

IPEF: A Double-Edged Sword?

By Mae Chow

Beyond economic benefits, IPEF poses broader geopolitical and security implications for Southeast Asia's future.

The arrival of the Indo-Pacific Economic Framework for Prosperity (IPEF) has been welcomed by the majority of Southeast Asian nations, with seven out of ten Association of Southeast Asian Nations (ASEAN) Member States (AMS)—Brunei, Singapore, Malaysia, Indonesia, Thailand, the Philippines and Vietnam—joining the new framework. Anticipating the renewed engagement with the US in the Indo-Pacific, there was **much optimism** that the US-led IPEF would promote regional cooperation and support its members in their transition towards achieving sustainable economic growth.

While IPEF seems to offer significant benefits to Southeast Asia (SEA) in boosting economic potential, its capacity to provide a viable alternative to effectively reduce the region's economic dependency on China may be constrained by IPEF's demands, US domestic politics, and the exclusion of China. Nevertheless, the broader political and strategic significance of IPEF will likely intensify great power rivalry in SEA and challenge ASEAN as a regional institution.



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Yet, the **glaring failure** to materialise the trade pillar, which is a key aspect of IPEF for the ASEAN economies, has marred optimism for IPEF. In the US, there has been continued domestic resentment about how **“deep trade liberalisation”** has allowed China to prosper at the expense of the US. This sensitivity has continued to shape public opinion in the US, diminishing support for multilateral economic cooperation and free trade policies.

Considering the potential political backlash, especially with elections next year, President Joe Biden has conscientiously limited the scope of the trade pillar in IPEF, excluding politically sensitive issues such as market access and tariff reductions. Yet, despite not offering the traditional benefits of a trade agreement in exchange for requiring the IPEF members to adhere to high labour and environmental standards, **the trade pillar still faced pushback at home.**

Evidently, the US has maintained a **reluctance** to open up its economy and champion free trade. The tense domestic political climate on trade issues has constrained the US's ability to lead trade negotiations, making meaningful economic engagement in the region unlikely, let alone rivalling that of China.

It is also challenging to compete with China's deep economic engagement with ASEAN. China has consistently been ASEAN's top trading partner since 2009. According to **The State of Southeast Asia: 2023 Survey Report** by the ISEAS-Yusof Ishak Institute, China has been recognised by the majority of respondents (59.9 percent) as the most influential economic power in SEA, far surpassing that of the US (10.5 percent). Furthermore, the **majority of external trade** for the East Asia and the Pacific economies are intra-regional (55 percent) and only 12 percent involves North America. As such, a larger proportion of regional economic activity is conducted with China rather than the US. Consequently, a regional economic partnership without China is unlikely to have a substantial economic impact in SEA.

Furthermore, RCEP is a **trade agreement** with China that provides lucrative market benefits and a dispute mechanism to safeguard the economic interests of its members. Without these engagement incentives and features in IPEF to further economic cooperation, IPEF is likely to remain inadequate in rivalling China's economic dominance in SEA.

The rise of IPEF also signifies the increased involvement of the US in pushing back

against the Chinese on the economic front. Consequently, this will have broader geopolitical implications on great power competition and China's responses to the pressures exerted by IPEF.

Currently, IPEF poses little threat to China's extensive economic presence. However, the potential long-term implications of an **“exclusive institutional balancing”** which seeks to exclude China from the region, could raise concerns in China.

IPEF signifies a more overt attempt by the US and its allies to contain China's economy and reduce its strategic presence in the region. In response, China will likely develop more robust trade links in SEA and **“add more teeth”** to its economic engagement. While this can also be beneficial for regional development, the increased geo-economic competition would likely worsen the relationship between the great powers and heighten regional insecurity. China's state-owned media outlet, **Global Times**, has already published several articles criticising IPEF, showing heightened concerns about the US.

The exclusion of three AMS—Cambodia, Myanmar and Lao PDR—perceived to be **“already Chinese client states”**—from IPEF could **strain ASEAN's unity** by accentuating differences among its members on issues such as trade policies, and their relationships with the major powers. This exclusive club can also create rival blocs, widening developmental and economic gaps in SEA and complicating policy coordination,

including the establishment of an ASEAN Economic Community.

Instead of joining the current ASEAN-led economic initiatives, such as the RCEP and the ASEAN Regional Forum, the US has opted to use IPEF to establish new rules for economic engagement in the region. The determination to **“rewrite the rules”** will inevitably introduce changes to the existing regional order, prompting questions about the effectiveness of ongoing regional economic cooperation efforts led by ASEAN. The emphasis on club membership will unintentionally exclude the non-IPEF members from decision-making on the expectations and rules for future regional economic development. The dominance of US geopolitical interests in projecting leadership may inadvertently side-line the narrative surrounding the ASEAN Outlook on the Indo-Pacific and ASEAN as a **“dominant regional platform.”**

The perceived antagonism of IPEF may also intensify US-China zero-sum competition in SEA. As AMS become more entangled with the great powers, there is a heightened risk of being drawn into a great power conflict and threaten regional stability. This undermines ASEAN’s principle of neutrality and inclusiveness and jeopardises the strategic autonomy of member states vis-à-vis the great powers.

Although the economic prospects of IPEF are likely to be limited, there are clear political

and strategic implications for SEA. Healthy great power competition can foster economic opportunities and enhance the strategic autonomy of the AMS. However, this competition should not jeopardise regional peace and stability. ASEAN IPEF members must carefully balance building economic resilience through US engagement while maintaining economic ties with China and ASEAN’s relevance. Therefore, effectively promoting greater peace, inclusivity, stability, and prosperity in the Indo-Pacific.

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