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ATLANTIK-BRÜCKE

TTC, IPEF, and the Road to an Indo-Pacific Trade Deal

A New Model

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Frankfurt Forum

This paper is one of four publications launched at the inaugural Frankfurt Forum on US-European GeoEconomics held in Germany from September 27 – 29, 2022. Co-hosted by the Atlantic Council GeoEconomics Center and Atlantik-Brücke, the Frankfurt Forum anchors critical work on transatlantic economic cooperation. The war in Ukraine, and the G7 response, reminded the world of the impact of transatlantic coordination. As part of the Frankfurt Forum, this new research aims to advance transatlantic dialogue from crisis response to addressing the key economic issues that will underpin the US-EU partnership over the next decade. The goal of the Frankfurt Forum is to deliver a blueprint for cooperation in four key areas: digital currencies, monetary policy, international trade, and economic statecraft.

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Launched in 2020, the Atlantic Council's GeoEconomics Center has become the go-to place at the intersection of economics, finance, and foreign policy. The Center bridges the divide between these oft-siloed sectors and helps shape a better global economic future for the US and its allies. The Center is organized around three pillars: 1) The Future of Capitalism; 2) The Future of Money; and 3) The Economic Statecraft Initiative.

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Founded in 1952, Atlantik-Brücke is a non-profit and non-partisan association committed to deepening cooperation between Germany, Europe and America. Transatlantic cooperation remains pivotal for global order and stability, now more than ever. With nationalist tendencies gaining popularity worldwide, Atlantik-Brücke has doubled down on its mission to solidifying relations across the Atlantic among policymakers, industry leaders, journalists, academics, and civil society by offering a platform for different perspectives and lively debate. Atlantik-Brücke also fosters ties between young professionals and representatives of civil society through annual conferences and exchanges. The approximately 500 members of Atlantik-Brücke are decision-makers from business, politics, science and the media on both sides of the Atlantic.

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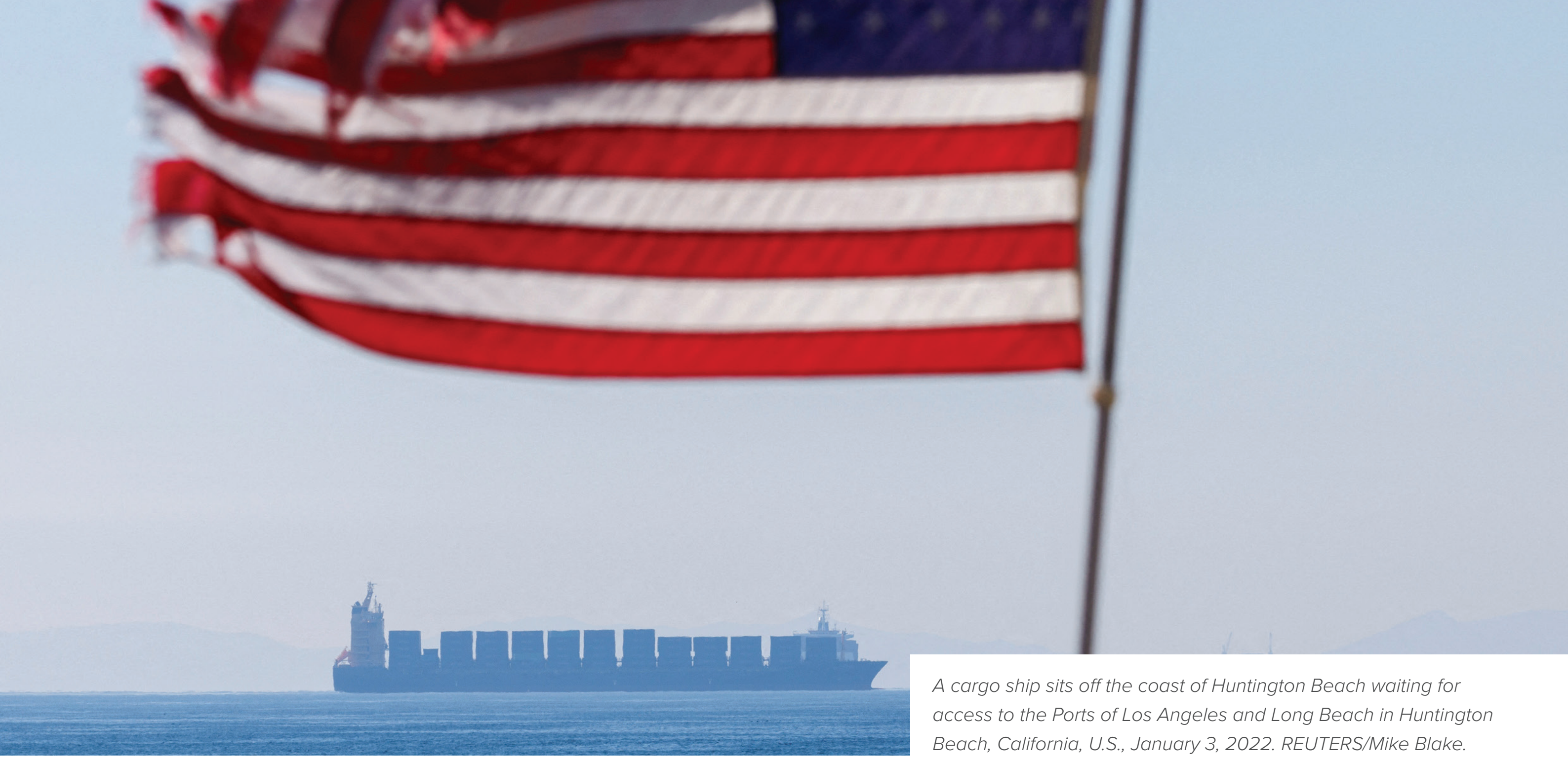
INTRODUCTION

After nearly two years of uncertainty and speculation, the Biden administration's "trade policy for the middle class" is taking shape. The administration has set up numerous trade dialogues and economic framework agreements with allies and partners around the world, including the US-EU Trade and Technology Council (TTC), the Indo-Pacific Economic Framework for Prosperity (IPEF), and the US-Taiwan Initiative on 21st Century Trade (USTI). The administration has also announced the Americas Partnership for Economic Prosperity for the Western Hemisphere, which is in the early stages of development.

In the next few months, the Biden administration is expected to provide substantial new details on the purpose and scope of these various arrangements. Currently, their central thrust appears to be "beyond-the-border" issues, such as regulatory alignment and standard setting (especially on digital issues and emerging technologies), attempts to improve supply chain resilience, and efforts to promote high labor and environmental standards. On the other hand, the administration's approach assiduously avoids elements contained in traditional free trade agreements (FTAs), such as the pursuit of new market access in the form of tariff reduction.

The Biden administration should be applauded for an agenda that seeks to work with an unprecedented number of allies and partners and includes novel flexibilities to accommodate varying levels of development. This approach has the potential to allow the United States to link its economy with more countries than ever before. As it develops these various initiatives, the administration must carefully consider how to coordinate them to ensure they are as complementary as possible and not working at cross purposes.

More fundamentally, the Biden administration should also raise the level of ambition within the individual agreements and seriously consider adding traditional market access components. Market access is critical to provide new opportunities for US businesses and workers as well as to create an incentive for other countries to "trade off" substantial economic reforms as part of the agreement. Ultimately, the administration will find it difficult to fulfill many of its priority objectives—linking supply chains with partners and allies, encouraging partners to open their markets and commit to US-level standards, and positioning the United States to better compete with China—without market access. But even if the administration is not willing to embrace market access in the short term, it should include design features in these frameworks to enable them to serve as steppingstones to true FTAs with market access in the future.



A cargo ship sits off the coast of Huntington Beach waiting for access to the Ports of Los Angeles and Long Beach in Huntington Beach, California, U.S., January 3, 2022. REUTERS/Mike Blake.

1. THE CURRENT TRADING LANDSCAPE

The past decade has seen a dramatic shift in the Washington's approach to trade. Both the Trump and Biden administrations largely abandoned the traditional approach, which includes robust market access and enforceable rules negotiations pursued vigorously through bilateral and plurilateral trade agreements.

Looking at the United States' progress in free trade agreement (FTA) negotiations over the last two decades helps illustrate this point with remarkable clarity. Between 2003 and 2012, new US FTAs entered into force with sixteen different countries. By contrast, from 2013 to 2022, the United States did not acquire a single new FTA partner. The United States signed the Trans-Pacific Partnership (TPP) in early 2016 but backed away from the deal the following year. Indeed, the only other major FTA negotiation that the United States concluded in the last ten years, the United States-Mexico-Canada Agreement (USMCA), is not a new agreement with new market access but a North American Free Trade Agreement (NAFTA) reboot. The Trump administration started FTA negotiations with the United Kingdom and Kenya, but neither was close to conclusion before being shelved by the Biden administration. And the agreement that the Trump administration concluded with Japan was a "mini deal" that only focused on limited market access and rule setting.

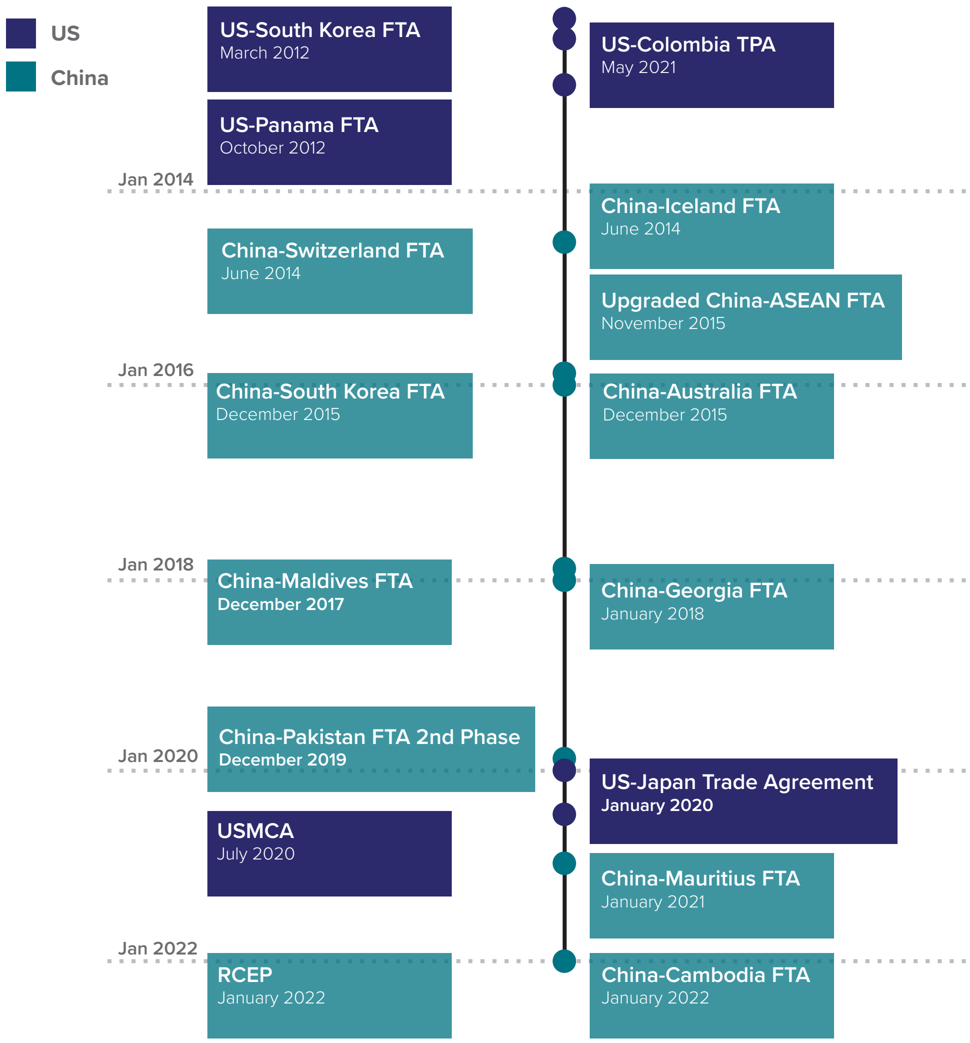
Not only has the United States failed to acquire new FTA partners, it has also failed to update most of its existing agreements. With respect to the Indo-Pacific region, US FTAs with Australia, Singapore, and South Korea are all more than ten years old and fairly outdated as a result. For example, none of these agreements meaningfully works toward alignment on emerging trade and regulatory issues, most notably around digital trade and services. This is a significant missed opportunity. Both digital trade and services make up an increasingly substantial part of the US and global economy. Services now account for 71 percent of US employment and 69 percent of its gross domestic product (GDP).[1] In addition, these FTAs do not reflect the Biden administration's current priorities on labor and environment, do not confront competition issues around Chinese state-owned enterprises (SOEs) and related non-market issues, and do not address supply chain challenges that have taken on paramount importance following the COVID-19 pandemic and the overarching bipartisan interest in reducing reliance on China.

At the same time as the United States has backed away from bilateral and plurilateral FTAs, the World Trade Organization (WTO) has struggled to conclude meaningful international agreements. Both market access and negotiations on new rules have stagnated. In fact, the only two major agreements that the WTO has concluded in recent years—the Trade Facilitation Agreement (TFA) in 2013 and the Agreement on Fisheries Subsidies in 2022—cover a limited subset of issues.

Going Backward by Standing Still

Without major new deals either bilaterally or multilaterally, US businesses and workers have not gotten substantial new market access and the US government has not helped set international standards in recent years. This has undermined US competitiveness and eroded the United States' role as a global rule maker. However, the rest of the world has not sat idle. China and others have been vigorously pursuing new trading arrangements around the world. This is exemplified in the Indo-Pacific, where two megadeals have emerged and helped reduce barriers between countries in the region: the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP).

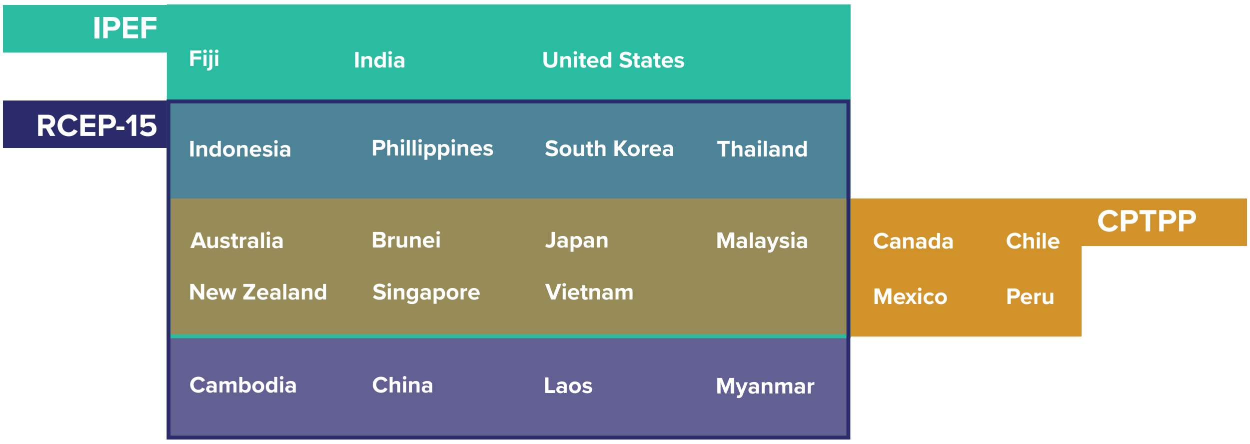
Timeline of US and Chinese FTAs



Source: USTR, Ministry of Commerce of the PRC

RCEP is particularly notable as it links China with fourteen other regional economies and displaces the USMCA as the world's largest trading bloc, accounting for 31 percent of global GDP.[2] Although its provisions are less ambitious than the CPTPP's, RCEP provides China with market access to Indo-Pacific economies that the United States lacks. Among the most notable is the new market access RCEP facilitates between China and Japan as well as the increased tariff liberalization between China and the Association of Southeast Asian Nations (ASEAN), building on the preexisting China-ASEAN FTA.

Figure 1. Membership of Major Indopacific Trading Arrangements



Source: Atlantic Council GeoEconomcis Center

On average, the United States still provides ASEAN with lower tariffs than China (the average US tariff for ASEAN economies is 3.6 percent versus China's 9.7 percent), but RCEP enhances China's tariff advantages over the United States in a few key sectors. Notably, in the context of US efforts to move supply chains for certain critical goods out of China, it is easier for ASEAN producers to export certain strategic goods to China that fall under the following tariff chapters:

- 84 - Nuclear reactors, boilers, machinery, and mechanical appliances; parts thereof
- 85 - Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles
- 87 - Vehicles other than railway or tramway rolling stock, and parts and accessories thereof
- 90 - Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof

In other words, it is cheaper for ASEAN manufacturers producing these crucial goods to deepen their supply chains with China than with the United States. The United States is attempting to combat this by invoking the importance of friendshoring—relying on a group of countries with shared values for manufacturing and sourcing of critical components and raw materials. While this could send an important signal to friendly manufacturers to enhance their engagements with the US market, exporters are far less likely to consider the US market until the United States matches or undercuts China's preferential tariffs for critical goods.

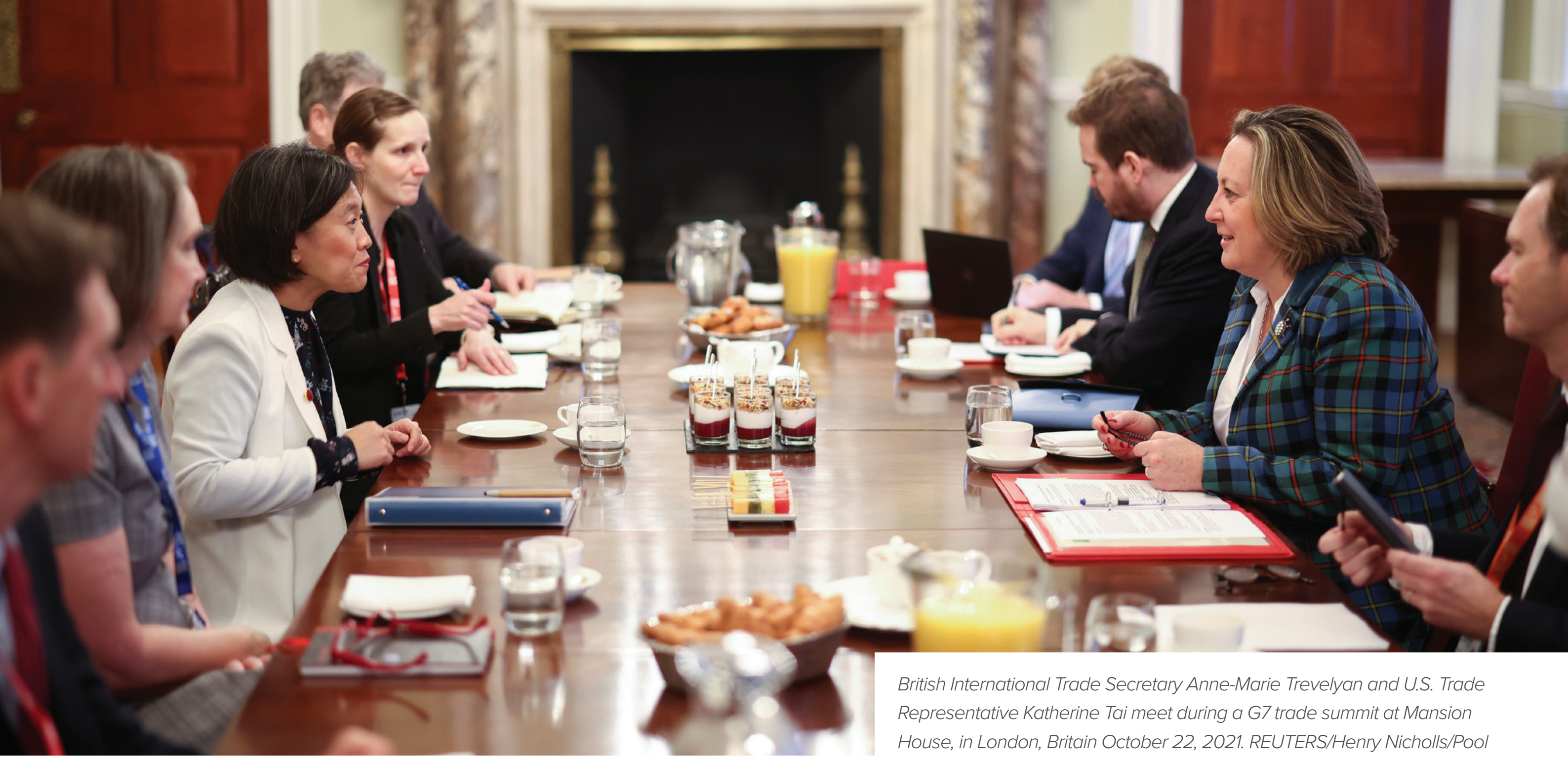
RCEP has also given China preferential access to the Japanese market. Although some US producers can rely on the US-Japan Trade Agreement (USJTA), the tariff concessions within it were very limited and focused on a few agricultural goods. RCEP is far more comprehensive and puts US producers across a range of sectors at a disadvantage. Table 1 below breaks down key sectors in which China now has preferential access to the Japanese market.

Table 1. Difference in Tariff Faced by US and Chinese Exporters to the Japanese Market

HS Tariff Code Chapter	Average Chinese Tariff Advantage
16 - Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	8.76%
27 - Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	3.62%
28 - Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	3.58%
29 - Organic chemicals	3.43%
30 - Pharmaceutical products	3.90%
39 - Plastics and articles thereof	3.75%
42 - Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silkworm gut)	10.89%
61 - Articles of apparel and clothing accessories, knitted or crocheted	9.09%
62 - Articles of apparel and clothing accessories, not knitted or crocheted	9.46%
63 - Other made up textile articles; sets; worn clothing and worn textile articles; rags	6.34%
73 - Articles of iron or steel	3.00%
83 - Miscellaneous articles of base metal	2.84%
93 - Arms and ammunition; parts and accessories thereof	8.20%

Source: Atlantic Council GeoEconomcis Center

Given the size and importance of the Japanese market to US producers, this relative loss in competitiveness will have an especially detrimental impact on US exports. If allowed to persist, this tariff differential will cede US market share to Chinese competitors and further integrate Japan's economy with China's, thereby increasing China's coercive economic influence on a key US ally. For other countries in the region, the tariff differential is even higher



British International Trade Secretary Anne-Marie Trevelyan and U.S. Trade Representative Katherine Tai meet during a G7 trade summit at Mansion House, in London, Britain October 22, 2021. REUTERS/Henry Nicholls/Pool

Domestic Constraints

The US public's wary perception of trade has filtered into US trade policy and has played a key role in US stagnation. In the past decade, political support for traditional FTAs with expansive market access provisions has suffered, largely driven by concerns from the labor community about job loss and concerns across the political spectrum about competing with an increasingly economically powerful and assertive China. In the 2016 US presidential election campaign, this anti-trade bent led both the then Democratic nominee, Hillary Clinton, and the eventual Republican president, Donald J. Trump, to publicly oppose the TPP even though this agreement was specifically designed to help better compete with China and reduce supply chain reliance on that country. And still today, despite growing anti-China views in the United States, US President Joseph R. Biden Jr. has said he does not support joining the CPTPP due to continued concerns about the agreement from the labor community, among others.[3]

The failed Transatlantic Trade and Investment Partnership (TTIP), a proposed trade agreement between the European Union and the United States with aspirations like the TPP's, ran into similar concerns in Europe about the prospect of adopting US-style regulation and increased US imports. This helps illustrate that although the anti-trade phenomenon may be most pronounced in the United States in recent years, it is certainly not unique.

The United States' New Approach to Trade

Considering current domestic political dynamics, the Biden administration has made clear that it plans to chart a new way forward on trade policy. US Trade Representative Katherine Tai explained in a speech at the Technical University of Munich on April 26 that events such as Brexit, the election of Trump and his "America First" trade policy, the rise of China, COVID-19 and its related supply chain shock, and, most recently, Russia's invasion of Ukraine have all forced the Biden administration to rethink the strategies and goals that guide US trade policy.[4] The result is a negotiating philosophy—sometimes referred to by the administration as Globalization 2.0—that has sidelined the unfettered pursuit of free trade for a more "holistic economic engagement in which trade is an important part, but not the only part."[5] In practice, this means a trade policy that is less interested in expanding market access and instead aims to emphasize agreement around issues of labor, the environment, taxation and anti-corruption, and supply chain resilience.

China's rise, COVID-19-induced supply chain disruptions, and Russia's invasion of Ukraine have made supply chain resilience an urgent focus of US policy makers. Although concerns about China's attempts to dominate critical supply chains were already gaining attention in the United States prior to the COVID-19 pandemic, Chinese protectionism around personal protective equipment (PPE) at the start of the pandemic, as well as the escalating risk of a Chinese invasion of Taiwan, have turbocharged questions about China's role as a reliable supplier of critical goods and components. This, in conjunction with disruptions in just-in-time manufacturing following an uneven opening of the global economy during the pandemic recovery, has made supply chain resilience a paramount goal within the US international economic policy community. US policy makers see friendshoring as a solution to some of these concerns.[6]

Winning Over Partners

While the Globalization 2.0 strategy is intended to be holistic and encompass reforms in multilateral institutions like the WTO, the United States has also invested considerable capital in two plurilateral "arrangements" with the EU and the Indo-Pacific region—the US-EU Trade and Technology Council (TTC) and the Indo-Pacific Economic Framework for Prosperity (IPEF). These are not traditional trade deals. They include certain items not typically included in FTAs, such as supply chain resilience, but omit things that typically are, such as market access through tariff negotiation or a mechanism to enforce the agreement.

What is the US-EU Trade and Technology Council and what has it achieved?

Originally proposed by the EU, the TTC is a diplomatic forum aimed at harmonizing the US-EU approach to trade and technology policy, including by developing a common approach to supply chain issues and emerging technology areas where regulation is sparse. The focus on novel areas is intended to prevent the group from becoming bogged down by longstanding trade disagreements and instead focus on key policies around artificial intelligence (AI), biotechnology, and semiconductors, among others. The TTC is structured around ten issue-oriented working groups with semiannual ministerial meetings and participation from key regulatory stakeholders.[7]

To date, the TTC has focused on creating new mechanisms to seek alignment on emerging technology policy without major breakthroughs. However, the TTC has proven successful in facilitating close coordination on unexpected challenges, including the economic response to Russia's invasion of Ukraine. In fact, through the TTC, the US and EU were able to achieve including unprecedented coordination on sanctions, export controls, and trade restrictions. Certain working groups have also progressed their work. For example, during the TTC's May 2022 meeting, the technology standards working group announced the creation of a Strategic Standardization Information (SSI) mechanism that will facilitate cooperation on emerging technology regulations through information sharing.[8] Such a mechanism will help the United States and the EU ensure they can respond to technological changes in a timely fashion, which is crucial to retaining a regulatory first-mover advantage.[9] Other working groups have struggled to deliver tangible deliverables and many observers have expressed concern that much of the effort could devolve into a "talk shop" that is short of true outcomes and coordination.

U.S. President Joe Biden, India's Prime Minister Narendra Modi and Japan's Prime Minister Fumio Kishida attend the Indo-Pacific Economic Framework for Prosperity (IPEF) launch event at Izumi Garden Gallery in Tokyo, Japan, May 23, 2022. REUTERS/Jonathan Ernst

What is the Indo-Pacific Economic Framework and what has it achieved?

Since the Trump administration's withdrawal from the TPP in 2017, the United States struggled to articulate a coherent economic policy toward the Indo-Pacific region. Instead, the United States' regional relationships were mostly defined in terms of security. Through the IPEF, the Biden administration is seeking to change this. Launched in Tokyo in May 2022, the IPEF is a compact led by the United States with thirteen regional partners representing around 40 percent of the global GDP.[10] The framework is the Biden administration's first attempt to create a large-scale, multilateral, Asia-focused economic strategy in lieu of joining the CPTPP. Embodying the administration's vision of Globalization 2.0, the IPEF is jointly managed by the Office of the US Trade Representative (USTR) and the Department of Commerce and organized into four pillars:

1. **Connected Economy**, led by USTR, covers trade and trade facilitation, digital trade, labor, climate and the environment, agriculture, good regulatory practices, and competition policy.
2. **Resident Economy,** led by the Department of Commerce, covers supply chain coordination and resilience.
3. **Clear Economy**, also led by the Department of Commerce, covers decarbonization, clean energy, and green infrastructure.
4. **Fair Economy**, also led by the Department of Commerce, covers taxation and anti-corruption.

According to the structure proposed by the United States, the IPEF negotiating partners can join any number of the four pillars but are expected to commit to all aspects of each pillar they join. This flexibility and openness are a net asset for the IPEF. Emerging economies which are not traditional US trade partners, such as India, Indonesia, and Thailand, have been able to participate despite concerns that they may not be ready for a full-fledged FTA with the United States. Securing their buy-in will be key if the IPEF is to have a chance of setting regional rules and standards, especially on cutting-edge technology.

On the other hand, the IPEF suffers from notable limitations. Foremost among these is the lack of market access provisions and the corresponding decision by the Biden administration not to seek congressional approval. Without the promise of enhanced access to the US market, many IPEF partners may be loath to make any reforms to bring themselves in line with new rules and standards. The administration's decision is difficult to understand given the fact that US tariffs are much lower than most IPEF nations' and, therefore, the United States would be giving away less to get more. Failing to lower tariffs between IPEF participants also embeds supply chain dependencies on China instead of the United States due to RCEP's tariff cuts.

The decision to avoid congressional approval also calls into question the permanence and overall political acceptance of the final agreement, which could also limit the types of commitments that other countries are willing to make. Finally, there could also be some drawbacks to the IPEF's expansive country list. Inclusivity prevents the arrangement from becoming too deep. The standards the United States may push on labor, the environment, and competition policy may be more challenging for developing nations to implement, and already India has backed away from the trade pillar.

Overlap between the IPEF and the TTC

The IPEF and the TTC have the same basic goal. Both aim to strengthen US economic ties with allies and key trading partners and make progress on rules for the digital economy, technology, labor, and environmental standards, as well as supply chain resilience. The table below highlights some of the common themes and differences between the two.

Table 2. Overlap between the IPEF and the TTC

Indo-Pacific Economic Framework for Prosperity	US-EU Trade and Technology Council
Pillar 1 Connected Economy: Labor requirements, environmental and climate considerations, digital economy, agriculture, transparent regulatory practices, competition policy, and trade facilitation	**Working Group 1 – Technology Standards:** Coordination and cooperation on AI standards; supporting SME participation in emerging technology **Working Group 4 – Information and Communication Technology and Services (ICTS) Security and Competitiveness:** Interoperability and resilience for data infrastructure, such as 5G, undersea cables, data centers, and cloud infrastructure; data security **Working Group 5 – Data Governance and Technology Platforms:** Data governance **Working Group 9 – Promoting Small - and Medium-sized Enterprises' (SME) Access to and Use of Digital Tools:** SME engagement with the digital economy
Pillar 2 Resilient Economy: Supply chain resilience; mapping of critical mineral supply chains; improving traceability in key sectors; coordinating on diversification efforts	**Working Group 3 – Secure Supply Chains:** Supply chain resilience; securing supply chains for clean energy, pharmaceuticals, and critical materials; map existing US and EU sectoral capabilities; cooperate on supply chain diversification

Table 2. **Overlap between the IPEF and the TTC (cont.)**

Indo-Pacific Economic Framework for Prosperity	US-EU Trade and Technology Council
Pillar 3 Clean Economy: Clean energy and decarbonization; green infrastructure; carbon removal; energy efficiency standards; measures to combat methane emissions	**Working Group 2 – Climate and Clean Tech:** Green technology development; trade and investment in climate-neutral technologies
Pillar 4 Fair Economy: Commitments to enact and enforce effective tax measures; improve anti-money laundering measures; build anti-bribery regimes	**No analogous body**
No analogous body	**Working Group 6 – Misuse of Technology Threatening Security & Human Rights:** Addressing cyber threats, technology, and disinformation campaigns used to violate human rights
No analogous body	**Working Group 7 – Export Controls Cooperation:** Aligning US and EU export controls; facilitating information sharing on emerging technologies that could impact human rights
No analogous body	**Working Group 8 – Investment Screening Cooperation:** Information sharing for screening of inbound foreign investment
No analogous body	**Working Group 10 – Global Trade Challenges:** Aligning trade policies toward non-market economies; avoiding additional technical barriers to trade; coordinating around labor policy as it relates to trade

Source: Atlantic Council GeoEconomcis Center

This substantial overlap in issue coverage illustrates how these and other Biden administration trade initiatives, such as engagements with Taiwan and the Americas, work in the service of the same basic goals of linking the United States' economy with its allies and partners for both economic as well as strategic advantages. As such, the United States should take every opportunity to transfer agreements reached in one forum to the others to amplify their impact as well as influence on other countries not party to the IPEF or the TTC.

U.S. Secretary of State Antony Blinken and U.S. Secretary of Commerce Gina Raimondo speak with France's Foreign Minister Jean-Yves Le Drian ahead of a dinner at the U.S.-European Union Trade and Technology Council summit in Paris, France, May 15, 2022. REUTERS/Kevin Lamarque/POOL

2. FRIENDSHORING WILL TAKE MORE THAN THE TTC AND THE IPEF IN THEIR CURRENT FORM

Washington will need to be audacious with the proposals it emphasizes in the IPEF and the TTC if it wants to use them as effective tools to implement friendshoring. In practice, this means raising the strategic ambitions of both initiatives; elevating initiatives focused on linking current supply chains and building new, innovative value chains; and aligning accepted proposals across both agreements to maximize their interoperability.

Improving the TTC

To ensure that the TTC continues to be a success after its role organizing the transatlantic economic response to Russia's invasion of Ukraine ends, the United States and the EU should raise their level of ambition.

The TTC and China

In particular, the United States and the EU should not be shy about building toward applying this same level of cooperation vis-à-vis China. When the TTC was first conceived, the EU pushed for the body to avoid explicit discussion of issues related to China, even if Beijing's policies and goals were the subtext driving many of the focus areas of the TTC. This was because, at the time, the United States and the EU had diverging views and approaches toward dealing with China. Since then, China's tacit support of Russia's invasion of Ukraine, as well as its economic coercion of Lithuania, an EU member state, has hardened the EU's perceptions of China. Both sides should capitalize on this shared orientation to expand the TTC's mandate to better address shared concerns over China's coercive trade practices as well as to plan for and deter a possible Chinese invasion of Taiwan.

An expanded mandate

Additionally, the United States and the EU should also look to find middle ground between the possibly overly ambitious TTIP and the TTC's current reluctance to address any outstanding irritants. TTIP negotiations attempted to do too much before allowing regulators on both sides of the Atlantic sufficient time to build trust with each other.[11] But not even trying to resolve regulatory differences doesn't build trust either. Therefore, even if it may not be realistic to totally align US and EU regulatory approaches, as the TTIP attempted to do, the TTC's value will be inherently limited if it doesn't seek to address bilateral irritants at all. Therefore, the TTC should attempt to manage with current points of tension. To start, the TTC can look to areas in which the US and EU achieved substantial alignment during the TTIP negotiations. Specific areas include:

- Updating the US-EU mutual recognition agreement on good manufacturing practices for pharmaceutical products.
- Alignment of regulations around the medical device sector.
- Alignment of automotive safety regulations.
- Cooperation on textile fiber names and labelling, safety requirements, and conformity assessment procedures in the textiles sector.
- Approaches to reduce unnecessary regulatory differences in cosmetics, pesticides, chemicals, information and communications technology, and engineering.

The TTC should also look to areas that have emerged since the collapse of the TTIP such as the EU's potentially discriminatory digital agenda, or misguided US policies, such as poorly designed electric vehicle tax credits. Serious conversations about data and data privacy, as well as carbon border adjustment mechanisms, would also be welcome as these are issues that threaten to cause serious rifts in the transatlantic relationship in the years to come.

Improving the IPEF

The IPEF's primary shortcoming is its lack of market access, which could ultimately prevent it from providing a real alternative to China-based supply chains in the region. As such, the most significant change the Biden administration could make to improve the initiative is to add this component. Barring that change, which will be discussed in greater detail in the context of a regional FTA in chapter four, there are other less substantial changes for the administration to consider.

The IPEF as a strategic initiative

To the extent possible, the IPEF should seek to cover as many countries in the region as possible. This is crucial given China's comprehensive efforts to link its economy with its neighbors and otherwise influence their economic policymaking, through both coercive and non-coercive means. In other words, to take full advantage of the IPEF's strategic potential, the United States should maintain an open-door policy in which any Indo-Pacific nation that has pledged to meet the base benchmarks of any IPEF pillar should be allowed to join. This would differ from most FTA negotiations in which the United States requires both comprehensive and deep commitments, but as long as the United States is unwilling to convert the IPEF into an actual FTA, this design element should be exploited. Among others, ASEAN members Cambodia and Laos should be offered membership. Both countries are heavily influenced by China, and it is critical to start taking action to bring them into the US orbit.

A container ship arrives in a port in Singapore June 28, 2017. Picture taken June 28, 2017. REUTERS/Darren Whiteside

Trade facilitation

In lieu of market access negotiations, the United States should explore utilizing trade facilitation measures to help increase market access opportunities for businesses in both the Indo-Pacific and the United States. Trade facilitation targets the operational hurdles to trade and reduces the compliance costs traders shoulder when they engage with governments. If done effectively, this reduced compliance cost can be equivalent to sizable tariff line reductions. For example, the implementation of the WTO's 2017 TFA is forecasted to slash members' trade costs by an average of 14.3 percent.[12] To accomplish this, the United States should assist its partners implement the commitments they made under the WTO's TFA, such as the creation of Authorized Economic Operator (AEO) programs, and go beyond those commitments by exploring new programs, such as National Single Window (NSW) connectivity.

AEO programs certify market participants in a nation's customs administration as trustworthy and maintains adequate levels of supply chain security. This then allows for expedited customs screenings. In the Indo-Pacific, many AEO programs are limited in scope or have not responded to new changes in the global trading landscape, such as the rise of e-commerce. The United States can work with IPEF partners to expand AEO programs to incorporate digital economy participants.

The United States should also prioritize the expansion of AEO Mutual Recognition Arrangements (MRAs) that help unify AEO programs across different nations such that participants in one nation's program can seamlessly access the benefits associated with accreditation under the other nation's program. The United States currently has agreements with Japan, New Zealand, South Korea, and Singapore, but the IPEF can facilitate agreements between the United States and its remaining regional partners, such as Malaysia, Thailand, Vietnam, and the Philippines.

Through the IPEF, the United States should also work toward the creation of a multilateral MRA that links all IPEF members who meet the necessary security standards. It would more seamlessly link the United States and the region with any member of an AEO program and provide a counterweight to the rules of origin changes found with the RCEP.

The United States should also focus on providing support to operationalize or enhance regional NSWs. An NSW is a trade facilitation platform that allows international traders to submit all information needed in a standardized format to one government agency to obtain the required papers, permits, and clearances to complete their import or export processes. NSWs are a key bureaucratic innovation. Prior to their implementation, traders would often have to deal with multiple agencies across government which each have separate, but sometimes overlapping, requirements, making the import and export process both convoluted and time-consuming. The successful implementation of an NSW has tangible impacts on that country's trade regime. The United States, for example, estimated that its own NSW, the Automated Commercial Environment, generated nearly $1.8 billion in processing efficiencies in FY2020.

The United States should work with partners in the region to build the capacity to explore and implement Single Window connectivity wherein participating nations integrate their respective NSWs to further unify, streamline, and automate cross-border trade administrative processes. The US Customs and Border Protection and Singapore Customs are already exploring Single Window connectivity through a letter of intent signed in late 2020.[13] This, in conjunction with a regional MRA, would be the best way to solidify supply chains through partner countries short of increased market access.

Investing in the Indopacific

The IPEF should also strive to create an environment conducive to US investment in the region by integrating existing investment facilitation initiatives, most importantly the Partnership on Global Infrastructure and Investment (PGII), under the framework. The PGII is a collaborative effort created by the G7 and led by the US and EU which have committed $200B and $300B respectively to fund infrastructure projects in developing nations from 2022 until at least 2027. By linking the PGII's implementation architecture to the IPEF, Washington can enhance the credibility of its long-term commitment to the IPEF, support US goals around friendshoring, and create a new economic incentive for partners to encourage their agreement with other aspects of the framework.

In service of these goals, Washington should create a regional PGII implementation body managed through the IPEF. The PGII body could be tasked with facilitating dialogues among IPEF partners and PGII funders Japan and Australia; providing technical assistance around project preparation; coordinating and connecting US private sector capital to regional projects; and disseminating best practices for creating investment environments supportive of US private sector capital requirements. This should be done in coordination with standing efforts from the US Trade and Development Agency, USAID, the Export Import Bank, and other US Government agencies. The US should also consider how to also allow for EU participation in this body to substantiate their engagement with the framework.

The near-term focus of the PGII body should be projects that are less capital intensive and can be completed quickly such as investments in digital, e-health, education, and decarbonization. As the body accumulates short-term successes, the initiative can expand and shift more towards roads, railways, ports, airports, electricity access, and digital communication systems that can handle heavy data traffic. Such investments in hard infrastructure should be aligned with US goals around friendshoring and would complement the trade facilitation suggestions above by scaling trade capacity in regional partners to make their transportation sectors and port security systems more efficient. This would incentivize firms to join IPEF efforts to diversify their production and distribution systems and enhance ties between US businesses and the region.

By combining the IPEF and the PGII the US can demonstrate its long-term commitment to the framework, encourage its partners to do the same, and provide tangible benefits to economies that accept American-proposed rules and standards. Though preferential investment will not replace the tariff

European Council President Charles Michel shakes hands with Japanese Prime Minister Fumio Kishida while European Commission President Ursula von der Leyen looks on prior to their talks at the prime minister's official residence, in Tokyo, Japan May 12, 2022. Yoshikazu Tsuno/Pool via REUTERS

concessions the US traditionally offers, it can keep partners engaged in good faith with the framework and could serve as a holdover while the US primes itself and the region for an expanded agreement which includes tariff reductions.

Aligning the IPEF and the TTC

The IPEF and the TTC have heavy issue overlap. Another way that both agreements can be improved is by utilizing any crossover to their advantage by coordinating and unifying the outcomes of both bodies.

Two key areas that the IPEF lacks that are a part of the TTC are export controls and mechanisms to respond to unfair trade practices, including the challenges posed by non-market economies. Although the United States will have to be careful about making the IPEF appear too anti-China in character, it also cannot credibly achieve its goals vis-à-vis China without including IPEF members like Australia, Japan, South Korea, and Singapore in these efforts. Considering the IPEF's flexible nature, other countries would have no obligation to take on commitments in this area, but that should not stop the United States from working with allies under the IPEF umbrella to make progress on these issues in the same way that it is seeking to do so with the EU under the TTC.

Another area where the IPEF and the TTC can be better linked is around technology-based acquisition strategies and standard setting. More specifically, the IPEF should try to integrate the TTC's promising SSI mechanism such that the United States' Indo-Pacific partners can also be brought in on transatlantic information sharing on international standards development.

Another area of clear overlap between the IPEF and the TTC is on supply chain resilience. Under working group 10 of the TTC, the United States and the EU have agreed to establish early warning and monitoring mechanisms to prevent and prepare for possible supply chain disruptions. Policy makers have signaled that the IPEF will establish a similar early warning system around supply disruptions, support the mapping of critical mineral supply chains, aim to improve traceability in key sectors, and coordinate supply chain diversification efforts. IPEF negotiators should coordinate with their counterparts participating in the TTC to ensure such efforts are complementary.

Efforts to address supply chain coercion should also form a part of both the IPEF and the TTC's negotiating agendas given that this issue affects countries in both regions. A few prominent examples of this kind of behavior in recent years include the export restrictions Beijing imposed on Australia in an attempt to coerce Canberra to terminate a call for an independent inquiry into the origins of COVID-19;[14] Beijing's boycott of South Korean goods, tourism, and entertainment following the Korean government's deployment of the US-made Terminal High Altitude Area Defense (THAAD) anti-ballistic missile defense system;[15] and Beijing's removal of Lithuania from its customs system following exchanges between Lithuania and Taiwan.[16] One way to help integrate concerns about these issues across both bodies is to include interested IPEF partners such as Japan, South Korea, and Australia into the TTC's dialogue on shared trade concerns regarding third countries' measures or initiatives. This expanded group could become an effective forum to discuss and organize unified responses to coercive trade measures, especially those coming out of China.

Similarly, both the IPEF and the TTC should go further when it comes to initiatives around friendshoring. For example, in key critical sectors, both bodies could allow for limited market access commitments or trade facilitation measures (such as easier regulatory approval) for countries that agree to a joint set of commitments to uphold certain standards in that sector that admonish non-market economic practices. At the same time, the United States should work with both IPEF and TTC members to ensure that they are coordinating their subsidies practices in a way that avoids a race to the bottom.[17] The TTC has already started to serve such a function by helping the United States and the EU avoid a subsidy race around semiconductors. Although the United States already has an Asia-focused semiconductor subsidy coordination body—the so-called Chips 4 Alliance—which brings together the United States, Japan, South Korea, and Taiwan,[18] it still needs a coordination body around other smaller, but still substantial, subsidy programs for other critical components such as advanced batteries for electric vehicles, which the United States and Japan are both beginning to subsidize.[19]

3. RECOMMENDATIONS FOR AN AMBITIOUS TRADE POLICY

As discussed above, the United States should seek to improve both the TTC and the IPEF on their own merits as well as better align their objectives. This will yield more coherent formats to address and achieve friendshoring through regulatory alignment, trusted trader schemes, supply chain resilience, and countering Chinese economic coercion.

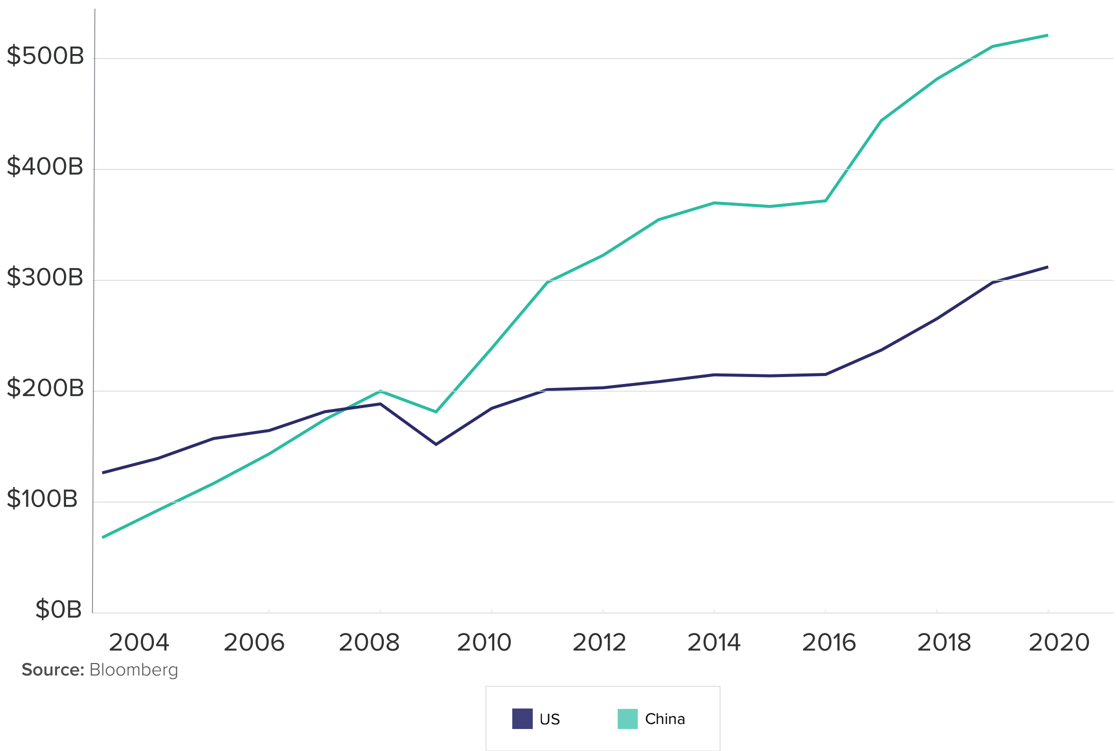
But the United States can and should go further. If the Biden administration is serious about actually changing Indo-Pacific supply chain policy and moving countries in the region into the United States' regulatory orbit, it should pursue market access negotiations as part of the IPEF. If the IPEF also grants regulatory harmonization and access to the best innovations from the TTC, it will become too attractive to ignore.

China's intensifying economic engagement and increasingly evident regional ambitions provide a possible domestic opening for the Biden administration to garner congressional support for an ambitious FTA with robust market access. China has shown an increasing determination to pursue regional trade deals, most recently through RCEP, Beijing's application to join the CPTPP, and its advancing negotiations for a new FTA with South Korea.[20] The United States' previous strategy of sporadic and shallow engagement cannot counterbalance this. Instead, the United States and its allies must show a desire to be a willing and active Pacific trading partner, and the principal way to do this is through a new regional FTA. This, coupled with new urgency around resilient and reliable supply chains and US partners and allies' hardening views on China, provide possible motivation for a breakthrough around trade and specifically market access.

The arguments for market access are compelling. But even if the United States is unwilling to add market access now, it should configure the IPEF in a way that it can be the first step toward a larger, comprehensive deal that uses market access to build a resilient trading bloc and further align partners and allies on a shared series of rules.

Figure 2. ASEAN's Key Trading Partners

Total Trade between ASEAN and Partner Countries, USD Billion



Source: Bloomberg

Tariff Reductions Should Not Be Ruled Out from the IPEF

Implicit within both the TTC and the IPEF is an execution of the US policy of friendshoring. This is visible through a combination of fiscal efforts, such as funding provided by the United States and the EU to build semiconductor production capacity, and regulatory alignment, such as efforts in the IPEF's connected economy pillar and the TTC's working group on technology standards to remove beyond-the-border trade barriers. But relying only on fiscal and regulatory mechanisms will not result in the substantial supply chain shifts Washington desires. Changes to tariffs are the most impactful and cost-effective way for the United States to achieve its objectives around friendshoring and decrease regional and global reliance on China.

Though Chinese manufacturing costs are rising, a cheap labor pool and prevailing integration in global supply chains mean it is often cheaper for a business to import from China than a US regional partner such as Japan or South Korea. Table 3 provides a starting point for possible goods and materials to focus tariff reductions on. For all the goods listed, China makes up at least 10 percent of US imports for that specific product category with it going as high as 40 percent for products that fall under the electrical accumulator tariff code.

Reducing US inbound tariffs on these and other critical goods would be the most effective way the United States can friendshore existing production capacity to IPEF partners and take market share from their Chinese competitors. Tariff liberalization for these areas can be used in negotiations to obtain tariff reductions in areas where US exporters face a tariff disadvantage as compared to Chinese exporters.

Tariff reductions can also help diminish the impact of Chinese economic coercion. Chinese coercion is effective due to the size of China's imports and exports to its neighbors. RCEP's tariff code amplifies this by reducing the trade costs of developing value chains that further tie the Chinese economy to the region. The United States should combat this by negotiating reciprocal market access for its imports to ASEAN countries and Japan in line with what China receives under RCEP. To be clear, changes in the US tariff schedule will not lead to a general decoupling of Chinese and IPEF economies nor should that be the goal. Nevertheless, US tariff reductions can reduce the expansion of Chinese value chains in the region by building trading connections between Washington and other Indo-Pacific economies.

Table 3. US Tariff Rates for Strategic Goods

Product Name	Alternative IPEF Member Suppliers	Current Tariff Rate
Electrical control and distribution boards, <1kV	Japan, Malaysia, South Korea, Vietnam, and Singapore	2.7%
Taps, cocks, valves, and similar appliances	Japan, South Korea, and India	5.6%
Electric accumulators	Japan, South Korea, Malaysia, and Vietnam	3.4%
Articles of iron or steel	India, Japan, South Korea, and Thailand	8.6%
Plastics and rubber	Japan, South Korea, and Malaysia	6.5%
Parts and accessories of bodies for motor vehicles	South Korea and Japan	2.5%
Brake system parts, except linings	Japan, South Korea, and India	2.5%

Source: WITS

A second shipment of infant formula, brought to the United States under "Operation Fly Formula" in response to supply chain shortages, is seen at Dulles International Airport, in Dulles, Virginia, U.S., May 25, 2022. REUTERS/Elizabeth Frantz

A Transpacific Regulators' Forum Modeled After the TTC

Regulatory alignment is a long-term exercise that requires a learning and socialization process before shared rules can be established. Therefore, to pave the way for a potential FTA with IPEF members in the future, the United States should immediately begin socialization efforts around regulations with IPEF members. In particular, the IPEF should facilitate considerable institution and administrative capacity building, supported by technical assistance, funding, and an exchange of experts.

As demonstrated during the TTIP negotiations, rushing or skipping this process can be especially detrimental as effective regulatory alignment needs buy-in and trust from the regulators as well as a detailed and nuanced understanding of the counterparty's regulatory system. Without these prerequisites, it's unlikely negotiators will be able to see eye to eye and come to an agreement that works for all parties.

To preempt this, the IPEF should create a Transpacific Regulators' Forum modeled after the TTC. To be effective, the forum would need buy-in from senior-level officials to identify areas for cooperation and should be made up of working groups of regulators from all IPEF nations. The EU should also be given observer status to better prime it for an eventual engagement on a more comprehensive FTA. The forum would:

- Support the building of technical expertise to make regulations more compatible with each other;
- enable cooperation through regulator exchanges designed to enhance the understanding of each country's regulatory approach as well as promote direct connections between regulators with similar mandates across countries;
- acilitate good regulatory practices, such as publication of regulatory agendas; provide early information on regulatory direction; and encourage public consultations, impact assessments, and retrospective evaluations; and
- encourage partners to take each other's regulatory approaches into account before regulating.

In addition to regulatory socialization, the Transpacific Regulators' Forum should strive to achieve low-hanging regulatory alignment (when appropriate) by reducing unnecessary regulatory differences and eliminating duplicate administrative requirements. Similar to the TTC, emphasis should be placed on forward-looking cooperation on new measures being formulated.

A Robust Implementation Structure

Approaching the IPEF with a long-term mentality will also bring about structural enhancements that will be especially important if the administration plans to use the IPEF as a starting point for negotiations around a comprehensive FTA but could still be advantageous if Washington sees it as an end within itself. Such an approach would allow negotiations to be structured with dual tracks such that countries that are interested in certain pillars but are uncertain if they can meet the implementation requirements can still engage with them instead of being kicked out. This will allow IPEF pillars to both produce agreements that can be implemented as soon as consensus is achieved among advanced economy negotiating partners and still maintain participation from developing economies that would need longer implementation timelines. The secondary track could also allow for capacity building via technical assistance to take place.

A standing Secretariat with a mandate to improve the framework, further link and smooth trade flows between its members, and monitor implementation should also be implemented within the IPEF. Such a Secretariat would affirm that the IPEF is a starting point for more robust regional economic integration efforts. The Secretariat would be a body dedicated to thinking through further economic integration under the IPEF. This is important as country trade negotiators often have many competing priorities and mandates which could distract them from further IPEF integration and slow down the work around a more comprehensive FTA. The Secretariat could help manage the longer transition periods in the dual tracks and ensure nations are sticking to their implementation timelines. Finally, the Secretariat could monitor and work on similar issues as the TTC and position developing economies within the IPEF to adopt the high standards agreed upon within the TTC.

An Indo-Pacific Regulatory Framework

In addition to a realignment of supply chains, a comprehensive FTA that builds on the regulatory socialization conducted through the TTC and the IPEF would be the best conduit for proliferating the United States' preferred rules and standards throughout the Indo-Pacific region. Doing so would advance both US economic and strategic interests. An aligned regulatory framework overseeing key sectors that link high-skill and low-cost areas of production would hold immense economic promise. Strategically, regulatory alignment can proliferate US preferred rules and standards around emerging technologies wherein regional and global rules have not been calcified and, similar to the aspirations of the TPP, address standing issues such as the role of the state in the economy through agreement around rules concerning SOEs and market competition.

The regulatory socialization and trust-building exercises undertaken in the IPEF and through the TTC should provide negotiators and regulators a nuanced understanding of counterpart regulatory regimes. As a result, negotiators should be able to identify areas wherein regulations can immediately be standardized following the signing of the agreement. The negotiations should also identify areas wherein prompt alignment may be too ambitious and time-consuming, but progress can be made after the arrangement is signed as regulators continue to work together.

To ensure there is follow-through on these identified areas, the FTA should create a Regulatory Cooperation Council (RCC) overseen and organized by the Secretariat. Similar to the TTC, the RCC would be comprised of senior regulators and policy makers from the Departments of Commerce, Treasury, State, and Energy; the USTR; the White House; and their counterparts from partner countries.

The RCC would ensure partners implement their commitments, provide a forum in which regulators can attempt to align new regulations before they are enacted, and identify existing regulations that might be brought into greater alignment. Because regulatory alignment becomes increasingly complex as partners are added, the council should operate through "minilateralism" for emerging issues wherein proposals are socialized and discussed but are not mandated and compliance is done at will.

CONCLUSION

The Biden administration should be commended for its ongoing attempt to reconstruct the playbook for Washington's international economic engagement. It is an ambitious attempt to meet the new economic challenges of an increasingly multipolar, post-COVID-19 world. However, as the Chinese economy continues to rise, the flexibility and timeline afforded to the United States continues to diminish. As a result, Washington must be goal-oriented and consider the best possible tools it has at its disposal to realize its aspirations. For objectives surrounding supply chain resilience, friendshoring, and countering Chinese economic coercion, enhanced market access remains the best tool Washington has at its disposal.

Ideally, the final FTA would also include the EU, the United Kingdom, and others, but if these countries are only able to join some of the commitments that still would be a major positive step.

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ANNEX

Glossary

AEO	Authorized Economic Operator
AI	artificial intelligence
ASEAN	Association of Southeast Asian Nations
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
EU	European Union
FTA	free trade agreement
GDP	gross domestic product
IPEF	Indo-Pacific Economic Framework for Prosperity
MRA	Mutual Recognition Arrangement
NAFTA	North American Free Trade Agreement
NSW	National Single Window
PGII	Partnership on Global Infrastructure and Investment
PPE	personal protective equipment
RCC	Regulatory Cooperation Council
RCEP	Regional Comprehensive Economic Partnership
SOE	state-owned enterprise
SSI	Strategic Standardization Information
TFA	World Trade Organization's Trade Facilitation Agreement
THAAD	Terminal High Altitude Area Defense
TPP	Trans-Pacific Partnership
TTC	US-EU Trade and Technology Council
TTIP	Transatlantic Trade and Investment Partnership
USJTA	US-Japan Trade Agreement
USMCA	United States-Mexico-Canada Agreement
USTI	US-Taiwan Initiative on 21st Century Trade
USTR	Office of the US Trade Representative
WTO	World Trade Organization

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