American Association of the Indo-Pacific

STRENGTHENING IPEF COMMITMENTS AND IMPLEMENTATION

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KEY POINTS AND INTRODUCTION

- **The United States is realigning its trade policy, focusing on reshoring and domestic investment, and seeking enhanced economic engagement in the Indo-Pacific region through the Indo-Pacific Economic Framework (IPEF), an agreement focusing on economic cooperation rather than traditional trade.**
- **There is reluctance among U.S. lawmakers and policymakers to engage in agreements that may increase offshore investment and imports or be perceived as benefiting foreign interests, resulting in tension that will undermine economic engagement with partners.**
- **An IPEF agreement that does not establish disciplines and norms in areas such as digital trade, express shipments, and trade facilitation will not support U.S. companies operating in the Indo-Pacific nor promote U.S. exports, placing U.S. economic and political interests at a disadvantage compared to major economies such as the European Union, China, and India.**
- **If the IPEF is to be a success, U.S. negotiators need to provide IPEF partners with assurances on the future longevity of the agreement beyond U.S. political changes, with strong commitments to futureproofing the agreement, implementation, and secretariat functions.**

The United States is at a crossroads in its approach to international trade and investment. There has been a clear recalibration of trade policy in the current and previous administrations and a leaning into a new version of industrial policy.

The process of 'reshoring' and incentives to keep and attract U.S. domestic and inward investment has a clear goal of spurring the U.S. economy and has been successful so far. At the same time, the U.S. is pursuing greater economic engagement across the Indo-Pacific region. The key policy tool for doing so is the Indo-Pacific Economic Framework (IPEF). The IPEF is not a trade agreement in the traditional sense; it is closer to an economic cooperation agreement.

There is, however, a reluctance among U.S. lawmakers and policymakers to pursue agreements that will potentially increase imports to the U.S. by opening markets and/or be perceived as supporting foreign enterprises and economies.

These two imperatives are at odds with each other; if the U.S. is not prepared to open its markets, support outward investment in IPEF economies, or place clear economic benefits on the table, the level of economic engagement between the U.S. and its partners will be undermined.

The U.S. is effectively competing in a landscape of new and emerging trade agreements across the Indo-Pacific region that offer 'traditional' benefits to partner countries and broad new digital agreements such as the ASEAN Digital Economy Framework Agreement.
A 'weak' IPEF agreement will not assist those U.S.-headquartered companies in engaging with their host economies nor support the promotion of U.S. exports to those economies. The IPEF should, among other things:

- Ensure a 'living agreement' structure that futureproofs the agreement as the global trade environment evolves;
- Establish norms for digital trade across the Indo-Pacific region, including cross-border data flows, data protection and digital payments;
- Push for a strong Trade Facilitation Chapter that prioritizes meaningful commitments on express shipments; and
- Ensure adaptable mechanisms under the Good Regulatory Practices Joint Committee that will continue to provide meaningful outcomes during implementation.

A weak agreement will place U.S. interests—economic and political—at a disadvantage to large economies negotiating across the region (European Union, China, India).

1. COMPETITION FOR TRADE AND INVESTMENT IN THE INDO-PACIFIC

Bilateral agreements have proven vital in securing favorable environments for American investments. These agreements create transparent and predictable investment climates, protect American business interests, and encourage further economic engagement. Such bilateral engagements are vital instruments in realizing the full potential of American investments across the IPEF region.

Key examples include the U.S.-Singapore Free Trade Agreement, which has served U.S. investment in Singapore since 2003, and the U.S.-South Korea Free Trade Agreement, which entered into force in 2012.

However, for more than a decade, the U.S. has been absent from the region in terms of trade agreements. This has allowed a greater degree of trade liberalization among many partners in the region, summarized below:

Country/Bloc	Signed agreements	Under negotiation/announced
ASEAN	Australia, New Zealand, China, India, Japan, Korea, China, Hong Kong, RCEP	Canada
EU	Japan, Vietnam, Korea, Singapore, New Zealand	Australia, Indonesia, Thailand, Philippines, India
China	Cambodia, Australia, Korea, Thailand, Singapore (upgraded), New Zealand (upgraded), ASEAN, RCEP, EAEU	China-Japan-Korea trilateral, China-Korea upgrade
Korea	ASEAN, Australia, Cambodia, China, India, Indonesia, New Zealand, Philippines, Singapore, Vietnam, RCEP, U.S.	Malaysia, China-Japan-Korea trilateral, China-Korea upgrade
Japan	Singapore, Malaysia, Thailand, Indonesia, Brunei, ASEAN, Philippines, Vietnam, India, Australia, CPTPP, RCEP, EU	China-Japan-Korea trilateral
EAEU (including Russia)	Vietnam, China	Indonesia

Officials in many IPEF partner countries have indicated that newly announced sets of negotiations, such as the EU's proposed new agreements with Thailand and the Philippines, risk diminishing interest in the IPEF agreement.

The key reason for this is that these new agreements offer market access and potential tariff reductions for exporters. The agreements will also potentially offer investment liberalization for partner countries.

Similarly, many IPEF countries are establishing and have established digital economy agreements that are, in part, based on the norms established by the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP).

Partner economies have made it clear they are seeking leadership and cooperation from the United States on digital trade and see the possibility of establishing clear norms on digital trade that will pave the way for a more liberal approach to digital trade globally.

In the Indo-Pacific region, these include the following:

- ASEAN Digital Economy Framework Agreement (DEFA – ASEAN Member States)
- Digital Economy Partnership Agreement (DEPA) – (Singapore, Chile, and New Zealand)
- Singapore-Australia Digital Economy Agreement (SADEA)
- United Kingdom-Singapore Digital Economy Agreement (UKSDEA)
- Korea-Singapore Digital Partnership Agreement (KSDPA)

The ASEAN DEFA is of particular note. Its announcement and launch at the beginning of September at the ASEAN Summit represented a watershed moment for the bloc and digital trade agreements. Member states are seeking to conclude the agreement by the end of 2025. The negotiating framework for the agreement has been endorsed. It includes digital trade, cross-border e-commerce, payments and e-invoicing, digital ID and authentication, online safety and cybersecurity, cross-border data flows and data protection, competition policy, emerging issue cooperation, and talent mobility and cooperation.

The agreement is significant because it will potentially set the 'rules for the road' among ASEAN Member States. The bloc of more than 600 million people already has agreements shaping trade in goods, services, and investment. It will also cross over to many other areas, including cross-border currency transactions.

2. STRENGTHENING THE IPEF FOR ALL PARTNERS

U.S. businesses headquartered in the Indo-Pacific region, governments, and other stakeholder groups, including partner economy businesses, have made it clear they are seeking a stronger, binding IPEF agreement that includes tariff liberalization and greater discipline on technical barriers to trade and sanitary and phytosanitary provisions.

The IPEF negotiations have been running at an accelerated timetable, in part to coincide with the U.S. hosting APEC this year and meet the U.S. election cycle. As politically important as these are to the Biden administration, they do not allay concerns among Indo-Pacific trading partners that agreements authorized by U.S. executive order can just as easily be undone by a new administration.

Further, U.S. domestic policies, such as the Inflation Reduction Act (IRA) and CHIPS Act, are clear subsidies for U.S. domestic investments in technology and green energy. These measures are among the largest domestic U.S. programs of their kind in recent years. They send a mixed message to partner economies about U.S. economic engagement in the region.

If the U.S. is serious about stronger economic engagement in the region, it must raise the stakes with a stronger agreement that is futureproof and guarantees ongoing engagement. It must incorporate the following:

- **Future support for market liberalization:** Incorporate an in-principle aspiration among economies that the IPEF can provide the basis for tariff reductions and market access into the future.
- **Built-in review mechanism:** Establish a periodic review mechanism for the agreement to assess its effectiveness and address any emerging issues or challenges. This will allow the parties to adapt the agreement to the evolving global economic and trade environment and make necessary updates.
- **Living agreement structure:** Design the IPEF trade agreement as a ‘living agreement’ with provisions that permit the addition or modification of commitments over time. This will allow member countries to adopt new commitments or enhance existing ones, depending on technological advancements or changing economic circumstances.
- **Ratchet mechanism:** Incorporate a ratchet mechanism that prevents backtracking on commitments, ensuring that it cannot be withdrawn or watered down once a commitment is made. This will help maintain the agreement’s overall level of ambition and credibility.
- **Flexible accession provisions:** Develop clear and transparent accession procedures for new members to join the IPEF agreement. This could involve a roadmap or guidelines outlining the required steps and technical assistance for potential members to meet the agreement›s standards.

Similarly, a regional secretariat should be established. The secretariat must be mandated within the legal framework of the agreement. This mandate should include responsibilities such as ensuring compliance with the agreement›s provisions, facilitating dispute resolution among member states, and providing technical assistance through research and data analytics for policy-making decisions. It should operate under international norms as follows:

- **Governance:** The secretariat should operate under the oversight of a governing body composed of representatives from all member states. A commitment to transparency must be maintained by making records available for auditing purposes. Ethical guidelines should be formulated and adhered to, thereby ensuring accountability within the operations of the secretariat. Impartiality is required when the secretariat acts as a neutral mediator in disputes among member states.
- **Operations:** Rules governing budget and resource management should be developed. The secretariat is responsible for the allocation of approved resources for various activities and projects. Communication mechanisms must be established to consistently inform all member states about developments, resolutions, and decisions. A comprehensive archive should be maintained to offer historical context for decision-making and policy discussions.
- **Stakeholders:** Platforms within the secretariat›s structure should be created for engaging diverse stakeholders, particularly the private sector. These platforms should facilitate input into trade policy discussions and decisions. Capacity-building initiatives such as training programs and sharing best practices among member states complement these platforms.
- **Ethical guidelines:** These should cover areas like conduct, conflicts of interest, and confidentiality to ensure operations maintain the highest level of integrity. By following these prescriptive measures, the groundwork for an effective, transparent, and accountable secretariat can be laid, serving the best interests of all parties involved in the multilateral trade agreement.

3. RECOMMENDATIONS BEYOND THE NEGOTIATIONS

Beyond the agreement, the U.S. can increase its implementation-phase economic engagement in the region in the following ways:

- **Allocate funding for infrastructure development:** Set aside dedicated funds for developing transportation, energy, and digital infrastructure in partner countries, as these are essential for economic cooperation.
- **Establish technical assistance programs:** Appropriate funds for programs that provide technical assistance to Indo-Pacific countries, focusing on regulatory alignment, compliance with international standards, and enhancing trade facilitation.
- **Support human resource development:** Invest in educational programs, workshops, and training for officials and stakeholders in partner countries to develop the necessary skills for implementing and managing the agreement.
- **Create sector-specific funds:** Create funds that target specific sectors such as agriculture, technology, healthcare, etc., aiming at boosting cooperation and development in areas of mutual interest.
- **Enhance SME support:** Allocate resources to support small and medium-sized enterprises (SMEs) in the U.S. and Indo-Pacific countries through capacity-building programs, facilitating access to finance, and encouraging entrepreneurship.
- **Create multi-stakeholder partnerships:** Allocate funds to facilitate collaboration between governmental institutions, the private sector, civil society, and academia to ensure comprehensive capacity building.

4. FINANCE IN THE SUPPLY CHAIN PILLAR

The finalization and publication of the Supply Chain Resilience (Pillar II) text by the U.S. Department of Commerce is a welcome development. In particular, the IPEF Supply Chain Council and IPEF Crisis Response Network were created to address future vulnerabilities, including through cooperation, information sharing, and the development of action plans.

Some supply chain pressures have eased in recent months (for example, on transport costs and global purchasing managing indices numbers), but others have intensified, particularly inflation and interest rate challenges.

These additional factors are likely to persist. A greater focus is required on financial resilience for buyers, particularly on ensuring suppliers have access to stable working capital. Supply chain finance is one tool that can address this vulnerability by using a higher rating of purchasing companies to enable suppliers to gain access to finance. This extends financing further into the supply chain to reach smaller MSME suppliers that often need it most.

We note that the Pillar II text includes an ambition to help enterprises (including MSMEs) access financing, including through export credit and development finance agencies.

From a policy standpoint, there are a few critical aspects to enable supply chain finance, which may be useful as a backdrop:

- A legal framework that incorporates secured transaction laws;
- Allowing for the collateralization of movable assets;
- A modern legal framework for factoring and effective enforcement mechanisms in case of default; and
- e-invoicing and e-signatures can also play an enabling role.

Strengthening the financial linkages between companies in a supply chain is another way to increase resilience. We encourage IPEF negotiators to consider how the Supply Chain Council could incorporate a greater focus on financial resilience moving forward.

5. BLENDED FINANCE AND THE CLEAN ECONOMY PILLAR

New clean finance announcements and initiatives are a positive development for the IPEF and its member countries. These include an announcement from the Department of Commerce and the U.S. International Development Finance Corporation of 300 million in financing for sustainable infrastructure[1]. This was announced at the IPEF virtual ministerial meeting in June and intended to mobilize multiples of private sector investment[2] in areas such as renewable energy, smart-grid capabilities, and power storage for those IPEF partners signing on to Pillar III.

The model outlined in the announcement—of using public capital to crowd in private finance—is one that we strongly support. Indeed, it is the only viable approach to addressing the decarbonization challenge; the funding gap to reach new zero is simply too great for public sector capital to solve alone.

However, the way in which public capital is used will be critical to demonstrating the success of this kind of solution. In particular, public resources will need to be deployed in a way that enables private capital to meet the returns required for their investors (typically pension and insurance funds). Most likely, that means a reduced rate of return for public capital. That is a challenging prospect for governments, multilateral development banks, development finance institutions, and other organizations, but it is what the private sector means by “blended finance”[3] in this context, and we believe this should be understood by all parties to make progress in this area.

We look forward to continuing to engage with IPEF members in the coming months on ways in which public resources can be used most effectively from a private sector standpoint, helping create a platform for investment mobilization across the region.

[1] DFC’s Approval of $300 Million Financing for Sustainable Infrastructure Projects to Include Countries Party to IPEF | DFC
[2] The announcement is aimed at IPEF member countries that become party to the clean economy pillar and will focus on scaling and investing capital in areas like renewable energy, smart-grid capabilities, and power storage.
[3] This is a blending of the capital structure to create returns that would not otherwise be achievable