

India and the Indo-Pacific Economic Framework

By Surupa Gupta, PhD

Surupa Gupta, Professor of Political Science and International Affairs at University of Mary Washington, explains that "[e]ven though India has emerged as an active and engaged member of the Quad, its decision to join IPEF—a US-led framework for economic cooperation in the Indo Pacific—was not a foregone conclusion."

India's decision to join the Indo-Pacific Economic Framework (IPEF) may have surprised many who have followed India's recent record in joining bilateral and multilateral economic arrangements. In 2019, India announced that instead of signing the deal, it would leave the negotiations for the Regional Comprehensive Economic Partnership (RCEP), a fifteen-member trade agreement in the Asia Pacific. In 2020, India and the United States' effort to sign a bilateral trade and investment agreement stalled. In 2021, the United States and India announced that working towards a free trade agreement was off the table. Even though India has emerged as an active and engaged member of the Quad, its decision to join IPEF—a US-led framework for economic cooperation in the Indo Pacific—was not a foregone conclusion. Three factors explain the Modi administration's decision to join IPEF. First, several of IPEF's features make it attractive to India. Second, IPEF provides a counter-narrative to China-dominated economic and infrastructure frameworks. Third and related, it builds on India's attempt to reform its trade policy. That said, India's core economic interests will likely continue to limit the extent of its participation in any new effort at economic cooperation, including IPEF itself.

IPEF is built on four pillars: fostering high-standard, inclusive, free, and fair trade; building transparent and resilient supply chains; creating resiliency to climate change through use of technology and clean energy; strengthening tax, anti-money laundering and anti-bribery regimes to reduce tax evasion and corruption in the region. It is important to note three aspects of the framework. First, the announcement of IPEF signaled the beginning of discussions that would lead to negotiations in the future: to that end, none of the signatories were committing to anything concrete yet. Second, thus far, the United States has suggested that member states can join the pillars they are ready to negotiate and are not expected to negotiate on all four pillars. Finally, the framework focuses on a number of strategic areas and regulatory issues which were gaining urgency even before the pandemic drove home their salience.

The flexibility of the framework and the focus on supply chains are probably two areas that make the framework attractive to India. During his remarks after the IPEF launch announcement in Tokyo, Prime Minister Narendra Modi focused on supply chains, highlighting the need for trust, transparency and timeliness as the building blocks for resilient supply chains. He also lauded the flexibility and inclusiveness of IPEF. This is understandable considering the difficulties the country's production network faced during the pandemic. Indian industries, like others around the world, suffered costly and critical interruptions where they relied on China for supply of key inputs. Both Indian industry and the government have an interest in building more resilient value chains to protect themselves from future shocks. Additionally, one of the Modi administration's main goals has been to bring investment into the Indian manufacturing sector—both the "Make in India" campaign and its successor, Atmanirbhar Bharat or "Self-reliant India," seek to pursue this strategy. This requires that Indian industries insert themselves into global value chains that would both bring investment and create jobs. Any effort to restructure existing production networks, that involve and are often dominated by China, create potential opportunities for India.

Second, India's decision to leave RCEP was largely driven by a mix of strategic and economic factors: China's increasing aggression on border issues, its reach on infrastructure building and financing through the Belt and

Road Initiative and India's persistent and large trade deficit with China along with the latter's influence over and dominance of the emerging economic architecture in the Asia Pacific. IPEF potentially creates a counternarrative to Chinese dominance of economic and infrastructure architecture in the region. Asia needs \$22-26 trillion over a decade to build infrastructure and connectivity in the region. The lack of United States' engagement, particularly during the Trump years, had left the region with no choice but to rely on funding and technology from China. The \$50 billion commitment from the Quad towards infrastructure in the region acknowledges this critical need. IPEF seeks to create an alternative economic framework and allows India to be a part of the discussion on economic cooperation in the region. Additionally, India's joining IPEF also signals its interest in engaging its Southeast Asian neighbors in the economic arena and attempts to mend relations upset by its exit from RCEP. Finally, joining IPEF allowed India to demonstrate that it can work with the United States, despite differences on other issues such as the Russian invasion of Ukraine.

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Third, and somewhat related, it seemed to have dawned on New Delhi that it is outside of all major economic agreements, while China is part of RCEP and has applied to join the Comprehensive and Progressive Trans Pacific Partnership (CPTPP). This isolation has implications for the Modi administration's ambition of turning India into a manufacturing hub. Vietnam, for example, has emerged as a likely destination for locating supply chains since it enjoys preferential market access with multiple free trade partners while India does not. Since 2021, India has been seeking to focus its attention on negotiating free trade areas with Australia, Britain, Canada, the European Union, the United Arab Emirates, and the United States. Thus far, it has negotiated one with the UAE and an interim deal with Australia. While an India-US FTA is unlikely in the near future, IPEF is an avenue to continue India-US engagement on economic cooperation and exploration of areas of common interest.

While India has a few compelling reasons to join IPEF, it is important to remember that its core economic interests and positions on many regulatory issues have not changed. IPEF brings up the issue of cooperation in the digital economy. This is an area where Washington and New Delhi do not see eye to eye. India has not finalized its domestic regulations on digital economy and is a strong advocate of data localization. Washington's focus on environmental and labor standards in trade negotiations is at odds with New Delhi's position on those issues. Finally, domestic economic policy issues and infrastructure deficits continue to challenge its economic competitiveness. The Indian economy had started slowing down well before the pandemic hit—without a meaningful reboot on critical aspects of the economy, it is not clear how the government can play a successful role in economic cooperation in the Indo Pacific.

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