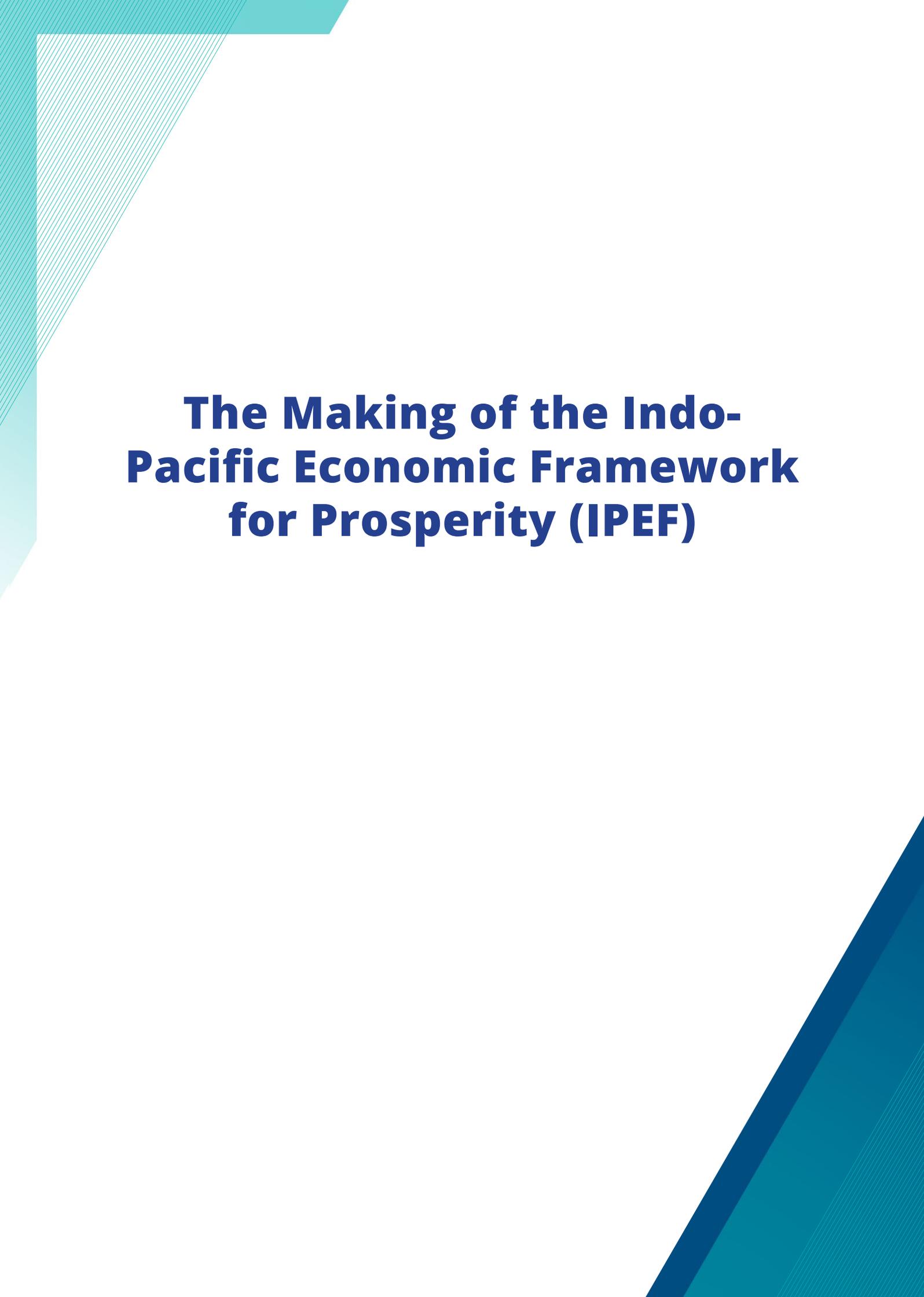


The Making of the Indo-Pacific Economic Framework for Prosperity (IPEF)



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Philippine Perspective on the IPEF Agreement

Francis Mark A. QUIMBA

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This paper aims to contribute to the discussion on the Indo-Pacific Economic Framework (IPEF) through five parts. The first is through the identification of anticipated outputs from each of the IPEF Pillars that the Philippines can expect from participating in the agreement. Second, the paper then outlines the opportunities presented by the agreement by its alignment to key Philippine development plans and trade and industry development strategies. Third, there are issues that need to be addressed to avoid being obstructions to the IPEF negotiations and even implementation of IPEF provisions such as muddling talks related to other discussions with the United States (US), shifts the Philippines' focus away from traditional bilateral Free-Trade Agreements (FTAs). Here, data sharing challenges, and low levels of stakeholder awareness of the agreement are also discussed. Fourth, the paper proceeds to discuss how the IPEF may affect relations with Europe. To conclude, strategies to reap the benefits of the IPEF are presented.

List of Abbreviations

AEC	ASEAN Economic Community
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BPO	Business Process Outsourcing
CMTA	Customs Modernization and Tariff Act
DA	Department of Agriculture
DTI	Department of Trade and Industry
EMI	Eramen Minerals Inc.
EU	European Union
FTA	Free-Trade Agreement
GSP	Generalised System of Preferences
GSP+	Generalised Scheme of Preferences Plus
ICT	Information and Communications Technology
IPEF	Indo-Pacific Economic Framework for Prosperity
MSME	Micro, Small and Medium Enterprise
NEDA	National Economic Development Authority
NQI	National Quality Infrastructure
PCAF-CIT	Philippine Council for Agriculture and Fisheries Committee on International Trade
PDP	Philippine Development Plan
PH	Philippines
PH-EFTA	Philippines-European Free Trade Agreement
PH-EU FTA	Philippines-European Union Free Trade Agreement
PJEPA	Philippines-Japan Economic Partnership Agreement
PQF-NCC	Philippine Qualifications Framework–National Coordinating Council
RCEP	Regional Comprehensive Economic Partnership
STEM	Science, Technology, Engineering, and Mathematics
TC	Tariff Commission
US	United States
US-GSP	US Generalized System of Preference
USTDA	US Trade and Development Agency
USTR	United States Trade Representative
WTO	World Trade Organization

Launched in May 2022 involving 14 member partners – Australia, Brunei, Fiji, India, Indonesia, Japan, South Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, United States (US), and Vietnam – the Indo-Pacific Economic Framework for Prosperity (IPEF) is an agreement that endeavours to come up with an ‘economic arrangement designed to tackle 21st-century challenges’ by establishing ‘high-standard commitments’ around four main Pillars. These include trade (largely on the digital economy); supply chain resilience; clean energy, decarbonisation and infrastructure; and tax and anti-corruption.

The negotiations are conducted such that mutually beneficial outcomes, and a boost in trade and investment opportunities in the region are ensured.

At the Ministerial Meeting of the IPEF in September 2022, the ministers provided broad guidance on the negotiating objectives of partner countries in achieving an inclusive and high-standard economic regional framework. Due to the varied levels of development across partner countries, members have committed to ensuring mutually beneficial outcomes, and boosting trade and investment opportunities for peoples and markets within the region, and in particular, for the partner countries.

During the various negotiating rounds held so far, representatives from the US have met with Philippine officials on various occasions to discuss areas for cooperation and to reinforce the ties of the US with partners in the Indo-Pacific region. This includes the September 2022 meeting of the Philippine Secretary of Trade and Industry Alfredo Pascual with US Commerce Secretary Gina Raimondo, and the 17 and 18 April 2023 visit of the US Trade Representative Katherine Tai to the Philippines as part of the Biden Administration’s efforts to strengthen ties with key partners in the Indo-Pacific region.

The most recent development (27 May 2023) in the IPEF negotiations is the announcement by the 14 partners of the substantial conclusion of negotiations on the Supply Chains Agreement (Pillar II). The agreement fosters avenues for coordination among partner countries to identify potential supply chain challenges before they become widespread disruptions.¹ In addition, the Supply Chain Agreement includes forming an IPEF Supply Chain Council tasked to coordinate supply chain action plans designed to build resilience and competitiveness in critical sectors such as semiconductors and critical minerals; establishing an IPEF Supply Chain Crisis Response Network to share information and prepare crisis responses when one or more partners face acute supply chain crisis; and creating an IPEF Labour Rights Advisory Board to promote skills training and development in critical sectors while ensuring facility-specific allegations of labour rights inconsistencies are addressed.²

Other Pillars have also progressed in their negotiations. Negotiations on Trade (Pillar I) have achieved commitments to craft high-standard, inclusive, free, fair, and open trade commitments that build upon the rules-based multilateral trading system. The IPEF partners seek to develop new and creative approaches to trade and technology policies that advance a broad set of objectives. Recognising different levels of economic development and capacity constraints, the Trade Pillar partners have committed to consider flexibilities where appropriate, and to work with partners

1 “Substantial Conclusion of Negotiations on Landmark IPEF Supply Chain Agreement”, US Department of Commerce, 27 May 2023, <https://www.commerce.gov/news/press-releases/2023/05/substantial-conclusion-negotiations-landmark-ipef-supply-chain#:~:text=IPEF%20will%20help%20the%20United,market%20for%20American%2Dmade%20goods>

2 *Ibid.*

on providing technical assistance and capacity building. The press releases of various economies (Singapore and the US) have reported that substantial progress has also been made regarding the text on Technical Assistance and Economic Cooperation.³

Regarding Pillar III, the IPEF partners have put forward a variety of innovative ideas and approaches to accelerate their transition to a clean economy. Also, they are concurrently identifying and developing initiatives and proposals to advance cooperation in key areas that are critical to realising country-specific⁴ pathways towards net zero emission economies.

One specific pathway introduced by a group of interested IPEF partners is the regional hydrogen initiative to encourage widespread deployment of low-carbon and renewable hydrogen and its derivatives in the region.⁵ The IPEF partners are eager to work together, combining their knowledge from both the public and private sectors. This collaboration is anticipated to stimulate fresh investments, industrial development, and job prospects, which will subsequently drive innovation and productivity as they strive to achieve economies with net-zero emissions. Additional IPEF partners may choose to participate in the initiative when they are prepared to do so.

On Pillar IV, the IPEF partners have made good progress toward the development of the text of an agreement that will strengthen the implementation of effective anti-corruption and tax measures to boost commerce, trade, and investment among IPEF economies. The IPEF partners look forward to intensifying their efforts in the subsequent negotiating rounds to achieve a high-standard and mutually beneficial Fair Economy Agreement.⁶

Given the developments, this paper aims to contribute to the discussion through the identification of anticipated outputs of the IPEF; an assessment of the possible challenges to ratification and implementation of the IPEF; and prospects of the IPEF's engagement with Europe in the foreseeable future.

Philippines' Expectations

Based on the documents released by the US Department of Commerce, countries can expect a forward-looking agreement that addresses various aspects of regional integration and trade in goods and services (despite excluding market access provisions). Fuelled by this, the Philippines has actively participated in the negotiations.

According to the Undersecretary Ceferino S. Rodolfo of the Philippines' Department of Trade and Industry (DTI), the framework can be used to provide "incentives to our stakeholders, tied up with the reforms that we are already undertaking domestically, through having a mechanism to link the Trade Pillar with Pillars on supply chain resiliency and green energy transition. We also see this

3 "Minister Gan Kim Yong attends the Indo Pacific-Economic Framework For Prosperity (IPEF) Ministerial Meeting In Detroit, Michigan, 26 – 27 May 2023", Ministry of Trade and Industry Singapore, <https://www.mti.gov.sg/-/media/MTI/Newsroom/Press-Releases/2023/05/MTI-Press-Release-on-IPEF-Ministerial-Meeting.pdf>

4 The pathways recognise the unique national circumstances and development needs of each IPEF partner.

5 "Press Statement for the Trade Pillar, Clean Economy Pillar, and Fair Economy Pillar", Ministry of Economy, Trade and Industry, 27 May 2023, <https://www.meti.go.jp/press/2023/05/20230528001/20230528001-29.pdf>

6 "IPEF Joint Statement for the Trade Pillar, Clean Economy Pillar, and Fair Economy Pillar", Office of the United States Trade Representative, 27 May 2023, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2023/may/ipef-joint-statement-trade-pillar-clean-economy-pillar-and-fair-economy-pillar>

as a vehicle to spur investments from the private sector in these areas.”⁷ Additionally, the Trade Pillar may help address concerns on labour rights and ensuring human capital development. For instance, the Pillar is expected to include provisions that “identify and collaborate on emerging labo[u]r issues, including related to promoting labo[u]r rights of workers in the digital economy and inclusive and equitable workforce development”,⁸ which is particularly significant for the Philippines on account of a growing number of its workforce employed in Information and Communications Technology (ICT) and the digital economy.⁹ Separately, the new DTI Secretary Alfredo Pascual welcomed Secretary Raimondo’s IPEF Upskilling Initiative in which 14 of the largest US digital companies such as Apple, American Towers, and Amazon will provide digital skills training to seven million women and girls in less-developed IPEF member countries, including the Philippines.¹⁰

Based on the public summaries¹¹ of Pillar I, it is expected to effectively promote inclusive digital trade by guaranteeing the safety and fairness of the digital economy by addressing data protection, consumer protection, and artificial intelligence. Access to digital infrastructure, equipment and software will also be promoted to ensure that all citizens in partner countries can fully participate in and benefit from the digital economy. The proposed text includes provisions that promote access to the Internet and online services and information, and addresses the challenges of closing the digital divide by promoting digital equity and inclusion and investing in education and training. This is in line with the Philippines’ goal of promoting the growth of the digital economy and enhancing opportunities for digital trade.¹²

Regarding the pillar on supply chains, DTI Secretary Pascual believes¹³ that the grants that the Philippines has received [for example, the US Trade and Development Agency (USTDA) grants¹⁴]

7 Kris Crismundo, “Pillars of US-led economic framework aligned with PH policies”, *Philippine News Agency*, 14 June 2022, <https://www.pna.gov.ph/articles/1176672>

8 “IPEF Pillar 1 text summaries USTR April 2023”, Office of the United States Trade Representative, April 2023, <https://ustr.gov/sites/default/files/2023-04/IPEF%20Pillar%201%20text%20summaries%20USTR%20April%202023.pdf>

9 The number of employed persons in the Philippine digital economy has grown by 8 percent from 5.59 million in 2021 to 6.02 in 2022.

See “Philippine Statistics Authority”, Republic of the Philippines, <https://psa.gov.ph/digital-economy>

10 “The Asia Foundation Partners with U.S. Commerce Department to Launch Indo-Pacific Economic Framework for Prosperity Upskilling Initiative”, The Asia Foundation, 9 September 2022, <https://asiafoundation.org/2022/09/09/the-asia-foundation-partners-with-u-s-commerce-department-to-launch-indo-pacific-economic-framework-for-prosperity-upskilling-initiative/>

11 op. cit.

12 “Philippine Development Plan 2023-2028”, National Economic Development Authority (NEDA), <https://pdp.neda.gov.ph/wp-content/uploads/2023/01/PDP-2023-2028.pdf>

13 Catherine Talavera, “Pascual highlights Philippines role in supply chain resilience”, *The Philippine Star*, 15 January 2023, <https://www.philstar.com/business/2023/01/15/2237625/pascual-highlights-philippines-role-supply-chain-resilience>

14 To advance the clean energy transition by producing critical minerals that are key elements in the supply chain for batteries and energy storage systems, US Vice President Kamala Harris launched a USTDA grant to Eramen Minerals, Inc. (EMI), a Filipino mining company, for a feasibility study to develop of an environmentally sustainable nickel processing facility in the Philippines. This project advances the goals of the Biden-Harris Administration’s Partnership for Global Infrastructure and Investment and the Indo-Pacific Economic Framework, through the development of clean energy supply chains including the responsible mining of metals and critical minerals.

See “Vice President Harris Launches USTDA Critical Minerals Processing Project in the Philippines”, *US Trade and Development Agency*, 22 November 2022, <https://ustda.gov/vice-president-harris-launches-ustda-critical-minerals-processing-project-in-the-philippines-2/>

can be expanded under the IPEF to support additional investments that would increase the country's participation in value chains of high-value critical products such as electronics, cathodes, refined copper and chemicals. The Philippines can expect new economic opportunities through greater collaboration on logistics and connectivity,¹⁵ emergency preparedness and coordinated responses to mitigate supply chain disruptions. By improving the security and resilience of local and regional supply chains, businesses will be more confident in investing in the country and engaging in cross-border trade.

The Supply Chain Agreement can also stimulate innovation in the region. By promoting collaboration among partner governments with technical and financial assistance, the agreement can help foster innovative solutions to supply chain challenges, further driving economic growth and competitiveness. Another economic impact is the potential for increased efficiency and cost savings by allowing businesses to better manage supply chain risks and reduce costs associated with disruptions and delays.¹⁶

The US has already identified several activities in support of the goals of the Agreement. These would include:

1. Holding a series of trainings and symposiums on issues related to supply chain monitoring and operations which would involve discussions by IPEF partner experts on cargo risk assessment practices, best practices in incident response planning, and identifying import dependencies and other potential supply chain bottlenecks.
2. Launching an IPEF STEM Exchange Program which would match early- and mid-career professionals from IPEF countries with professional development opportunities related to supply chain operations.
3. Linking American exporters to opportunities in sectors that IPEF Partners are seeking increased diversification and resilience.
4. Supporting cooperation on digital shipping including pilot projects with IPEF Partners starting with the Port of Singapore.
5. Conducting reverse trade missions which brings experts from IPEF markets to the United States to meet with leading US exporters to support supply chain modernisation in IPEF markets.¹⁷

While the Philippines should expect to participate in these activities and strategies, it is more important that the country maximises its participation by identifying the internal goals that it wants to achieve as it participates in these activities.

Related to the third Pillar, the Philippines looks at the IPEF and the US grants as a means of expanding investments in green and renewable energy. One such grant involves the processing of nickel ore through a partnership with an American company that owns patents in the manufacture

15 Logistics has often been cited as a main bottleneck in Philippine industry development. While the Philippines' Logistics Performance Index is at 3.2, besting Indonesia, it is still below Malaysia (3.6), Thailand (3.7), China (4), Japan (4.2) and Singapore (4.6). Vietnam is tied with the Philippines at 3.2.

16 Cyn-young Park, "Global Supply Chains Need Fixing: Help Is on The Way", *Asian Development Blog*, 2023, <https://blogs.adb.org/blog/global-supply-chains-need-fixing-help-way>

17 *op. cit.*

of batteries.¹⁸ The US firm supplies US military and critical industries including hyperscale data centres, renewable energy projects, and long-haul trucking companies. Another is the grant for a feasibility study on the Philippines' first offshore wind farm and cited this as indicative of the US' vision for the IPEF.¹⁹

It is expected that the framework will eventually be beneficial in lowering energy costs by tapping into renewable energy sources. In November 2022, US Vice President Kamala Harris launched the USTDA grant to Eramen Minerals Inc. (EMI), a Filipino-based mining company, to assess the viability of developing an ore-to-battery grade nickel sulphate/hydroxide and cobalt sulphate processing facility to produce battery grade precursor materials.²⁰

The IPEF is also expected to leverage Philippine strengths in electronics manufacturing and further expand the industry's capabilities. "It's also proximate and reachable that [we will] be able to create wafer fabrication in the Philippines. [We have] already proven the capabilities of Filipino engineers through internal circuit design. There is an American company operating with one thousand IC [Integrated Circuit] design engineers here," Pascual said in a forum.²¹

The Philippines can also expect to lessen information asymmetries through mechanisms that promote commercially oriented knowledge-sharing platforms aimed at developing Micro, Small and Medium Enterprise (MSME)-inclined ecosystems through the utilisation of carbon credit markets and green financing instruments. The country, likewise, supports 'green lanes' and other investment facilitation vehicles for existing and future grants dedicated to establishing cross-border private joint venture partnerships in the region.

Broadly, the Philippines looks forward to the US sharing its expertise with the IPEF Partners on areas such as laws, regulations, and policies that would help economies advance low- and zero-greenhouse gas emissions solutions, and promote energy transition.²²

The IPEF as an Opportunity

The Philippines, in general, perceives the IPEF as an opportunity to increase economic cooperation and integration with the countries in the region, promote trade and investment, and support infrastructure development and growth. This is manifested in the speech delivered by the then Secretary of Trade and Industry, Ramon Lopez, in the virtual launch of the IPEF in May 2022 where he highlighted that the broad themes of the IPEF and the Philippines' economic and development priorities are generally aligned. The IPEF's focus on advancing resilience, sustainability, inclusiveness, and competitiveness are consistent with the Philippines' interests and development objectives. In addition, the Secretary of Trade and Industry Alfredo Pascual expressed the need to promote emerging areas in trade, technology, and the digital economy.²³

18 "PH pushes for green metal processes, renewable energy investments in IPEF Ministerial Meeting", *BusinessChannel.ph*, 16 September 2022, <https://businesschannel.ph/2022/09/16/ph-pushes-for-green-metal-processes-renewable-energy-investments-in-ipef-ministerial-meeting/>

19 *Ibid.*

20 "Trade Chief Highlights PH's Role in Attaining Resilient Supply Chains", *Mindanao Daily News Network*, 16 January 2023, <https://mindanaodailynews.com/trade-chief-highlights-phs-role-in-attaining-resilient-supply-chains/>

21 *Ibid.*

22 "IPEF Public Summary: Pillar III (Clean Economy)", US Department of Commerce, 2023, <https://www.commerce.gov/sites/default/files/2023-03/IPEF-Pillar-III-Clean-Economy-Public-Summary.pdf>

23 Bernie Cahiles-Magkilat, "Pascual to focus on innovation, digitalization," *Manila Bulletin*, 31 May 2022, <https://mb.com.ph/2022/05/30/pascual-to-focus-on-innovation-digitalization/>

The administration of President Marcos, Jr., which came to power in May 2022, continues this positive view of the agreement as it is aligned with key strategies identified in the Philippine Development Plan (PDP) 2023 – 28, which work towards the achievement of the Philippine long-term vision of a *Matatag* (strongly rooted), *Maginhawa* (comfortable) *at Panatag na buhay* (secure life).²⁴ These strategies include revitalising industry by linking industrial policy with trade and investment policy, and promoting trade and investments by advancing purposive, assertive, and forward-looking Free Trade Agreement (FTA) strategies.

Trade strategies that support industrial development include pursuing FTAs and arrangements to create an enabling environment for facilitating investments from target-source countries, like the US and South Korea, in terms of capital and technology. By actively participating in negotiations with the innovation- and technology-rich countries, the Philippines aims to support key industrial clusters, particularly those related to transport manufacturing, ICT, creative industries, and health sciences. Strengthening the supply chains of these sectors is a particular strategy that is strongly associated with the IPEF. Apart from this, participating in the discussions and crafting disciplines on digital economy, e-commerce and other related issues is closely related to the Philippines' strategy of positioning itself as a hub for knowledge and technology-intensive export industries.

Although not necessarily a trade agreement, IPEF negotiations are aligned with the Philippine strategy of advancing purposive, assertive, and forward-looking FTAs. For the Philippines, trade negotiations in the IPEF would help the country strengthen its National Quality Infrastructure (NQI) to the benefit of local producers, enhancing in turn their capability to conform to technical regulations, and sanitary and phytosanitary standards. The government sees the IPEF as an avenue to negotiate the sharing of knowledge, technology, and best practices to comply with standards in foreign markets and maximise the market access offered through FTAs.

Furthermore, the Philippines, as a member of the Association of Southeast Asian Nations (ASEAN), is pleased that the vision of the IPEF is in line with the 2020 ASEAN Comprehensive Recovery Framework,²⁵ the ASEAN Outlook for the Indo-Pacific²⁶ and the ASEAN Economic Community (AEC) Blueprint 2025²⁷ as the Agreement would provide avenues for the achievement of these goals.

Negotiation and Implementation Challenges

The IPEF muddles the talks related to other discussions with the US

The Philippines is facing a delay²⁸ in the renewal of the US Generalized System of Preference (US-GSP) program due to issues in the US Congress and the focus on the IPEF. The US-GSP is crucial for the Philippines as it offers zero duties on 3,500 tariff lines,²⁹ and the country is among the top

24 "Ambisyon Natin 2040 A long-term vision for the Philippines", (Manila: NEDA), National Economic Development Authority, <https://2040.neda.gov.ph/wp-content/uploads/2016/04/A-Long-Term-Vision-for-the-Philippines.pdf>

25 "ASEAN Comprehensive Recovery Framework", Association of Southeast Asian Nations, 2020, <https://asean.org/book/asean-comprehensive-recovery-framework/>

26 "ASEAN Outlook on the Indo-Pacific", Association of Southeast Asian Nations, 22 June 2019, https://asean.org/asean2020/wp-content/uploads/2021/01/ASEAN-Outlook-on-the-Indo-Pacific_FINAL_22062019.pdf

27 ASEAN Secretariat, "ASEAN Economic Community Blueprint 2025", *Association of Southeast Asian Nations*, 2021, <https://asean.org/book/asean-economic-community-blueprint-2025/>

28 Catherine Talavera, "Philippines sees delay in renewal of US GSP", *The Philippine Star*, 1 February 2023, <https://www.philstar.com/business/2023/02/01/2241591/philippines-sees-delay-renewal-us-gsp>

29 "Generalized system of preferences", Department of Trade and Industry, <https://www.dti.gov.ph/generalized-system-of-preferences/>

five beneficiaries of this programme. The Philippines is collaborating with fellow ASEAN members like Thailand and Vietnam³⁰ to advocate for the renewal of their respective GSPs. However, progress has been slowed down by the IPEF's trade-related developments. The hope remains for reauthorisation of the US-GSP as it has consistently benefited the Philippines by serving as a major supplier of affordable imports for American manufacturers and consumers, as noted by Trade Secretary Pascual in November 2022.³¹

This delay, however, may be viewed as an opportunity for the Philippines. According to Leonardo A. Lazona, an economist from the Ateneo de Manila University, the Philippines' potential readmission into the US preferential trading scheme could interfere with efforts to diversify its export base as the US-GSP program "creates a dependency on the US markets, making [the country] more vulnerable to changes and uncertainties of the US economy".³² Lazona suggests that the country focus its efforts on making its existing trade agreements work for the country.

The discussions on the IPEF shifts the Philippines' focus away from traditional bilateral FTAs

USTR Ambassador Tai has stated that a bilateral FTA between the Philippines and the US government was not on the negotiating table as the Biden Administration was more focused on its IPEF initiative.³³ "In terms of a more 'traditional' FTA, we're not currently negotiating any such agreements with trading partners in particular because we do not see that traditional [FTA] being appropriate for the types of challenges and opportunities that we're facing right now," Tai told members of the Philippine media in a briefing in Makati City on 18 April 2023.

Establishing the IPEF Supply Chain Crisis Response Network would have data sharing challenges

Challenges to the implementation of the agreements in the Supply Chain Pillar would be related to the information requirements necessary to set up the crisis response network. Yeo and Cutler alluded to this challenge when they deduced that "countries may need domestic legislation or regulations to deal with information sharing of the private sector".³⁴ The Philippines' Data Privacy Act³⁵ provides protection to the businesses and private companies but the stringent application of the provisions of the law may prevent the effective implementation of the crisis response sharing because of limited data sharing.

30 *op. cit.*

31 *Ibid.*

32 Kyle Aristophere T. Atienza, "US GSP could disrupt PHL export diversification", *Business World*, 7 May 2023, <https://www.bworldonline.com/economy/2023/05/07/521330/us-gsp-could-disrupt-phil-export-diversification/>

33 Revin Mikhael D. Ochave, "US not keen on PHL free trade deal", *Business World*, 19 April 2023, <https://www.bworldonline.com/top-stories/2023/04/19/517678/us-not-keen-on-phil-free-trade-deal/>

34 Han-Koo Yeo and Wendy Cutler, "Strengthening Regional Supply Chain Resiliency Through the Indo-Pacific Economic Framework (IPEF)", *Asia Policy Society Institute*, May 2023, <https://asiasociety.org/policy-institute/strengthening-regional-supply-chain-resiliency-through-indo-pacific-economic-framework-ipef>

35 Republic Act 10173 Data Privacy Act of 2012, National Privacy Commission, <https://privacy.gov.ph/data-privacy-act/>

Low levels of awareness of the agreement would slowdown implementation

One of the observations during negotiations for the various trade agreements of the Philippines is the low levels of awareness of Filipinos (across all sectors) of the Philippine's participation in the trade agreements. One of the major criticisms hurled at the DTI during the discussions for Senate concurrence to the ratification of the Regional Comprehensive Economic Partnership (RCEP) was that "very little information on the contents of the agreement [were] made available to the public".³⁶ A related issue raised by critics of the RCEP is the alleged lack of consultations with agricultural stakeholders. Consultations, after all, are of prime importance in any trade negotiation since they guide the development of the country's negotiating position. In contrast, the Department of Agriculture (DA) reported that consultations with agricultural stakeholders have been undertaken³⁷ through the Philippine Council for Agriculture and Fisheries Committee on International Trade (PCAF-CIT) since the launch of RCEP negotiations in November 2012. These consultations were reportedly attended by different agricultural sector groups. Also, the Tariff Commission (TC) conducted a public consultation³⁸ in May 2015 as well which was in accordance with Section 1609 of the Customs Modernization and Tariff Act (CMTA) to allow stakeholders to express their concerns and to submit position papers which were considered in the Commission's report on its findings and recommendations about the agreement.

While the level of awareness has been improving over time and the discussions conducted during the deliberations for Senate concurrence of RCEP seem to reflect improvements in Filipinos' awareness of international agreements, it is noteworthy that Filipinos tend to become aware of and interested in the participation of the government towards the completion of negotiation processes. Around this stage of discussions, however, critics of the agreement³⁹ perceive that little can be done anymore to address their issues in the text so they would push for the non-concurrence or non-ratification of the agreement. This can all be avoided if there is a consultative process undertaken at every step of the negotiation process to ensure that all concerns are addressed while the negotiations are taking pace.

How the IPEF Will Affect Engagement with Europe?

While not necessarily an FTA, the formation of the IPEF creates frictions between IPEF partners and non-IPEF partners. IPEF negotiations are then influenced by broader diplomatic considerations. A closer relationship with the US and other Asia-Pacific Economic Cooperation (APEC) partner countries could have implications for the Philippines' relations with other countries in Europe. It is therefore important that as the Philippines pursues stronger ties with IPEF partners, it also explores ways to further strengthen its relationship with the European Union (EU).

One such way is by pursuing the resumption of the Philippines-European Union (PH-EU) FTA negotiations.⁴⁰ DTI Secretary Pascual calls the FTA an essential mechanism in the Philippines'

36 Joseph Puruganan, "[ANALYSIS] Debunking government claims on RCEP", *Rappler*, 3 November 2021, <https://www.rappler.com/voices/thought-leaders/analysis-debunking-government-claims-on-rcep/>

37 "The Regional Comprehensive Economic Partnership", Senate Economic Planning Office, November 2022, https://legacy.senate.gov.ph/publications/SEPO/Policy%20Brief%20on%20RCEP_Final.pdf

38 *Ibid.*

39 Catherine Talavera, "Farmers seek consultations before RCEP ratification", *The Philippine Star*, 4 November 2021. <https://www.philstar.com/business/2021/11/04/2138737/farmers-seek-consultations-rcep-ratification>

40 The Philippines and the EU also launched exploratory talks on bilateral FTA in 2013. While there have been two negotiations conducted (Brussels in 2016 and Cebu in 2017), talks have been on hiatus since 2017.

engagement with the EU.⁴¹ With the US putting a halt to the PH-US FTA discussions, it may do well for the Philippines to focus its energies on the pursuit of other FTA agreements such as the PH-EU FTA. The pursuit of the PH-EU FTA resumption of negotiations comes at an opportune time as well. The administration of President Marcos, Jr. appears to have better relations with the EU compared to the previous administration. This is evidenced by the President having already visited Brussels early in his term.⁴²

In addition, since the IPEF muddles the discussion on the US GSP, the pursuit for the continuation of the Generalised Scheme of Preferences Plus (GSP+) afforded by the EU becomes more critical. As one of its strategies is to encourage the import of goods from developing countries, the EU implemented the GSP+, which went into force in 2014. Eight countries benefit from the scheme, which is branded as a “special incentive arrangement for sustainable development and good governance.”⁴³ The EU GSP+ is a special incentive arrangement for sustainable development and good governance in the form of zero duties. It is a unilateral trade arrangement, which offers zero tariffs on 6,274 products or 66 per cent of all EU tariff lines. It is a part of the broader Generalised System of Preferences (GSP) of the EU and, as a developmental tool, it seeks to encourage export diversification in developing countries, including Armenia, Bolivia, Cape Verde, Kyrgyzstan, Mongolia, Pakistan, the Philippines, and Sri Lanka. The Philippines reports several communities benefiting from the GSP+ such as the areas with economic zones (that is, Laguna, Rosario Cavite and Batangas). Foreign companies have also established operations in the Philippines in order to maximise the opportunities of the GSP+.⁴⁴

Thus, given the significance of the GSP+ and the absence of the US GSP to the Philippine arsenal for exporters, it would do well for the Philippines to exert efforts in ensuring that the GSP+ is renewed.

Reaping the Benefits of the IPEF

To conclude, this paper provides some recommendations that may help maximise the benefits from future negotiations and are based on lessons from previous negotiations conducted by the Philippines. The Philippines has had a history of participating in international trade agreements both bilateral (Philippines – Japan Economic Partnership Agreement [PJ EPA], Philippines-European Free Trade Agreement [PH-EFTA], Philippine-Korea FTA [PH-Korea] [forthcoming]) and multilateral (World Trade Organization [WTO], ASEAN+1, RCEP). To achieve more fruitful negotiations with the IPEF partners, the Philippines can draw upon several lessons from previous negotiations. These would include the following:

41 Revin Mikhael D. Ochoa, “DTI’s Pascual calls free trade agreement ‘essential’ to European Union relationship”, *Business World*, 16 February 2023, <https://www.bworldonline.com/economy/2023/02/16/505381/dtis-pascual-calls-free-trade-agreement-essential-to-european-union-relationship/>

42 Zacarian Sarao, “Marcos to push for PH priorities at ASEAN-EU Summit in Brussels”, *Inquirer.net*, 11 December 2022. <https://globalnation.inquirer.net/209034/bongbong-marcos-to-push-for-ph-priorities-at-asean-eu-summit-in-brussels>

43 “Generalized system of preferences”, Department of Trade and Industry, <https://www.dti.gov.ph/generalized-system-of-preferences/>

44 *Ibid.*

Balancing national interest with regional goals

Trade negotiations require careful consideration of the balance between national interests and regional goals. In the past FTA negotiations, the Philippines has had to consider how to maintain its national interests while contributing to the broader objective of regional economic integration. By utilising the Agreements' provisions to Philippines' domestic goals, the country can work towards achieving national interest along with regional goals. The country can further align strategies identified in the Philippine Development Plan to the agreements and principles outlined in the IPEF.

Consider the various interests of various stakeholders

Trade negotiations impact various stakeholders, including different industries, workers and consumers. It is crucial to ensure that the interests of these groups are taken into account in the negotiation process. This could involve engaging in consultations with industry groups, labour unions and other stakeholders to understand their concerns and priorities.

Addressing sensitive industries

Some sectors of the economy may be more sensitive to changes in policy or international shocks than others. In the IPEF, the environment and mining sector may be considered sensitive areas in negotiations as it can be vulnerable to shifts in policy in other countries. The Philippines should have a strategy for dealing with these sensitive industries. Relatedly, trade agreements can lead to job displacement in certain sectors due to increased competition. However, they can also create job opportunities in other sectors. The government should have plans in place to help workers transition to new jobs, if necessary. This could involve measures like retraining programmes and social safety nets. An example would be the Lifelong Learning Development Bill which aims to develop a Lifelong Learning Framework through the Philippine Qualifications Framework–National Coordinating Council (PQF–NCC). The PQF–NCC shall determine and set standards for developing action components and desirable success measures for promoting lifelong learning in cities, municipalities, and educational institutions.⁴⁵

Leveraging competitive advantage

The Philippines, like all countries, has industries where it has a comparative advantage. These industries, which might include areas like Business Process Outsourcing (BPO), electronics and certain green metals sectors, should be leveraged in the negotiation process. The Philippines should also negotiate disciplines that would maintain its strength in the digital services trade.⁴⁶

Investing in capacity building

To maximise the benefits from trade agreements, it is important to invest in capacity building for both the public and private sector. Summary of the IPEF texts have all mentioned the presence of technical assistance and economic cooperation. It would do well for the Philippines to utilise these opportunities to enhance the skills of workers, improving infrastructure, and promoting innovation in industries.

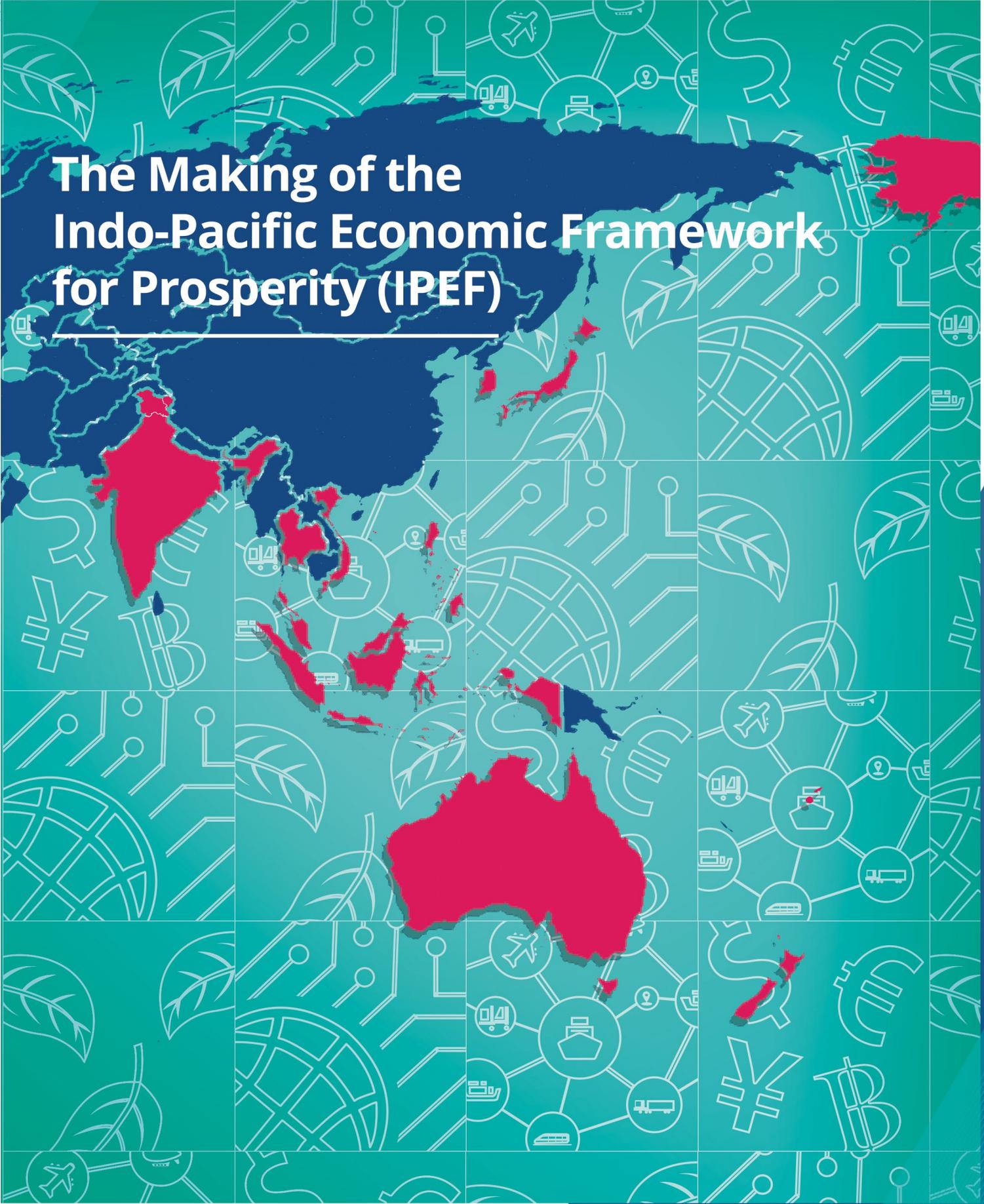
45 *op. cit.*

46 Francis Mark A. Quimba, Sylwyn C. Calizo Jr, Jean Clarisse T. Carlos and Jose Ramon G. Albert, "How Ready Are We? Measuring the Philippines' Readiness for Digital Trade Integration with the Asia-Pacific", *Philippine Institute for Development Studies*, June 2021, <https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidsdps2117.pdf>

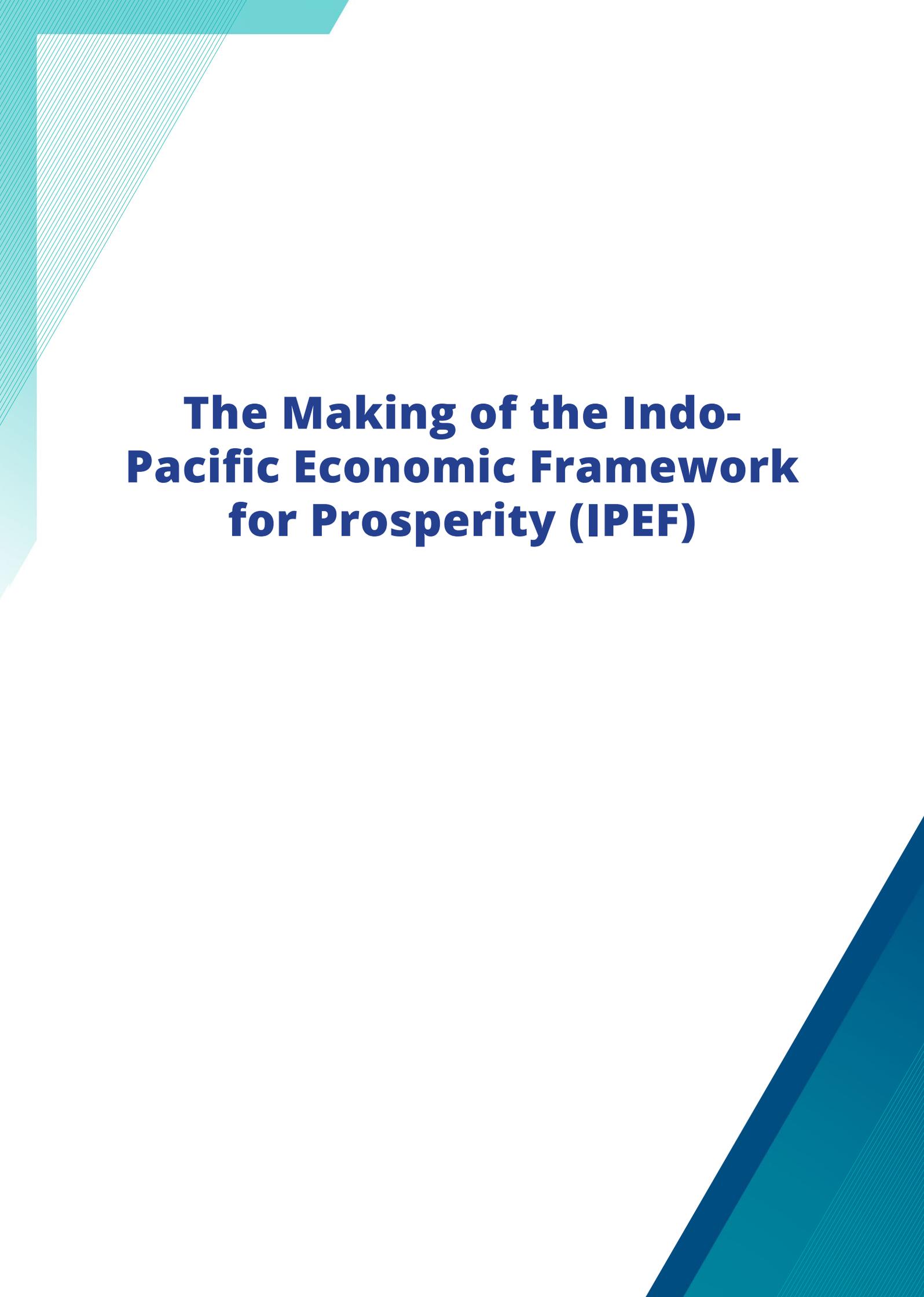
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**The Making of the
Indo-Pacific Economic Framework
for Prosperity (IPEF)**



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



14

Vietnam and the IPEF: Negotiating Prospects, Opportunities and Challenges

Linh H. DANG and Linh T. T. TRAN

Vietnam and the IPEF: Negotiating Prospects, Opportunities and Challenges

Linh H. DANG and Linh T. T. TRAN

This paper provides an in-depth analysis of Vietnam's economic development and its potential participation in the Indo-Pacific Economic Framework for Prosperity (IPEF). Vietnam is an emerging economy in the Indo-Pacific, actively engaged in trade agreements and regional economic integration. Led by the United States (US), the IPEF aims to foster a connected, clean, fair, and resilient economy in the region, aligning with Vietnam's long-term economic policies. Participation in the IPEF offers promising prospects for addressing critical issues like supply chain diversification, technology innovation, climate change mitigation, and green development. Vietnam's active role in the Association of Southeast Asian Nations (ASEAN) enhances its leadership and influence in the region. The paper highlights potential benefits for Vietnam's resilient and clean economy, but challenges like low localisation rates and resource limitations need attention. Vietnam's participation in the IPEF can offer support for improving competitiveness and achieving sustainability goals. Overall, the paper provides insights into Vietnam's economic strengths, challenges, and the potential benefits of joining the IPEF for sustainable and inclusive economic growth.

List of Abbreviations

ACFTA	ASEAN-China Free Trade Agreement
ASEAN	Association of Southeast Asian Nations
BRI	Belt and Road Initiative
BTA	Bilateral Trade Agreement
CHIPS	Creating helpful incentives to produce semiconductors
CIT	Corporate Income Tax
COP	Conference of the Parties
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
DAV	Diplomatic Academy of Vietnam
EVFTA	European Union-Vietnam FTA
FDI	Foreign Direct Investment
FTAs	Free-Trade Agreements
G7	Group of Seven
GDI	Global Development Initiative
GDP	Gross Domestic Product
GSI	Global Security Initiative
IEA	International Energy Agency
IPEF	Indo-Pacific Economic Framework
IPS	Indo-Pacific Strategy
PGII	Partnership for Global Infrastructure and Investment
QUAD	Quadrilateral Security Dialogue
RCEP	Regional Comprehensive Economic Partnership
TPP	Trans-Pacific Partnership
UKVFTA	Vietnam – UK FTA
UNFCC	United Nations Framework Convention on Climate Change
UNGA	United Nations General Assembly
US	United States
VND	Vietnamese Dong

Introduction

Vietnam has made substantial strides in economic development, establishing itself as one of the key emerging economies in the Indo-Pacific region. Its unwavering commitment to multilateralism has been demonstrated through active participation in various trade agreements, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP).¹ These agreements signify Vietnam's dedication to regional economic integration, facilitating market access expansion, increased trade opportunities, and potential economic growth.

Vietnam's economic development perspective, as outlined in its 13th Party Congress, prioritises building a self-reliant economy by renewing the growth model and restructuring the economy; promoting qualified human resources; supporting agricultural enterprises; promoting research, technology transfer, fostering the digital economy and proactive international integration.² As President Nguyen Xuan Phuc said at the United Nations General Assembly (UNGA), Vietnam values multilateralism, international solidarity, and upholds principles of 'Partnership for sustainable peace', based on the UN Charter and international laws on the global stage.³

Aligning with the Indo-Pacific Economic Framework for Prosperity (IPEF) can be an opportunity for Vietnam to restructure, upgrade its economy, and address critical regional and global issues such as supply chain diversification, technology innovation, climate change mitigation, green development, tax matters and corruption. In May 2022, during the announcement ceremony to kick off the discussion on the IPEF, Prime Minister Pham Minh Chinh emphasised the urgent need to adjust Vietnam's growth model and economic linkage to create a more sustainable and self-reliant economy that maximises internal resources while optimising external forces.⁴ The IPEF, led by the United States (US), can help in moulding a mechanism with regional and global influence. Any participating member can benefit from a common high-standard environment. In September 2022, Minister of Industry and Trade Nguyen Hong Dien confirmed at the Ministerial Meeting for IPEF members that Vietnam's participation in the IPEF is entirely possible, depending on further discussions to clarify the Initiative's role and alignment with Vietnam's multilateral economic foreign policies.⁵ At the Ministerial Meeting for IPEF partners in May 2023, he also highly appreciated the US' reception of opinions from member countries and stated that Vietnam will continue to work closely with the other IPEF countries, including those from the Association of Southeast Asian Nations (ASEAN) to complete basic negotiations of the Initiative this year.⁶

1 "Vietnam's FTAs as of May 2023", Center for WTO and International Trade, Vietnam Chamber of Commerce and Industry, 10 May 2023, <https://wtocenter.vn/thong-ke/13814-vietnams-ftas-summary-as-of-april-2019>

2 'The 13th National Congress Resolution', *Communist Review*, No.959, https://www.tapchiconsan.org.vn/web/english/focus/detail/-/asset_publisher/FMhwM2oQCZEZ/content/the-13th-national-party-congress-resolutionp

3 "Speech of President Nguyen Xuan Phuc at the UN General Assembly", ASEAN Vietnam Portal, 23 September 2021, <https://aseanvietnam.vn/en/post/speech-of-president-nguyen-xuan-phuc-at-the-un-general-assembly>

4 "Vietnam premier attends launching ceremony of Indo-Pacific Economic Framework for Prosperity", *Tuoi Tre News*, 24 May 2022, <https://tuoitrenews.vn/news/politics/20220524/vietnam-premier-attends-launching-ceremony-of-indopacific-economic-framework-for-prosperity/67282.html>

5 "Vietnam willing to join efforts for CPTPP elevation, IPEF negotiations", *Vietnamplus*, May 29 2023, <https://en.vietnamplus.vn/vietnam-willing-to-join-efforts-for-cptpp-elevation-ipef-negotiations/253797.vnp>

6 *op. cit.*

Vietnam's prospects to participate in all four Pillars are promising, but they come with their respective challenges. Under the Supply Chains Pillar, despite Vietnam attracting significant Foreign Direct Investment (FDI) in recent years⁷ and demonstrating a strong export performance⁸, low localisation rates⁹ and a low-skill workforce¹⁰ remain crucial challenges. These issues need to be addressed through collaboration in the IPEF. In the Clean Economy Pillar, Vietnam has shown a strong commitment to reducing emissions, as reiterated in the Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) (COP27).¹¹ But it faces capacity and resource challenges. Collaboration in the Clean Economy Pillar can help facilitate Vietnam's transformation and provide the necessary assistance. While progress has been made in fighting corruption, reforming the tax system, and improving institutional mechanisms,¹² there is still a long way to go for Vietnam. Among all Pillars, the one on Fair Economy may have the least potential for Vietnam to catch up with. Vietnam's active participation in Free Trade Agreements (FTAs) and the need to upgrade the Bilateral Trade Agreement (BTA), which went into effect in 2001,¹³ contribute to its prospects in the Trade Pillar.

As an active ASEAN member, Vietnam plays a crucial role in IPEF negotiations. Both US-led and China-led economic initiatives cannot exist as a whole without the support of ASEAN. Together with the other ASEAN members, Vietnam is upgrading the ASEAN-China Free Trade Agreement (ACFTA)¹⁴ and negotiating the Global Development Initiative (GDI)¹⁵ while maintaining a neutral stance and considering national interests.¹⁶ In this regard, at a high-level forum with US President Joe Biden in March 2023, General Secretary Nguyen Phu Trong emphasised Vietnam's welcome for the US support to ASEAN' centrality. Together with the US and the other ASEAN countries, the country aims to promote the ASEAN Vision for the Indo-Pacific.¹⁷

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- 7 "Vietnam's foreign direct investment powers economy into the future", TTWTO VCCI, 13 February 2023, <https://wtocenter.vn/chuyen-de/21346-vietnams-foreign-direct-investment-powers-economy-into-the-future#:~:text=In%202020%2C%20Vietnam%20was%20among,27.72%20billion%20USD%20in%202022>
 - 8 "Strong 2022 export results set to continue on front foot", *Vietnam Investment Review*, 15 February 2023, <https://vir.com.vn/strong-2022-export-results-set-to-continue-on-front-foot-99764.html>
 - 9 "Low localisation rate hindering progress", *VietNamNet News*, 17 March 2023, <https://vietnamnet.vn/en/low-localisation-rate-hindering-progress-2121255.html>
 - 10 "Vietnam ranks low in total workforce index ranking in 2022", *VietNamNet News*, 22 December 2022, <https://vietnamnet.vn/en/vietnam-ranks-low-in-total-workforce-index-ranking-in-2022-2093317.html>
 - 11 COP27: Viet Nam reiterates strong commitments to climate change, *en.baochinhphu.vn*, 9 November 2022 <https://en.baochinhphu.vn/cop27-viet-nam-reiterates-strong-commitments-to-climate-change-111221109161831911.htm>
 - 12 Nguyen Khac Giang, "Vietnam's Anti-corruption Campaign: Economic and Political Impacts", ISEAS-Yusof Ishak Institute, 18 May 2023, <https://www.iseas.edu.sg/articles-commentaries/iseas-perspective/2023-41-vietnams-anti-corruption-campaign-economic-and-political-impacts-by-nguyen-khac-giang/>
 - 13 "Vietnam - Country Commercial Guide", International Trade Administration, 15 December 2022, <https://www.trade.gov/country-commercial-guides/vietnam-trade-agreements>
 - 14 "ASEAN and China meet to upgrade ASEAN-China Free Trade Area", The ASEAN Secretariat, 12 April 2023, <https://asean.org/asean-and-china-meet-to-upgrade-asean-china-free-trade-area/>
 - 15 "China and ASEAN join hands to bring the 'Asian moment' in global governance", Mission of the People's Republic of China to ASEAN, 23 November 2022, http://asean.china-mission.gov.cn/eng/stxw/202211/t20221123_10979831.htm
 - 16 Kasit Piromya, "Neutrality and Non-alignment Are the Way Forward For ASEAN", *The Diplomat*, 9 February 2023, <https://thediplomat.com/2023/02/neutrality-and-non-alignment-are-the-way-forward-for-asean/>
 - 17 "Readout of President Joe Biden's call with General Secretary Trong of Vietnam", The White House, 29 March 2023, <https://www.whitehouse.gov/briefing-room/statements-releases/2023/03/29/readout-of-president-joe-bidens-call-with-general-secretary-trong-of-vietnam/>

The geopolitical and regional context

Currently, the world economy is at a significant turning point into a new era. This process is being driven by many trends including international realignment, energy transition to renewables and global supply chain restructuring.

Global competition among major countries has intensified, especially in safeguarding supply chains. After the US pledged US\$52 billion for the domestic semiconductor industry in August 2022 through its Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act, in April 2023, the European Parliament passed the CHIPS Act for reducing dependencies on foreign suppliers.¹⁸ The trend of shifting from traditional energy to renewable energy for reducing climate change effects is becoming more and more obvious. The COVID-19 pandemic has caused a severe breakdown in global supply chains, causing production to stagnate and a host of companies to become non-functional and go bankrupt. Hence, the world has been taking 'resilience' as a major imperative for supply chains. Regardless of the causes, whether pandemic, natural disaster, or conflict, in an unstable world like today, the risk of supply chain disruption is significant. This has given rise to new trends including reshoring, nearshoring, and *friend-shoring*, for protecting supply chains.

Amid current trends, the Indo-Pacific region is a key area where major powers are implementing strategies to increase political and economic influences. The most notable strategic competition is between the US and China. While China's foreign policy is following the roadmap that progresses from economy to security, the US is deploying a roadmap to compete for influence with China, but in the opposite direction, shifting from defence and security to economics. China has reaped some success with the Belt and Road Initiative (BRI), which promotes the signing and implementation of the RCEP. It has also applied for accession to the CPTPP. In September 2021, President Xi Jinping announced the Global Development Initiative (GDI) at the UNGA, and the Global Security Initiative (GSI) a few months later, which aims to build a security architecture fostering balance, stability, and sustainability. According to the Ministry of Foreign Affairs of the People's Republic of China, more than 80 countries and international organisations have expressed their appreciation and support for the GSI.¹⁹ This shows that China's foreign policy orientation, from economy to security, is posing challenges to the US in its strategy of competing for influence in the region in the near future.

In contrast, on 11 February 2022, in order to restore 'leadership' and restructure the Asia-Pacific order, US President Joe Biden announced the new Indo-Pacific Strategy (IPS).²⁰ The US strategy in competing for influence with China involves shifting from defence and security to economy.

18 Susan Caminiti, "After the CHIPS Act: U.S. still has a long road ahead to rival Asia in semiconductor manufacturing", *CNBC*, 2 August 2022, <https://www.cnbc.com/2022/08/02/after-chips-act-us-has-long-road-to-rival-asia-in-semiconductors.html#:~:text=Technology%20Executive%20Council-,After%20the%20CHIPS%20Act%3A%20U.S.%20still%20has%20a%20long%20road,rival%20Asia%20in%20semiconductor%20manufacturing&text=After%20three%20years%20of%20stops,and%20improve%20competitiveness%20with%20China>; "Chips Act: Council and European Parliament strike provisional deal", Council of the European Union, 18 April 2023, <https://www.consilium.europa.eu/en/press/press-releases/2023/04/18/chips-act-council-and-european-parliament-strike-provisional-deal/>

19 "Global Security Initiative: China's Proposal for Solving Security Challenges", Ministry of Foreign Affairs of the People's Republic of China, 3 April 2023, https://www.fmprc.gov.cn/eng/wjfb_663304/zwjg_665342/zwbdb_665378/202304/t20230410_11056912.html

20 "Indo-Pacific Strategy of the United States", The White House, February 2022, <https://www.whitehouse.gov/wp-content/uploads/2022/02/U.S.-Indo-Pacific-Strategy.pdf>

This was evident from announcement of economic initiatives, such as the Partnership for Global Infrastructure and Investment (PGII), during the 48th Meeting of the Group of Seven (G-7) held at Schloss Elmau in Germany in June 2022. As part of this initiative, the G-7 aims to mobilise approximately US\$600 billion to invest in infrastructure projects in developing countries over the next five years (until 2027).²¹

The IPEF is the US' instrument for increasing its economic influence in the Indo-Pacific region. With President Donald Trump's withdrawal from the Trans-Pacific Partnership (TPP), the US' economic presence in the region is no longer significant. The challenge facing the US today is to reach a high-standard economic agreement that supports its domestic economy and is also appealing enough for attracting partners in the Indo-Pacific. The IPEF is different in that it is not following the path of creating a traditional multilateral trade agreement framework for the region, but instead focusing on establishing overarching regional rules for economics and trade. The biggest drawback of the IPEF so far is that, while it aims to establish standards, principles, and obligations to shape an economy under four Pillars, there is a lack of US market access for member countries.

Both the US and China will engage in competition focusing on ASEAN through the implementation of the IPEF and the GDI. In the long term, the competition will expand to cover the entire Indo-Pacific region. For China, ASEAN is not only geographically close but also its largest global trading partner. The maintenance and promotion of stable economic, trade, and geopolitical relations between China and the ASEAN contribute to the development of both ASEAN and China. To further enhance their partnership, ASEAN and China have conducted initial consultations for upgrading the ASEAN-China FTA in February 2023.²² These negotiations cover various areas such as trade, investment, digital, and green economy, aiming to build a more comprehensive, modern, and inclusive ASEAN-China FTA that benefits both sides. The content of the ASEAN-China FTA and the GDI align closely with the objectives of the IPEF.

On the other hand, if the US is not supported by ASEAN, both the IPS and the IPEF will have significant gaps. The global strategic focus of the US is in the Indo-Pacific region, particularly Southeast Asia, where its biggest long-term strategic competitor, China, is located. As a key member of ASEAN, Vietnam believes that the IPEF "should be based on open, comprehensive and transparent principles in line with international law, while ensuring ASEAN's central role and supplementing existing economic links", stated Foreign Ministry Spokesperson Le Thi Thu Hang.²³ These links also include the upgraded ASEAN-China FTA.

Vietnam plays a significant role in the Indo-Pacific region due to its extensive economic engagement, supply chain restructuring, geopolitical significance, balancing act, and critical leadership role in ASEAN. With rapid economic growth and active participation in initiatives like the CPTPP and the RCEP, Vietnam promotes trade liberalisation and economic cooperation. As a manufacturing hub attracting foreign investments, it diversifies supply chains and deepens integration into the global supply chain network. Geographically located in Southeast Asia with land borders with China and

21 "The G7 stands united alongside Ukraine", *G7 Germany*, 27 June 2022, <https://www.g7germany.de/g7-en/g7-summit>

22 See "ASEAN and China meet to upgrade ASEAN-China Free Trade Area", Association of Southeast Asian Nations, 12 April 2023, <https://asean.org/asean-and-china-meet-to-upgrade-asean-china-free-trade-area/>

23 "IPEF should be based on open, inclusive, transparent principles: Spokesperson", *The World and Viet Nam Report*, 26 May 2022, <https://en.baoquocte.vn/ipef-should-be-based-on-open-inclusive-transparent-principles-spokesperson-185086.html>

a coastline along the South China Sea, Vietnam actively addresses regional security concerns while maintaining stability. Its foreign policy emphasises maintaining friendly relations with major powers, leveraging its position in the ever-evolving regional dynamics. Vietnam's leadership in ASEAN further showcases its commitment to regional economic integration and inclusive growth through active involvement in ASEAN-centred initiatives.

Brief Overview of Vietnam's Economy

The year 1975 was an important historical milestone when North and South Vietnam were unified, officially ending the war in this country. Thereafter, the country embarked on building a closed and self-sufficient economy; however, the government soon realised the weaknesses of this model. During the 'Renewal period' that began in the mid-1980s, Vietnam implemented various economic policies to transition from a centrally-planned economy to a 'Socialist-oriented market economy'. Since then, Vietnam has consistently adopted a multilateral viewpoint at all levels of international integration, particularly economic, with the goal of constructing an independent and autonomous regional economy, actively engaging and cooperating with the world.

The above points are important in shaping the core views of the economic policies of the Vietnamese government, leading to strategies, plans and actions. Currently, Vietnam is heading towards an open, integrational, and autonomous economy. The spirit of independence is deeply ingrained in the Vietnamese people. The Vietnamese government understands the value of peace and independence, and therefore adopts a multilateral stance at all levels of international integration. Vietnam's difficulties during its period as a closed economy motivates the goal of eradicating poverty and fostering strong cooperation. This spirit encourages the country to welcome opportunities that have benefits for all.

The Vietnamese economy's openness is demonstrated by its participation in numerous bilateral and multilateral economic cooperation mechanisms in the region and around the world. To date, it has signed 15 FTAs covering more than 60 countries and territories, including some of the largest markets globally,²⁴ the latest being an FTA with Israel in April 2023.²⁵ Three more FTA talks are on with a group of four countries in Europe (Switzerland, Norway, Iceland, and Liechtenstein), Canada and the UAE. Two important FTAs in the Indo-Pacific that Vietnam has joined are the CPTPP and the RCEP. Additionally, Vietnam is now one of the 14 countries participating in the negotiations on the IPEF. Becoming a member of two mega FTAs like the RCEP and the CPTPP demonstrates Vietnam's strong commitment to regional economic integration and free trade. These agreements provide Vietnam with expanded market access, increased trade opportunities, and the potential for greater economic growth. By joining these regional trade agreements, Vietnam enhances its attractiveness as a foreign investment destination in the Asia-Pacific.

Vietnam's viewpoint when participating in any multilateral cooperation mechanism is maintaining an independent and objective stance without choosing sides. This is also reflected in the economic development perspective of Vietnam's 13th Party Congress: Building a self-reliant economy based on technological advances, proactive integration, market diversification, and enhancing the adaptability of the economy.²⁶ However, there are still untapped potentials, including human

24 *op. cit.*

25 "Vietnam's FTAs as of August 2023", WTO Center, 10 August 2023, <https://wtocenter.vn/thong-ke/13814-vietnams-ftas-summary-as-of-april-2019>

26 *op. cit.*

and natural resources as well as obstacles related to technological advancement, labour skills, infrastructure, and financial capacity.

The Prospect of Vietnam Joining the IPEF

The IPEF aligns with current global trends and Vietnam's long-term foreign economic policies. When the idea of the IPEF was first announced, it was assessed that while the Framework creates obligations, it falls short in delivering the benefits to its member countries.²⁷ However, as mentioned, at the Ministerial Meeting for IPEF partners in May 2023, Minister of Industry and Trade Nguyen Hong Dien underscored Vietnam's positive perspective on the IPEF.²⁸

In May 2022, during the announcement ceremony to kick off the discussion on the IPEF, Prime Minister Pham Minh Chinh stressed the importance of upholding multilateralism and strengthening international solidarity based on sincerity, trust, and responsibility.²⁹ In this regard, the IPEF can create a platform for initiating and promoting collaboration among countries in the Indo-Pacific. Through active exchanges and discussions, members can join forces to address significant regional and global issues. These include the diversification and sustainability of supply chains, fostering technology innovation, driving digital transformation, promoting e-commerce, combating climate change, reducing emissions, advancing green development, addressing tax matters, and combating corruption. The Ministry of Foreign Affairs of Vietnam believes that the IPEF will promote a positive and efficient economic environment, benefitting people and contributing to regional and global security and peace. Ministry spokesperson Hang Le reaffirmed that the country's participation in the IPEF will depend on the outcomes of the discussions among the parties.³⁰

The attitude and level of participation of seven ASEAN nations, including Vietnam, that are members of the IPEF will determine its progress. These ASEAN countries, along with the remaining three ASEAN member states, are discussing upgrading of the ASEAN-China FTA and negotiating the GDI on the basis of conformity with their national interests, without setting out the principle of choosing sides. General Secretary Nguyen Phu Trong has emphasised that Vietnam welcomes the US to support ASEAN's central role, and together with the ASEAN countries promote the ASEAN Vision for the Indo-Pacific.³¹

The IPEF negotiations are advancing intensively and several outcomes have been achieved,

27 Anh T. Nguyen, "Khuôn khổ kinh tế Ấn Độ Dương - Thái Bình Dương vì thịnh vượng: Xu hướng liên kết kinh tế mới trong khu vực", *Communist Review*, 12 April 2023, <https://www.tapchiconsan.org.vn/web/guest/the-gioi-van-de-su-kien/-/2018/827256/khuon-kho-kinh-te-an-do-duong---thai-binh-duong-vi-thinh-vuong--xu-huong-lien-ket-kinh-te-moi-trong-khu-vuc.aspx>

28 *op. cit.*

29 "Vietnam premier attends launching ceremony of Indo-Pacific Economic Framework for Prosperity", *Tuoi Tre News*, 24 May 2022, <https://tuoitrenews.vn/news/politics/20220524/vietnam-premier-attends-launching-ceremony-of-indopacific-economic-framework-for-prosperity/67282.html>

30 "Discussion outcomes will determine Vietnam's accession to Indo-Pacific economic initiative: Ministry of Foreign Affairs", *Vietnam Law & Legal Forum*, 27 May 2022, <https://vietnamlawmagazine.vn/discussion-outcomes-will-determine-vietnams-accession-to-indo-pacific-economic-initiative-ministry-of-foreign-affairs-48635.html>

31 "Readout of President Joe Biden's call with General Secretary Trong of Vietnam", The White House, 29 March 2023, <https://www.whitehouse.gov/briefing-room/statements-releases/2023/03/29/readout-of-president-joe-bidens-call-with-general-secretary-trong-of-vietnam/>

especially the Supply Chain agreement.^{32 33} Speaking at the Ministerial Meeting for IPEF members in 2023, Minister of Industry and Trade Nguyen Hong Dien mentioned that Vietnam supports the shared goal of the IPEF to conclude negotiations on the remaining Pillars as soon as possible and aims for positive outcomes by the end of this year. Vietnam values the US' efforts in coordinating and organising discussions, and respects the opinions of member countries to achieve commitments and regulations that are high-standard, balanced, and considerate of institutional differences and levels of development among nations.

Vietnam's expectations for the IPEF reflect its commitment to promoting regional cooperation and sustainable development. Its leadership has stressed the importance of creating a framework that benefits the people, ensures peace and security for the region and the world. This requires an open, inclusive, and a balanced process that is responsive to the justifiable interests of stakeholders and in alignment with international law. Vietnam values the importance of working together with other nations to address common challenges and achieve shared objectives. This approach is reflected in its participation in various regional and international frameworks and by being one of the negotiating members of the IPEF from the beginning.

Vietnam also recognises the importance of leveraging digital technologies to boost economic growth and improve the well-being of its citizens. The country has made significant progress in this regard in recent years, but there is much work to be done. By joining the IPEF and sharing experiences and sustainable solutions with other members, Vietnam hopes to achieve a sustainable digital society. Indeed, with resilient Supply Chains and Clean Economy emerging as the two primary Pillars, the IPEF holds the potential to digitally empower Vietnam and achieve sustainable development goals.

The Supply Chain Pillar

Vietnam is considered a rising star in the global supply chain network due to several key factors.

First, it has attracted significant FDI and is undergoing a shift in its industrial structure. In 2022, the country received US\$17,889.9 million, ranking third after Singapore (US\$141,181.2) and Indonesia (US\$21,968.2).³⁴ Additionally, there has been a noticeable transition in FDI inflow away from traditional industries like garments and towards hi-tech manufacturing sectors such as computers, electronic equipment, and information/communication.³⁵ This shift reflects Vietnam's growing capabilities and attractiveness in higher-value manufacturing.

Secondly, Vietnam has demonstrated robust export performance compared to other Southeast Asian countries. In 2022, the country's total trade (import and export) was US\$732.5 billion, representing a 9.5 per cent increase from the previous year. Vietnam's commodity exports have positioned it as the second-highest in ASEAN-6, surpassing countries like Malaysia, Indonesia,

32 "Press Statement for the Trade Pillar, Clean Economy Pillar, and Fair Economy Pillar", US Department of Commerce, 27 May 2023, <https://www.commerce.gov/news/press-releases/2023/05/press-statement-trade-pillar-clean-economy-pillar-and-fair-economy>

33 "Substantial Conclusion of Negotiations on Landmark IPEF Supply Chain Agreement", US Department of Commerce, 27 May 2023, <https://www.commerce.gov/news/press-releases/2023/05/substantial-conclusion-negotiations-landmark-ipef-supply-chain>

34 "Flows of Inward Foreign Direct Investment (FDI) to ASEAN Countries (in million US\$)", ASEANStatsDataPortal, <https://data.aseanstats.org/indicator/FDI.AMS.TOT.INF>

35 "FDI Firms Continue to Recover and Shift into High-tech Industries", Vietnam Chamber of Commerce and Industry, 15 May 2023, <https://vccinews.com/news/49233/fdi-firms-continue-to-recover-and-shift-into-high-tech-industries.html>

Thailand, and the Philippines. Its total exports of US\$371.5 billion exceeded the combined exports of Thailand (US\$287.07 billion) and the Philippines (US\$78.84 billion).³⁶ The strong export performance marks its ability to capture large shares of the global markets and its growing integration into the global supply chain. Vietnam benefits from its strategic geographic location with easy access to international shipping routes. This makes it an appealing destination for global businesses seeking to diversify their supply chains and optimise logistics operations. Vietnam has also displayed a welcoming attitude towards trade and investment, significantly reducing policy restrictions on FDI over the past decade.

Nevertheless, Vietnam still faces challenges, particularly in terms of localisation rates.³⁷ The Vietnam Association of Supporting Industry Enterprises' data shows that the localisation rate supporting industry products of Vietnamese enterprises is quite low. Currently, Vietnam has only about 500 enterprises engaged in supporting industry production, accounting for more than 0.2 per cent of the total of nearly 1 million enterprises.³⁸ Improving the localisation rate is crucial to enhance the competitiveness of Vietnamese enterprises on the global stage. To achieve this, Vietnam must prioritise improving the quality of its human resources and preparing its workforce for the digital economy. This requires a focus on digital transformation and equipping many workers with the necessary skills. When participating in the IPEF, through an initiative led by a technologically advanced country like the US, Vietnam can gain access to various benefits, including expertise, technology, education, and legal frameworks, which can help enhance Vietnamese labour skills and technological capabilities. As a result, Vietnamese businesses can maintain their competitive edge and achieve sustainable economic growth.

The Supply Chain Pillar of the IPEF can provide Vietnam with vital support in improving its localisation rate and preparing its workforce for the digital economy. It would enhance the competitiveness of Vietnamese enterprises and ensure that it remains an attractive destination for foreign investors seeking to diversify their supply chains. Ultimately, these efforts will contribute to Vietnam's pursuit of sustainable and inclusive economic growth, aligning with its ambitious goal of becoming a high-income economy by 2045.

The Clean Economy Pillar

In recent years, Vietnam has made significant progress, in transitioning from one of the world's poorest countries to a dynamic emerging market. But environmental challenges remain a serious threat to its economic development. According to the World Bank, Vietnam will need to invest approximately 6.8 per cent of its Gross Domestic Product (GDP) each year, amounting to US\$368 billion, during 2022 – 40, for building resilience and achieving decarbonisation.³⁹

36 Thái Bình/Quynhlan, "Reaching US \$ 700 billion, Vietnam's import and export surpassed Thailand and Indonesia, ranking 2nd in ASEAN", *Customs News*, 21 December 2022, <https://english.haiquanonline.com.vn/reaching-us-700-billion-vietnams-import-and-export-surpassed-thailand-and-indonesia-ranking-2nd-in-asean-24848.html>

37 Localisation rate or local content rate is defined as percentage of "added value" of products processed domestically.

38 Tran Thuy, "Vietnam's supporting industry needs a revolution", *Vietnamnet Global*, 7 February 2022, <https://vietnamnet.vn/en/vietnams-supporting-industry-needs-a-revolution-813801.html>

39 "Key Highlights: Country Climate and Development Report for Vietnam", World Bank, 1 July 2022, <https://www.worldbank.org/en/country/vietnam/brief/key-highlights-country-climate-and-development-report-for-vietnam>

Vietnam's commitment to cut emissions to net zero by 2050, as announced in COP26 and reaffirmed in COP27 by Minister of Natural Resources and Environment Tran Hong Ha, shows the high determination of the country in pursuing sustainable economic development.⁴⁰ The 13th Party Congress of Vietnam has also emphasised the need to build a green economy, protect biodiversity and ecosystems, and eliminate projects causing environmental pollution.⁴¹ The commitment is quite ambitious considering Vietnam's current capacity in terms of technology, labour skills, infrastructure, and finance. Therefore, Clean Economy might be the Pillar that draws much attention of the Vietnamese government. The IPEF can generate a good opportunity for Vietnam in its decarbonisation efforts as it is led by the US, a global leader in advanced technology and financial capacity.

To support decarbonisation goals, Vietnam has passed several laws and policies in 2022, including the Law on Environmental Protection,⁴² which outlines the responsibilities of businesses, organisations, and individuals in reducing greenhouse gas emissions and combating climate change. However, a close and synchronous linkage between the central and local levels of the government is still lacking, which poses a significant challenge for foreign donors and investors.

The concern over negative effects of artificial materials in food such as additives, preservatives, colourings, flavourings, and other synthetic substances is growing among Vietnam's consumers. A survey by Nielsen Vietnam found that approximately 80 per cent of consumers are willing to spend more on clean and green products produced from environmentally friendly ingredients.⁴³ This trend indicates that awareness and actions towards green growth and a green economy are spreading throughout Vietnam's economy, from governmental policies to business execution and consumer behaviours. Vietnam's strong emphasis on building a clean economy, combined with its recognition of the importance of international cooperation, makes it an active participant in the Clean Economy Pillar of the IPEF.

Vietnam and the Fair Economy Pillar

The Fair Economy Pillar of the IPEF presents challenges for Vietnam due to necessary commitments, including effective tax systems and anti-corruption mechanisms.

Corporate Income Tax (CIT) Incentives are considered one of the most attractive features of the Vietnamese business landscape. The two main CITs are preferential tax rates, which are reduced tax rates and tax holidays, which are tax exemptions.⁴⁴ However, businesses and individuals face

40 "COP27: Viet Nam reiterates strong commitments to climate change", *Social Public of Viet Nam Government News*, 9 November 2022, <https://en.baohinhphu.vn/cop27-viet-nam-reiterates-strong-commitments-to-climate-change-111221109161831911.htm>

41 "Major Breakthroughs and Orientations of the Socio - Economic Development Strategy for the Period of 2021 – 2030", National Institute for Finance, The Ministry of Finance of the Socialist Republic of Vietnam https://mof.gov.vn/webcenter/portal/vclvcstcen/pages_r/!detailnews?dDocName=MOFUCM199333

42 "Law on Environmental Protection and Decree No 08/2022/ND-CP", Winrock International, 2022, <https://winrock.org/document/law-on-environmental-protection-and-decree-no-08-2022-nd-cp/#:~:text=2022%2FND%2D%20CP-,Law%20on%20Environmental%20Protection%20and,08%2F2022%2FND%2D%20CP&text=The%20project%20is%20implemented%20for,through%20a%20collective%20impact%20approach>

43 "Green consumption – key for plastic waste reduction", *Vietnam Plus*, 16 September 2022, <https://en.vietnamplus.vn/green-consumption-key-for-plastic-waste-reduction/237439.vnp>

44 "Vietnam - Corporate - Tax credits and incentives", PwC, 3 April 2023, <https://taxsummaries.pwc.com/vietnam/corporate/tax-credits-and-incentives>

many difficulties in paying taxes. Even though the country has made efforts to simplify the tax system by approving tax system reform strategy up to 2030,⁴⁵ its efficiency is doubtful. According to the World Bank, it takes businesses 384 hours to pay taxes in Vietnam compared to 64 hours in Singapore, 174 hours in Malaysia and 191 hours in Indonesia.⁴⁶

Tax evasion is another big challenge for the Vietnamese tax system. According to Nguyen Thi Thu Huong, senior governance program manager of Oxfam in Vietnam, tax evasion and avoidance practices led to annual losses of up to VND20.7 trillion (US\$872.3 million) to Vietnam's tax revenue in 2013.⁴⁷

Participating in the IPEF offers several opportunities for Vietnam such as enhanced transparency, exchange of information, capacity building, and technical assistance. It can also support international tax reform efforts. However, implementing and complying with the Framework's provisions, coordinating with other members, and assessing the impact on domestic tax policies pose challenges. Vietnam must balance its participation in global tax initiatives while maintaining a competitive and attractive tax system for investment.

While the Vietnamese people desire to combat bribery and corruption, progress in this area has been slow. General Secretary Nguyen Phu Trong's anti-corruption campaign, known as the 'burning furnace' has achieved some success.⁴⁸ However, rumours about the General Secretary's health and his potential term extension until 2026 could undermine the campaign's continuity and impact.

Vietnam also faces sensitivity towards certain sub-themes within the Fair Economy Pillar and government officials may hesitate to engage in dialogues on anti-corruption measures. In 2022, Vietnam intensified its fight against corruption, resulting in significant progress. The focus was on personnel management, strict handling of violations, and dismissals of officials in line with party and state regulations. Institutional mechanisms were improved, and various resolutions and regulations were implemented to strengthen party building and combat corruption.⁴⁹

Vietnam's stable political system provides a safe environment for foreign investors. It needs to continue making progress in implementing effective tax systems, anti-money laundering measures, and anti-corruption mechanisms by engaging actively in the Fair Economy Pillar.

Vietnam and the Trade Pillar

45 Tax system reform strategy up to 2030 approved, PwC, 9 May 2022, <https://www.pwc.com/vn/en/publications/news-brief/220509-tax-reform.html>

46 "Vietnam: Doing Business 2020, Challenges and Solutions", World Bank, 8 January 2020, <https://www.worldbank.org/en/news/speech/2020/01/08/speech-by-ousmane-dione-world-bank-country-director-for-vietnam-at-the-event-vietnam-doing-business-2020-challenges-and-solutions>

47 "Tax evasion causes annual losses to US\$900 million in Vietnam's tax revenue", *Hanoitimes*, 28 April 2020, <https://hanoitimes.vn/tax-evasion-causes-annual-losses-to-us900-million-in-vietnams-tax-revenue-311914.html>

48 "Vietnam's Institutional Corruption: Why Nguyen Phu Trong's "Blazing Furnace" Will Be Meaningless In The Long Term", *The Vietnamese Magazine*, 21 April 2021, <https://www.thevietnamese.org/2021/04/vietnams-institutional-corruption-why-nguyen-phu-trongs-blazing-furnace-will-be-meaningless-in-the-long-term/>

49 "Hundreds of Party members disciplined for corruption and wrongdoings in 2022", *Vietnam News*, 12 January 2023, <https://vietnamnews.vn/politics-laws/1449269/hundreds-of-party-members-disciplined-for-corruption-and-wrongdoings-in-2022.html>

Vietnam's strengths lie in the expansive free markets and reduced trade barriers created by its FTAs, particularly the newer generation agreements such as the European Union-Vietnam FTA (EVFTA) and the Vietnam – UK FTA (UKVFTA). However, it is important to note that even though the US is Vietnam's largest export market with exports of US\$109.1 billion in 2022,⁵⁰ it does not have any FTA with the US, which represents a significant gap in its FTA network. A BTA was signed in 2000 between Vietnam and the US but the terms and conditions have not been upgraded since then. The IPEF presents a good opportunity for Vietnam to upgrade its trading network and potentially establish a cooperative agreement with the US.

Working in the Trade Pillar will align with Vietnam's active participation in FTAs and its commitment to high-standard, inclusive, free, fair, and open trade commitments. Vietnam can benefit from the flexibilities, technical assistance, and capacity building support offered by the Trade Pillar partners, which can help address specific challenges that the country may face in meeting the high-ambition commitments. Vietnam's involvement in the Trade Pillar will also expand opportunities for workers, companies, and people in other markets. It would offer a platform to boost trade and investment flows, enhance standards, and reduce trade barriers, which would contribute to the country's economic growth and development.

To ensure that Vietnam and the other members stay well engaged in the Trade Pillar, the US and other major members of the IPEF must be proactive. The US, being a key player in the international economic landscape, should take the initiative to engage with Vietnam and the other members.

Overall, by actively engaging in the IPEF, Vietnam stands to harness opportunities for economic resilience, environmental sustainability, and regional leadership, while addressing inherent challenges such as localisation rates and resource constraints. Embracing the IPEF signifies a promising path towards sustainable and inclusive growth, while aligning with Vietnam's long-term economic vision.

50 Pham Huan, "The US is Vietnam's largest export market in 2022", *VOV World*, 31 December 2022, <https://vovworld.vn/en-US/news/the-us-is-vietnams-largest-export-market-in-2022-1164819.vov>

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