AMERICAN
LEADERSHIP
INITIATIVE

Creating Incentives to Join the IndoPacific Economic Framework

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About the American Leadership Initiative

The American Leadership Initiative (ALI) is working with elected officials and other stakeholders to develop a 21st century vision and policy agenda for American global leadership, based on American interests and shared values. ALI's policy work is focused on five pillars: advancing inclusive and sustainable growth at home and abroad, pursuing smart trade policies, leading on climate, meeting the China challenge, and promoting democracy, human rights, and rule of law.

About the Authors

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Dr. Orit Frenkel is the CEO and co-founder of the American Leadership Initiative. She has 39 years of experience working on Asia, trade, and foreign policy issues. Prior to founding ALI, Orit was a senior executive with General Electric Company for 26 years. In that position, she supported GE's international public policy initiatives, including addressing the policy and business challenges posed by China, developing rules for digital trade, and policies to support sales of environmentally friendly goods. Dr. Frenkel started her career in the Office of the U.S. Trade Representative, as the Director for Trade in High Technology Products and Deputy Director for Trade with Japan. Dr. Frenkel received a Ph.D.in International Economics from The Johns Hopkins University, an M.P.P. from the University of Michigan, and a B.A. in Economics with honors from University of Maryland.

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Introduction

Ambassador Katherine Tai, the U.S. Trade Representative (USTR), recently testified to Congress that trade can be a force for good – growing the middle class and addressing inequality – and that the U.S. is strongest when we work with our partners and allies around the world. ALI strongly supports these notions, appreciating the creativity and care with which the USTR is crafting trade policy and strategy. ALI strongly supports the USTR's philosophy: that for a trade agreement to be effective, its benefits must be shared equally across the economy, especially by workers, small businesses, and underserved communities, which have often been ignored or hurt by past agreements. An agreement's results must also support sustainable and inclusive growth, while addressing shifting global alliances and new technologies.

U.S. engagement in the Pacific is critical to this country's workers, small businesses, values, and our economic and national security interests. ALI commends this Administration's announcement of the Indo-Pacific Economic Forum (IPEF) and believes the U.S. must focus on being a standard setter – for worker, environmental, digital, and infrastructure standards – to be a 21st century global leader. This is especially important given China's regional dominance, especially through its Belt and Road and Digital Silk Road initiatives. IPEF's goal of high labor and environment standards, as well as digital standards of democracy, transparency, and accountability, are important counterparts to the model that China is offering in the region.

The first step in advancing IPEF will be offering sufficient incentives to attract a broader group of countries to join the framework, especially the Fair and Resilient Trade Pillar. While the ASEAN countries welcome U.S. regional reengagement, the Trade Pillar's digital, labor, and environmental standards will require heavy domestic concessions from them. If it is to attract countries beyond Australia, New Zealand, Japan, Singapore, and South Korea, IPEF must include strong incentives for them to make the necessary difficult domestic changes.

Lowering tariffs is undoubtedly the best incentive. Although U.S. tariffs are generally quite low, the tariff schedule has peaks in sectors such as agriculture or textiles which are of particular interest to developing countries. When Vietnam wanted to gain access to lower duties on footwear and apparel by joining the Trans-Pacific Partnership, for example, it pushed through significant domestic reforms. Tariff market access may ultimately be necessary to achieve IPEF's vision, and Congressional passage may eventually be necessary to assure countries that a future administration will not pull out of the framework. However, ALI understands that the Administration is not currently considering such an option.

As such, this paper offers other incentives to encourage less-developed countries in the region to join the framework, specifically the Trade Pillar. These inducements include addressing market barriers, preferred supplier initiatives, regulatory alignment, capacity building, private sector partnerships, and pillar integration.

Addressing Market Barriers

Eliminate remaining Trump-era tariffs for countries that join IPEF

In June 2018, the U.S. imposed tariffs of 25 percent and 10 percent respectively on steel and aluminum imports from almost all countries. USTR has begun to strike agreements with large trading partners, like the EU, Japan, and the UK, to eliminate these tariffs. Tariffs remain on steel and aluminum from New Zealand, South Korea, Vietnam, and Thailand. The U.S. should offer to remove these Trump-era tariffs as an incentive to join the IPEF talks, just as it dismantled such duties on Mexico and Canada when the U.S.-Mexico-Canada Agreement (USMCA) was signed. These IPEF tariff-elimination talks could also seek to advance clean production standards, as the U.S. is doing with in similar talks with the EU.

Build guardrails for future Section 232, Section 301, and Section 201 tariffs

While the U.S. cannot at this time promise to lower tariffs, it can offer some reassurances that they *won't be raised.* In a side letter to the USMCA, the U.S. agreed to put in place guard rails for future 232 tariffs, including provisions excluding a certain quantity of Mexican and Canadian automobiles and parts from any such trade remedy actions. They also add a 60-day notice and consultation requirement before any Section 232 measures are taken and allow for retaliatory actions if U.S. measures are inconsistent with the USMCA. While such side agreements do not eliminate the threat of U.S. Section 232 trade actions for Mexico and Canada, they reduce the likelihood of surprise tariffs and open an opportunity for resolving any crises before new trade barriers are imposed. The U.S. could incorporate similar provisions in IPEF, perhaps expanding them to include Section 301 and Section 201 tariffs. Such provisions would give the IPEF partners a certain level of assurance that the U.S. won't raise tariffs – a potentially important incentive during this time of increased protectionism.

Renew and Expand the Generalized System of Preferences

Established in 1974, the U.S. Generalized System of Preferences (GSP) program eliminated duties on key products imported by beneficiary countries. While the program expired at the end of 2020, its renewal is currently pending in Congress. Since GSP is an important benefit to most of the developing countries interested in IPEF, the U.S. can use it as an incentive to achieve key standards, especially regarding labor and corruption.

To qualify for GSP benefits, countries have had to meet rigorous requirements, including enacting labor reform, enforcing intellectual property rights, and promoting the rule of law. The pending renewal legislation expands those requirements to include human rights, women's economic empowerment, and increased rule of law. It would also require the USTR to conduct regular country-eligibility reviews.

Preferred Supplier Initiatives

Create a Trusted Country Program

In 2014, U.S. Customs and Border Protection (CBP) enacted the Trusted Trader Program, which was designed to "streamline the process through which importers can establish to CBP that they strive to secure their supply chains and strengthen their internal controls for compliance with the existing laws and regulations administered or enforced by CBP." In return, these importers are assured an expedited process through U.S. customs. IPEF could create a Trusted Country Program that would give countries that meet a certain level of labor, environmental, and digital standards assurances – including ensuring that no forced labor is used throughout their supply chains – a preferred supplier status which would expedite their goods through U.S. customs.

Advance Digital Trade Facilitation to Fast-Track Customs Procedures

Provisions committing to paperless trading by making e-versions of trade administration documents available, such as e-invoicing and digital rules of origin certificates (as in the Digital Economy Partnership Agreement), could also be made available as part of the Trusted Country program to expedite their goods through U.S. customs. Trusted Countries that meet certain agricultural standards would be allowed to use electronic sanitary phytosanitary (SPS) e-certificates to facilitate their exports to the U.S. The U.S. could also permit Trusted Countries to use electronic authentication and electronic signatures, while protecting consumers' data (as in the USMCA). Digital trade facilitation is also key to removing corruption opportunities in the customs process.

Expand CBP's Mutual Recognition Arrangements

CBP can negotiate Mutual Recognition Arrangements (MRAs) with a foreign customs administration which indicates that the security requirements or standards of the foreign industry partnership program, as well as its verification procedures, are the same or similar to those of the Customs Trade Partnership Against Terrorism program. MRAs are bilateral understandings between two customs administrations which secure and facilitate global cargo trade. As of September 2021, CBP had signed 14 MRAs, including with Japan, South Korea, New Zealand, and Singapore. A new IPEF module could advance the alignment of security requirements or standards and its verification procedures both to expedite trade and to strengthen security measures in participating countries.

Facilitating Regulatory Alignment

Aside from the Trump 232 tariffs, the U.S. average bound tariff rate is very low at 1.59%. As such, misalignments of regulatory standards and lack of regulatory transparency remain leading obstacles to countries exporting their products to the United States. Aligning standards does not involve lowering U.S. standards, but rather looking for ways to streamline unnecessary bureaucracy, such as eliminating the need for duplicative inspections and testing. Regulations and their administration can often be unclear and difficult to navigate, especially for small and medium sized businesses. Increased U.S. regulatory transparency could be an incentive for companies to join IPEF. USTR and the Department of Commerce should direct the U.S. International Trade Commission to examine opportunities for increased regulatory transparency and facilitating regulatory alignment between the U.S. and IPEF countries to clarify options that can be used in negotiations.

Capacity Building

IPEF countries will need considerable funding for capacity building and training in order to achieve the goals the U.S. set out in the Trade Pillar. If Congress does not approve IPEF implementing legislation which includes such support, USTR will need to seek additional funding for this activity. Congressionally appropriated funding for capacity building would also send IPEF countries the important message that while the framework isn't a traditional trade agreement, Congress supports it. Other IPEF partners, such as Japan, Singapore, and Australia, could supplement such funding with financial support of their own to create a meaningful level of support for countries looking to adopt IPEF standards.

Environment

Training on cleaner and more environmentally friendly production standards will be necessary for meeting IPEF's environmental decarbonization goals. Greener steel and aluminum production methods could be a market-access win for developing Indo-Pacific countries, as the U.S. and EU expand their Carbon Based Sectoral Arrangement on Steel and Aluminum to other countries.

Labor

USMCA implementing-legislation included $210 million for the Department of Labor's Bureau of International Labor Affairs for implementation activities ($180 million over four years for technical assistance projects and $30 million over eight years for monitoring). Similar funding will be necessary for the less developed IPEF countries if they are going to be able to make the difficult domestic concessions necessary to achieve higher labor standards.

Digital

Programs like the U.S. Agency for International Development's Digital Connectivity and Cybersecurity Partnership (DCCP), a whole-of-government global initiative to promote an open, interoperable, reliable, and secure digital economy, should be part of the IPEF package for countries which want to adopt the agreement's Digital Pillar. DCCP works to catalyze investments in secure, diverse, and resilient information communications technology (ICT) infrastructure; promote ICT policy best practices and regulatory reforms; and encourage adoption of strong cybersecurity and data privacy practices. Separately, technical assistance and capacity building should be made available for countries who want to develop digital trade facilitation tools (including e-rules of origin, e-invoicing, digital SPS certificates, and more).

Private Sector Partnerships

Creating additional investment and partnership opportunities with U.S. companies will be a significant incentive for ASEAN countries to join IPEF. In addition to offering government-funded capacity building and technical assistance, the U.S. should create opportunities for local governments and companies to partner with American companies in the region. This can take the form of investment projects as well as skills training. U.S. companies can use training programs, internships, or apprenticeship programs to help build digital-technology skills or assist in transitioning to a lower-carbon environment, to support IPEF countries striving to meet standards in those areas. Many of U.S. companies have existing programs upon which they could expand, especially with U.S. government support and facilitation. U.S. companies could also partner with local firms to implement training programs. These investments should be carefully coordinated with local governments and civil society to achieve the best results.

It is important that these private sector initiatives be new, and not repackaged existing programs, that are offered as part of a formal U.S. government program and are integrated to support the IPEF goals. This approach would be especially effective if it was supported by U.S. funding and integrated with the Infrastructure Pillar. For instance, U.S. companies could invest in digital equipment or low carbon technologies as part of this initiative.

Integrating the Pillars

The Infrastructure and Supplier Resiliency Pillars are likely to be the most attractive for the developing IPEF countries. They don't involve the difficult domestic concessions of the Trade Pillar, with its increased labor, environment, and digital requirements, while they offer the potential for financing, in the Infrastructure Pillar's case, and sourcing, in the Supplier Resiliency case. The Infrastructure Pillar will be especially attractive if it comes with U.S. Development Finance Corporation funding. The U.S. could use such funds as a carrot to incentivize a country's participation in the Trade Pillar and its agreement to specified labor, environment, and digital standards. The Infrastructure Pillar also offers opportunities to leverage goals in decarbonization and anti-corruption efforts.

The Supplier Resiliency Pillar can be tied to the Trusted Country program discussed above. Countries which have met the Trade Pillar's minimum standards and qualify as Trusted Countries can also be given advantages through the Supplier Resiliency Pillar. This "friend-shoring" can be an important part of supplier resilience, especially when moving sourcing for key technologies out of China. Rethinking U.S. supply chains creates an opportunity to think strategically about new foreign policy goals and incentives to support those goals. It is also time to encourage growth in strategically important developing countries, to advance labor and human rights, and to support decarbonization. IPEF negotiations should creatively incentivize enhanced supply-chain cooperation among parties to the framework.

Conclusion

The IndoPacific Economic Framework provides an important opportunity for U.S. leadership in the region, including efforts to provide countries a values-driven alternative to China's approach and standards. With tariff market access off the table for the Trade Pillar, the U.S. must think creatively regarding the many other tools it has at its disposal, including eliminating barriers where possible, offering the prospect of a preferred supplier program, as well capacity building, and public-private partnerships. The U.S. should consider integrating the pillars as the best way to create an attractive opportunity for the region's developing countries to adopt higher labor, environment, and digital standards as well as important opportunities to reduce corruption. Achieving that goal would be an important result not just for the U.S. but for all the workers and small businesses in the region.