Reimagining Plurilateral Trade Agreements in the Indo-Pacific

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Abstract

The open, rules-based multilateral trading system is facing multiple challenges. The pandemic exposed the vulnerability of global supply chains. The climate crisis is affecting economic activities. The geopolitical tension between the two superpowers and the securitization of economic issues are intensifying. Even though the multilateralism with the WTO at its core is faltering, the plurilateralism with pragmatism has been gaining traction, especially in the Indo-Pacific region. The regional integration of the last decade with the CPTPP, RCEP, and IPEF in this region has cemented their common belief in free and open trade, a multilateral trading system, and a rules-based international order. These plurilateral trade agreements are not perfect but can be a guiding light leading to the revival of the multilateral trading system by complementing each other. The agreements need to upgrade their rules, in particular in the areas of supply chain resilience and clean economy, and expand their membership to be more comprehensive, inclusive, and transparent. The year of 2025 will be a crucial year for the global trading system. The G2 leadership in global trade is missing. The middle-power countries in the Indo-Pacific should rise to the occasion and continue to advance the global trading system through plurilateral trade in which they have shown their global leadership.

Introduction

Global trading system is facing multiple challenges. The open, rule-based multilateral trading system that has been the backbone of post-World War II peace and prosperity is faltering. The United States that used to be the main designer and guarantor of the neo-liberal international economic order is turning inward and against making new market-liberalizing commitments. This trend may continue in the next U.S. administration. The Korea-United States Free Trade Agreements (FTAs) that entered into force in 2012 is becoming the last new FTAs agreed by the United States. Since its accession to the World Trade Organization (WTO) in 2001, China has risen as a major trade and industrial powerhouse. The geopolitical competition between the world's two largest economies is complicating global trading system that is already under strain with the advent of new digital economy and accelerating climate crisis.

These new challenges have significant ramification for global trading system.

First, with escalating geopolitical tension with Russia's invasion of Ukraine, wars in the Middle East and the U.S.-China rivalry, national security and economic security emerged as new parameters of international economic policymaking. Starting with section 232 tariffs on steel and aluminum based on national security threats during the Trump administration, trade measures based on national security rationale have continued to expand despite the Biden administration's declared principle of "small yard, high fence", including export control on semiconductors, AI and other sensitive technologies, inbound investment screening(particularly, in relation to Nippon Steel's acquisition of US Steel), outbound investment restrictions and recent proposal to import ban on Chinese software and hardware integrated to connected cars.

Second, as China's 1.4 billion population economy with state capitalism can make almost everything cheaper and better than its competitors, it became an urgent and critical task for the global trading system to find a new equilibrium between China and the rest of the world. China has transformed itself from "the factory of the world" to new sources of innovation and cutting-edge technologies in electric vehicles, batteries and new green and digital technologies. At the same time, as China's economy is slowing down and domestic consumption is not recovering, China is doubling down on "new quality productive forces" manufacturing and export surge to other countries to revive its economic growth. China's overcapacity issues are causing trade conflicts with multiple countries, including the U.S., the E.U., Mexico, India, Brazil, Chile, Turkey, Indonesia and Vietnam. According to WTO, about 32.6 percent of anti-dumping and 43.8% of countervailing duties cases were brought against China since 2020, destabilizing global trading system in a vulnerable status already.

Third, the global trading system needs to address new types of global challenge it faces, such as supply chain resilience, digitalization and climate crisis. Since the Covid-19 pandemic, the world has faced series of supply chain disruptions and shocks ranging from masks and baby formula to semiconductors and rare earth critical minerals. Enhancing supply chain resilience by developing new frameworks of international cooperation emerged as a new policy priority to prevent possible supply chain disruptions and to cope with those in case of contingencies. Digital technologies evolve fast, but lack of global standards and rules, or their fragmentation at best are becoming bottlenecks to hinder further progress. Climate crisis is an urgent global task of our time. Yet, global trading system has failed to internationalize the environmental externalities so far and is not fit for purpose anymore.

Despite these multi-layers of new challenges that the current global trading system is facing, WTO, the guardian of multilateral trading system, is not working effectively in three key functions of rulemaking, monitoring and dispute settlement. Reforming WTO is an urgent task, but time is too short to wait until it happens and multilateral approach is fully recovered again.

Second-best Option: Moving Forward with Plurilateral Trade Agreements

In this regard, plurilateral trade approach can be a pragmatic second-best solution to tackle urgent global challenges and continue to advance global trade agenda. Some criticize that plurilateral approach could potentially hurt multilateral trading system with fragmentation of trading blocks and preferential treatment of exclusive members. However, history proves that one of the most successful trade initiatives of recent years has been plurilateral trade agreements such as the Information Technology Agreements (ITA).

The ITA was concluded in 1996 by 29 countries committed to completely eliminating tariffs on IT products covered by the Agreement and expanded to 50 countries in 2015, covering almost $1.3 trillion worth of trade in IT sectors per year. It significantly helped boost IT sectors and spread IT revolution around the world to both developed and developing countries. For example, Taiwan was able to grow and export its IT products thanks to the ITA although Taiwan's options to pursue FTAs with other countries were limited due to its diplomatic status.

The Indo-Pacific region is the area where plurilateral trade agreements have been active with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) that entered into force in 2018, the Regional Comprehensive Economic Partnership (RCEP) in 2021 and the Indo-Pacific Economic Framework (IPEF) concluded in 2023. There are new sectoral plurilateral trade agreements in digital and climate areas, such as the Digital Economic Partnership Agreement (DEPA), which was signed in 2020 by Singapore, New Zealand and Chile and the Agreement on Climate Change, Trade and Sustainability (ACCTS), which was concluded in July 2024 by New Zealand, Costa Rica, Switzerland, and Iceland, with Norway possibly joining later. As such, plurilateral trade agreements that emerged and continue to evolve in the Indo-Pacific could be useful, pragmatic platforms to advance global trade agenda when multilateral trading system with WTO at its core is being challenged at its core.

CPTPP: A Standard-bearer of High-Standard New Rulemaking

The CPTPP took almost a decade in the making: expanding from P4 which was a mini trade deal between Brunei, Chile, New Zealand, and Singapore to a U.S.-led mega-FTA negotiations in 2008, concluding the Trans-Pacific Partnership (TPP) as the largest FTA among 12 member countries in 2015, surviving the U.S. withdrawal in 2017 and finally entering into force in 2018 as CPTPP. After the U.S. withdrawal, the aggregate GDP size of CPTPP member countries shrank to a third of its original size, but its rules and standards remained as the highest among all the existing FTAs by that point.

Almost three years into its entry into force, the CPTPP began to gain traction with multiple applications for accession. In 2021, the CPTPP started accession negotiations with the U.K. and concluded in 2023, which became its 12th and first new member. Moreover, China surprised even the CPTPP member countries by submitting its official application for accession all of sudden in September 2021, followed by Taiwan a few days later. As of today, seven aspirant countries are lined up in a long que for possible accession: China, Taiwan, Ecuador, Costa Rica, Uruguay, Ukraine, and Indonesia.

In November 2023, the CPTPP ministers launched a review that was supposed to be conducted within three years of its entry into force "with a view to updating and enhancing the agreement" and "to remain relevant to the trade and investment issues and challenges confronting the Parties". The final review report is scheduled to be referred to the CPTPP Commission in 2025 with a set of recommendations on next steps.

In today's leaderless global trading system, the CPTPP holds promise as a standard-bearer that can carry the torch of free trade and regional integration. In this vein, the CPTPP faces two big tasks: (1) updating and enhancing the rulebook and (2) expanding the membership.

Updating and enhancing the rulebook

The CPTPP remains as one of the highest standard rules so far among existing bilateral and plurilateral FTAs. However, almost six years into the implementation, the CPTPP rulebook is getting out of date already in light of rapidly changing global trade environment.

Firstly, the review should provide an evidence-based assessment on the effects of some of innovative new chapters and provisions in the CPTPP, including state-owned enterprises (SOE), sanitary and phytosanitary (SPS), e-Commerce and rules of origin just to name a few.

The SOE chapter (Chapter 17) was the first of its kind in any free trade agreement. Now it draws special attention in terms of a rising trend of industrial policies in major economies and China's application for accession in particular. The SOE chapter is premised on the assumption that most of enterprises in an economy are private-owned and operated based on market principles. But, the world has changed. Governments compete to re-shore and build high-tech industries such as semiconductors and electric vehicles, and their industrial policies provide massive subsidies in some cases with governments' equity investments in a company. China's economy is a state capitalism with thousands of SOEs playing a pivotal role in the economy. During the original TPP negotiations, Vietnam was allowed to carve out a relatively large number of SOEs in the annex to exempt them from the SOE disciplines. However, the magnitude of SOEs in Chinese economy is in no comparison to that of Vietnam. The CPTPP review needs to reckon how SOE rules can reflect a changing nature of industrial policy and SOEs in an economy and what it means to apply the SOE provisions to an economy with state capitalism with a massive scale of SOEs as a main player of the economy.

The "accumulation" provision under the rules of origin (Article 3.10: Accumulation) has been touted as one of key enablers to accelerate regional integration and merit a plurilateral trade agreement vis-à-vis a bilateral trade agreement. Under a bilateral FTA, sourcing is restricted to the two parties if a product is to be considered originating under the rules of origin. However, in theory, a plurilateral agreement such as CPTPP allows more diverse and flexible sourcing among parties, helping regional supply chains among the parties to evolve. For example, if a final product is made in Japan, incorporating inputs from CPTPP countries such as Vietnam and Malaysia, along with non-originating inputs from non-CPTPP country like Indonesia, and exported to Canada, those inputs would be treated as "originating" as long as they meet the relevant product specific rules of origin. This "accumulation" rules allow producers to fully take advantage of regional sourcing in the CPTPP parties to be eligible for the preferential tariff treatment. This "accumulation" provision is a strong incentive for countries that have focused on bilateral FTAs to pursue a plurilateral trade agreement like South Korea who has bilateral FTAs with 11 members of the CPTPP already except for Mexico. It would be important for the review to show how this "accumulation" rules of origin worked in reality and how the rules advanced regional integration of supply chains among CPTPP members.

The e-Commerce chapter contained the "gold standard" rules of digital trade to allow cross-border transfer of data, ban computing facilities localization, protect source code, and secure data privacy and consumer protection. Since the entry into force of the CPTPP, there has been a sea change in terms of the explosion of digital trade and e-Commerce platforms in the CPTPP regions, the advent of AI technology breakthrough as well as increasing vigilance on cyber security and national security implication of data. Especially, the reversal of the U.S. position on the key issues such as cross-border data flow, localization and source code in WTO negotiations caused confusion and uncertainty in global efforts to develop new rules on digital trade. In fact, there is an increasing trend of applying national security and economic security rationale to data protection, digital apps and connected cars with intensifying geopolitical tensions. The CPTPP e-Commerce provisions allow some policy space "to achieve a legitimate public policy objective" with certain qualifications, but it is not clear how the CPTPP rules could be applied to recently surging national security related measures. The review needs to provide clearer guidance on the nexus between liberalizing digital trade and protecting national security.

Secondly, the CPTPP rulebook, which was conceived a decade ago in an era of hyper-globalization, should be updated and enhanced to address emerging challenges of the current time. Among others, the two urgent challenges are supply chain resilience and decarbonization, which traditional trade agreements have not internalized before. These are closely related to broader economic security agenda that many countries find increasingly important. It includes diversifying vulnerable supply chains to secure resilience in the system, accelerating green energy transition and decarbonization, and developing new framework for international collaboration for economic security (e.g. countering economic coercion).

Indo-Pacific Economic Framework (IPEF) provides useful templates for new rulemaking in the areas of supply chain resilience and decarbonization. The IPEF Supply Chain Agreement and Clean Energy Agreement will be discussed later in more detail, but the CPTPP can build on the new rules made in the IPEF and develop them further to fit for the CPTPP. Some critics point out shortcomings in the IPEF approach: For instance, the IPEF contains no binding commitments and left out concrete outcomes to be materialized through implementations, instead focusing on institutional arrangements. Nonetheless, if the CPTPP builds on the rules developed in the IPEF supply chains and clean energy pillars, the CPTPP and the IPEF can complement each other. When it comes to decarbonization, it is worth noting that New Zealand, Costa Rica, Iceland and Switzerland recently concluded the Agreement on Climate Change, Trade and Sustainability (ACCTS), which is a ground-breaking new agreement that molds climate change and decarbonization components into a trade agreement, including liberalization of environmental goods and services, principles-based guidelines for voluntary eco-labelling program, and elimination of harmful fossil fuel subsidies.

Expanding the membership

With the U.K. accession, the CPTPP currently has 12 countries, accounting for 13 percent of global GDP. The original TPP used to account for nearly 40 percent of global GDP with the U.S. as its member. Going forward, expanding the CPTPP membership would be a big task at hand to be a truly open, comprehensive, and inclusive plurilateral trade platform with significant market liberalization and new rulemaking to address imminent global challenges.

There is an inevitable trade-off between maintaining highest level of liberalization and standards, and growing its pie for a bigger impact and scale. The CPTPP needs to significantly grow its market size and coverage. From the point of regional supply chain integration in key industrial sectors, the CPTPP is not inclusive nor comprehensive in its current form yet because it misses out some important links in the region such as South Korea and some ASEAN countries, namely Indonesia, Thailand, and the Philippines. This is where the CPTPP is lacking compared to the Regional Comprehensive Economic Partnership (RCEP) which includes all ten ASEAN countries and South Korea. South Korea's accession to the CPTPP should be seriously considered especially when there is a mutual understanding between Japan and South Korea about the strategic importance of the bilateral partnership as well as the Camp David trilateral partnership with the U.S. in a rapidly changing geopolitical landscape in East Asia. More ASEAN members should be brought into the CPTPP as well. The ASEAN countries are emerging as key partners to diversify supply chains from China. Resource-rich countries in the ASEAN can play an important role in building alternative supply chains in critical minerals essential for digital and clean technologies. It would be difficult for them to meet the high standards of the CPTPP immediately, but a more flexible mechanism to explore their accession in a foreseeable future need to be considered, which will be beneficial for the CPTPP as well.

How to handle the China and Taiwan accession cases is of critical importance to the future of the CPTPP. It is expected that China's accession would not be a short-term project both to the CPTPP as well as China. The global economic environment surrounding China has changed significantly from 2021 when China applied for the CPTPP accession. Now with the slowdown of Chinese macro-economy on one hand and the surge of Chinese manufacturing and exports on the other, the global economy is grappling with how to find a new equilibrium with China. What does it mean to accelerate the integration of the CPTPP supply chains with China in this new circumstance? This important question needs to be answered from the economic security point of view.

The CPTPP members should carefully organize the next accession negotiations, taking into account a long list of applicant countries and different level of readiness and preparations among those countries. According to Article 1.1., Annex to CPTPP/COM/2019/D002, Aspirant economies are encouraged to "engage informally" with all CPTPP Signatories regarding their interest in joining the CPTPP prior to submitting a formal request. For example, when South Korea prepared for its accession to the CPTPP since 2013, it conducted countless informal consultations with every member country at every level of government hierarchy. Certainly, it helped both sides to prepare for actual negotiations. It is not clear how many applicant countries have conducted and completed such informal consultation process prior to the official submission of the application. Yet, the CPTPP should consider institutionalizing such an informal consultation process as an effective way to screen out the aspirants prepared to get through the grueling accession process politically. Aspirant economies' "demonstrated pattern of complying with their trade commitments" stated in the CPTPP Joint Ministerial Statement in 2023 could be discussed in this way as well. Lastly, the CPTPP should prioritize the accession negotiations of the most prepared countries over others to encourage aspirant economies to be fully prepared before they apply for the applications.

That said, the CPTPP can aim higher and bolder in reimagining itself as a guiding light for the free and open global trading system. While the United States retreats from free and open trade, the European Union could be a promising partner for the CPTPP to collaborate with, filling in the void left by the United States. If the 12 countries in CPTPP and the 27 countries of E.U join forces to move forward, it can reach a critical mass to advance free and open trade, upholding rule-based international order. Of course, it is easier said than done. However, there would be different ways and different levels of engagements in which the CPTPP and the E.U. could forge a strategic partnership, whether it be market access, rules and standards, policy dialogues or sectoral agreements. This can reflect economic and political circumstance on both sides. For instance, the E.U. can engage with some of the CPTPP countries such as South Korea and Japan to expand the green steel negotiations that the trans-Atlantic partners got stuck in. The E.U. cross-border adjustment mechanism (CBAM) scheduled to take effect in 2026 is of keen interest to many CPTPP countries. The E.U. and the CPTPP countries can collaborate to develop a sort of mutual recognition agreement (MRA) that can coordinate and harmonize the EU CBAM and other carbon pricing mechanisms that some CPTPP countries are operating.

RCEP: The Largest Free Trade Agreement in the Indo-Pacific

The RCEP is the world's largest free trade agreement (FTA), accounting for almost 30 percent of global GDP, population and trade with 15 countries of China, Japan, Korea, Australia, New Zealand and the ten ASEAN countries. It was initiated and led by the ASEAN in 2012, not by China as media portrayed, and took effect in January 2022, taking almost ten years in the making. Its accession provisions allow new accession 18 months after the entry into force, which started on July 1, 2023. Its general review won't start until January 2027, which is five years after the entry into force. Thus, it would be important for the RCEP to focus on its implementation to garner the expected benefits to the members and to the region as a whole at this point in time.

The RCEP provides new opportunities to the fastest-growing region in the world. The RCEP is not as high-level nor ambitious as CPTPP in terms of its rules, standards and market liberalization, but it is more comprehensive, diverse and inclusive as it encompasses 15 countries of different income levels, development stages, natural resources and socio-cultural backgrounds. The GDP per capita of the member countries vary from the least-developed country at USD 1,500 level to the highest level of developed country at USD 90,000 level. Their industries cover most of manufacturing supply chains from garment and food to semiconductors and automobiles. Indeed, the RCEP could be a new model for integrating Global South into global supply chains through a modern comprehensive plurilateral free trade agreement.

The RCEP is facilitating the development of new regional supply chains among member countries. The RCEP's entry into force coincided with the heightening geopolitical tension between the U.S. and China through new economic security measures set by the U.S., including export controls, inbound investment screening and outbound investment restrictions. Especially, the U.S. outbound investment restrictions announced recently prohibited or required notification of certain outbound US investments to China in several technology sectors relevant to military such as semiconductors, quantum and AI. In addition, the U.S. Inflation Reduction Act banned EV battery components and critical minerals sourced from the foreign entity of concerns namely, China and Russia, respectively from 2024 and 2025 for an EV to qualify for the USD 7,500 clean vehicle credit. These economic security measures had a chilling effect on foreign direct investments into China and propelled global businesses to relocate and diversify from China-centered supply chains. This opened a new window of opportunities that were not available before to other countries in the region, especially the ASEAN countries. The RCEP helped those countries to capitalize on newly emerging opportunities with enhanced trade and investment environment.

There is not much empirical data available and study conducted yet on how much of such relocation or diversification is attributed to the RCEP vs. other factors, but interviews with local businesses reveal that the reduced tariffs and non-tariff measures under the RCEP certainly contributed to the facilitation of trade and investments among the RCEP member countries. Some experts criticize that such U.S. policies didn't reduce other countries' reliance on China, but to the contrary made them more reliant on China for sourcing inputs to manufacture and export goods. They pointed out that global and Chinese firms relocated to the ASEAN countries, but increased the imports of parts and intermediate goods from China for final products to be exported to the U.S. market. As a result the supply chains didn't decouple from, but got closer to China, and became lengthier via connector countries such as Vietnam and Mexico.

This shift happening on the ground in regional supply chains could be a positive development for localization of industries and more diversified supply chains from longer-term perspectives.

Global supply chains are complicated and don't shift overnight. Numerous case studies show that global businesses that relocated to a new developing country continue to source from other countries because there is no established local eco-system yet. But, over time with a right set of policies and a public-private partnership, local workers and businesses begin to learn and absorb knowledge and skills and build capacities to supply to global businesses. The RCEP enables such localization process by facilitating their integration into regional supply chains and trade network.

Almost three years into the RCEP implementation, it turned out that one of its strong merits is its business-friendly rules of origin. In many cases, the complicated rules of origin and administrative burden is a high barrier to prevent small and medium enterprises from utilizing FTAs to their benefits. The RCEP rules of origin provides flexibility to businesses by offering more than one product-specific rules for firms to choose from and allowing firms the self-certification of origins by themselves. There are anecdotal cases[1] that after the RCEP came into effect, China's imports of Korean products using the RCEP agreement vis-à-vis the Korea-China FTA increased although the preferential tariff rates under the RCEP agreement are higher than those under the Korea-China FTA because Chinese businesses chose the RCEP because the rules of origin are easier to comply with. Obviously one common harmonized rule under a plurilateral trade agreement like the RCEP is an intangible, but big boon to businesses, in particular, to SMEs because in many cases businesses tend to just give up preferential tariff treatment due to the daunting task of complying with all different complicated rules of multiple bilateral FTAs.

Despite these opportunities, the RCEP faces challenges as well. While the RCEP facilitates the integration of supply chains among member countries and the development of local industries in developing member countries, the region needs to cope with the risks involving Chinese imbalances and the surge of its manufacturing and cheap exports from China. The economic security agenda emerges as one of important factors in the reconfiguration of supply chains in the midst of the U.S.-China geopolitical competition. It would be challenging to find a delicate balance between removing tariffs and non-tariff barriers under the RCEP and erecting guardrails to prevent overdependence and secure economic security among a diverse group of member countries.

The RCEP was concluded and came into effect in the middle of the pandemic, but its rules and standards were the products of pre-pandemic era. Its e-Commerce chapter is a progress, but modest at best in the context of exploding digital trade in the ASEAN region. It lacks an environmental chapter, which would be a missed opportunity down the road considering the rapid development of clean technologies and huge economic potential of decarbonization and clean energy transition. The region has gone through series of supply shocks and disruptions during and after the pandemic. The RCEP member countries need to be integrated into the regional trade and supply chains in a way to secure resilience in the system. The RCEP is still at an early stage of implementation, but in the medium and long-term, it would be critical to explore new rules and standards to strengthen the RCEP in these emerging critical issues among different group of countries.

Going forward, the RCEP could evolve into a leading plurilateral trade and investment platform to bring Global South on board to the path of re-globalization. For countries from Global South, it would be reasonable to start with the RCEP for domestic reforms and modernization needed to be integrated into global supply chain eco-system. Now a few candidates are in queues for

[1] https://www.jetro.go.jp/biznews/2022/08/4d7f02723d6af874.html

potential accession into the RCEP: Hong Kong, Sri Lanka and Chile have made formal applications already and Bangladesh is considering. Expanding the geographical scope to Latin America and South Asia would be a booster to the RCEP. Chile's accession could open new doors for other developing countries in Latin America. India was an original negotiating party but pulled out of it in less than 24 hours before the heads of the RCEP states were scheduled to meet to declare the conclusion of negotiating text in November 2019. The RCEP provided India with a special status that the agreement is open for accession by India from the date of its entry into force despite its general accession kick-off timeline of 18 month after the entry into force. India is positioning itself as an alternative production base for global manufacturing companies to relocate from China. However, it is underperforming its potential by opting out of regional trade agreements such as RCEP. In the absence of India, connecting the RECP and South Asia markets through Bangladesh and Sri Lanka would be a strategic move for the RCEP.

IPEF: A New Generation of Economic Security Cooperation Framework

The Indo-Pacific Economic Framework (IPEF) is a flagship economic security initiative that the Biden administration has led with 13 other countries in the region, including Australia, Brunei, Fiji, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Thailand, and Vietnam. The much-anticipated IPEF produced mixed outcomes after a year and a half of negotiations. The IPEF achieved a meaningful outcome by concluding in November 2023 with the three pillars out of four: supply chains, clean economy and fair economy, but no agreement was made in the trade pillar.

There are a few shortcomings that critics point out on the IPEF.
First, the lack of market access in the IPEF doesn't address the competitive disadvantage that the US businesses face in a region where trade liberalization and market integration continue to advance with the CPTPP and RCEP up and running. Second, the concluded three pillars provide a new framework for international cooperation among its members but contains no binding commitments. This is partly due to the fact that the IPEF was not approved by the U.S. Congress, but rather conducted as an executive agreement. The concluded three pillars of the IPEF focused on developing aspirational principles and institutional arrangements for further cooperation, but were short of producing concrete outcomes. Last, but not least, the failure to conclude the trade pillar, which includes digital trade, was a setback for the US leadership in an area where there is an urgent need for a new rulemaking in the exploding digital market.

Obviously, the IPEF is not perfect, but deserves credit for charting a new path to address emerging new challenges of economic security that the global trading system faces, especially supply chain resilience and decarbonization. Supply chain resilience is an urgent task for most of the IPEF countries since they have experienced serious supply chain disruptions during and after the pandemic. As carbon neutrality is mainstreamed in the market, countries are struggling to decarbonize their industries and trade not to fall behind. Many countries are exploring ways in which they could diversify their supply chains, decarbonize their economy and collaborate with like-minded partners more systematically for such purposes. Supply chain resilience nor decarbonization is something that conventional trade agreements had with before. These are different kinds of issues than market liberalization. A new framework, mechanism and approach are needed to tackle these new kinds of challenges.

Turning the IPEF agreements into actions would be important to vindicate this novel approach. The implementation of the IPEF should be prioritized on garnering concrete benefits of international cooperation in supply chain resilience and decarbonization. The IPEF could help member countries materialize investment opportunities by troubleshooting investor grievances, facilitating regulatory coordination and playing more active role in match-making and co-financing with a public private partnership. Incorporating the IPEF member countries into the U.S. Inflation Reduction Act (IRA) tax incentive schemes bilaterally or plurilaterally would bring as big and tangible benefits as market access to them, which could accelerate supply chain diversification from China. Among the IPEF member countries, only Australia, Singapore and South Korea are eligible for the clean vehicle tax credits under the IRA thanks to their FTAs with the U.S., and more recently Japan as well with its Critical Minerals Agreement with the U.S., but resource-rich countries such as Indonesia, Vietnam, Malaysia and the Philippines are ineligible for such benefits.

The IPEF could also develop more concrete forms of supply chain cooperation in case of contingencies. The case in point is the urea crisis in Korea that almost devoured the nation in the winter of 2021. The urea is a diesel exhaust fluid mandatorily used in diesel vehicles to reduce greenhouse gas emissions in Korea. When China imposed export restrictions on urea, its supply dried up and the market panicked. Millions of diesel trucks and cars would grind to a halt any day, which could have a far-reaching impact on the economy, from online shopping deliveries to ambulances. In fact, Korea was relying on China for more than 95% of its urea imports up to that point in 2021, revealing the vulnerability of the supply chain.

What the IPEF could do during the implementation phase is to operationalize supply chain cooperation mechanism in case of such a crisis moment triggered by export restrictions or economic coercion. International cooperation would be badly needed, and the IPEF could help by mapping out supply chain vulnerabilities in key sectors, simulating diverse ways of contingency cooperation, including strategic stockpiling, and agreeing on concrete scenario-based action plans that each country can take to respond to contingencies.

The IPEF Clean Economy Agreement holds promise as a first-of-its kind to incorporate decarbonization elements into the trading system. It introduced a practical key instrument to implement concrete projects through cooperative work programs (CWP). The IPEF member countries agreed to form CWPs on hydrogen supply chains, carbon markets, clean electricity, just transition, sustainable aviation fuel, emissions intensity accounting, e-waste urban mining, and small modular reactors. Such CWPs can be created based on specific interests and priorities of individual members, so should be designed and run with an aim to produce concrete outcome beneficial to the participating countries.

Carbon markets could be a good case to develop further through the CWP. The Indo-Pacific is a promising region to vitalize carbon credit market based on the Article 6 of the Paris Agreement because there is a critical mass of developed countries in demand for carbon credits (e.g., Australia, Japan, Korea and Singapore) and developing countries in supply for carbon credits (e.g., Indonesia, Vietnam, Thailand and the Philippines). Vitalizing carbon markets in the Indo-Pacific can help mobilize private capital from developed countries to developing countries through market-driven carbon crediting mechanisms. The IPEF countries could co-develop high-standard guidelines and infrastructure necessary to enable carbon markets through CWP, such as robust carbon credit accounting and certification systems and capacity-building.

With that said, 2025 will be a critical year for the future of the IPEF. The fate of the IPEF could diverge depending on the outcome of the U.S. presidential election in November 2024. In either eventuality, the current domestic US political circumstances should not be a reason for failing to maximize the potential of the IPEF.

The middle-power countries of the IPEF should step up to lead rather than follow as Japan did for the CPTPP when the U.S. withdrew in 2017. They should take the big responsibility of continuing to develop the IPEF as a more effective platform for economic security cooperation among like-minded countries. The IPEF has some shortcomings but can provide a good starting point to experiment with different approaches, upgrade and strengthen the institutional framework to produce tangible win-win outcomes in novel areas such as supply chains and clean energy.

Expanding its membership can be a strategic move to maximize network effect of the group. The CPTPP member countries such as Canada, the U.K., Mexico and Chile could be promising candidates. In this way, the CPTPP lacking disciplines on supply chains and clean energy and the IPEF lacking market access components can become complementary to each other, creating synergy in the Indo-Pacific trade and investment environment overall. These new members can add values with their rich resources of critical minerals. The E.U. can be considered as a potential partner to the IPEF. The U.S. and E.U. have collaborated on similar issues as discussed in the IPEF through the Trade and Technology Council (TTC). Synergy can be created by exploring the ways in which the IPEF and the TTC (E.U.) can partner for economic security.

Conclusion

The Indo-Pacific region has been a poster child of globalization and multilateral trading system. Starting from Japan, many countries in the region, including South Korea, Singapore, Taiwan, Hong Kong and China, have moved up the development ladder by embracing free and open trade and integrating themselves into global supply chains.

The neo-liberal international economic order that has underpinned the explosive growth of cross-border trade and investment and brought unprecedented prosperity to thousands of millions of people around the world is facing challenges at multiple fronts; intensifying geopolitical tensions and economic security, supply chain vulnerability and climate crisis. On the other hand, new alternatives to "Washington Consensus" has not fully emerged yet. Uncertainty and instability are becoming a "new normal".

Despite these challenges, the global trading system has shown resilience. Challenges provide opportunities as well. While trade, investment patterns and global supply chains are shifting, some countries are rising from challenges, turning them into opportunities. As goods, services and capitals that were highly concentrated in China before are diversifying, other countries like India, Vietnam, Malaysia and others are rising to benefit from new opportunities for investment and local industrial developments. Thanks to these challenges, global development is being more "democratized" and the world is being "re-globalized", not "de-globalized".

The Indo-Pacific region has proven through the last seven decades of its development and transformation that "interdependence" is inevitable and positive, but "overdependence" can be overcome by diversifying trade, not by running away from it. This means making more friends and trading more with them.

2025 will be a crucial year for global trading system. 2024 was a year of politics and elections around the world. With the new leaderships in the United State and the European Union, new policies will be explored in the areas of trade, industrial and economic security policies. There is a big role to be played by middle-power countries in the Indo-Pacific. The active trade agenda of plurilateral regional integration of the last decade with the CPTPP, RCEP and IPEF have cemented their common belief in free and open trade, multilateral trading system and rule-based international order. The WTO is not functioning well. The G2 leadership in global trade is missing. The middle-power countries in the Indo-Pacific should rise to the occasion and continue to advance global trading system through plurilateral trade in which they have shown their global leadership.

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