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Indo-Pacific Economic Framework for Prosperity (IPEF)

In May 2022, the United States and 13 partners launched the Indo-Pacific Economic Framework for Prosperity (IPEF), the Biden Administration's first major trade and economic initiative in the region. Partner countries include Australia, Brunei, Fiji, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam. The initiative is not designed as a traditional comprehensive U.S. free trade agreement (FTA). IPEF aims to establish "high-standard commitments" in four pillars: (1) Connected Economy (select trade issues); (2) Resilient Economy (supply chains); (3) Clean Economy (clean energy, decarbonization, infrastructure); and (4) Fair Economy (tax, anti-corruption issues). The U.S. Trade Representative (USTR) is leading the trade pillar talks, and the Commerce Secretary is leading the remaining pillars. All partners opted to participate in all four IPEF pillars, except for India, which opted out of the trade pillar. As of November 2023, IPEF partners have announced agreements in all pillars except for the trade pillar.

Some Members of Congress and stakeholders support IPEF as an opportunity for the United States to reassert a leading role in establishing updated trade and economic rules with key partners, and to support broader strategic aims in the region. Others question IPEF's durability and potential to deepen economic linkages given the lack of commitments on market access, notably on tariffs, a central component of past U.S. FTAs. At the same time, some stakeholders support IPEF's targeted agenda and approach as innovative and relevant in addressing issues not typically covered in FTAs, like supply chain resiliency. The Administration has not committed to submit executive agreements resulting from IPEF for congressional approval. Given Congress's constitutional authority to regulate foreign commerce, the negotiating approach has raised concerns for Members in both the House and Senate over Congress's role in IPEF.

Context and Rationale for IPEF

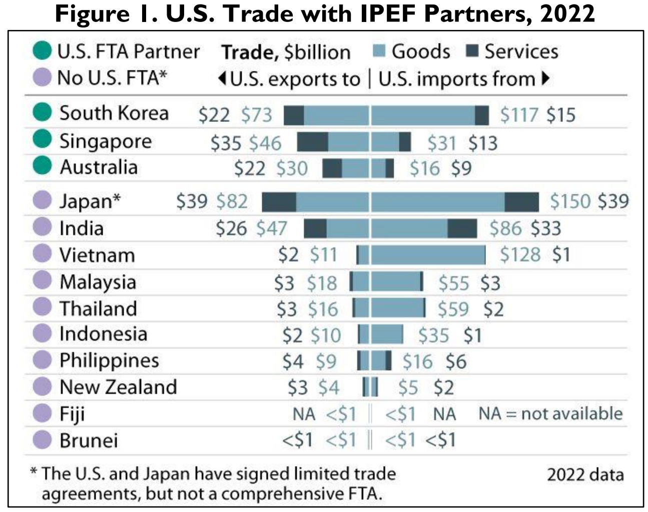
IPEF appears to be the Administration's response to urging from policymakers and stakeholders for a more robust U.S. economic and trade strategy in the Indo-Pacific region, which many perceive as lagging behind its military engagement. This view solidified after the U.S. withdrawal from the Trans-Pacific Partnership (TPP) in 2017 and non-membership in TPP's successor, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Many have argued that such decisions have limited the U.S. ability to shape regional rules and counter China's economic influence. Others supported U.S. TPP withdrawal and are wary of the IPEF trade pillar as a potential stepping-stone to rejoining. Although U.S.-Indo-Pacific trade has steadily increased in the past decade, countries have become even more reliant on trade with China. In 2020, 14 Asian countries and China formed the Regional Comprehensive Economic Partnership (RCEP); China has also requested to join CPTPP. IPEF partners have welcomed U.S. reengagement in the region and see IPEF's potential benefits to include provisions on trade facilitation, digital trade, and support for investments and public-private partnerships in key sectors. At the same time, some are also concerned over the lack of market access/tariff provisions.

USTR Katherine Tai has distinguished IPEF from traditional FTAs, framing IPEF as a new model that is better designed to address "21st century" issues and to advance "worker-centered" policies and global economic resilience. Tai views past U.S. FTAs, centered on market access and tariffs, as "20th century tools" that benefited some sectors while harming others and contributed to vulnerable supply chains. Economic studies have generally found that trade liberalization supports economic growth, and the economy-wide gains generally exceed the adjustment costs for certain sectors and regions. Some observers argue that omitting traditional FTA provisions may limit IPEF's economic significance, remove incentives for countries to agree to provisions (e.g., labor standards) sought by the United States, and disadvantage U.S. firms abroad. U.S. officials counter that various aspects of IPEF center on facilitating trade and market access, such as addressing nontariff barriers.

U.S.-IPEF Partner Trade Ties

IPEF partners, which collectively represent 40% of global GDP, are diverse in size and economic development. In 2022, Japan, South Korea, and India were in the top 10 U.S. trading partners (goods and services), while U.S.-Vietnam trade has grown by more than 400% in the past decade. In 2022, IPEF partners accounted for 21% of U.S. goods trade and 17% of U.S. services trade. In 2021, IPEF partners accounted for 11% of U.S. direct investment abroad (stock) and 18% of foreign direct investment in the United States.

Figure 1. U.S. Trade with IPEF Partners, 2022



Source: CRS, data from U.S. Bureau of Economic Analysis.

IPEF Structure and Outcomes

Unlike typical FTA talks, IPEF does not involve a "single undertaking," i.e., partners may conclude agreements separately rather than waiting to finalize all elements of a comprehensive deal. IPEF commitments will not be subject to dispute settlement procedures akin to those in FTAs, but involve select enforcement mechanisms, such as for labor. Major outcomes of the latest IPEF ministerial include:

- **IPEF Supply Chain Agreement**—officially signed. Lauded by partners as "the first of its kind," the deal is to establish three new bodies to enhance collaboration on building resilience in critical sectors; coordinate responses to crises and supply chain disruptions; and promote labor rights in supply chains. The deal includes a mechanism for addressing allegations of "labor rights inconsistencies" at individual facilities in another IPEF country. New initiatives announced separately (e.g., IPEF Critical Minerals Dialogue) may supplement work under the agreement. Observers have supported efforts to expand such regional cooperation, while raising questions over prospects for private sector involvement and how provisions will be effectively implemented.
- **IPEF Clean Economy Agreement**—"substantially concluded." The deal seeks to support countries' green energy transitions through enhanced cooperation on innovation and investments in clean energy and climate-friendly technologies. Partners are to establish a new capital fund, administered by a private sector entity, to pool resources and an annual investor forum to mobilize financing for "bankable climate projects."
- **IPEF Fair Economy Agreement**—"substantially concluded." It aims to "level the playing field" through enhanced fairness, inclusiveness, transparency, rule of law, and accountability in the partners' economies. Efforts involve combatting corruption and tax evasion, and enhancing transparency and information exchange. The deal includes dedicated capacity-building measures.
- **Agreement on the IPEF**—"substantially concluded." This overarching agreement creates an IPEF Council and Joint Commission to meet annually and facilitate the collective operation of IPEF agreements, including the possibility of new members and/or agreements.

Countries were unable to reach an **agreement in the trade pillar**, which covers labor, environment, digital economy, agriculture, competition policy, regulatory practices, trade facilitation, inclusivity, and economic cooperation/technical assistance. Several of these issues are typical chapters of recent FTAs like the 2020 U.S.-Mexico-Canada Agreement (USMCA). Talks stalled amid differences over the digital economy and labor provisions among IPEF partners as well as among U.S. policymakers and stakeholders. Some stakeholders have viewed digital trade in particular as a promising area, given the groundwork laid in past and ongoing negotiations. In November 2023, USTR reversed longstanding support for certain digital trade rules and paused IPEF digital trade talks, citing the need for "policy space" and internal consultations on sensitive areas like data flows. The move prompted reactions of both support and frustration from Members. IPEF partners have stated that they have already reached consensus on several areas under the trade pillar and will continue work on outstanding issues. Some analysts remain skeptical of progress in 2024 due to the political climate ahead of U.S. elections.

Issues for Congress

Members may seek to influence or enhance oversight over IPEF via hearings, letters, and legislation on IPEF core issues or negotiating procedures. Key issues may include:

Congress's Role? Pursuit of IPEF as executive agreements raises questions for Congress's role in trade policy. Congress has typically set procedures and requirements for trade agreements in Trade Promotion Authority (TPA) and authorized and implemented FTAs through legislation. TPA expired in 2021; the Biden Administration has not sought reauthorization. Some Members have asserted Congress's authority over trade deals like IPEF even if the deals do not cut tariffs or require changes to U.S. law. These Members urge robust consultation and transparency with Congress on how IPEF should be approved and implemented. Others also question if future U.S. administrations will abide by IPEF deals compared with deals approved by Congress. U.S. IPEF negotiators said their agencies have focused on "relevant executive branch authorities," including authority delegated by Congress to USTR "to defend and promote U.S. interests through the negotiation of trade agreements." Members might consider asserting Congress's role in IPEF, such as in P.L. 118-13, which set conditions for retroactive approval of the first agreement under the U.S.-Taiwan trade initiative and requirements for future deals.

New Model for Trade Engagement? USTR's framing of IPEF as a potential new model for U.S. trade engagement—also reflected in concurrent U.S. trade initiatives with Taiwan and Latin American countries—presents issues for Congress, such as IPEF's scope and comparison to past U.S. FTAs; the need for and impact of tariff/market access provisions; and merits of cooperative versus binding commitments. A related question is how IPEF builds on or departs from USMCA precedents in areas like digital trade and labor. Some Members urge using USMCA as a model for new U.S. trade deals, while others support new approaches. The U.S. rethink of negotiating positions and uncertain prospects for an IPEF trade outcome could affect whether IPEF serves as a template.

Complement or Counterpoint to Other Trade Deals? IPEF has advanced as other FTAs covering major Indo-Pacific trading partners have entered into force without U.S. participation. These deals lower tariffs and trade barriers and may consolidate regional supply chains through common rules, excluding U.S. exporters from these benefits. These FTAs may also conflict with U.S. standards or FTA rules, potentially diminishing U.S. competitiveness. The relative significance of deals like CPTPP would grow as their membership expands. Some experts see IPEF as important to reasserting U.S. influence and ensuring U.S. priorities inform regional rules. Others view IPEF as a constructive step but not a substitute to a comprehensive trade deal. Congress may debate whether IPEF is an effective alternative to other deals and/or whether the United States should negotiate trade deals like CPTPP.

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