

## INDO-PACIFIC ECONOMIC FRAMEWORK AND ITS IMPACT

By

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For years, due to its economic and strategic significance, the Indo-Pacific region has remained central to various global powers where both China and the US are competing to establish a greater foothold. In this milieu, President Joe Biden launched the much-awaited Indo-Pacific Economic Framework (IPEF) in Tokyo, Japan on 23<sup>rd</sup> May 2022. The framework was joined by 12 other countries including Australia, Brunei, India, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and Vietnam.<sup>1</sup> The significance of IPEF lies in the fact that it has been launched after five years of the US withdrawal from the Trans-Pacific Partnership (TPP), a cornerstone project of the Obama Administration's Asia Pacific trade policy.<sup>2</sup> However, it is pertinent to note that IPEF offers divergence from various policies of earlier TTP for example, it has low barriers to joining and does not offer access to its partners to the US markets.

<sup>1</sup> White House, "Fact Sheet: In Asia, President Biden and a Dozen Indo-Pacific Partners Launch the Indo-Pacific Economic Framework for Prosperity," Accessed May 25, 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/23/fact-sheet-in-asia-president-biden-and-a-dozen-indo-pacific-partners-launch-the-indo-pacific-economic-framework-for-prosperity/>.

<sup>2</sup> Office of the United States Trade Representative, "Overview of TPP", Accessed May 25, 2022, <https://ustr.gov/tpp/overview-of-the-TPP>

Highlighting the contours of the new framework, a White House press statement says, “This framework is intended to advance resilience, sustainability, inclusiveness, economic growth, fairness, and competitiveness for our economies.”<sup>3</sup> The framework focuses on four key areas:

- Connected Economy
- Resilient Economy
- Clean Economy
- Fair Economy

These themes are then divided into various parts i.e. trade, supply chains, clean energy, decarbonization, infrastructure and, tax and anti-corruption activities.

Under this framework, the area of trade mainly focuses on enhancing cooperation in the digital economy and developing innovative techniques for promoting sustainable economic growth. The idea is to make supply chains more inclusive to ensure coordinated crisis response and greater transparency. On the clean energy front, the framework aims at developing technologies in line with the Paris Agreement and on promoting concessional finance to incentivize carbon-free growth. In this milieu, building durable and sustainable infrastructure is a part and parcel of the framework too. Moreover, to curb the menace of corruption, IPEF aspires to create robust anti-bribery and anti-money laundering regimes, aligned with various multilateral agreements. It further includes information sharing and capacity building across the board, while criminalizing bribery according to the United Nations standards.

On the domestic front, IPEF is mainly an extension of the Biden Administration’s cornerstone theme of promoting inclusive trade. IPEF plays a crucial role in this regard, for it aims at making supply chains more resilient, allowing American workers and small businesses to operate in the region. Historically, trade with the Indo-Pacific partners has provided more than three million jobs to the Americans.<sup>4</sup> Around 60 percent of the world population lives in the Indo-Pacific region,<sup>5</sup> and the US has previously invested around 969 million dollars in the region in the form of Foreign Direct

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<sup>3</sup> White House, “Statement on Indo-Pacific Economic Framework for Prosperity,” Accessed May 25, 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/23/statement-on-indo-pacific-economic-framework-for-prosperity/>.

<sup>4</sup> House, “Fact Sheet”.

<sup>5</sup> Ibid.

Investment (FDI).<sup>6</sup> In this milieu, IPEF is an effort to stretch American muscle in the Indo-Pacific while creating numerous job opportunities for its citizens.

However, on the global front, IPEF is yet another effort to balance the growing influence of China in the region. It was launched five months after the Regional Comprehensive Economic Partnership (RCEP) led by China, formulating one of the largest trade blocs in the world.<sup>7</sup> Though India was not a part of the RCEP, it is one of the initial partners of IPEF which further cements the growing strategic proximity between India and the US, specially in the Indo-Pacific region.

The Asia Pacific Economic Cooperation (APEC) Leader's Meeting, which is to be held in November 2023 in the US,<sup>8</sup> is seen as an unofficial deadline to finalize the developments under IPEF. The new economic framework was much welcomed by the members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a free trade agreement between numerous countries aimed at redressing the challenge of establishing export markets for small and medium enterprises in the member countries.<sup>9</sup> They hope that like the CPTPP, the IPEF too will morph into something similar, allowing the partner countries greater access to the US markets.

#### **An Assessment of the Framework:**

A closer look at the framework indicates several gaps in both strategy and implementation levels. Firstly, it remains silent about which partner will join which pillar and to which extent. It allows the partners to choose for themselves about the extent of their cooperation. Furthermore, there is no mention of "negotiations" or "agreements" in the White House statement about the IPEF. It just mentions the word "engagement" but leaves a lot to be desired in terms of engagements as to when, where, how and to which extent.

Secondly, even though the ASEAN countries are a party to this framework, it must be noted that these countries are decidedly non-aligned when it comes to the Indo-Pacific Strategy of the US which aspires to reshift the strategic calculus in the region. Against this backdrop, the ASEAN

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<sup>6</sup> Ibid.

<sup>7</sup> Association of Southeast Asian Nations, "RCEP Agreement enters into force," Accessed May 26, 2022, <https://asean.org/rcep-agreement-enters-into-force>

<sup>8</sup> "The United States Will Host the Asia-Pacific Economic Cooperation Forum (APEC) in 2023," *U.S. Embassy & Consulates in Indonesia*, last modified February 11, 2022, <https://id.usembassy.gov/the-united-states-will-host-the-asia-pacific-economic-cooperation-forum-apec-in-2023/>.

<sup>9</sup> Australian Government Department of Foreign Affairs and Trade, "Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)," Accessed May 24, 2022, <https://www.dfat.gov.au/trade/agreements/in-force/cptpp/comprehensive-and-progressive-agreement-for-trans-pacific-partnership>

countries want an ASEAN-centric approach in the Indo-Pacific as identified in their ASEAN Outlook on the Indo-Pacific (AOIP).<sup>10</sup>

Thirdly, the selection of partners for IPEF is arbitrary to a huge extent. Even though it aims at “inclusivity” for all, it begins by excluding China, which is one of the largest trading countries in the world. Moreover, some countries like Cambodia and Laos are not participating in it because of capacity issues while others like Myanmar could not join due to human rights abuses. The other countries of the Pacific Rim, like Chile, Mexico, Peru, etc., which were part of the TPP, were not even invited to join. On the other hand, Taiwan, despite its willingness to join the IPEF, was left out because no country in the region wants to offend China.

Fourthly, the framework remains vague about numerous policy outcomes. For example, it indicates establishing resilient supply chains without explaining how that would be achieved? Each country has a different perception of supply chain resilience; for some, it means enhancing domestic manufacturing while for others, it means fixing issues in healthcare and pharmaceutical companies after Covid-19. Furthermore, some view it as an opportunity to secure essential resources. This lack of clarity instills room for broad interpretation of the term, which further creates issues in implementation. Moreover, it raises the question, will building resilient supply chains demand tech decoupling from China? If yes, will the regional countries be willing to do so, and why?

Fifthly, IPEF does not offer access to the US markets for the partners and neither does it aim at reducing tariffs. These issues have been avoided due to the fear of domestic backlash; however, it becomes a huge disincentive for the partners to engage further under the framework.

Sixthly, establishing the durability of the framework remains a big challenge for the US, especially after its abrupt withdrawal from the TTP in the past which left the regional partners with many unanswered and unmitigated concerns. Last but not the least, the IPEF lacks an enforcement mechanism.

In a nutshell, though the significance of IPEF could not be undermined as a recent development in the Indo-Pacific region, without centralized coordination, clear demonstration of its durability, and incentives for the partners to continue, the IPEF becomes less of a linchpin project with limited potential to alter the destiny of the region. It just becomes another containment strategy while offering little to no alternatives or new strategies for the regional order. For now, just like the artificial construct of the Indo-Pacific which lacks a clear and unified geographical conception among

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<sup>10</sup> Association of Southeast Asian Nations, “ASEAN Outlook on the Indo-Pacific”, 23 June 2019, [https://asean.org/storage/2019/06/ASEAN-Outlook-on-the-Indo-Pacific\\_FINAL\\_22062019.pdf](https://asean.org/storage/2019/06/ASEAN-Outlook-on-the-Indo-Pacific_FINAL_22062019.pdf)

its partners, the IPEF also becomes another gimmick on the strategic chessboard of the region with little tangible utility for the partners.