

# A Sneak-peek into the ‘First-of-its-kind’ Indo-Pacific Economic Framework: Korea’s New Opportunities and Challenges



**Jongduk KIM**

Ph.D., Director, International Trade Department  
Korea Institute for International Economic Policy

Last month the negotiations for the IPEF (Indo-Pacific Economic Framework), believed to be the ‘first platform of its kind’ for economic partnership across the Asia-Pacific region, took place in Busan from 10–14 June. Speaking of a new trade platform, there has been a strong call for a new standard trade agreement among countries including Korea. Unfortunately, in spite of the fact that some of the plurilateral negotiations are continuing and will pick the low-hanging fruit, the multilateral trading system represented by the WTO (World Trade Organization) has lost most of its functions as the center for trade negotiations, implementation and monitoring, dispute settlement, trade capacity building, and outreach, and is no longer expected to deliver significant new results. As for Korea, it was the KORUS FTA that has played a role as a standard reference for Korea’s other trade agreements alongside the WTO. However, it has also begun to slowly fall behind in areas such as the digital and green economy. Of course, there are other FTAs that have played a major role in increasing

Korea's trade with various economies around the world. Nonetheless, most of them were hardly more advanced than the KORUS FTA in terms of the comprehensiveness of new issues included and the level of commitments stipulated in them.

In addition to the withering rules-based trading system, the global economic environment has changed rapidly and abruptly since the late 2010s. The severe economic turmoil caused and spread by the global financial crisis in 2008-09 has made countries wary of the globalization they had enthusiastically, or perhaps uncritically, embraced and rethink about trade liberalization and its implications. Economic and geopolitical tensions among major economies have also significantly increased since around 2016. Meanwhile, the COVID-19 pandemic has been sweeping the world since late 2019, adding enormous economic burdens. Notwithstanding that the WHO officially ended COVID-19's status as a public emergency of international concern on May 5, 2023, its detrimental aftermath still continues to this day. Moreover, the Russian invasion of Ukraine pushed an already divided world into a 'cold war' situation. Facing the challenges posed by these troubles and the ensuing economic fallout, countries have moved quickly and aggressively to implement domestic policies to insulate themselves from the ailing world and prop up their faltering economies. In so doing, more attention has been paid to broader economic agendas such as from economic security related to supply-chain stability for food and energy to health security or the climate crisis.

In the midst of a rapidly disintegrating global economy, the United States initiated the IPEF, a new platform to address broader economic issues and agendas in addition to trade, with friends and allies who supposedly share 'values' and 'economic interests' with the United States and want to secure them in the region. The USTR describes the overall objectives of the IPEF as follows: "Through this initiative, the IPEF partners seek to contribute to cooperation, stability, prosperity, development, and peace in the region." This choice of words is somewhat unexpected, but intriguing from the perspective of traditional trade agreements under the WTO, which are known to aim to promote freer trade by removing wedges between countries such as tariffs or unnecessary regulatory barriers to trade.

Questions immediately arise about the new framework. These include: what are the Korea's motivations for joining the new U.S.-led initiative; what could be the Korea's policy directions that we should consider together with the IPEF given the current global economic and geopolitical situation.

Before addressing those questions, let me begin with a brief introduction to the IPEF. The framework was launched by the United States on May 23, 2022 with a total number of fourteen

participating economies including Korea. The United States has set an ambitious goal of concluding the IPEF negotiations by the APEC Summit in November, 2023. Economically, all IPEF participants represent 40 percent of global GDP and 28 percent of global trade in goods and services according to the USTR. For Korea, the IPEF members account for approximately 44.7 percent and 37.4 percent of Korea's exports and imports, respectively in 2022. In addition, the IPEF members account for about 45 percent of Korea's total foreign direct investment, which plays an important role in organizing the production networks of Korean firms and boosting trade in intermediate goods.

Although only the broad objectives and outlines of the negotiations are publicly available, the IPEF in the form of a trade agreement has shown unique features that set it apart from other trade agreements as we know them. First, the framework consists of four independent pillars, each covering: (1) trade; (2) supply chains; (3) clean energy, decarbonization and infrastructure; and (4) tax and anti-corruption, respectively. As you may have noticed, the areas the framework covered are not solely limited to trade issues. The agendas and titles known to be addressed in Pillar 1 or Trade Pillar are in line with traditional trade agreements, including trade facilitation, good regulatory practices, services domestic regulation and so on. However, Pillars 2 to 4 of the framework seek to address broader economic challenges that countries have faced in recent years in the form of laxer cooperation rather than strict legal commitments. Second, each pillar is seen as a separate agreement. The participation by members in the negotiations under each Pillar is thus optional. In fact, India is not negotiating under the Trade Pillar. Surprisingly, Pillar 2 was already 'substantially' concluded in May this year and some members now engaged in their domestic processes. Third, labor rights are becoming one of the focal points across all four Pillars, with the United States putting a strong emphasis on them. Since the beginning of the Biden administration, a 'worker-centered' trade policy has been a key part of its 'Build Back Better' agenda. Within this framework, the ILO Declaration on Fundamental Principles and Rights at Work is addressed as a key guideline in every Pillar of the IPEF. Fourth and perhaps most importantly, the IPEF does not include market access commitments or a dispute settlement mechanism. This is the main reason why experts and policy makers have doubts about the economic benefits of the IPEF and whether the framework would work. No carrots and sticks, no commitments, one can argue!

Now, we are somewhat ready to examine some of the issues that have been raised regarding the IPEF from Korea's perspective. The first question that needs to be addressed is whether there are benefits for Korea in joining the IPEF. Like other members, this question has also been raised in Korea from the very beginning as there are no market access commitments and

corresponding enforcement mechanisms in the framework. Well, it is true that what brings clear economic benefits as taught in the classroom is the improvement of market access for all participants. But, when we look back and reflect on Korea's past experience of trade liberalization, market access may not be the only thing that matters. Dealing with challenges by adjusting and updating Korea's economic system has been a large part of the success story of Korea's trade liberalization. Moreover, with or without market access commitments and dispute settlement mechanisms, the IPEF agreement will serve as a benchmark and reference for Korea's new trade policy for many years to come. On top of that, in the case of the IPEF in particular, securing stable economic relations with key trading partners is of paramount importance at a time of growing economic uncertainty and geopolitical tensions. Shaping and building global economic agendas together with key economic partners is definitely something that we cannot afford to miss.

Seeking a new path for economic cooperation with the IPEF members, the Korean government needs to consider trade policies that can complement the IPEF. In this context, joining the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership), the latest, updated, high-quality trade agreement with twelve members in the Pacific region, still seems to be a good option. It began as the TPP (Trans-Pacific Partnership) with the United States. But then the United States withdrew in 2017 after President Trump took office. While weighing the costs and benefits of joining a new mega-regional trade agreement involving Japan and without the United States altogether, Korea missed the window of opportunity to join the CPTPP. It should be noted, however, that the CPTPP shares seven members with the IPEF, Australia, Brunei, Japan, Malaysia, New Zealand, Singapore, and Vietnam. Unlike the IPEF, the CPTPP includes enhanced market access commitments and a dispute settlement mechanism. Moreover, the United Kingdom recently signed the agreement and finalized its accession to the CPTPP. Not only the United Kingdom, has China also expressed interest in joining the CPTPP and has submitted an application. It is not clear whether China will eventually meet all the requirements and become a member. But, as far as Korea is concerned, it is probably beneficial to join the CPTPP and work with other members to reach a mutually beneficial agreement with China in areas such as services, intellectual property rights, digital, environment and more, in the sense that China is Korea's largest trading partner and is deeply interconnected with various Korea's key partners in global production networks. Ironically, it is all the more important for us to focus on securing market access to other economies as the global economy becomes more fragmented.

Meanwhile, we need to expand the areas of bilateral cooperation with the United States. Indeed, there are areas where Korea and the United States can cooperate, and there are already some issue-based discussions and dialogues going on between the two economies. For instance, in terms of supply chains, there is the U.S.-ROK Supply Chain and Commercial Dialogue (May 2022; SCCD), and the Minerals Security Partnership (June 2022; MSP). In response to the rapidly growing climate crisis and energy (in)security, the two countries are collaborating to decarbonize the shipping sector by establishing the U.S.-ROK Green Shipping Corridor (Nov. 2022). In addition, the United States and ROK held a ministerial-level meeting under the Energy Policy Dialogue (EPD, 2021) to identify priority areas for further collaboration on economy-wide decarbonization. With regard to the IPEF, there are many areas that are critical but have not been included in the IPEF or have made slow progress. These include the digital economy, competition policy in digital platforms, intellectual property rights, the climate crisis and the climate club, to name a few. Based on a large framework such as the IPEF, Korea and the United States can expand areas of cooperation on these new fronts.

Now, the IPEF does not yet appear to be a perfect substitute for the traditional trade agreements nor a clear blueprint for the future of trade agreements. But it is an important step forward and it is what most of the economies around Korea are working on together. It may sound a bit trite but that what we need to do now is to strategize the opportunities and challenges and minimize the risks that we may face. **KIEP**