NATIONAL TAXPAYERS UNION

FREE TRADE INITIATIVE

Issue Brief

DECEMBER 6, 2022
BY BRYAN RILEY

The Indo-Pacific Economic Framework's Shaky Foundation

The Biden administration is pursuing an "Indo-Pacific Economic Framework for Prosperity" (IPEF) with Australia, Brunei, Fiji, India, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand and Vietnam. Canada may also join the talks.[1] The first round of in-person talks is set for December 10-15 in Brisbane, Australia.

The administration describes IPEF as "a high standard, inclusive framework that will create economic opportunity, improve labor conditions, and promote sustainability that lifts all our economies."[2] It's not entirely clear just what that means. What is clear is that the framework has little to do with removing trade barriers.

Assistant Secretary of Commerce for Global Markets Arun Venkataraman explained: "This is not, as we've said, a free-trade agreement."[3] And according to U.S. Trade Representative Katherine Tai: "we are not talking about tariff reductions in the context of the Indo-Pacific Economic Framework."[4]

Key Facts:

- **The Indo-Pacific Economic Framework has little to do with removing trade barriers.**
- **While National Security Advisor Jake Sullivan blithely dismisses "free trade traditionalists," he may learn that without including market access negotiations in IPEF, the Biden administration is unlikely to achieve its goals.**
- **To truly promote a fair economy, negotiators should work to reduce or eliminate barriers that restrict the freedom of people to engage in voluntary, mutually beneficial transactions.**

[1] "Canada to seek membership to Indo-Pacific Economic Framework." Reuters, October 27, 2022. Retrieved from: https://www.reuters.com/world/canada-will-seek-membership-in-do-pacific-economic-framework-2022-10-27/.
[2] "Department of Commerce Statement on December IPEF Negotiations in Australia." U.S. Department of Commerce, November 14, 2022. Retrieved from: https://www.commerce.gov/news/press-releases/2022/11/department-commerce-statement-december-ipef-negotiations-australia.
[3] Jamrisco, Michelle. "U.S. Calls for 'Patience' as Critics Harden on Indo-Pacific Pact." Bloomberg Government, September 16, 2022. Retrieved from: https://www.bgov.com/next/news/RHTHLUDWLU6A.
[4] Tai, Amb. Kathleen. "Ways & Means Hearing on the Biden Administration's 2022 Trade Policy Agenda." U.S. House of Representatives Committee on Ways and Means, March 30, 2022. Retrieved from: https://www.youtube.com/watch?v=E0oYkyCMs_I.

Instead, IPEF covers a broad range of topics ranging from the promotion of "climate-smart, sustainable production practices that are context-appropriate and evidence-based" to "supporting the ongoing work of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting's Two Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy."

IPEF's Four Pillars

IPEF consists of four "pillars" covering trade, supply chains, a clean economy, and a fair economy. The choice of the word pillar to identify each section is somewhat ironic, since participation in each pillar is optional.[5] For example, India has chosen not to sign onto Pillar I, covering trade.[6] This arrangement is likely to lead to a shaky framework at best – much like assembling an Ikea nightstand where each of the four legs is optional. Here is an overview of some of the issues to keep an eye on in the upcoming IPEF ministerial meeting.

IPEF Pillar I: Trade (aka "Connected Economy")

It is encouraging that the first pillar of IPEF deals with trade policy. Unfortunately, the goal of "reducing trade barriers" is relegated to the very end of Pillar I, almost as an afterthought. The Connected Economy pillar includes the following subheadings:

- Labor.
- Environment.
- Digital Economy.
- Agriculture.
- Transparency and Good Regulatory Practices.
- Competition Policy.
- Trade Facilitation.
- Inclusivity.
- Technical Assistance and Economic Cooperation.

The inclusion of digital economy issues in IPEF is a potential bright spot for the United States as a global leader in this sector. Goals here include facilitating digital trade and promoting secure cross-border data flows. Trade facilitation is another promising goal. Removing barriers resulting from outdated customs procedures and inadequate logistics infrastructure could bring some of the same benefits as reducing traditional trade barriers.

With respect to the environment, IPEF pays lip service to facilitating trade in environmental goods and services. Those goals are best addressed through traditional trade agreements that reduce barriers in these areas. Eliminating barriers that restrict trade in wind turbines, solar panels, and related goods would encourage broader adoption of clean energy.

Other topics also miss their target. For example, it is not unusual for competition policy to be included in U.S. trade agreements.[7] But those agreements, including the recent United States-Mexico Canada-Agreement, also included strong market access provisions. Competition-promoting tariff cuts are absent from IPEF.

---

[5] Sinha, Saurabh. "National interest: India remains out of IPEF trade pillar for now." *The Times of India*, September 9, 2022. Retrieved from: https://timesofindia.indiatimes.com/business/india-business/national-interest-india-remains-out-of-ipef-trade-pillar-for-now/articleshow/94105557.cms.

[6] Haidar, Suhasini. "India stays out of 'trade pillar' at Indo-Pacific meet." *The Hindu*. September 10, 2022. Retrieved from: https://www.thehindu.com/business/Industry/india-not-part-of-ipefs-trade-pillar-broader-consensus-yet-to-emerge-among-nations/article65873087.ece.

[7] "Competition Provisions in Trade Agreements – Contribution from the United States." U.S. submission, Global Forum on Competition. Organization for Economic Cooperation and Development, December 5, 2019. Retrieved from: https://www.ftc.gov/system/files/attachments/us-submissions-oecd-2010-present-other-international-competition-fora/oecd-competition_provisions_in_trade_agreements_us.pdf.

IPEF Pillar II: Supply Chains (aka "Resilient Economy")

The COVID pandemic interrupted global supply chains, leading to shortages and price increases around the world. Pillar II seeks to make supply chains stronger through the following subheadings:

- Establish Criteria for Critical Sectors and Goods.
- Increase Resiliency and Investment in Critical Sectors and Goods.
- Establish an Information-Sharing and Crisis Response Mechanism.
- Strengthen Supply Chain Logistics.
- Enhance the Role of Workers.
- Improve Supply Chain Transparency.

The Biden administration has a weak record in many of these areas. For example, Pillar II aims to prevent supply chain disruptions that threaten the health or safety of each country's citizens. The need for such an improvement was illustrated by the infant formula shortage in the United States earlier this year. At the time, U.S. regulatory barriers prevented Americans from importing baby formula from other countries in significant quantities. New Zealand-based A2 Milk learned this when it applied for a permit to export formula to the United States in May. The Food and Drug Administration didn't approve the request until November, after the worst of the shortage had passed – and even then only on a temporary basis.[8]

The subheading dealing with supply chain logistics specifically points out that improving waterway, maritime, shipping, and port infrastructure can make economies more resilient and sustainable. This is an area where the Biden administration has come up short. Secretary of Transportation Pete Buttigieg and other administration officials have pledged to support the Jones Act, which restricts the use of foreign-built vessels to ship goods within the United States.[9] The World Economic Forum described the Jones Act as the most restrictive such measure in the world.[10] Among other things, the Jones Act makes it more difficult to build environmentally friendly offshore wind farms.[11] Similarly, the Dredging Act of 1906 prohibits the use of foreign-built vessels to engage in dredging operations in the United States.[12]

While IPEF negotiators may be able to make some improvements, the primary driving force for more-resilient supply chains is likely to be led by the private sector. Companies have a strong incentive to strengthen and diversify their supply chains in order to protect their bottom lines in the event of future disruptions.

IPEF Pillar III: Clean Economy

IPEF's Clean Economy Pillar aims to reach several targets including the elimination of carbon emissions and enhanced energy security. Pillar III consists of the following subtopics:

- Energy Security and Transition.
- Greenhouse Gas Emissions Reductions in Priority Sectors.
- Sustainable Land, Water, and Ocean Solutions.

[8] "A2 Milk gets approval to sell infant formula in United States." *Radio New Zealand*, November 3, 2022. Retrieved from: https://www.rnz.co.nz/news/business/477976/a2-milk-gets-approval-to-sell-infant-formula-in-united-states#:~:text=Speciality%20milk%20producer%20A2%20Milk,-supply%20shortage%20in%20the%20country.

[9] "Buttigieg: 'I Strongly Support the Jones Act'." Seafarers International Union, March 26, 2021. Retrieved from: https://www.seafarers.org/buttigieg-i-strongly-support-the-jones-act/.

[10] "Enabling Trade: Valuing Growth Opportunities.," World Economic Forum, January 7, 2013. Retrieved from: https://www.weforum.org/reports/enabling-trade-valuing-growth-opportunities/.

[11] Shifalo, Jessie Elizabeth. "The Garamendi Amendment: How Four Words Changed The Entire Offshore Wind Industry In America." American Bar Association. Retrieved from: https://www.americanbar.org/groups/tort_trial_insurance_practice/committees/admiralty-maritime/the-garamendi-amendment/.

[12] Plott, Jacob. "Continued Inaction on U.S. Dredging Policy Stifles Competition and Burdens Taxpayers." National Taxpayers Union Foundation, August 20, 2020. Retrieved from: https://www.ntu.org/foundation/detail/continued-inaction-on-us-dredging-policy-stifles-competition-and-burdens-taxpayers.

- Innovative Technologies for Greenhouse Gas Removal.
- Incentives to Enable the Clean Economy Transition.

IPEF negotiators meeting in person for the first time this month should all understand that there is no inherent conflict between trade and a clean economy. For example, from the time the North American Free Trade Agreement took effect in 1994 through 2019, CO_2 emissions per capita in Mexico declined even as real GDP per capita increased by 22 percent.[13] Negotiators should use this dual progress as a model instead of pitting economic growth against environmental progress.

Other countries will be likely to seek U.S. financial assistance to help them make progress on Pillar III. In an era of massive budget deficits, the Biden administration should not make any new promises without working closely with Congress.

IPEF Pillar IV: Fair Economy

IPEF's Fair Economy Pillar is the most vague of the four. This is reflected in its four subtopics:

- Anti-Corruption.
- Tax.
- Capacity Building and Innovation.
- Cooperation, Inclusive Collaboration, and Transparency.

To truly promote a fair economy, negotiators should work to reduce or eliminate barriers that restrict the freedom of people to engage in voluntary, mutually beneficial transactions. IPEF could further promote a fair economy by making it more difficult for influential interest groups to secure special treatment from the government. Progress on these fronts will be limited as long as the Biden administration keeps tariff cuts off the negotiating table.

The Fair Economy pillar includes tax fairness, an incredibly complex topic in any context. Any discussion of fairness should include the interests of taxpayers, but the word "taxpayer" does not appear in the Fair Economy pillar.

The tax subheading includes support for the "OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting's Two Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy." The Biden administration should reject tax measures included in the two-pillar OECD/G20 tax discussions that would undermine the digital trade goals contained in Pillar I of IPEF. More generally, the administration should work closely with Congress, the branch of government that has constitutional authority over taxation, to assure that its IPEF efforts are transparent and broadly supported.[14]

Alphabet Soup: TPP > RCEP > IPEF

Except for India and the United States, every IPEF country is also a member of either the Regional Comprehensive Economic Partnership (RCEP), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), or both.[15]

RCEP is an agreement between China and 14 other Asia-Pacific countries that aims to eliminate tariffs on 90 percent of goods traded between its member countries. That's the kind of deal our trading partners really want.

---

[13] "CO_2 emissions (metric tons per capita) - Mexico," and "GDP per capita (constant LCU)." The World Bank. Retrieved from: https://data.worldbank.org/indicator/EN.ATM.CO2E.PC?locations=MX and https://data.worldbank.org/indicator/NY.GDP.PCAP.KN.

[14] Lautz, Andrew. "Treasury Should Work Collaboratively With Congress on Global Tax Challenges Ahead." National Taxpayers Union, February 3, 2022. Retrieved from: https://www.ntu.org/publications/detail/treasury-should-work-collaboratively-with-congress-on-global-tax-challenges-ahead.

[15] Busch, Marc L. "Excluding Taiwan from the Indo-Pacific Economic Framework is a mistake." May 29, 2022, *The Hill*. Retrieved from: https://thehill.com/opinion/international/3504479-excluding-taiwan-from-the-indo-pacific-economic-framework-is-a-mistake/.

Many of IPEF's stated goals echo those of the Obama administration's Trans-Pacific Partnership (TPP), including countering Chinese influence[16] and strengthening regional supply chains.[17] After the United States withdrew from TPP, the remaining countries created the slightly modified CPTPP.[18]

TPP was not a perfect agreement, but it included significant market access provisions. Abandoning it was a significant unforced error by the United States that benefited China. Rejoining TPP along with other IPEF countries would correct one of the major foreign policy blunders in recent American history.

Avoiding Congressional Oversight

By refusing to seek tariff cuts in IPEF, the Biden administration may be able to dodge the congressional guidance and oversight that accompanies traditional trade agreements. It's theoretically possible that an IPEF agreement could be negotiated, signed, and implemented without a single congressional vote. In response to this concern a number of Senators, including Finance Committee Chair Ron Wyden (D-OR) and Ranking Member Mike Crapo, (R-ID), recently wrote President Biden to assert that an IPEF agreement would require congressional approval.[19]

However, a more likely outcome is that without U.S. market access commitments, other countries will find little reason to accept other Biden administration wishes. Thus, while National Security Advisor Jake Sullivan blithely dismisses "free trade traditionalists," he may learn that without including market access negotiations in IPEF, the Biden administration is unlikely to achieve its goals.

A Stronger Approach

By encompassing such a wide range of issues, IPEF risks falling victim to the "if you have too many priorities, you have no priorities" trap.

A stronger approach would be for IPEF to focus on a targeted number of U.S. negotiating objectives, including tariff reductions. Unfortunately, The Biden administration is unlikely to take this advice, since it would represent a complete reversal in their approach. But as Sen. Mike Crapo (R-ID) put it: "We've got nations in the Indo-Pacific who are crying out for free trade negotiations with us so that they can strengthen their relationship to us economically rather than being tied to China, and so I just want to state that I believe that we need to engage in free trade negotiations in terms of market access."[20]

Following World War II, the United States led efforts to reduce trade barriers and to present the world with an alternative to the Soviet Union based on freedom. Whether by refocusing IPEF to secure achievable market access commitments or by joining CPTPP, the United States should lead once again.

About the Author

Bryan Riley is the Director of NTU's Free Trade Initiative.

[16] Obama, President Barack. "President Obama: The TPP would let America, not China, lead the way on global trade." *Washington Post*, May 2, 2016. Retrieved from: https://www.washingtonpost.com/opinions/president-obama-the-tpp-would-let-america-not-china-lead-the-way-on-global-trade/2016/05/02/680540e4-0fd0-11e6-93ae-50921721165d_story.html.

[17] "Trans-Pacific Partnership: Summary of U.S. Objectives." Office of the U.S. Trade Representative. Retrieved from: https://ustr.gov/tpp/Summary-of-US-objectives#:~:text=Our%20goal%20in%20the%20TPP,in%20the%20Asia%2DPacific%20region.

[18] "About the Comprehensive and Progressive Agreement for Trans-Pacific Partnership," Government of Canada. Retrieved from: https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpgp/backgrounder-document_information.aspx?lang=eng.

[19] "Wyden, Crapo and Bipartisan Senate Finance Committee Members Raise Concerns about Process to Approve and Implement Indo-Pacific Trade Pact and Other Trade Agreements." U.S. Senate Committee on Finance, December 1, 2022. Retrieved from: https://www.finance.senate.gov/chairmans-news/wyden-crapo-and-bipartisan-senate-finance-committee-members-raise-concerns-about-process-to-approve-and-implement-indo-pacific-trade-pact-and-other-trade-agreements.

[20] Crapo, Sen. Mike (R-ID). Senate Finance Hearing on President Biden's 2022 Trade Policy Agenda." March 31, 2022. Retrieved from: https://www.youtube.com/watch?v=XmvgtLM4ano.

NATIONAL TAXPAYERS UNION

122 C Street NW, Suite 700, Washington, DC 20001
ntu@ntu.org