

Testimony Before the U.S.-China Economic and Security Review Commission

Hearing on Challenging China's Trade Practices: Promoting Interests of U.S. Workers, Farmers, Producers, and Innovators

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Members of the Commission, it is a privilege to testify at this hearing on how the United States should respond to China's trade practices. U.S. engagement in the Indo-Pacific region is a critical component of promoting U.S. interests both at home and abroad. I want to organize my remarks around three priorities: 1) better aligning trade agreements with the interests of U.S. workers, farmers, and communities at home; 2) conditioning access to U.S. markets on adherence to shared values, including through sectoral agreements that set out specific standards for trade in key products, as well as targeted non-market economy clauses in trade agreements and similar instruments; and 3) promoting supply chain resilience and integrity.

**Aligning trade agreements with the interests of all U.S. workers**

The United States has long led the world in incorporating key values, such as labor and environmental protection, into trade agreements. The so-called labor and environment side agreements on which the United States insisted before the original North American Free Trade Agreement (NAFTA) entered into force were the first efforts to tie trade liberalization to protection of labor and the environment. Since 1994, the United States has consistently pushed to expand those protections by making them enforceable and subject to dispute resolution, tying the standards to which our trading partners must adhere to multilateral standards, and innovating in the kinds of response mechanisms that the United States can use to enforce these standards.

But for all of the United States' innovation and leadership in this area, the resulting trade agreements have focused on improving conditions within U.S. trading partners, not within the United States itself. Domestically, efforts to protect workers, farmers, and communities that are adversely impacted by the trade liberalization commitments in U.S. trade agreements are confined to time-limited statutes. The primary example is the Trade Adjustment Assistance program, which reverted to a much narrower program on July 1, 2021 when Congress allowed its then-current form to lapse.

The result is a misalignment between the United States' trade liberalization commitments and its domestic adjustment assistance programs.<sup>1</sup> U.S. trade liberalization commitments have

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<sup>1</sup> Much of this analysis is drawn from Timothy Meyer, *Misaligned Lawmaking*, 73 VANDERBILT LAW REVIEW 151 (2020).

historically been enshrined in international agreements, of indefinite duration, and committed to the executive branch for implementation. Adjustment assistance, by contrast, can be found only in domestic statutes, have limited and defined durations, and require periodic reauthorization in Congress. This misalignment has created a situation in which our domestic adjustment assistance programs typically lapse when new trade agreements are not on the agenda. Table 1 below shows how trade adjustment assistance fortunes are tied to whether new trade agreements are on the table.

TABLE 1: REAUTHORIZING TAA WITH AND WITHOUT TRADE LIBERALIZATION

Year	Bill Title	Length of TAA Extension	Negotiating Authority or Trade Agreement Approved?
1962	Trade Expansion Act, P.L. No. 87-794	Indefinite	Kennedy Round of GATT negotiations
1974	Trade Act of 1974, P.L. No. 93-618	8 years	Tokyo Round of GATT negotiations
1981	Omnibus Budget Reconciliation Act of 1981, P.L. No. 97-35	1 year	No
1983	A bill to Amend the International Coffee Agreement Act, P.L. No. 98-120	2 years	No
1984	Deficit Reduction Act of 1984, P.L. No. 98-369	10 weeks	No
1985	Emergency Extension Act of 1985, P.L. No. 99-107	5 weeks	No
Lapses from December 19, 1985 to March 1986			
1986	Consolidated Omnibus Budget Reconciliation Act of 1985, P.L. No. 99-272	6 years	No
1988	Omnibus Trade & Competitiveness Act, P.L. No. 100-418	2 years	Uruguay Round & NAFTA negotiations
1993	Omnibus Budget Reconciliation Act of 1993, P.L. No. 103-66	5 years	NAFTA approval
1998	District of Columbia Appropriations	9 months	No
1999	Consolidated Appropriations Act of 2000, P.L. No. 106-113	27 months	No
Lapses September 30, 2001 to August 6, 2002			
2002	Trade Act of 2002, P.L. No. 107-210	5 years	11 agreements
2007	TAA Extension Act, P.L. No. 110-89	3 months	No
Lapses December 31 2007 to Feb 17, 2009			
2008	Consolidated Appropriations Act of 2008, P.L. No. 110-161	1 year	No
2009	Consolidated Security, Disaster Assistance, and Continuing Appropriations Act of 2009, P.L. No. 110-329	2 months	No
2009	American Recovery & Reinvestment Act of 2009, P.L. No. 111-5	2 years	No
2010	Omnibus Trade Act of 2010, P.L. No. 111-344	13 months	No
2011	TAA Extension Act of 2011, P.L. No. 112-40	34 months	Done in connection with legislation implementing FTAs with Colombia, Panama, and South Korea

2015	TAA Reauthorization Act of 2015, P.L. No. 114-27	6 years	Trans-Pacific Partnership negotiations, USMCA
2021	Heightened eligibility and benefits lapse		No

If the dislocations that result from new trade agreements were temporary, this misalignment would not be problematic. Unfortunately, we know now that these dislocations are not temporary. Work on the “China shock” has demonstrated clearly that communities adversely impacted by trade liberalization have felt the effects for over a decade after China joined the World Trade Organization (WTO).<sup>2</sup> Moreover, China has continued to create new disruptions in U.S. labor markets through what are now well-understood mechanisms. China did not simply begin exporting products that it produced at the time of its WTO accession in 2001. Rather, with massive state support, China has aggressively entered new sectors, meaning that the disruptions from Chinese market access have roiled sectors of the economy—such as renewable energy technology and manufacturing—that were inconsequential in size at the time China joined the WTO.

The ongoing disruptions to the U.S. labor market, and the difficulty innovative U.S. businesses face in competing with massive state subsidies from China, make it imperative that the United States address the misalignment between our trade liberalization commitments and our adjustment assistance policies. There are a number of ways in which this can be done.

The Trans-Pacific Partnership (TPP) contained (and its successor agreements, the CPTPP, contains) a Development Chapter. That chapter “acknowledge[s] the importance of development in promoting inclusive economic growth, as well as the instrumental role that trade and investment can play in contributing to economic development and prosperity. Inclusive economic growth includes a more broad-based distribution of the benefits of economic growth through the expansion of business and industry, the creation of jobs, and the alleviation of poverty.”<sup>3</sup> The United States should expand this Development Chapter in any future trade agreements and/or as a component of the Indo-Pacific Economic Framework (IPEF).

The components of a revised Development Chapter and the associated implementing legislation would be two-fold. First, member states would commit to monitoring the distributional impacts of their trade agreements within their own borders on a regional, community, gender, and (as appropriate) racial and ethnic basis. The U.S. International Trade Commission has already begun a study of the distributional impacts of U.S. trade policy within the United States—a first of its kind.<sup>4</sup> But this sort of monitoring should be regularized, occurring on a periodic basis with its results updated. Second, members states should, at a

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<sup>2</sup> David H. Autor, David Dorn, & Gordon H. Hanson, *The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade*, NBER Working Paper 21906 (2016).

<sup>3</sup> TPP art. 23.1.2.

<sup>4</sup> U.S. International Trade Commission, Notice of Investigation, *Distributional Effects of Trade and Trade Policy on U.S. Workers*, Inv. No. 332-587, [https://www.usitc.gov/secretary/fed\\_reg\\_notices/332/332\\_587\\_notice\\_11242021sgl.pdf](https://www.usitc.gov/secretary/fed_reg_notices/332/332_587_notice_11242021sgl.pdf).

minimum, report and publicize the policies that they implement to address the distributional impacts identified through the monitoring process. Such reporting could be done to a Development Committee, the creation of which TPP already provided, and the results made available publicly within each member state.<sup>5</sup> These obligations should be enforceable in the same manner as the core obligations within the agreement, including through the suspension of concessions.

In implementing these commitments domestically, the United States should focus on developing community-based measures, rather than only measures that assist individuals.<sup>6</sup> The costs of economic dislocation extend beyond the individuals who lose their jobs to their families, children, and communities that lose the multiplying effect of a thriving economic base. Adjustment assistance policies should target the full scope of these harms by, for example, investing in primary, secondary, and post-secondary education in impacted communities and giving impacted communities priority in receiving federal funds for policies such as infrastructure projects.

A Development Chapter and associated implementing legislation would align the United States' trade liberalization commitments with its domestic commitments to help workers, farmers, and communities adversely impacted by trade. Other approaches are, however, possible to achieve the same end. An alternative approach, building on the United States-Mexico-Canada Agreement (USMCA) would be to embed sunset clauses in trade agreements.<sup>7</sup> Such clauses, if used, should be structured similarly to the USMCA clause, which creates an elaborate mechanism that ensures that member states have the opportunity to extend the agreement well in advance of its expiration, thus providing both certainty to the market as well as guaranteeing that the renewal decision can be made without an approaching cliff's edge.

Sunset clauses in trade agreements would provide the opportunity for Congress to renegotiate trade liberalization and adjustment assistance on the same timeline. Designed correctly, the government could use the opportunity to consider whether to renew a trade agreement to also consider whether and how to update adjustment assistance policies. Congress could even tie adjustment assistance more directly to trade agreements by mandating that the decision to renew a trade agreement automatically renews adjustment assistance at the same level enacted at the trade agreement's inception.

Addressing these distributional considerations in trade agreements would give the United States a powerful platform to address other trade-related considerations. Citizens cannot reasonably be expected to continue to support a policy of trade liberalization if that policy consistently works to the detriment of a segment of the population. The policy of trade liberalization has been an incredible driver of economic growth, both in the United States and abroad. The opening of U.S. markets helped rebuild Europe and Japan after World War II, has

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<sup>5</sup> TPP art. 23.7.

<sup>6</sup> Timothy Meyer, *Trade Adjustment for a Worker-Centric Trade Policy*, AMERICAN LEADERSHIP INITIATIVE (2021).

<sup>7</sup> See USMCA art. 34.7.

lifted millions out of poverty worldwide, and in so doing has been one of the most important human rights policies the United States has ever adopted. But a democratic society cannot ask its citizens to support their own economic demise, or that of their fellows, in the name of the general welfare. Without broad-based domestic political support for trade agreements, the United States loses one of the major tools in its foreign policy tool kit. Yet the reality is that many Americans feel that trade agreements have not served their interests. More tightly aligning trade agreements with the interests of all Americans will allow the U.S. government to both vindicate its commitment to American workers, farmers, and communities while also giving it the policy space to use trade agreements to advance U.S. interests abroad.

### **Conditioning market access on adhering to shared values**

The development of the Indo-Pacific Economic Framework also offers the United States the opportunity to make clear that access to U.S. markets depends on adhering to shared values. The incorporation of labor and environmental provisions in U.S. trade agreements has been a positive first step in this direction but new tools are necessary given the scale of contemporary challenges to responsible, sustainable economic growth, as well as international peace and security.

#### *Responsible, Sustainable Economic Growth*

The U.S.-E.U. Global Arrangement on Steel and Aluminum Excess Capacity and Carbon Intensity (Global Arrangement) offers a model for how concerns about state intervention in the market and climate change concerns can be addressed simultaneously through cooperation outside of the traditional, full-blown trade agreements.<sup>8</sup> As relevant here, the Global Arrangement contains two components.<sup>9</sup> First, it calls for the participating states to develop joint rules that restrict market access for non-participants that do not meet market orientation conditions and contribute to non-market excess capacity; restrict market access for non-participants that do not meet standards for low-carbon intensity; and to ensure that the participants take domestic actions to reduce carbon intensity in production.<sup>10</sup> Second, it creates a framework for cooperation among the participants in monitoring and enforcing efforts to address excess capacity.<sup>11</sup>

In effect, the Global Arrangement would operate as a club of like-minded nations working together to address the linked problems of decarbonization and overcapacity.<sup>12</sup> Steel and

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<sup>8</sup> Joint US-EU Statement on Trade in Steel and Aluminum (Oct. 31, 2021), <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2021/october/joint-us-eu-statement-trade-steel-and-aluminum>.

<sup>9</sup> Additionally, the Global Arrangement has resulted in the United States removing the 25% and 10% tariffs on steel and aluminum and the EU removing its retaliatory tariffs and suspending its related WTO disputes.

<sup>10</sup> Steel & Aluminum, U.S.-EU Joint Statement (Oct. 31, 2021), <https://ustr.gov/sites/default/files/files/Statements/US-EU%20Joint%20Deal%20Statement.pdf>.

<sup>11</sup> *Id.*

<sup>12</sup> For more on how this club might work, see Todd N. Tucker & Timothy Meyer, *A Green Steel Deal: Toward Pro-Jobs, Pro-Climate Transatlantic Cooperation on Carbon Border Measures* (June 3, 2021),

aluminum are among the most carbon-intensive products to manufacture, with some estimates suggesting that the steel sector alone could consume 50% of the available carbon budget necessary to remain under the 1.5 degree warming target that nations identified in the Paris Agreement.<sup>13</sup> Moreover, overcapacity in the sector is driven principally by coal-fired production in Asia generally and China specifically.<sup>14</sup>

Although at present only an arrangement between the United States and the EU, the Arrangement contemplates the participation of additional nations. Expansion into the Indo-Pacific in particular would be hugely valuable. In addition to China, Japan, India, and South Korea are all among the top ten steel producing nations in the world.<sup>15</sup> Because participants will pursue domestic decarbonization measures, broader participation in the Global Arrangement promises to pay greater dividends in terms of decarbonization and reducing market interventions. Indeed, the United States and Japan have already reached an arrangement similar to that the United States reached with the EU.<sup>16</sup>

At the same time, greater participation among steel and aluminum importing nations is crucial to the Global Arrangement's twin goals of decarbonization and reducing excess capacity. Taking steel as an example again, many of the largest producers are also among the largest importers (e.g., China, South Korea). But a number of countries in the Indo-Pacific—Vietnam, Thailand, Indonesia—are not among the top producers but are among the top importers.<sup>17</sup> Because participants will impose market access restrictions on imports from non-participants that do not adhere to the Global Arrangement's standards, broader participation promises to reduce overseas market access for steel that runs afoul of decarbonization and market-oriented production standards.

The Global Arrangement's structure—liberalized trade among participants and market access restrictions on imports from non-participants that do not adhere to the Global Arrangement's standards—is a familiar and highly successful model in international law. The Montreal Protocol on Substances that Deplete the Ozone Layer is generally regarded as one of the most, if not the single most, successful international environmental treaty ever reached. Because ozone depleting substances are also greenhouse gases, it is also the most effective climate change

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<https://rooseveltinstitute.org/publications/a-green-steel-deal-towards-pro-jobs-pro-climate-trans-atlantic-cooperation-on-carbon-border-measure/>.

<sup>13</sup> Thomas Koch Blank, *The Disruptive Potential of Green Steel* (2019), <https://rmi.org/insight/the-disruptive-potential-of-green-steel/>.

<sup>14</sup> Mihir Vora & Mahan Wu, *Southeast Asia's steel surge: how will the region manage overcapacity?* WOOD MACKENZIE (MAY 11, 2021), [HTTPS://WWW.WOODMAC.COM/NEWS/OPINION/SOUTHEAST-ASIAS-STEEL-SURGE-HOW-WILL-THE-REGION-MANAGE-OVERCAPACITY/](https://www.woodmac.com/news/opinion/southeast-asias-steel-surge-how-will-the-region-manage-overcapacity/).

<sup>15</sup> World Steel Association, Total Production of Crude Steel, 2021, [https://worldsteel.org/steel-by-topic/statistics/annual-production-steel-data/P1\\_crude\\_steel\\_total\\_pub/CHN/IND](https://worldsteel.org/steel-by-topic/statistics/annual-production-steel-data/P1_crude_steel_total_pub/CHN/IND).

<sup>16</sup> *A Proclamation on Adjusting Imports of Steel into the United States* (March 31, 2022), <https://www.whitehouse.gov/briefing-room/presidential-actions/2022/03/31/a-proclamation-on-adjusting-imports-of-steel-into-the-united-states-2/>.

<sup>17</sup> Statista, World leading steel importers in 2020, by country, <https://www.statista.com/statistics/650538/leading-steel-importers-globally-sorted-by-country/>.

agreement ever reached. The Montreal Protocol requires to adopt domestic controls on ozone-depleting substances and ban trade of those substances with non-parties.<sup>18</sup> The controls and the trade measures had two effects. Business rapidly innovated, developing replacements for ozone-depleting substances, while nations rushed to join the Protocol in order to avoid the bar on trade, ultimately leading to universal membership. As President Reagan remarked in 1988, “The Montreal Protocol is a model of cooperation. . . . [It] is the result of extraordinary process of scientific study, negotiations among representatives of the business and environmental communities, and international diplomacy.”<sup>19</sup>

The Global Arrangement can also serve as a model for the development of future sector-specific agreements. The negotiation and implementation of standards for assessing decarbonization and market-oriented production can transfer to other sectors of the economy. At the same time, the Global Arrangement can also serve as a proving ground for a more nimble approach to trade, in which nations and the business community come together to address considerations that are unique to specific sectors of the economy.

### *Promoting Adherence to Shared Values*

The Russian invasion of Ukraine has highlighted the fact that large economies tightly entwined with the global trading system may feel free to violate the basic norms of international peace and security, trusting that dependence on their exports may insulate them from a strong response. That conflict has also underscored the need for new tools to address the risks to the global economy posed by nations that do not respect the integrity and sovereignty of their neighbors. Although the war in Ukraine has put the need for these tools in stark relief, in fact the war is just accelerating a trend caused by the creation of discrete trading blocs through regional agreements, such as CPTPP and RCEP, and the increased use of economic coercion by countries like China and Russia.

To address these concerns, the United States should consider two new tools: a divestment authority and a targeted non-market economy clause in any new preferential trade agreements the United States might enter into or in similar instruments that the United States might enter into as part of the Indo-Pacific Economic Framework.

### *Divestment Authority*

Currently, the Committee on Foreign Investment in the United States (CFIUS) has the authority to review inbound foreign investment in the United States and either to block or approve with conditions transactions that pose a threat to the national security of the United States or, if a transaction has not been submitted and approved prior to closing, to order divestment.

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<sup>18</sup> Montreal Protocol arts. 2-4.

<sup>19</sup> U.S. Department of State, The Montreal Protocol on Substances that Deplete the Ozone Layer, <https://www.state.gov/key-topics-office-of-environmental-quality-and-transboundary-issues/the-montreal-protocol-on-substances-that-deplete-the-ozone-layer/>.

Congress should consider legislation that would create a similar kind of divestment authority for outbound U.S. investment.

The divestment authority should consist of a review process for 1) investments 2) by investors subject to the jurisdiction of the United States 3) in designated sectors of the economy 4) within designated countries. On its own motion, an “Overseas Investment Committee (OIC)” (composed of similar membership to CFIUS) would be able to review whether covered investments pose a threat to the United States’ national security. In the interest of due process, investors would have the right to present relevant evidence and argument. Upon the recommendation of the OIC, the President would be empowered to order covered investors to divest themselves of covered investments.<sup>20</sup> The President would be empowered to put conditions on the divestment itself (such as time limits for the divestment) or to put conditions on the ability of the investor to maintain the investment.

The divestment authority could also include ex ante review of outbound investment, as the CFIUS process does. In the CFIUS context, ex ante approval insulates investors from ex post action. The divestment authority could mirror this approach or, alternatively, could allow for the reservation of the right to order divestment or impose future conditions in extraordinary circumstances. Such a reservation of the right to order divestment could be wise in the event that circumstances change over the life of an investment.

Were Congress to pass legislation creating such a divestment authority, it should specify by statute the countries and sectors of the economy that are subject to OIC’s jurisdiction. It should also specify criteria (for example, designation as a non-market economy pursuant to trade remedies rules or a violation of international peace and security) that would allow the President to designate additional countries or sectors of the economy for coverage. Congress should also consider whether to authorize CFIUS to review or block investment in the United States by an investor (or affiliated entity) not subject to the OIC’s jurisdiction that has invested in a sector within a designated country that is subject to a divestment order. By allowing the U.S. government to condition access to U.S.-based investments on adherence to U.S. overseas investment policy, such a measure would reduce the possibility that foreign investors would simply fill the vacuum left by a U.S. divestment order.

Such a divestment tool would ensure that U.S. dollars invested overseas do not undermine U.S. national security by increasing U.S. dependence on foreign countries for critical materials and potentially making it more difficult to take decisive action in the event of a crisis (as the European Union has discovered in the context of its dependence on Russia for energy). The mere existence of a divestment authority would serve as an important signal to nations around the world generally and in the Indo-Pacific region specifically that access to U.S. capital depends on adherence to global standards of conduct. The divestment authority, in other words, would

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<sup>20</sup> Covered investments would only include investments by an investor subject to the jurisdiction of the United States into a designated sector in a designated country made after the date on which the sector and country are so designated.



operate as a deterrent to nations that might think that economic integration signals an unwillingness to take a strong stance in defense of the interests of the United States and its allies in the region.

Moreover, a divestment authority has ample precedent. The United States has long had a system of export controls for certain products and technologies. A divestment authority would essentially be an export control for capital. Indeed, under existing authorities, Presidents Trump and Biden blocked investment in Chinese companies known to have ties to the military.<sup>21</sup> President Biden has similarly blocked new investment in the Russian energy sector.<sup>22</sup> And U.S. companies have voluntarily divested themselves of assets in Russia in response to the invasion of Ukraine, suggesting that rapid divestment in response to national security threats is in fact feasible.

### *Non-Market Economy Clause*

USMCA contains a non-market economy clause.<sup>23</sup> In addition to certain notification requirements, the clause allows two parties to USMCA to terminate the agreement and replace it with a bilateral agreement should the other party conclude a trade agreement with a non-market economy. In practice, this clause has minimal significance. Trade agreements usually contain provisions that allow for termination at will after notification. The primary benefit of the USMCA non-market economy clause is that it requires that the two parties that agree to terminate USMCA replace it with a bilateral agreement that contains provisions identical to USMCA, thus obviating the need for a new negotiation.<sup>24</sup> Although this reduction in transaction costs is significant, it still requires that both countries be willing to terminate the agreement with the third party in its entirety. Such an approach is even more unwieldy if extended to an agreement, like CPTPP, that contains more than three parties.

A more effective approach that could be used in any new trade agreements would trigger more targeted measures in the event that a party enters into an agreement with a non-market economy. For instance, a non-market economy clause might automatically tighten the rules of origin for particular products to receive preferential treatment under the agreement in the event the clause is triggered. Tightening the rules of origin would ensure that a country that is party to both an agreement with the United States and with a non-market economy does not become a gateway for products in the non-market economy to make their way into the United States. Similarly, the non-market economy clause could trigger the application of detailed anticircumvention rules designed to achieve the same purpose. Finally, the non-market economy clause could establish a specific safeguards measure that other members could

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<sup>21</sup> Executive Order 13959 on Addressing the Threat From Securities Investments That Finance Communist Chinese Military Companies (Nov. 12, 2020), as amended by Executive Order on Addressing the Threat from Securities Investments that Finance Certain Companies of the People's Republic of China (June 3, 2021).

<sup>22</sup> Executive Order on Prohibiting Certain Imports and New Investments With Respect to Continued Russian Federation Efforts to Undermine the Sovereignty and Territorial Integrity of Ukraine (March 8, 2022).

<sup>23</sup> USMCA art. 32.10

<sup>24</sup> USMCA art. 32.10.6.

implement unilaterally. Such a measure would allow other countries to unilaterally impose trade restrictions on products the trade in which is distorted by preferential trade with a non-market economy.

These kinds of more targeted measures improve upon the USMCA non-market economy clause. Because they are more targeted, countries are more likely to actually use them. They also address the specific harms caused by being in a preferential trade agreement with a country that is itself in a preferential trade agreement with a non-market economy. Moreover, because they would either be automatic or capable of being unilaterally applied, they would not require all other members to agree on a course of action when the agreement with the non-market economy comes into force.

### **Promoting supply chain resilience and integrity**

Finally, the COVID-19 pandemic has highlighted how the United States is vulnerable to supply shocks from supply chains that are concentrated in particular countries. Ensuring the diversification and resilience of supply chains should thus be a key objective of the Indo-Pacific Economic Framework. The risks posed by supply chain concentration are exacerbated by regional trade agreements, such as CPTPP and RCEP, that have weak rules of origin and thus lead to greater incentive to concentrate supply chains for critical products, such as medical supplies, in particular countries.<sup>25</sup> Instead of creating preferential trade among members, regional agreements with weak rules of origin serve as a backdoor for products from non-market economies to enter into the stream of commerce of the United States and its allies and ultimately disrupt and displace domestic production of critical products in those countries.

The IPEF should thus incorporate a comprehensive effort to address supply resilience in the region. Promoting supply chain resilience involves at least three steps. First, the United States should use the IPEF as a platform to develop robust monitoring and transparency mechanisms that apply to supply chains for critical products.<sup>26</sup> COVID-19 exposed the fact that neither U.S. industry nor the U.S. government has a detailed understanding of how critical products and materials are sourced. We cannot make supply chains resilient to the kinds of shocks they have faced in recent years if we do not understand how supply work. Domestically, reorganizing government agencies to facilitate such monitoring should be a priority.<sup>27</sup> A single agency should be in charge of monitoring and addressing, as described below, supply chain risks.

Second, the United States should pay close attention to the rules of origin associated with any new market access commitments it makes, and it should encourage U.S. allies that are party to

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<sup>25</sup> Beth Balzan, *What is the Purpose of an FTA?*, AM. PHX. TRADE ADVISORY SERV. (Mar. 31, 2020), <http://americanphoenixpllc.com/what-is-the-purpose-of-an-fta>.

<sup>26</sup> Matthew P. Goodman & William Alan Reinsch, *Filling in the Indo-Pacific Economic Framework*, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES (JANUARY 2022), [HTTPS://WWW.CSIS.ORG/ANALYSIS/FILLING-INDO-PACIFIC-ECONOMIC-FRAMEWORK](https://www.csis.org/analysis/filling-indo-pacific-economic-framework).

<sup>27</sup> See Timothy Meyer & Ganesh Sitaraman, *It's Economic Strategy, Stupid*, III AMERICAN AFFAIRS 1 (SPRING 2019), [HTTPS://AMERICANAFFAIRSJOURNAL.ORG/2019/02/ITS-ECONOMIC-STRATEGY-STUPID/](https://americanaffairsjournal.org/2019/02/its-economic-strategy-stupid/).

regional trade agreements such as CPTPP to tighten up the rules of origin in their agreements. Doing so will provide an incentive for supply chain diversification by providing an incentive—via preferential trading terms—for supply chains to develop within regional trade agreements. Absent strong rules of origin for critical products, importers located in regional trading agreements may simply rely on the same concentrated supply chains that lie outside the regional trade agreement, exacerbating, rather than reducing, dependence on a few countries and producers.

Third, the United States should actively invest in not only reshoring, but “third shoring” supply chains for critical products and materials. In some cases, this may involve offering financial incentives for companies to build in redundancies into their supply chains. These redundancies may seem inefficient judged from the perspective of just-in-time supply chains but create substantial welfare gains in times of crisis and disruption by providing backup capacity for critical products. In other cases, developing robust supply chains may involve investing in infrastructure projects designed to ensure a diversified supply of critical materials can reach global markets. Investing in roads, airports, and the like can thus improve supply chain resilience while at the same time countering the influence of countries like China that have invested aggressively in such projects in the developing world.

## **Conclusion**

In the second half of the twentieth century, global trade was one of the most powerful forces for promoting human flourishing, peace, and security. These goals of the trading system are the same today. But the challenges of the twenty-first century have changed. Our trading tools need to change as well. A successful strategy for the Indo-Pacific region, and a successful response to China’s non-market economy approach to economic development, is one that builds for support at home for a global trade policy that is sensitive to distributional considerations, and that also seeks to actively manage the threats posed by models of economic development that seek to undermine the values of the liberal international order that the United States has built over the last eighty years.