

# The IPEF and India: Identifying the Prospects

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## Summary

*By joining the American-led Indo-Pacific Economic Framework (IPEF), India has embarked on a proactive economic engagement in the Indo-Pacific. The IPEF's work pillars connect to its long-term interests. While it will face challenges in acceding to certain standards, particularly in labour and environment, India's robust ties with the United States and the recent experience of engaging in free trade agreements with the Organisation for Economic Co-operation and Development countries should see it engaging productively and confidently in the framework.*

## Introduction

During his first visit to Asia from 20 to 24 May 2022 since assuming office, United States (US) President Joe Biden announced that 13 nations would be joining the Indo-Pacific Economic Framework (IPEF).<sup>1</sup> The announcement marks the beginning of the evolution of a rules-based economic framework for the region. For a long time, discussions on the Indo-Pacific have been dominated by security issues. The IPEF will substantively complement these discussions by moving on regional standards for cross-border digital trade and connectivity, investment, technology and sustainable development.

The IPEF marks an emphatic comeback by the US to economic rulemaking in the region. After President Donald Trump withdrew the US from the Trans-Pacific Partnership (TPP) in January 2017, the US was absent from the two overarching regional trade frameworks – the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Trade and Economic Partnership (CPTPP). The IPEF should fill this void and bring the US commercial rulemaking back into the region as an alternative to similar initiatives by China.

The details of the IPEF are yet to be specified. It includes 14 founding-member economies – Australia, Brunei, Fiji, India, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, the US and Vietnam – adding up to more than 40 per cent of the global gross domestic product. The membership has already increased, with Fiji joining the initial 13 members.<sup>2</sup> The rulemaking goal of the IPEF is evident from the US National Security Adviser

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<sup>1</sup> "Statements and Releases", The White House, 23 May 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/23/>.

<sup>2</sup> "Statement by National Security Advisor Jake Sullivan on Fiji Joining the Indo-Pacific Economic Framework for Prosperity", The White House, 26 May 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/26/statement-by-national-security-advisor-jake-sullivan-on-fiji-joining-the-indo-pacific-economic-framework-for-prosperity/>.

Jake Sullivan's views that it will be "focused around the further integration of Indo-Pacific economies" and "setting of standards and rules".<sup>3</sup>

India is the only South Asian country in the IPEF. Like the US, it is absent from the RCEP and the CPTPP. After exiting the RCEP in November 2019, joining the IPEF marks India's formal return to economic engagement in the Indo-Pacific region. India has enthusiastically endorsed the initiative, with Prime Minister Narendra Modi describing the IPEF launch as "a declaration of our collective to make the region an engine of global economic growth".<sup>4</sup>

India's bright perception of the IPEF should be viewed in the context of a successful summit of the Quad's heads of states that followed the announcement of the IPEF; its deep strategic proximity with the US and several of its major allies (for example, Japan, Australia, the United Kingdom [UK] and Israel) to contain China; and a recent proactive free trade agreement (FTA) strategy that has involved signing bilateral trade agreements with the United Arab Emirates (UAE) and Australia, and negotiating similar agreements with the UK, Canada and the European Union (EU).

## Structural Framework

The initial announcement on the IPEF provides some basic ideas about its structure. It would focus on four pillars:<sup>5</sup> *connected economy*, which will involve standardisation of rules in cross-border data transfers, data localisation, digital trade, labour and environment standards; *resilient economy*, involving building practices to ensure the resiliency of supply chains, particularly in critical minerals and encouraging sourcing diversification; *clean economy*, comprising efforts to enhance regional decarbonisation, use of renewable energy and address climate crisis; and *fair economy*, emphasising on enforcing rules to prevent money-laundering, bribery and efficient taxation systems.

Formal consultations will soon be launched between partner countries on the four pillars. The US will be leading the work on all four pillars with the US Trade Representative shepherding the pillar on the connected economy, and the Department of Commerce the remaining three.<sup>6</sup> The US leadership leaves little doubt about the IPEF standards getting shaped in a fashion that will closely reflect American regulatory priorities on all the subjects. Indeed, in this respect, the US, through the IPEF, aims to seize the initiative on regional standard-setting that it had squandered by its abandonment of the TPP.

An important point to note is that the IPEF is not going to advance as a conventional FTA. Instead, it aspires to take a new approach to symbolise the current US administration's

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<sup>3</sup> "What's in Biden's proposed new Asia trade pact?", *The Economic Times*, 23 May 2022, <https://economictimes.indiatimes.com/news/international/business/whats-in-bidens-proposed-new-asia-trade-pact/articleshow/91738720.cms?from=mdr>.

<sup>4</sup> "India joins IPEF; Indo-Pacific is growth engine, says PM Modi", *The Economic Times*, 24 May 2022, <https://economictimes.indiatimes.com/news/india/india-joins-ipef-indo-pacific-is-growth-engine-says-pm-modi/articleshow/91750982.cms?from=mdr>.

<sup>5</sup> "Statements and Releases", The White House, op. cit.

<sup>6</sup> Aidan Arasingham, Emily Benson et Al. "Unpacking the Indo-Pacific Economic Framework Launch", Center for Strategic and International Studies, 23 May 2022, <https://www.csis.org/analysis/unpacking-indo-pacific-economic-framework-launch>.

world view on engaging in external trade. The approach is premised on locating solutions for new challenges – safeguarding supply chains, facilitating safe and efficient digital connectivity and harnessing clean energy efforts – that are not being addressed meaningfully by conventional FTA strategies. A bold element of the new approach is abstaining from ‘trading’ market access by offering reciprocal preferential access to domestic markets of the members through tariff cuts, as usually envisioned by standard FTAs.

The four pillars of the IPEF include issues that by their very nature, require fresh and different thinking. All the pillars contain contemporary and cross-cutting subjects and with profound implications for the national securities of countries.<sup>7</sup> National regulations are at various stages of evolution on these subjects. Pan-regional regulatory coordination on these issues requires extensive consultation and engagement among ‘friendly’ countries – such as those belonging to the IPEF – and the readiness to accept regulatory leadership from a major actor within the bloc – the US, in this instance.

## **India and the IPEF**

As a prominent stakeholder of the Quad (the US, Japan, Australia and India), India has been participating actively in efforts to shape the regional construct of the Indo-Pacific. In this respect, its participation in the IPEF was foreseeable. By joining the IPEF, a distinct Quad-plus initiative,<sup>8</sup> India has shown its willingness to engage in the Indo-Pacific region beyond the Quad and through plurilateral mechanisms. It has also demonstrated an eagerness to engage in regional economic consultations, which complements its current proclivity towards bilateral FTAs.

India’s endorsement of the IPEF and figuring in it should also be seen in the light of its exit from the RCEP in November 2019. The RCEP, which consolidates all the Association of Southeast Asian Nations (ASEAN)+1 FTAs, has become operational without India, the only bilateral FTA partner of ASEAN that is not in the RCEP. India’s exit from the RCEP had conveyed the impression that it was not willing to stay actively engaged with the ASEAN+ economic architecture. This could have been a sore point between India and the large majority of IPEF members, 11 of whom belong to the RCEP. However, the fact that India and the RCEP members, including seven ASEAN member states, have agreed to come on board in the IPEF reflects a renewed interest in resuming proactive engagement through a different forum.

By joining the IPEF, India is effectively back in the region to contribute to setting rules and standards for those industries and economic practices that would determine future geo-economic strengths of countries in future (for example, semiconductors, clean energy, critical minerals, data transfers, cross-border payments and e-commerce). Further, by

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<sup>7</sup> Amitendu Palit, “Unpacking the Indo-Pacific Economic Framework Launch”, *Financial Express*, 27 May 2022, <https://www.financialexpress.com/opinion/will-the-ipef-replace-the-rcep/2539155/>.

<sup>8</sup> Amitendu Palit, “The Indo-Pacific Economic Framework: An Inclusive Quad-plus Initiative”, Institute of South Asian Studies, ISAS Brief No. 934, 25 May 2022, <https://www.isas.nus.edu.sg/papers/the-indo-pacific-economic-framework-an-inclusive-quad-plus-initiative/>.

joining the IPEF, India has also committed to endorsing the US leadership in economic rulemaking in the region.

All four pillars of the IPEF align well with India's interests. The initiative's focus on clean energy and decarbonisation gels with India's commitments at the COP26 and its efforts to transition to a net-zero economy. The focus will particularly facilitate India's efforts to grow into a global hub for making electric vehicles and transitioning to a pattern of energy consumption that relies more on clean renewables.

The IPEF's work on safeguarding supply chains will complement India's ongoing efforts to minimise supply chain disruptions through the multi-country Supply Chain Resilience Initiative<sup>9</sup> and enlarging local capacities to produce imported supply chain inputs through production-linked-incentives<sup>10</sup> to minimise sourcing dependencies.

India should look forward to the IPEF's establishment of regional rules on digital trade and e-commerce that will enhance opportunities for Indian small and medium-sized enterprises, particularly technology start-ups providing a variety of online services, to entrench deeper in the large markets of the Indo-Pacific region. Finally, the IPEF's efforts to counter money laundering and bribery, and regional collation of good tax practices, are causes that India has supported and contributed to for several years.

However, the IPEF would bring new challenges for India as well.

Several IPEF members, most notably the advanced Organisation for Economic Co-operation and Development (OECD) economies (for example, the US, Australia, Japan, Korea and New Zealand) and leading Southeast Asian economies (for example, Singapore and Malaysia), have made significant progress on several aspects of rulemaking in subjects that the IPEF will engage on. India lags behind in domestic regulations, particularly on sensitive topics like data standards, cross-border rules for data exchange and online privacy.

The baseline templates for standards are likely to be those that are already being applied or are in the advanced stages of application in the US and other OECD economies. India will be expected to accede to these standards. This is where its reputation as a difficult and obstructive negotiator might have an impact on negotiating circumstances. Furthermore, India's reticence to participate in several plurilateral initiatives outside of the World Trade Organisation, such as on global rules for e-commerce, which include many IPEF members, might come in the way of its deeper engagement on some subjects.

The biggest challenge for India within the IPEF would be committing to the labour and environmental standards. The US would be insistent on these standards. Given that the IPEF has been described by the US as an initiative that would protect the interests of American

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<sup>9</sup> "Australia-India-Japan Trade Ministers' Joint Statement on Launch of Supply Chain Resilience initiative", Ministry of Commerce and Industry, India, 27 April 2021, <https://pib.gov.in/PressReleaseframePage.aspx?PRID=1714362>.

<sup>10</sup> "Production Linked Incentive (PLI) Schemes in India", *Invest India*, March 2020, <https://www.investindia.gov.in/production-linked-incentives-schemes-india>.

workers, small businesses and ranchers,<sup>11</sup> it would not be compromising on labour standards. Moreover, the Biden administration's commitment to climate action will mean the IPEF working on rules that enforce stringent cross-border climate policies.

India's worries concerning labour and environment standards would be due to their impact on its exports and inward investments. These worries would be significant if the standards are binding.

Tough labour standards suggested in the IPEF might mean a ban on labour-intensive exports inconsistent with the standards committed by the IPEF members. Environmental standards, in contrast, might be easier for India to accept and commit to. However, it would look to retain the flexibility of 'escape clauses' from the standards to address unexpected exigencies. These could be urgent episodes like the current summer in India that have seen the mercury soaring to unprecedented highs, leading to an exponential increase in demand for electricity. The high demand for mercury has forced India to allow greater use of fossil fuels like coal to produce electricity. Such actions are not recommended in light of the COP26 commitments. They might also be considered unacceptable if the IPEF brings in similar stringent standards on decarbonisation and the use of fossil fuels. Therefore, circumstantial exceptions should allow countries to deviate from these standards – an understanding India would look forward to.

## Looking Ahead

The IPEF will soon commence engagement between the members on its four pillars of work. Considerable progress is expected to be achieved within the next 18 to 24 months. The Biden administration would like to make solid and irreversible progress on the framework over the next two years in office.

Biden was heavily engaged in the TPP consultations as vice-president during President Barack Obama's tenure. He would wish to ensure that the US does not meet the kind of fate in the IPEF that it did in the TPP. One of the advantages is that the IPEF is not being negotiated as an FTA and, therefore, will not need to be ratified by the US legislature. Nevertheless, the Biden administration would want to ensure that the IPEF brings back the US to the pivotal role that it played in the region before it left the TPP.

The Biden administration considers the partnership with India as the most important relationship for the US.<sup>12</sup> India can utilise its strong ties with the US to make a decisive contribution to rulemaking and standard-setting in the Indo-Pacific region. In this regard, it has a far greater opportunity than it had as a member of the RCEP. By being a major contributor to the notion of the Indo-Pacific and its active role in the Quad, backed by the trust the US reposes in it, India can and should be in an influential position to shape the growth of the IPEF.

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<sup>11</sup> "Statements and Releases", The White House, op. cit.

<sup>12</sup> "India ties most important for Joe Biden: White House", *The Times of India*, 10 April 2022, <https://timesofindia.indiatimes.com/india/india-ties-most-important-for-joe-biden-white-house/articleshow/90754173.cms>.

All opportunities have downsides, and the IPEF is not an exception. As mentioned earlier, India will face challenges in committing to American-positioned standards in some areas. However, its struggles to overcome these challenges should be lesser than before. The fact that it is actively negotiating FTAs with global middle powers and the large OECD economies (for example, the UK, Canada and the EU) and has been able to pull off agreements with the UAE and Australia in a quick time will give New Delhi the confidence to engage actively in standard-setting on contemporary cross-border trade issues. Some of the IPEF's issues like the digital economy and clean energy are featured in the FTAs that India is currently negotiating. This should help India in the IPEF's consultations.

The possibility of India playing a productive role in the IPEF arises from its new vision of external economic engagement. It is now viewing trade through the prism of national security. India no longer treats economic gains and national security interests as mutually exclusive.

The IPEF is a framework that brings together economic and security interests, particularly for the US, India and its members keen on mitigating China's tendency to 'weaponise' economic clout. In this aspect, India's security-premised approach to external economics and the IPEF's character fit well together, and the latter should see India playing an active role in its growth.

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