Understanding the Indo-Pacific Economic Framework for Prosperity

Sean Randolph – June 24, 2022

Last month the United States and 13 nations launched the Indo-Pacific Economic Framework (IPEF), a next-generation economic initiative designed to bring together economies in the Indian Ocean and Asia-Pacific regions around shared economic objectives. High on aspirations but short on details, the agreement is an empty vessel waiting to be filled in.

So what does the IPEF do and what is its potential? First let's be clear about what it is not: it's not a free trade agreement and does nothing to open markets. If that was the objective the United States would be joining the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), the regional trade agreement negotiated by Barack Obama that was abandoned under Donald Trump. The other eleven signatories to CPTPP continued without the United States and today it serves those members through lower tariffs, improved market access, high standards for digital commerce and intellectual property protection, and new benchmarks for how labor and environmental concerns are addressed.

Our Asia-Pacific partners would welcome the U.S. back to CPTPP but the Biden administration has chosen a different course, not wanting to expend the political capital needed to secure the CPTPP's passage by Congress. Instead it has shifted to priorities more focused on domestic production and IPEF is the fallback, a worthwhile but second-best option that substitutes for an aggressive trade policy.

What would it do? The announcement identified four areas for cooperation. The first is trade (though the framework does little to expand market access). The focus there is on building "new and creative approaches to trade and technology policy", including cooperation on digital issues such as data localization and cross-border data flows. The second goal is supply chain resilience. The third is decarbonization and the deployment of clean energy technologies, and the fourth is improved competition through strengthened tax, anti-money laundering, and anti-bribery rules.

More detailed strategies will be filled in through later negotiations. These issues matter, and the digital ones in particular — ensuring the free flow of data across borders — are important to Silicon Valley. All of this matters, as our investment in the Indo-Pacific region totals nearly $1 trillion and Indo-Pacific investment in the United States approaches $900 billion and supports three million jobs.

On that score, though — supporting the job creation through expanded trade — IPEF appears to miss the mark. It contains no provisions to grow markets. Something our trade and investment partners and many U.S. businesses want. It aims to reassert U.S. influence in a region where our leadership has been lacking, based on a set of U.S. values and priorities that may or may not be deeply shared by our partners. And it aims to do this in a region where the CPTPP is already opening markets for its members and implementing high digital standards, and where the Regional Comprehensive Partnership (RCEP), a large regional trade agreement backed by China, is already consolidating supply chains. As they pursue their own trade agreements (and many are) the question for our partners will be how to prioritize IPEF's goals and whether IPEF offers the incentive for major commitments in these areas.

It is important for the United States to project its values in the region, and IPEF can be a vehicle. This is particularly important as China's influence grows (China is already the number one trading partner of every Asia-Pacific country.) It can also help frame future trade agreements. Whether the IPEF can restore waning U.S. leadership or turns out to be an empty suit remains to be seen. As a vehicle its aspirations are important and merit support but may not be sufficient.

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