

23-11 Korea faces opportunities as well as risks under the Indo-Pacific Economic Framework

Jeffrey J. Schott and Megan Hogan

July 2023

Note: PIIE gratefully acknowledges funding from the Ministry of Economy and Finance, the Republic of Korea, for the research presented in this Policy Brief. The research was conducted independently. Funders are never given the right to final review of a publication before its release.

INTRODUCTION

The Indo-Pacific Economic Framework for Prosperity (IPEF), launched by the United States in May 2022, seeks to promote investment, trade, supply chain resilience, climate change mitigation, and other goals to achieve sustainable and equitable growth among the 14 participating countries. Unlike traditional trade pacts, which seek to open new market access opportunities by lowering import barriers, IPEF seeks to promote common rules on labor, the environment, and digital trade and to share information to help participants develop joint approaches to countering economic coercion by third countries and managing supply chain disruptions.

The initiative—designed and led by the United States—has four pillars, covering trade, supply chain resilience, clean economy, and fair economy practices, such as anticorruption and countering financial crimes. IPEF architects hail their innovative approach to international commercial relations, although much of what is being done under each pillar is informed by past or ongoing international responses to trade, energy, climate, and natural disasters. This framework is innovative in that it brings these issues together under the IPEF umbrella and in an Asian context absent China—Asia’s largest country.

IPEF creates some new economic opportunities for Korea, especially with key allies like the United States and member countries of the Association of Southeast Asian Nations (ASEAN). But it also poses challenges for Korea and other IPEF partners in managing their extensive commercial relations with China, which has not been invited to join and views IPEF as an attempt to encircle and circumscribe its economic dominance in the Indo-Pacific region.

Korea is actively participating in IPEF negotiations, for both strategic and

Jeffrey J. Schott is senior fellow and Megan Hogan is Eranda Rothschild Foundation Junior Fellow at the Peterson Institute for International Economics (PIIE).

economic reasons. Its overriding priority—as spelled out in President Yoon Suk-yeol’s essay in *Foreign Affairs* published a month before he took office in March 2022—is to strengthen the US-Korea security alliance at a time of increasing frictions with North Korea and China. For Korea, and other economies in the region, IPEF participation presents an opportunity to deepen US engagement in Asia and reverse some of the damage done by President Donald Trump’s blundering withdrawal from the Trans-Pacific Partnership (TPP) more than six years ago, which allowed China to strengthen its economic influence and strategic posture in Asia. The four pillars also provide a regional platform for advancing US-Korea trade and investment and managing bilateral frictions, including recent concerns about the US Inflation Reduction Act (Bown 2023, forthcoming).

IPEF meshes with [Korea’s own Indo-Pacific Strategy](#), launched in late 2022, which aims to promote cooperative policies with regional partners in areas critical to sustained economic development and national security. That initiative covers security issues, such as nuclear nonproliferation, counterterrorism, maritime security, cybersecurity, health/pandemic responses, and the “full implementation of UN sanctions against North Korea,” along with an economic agenda that focuses on promoting free trade and a rules-based economic order, climate and energy security, and “customized development cooperation partnerships” (Park 2022). The strategy promotes a broader vision of economic security and a more proactive role for Korea in regional affairs than it has played in the past. Unlike IPEF, the Korean policy does not exclude China, recognizing the importance of holding “high-level strategic dialogues [with China] to address not only the North Korea issue but also climate change, public health, and cultural exchanges” (Yoon 2002).

This Policy Brief examines progress on the four IPEF pillars, looks at how the possible outcomes could advance or constrain Korean policy, and assesses the possible impact of the framework on Korea’s economic relations with its major trading partners in the region. Given the ongoing and relatively opaque nature of IPEF negotiations, the conclusions must be considered preliminary and could be revised after the final texts of the agreements are published and ratified by the participating countries.

WHAT IS THE INDO-PACIFIC ECONOMIC FRAMEWORK?

IPEF is the banner for the Biden administration’s efforts to build stronger and deeper economic ties with its allies in Asia and Oceania. The message sent to those countries—that America is back from the wilderness of the Trump era—has been warmly welcomed, even though the scope of the arrangements for cooperative action remains in many respects vague and aspirational.

IPEF complements and augments existing trade arrangements in the region, including the Asia-Pacific Economic Cooperation (APEC) forum; the Regional Comprehensive Economic Partnership (RCEP); and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which succeeded the TPP. There is substantial overlap in the membership of these arrangements, albeit with important exceptions. Korea participates in all of them except the CPTPP¹ and has bilateral free trade agreements (FTAs) with the United States,

1 Korea’s Indo-Pacific Strategy commits to “promote free trade and address protectionism” through RCEP and “by taking part in discussions on the CPTPP” (Government of Korea 2022, 32).

China, and many others. China is excluded from IPEF but is part of RCEP and is seeking membership in the CPTPP. India dropped out of RCEP at the last minute and participates only in IPEF (and not its trade pillar).²

Table 1 summarizes the major trade and economic agreements involving Korea and other Indo-Pacific partners. Almost all IPEF members are in APEC (except Fiji and India) and in RCEP (except Fiji, India, and the United States); half of the IPEF countries also participate in RCEP and the CPTPP. Only 3 of the 13 US partners in IPEF (Australia, Singapore, and Korea) have an FTA with the United States, underscoring the missed opportunity to improve market access in the region through IPEF negotiations to lower tariff and nontariff barriers to trade.

IPEF does not seek to replicate comprehensive FTAs, though it seems to borrow from or emulate past efforts at trade rule-making and procedures to manage disruptions of supplies of critical goods to world markets.³ Toward that end, the four IPEF pillars aim to:

- 1 update rules governing trade, drawing on precedents from recent trade pacts and ongoing plurilateral negotiations;
- 2 develop cooperative plans for mitigating supply disruptions caused by political, economic, environmental, labor, and health shocks, drawing on experience from the pandemic, the US-China trade war, and the ongoing Russian war against Ukraine;
- 3 support and reinforce national efforts to reduce carbon emissions, consistent with each country's Nationally Determined Commitments under the Paris climate accord; and
- 4 share the economic gains from trade more equitably within each society, by enforcing tax, anti-money laundering, and anti-bribery regimes that are in line with “existing multilateral obligations.”

An “economic framework” accommodates a more flexible agenda of issues than standard trade agreements. Member countries have overlapping interests in facilitating trade; decarbonizing their economies; coordinating and sharing resources in the face of natural disasters and disruptions of supplies of critical products, such as energy, medicines, and raw materials; and doing all of the above in a way that promotes fair competition and provides workers with an equitable share of the benefits. IPEF affords participants the opportunity to address tradeoffs both within and across these issue areas, as all participants except India have committed to implementing the results of all four pillars.

Only 3 of the 13 US partners in IPEF (Australia, Singapore, and Korea) have an FTA with the United States, underscoring the missed opportunity to improve market access in the region through IPEF negotiations to lower tariff and nontariff barriers to trade.

2 India preemptively opted out of the trade pillar over concerns about linking environment and labor standards to trade, though it still attends pillar 1 talks as an observer.

3 New governments like to “take ownership” of their signature initiatives by differentiating their new ideas from what was done in the past. Often these policies look much like their predecessors but with a different name. For example, the US-Mexico-Canada Agreement (USMCA) includes a lot of what was in both the North American Free Trade Agreement (NAFTA) and the TPP.

Table 1
Major trade and economic agreements involving Korea and other Indo-Pacific partners

Country	APEC	CPTPP	RCEP	IPEF	<i>Bilateral/regional FTA with</i>	
					China	United States
Australia	Yes	Yes	Yes	Yes	Yes	Yes
Brunei	Yes	Yes	Yes	Yes	Yes	No
Cambodia	No	No	Yes	No	Yes	No
Canada	Yes	Yes	No	No	No	Yes
Chile	Yes	Yes	No	No	Yes	Yes
China	Yes	Applied	Yes	No	n.a.	No
Chinese Taipei	Yes	Applied	No	No	Yes	No
Fiji	No	No	No	Yes	No	No
Hong Kong	Yes	No	No	No	Yes	No
India	No	No	No	Yes	No	No
Indonesia	Yes	No	Yes	Yes	Yes	No
Japan	Yes	Yes	Yes	Yes	Yes	No
Laos	No	No	Yes	No	Yes	No
Malaysia	Yes	Yes	Yes	Yes	Yes	No
Mexico	Yes	Yes	No	No	No	Yes
Myanmar	No	No	Yes	No	Yes	No
New Zealand	Yes	Yes	Yes	Yes	Yes	No
Papua New Guinea	Yes	No	No	No	No	No
Peru	Yes	Yes	No	No	Yes	Yes
Philippines	Yes	No	Yes	Yes	Yes	No
Russia	Yes	No	No	No	No	No
Singapore	Yes	Yes	Yes	Yes	Yes	Yes
South Korea	Yes	No	Yes	Yes	Yes	Yes
Thailand	Yes	No	Yes	Yes	Yes	No
United Kingdom	No	Completed	No	No	No	No
United States	Yes	No	No	Yes	No	n.a.
Vietnam	Yes	Yes	Yes	Yes	Yes	No
Total	21	11	15	14	18	7

Yes = Party to agreement
 No = Not party to agreement
 Applied = Applied to join agreement
 Completed = Completed accession negotiations
 n.a. = Not applicable

APEC = Asia-Pacific Economic Cooperation (APEC) Forum; RCEP = Regional Comprehensive Economic Partnership;
 CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership; IPEF = Indo-Pacific Economic Framework

The approach of the IPEF framework to trade negotiations is more consultative and less juridical than traditional US trade pacts and closer to the approach generally followed in intra-Asian trade talks. In particular, it seems to be following the example of the APEC forum, where countries commit to reforms on the basis of “concerted unilateralism”—each pursuing domestic actions consistent with agreed regional objectives but in their own way and at their own pace—rather than reciprocal obligations subject to binding dispute settlement provisions under the pact. The framework does not seem to include binding dispute settlement procedures that would authorize retaliation when countries violate their IPEF commitments. It is therefore no wonder that IPEF has provoked more concern in the US Congress than in the Korean National Assembly, as congressional leaders want the legal right to hold US partners accountable for violations of national commitments, as US officials now do in the United States-Mexico-Canada Agreement (USMCA) and used to do in the World Trade Organization (WTO).

The Biden administration opted to negotiate an economic framework agreement instead of a traditional FTA for a practical, political reason: The fractious US political debate on trade made it very risky to go to Congress for FTA implementing legislation. Indeed, US officials let Trade Promotion Authority (TPA) lapse, the underlying negotiating authority for FTA talks, rather than asking Congress to extend it. The move seems to signal that US officials do not intend to change US laws or regulations to conform with IPEF agreements. Instead, the objective is to have IPEF members converge with US norms in areas such as labor, the environment, and the digital economy. The framework also seeks commitments from IPEF countries to refrain from beggar-thy-neighbor policies such as export controls on goods in short supply in global markets.

That said, IPEF advances many of the same objectives as recent trade talks (including the Korea-US FTA [KORUS], the TPP, and the USMCA), which sought to develop common obligations regarding the trade-related aspects of domestic policies covering labor, environment, and e-commerce. Those pacts provide precedents for much of what is being discussed in pillar 1 talks, as discussed below.

Public-private partnerships are cast as important drivers of the collaborative efforts to restructure and finance new transport, energy, and infotech infrastructure that are at the heart of the objectives of pillars 2 and 3. But will private sector participants trust IPEF governments to sustain their reform commitments? Elections can change policy priorities dramatically (as the 180 degree turn in US and Australian policies on climate change in recent years indicates). Will private sector investors put up sizable amounts of financing for ventures that could be restructured or sharply curtailed by election results in the next few years?

The advantage of international obligations under trade agreements is that once ratified in domestic law, they are hard (albeit not impossible) to unravel or reverse. This feature is a big benefit for firms trading and investing in the partner countries; it provides policy predictability, because backtracking would require most governments to get new authority and/or approval from their legislature. Trade agreements are thus “locked in” to some extent, a feature US officials do not seem to sufficiently value.

WHAT IS LIKELY TO BE ACHIEVED UNDER EACH IPEF PILLAR?

Officials have released numerous summaries of proposals and progress in the [three rounds of IPEF negotiations](#) that took place between December 2022 and May 2023.⁴ These texts present an annotated agenda of the objectives of each pillar of the talks but very little on specific progress and prospective outcomes from the negotiating process. Although IPEF agreements are still under construction, there is enough evidence and public commentary by participants to forecast potential outcomes in each of the four pillars. Some may be reached sooner than others—witness the agreement in principle on supply chain cooperation under pillar 2 talks reached by IPEF trade ministers at their meeting in Detroit on May 27, 2023 (see below).

Pillar 1: Connected Economy

Dubbed the “trade pillar,” pillar 1 seeks to establish high-standard trade commitments that promote resilient and sustainable economic growth in areas such as the digital economy, labor, and the environment. Given the opacity of the ongoing IPEF negotiations, it is not clear which provisions will be covered, but IPEF negotiators will likely draw on precedents from existing FTAs. Table 2 shows the key provisions of the CPTPP, the USMCA, RCEP, the Digital Economy Partnership Agreement (DEPA), and KORUS in each of these areas.

Digital economy: The [summary](#) of the digital economy text by the US Trade Representative (USTR) indicates that the US IPEF proposal addresses data protection and consumer protection, artificial intelligence, and access to online information. It also includes provisions to support the development of emerging technologies, avoid unfair trade practices, and ensure “an effective legal framework for electronic transactions that is consistent with international best practices” (which, given the US position in the WTO’s joint statement initiative on e-commerce and other trade negotiations, likely means a ban on e-commerce duties). The proposal also reportedly addresses two major [labor priorities](#): preserving member governments’ ability to regulate digital trade and addressing emerging threats to privacy from artificial intelligence.

USTR priorities reportedly initially aligned with the AFL-CIO’s [digital trade agenda](#), which [US industry sources](#) argue are weaker than USMCA digital rules. The USMCA bans the compulsory disclosure of source code and algorithms, data localization requirements (except when needed to address national security concerns), and restrictions on cross-border digital traffic (except when needed to achieve a legitimate public policy objective). In contrast, the AFL-CIO agenda calls for source code disclosure, algorithm disclosure, and data localization in order to protect categories of sensitive data (such as workers’ personal information). Ongoing internal disputes between US industry and labor groups on these provisions have delayed the introduction of new digital US proposals.

⁴ IPEF negotiators met in Brisbane, Australia in December 2022; in Bali, Indonesia in March 2023; and in Singapore in mid-May 2023. In addition, officials met in New Delhi, India in February 2023 to discuss pillars 2, 3, and 4. A fourth round of talks is set for Busan, Korea in mid-July 2023.

Table 2
 Key provisions on the digital economy, labor, and the environment in the CPTPP, USMCA, RCEP, DEPA, KORUS, and IPEF*

Issue	CPTPP	USMCA	RCEP	DEPA	KORUS	IPEF*
<i>Digital Economy</i>						
Customs duties on electronic transmissions	Prohibits	Prohibits	Prohibits	Prohibits	Prohibits	Prohibits
Nondiscriminatory treatment of digital products	Authorizes ^a	Authorizes ^b	Not covered	Authorizes ^c	Authorizes ^b	Authorizes ^b
Electronic signatures and authentication	Authorizes except where otherwise prohibited by law	Authorizes except where otherwise prohibited by law	Authorizes except where otherwise prohibited by law	Encourages	Authorizes except where otherwise prohibited by law	Authorizes except where otherwise prohibited by law
Paperless trade documentation	Encourages	Encourages	Encourages	Encourages	Encourages	Encourages
Consumer protection against fraud, scams, etc.	Encourages	Encourages	Encourages	Encourages	Encourages	Encourages
Protection of personal information	Encourages	Encourages	Encourages	Encourages	Encourages	Encourages
Localization requirements as a condition of trade	Prohibits ^d	Prohibits ^e	Prohibits ^f	Prohibits ^d	Not covered	Prohibits ^g
Compulsory disclosure of source code as a condition of trade	Prohibits	Prohibits	Authorizes ^h	Not covered	Not covered	Authorizes ⁱ
Freedom of cross-border digital traffic	Authorizes ^j	Authorizes ⁱ	Authorizes ^k	Authorizes ^j	Encourages	Authorizes ^j
Dispute settlement for digital issues	Authorizes between member countries	Not covered	Not covered	Authorizes between member countries but with extensive exceptions	Not covered	Not covered
Immunity for digital platforms	Not covered	Authorizes ^l	Not covered	Not covered	Not covered	Not covered
Digital service taxes (DSTs)	Authorizes ^m	Authorizes ⁿ	Authorizes ^m	Authorizes ^m	Authorizes ^m	Authorizes ^m

table continues

Issue	CPTPP	USMCA	KORUS	IPEF*
<i>Labor</i>				
Adopt and maintain International Labor Organization (ILO) labor rights in statutes and resolutions	Authorizes	Authorizes	Authorizes	Authorizes
Derogate from implementing ILO labor rights in a manner affecting trade or investment	Prohibits	Prohibits	Prohibits	Prohibits
Right to exercise reasonable enforcement discretion and to allocate resources between labor enforcement activities	Authorizes	Authorizes	Authorizes	Authorizes
Importation of goods made in whole or in part by forced or compulsory labor	Discourages	Prohibits	Not covered	Prohibits
Impartial and independent tribunals for the enforcement of labor laws	Authorizes	Authorizes	Authorizes	Encourages
Cooperative labor dialogue	Authorizes between member countries	Authorizes between member countries	Not covered	Authorizes between member countries
Labor council	Authorizes between member countries	Authorizes between member countries	Authorizes between member countries	Authorizes between member countries
Labor consultations	Authorizes between member countries	Authorizes between member countries	Authorizes between member countries	Authorizes between member countries
Violence against workers	Not covered	Prohibits	Not covered	Discourages
Protection for migrant workers	Encourages	Authorizes	Not covered	Encourages
Discrimination in the workplace	Discourages	Prohibits	Discourages	Discourages
Rapid-response labor mechanism	Not covered	Authorizes	Not covered	Authorizes ^o
Forced labor in supply chain mechanism	Not covered	Not covered	Not covered	Authorizes

table continues

Issue	CPTPP	USMCA	KORUS	IPEF*
<i>Environment</i>				
Sovereign right to establish own levels of domestic environmental protection and environmental priorities	Authorizes	Authorizes	Authorizes	Authorizes
Derogate from environmental laws in a manner affecting trade or investment	Prohibits	Prohibits	Prohibits	Prohibits
Right to exercise reasonable enforcement discretion and to allocate resources between environment enforcement activities	Authorizes	Authorizes	Authorizes	Authorizes
Fulfill obligations under the Montreal Protocol, the International Convention for the Prevention of Pollution from Ships ⁹ (MARPOL), and the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)	Authorizes	Authorizes	Authorizes	Authorizes
Conservation and sustainable use of biodiversity	Encourages	Encourages	Encourages	Encourages
Protection and maintenance of ecosystems and ecosystem services	Encourages	Encourages	Not covered	Encourages
Prevent, detect, control, and eradicate invasive alien species	Encourages	Encourages	Not covered	Encourages
Cooperate in the transition to a low emissions economy	Encourages	Not covered	Not covered	Encourages
Fisheries management that prevents overfishing, reduces bycatch, and promotes recovery of overfished stocks	Encourages	Encourages	Not covered	Encourages
Conservation of sharks, marine turtles, seabirds, and marine mammals	Encourages	Encourages	Not covered	Encourages
Subsidies that contribute to overfishing or overcapacity	Prohibits	Prohibits	Not covered	Prohibits
Dispute resolution	Authorizes between member countries	Authorizes between member countries	Authorizes between member countries	Not covered
Reduce air pollution	Not covered	Encourages	Not covered	Encourages
Prevent and reduce marine litter	Not covered	Encourages	Not covered	Encourages
Deter/ban Illegal, Unreported, and Unregulated (IUU) fishing	Encourages	Encourages	Not covered	Encourages
Promote sustainable forest management and trade in legally harvested forest products	Authorizes	Authorizes	Not covered	Authorizes

Table continues

Issue	CPTPP	USMCA	KORUS	IPEF*
<i>Environment (Continued)</i>				
More resource efficient and circular economies	Not covered	Not covered	Not covered	Encourages
More environmentally sustainable digital economies	Not covered	Not covered	Not covered	Encourages
Support the development of renewable energy and clean energy technologies	Not covered	Not covered	Not covered	Encourages
Promote sustainable finance	Not covered	Not covered	Not covered	Encourages

* = IPEF provisions are estimates.

- a. Authorizes except for government subsidies, grants, loans, guarantees, and insurance; broadcasting; nonconforming measures in other chapters and national schedules.
- b. Authorizes except for government subsidies, grants, loans, guarantees, and insurance.
- c. Authorizes except for government subsidies, grants, loans, guarantees, and insurance; broadcasting.
- d. Prohibits except when localization achieves a legitimate public policy objective, does not constitute unjustifiable discrimination or a disguised restriction on trade, and is not more severe than necessary to achieve the objective.
- e. Prohibits except for national security concerns.
- f. Prohibits except when localization achieves a legitimate public policy objective and/or protects essential security interests.
- g. Prohibits except when localization protects categories of sensitive data, including personal information and national security concerns.
- h. Authorizes when disclosure achieves a legitimate public policy objective and/or protects essential security interests.
- i. Authorizes when disclosure protects personal information.
- j. Authorizes except for limitations to achieve a public policy objective that do not constitute unjustifiable discrimination or a disguised restriction on trade, and are not more severe than necessary to achieve the objective.
- k. Authorizes except for limitations to achieve a public policy objective that do not constitute unjustifiable discrimination or a disguised restriction on trade, and are considered necessary to protect essential security interests.
- l. Authorizes except to the extent the supplier or user has created or developed the information.
- m. Authorizes when digital service taxes (DSTs) are arguably nondiscriminatory, at least de jure.
- n. Authorizes except when DSTs de facto discriminate against US tech firms.
- o. The proposed IPEF Supply Chain Agreement under pillar 2 includes “a mechanism to cooperate with partners to address facility-specific allegations of labor rights inconsistencies.”
- p. Includes modifications by the Protocol of 1978 relating to the International Convention for the Prevention of Pollution from Ships, made in London, February 17, 1978, and the Protocol of 1997 to Amend the International Convention for the Prevention of Pollution from Ships, 1973 as Modified by the Protocol of 1978 relating thereto, made in London, September 26, 1997 (MARPOL), as well as any future amendments thereto, as applicable to it.

The digital economy text proposed by the United States received mixed reactions from IPEF negotiators, with several developing economies (Indonesia, in particular) pushing back substantially and seeking provisions more in line with those contained in RCEP, which allows countries to impose data localization rules and restrictions on cross-border data flows as long as they serve a “legitimate public policy objective” (which members themselves determine). A final IPEF digital chapter that excludes or severely weakens USMCA-like protections for cross-border data flows, source code, and algorithms, and that allows data localization requirements, would represent a huge departure from past US practice. Still, pushback against USMCA-standard digital rules in IPEF from organized labor in the United States and from developing-economy partners in IPEF likely means that the final pillar 1 digital chapter will contain weaker digital rules than those contained in the USMCA.

An IPEF digital economy chapter resembling DEPA could be an effective compromise for IPEF partners. DEPA maintains USMCA-like protections for cross-border data flows and bans data localization, but it also permits governments to impose data flow restrictions and data localization requirements if necessary to achieve public policy objectives that do not “constitute unjustifiable discrimination or a disguised restriction on trade” and are not “more severe than necessary to achieve the objective”—an exception much closer to the CPTPP than to RCEP. Though DEPA does not cover compulsory source code disclosure as a condition of trade, the pillar 1 digital economy text will probably not include protections against it.

Pillar 1 negotiations are an opportunity for Korea to update the KORUS FTA without having to renegotiate the pact. The KORUS FTA does not include commitments on data localization, compulsory disclosure of source code, immunity for digital platforms, or freedom of cross-border digital traffic. Most of the other trade agreements surveyed in table 2 contain binding commitments on each of these provisions. A DEPA-like compromise would seemingly be consistent with Korean interests, as Korea [acceded to DEPA](#) on June 9, 2023.

Labor: Given the Biden administration’s emphasis on creating, adopting, and enforcing worker-centric trade policies, the pillar 1 labor chapter will likely go beyond the basic labor provisions included in the CPTPP and KORUS and more closely resemble the USMCA. The USTR [summary](#) of the US-tabled labor provisions notes that the proposed text requires IPEF partners to “adopt and maintain internationally recognized labor rights in its labor laws” (likely rights enshrined in the Declaration on Rights at Work of the International Labor Organization [ILO]), encourage “compliance with labor laws through commitments related to non-derogation from, and the effective enforcement of, labor laws,” and develop a “cooperative mechanism” to help IPEF partners “support each other in achieving ambitious labor goals.” Such provisions are common: The labor chapters of the CPTPP, the USMCA, and KORUS all contain binding provisions on ILO labor rights, nonderogation from labor laws, and cooperative labor dialogue among member countries. Unlike its predecessors, the proposed US labor chapter for IPEF also contains a mechanism to “address forced labor in supply chains.”

The US labor community has [reportedly been pushing](#) USTR to include in IPEF a version of the USMCA’s novel [rapid-response mechanism](#)—a dispute

settlement mechanism between the United States and Mexico that allows for the expedited enforcement of workers' rights at the individual factory level. A rapid response mechanism in IPEF would be more difficult to implement in IPEF, because (a) the USMCA mechanism is resource-intensive (given the large number of small facilities across the 14 participating IPEF countries) and (b) IPEF is not linked to market access, a critical enforcement feature of the USMCA mechanism. Nevertheless, the proposed [IPEF Supply Chain Agreement](#) under pillar 2 vaguely promises to include "a mechanism to cooperate with partners to address facility-specific allegations of labor rights inconsistencies," a mechanism that sounds as if it will draw on elements of the USMCA's rapid-response labor mechanism.

Like the digital economy text, IPEF labor provisions provide an opportunity for Korea to update its KORUS FTA commitments, which are much less comprehensive than those in the CPTPP or the USMCA.

Environment: According to the USTR [summary](#), US officials reportedly would like IPEF to largely adopt the comprehensive USMCA environmental chapter. The proposed text covers environmental issues, particularly issues "relevant to the Indo-Pacific region, including the marine environment; forests, fisheries, and wildlife; fisheries subsidies; marine litter and plastics pollution; air quality; and biodiversity conservation." It also includes commitments to effectively enforce their domestic environment laws and not to weaken them to attract trade or investment.

The summary also notes that the proposed text would correct a major flaw in the USMCA by addressing issues related to trade and climate. US IPEF proposals mention *climate change*, a term that is absent from both the CPTPP and the USMCA. Given that the environment chapters of the CPTPP and the USMCA are very similar and highly detailed, it is likely that the IPEF environment chapter will closely mirror and slightly expand upon these two agreements. New rules on trade and the environment would support cooperative action to boost the production of and trade and investment in carbon mitigation technologies, including renewable energy resources covered under pillar 3 (see below).

The KORUS FTA environment chapter is significantly weaker than the chapters in the CPTPP and the USMCA. Korea's participation in IPEF would augment its obligations under KORUS and facilitate its path to accession to the CPTPP.

Pillar 2: Resilient Economy

Born out of supply chain disruptions during the COVID-19 pandemic and a burgeoning desire among many IPEF members to "de-risk" supply chains from China, pillar 2 (the resilient economy) seeks to better anticipate, prevent, and mitigate supply chain disruptions in the Indo-Pacific through coordinated, collective action. Under pillar 2, IPEF members [intend to develop](#) an "early warning" mechanism for supply chain disruptions; establish criteria to identify sectors and goods critical to national security, public health, and economic resilience; coordinate on diversification efforts; strengthen supply chain logistics (including infrastructure); and identify chokepoints and sole sources within supply chains.

Unlike pillar 1, which is under the purview of the USTR and expected to take the longest to result in an agreement, pillar 2 (along with pillars 3 and 4) is

New [IPEF] rules on trade and the environment would support cooperative action to boost the production of and trade and investment in carbon mitigation technologies....

managed by the Department of Commerce and is being expeditiously negotiated in the hopes of producing an “[early harvest of deliverables](#).” Indeed, following the IPEF ministerial meeting in Detroit on May 27, 2023, IPEF members announced the conclusion of negotiations for the [IPEF Supply Chain Agreement](#).

The prospective agreement establishes three new IPEF supply chain organizations to encourage cooperation among IPEF members on supply chain issues: the IPEF Supply Chain Council, the IPEF Supply Chain Crisis Response Network, and the IPEF Labor Rights Advisory Board. The [IPEF Supply Chain Council](#) will serve as a forum within which IPEF members can create joint action plans for critical sectors and goods, “including through diversification of sources, infrastructure and workforce development, enhanced logistics connectivity, business matching, joint research and development, and trade facilitation.” The IPEF Supply Chain Crisis Response Network will serve as an emergency communications channel for IPEF members in the event of a supply chain disruption. The IPEF Labor Rights Advisory Board will institute an advisory board of government, worker, and employer representatives and a subcommittee of government representatives to ensure that labor rights are protected in IPEF member supply chains.

As briefly discussed in pillar 1, the [proposed agreement](#) also includes “a mechanism to cooperate with partners to address facility-specific allegations of labor rights inconsistencies.” Details about how the mechanism will operate have not been finalized, but it is [unlikely to closely resemble](#) the USMCA’s rapid-response labor mechanism. That mechanism has a clear and comprehensive process for remediating labor rights violations; unlike IPEF, the USMCA allows countries to withdraw market access concessions to products from offending facilities. IPEF is an economic framework agreement that lacks market access; its remediation process will therefore likely be very different, with IPEF partners suspending both positive and negative incentives to encourage compliance. The proposed IPEF Supply Chain Agreement will undergo “further domestic consultations and a legal review” before a final text for IPEF partner signature and ratification is prepared, expected toward the end of 2023.

Pillar 3: Clean Economy

Pillar 3 (the [clean economy](#)) seeks to accelerate IPEF member countries’ clean energy transitions by mitigating greenhouse gas emissions and investing in and reducing the cost of green technologies and climate-related projects in the Indo-Pacific. Toward those ends, IPEF members have reportedly advanced a variety of innovative proposals at IPEF ministerial meetings, though just one—a “regional hydrogen initiative”—has been announced (following the Detroit IPEF ministerial meeting in May 2023).

The [regional hydrogen initiative](#) aims to “encourage widespread deployment of low-carbon and renewable hydrogen and its derivatives in the region.” Details of the initiative, including which IPEF member countries are expected to join at its inception, are not yet known, but it offers IPEF partners the chance to join when they are “ready to do so.” Korea has ambitions to become a global leader in the development of hydrogen projects: By 2050, it plans to source one-third of its energy ([27.9 million metric tons](#)) from hydrogen. Under the [Korean New Deal](#), it aspires to deploy approximately 3 million fuel cell electric vehicles (FCEVs)—electric vehicles powered by hydrogen—by 2040, including [2.9 million](#)

domestically manufactured FCEVs, 30,000 fuel cell trucks, and 40,000 fuel cell buses. By 2040, Korea plans to increase the number of hydrogen refueling stations from approximately two dozen to 1,200. As Korea has the world's **third-largest** public investment in hydrogen (and the second-largest public investment in hydrogen in IPEF after Japan), the IPEF regional hydrogen initiative will very likely support its hydrogen industrial strategy and may even try to emulate it. Given Korea's hydrogen ambitions, it should participate in the initiative if it is not already doing so.

Pillar 3 should also consider including a sustainable steel initiative similar to the **Global Arrangement on Sustainable Steel and Aluminum**. As part of an October 2021 agreement to replace US tariffs on EU steel and aluminum with quotas, the United States and the European Union launched talks that sought (among other goals) to reduce carbon emissions in the steel and aluminum sectors by creating a "climate club" of steel-exporting countries that follow market-oriented policies toward each other and requiring stringent carbon-reduction standards by their industries. A sustainable steel initiative under IPEF could potentially allow for the resolution and phased removal of existing import restrictions (including US Section 232 steel quotas) and possibly avoid the introduction of new carbon border adjustment measures for those countries that are acting to reduce greenhouse gas emissions in steel production.

Pillar 4: Fair Economy

The fourth IPEF pillar (the **fair economy**) seeks to create a more level playing field for businesses and workers in the Indo-Pacific by "preventing and combatting corruption, curbing tax evasion, and improving domestic resource mobilization," primarily through enhanced cooperation on capacity building and technical assistance. In strengthening anticorruption and tax measures, IPEF members aim to boost commerce, trade, and investment among IPEF economies.

IPEF negotiators appear to have made minimal progress on pillar 4: No substantial agreements (such as the IPEF supply chain agreement under pillar 2) or proposals (such as the regional hydrogen initiative under pillar 3) have been made public. Given how difficult it will be to enforce effective anticorruption and tax measures under IPEF, it is likely that pillar 4 will be mostly aspirational.

PROBABLE IPEF OUTCOMES

Although IPEF is still under construction, there is enough evidence and public commentary by participants to forecast probable outcomes.

Pillar 1 is likely to largely replicate what is in existing pacts such as the CPTPP and USMCA, upgrading somewhat obligations for IPEF countries that are in RCEP but not in the CPTPP or USMCA. Of the 13 IPEF countries participating in pillar 1, 5 (Korea, Thailand, Indonesia, the Philippines, and Fiji) are not in either high-standard pact. IPEF would therefore augment their obligations on labor, environment, and digital economy. IPEF would enhance transparency and strengthen the implementation of domestic labor and environmental laws and regulations, but the impact, especially in developing economies, is likely to be limited by resource constraints that will make rigorous enforcement of IPEF commitments difficult.

The USMCA model for labor enforcement—which is applied in a market in which Mexico is highly dependent on US trade and investment and factories are closely integrated with parent US firms—will be hard to replicate under IPEF. On the digital economy, the tension that exists between competition and privacy concerns in national debates on data governance also complicates the formulation of IPEF standards. The USMCA model seems less likely to emerge as the template for IPEF countries, which may follow more closely the substantive but somewhat more nuanced approach to competition, data flows, and privacy issues incorporated in DEPA. The new rulemaking on environmental issues should complement efforts by IPEF countries to meet their carbon mitigation goals under the Paris climate accord and develop new regional and multilateral obligations to discipline fishery subsidies and marine pollution, among other obligations.

Pillar 2 agreements on supply chain management seem to be establishing a clearinghouse for data sharing on products whose production is highly concentrated. Governments have used export restrictions and other measures as tools of economic coercion. The question is how much more information companies will share with governments and how much confidential intelligence governments will share with their own national and foreign companies. The tendency will be to protect confidential business information unless compelled by national law—at least that was the experience in the early days of the pandemic with the manufacture and distribution of personal protective equipment. It remains to be seen whether IPEF governments will commit to sharing products in short supply in the event of a supply disruption caused by natural disasters or economic coercion. The United States and Canada have such a compact for energy supplies in their regional FTA; since the 1970s, members of the International Energy Agency have committed to maintaining strategic oil stockpiles sufficient to cover 90 days of imports (part of their response to the OPEC oil shocks). US officials are developing limited supply access compacts for critical minerals (which are glibly labeled FTAs, although their focus is limited to getting trading partners to accept a moratorium on export restrictions).

To date, pillars 3 and 4 (on promoting a “clean” economy and a “fair” economy) are more aspirational than the first two pillars but potentially more impactful. One useful deliverable would be agreement on measures to combat methane emissions. Overall, however, the challenge for IPEF negotiators is to target concrete projects and/or programs for collaborative action to promote the uptake of renewable energy, carbon removal technologies, and stronger energy efficiency standards, all of which will require shared resources that are primarily allocated to developing economies. It is not clear that sufficient financial commitments will be forthcoming to supplement what is already going on in the marketplace. The United States, Korea, and Japan have or are developing innovative carbon mitigation technologies; if shared and financed, they could support efforts by other IPEF countries to advance their climate goals.

IMPLICATIONS OF IPEF FOR KOREA’S COMMERCIAL RELATIONS

IPEF is meant to reinforce and augment current bilateral and regional trade and investment arrangements, especially the KORUS FTA, which reinforces the extensive commercial ties that have contributed to the strong strategic alliance between Korea and the United States over the past 70 years. IPEF discussions on

labor, the environment, and digital trade, along with efforts to map supply chain vulnerabilities in sensitive sectors, cover many of the key issues that US officials regard as lacking in current FTAs. For Korea, IPEF can substitute for the updating of KORUS chapters (comparable to what Mexico and Canada did in renegotiating NAFTA a few years ago).

For Korea, however, IPEF provides more than just the opportunity to join forces with the United States. The desire to deepen ties with major partners in Asia and Oceania is an important factor driving Korean participation in IPEF. Korea already participates in RCEP and the APEC forum, has joined DEPA, and is considering applying for membership in the CPTPP. It has also concluded free trade pacts with many of the IPEF countries, including the United States, the 10-member ASEAN, India, and Australia and New Zealand.⁵ Korea has trade pacts with 11 of the 13 other IPEF participants, lacking bilateral deals only with Fiji and Japan (though both Korea and Japan participate in RCEP).

The key challenge for Korea in IPEF will be to balance its relationships with China while deepening its economic and security ties with the United States. China is Korea's largest export market and hosted about \$88 billion in Korean foreign direct investment (FDI) in 2020. Decoupling from the Chinese market would be highly disruptive for Korean industry and workers and thus difficult to manage politically. It would also complicate efforts to work closely with China in other areas where national interests coincide, especially carbon mitigation in steel production and other environmental initiatives. Yet Korean compliance with US export controls and discrimination against sourcing from China imbedded in the US CHIPS and Science Act and the Inflation Reduction Act require some decoupling or segmentation of trade and investment with China.

At the same time, IPEF reinforces Korea's Indo-Pacific strategy, which focuses on strengthening ties with ASEAN, a group of countries with which Korean firms are rapidly expanding trade and investment ties as part of a transition to more resilient supply chains in Asia, where Korea is already linked through RCEP (11 of the 15 RCEP members also participate in IPEF).⁶ ASEAN accounted for about 17 percent of Korean merchandise exports in 2021, slightly more than Korean exports to the United States, and hosted \$89 billion in Korean FDI in 2020 (18 percent of Korea's outgoing FDI in 2020). The stock of Korean FDI in ASEAN is slightly larger than Korean FDI in China in 2020. Between 2013 and 2020, Korean FDI in ASEAN almost tripled, growing slightly more than Korean FDI in the United States and more than two and half times faster than FDI in China. Korean firms continue to invest in China but at a much slower pace than in the past; the action is primarily now in ASEAN, the United States, and the European Union. Indeed, the stock of Korean FDI in the European Union increased by about \$11 billion more than Korean FDI in China during 2013-20 (table 3).

The key challenge for Korea in IPEF will be to balance its relationships with China while deepening its economic and security ties with the United States.

5 For a list of current Korean FTA partners, see Ministry of Trade, Industry and Energy, "Korea's FTA Network."

6 The exceptions are China and the three least developed ASEAN members: Cambodia, the People's Democratic Republic of Laos, and Myanmar.

Table 3
**Korean merchandise trade and foreign direct investment, by trading partner
 (billions of dollars)**

Partner	Korean exports to		Korean imports from		Korean FDI in	
	2011	2021	2011	2021	2013	2020
China	134.2	162.9	86.4	138.6	65.7	87.9
ASEAN	71.8	108.9	53.1	67.7	30.1	88.7
United States	56.4	96.3	44.8	73.7	43.1	112.8
Japan	39.7	30.1	68.3	54.6	5.0	9.2
European Union	50.9	63.7	43.6	65.9	25.7	59.2
Other	202.2	182.5	228.2	214.5	68.3	130.4
Total	555.2	644.4	524.4	615.0	238.0	488.2

ASEAN = Association of Southeast Asian Nations; FDI = foreign direct investment; OECD = Organization for Economic Cooperation and Development

Note: The latest OECD FDI data are for 2020. In 2014, many countries implemented the latest international guidelines for compiling FDI statistics, the OECD Benchmark Definition of FDI, 4th edition (BMD4). To ensure consistent FDI measurement across years, we used 2013 as the base year (the first year FDI data were recorded according to the BMD4) and 2020 as the last year (the latest year FDI data are available).

Sources: UN Comtrade, <https://comtrade.un.org/data>; OECD International Direct Investment Database, FDI Positions by Partner Country Benchmark, Definition 4th edition (BMD4), <https://stats.oecd.org/Index.aspx?QueryId=64220>.

The growing commercial ties between Korea and ASEAN are being nurtured by RCEP trade and investment reforms and by flexible RCEP origin rules that encourage sourcing from within the 15-member trading bloc (which includes China). RCEP preferences encourage supply chain integration between Korean firms and their Chinese and other ASEAN partners; IPEF is seeking to reorient some supplier relationships to reduce dependency on Chinese firms.

Fortunately, market participants seem to be responding to supply chain vulnerabilities more quickly than government officials are, making the task of IPEF negotiators more manageable. For the past decade, Korean investors have been shifting resources to ASEAN members rather than China and slowing the growth of their FDI in China. If US demands in IPEF focus on areas critical to economic security and avoid requirements constraining technology linkages to China across a broader range of dual-use products, Korea should be able to find a constructive path forward with both superpowers.

In parallel with its work on IPEF, Korea should also reexamine participation in other regional initiatives, including the CPTPP. Korea considered participation in the TPP negotiations and later accession to the CPTPP but has not yet applied to join the integration arrangement. Now that the Yoon government has suggested that the CPTPP could be a component of its Indo-Pacific Strategy, it should expeditiously move forward with its application for membership in the CPTPP. The recent conclusion of accession negotiations between CPTPP countries and the United Kingdom makes such action particularly urgent, because China is pressing members to launch accession talks and it would be to Korea's advantage

to jump the queue and join the CPTPP before China does. The terms of the UK deal with the CPTPP, which allowed flexibility on the most sensitive farm trade issues, should assuage many Korean concerns that the price of admission to the CPTPP would be too high. In the aftermath of renewed bilateral contacts, Japan now seems very welcoming of Korea's participation in the CPTPP, for both economic reasons and in recognition of their common security interests in the region. Having both the United Kingdom and Korea in an expanded CPTPP would enhance the economic heft and strategic importance of the pact and possibly encourage US officials to reevaluate the benefits of returning to the club they founded.

REFERENCES

- Bown, Chad P. 2023 (forthcoming). *How the US solved South Korea's problems with electric vehicle subsidies under the Inflation Reduction Act*. PIIE Working Paper. Washington: Peterson Institute for International Economics.
- Government of Korea. 2022. [Strategy for a Free, Peaceful, and Prosperous Indo-Pacific Region](#). Seoul, December.
- Park, Jin. 2022. Speech on Indo-Pacific Strategy at the Humanitarian Strategy Briefing, Seoul, December 28.
- White House. 2022. [Fact sheet: In Asia, President Biden and a dozen Indo-Pacific partners launch the Indo-Pacific Economic Framework for Prosperity](#). Washington, May 23.
- Yoon, Suk-yeol. 2022. [South Korea Needs to Step Up](#). *Foreign Affairs*, February 8.



© 2023 Peterson Institute for International Economics. All rights reserved.

This publication has been subjected to a prepublication peer review intended to ensure analytical quality. The views expressed are those of the authors. This publication is part of the overall program of the Peterson Institute for International Economics, as endorsed by its Board of Directors, but it does not necessarily reflect the views of individual members of the Board or of the Institute's staff or management.

The Peterson Institute for International Economics is a private nonpartisan, nonprofit institution for rigorous, intellectually open, and indepth study and discussion of international economic policy. Its purpose is to identify and analyze important issues to make globalization beneficial and sustainable for the people of the United States and the world, and then to develop and communicate practical new approaches for dealing with them. Its work is funded by a highly diverse group of philanthropic foundations, private corporations, and interested individuals, as well as income on its capital fund. About 35 percent of the Institute's resources in its latest fiscal year were provided by contributors from outside the United States.

A list of all financial supporters is posted at
<https://piie.com/sites/default/files/supporters.pdf>.