

## **Indo-Pacific Economic Framework: Old Wine in New Bottle?**

Samriddhi Sharma and Satyam Tripathi

### **Abstract**

*The launch of the Indo-Pacific Economic Framework (IPEF) for prosperity by the United States' President Joe Biden on May 23, 2022, from Tokyo, reflects the recuperation of the US's geo-economic initiative surfing onboard the multilateral platform within the geo-political construct i.e., Indo-Pacific, after five years since Donald Trump pulled out of the Trans-Pacific Partnership (TPP) in 2017. It has stirred the already complex complicated multilateral, minilateral and bilateral state of affairs in the region.*

**Keywords:** Indo-Pacific; Geo-politics; India; China; Trade

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### **India's engagement in the region**

After a number of China's assertive actions since 1974 with the claiming of Paracel islands and later passing a territorial sea law allegedly claiming the entire South China Sea citing historical reasons, a decade after the establishment of the United Nations Convention on the Law of Seas (UNCLOS), created skepticism and a sense of fear among Southeast Asian states.

In order to counterbalance China's dominance in the region, South-East Asian states initiated a 'Look West' outlook where India was perceived as a natural balancer to China. Lee Kuan Yew, Former Prime Minister of Singapore had once said,

*"There will be the US, there will be China, the Indians are going to be themselves, they're not going to be everybody's lackey."*

It was in 1994 that India reciprocated by officially launching the 'Look East' policy with its core idea of integration of the Indian economy with that of ASEAN. Given the Indo-Pacific's historic importance with more than 50% of world trade taking place in the region, India realized this potential only with the liberalization of its economy in the 1990s. In 2018, PM Modi outlined India's vision for the Indo-Pacific region at the Shangri La Dialogue in Singapore. Subsequently, in April 2019, an Indo-Pacific division was established by MEA bringing within its ambit ASEAN, IORA, and QUAD.

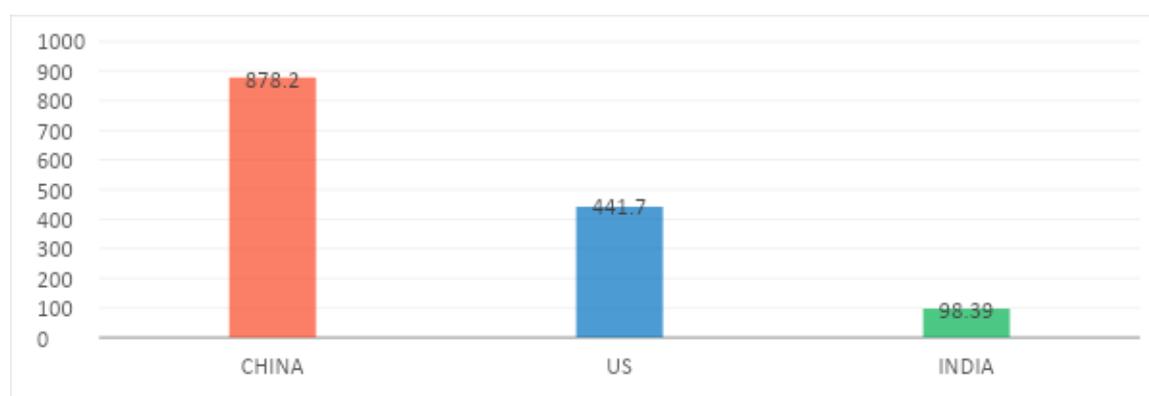
The US under Donald Trump had largely been reluctant and retracting from committing to multilateral institutions under the domestic pressure of protectionist

nationalism, and hence mostly remained occupied with bilateral deals. TPP, first conceived by Trump's predecessor, Barack Obama under his "Pivot to Asia" strategy, was aimed to contain China's growing economic clout in the region. The withdrawal revived the end of the multilateralism debate, more importantly after the Covid-induced pandemic, posing a question on the multilateralist world order on its ability to ensure stability and cooperativeness when every country was looking inward or at most having a bilateral gaze.

### A multi-layered web of relationships

The IPEF contains, but is not limited to, trade that forms one of its four pillars on which India abstained from going on board. But this abstention does not mean the end of India's engagement with the initiative. India's vision of Indo-Pacific and Act East Policy has ASEAN at its central premise. This holds significance since IPEF as of now is joined by all ASEAN countries except Laos, Cambodia, and Myanmar.

*Figure 1 shows ASEAN's bilateral trade with China, the US, and India in USD Billions as of 2021.*



*Figure 1*

*Source: [Chinese Embassy in Brunei](#), [US Department of State](#) and [Ministry of External Affairs](#)*

The above graph affirms the fact that China remains the largest trading partner for ASEAN and the long way ahead for India to take the lead in the region.

### RCEP and IPEF: A bipolar Tug-of-War

The 15-member Regional Comprehensive Economic Partnership (RCEP) contains all ten members of ASEAN. It remains the world's largest FTA trading bloc with 30% of the global GDP. India opted not to be part of the economic integration, given its ill-at-ease when seen in terms of trade deficit, conspicuously with China. RCEP accounts for more than 30% of China's trade volume and is thus perceived largely as its sphere of influence from the west's perspective.

RCEP is necessarily an FTA that aims to reduce 90% of import tariffs within 20 years, while IPEF negotiations do not involve lowering tariffs or liberalizing market access. The IPEF emphasizes more on rules and policies than market access, giving

it a political tilt as conceived by China. Although, it would be too early to predict its evolution.

All four members of the Quadrilateral Security Dialogue (QUAD) comprising India, Australia, Japan, and the US are the consulting members of the IPEF whose final framework remains to be negotiated. Both Australia and Japan of the QUAD are common to RCEP, Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and now IPEF. The QUAD forms the frame for US-led IPEF. Two-way trade between the US and the region representing 60% of global GDP stood at \$1.75 trillion in 2020. US FDI in the region as of 2020 stood at over \$969 billion.

The fact that IPEF is not a traditional economic or trade agreement unlike CPTPP or RCEP is now unriddled. This is also evident from the nomenclature of the initiative itself i.e., 'Indo-Pacific' rather than 'Asia-Pacific.' This gives it a strategic fervor. At the same time, quite paradoxically, while QUAD has an informal politico-security nature, IPEF engenders an economic width formally, thereby making sense for Southeast Asian states (particularly ASEAN) that are heedful and wary of antagonizing the People's Republic of China (PRC). This also explains as to why the Republic of China (ROC) i.e., Taiwan was counted out from the initiative despite its willingness to join.

The Indo-Pacific Oceans Initiative (IPOI) was launched at the 4<sup>th</sup> East Asia Summit in Bangkok. The seven pillars of IPOI envisage maritime resources; disaster risk reduction; science and technology; academic cooperation; maritime security; maritime ecology; capacity building and resource sharing; trade, connectivity, and maritime transport.

The non-treaty-based IPOI that transcends beyond the security and political conceptions, draws upon existing regional architectures such as Indian Ocean Rim Association (IORA), ASEAN-led East Asia Summit framework, BIMSTEC, PIF, etc. India has been an active participant in these domains lately and the US-led IPEF would not only overlap the cooperation areas, thereby increasing coherence but also includes dimensions such as clean energy, access to key minerals, semiconductors, tax evasions, concessional finance, that are key to India as an aspiring regional as well as a global leader.

## Concerns

The countries joining the initiative may be divided in future negotiations due to their participation in multilateral Free Trade Agreements FTAs already on the scene and their intersections of strategic alignments. Since the FTAs under the purview of trade do not form part of IPEF, the initiative would not be subjected to Congress. This implies that participants might have to settle with already existing commitments within the laws.

Hence, lacking the legislative substance renders the US absurd in making new commitments for its partners committing to the framework. The framework largely being implemented through the executive order, makes it susceptible to being withdrawn by the new administration in 2024, as happened with TPP. China has an advanced footing in the RCEP and all the members of IPEF are also the part of supply chain and economic integration under RCEP except the US and India.

It would take time and participation, including by IORA states, to decouple from the China-dominated supply chains in the alternate economic framework. The ‘free flow of data’ model and the climate change pillar driven by the US may put undue strain on the developing economies, in view of India’s prospective data protection legislation that points to ‘data localization.’ IPEF, though at a nascent stage, as indicated by the US, the binding commitments on the trade pillar would not be very appealing for developing countries as it does not provide access to US markets.

## Way Forward

IPEF offers an alternative multi-dimensional economic platform to China-dominated multilateral and an opportunity to assimilate the Indian economy in the region which is neither part of RCEP nor CPTPP. As postulated by Piyush Goyal, Minister of Commerce and Industry in his statement “what benefits member countries will derive and whether any conditionalities on aspects like environment may discriminate against developing countries”, India needs to take a leading role as a representative of developing nations in the new economic framework.

India has the opportunity to reinforce itself as an attractive investment destination amidst negotiations on alternatives to China-dependent supply chains. We are also provided with an opportunity to diversify our raw material sources and move past the dependence on China.

There is this perpetual view in China about India bandwagoning with the West. This holds no different for US-led IPEF, but India has demonstrated its strategic autonomy time and again, also taking an independent-neutral stand in the UN by abstaining from votes condemning Russian aggression. For other nations in South-East Asia, New Delhi is more like balancing relations with major powers and so are they.

The US cannot afford to lose India, the largest democracy, out of the initiative given its cultural-diplomatic integration with the region and non-aligning consoling perception for other South-East Asian states. US Treasury Secretary Janet Yellen reiterated the role IPEF plays in tightening the ties.

There are opportunities for India to harness the potential of the sub-topics like clean energy technology, access to strategic minerals, semiconductors, tax evasion issues, and lead on the same. The final framework remains to be negotiated and officially announced; with China questioning the very existence of Indo-Pacific, what IPEF has in the offing remains to be deciphered.

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