Insight

Success Unlikely in Indo-Pacific Economic Framework Without New Market Access

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Executive Summary

- President Biden launched the Indo-Pacific Economic Framework (IPEF), which will include Australia, Brunei, Fiji, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam.
- The IPEF is a cornerstone of the Biden Administration's strategy for economic engagement in Asia, and is ostensibly intended to be a mechanism for countering China's influence in the region.
- Participants in the IPEF can choose which initiatives to join, but the framework lacks market access components – the "carrots" of successful trade negotiations – making it unlikely to substantively increase trade flows between the United States and IPEF countries or counter China's influence in the region.

Introduction

On May 23, while in Japan, President Biden announced the launch of the Indo-Pacific Economic Framework (IPEF), which will involve negotiations with 13 countries in the region on four policy pillars. Those pillars are: (1) fair and resilient trade; (2) supply chain resilience; (3) infrastructure, clean energy, and decarbonization; and (4) tax and anti-corruption. The IPEF is a cornerstone of the Biden Administration's strategy for economic engagement in Asia and is ostensibly intended to be a mechanism for countering China's influence in the region.

Withdrawal from the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) in 2016, coupled with the Trump Administration's China trade war, left the United States largely uninvolved in the region's efforts to expand economic integration. The CPTPP proceeded without the United States and went into effect in December 2018. The Regional Comprehensive Economic Partnership (RCEP) – another agreement in Asia that includes China – just went into force in January of this year. The IPEF is, presumably, an attempt to rectify the lack of U.S. economic policy leadership in the region.

Thirteen countries agreed to join the IPEF negotiations, which include Australia, Brunei, Fiji, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam. Participating countries can choose which pillars to join, and many have referred to this framework as an "à la carte" process. At the same, any mention of market access or tariff elimination – the "carrots" of successful trade negotiations – as part of the trade pillar is notably missing.

This paper examines the components of the IPEF (with special emphasis on the trade pillar), notes what the framework is missing (namely market access and tariff elimination) and considers Congress' minimal role in the negotiations.

The IPEF's Objectives

As noted above, the IPEF has four negotiating pillars. Pillar one, run by the Office of the United States Trade Representative (USTR), covers many of the major chapters included in a trade agreement – such as labor, environmental, digital, agricultural, regulatory, competition, and trade facilitation – but lacks the inclusion of commitments to lower tariff barriers. The Department of Commerce will oversee the remaining pillars, which appear to seek commitments on supply chain disruptions, climate objectives, and existing agreements on corruption and money laundering. While the administration has not articulated explicit reasons for choosing each pillar, one could speculate that they are in part attempting to address supply-chain shocks, while diversifying U.S. supply chains to decrease reliance on goods from China.

During the launch of the IPEF, President Biden called it an opportunity to write "new rules for the 21st century economy that are going to help all of our countries' economies grow faster and fairer." While the president's remarks and the official White House fact sheet on the framework do not mention China, Commerce Secretary Gina Raimondo called the IPEF "an important turning point in restoring U.S. economic leadership in the region and presenting Indo-Pacific countries an alternative to China's approach."

Australia, Brunei, Fiji, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam all signed onto the IPEF. Given the à la carte nature of this forum, each country could have signed onto only one or two of the pillars—possibly excluding the trade pillar. As this information is not yet public, it is impossible to gauge the extent to which these countries will be involved.

IPEF Is Not a Trade Agreement

The goal of the IPEF is seemingly to increase economic engagement between the United States and the countries involved, both from a rules and standards and trade volume perspective. And perhaps success could be measured by examining trade diversion from China to the United States. The primary avenue for affecting trade volumes has historically been to eliminate tariff and non-tariff barriers – a lacking component of the IPEF – which minimizes the potential for more successful metrics. It is important to note that bilateral engagement within this forum will seemingly be duplicative with Australia, Singapore, and South Korea, as they are all existing free trade agreement (FTA) partners. The United States would have stronger economic ties with Brunei, Japan, Malaysia, New Zealand, and Vietnam if it were a member of the CPTPP. Only Fiji, India, Indonesia, the Philippines, and Thailand are new negotiating partners in the IPEF.

As demonstrated in Table 1, China was the top trade partner in 2019 for Australia, Indonesia, Malaysia, New Zealand, Singapore, and South Korea. That same year, the United States was the top trade partner for India, Japan, the Philippines, Thailand, and Vietnam. Of the countries with the greatest ties to China, the United States is still a top-five partner.

Table 1: Top-5 Trade Partners in 2019 for IPEF Participants[1]

	Partner 1	Partner 2	Partner 3	Partner 4	Partner 5
Australia	China	Japan	South Korea	U.K.	U.S.

Brunei	Japan	Singapore	Australia	Malaysia	India
Fiji	U.S.	Australia	Bunkers[2]	New Zealand	Tonga
India	U.S.	U.A.E.	China	Hong Kong	Singapore
Indonesia	China	U.S.	Japan	Singapore	India
Japan	U.S.	China	South Korea	Other Asia	Hong Kong
Malaysia	China	Singapore	U.S.	Hong Kong	Japan
New Zealand	China	Australia	U.S.	Japan	South Korea
Philippines	U.S.	Japan	China	Hong Kong	Singapore
Singapore	China	Hong Kong	Malaysia	U.S.	Indonesia
South Korea	China	U.S.	Vietnam	Hong Kong	Japan
Thailand	U.S.	China	Japan	Vietnam	Hong Kong
Vietnam	U.S.	China	Japan	South Korea	Hong Kong

IPEF agreements on digital trade rules may help to increase services trade, but barriers in this area are generally low. Similarly, USTR Katherine Tai suggested that the work on trade facilitation would involve pursuing "an accelerated implementation of the World Trade Organization's Trade Facilitation Agreement." Streamlining trade processes would surely lower the burden to engage in trade, especially for small and medium enterprises. The Organisation for Economic Co-operation and Development estimated that full implementation of the Trade Facilitation Agreement would "generate trade cost reductions of between 14 percent and 18 percent, and increase world trade by 0.6 percent, boosting global growth." These estimates, however, are for implementation of the agreement by all countries, not just those in the IPEF.

Aside from these modest benefits, the IPEF's trade pillar is unlikely to affect trade flows in a meaningful way. Some of the most prohibitive barriers to trade in this region are in tariffs and lack of market access (e.g., non-tariff barriers such as quotas or trade-distorting regulations). Tai has made clear that market access is not on the table.[3] Yet the benefit of a normal trade agreement is that it creates an opportunity for tradeoffs, such as an exchange of tariff barrier removal within either the same or different economic sectors. For example, countries can offer tariff removal in exchange for adopting new regulatory standards or easing non-tariff barriers on both sides. No matter what the tradeoff is, the citizens of the countries involved derive benefit from the exchange.

For example, when originally negotiating the Trans-Pacific Partnership,[4] the United States sought to increase its access to agriculture markets in Asia, specifically in Japan. Japan desired lower tariffs on automobiles to make exporting Japanese-made cars more competitive. Some of the developing countries in the Trans-Pacific Partnership simply desired lower U.S. tariffs across the board, but especially for industrial goods. In return, the United States wanted enforceable chapters on labor and environmental standards, as well as investor-state dispute settlement to ensure fair treatment of U.S. companies under local laws abroad.

The U.S. International Trade Commission estimated that the Trans-Pacific Partnership would have increased U.S. gross domestic product by $42.7 billion and total trade with new FTAs by $58 billion. Much of this change would have been due to the removal of tariffs and non-tariff barriers. When given access to the U.S. market, developing countries are better able to diversify their production to leverage their comparative advantages and offer their goods to new consumers.

According to a Center for Strategic and International Studies report summarizing interviews with Indo-Pacific governments, "no country consulted saw any potential incentives that would make up for the lack of a market access component to the IPEF." This sentiment raises the question: What do participants really have to gain from the IPEF? Without meaningful trade policy changes that incentivize increased trade among IPEF countries, the administration cannot hope to significantly increase the U.S.'s economic influence in the region or counter China's. What's more, the IPEF will surely increase engagement between U.S. government officials and those of IPEF countries. It is, however, uncertain if that engagement will result in participants adopting U.S.-like economic policies, especially in the areas of labor and the environment.

Congress on the IPEF

Prior to the IPEF launch, some members of Congress commended Ambassador Tai for the IPEF, but others – from both sides of the political aisle – were openly skeptical and even critical of the administration's approach to economic engagement in Asia. During a Senate Finance Committee hearing in March featuring Ambassador Tai, Ranking Member Mike Crapo (R-ID) said "IPEF may be a positive first step to engagement in Asia, but it is no substitute for comprehensive trade agreements." Senator Bob Menendez (D-NJ) stated that the IPEF is not "as robust as we need. We missed an opportunity in TPP." A similar sentiment was echoed during a House Ways and Means Committee hearing the same week.

In a May letter to President Biden, a bipartisan group of 52 senators insisted that Taiwan be included in the IPEF. The letter stated that "Excluding Taiwan from IPEF would significantly distort the regional and global economic architecture, run counter to U.S. economic interests, and allow the Chinese government to claim that the international community does not in fact support meaningful engagement with Taiwan." Despite this bipartisan pressure, Taiwan was not included in the framework, and it seems unlikely that it will be permitted to join.

Congress is right to be skeptical of the IPEF. Negotiations on four pillars among 13 countries, with jurisdiction spanning across multiple U.S. government agencies, will be complicated. Moreover, this process is being conducted solely within the executive branch without a formal role for Congress. Any agreements negotiated by USTR or Commerce under the IPEF would be executive agreements,[5] which are more easily discarded by future administrations. Trade agreements, specifically those negotiated under Trade Promotion Authority,[6] are subject to robust reporting requirements that keep Congress apprised. Some members have raised concerns about communications between the USTR and Congress, as a bipartisan group of six senators sent Ambassador Tai a letter criticizing her decisions regarding vaccine intellectual property waiver negotiations.

So far, congressional influence over the IPEF has been minimal. Several members applauded the launch of the IPEF but reiterated the need for market access as an integral component of the framework.

Conclusion

The Indo-Pacific Economic Framework is not a free trade agreement; rather, it is an executive branch initiative to negotiate standards and rules in the region. The goal of the IPEF is ostensibly to exert U.S. influence over economic standards in the Indo-Pacific region as a counterweight to China. Without including market access – the elimination of tariffs and non-tariff barriers – the framework is unlikely to affect trade flows between the United States and the other 13 participants. It is therefore unlikely to create substantial trade diversion in the region from China to the United States. The best way to achieve these goals is through a comprehensive trade agreement that removes tariff and non-tariff barriers to trade, and one that is negotiated in full consultation with

Congress and passed into law.

[1] Data was retrieved from the World Bank's World Integrated Trade Solution. https://wits.worldbank.org/

[2] Trade in bunkers is the supplying of fuel for ships. https://stats.oecd.org/glossary/detail.asp?ID=4871

[3] https://www.c-span.org/video/?519175-1/us-trade-representative-testifies-china-russia-trade-policy

[4] The countries in the Trans-Pacific Partnership, which was renamed the Comprehensive and Progressive Trans-Pacific Partnership, are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

[5] The agreements could take the form of Memorandums of Understanding between government agencies, through foreign aid commitments, or other means that do not require direct congressional consent. However, any agreement that could affect U.S. law would require congressional action.

[6] Trade Promotion Authority (TPA) is a law that established expedited procedures for the consideration of trade agreements in Congress, so long as the administration follows reporting requirements and negotiating objectives. TPA expired in July 2021 and Congress has not passed a new one.