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The IPEF Advances – Is India Ready?

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Summary

The Indo-Pacific Economic Framework has commenced discussions and held its first ministerial session in July 2022. The United States and the other members are keen on fast progress. However, India is yet to feature meaningfully in the talks. Insufficient progress on domestic regulations in critical areas is impacting its participation. New Delhi must engage and capitalise on the chance to contribute to regional trade and business rules.

Within two months of its announcement on 23 May 2022, the Indo-Pacific Economic Framework (IPEF) has picked up momentum. The first round of discussions among officials and experts was held in Singapore on 13 and 14 July 2022. This was followed by a virtual ministerial meeting of the IPEF members on 26 and 27 July 2022.

Considerable engagement has begun on four thematic 'pillars' of the IPEF: trade; supply chains; clean energy, decarbonisation and infrastructure; and tax and anti-corruption. The United States (US) Trade Representative is leading the discussions on the first pillar while the US Department of Commerce is taking the lead in the remaining three.

Imperatives driving the momentum on the IPEF include the urgency of US President Joe Biden's administration to bring in rules for the pillars for enabling greater engagement of the US businesses with the Indo-Pacific. While doing so, the Biden administration is careful in retaining emphasis on protecting the interests of American workers and sustaining efforts for decarbonisation. Both objectives require in-depth and lengthy consultations with the other members on labour and environment standards. The further urgency on the part of the Biden administration in getting on with the IPEF is to ensure that regional rule-making on trade and new-generation business issues remains driven by the US, not by China.

The urge to 'get going' is also noticeable among the other members of the Quad – Australia, India and Japan – as they realise the importance of hastening the rules on strategic and geopolitically sensitive issues, such as clean technology, resilient supply chains and digital trade. The IPEF has commenced as a Quad-plus grouping, underlining the Quad's ability to bring together several regional economies on a common standard-setting platform. This is notwithstanding the possibility of the IPEF being seen as anti-China and not being a framework for trading preferential market access, as usual free trade agreements do.

The ASEAN members of the IPEF – Singapore, Malaysia, Thailand, Indonesia, Vietnam, Brunei and the Philippines – note its significance in energising regional economic prospects and greater integration with major global markets. The IPEF can align the ongoing trade and investment rule-making efforts of the Association of Southeast Asian Nations (ASEAN) to those of the US, Japan, Australia and India. The alignment can institutionalise ASEAN-plus functional standards in digital trade, including the cross-border flow of data and recognition of privacy, growth of clean energy systems, and transparent tax practices, convincingly and purposefully.

Much attention is focused on India's contribution to the IPEF. India participated as an 'observer' in the recently concluded virtual ministerial, triggering speculation over whether it was ready to participate meaningfully in the discussions on the four pillars.

The enthusiasm among many experts in India over the country joining the IPEF, and the benefits it is poised to reap by doing so, is tempered by hesitations, among others. The latter arises from anxieties over the possibility of India having to 'accept' US-designed standards in critical areas like cross-border data transfer and labour management. For those not fully supportive of the IPEF, the possibility arises from India's geopolitical compulsions and close strategic proximity to the US, which might force the choice.

For the time being, a more realistic reason for India to follow the negotiations from the sidelines could be to firm up its negotiating postures on various issues. The ostensible intention behind taking time is the lack of progress on domestic regulations on several issues discussed by the IPEF.

The absence of well-developed domestic regulations for e-commerce, energy efficiency, labour standards and data localisation can hamper India's ability to contribute meaningfully to ongoing discussions. This has been responsible for India's traditional hesitancy to engage in trade discussions featuring new-generation issues. The apprehension has been that the absence of domestic regulations on these issues might compel India to accept standards unsuitable for its wider economic and national interests.

Engaging closely with the IPEF discussions in areas where India's domestic regulations are underprepared can help obtain crucial learning for accelerating the progress on the regulations. The progress can be aligned to acceptable global and regional standards as well. The IPEF also allows India to involve its private sector in shaping its negotiating agenda, particularly in digital trade, supply chains and decarbonisation. Wide-ranging consultations early on will ensure adequate buy-in of the local stakeholders. It will help to minimise distances between the official negotiating perspective and those of Indian businesses, particularly small and medium enterprises.

The IPEF is India's chance to contribute decisively to regional trade and investment rules in line with its interests. It must ensure that it does so.

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