



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



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



15

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

Simon TAY

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

Simon TAY

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

List of Abbreviations

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

Introduction: One Agreement, Different Assessments

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

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

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

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

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

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

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

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

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

Engaging America: Strategic and Economic Dimensions

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

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

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

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

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

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

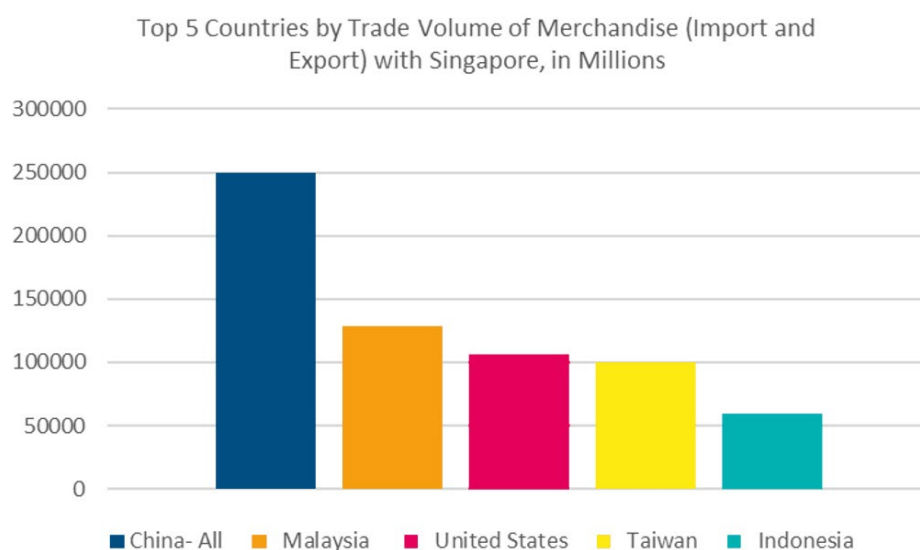
See "Singapore's International Trade", Department of Statistics Singapore, <https://www.singstat.gov.sg/modules/infographics/singapore-international-trade>;

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

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

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

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

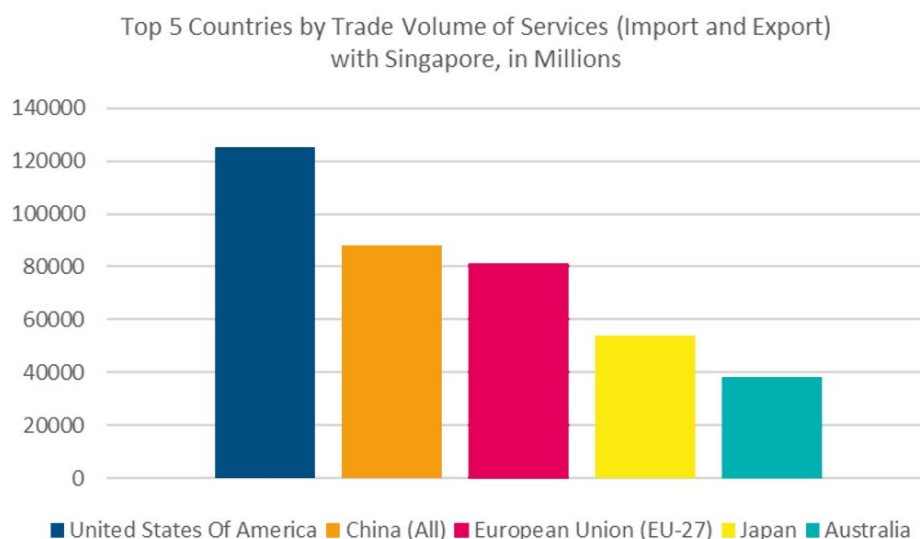


Source: SingStat – Department of Statistics Singapore

⁴ *op. cit.*

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

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



Source: SingStat – Department of Statistics Singapore

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

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

⁶ *op. cit.*

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

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

Progressing the Digital Economy

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

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

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

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

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

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

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

Resilient Supply Chains

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

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

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

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

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

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

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

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

14 *Ibid.*

15 *Ibid.*

16 *op. cit.*

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

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

Strengthening the Green Economy

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

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

17 *op. cit.*

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

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

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

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

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

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

Conclusion: Path-Finding and Many Paths

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

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

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

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

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

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

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

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

About the author

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

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

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



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



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

The image features a large, stylized number '16' in the center. The number is filled with a fine, light blue diagonal hatching pattern. The background is white, with teal and blue geometric shapes in the corners. A large teal shape is in the top-left corner, and a blue shape is in the bottom-right corner. The number '16' is positioned in the upper half of the page.

16

Analysis of the Indo-Pacific Economic Framework for Prosperity for Fiji

Radika KUMAR

Analysis of the Indo-Pacific Economic Framework for Prosperity for Fiji

Radika KUMAR

This paper discusses the implications of Indo-Pacific Economic Framework for Prosperity (IPEF) for Fiji. The members of the IPEF are at different stages of development and thus the welfare gains from the framework would vary between countries. Fiji is among the smallest economies in the IPEF and stands to gain market opportunities for trade and investment through integration with Asia and the United States (US). However, realising these benefits necessitates substantial reforms. The IPEF offers potential market access, but Fiji's private sector must comply with regulatory requirements to trade effectively. Consequently, Fiji needs technical and financial assistance for these reforms. A key recommendation is for Fiji to strengthen or propose an overarching IPEF development chapter with specific assistance areas across the Trade, Supply Chains, Clean Economy, and Fair Economy Pillars. This assistance should supplement existing aid from developed countries. If Fiji volunteers under all four Pillars, it must request an action plan for assistance provision over time from the developed IPEF members.

List of Abbreviations

CTPAT	Customs Trade Partnership Against Terrorism
EPA	Economic Partnership Agreement
ESCAP	Economic and Social Commission for Asia and the Pacific
EU	European Union
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
ILO	International Labour Organization
IMF	International Monetary Fund
IPEF	Indo-Pacific Economic Framework for Prosperity
MFN	Most Favoured Nation
MSGTA	Melanesian Spearhead Group Trade Agreement
OECD	Organisation for Economic Co-operation and Development
PACER	Pacific Agreement on Closer Economic Relations
PICTA	Pacific Island Countries Trade Agreement
RGDP	Real Gross Domestic Product
RIVA	Regional Integration Value Chain Analysis
SPARTECA	South Pacific Regional Trade and Economic Co-operation Agreement
SPS	Sanitary and Phytosanitary
STEM	Science, Technology, Engineering, and Mathematics
TBT	Technical Barriers to Trade
TINA	Trade Intelligence Negotiations Adviser
TRIMs	Trade-Related Investment Measures
TRIPs	Trade-Related Aspects of Intellectual Property Rights
UNCAC	United Nations Convention against Corruption
UNCTAD	United Nations Conference on Trade and Development
US	United States
WITS	World Integrated Trade Solution
WTO	World Trade Organization

Introduction

In May 2022,¹ the United States (US) initiated the Indo-Pacific Economic Framework for Prosperity (IPEF) in collaboration with 13 countries – Australia, Brunei Darussalam, Fiji, India, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and Vietnam. The framework aims to bolster the resilience, sustainability, inclusiveness, economic growth, fairness, and competitiveness of the economies.

The primary objective of the IPEF is to foster cooperation, stability, prosperity, development, and peace within the region. It is noteworthy that the 14 IPEF partners collectively account for 40 per cent of global Gross Domestic Product (GDP) and 28 per cent of the global goods and services trade.

The members of the IPEF are at different stages of development and as a result the benefits accrued from the partnership would vary among countries. This paper therefore provides an analysis of the implication of the IPEF on developing countries with a focus on Fiji. The rest of the paper is as follows: Section I of the paper provides an overview of the Fijian economy and international trade, Section II of the paper provides an assessment of Fiji's integration with IPEF members using UN Comtrade and the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) Regional Integration Value Chain Analysis (RIVA) database. Section III of the paper discusses the implications of the different pillars of the IPEF on Fiji and the final section concludes the paper with recommendations.

The Fijian Economy and International Trade

Fiji is a small island state located in the Pacific region. It has a limited export base and is highly dependent on imports, including fuel. The island's distance from major markets also raises the cost of doing business and access to markets. Additionally, it has a limited commodity and services base. The major exports of Fiji include agriculture products, fisheries, and travel and tourism. According to the Fijian Trade Policy,² with a population of 884,887³ Fiji is classified as a middle-income country and operates as an open economy. The country's real gross domestic product (RGDP) per capita is FJ\$6,246.22 (US\$2864.88).

After gaining independence in 1970, Fiji implemented several new economic policies. Initially, during 1970-late 1980s, economic policies focused on import-substitution, self-sufficiency, and included significant government involvement in the business sector. The period witnessed robust growth followed by a prolonged phase of low average growth. From late 1980s, Fiji transitioned to a more market-oriented approach, emphasising trade liberalisation, deregulation, investment promotion, and an increased role for the private sector. To continue fostering an efficient and outward-looking economy, it is crucial to reduce or eliminate well-established interventions such as tariffs, tax and customs exemptions, and incentives. Given this, the ongoing commitment to these reforms is essential for Fiji's economic development. In this vein, participating in the IPEF

1 "Indo-Pacific Economic Framework for Prosperity (IPEF)", Office of the United States Trade Representative, <https://ustr.gov/trade-agreements/agreements-under-negotiation/indo-pacific-economic-framework-prosperity-ipef>

2 "Fijian Trade Policy Framework (2015-2025)", Ministry of Industry, Trade and Tourism – Republic of Fiji, July 2015, <https://www.mitt.gov.fj/wp-content/uploads/2018/10/Fijian-Trade-Policy-Framework-min.pdf>

3 "Census of Population and Housing", Fiji Bureau of Statistics, 2017, <https://www.statsfiji.gov.fj/statistics/207-census-of-population-and-housing.html>

and expanding its market potential will contribute to the ongoing reform agenda for Fiji. Fiji has been a member of the World Trade Organization (WTO) since 1996. It is part of a major grouping of the small vulnerable economies and the African, Caribbean Group, which share similar trade and economic challenges.

Fiji is part of regional and sub-regional trade agreements, including the Pacific Agreement on Closer Economic Relations (PACER Plus)⁴ with Australia, New Zealand and the Pacific. The PACER Plus comprises trade in goods, services, investment, sanitary and phytosanitary (SPS) measures, technical barriers to trade (TBT), labour mobility, and economic and development chapters. Furthermore, among the small states of the Pacific, Fiji is also a member of the Pacific Island Countries Trade Agreement (PICTA)⁵ Trade in Goods agreement, which aims to provide duty-free and quota-free market access to goods traded among the 12 small states of the Pacific region, excluding Australia and New Zealand. Apart from these, Fiji has signed and ratified the Economic Partnership Agreement (EPA) with the European Union (EU) which aims to ensure duty-free and quota-free access to goods into the EU market.⁶

At the sub-regional level, Fiji is a signatory to the Melanesian Spearhead Group Trade Agreement (MSGTA) among the four members of the Melanesia group, comprising Papua New Guinea, Vanuatu and Solomon Islands.⁷ Fiji is also a beneficiary of the South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA) with Australia and the US' Generalized System of Preferences (GSP) scheme.⁸ Radika Kumar

Based on the IMF's *Direction of Trade Statistics* database,⁹ Fiji typically exports nearly US\$1 billion annually, with the US purchasing around 20 – 25 per cent of the total exports. The primary export from Fiji to the US is drinking water, commonly sold under the brand 'Fiji Water'. Australia and New Zealand also form a significant market for Fijian goods, along with other Pacific islands. Fiji's major exports to New Zealand include textile clothing, taro, pharmaceutical products and kava while its exports to Australia include clothing and textiles, gold, and agricultural produce.¹⁰

4 "Pacific Agreement on Closer Economic Relations Plus", Australian Government – Department of Foreign Affairs and Trade, <https://www.dfat.gov.au/trade/agreements/in-force/pacer/pacific-agreement-on-closer-economic-relations-plus>

5 "Regional Trade Development and Integration", Pacific Islands Forum, <https://www.forumsec.org/regional-trade-agreements/>

6 *Ibid.*

7 "Excelling together towards a progressive and prosperous Melanesia", Melanesian Spearhead Group, <https://msgsec.info/about-msg/>

8 The GSP scheme includes 13 Pacific countries accounting for over 10 per cent of all 119 current GSP beneficiary countries; the GSP imports from the group is low comprising of US\$10 million to US\$20 million over the last decade. Also see "SPARTECA (South Pacific Regional Trade and Economic Cooperation Agreement)", Investment Policy Hub – United Nations Conference on Trade and Development (UNCTAD), <https://investmentpolicy.unctad.org/international-investment-agreements/groupings/1/sparteca-south-pacific-regional-trade-and-economic-cooperation-agreement->

9 Ed Gresser, "Pacific Islands Trade: Options for U.S. Policy", The Progressive Policy Institute, 14 February 2023, <https://www.progressivepolicy.org/publication/pacific-islands-trade-options-for-u-s-policy/#:~:text=Thirteen%20of%20these%20are%20GSP,Vanuatu%2C%20and%20Wallis%20and%20Futuna.>

10 "Exporting to New Zealand", Fiji Consulate General & Trade Commission – Australia & New Zealand, <https://www.investinfiji.today/exporting-to-new-zealand/>;

"Exporting to Australia", Fiji Consulate General & Trade Commission – Australia & New Zealand, <https://www.investinfiji.today/exporting-to-australia/>

Fiji has achieved success as a beneficiary of the GSP in exporting processed foods and certain agricultural products.¹¹

Fiji's fisheries industry is also substantial, including fish processing plants. Fijian officials have expressed interest in making canned tuna eligible for GSP benefits, as it currently faces high US Most Favoured Nation (MFN) tariffs, reaching up to 35 per cent. While canned tuna already qualifies for the GSP program for least-developed countries, expanding its eligibility to all beneficiary countries has been politically sensitive due to the significance of tuna cannery employment in American Samoa. Additionally, including canned tuna in the GSP without ensuring preferential benefits for Pacific Island countries might yield limited results, as larger producers like Thailand and the Philippines would also qualify and may be preferred sources due to lower costs.

In 2022, Fiji exported US\$815.34 million to the world with top destinations being the US (20.51 per cent), Australia (16.51 per cent) and New Zealand (8.23 per cent). With respect to imports, Fiji imported US\$2.12 billion from the world with top sources being Singapore (17.07 per cent), Australia (16.09 per cent) and China (15.04 per cent).¹²

The IPEF is a unique partnership deal for Fiji as it comprises its major export and import destination markets along with new and emerging markets such as India, Indonesia and other Asian countries, providing Fiji with opportunities for greater market access.

Section II: Analysis of Fiji's Integration with IPEF Members

This section analyses Fiji's integration with the IPEF members using data from the UN Comtrade database and the ESCAP RIVA database.¹³ The analysis focuses on Fiji's integration levels in trade and investment, value chain, infrastructure and connectivity.

Major Export and Import Destinations of Fiji

The US, Australia and New Zealand constitute more than 40 per cent of Fiji's exports (Figure 1). In 2021, Fiji's exports to the US stood at 20.5 per cent, Australia 16.5 per cent and New Zealand at 5.7 per cent. Other markets for Fiji included Asia (Japan and China) and the Pacific Island countries. It is interesting that Fiji's exports to China¹⁴ were around 5.7 per cent, despite China having a major geopolitical presence in the region. China has heavily supported infrastructure development in Fiji and other countries in the Pacific. In the context of the IPEF, however, while China is not a major exporter in goods, it may still have an influence in services and other related trade aspects. Within the IPEF membership, three of the IPEF members are major export destinations for Fiji, the agreement may yield further benefits for the country, depending on the final deal of the agreement.

Fiji also has the potential to deepen its trade integration with its major exporting partners. Despite

11 Notably, these include above-quota cane sugar (1.46 cents/kg), fresh and chilled taro (2.3 per cent Most Favoured Nation [MFN] tariff), candied and sushi-quality ginger (2.4 per cent MFN tariff), bakery products (4.5 per cent MFN tariff), and canned fish product (6.0 per cent). GSP imports from Fiji to the US typically range between US\$10 million and US\$20 million per year, accounting for approximately 5 – 10 per cent of Fiji's total exports to the US.

12 Note: Data is from UN World Trade but analysed in Trade Intelligence Negotiations Adviser (TINA) portal.

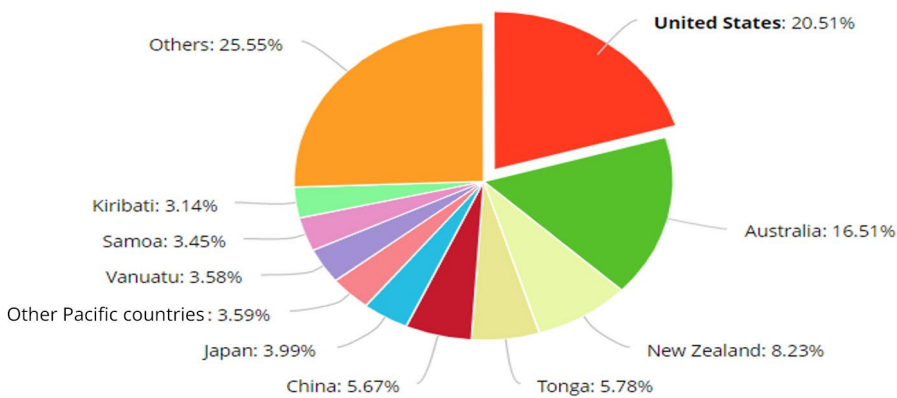
13 "Regional Integration and Value Chain Analyzer (RIVA)", UN Economic and Social Commission for Asia and the Pacific (UNESCAP), <https://riva.negotiatetrade.org/#/>

14 *Ibid.*

Fiji negotiating the PACER Plus with Australia and New Zealand, it has only been signed and not been ratified so far. As such, through the IPEF, Fiji may have the potential to access the Australian and New Zealand markets without the PACER Plus. Furthermore, securing a bilateral Free Trade Agreement (FTA) with the US may be an arduous and prolonged process. The USA GSP scheme has stringent rules for Fiji to export, so despite the agreement in place it is not that effective. The requirements for GSP plus is burdensome to have market access. Fiji is a small country and does not have the capacity like Asia does to compete in US GSP. So the IPEF gives a level of comfort in market access if negotiated well.

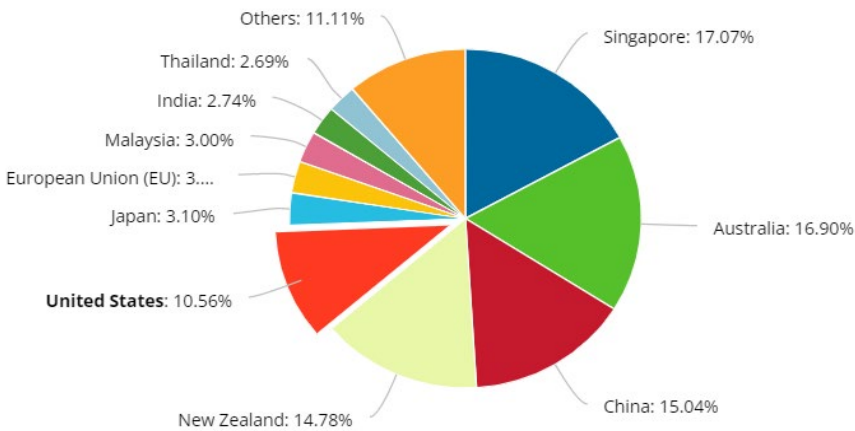
Figure 2 analyses Fiji’s major import destination for 2021. Singapore, Australia, China, New Zealand and the US are major importing countries constituting more than 70 per cent of imports. Singapore, Australia and China are the top three importing countries. Other countries include Thailand, India, Malaysia, the EU and Japan. With China being one of the major importing destinations for Fiji, the IPEF may create a shift in Fiji’s import markets. Depending on the negotiations, other countries in Asia, including India, may be able to substitute some of the imports from China. The IPEF may create import diversification opportunities for Fiji.

Figure 1: Major Export Destinations of Fiji



Source: UN Comtrade

Figure 2: Major Import Sources of Fiji

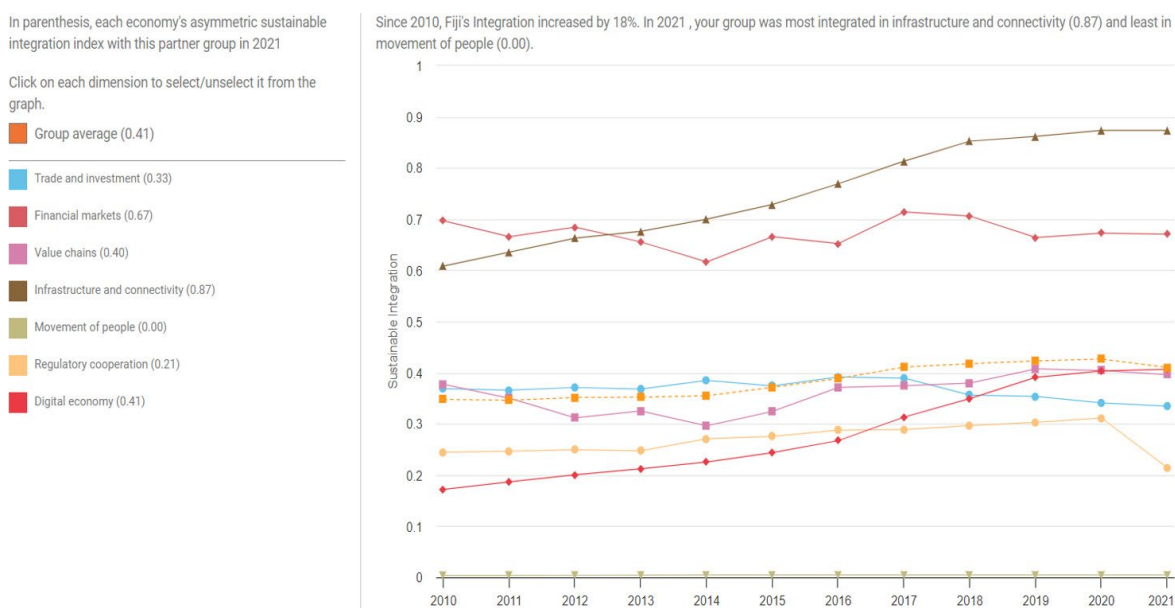


Source: UN Comtrade

Trade and Investment Integration for Fiji

The data from the ESCAP RIVA database¹⁵ assesses the current level of trade and investment integration of Fiji with IPEF members (refer to Figure 3). In comparison to 2010, Fiji's integration with the IPEF members has increased by 18 per cent. However, the depth of integration varies across the different indicators. The current levels of Fiji's integration are highest in connectivity and the financial sector, followed by digital economy, trade and regulatory cooperation (Figure 3). While there has been an improvement in integration across different variables, there are opportunities for deeper integration.

Figure 3: Trade and Investment Integration for Fiji with IPEF Members Excluding the US



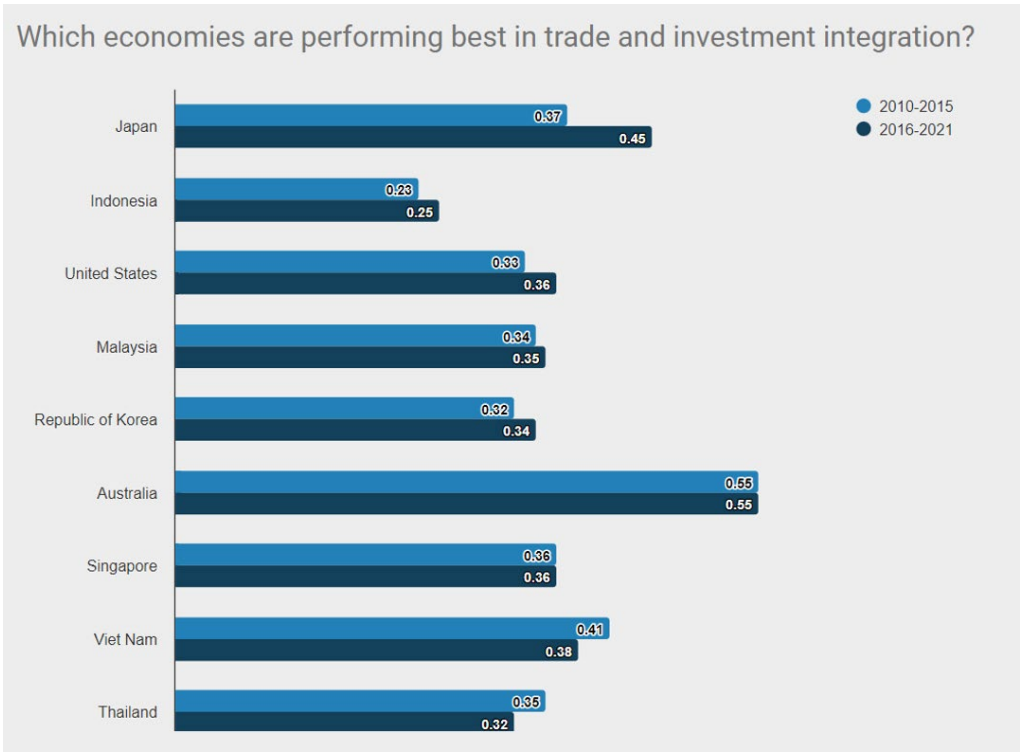
Source: RIVA database

Performance of IPEF Members on Trade and Investment

Figure 4 shows the economic performance in relation to trade and investment for IPEF member countries. In comparison to the period of 2010 - 15 and that of 2016 - 21, Australia, Japan, Singapore, the US, Malaysia and Indonesia have expanded integration, while Vietnam and Thailand have contracted trade and investment integration. The IPEF may provide an option for Fiji to expand its integration level with IPEF members.

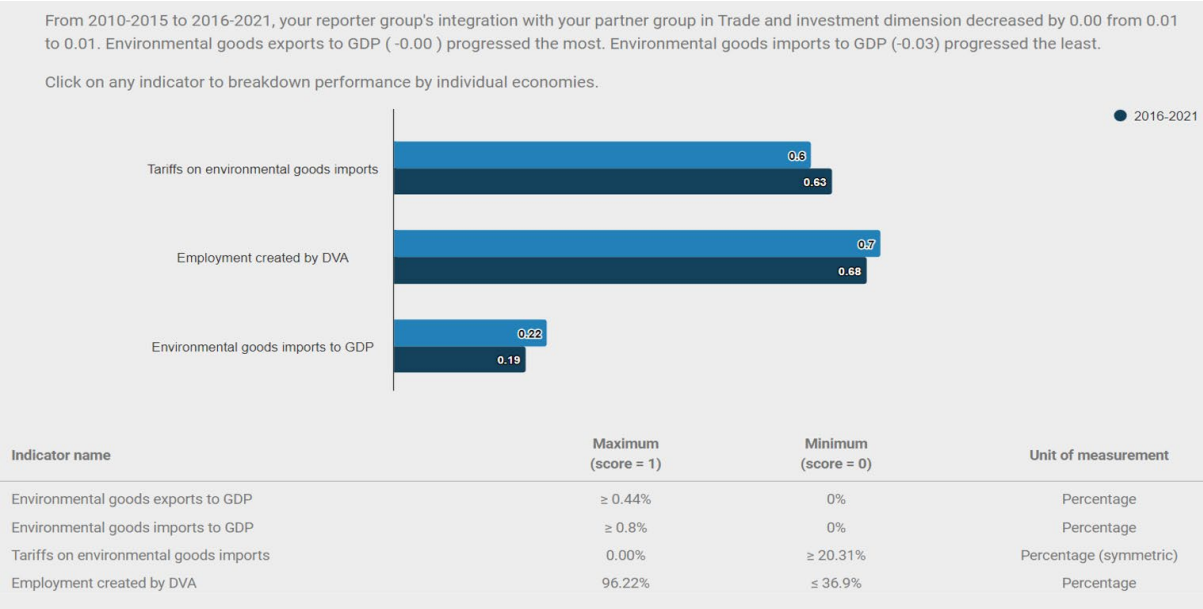
¹⁵ *Ibid.*

Figure 4: IPEF Members’ Performance in Trade and Investment



Source: RIVA database

Figure 5: Fiji’s Trade and Investment Integration

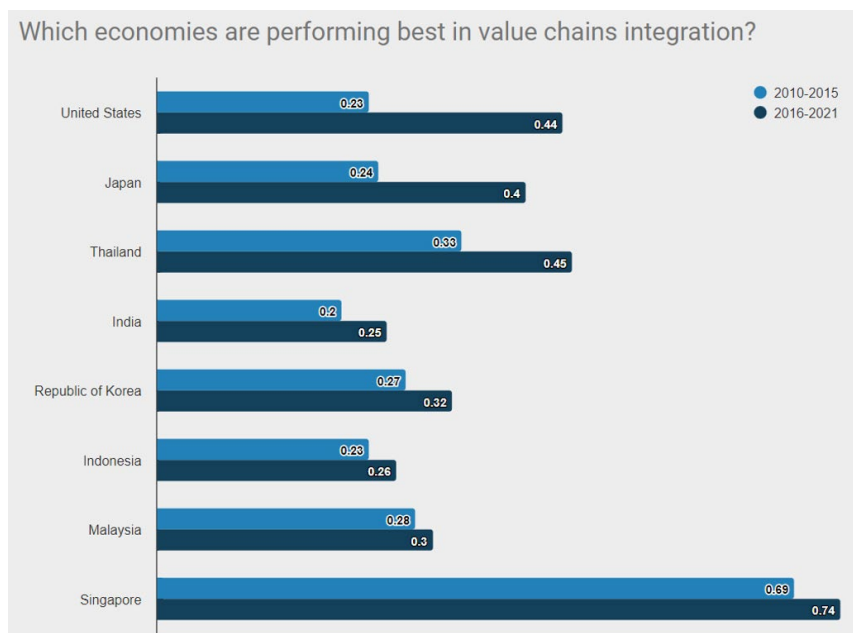


Source: RIVA database

Performance of IPEF Members on Value Chain Integration

Figure 6 depicts the value chain integration levels between 2010 - 15 and 2016 - 21. At the aggregate level, the value chain integration index for all the IPEF members has improved between the periods. Singapore and the US are leading in the value chain integration, with the US demonstrating the most substantial improvement. The rest of the IPEF members have different levels of value chain integration developments. The IPEF may benefit countries to integrate further. However, this would depend on the provisions of the supply chain agreements.

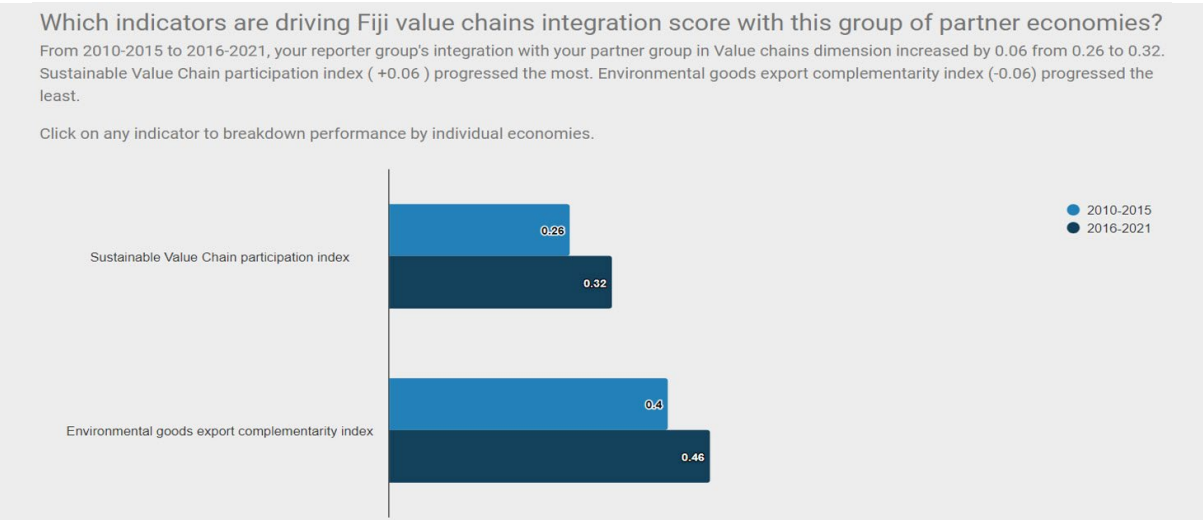
Figure 6: Value Chain Integration of IPEF Members



Source: RIVA database

Figure 7 provides some evidence of Fiji's sustainable value chain participation index with IPEF members. Over the same period, Fiji's participation has improved from 0.26 - 0.32, an increase of 0.06. As such, the IPEF may provide further potential for Fiji to enhance its value chain integration competitiveness and diversification.

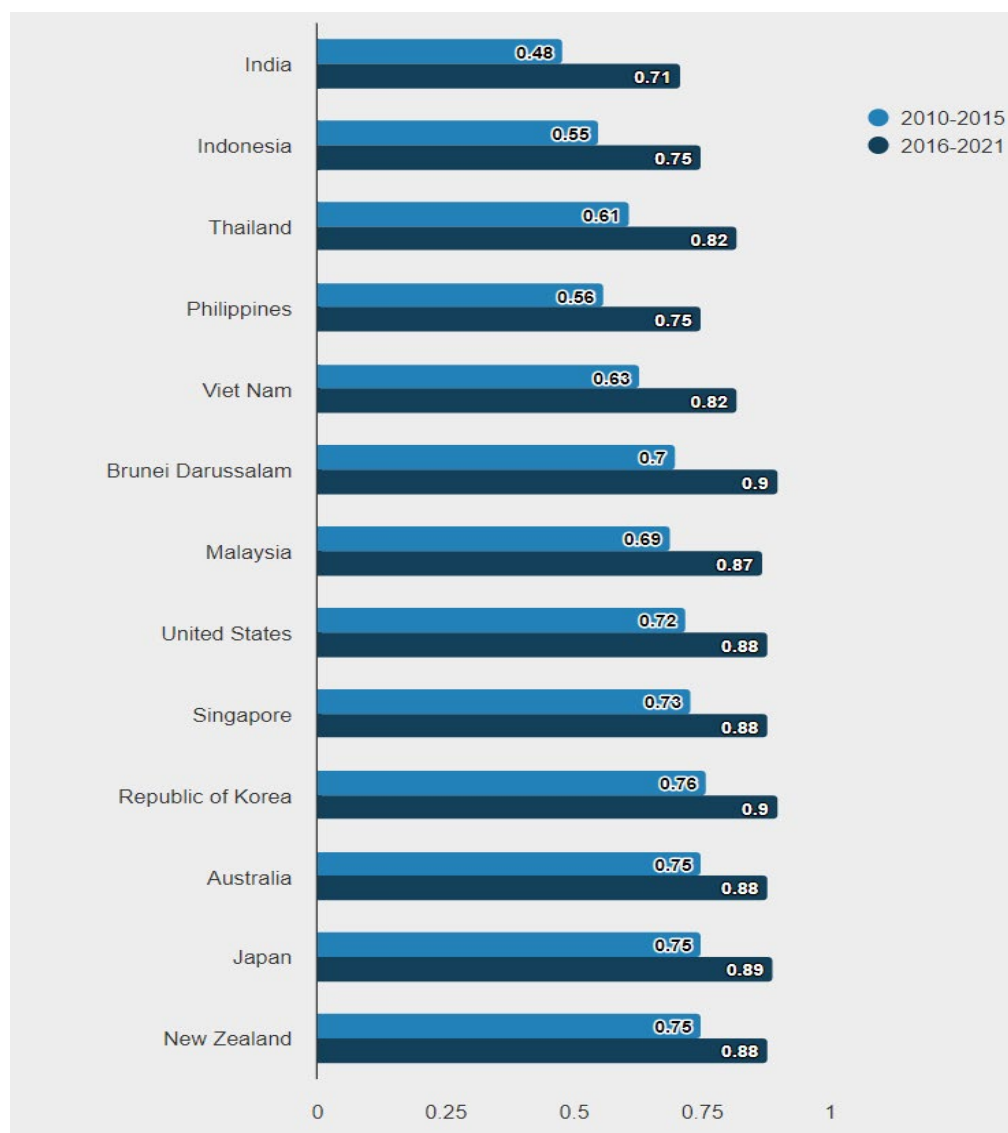
Figure 7: Fiji's Value Chain Integration with IPEF Members



Source: RIVA database

Performance of IPEF Members on Infrastructure and Connectivity Integration

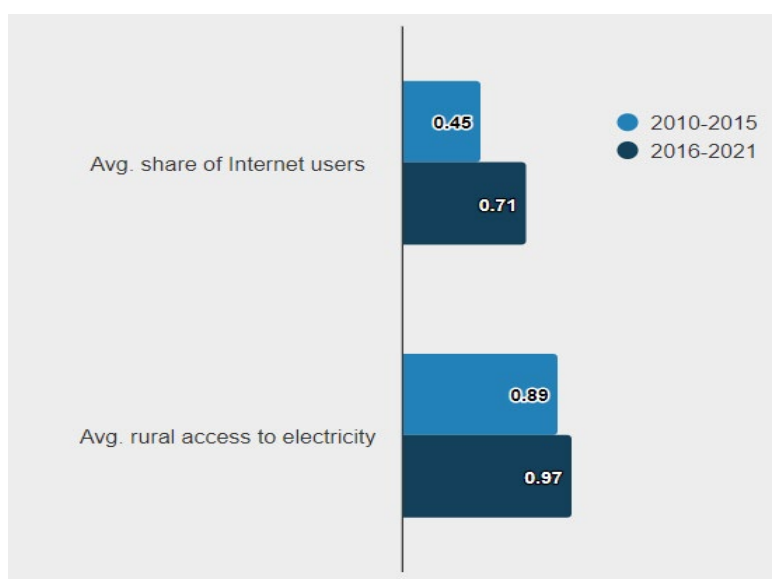
Figure 8 depicts the infrastructure and connectivity integration for IPEF members between the period 2010 - 15 and 2016 - 21. Between the two periods, the IPEF members have improved their infrastructure and connectivity integration with South Korea, Singapore, Japan, the US, Australia, New Zealand, Vietnam, and Thailand with index score of 0.8 and above between 2016 - 21. Other economies like India and Indonesia have also made substantial progress with scores of 0.71 and 0.75 respectively.

Figure 8: Infrastructure and Connectivity Integration

Source: RIVA database

Figure 9 shows Fiji's integration on infrastructure and connectivity over the same period as well. In terms of average rural access to electricity and internet Fiji has also improved in the areas. It is therefore indicative that for IPEF integration, Fiji has the potential to integrate with the rest of the members and benefit from market access and supply chain integration. This, however, would be contingent upon the scope and depth of the finalised text.

Figure 9: Fiji's Infrastructure and Connectivity Integration



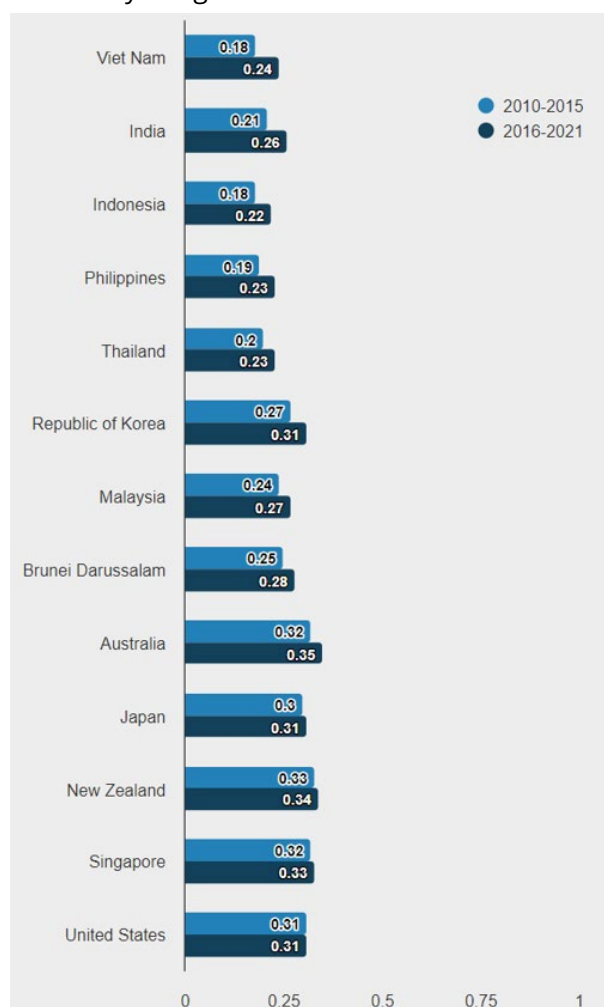
Source: RIVA database

Performance of IPEF Members on Regulatory Connectivity¹⁶

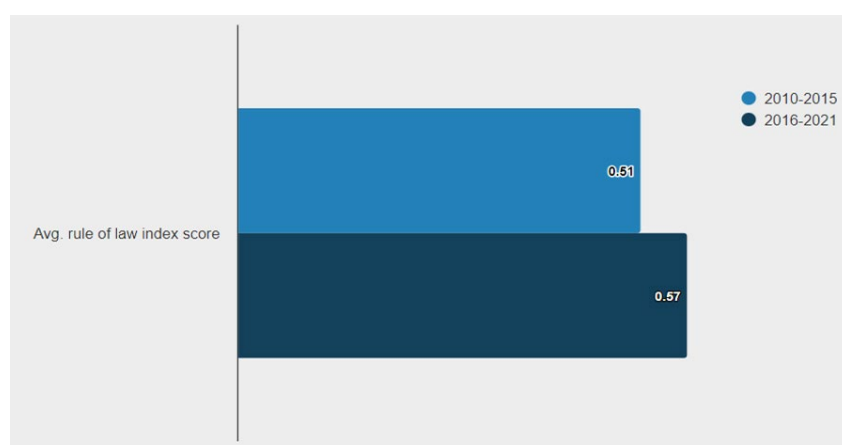
Figure 10 depicts the regulatory connectivity among the IPEF members. Within the IPEF members, this index has been the lowest in comparison with the other areas. Regulatory reforms usually require political and legal will to be implemented. During the periods 2010 - 15 and 2016 - 21, Australia, South Korea, New Zealand, Singapore and the US have been leading. Figure 11 shows Fiji's Regulatory Connectivity Integration. In comparison to other IPEF members, Fiji's performance on regulatory connectivity is better, with an index score of 0.57 during the time period 2016 - 21. Overall, the IPEF may provide additional opportunities for further regulatory coherence and reforms for the countries.

¹⁶ Regulatory connectivity is one of the seven indicators of regional integration dimensions from the RIVA database. It comprises of sustainable FTA scores, average rule of law index, SDG trade and regulatory distance from partners and average IIA score.

See "Regional Integration Analyzer", UN Economic and Social Commission for Asia and the Pacific, <https://riva.negotiatetrade.org/#/riooverview>

Figure 10: Regulatory Connectivity Integration

Source: RIVA database

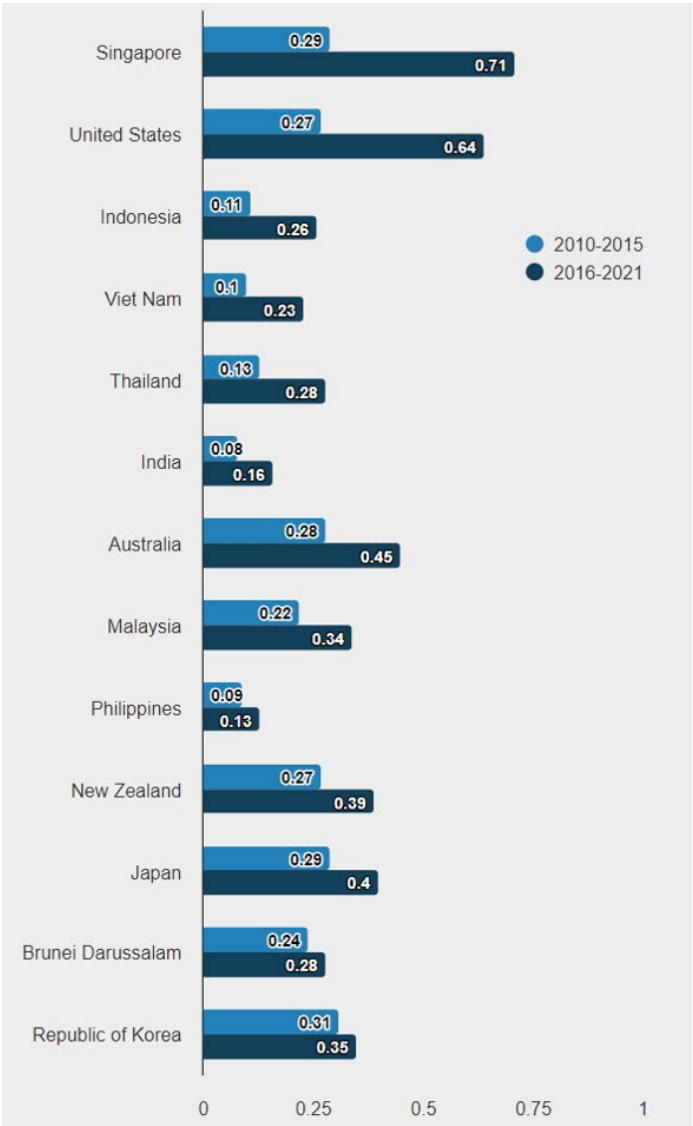
Figure 11: Fiji's Regulatory Connectivity Integration

Source: RIVA database

Digital Economy Integration

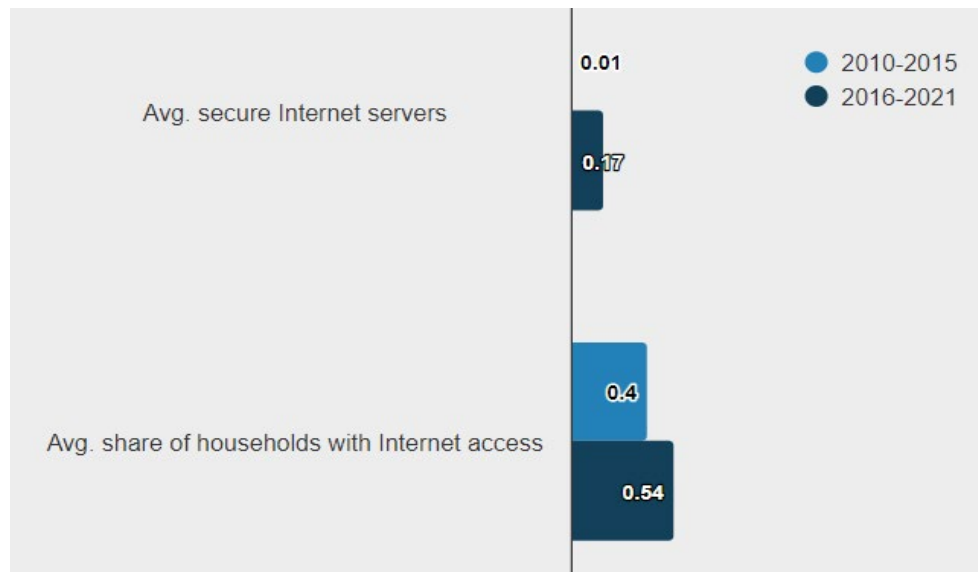
Figure 12 depicts the digital economy integration of the IPEF members. Within the periods 2010 - 15 and 2016 - 21, Singapore and the US are the most integrated in the digital economy with index scores of 0.71 and 0.64 respectively. The rest of the IPEF members have on average integrated at a slower pace in the digital economy than the rest, with mean scores at 0.4 during 2016 - 21.

Figure 12: IPEF Members Digital Economy Integration



Source: RIVA database

Figure 13 provides the specific situation for Fiji on digital economy integration. Fiji's integration into the digital economy is low, based on access to secure internet and average access to internet per household with scores of 0.17 and 0.54 respectively. The IPEF may provide opportunities for further integration. However, it will depend on the trajectory of discussions over the coming months on this subject.

Figure 13: Fiji's Digital Economy Integration

Source: RIVA database

Section III: Implications of the IPEF for Fiji

The Supply Chain Agreement

The Supply Chain Agreement of the IPEF is considered to be the world's first multilateral supply chain agreement.¹⁷ It aims to develop resilient and competitive supply chains and establish a framework for lasting cooperation on issues including workforce development, supply chain monitoring and investment promotion.

Along with the Supply Chain Agreement, the members have committed to several initiatives including digital shipping pilot projects, including one with the Port of Singapore;¹⁸ expansion of the US Customs Trade Partnership Against Terrorism (CTPAT) program in the Indo-Pacific,¹⁹ an IPEF Science, Technology, Engineering, and Mathematics (STEM) Exchange Program, and additional trainings, symposiums, and two-way trade missions with IPEF partners. Beyond these specific measures, the US also hopes to grow public and private sector engagement and investment in the region. In return, the US hopes that the IPEF Supply Chain Agreement will better position IPEF partners to reshape their supply chains to meet US interests, including resilience and competitiveness, in line with the broader US 'friend-shoring' agenda that incentivises supply chain reshuffling to countries that do not pose a national security threat.

17 Aidan Arasasingham, Emily Benson, Matthew P. Goodman and William Alan Reinsch, "Assessing IPEF's New Supply Chains Agreement", *Center for Strategic & International Studies*, 31 May 2023, <https://www.csis.org/analysis/assessing-ipefs-new-supply-chains-agreement>

18 *Ibid.*

19 The digital shipping pilot project links to trade facilitation and digital trade in IPEF. The US Customs Trade Partnership is a way to shift the power dynamics back to USA and to an extent what IPEF aims to achieve too.

Implications of the Supply Chain Agreement for Fiji

In relation to value chain integration, the IPEF members are at different stages of development and integration. Fiji also has the potential to integrate with the members of the IPEF through this agreement. However, the degree of trade creation and trade diversion would depend on the level of trade between Fiji and the rest of the IPEF members. Fiji's major trading partners include Australia, New Zealand, the US and China. Though the former three economies are members of the IPEF, China is not a member.

The IPEF also has stringent structures in place to ensure the integration of members into the supply chain. Fiji, being a small economy with limited resources and capacity, may need to be cautious about the implementation of the agreement. For example, information in relation to the action plan for the Supply Chain Council is not yet clear. The action plan implementation would have a burden on the private sector if resources were not sufficiently allocated. The Supply Chain Response Network has merits given the COVID-19 pandemic during which Fiji as well as the rest of the world encountered major disruptions in supply chains, especially for essential goods. While the response mechanism laid down by the IPEF aims to address such disruptions, the coordination mechanism needs to be clearly outlined for ease of implementation.

At the regional level, Fiji has negotiated the PACER Plus with Australia and New Zealand. However, it has not ratified the agreement to date. The PACER Plus agreement does not have a strong linkage on trade and labour issues within the Agreement, whereas the IPEF has. As such, the cost and benefit for Fiji in relation to the compliance on labour laws within the supply chain will determine the level of success under the IPEF with its trading partners. Given that China is not part of the IPEF, Fiji may need to carefully consider the ways in which its exports from value added products would be integrated into the IPEF supply chain and whether it would meet the rules of origin requirements. Fiji imports raw materials from the rest of the world to process and export final goods to Australia and New Zealand and the rest of the world, particularly for textile and clothing. If the supply chain requirements become stringent and constrains Fiji from importing raw materials from China, then it will affect the local cost of production, as importing from China is cheaper.

At the multilateral level, Fiji is a member of the WTO since 1996. At the 1st WTO Ministerial Conference in Singapore in December 1996, in relation to issues surrounding labour rights within supply chains of partner countries, ministers renewed the commitment to observe internationally recognised core labour standards.²⁰ Labour rights issues are critical for any country and must be upheld. The IPEF members, including Fiji, recognise this, which is a positive step towards fair and equitable trade. However, in tandem, it should also ensure that these are not deemed as disguised restrictions on trade. For Fiji, in finalising the agreement on supply chains, it must request for a strong mechanism for capacity building and technical assistance in order to ensure that its private sector is in a position to comply with the required labour standards. Such reforms may take time. However, if they are progressively achieved, it could provide Fiji with the competitive advantage in relation to fair and sustainable trade. As such technical assistance and capacity building must be part of the text with a clearly stated work programme for implementation.

20 "Singapore Ministerial Declaration", World Trade Organization, 13 December 1996, https://www.wto.org/english/thewto_e/minist_e/min96_e/wtodec_e.htm

Implications of the Trade Pillar for Fiji

The Trade Pillar of the IPEF intends to negotiate provisions addressing labour, environment, competition policy, agriculture, transparency, digital economy and emerging technology, trade facilitation, good regulatory practices, gender, indigenous populations, and development and economic cooperation. The Trade Pillar will be one of the most comprehensive frameworks should members decide to have an outcome on all these areas. But integrating these issue into a trade agreement framework may have its own implications; it would depend on the scope and depth of the agreement.

As it stands, it is deemed that the IPEF negotiators have high ambition in these areas. The framework reflects the consolidation of new and existing issues at the WTO with varying interests among developed and developing countries. For example, on trade and labour, members in the IPEF aim to achieve high-standard commitments that benefit workers, including those related to implementing and enforcing internationally recognised labour rights, corporate accountability in cases of labour law violations, public engagement and cooperative mechanisms on emerging labour issues, including with respect to workers in the digital economy. At the WTO, for example, in the fisheries subsidy agreement, the US had a previous proposal on forced labour.²¹ However, certain members were of the view, that though the labour issues are critical to address, these must be done so in the relevant forum of the International Labour Organization (ILO).

In relation to environmental issues within the Trade Pillar, the aim is to achieve trade-related commitments that meaningfully contribute to environmental protection and effective responses to common sustainability challenges, including those that are climate-related. The issues include obligations on trade and environment, enhanced environmental cooperation, protection of the marine environment, conservation of wild fauna and flora, climate change and renewable energy, circular economy, promotion of 'green' data centres and data transmission, voluntary market mechanisms for promoting sustainability of information and communications technologies, promotion of lower carbon sourcing in supply chains, corporate accountability and responsible business conduct, and implementation of obligations under multilateral environmental agreements.

Several issues being discussed in the Trade Pillar are being deliberated in the Committee on Trade and Environment in the WTO. The scope of environment-related issues are new under the WTO. Despite the importance of addressing environmental issues, members need to also weigh the cost of implementation for developing countries. Furthermore, the scope further focuses on digital infrastructure greening and data transmission, which require further reflection, and an assessment of the capacity of members. The developed economies of the IPEF have the required infrastructure to undertake reforms, however, the costs would be high. A way would perhaps be for transitionally-phased implementation with technical and financial assistance as conditions for implementation.

The aim is also to promote equitable growth of the digital economy in a manner that supports labour and environment objectives, sharing best practices on regulatory approaches and policy issues, and promoting responsible use of emerging technologies. For Fiji, in order to develop the digital economy, the development of digital infrastructure ecosystem is important.

21 "United States Urges WTO Members to Address Forced Labor on Fishing Vessels in Ongoing Fisheries Subsidies Negotiations", Office of the United States Trade Representative, 26 May 2021, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2021/may/united-states-urges-wto-members-address-forced-labor-fishing-vessels-ongoing-fisheries-subsidies>

The issues on trade and an agreement on digital trade covers a plethora of issues which are trade-related and beyond the scope of the traditional trade agreements. There is an ongoing discourse on this at the multilateral level and in particular, under the plurilateral on the Joint Statement Initiative.²² Despite the importance of the digital economy and digital trade agreement, developing countries in the IPEF including Fiji must exercise caution with respect to the commitments they undertake without adequate regulatory and infrastructure reforms in place. Figures 10 and 11 show the digital economy integration levels among the IPEF and also for Fiji, revealing that there is scope for IPEF members to integrate in this area. In this regard, a step wise approach of prioritisation may be better than a full-fledged agreement. Developing countries could also demand technical and financial assistance to develop their digital infrastructure environment first and foremost, and then move progressively in other areas.

For developing countries, including Fiji, agriculture is a vital sector for economic development. The issues surrounding non-tariff measures for market access have been a challenge for Fiji. The discussion of the text focuses on enhanced transparency, regulations, SPS and TBT measures. Depending on the requirements of countries, the cost of compliance may be high. As such, agriculture and related infrastructure development assistance is needed to ensure that Fiji is able to benefit from the market access of the IPEF countries. Fiji must also ensure that the baseline on discussions in relation to agriculture are aligned with the WTO Agreement on Agriculture.

In relation to transparency and regulatory practices, the text aims to focus on commitments on the publication of proposed regulations and allowing a meaningful opportunity for public comment by interested persons, improving public accessibility to information about regulations and regulatory processes, having processes and mechanisms for internal coordination, and reliance on high quality information, and science and evidence in rulemaking. The members further aim to use this arrangement as an opportunity to cooperate on the adoption of sound and transparent regulatory practices, thereby promoting good governance. It further aims to build on the Joint Statement Initiative on Services Domestic Regulation of the WTO. Despite the fact that good regulatory practices and coherence would facilitate trade, developing countries, including Fiji, need to ensure that their right to regulate the domestic sector is not compromised. Furthermore, adhering to the process of high quality, scientific and evidence-based rule making would also require resources and capacity. This will affect the ability of market access for services. The issues surrounding these are currently under debate at the WTO. Should Fiji consider progressing in this area, it needs to do so progressively, ensuring that the required regulatory and institutional capacities are developed, and the private sector is also empowered to undertake the required regulatory reforms first and foremost.

On competition policy, the Trade Pillar focuses on members maintaining competition laws to ensure open, fair and competitive markets, including digital markets and cooperating on competition enforcement and policy issues. The issue of competition policy is one of the issues from the 1996 Singapore Ministerial Conference of the WTO. The issues surrounding anti-competitive behaviour have elements in the Trade-Related Aspects of Intellectual Property Rights (TRIPS) and Trade-Related Investment Measures (TRIMs) Agreements. The issue, however, is to ensure that developing countries including Fiji have the technical and financial capacity to negotiate and implement these policies in their domestic markets effectively. The discussions would also include the competition policy of digital markets which is a new area and would first require capacity building before arriving on any commitments.

22 "Joint Initiative on E-commerce", World Trade Organization, https://www.wto.org/english/tratop_e/ecom_e/joint_statement_e.htm

For developing countries including Fiji, trade facilitation is crucial for overall trade. Fiji has signed and ratified the WTO Trade Facilitation Agreement and is in the process of implementing its commitment. The scope of the IPEF trade facilitation agreement, however, is beyond the traditional trade facilitation commitment, in particular on the digitalisation aspect, which has other related issues such as data protection and cross-border flow of data. To undertake digital trade facilitation, further domestic reforms on regulation and infrastructure would be key. For these, Fiji would require regulation and infrastructure development capacities.

The Trade Pillar has a development and economic cooperation element which focuses on the ongoing development and economic cooperation, including the existing bilateral- and regional trade-related technical assistance and capacity building. The IPEF commitments are robust and beyond the scope of the traditional frameworks or agreements. As such, developing countries including Fiji have to demand additional technical and financial assistance for the full implementation of the IPEF.

Implications of the Clean Economy Pillar for Fiji

The US has tabled a proposal which seeks to promote a clean economy, including by accelerating IPEF partner countries' clean energy transitions, scaling and reducing the cost of innovative technologies and advancing low greenhouse gas emissions in priority sectors. The text also aims to enhance collaboration with the private sector to take advantage of the market, investment, industrialisation, and quality job opportunities related to a clean economy transition.

In the case of developing countries including Fiji, whilst the commitment to clean energy transition is vital to tackle climate change, they have to ensure that the commitments in relation to the regulations and infrastructure requirements do not burden the private sector. Relative to the US, the private sector in Fiji is mostly composed of small and medium enterprises. Furthermore, investing in clean energy infrastructure will also require enormous capital investment. In the textual proposal and discussions, Fiji has to consider these aspects and include a development chapter to cover the specifics of the technical and financial assistance needed for the clean economy transition. Fiji must undertake a phased approach towards these transitions.

Implications of the Fair Economy Pillar for Fiji

The US has tabled a proposal that seeks to prevent and combat corruption and related financial crimes, improve tax administration and increase cooperation, information sharing and capacity building in these areas. The aim of the text is to promote inclusiveness, transparency, the rule of law and accountability, all of which are essential to levelling the playing field for workers and enterprises in the Indo-Pacific region and ensuring that the benefits of economic growth and investment are broadly shared.

For developing countries including Fiji, a fair economy is vital for international trade. The US proposal, however, covers several areas and also requires compliance with various international standards. For Fiji, while combating corruption, ensuring transparency, and adhering to labour rights are at the core of a well-functioning economy, it has to also ensure that sufficient technical and capacity building assistance are provided for it to undertake the required regulatory and institutional reforms. As such, Fiji will need to strengthen or propose a pillar on economic and development assistance to cover specific areas of assistance for fair economy.

Conclusion

The IPEF is a new generation agreement which covers new and emerging issues and has geopolitical and economic agendas intertwined. The members of the IPEF are at different levels of development, with the US, Australia, New Zealand, Singapore, South Korea, Malaysia and India being major economies. Fiji is one of the smallest economies among the IPEF members. The framework does provide an opportunity for Fiji to integrate with Asia and the US and create new market opportunities for trade and investment. However, these benefits would only be realised if Fiji is able to bear the cost of the reforms (which are substantial) to effectively integrate and benefit from the Supply Chain Agreement, and the available proposals for the Trade, Clean Energy and Fair Economy Pillars.

For Fiji, the IPEF, on the one hand, has potential for market access, with access to Asia and the US market, which would not be feasible if Fiji had to negotiate FTAs with each member separately. However, the requirements for regulatory, infrastructure and institutional reforms of the IPEF may be burdensome for Fiji and may act as a barrier to fully utilising its potential. The private sector of Fiji will need to comply with the regulatory requirements in order to be able to trade. As such, Fiji would require technical and financial assistance to undertake the required reforms over time if it aims to benefit from the IPEF.

A key recommendation for Fiji would be to strengthen or propose an overarching pillar as the IPEF development chapter with specific areas of technical and financial assistance across the various pillars of trade, supply chain, clean energy and fair economy. It must also ensure that the assistance is in addition to the existing assistance provided by various developed countries. Given that the IPEF is proposing new areas of commitments by members which are beyond the scope of traditional trade agreements including the WTO, Fiji could provide such justification. Furthermore, should Fiji decide to volunteer under all the four pillars, within the development assistance pillar, it needs to further request developed members to provide an action plan for the provision of assistance over time. Fiji must also condition its commitment to technical and financial assistance by developed IPEF members.

Views expressed in the paper are of the author and not of any persons or organisations.

About the author

Dr Radika KUMAR is an expert in international trade and economics. She specialises in trade negotiations in particular fisheries subsidies and digital infrastructure policy for the digital economy. She holds a PhD in Economics from the University of the South Pacific. She served as an Economist and Special Adviser to the Minister for Foreign Affairs of Fiji in the early years of her career. Dr Kumar has also been the first adviser for Hub and Spokes to be appointed from the Pacific region under the EU-Funded Hub and Spokes programme for the Commonwealth Secretariat in 2014. She served in the Marshall Islands where she assisted the countries in implementing trade policies and undertaking capacity building trainings.

Dr Kumar has experience in negotiating Trade Agreements including the Pacific Agreement on Closer Economic Relations, EU-Economic Partnership Agreement, Pacific Island Countries Trade Agreements, the Micronesian Trade and Economic Committee and US-Compact agreement. She later served as Deputy Head of Mission in Geneva and worked with various organisations including UNESCAP, ITC, WTO WIPO and also was instrumental in WTO negotiations including the Fisheries Subsidies negotiations for members. She coordinated with ACP, SVE, G-90 and LDC group of countries.

She is also an academic and was lecturer in Economics at the University of the South Pacific teaching international economics. Currently, she holds the position of Adviser, Artificial Intelligence and Transformative Technology at the Commonwealth Secretariat in London. She is also an author and publisher, and a frontend developer.