sup>27</sup> developed based on the recommendations of the World

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22 Aufa Doarest and Maria Monica Wihardja, "The impacts of supply chain reconfiguration on ASEAN Economies," ISEAS Yusof Ishak Institute Perspective, No. 35. ISEAS-Yusof Ishak Institute: Singapore, 17 May 2024, [https://www.iseas.edu.sg/wp-content/uploads/2024/05/ISEAS\\_Perspective\\_2024\\_35.pdf](https://www.iseas.edu.sg/wp-content/uploads/2024/05/ISEAS_Perspective_2024_35.pdf)

23 Inkyo Cheong and Yeri Ryu, "Issues on the ASEAN-China Free Trade Area," In *Further ASEAN-China Cooperation for Joint Prosperity: Envisioning ACFTA 3.0 in the Digital Era*, Eds. Lurong Chen and Aladdin D Rillo, Economic Research Institute for ASEAN and East Asia (ERIA): Jakarta, 2024, pp.60-79

24 Sin Lu Tan, "Beyond US-China rivalries? Southeast Asia's diverse green partnerships," International Institute for Strategic Studies (IISS), <https://www.iiss.org/online-analysis/online-analysis/2024/10/beyond-uschina-rivalries-southeast-asias-diverse-green-partnerships/>

25 "Transforming supply chains for a resilient ASEAN," UOB, 26 January 2024, <https://www.uobgroup.com/asean-insights/articles/supply-chain-transformation.page>

26 "IPEF Supply Chain Agreement," U.S. Department of Commerce, 2024, <https://www.commerce.gov/sites/default/files/2023-09/2023-09-07-IPEF-Pillar-II-Final-Text-Public-Release.pdf>

27 The ASEAN Secretariat, "ASEAN extends MoU on essential goods," 13 November 2022, <https://asean.org/asean-extends-mou-on-essential-goods/>

Trade Organisation (WTO), World Health Organisation (WHO), and the Organisation for Economic Co-operation and Development (OECD). That is, the IPEF's first list of critical goods should ideally be comprehensive and cover essentials beyond food and health, to semi-conductors and critical minerals. (At the time of writing, the member countries are still preparing their submissions for the list of critical goods, where semiconductors, medical supplies, and critical minerals are being considered as critical goods in IPEF<sup>28</sup>).

Finally, in relation to the development of critical supply chains mentioned above, the upside of IPEF is its unique proposed modality of cooperation - public-private partnerships (PPPs). PPPs between IPEF partners can be harnessed for specific projects such as investing in and mining of (particularly in the early-stage exploration and exploitation) critical minerals in the AMS, namely in nickel reserves in Indonesia and the Philippines and lithium deposits in Thailand.<sup>29</sup> A PPP example is the 2022 announcement made by South Korea's LG Energy Solution (EV producer), in partnership with POSCO (steel manufacturer), two Indonesian state-owned enterprises (SOEs) and Chinese miner Zhejiang Huayou Cobalt, to jointly invest in nickel processing in Indonesia.<sup>30</sup> These potential (new) ventures can lead to the formation of new supply chains since critical minerals are used for battery production.

The above points raise the question:

Can IPEF truly be transformative for its ASEAN members by bringing about substantive changes in supply chains?

### ASEAN in Focus: IPEF versus other Multilateral Arrangements

ASEAN has emerged as a significant player in the Indo-Pacific region. Concurrent with deepening its scope of economic cooperation, ASEAN also stepped forward to expand the realm of economic cooperation beyond the bloc. The ASEAN-China FTA (ACFTA) (see Table 1), the first agreement signed between ASEAN with a non-ASEAN country, stands out as the most beneficial FTA for ASEAN vis-à-vis the other ASEAN+1 FTAs. The forthcoming upgraded ACFTA 3.0, the recent realignment of global supply chains explained in the preceding section, and the AMS expressing their interest to expand their supplier networks in China has further increased the importance of the ACFTA in the region.<sup>31</sup>

Apart from the ACFTA, the AMS of IPEF are also participants of several other regional and multilateral agreements that have emerged in the recent past, namely the Regional Comprehensive Economic Partnership (RCEP), Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the DEPA. Unlike the IPEF, these are FTAs that have provisions for market access, but the FTAs, in turn, differ in terms of the standards or binding rules of the agreement, level of market

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28 Junnosuke Kobara, "South Korea, Japan to help crisis-proof Indo-Pacific supply chain," Nikkei Asia, 31 July 2024, <https://asia.nikkei.com/Spotlight/Supply-Chain/South-Korea-japan-to-help-crisis-proof-Indo-Pacific-supply-chain>

29 Yeo Han-koo, "It's time for IPEF countries to take action on supply chain resilience," Peterson Institute for International Economics, 5 July 2023, <https://www.piie.com/blogs/realtime-economics/its-time-ipef-countries-take-action-supply-chain-resilience>

30 Christian Davies, Song Junga and Mercedes Ruehl, "Korea's critical minerals bet on Indonesia at risk," Financial Review, 1 Jun 2023, <https://www.afr.com/policy/energy-and-climate/korea-s-critical-minerals-bet-on-indonesia-at-risk-20230601-p5dd89>

31 "Opening doors in the ASEAN-China corridor," HSBC, 15 July 2024, <https://www.business.hsbc.com/en-gb/insights/accessing-capital/opening-doors-in-the-asean-china-corridor>

opening, and scope of provisions.<sup>32</sup>

**Table 1:** ASEAN – Selected Provisions Supporting Supply Chains in Key Regional and Multilateral Arrangements

Supply Chain Enablers	IPEF (7)	ACFTA (10)	RCEP (10)	CPTPP (4)	DEPA (1)
Market Access/ Opening	X	/	/	/	
Tariff Reductions		/	/	/	
NTB/ NTM Provisions		/	/	/	
ROOs		/	/	/	
Intellectual Property Protection			/	/	
Digital Trade/ Supply Chains	/ (Trade Pillar)*		/	/	/
E-commerce	X		/ (non-binding)	/	/
Digital Trade Rules	X		X	/	/
Cross-Border Data	X		X	/	/
Emerging Technologies	X				/
Sustainable Agenda	/		/ (preamble)	/	/
Labour Chapter				/	
Supply Chain Enablers	IPEF (7)	ACFTA (10)	RCEP (10)	CPTPP (4)	DEPA (1)

32 The comparison between the IPEF and other FTAs comes with a caveat: The IPEF Supply Chain Agreement is a general framework agreement with Action Plans for implementation while the FTAs are actionable agreements.

<i>Environment Chapter</i>				/	
Trade Facilitation	/ (Trade Pillar)*	/	/	/	/
<i>Simplification of Customs Procedures</i>	/	/	/	/	
<i>Clearance of Goods</i>	/	/	/	/	/
<i>Digitalisation</i>	/				/
Technical Cooperation/ Capacity Building	/	/	/	/	
<i>Developing Digital Trade Frameworks</i>	X		/		
<i>Sustainability and Inclusive Supply Chains</i>	/				
<i>Capacity Building for E-Invoicing</i>					/

**Notes:** 1. The numbers in parenthesis indicate the number of AMS as participants. 2. X – There is no provision; / – There is provision. 3. Efforts are underway to seal an expanded ACFTA 3.0 in 2024. The upgrade will cover provisions on digital trade and collaborations to strengthen the green economy. 4. \*The trade pillar of IPEF is incomplete (as of August 2024). The provisions (/) in the IPEF should be read with caution as many of them are affirmations and under consideration without concrete action plans.

**Source:** Compiled by the author.

Recognisably, the non-binding nature of RCEP in areas such as standards adoption and conformity assessment present risks of compliance among its members.<sup>33</sup> That said, a commendable aspect of RCEP is the establishment of a single set of regional content rules that have effectively created a single market for intermediate goods. In fact, the importance of RCEP for ASEAN appears to be elevated as RCEP has reconfigured regional value chains (RVCs). South Korea is now aggressively engaging with ASEAN to develop RVCs by investing in semiconductors and batteries.<sup>34</sup>

33 At present, there is no issue of non-compliance with the regulations since RCEP is still under utilised due to the relatively high cost of compliance or administrative burden; see Tham Siew Yean, “Reaping the benefits of RCEP: From utilisation to exports,” Fulcrum, 17 March 2022, <https://fulcrum.sg/reaping-the-benefits-of-rcep-from-utilisation-to-exports/>.

34 Nabilah Saleh, “South Korea to Beef up Supply Chain Resilience by Tapping Malaysia and ASEAN. Bernama. <https://www.bernama.com/en/news.php?id=2305971>

Evidentially, RCEP is expected to reduce US exports to Asia by over \$5 billion due to trade diverting away from the US and toward RCEP partners where tariffs are lower.<sup>35</sup> If this is the case, by turning away market access, not only does the IPEF lack the appeal of RCEP (and the CPTPP), it is also going to be difficult for the US-led IPEF to advance regional supply chain cooperation. With few benefits in store in the IPEF, it is unsurprising that the AMS, according to a 2024 survey, have become more skeptical of the former.<sup>36</sup>

On sustainable supply chains, IPEF affirms to pursue provisions on labour and the environment. Here again, the lack of economic incentives and the non-binding (at least for the Supply Chain Agreement) and flexible approach of IPEF relative to the RCEP and CPTPP renders the IPEF potentially less effective. Worth mentioning here is that the US-led IPEF, in fact, represents a new approach to trade that departs from traditional market access and tariffs, to cooperation, transparency, and inclusivity. Hence, the non-binding approach of IPEF may be a good way to proceed and progress on the aforementioned shared objectives, more so when this approach is also generally favoured by the AMS. That said, some compliance mechanisms (other than the classic trade remedies and dispute settlement mechanisms) are still needed to instill commitment and drive cooperative action among the participants. For example, the binding commitments in the CPTPP has been one of the driving forces for institutional reforms in Vietnam to enable its regulations to align with international norms and standards.<sup>37</sup>

In terms of supporting the digital transformation of supply chains, the IPEF should rightfully scale up the provisions of traditional FTAs with e-commerce chapters, or Digital Trade Agreements (DTAs). Instead, IPEF has rolled back on some of its ambitious plans to move ahead with contested issues related to digital trade rules and cross border data flows (as mentioned in the preceding section). The CPTPP, in contrast, has a binding e-commerce chapter that includes comprehensive provisions for countries to have consumer protection and data privacy laws, enable cross-border data flows, impose a moratorium on customs duties on electronic transmissions, ban server localisation, protect member-country firms' source code, etc.

Singapore, as the most advanced economy in ASEAN, has proceeded further to develop and experiment with forward looking provisions than those covered by the CPTPP by concluding Digital Economy Agreements (DEAs). Singapore's agenda to establish digital interoperability and inclusion and mainstreaming digital into financial services and trade facilitation through DEPA and other similar agreements with Australia and Korea (IPEF partners) is essentially more ambitious than the CPTPP. Now, even developing and emerging economies in ASEAN are becoming keen to form DTAs.<sup>38</sup> A case in point is the ASEAN Digital Economy Framework Agreement (DEFA), launched in September 2023, which is expected to focus on digital trade, cross-border data flows, cybersecurity, digital identity and payments.

None of the above discussion implies that the AMS are not interested in diversifying their economic

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35 Jennifer Kavanagh and Mariano-Florentino (Tino) Cuéllar, "U.S. engagement in the Indo-Pacific: Don't trade away trade," Carnegie Endowment, 25 June 2024, <https://carnegieendowment.org/research/2024/06/us-engagement-in-the-indo-pacific-dont-trade-away-trade?lang=en>

36 Sharon Seah, et al., "The State of Southeast Asia: 2024 Survey Report," ISEAS - Yusof Ishak Institute: Singapore, 2024, <https://www.iseas.edu.sg/wp-content/uploads/2024/03/The-State-of-SEA-2024.pdf>

37 Andreas Stoffers, "CPTPP Milestone Marks Nation's Economic Integration," Friedrich Naumann Foundation Analysis, 2024, <https://www.freiheit.org/vietnam/cptpp-milestone-marks-nations-economic-integration>

38 "Digital Trade Agreements in Asia and the Pacific," The Asia Foundation, 2024, [https://asiafoundation.org/wp-content/uploads/2024/03/Digital-Trade-Agreements-in-Asia-and-the-Pacific\\_Tech-Policy.pdf](https://asiafoundation.org/wp-content/uploads/2024/03/Digital-Trade-Agreements-in-Asia-and-the-Pacific_Tech-Policy.pdf)

partnerships and increase supply chain resilience through the IPEF. It just remains unclear at this juncture how the US-led IPEF will bring about substantive changes in supply chains of its AMS given the lack of market opening in IPEF and the region's established alliance with China through the ACFTA and RCEP contrasted with the US remaining outside major multilateral trade agreements in Southeast Asia. The track record of the US – withdrawal of the US from the then TPP (renamed CPTPP) and from the negotiations of the IPEF trade pillar – only serves to further erode the region's perceptions of the credibility of the US-led IPEF.

From an ASEAN perspective, the absence of the three AMS in IPEF – Cambodia, Myanmar and Lao PDR – can further undermine the relevance of the former. More importantly, it can become even more difficult for ASEAN to align its interests with IPEF without the participation of the three AMS in the latter. It is likely that differences among the AMS could be accentuated on trade policy issues, particularly on the convergence of the regulatory framework within ASEAN. Apart from the expected slowdown in policy coordination, the exclusion of the three AMS could also create within-bloc rivalry and strain ASEAN's unity as the three AMS are considered as "Chinese client states."<sup>39</sup>

### Concluding Remarks

IPEF, arguably, has generated wider buy-in for its rules-based approach as it is focused on "cooperation." Little is known, as of now, regarding the enforcement of its obligations, that is, the mechanisms to ensure that the rules set are being followed by the IPEF partners. Further to that, IPEF should also be calibrated to the interests and expectations of its participants to move forward and achieve tangible outcomes in terms of improving resilience and securing supply chains. It is expected, for now, that the adoption of new digital trade rules and compliance with sustainability standards in supply chains are at best likely to progress through bilateral or regional FTAs.

As a final note, IPEF, as a rules-based framework for reinforcing economic security through resilient and diversified supply chains should at best include:

- Market access provisions OR tangible market incentives;
- Compliance mechanisms; and
- Public-private partnerships.

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39 Mae Chow, "IPEF: A double-edged sword?" Lee Kuan Yew School of Public Policy, 18 December 2023, <https://lkyspp.nus.edu.sg/cag/publications/center-publications/publication-article/detail/ipef-a-double-edged-sword>

### About the Author

**Dr. Evelyn S. DEVADASON** is Professor at the Faculty of Business and Economics, University Malaya (UM) and Vice President of the Malaysian Economic Association (MEA). She was also recently appointed to serve as a Senior Fellow in International Trade, Economics and SME Development at the Institute for Democracy and Economic Affairs (IDEAS). Her research focuses on international trade and regional integration. She currently serves as Editor-in-Chief to the Institutions and Economies journal, Associate Editor to the International Journal of Social Economics, and member to the Editorial Boards of the Journal of Contemporary Asia and International Journal of Rural Management. She has been engaged as a consultant for international research projects funded by the ADBI, ADB, ERIA, FIA, the World Bank, and the EU Horizon 2020, and other projects jointly funded by the ICFTU-APRO, ERIA-UNCTAD and UNEP-DTU.





# The IPEF Supply Chain Agreement on De-risking Supply Chain Disruptions and Implications on Non-Members – A Taiwan Perspective

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Kristy HSU

The United States and thirteen other countries launched negotiations on IPEF, and its four pillars in September 2022. Pillar II, the Supply Chain Agreement (hereinafter referred to as the Agreement), also known as the IPEF Agreement Relating to Supply Chain Resilience, was concluded fast and became effective from 24 February 2024. The Agreement is a first-of-its-kind international agreement stipulating the IPEF Members' obligations to address modern supply chain challenges by improving resilience and regulating related issues such as labour rights.

Work has commenced among the eight Parties that have ratified the Agreement (Fiji, India, Japan, Korea, Singapore, the US, Malaysia and Thailand) for establishing institutions for addressing various supply chain crises arising from shortages, bottlenecks, and other constraints. The Parties have also begun identifying and notifying their country's initial list of critical sectors and key goods for cooperation under the Agreement.

Though currently not a part of IPEF, Taiwan has close economic ties and supply chain partnerships with most of its IPEF members. Its critical role in the technology industries and semiconductor supply chains may be undermined if IPEF members discuss to enhance collaboration to reduce risks of supply chain disruptions in critical sectors and key goods. The Supply Chain Agreement might also encourage trade and investment among the members through preferential treatments while discriminating against other non-IPEF economies, including Taiwan, which may raise issues of WTO inconsistency.

This paper discusses the IPEF Supply Chain Agreement, its progress and implications on the Parties and non-IPEF members, including Taiwan. After providing updates on the Agreement, it explores its provisional structure and content on institutional arrangement and collaboration for de-risking supply chains and analyses possible impacts on Taiwan as a non-IPEF member.

## Introduction

The IPEF initiative was announced by the US President of the United States Joe Biden on May 23, 2022, with thirteen other founding members.<sup>1</sup> It comprises four pillars, namely Fair and Resilient Trade, Supply Chains, Clean Economy, and Fair Economy. After several rounds of negotiations and ministerial meetings, the US announced the substantial conclusion of the Supply Chain Agreement negotiations in May 2023, the first pillar to reach consensus among the IPEF members. The Agreement was signed in November 2023 and has become effective from February 2024.

Subsequently, the Clean Economy Agreement, Fair Economy Agreement, and Agreement on IPEF, an overarching Agreement to help ensure operationalisation of the IPEF framework, were signed during the IPEF Ministerial meeting in Singapore on June 6, entering into force on October 11 and 12, 2024, respectively, leaving the first pillar, or IPEF Trade Agreement, the only remaining agreement which was shelved indefinitely.<sup>2</sup>

The US welcomed the conclusion of these high-standard economic cooperation agreements and expected all IPEF members to emphasise the significant opportunities to further deepen economic cooperation under the agreements going forward.<sup>3</sup>

IPEF was the main economic mechanism under the Indo-Pacific strategy of the former Biden administration. Its current 14 members represent 40 percent of global Gross Domestic Product (GDP) and 28 percent of global trade of goods and services. To the US, its foreign direct investment in the region totaled more than \$969 billion in 2020 while receiving nearly \$900 billion in foreign direct investment into the US.<sup>4</sup>

The IPEF aims to formulate a new economic order for the 21st century to respond to the economic challenges of the new century.<sup>5</sup> The First Pillar (trade) includes labor, environment, digital economy, agriculture, transparency and good governance practices, competition policy, trade facilitation, inclusiveness, technical assistance and economic cooperation. The Second Pillar (supply chain) focuses on increasing resilience of key supply chains and investment in key industries and products, and establishing information sharing and crisis response mechanisms, strengthening supply chain logistics systems, strengthening the role of labor, and improving supply chain transparency. The

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1 The original 13 members are the United States, Japan, South Korea, India, Australia, New Zealand, Vietnam, Thailand, Malaysia, Singapore, Indonesia, Brunei, the Philippines. On May 26, the United States invited Fiji, the only member in the Pacific, to join it became the 14th member.

2 IPEF negotiators planned to finalise negotiations of the trade pillar in November 2023 when the US hosted the Asia-Pacific Economic Cooperation (APEC) Leaders' Summit, but paused because of failure to reach consensus on a digital agreement due to certain sensitive issues. See "IPEF members finalizing parts of trade pillar; some digital pieces on hold," World Trade Online, 6 October 2023, <https://insidetrade.com/daily-news/ipef-members-finalizing-parts-trade-pillar-some-digital-pieces-hold>.

3 "Secretary Raimondo, IPEF Ministers Welcome Upcoming Entry into Force of the Clean Economy Agreement, Fair Economy Agreement, and Agreement on the Indo-Pacific Economic Framework for Prosperity (IPEF) and Commit to Continued Progress at Virtual Ministerial," US Department of Commerce, 23 September 2024, <https://www.commerce.gov/news/press-releases/2024/09/secretary-raimondo-ipef-ministers-welcome-upcoming-entry-force-clean>

4 "FACT SHEET: In Asia, President Biden and a Dozen Indo-Pacific Partners Launch the Indo-Pacific Economic Framework for Prosperity," The White House, 23 May 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/23/fact-sheet-in-asia-president-biden-and-a-dozen-indo-pacific-partners-launch-the-indo-pacific-economic-framework-for-prosperity/>

5 See IPEF Overview and explanations of the four Pillars and key issues, US Department of Commerce, <https://www.commerce.gov/ipef>

Third Pillar (clean economy) includes energy security and transformation, reducing greenhouse gas emissions from priority industries, sustainable land, water, and oceans plans, innovative technologies to eliminate greenhouse gases, and incentives to promote the transformation of a clean economy. The Fourth Pillar (fair economy) includes anti-corruption, taxation, capacity building and innovation, cooperation, inclusive cooperation and transparency.<sup>6</sup>

### The Supply Chain Agreement

The Supply Chain Agreement was signed in November 2023. Five IPEF members – Fiji, India, Japan, Singapore and the US – deposited instruments of ratification to the US and triggered its entry into force on February 24, 2024. Subsequently, South Korea, Malaysia and Thailand have ratified the Agreement and become official Parties.

The Agreement includes all major components discussed during the negotiations, including: 1. Developing standards for key goods and sectors to prevent major or widespread damages to the economy; 2. Increase resilience and investment in key sectors and commodities, explore tools and institutions that promote resource diversification across the region, and increase ability to identify unique sources or bottlenecks in the supply chain; 3. Establish information sharing and crisis response mechanisms; 4. Strengthen supply chain logistics, including infrastructure; 5. Strengthen the role of labor and investment in necessary training and development opportunities to ensure adequate numbers of skilled workers in supply chains in critical sectors; and 6. Developing tools and measures to improve transparency of supply chains in key sectors and avoid unnecessary costs for Micro, Small and Medium-sized Enterprises (MSMEs).<sup>7</sup> Recognised as a landmark and first-of-its kind agreement, the Parties will build resilient, diversified, sustainable, and transparent supply chains. The major milestones also include establishing three supply chain bodies: the Supply Chain Council, the Crisis Response Network and the Labor Rights Advisory Board. To enable these institutions to operate, the Parties shall identify their representatives to all three bodies and to select a Chair for each of them. The three bodies shall adopt the terms of reference for their meetings and decision-making.<sup>8</sup>

According to Article 6 of the Agreement,<sup>9</sup> the IPEF Supply Chain Council shall meet on an annual basis to review and discuss each Party's written report provided pursuant to the Agreement; establish a team(s) to develop Action Plans providing recommendations to increase the resilience and competitiveness of critical sectors or key goods from among those notified by at least three Parties in accordance with Article 10 (identifying critical sectors or key goods); and discuss opportunities to support skills and workforce development activities. The Council, as decided by the Parties, may explore opportunities to develop best practices in relation to policies, measures or actions impacting trade in critical sectors or key goods; or discuss any possible collaboration to enhance the resilience, efficiency, productivity, sustainability, transparency, diversification, security, fairness,

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6 *Ibid.*

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

8 "US and IPEF Members Establish Supply Chain Bodies and Convene First Virtual Meetings Under Landmark Supply Chain Agreement", US Department of Commerce, <https://www.commerce.gov/news/press-releases/2024/07/us-and-ipef-partners-establish-supply-chain-bodies-and-convene-first>

9 "Indo-Pacific Economic Framework for Prosperity Agreement Relating to Supply Chain Resilience," US Department of Commerce, <https://www.commerce.gov/sites/default/files/2023-09/2023-09-07-IPEF-Pillar-II-Final-Text-Public-Release.pdf>

and inclusivity of IPEF supply chains. It is noteworthy that in the Agreement, the term 'IPEF supply chains' appear 39 times, among which the phrase 'the inclusivity of the IPEF supply chains' appears in Article(s) 2, 3, 5, 6, and 8. Notwithstanding the Supply Chain Agreement's efforts to enhance and strengthen supply chain collaboration for increasing resiliency, transparency and sustainability of supply chains in IPEF partners, trying to create inclusive supply chains only for IPEF partners may create concern for non-IPEF countries of exclusion from or discriminated by certain preferential arrangements or benefits provided by IPEF partners. IPEF partners, particularly the US, will have to demonstrate that the inclusivity of IPEF supply chains, whether in the formats or practices, will not violate the WTO laws or create adverse impacts on non-IPEF countries or economies.

According to Article 8 of the Agreement, the Parties shall establish an IPEF Labor Rights Advisory Board, notify its representatives to other members, and operate its tasks, including developing technical reports in consultations with the International Labour Organisation (ILO).<sup>10</sup> According to Article 9, the members will develop or maintain a reporting mechanism to receive allegations of inconsistencies of labour rights at subject facilities located in the territory of another member within 180 days after the entry into force of the Agreement.<sup>11</sup> The sub-committee shall accordingly develop the guidelines for the operation of the facility-specific reporting mechanisms on labor rights inconsistencies in IPEF supply chains. Paragraph 3 further regulates the format for submitting an allegation, criteria to consider in assessing an allegation, procedures to manage proceedings, etc.

According to Article 10 of the Agreement, to share an understanding of global supply chain risks, each Party shall identify critical sectors or key goods, and notify the other Parties through the Supply Chains Council of its initial list of "critical sectors" or "key goods" for cooperation under the Agreement no later than 120 days after the entry into force of the Agreement on February 24, 2024 or the date of the entry into force for each Party.<sup>12</sup> A Party may add, remove, or make changes at any time upon written notifications to the other Parties. The common sectors and goods notified by the Parties may be selected as the subject of Action Plans to identify shared vulnerabilities and opportunities to build resilience.

It is not very common for a new plurilateral agreement to set up such detailed and tight timelines for its various milestones and institution building. This suggests IPEF members are working expeditiously for implementing the Agreement and operationalising its institutions.<sup>13</sup> The quick progress could also suggest the urgency on part of the US and some other IPEF members, notably Japan, as they perceive heightened risks of supply chain disruptions in some critical sectors, such as semiconductors, critical raw materials and minerals. According to a survey of the Global Business Optimism Insights (GBOI) conducted by the Dun & Bradstreet in early 2024, CEOs from Japan and some other East Asian countries, including Taiwan, said they felt more pessimistic than

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10 *Ibid.*

11 *Ibid.*

12 *Ibid.*

13 "Trump vows to kill Asia trade deal being pursued by Biden if elected," Reuters, 19 November 2023, <https://www.reuters.com/world/us/trump-vows-kill-asia-trade-deal-being-pursued-by-biden-if-elected-2023-11-19/>

previous year about risks of supply chains disruptions.<sup>14</sup>

On 30 July 2024, the US Department of Commerce announced important progress in operationalising the Supply Chain Agreement after the inaugural virtual meetings among the Parties of the three supply chain bodies.<sup>15</sup> Each of the bodies has elected a Chair and Vice Chair for a term of two years. The Supply Chain Council has the US and India as Chair and Vice Chair, respectively. Similarly, the Crisis Response Network has South Korea as Chair and Japan as Vice Chair, while the Labor Rights Advisory Board has the US as Chair and Fiji as the Vice Chair. The Supply Chain Council has adopted a Terms of Reference to guide its operations going forward and discussed priorities for initial work. The first in-person meeting of the Supply Chain Council and the Crisis Response Network (CRN) were held in Washington, D.C. in September 2024.

The Council, chaired by the US, adopted its first-year workplan and established two Subcommittees on Logistics and Movement of Goods and on Data and Analytics, and established three Action Plan teams on semiconductors, chemicals, and critical minerals with a focus on batteries.<sup>16</sup> The CRN meeting, chaired by South Korea, discussed issues relating to supply chain disruptions.

### **The US list of “critical sectors” or “key goods” for cooperation**

The US has announced its initial list of critical sectors and key goods for cooperation to strengthen supply chain resiliency.<sup>17</sup> According to Article 1 of the Agreement, ‘critical sectors’ mean ‘sectors that produce goods and supply any related essential services critical to a Party’s national security, public health and safety, or prevention of significant or widespread economic disruptions’ and ‘key goods’ mean ‘raw, in-process, or manufactured materials, articles, or commodities, the absence of which could have a significant effect on a Party’s national security, public health and safety, or

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14 Dun & Bradstreet’s Global Business Optimism Insights (GBOI) is a quarterly report that aims to gauge the optimism levels of businesses globally and provides a view into the thinking behind the growth, operational, and investment expectations of business leaders. The Global Supply Chain Continuity Index has come down sharply to 47.9 in Q1 2024 from 51.1 in Q4 2023 due to geopolitical tensions in different parts of the world, trade disputes, and climate-induced disruptions in maritime trade causing both higher delivery costs and delayed delivery times. See “Global Business Optimism Insights,” Dun & Bradstreet, 2024 [https://www.dnb.com/content/dam/english/dnb-data-insight/Global\\_Business\\_Optimism\\_Insights\\_Q1\\_2024.pdf](https://www.dnb.com/content/dam/english/dnb-data-insight/Global_Business_Optimism_Insights_Q1_2024.pdf).

15 “Fact Sheet: The IPEF Partners Highlight Continued Progress, Advance Concrete Cooperation, and Welcome the Next Phase of Cooperation”, US Department of Commerce, 6 June 2024, <https://www.commerce.gov/news/fact-sheets/2024/06/fact-sheet-ipef-partners-highlight-continued-progress-advance-concrete>

16 According to the US, the topics were determined based on critical sectors and key goods that were formally identified by IPEF Parties for cooperation under the Supply Chain Agreement. This means the Council will need to establish an Action Plan team on healthcare in the future. See “US and IPEF Partners Hold First In-Person Meetings of the IPEF Supply Chain Council and the IPEF Crisis Response Network,” US Department of Commerce, 14 September 2024, <https://www.commerce.gov/news/press-releases/2024/09/us-and-ipef-partners-hold-first-person-meetings-ipef-supply-chain>.

17 The International Trade Administration’s Industry & Analysis unit conducted in-house analyses of supply chains for sectors and goods for potential near-term US opportunities in the Indo-Pacific region, supplemented by public input obtained via a Federal Register Notice (FRN) in June 2024 and interagency consultations. The Department of Commerce emphasizes that the US list is specifically for use in the context of the IPEF Supply Chain Agreement and is not a definitive list of US priorities for the purposes of any other US government supply chain efforts, nor a definitive list of what the IPEF Supply Chain Council will prioritise for discussion and action. See “U.S. Identifies Critical Sectors and Key Goods for Potential Cooperation under the IPEF Supply Chain Agreement,” US Department of Commerce, 23 August 2024, <https://www.commerce.gov/news/press-releases/2024/08/us-identifies-critical-sectors-and-key-goods-potential-cooperation>.

prevention of significant or widespread economic disruptions'.<sup>18</sup>

The US list was prepared by the International Trade Administration (ITA) of the Department of Commerce under its newly established Supply Chain Center (See Appendix 1).<sup>19</sup>

The above list is the first such effort by the US government, to assess supply chain vulnerability across all major sectors of the US economy to determine—at the sectoral and product level — the 'hidden vulnerabilities' for policy action in the US and further advancing cooperation under the IPEF framework. The list reflects the US' strategic considerations in collaboration with other Parties to reduce or avoid supply chain disruptions in 'critical sectors' or 'key goods'. Such collaboration can be through 'business matchmaking', encouraging investment, or improving policy coordination in areas impacting supply chains, among others.<sup>20</sup>

The Biden administration prioritised supply chain resiliency in critical sectors and released different lists of these sectors under its national security strategy. For example, prior to the release of the initial list under IPEF, in February 2024, the White House Office of Science and Technology Policy (OSTP) released an updated list of critical and emerging technologies (CETs).<sup>21</sup> According to the OSTP, the list of CETs and its updates will be considered when the US seeks to engage its allies and members. This initial list of CETs was released in October 2020, following the announcement of the 2020 National Strategy for Critical and Emerging Technologies, and an updated list was released in February 2022.<sup>22</sup> Another updated list, released in February 2024, identifies 18 critical and emerging technology areas and each identified CET area includes a set of key subfields that

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18 "Indo-Pacific Economic Framework for Prosperity Agreement Relating to Supply Chain Resilience," US Department of Commerce, <https://www.commerce.gov/sites/default/files/2023-09/2023-09-07-IPEF-Pillar-II-Final-Text-Public-Release.pdf>

19 In 2023, the Department launched a Supply Chain Center to serve as an analytic engine to help drive decision-making and policy action on efforts to strengthen supply chain resilience. The Center is facilitating collaboration across the Industry & Analysis (I&A) unit, other parts of Commerce, and other government agencies to support a proactive approach by the US government in getting ahead of supply chain challenges, to be strategic in setting priorities for policy focus and action based on data-driven risk analysis, and to serve as a force multiplier in improving the targeting and effectiveness of US government investments.

20 The Supply Chain Center has developed a cross-sectoral risk assessment framework (the "tool") which utilises a comprehensive set of indicators to assess current or prospective supply chain risk across the US economy, with an emphasis on risks to national security, including economic security, most relevant to the US government, in order to help the government more comprehensively and systematically identify supply chain vulnerabilities and pursue in-depth analysis for actionable and evidence-based policy recommendations. See "explanation in the Request for Comments on Commerce Supply Chain Risk Assessment and IPEF Supply Chains," A Notice by the ITA, June 30, 2024, <https://www.federalregister.gov/documents/2024/06/03/2024-12240/request-for-comments-on-commerce-supply-chain-risk-assessment-and-ipef-supply-chains>.

21 This 2024 update outlines technologies that could chart new pathways in American innovation and strengthen the nation's security. White House Office of Science and Technology Policy Releases Updated Critical and Emerging Technologies List, White House, February 12, 2024, <https://www.whitehouse.gov/ostp/news-updates/2024/02/12/critical-and-emerging-technologies-list-2024-update/>

22 The CET lists of Updates are released by the Fast Track Action Subcommittee on Critical and Emerging Technologies of the National Science and Technology Council. See "National Strategy for Critical and Emerging Technologies," October 2020, <https://trumpwhitehouse.archives.gov/wp-content/uploads/2020/10/National-Strategy-for-CET.pdf>; "Critical and Emerging Technologies list Update," February 2022, <https://www.whitehouse.gov/wp-content/uploads/2022/02/02-2022-Critical-and-Emerging-Technologies-List-Update.pdf>.

describe its scope in more detail.<sup>23</sup>

### Differences between IPEF and CET critical sectors

The IPEF list has a wider scope than the CET list and its updates. The former includes less strategic products or sectors such as agriculture and consumers goods, as well as services (health, insurance, telecommunication, etc.), infrastructures and logistics, among others. This suggests the US's concerns of supply chains disruptions or shortages may happen because of disruption of trade or import dependence on these goods and services, thereby necessitating cooperation with other IPEF members. In another word, the trade perspective of the IPEF list focuses not on self-sufficiency or localisation, but on efficient and facilitated trade with trusted trade partners. Hence, it stands sharply different from the science and technology perspective on the CET lists.

Further, the IPEF list contains finished products as well as raw materials, semi-raw materials or intermediate goods, thereby covering a much wider range of critical sectors from a supply chain perspective, compared with the specific scientific focus of the CETs. Finally, while both lists contain semiconductors, the IPEF list identifies semiconductors as a sub-sector under Information and Communication Technology (ICT) products for supply chains cooperation, while also focusing on assembly, testing, and packaging (ATP), excluding semiconductor fabrication. The CET list contains critical and important sub-sectors or technologies in the whole semiconductor supply chain from IC design, manufacturing to advanced testing and packaging.<sup>24</sup> The difference between the two lists suggests that while the US is determined to increase self-sufficiency in semiconductor production at home and maintain its global leadership in advanced technologies, as mandated in the CET list, it still needs to cooperate with IPEF members to provide APT services to semiconductors to be used by the US businesses or to be exported to the US.

### Implications and Impacts of the Supply Chain Agreement on IPEF Parties and Non-Members

IPEF is the first plurilateral agreement the US initiated and engaged in after its exit from the TPP in 2017. US businesses attach great importance to the IPEF and have suggested expanding its scope. According to the American Association of the Indo-Pacific (AAIP), US businesses expected the negotiations to include the high standards of the CPTPP and the United States-Mexico-Canada

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23 They include: Advanced Computing, Advanced Engineering Materials, Advanced Gas Turbine Engine Technologies, Advanced and Networked Sensing and Signature Management, Advanced Manufacturing, Artificial Intelligence, Biotechnologies, Clean Energy Generation and Storage, Data Privacy, Data Security, and Cybersecurity Technologies, Directed Energy, Highly Automated, Autonomous, and Uncrewed Systems, and Robotics, Human-Machine Interfaces, Hypersonics, Integrated Communication and Networking Technologies, Positioning, Navigation, and Timing Technologies, Quantum Information and Enabling Technologies, Semiconductors and Microelectronics, and Space Technologies and Systems.

24 The CET lists Design and electronic design automation tools, Manufacturing process technologies and manufacturing equipment, Beyond complementary metal-oxide-semiconductor (CMOS) technology, Heterogeneous integration and advanced packaging, Specialized/tailored hardware components for artificial intelligence, natural and hostile radiation environments, RF and optical components, high-power devices, and other critical applications, Novel materials for advanced microelectronics, Microelectromechanical systems (MEMS) and Nanoelectromechanical systems (NEMS), and Novel architectures for non-Von Neumann computing.



Agreement (USMCA), and should go beyond the WTO trade rules.<sup>25</sup> The AAIP has submitted several proposals to the Biden administration on IPEF negotiations suggesting IPEF to include: Supply Chain Agreement negotiations on critical minerals, pharmaceuticals, and medical equipment; to add service industries in the negotiations (including transportation, freight, express delivery, etc.); to add tariff reduction issues for key goods and materials (or at least tariff reductions for products in specific sectors), etc. The concerns and interests are reflected in the Supply Chain Agreement that includes provisions on developing standards for key sectors and goods and expanding supply chain resiliency to service sectors such as logistics and infrastructure. However, the suggestions to include tariff reduction issues in the IPEF negotiations were not positively responded.

Some IPEF members, however, have also identified potential risks from the Agreement. The New Zealand government, for example, in its report of National Interest Analysis,<sup>26</sup> raised the issue that though the Agreement stipulates the importance of adhering to the WTO Agreements,<sup>27</sup> some government actions by IPEF Parties could undercut WTO rules – for example through use of subsidies to enhance capacity to supply. IPEF member governments' interventions to enhance supply chain resilience may very likely distort the market, and may likely generate inefficiencies and then raise economic costs. They also increase the degree of supply chain fragmentation.<sup>28</sup>

In addition to the IPEF Agreement, there are multiple initiatives or frameworks on supply chains collaboration which may be overlapping with, or contradicting the IPEF Agreement. These initiatives or frameworks in the Indo-Pacific region include CHIP 4, the Quad Semiconductor Supply Chain Initiative, the Japan-Australia-India Supply Chain Resilience Initiative, the US-Malaysia Semiconductor Supply Chain Resilience Memorandum, and the US-India Semiconductor Supply Chain and Innovation Membership.<sup>29</sup> These initiatives either have overlapping membership or scope of issues and thus could create problems or redundancy in their implementation.

Finally, some of the non-IPEF members may experience distinct impacts. For example, as the IPEF members are looking to reduce supply chain dependence on China through de-risking, scholars and experts in China have suggested Chinese companies should relocate some manufacturing capacities to other countries in order to shift their exports from being labelled as “Made in

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25 The AAIP was established in 2022 after Biden announced that he would launch IPEF. Its members include well-known companies headquartered in the United States and Indo-Pacific regional business organizations, such as The US Chamber of Commerce in Southeast Asian countries, to provide suggestions to the administration in promoting the IPEF.

26 “National Interest Analysis of the IPEF,” Ministry of Foreign Affairs and Trade, Government of New Zealand, June 2024, <https://www.mfat.govt.nz/assets/Trade-agreements/IPEF/IPEF-NIA.pdf>

27 The preamble of the Agreement asks all Parties “to act consistently with their respective obligations under the WTO Agreement.” Article 18 also stipulates that nothing in the agreement may be construed to permit or require a party to implement the agreement in a manner inconsistent with its obligations under the WTO Agreement.

28 For example, Biden administration’s massive new subsidies, including tax credits, grants, and preferential contracts, for domestic producers and “Buy American” requirements have been criticised. In addition to efficiency issues, businesses will relocate to take advantage of the subsidies on offer. See Scott Lincicome, “Industrial Policy: A Bad Idea Is Back,” Cato Institute, 2021, <https://www.cato.org/policy-report/july/august-2021/industrial-policy-bad-idea-back>; Alan Crawford, “How US Industrial Policy Is Changing the World Economy,” Bloomberg, 30 March 2023, <https://www.bloomberg.com/news/newsletters/2023-03-30/biden-s-industrial-policy-is-changing-the-world-economy>.

29 Takeyasu Fujiki, “IPEF as Economic Statecraft – What Supply Chain Agreements Should Do and Not Do,” Sasakawa Peace Foundation-US, 30 April 2024, <https://spfusa.org/wp-content/uploads/2024/05/Fujiki-article-English-エコノミック・ステイトクラフトとしてのIPEF-Final-Draft-for-publishing.pdf>

China” rules of origin to a third country rules of origin.<sup>30</sup> In fact, Chinese companies in recent years have significantly increased investments in Southeast Asia, particularly in Vietnam, Thailand and Malaysia, in order to circumvent trade sanctions, such as the Section 301 tariffs imposed by the US on imports of “Made in China” products.<sup>31</sup> Chinese circumventing measures have made Western countries’ efforts to diversify supply chains more challenging and difficult.<sup>32</sup> Whether these concerns could be addressed under the IPEF Agreement remains to be seen.

### The Taiwan Perspective

Since the US had proposed the IPEF, Taiwan had expected to be invited as a participating member, given that bilateral relations between the US and Taiwan in recent years has heightened to a new level. Taiwan is also a significant player in global supply chains, particularly in critical sectors such as ICT industries and semiconductor fabrication. Taiwan’s participation in the group can contribute enormously to the economic prospects of the IPEF as well as in advancing US leadership in Indo-Pacific. Former Taiwan president Tsai Ing-Wen had declared her optimism in Taiwan’s positive role in the initiative.<sup>33</sup>

However, in May 2022, when President Biden launched the IPEF negotiations, Taiwan was not among the invited participants, leading to widespread disappointment in Taiwan and criticism against the US support for Taiwan. It was reported that some Southeast Asian countries had expressed concerns that by including Taiwan in the IPEF while excluding China, the initiative may appear to be an anti-China group and hence antagonise Beijing.<sup>34</sup> In order to address the disappointment experienced by Taiwan, the Biden administration soon announced a new proposal to forge a bilateral trade initiative with Taiwan underlining the US strategic support for Taiwan in international space.<sup>35</sup>

On 1 June 2022, the US announced the launch of the US-Taiwan Initiative on 21st Century Trade. The negotiations kicked off on 17 August 2022. In a very short time span, the USTR announced conclusion of negotiations under the auspices of the American Institute in Taiwan (AIT) and the Taipei

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30 “印太经济框架（IPEF）供应链协议公布，对企业供应链筹划影响何如，” King & Wood Mallesons, 23 October 2023, <https://www.kwm.com/cn/zh/insights/latest-thinking/ipef-supply-chain-agreement-and-impacts-on-enterprises.html>

31 *Ibid.*

32 “China’s circumvention of trade remedies – and how the US can respond,” Hinrich Foundation, 23 November 2021, <https://gtipa.org/publications/2021/11/23/china’s-circumvention-trade-remedies---and-how-us-can-respond>

33 Former president Tsai continued to call for inclusion of Taiwan in the IPEF and said she was confident Taiwan can contribute more to regional trade and economic development. See “President Tsai meets US House delegation led by Rep. John Curtis,” 20 December 2022, news release, Office of the President Republic of China (Taiwan), <https://english.president.gov.tw/NEWS/6416>; also see “蔡英文呼籲美方 台灣願參與印太經濟架構,” Commercial Times(工商時報), 30 May 2022, <https://www.ctee.com.tw/news/20220531700809-430104>.

34 According to a CSIS report on 23 May 2022, “While Taiwan had indicated interest in joining the IPEF—and 250 members of Congress called for its inclusion—the island was ultimately left out of the framework to secure the participation of other South and Southeast Asian countries reluctant to antagonize Beijing.” See “Unpacking the Indo-Pacific Economic Framework Launch,” CSIS, <https://www.csis.org/analysis/unpacking-indo-pacific-economic-framework-launch>.

35 Yao-Yuan Ye et al., “Why Was Taiwan Left Out of the US-Led IPEF?” The Diplomat, 22 May 2022, <https://thediplomat.com/2022/05/why-was-taiwan-left-out-of-the-us-led-ipef/>

Economic and Cultural Representative Office in the United States (TECRO).<sup>36</sup> The First Agreement of the trade initiative includes five chapters: customs management and trade facilitation, good legal practices, domestic regulations in the service industry, anti-corruption and small and medium-sized enterprises. Subsequent negotiations that have begun from early 2024 extended to seven subjects, including standards, state-owned enterprises, labor, and environment.<sup>37</sup>

The US-Taiwan bilateral trade initiative and IPEF cover similar areas. But the former does not have a supply chain chapter or agreement, though some related issues are distributed across several chapters. As a major trading partner and foreign investor in the Indo-Pacific region, especially in Southeast Asia, India, Japan and the US, Taiwan's vital interests require an open, transparent and non-discriminatory IPEF and its four pillars. Furthermore, because supply chains resilience is of great importance, the Taiwan government is still very keen in participating in IPEF if, and when, the agreement is open for adding new members in the future.<sup>38</sup> According to Article 25, any State or separate customs territory may accede to the Agreement, subject to the consent of the Parties and any terms or conditions that may be decided between the Parties and the State or separate customs territory. Taiwan may apply to accede to the Agreement after it enters into force as a separate customs territory, which would be the same status with Taiwan's application for the CPTPP membership.<sup>39</sup>

It is important for Taiwan to compare the 21st Century Initiative with the IPEF Agreements and mechanisms to seek collaboration in supply chains issues with the US and other IPEF members. Additionally, among the fourteen IPEF founding members, twelve are APEC members except Fiji and India. Taiwan could promote cooperation with these APEC Members on topics or issues of the Agreement. For example, the US has proposed to provide technical and capacity building programs, such as expansion of the US Customs Trade Membership Against Terrorism (CTPAT) program in the Indo-Pacific, and an IPEF STEM Exchange Program with IPEF members, hoping that the Agreement will better position IPEF Members to reshape their supply chains to meet US interests, in line with the broader US friend-shoring agenda.<sup>40</sup> As Taiwanese companies have increased their investment in Southeast Asian countries for relocating and diversifying their supply chains, Taiwan and the US, and other IPEF members such as Japan, can work together in Southeast Asia to promote trilateral collaboration in supply chains.

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36 "USTR Announcement Regarding U.S.-Taiwan Trade Initiative," USTR, 18 May 2023, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2023/may/ustr-announcement-regarding-us-taiwan-trade-initiative>

37 Riley Walters, "Towards a Second Agreement of the US-Taiwan 21st Century Trade Initiative," Global Taiwan Institute, 15 May 2024, <https://globaltaiwan.org/2024/05/towards-a-second-agreement-of-the-us-taiwan-21st-century-trade-initiative/>

38 According to Article 25 of the Agreement, any State or separate customs territory may accede to the Agreement, subject to the consent of the Parties and any terms or conditions that may be decided between the Parties and the State or separate customs territory. The Agreement shall enter into force with respect to an acceding Party 30 days after the date of deposit of its instrument of accession with the Depositary. Notwithstanding paragraph 1, no State or separate customs territory may accede to the Agreement until one year after the date of entry into force of the Agreement or after the date on which the Agreement has entered into force for all States listed in Article 21, paragraph 1, whichever comes first.

39 According to Article 5 of the CPTPP, Accession After the date of entry into force of this Agreement, any State or separate customs territory may accede to this Agreement, subject to such terms and conditions as may be agreed between the Parties and that State or separate customs territory.

40 Aidan Arasasingham et al., "Assessing IPEF's New Supply Chains Agreement," CSIS, 31 May 2023, <https://www.csis.org/analysis/assessing-ipefs-new-supply-chains-agreement>

## Appendix 1

The list includes eight categories, which are:

1. agriculture;
2. chemicals;
3. consumer goods;
4. critical minerals and mining;
5. energy/environmental industries, including: advanced batteries, including components and materials, carbon management/capture technologies, electric grid equipment and technologies, forgings and die castings, hydropower, including components and materials, hydrogen, including components and materials, as well as molecular derivatives. permanent magnets; nuclear energy, including components and materials, solar energy systems, including panels, components, and materials, water and wastewater treatment equipment and chemicals, wind turbines, including components and materials;
6. health industries, including: medical devices, personal protective equipment, pharmaceuticals (particularly Active Pharmaceutical Ingredients (APIs), generic drugs, and biological products), vitamins and amino acids;
7. Information and Communication Technology Products, including: audiovisual technology (particularly displays), semiconductors (focused on assembly, testing, and packaging (ATP), telecommunication network equipment (particularly switches and routers), electronics manufacturing services; and
8. transportation and logistics, including: aerospace and aerospace components, including aircraft equipment, automotive parts (particularly electronic components, sensors, engines, transmissions, and electric motors used in vehicles), cargo handling equipment (particularly cranes) and the movement of shipping containers, heavy/medium duty trucks, including parts and materials, mass transit equipment, including transit buses, motor coaches, and rail passenger cars, rail equipment, shipbuilding and repair (particularly shipbuilding materials, marine engines, propulsion systems, ship components, and repair equipment), transportation, logistics, and distribution services (particularly cold chain services and IT interoperability standards).<sup>41</sup>

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41 "U.S. Identifies Critical Sectors and Key Goods for Potential Cooperation under the IPEF Supply Chain Agreement," US Department of Commerce, 23 August 2024, <https://www.commerce.gov/news/press-releases/2024/08/us-identifies-critical-sectors-and-key-goods-potential-cooperation>

## About the Author

**Ms Kristy HSU** is the Director of the Taiwan ASEAN Studies Center at the Chung-Hua Institution for Economic Research (CIER), a leading non-profit, policy-oriented economic research institute in Taiwan. She advises on Taiwanese government's external relations and economic/trade policy, particularly on Southeast and South Asia (including India), FTA policy, cross-strait economic relations, and supply chain issues. Kristy serves as an advisor to various Taiwanese government agencies, business associations, and industrial organizations, including the Taipei City Government, the Trade and Development Committee, the Cross-Strait Economic Relations Committee of the National Federation of Industries, and the General Chamber of Commerce of Taiwan. She is also a board member of the Council of Taiwanese Chambers of Commerce in Asia and currently serves as an independent director on the board of China Steel Chemical Corporation (CSCC), a listed company under the China Steel Group in Taiwan.

Her research interests include Southeast Asian studies, regional economic integration, international trade policy, and economic/trade law. Recently, her focus has expanded to cross-strait economic relations, the "China+1" strategy, economic security, supply chain resilience, and the geostrategic implications of semiconductor supply chains. She also conducts research on European Open Strategic Autonomy and EU-Taiwan economic relations and has testified at a public hearing in the European Parliament on EU-Taiwan relations. In 2022, she led the "Mapping Taiwan Investments in EU Member States" project, commissioned by the European Commission.

Ms Hsu was a visiting fellow at the Korea Institute for International Economic Policy (KIEP) in South Korea and the Washington, D.C.-based Wilson Center in 2022, where she studied U.S. strategies on semiconductor supply chains and the CHIPS and Science Act. Since then, her research has delved deeply into geopolitical and economic issues, major powers' semiconductor strategies, and Taiwan's semiconductor industry, including TSMC and other key players in global supply chains. She has a profound background and expertise in WTO/FTA policies, economic security, and supply chain issues, particularly in the semiconductor sector. She also serves as an advisor and lecturer for Taiwan's Ministry of Economic Affairs, Ministry of Foreign Affairs, Ministry of Finance, and Ministry of Labor.

Ms Hsu holds a J.D. from the School of Law at Soochow University and a B.A. in Foreign Languages and Literatures from National Taiwan University.

# The IPEF, India, and Economic Security

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Surupa GUPTA

Balancing likely gains and pitfalls and driven by its own strategic concerns, India signed on to the discussions on the Indo-Pacific Economic Framework (IPEF) in 2022 and eventually signed on all three agreements that have been negotiated. While the IPEF provides India with unprecedented opportunity for setting trade and investment norms in the Indo-Pacific, with bringing investment and technology in key sectors, and helping Indian business to become integral part of existing supply chains, it also imposes implementation and political costs for governmental and nongovernmental actors, raising doubts about the utility and value of the agreements for India. On the one hand, the agreements offer India a path to strengthening economic security by integrating its economy with those of its partners in the Indo-Pacific, on the other, they potentially limit the autonomy of the Indian state to protect its citizens during crises.

## Introduction

Does the Indo-Pacific Economic Framework (IPEF) further economic security for India? This paper argues that while IPEF provides India with unprecedented opportunities to enhance its economic security, it also poses significant challenges to India's ability to realise its potential to sustain high growth, and its potential as a major economic power, since the standards set within the IPEF are likely to restrict India's development policy autonomy and flexibility to protect food security, access to medicine and other core interests of its citizens. In addition, by shining a spotlight on labour and environmental standards, the framework challenges India's long-term position on delinking such standards from agreements on economic cooperation.

Balancing likely gains and pitfalls and driven by its own strategic concerns, India signed on to the IPEF discussions, while staying out of the discussion on its Trade Pillar from the very beginning. A key likely driver behind India's decision was IPEF's focus on constructing a 21<sup>st</sup> century economic architecture for the Indo-Pacific: it offered India a path to participation in setting economic norms in the region, significant particularly since it is not a member of the Asia-Pacific Economic Cooperation (APEC), Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) or Regional Comprehensive Economic Partnership (RCEP). Second, not only does IPEF participation allow India a seat at the Indo-Pacific high table with the US, Japan and other regional powers, it also signals to its IPEF partners India's willingness to adopt trade and investment policies that would shape the regional architecture, likely reinforcing its profile as a preferred destination for investments. Third, it promises to bring technology and finance into new sectors such as environment and technology-focused sectors such as semiconductors. Finally and related, an IPEF membership would offer opportunity for Indian firms to participate in regional value chains, thereby addressing India's need for generating growth, expanding manufacturing and creating jobs. Additionally, IPEF's clean economy agreement promises financing for technology and infrastructure for projects that would facilitate India's effort to mitigate the impact of climate change. While the case for optimism is strong, analysts and observers have pointed out that signing the IPEF agreements will take away significant policy autonomy from the hands of Indian policymakers, perhaps limiting India's ability to protect its citizens during times of crisis.<sup>1</sup> Politically, signing these agreements signals substantive deviation from past positions India has taken on economic cooperation, particularly in the areas of allowing labor and environmental standards to be linked to economic agreements. While India did not join IPEF's Trade Pillar which directly addressed sensitive issues such as digital rules, labor and environmental standards, other IPEF agreements include provisions that require disciplines on labor and environment. The gains, some analysts warn, might be smaller than expected.

This paper begins by identifying the US motivation in setting up the IPEF and then briefly describes the state of play with respect to the various IPEF pillars. Next, it examines what the IPEF agreements mean for economic security of India. Participating in these negotiations brings distinct benefits and challenges to India. It concludes with observations about the agreements' implication for India and others.

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1 Abhijit Das, "Promoting whose prosperity?" Financial Express, 7 February 2023, <https://www.financialexpress.com/opinion/promoting-whose-prosperity/2973327/>; Press Trust of India, "IPEF's Clean, Fair Economy Agreements Should Not Restrict India's Policy Space: GTRI Cautions Govt.," Outlook Business, 18 November 2023, <https://www.outlookbusiness.com/news/ipefs-clean-fair-economy-agreements-should-not-restrict-indias-policy-space-gtri-cautions-govt>; Press Trust of India, "Secrecy in IPEF talks raises concerns on protection of key interests: GTRI," Business Standard, 22 September 2024, [https://www.business-standard.com/economy/news/secrecy-in-ipef-talks-raises-concerns-on-protection-of-key-interests-gtri-124092200394\\_1.html](https://www.business-standard.com/economy/news/secrecy-in-ipef-talks-raises-concerns-on-protection-of-key-interests-gtri-124092200394_1.html)

### The United States and the IPEF

IPEF was designed to demonstrate the US' commitment to economic engagement in the Indo-Pacific region. The US is absent from the RCEP, a fifteen-country mega-regional agreement in the Indo-Pacific region signed in 2019. Furthermore, its exit from the Trans Pacific Partnership (TPP) in 2017 meant that it wasn't part of any regional economic grouping besides APEC and the East Asia Summit (EAS). The US needs to regain its credibility as a major regional economic actor, resume a central role in setting economic norms in the region and provide an economic counterpart to its Indo-Pacific strategy. While it plays a norm-setting role through APEC, that platform cannot function as an economic counterpart to its Indo-Pacific strategy since it includes China and excludes India.<sup>2</sup> Additionally, unlike APEC which has focused on building a liberal order in the region, IPEF approaches economic policies from a security perspective. The explicit goals were to build economic resilience, focus on sustainability and inclusivity in economic activities, foster economic growth with an eye on fairness and competitiveness.<sup>3</sup> Overall, as a US-driven framework, the clear objective of the IPEF is to ensure economic security for the US. What the US seeks to accomplish is to reduce its dependence on China. Given the US's economic and political compulsions, the most effective way to do this would be by building alternative supply chains involving countries that are allies and partners, while also upholding environmental and labor standards that came to be part of the US's bilateral trade agreements and the former Biden Administration's worker-centric trade policy for addressing key domestic political concerns. However, the extent to which such a framework ensures economic security for India and other members needs further analysis.

### The IPEF Pillars and their State of Play

Designed around four pillars, the IPEF seeks to build "high-standard, inclusive, free, and fair-trade commitments and to develop new, creative, and economically meaningful approaches to trade policy in the Indo-Pacific region" by addressing issues such as labor and environmental standards.<sup>4</sup> Pillar I or the Trade Pillar focuses on good regulatory practices, competition policy, trade facilitation, and technical and economic cooperation, while highlighting values such as transparency and inclusivity. Pillar II focuses on supply chains, seeking to improve their resilience, efficiency, sustainability, transparency and fairness, thereby building diversified and secure supply chains. Pillar III on clean economy focuses on energy security and transition to sustainability, on climate resilience and adaptation, as well as on creating sustainable livelihood options for enabling a just transition to a cleaner future. Finally, under Pillar IV on Fair Economy, the IPEF members have committed to upholding fair and ethical business norms that are inclusive, transparent and accountable.

Negotiations on the trade pillar were put on hold in November 2023 after the Biden administration realised that domestic support for the pillar was weak and created political challenges in an election year.<sup>5</sup> India's wariness with negotiating labour and environmental standards as well as its concerns regarding norms on data localisation and cross-border data flows led to its decision to opt out of

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2 The EAS also includes China and Russia.

3 "Indo-Pacific Economic Framework for Prosperity", US Department of Commerce, <https://www.commerce.gov/ipef>

4 "Pillar I – Fair and Resilient Trade", U. S. Department of Commerce, <https://www.commerce.gov/ipef/pillar-i>

5 Jeff Stein and Tyler Pager, "Biden aides scramble on trade pact some Democrats fear could help Trump," Washington Post, 12 November 2023, <https://www.washingtonpost.com/business/2023/11/12/biden-trade-asia-deal-california/>



negotiating on this pillar from the very beginning.<sup>6</sup> The negotiations on Pillar Two were concluded in May 2023, leading to the finalisation of the Supply Chain Agreement (SCA), considered a first-of-its-kind international agreement that sets norms on supply chain management and improvement.<sup>7</sup> In November 2023, the IPEF member countries signed the SCA and concluded substantial negotiations on pillars three and four.<sup>8</sup> Negotiations on the agreements on Clean Economy and Fair Economy were concluded in June 2024. By September 2024, all member countries had signed these two agreements.<sup>9</sup>

## IPEF and India's Economic Security

To understand the role of IPEF in furthering India's economic security, it is important to understand what India wants. India's decision to join the IPEF negotiations can be traced to a decided strategic shift in India's economic policymaking, its experience with supply chain disruptions during the Covid-19 pandemic, a recalibration in its industrial and trade policy and the need to develop sustained growth.

A strategic shift in India's economic policymaking has been under way since 2014 when Prime Minister Modi announced the 'Make in India' programme seeking to make India a manufacturing hub. While during the initial period after its announcement, the overall volume of inward foreign direct investment (FDI) went up, FDI in manufacturing did not.<sup>10</sup> Subsequently, FDI flows into India either stagnated or declined. While India's exports to China and to the US increased during 2014-15 through 2019-20, its exports to Japan and the ASEAN countries remained stagnant.<sup>11</sup> Moreover, after a spurt, GDP growth continued to decline till 2019.<sup>12</sup> Additionally, the United States

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- 6 Suhasini Haidar, "India stays out of 'trade pillar' at Indo-Pacific meet," *The Hindu*, 10 September 2022, <https://www.thehindu.com/business/Industry/india-not-part-of-ipefs-trade-pillar-broader-consensus-yet-to-emerge-among-nations/article65873087.ece>
  - 7 Mausam Jha, "14 IPEF nations forge stronger supply chains to reduce reliance on China," *Mint*, 29 May 2023. <https://www.livemint.com/news/world/14-ipef-nations-forge-stronger-supply-chains-to-reduce-reliance-on-china-11685330072229.html>
  - 8 "India, 13 others of IPEF ink supply chain resilience pact to reduce dependence on China", *The Economic Times*, 16 November 2023, <https://economictimes.indiatimes.com/news/economy/foreign-trade/india-13-others-of-ipef-ink-supply-chain-resilience-pact-to-reduce-dependence-on-china/articleshow/105246703.cms?from=mdr>
  - 9 "India signs IPEF bloc's clean, fair economy agreements to boost cooperation", *Business Standard*, 22 September 2024, [https://www.business-standard.com/economy/news/india-signs-ipef-bloc-s-clean-fair-economy-agreements-to-boost-cooperation-124092200218\\_1.html](https://www.business-standard.com/economy/news/india-signs-ipef-bloc-s-clean-fair-economy-agreements-to-boost-cooperation-124092200218_1.html)
  - 10 Total FDI inflows into India increased from \$45 billion in 2013-14 to \$50 billion in 2016-17 but stayed at the same level till 2018-19, going up again between 2019-20 and 2021-22 and then declining during the subsequent two years. Of the five top sectors that have attracted FDI inflows, services dominate with much of the investment going into a combined services category, software (part of computer hardware and software), trading and telecommunications; Department of Promotion of Industry and Internal Trade, "Fact Sheet on Foreign Direct Investment (FDI) Inflow, April 2000-June 2024," <https://dpiit.gov.in/publications/fdi-statistics>.
  - 11 Between 2014-15 and 2019-2020, India's exports to ASEAN remained at \$31 billion; India's exports to Japan reduced from \$5 billion to \$4.5 billion while its exports to China increased from \$11.9 to \$16.6 billion and to the US increased from \$42 billion to \$ 53 billion during that time; Department of Commerce, Ministry of Commerce and Industry, "Export-Import Data Bank", <https://tradestat.commerce.gov.in/eidb/default.asp>.
  - 12 India's GDP growth rate went up from 7.4 per cent in 2014 to 8.3 per cent in 2016 and then fell to 3.9 per cent in 2019; World Bank, "Data: India," <https://data.worldbank.org/country/india>, retrieved 4 November 2024.

government brought a complaint to the World Trade Organisation against the Modi government's export subsidies.<sup>13</sup> The prospect of losing this case, along with the other factors mentioned above, led India to recalibrate its trade and investment policies in 2020.<sup>14</sup>

Second, India's experience with supply chain disruptions, particularly in automotive parts and pharmaceuticals during the Covid-19 pandemic brought awareness regarding the risks of over-dependence on particular production centers for inputs. This led the Indian government to develop strategies to reduce such dependence in the subsequent period: for example, the government initiated the Production-Linked Incentive scheme in 2020, initially to encourage large scale electronic production in India and later expanded it to cover pharmaceuticals and other sectors.<sup>15</sup> Particularly significant in this regard was the combination of the clashes with China in Galwan and the consequence of overdependence on China for pharmaceutical ingredients; the latter played havoc with prices and availability of basic drugs during the pandemic – a time of need – and demonstrated the vulnerability and threat to security associated with overdependence.<sup>16</sup>

Third, while the normalisation of India's relation with the US began at the beginning of this millennium, India's growing concern with China's expansionist strategic and foreign economic policies has brought India much closer to the US during the past decade and has increasingly challenged India's ability to pursue strategic autonomy in the Indo-Pacific. China's actions in Galwan and other theaters led India to strengthen its strategic relations with the US, Japan and Australia and provided an alignment between its interests and those of its partners' in reducing its supply chain reliance on China. In fact, the trade war between China and the US that begun from July 2018 with the Trump Administration imposing tariffs on specific Chinese imports to the US followed by retaliatory tariffs by China, and the concomitant efforts at decoupling from China, signaled an opportunity for India: Indian policymakers expected to benefit from the relocation and diversification of supply chains. In the aftermath of the pandemic, the US under President Biden sought to increase its bilateral economic cooperation with India.<sup>17</sup> It is against this context that one needs to place India's decision to join the IPEF negotiations. If the Modi government was looking for a recalibration of its policies to strengthen the country's overall economic performance, increase exports, bring in FDI, both in the manufacturing sector in general and in strategic goods in particular, and make India a part of a more diversified supply chain, the IPEF presented an opportunity for a reset.

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13 Kirtika Suneja, "India loses export incentive case filed by U.S. at WTO," *Economic Times*, 1 November 2019, <https://economictimes.indiatimes.com/news/economy/foreign-trade/wto-panel-rules-india-export-subsidies-illegal-upholds-u-s-case/articleshow/71841672.cms?from=mdr>

14 The PLI scheme, which is one component of India's industrial and trade policy, was designed as a WTO-compliant policy even before India lost the WTO case on domestic export incentives in 2019; See Asit Ranjan Mishra, "Govt. proposes WTO-compliant schemes to boost Make in India," *Mint*, 27 May 2019, <https://www.livemint.com/news/india/govt-proposes-wto-compliant-schemes-to-boost-make-in-india-1558975383060.html>; India's policy on free trade agreements were also revised during the pandemic; Elizabeth Roche, "India-EU pre-FTA talks to start soon," *Mint*, 12 May 2021.

15 Narayan Ramachandran, "Production-linked incentives: a well-designed scheme," *Mint*, 12 April 2021, Factiva

16 Rajeev Jayaswal, "India to reduce over-dependence on Chinese pharmaceutical raw material," *Hindustan Times*, 13 July 2020. <https://www.hindustantimes.com/business-news/india-to-reduce-over-dependence-on-chinese-pharmaceutical-raw-materials/story-vYIIOkreEMaTcUDmTWeBCgO.html>; Biswajit Dhar and KS Chalapati Rao, "India's Economic Dependence on China," *The India Forum*, 23 July 2020, <https://www.theindiaforum.in/article/india-s-dependence-china>

17 Saurav Anand, "India, US relaunch commercial dialogue on supply chain, establish semiconductor partnership", *Mint*, 10 March 2023, <https://www.livemint.com/news/india/india-us-relaunch-commercial-dialogue-on-supply-chain-establish-semiconductor-partnership-1167846117601.html>

We now turn to the provisions of the IPEF agreements concluded thus far and examine the likely impact – both positive and negative – on India’s economic security.

### IPEF Pillars: The Supply Chain Agreement

The SCA lays down norms for building resilient, efficient, transparent, diversified and sustainable supply chains. The Agreement sets up three bodies: the Supply Chain Council, a Supply Chain Crisis Response Network and a Labor Rights Advisory Board.<sup>18</sup> Its focus on improving logistics services and logistics infrastructure, facilitating supply chain participation by medium and small-scale enterprises, upskilling workers to fill labour requirements in critical supply chains, and collaboration on research and development seem to align with the Indian government’s long-term strategic goals and are seen as opportunities. To the extent that the IPEF serves to further India’s economic security, the SCA is seen to be consequential in achieving that goal. New Delhi expects that signing on to the SCA will help relocate production in critical sectors to India.<sup>19</sup> The semiconductor industry is one example among many in this regard: India is seeking to emerge as a part of the semiconductor supply chain, a critical input in several strategic sectors. Bilaterally, India and the US have signed a Memorandum of Understanding to promote cooperation and innovation in semiconductors.<sup>20</sup>

There are other critical sectors such as pharmaceuticals, rare earth minerals, and electronics, in which India wants to both diversify existing as well as build new supply chains. Relocation of production to India, in turn, will help realise the Modi government’s *Make in India* and *Atmanirbhar Bharat* (Self-reliant India) vision and provide a boost to the government’s production linked incentive schemes. It would also likely support the growth of small and medium enterprises by bringing in opportunities for investment and growth in exports through their integration into regional and global supply chains. Additionally, the cooperative efforts outlined in the agreement could help mitigate the risks of economic disruptions that India might face from supply chain shocks in the future. The agreement promises to enhance trade facilitation by enabling digital exchange of trade documentation and focuses on research and development in various fields.<sup>21</sup> Such opportunities are seen as a pathway to creating jobs as well as having spillover effects that any major investment brings. Additionally, observers have pointed out that the IPEF will help align India’s standards in various products – such products will find greater acceptance and larger global markets.<sup>22</sup> In March 2023, India and the US launched the Standards and Conformance Cooperation Program to

18 Mausam Jha, “14 IPEF nations forge stronger supply chains to reduce reliance on China”, Mint, 29 May 2023. <https://www.livemint.com/news/world/14-ipef-nations-forge-stronger-supply-chains-to-reduce-reliance-on-china-11685330072229.html>

19 “IPEF supply chains pact to help shift production centres to India”, The Economic Times, 2 June 2023, <https://m.economictimes.com/news/economy/foreign-trade/ipef-supply-chains-pact-to-help-shift-production-centres-to-india/articleshow/100686272.cms>

20 Saurav Anand, “India, US relaunch commercial dialogue on supply chain, establish semiconductor partnership”, Mint, 10 March 2023, <https://www.livemint.com/news/india/india-us-relaunch-commercial-dialogue-on-supply-chain-establish-semiconductor-partnership-11678461117601.html>

21 “IPEF supply chains pact to help shift production centres to India”, The Economic Times, 2 June 2023, <https://m.economictimes.com/news/economy/foreign-trade/ipef-supply-chains-pact-to-help-shift-production-centres-to-india/articleshow/100686272.cms>

22 Ravi Dutta Mishra, “US to help India with chips’ standards, manufacturing”, Mint, 30 May 2023, <https://www.livemint.com/economy/us-to-assist-india-in-developing-standards-and-training-workers-in-key-sectors-to-reduce-reliance-on-china-and-fix-supply-chain-gaps-11685467317720.html>

bilaterally partner on such efforts.<sup>23</sup> The US has also offered opportunities for investment through the Partnership for Global Infrastructure and Investment and the Investor Forum.

That said, the SCA imposes a series of demands on member countries, including but not limited to minimising autonomy vis-à-vis crisis measures, providing in-country trade-related infrastructure, promoting regulatory transparency and predictability and promoting implementation of labour rights and domestic enforcement of labour laws. While each of these promises to create a policy framework conducive to economic engagement and potentially create positive outcomes for countries such as India, they also pose two specific problems: one, they impose political and implementation costs on developing countries such as India; and two, the asks are open-ended and open to interpretation. For example, the SCA asks member countries to document compliance with their own commitment on labour rights; however, it is not known how a report documenting violation will be dealt with and what additional requirements and expectations might be imposed if such violations come to light.

### Political downside

First, let us look at the political costs: this is the first time that India has signed on to a cooperative agreement which make labour rights and labour laws a centerpiece. While the Supply Chain Agreement asks members “to undertake efforts consistent” with their domestic laws and thus, at least at the moment, does not impose a higher labour standard, signing it signals a departure from India’s past position in which it refused to address labour standards in international economic agreements. On labour and environmental standards, India has maintained the position that these issues should be raised at the International Labour Organisation (ILO) and similar forums instead of talks on economic cooperation and integration.<sup>24</sup> India did not join the IPEF’s Trade Pillar because of these concerns: these same provisions have now come in through the Supply Chain Pillar. Admittedly, one could argue that the SCA provisions merely represent a form of international monitoring: it neither imposes a higher standard on India, nor does it include a compliance mechanism and therefore, should not raise concern. Additionally, it may be argued that by putting the spotlight on compliance with national labour laws, the IPEF furthers the cause of human security of workers in its member countries.

### The Gender dimension

The IPEF has also acknowledged the need to focus on gender equality by launching an upskilling initiative for women and girls to support its goals of advancing sustainable and inclusive growth. As such the initiative is built around seven million or more training and educational opportunities for women and girls and involves major technology companies such as Amazon Web Services, Apple, Cisco, Google and others in providing such opportunities. India is one of eight recipient countries.<sup>25</sup> This initiative has been dismissed as tokenism at best and criticised as

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23 Saurav Anand, “India, US relaunch commercial dialogue on supply chain, establish semiconductor partnership”, Mint, 10 March 2023, <https://www.livemint.com/news/india/india-us-relaunch-commercial-dialogue-on-supply-chain-establish-semiconductor-partnership-11678461117601.html>

24 Amiti Sen, “Indo-Pacific Economic Framework: Will the US push for more flexibility from India during Modi visit?” Business Line Online, 21 June 2023, <https://www.thehindubusinessline.com/blexplainer/indo-pacific-economic-framework-will-the-us-push-for-more-flexibility-from-india-during-modi-visit/article66992463.ece>

25 U.S. Department of Commerce, “FACTSHEET: Indo-Pacific Economic Framework for Prosperity Upskilling Initiative for Women and Girls”, 8 September 2022, <https://www.commerce.gov/news/factsheets/2022/09/fact-sheet-indo-pacific-economic-framework-prosperity-upskilling>

cynical pinkwashing by a group of sixty women's, labour and other civil society organisations.<sup>26</sup> These organisations have argued that involving the US technology sector – Big Tech – will likely undermine, not advance, women's rights. The group further argues that many of these promised initiatives are already in place and will not bring any new investment to bettering women's lives. This is another example where the IPEF provisions are open to interpretation and leaves unclear the specific expectations it has from stakeholders such as corporations. While the allegation of tokenism is not entirely without merit, placing women and girls front and center of a regional multilateral economic framework shines a spotlight on inclusive growth. Given the SCA's focus on labour, it can be argued that to the extent that IPEF members are expected to report on their compliance with their own labour laws, the rights of women workers will possibly receive more attention from member governments. Going beyond this initiative, the Fair Economy Agreement includes a provision that furthers the cause of gender equality and women's empowerment in anti-corruption programmes. Creating opportunities for women to participate in supply chains is particularly important in a country like India where the formal labour force participation of women has been low: it is one of the lowest among G-20 countries. In India, women are mostly employed in agriculture and in the rural economy, which also drives down the quality of employment and women's wages.<sup>27</sup> Including a skilling initiative for women and shining a light on gender equality and women's empowerment focuses attention on creating conditions for inclusive growth and enhanced economic security for women.

### Erosion of policy autonomy

On the issue of the erosion of policy autonomy, domestic price management emerges as a central example. The Modi government has relied on occasional increases in tariffs and in export restrictions on agricultural commodities as well as manufactured goods such as pharmaceuticals in order for the government to pursue policy objectives including managing domestic needs, such as keeping prices low in response to domestic political pressure. For example, to manage domestic price and availability of rice, India has imposed a series of bans on the export of rice in recent years.<sup>28</sup> These are the kind of actions that the SCA seeks to limit. While the IPEF does not have any in-built enforcement mechanism, its call for transparency in supply chain operations is designed to encourage more predictability. While all of these are positive developments in themselves, analysts within India worry that some of these features could restrict the government's autonomy to prioritise the interests of citizens in need of affordable food and medicine on account of international obligations.<sup>29</sup> Thus far, it is unclear what the consequences of such unilateral interventions will be after the agreements come into effect.

### Implementation costs

The SCA requires that efforts in upholding labour rights be documented in a report that is submitted

26 "Statement Rejecting Pinkwashing in the Indo-Pacific Economic Framework", IT for Change, December 2022, <https://itforchange.net/index.php/statement-rejecting-pinkwashing-indo-pacific-economic-framework>

27 Cledwyn Fernandez and Havishaye Puri, "A Statistical Portrait of the Indian Female Labor Force", ADB Institute, December 2023, <https://doi.org/10.56506/BDXR3681>

28 Joseph Glauber and Abdullah Mamun, "India's export restrictions on rice continue to disrupt global markets, supplies, and prices", IFPRI Blog, International Food Policy Research Institute, 7 February 2024, <https://www.ifpri.org/blog/indias-export-restrictions-rice-continue-disrupt-global-markets-supplies-and-prices/>

29 Abhijit Das, "IPEF supply chain pact is unfair", The Hindu BusinessLine, 15 November 2023, <https://www.thehindubusinessline.com/opinion/ipef-supply-chain-pact-is-unfair/article67536942.ece>

annually or at intervals decided on by the Supply Chain Council. Member countries would also have to list their efforts in providing trade-related infrastructure and in offering regulatory predictability, each of which adds to these implementation costs. Admittedly, the need to build long term cold chain warehousing, a necessary part of trade infrastructure, is consistent with India's own needs as it develops its agricultural and other supply chains. India has thus far found it difficult to build such infrastructure, despite its own needs. The agreement brings up joint financing of investment projects and might offer a pathway to infrastructure development in India and South Asia.

### **IPEF Pillars: The Clean Economy and Fair Economy Agreements**

The Clean Economy Agreement focuses on clean energy and climate friendly technologies and seeks to employ research and commercialisation while ensuring affordability and accessibility. In doing so, the agreement covers a range of issues from addressing the climate impact of transportation to securing supply chains for critical minerals to call for sustainability in agricultural practices. The agreement encourages IPEF members to bring in financing for climate-related infrastructure and technologies to ease developing economies' transition to a cleaner future. Through an annual Clean Economy Investor Forum, the US is creating opportunities for investment and working "with IPEF partners to develop country-tailored investment approaches for key sectors" in those partner economies.<sup>30</sup> India can benefit from research, development and commercialisation of clean energy technologies if it taps into the resources that the IPEF promises. Critical minerals and renewable energy supply chains are overwhelmingly concentrated in three to four countries. China, particularly, dominates the supply chains for solar modules, wind turbine generators, and lithium-ion batteries.<sup>31</sup> India can address these problems through the agreement by finding alternative sources and by facilitating the growth and participation of its own suppliers into these supply chains. Again, while the expectations associated with the agreement are consistent with what India needs to do in the environmental space, such as minimising the climate impact of the transportation sector, adopting advanced and sustainable agricultural practices, making these changes will involve costs much of which will likely not be compensated by the promised aid. Maintaining control over the entire renewable energy supply chain will certainly impose additional costs on India.

Under the Fair Economy Agreement, India will improve its standards on anti-corruption and tax measures which, in turn, will facilitate trade and investment among IPEF countries. The agreement requires countries to work on transparency in taxation and improve the exchange of information, likely imposing further implementation costs but in the long run, improving the overall transparency and predictability of the economic system. Collectively, these three agreements potentially strengthen India's economic security by adopting norms that promise to increase its attractiveness as an investment destination.

### **Conclusion**

Not only has the IPEF provided an opportunity for India to address its immediate economic policy challenges, it has also offered India a chance to sit at the high table and shape the norms of

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30 Nirvikar Singh, "India and IPEF", Financial Express, 22 December 2023, <https://www.financialexpress.com/opinion/india-and-ipef/3344732/>

31 "Developing Resilient Renewable Energy Supply Chains for Global Clean Energy Transition", Council on Energy, Environment and Water (CEEW), April 2023, <https://www.ceew.in/sites/default/files/developing-resilient-renewable-energy-supply-chains-for-global-clean-energy-transition.pdf>

trade, investment and other economic policy for the Indo-Pacific and perhaps even the next global economic order. Like the US, India does not belong to either the RCEP or the CPTPP, the two prominent economic cooperation frameworks in the Indo-Pacific. Additionally, India is also not a member of APEC, another regional economic forum that seeks to promote an economic order based on free trade and investment. India was never a Pacific country and while it has joined APEC meetings as an observer for over a decade and some APEC leaders have brought up the possibility of India's membership, the efforts have not gone far. Under these circumstances, the opportunity for India to join the US and others in shaping regional economic norms and an economic identity appear as an attractive opportunity for an emerging power with a complex domestic political and economic environment. Within a short period of time, the IPEF members have negotiated and finalised three agreements, each of which can be claimed as first of its kind. As the Asia-Pacific has expanded into the Indo-Pacific to include India, the economic identity of the region will likely be written by the IPEF members. In fact what India and other IPEF members might be shaping in such a situation are not only regional but future global rules of economic cooperation.

While the environmental and labour provisions of the IPEF agreements seem onerous on a developing country such as India, being at the table has allowed the latter to put its mark on these provisions and negotiate to protect its interests. Having to sign on to these provisions might appear to be restricting India's economic security according to some. Indian critics of IPEF have pointed out that if India is not able to rid its supply chain of suppliers whose environmental and labour practices are not in compliance with the standards set in IPEF, India's exports will get hurt.<sup>32</sup> There is, however, another way of looking at this issue: The European Union already embraces some of the policy features included in the IPEF provisions – addressing labour and environmental standards through supply chains, trade agreements and economic frameworks is one such example. The EU's corporate sustainability due diligence directive (CSDDD) also seeks to encourage corporations to identify and address labour and environmental issues within their supply chains. If both the US and EU converge on similar standards and India's interests lie in diversifying its supply chains because of its own concern for economic security as well as in exporting to American and European markets, then a calibrated and gradual effort to shape these new rules are in India's interest.

An immediate decoupling with China is not a real option for any of the IPEF members, including both India and the US: they are closely integrated to supply chains involving China and will likely see higher production costs and reduced welfare in the event of a full decoupling. That said, the efforts through the IPEF are intended to reduce dependence in the medium to long term and create opportunities for its members. India expects that being a part of the IPEF negotiations signals to the private sector in the United States and elsewhere that India is a trusted destination for investment – this is important in a "China plus one" scenario in which firms will seek new economies in which to invest. For various reasons including their participation in free trade agreements, much of the investment associated with the China Plus One strategy has gone to Mexico and Vietnam. Whether India will benefit from the China Plus One strategy by successfully inviting investments as a result of IPEF remains to be seen.

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32 Abhijit Das, "IPEF supply chain pact is unfair", The Hindu BusinessLine, 15 November 2023, <https://www.thehindubusinessline.com/opinion/ipef-supply-chain-pact-is-unfair/article67536942.ece>

### About the Author

**Dr Surupa GUPTA** is a Professor in the Department of Political Science and International Affairs at the University of Mary Washington in Fredericksburg, VA, USA. Her research focuses on India's comparative political economy writing on a range of topics such as the politics of agricultural reform and India's role in the governance of multilateral economic institutions. She also writes on India's foreign economic policy. Her recent publications include "Economic nationalism and India-US trade relations during the Modi-Trump Years" in *India Review* (2023) and "India's engagement with the International Monetary Fund: Growing into an ownership role" in *Contemporary South Asia* (2022). Most recently, she wrote the chapter on the political economy of India's macroeconomic policy in *The Oxford Handbook of Indian Politics* (2024). Besides writing in peer-reviewed, scholarly publications, Dr Gupta writes for platforms such as *The Conversation*, *ForeignPolicy.com*, *ForeignAffairs.com* and speaks on broadcast media on issues related to her expertise. Gupta was a 2015 Asia Studies Fellow at the East West Center in Washington DC. She teaches courses on International Political Economy, Gender and Development, Indian Foreign Policy and South Asian Politics. Additionally, she directs the University of Mary Washington's program on Women's, Gender, and Sexuality Studies. She was the 2017 recipient of the Mary Pinschmidt Award for teaching and mentoring at her university. She served as the managing editor for *Indian Politics and Policy* between 2017-2020. She has a PhD in International Relations from the University of Southern California.





# IPEF Regulations and their Impact on the Economic Security of the Indo-Pacific: Implications for Japan's Trade Policy

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Kunihiko SHINODA

Since the late 2010s, geopolitical changes such as the US-China confrontation, pandemic, and Russia's aggression in Ukraine have had a significant impact on the regional order and the nature of regional cooperation in the Indo-Pacific region. Japan's trade policy objectives are also expanding into various fields, including rebuilding rules-based international trade order, enhancing supply chain resilience, and strengthening cooperation with the Global South. This paper aims to clarify how the IPEF is positioned in these new directions of Japan's trade policy and how it is being used to ensure economic security. It will also explore policy recommendations on what policy measures should be taken to make the IPEF agreement more in-depth, sustainable, and expand membership in the face of the risk of changes in the domestic political environment.

## Japan's Economic Security and Trade Policy

### Japan's economic security policy

Since the late 2010s, geopolitical changes such as the US-China confrontation, the COVID-19 pandemic, and Russian aggression in Ukraine have greatly affected the regional order and regional cooperation in the Indo-Pacific. The National Security Strategy (NSS) of Japan<sup>1</sup> announced in December 2022 noted that the center of gravity of global power is shifting to the Indo-Pacific region and the international order is being challenged at an accelerating pace with the international community undergoing rapid changes. Specifically, on "Global Security Environment and Challenges," the NSS cites unilateral changes to the status quo by force; escalating risks in cyberspace, maritime, space, electromagnetic domain, etc.; economic security; economic coercion; and disagreements among the international community in addressing common challenges like climate change.

The NSS further states that with regard to economic security in particular, addressing issues not necessarily deemed as security targets in the past such as supply chain vulnerabilities, increasing threats to critical infrastructures, and leadership struggles over advanced technologies, has also become a major security challenge. As a result, the scope of security has expanded to include economics, making economic measures even more necessary for ensuring security.<sup>2</sup>

The Economic Security Promotion Act of Japan<sup>3</sup>, announced in May 2022, defines four pillars: (1) strengthening supply chain of critical goods and raw materials; (2) ensuring stable provision of key infrastructure services; (3) promoting and supporting advanced critical technologies through public-private partnerships and sharing and utilisation of technical information; and (4) preventing publication and leakage of patent applications for inventions sensitive to national security while ensuring the rights of applicants. At the same time, other efforts to increase economic security should be encouraged, such as those in supply chain resilience; critical infrastructure, data and information protection; technology development and preservation; and addressing economic coercion.

### Economic security risks

The following trade-related risks are considered in Japan's NSS and economic security-related policies.

#### Supply chain fragmentation

In recent years, supply chain management has become more complex due to increasing geopolitical volatility. In addition to preparing for natural disasters such as earthquakes and floods, various other parameters must now be considered, including "promotion" and "protection" from the perspective of economic security and concern for shared values (environment, human rights, etc.). In particular, Japanese companies are becoming more aware of geopolitical and economic security risks vis-à-vis China. While the number of companies focusing on China as an

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1 "National Security Strategy of Japan," Cabinet Secretariat of Japan, December 2022, [https://www.cas.go.jp/jp/siryoku/221216\\_anzenhoshou/nss-e.pdf](https://www.cas.go.jp/jp/siryoku/221216_anzenhoshou/nss-e.pdf)

2 "National Security Strategy of Japan," Cabinet Secretariat of Japan, December 2022, [https://www.cas.go.jp/jp/siryoku/221216\\_anzenhoshou/nss-e.pdf](https://www.cas.go.jp/jp/siryoku/221216_anzenhoshou/nss-e.pdf)

3 "Act on the Promotion of Ensuring National Security through Integrated Implementation of Economic Measures" Cabinet Office, May 2022, <https://www.japaneselawtranslation.go.jp/en/laws/view/4523/en>

investment destination is declining compared to previous years, those focusing on ASEAN and India are increasing.<sup>4</sup> In addition, the importance of strategically building inventory, decentralising procurement, production, and sales bases, and strengthening these functions in Japan, are being increasingly recognised as issues necessary for strengthening supply chain resilience. Against this backdrop, Japan also has the urgent task of building an economic system in the Indo-Pacific region - that will not succumb to economic coercion - by strengthening and diversifying supply chains.

As nations become more interdependent, some technologies and products will inevitably become choke points in supply chains due to factors like resource constraints and technological irreplaceability. In December 2022, under the Economic Security Promotion Act, Japan designated 11 products, including semiconductors, storage batteries, and critical minerals, as 'critical' products and set targets for each to ensure stable supply.<sup>5</sup> It also took comprehensive measures like diversifying overseas sourcing, strengthening domestic production, and developing technologies for resource conservation and recycling.

### Economic coercion

China has been using its large domestic market, purchasing power, possession of scarce resources, and financial power as tools of economic coercion, such as imposing import and export restrictions and travel restrictions against various developed and developing trade partners. For example, in 2010, after a ship collision off the Senkaku Islands, China tightened restrictions on rare earth exports to Japan, citing resource protection and other reasons.<sup>6</sup> In 2012, following escalation of the territorial dispute over Scarborough Shoal in the South China Sea, China imposed import restrictions on bananas from Philippines and discouraged travel to the country.<sup>7</sup> After Australia requested an independent investigation into the origin of the COVID-19, China restricted imports of coal, barley, beef, copper, and wheat from Australia.<sup>8</sup> Recently, the red lines that trigger economic coercion have expanded, extending beyond traditional areas such as national sovereignty, security, and territorial claims to include economic coercion based on issues like damage to China's international image, such as the origins of COVID-19, and the treatment of Chinese companies, such as Huawei Technologies.<sup>9</sup> The tools being employed for economic coercion are notably diverse, including restrictions on trade, investment, and tourism; boycotts;<sup>10</sup> sanctions against specific companies

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4 "White Paper on International Economy and Trade 2023," Ministry of Economy, Trade and Industry of Japan, 27 June 2023, <https://www.meti.go.jp/english/report/data/wp2023/pdf/2-1-1.pdf>

5 "White Paper on International Economy and Trade 2023" Ministry of Economy, Trade and Industry of Japan, 27 June 2023, <https://www.meti.go.jp/english/report/data/wp2023/pdf/2-1-1.pdf>

6 "2013 Report on Compliance by Major Trading Partners with Trade Agreements -WTO, FTA/EPAs, BITs-" Ministry of Economy, Trade and Industry of Japan, 22 April 2013: 375-376, [https://www.meti.go.jp/english/report/downloadfiles/2013WTO/02\\_03\\_reference.pdf](https://www.meti.go.jp/english/report/downloadfiles/2013WTO/02_03_reference.pdf)

7 Bonnie S. Glaser, "Trouble in the South China Sea," Foreign Policy, 17 September 2012, <https://foreignpolicy.com/2012/09/17/trouble-in-the-south-china-sea/>

8 Jeffrey Wilson, "Australia Shows the World What Decoupling From China Looks Like", Foreign Policy, 9 November 2021, <https://foreignpolicy.com/2021/11/09/australia-china-decoupling-trade-sanctions-coronavirus-geopolitics/>

9 Hideo Ohashi, "China's Economic Coercion", Center for International Economic Collaboration, 21 September 2023, [https://www.cfiec.jp/2023/ohashi\\_0921/](https://www.cfiec.jp/2023/ohashi_0921/)

10 China launched a government-led boycott campaign against H&M, a major clothing manufacturer that had expressed concern about the forced labour of the Uyghur people and decided not to use Uyghur cotton.

and individuals;<sup>11</sup> government threats;<sup>12</sup> restrictions on official travel;<sup>13</sup> and arbitrary detention.<sup>14</sup>

### Energy and food security

Russia's invasion of Ukraine is a major rupture in the international order, particularly in Europe. It is also an attempt to use energy and food for geopolitical coercion. The war has led to an unprecedented global energy crisis with high energy prices, volatility in energy markets and disruptions in energy supply, and skyrocketing global grain and fertiliser prices enhancing food insecurity. Several countries in the Global South are particularly vulnerable to energy and food supplies. A protracted conflict in Ukraine will cause greater economic and social dislocation in these countries and destabilise the international order. Promoting cooperation for sustained energy and food supplies will stabilise their prices and reduce domestic inflation in consuming countries. Food and energy producing countries can also reap the benefits of expanding production and exports as alternative suppliers of energy and food.

### Climate change

Climate change is an existential security issue. Extreme weather events are inducing significant environmental changes (e.g. rising sea levels) and leading to frequent and severe natural disasters. These are affecting national security and economic security in various ways, including increased disaster response, water shortages, worsening energy and food problems, domestic inflation, widening economic inequality, reduction of national land area,<sup>15</sup> and increased use of Arctic Sea routes.<sup>16</sup> Pacific Island countries and other developing countries vulnerable to, and directly threatened by climate change, will need assistance for building sustainable and resilient economies and societies. In addition, the energy transition (such as phasing out fossil fuels, securing critical minerals, enhancing renewable energy), green industrial policies (such as carbon border measures, emissions trading), and other climate change measures that are being adopted by EU and some other countries can lead to conflicts between nations.

### Digital authoritarianism

China launched the Digital Silk Road in 2017<sup>17</sup> for countries figuring in its Belt-and-Road Initiative (BRI) to promote cooperation in electronic payments, AI, quantum computing, big data, cloud computing, and smart city construction. In the backdrop of China's efforts to create international

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11 In 2021, after the European Union imposed sanctions on Chinese officials over human rights abuses in Xinjiang, China responded with counter-sanctions targeting European lawmakers, scholars, and organisations that criticised its human rights record.

12 In 2020, after Australia called for an independent investigation into the origins of COVID-19, Chinese officials made public statements criticising Australia's actions, framing them as antagonistic and warning of economic repercussions.

13 In 2010, when the Nobel Peace Prize was awarded to Chinese dissident Liu Xiaobo, the Chinese government strongly condemned the decision and implemented various punitive measures against Norway, including restrictions on official diplomatic interactions and travel.

14 After the arrest of Huawei CFO Meng Wanzhou in Canada in 2018 at the request of the United States, China detained two Canadian citizens, Michael Kovrig and Michael Spavor, accusing them of espionage.

15 Loss of territory, territorial waters and EEZ due to rising sea levels.

16 Growing tension over resources and shipping routes in the Arctic Ocean due to melting sea ice in the Arctic Circle.

17 "The Digital Silk Road: Expanding China's Digital Footprint," Eurasia Group, 8 April 2020, <https://www.eurasiagroup.net/files/upload/Digital-Silk-Road-Expanding-China-Digital-Footprint.pdf>

standards in the digital sphere, the US has expressed concern over global expansion of China's surveillance system and spread of social governance by authoritarian political regimes, or so-called "digital authoritarianism."<sup>18</sup> In particular, authoritarian countries are strengthening state control through digital technology and other means (such as internet shutdowns and network restrictions) and increasing malicious activities in cyberspace, including cyberattacks and spreading misinformation.<sup>19</sup> There is a need to prevent digital authoritarianism and ensure a free, fair, and secure cyberspace.

### Indebtedness

Under the BRI, China has organised co-financing and joint lending, mainly through state-owned commercial banks, for implementing large-scale infrastructure projects. Foreign currency loans to resource-rich countries are usually collateralised by future export revenues from minerals and other primary commodities and carry relatively high interest rates. In addition to these loans expanding government debt, hidden debt from loans to state-owned enterprises and banks, special purpose vehicles, and private institutions all increase debt burdens of recipient countries. China's loans to several countries of the Global South countries are significant.<sup>20</sup> These include clauses that prevent, among other things, information disclosure and fair debt restructuring, increasing instances of debt traps where debtor countries (China) acquire controlling stakes in infrastructure projects.<sup>21</sup> For avoiding indebtedness – both economic and geopolitical - high-quality infrastructure investment in the Global South must meet conditions of economic efficiency, life-cycle costs, environmental friendliness and resilience.

### Trade policy and economic security

Over the past 30 years since the end of the Cold War and advance of globalisation, countries around the world, including Japan, have focused on creating a rules-based international trade order. In recent years, geopolitical risks and unfair actions by some countries have encouraged global growth of protectionism resulting in globalisation facing its biggest crisis since World War II. While it is important to maintain and strengthen the rules-based international economic order, the latter must change and modernise. It is necessary to rebuild a free and fair international economic order based on economic security, while keeping in mind the various global political and economic developments. Japan's White Paper on International Economy and Trade<sup>22</sup> outlines the following three directions for trade policy:

- a. It is necessary to rebuild a rules-based international trade order. Even as the global economy

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18 "The New Big Brother: China and Digital Authoritarianism", United States Senate Committee on Foreign Relations, 21 July 2020, <https://www.foreign.senate.gov/imo/media/doc/2020%20SFRC%20Minority%20Staff%20Report%20-%20The%20New%20Big%20Brother%20-%20China%20and%20Digital%20Authoritarianism.pdf>

19 "United States International Cyberspace & Digital Policy Strategy," US Department of State, 6 May 2024, <https://www.state.gov/united-states-international-cyberspace-and-digital-policy-strategy/>

20 Ammar A. Malik, et al., "Banking on the Belt and Road: Insights from a new global dataset of 13,427 Chinese development projects," AIDDATA, 29 September 2021, <https://www.aiddata.org/publications/banking-on-the-belt-and-road>

21 "The Recent International Financial Situation," Ministry of Finance of Japan, 19 June 2023, [https://www.mof.go.jp/about\\_mof/councils/customs\\_foreign\\_exchange/sub-foreign\\_exchange/proceedings/material/gai20230619\\_3.pdf](https://www.mof.go.jp/about_mof/councils/customs_foreign_exchange/sub-foreign_exchange/proceedings/material/gai20230619_3.pdf)

22 "White Paper on International Economy and Trade 2024," Ministry of Economy, Trade and Industry, July 2024, <https://www.meti.go.jp/english/report/data/gIT2024maine.html>

faces a crisis of fragmentation, it is important to maintain a rules-oriented stance and work towards rulemaking. For example, recognising the effectiveness of Economic Partnership Agreements (EPAs) in strengthening supply chains through trade diversification and as a countermeasure to protectionism, Japan will promote the negotiation of EPAs and investment agreements with countries in the Global South that are yet to conclude such agreements.<sup>23</sup> Japan will also work to reform the World Trade Organisation (WTO) and use the WTO/EPAs to correct and prevent unfair trade measures. In addition, while giving due consideration to non-trade concerns (economic security, environment, human rights, etc.), which have become significant in recent years, Japan will be involved in utilisation and formation of rules to ensure that fair trade is not distorted by excessive measures. The creation of new trade rules for digital economy, environment and labour under the Indo-Pacific Economic Framework (IPEF), Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and other economic architectures covering the Indo-Pacific region can be a major contribution. It is also necessary to stop economic coercion as that could threaten the rules-based international trade order by impacting dispute settlement mechanisms of the WTO and Free Trade Agreements (FTAs).

- b. It is necessary to promote the establishment of a resilient and reliable supply chain. From the perspective of economic security, Japan will seek to diversify procurement of critical commodities. In doing so, it will strengthen dialogue and cooperation with like-minded countries and work on policy coordination to avoid protectionism and ensure a level playing field in the regional market, as stated in the "G7 Leaders' Statement on Economic Resilience and Economic Security"<sup>24</sup> issued at the G7 Hiroshima Summit in May 2023. Japan recognises and endorses transparency, diversity, security, sustainability, and trust as essential principles in building and strengthening resilient supply chain networks with credible partner countries within and outside the G7. Japan also encourages the development of robust and reliable supply chains, taking into account economic security perspectives, by utilising frameworks among like-minded countries, such as the IPEF, the Quad, and various Economic Partnership Agreements, including the CPTPP and the EU-Japan EPA.
- c. Strong linkages with the Global South must be pursued. From 2023 to 2037, ASEAN and India are expected to continue to grow at an average annual rate of 7 percent and just under 9 percent, respectively.<sup>25</sup> In terms of demographics, the Middle East, Africa and Latin America will continue to experience population growth, as will the Global South as a whole until 2100.<sup>26</sup> Many Global South countries will become global production centers and consumer markets due to population growth and the emergence of a middle income class. The Global South countries are also major suppliers of food, energy, minerals, water and other key resources. These countries are more vulnerable to adverse effects of climate change, energy security, food security and public health. Working with the Global South for addressing these issues will bring more stability to the international order.

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23 "Recent Developments in External Economic Policy", Ministry of Economy, Trade and Industry of Japan, 21 June 2024, [https://www.meti.go.jp/shingikai/sankoshin/tsusho\\_boeki/pdf/011\\_02\\_00.pdf](https://www.meti.go.jp/shingikai/sankoshin/tsusho_boeki/pdf/011_02_00.pdf)

24 "G7 Leaders' Statement on Economic Resilience and Economic Security," Ministry of Foreign Affairs of Japan, 20 May 2023, <https://www.mofa.go.jp/files/100506815.pdf>

25 "Recent Developments in External Economic Policy: Japan's Role in Restructuring the International Economic Order," Ministry of Economy, Trade and Industry of Japan, 7 June 2023, [https://www.meti.go.jp/shingikai/sankoshin/tsusho\\_boeki/pdf/010\\_02\\_00.pdf](https://www.meti.go.jp/shingikai/sankoshin/tsusho_boeki/pdf/010_02_00.pdf); "World Economic League Table 2023" CEBR, 26 December 2022, <https://cebr.com/wp-content/uploads/2022/12/WELT-2023.pdf>

26 *Ibid.*

## Japan's Trade Policy and IPEF

### Importance of IPEF for Japan's trade policy

From the perspective of Japan's economic security-based trade policy, the IPEF is a very important initiative for the following reasons.

First, the IPEF engages major countries in the Indo-Pacific region in rulemaking, dialogue, and cooperation for addressing emerging policy issues in the region. Japan advocates a "Free and Open Indo-Pacific" (FOIP) and seeks to achieve stability in the international order and promote international cooperation in coordination with countries in the Indo-Pacific region. The IPEF is particularly important as a framework for creating a regional economic order including the US, which is absent from CPTPP. The IPEF also includes some countries of the Global South, such as those from ASEAN, India (which is not a part of RCEP nor CPTPP), and Fiji, a Pacific island nation. This reinforces Japan's objective of working with the Global South for lending stability to the global order.

Second, the IPEF is contributing to the rebuilding of a rules-based international trade order. It is working on trade rules in new areas such as labour, environment, digital economy, competition policy, transparency and good regulatory practices, in the context of a drastically changing trade policy environment that is enhancing economic insecurity, intensifying competition among national industrial policies, and struggling to address challenges from climate change. It is significant that the US, Korea, Indonesia, the Philippines, Thailand, and Fiji, which are not members of the CPTPP, are involved in rule-making at the IPEF. In the future, it is hoped that India, which has not yet participated in the trade pillar negotiations, will join the same.

Third, IPEF is building resilient and reliable supply chains. Faced with declining market share and growing dependence on China for the production of semiconductors, storage batteries, and critical minerals, the US is challenged to address supply chain vulnerability issues. Against the backdrop of the spread of COVID-19 and escalation of the US-China conflict, the challenge is to promote 'friend-shoring', i.e. reorganising supply chains among trusted, like-minded countries sharing common ideals and norms, for increasing economic security. In Japan, in recognition of geopolitical and economic security risks, the public and private sectors are working together for strengthening and diversifying supply chains,<sup>27</sup> and the IPEF's efforts are in line with these.

Fourth, the IPEF promotes various initiatives for addressing problems of the Global South, including expanding trade and investment, energy security, climate change and infrastructure development. While it does not include market access improvements as expected by its developing country members, it is promoting initiatives in trade facilitation, investment expansion, supply chain resilience, decarbonisation, clean energy transition and infrastructure development through the Global Infrastructure Investment Platform (PGII) and other programs.<sup>28</sup> These initiatives will contribute to the realisation of the SDGs in the Global South, while promoting green transformation and digital transformation.

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27 "Revised Action Plan for Strengthening the Industrial and Technological Foundations for Economic Security," Ministry of Economy, Trade and Industry of Japan, 15 May 2024, [https://www.meti.go.jp/policy/economy/economic\\_security/240515actionplan.pdf](https://www.meti.go.jp/policy/economy/economic_security/240515actionplan.pdf)

28 "Factsheet on the G7 Partnership for Global Infrastructure and Investment," Ministry of Foreign Affairs of Japan, 20 May 2023, <https://www.mofa.go.jp/files/100506918.pdf>



## The IPEF's Contribution to Economic Security

### Trade (Pillar 1)

The Trade Pillar pursues rules and initiatives on labour, environment, digital economy, agriculture, competition policy, transparency, trade facilitation, and technical assistance and economic cooperation to promote strong and broad-based economic connectivity and integration.

Of particular relevance to economic security are provisions related to the digital economy. The Ministerial Text for the Trade Pillar identifies the digital economy as an important initiative with “trusted and secure cross-border data flows”, “inclusive, sustainable growth of the digital economy” and “responsible development and use of emerging technologies”.<sup>29</sup> In particular, the “cross-border transfer of information by electronic means”, “prohibition of the requirement to install computer-related equipment” and “prohibition of the requirement to disclose source code” included in the CPTPP’s e-commerce chapter<sup>30</sup> are important provisions to prevent the spread of digital authoritarianism and promote digital trade liberalisation. In addition to source code, algorithms are also subject to the prohibition of disclosure requirements in the US-Mexico-Canada Agreement (USMCA) and the US-Japan Digital Trade Agreement and it is critical for these provisions be included in the IPEF digital economy rules.

On the other hand, some developing countries are moving against digital trade liberalisation. For example, there are efforts in developing countries to establish systems similar to the domestic data storage requirements, cross-border transfer restrictions and government access provided for in China’s three data laws.<sup>31</sup> If national intelligence agencies in developing countries were to have virtually unrestricted government access to relevant agencies, organisations, and individuals, companies investing in these countries would face economic security risks related to data governance. Japan, with many Japanese companies operating in Indo-Pacific countries, will therefore need to benchmark its negotiations against the inclusion of high-standard digital economy rules comparable to those in the CPTPP.

The key to the final conclusion of the IPEF negotiations will be how to accelerate the negotiations on trade, which have been postponed this time. The US has already established a high level of rules for the digital economy, including data distribution, in the USMCA and the Japan-US Digital Trade Agreement. But negotiations on the IPEF have been delayed due to opposition from the US Congress and labour groups concerned about expansion of profits and influence of giant IT companies. In addition, there is strong pressure from labour and environmental groups in the US to set high standards for labour and the environment, even though the gap with emerging and developing countries, which are reluctant to accept such rules, has not been bridged. There is much room for Japan to serve as a bridge between the US and Asian countries in building rules in these areas of trade.

### Supply Chains (Pillar 2)

The IPEF Supply Chain Agreement is the first pluri-agreement to provide specific coordination

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29 “Ministerial Text for Trade Pillar of the Indo-Pacific Economic Framework for Prosperity,” 9 September 2022, <https://www.mofa.go.jp/mofaj/files/100391688.pdf>

30 “Text of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership-Chapter 14. Electronic Commerce,” Cabinet Secretariat of Japan, December 2018, [https://www.cas.go.jp/jp/tpp/tppinfo/kyotei/tpp\\_text\\_en/pdf/14.Electronic\\_Commerce.pdf](https://www.cas.go.jp/jp/tpp/tppinfo/kyotei/tpp_text_en/pdf/14.Electronic_Commerce.pdf)

31 Cybersecurity Law, Data Security Law and the Personal Information Protection Law

procedures for supply chain disruptions across several industries. The Agreement has entered into force in February 2024.<sup>32</sup>

Under the Agreement, member countries will identify critical sectors or key goods that would be significantly affected by supply chain disruptions, and, through the IPEF Supply Chain Council, develop an action plan for common critical sectors or key goods, including diversification of sources, business matching, improved logistics connectivity, joint research and development. In addition, through the IPEF Supply Chain Crisis Response Network,<sup>33</sup> countries experiencing actual disruptions will be able to promote cooperation with other countries participating in the Agreement, including sharing experiences in dealing with similar disruptions, encouraging the private sector to increase production, exploring and facilitating joint procurements and delivery of goods, and facilitating and identifying access to alternative shipping or air routes.

Each member will notify the other participating countries of the initial list of critical sectors and key goods through the IPEF Supply Chain Council within 120 days of entry into force and will develop an action plan for critical sectors or key goods in the future. Although the critical sectors or key goods have not yet been determined, it is expected that semiconductors, storage batteries, critical minerals and pharmaceuticals will be among these.

The Biden Administration prioritised the IPEF Supply Chain Agreement given the US' heavy reliance on China in the supply chain for semiconductors, storage batteries, and critical minerals and the vulnerabilities it has created for the US economy. Formation of a supply and procurement network without China is essential from an economic security perspective. The IPEF is also seeking to restore stable supply chains among its member countries before the impact of a decline in the supply capacity of semiconductors and other products caused by the spread of infectious diseases or natural disasters has a significant impact on the production of automobiles and other products.<sup>34</sup> A supply chain framework will create stable supply and procurement networks among member countries and increase trade and investment, which is likely to bring relatively greater real benefits compared to the other pillars.

For Japan, the framework can strengthen supply chains in the fast-growing Indo-Pacific region in both peacetime and emergency situations and improve the international competitiveness of its industries. Geopolitical changes such as the US-China conflict, Russian aggression in Ukraine, and the Israel-Gaza conflict have intensified the confrontation between Western countries and China and Russia, making engagement of emerging and developing countries, from the Global South, an important issue. Through the Supply Chain Agreement, developed and developing countries in the Indo-Pacific will establish supply chains for semiconductors, storage batteries and critical minerals that are not overly dependent on specific countries such as China, and will promote efforts to prevent and avoid economic coercion.

### Clean Economy (Pillar 3)

Pillar 3 addresses a range of issues faced by emerging and developing countries, including climate change, stable energy supply, quality infrastructure, and improved business and investment

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32 "Indo-Pacific Economic Framework for Prosperity Agreement Relating to Supply Chain Resilience", Ministry of Foreign Affairs of Japan, February 2024, <https://www.mofa.go.jp/mofaj/files/100581548.pdf>

33 *Ibid.*

34 Toshiki Takahashi, "Agreement on IPEF Supply Chain and Future Negotiations - Announcement of Establishment of Supply Chain Council, Crisis Response Network, etc.," Institute for International Trade and Investment, 27 July 2023, <https://iti.or.jp/column/113>

climate. The Clean Economy Agreement was substantially concluded at the Ministerial Meeting in San Francisco in November 2023 and signed at the Ministerial Meeting in Singapore in June 2024. Under the Agreement, Japan, the US, Australia, and some other members are working on establishing a fund to support decarbonisation in emerging economies.

The IPEF Clean Economy Agreement aims to enhance energy security in the region, reduce greenhouse gas (GHG) emissions, promote infrastructure development and its financial cooperation, or more broadly put, stimulate investment in the green economy among member countries. At the IPEF Ministerial Meeting in November 2023, member countries agreed to hold an annual "IPEF Clean Economy Investor Forum"<sup>35</sup> to promote climate change-related intra-regional investment. The Forum will invite diverse investment-related business stakeholders, government agencies, and others from the region to encourage financing of specific projects to advance the goals of the Agreement. The first such Forum was held at the Ministerial Meeting in Singapore in June 2024.

The Cooperative Work Programs under the Clean Economy Agreement is a mechanism to promote cooperation in policy dialogue, regulatory harmonisation and project structuring, with participation of interested countries based on proposals from IPEF members. Cooperative work programs will be more likely to receive support, such as participation in investor forums and use of IPEF funds. The launch of the "Regional Hydrogen Supply Chain Initiative" led by Japan and Singapore was announced as the first project under the Cooperative Work Programs at the Ministerial Meeting in Detroit in May 2023.<sup>36</sup> The subsequent launch of the Clean Electricity Initiative proposed by Japan along with the Regional Hydrogen Supply Chain Initiative in the Cooperative Work Programs will provide Japanese companies with significant advantages in developing decarbonisation businesses. Through financial and technological support for hydrogen-related projects in IPEF member countries, Japan is expected to develop business partnerships and collaborations in the region, strengthen production and exports of hydrogen-related sectors such as fuel cell electric vehicles (FCEVs) and consolidate its position as a hydrogen-based nation.<sup>37</sup>

A Catalytic Capital Fund (CCF) has also been established under IPEF, with the US, Japan, Australia and Korea contributing a total of \$33 million.<sup>38</sup> The CCF will provide financial support for decarbonisation technologies for thermal power generation using hydrogen and ammonia, recycling technologies to recover critical minerals from e-waste, and renewable energy expansion.

Japan will use the IPEF Clean Economy Agreement to promote enhanced energy security in the Indo-Pacific region and to develop climate resilience and the transition to a clean economy in cooperation with other member countries. The IPEF Clean Economy Agreement establishes a framework for financial cooperation in climate-related infrastructure development, technical assistance, and project development for promoting investment and economic partnerships in

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35 "Fact Sheet: IPEF Clean Economy Investor Forum", US Department of Commerce, 6 June 2024, <https://www.commerce.gov/news/fact-sheets/2024/06/fact-sheet-ipef-clean-economy-investor-forum>

36 "METI Minister Nishimura Visits Detroit, the United States", Ministry of Economy, Trade and Industry of Japan, 28 May 2023, [https://www.meti.go.jp/english/press/2023/0528\\_001.html](https://www.meti.go.jp/english/press/2023/0528_001.html)

37 Toshiki Takahashi, "The Aim of the IPEF Clean Economy Agreement and Japan's Response: Overview of the Clean Economy Agreement Comprising 9 Sections and 38 Articles and Benefits for Japan," Institute for International Trade and Investment, 16 May 2024, <https://iti.or.jp/column/132>

38 "Over US\$23 Billion of Sustainable Infrastructure Projects Identified at Inaugural IPEF Clean Economy Investor Forum in Singapore", Ministry of Trade and Industry of Singapore, 6 June 2024, <https://www.meti.go.jp/press/2024/06/20240606001/20240606001-c.pdf>

hydrogen and other clean energy sectors in the region.<sup>39</sup>

### Future Challenges for IPEF

#### Accelerating negotiations and strengthening implementation of the Agreements

It is necessary to advance the domestic procedures of each country for the Clean Economy and Fair Economy agreements in order to bring them into effect as soon as possible and to accelerate the negotiations in the Trade pillar, aiming at an early conclusion of the agreement in substance. It is necessary for the US to show its willingness to make progress in concluding the negotiations on trade and come up with supporting measures that will benefit developing country members dissatisfied with the fact that tariff liberalisation is not included in the IPEF's trade pillar.

Japan's government and industry have established strong ties with Southeast Asian countries and India. They are participating in regional economic integration and supply chain building, through IPEF, and have deepened mutual understanding. Based on these ties with Asia, Japan should encourage both the US and Asian countries to come closer to each other and through the framework for assisting the Global South. Japan should also offer cooperation in a wide range of areas, such as digital cooperation, capacity-building support for labor and environmental rules, support for the expansion of trade and investment by local companies, and computerisation of trade-related procedures. These can hasten a final conclusion for IPEF.

There is a need to strengthen the implementation of the agreements, such as the Supply Chain agreement already in force and the Clean Economy and Fair Economy agreements that have been signed. It was decided to establish an IPEF Council to consider issues related to the operation of the four IPEF agreements and the possibility of new member countries, and a Joint Commission to monitor and coordinate work on the three agreed non-trade agreements for overlaps and inconsistencies.<sup>40</sup> Promotional mechanisms have been established in the Supply Chain Pillar, including the IPEF Supply Chain Council and the IPEF Supply Chain Crisis Response Network; in the Clean Economy Pillar, including the IPEF Clean Energy Investor Forum, and the IPEF Fund; and across the board, including the IPEF Critical Minerals Dialogue. The continued use of these mechanisms and the promotion of concrete dialogue and cooperation between developed and developing countries, or between government and industry, will strengthen the implementation of the Agreement.

#### Broadening and deepening the scope of the Agreement

The IPEF Agreement, as a "living agreement", should be updated in terms of content in light of changes in the global situation and the emergence of new policy issues. In particular, in the area of economic security, while the Agreement has been established to address supply chain resilience, energy security, and climate change, it has not addressed issues such as economic coercion, digital authoritarianism, and debt problem. Economic coercion, such as export and import restrictions by non-members of IPEF can be addressed through the monitoring of supply and procurement networks and the crisis response mechanism under the IPEF Supply Chain Agreement. But there

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39 Toshiki Takahashi, "The Aim of the IPEF Clean Economy Agreement and Japan's Response: Overview of the Clean Economy Agreement Comprising 9 Sections and 38 Articles and Benefits for Japan," Institute for International Trade and Investment, 16 May 2024, <https://iti.or.jp/column/132>

40 "Agreement on the Indo-Pacific Economic Framework for Prosperity", Ministry of Foreign Affairs of Japan, June 2024, <https://www.mofa.go.jp/mofaj/files/100680386.pdf>

is also a need to strengthen prompt and effective economic assistance to like-minded countries that have been coerced through other economic means. In addition, the reliable and free flow of data through the CPTPP, USMCA, and other agreements is not enough to counter digital authoritarianism. Member countries should also promote the development of a secure and robust digital infrastructure, strengthen security measures in cyberspace, and promote reliable AI-related rules based on democratic values. To solve the indebtedness of the Global South, efforts such as the dissemination of the G20 Principles for Quality Infrastructure Investment are underway, and these principles should also be applied to infrastructure development cooperation efforts using funds under the IPEF framework.

### **Expanding IPEF membership**

IPEF should consider expanding membership. In Southeast Asia, member countries should closely monitor the outcome of the political situation in Myanmar, but should also consider the participation of Cambodia, Laos and Myanmar in the medium to long term. These ASEAN members may consider participation in the IPEF from the perspective of ensuring the centrality and unity of ASEAN. In terms of economic reality, supply chains centered on the manufacturing sector are expanding to the Mekong countries, and they should be included from the perspective of promoting supply chain resilience.

In South Asia, in addition to India, which is a member, Bangladesh, Sri Lanka, and other countries should be considered for membership in IPEF. These countries are geopolitically important as they are located at the strategic point of the sea lanes in the Indian Ocean. Also, like India, they have large populations and market potential, and they are also promoting FTAs and regional cooperation with some ASEAN countries that will strengthen supply chain linkages in the future.<sup>41</sup> Therefore, if they apply to join IPEF, member countries should consider the possibility of accepting them.

Member countries should also consider the possibility of membership for Pacific Island countries other than Fiji, which is already a member of IPEF. Pacific Island countries face risks such as sea level rise and severe natural disasters due to climate change, and it is important to ensure their resilience to climate change and support their green transition through the Clean Economy Agreement. In addition, some Pacific Island countries face economic coercion from China, and it is necessary to maintain and strengthen supply chains and economic support from like-minded countries through the IPEF.

### **Responding to a new regime in the US**

President Trump is very likely to announce withdrawal from the IPEF. Member countries need to consider how to respond to such a case. The IPEF Supply Chain Agreement, the Clean Economy Agreement and the Fair Economy Agreement have already entered into force. For the Supply Chain Agreement and the Fair Economy Agreement, a member may withdraw only by written notice to the Depository "three years" after entry into force, while for the Clean Economy Agreement a member may withdraw by notice to the Depository. Withdrawal would take effect six months after

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41 Bangladesh and Sri Lanka are members of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), which also includes Myanmar and Thailand. Bangladesh has bilateral trade promotion agreements with Indonesia, Malaysia, Myanmar, the Philippines, Thailand, Vietnam, and Cambodia. Sri Lanka has a free trade agreement with Singapore.

receipt of the notice by the Depositary.<sup>42</sup>

When the US withdrew from the TPP in early 2017, Japan took the lead in substantively concluding and signing the CPTPP to implement the content of the TPP agreement in 11 countries other than the US. If the US decides to withdraw from the IPEF in early 2025, Japan should maintain the IPEF with the cooperation of other member countries, accelerate negotiations on the IPEF agreement, strengthen its implementation, and broaden and deepen its scope and expand its membership in the future.

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42 "Agreement on the Indo-Pacific Economic Framework for Prosperity", Ministry of Foreign Affairs of Japan, June 2024, <https://www.mofa.go.jp/mofaj/files/100680386.pdf>

## About the Author

**Dr Kunihiro SHINODA** joined the Ministry of International Trade and Industry (MITI) in 1988 and was Director (APEC&FTA), Trade Policy Bureau, METI (2005-2008), Director, Financial Cooperation Division, Trade and Economic Cooperation Bureau, (2008-2010), Director, Asia and Pacific Division, Trade Policy Bureau (2010-2012) and Deputy Director-General for Trade Policy, Trade Policy Bureau (2017-2019). He was engaged in negotiations on FTAs such as RCEP and economic cooperation with ASEAN, China and India in the Ministry of Economy, Trade and Industry (METI). He was also posted in Asian countries such as the Embassy of Japan in the Philippines (1996-1999), JODC Bangkok Office (2002-2005), JOGMEC Beijing Office (2012-2014) and Japan-China Economic Association Beijing Office (2014-2017). He was seconded to the GRIPS in 2019 and became a professor at GRIPS in 2022. He has been engaged in research and education on Asian economy and Indo-Pacific cooperation.

# The EU and the IPEF: Identifying Synergies on Economic Security

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Françoise NICOLAS

Economic security has recently become a widely shared concern in the context of rising Sino-US rivalry. As a result, the EU has developed a full-fledged economic security strategy that is based on three pillars: protection, promotion and partnership. The latter dimension of the strategy suggests that cooperation with like-minded countries may be part and parcel of economic security, and Indo-Pacific countries are mentioned explicitly as potential candidates, in line with the EU's Indo-Pacific strategy.

The US has developed its own economic security strategy and emphasised cooperation with countries in the Indo-Pacific through the IPEF. The latter framework has progressed at surprisingly rapid speed over the past few years, with two agreements being reached, namely the supply-chain agreement and the clean economy agreement.

Interestingly these are objectives that may dovetail nicely with those of the EU's economic security and Indo-Pacific strategies. The paper shows how the interests of the EU and Indo-Pacific countries (including the US) may be converging and how synergies may develop between their respective strategies. A major conclusion is that inter-regional economic security is likely to be reinforced through these various efforts. Moreover, should the US decide to change course, the EU will remain a valuable partner and will still be able to help Indo-Pacific countries preserve their economic security.



## Economic Security: a Recent and Shared Concern

Over the past few years, national 'economic security' has become a buzzword in the lexicon of global administrations. This is a broad concept encompassing a set of interconnected issues, including supply-chain resilience, anti-coercion measures and strategic autonomy. Although the concept remains relatively fuzzy, it reflects an increasingly common concern for governments and business. Indeed, in a context of heated great power rivalry and geopolitical tensions, security concerns have become front and centre, and now tend to prevail over considerations of economic efficiency.

Until recently, globalisation was deemed to be economically optimal – because it was based on cost-efficiency – and politically desirable – because it was thought to contribute to peace in international politics.<sup>1</sup> These two points, however, are increasingly challenged.

First, over time, fragmented production processes were found to be prone to disruptions that could generate vulnerabilities, and potentially raise costs. While temporary disruptions (primarily due to natural disasters) were not deemed problematic, long-lasting ones are perceived as more worrisome. The real source of concern lies in the asymmetry in interdependencies and on the overreliance for products that are deemed vital, like critical raw materials and semiconductors, on a handful of suppliers.<sup>2</sup> Although such concerns took shape before the pandemic, the Covid-19 crisis acted as an accelerator by amplifying pre-existing concerns.

In addition, the risk of weaponisation of interdependencies further compounds the concerns associated with the vulnerability inherent in globalised supply-chains. As aptly put by Hamilton (2022): "States that acquire influence over economic flows and occupy key positions as network hubs can – and do – instrumentalise economic flows to their advantage. Supply chains can be as much channels of power as of prosperity."<sup>3</sup>

In response to these concerns, the US issued its economic security strategy in October 2022, and the European Union followed suit in July 2023. Despite the differences between these two strategies, with the US being more radical and with a definite anti-China connotation and the EU approach stressing 'country neutrality', both actors are increasingly converging on the importance of 'economic security' in the Indo-Pacific that is now integral to their national security considerations.<sup>4</sup> The objective of the paper is to examine where the two partners' strategies converge and how they may reinforce each other by focusing on two issues where progress is most obvious, namely supply-chain resilience and the transition to a clean economy. As a preliminary step, a first section will provide a brief overview of the EU's economic security strategy and explain how it relates to the EU's Indo-Pacific strategy.

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1 The idea that trade is an agent of peace dates back to Montesquieu, who argued in the *Spirit of the Laws* (*De l'esprit des lois*, 1748) that "Peace is the natural effect of trade. Two nations who traffic with each other become reciprocally dependent; for if one has an interest in buying, the other has an interest in selling; and thus their union is founded on their mutual necessities". Charles de Secondat, Baron de Montesquieu, *The Spirit of the Laws*, Cambridge University Press, 1989, p. 348.

2 Ursula von der Leyen, "EU and Japan boost strategic cooperation on digital and on critical raw materials supply chains", European Commission Press Release, July 13, 2023, [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_23\\_3831](https://ec.europa.eu/commission/presscorner/detail/en/ip_23_3831)

3 Dan Hamilton, "Advancing Supply Chain Resilience and Competitiveness – Recommendations for US – EU Action", Policy Brief, Transatlantic Leadership Network, 2022, <https://www.transatlantic.org/wp-content/uploads/2022/03/TTC-Supply-Chains.pdf>

4 Emily Benson, "Navigating Tides: The European Union's Rising Role in the Indo-Pacific", Critical Questions, CSIS, March 5, 2024, <https://www.csis.org/analysis/navigating-tides-european-unions-expanding-role-indo-pacific>

## The EU's Economic Security Strategy and the Indo-Pacific

The Covid-19 pandemic and Russia's attack on Ukraine provide the backdrop to the emergence of the EU's economic security strategy. The former event highlighted a growing problem associated with shortages of medicines and medical equipment. Disruption to the supply of critical goods such as personal protective equipment (PPEs) and active pharmaceutical ingredients (APIs) called for reinforcing the EU Single Market and boosting its resilience. Shortly after that, the attack on Ukraine triggered concern over the EU's energy security, calling for diversification. Although these concerns were nothing new, these two unexpected developments acted as wake-up calls, pushing the European Commission (EC) and the EU member states to take more resolute actions.

On March 11, 2022, two weeks after the invasion of Ukraine, the 27 Heads of State and Government of the EU adopted the Versailles Declaration<sup>5</sup>, that defines three objectives related to the EU's economic security: a) bolstering the EU's defence capabilities; b) reducing its energy dependencies; and c) building a more robust economic base. This can be seen as the first step towards the definition of a full-fledged economic security strategy.

In June 2023, the EC and the High Representative for Foreign Affairs and Security Policy published a Joint Communication on a European Economic Security Strategy<sup>6</sup> that focuses on minimising risks among certain economic flows in the context of increased geopolitical tensions and accelerated technological shifts, while preserving maximum levels of economic openness<sup>7</sup> and dynamism.

Following the joint communication, the European Economic Security Package (EESP)<sup>8</sup> was approved in January 2024. It aims essentially at 'derisking', in other words at reducing Europe's strategic dependence in the most sensitive sectors (e.g. critical raw materials, semiconductors, healthcare, digital technology, food products – a list that is likely to be adapted according to political orientations), with a particular focus on China. Although the definition of what may put economic security at risk is very broad, the strategy identifies four categories of risks that need to be addressed as a matter of priority: risks to the resilience of supply chains; to the physical and cyber security of critical infrastructure; for technology security and of technology leakage; and of weaponisation of economic dependencies or economic coercion. A list of 'critical technologies' provided by the EU should help shape export controls and outbound investment screening, but it suggests that derisking will not be easy.<sup>9</sup> Such an approach would be particularly difficult – and risk-enhancing – in the case of China, given Beijing's crucial role in many manufacturing sectors, in particular those related to green and clean technologies.<sup>10</sup> For example, derisking from China may delay the EU's decarbonisation efforts.

The strategy is based on three pillars. It aims at (1) "protecting the EU's economic security through

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5 "Informal meeting of the Heads of State or Government, Versailles Declaration," 11 March 2022, <https://www.consilium.europa.eu/media/54773/20220311-versailles-declaration-en.pdf>

6 "Joint Communication to the European Parliament, the European Council and the Council on 'European Economic Security Strategy'," 20 June 2023, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52023JC0020>

7 Openness has always been in the EU's DNA.

8 "Commission proposes new initiatives to strengthen economic security," Press Release, European Commission, 24 January 2024, [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_24\\_363](https://ec.europa.eu/commission/presscorner/detail/en/ip_24_363)

9 Agathe Demarais, "What the EU list of critical technologies tells us about its de-risking plans", in European Council on Foreign Relations (ECFR), 11 October 2023, <https://ecfr.eu/article/what-the-eu-list-of-critical-technologies-tells-us-about-its-de-risking-plans/>

10 Also, isolating China may be a risky strategy as China may be pushed to behave even more aggressively.

a range of existing policies and tools, and consideration of new ones to address possible gaps”; (2) “promoting the EU’s competitiveness, by strengthening the Single Market, supporting a strong and resilient economy, investing in skills and fostering the EU’s research, technological and industrial base”, and (3) “partnering with the broadest possible range of partners to strengthen economic security.”<sup>11</sup>

The ‘protection’ part of the strategy is relatively unproblematic as it relies on standard instruments. It essentially implies to better deploy existing tools—such as FDI screening and export controls—and to adopt new ones to protect the EU from economic security risks. The anti-coercion instrument belongs to the latter set of instruments.

The ‘promoting’ part of the strategy may be more complex to implement. While industrial policy may have some role to play in enhancing resilience and reducing excessive dependencies, it is likely to undermine the integrity of the Single Market and to contradict the founding elements of European economic integration (in particular the dogma of competition).<sup>12</sup> In other words, the second prong of the strategy requires a paradigm shift. Indeed, the EU has traditionally been a resolute defender of a liberal approach to trade, leaving industrial policy outside the EU’s economic toolbox. Moreover, the EU competition law has been built to prevent imbalances within the single market, thus calling for as little state intervention as possible in support of industrial development.<sup>13</sup> Lastly, unlike trade, measures of industrial policy do not fall into the remit of the Commission but belong to the individual member states’ competencies.

But implementing an industrial policy may also face funding issues. Instead of a pan-European funding solution, national spending for industrial policy still dominates. This is due to the way the EU is organised, and competencies are distributed between the Commission and individual member states.<sup>14</sup> Overall, the European Member States (EMS) still tend to be reluctant to engage in a bold financial strategy that would bolster the EU’s technological and industrial capabilities.<sup>15</sup> The failure of the Sovereignty Fund proposed by Commissioner von der Leyen in her State of the Union address in September 2022<sup>16</sup> is a testament to this state of affairs. The Sovereignty Fund, that was supposed to be financed by common European debt, would have enabled the EC to co-fund early-stage, capital-intensive critical technology projects, but it never turned into reality. Instead, in early 2023 the Strategic Technologies for Europe Platform (STEP) was established with a view to help steer and leverage up to €160 billion (\$176 billion) to strategic projects, including for green and digital transitions.<sup>17</sup> This is a much scaled-back version of the initial proposal and a far cry from the original ambition that does not measure up to other countries’ (the US and China in particular) firepower.

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11 “An EU Approach to Economic Security”, European Commission Press Release, 20 June 2023, [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_23\\_3358](https://ec.europa.eu/commission/presscorner/detail/en/IP_23_3358)

12 Olivier Sueur, “Ensuring the European Union’s Economic Security: a Revolution in the European Model”, Network for Strategic Analysis, February 8, 2024, <https://ras-nsa.ca/>

13 Mathieu Duchâtel, “Economic Security: the Missing Link in EU-Japan Cooperation,” Institut Moutaigne, April 2023, <https://www.institutmoutaigne.org/en/publications/economic-security-missing-link-eu-japan-cooperation>

14 But there are also diverging views within the EU, with France (not surprisingly) showing more support to State interventionism and financial support to technological development.

15 Addressing such institutional weaknesses is not easy and may require institutional changes.

16 “2022 State of the Union Address by President von der Leyen,” European Commission, 14 September 2022, [https://ec.europa.eu/commission/presscorner/detail/en/speech\\_22\\_5493](https://ec.europa.eu/commission/presscorner/detail/en/speech_22_5493)

17 Jiayi Zhou et al., “De-risking: The EU’s and Japan’s Approaches to Managing Economic Relations with China”, SIPRI Research Policy Paper, February 2024

In the absence of similar institutional difficulties, the third pillar of the strategy, 'partnering', will likely be more easily turned into reality. The EU considers free trade agreements (FTAs) as one of the most effective instruments to improve European resilience and preserve supply-chain security by allowing for the diversification of sources of supply. As argued by Steinberg and Wolff (2023), "EU's resilience cannot be increased by protectionism but by keeping markets open and concluding trade agreements, especially in Asia and Latin America."<sup>18</sup> The EU has developed its Indo-Pacific strategy as early as 2021, but it has also made explicit references to the region in its 2024 economic security strategy. As aptly put by Benson (2024), the latter strategy 'provides a more detailed roadmap on how to step up the EU's engagement to ensure a secure and open Indo-Pacific'.<sup>19</sup>

Interestingly, economic security in the Indo-Pacific is deemed fundamental both for the EU and the US national security, and the EU's Indo-Pacific strategy and the IPEF share major objectives.

### The EU's Partnering with IPEF Countries on Supply-Chain Resilience

The EU has faced a range of supply-chain disruptions in the past few years, including episodes of economic coercion and weaponisation of supply-chains/interdependencies. As a result, one important dimension of economic security is to ensure stronger and more reliable supply chains. Quite naturally, as a technology manufacturing hub, with significant access to natural resources and rare earth minerals, the Indo-Pacific appears a potential key partner for the EU in its endeavour to enhance economic security. As explained above, partnering is a key component of the EU's economic security strategy, and the EU's economy is deeply intertwined with the Indo-Pacific through trade, investment, and supply networks. The latter region undoubtedly presents ample opportunities for cooperation and supply-chain diversification.

Although the EU's economic security strategy is officially country neutral, there is no denying that the deteriorating relations with China have led the EU to refocus its energies on building deeper economic ties elsewhere in the region.<sup>20</sup> The EU has cooperated for a long time with individual IPEF countries such as Japan and South Korea through FTAs or other forms of economic partnerships. The cooperation has now become more intense and broad-based. One of the main objectives is to coordinate the two parties' efforts to address strategic dependencies and systemic vulnerabilities in global supply chains, particularly in the context of risks related to non-market economies and unfair competition.<sup>21</sup>

Through the EU-Japan EPA, the two partners pursue dialogue and cooperation on economic resilience and economic security to globally reduce vulnerabilities and ensure sustainable development for all.<sup>22</sup> During the 5th Japan-EU High level Economic Dialogue in May 2024, ministers from the two countries concurred on a Transparent, Resilient and Sustainable Supply Chains Initiative to coordinate and advance their efforts on policies for building more transparent, resilient

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18 Federico Steinberg and Guntram Wolff, "Dealing with Europe's economic (in)security", mimeo, Elcano Real Institute, 29 November 2023, <https://media.realinstitutoelcano.org/wp-content/uploads/2023/11/steinberg-wolff-dealing-with-europes-economic-in-security.pdf>

19 Benson, *op. cit.*

20 James Crabtree, "Looking beyond China: Why it's time to refresh the EU's Indo-Pacific Strategy", ECFR Commentary, 4 December 2023, <https://ecfr.eu/article/looking-beyond-china-why-its-time-to-refresh-the-eus-indo-pacific-strategy/>

21 See EU and Japan deepen cooperation to ensure stronger and more reliable supply-chains (2 May 2024).

22 "Japan-EU High Level Economic Dialogue of 2 May 2024", Joint Press Statement, Ministry of Foreign Affairs, Japan, 2 May 2024, <https://www.meti.go.jp/press/2024/05/20240502001/20240502001-a.pdf>

and sustainable supply chains.<sup>23</sup> This builds on the ongoing efforts of the EU-Japan Industrial Policy Dialogue and its new Task Force on supply chain monitoring and supply chain coordination. These efforts include sharing information on risk assessment analysis and on preventing leakage of critical and emerging technologies.

Similar bilateral cooperation on supply-chain issues is also taking place between the EU and several other partners in the Indo-Pacific region (eg. South Korea and Singapore). Although the main goal of the recent digital partnerships signed by the EU in the region is to develop and entrench standards for emerging technologies in line with EU principles and values, they also provide a promising channel for cooperation on economic security-related issues such as supply-chain resilience. By way of illustration, in the wake of the first Digital Partnership Council that took place in June 2023 between the EU and South Korea, both sides shared their major policy measures on monitoring and responding to supply chain disruptions. They agreed to exchange information on the semiconductor supply chain and expand future cooperation on secure digital connectivity infrastructure links including submarine cables; digital skills and capacity-building; and exchange of best practices on digital start-ups.<sup>24</sup> Both also agreed to strengthen cooperation on early warning systems to detect and address potential supply chain disruptions in key industries through both bilateral and multilateral cooperation.

The EU is increasingly engaged in cooperative arrangements with Indo-Pacific partners, and supply-chain resilience is systematically included in the discussions. It has recently ratified the EU-New Zealand FTA, demonstrating its commitment to expanding its network of FTAs in the Indo-Pacific, and is actively engaged in the process of pursuing or preparing negotiations for FTAs with countries such as Indonesia, India, the Philippines and Thailand.

In the absence of a FTA with India, the EU and India have established a key forum to deepen the strategic partnership on trade and technology between the two partners, the EU-India Trade and Technology Council.<sup>25</sup>

The EU also works with the US on supply chain resilience in the context of the EU-US Trade and Technology Council (TTC). Through the TTC they are partnering up to address risks to technology security and technology leakage, on export controls, investment screening and outbound investments, and promoting more resilient supply chains, with priority given to semi-conductor supply chains.<sup>26</sup> In the context of the TTC, the goal is to identify and jointly assess vulnerabilities, to enhance supply-chain transparency so as to be in a better position to address risks and to define possible cooperation.

Both the EU and the US have important common dependencies vis-à-vis China, particularly regarding various Covid-related goods and APIs (including vitamins, antibiotics, and hormones), critical materials, and products needed for green and digital transition, such as permanent

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23 "Joint Press Statement on the 5th EU-Japan High Level Economic Dialogue," European Commission, 2 May 2024, [https://ec.europa.eu/commission/presscorner/detail/en/statement\\_24\\_2425](https://ec.europa.eu/commission/presscorner/detail/en/statement_24_2425)

24 "EU and Republic of Korea Digital Partnership: strengthening our economic resilience", *Press Release*, European Commission, 30 June 2023, <https://digital-strategy.ec.europa.eu/en/news/eu-and-republic-korea-digital-partnership-strengthening-our-economic-resilience>

25 "EU-India: Joint press release on launching the Trade and Technology Council," European Commission, 25 April 2022, [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_22\\_2643](https://ec.europa.eu/commission/presscorner/detail/en/ip_22_2643)

26 "EU-US Trade and Technology Council (2021-2024)," European Commission, <https://digital-strategy.ec.europa.eu/en/factpages/eu-us-trade-and-technology-council-2021-2024>

magnets.<sup>27</sup> Recently, they have intensified coordination on the availability of critical raw materials crucial for semiconductor production, having activated the joint TTC early warning mechanism for semiconductor supply chain disruptions.

Beyond bilateral cooperation, the EU also engages in multilateral discussions. For instance, the EU Chips Act plans cooperation with the US, Japan, Singapore, South Korea, and Taiwan on standardisation, talent development, and information exchange on chokepoints.<sup>28</sup>

These initiatives align well with the objectives set by the IPEF. The IPEF pillar 2 provides a framework for lasting cooperation on issues like supply chain monitoring, investment promotion, and crisis response. Some concrete measures have been put in place to that end. The IPEF resilient supply chain agreement that was signed in November 2023 and entered into force in February 2024, establishes three new bodies: the Supply Chain Council to enhance collaboration on building resilience in critical sectors; the Supply Chain Crisis Response Network to coordinate during crises/supply chain disruptions; and the Labor Rights Advisory Board to address labour concerns in supply chains.

The EU, the US and IPEF countries should look for synergies between these various endeavours that will enhance supply-chain resilience. Some concrete steps have already been taken in specific sectors. For instance, several IPEF countries (e.g. Australia, India, Indonesia, Japan, Singapore, South Korea) along with the US and the EU participated in the 2022 Supply Chain Ministerial Forum<sup>29</sup> for working together on crisis response to alleviate near-term transportation, logistics, and supply chain disruptions and bottlenecks as well as long-term resilience challenges that make supply chains vulnerable and cause spillover effects for the whole economy (including consumers, large and small businesses, workers, and families). Similarly, an alliance involving South Korea, the US, Japan, India and the EU has been launched in June 2024 to put joint efforts to build a resilient supply chain in the biopharmaceutical sector.<sup>30</sup> Such sector-specific forms of cooperation are undoubtedly promising.

What is needed, however, is a better structured way of pushing synergies between all these initiatives and greater coordination in efforts to promote critical technologies and supply chain resilience. One objective may be to boost the compatibility between existing platforms aimed at enhancing economic security with like-minded partners (such as the Chip 4 Alliance, the IPEF, trilateral Japan–Korea–US consultations, the EU-Japan EPA, the EU-US TTC). The US and the EU could make use of their closer alignment via the TTC to extend efforts to broader coalitions for supply chain resiliency and robustness, including through groupings such as the G7 and the OECD, as well as more informal coalitions of the willing, including like-minded partners in the Indo-Pacific.

Japan has been pushing for the EU, Japan and the US to take the lead, as exemplified by the call made during the OECD Ministerial meeting in May 2024, for trilateral cooperation on resilient

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27 Dan Hamilton, “Advancing Supply Chain Resilience and Competitiveness – Recommendations for US – EU Action”, Policy Brief, Transatlantic Leadership Network, 2022, <https://www.transatlantic.org/wp-content/uploads/2022/03/TTC-Supply-Chains.pdf>

28 Françoise Nicolas, “EU and South Korea cooperating on economic security: opportunities, limits and challenges”, *IAI Papers*, 24, 19 June 2024, <https://www.iai.it/en/publicazioni/european-union-republic-korea-cooperation-economic-security-opportunities-limits-and>

29 “2022 Supply Chain Ministerial,” US Department of State, <https://www.state.gov/supply-chain-ministerial/>

30 PTI, “India, S. Korea, US, Japan, EU launch Biopharmaceutical Alliance,” *The Hindu*, 6 June 2024 <https://www.thehindu.com/business/Industry/india-s-korea-us-japan-eu-launch-biopharmaceutical-alliance/article68258492.ece>

supply-chains.<sup>31</sup> Communication is also taking place on the same issue between the US, EU, Japan and Korea.<sup>32</sup> There should, however, be more systematic discussions between the EU and all partners in the Indo-Pacific region (including the US) on enhancing supply-chain resilience building on experience-sharing and exchange of best practices (with early warning mechanisms for instance).

### The EU and the Green Transition in the Indo-Pacific

Another area where the EU and IPEF member country objectives can converge is energy security and green transition, both being significant for economic security.

An important element of the IPEF (with an economic security dimension) is promoting green transition and achieving climate goals of members. Due to the specific situation in the region (in particular the high incidence of extreme weather events), this is a non-negotiable objective, and it is part and parcel of an economic security strategy. Under the IPEF pillar 3 (Clean Economy), IPEF partners are aiming to advance cooperation on research, development, commercialisation, availability, accessibility, and deployment of clean energy and climate friendly technologies, and facilitate investment towards climate-related projects in the region.

In line with this objective, negotiations on the IPEF clean economy agreement were substantially concluded on 16 November 2023 and the agreement signed on 6 June 2024.<sup>33</sup> The agreement seeks to support countries' green energy transitions through enhanced cooperation on innovation and investments in clean energy and climate-friendly technologies. To that end, the partners established a new capital fund administered by a private sector entity for pooling resources and an annual investor forum to mobilise financing for climate projects. The IPEF Clean Economy Investor Forum brings together policymakers, investors, and project developers from 14 IPEF countries. Its mission is to help catalyse investment for sustainable infrastructure and climate technology projects, consistent with strong environmental, social and governance-based (ESG) investing and labour standards. The Forum will also examine ways to promote conducive business environments for scaling up clean technology and infrastructure investments in the region. It is part of a larger financing framework designed to advance the IPEF Clean Economy Agreement. Twenty-two American firms participated in the inaugural investor forum in June 2024, during which the IPEF partners identified priority projects worth US\$ 23 billion.<sup>34</sup>

The holistic vision of security taken by the EU in its Indo-Pacific strategy places a heavier focus on other dimensions than defence narrowly defined. Environmental concerns and policies are at the forefront of the strategy as this is where it can bring a positive agenda to the table in the region.<sup>35</sup>

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31 Steven Regalo, "Deepening EU-Japan-US Cooperation on Critical and Emerging Technologies", Global Governance Institute Commentary, 7 May 2024, <https://www.globalgovernance.eu/publications/deepening-eu-japan-us-cooperation-on-critical-and-emerging-technologies>

32 "U.S., EU, Japan, South Korea discuss supply chain resilience", Federal Newswire, 26 June 2024, <https://thefederalnewswire.com/stories/661323679-u-s-eu-japan-south-korea-discuss-supply-chain-resilience>

33 "Fact Sheet: Substantial Conclusion of Negotiations on Groundbreaking IPEF Clean Economy Agreement", U.S. Department of Commerce, November 2023, <https://www.commerce.gov/sites/default/files/2023-11/US-Factsheet-SF-Pillar-III.pdf>

34 "FACT SHEET: IPEF Clean Economy Investor Forum", U.S. Department of Commerce, 6 June 2024, <https://www.commerce.gov/news/fact-sheets/2024/06/fact-sheet-ipef-clean-economy-investor-forum>

35 Tara Varma, "The European Union in the Indo-Pacific", *Asia Pacific Bulletin*, 638, East-West Center, 19 April 2023, <https://www.eastwestcenter.org/publications/european-union-indo-pacific>

Green transition was identified as one of the seven priority areas of the strategy,<sup>36</sup> with distinct recognition of the vulnerability of some Indo-Pacific countries (in particular ASEAN and the Pacific Island countries) to the impact of climate change. As a result, the EU's strategy may dovetail with the IPEF with regards to facilitating transition to a green economy.

Tackling the challenge of the climate crisis in the Indo-Pacific implies implementing a wide array of measures including climate financing and technology transfer for renewable energy projects, improving monitoring and prediction systems, disaster risk management and resilience measures, and biodiversity conservation efforts.

The EU has constantly contributed in the Indo-Pacific in fighting climate change, bio-diversity loss and pollution.<sup>37</sup> Its commitment to the region on these issues is nothing new. However, its Indo-Pacific strategy is a testament to the imperative for a unified and well-coordinated response to common challenges as well as opportunities, with climate change being a major challenge. As recalled by the European External Action Service (EEAS) in the wake of the EU-Indo-Pacific Ministerial Forum held in February 2024,<sup>38</sup> the EU and its Indo-Pacific partners have a decisive role to play in tackling climate change, countering biodiversity loss, pollution and other forms of environmental degradation, while accelerating the clean energy transition. In collaboration with regional partners, the EU's action is helping to address these challenges.

More specifically, the EU is helping the less developed partners in the region advance their green agendas with important aid commitments. The EU's contribution is primarily financial: through strategic investments, grants, and partnerships, the EU positions itself to mitigate environmental harm, bolster renewable energy capacity, and cultivate sustainable development in the Indo-Pacific region.<sup>39</sup> For instance, the European Investment Bank (EIB) and Vietnam signed a Memorandum of Understanding<sup>40</sup> that calls for an investment of €500 million by EIB Global to support Vietnam in accelerating its energy transition. Further, through the Green-Blue Alliance for the Pacific Team Europe Initiative, the EU is co-funding an increase in hydropower generation capacity in Fiji, for reducing Fiji's reliance on fossil fuels and greenhouse gas emissions.<sup>41</sup> The EU and the EIB will partner with the private sector to deliver the scheme. The Team Europe Green Initiative in the Lao PDR aims to contribute to the country's Green Growth Agenda 2030 and its National Socio-Economic Development Plan 2021-2025 for promoting sustainable management of natural resources.<sup>42</sup> Similarly, under the Sustainable Landscapes, Forests and Agriculture Team

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36 "EU-Indo Pacific Strategy" European union External Action, 30 January 2024, [https://www.eeas.europa.eu/eeas/eu-indo-pacific-strategy\\_en](https://www.eeas.europa.eu/eeas/eu-indo-pacific-strategy_en)

37 The EU has had a long-standing Pacific policy as articulated in "Towards a Renewed EU-Pacific Development Partnership" set out by the EU Commission and the High Representative for Foreign Affairs and Security Policy.

38 "Boosting EU-Indo-Pacific Partnerships: Chair's Press Release following the EU Indo-Pacific Ministerial Forum," European Union External Action. 2 February 2024, [https://www.eeas.europa.eu/eeas/boosting-eu-indo-pacific-partnerships-chair%E2%80%99s-press-release-following-eu-indo-pacific-ministerial\\_en](https://www.eeas.europa.eu/eeas/boosting-eu-indo-pacific-partnerships-chair%E2%80%99s-press-release-following-eu-indo-pacific-ministerial_en)

39 Pimwan Pongsuwan, "Navigating the Indo-Pacific Tides: Key takeaways from the EU-IP Ministerial forum", EIAS Op-ed, 29 February 2024, <https://eias.org/publications/navigating-the-indo-pacific-tides-key-takeaways-from-the-eu-indo-pacific-ministerial-forum-2024/>

40 "EIB Global supports Vietnam's Just Energy Transition," European investment Bank, 25 October 2023, <https://www.eib.org/en/press/news/eib-global-supports-vietnams-just-energy-transition>

41 "Green-Blue Alliance for the Pacific," European Commission, [https://international-partnerships.ec.europa.eu/policies/global-gateway/green-blue-alliance-pacific\\_en](https://international-partnerships.ec.europa.eu/policies/global-gateway/green-blue-alliance-pacific_en)

42 "Team Europe Strategy in the Lao PDR," European Union External Action, <https://www.eeas.europa.eu/sites/default/files/documents/2023/Eng%20-%20EJPS%20flier%20211211%20DIGITAL.pdf>



Europe Initiative in Cambodia and its flagship programme CAPSAFE (Cambodia Partnership for Sustainable Agriculture and Food Systems), the EU will contribute to deforestation-free agriculture value chains of selected commodities.<sup>43</sup> Lastly, the Team Europe Initiative on Green Economy in the Philippines aims to support the Philippines' transition towards a circular economy, prioritising waste reduction as a fundamental aspect of their sustainable development efforts.<sup>44</sup> This takes place under the helm of the Global Gateway, the EU's strategy to boost smart, clean and secure links in digital, energy and transport sectors and to strengthen health, education and research systems across the world.

The major limit to the EU's support in implementing the above is the dependence on resources of existing assistance programs and not on additional funds. However, by joining forces and pooling resources, the Team Europe instrument can deliver more effectiveness and greater impact.<sup>45</sup> Beyond mere financial support, the EU also actively engages in trade agreements that promote the responsible sourcing of critical raw materials such as rare earths.

The EU is also engaged in bilateral cooperation on green transition with some economically advanced Indo-Pacific partners. For instance, the EU and Korea have established a Green Partnership<sup>46</sup> for strengthening bilateral cooperation and exchanging best practices on climate action, clean and fair energy transition, environmental protection and green and other fields of the green transition. In line with the priority areas of the Partnership, both have also agreed to promote climate action globally, in multilateral and plurilateral fora, as major donors of climate finance and facilitators of a just transition in third countries. The two parties will cooperate to support developing countries and emerging economies in implementing climate and environment policies.

In terms of objectives and means of green transition, there is a clear complementarity between the EU's IP strategy and the IPEF's pillar 3. However, due to its broader definition of the Indo-Pacific region, the EU covers more countries than the IPEF with special focus on the Pacific Island countries and East African countries, making the complementarity even stronger.

### Concluding Thoughts

Despite doubts expressed by those stressing the EU's lack of hard power and thus its inability to contribute significantly to security in the Indo-Pacific, the EU's Indo-Pacific strategy is becoming a reality with its focus on economic and non-traditional security issues. In these areas, rather than competing, the EU and the US strategies are complementing each other. Both have shared objectives with their initiatives being either compatible (e.g. enhancing supply-chain resilience), or complementary, especially in fighting climate change and other forms of environmental degradation. Of course, potential frictions cannot be ruled out as both powers engage in norm-setting. But the EU-US TTC is precisely meant to provide an appropriate mechanism to address this issue. As a

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43 "Cambodia," European Commission International Partnerships, [https://international-partnerships.ec.europa.eu/countries/cambodia\\_en](https://international-partnerships.ec.europa.eu/countries/cambodia_en)

44 "Global Gateway: President von der Leyen launches Green Economy Team Europe initiative in the Philippines," European Commission, 31 July 2023, [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_23\\_4023](https://ec.europa.eu/commission/presscorner/detail/en/ip_23_4023)

45 The Team Europe approach relies on the horizontal connection of all EU institutions as well as on vertical connections leveraging many other actors, including EU member states' implementing agencies and public development banks, private sector, credit agencies, etc.

46 "European Green Deal: EU and Republic of Korea launch Green Partnership to deepen cooperation on climate action, clean energy and environmental protection," European Commission, 22 May 2023, [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_23\\_2816](https://ec.europa.eu/commission/presscorner/detail/en/ip_23_2816)

result, their various initiatives are likely to enhance overall inter-regional economic security.

More importantly, the EU's commitment to the Indo-Pacific should be seen as particularly positive in the context of the high uncertainty prevailing in the US. Since the IPEF doesn't have to be ratified by the US Congress, it may not outlast shifts in domestic political winds. But irrespective of the fate of the IPEF, the EU will remain a relevant partner and still able to contribute to achieving some of the objectives set by the IPEF and help Indo-Pacific countries preserve their economic security. IPEF member countries have thus much to gain from cooperating with the EU.

## About the Author

**Dr Françoise NICOLAS** is Senior Advisor to the Center for Asian Studies of the French Institute of International Relations (Ifri). Until February 2024 she was the Director of the same Center. Prior to that she was a Research Fellow at Ifri and an assistant Professor in international economics at the University of Paris-Est (Marne-la-Vallée). In parallel she also taught in many institutions (Langues' O, Sciences Po Paris, Paris 8 University, Sciences Po (Lyon) and the HEC School of Management). From 1995 to 2021 she was also a consultant to the Directorate for Financial, Fiscal and Enterprise Affairs of the OECD (DAF) focusing on Southeast Asian non-member countries.

Dr Nicolas holds a Ph.D in international economics (1991) and a MA in political science (1985) from the Graduate Institute of International Studies (Geneva, Switzerland), as well as a diploma in translation from the University of Geneva (1980). She was an exchange student at the University of Sussex (1980-81) and spent some time as a visiting fellow at the Institute of Southeast Asian Studies (ISEAS) in Singapore (1999) and at the Korea Institute for International Economic Policy (KIEP) in Seoul (2004).

