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IPEF Moves from Launch to an Agenda

Author

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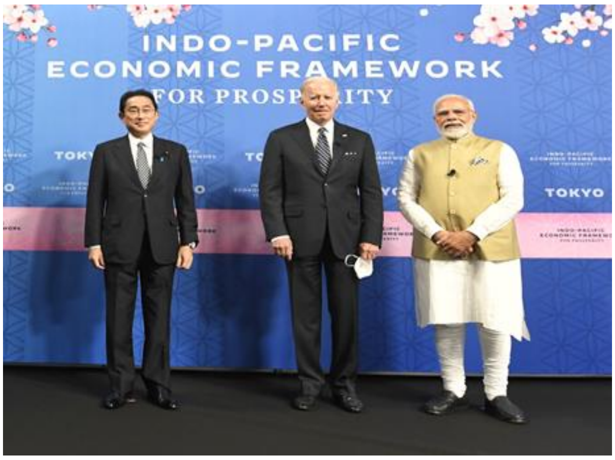

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Cover Photographs:

Prime Minister Narendra Modi joins US President Joe Biden and Japan's Prime Minister Fumio Kishida for the launch of the Indo-Pacific Economic Framework for Prosperity at Tokyo on May 23, 2022
Source:@narendramodi| Twitter

Minister for Commerce and Industry, Shri. Piyush Goyal takes part in the first in-person Ministerial meeting of the Indo-Pacific Economic Framework in Los Angeles on September 8-9, 2022-Source: @PiyushGoyal| Twitter

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1. Introduction

The Indo-Pacific Economic Framework (IPEF) launched with a broad set of objectives on May 24, 2022 in Tokyo has begun to acquire shape and direction. Hosted by the US, ministers from the new regional economic grouping of fourteen countries[1], including India, met in person in Los Angeles on September 8-9, preceded by meetings of senior officials, as well as virtual meetings among themselves held in July. The ministers have now spelt out the specific initiatives and commitments that they, as partners, will pursue under the four identified pillars, namely, Trade, Supply Chains, Clean Economy and Fair Economy. US Commerce Secretary Gina Raimondo hailed the IPEF ministerial meeting as an undeniable success in charting a path that will create economic prosperity, improve labour conditions and promote sustainability of all partner economies. USTR Katherine Tai, who co-hosted the meeting with Raimondo, described the meeting as a substantial milestone in the pursuit of a high standard and inclusive economic framework[2].

Commerce and Industry minister Piyush Goyal, who led the Indian delegation at the meeting, termed[3] the discussions as fruitful among what he called were likeminded, rules-based and transparent countries with a shared interest in an open Indo-Pacific region. India, however, chose not to sign on to the Trade pillar, availing of the flexibility under IPEF which allows each partner country to choose which pillar they wished to be part of. India indicated that while it was comfortable with the outcomes of the other three pillars, details were still emerging in respect of the trade pillar, particularly on commitments required on environment, labour, digital trade and public procurement. While it will continue its engagement on the trade pillar, it may decide on signing on to it at a later stage.

Two aspects of IPEF are striking, evidently in line with US's own present political situation. One is the absence of any commitment on market access liberalisation for goods or services. The only exception is the commitment to

[1] They include Australia, Brunei, Fiji, India, Indonesia, Japan, Republic of Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, United States and Vietnam.
[2] https://ustr.gov/about-us/policy-offices/press-office/press-releases/2022/september/united-states-and-indo-pacific-economic-framework-partners-announce-negotiation-objectives.
[3] https://pib.gov.in/PressReleasePage.aspx?PRID=1858243

encourage development of markets for low and zero emissions goods and services, in which the more developed countries have an edge. Second, in line with the Biden Administration's labour-centric trade policy, reference to labour rights and standards and the welfare of workers are mainstreamed all through the four IPEF pillars, with the ILO Declaration on Fundamental Principles and Rights at Work finding a specific reference in each one of them.

In any case, IPEF, as was made clear even at its launch, is not a traditional trade agreement involving market access liberalisation. Rather, it seeks to provide a high standard enabling framework with initiatives launched and commitments to be taken in several areas as finalised by the ministers under each of the four pillars. At this early stage, however, what the ministers accomplished at the recent in-person ministerial, was more in the nature of a declaration of intent and agenda setting. Working out precise agreements, commitments or developing good practices will be a task for the future. In what follows, we briefly highlight the specific focus areas identified under each of the four pillars and the broad agenda that has been set out, after which we will examine the challenges and imperatives for IPEF. We will also look at whether the US's interest in IPEF will be a sustained affair, and how IPEF will be projected vis-á-vis China. Furthermore, we will consider what factors may have been behind India's reservations vis-á-vis the trade pillar, before drawing some conclusions.

2.1 Trade Pillar

Nine areas have been identified for action under this pillar[4]. Issues that will receive focus under each area are summarised below. Some of them, on the face of it, may look at best as only remotely related to trade. But these are the so-called 21st-century issues that invariably get included by the developed countries in their agreements relating to trade.

Labour: The emphasis here will be on implementation and enforcement of national laws based on the ILO Declaration on Fundamental Principles and Rights at Work (1998), encouraging corporate accountability on labour law violations and public engagement on labour issues.

Environment: Effective enforcement of national environmental laws and their strengthening, along with implementation of respective obligations under the

[4] https://ustr.gov/sites/default/files/2022-09/IPEF%20Pillar%201%20Ministerial%20Text%20(Trade%20Pillar)_FOR%20PUBLIC%20RELEASE%20(1).pdf

multilateral environmental agreements (MEAs). Specific areas like climate change and biodiversity conservation are also identified for action.

Digital Economy: Promote trusted and secure cross-border data flows, responsible development and use of emerging technologies, and sharing of best practices on regulatory approaches and policy issues.

Agriculture: Advance food security and sustainable agriculture practices, increase productivity, enhance food and agriculture supply chain resilience and avoid unjustified measures restricting imports and exports.

Transparency and good regulatory practices: Promote transparency in rule making, allow opportunity for public comments on proposed new measures, advance benefits of good regulatory practices and build on outcome reached on Joint Initiative on Domestic Regulation of Services among certain WTO members (India is not a participant in this initiative).

Competition: Cooperate to uphold fair competition, adopt/maintain national competition and consumer protection laws, and cooperate on their enforcement.

Trade Facilitation: Harnessing of international best practices and effective implementation of the WTO agreement on Trade Facilitation, simplification of customs procedures and clearance, trustworthy handling of trader data and promoting digitalisation.

Inclusivity: Expanding participation in the regional economy for all segments of society, removing barriers to economic empowerment and developing cooperative activities of interest for such segments.

Technical assistance and economic cooperation: Supporting technical and economic cooperation towards implementation of IPEF provisions and initiatives by IPEF partners.

2.2 Supply Chain Pillar

Six key areas have been identified[5] under this pillar in an area that has acquired particular importance after the severe disruptions witnessed by the world following the COVID-19 pandemic, the Ukraine conflict and China's proclivity in recent years to use economic dependence for political ends, for instance, as in the case of Australia.

[5] https://www.commerce.gov/sites/default/files/2022-09/Pillar-II-Ministerial-Statement.pdf

Establish criteria for critical sectors and goods : This includes setting criteria to not only identify sectors critical to national security, but also key goods that fall in such sectors and the raw material inputs and other processing requirements needed to produce them.

Increase resiliency and investment in key sectors and goods: This includes identifying sole sources or choke points in supply chains, strengthening industries in such sectors, promoting investments in such areas and in devising resilience strategies, promoting diversity of sources within the region and promoting circular economies.

Establish information sharing and crisis response mechanism: Set up government-to-government coordination mechanisms on supply chain vulnerabilities and disruptions and possible response measures, information sharing on technology to help secure data exchange with confidentiality including on regulatory and capacity aspects, and identifying mitigation measures and best practices.

Strengthen supply chain logistics: Working closely with the private sector to collect data on supply chain logistics and understand vulnerabilities, while maintaining confidentiality of business information, facilitating investments and technical cooperation, maintaining border and transport links, and development of common frameworks.

Enhance role of workers: Invest in training and development for ensuring availability of sufficient number of workers in supply chains for critical sectors and promote labour rights based on the ILO Declaration on Fundamental Principles and Rights at Work.

Improve supply chain resiliency: For improving visibility into risks and to promote environmental, social and corporate governance, facilitate development of tools and measures to advance transparency across supply chains in critical sectors without imposing unnecessary costs on MSMEs, and working with the private sector to address and mitigate risks.

2.3 Clean Economy pillar

Considering the large energy and infrastructure needs on the one hand and the Paris climate agreement goals on the other, the partners are to accelerate efforts in pursuit of mitigation and elimination of greenhouse gas (GHG) emissions, enhance energy security, climate resilience and adaptation, as well as promote sustainable livelihoods and quality jobs for their populations. Five main areas have been identified for action.[6]

Energy Security and transition: Enhance cooperation on deployment of clean energy technologies and expansion of clean energy capacity, production and trade; promote energy efficiency and conservation; and finding innovative ways of reducing dependence on fossil fuel energy.

GHG reduction in priority sectors: Support policies, incentive frameworks and infrastructure investment to scale up low and zero emission goods, services and fuels to help reduce GHG emissions in priority sectors (the priority sectors, however, were not identified).

Sustainable land, water and ocean solutions: Promote sustainable agricultural practices, such as more efficient water and fertiliser use and sustainable forest management; enhance cooperation on sustainable water solutions, and advance ocean based climate solutions including offshore renewable energy and maritime transport.

Innovative technologies for GHG removal: With a view to reducing costs and devising innovative and durable nature based solutions, support demand and supply for carbon capture, utilisation, transport and storage across the region; support regional efforts to foster market and non-market solutions, and work towards robust monitoring, reporting and verification standards.

Incentives to enable the clean energy transition: Encourage demand side measures to develop markets for low and zero emissions for goods and services; enhance cooperation on high integrity carbon market development and on mobilising investment and finance for low and zero emissions projects; promoting secure, diverse and resilient supply chains; developing pilot initiative platforms; growing pipeline of bankable projects; mobilising resources with focus on investments in developing countries in the region; and promoting technical cooperation, workforce development, capacity building and research collaboration.

2.4 Fair Economy pillar

Fairness, inclusiveness, transparency, the rule of law, accountability and promoting labour rights are deemed essential for improving the investment

[6] https://www.commerce.gov/sites/default/files/2022-09/Pillar-III-Ministerial-Statement.pdf

climate and ensuring shared prosperity. The four specific areas identified for closer collaboration are[7]:

Anti-corruption: To effectively implement the UN Convention on Anti-corruption, standards of the Financial Action Task Force (FATF) and, as applicable, the Anti-bribery Convention of the OECD; pursue provisions and initiatives that inter alia prevent, combat and sanction foreign bribery and related offenses; strengthening anti-money laundering and countering the financing of terrorism frameworks; strengthen measures to identify, trace and recover proceeds of crime; promote transparency and integrity in government procurement; and prevent corruption that undermines labour rights.

Tax: Pursue provisions and initiatives supporting transparency and exchange of information for tax purposes; support global and regional efforts to improve tax administration and domestic resource mobilisation; and support the ongoing work of G-20/OECD on inclusive framework on tax challenges arising from digitalisation of the economy.

Capacity building and innovation: Technical assistance, sharing of expertise and best practices, development and application of technological innovations and collaboration with private sector and other stakeholders.

Cooperation, inclusive collaboration and transparency: Regular sharing of information among IPEF partners on implementation and engaging all relevant stakeholders to enhance transparency towards shared goals.

3. Will IPEF succeed? What are the challenges and imperatives?

It may be too early to give a definitive assessment about IPEF's future. While absence of market access does diminish the attractiveness of IPEF, particularly when seen against the earlier TPP, the four pillars pack within them adequate potential for give and take and result in mutual gains among the partners. Of particular importance will be the agendas for devising cooperative pathways to a decarbonised economy, for developing a more secure and less vulnerable region from disruptions in supply chains that also involve critical minerals, and for promoting energy conservation, energy efficiency and transition to clean energy.

The detailing of the pillars, however, carries no specific commitments or indications from the developed partners in the IPEF on what could be forthcoming from them on investments, technology support or technical

[7] https://www.commerce.gov/sites/default/files/2022-09/Pillar-IV-Ministerial-Statement.pdf

cooperation. The only exception is a public-private Upskilling Initiative launched on September 8, 2022 by the US Department of Commerce, the Asia Foundation and fourteen top US technology companies including Apple, Google and Microsoft that will provide 7 million or more training and education opportunities on digital tools for women and girls in support of IPEF objectives in the eight emerging and middle income economies of the grouping.[8]

It is evident at the same time that the developed partners, the US in particular, are driving the other partners towards a more level playing field in terms of adoption and enforcement of labour rights and environment laws, acceleration of their moves towards low and zero emissions, and establishment of more transparent economies that are also less disparate on taxation and more active on anti-corruption.

Even in respect of supply chains, a pillar that is of wide interest including from India[9], two aspects could prove challenging. One is expecting private companies in the region to share proprietary data that may be necessary for the IPEF to meaningfully act on information exchanges, assessing vulnerabilities and plan investment diversification activities. Aidan Arasingham et al in their article[10] "IPEF comes into focus at LA ministerial" have pointed out that companies remain inherently reticent about disclosing supply chain details. Secondly, at a time when partners among IPEF may themselves be competitors in terms of attracting investments in strategic economic sectors, as for example the rush being witnessed on the manufacture of semi-conductors, the question arises if the IPEF will be able to devise the needed strategies.

Much will also depend on China and its actions in the coming years, which will determine the pressure to bond among the IPEF partners. India's own experience has been that it is very difficult to export a finished product to China should there be a Chinese manufacturer for it in China. Robert Atkinson points out[11] that China's economic strategy in the Indo-Pacific region is not one of seeking Ricardian comparative advantage but one of creating dependencies, with China being the advanced industrial producer and exporter in the region.

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[8] For details see https://www.commerce.gov/sites/default/files/2022-09/IPEF-Upskilling-Fact-Sheet.pdf

[9] It will be recalled that in his brief statement at the IPEF launch in Tokyo in May this year PM Modi had specifically referred to this pillar when he also underlined the three T's - Trust, Transparency and Timeliness. See https://timesofindia.indiatimes.com/india/pm-modi-underlines-3ts-for-resilient-supply-chains-at-indo-pacific-economic-framework-meet-in-tokyo/articleshow/91740814.cms

[10] See https://www.csis.org/analysis/ipef-comes-focus-la-ministerial

[11] See the article "Biden's Indo Pacific Economic Framework Is a Paradigm Shift" by Robert D. Atkinson, in Foreign Policy, dated 1st June 2022 accessible at https://foreignpolicy.com/2022/07/01/biden-ipef-indo-pacific-trade-economics-china/

He also notes that IPEF countries cannot realistically expect that China will allow their advanced tech firms and products to enter, compete and succeed in the future. Additionally, once economic dependency is created, using it for political ends is part of China's playbook. Whether being a member of RCEP or of other trade agreements will make a difference to China and its opaque administration (such as for example in respect of product approvals or standards) in actual implementation is far from certain. Present indications indeed point otherwise, as the Australia example has shown. These factors cannot be ignored, particularly when China holds a large share of reserves and processing capacities in several critical areas, including rare earths.

The foregoing alone makes IPEF an imperative for the region for the next decade and more, as a welcome initiative compared to the Chinese model, even as it may be regarded as a poor substitute to the TPP by its erstwhile members, several of whom are also part of IPEF. For India, which has had to contend with the Chinese challenge on its land borders and which is also witnessing increasing dependency creation by China among India's neighbours, a successful IPEF will certainly be in its interest. Some of IPEF's apparent imbalances, as well as the implementation challenges referred to earlier, will no doubt have to be addressed. However, compared to TPP (or even CPTPP) and its extremely high level of market access provisions, the IPEF may be an easier and a better focused option for India's present needs.

4. Will the US interest in IPEF be sustained?

While IPEF is a partnership among 14 nations, and each partner country will have to make efforts for it to succeed, much will depend on the US in terms of what heft and influence the grouping may eventually acquire. In the immediate term, the question is whether any political change brought about in the composition of the House and Senate by the US mid-term elections later this year will impact IPEF's rapid evolution and the Biden Administration's commitment to it. Over a medium term, the question also arises whether a future Republican administration will pursue IPEF with equal vigour.

It is interesting to compare IPEF with APEC, which was also not a traditional trade agreement but was articulated as a move for creating more open economies and subsequently progressed in the form of initiatives towards easing movement of goods, services, investment and people, particularly businesspersons, across the region's borders. APEC was established initially with 12 members, including the US, in 1989 under a Republican administration led by George H.W. Bush, but made the impact it eventually did thanks to the practice started by his Democratic successor President Bill Clinton of holding an annual summit gathering to provide greater strategic vision and cooperation in the region. An annual summit, attended at the head of government level, in turn pushes each government to ensure sufficient follow up in the interim. Will IPEF be able to come up with a suitable structure that will help stir up high level direction and momentum?

It is also noteworthy that APEC itself, with its present 21 members that include 12 IPEF members (only India and Fiji from IPEF do not belong to APEC) apart from China and the Russian Federation, is still very much active with several meetings being held annually at different levels. It will have its first in-person summit after 2018 in Thailand later this year, but it is unclear if President Biden will attend the meeting. In any case, next year (2023) it will be the turn of the US to host the APEC meeting, and the US could come under pressure to show some initiative. While it could be argued that APEC's preoccupation with trade and investment facilitation is different compared to some of the newer issues in IPEF, there is a certain degree of overlap between the activities of APEC and the newly agreed agenda of IPEF, as also their respective memberships. The question then arises what inter se priority will the latter get accorded? Will some of the pending bilateral trade, technology and other economic issues between the US and China also get addressed in the meanwhile? If so, could the US use its chairmanship to trigger new approaches in APEC as well, and push China towards more openness, transparency and compliance with WTO and other trade rules? There are many imponderables here, which will need to be watched.

5. How will IPEF get projected vis-á-vis China?

In simple terms, IPEF could be perceived, in the words of the Consul General of Indonesia in Shanghai[12], as a platform to promote multilateral partnership under a US-led architecture to balance - or to a certain extent contest - China's multilateralism in the region. While China figures nowhere in the detailing of the four pillars of IPEF, nor was it mentioned in the remarks made by Raimondo or Tai following the Los Angeles meeting, Raimondo did make the point at the initial joint briefing on the eve of IPEF's launch on May 23, that countries in IPEF will be more reliable partners for US businesses as they were beginning to look for alternatives to China[13]. But if one were to look at the statements of ministers of certain countries like Malaysia or Indonesia, they make the point

[12] See https://en.antaranews.com/news/233885/ipef-understanding-indonesias-standpoint
[13] See https://www.whitehouse.gov/briefing-room/press-briefings/2022/05/23/on-the-record-press-call-on-the-launch-of-the-indo-pacific-economic-framework/

that choosing a side is not an option for them and IPEF should be inclusive to all countries in the region.

This becomes understandable if the trade realities on the ground are taken into account. China, as seen from figures for merchandise trade[14] for 2019, is the No. 1 source of imports for thirteen countries of IPEF including India and the US, apart from the ASEAN countries in IPEF. Fiji is the only exception here. In terms of export destinations, China ranks first for six IPEF countries, whereas the US ranks first for six others. For Indonesia, Malaysia and Singapore (apart from Australia, Korea and New Zealand) China is the No. 1 market, and they are unlikely to risk that. They are also partners in RCEP in which China is the leading member. All the same, since the US has comparatively few FTAs in the region (only Australia, Korea and Singapore have comprehensive FTAs with the US), the ASEAN countries in IPEF would be willing to look at any arrangement that promotes economic partnership with the US. Malaysia has, for example, proposed that the IPEF partners set up a Centre of Excellence to provide a cohesive and structured platform to facilitate seamless and dynamic exchanges of ideas and recommendations[15].

The US can be expected to factor these aspects in the further evolution of IPEF. This is even as it may hope (as others may too) that IPEF enables the high trade dependence of countries in the region on China to diminish to some extent, while enhancing the US's own market shares. While for some ASEAN countries, such as the Philippines, Thailand and Vietnam, the US is already the top market for exports, countries like Indonesia and Malaysia will also be keen to see if more of their goods can enter the American market. Considering that all these countries are involved in supply chains of MNCs to a lesser or greater extent, IPEF should be of interest to them. In Raimondo's initial remarks on May 23, she had specifically alluded to the impact of semi-conductor packaging plants in Malaysia being closed during the COVID-19 outbreak, putting several thousand workers in automobile plants in Michigan out of work.

Some conclusions can be drawn. Despite the absence of market access clauses, IPEF would still be of interest to the ASEAN countries who have joined. Second, there may be no explicit references to China in the projection of IPEF because of regional sensitivities. On the second aspect, how the US's own bilateral trade and economic issues with China may get addressed in the coming months could also become a factor.

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[14] As seen from WITS data
[15] https://www.bernama.com/en/business/news.php?id=2104598

6. Factors behind India's restraint towards the Trade Pillar

The detailing of the IPEF Trade Pillar, which has also been briefly covered in Section 2.1 of this brief, does not lead to an assessment that as presently formulated, it could carry particular sensitivities for India. The ILO Declaration referred to in the pillar also figures in the other three pillars to which India has subscribed. Similarly, it could be argued that on environmental issues, some of what finds reference under the Trade Pillar is also reflected under the Clean Economy Pillar. Further, the scoping of issues under the digital economy segment of the Trade Pillar in IPEF appears to have been fairly moderated (compared for instance with provisions of the TPP or USMCA), with no mention about requiring free flow of data or insisting on zero duties on electronic transmissions.

Even so, India may have taken a more cautious stance for the present considering several aspects:

- India's concerns relating to issues like labour and environment included in the Trade Pillar stem from their linkages with trade[16]. What has been set out at present under the pillar may seem not so concerning, but there is no certainty that in future such linkages may not be brought in or other provisions tightened. On digital trade, the domestic framework for it in India, including rules in respect of privacy and data security, are still under evolution and a draft bill is likely to be tabled in the Parliament soon. These could be among the reasons why Minister Piyush Goyal reportedly conveyed at the IPEF meeting that India would wait for the contours of the IPEF Trade Pillar to emerge before taking a definitive view. Meanwhile, he said, officials will be participating in the discussions even on this pillar with an open mind.
- It is also possible that India may have found the detailing of the environment segment under the Trade Pillar as not adequate, in that it does not bring out clearly the commitment of developed countries on funding, investment and technology support. In fact, in response to a question from the media, Minister Goyal is reported to have remarked that certain responsibilities of the developed world should be an integral part of any such agreement and this was a matter that will require deeper engagement.

- Two further aspects under the Trade Pillar could also have been seen with some concern by India. One is the reference under the agriculture segment

[16] The implications of this linkage has been dealt with in a recent brief by this author that can be accessed at https://www.delhipolicygroup.org/uploads_dpg/publication_file/indias-approach-towards-inclusion-of-new-areas-in-future-ftas-4118.pdf

towards avoiding restrictions on food or agriculture imports or exports, at a time when India is using such measures towards ensuring the domestic availability of key items and avoiding price escalations. Second is the favorable reference under the transparency segment to the WTO's joint initiative on domestic regulation of services that has been signed on to only by some 70 WTO members. India (as also Indonesia, Malaysia, and Vietnam from ASEAN) is not among them.

- It is further possible that at a time when India is negotiating FTAs with several developed partners including the UK, Canada and the EU, in which these issues are likely to find inclusion as separate chapters with linkages to trade, it may have been considered important to follow a calibrated approach rather than any commitment in IPEF being taken as a precedent in the other ongoing negotiations. If so, this appears to be a valid approach.

7. Conclusions

Within six months of its launch, IPEF has shown considerable progress. The detailing of the four pillars gives it meaningful scope and the first round of negotiations on each pillar could be taking place soon. That said, there are several imponderables in its path, including to what degree the developed partners will commit themselves to on the levels of investment, technology and financial support that will be needed for IPEF to make a difference. To what extent internal political divisions in the US will allow its interest in IPEF to be sustained is another factor. The future direction of APEC, with its overlapping agenda and membership with IPEF, under the US chair in 2023, is also likely to have a bearing.

In any case, for India, which is not part of RCEP or of APEC, this is an opportunity that needs to be fully utilised to advantage, even as this may require careful handling of domestic sensitivities. There is much reordering of the international trading system that is currently in play. Discussions have also commenced on WTO reform. India's own FTA framework is expected to evolve with ongoing negotiations. India will be hosting the G-20 summit next year, at which some of the underlying issues may come for consideration. Clearly, India needs to deal with each trade instrument or issue carefully and in a calibrated manner for optimal benefit.

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