

What Should US Economic Diplomacy Look Like in the Indo-Pacific?

An Undergraduate Briefing Paper

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Introduction

In the five years following the withdrawal of the United States from the Trans-Pacific Partnership (TPP), Asian economic production continues to grow while the US lacks clear direction on how to engage with the region. Following the US withdrawal, eleven Indo-Pacific countries continued with negotiations and pursued the new Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Together, economies of the CPTPP make up roughly 13% of the world's GDP and the agreement creates one of the world's largest free-trade zones. As economic giants such as China and the United Kingdom begin the process of joining the CPTPP, it becomes essential for the US to establish clear economic goals in the region in order to not be left behind.

Secretary of Commerce Gina Raimondo's statement that the US will not seek to join the CPTPP came with the announcement of the Indo-Pacific Economic Framework (IPEF) a plan being developed by Biden administration officials to engage with the region through means other than the CPTPP. This paper will provide background on policies and issues that the administration will need to prioritize as they begin to reveal more details on this framework.

Background

Little is known about what exactly the IPEF will do to enhance the US' engagement in the region. The administration's announcement of the framework in October outlined half a dozen areas on which the framework will focus: trade facilitation, digital standards, supply chain resiliency, decarbonization and clean energy, infrastructure, and worker standards. The Biden administration has indicated that this framework will not feature new free trade agreement proposals and will not commit to any new market access opportunities for Asian countries.¹ The anti-trade rhetoric used during the 2016 presidential election and the early days of the Trump administration has quieted in the first year of Biden's presidency. Still, it is worth noting that the Biden administration does not feel the political climate will allow for multilateral, binding trade agreements to pass during this Congress and will not put the IPEF before the body.

The IPEF's long-term impact will be reliant on the number of binding commitments that the US can agree upon with countries in the region. Even in the absence of congressional approval on a formal trade deal, having negotiations and securing agreements on high standard commitments will legitimize the IPEF. Because the Indo-Pacific encompasses such a large and diverse region, the US will be effectively forced to choose specific countries for participation in the IPEF. Presumably, the US will initially focus on engagement with Japan, Australia, and the Republic of Korea. These countries' advanced economies and established trade deals with the US make them easy partners for the Biden administration to focus on. But, in order for the IPEF to maximize its goals of improving labor conditions and environmental protections and shaping trade in Asia, the Biden administration will need to engage with developing ASEAN countries.

¹ Bob Davis, "Biden Promised to Confront China. First He Has to Confront America's Bizarre Trade Politics." *Politico*, January 31, 2022, <https://www.politico.com/news/magazine/2022/01/31/biden-china-trade-politics-00003379>.

Engagement with less-developed Asian and Southeast Asian countries is important as these countries (including Vietnam, Bangladesh, Cambodia, etc.) are key exporters of textiles, footwear, and machinery to the US. In 2020, the US imported over \$1 trillion dollars' worth of goods (nearly 50% of all imports) from countries on the Asian continent.² Although the region has leading export numbers, the Asia-Pacific is home to poor working conditions, undeveloped labor protections, and infrastructure vulnerability.³ Integrating countries with these vulnerabilities and issues into the IPEF will allow the US to encourage and enforce labor standards around the world.

The following analysis section focuses on supply chain resiliency and establishing robust digital economy and technology standards. These two areas will have an immense impact on the US' success in the Indo-Pacific. The US' engagement with supply chain resiliency will enable companies and countries to trade more efficiently as new knowledge of supply chains will decrease supply chain bottlenecks and recognize flaws in their supply chains. Furthermore, fostering high standards in the digital economy and technology arena will prove amenable to US interests as an increasing number of its vital industries handle their domestic and international businesses on virtual platforms.

Analysis

Ensuring resilient supply chains

The COVID-19 pandemic highlighted the fragility of global supply chains and the need for collaboration between countries to ensure strategic stockpiles of important resources and products are maintained. Firstly, the US should work to establish mechanisms that ensure information sharing and collaborative mapping of vital raw material supply chains between countries in the IPEF. The US Customs and Border Protection agency (USCBP) is charged with issuing Withhold Release Orders that prevent companies using forced labor in their supply chains from exporting to the US. Allocating additional resources to the USCBP, obtaining binding commitments from signatories of the IPEF to strengthen their own customs and border import mechanisms, and establishing clear guidelines on what constitutes "forced labor" or other potentially dangerous threats can strengthen a supply chain.

The US recently established similar mechanisms with the European Union that are aimed at building a more resilient semiconductor supply chain.⁴ The US-EU agreement can be used as a guide to shape programs in Asia. US Trade Representative Katherine Tai referenced the US-EU Trade and Technology Council as an example of what the US is looking to accomplish with the IPEF. "I think that there are parallels here in terms of what we are trying to accomplish and the partnerships and bridges that we are seeking to build, which is ones that respond to the needs that all of our economic policymakers are facing right now with respect to ensuring that our trade engagement is focused on and supportive of sustainability, resilience, inclusiveness and also competitiveness," she said.⁵

² "United States," OEC, accessed March 7, 2022, <https://oec.world/en/profile/country/usa>.

³ "ITUC Global Rights Index," *International Trade Union Confederation*, 2018, <https://www.ituc-csi.org/IMG/pdf/ituc-global-rights-index-2018-en-final-2.pdf>.

⁴ "FACT SHEET: U.S.-EU Establish Common Principles to Update the Rules for the 21st Century Economy at Inaugural Trade and Technology Council Meeting," The White House, Accessed March 8, 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2021/09/29/fact-sheet-u-s-eu-establish-common-principles-to-update-the-rules-for-the-21st-century-economy-at-inaugural-trade-and-technology-council-meeting/>.

⁵ Madeline Halpert, "Tai sees 'parallels' between Indo-Pacific Economic Framework, U.S.-EU TTC," *Inside Trade*, January 12, 2022, <https://insidetrade.com/daily-news/tai-sees-%E2%80%98parallels%E2%80%99-between-indo-pacific-economic-framework-us-eu-ttc>.

Ensuring that supply chains are mapped will not only allow for countries to recognize potential vulnerabilities in critical supply chains, but it will also enable countries and companies to ensure that human labor standards are being upheld at each level of the supply chain. Through increased visibility of each level of a supply chain, the United States can enforce labor standards by enforcing prohibitive trade policies on countries that are not enforcing agreed upon standards. Human labor standards must be laid out and agreed upon as part of the IPEF. Cooperation with the International Labor Organization, which is implementing programming in the Indo-Pacific, should be prioritized in the IPEF.

Mapping supply chains is no simple task and one that many companies and countries had not prioritized before the COVID-19 pandemic. In a survey conducted weeks after the start of the pandemic, 70% of companies said that they were in a “data and collection mode” regarding information on their supply chains in China and Asia.⁶ Supply chain mapping is a task for both private companies and governments.

Beyond mapping, building more resilient supply chains in the Indo-Pacific can be done through setting agreements and standards in the IPEF aimed at preventing hostile export control measures in times of shortage. Working with Indo-Pacific partners to better map, schedule, and anticipate supply chain shortages will decrease acute shortages and build a more resilient supply chain.

Establishing Robust Digital Economy and Technology Standards

Establishing robust digital economy and technology standards is one of the central themes in the IPEF proposal published by the White House. The scope and depth in which US industrial fields such as the automobile, banking, and agricultural sectors are utilizing digital financial tools and technologies are accelerating as such equipment is becoming increasingly essential in advancing the industries’ interests and ensuring their international competitiveness. The pandemic has contributed to the trend in increased digitization of various banking and business procedures as well, as most of such processes have been moved to a virtual platform. The growing trend in business’ internet reliance and usage is acute in the Indo-Pacific region as well, and the number of internet users in the region is expected to increase up to 3.1 billion by 2023.⁷

While the growth of the digital business platform and marketplace presents expanded economic opportunities for the US and participating countries, unregulated growth has the potential to backfire and bring forth significant risks and threats to the cyber environment as well. Examples include cyber-attacks on government platforms and private businesses, and hacking of individual data. As such, including and maintaining specific principles, standards, rules, and regulations that promote a free, open, and secure online landscape in the IPEF are of paramount importance. The IPEF should further ensure that the rules and regulations to be negotiated and implemented are in line with US strategic interests and go beyond broad norms and commitments to stand as credible and binding agreements.

⁶ Thomas Y. Choi, Dale Rogers, and Bindiya Vakil, “Coronavirus Is a Wake-Up Call for Supply Chain Management,” *Harvard Business Review*, March 27, 2020, <https://hbr.org/2020/03/coronavirus-is-a-wake-up-call-for-supply-chain-management>.

⁷ “Multi-Industry Business Coalition Urges USTR to Negotiate Digital Trade Agreements in the Indo-Pacific Region,” *Information Technology Industry Council*, September 13, 2021, <https://www.itic.org/news-events/news-releases/multi-industry-business-coalition-urges-ustr-to-negotiate-digital-trade-agreements-in-the-indo-pacific-region>.

Outlook

Although the Indo-Pacific Economic Framework is the main policy proposal for trade and economic engagement by the Biden administration, companies and government agencies will continue to implement policies to advance US interests in the region. Expect some companies' reshoring –moving production sites back to the US– to continue as supply chain disruptions and COVID-19 restrictions have made prominent some downsides of globalization.⁸ But, the Indo-Pacific remains a global powerhouse for economic production for both US investment and the local exporting of materials. The US must leverage its strong relationships with regional leaders to build stronger relationships with developing economies and help to write the rules for a more human rights focused economy.

We expect that the US' main economic focus in the Indo-Pacific will be directly tied to diplomatic and military action aimed at countering Chinese expansion, dominance, and aggression in the region. Linking economic and diplomatic interests in order to counter China is not new. In May 2020, the US Department of Commerce effectively sanctioned Huawei, a massive, state-funded Chinese technology conglomerate. These sanctions limited Huawei's ability to use US manufactured materials and products and limited their export ability.⁹ The US should continue exploring similar actions to bolster its interests while limiting the expansion of Chinese interests in the region.

Beyond policies of containing China and mapping supply chains, the US should create multilateral research teams with the purpose of determining the feasibility of establishing joint strategic stockpiles between countries. These could be modeled after the Strategic National Stockpile in the US. The purpose of these multilateral stockpiles could be to maximize economic efficiency as well as having established stockpiles in other countries in the event of a geopolitical conflict.

With the US clearly indicating that there will be no increased market access for signatory countries, the US must engage international trade and development partners to make its offer more credible. To do this the United States should engage the Millennium Challenge Corporation, the US Agency for International Development, and Asian development organizations to invest in infrastructure projects in the Indo-Pacific.

Regarding establishing robust digital economy and technology standards, the cyber standards and regulations in the IPEF should aim to achieve greater inclusivity for smaller businesses and minority entrepreneurs, more secure, and efficient digital market space, ethical standard setting in artificial intelligence application, enhanced online consumer privacy protection, increased accessibility to quality healthcare, and the creation of effective and collaborative cyber platforms that foster innovative solutions to issues that require multilateral efforts such as climate change. An effective way to achieve such proposed standards could be to benchmark guidelines developed by federal US agencies specializing in the cyber realm such as the National Institute of Standards and Technology (NIST). The NIST has published a Small Business Cybersecurity Guide¹⁰ that contains information on creating "policies and

⁸ Patrick Van den Bossche, et al, "2021 Reshoring Index: The tides are turning," *Kearney*, 2021, <https://www.kenarney.com/operations-performance-transformation/us-reshoring-index>.

⁹ Hiroyuki Suzuki, "Building Resilient Global Supply Chains: The Geopolitics of the Indo-Pacific Region," *Center for Strategic and International Studies*, February 19, 2021, <https://www.csis.org/analysis/building-resilient-global-supply-chain-s-geopolitics-indo-pacific-region>

¹⁰ "Small Business Cybersecurity Corner: Planning Guides," National Institute of Standards and Technology, accessed May 17, 2022, <https://www.nist.gov/itl/smallbusinesscyber/planning-guides>.

protocols to protect sensitive data,” restricting “employee access to protected data,” and encrypting “outgoing and incoming information.”¹¹ Implementing these cybersecurity protocols will help enhance cybersecurity compliance standards in international trade and benefit US industries.

These rules and regulations concerning the digital economy and technology standards in the IPEF should build on existing related regional digital agreements that include provisions aligning with US interests such as the Digital Economy Partnership Agreement (DEPA)¹², Asia-Pacific Economic Cooperation (APEC)¹³, Singapore-Australia Digital Economy Agreement (SADEA)¹⁴, CPTPP, United States-Mexico-Canada Agreement (USMCA)¹⁵, and United States-Japan Digital Trade Agreement (USJDTA).¹⁶ For instance, the IPEF should incorporate the promotion of an ethical artificial intelligence governance framework and the online consumer protection outlined in DEPA. Building on such mechanisms will foster a transparent, fair, and responsible use of artificial intelligence in international trade. Furthermore, adopting DEPA’s online consumer protection standards will allow countries to strengthen laws and regulations that would prevent “fraudulent, misleading or deceptive conduct” that could cause harm to firms and individual consumers engaging in virtual commercial activities.¹⁷

¹¹ “What is the NIST Small Business Cybersecurity Act?” RSI Security, November 24, 2020, <https://blog.rsisecurity.com/what-is-the-nist-small-business-cybersecurity-act/>.

¹² “Digital Economy Partnership Agreement (DEPA),” Ministry of Trade and Industry Singapore, accessed May 17, 2022, <https://www.mti.gov.sg/Improving-Trade/Digital-Economy-Agreements/The-Digital-Economy-Partnership-Agreement>.

¹³ Asia-Pacific Economic Cooperation, <https://www.apec.org/>.

¹⁴ “Singapore-Australia Digital Economy Agreement,” Ministry of Trade and Industry Singapore, accessed May 17, 2022, <https://www.mti.gov.sg/Improving-Trade/Digital-Economy-Agreements/The-Singapore-Australia-Digital-Economy-Agreement>.

¹⁵ “The United States-Mexico-Canada Agreement Fact Sheet: Digital Trade,” Office of the U.S. Trade Representative, accessed May 17, 2022, https://ustr.gov/sites/default/files/files/Press/fs/USMCA/USMCA-Digital_Trade.pdf.

¹⁶ “Fact Sheet on U.S.-Japan Trade Agreement,” Office of the U.S. Trade Representative, September 2019, <https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/2019/september/fact-sheet-us-japan-trade-agreement>.

¹⁷ “DEPA.”