What the 2024 US Presidential Election Portends for the IPEF Supply Chain Agreement

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SYNOPSIS

The Indo-Pacific Economic Framework for Prosperity (IPEF) Supply Chain Agreement signed by its fourteen members in November 2023 entered into force on 24 February. However, US leadership of the IPEF and the Agreement seems uncertain should Donald Trump make a return to the White House after the US Presidential Election in November. Should we be concerned?

COMMENTARY

Since the signing of the Indo-Pacific Economic Framework for Prosperity (IPEF) Supply Chain Agreement in November 2023, five members, viz., Fiji, India, Japan, Singapore, and the United States have ratified it. Their ratifications were sufficient to put this Agreement into force on 24 February 2024. According to Article 21.3, the Agreement shall be in effect 30 days after at least five signatories (out of the 14 member countries) have submitted the “instrument of ratification, acceptance, or approval with the Depositary”.

The IPEF and Its Benefits

Some background on the IPEF would be useful. Although not a free trade agreement, IPEF members have embraced it for the tangible benefits that it offers.

Firstly, some of the Asian members see the IPEF as a means to keep the US engaged economically given Washington’s current domestic politics which renders FTAs infeasible. In other words, the IPEF serves as a platform for the US (which launched the initiative) and the Indo-Pacific nations to deepen their economic ties in the realms beyond the issue of market access.
Secondly, the IPEF provides a channel of communication for the members to share concerns and explore solutions to pressing transnational issues. This reduces misunderstandings of one another’s actions, which is crucial in preventing economic conflicts from escalating into trade wars at a time of rising geopolitical tensions and international mistrust.

Thirdly, the IPEF will open the door for new ideas and approaches to promote regional trade and investments and help advance economic integration against a backdrop of increasing international uncertainties. The IPEF’s Supply Chain Agreement is a case in point. The Agreement constitutes the world’s first multilateral agreement on supply chain management, which is also applicable in times of crisis.

The IPEF Supply Chain Agreement

The IPEF Supply Chain Agreement establishes three institutional mechanisms, viz., the Supply Chain Council, Supply Chain Crisis Response Network, and Labour Rights Advisory Board. The Council develops a sector-specific action plan for critical sectors and key products, which is necessary for not only running transnational supply chains in business-as-usual periods but also for elevating the region’s ability to weather crises. The Crisis Response Network provides a medium of communication during supply chain disruptions and emergencies to facilitate information sharing and expedite effective collective action by the involved parties.

Overall, as set out in Article 2, the IPEF Supply Chain Agreement stipulates rules to enable better multilateral supply chain collaboration, such as in aligning guidance related to trade facilitation, sharing of best practices, building the databases of product and logistics data, encouraging the development and adoption of interoperable digital standards, and facilitating business matching, capacity-building, joint research and development.

These rules will enhance the members’ ability to withstand or reduce the effects of unanticipated disruptions on their economies. As an illustration, most states know the products that they are exporting and importing. However, they are less data-savvy about where their trading partners source the materials, parts, and components for their goods. The Agreement enables the participating countries to exchange such information with one another and to devise well-rounded responses on a timely basis, which will in turn strengthen transnational supply chain resilience.

For some of the IPEF members, the Agreement provides certain strategic advantages. For example, it enables them to diversify from or reduce their dependence on China for supplies. This objective is driven by reasons such as the disruption to their supply chains caused by Chinese lockdowns during the COVID-19 pandemic, their intention to establish themselves as an alternative production hub, and Chinese dominance on supply chains for key raw materials and critical minerals.

The IPEF Under a New Trump Administration

Washington is now in its presidential election mode. The prevailing mood is not favouring free trade as some presidential contenders have made voters more skeptical
of multilateralism. For example, Donald Trump has dubbed the IPEF as “Trans-Pacific Partnership (TPP) Two”, which indicates the possibility that he might take the US out of this deal should he get re-elected. It should not be forgotten that it was under his Presidency that the US withdrew from the TPP in 2017. Will history repeat itself?

However, Trump may not be able to transform his words into deeds this time, at least during the first half of his four-year term. According to Article 23.1 of the IPEF Supply Chain Agreement, a member is allowed to leave the deal after three years from the date of entry into force of the Agreement. Thus, the soonest the US can exit, if it wants to at all, will be on 25 February 2027.

Domestic political factors may also block Trump from exiting the IPEF. The pact benefits the US private sector and jives well with Washington’s goal to shore up its domestic manufacturing sector, which is now booming. To enable this trend to continue, the US needs to work with like-minded countries to source inputs and ensure the smooth running of transnational supply chains. Thus, American companies and trade associations may put intense pressure on Trump to remain in the IPEF and its Supply Chain Agreement.

However, we are still not out of the woods yet. While Trump may be dissuaded from taking the US out of the IPEF, he may still be able to stop the country from participating in the Supply Chain Agreement. For one thing, he may invoke Article 15 of the Agreement, which stipulates that “[n]othing in this Agreement shall be construed to preclude a Party from applying measures that it considers necessary for the fulfillment of its obligations with respect to the maintenance or restoration of international peace or security or for the protection of its own essential security interests”.

Furthermore, dispute settlement under Article 19 of the Agreement is based on consultations, which allows a member to raise concerns about another country’s implementation of a provision of the Agreement. The article requires that the “consulting Parties shall attempt to arrive at a mutually satisfactory resolution as soon as practicable”. This kind of mechanism may not be effective in ensuring Washington’s compliance or deterring it from defection.

Alternatives to US Leadership

One element driving the success of the IPEF Supply Chain Agreement so far has been US leadership. Washington has not only played a key role in crafting the details of the text and providing guidance for the other members but also in giving technical assistance to boost their capabilities in implementing the Agreement.

As part of this assistance, Washington plans to organise a series of training programmes pertaining to supply chain monitoring and operation, launch an IPEF STEM Exchange Program to match early- and mid-career professionals from IPEF countries with professional development opportunities related to supply chain operations, lead up to ten trade missions to IPEF economies over the next five years to assist business matching, and tighten counter-terrorism measures via new Mutual Recognition Arrangements (MRAs) with IPEF countries which currently do not have MRAs with the US Customs Trade Partnership Against Terrorism programme.
In the operationalisation of the IPEF and its Supply Chain Agreement, the US is expected to provide leadership. However, should Washington be unable to provide this leadership, two questions will arise: “Will the cooperation fall apart?” and “Who else will provide leadership?”

Some IPEF members look to be potential candidates to drive the Supply Chain Agreement forward in the absence of US leadership. Australia and South Korea are two such members who can step up to fill the leadership role. Both nations had previously agreed to jointly craft a scheme to bolster the other IPEF members’ capacities to identify, monitor and manage vital supply chain vulnerabilities.

Another candidate could be Singapore which was the first IPEF country that Washington chose to conduct pilot projects on digital shipping cooperation with. The city-state’s expertise in digitalised handling of shipping and logistics data would allow it to enhance the capabilities of the other IPEF members in this respect.

The fate of the IPEF and its Supply Chain Agreement may take a turn for the worse after the US presidential election in November. History may repeat itself and the US may not be able to provide leadership as it once did. Although this is regrettable, there is no reason for despair as alternative leaders are available to helm the IPEF and see through the promotion of trade and investment in the Indo-Pacific.

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