RSIS S. RAJARATNAM SCHOOL OF INTERNATIONAL STUDIES
Nanyang Technological University, Singapore

MULTILATERAL MATTERS

www.rsis.edu.sg/research/cms/

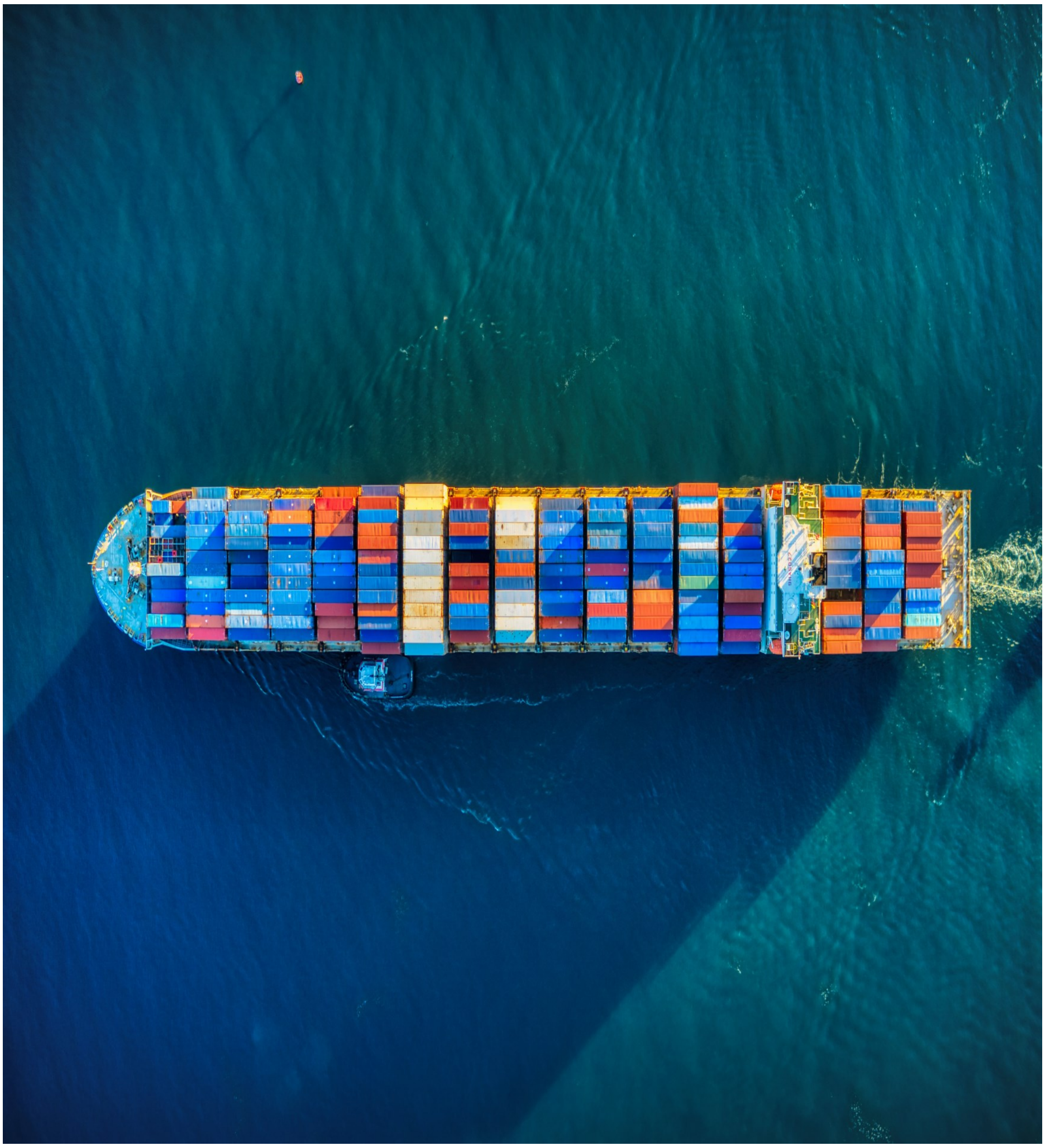
Issue 44 | July 2022

Editorial Team

Amalina Anuar

Nazia Hussain

Indo-Pacific Economic Framework: Full Steam Ahead?



The Biden administration's Indo-Pacific Economic Framework is Washington's latest attempt at strengthening ties with Asian partner economies, following the Trans-Pacific Partnership agreement and Indo-Pacific Economic Vision. With the Framework facing several challenges, can Washington successfully advance its economic engagement with the region? Photo taken by Venti Views on Unsplash.

FEATURED COMMENTARY

The Indo-Pacific Economic Framework: Can the US Pull It Off?

By Kaewkamol Pitakdumrongkit

More than ten Indo-Pacific countries, including Japan and India, are negotiating the terms of the Indo-Pacific Economic Framework. It remains to be seen, however, if Washington can convince its economic partners to embrace the Framework's Four Pillars without US market access on the table. Photo by the Office of the President of the United States and taken from Wikimedia Commons.

The US-led Indo-Pacific Economic Framework for Prosperity (IPEF) has been launched. It seems well-received by several regional economies. Nevertheless, the IPEF will face several challenges, triggering questions of whether and how the US will be able to advance it. Three member states of ASEAN have not been included, and there is no collective ASEAN position on it.

Commentary

ON 23 MAY 2022, the US President Joe Biden unveiled the Indo-Pacific Economic Framework for Prosperity (IPEF) in Japan. Australia, Brunei, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam signed onto the launch.

The IPEF parties together account for 40 percent of the world's GDP. According to the Joint Statement, this scheme "is intended to advance resilience, sustainability, inclusiveness, economic growth, fairness, and competitiveness for our economies."

Four Policy Pillars

IPEF comprises four policy pillars. The first one is "Connected Economy" focusing on the making of rules regarding digital economy, labour and environmental standards, and corporate accountability.

The second pillar is called "Resilient Economy". It emphasises the creation of an early warning system and collaboration on supply chain diversification to make the participating economies more resilient.

The third pillar is the "Clean Economy" which strives to tackle climate change via decarbonisation and renewable energy use. The fourth pillar is "Fair Economy" and it is aimed at "promoting fair competition by enacting and enforcing effective and robust tax, anti-money laundering, and anti-bribery regimes".

The Framework allows its participants to choose to join any of the four pillars. Yet, the members are expected to collaborate on all elements under the pillar(s) that they partake. About 12 to 18 months from now, the Biden Administration plans to end negotiations.

This conclusion will coincide with the Asia-Pacific Economic Cooperation (APEC) Economic Leaders' Summit which Washington will host in November 2023.

Well Received by the Signatories

IPEF signifies the US' re-engagement in the Indo-Pacific on the economic front after Washington's withdrawal from the Trans-

Continued on Page 3

Pacific Partnership Agreement (TPP). As President Biden announced at the launch of this Framework: "[T]he future of the 21st century economy is going to be largely written in the Indo-Pacific — in our region."

Also, the initiative's cooperation strands strive to address pressing issues facing the Indo-Pacific economies. For instance, the "Connected Economy" pillar will beef up the digital rules and standards, allowing the governments to better respond to the increasingly digitalized world.

The "Resilient Economy" pillar will help diversify the participants' production networks. It will hence enable them to galvanise their economic resilience against the backdrop of supply chains disruptions caused by multiple factors, for example, the COVID-19 lockdowns in China, and the Ukraine-Russia War.

Moreover, the Framework's 'by pillar' approach gives flexibility to its members. The latter can pick and choose the collaboration areas that they can undertake expeditiously. As a result, the Biden Administration successfully attracted a dozen of countries with diverse needs and development levels to sign up for the IPEF.

Criticisms and Questions: Not about Market Access

Positive reactions notwithstanding, the IPEF also draws criticisms and questions. For one thing, it is not a free trade agreement (FTA). The initiative is in fact intended to save US jobs. As stipulated by the US National Security Adviser Jake Sullivan, it is "part of President Biden's commitment to putting American families and workers in the centre of economic and foreign policy."

Unsurprisingly, Washington has no plan to discuss market access under the IPEF. As a result, its launch does not eliminate the criticism regarding the Biden Administration's trade policy stance exemplified by its maintenance of the Trump-era tariffs and hesitancy to ink new FTAs with other countries.

It should be noted that the 12 participants merely signed up to attending the consultations where they will discuss the scope of the negotiation. Without the US market access being used as an incentive, Washington will likely face difficulty advancing the IPEF substantively.

The earlier negotiations on the TPP reveal that the other parties grudgingly made concessions on matters that Washington pressed (e.g. intellectual property, labour standards). They did so in exchange for greater access to the US market. As this 'bargaining chip' is off the IPEF table, some countries might eventually find the IPEF talks unrewarding and would stay away.

High-Quality or Watered-Down Deal?

If the US successfully evades the deadlock, what would the likely outcomes be? The fact that the IPEF parties are to collaborate on all aspects under the pillar(s) that they join, the two likely outcomes are: watered-down cooperation with larger membership, and high-quality cooperation with smaller membership. Regarding the former, achieving collaboration in some areas will be relatively easy.

Examples include the establishment of an early supply chain warning system under "Resilience Economy", and the green infrastructure development cooperation under "Clean Economy". This is mainly because many IPEF signatories have been trying to strengthen their economic resilience and 'green' their respective economies in a long run.

However, reaching a high-quality deal among the participating economies will be daunting. The "Connected Economy" aimed at crafting rules pertaining to labour and environmental standards, and cross-border data transfers. For these matters, commitment discrepancies among the IPEF participants loom large.

Indonesia, the Philippines, and Thailand have yet to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). Their latest multilateral FTA – the Regional Comprehensive Economic Partnership (RCEP) – does not contain labour and environmental standards. India is not in the CPTPP and RCEP.

In addition, the CPTPP and RCEP rules governing transnational data flows differ. The former bans the blocking of cross-border data flows over the Internet and opposes data localisation with exemptions for financial services and public procurement. In contrast, the latter gives more leeway to its signatories to implement policies restricting information flows across participating economies when necessary.

As a result, some IPEF members partaking under the "Connected Economy" pillar may have specific reservations and likely to push for the less stringent terms. The cooperation may end up with a "lighter" version of commitments.

Can the US Pull It Off?

In the coming months, the IPEF signatories would announce the pillar(s) they intend to participate in and to negotiate. After the talks commence, a clearer picture will emerge and there should be a better appreciation on what is possible coming out of each of the four pillars.

It should also be noted that Cambodia, Laos, and Myanmar are three ASEAN member states not in the IPEF (just like they are not in the APEC membership). As such, a collective and potentially weighty ASEAN position is not there. Going forward, questions of whether and how the US is able to advance the IPEF remain unanswered.■

Kaewkamol Pitakdumrongkit is Head and Assistant Professor at the Centre for Multilateralism Studies, S. Rajaratnam School of International Studies (RSIS) of Nanyang Technological University, Singapore.

The Cryptocurrency Challenge for Central Banks

Cryptocurrency's ascent in recent times has posed difficult questions for central banks. Dr Duvvuri Subbarao, RSIS Visiting Senior Fellow and former Governor of the Reserve Bank of India, spoke on the challenges of cryptocurrency adoption and regulation in an RSIS Roundtable on 17 June.

Many central banks are launching their own central bank digital currency (CBDC) amidst greater uptake of private sector-issued cryptocurrencies such as bitcoin. This is especially the case in developing economies, which are more aggressively pursuing CBDCs compared to developed economies, partly due to the risks associated with the widespread use of private cryptocurrencies that fall outside central banks' control.

Nevertheless, while Dr Subbarao acknowledged that CBDCs are a logical response to the rise of private cryptocurrencies, it remains to be seen whether CBDCs will gain momentum. There may not be incentives for consumers to switch from private cryptocurrencies to CBDCs. Additionally, CBDCs will require more robust cybersecurity and data protection laws to ensure the health of the financial system; developing countries may not have adequate capacity in this regard.

Multilateral cooperation could ameliorate some of these pain-points. However, progress on this front may be uneven and slow-moving, owing to certain challenges. In an exclusive interview with Multilateral Matters, Dr Subbarao elaborated on these hurdles:

1. What are some challenges holding back multilateral cooperation on governance of cryptocurrencies?

SUBBARAO: To understand those challenges, it's important to first to understand what concerns cryptocurrencies throw up for the authorities. By far, the biggest concern is that cryptocurrencies will become a vehicle for illegal activity like money laundering, drug trafficking, financing of terrorism and defrauding of gullible investors.

Second, governments are worried about the systemic risk cryptocurrencies pose to financial stability because of their rapidly increasing interlinkages with the formal financial system, combined with wild swings in their valuation. Third, there is anxiety, especially in emerging markets, that cryptocurrencies could become conduits for volatile capital flows which would destabilize their asset and currency markets. Finally, central banks, especially in emerging markets, are apprehensive that private cryptocurrencies will impair their monetary sovereignty by displacing fiat money.

Such 'cryptoization', they fear, can happen because of their potential to pull transactions away from the domestic banking network and into their own ecosystems, thereby pushing central banks out of the loop on economic activity. A central bank's ability to set interest rates, control money supply and manage inflation would be threatened.

The concerns outlined above are perceived differently by different countries. There are sharp differences in particular between advanced economies and emerging markets in how they see the risks. I believe this is what is holding up multilateral cooperation.

2. Are there any challenges specific to cryptocurrency governance compared to other forms of international financial cooperation?

SUBBARAO: Indeed, there are. First, because of the wild swings in their price, cryptocurrency valuations are difficult to determine. Second, there are challenges in the identification, monitoring, and management of risks which include, for example, operational and financial integrity risks from crypto asset exchanges and wallets, investor protection, and reserve adequacy and disclosure. National level regulations, in the face of such limited understanding of risks, may not only be ineffective but also provide opportunities for regulatory arbitrage, setting off a race to the bottom. All these factors reinforce the need for global cooperation, in particular, towards setting international standards on managing risks to financial stability and market conduct.

3. Given these challenges, which aspects of multilateral cooperation on cryptocurrency are most likely to be advanced and which are not?

SUBBARAO: Although I don't have first-hand knowledge, I believe globally there will be greater urgency in reaching an understanding on preventing cryptos from becoming conduits for criminal activity. Concerns which are relatively more important for emerging markets such as 'cryptoization' of their monetary systems and cryptos abetting volatile capital flows may not be addressed with the same level of urgency.

4. What form or aspect of multilateral cooperation on cryptocurrency should be prioritized, in your view, and why? What is an aspect of cooperation that perhaps doesn't get enough attention?

SUBBARAO: According to the Bank for International Settlements (BIS), there are nearly about a hundred countries around the world working on their own CBDCs, because they see the promise of reducing the costs of cross-border and domestic payments, deepening financial inclusion, checking counterfeiting and saving on the expense of printing and distributing currency in doing so. However, there are challenges in making the technology robust enough. Cooperation in this regard should be prioritized. Also to be prioritized is agreeing on technology standards so that there is smooth interoperability of cross-border payment systems. An aspect that perhaps doesn't get as much attentions as it deserves is "Making the Digital Revolution Work for All". There should be greater international cooperation in this regard, simply because of the opportunities inclusion will provide for reducing global poverty.■

RSIS-WTO Virtual Parliamentarian Workshop 2022

Clockwise from top-left, Mr Tan Chuan-Jin, Speaker of Parliament, Singapore, Ms Angela Ellard, Deputy Director-General of the WTO, Ambassador Ong Keng Yong, Executive Deputy Chairman of RSIS, and Mr Lim Hock Chuan, Head of Programmes, Temasek Foundation, touched upon what parliamentarians can do to make trade work better and tackle today's biggest challenges, including COVID-19, food security and climate change.

International trade is facing increasing headwinds in the post-pandemic age. The Ukraine invasion, worsening climate change, and unequal vaccination rates are among the factors adding strain on the multilateral trading system (MTS) and the World Trade Organization (WTO).

The 12th RSIS-WTO Parliamentarian Workshop held from 10 to 12 May 2022 provided a platform for lawmakers to better understand these pressing issues and contribute to trade policy. The workshop was co-organised by RSIS and the WTO, with support from the Temasek Foundation.

As the bridge between the WTO and national constituents, parliamentarians play a critical role in crafting and communicating trade policy. For that reason, Mr Lim Hock Chuan, Head of Programmes, Temasek Foundation International; Ms Angela Ellard, WTO Deputy Director-General; Ambassador Ong Keng Yong, RSIS Executive Deputy Chairman; and Mr Tan Chuan Jin, Speaker of Parliament, Singapore, all stressed in their opening remarks the need for parliamentarians to support the WTO in improving international trade cooperation while eschewing the political expediency afforded from peddling anti-globalisation and protectionist narratives.

In the first session, panellists spoke on international trade in a climate-concerned era. According to Ambassador Dacio Castillo, Permanent Representative, Permanent Mission of Honduras to the WTO, the WTO is working to address worsening climate change even as it focuses on institutional reform and vaccine equity. This includes the agreement on fisheries subsidies. Mr Martin Chungong, Secretary General, Inter-Parliamentary Union, meanwhile stressed the need for parliamentarians to use trade to serve the environment and strengthen the MTS for post-pandemic economic recovery. Some concrete actions that could be taken include legislation and budgeting that support sustainable development climate targets, clean energy transitions, and green jobs. There is likewise space for parliamentarians to support regional economic organisations such as the Asia Pacific Economic Cooperation (APEC) forum, whose initiatives inform the WTO's negotiations and direction. Dr Rebecca Fatima Sta Maria, Executive Director, APEC Secretariat, noted that APEC is pursuing climate-friendly trade capacity-building and technical assistance on top of climate-friendly trade. It is also working on a list of environment and environment-related services for further liberalisation, discussing inefficient fossil fuel subsidies, and studying how non-tariff measures contribute to emissions reduction.

Mr Martin Raiser, Country Director for China, Korea, and Mongolia, The World Bank, added that the WTO should collaborate with other institutions—like the G20—to reduce import and export restrictions that affect medical and environmental goods and services. In his view, the WTO should also facilitate discussions on how to incentivise the creation, diffusion, and affordability of new technologies for climate change and health crises. Ms Céline Charveriat, Executive Director, Institute for European Environmental Policy, echoed that the WTO can do more to ensure green and just global economic resilience. The WTO should thus look at phasing out the brown economy, co-creating green standards and green supply chains, as well as having an independent panel of scientists make science-based recommendations for a world trading system on track to net-zero emissions.

The second panel focused on the global economic headwinds and business responses, particularly in the Asia-Pacific. Mr Lee Yung Sheng, Executive Director, Global Division 1, Singapore Business Federation, discussed the severe impact of the Russian invasion of Ukraine on Singaporean businesses through, for instance, rising costs. Technology and supply chain diversification are some avenues to mitigate this impact. Ms Selena Ling, Head, Treasury Research and Strategy, Global Treasury Division, OCBC Bank, elaborated on other significant headwinds such as inflation, contractionary monetary policy to stave off inflation, US-China geopolitical rivalry, food insecurity, and new COVID variants. Owing to these factors, stagflation is already occurring and there is a real risk of recession as early as 2023.

Ms Lin Shiumei, Vice President, Public Affairs & Sustainability, UPS Asia Pacific, added that supply chain disruptions are severe due to two factors. First, not enough attention was paid to surveilling and managing the transportation ecosystem and its linkages with trade. Second, the inability of transport and logistics to keep pace with the boom in e-commerce, partly because it is an insufficiently digitised industry. Both air freight and ocean freight are equally constrained. Consequently, shipping fees are four to five times higher than pre-COVID times and most capacity has been rerouted to serve more profitable trade routes (e.g. Asia to US), which leaves others (Latin America to Asia, or intra-Asia) underserved. Small and medium enterprises feel these price hikes hardest. Overall, considering digitalisation's usefulness in helping businesses weather the pandemic and other headwinds, Ms Eunice Huang, Head of APAC Trade Policy, Google Asia Pacific, added that policymakers must facilitate cross-border data flows and digital inclusion, as well as harmonise digital regulations.

The final session delved into WTO reform and how WTO members can push the reform agenda forward. According to Ambassador Li Chenggang, Permanent Representative, Permanent Mission of China to the WTO, WTO reform will gain momentum if developing countries are allowed greater flexibility to deal with mounting challenges, such as technological divides and food security. Ambassador Brajendra Navnit, Permanent Representative, Permanent Mission of India to the WTO echoed that the WTO must enable low- and middle-income countries to better climb the development ladder. Further, the WTO should not shy away from revisiting old rules or introducing short-term "escape clauses" where new rules are trialled for several months to see if they can solve the problems facing countries today.

Ambassador Tan Hung Seng, Permanent Representative, Permanent Mission of Singapore to the WTO added that members must rejuvenate the WTO's negotiating function so the multilateral trade rulebook can be updated for 21st century issues. This should be prioritised at the 12th WTO Ministerial Conference, which provides a timely opportunity for ministers to take stock of the WTO and give their delegations guidance. Mr David Bisbee, Deputy Permanent Representative, Permanent Mission of the United States to the WTO pointed out, however, that making new rules will not be easy, because of diverging interests within a wide membership. Hence, trade ministries and governments must find areas to cooperate and hold more and better conversations to understand outstanding differences.■

Multilateral Matters: News Roundup

The New Energy Order: How Governments Will Transform Energy Markets

Foreign Affairs | July/August 2022 | Full Report

The G7 Summit's Geopolitical Pivot Signals a Different Future for Global Health

Think Global Health | 30 June 2022 | Full Report

The G7's focus on war, power, and ideology overshadowed global health concerns

Race to the Bottom: Deep Sea Mining is the Next Frontier

Foreign Policy | 26 June 2022 | Full Report

The untapped trove of metals on the ocean floor might be the key to a greener future—or an environmental catastrophe.

The Indo-Pacific Economic Framework: An ASEAN Perspective

Observer Research Foundation | 25 June 2022 | Full Report

Towards an Asian Digital Trade Zone

Hinrich Foundation | 21 June 2022 | Full Report

Assessing the Belt and Road Initiative in Southeast Asia amid the COVID-19 Pandemic

Fulcrum | 10 June 2022 | Full Report

Data analysis from an original dataset tracking major China-financed projects under the Belt and Road Initiative (BRI) in Southeast Asia since January 2021 shows that China remains committed to boosting BRI projects' progress.

Stronger US-ASEAN Ties Hinge on Careful Cooperation

East Asia Forum | 31 May 2022 | Full Report

How the Ukraine War Will Change the Asian Order

Council for Foreign Relations | 1 May 2022 | Full Report

The impact of Ukraine will not be confined to Europe. If this war drags on, economically, politically, and diplomatically, Asia and the Asian political order will change.

SELECTED PUBLICATIONS

Great Power Competition and Order Building in the Indo-Pacific: Towards a New Indo-Pacific Equilibrium

Frederick Kliem | *Routledge* | 24 June 2022

How the EU Can Still Succeed in the Indo-Pacific Despite the War in Ukraine

Frederick Kliem | *The Diplomat* | 28 May 2022

BIMSTEC Searches for a Bigger Role in the Indo-Pacific

Nazia Hussain | *East Asia Forum* | 26 May 2022

The ASEAN-US Special Summit and the Future of Thailand-US Economic Relations

Kaewkamol Pitakdumrongkit | *Points of View* | 18 May 2022

Global Trade Governance: Whither Post-Ukraine?

Pradumna Bickram Rana | *RSIS Commentaries* | 9 May 2022

Southeast Asia's Economic Future After COVID-19

Kaewkamol Pitakdumrongkit | *Think Global Health* | 28 April 2022

Ukraine War Impact: Changing Economic Order

Su-Hyun Lee | *RSIS Commentaries* | 26 April 2022

Global Digital Economy: Headwinds Ahead

Amalina Anuar | *RSIS Commentaries* | 12 April 2022

Ukraine War: Will It Lead to a New Bretton Woods?

Pradumna Bickram Rana | *RSIS Commentaries* | 4 April 2022

The **Centre for Multilateralism Studies (CMS)** is a research entity within the S. Rajaratnam School of International Studies at Nanyang Technological University, Singapore. The CMS team conducts cutting-edge research, teaching/training and networking on cooperative multilateralism in the Asia Pacific region. The Centre aims to contribute to international academic and public discourses on regional architecture and order in the Asia Pacific. It aspires to be an international knowledge hub for multilateral cooperation and regional integration.

Multilateral Matters is the quarterly publication of the Centre for Multilateralism Studies (CMS), analysing the most recent developments regarding multilateralism by our team. It covers articles on relevant economic and political issues as well as programmes and latest publications from the research centre. The objective of the newsletter is to promote the research being done by our centre, raising awareness of the many events that we hold on a regular basis.

Nanyang Technological University
Block S4, Level B4, 50 Nanyang Avenue, Singapore 639798
Tel: + 65 6790 6982 | Fax: +65 6794 0617 | www.rsis.edu.sg