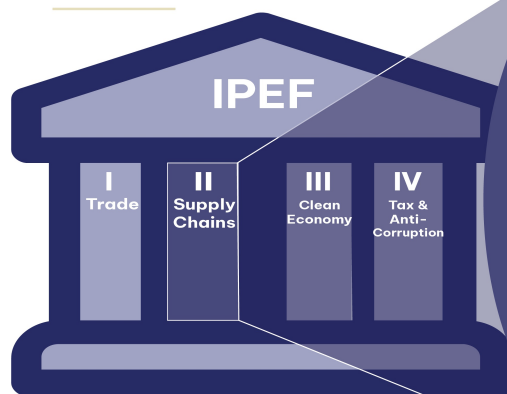




Detroit IPEF Meeting Outcomes



Supply Chain Council:

- Will require supply chain action plans mapping bottlenecks
- Will involve the private sector
- Initially will focus on sectors like semiconductors and rare earths
- Will address labor issues
- Will not include enforcement mechanisms

IPEF to Launch Supply Chain Council

On Saturday, the United States hosted the second Indo-Pacific Economic Framework (IPEF) ministerial meeting, in Detroit, Michigan and announced the creation of a first-of-its-kind **Supply Chain Council**. The new grouping, which will aim to forestall regional supply chain problems via information-sharing and forward planning, will allow for government Council representatives to receive structured private sector advice on critical sectors. All fourteen IPEF member countries have agreed in principle to join the Council.

A U.S. Department of Commerce announcement describes the Council as a "mechanism for the IPEF partners to work collaboratively to develop **sector-specific action plans** [emphasis added] for critical sectors and key goods to enhance the resilience of IPEF partners' supply chains, including through diversification of sources, infrastructure and workforce development, enhanced

logistics connectivity, business matching, joint research and development, and trade facilitation."

Commerce Department officials have explained to The Asia Group (TAG) that the Council will initially solicit **country-by-country action plans** for critical sectors including semiconductors and critical minerals, with the work also probably extending to pharmaceuticals and food, among other sectors. Those action plans will then be open for comment from other IPEF members in the Supply Chain Council. Regarding semiconductors, the United States hopes that the Council's work will encourage manufacturers to diversify sources and reduce reliance on China by investing in IPEF countries to build out their industries.

Saturday's agreement also establishes a **Supply Chain Crisis Response Network**, which is billed as an "emergency communications channel for the IPEF partners to seek support during a supply chain disruption and to facilitate information sharing and collaboration among the IPEF partners during a crisis." The intent of this initiative is to enable a faster and more effective response to unexpected or fast-moving crises such as the COVID-19 pandemic, by arranging points of contact that can be drawn on for rapid consultation.

Finally, in a bit of a surprise, the IPEF ministers gathered in Detroit agreed in principle to create a tripartite **Labor Rights Advisory Board**, where government, worker, and employer representatives would support the promotion of labor rights in supply chains. According to the Commerce Department, this group may "identify areas where labor rights concerns pose risks to the resilience and competitiveness" of IPEF supply chains and serve as a "mechanism ... to address facility-specific allegations of labor rights inconsistencies." U.S. officials believe this can become a channel to pressure IPEF countries on labor standards – representing an important deliverable for the Biden Administration's "worker-centric" trade policy.

TAG Take

The Supply Chain Council is IPEF's first major outcome. At the political level, Washington's success in creating this Council – and cajoling the other 13 partners to get on board – is a rejoinder to criticism that IPEF is too slow-moving and not delivering the same type of tangible benefits as a traditional free trade agreement.

The American Association of the Indo-Pacific (AAIP), a Singapore-based lobbying group of U.S. companies, called Saturday's announcement a "significant breakthrough ... marking a crucial juncture in the framework's ambitious agenda." The U.S. Chamber of Commerce, however, is organizing a joint submission of industry groups that says the IPEF talks "risk not only failing to deliver meaningful commercial outcomes but also endangering U.S. trade and economic interests in the Indo-Pacific region and beyond" – criticizing the Biden Administration for ignoring the market-opening benefits of traditional free trade agreements (FTAs).

TAG views the Supply Chain Council as a highly useful development. In particular, the Commerce Department deserves praise for setting out an approach that should create meaningful opportunities for

private sector input into government reports that may help reshape supply chains in ways that make them more resilient – but retain an important focus on economic practicality and profitability.

It is also a significant accomplishment to create a new body that will place obligations, for supply chain and labor-related self-reporting and dialogue, on countries such as India and Indonesia which are prone to protectionist measures and generally shy away from such obligations.

Certainly, the participation of India and some Southeast Asian nations is motivated in part by their desire not to be excluded from Washington's "friend-shoring" club, especially as the United States heads down the road of semi-exclusionary industrial policy programs such as the Inflation Reduction Act (IRA) electric vehicle subsidies. Washington is undecided whether IPEF participation will earn countries enhanced status for such subsidized supply chains, but IPEF members will continue to seek this outcome – and may link their own implementation of IPEF supply chain commitments to progress on that front. Japan recently won approval from Washington to be treated as the equivalent of an FTA partner for the purposes of the IRA; Indonesia, an important nickel miner and refiner for electric vehicle batteries, has been pushing publicly for a similar deal.

The Commerce Department's announcements on Saturday emphasized that Pillar Two outcomes of IPEF will be codified in an "Agreement," and noted that the IPEF partners "will now take steps, including further domestic consultations and a comprehensive legal review to prepare a final text for signature and then ratification, acceptance, or approval."

Commerce's statement: 1) shows that implementation of the Supply Chain Council may take some time; and 2) obliquely addresses inevitable criticism that the Pillar Two approach lacks legal teeth to ensure enforcement. Both Saturday's announcement and private statements by Commerce Department officials acknowledge that Council participation will be voluntary, and not subject to dispute settlement mechanisms. But Commerce feels confident that the positive-leverage benefits of participation will be sufficient to encourage active compliance.

Eventually, U.S. officials hope to attract other countries to join the Supply Chain Council and expand its focus. It is unclear if those countries would also have to join all Pillar Two aspects to do so, but certainly new countries will only be allowed to join based on a consensus of the existing fourteen members.

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