Domestic Perspectives on IPEF’s Digital Economy Component

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INTRODUCTION
The Biden administration’s IPEF has become the centerpiece of the president’s economic strategy in the Indo-Pacific. Emerging five years after the United States withdrew from the Trans-Pacific Partnership (TPP), IPEF is intended to reassert U.S. economic engagement in this vital region and provide a U.S.-led alternative to China’s regional economic statecraft. Since the framework was proposed by President Biden in October 2021 and launched with allies and partners in May 2022, it has attracted 13 countries to join the United States in negotiations. With IPEF participants representing over 40 percent of the global economy, this initiative has the potential to...
reshape rules and norms in some of the world’s most vibrant economies.

The framework is divided into four policy pillars: (1) trade, (2) supply chains, (3) clean economy (e.g., clean energy, decarbonization, and infrastructure), and (4) fair economy (e.g., tax and anticorruption). The Office of the U.S. Trade Representative (USTR) leads the first pillar, while the Department of Commerce coordinates work on the other three. The trade pillar is IPEF’s most complex stream of work, featuring nine sub-issues: labor, environment, digital economy, agriculture, transparency and good regulatory practices, competition policy, trade facilitation, inclusivity, and technical assistance and economic cooperation. The Biden administration aims to secure agreements across the four pillars by late 2023, ahead of the U.S.-hosted Asia-Pacific Economic Cooperation (APEC) leaders’ meeting in November 2023.

Arguably, digital economy issues are one of IPEF’s most consequential facets. The Indo-Pacific is witnessing the world’s fastest growth in digital connectivity and internet access, and evolving digital rules are poised to shape the development of industries and national economies. E-commerce and digital services make up a growing contribution to economic growth across the region, and digital skills development is increasingly a priority for regional economies. Against this backdrop, China and the European Union are shaping two unique digital regimes—the former characterized by authoritarian control, the latter by heavy regulation—either of which could undermine U.S. innovation, policy, and other interests in the digital arena. The region is not waiting for U.S. leadership, as governments there continue to negotiate new agreements to deepen digital integration and harmonize standards. As evidenced by remarks by Japanese prime minister Fumio Kishida during his January 2023 speech in Washington, regional partners are eager for the United States to incorporate digital cooperation that delivers tangible benefits in IPEF.

China, the European Union, and the United States are each pursuing their own approach to digital governance. This difference in approaches threatens to usher in what some have called the “splinternet,” the devolution of the internet into a system in which diverging regulatory approaches result in a fractured global system. It also could accelerate the erection of digital walls that ultimately dampen progress on human rights, harm commercial interests, and restrain the free and fair evolution of the internet. In short, these different approaches risk imperiling both the interoperability and democratic ideals that have defined the digital era. Unless Washington offers a compelling vision for the Indo-Pacific digital economy—and soon—the Chinese and European models will likely become the default, and their preferred rules and norms, not U.S. ones, will govern the digital space. In that world, U.S. workers and businesses, particularly small- and medium-sized enterprises (SMEs), will be disadvantaged.

For the United States to shape the future of the digital economy in the Indo-Pacific, it must secure the buy-in of key domestic stakeholders. Negotiators can learn from the legacy of TPP negotiations, where opposition from labor coalitions, environmentalists, the pharmaceutical industry, and their supporters in Congress undermined political support for the agreement even before former president Donald Trump decided to withdraw from it in January 2017. On the other side of the ledger, negotiators should heed the legacy of the USMCA, which passed with bipartisan support in a divided government thanks to strong support from business, labor, and members of Congress on both sides of the aisle. While the Biden administration is pursuing IPEF as an executive undertaking that does not require congressional ratification, balancing the domestic interests of business, labor, and Congress in an IPEF digital agreement will be important to the success and durability of the framework.

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This brief examines how the U.S. government can strike a balance between a range of domestic interests in its approach to the digital economy in IPEF. It explores a variety of issues under the umbrella of the digital economy—such as workforce and talent, infrastructure, and artificial intelligence (AI)—as well as traditional digital trade issues associated with the flow of data across borders. It builds on several reports published by the Center for Strategic and International Studies (CSIS) Economics Program and the CSIS Scholl Chair in International Business on how to make IPEF credible and durable to protect U.S. commercial interests in the region. Between October 2022 and January 2023, the CSIS Economics Program and Scholl Chair in International Business consulted with a broad range of U.S. business, labor, and congressional interests across the political spectrum. This report shares their perspectives on the future of the digital economy and what aspects domestic stakeholders view as essential in an IPEF digital economy agreement.

RECURRING THEMES

During this study, the authors conducted individual and group interviews with persons representing over three dozen domestic political stakeholders: small and large businesses, including general manufacturing firms not typically considered digital companies; trade associations representing a broad spectrum of businesses; labor unions and labor advocates; civil society organizations; and members of Congress and personal and committee staff from both parties. Authors conducted interviews under the Chatham House Rule; all quotations from stakeholders have been anonymized and lightly edited for clarity. The authors also consulted with current and former U.S. government officials from the National Security Council; the Departments of State, Commerce, and Treasury; and the USTR. From those conversations, five key themes arose: (1) the digital economy is a significant stakeholder priority, (2) existing digital trade models are not enough, (3) core digital trade issues have become contentious, (4) emerging digital economy issues can foster common ground, and (5) the United States must get its own digital house in order.

1. The digital economy is a significant stakeholder priority.

Domestic stakeholders, to varying degrees, see the digital economy as a significant area of focus in IPEF, but not all support a regional trade agreement in this area. In prior trade agreements, specific issues tied to market access—such as intellectual property protections in the TPP and rule-of-origin issues in the USMCA—generally dominated the focus of business and labor in influencing trade negotiations. However, since the Biden administration has asserted that IPEF will not offer market access opportunities through tariff liberalization, many such traditionally contentious issues will, presumably, not be included in negotiations. In place of market access issues, digital trade issues have emerged as a significant area of focus for business, labor, and Congress. The U.S. business community, including various industries and businesses both big and small, is clear that it has “no higher priority” than incorporating strong digital trade rules in IPEF. In the words of representatives from one large company and one trade association representing SMEs:

> Digital isn’t its own sector, it affects everyone. Our worldwide housing of data is in [a U.S. state], so the ability to get that data out of [Indo-Pacific] markets is crucial for product safety and our business.

IPEF has become more important, especially for manufacturers. We are at the intersection of manufacturing and digital. . . . We have over 1,500 members that we know of, many of them SMEs. They want certainty so they can grow and innovate and deliver to the world.

Labor unions and advocates see the digital economy as a significant priority distinct from traditional workers’ rights priorities under the trade pillar’s labor subtopic. Many interviewees from organized labor acknowledged that Indo-Pacific digital trade issues were a new area of focus spurred by a shifting domestic policy debate around technology regulation and concern about how focused U.S. businesses were on shaping digital economy issues. In the words of one labor and consumer advocate:

> [The Biden administration] has already dumped several of the worst lightning rod topics, which is a positive step forward in our view. But the digital stuff is the frontier where we see major corporate focus and dominating approach—whereas we see our constituency as U.S. workers. On digital, that is where we are most concerned.

Some key members of Congress see the digital economy as a significant priority. Several important committee
chairs and vice chairs—Senator Ron Wyden (D-OR) of the Senate Committee on Finance, Senator Bob Menendez (D-NJ) of the Senate Committee on Foreign Relations, and Representative Suzan DelBene (D-WA) of the House Committee on Ways and Means—have all called for robust digital economy rules to anchor IPEF. The Senate Committee on Finance and the House Foreign Affairs Subcommittee on Asia, the Pacific, Central Asia, and Nonproliferation have both held hearings on the importance of digital trade engagement in the Indo-Pacific.

That said, many members of Congress and their staff remain unaware of or are only marginally interested in IPEF digital trade issues. Several House staffers stated that constituents have rarely mentioned digital trade issues and that many are not following the issue. This lack of interest may be due in part to the Biden administration’s decision not to formally engage with Congress on the framework. Representative Kevin Brady (R-TX), then the Republican leader of the House Committee on Ways and Means, joined Representative Adrian Smith (R-NE), the lead Republican on the Subcommittee on Trade, in calling IPEF “a strong opportunity for the United States to raise standards and open markets for American-made products and services” but urged the administration to obtain congressional approval for the deal.

However, rapidly evolving digital developments in the Indo-Pacific, the continued prioritization of digital trade from business and specific congressional leaders, and labor’s emergent focus on the issue suggest that digital trade will be an increasing focal point for domestic debate. With growing attention on digital economy provisions from these stakeholders, the Biden administration will face heightened scrutiny to get this agreement right.

2. Existing digital trade models are not enough.

The authors asked all business, labor, and congressional interviewees whether there were existing digital trade agreements that fully satisfied their interests and could be a model for an agreement under IPEF. None could name an existing agreement that met all their expectations. However, many business and congressional interviewees expressed support for building on the far-reaching digital commitments in the USMCA’s digital trade chapter and the USJDTA. Even labor representatives saw these agreements as natural reference points for discussions about digital trade issues in IPEF.

As indicated in Table 1, U.S. negotiators have many existing digital trade models to build on. Beyond the USMCA and USJDTA, Indo-Pacific partners have also negotiated and adopted several new digital agreements, including the Digital Economy Partnership Agreement (DEPA), the Singapore-Australia Digital Economy Agreement, and the Korea-Singapore Digital Partnership Agreement (KSDPA).

Domestic stakeholders recognize that these existing agreements—while helpful starting points—are not enough to make a successful IPEF. Congressional staffers generally view the USMCA, which Congress approved in 2018, and USJDTA, an executive agreement not presented to Congress, as acceptable models to build on. Labor unions and consumer advocates generally view these agreements more skeptically, for reasons outlined in the next section. Even the business community, which championed both agreements, views language in these agreements as insufficient, as stated in a December 7, 2022, letter from the U.S. Department of Commerce to the Biden administration:

*The excellent digital trade chapter in the U.S.-Mexico-Canada Agreement and the U.S.-Japan Digital Trade Agreement are models that should serve as a floor for the IPEF, and negotiators should draw on other innovative digital provisions developed by like-minded trading partners in the region.*

As discussed in a later section, all domestic stakeholders interviewed expressed hope that IPEF would break ground on governing emerging technology and digital economy issues not covered by the USMCA and USJDTA. These high expectations from business, labor, and Congress require the Biden administration to work creatively with Indo-Pacific partners to develop a new digital economy agreement with a broader scope than prior U.S. agreements. Domestic stakeholders remain uncertain whether this vision will become a reality.

3. Core digital trade issues have become contentious.

Domestic stakeholders are divided on how to regulate core digital trade issues associated with the trusted and secure
<table>
<thead>
<tr>
<th>Agreement</th>
<th>Date signed</th>
<th>Cross-border data flows</th>
<th>Data localization</th>
<th>Treatment of personal information</th>
<th>Treatment of source code and algorithms</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPTPP</td>
<td>Mar. 8, 2018</td>
<td>Prohibited, with narrow exceptions</td>
<td>Prohibited, with narrow exceptions (financial data excepted; Vietnam exempt for five years)</td>
<td>Legal frameworks required for protection of personal information</td>
<td>Forced transfer of source code prohibited</td>
</tr>
<tr>
<td>EPA</td>
<td>July 17, 2018</td>
<td>Commitment to reassess within three years (negotiations to include provisions on free flow of data into the EPA started in October 2022)</td>
<td>Not mentioned but could be discussed under three-year reassessment</td>
<td>Onward transfer of EU personal data restricted; complementary adequacy decision passed in January 2019</td>
<td>Forced transfer of source code prohibited</td>
</tr>
<tr>
<td>USMCA</td>
<td>Nov. 30, 2018</td>
<td>Prohibited, with very narrow exceptions</td>
<td>Prohibited, no exceptions</td>
<td>Privacy laws including nondiscriminatory data transfer restrictions allowed; APEC Cross-Border Privacy Rules (CBPR) recognized as a valid transfer mechanism</td>
<td>Forced transfer of source code and algorithms prohibited</td>
</tr>
<tr>
<td>USJDTA</td>
<td>Oct. 7, 2019</td>
<td>Prohibited, with very narrow exceptions</td>
<td>Prohibited, no exceptions</td>
<td>Approach to cross-border data flows includes personal information; legal frameworks required for protection of personal information</td>
<td>Forced transfer of source code, algorithms, and cryptography prohibited</td>
</tr>
<tr>
<td>DEPA</td>
<td>June 12, 2020</td>
<td>Prohibited, with narrow exceptions</td>
<td>Prohibited, with narrow exceptions</td>
<td>Approach to cross-border data flows includes personal information; privacy laws including nondiscriminatory data transfer restrictions allowed; legal frameworks required for protection of personal information</td>
<td>Forced transfer of source code prohibited</td>
</tr>
<tr>
<td>Agreement</td>
<td>Date</td>
<td>Data Flow Restrictions</td>
<td>Privacy Laws and Protection Frameworks</td>
<td>Forced Transfer Restrictions</td>
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<tr>
<td>Singapore-Australia Digital Economy Agreement (DEA)</td>
<td>Aug. 6, 2020</td>
<td>Prohibited, with narrow exceptions (no exception for financial data)</td>
<td>Legal frameworks required for protection of personal information; APEC CBPR and OECD guidelines referenced</td>
<td>Forced transfer of source code and cryptography prohibited</td>
<td></td>
</tr>
<tr>
<td>Japan-UK Comprehensive Economic Partnership Agreement</td>
<td>Oct. 23, 2020</td>
<td>Prohibited, with narrow exceptions (no exception for financial data)</td>
<td>Legal frameworks required for protection of personal information</td>
<td>Forced transfer of source code, algorithms, and cryptography prohibited</td>
<td></td>
</tr>
<tr>
<td>Regional Comprehensive Economic Partnership (RCEP)</td>
<td>Nov. 15, 2020</td>
<td>Prohibited, with broad exceptions</td>
<td>Legal frameworks required for protection of personal information, with broad exceptions</td>
<td>No prohibition on forced transfer; commitment to further dialogue on treatment of source code</td>
<td></td>
</tr>
<tr>
<td>UK-Singapore Digital Economy Agreement (UKSDEA)</td>
<td>Feb. 22, 2022</td>
<td>Prohibited, with narrow exceptions (no exception for financial data)</td>
<td>Privacy laws including nondiscriminatory data transfer restrictions allowed; legal frameworks required for protection of personal information</td>
<td>Forced transfer of source code, algorithms, and cryptography prohibited</td>
<td></td>
</tr>
<tr>
<td>Korea-Singapore Digital Partnership Agreement (KSDPA)</td>
<td>Nov. 21, 2022</td>
<td>Prohibited, with narrow exceptions (no exception for financial data)</td>
<td>Privacy laws including nondiscriminatory data transfer restrictions allowed; legal frameworks required for protection of personal information; OECD guidelines referenced</td>
<td>Forced transfer of source code, algorithms, and cryptography prohibited</td>
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Flow of data across borders. Data are the lifeblood of the modern digital economy. All forms of interaction in the digital realm—whether buying goods, selling services, or accessing information—require the creation and transfer of data. Increasingly, data are traveling across borders, raising important and unresolved regulatory questions about how countries either facilitate or impede the flow of this vital digital resource. The United States has long maintained the position—in line with its democratic and market-based values—of encouraging the free flow of data. With increased domestic scrutiny of privacy and the negative consequences of the digital transition for some workers, this U.S. negotiating position has become contentious among certain labor and civil society stakeholders.

The business community still views protecting free cross-border data flows as a core objective. U.S. business interests oppose cross-border data flow restrictions, data localization requirements, and the forced transfer of source code or algorithms to authorities. For a variety of
industries, ranging from auto manufacturers to retailers, these measures amount to non-tariff barriers to trade that impede the free flow of goods and services among partners, ultimately reducing economic growth and opportunity. According to a study by the Information Technology and Innovation Foundation, a 1 percentage-point increase in a country’s data restrictiveness cuts its gross trade output by 7 percent over five years. Between 2017 and 2021, data localization measures nearly doubled across the world. From the perspective of U.S. businesses of all sizes, the proliferation of measures that restrict the free flow of data across borders hurts U.S. firms, workers, and consumers.

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The labor community and consumer advocates are increasingly concerned about core digital trade issues. Labor unions and advocates do not necessarily oppose the flow of data across borders. Instead, the concerns of most labor unions and advocates largely relate to whether the United States has an adequate “right to regulate” negative outcomes in the digital economy under digital trade agreements. In the words of one labor federation official:

\[I \text{ think the core commitments to open cross-border data flows are not something we oppose conceptually. There are lots of benefits to open flows. It’s our concern that in the United States we’ve failed to adequately regulate the digital transition—privacy near the top. . . . It’s a policy space issue.}\]

The labor community prefers for Congress to retain primacy in this policy space. According to labor constituencies, cross-border data flow restrictions, data localization requirements, and forced transfer of source code or algorithms to authorities are all valid tools that should remain in the U.S. government’s regulatory tool kit. This perspective is rooted in an underlying philosophical disagreement between trade skeptics and proponents on the extent to which regulatory authority is offshored in a “race to the bottom.” In labor’s view, binding language in the USMCA and USJDTA unfairly ties the hands of Congress with high legal hurdles to investigation or enforcement and few narrow exceptions to sweeping prohibitions on digital regulation. Specific unions also fear that liberalization of cross-border data flows to countries with low labor standards will lead to the offshoring of U.S. jobs, particularly for platform and call center workers.

Corporate representatives and policymakers on Capitol Hill, to varying extents, lament that core digital trade issues are now contentious. Veteran staffers of prior trade agreements who shepherded digital trade provisions through ratification in the USMCA are perplexed at how IPEF could water down these existing commitments. Business advocates agree, with one senior trade association executive remarking:

\[Some \text{ issues seem to be controversial now that weren’t before, like opposing data localization.}\]

Whether business, labor, and Congress will converge on core digital trade issues remains to be seen. However, while domestic stakeholders relitigate old digital trade issues, new digital trade issues offer hope for shared interest among business, labor, and Congress.

4. Emerging digital economy issues can foster common ground.

Business, labor, and Congress share concerns about the under-regulation of emerging threats in the digital economy. These emerging concerns—ethical and responsible use of AI, digital privacy and cybersecurity, digital upskilling and access, and digital trade facilitation, particularly for SMEs—offer the potential for the Biden administration to find common ground among domestic stakeholders.

Nearly all stakeholders consulted were concerned about responsible use of AI in the Indo-Pacific. Businesses see the development of AI governance principles as crucial to responsible growth of this emerging technology, particularly in the context of contrasting governance
regimes emerging in the European Union and China that could be less friendly to innovation. Congress has increased its focus on legislating AI policy, passing a variety of AI provisions in the National Defense Authorization Act of 2021. Labor unions and advocates share broad concerns about future AI development, as well as specific concerns about the deployment of AI in hiring, firing, and workplace management. In the words of a labor union official:

Workplace issues should be digital trade issues. The introduction of AI in the workplace—the way AI is used at Amazon to hire and fire workers—raises questions about employment discrimination. . . . I just didn't appreciate how many issues are emerging when AI is deployed in the workplace. Either these issues should be in the IPEF digital chapter or cross-referenced in another.

Digital privacy and cybersecurity are two other areas where IPEF has the potential to set preferred rules and norms that align with U.S. interests. Both businesses and labor unions expressed concern about growing cybersecurity threats, particularly ransomware, and seek common approaches to building cybersecurity capabilities in the Indo-Pacific. On privacy, the concerns that labor and Congress maintain are far-reaching, encompassing issues from consumer data privacy to workplace surveillance. In conversations with the business community, digital privacy also came up as a concern. U.S. firms are grappling with the consequences of an Indo-Pacific digital economy fracturing under uneven privacy legislation set by national governments. Business seeks common approaches to digital privacy issues to lower barriers to cross-border data flows. Development of a common framework among IPEF countries for “trusted” data flows—where countries agree to raise privacy standards in order to facilitate cross-border data flows—could be an avenue to balance business and labor interests in international digital privacy regulation. Japan is leading the charge for a “Data Free Flow with Trust” (DFFT) framework during its 2023 G7 host year. IPEF could build off of Japan’s DFFT framework and APEC’s Cross-Border Privacy Rules (CBPR) declaration, as suggested by one business advocate:

On data and privacy, a global CBPR could be really useful as a vehicle for building trusted data flows. Maybe that’s where you could draw in domestic partners, in and around data privacy.

Domestic stakeholders converge on the need for worker upskilling and expanding access to the digital economy. According to an APEC report, 69 percent of job postings in the United States, Canada, Australia, New Zealand, and Singapore were in digital occupations. However, the supply of digitally skilled workers remains too low to fill these roles. The U.S. Department of Commerce’s recently announced IPEF Upskilling Initiative for Women and Girls aims to close this gap by leveraging private sector engagement initiatives to provide over seven million digital training and education opportunities to women and girls in IPEF countries. Stakeholders generally support the intent of this initiative. However, some labor advocates have expressed apprehension about whether this upskilling initiative for Indo-Pacific workers will come at the expense of U.S. workers. More broadly, many domestic stakeholders would like to see future IPEF upskilling commitments in the region coupled with parallel upskilling initiatives for U.S. workers. Domestic stakeholders welcome additional investments in digital infrastructure to boost internet access in the Indo-Pacific—both at home and abroad.

Finally, all domestic stakeholders agreed on the need to simplify e-commerce rules to facilitate digital trade, particularly focusing on U.S. SMEs. Small business exporters stand to benefit significantly from the implementation of an Indo-Pacific digital trade agreement, according to the Global Innovation Forum. Such an agreement would increase export sales by 35 percent, add an average of 22 jobs over three years per business to accommodate increased Indo-Pacific sales, and grow U.S. exports by over $72 billion. With streamlined digital trade rules for SMEs, small businesses would be better positioned to access large Indo-Pacific markets to grow their U.S. footprint. There was broad recognition among interviewees from business, labor, and Congress that digital trade barriers and uneven regulation place the greatest burden on export-oriented SMEs, which, unlike large corporations, lack the capacity to influence rulemaking. Stakeholders believe that SMEs would benefit from further digital trade and e-commerce facilitation in IPEF:

For small businesses and micro e-sellers, the complexity is the trade barrier. The biggest thing we can do is simplify the [customs] process. We need to get good at playing small ball here.
Certainly, there are still gaps between stakeholders’ positions on each of these issues. However, a shared focus among stakeholders on these emerging digital issues provides the Biden administration with a strong footing to break new ground in an IPEF digital chapter.

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5. The United States must get its own digital house in order.

Virtually all domestic stakeholders agreed that strengthening digital economy laws, regulations, and standards at home would strengthen U.S. negotiating credibility and would also increase the likelihood that IPEF becomes a durable and lasting digital economy agreement. Even advocates of robust U.S. engagement in digital trade negotiations agree that Washington’s ability to shape international rules on data and other elements of the digital economy is hampered by the lack of federal privacy legislation and a comprehensive U.S. approach to digital policy.

Bipartisan members of Congress are currently seeking ways to govern many aspects of the digital economy. For example, Senator Amy Klobuchar (D-MN) proposed comprehensive antitrust regulations that would likely invite sweeping changes to the U.S. digital economy. Senator Josh Hawley (R-MO) proposed regulations that would significantly reshape liability protections for technology platformers such as Meta and Google. Senator Roger Wicker (R-MS) proposed the first comprehensive bill on data privacy and security. Overall, these efforts signal that both Democrats and Republicans—albeit for different reasons—are increasingly interested in regulating a range of issues, including privacy, competition, AI, platform labor and gig work, and taxation, among others. One other labor and consumer advocate noted:

You see Democrats and Republicans in Congress united on problems or complaints with Big Tech, and with IPEF you could have new rules that run smack into that. This is a structural problem beyond a procedural one—formulating international rules where domestic regulations are unsettled.

Businesses, both large and small, also seek greater regulatory certainty from Congress on many of these key issues. Labor similarly wants congressional action, albeit for different reasons, such as reining in the negative consequences of the digital transition for U.S. workers. Comprehensive legislation that resolves these domestic debates on regulating the digital economy has yet to emerge—and likely will not for some time. While stakeholders disagree on the extent to which digital trade rules in IPEF should be binding, all expressed a willingness to see discussions on digital issues in IPEF.

Ultimately, the United States needs to get its own digital house in order for a durable international digital strategy to emerge. While the United States should shape the future of the Indo-Pacific digital economy to align with U.S.-preferred rules and norms, forging a credible domestic alternative to European and Chinese digital regimes can only enhance this foreign policy objective.

RECOMMENDATIONS

The research conducted to prepare this brief affirms the urgent need for a forward-looking U.S. policy to shape rules and norms in the digital economy in the vital Indo-Pacific region. This is critical to reasserting U.S. economic leadership in the region and advancing U.S. economic and strategic interests. The Biden administration has the opportunity to shape an IPEF digital economy agreement that meets this need. However, for the United States to negotiate such an agreement abroad, it must secure the buy-in of stakeholders at home. For this to happen, the administration must convince business, labor, and Congress that a robust digital economy agreement in IPEF can deliver tangible benefits for domestic constituencies
across the political and economic spectrum. The CSIS Economics Program and Scholl Chair in International Business recommend the following steps to favorably shape domestic perspectives, enhance stakeholder buy-in, and increase IPEF’s prospects for success:

1. **Pass comprehensive federal digital privacy legislation.** The United States continues to lack a federal digital privacy law—a standard that domestic stakeholders unanimously call for. In its absence, companies and individuals alike are forced to navigate conflicting digital privacy standards adopted by U.S. states, China, Europe, and others. Without a coherent U.S. digital position, the United States cannot credibly and durably offer a digital model to entice allies or compete with adversaries’ models—significantly constraining the United States’ ability to advance democratic principles in future digital governance initiatives. Policymakers should accelerate discussions on a national privacy framework while negotiating an IPEF digital component, with the goal of reaching an agreement during this session of Congress.

2. **Foster democratic values in the digital economy.** The United States should continue to affirm its democratic values-based leadership in the digital economy through IPEF. With authoritarian regimes worldwide growing in their capabilities for technological censorship, surveillance, and control, the United States must advance a free and open vision for the Indo-Pacific digital economy. In crafting IPEF, U.S. negotiators should seek to commit Indo-Pacific partners to shared digital standards for human rights, internet access, union organizing and collective bargaining, and democratic governance, such as those espoused in the Declaration for the Future of the Internet.

3. **Aim for free data flows while balancing concerns.** Building on standards established in the USMCA and USJDTA, the United States should seek agreements that facilitate the trusted and free flow of data across borders. While Beijing and Brussels are taking different paths, both are restricting free cross-border data flows in ways that are unacceptable to the United States. The United States has a unique opportunity to present a third approach. While U.S. policymakers should remain sensitive to domestic stakeholder concerns about certain risks related to data flows, the United States should work with like-minded partners to promote common approaches that maximize trusted cross-border data flows.

4. **Update digital trade language and enhance regional cooperation on emerging technologies.** Since the design and implementation of the USMCA and USJDTA, a number of new technologies have emerged that, if irresponsibly deployed, could threaten national security and civil liberties. The United States should engage domestic stakeholders and Indo-Pacific partners in developing common approaches to the responsible use of AI, algorithm-based workplace management software, and biometric data collection, among others.

5. **Promote digital upskilling, infrastructure, and inclusion at home and abroad.** To advance the sustainable and equitable growth of the Indo-Pacific digital economy, the United States should promote broader digital inclusion on both sides of the Pacific, including through a comprehensive IPEF digital trade agreement. The Biden administration has pursued programs to upskill workers, deploy digital access infrastructure, and bring underrepresented communities into the digital economy in the Indo-Pacific. These efforts should be matched with similar IPEF-branded programs for U.S. workers and communities. In doing so, U.S. policymakers can foster a more vibrant and inclusive Indo-Pacific digital economy that meets regional interests while providing visible benefits to core U.S. constituencies, thereby boosting the domestic political viability of IPEF.

6. **Seek further input from business and labor, as well as congressional approval.** While the Biden administration continues to consult with business and labor stakeholders through existing advisory channels, additional business and labor involvement is necessary to secure robust domestic buy-in. Inviting closer coordination with business and labor stakeholders in advance of future negotiating rounds can help achieve this. The CSIS Economics Program and Scholl Chair in International Business continue...
to call on the Biden administration to submit IPEF for congressional ratification to boost the framework’s durability and domestic buy-in. At a minimum, the Biden administration should formalize a closer consultative process with Congress.

CONCLUSION

The digital economy is rapidly evolving in the Indo-Pacific, with or without U.S. leadership. If Washington is unable to offer a compelling vision for the future of the digital economy, alternative models crafted by Beijing and Brussels stand to become the regional defaults. Without a free and open digital economy in the Indo-Pacific, U.S. workers and businesses—particularly SMEs—stand to lose out on economic opportunities. IPEF is a good first step toward shaping the future of the region’s digital economy in line with U.S.-preferred rules and norms. However, the Biden administration’s agenda will prevail only if the United States pursues a robust set of domestic digital policies that adds credibility to its foreign agenda.

There is a common misperception that only big business supports digital trade, that labor opposes digital trade, and that Congress is gridlocked on digital regulation. The conversations with domestic stakeholders for this project revealed a different story: that business, labor, and Congress all actively seek an affirmative digital agenda in IPEF that offers a U.S.-led model for the region. Domestic stakeholders may disagree about what this model should look like, but all recognize the significant potential of IPEF to advance a new vision for the digital economy.

Forging consensus among business, labor, and Congress will be difficult and requires U.S. policymakers to deepen consultation with a variety of domestic stakeholders. But failure of IPEF due to domestic discontent is not an option; the United States cannot repeat the damage that the TPP withdrawal did to U.S. economic and strategic interests in the Indo-Pacific. Shaping the future of the digital economy in the world’s most critical economic region will be well worth the effort of building domestic support behind this framework.

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