The IPEF Supply Chain Agreement on De-risking Supply Chain Disruptions and Implications on Non-Members – A Taiwan Perspective

Kristy HSU

The United States and thirteen other countries launched negotiations on IPEF, and its four pillars in September 2022. Pillar II, the Supply Chain Agreement (hereinafter referred to as the Agreement), also known as the IPEF Agreement Relating to Supply Chain Resilience, was concluded fast and became effective from 24 February 2024. The Agreement is a first-of-its-kind international agreement stipulating the IPEF Members' obligations to address modern supply chain challenges by improving resilience and regulating related issues such as labour rights.

Work has commenced among the eight Parties that have ratified the Agreement (Fiji, India, Japan, Korea, Singapore, the US, Malaysia and Thailand) for establishing institutions for addressing various supply chain crises arising from shortages, bottlenecks, and other constraints. The Parties have also begun identifying and notifying their country's initial list of critical sectors and key goods for cooperation under the Agreement.

Though currently not a part of IPEF, Taiwan has close economic ties and supply chain partnerships with most of its IPEF members. Its critical role in the technology industries and semiconductor supply chains may be undermined if IPEF members discuss to enhance collaboration to reduce risks of supply chain disruptions in critical sectors and key goods. The Supply Chain Agreement might also encourage trade and investment among the members through preferential treatments while discriminating against other non-IPEF economies, including Taiwan, which may raise issues of WTO inconsistency.

This paper discusses the IPEF Supply Chain Agreement, its progress and implications on the Parties and non-IPEF members, including Taiwan. After providing updates on the Agreement, it explores its provisional structure and content on institutional arrangement and collaboration for de-risking supply chains and analyses possible impacts on Taiwan as a non-IPEF member.

Introduction

The IPEF initiative was announced by the US President of the United States Joe Biden on May 23, 2022, with thirteen other founding members.[1] It comprises four pillars, namely Fair and Resilient Trade, Supply Chains, Clean Economy, and Fair Economy. After several rounds of negotiations and ministerial meetings, the US announced the substantial conclusion of the Supply Chain Agreement negotiations in May 2023, the first pillar to reach consensus among the IPEF members. The Agreement was signed in November 2023 and has become effective from February 2024.

Subsequently, the Clean Economy Agreement, Fair Economy Agreement, and Agreement on IPEF, an overarching Agreement to help ensure operationalisation of the IPEF framework, were signed during the IPEF Ministerial meeting in Singapore on June 6, entering into force on October 11 and 12, 2024, respectively, leaving the first pillar, or IPEF Trade Agreement, the only remaining agreement which was shelved indefinitely.[2]

The US welcomed the conclusion of these high-standard economic cooperation agreements and expected all IPEF members to emphasise the significant opportunities to further deepen economic cooperation under the agreements going forward.[3]

IPEF was the main economic mechanism under the Indo-Pacific strategy of the former Biden administration. Its current 14 members represent 40 percent of global Gross Domestic Product (GDP) and 28 percent of global trade of goods and services. To the US, its foreign direct investment in the region totaled more than $969 billion in 2020 while receiving nearly $900 billion in foreign direct investment into the US.[4]

The IPEF aims to formulate a new economic order for the 21st century to respond to the economic challenges of the new century.[5] The First Pillar (trade) includes labor, environment, digital economy, agriculture, transparency and good governance practices, competition policy, trade facilitation, inclusiveness, technical assistance and economic cooperation. The Second Pillar (supply chain) focuses on increasing resilience of key supply chains and investment in key industries and products, and establishing information sharing and crisis response mechanisms, strengthening supply chain logistics systems, strengthening the role of labor, and improving supply chain transparency. The

1 The original 13 members are the United States, Japan, South Korea, India, Australia, New Zealand, Vietnam, Thailand, Malaysia, Singapore, Indonesia, Brunei, the Philippines. On May 26, the United States invited Fiji, the only member in the Pacific, to join it became the 14th member.

2 IPEF negotiators planned to finalise negotiations of the trade pillar in November 2023 when the US hosted the Asia-Pacific Economic Cooperation (APEC) Leaders' Summit, but paused because of failure to reach consensus on a digital agreement due to certain sensitive issues. See "IPEF members finalizing parts of trade pillar; some digital pieces on hold," World Trade Online, 6 October 2023, https://insidetrade.com/daily-news/ipef-members-finalizing-parts-trade-pillar-some-digital-pieces-hold.

3 "Secretary Raimondo, IPEF Ministers Welcome Upcoming Entry into Force of the Clean Economy Agreement, Fair Economy Agreement, and Agreement on the Indo-Pacific Economic Framework for Prosperity (IPEF) and Commit to Continued Progress at Virtual Ministerial," US Department of Commerce, 23 September 2024, https://www.commerce.gov/news/press-releases/2024/09/secretary-raimondo-ipef-ministers-welcome-upcoming-entry-force-clean

4 "FACT SHEET: In Asia, President Biden and a Dozen Indo-Pacific Partners Launch the Indo-Pacific Economic Framework for Prosperity," The White House, 23 May 2022, https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/23/fact-sheet-in-asia-president-biden-and-a-dozen-indo-pacific-partners-launch-the-indo-pacific-economic-framework-for-prosperity/

5 See IPEF Overview and explanations of the four Pillars and key issues, US Department of Commerce, https://www.commerce.gov/ipef

Third Pillar (clean economy) includes energy security and transformation, reducing greenhouse gas emissions from priority industries, sustainable land, water, and oceans plans, innovative technologies to eliminate greenhouse gases, and incentives to promote the transformation of a clean economy. The Fourth Pillar (fair economy) includes anti-corruption, taxation, capacity building and innovation, cooperation, inclusive cooperation and transparency.[6]

The Supply Chain Agreement

The Supply Chain Agreement was signed in November 2023. Five IPEF members – Fiji, India, Japan, Singapore and the US – deposited instruments of ratification to the US and triggered its entry into force on February 24, 2024. Subsequently, South Korea, Malaysia and Thailand have ratified the Agreement and become official Parties.

The Agreement includes all major components discussed during the negotiations, including: 1. Developing standards for key goods and sectors to prevent major or widespread damages to the economy; 2. Increase resilience and investment in key sectors and commodities, explore tools and institutions that promote resource diversification across the region, and increase ability to identify unique sources or bottlenecks in the supply chain; 3. Establish information sharing and crisis response mechanisms; 4. Strengthen supply chain logistics, including infrastructure; 5. Strengthen the role of labor and investment in necessary training and development opportunities to ensure adequate numbers of skilled workers in supply chains in critical sectors; and 6. Developing tools and measures to improve transparency of supply chains in key sectors and avoid unnecessary costs for Micro, Small and Medium-sized Enterprises (MSMEs).[7] Recognised as a landmark and first-of-its kind agreement, the Parties will build resilient, diversified, sustainable, and transparent supply chains. The major milestones also include establishing three supply chain bodies: the Supply Chain Council, the Crisis Response Network and the Labor Rights Advisory Board. To enable these institutions to operate, the Parties shall identify their representatives to all three bodies and to select a Chair for each of them. The three bodies shall adopt the terms of reference for their meetings and decision-making.[8]

According to Article 6 of the Agreement,[9] the IPEF Supply Chain Council shall meet on an annual basis to review and discuss each Party's written report provided pursuant to the Agreement; establish a team(s) to develop Action Plans providing recommendations to increase the resilience and competitiveness of critical sectors or key goods from among those notified by at least three Parties in accordance with Article 10 (identifying critical sectors or key goods);and discuss opportunities to support skills and workforce development activities. The Council, as decided by the Parties, may explore opportunities to develop best practices in relation to policies, measures or actions impacting trade in critical sectors or key goods; or discuss any possible collaboration to enhance the resilience, efficiency, productivity, sustainability, transparency, diversification, security, fairness,

6 *Ibid.*

7 "Press Statement on the Substantial Conclusion of IPEF Supply Chain Agreement Negotiations," Department of Commerce, US, May 27, 2023, https://www.commerce.gov/news/press-releases/2023/05/press-statement-substantial-conclusion-ipef-supply-chain-agreement

8 "US and IPEF Members Establish Supply Chain Bodies and Convene First Virtual Meetings Under Landmark Supply Chain Agreement", US Department of Commerce, https://www.commerce.gov/news/press-releases/2024/07/us-and-ipef-partners-establish-supply-chain-bodies-and-convene-first

9 "Indo-Pacific Economic Framework for Prosperity Agreement Relating to Supply Chain Resilience," US Department of Commerce, https://www.commerce.gov/sites/default/files/2023-09/2023-09-07-IPEF-Pillar-II-Final-Text-Public-Release.pdf

and inclusivity of IPEF supply chains. It is noteworthy that in the Agreement, the term 'IPEF supply chains' appear 39 times, among which the phrase 'the inclusivity of the IPEF supply chains' appears in Article(s) 2, 3, 5, 6, and 8. Notwithstanding the Supply Chain Agreement's efforts to enhance and strengthen supply chain collaboration for increasing resiliency, transparency and sustainability of supply chains in IPEF partners, trying to create inclusive supply chains only for IPEF partners may create concern for non-IPEF countries of exclusion from or discriminated by certain preferential arrangements or benefits provided by IPEF partners. IPEF partners, particularly the US, will have to demonstrate that the inclusivity of IPEF supply chains, whether in the formats or practices, will not violate the WTO laws or create adverse impacts on non-IPEF countries or economies.

According to Article 8 of the Agreement, the Parties shall establish an IPEF Labor Rights Advisory Board, notify its representatives to other members, and operate its tasks, including developing technical reports in consultations with the International Labour Organisation (ILO).[10] According to Article 9, the members will develop or maintain a reporting mechanism to receive allegations of inconsistencies of labour rights at subject facilities located in the territory of another member within 180 days after the entry into force of the Agreement.[11] The sub-committee shall accordingly develop the guidelines for the operation of the facility-specific reporting mechanisms on labor rights inconsistencies in IPEF supply chains. Paragraph 3 further regulates the format for submitting an allegation, criteria to consider in assessing an allegation, procedures to manage proceedings, etc.

According to Article 10 of the Agreement, to share an understanding of global supply chain risks, each Party shall identify critical sectors or key goods, and notify the other Parties through the Supply Chains Council of its initial list of "critical sectors" or "key goods" for cooperation under the Agreement no later than 120 days after the entry into force of the Agreement on February 24, 2024 or the date of the entry into force for each Party.[12] A Party may add, remove, or make changes at any time upon written notifications to the other Parties. The common sectors and goods notified by the Parties may be selected as the subject of Action Plans to identify shared vulnerabilities and opportunities to build resilience.

It is not very common for a new plurilateral agreement to set up such detailed and tight timelines for its various milestones and institution building. This suggests IPEF members are working expeditiously for implementing the Agreement and operationalising its institutions.[13] The quick progress could also suggest the urgency on part of the US and some other IPEF members, notably Japan, as they perceive heightened risks of supply chain disruptions in some critical sectors, such as semiconductors, critical raw materials and minerals. According to a survey of the Global Business Optimism Insights (GBOI) conducted by the Dun & Bradstreet in early 2024, CEOs from Japan and some other East Asian countries, including Taiwan, said they felt more pessimistic than

10 *Ibid.*
11 *Ibid.*
12 *Ibid.*
13 "Trump vows to kill Asia trade deal being pursued by Biden if elected," Reuters, 19 November 2023, https://www.reuters.com/world/us/trump-vows-kill-asia-trade-deal-being-pursued-by-biden-if-elected-2023-11-19/

previous year about risks of supply chains disruptions.[14]

On 30 July 2024, the US Department of Commerce announced important progress in operationalising the Supply Chain Agreement after the inaugural virtual meetings among the Parties of the three supply chain bodies.[15] Each of the bodies has elected a Chair and Vice Chair for a term of two years. The Supply Chain Council has the US and India as Chair and Vice Chair, respectively. Similarly, the Crisis Response Network has South Korea as Chair and Japan as Vice Chair, while the Labor Rights Advisory Board has the US as Chair and Fiji as the Vice Chair. The Supply Chain Council has adopted a Terms of Reference to guide its operations going forward and discussed priorities for initial work. The first in-person meeting of the Supply Chain Council and the Crisis Response Network (CRN) were held in Washington, D.C. in September 2024.

The Council, chaired by the US, adopted its first-year workplan and established two Subcommittees on Logistics and Movement of Goods and on Data and Analytics, and established three Action Plan teams on semiconductors, chemicals, and critical minerals with a focus on batteries.[16] The CRN meeting, chaired by South Korea, discussed issues relating to supply chain disruptions.

The US list of "critical sectors" or "key goods" for cooperation

The US has announced its initial list of critical sectors and key goods for cooperation to strengthen supply chain resiliency.[17] According to Article 1 of the Agreement, 'critical sectors' mean 'sectors that produce goods and supply any related essential services critical to a Party's national security, public health and safety, or prevention of significant or widespread economic disruptions' and 'key goods' mean 'raw, in-process, or manufactured materials, articles, or commodities, the absence of which could have a significant effect on a Party's national security, public health and safety, or

14 Dun & Bradstreet's Global Business Optimism Insights (GBOI) is a quarterly report that aims to gauge the optimism levels of businesses globally and provides a view into the thinking behind the growth, operational, and investment expectations of business leaders. The Global Supply Chain Continuity Index has come down sharply to 47.9 in Q1 2024 from 51.1 in Q4 2023 due to geopolitical tensions in different parts of the world, trade disputes, and climate-induced disruptions in maritime trade causing both higher delivery costs and delayed delivery times. See "Global Business Optimism Insights," Dun & Bradstreet, 2024 https://www.dnb.com/content/dam/english/dnb-data-insight/Global_Business_Optimism_Insights_Q1_2024.pdf.

15 "Fact Sheet: The IPEF Partners Highlight Continued Progress, Advance Concrete Cooperation, and Welcome the Next Phase of Cooperation", US Department of Commerce, 6 June 2024, https://www.commerce.gov/news/fact-sheets/2024/06/fact-sheet-ipef-partners-highlight-continued-progress-advance-concrete

16 According to the US, the topics were determined based on critical sectors and key goods that were formally identified by IPEF Parties for cooperation under the Supply Chain Agreement. This means the Council will need to establish an Action Plan team on healthcare in the future. See "US and IPEF Partners Hold First In-Person Meetings of the IPEF Supply Chain Council and the IPEF Crisis Response Network," US Department of Commerce, 14 September 2024, https://www.commerce.gov/news/press-releases/2024/09/us-and-ipef-partners-hold-first-person-meetings-ipef-supply-chain.

17 The International Trade Administration's Industry & Analysis unit conducted in-house analyses of supply chains for sectors and goods for potential near-term US opportunities in the Indo-Pacific region, supplemented by public input obtained via a Federal Register Notice (FRN) in June 2024 and interagency consultations. The Department of Commerce emphasizes that the US list is specifically for use in the context of the IPEF Supply Chain Agreement and is not a definitive list of US priorities for the purposes of any other US government supply chain efforts, nor a definitive list of what the IPEF Supply Chain Council will prioritise for discussion and action. See "U.S. Identifies Critical Sectors and Key Goods for Potential Cooperation under the IPEF Supply Chain Agreement," US Department of Commerce, 23 August 2024, https://www.commerce.gov/news/press-releases/2024/08/us-identifies-critical-sectors-and-key-goods-potential-cooperation.

prevention of significant or widespread economic disruptions'.[18]

The US list was prepared by the International Trade Administration (ITA) of the Department of Commerce under its newly established Supply Chain Center (See Appendix 1).[19]

The above list is the first such effort by the US government, to assess supply chain vulnerability across all major sectors of the US economy to determine—at the sectoral and product level — the 'hidden vulnerabilities' for policy action in the US and further advancing cooperation under the IPEF framework. The list reflects the US' strategic considerations in collaboration with other Parties to reduce or avoid supply chain disruptions in 'critical sectors' or 'key goods'. Such collaboration can be through 'business matchmaking', encouraging investment, or improving policy coordination in areas impacting supply chains, among others.[20]

The Biden administration prioritised supply chain resiliency in critical sectors and released different lists of these sectors under its national security strategy. For example, prior to the release of the initial list under IPEF, in February 2024, the White House Office of Science and Technology Policy (OSTP) released an updated list of critical and emerging technologies (CETs).[21] According to the OSTP, the list of CETs and its updates will be considered when the US seeks to engage its allies and members. This initial list of CETs was released in October 2020, following the announcement of the 2020 National Strategy for Critical and Emerging Technologies, and an updated list was released in February 2022.[22] Another updated list, released in February 2024, identifies 18 critical and emerging technology areas and each identified CET area includes a set of key subfields that

18 "Indo-Pacific Economic Framework for Prosperity Agreement Relating to Supply Chain Resilience," US Department of Commerce, https://www.commerce.gov/sites/default/files/2023-09/2023-09-07-IPEF-Pillar-II-Final-Text-Public-Release.pdf

19 In 2023, the Department launched a Supply Chain Center to serve as an analytic engine to help drive decision-making and policy action on efforts to strengthen supply chain resilience. The Center is facilitating collaboration across the Industry & Analysis (I&A) unit, other parts of Commerce, and other government agencies to support a proactive approach by the US government in getting ahead of supply chain challenges, to be strategic in setting priorities for policy focus and action based on data-driven risk analysis, and to serve as a force multiplier in improving the targeting and effectiveness of US government investments.

20 The Supply Chain Center has developed a cross-sectoral risk assessment framework (the "tool") which utilises a comprehensive set of indicators to assess current or prospective supply chain risk across the US economy, with an emphasis on risks to national security, including economic security, most relevant to the US government, in order to help the government more comprehensively and systematically identify supply chain vulnerabilities and pursue in-depth analysis for actionable and evidence-based policy recommendations. See "explanation in the Request for Comments on Commerce Supply Chain Risk Assessment and IPEF Supply Chains," A Notice by the ITA, June 30, 2024, https://www.federalregister.gov/documents/2024/06/03/2024-12240/request-for-comments-on-commerce-supply-chain-risk-assessment-and-ipef-supply-chains.

21 This 2024 update outlines technologies that could chart new pathways in American innovation and strengthen the nation's security. White House Office of Science and Technology Policy Releases Updated Critical and Emerging Technologies List, White House, February 12, 2024, https://www.whitehouse.gov/ostp/news-updates/2024/02/12/critical-and-emerging-technologies-list-2024-update/

22 The CET lists of Updates are released by the Fast Track Action Subcommittee on Critical and Emerging Technologies of the National Science and Technology Council. See "National Strategy for Critical and Emerging Technologies," October 2020, https://trumpwhitehouse.archives.gov/wp-content/uploads/2020/10/National-Strategy-for-CET.pdf; "Critical and Emerging Technologies list Update," February 2022, https://www.whitehouse.gov/wp-content/uploads/2022/02/02-2022-Critical-and-Emerging-Technologies-List-Update.pdf.

describe its scope in more detail.[23]

Differences between IPEF and CET critical sectors

The IPEF list has a wider scope than the CET list and its updates. The former includes less strategic products or sectors such as agriculture and consumers goods, as well as services (health, insurance, telecommunication, etc.), infrastructures and logistics, among others. This suggests the US's concerns of supply chains disruptions or shortages may happen because of disruption of trade or import dependence on these goods and services, thereby necessitating cooperation with other IPEF members. In another word, the trade perspective of the IPEF list focuses not on self-sufficiency or localisation, but on efficient and facilitated trade with trusted trade partners. Hence, it stands sharply different from the science and technology perspective on the CET lists.

Further, the IPEF list contains finished products as well as raw materials, semi-raw materials or intermediate goods, thereby covering a much wider range of critical sectors from a supply chain perspective, compared with the specific scientific focus of the CETs. Finally, while both lists contain semiconductors, the IPEF list identifies semiconductors as a sub-sector under Information and Communication Technology (ICT) products for supply chains cooperation, while also focusing on assembly, testing, and packaging (ATP), excluding semiconductor fabrication. The CET list contains critical and important sub-sectors or technologies in the whole semiconductor supply chain from IC design, manufacturing to advanced testing and packaging.[24] The difference between the two lists suggests that while the US is determined to increase self-sufficiency in semiconductor production at home and maintain its global leadership in advanced technologies, as mandated in the CET list, it still needs to cooperate with IPEF members to provide APT services to semiconductors to be used by the US businesses or to be exported to the US.

Implications and Impacts of the Supply Chain Agreement on IPEF Parties and Non-Members

IPEF is the first plurilateral agreement the US initiated and engaged in after its exit from the TPP in 2017. US businesses attach great importance to the IPEF and have suggested expanding its scope. According to the American Association of the Indo-Pacific (AAIP), US businesses expected the negotiations to include the high standards of the CPTPP and the United States-Mexico-Canada

23 They include: Advanced Computing, Advanced Engineering Materials, Advanced Gas Turbine Engine Technologies, Advanced and Networked Sensing and Signature Management, Advanced Manufacturing, Artificial Intelligence, Biotechnologies, Clean Energy Generation and Storage, Data Privacy, Data Security, and Cybersecurity Technologies, Directed Energy, Highly Automated, Autonomous, and Uncrewed Systems, and Robotics, Human-Machine Interfaces, Hypersonics, Integrated Communication and Networking Technologies, Positioning, Navigation, and Timing Technologies, Quantum Information and Enabling Technologies, Semiconductors and Microelectronics, and Space Technologies and Systems.

24 The CET lists Design and electronic design automation tools, Manufacturing process technologies and manufacturing equipment, Beyond complementary metal-oxide-semiconductor (CMOS) technology, Heterogeneous integration and advanced packaging, Specialized/tailored hardware components for artificial intelligence, natural and hostile radiation environments, RF and optical components, high-power devices, and other critical applications, Novel materials for advanced microelectronics, Microelectromechanical systems (MEMS) and Nanoelectromechanical systems (NEMS), and Novel architectures for non-Von Neumann computing.

Agreement (USMCA), and should go beyond the WTO trade rules.[25] The AAIP has submitted several proposals to the Biden administration on IPEF negotiations suggesting IPEF to include: Supply Chain Agreement negotiations on critical minerals, pharmaceuticals, and medical equipment; to add service industries in the negotiations (including transportation, freight, express delivery, etc.); to add tariff reduction issues for key goods and materials (or at least tariff reductions for products in specific sectors), etc. The concerns and interests are reflected in the Supply Chain Agreement that includes provisions on developing standards for key sectors and goods and expanding supply chain resiliency to service sectors such as logistics and infrastructure. However, the suggestions to include tariff reduction issues in the IPEF negotiations were not positively responded.

Some IPEF members, however, have also identified potential risks from the Agreement. The New Zealand government, for example, in its report of National Interest Analysis,[26] raised the issue that though the Agreement stipulates the importance of adhering to the WTO Agreements,[27] some government actions by IPEF Parties could undercut WTO rules – for example through use of subsidies to enhance capacity to supply. IPEF member governments' interventions to enhance supply chain resilience may very likely distort the market, and may likely generate inefficiencies and then raise economic costs. They also increase the degree of supply chain fragmentation.[28]

In addition to the IPEF Agreement, there are multiple initiatives or frameworks on supply chains collaboration which may be overlapping with, or contradicting the IPEF Agreement. These initiatives or frameworks in the Indo-Pacific region include CHIP 4, the Quad Semiconductor Supply Chain Initiative, the Japan-Australia-India Supply Chain Resilience Initiative, the US-Malaysia Semiconductor Supply Chain Resilience Memorandum, and the US-India Semiconductor Supply Chain and Innovation Membership.[29] These initiatives either have overlapping membership or scope of issues and thus could create problems or redundancy in their implementation.

Finally, some of the non-IPEF members may experience distinct impacts. For example, as the IPEF members are looking to reduce supply chain dependence on China through de-risking, scholars and experts in China have suggested Chinese companies should relocate some manufacturing capacities to other countries in order to shift their exports from being labelled as "Made in

25 The AAIP was established in 2022 after Biden announced that he would launch IPEF. Its members include well-known companies headquartered in the United States and Indo-Pacific regional business organizations, such as The US Chamber of Commerce in Southeast Asian countries, to provide suggestions to the administration in promoting the IPEF.

26 "National Interest Analysis of the IPEF," Ministry of Foreign Affairs and Trade, Government of New Zealand, June 2024, https://www.mfat.govt.nz/assets/Trade-agreements/IPEF/IPEF-NIA.pdf

27 The preamble of the Agreement asks all Parties "to act consistently with their respective obligations under the WTO Agreement." Article 18 also stipulates that nothing in the agreement may be construed to permit or require a party to implement the agreement in a manner inconsistent with its obligations under the WTO Agreement.

28 For example, Biden administration's massive new subsidies, including tax credits, grants, and preferential contracts, for domestic producers and "Buy American" requirements have been criticised. In addition to efficiency issues, businesses will relocate to take advantage of the subsidies on offer. See Scott Lincicome, "Industrial Policy: A Bad Idea Is Back," Cato Institute, 2021, https://www.cato.org/policy-report/july/august-2021/industrial-policy-bad-idea-back; Alan Crawford, "How US Industrial Policy Is Changing the World Economy," Bloomberg, 30 March 2023, https://www.bloomberg.com/news/newsletters/2023-03-30/biden-s-industrial-policy-is-changing-the-world-economy.

29 Takeyasu Fujik, "IPEF as Economic Statecraft – What Supply Chain Agreements Should Do and Not Do," Sasakawa Peace Foundation-US, 30 April 2024, https://spfusa.org/wp-content/uploads/2024/05/Fujiki-article-English-エコノミック・ステイトクラフトとしてのIPEF-Final-Draft-for-publishing.pdf

China" rules of origin to a third country rules of origin.[30] In fact, Chinese companies in recent years have significantly increased investments in Southeast Asia, particularly in Vietnam, Thailand and Malaysia, in order to circumvent trade sanctions, such as the Section 301 tariffs imposed by the US on imports of "Made in China" products.[31] Chinese circumventing measures have made Western countries' efforts to diversify supply chains more challenging and difficult.[32] Whether these concerns could be addressed under the IPEF Agreement remains to be seen.

The Taiwan Perspective

Since the US had proposed the IPEF, Taiwan had expected to be invited as a participating member, given that bilateral relations between the US and Taiwan in recent years has heightened to a new level. Taiwan is also a significant player in global supply chains, particularly in critical sectors such as ICT industries and semiconductor fabrication. Taiwan's participation in the group can contribute enormously to the economic prospects of the IPEF as well as in advancing US leadership in Indo-Pacific. Former Taiwan president Tsai Ing-Wen had declared her optimism in Taiwan's positive role in the initiative.[33]

However, in May 2022, when President Biden launched the IPEF negotiations, Taiwan was not among the invited participants, leading to widespread disappointment in Taiwan and criticism against the US support for Taiwan. It was reported that some Southeast Asian countries had expressed concerns that by including Taiwan in the IPEF while excluding China, the initiative may appear to be an anti-China group and hence antagonise Beijing.[34] In order to address the disappointment experienced by Taiwan, the Biden administration soon announced a new proposal to forge a bilateral trade initiative with Taiwan underlining the US strategic support for Taiwan in international space.[35]

On 1 June 2022, the US announced the launch of the US-Taiwan Initiative on 21st Century Trade. The negotiations kicked off on 17 August 2022. In a very short time span, the USTR announced conclusion of negotiations under the auspices of the American Institute in Taiwan (AIT)and the Taipei

30 "印太经济框架（IPEF）供应链协议公布，对企业供应链筹划影响何如，" King & Wood Mallesons, 23 October 2023, https://www.kwm.com/cn/zh/insights/latest-thinking/ipef-supply-chain-agreement-and-impacts-on-enterprises.html

31 *Ibid.*

32 "China's circumvention of trade remedies – and how the US can respond," Hinrich Foundation, 23 November 2021, https://gtipa.org/publications/2021/11/23/china's-circumvention-trade-remedies---and-how-us-can-respond

33 Former president Tsai continued to call for inclusion of Taiwan in the IPEF and said she was confident Taiwan can contribute more to regional trade and economic development. See "President Tsai meets US House delegation led by Rep. John Curtis," 20 December 2022, news release, Office of the President Republic of China (Taiwan), https://english.president.gov.tw/NEWS/6416; also see "蔡英文呼籲美方 台灣願參與印太經濟架構," Commercial Times(工商時報), 30 May 2022, https://www.ctee.com.tw/news/20220531700809-430104.

34 According to a CSIS report on 23 May 2022, "While Taiwan had indicated interest in joining the IPEF—and 250 members of Congress called for its inclusion—the island was ultimately left out of the framework to secure the participation of other South and Southeast Asian countries reluctant to antagonize Beijing." See "Unpacking the Indo-Pacific Economic Framework Launch," *CSIS*, https://www.csis.org/analysis/unpacking-indo-pacific-economic-framework-launch.

35 Yao-Yuan Ye et al., "Why Was Taiwan Left Out of the US-Led IPEF?" The Diplomat, 22 May 2022, https://thediplomat.com/2022/05/why-was-taiwan-left-out-of-the-us-led-ipef/

Economic and Cultural Representative Office in the United States (TECRO).[36] The First Agreement of the trade initiative includes five chapters: customs management and trade facilitation, good legal practices, domestic regulations in the service industry, anti-corruption and small and medium-sized enterprises. Subsequent negotiations that have begun from early 2024 extended to seven subjects, including standards, state-owned enterprises, labor, and environment.[37]

The US-Taiwan bilateral trade initiative and IPEF cover similar areas. But the former does not have a supply chain chapter or agreement, though some related issues are distributed across several chapters. As a major trading partner and foreign investor in the Indo-Pacific region, especially in Southeast Asia, India, Japan and the US, Taiwan's vital interests require an open, transparent and non-discriminatory IPEF and its four pillars. Furthermore, because supply chains resilience is of great importance, the Taiwan government is still very keen in participating in IPEF if, and when, the agreement is open for adding new members in the future.[38] According to Article 25, any State or separate customs territory may accede to the Agreement, subject to the consent of the Parties and any terms or conditions that may be decided between the Parties and the State or separate customs territory. Taiwan may apply to accede to the Agreement after it enters into force as a separate customs territory, which would be the same status with Taiwan's application for the CPTPP membership.[39]

It is important for Taiwan to compare the 21st Century Initiative with the IPEF Agreements and mechanisms to seek collaboration in supply chains issues with the US and other IPEF members. Additionally, among the fourteen IPEF founding members, twelve are APEC members except Fiji and India. Taiwan could promote cooperation with these APEC Members on topics or issues of the Agreement. For example, the US has proposed to provide technical and capacity building programs, such as expansion of the US Customs Trade Membership Against Terrorism (CTPAT) program in the Indo-Pacific, and an IPEF STEM Exchange Program with IPEF members, hoping that the Agreement will better position IPEF Members to reshape their supply chains to meet US interests, in line with the broader US friend-shoring agenda.[40] As Taiwanese companies have increased their investment in Southeast Asian countries for relocating and diversifying their supply chains, Taiwan and the US, and other IPEF members such as Japan, can work together in Southeast Asia to promote trilateral collaboration in supply chains.

---

36 "USTR Announcement Regarding U.S.-Taiwan Trade Initiative," USTR, 18 May 2023, https://ustr.gov/about-us/policy-offices/press-office/press-releases/2023/may/ustr-announcement-regarding-us-taiwan-trade-initiative

37 Riley Walters, "Towards a Second Agreement of the US-Taiwan 21st Century Trade Initiative," Global Taiwan Institute, 15 May 2024, https://globaltaiwan.org/2024/05/towards-a-second-agreement-of-the-us-taiwan-21st-century-trade-initiative/

38 According to Article 25 of the Agreement, any State or separate customs territory may accede to the Agreement, subject to the consent of the Parties and any terms or conditions that may be decided between the Parties and the State or separate customs territory. The Agreement shall enter into force with respect to an acceding Party 30 days after the date of deposit of its instrument of accession with the Depositary. Notwithstanding paragraph 1, no State or separate customs territory may accede to the Agreement until one year after the date of entry into force of the Agreement or after the date on which the Agreement has entered into force for all States listed in Article 21, paragraph 1, whichever comes first.

39 According to Article 5 of the CPTPP, Accession After the date of entry into force of this Agreement, any State or separate customs territory may accede to this Agreement, subject to such terms and conditions as may be agreed between the Parties and that State or separate customs territory.

40 Aidan Arasasingham at al., "Assessing IPEF's New Supply Chains Agreement", CSIS, 31 May 2023, https://www.csis.org/analysis/assessing-ipefs-new-supply-chains-agreement

Appendix 1

The list includes eight categories, which are:

1. agriculture;
2. chemicals;
3. consumer goods;
4. critical minerals and mining;
5. energy/environmental industries, including: advanced batteries, including components and materials, carbon management/capture technologies, electric grid equipment and technologies, forgings and die castings, hydropower, including components and materials, hydrogen, including components and materials, as well as molecular derivatives. permanent magnets; nuclear energy, including components and materials, solar energy systems, including panels, components, and materials, water and wastewater treatment equipment and chemicals, wind turbines, including components and materials;
6. health industries, including: medical devices, personal protective equipment, pharmaceuticals (particularly Active Pharmaceutical Ingredients (APIs), generic drugs, and biological products), vitamins and amino acids;
7. Information and Communication Technology Products, including: audiovisual technology (particularly displays), semiconductors (focused on assembly, testing, and packaging (ATP), telecommunication network equipment (particularly switches and routers), electronics manufacturing services; and
8. transportation and logistics, including: aerospace and aerospace components, including aircraft equipment, automotive parts (particularly electronic components, sensors, engines, transmissions, and electric motors used in vehicles), cargo handling equipment (particularly cranes) and the movement of shipping containers, heavy/medium duty trucks, including parts and materials, mass transit equipment, including transit buses, motor coaches, and rail passenger cars, rail equipment, shipbuilding and repair (particularly shipbuilding materials, marine engines, propulsion systems, ship components, and repair equipment), transportation, logistics, and distribution services (particularly cold chain services and IT interoperability standards).[41]

41 "U.S. Identifies Critical Sectors and Key Goods for Potential Cooperation under the IPEF Supply Chain Agreement," US Department of Commerce, 23 August 2024, https://www.commerce.gov/news/press-releases/2024/08/us-identifies-critical-sectors-and-key-goods-potential-cooperation