Congressional Research Service
Informing the legislative debate since 1914

IN FOCUS

Updated July 20, 2023

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. Participating countries are Australia, Brunei, Fiji, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam. The IPEF partners noted that the negotiations are open to other Indo-Pacific countries that "share our goals, interests, and ambitions for the region." Since then, Canada announced it would also seek to join, a bid the Administration has supported. IPEF will not take the form of a traditional comprehensive U.S. free trade agreement (FTA). It is to involve commitments in four separate "pillars" covering: selected trade issues; supply chains; clean energy, decarbonization, and infrastructure; and tax and anti-corruption. The U.S. Trade Representative (USTR) is leading the trade pillar talks, and the Commerce Secretary is leading the remaining pillars. Most partners opted to participate in all IPEF pillars, although India opted out of the trade pillar. IPEF partners released objectives for each pillar in late 2022 and held the first negotiating round in December. IPEF partners held their most recent round of negotiations in July 2023 and ministerial meeting on May 27, where IPEF partners announced the "substantial conclusion" of a supply chain agreement. U.S. officials have said they aim to reach major IPEF outcomes in 2023.

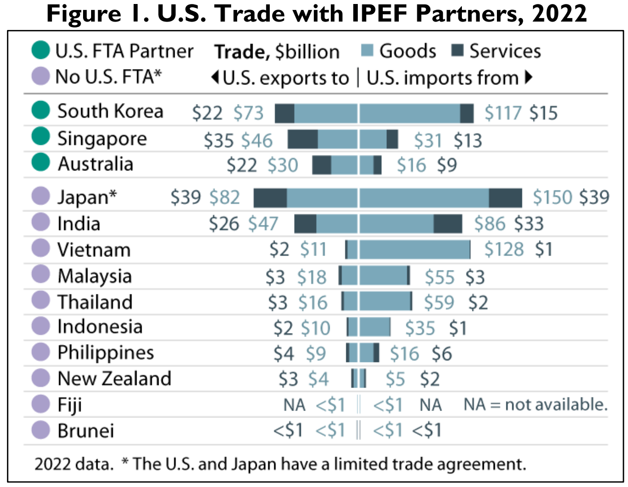
Some Members of Congress and stakeholders support IPEF as an opportunity for the United States to reassert a leading role in establishing updated trade and economic rules with key regional partners, and to support broader strategic aims in the region. Others question IPEF's potential to deepen economic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

U.S.-IPEF Partner Trade Ties

The initial IPEF partners are diverse in size and economic development, ranging from small, developed countries like Brunei to large emerging markets like India. Collectively they represent 40% of global GDP. The United States has expansive economic ties with several IPEF countries. 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. The United States has bilateral FTAs with Australia, Singapore, and South Korea. In 2022, IPEF partners accounted for 21% of U.S. goods trade and 17% of U.S. services trade.

Top U.S. exports to IPEF partners, collectively, included oil and gas, aero-space products, semiconductors, and grain. U.S. imports vary widely by partner; lead imports include semiconductors, autos, and communications equipment. In 2021, IPEF accounted for 11% of U.S. direct investment (stock) and 18% of foreign direct investment in the U.S.

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



Source: CRS. Data from U.S. Bureau of Economic Analysis.

Context and Rationale for IPEF

IPEF appears to be the Administration's response to urging from some policymakers, stakeholders, and allies to advance a more robust U.S. trade and economic agenda in the region. Some observers argue that U.S. withdrawal from the proposed Trans-Pacific Partnership (TPP) in 2017 and absence from TPP's successor, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), has 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 IPEF as a potential stepping-stone to rejoining. In the view of some observers, without new binding trade rules, the United States may remain "on the sidelines," impairing its ability to promote its commercial and strategic interests. Some analysts argue that thus far, U.S. steps toward enacting its overall Indo-Pacific vision have been mostly diplomatic and military in nature. Meanwhile, China has requested to join CPTPP and a digital trade agreement with Chile, New Zealand, and Singapore. In 2020, China and 14 Asian countries formed the Regional Comprehensive Economic Partnership (RCEP). IPEF partners have generally welcomed U.S. reengagement in economic negotiations and are optimistic regarding IPEF's potential benefits, including through new rules on digital trade, trade facilitation, and supporting investments and public-private partnerships in key sectors. They have also voiced varying concerns over IPEF's scope and design, particularly the absence of market access talks.

IPEF provides an opportunity to address concerns about U.S. economic engagement, while advancing other U.S. priorities. Administration officials have indicated they envision potential IPEF deals as attracting a broader base of U.S. domestic support compared with TPP efforts. USTR Katherine Tai has distinguished IPEF from traditional U.S. FTAs, framing it as a new model "to address the real challenges we face today." Tai has described FTAs as a "20th century tool" marked by "aggressive liberalization and tariff elimination," benefiting some sectors but harming others. Economic studies have generally found that FTAs and trade liberalization support economic growth, and the economy-wide gains generally exceed 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 sought by the United States (e.g., strong labor and environmental commitments), and disadvantage U.S. firms in Indo-Pacific markets. In response to concerns over lack of tariff coverage, U.S. officials have countered that various aspects of IPEF center on facilitating trade and market access (e.g., addressing nontariff barriers, digital trade, and small and medium-sized enterprises activities).

IPEF Agenda and Structure

IPEF aims to establish "high-standard commitments" that deepen partners' economic engagement through four pillars: (1) Connected Economy, covering "fair and resilient trade"; (2) Resilient Economy, covering supply chains; (3) Clean Economy, covering clean energy, decarbonization, and infrastructure; (4) Fair Economy, covering tax and anti-corruption. Unlike typical FTA talks, IPEF is not to involve a "single undertaking," and partners may conclude multiple agreements separately rather than waiting to finalize all elements of a comprehensive deal. Some observers view this approach as offering potential for "early harvest" outcomes; others are concerned it may limit incentives for tradeoffs and compromise. It remains unclear what IPEF commitments will be binding and subject to enforcement. IPEF rules also are to include flexibilities to account for partners' varying levels of economic development.

The **trade pillar**, led by USTR, seeks to craft "high standard, inclusive, free, fair, and open trade commitments that build upon the rules-based multilateral trading system." Areas include labor, environment, digital economy, agriculture, competition policy, transparency and regulatory practices, trade facilitation, inclusivity, and technical assistance and economic cooperation. Several of these are typical chapters of recent U.S. FTAs like the U.S.-Mexico-Canada Agreement (USMCA). Some Members of Congress and stakeholders view the digital economy in particular as a promising area, given groundwork laid in past and ongoing talks (e.g., the 2020 U.S.-Japan Digital Trade Agreement).

The three Commerce-led pillars entail objectives to enhance regional cooperation. The **supply chain pillar** resulted in the first IPEF agreement. The final text is not yet public, but broadly the proposed deal aims to improve partners' coordination in response to supply chain disruptions and collaboration over building resilience and competitiveness in critical sectors. It would establish a labor rights advisory board to support promotion of labor rights in supply chains. In the **clean economy pillar**, IPEF partners seek cooperation on innovation and investment in clean energy and climate-friendly technologies. The **fair economy pillar** aims to "level the playing field" by combatting corruption, curbing tax evasion, and enhancing transparency.

Issues for Congress

Members may seek to influence IPEF talks via hearings, letters to the Administration, and legislation on IPEF core issues or negotiating procedures. Key issues may include

Congress's Role in Limited Trade Deals? Pursuit of IPEF as executive agreements raises questions for Congress, which historically has played a role in authorizing and implementing FTAs through legislation. Congress typically sets procedures and requirements for trade deals in Trade Promotion Authority (TPA). TPA expired in 2021, and the Administration has not sought reauthorization. In December 2022 letters to President Biden, some Members of Senate Finance and House Ways and Means asserted congressional authority over approving trade deals like IPEF even if they do not cut tariffs or require changes to U.S. law. Members urged robust consultation, transparency, and collaboration with Congress over how IPEF should be approved/ implemented. Some also question the lack of durability of IPEF deals across future Administrations compared with deals approved by Congress. Members might debate TPA reauthorization or consider formalizing an approval process for IPEF, such as in H.R. 4004 which would approve a concurrent U.S.-Taiwan trade initiative, set conditions for entry into force, and outline requirements for further deals.

New Model for Trade Engagement? USTR has framed the IPEF approach (e.g., targeting specific sectors and rules, omitting tariff cuts, not committing to a single undertaking) as a potential new model for U.S. trade engagement, reflected in U.S. trade initiatives with Taiwan and countries in the Americas. This approach presents various 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 the merits of cooperative versus binding commitments. A related question is whether IPEF may build on or depart from USMCA precedents in areas like digital trade and labor. Some Members have urged using USMCA as a model and foundation for new trade deals.

Complement or Counterpoint to Other Trade Deals? IPEF has advanced as other FTAs covering major trading partners in the Indo-Pacific (e.g., China) have entered into force without U.S. participation. These deals lower tariffs and trade barriers among participants and may consolidate some regional supply chains through common rules, while U.S. exporters are excluded from these benefits. These FTAs may also conflict with U.S. standards or FTA rules, potentially diminishing U.S. competitiveness and economic influence. Further, the relative significance of deals like CPTPP would expand with new members like the UK and China, which has applied to join. Some experts see IPEF outcomes as important to reasserting U.S. influence and ensuring U.S. priorities inform regional rules. Others view IPEF as a constructive step to advance U.S. economic interests but not a substitute to a more comprehensive trade deal. Congress may debate whether IPEF is an effective counterpoint to other deals and/or whether the United States should seek to join or negotiate agreements like CPTPP.

Cathleen D. Cimino-Isaacs, Specialist in International Trade and Finance

Mark E. Manyin, Specialist in Asian Affairs

Kyla H. Kitamura, Analyst in International Trade and Finance

IF12373

Disclaimer