

# IPEF, its pros and cons in the Sino-US power struggle for dominance in Asia

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Indo-Pacific Economic Framework (IPEF), founded on 23 May, 2022 is a culmination of 14 countries which seek an open, inclusive, interconnected and secure Indo-Pacific for sustainable growth. The 14 IPEF partners which came to fruition in Tokyo is a US-led initiative and represent 40% of the global GDP and nearly one-third of the global goods and services trade. The IPEF is structured around 4 pillars namely, Trade; Supply Chains; Clean Economy; and Fair Economy.[1]

The 14 members of the IPEF are – Australia, Brunei, Fiji, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, Vietnam and the US. It is to be noted that despite ASEAN’s concerns on its centrality, barring Laos, Myanmar and Brunei every ASEAN nation is a part of IPEF. This comes despite IPEF essentially being launched in the side-lines of the 2022 Quad summit in Tokyo which is a known anti-China bloc.[2]

The IPEF was launched by Biden and reaffirms the USA’s ‘pivot to Asia’ policy or even an expansion of the FOIP (Free and Open Indo–Pacific) with the FOIP being integrated to the pivot to Asia structure. It can be construed as a method to reduce Chinese influence in the region by the USA. As President Biden was quoted saying “*We’re here today for one simple purpose: the future of the 21st Century economy is going to be largely written in the Indo-Pacific. Our region,*” as he launched the plan. With emphasis on the 21<sup>st</sup> Century as the Biden administration believed the CPTPP to be a model based on the 20<sup>th</sup> Century. [3] The following paper is going to discuss a few of its strengths and weaknesses.

IPEF is surrounded with speculations and does not have any form of clarity as, concerns being conjectured about its nature on it being a complete strategy or an adequate policy package to counter China's gains in the economic sphere in Asia. IPEF is potentially going to claim the position of being the largest trading bloc from RCEP (Regional Comprehensive Economic Partnership). However, there is not a lot of clarity on what the IPEF is going to be therefore, its strengths and weaknesses might change in the future. Case in point it might not even be a trading bloc (a traditional one at the very least).[4] IPEF, can be seen as a tool to counter RCEP as the only ASEAN countries not part of IPEF plus China are in the RCEP. Similarly, US, India and Fiji are a part of the IPEF and not the RCEP. IPEF and RCEP are distinct from each other in many ways such as tariff liberalisations are not sought by IPEF which is one of the central tenets of RCEP. IPEF focuses on issues such as supply chains, digital connectivity and a clean economy— notions only confronted by the RCEP as tertiary concerns.



IPEF aims at reducing the economic dependencies of countries on China with the goal of working in close coordination with the Quad members. IPEF's security agenda might not take precedence over its economic one, both will be incorporated and tried to be integrated in close coordination with one another. It would be naive to think that security considerations will not play a role in the IPEF's attempts to create standards and regulations in its target areas. It is a distinctive regional framework that differs significantly from the RCEP due to the emphasis on both economic growth and security needs. Therefore, China has dubbed the IPEF as, "Economic NATO" as they alleged, USA would add concrete rules to its framework in the future to serve US interests.

The RCEP, which includes all the other IPEF members (barring the three mentioned earlier), is the largest trade agreement in the world. The US stayed clear of it and even the TPP(Trans-Pacific Partnership) (now CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership)) despite, making great headways under the Obama administration.[5]As a result, the China-led RCEP and the US-led IPEF represent diametrically opposed ideas: the former offers trillions of dollars in investments by their foremost trading partners, whereas, the latter suggests developing a shared facilitation system for transactions that are mutually beneficial. This is since US domestic politics are clearly affecting its power projection capabilities. As ever since 2016, Trumps portrayal of US as being taken advantage of by the rest of the world has become a popular sentiment across America, as he had pulled out of various multilateral agreements and focused more on AUKUS, QUAD, 5 eyes and so on.

Therefore, USA is unable to enter into any FTAs or, “traditional trade agreements” USTR (Office of United States’ Trade Representatives) officials said, the initiative(IPEF) will include different modules covering “fair and resilient trade, supply chain resilience, infrastructure and decarbonization, and tax and anticorruption.”.[6] USTR officials go on to call IPEF, “more of an Administrative arrangement.” As the “fair and resilient trade” module will be led by USTR and include digital, labour, and environment issues, with some binding commitments, but the IPEF will not include market access commitments. [7]

It has been highlighted, ever since Trumps withdrawal from the TPP in 2017, USA has lacked an economic and trade strategy sufficient to counter China’s increasing economic influence in the Indo-Pacific. Whereas, China along with a few other nations seek to accede to the CPTPP. Additionally, China has requested to join the Digital Economic Partnership Agreement (DEPA) with Chile, New Zealand, and Singapore. Even the EU recognises the importance of the Indo Pacific as it seeks to advance new trade agreements in the region. However, the Biden Administration argues, alternative agreements(IPEF) are more suited to handle the region’s current economic issues than joining the CPTPP. Since IPEF is more suited to the 21<sup>st</sup> Century in its structure.[8]

Similar to U.S.A’s previous initiatives such as the B3W (Build Back Better World) (2021) or the Blue Dot Network (2019) which made little headway, there is fear the IPEF may also become a non-starter. IPEF has largely been perceived as US’s attempt to assume a larger role in the region and take a more firm leadership position. IPEF will, therefore, help the USA regain its lost credibility in the region after Trump pulled out of the TPP.[9] However, concerns over its efficacy and credibility exist since it does very little on the trade front, taking the wide-ranging nature of the 14 countries, nothing appears to be a common ground rather than vague and broad over-generalisations. One argument which can be made to give it some form of credence can be the fact that it is the Biden Administrations’ first foreign policy strategy and quintessential to countering China’s increasingly aggressive posture in the region. However, Biden domestically portraying the IPEF as a tool to counter China raises a little concern as its commitments to the IPEF being solely geoeconomic or geopolitical in nature. However, at present ASEAN nations,

which have historically used hedging strategies, have consented to join this endeavour despite not understanding the precise objective and realising that it would not result in improved market conditions because of a concern that they will miss out if it develops into anything significant. The US has a lot of work ahead of it to demonstrate that this programme won't just be another talking shop like the Blue Dot and the Build Back Better (B3W).



Lack of common grounds for countries, since IPEF is not a Free Trade Agreement (FTA); nor will it discuss tariff reductions or increasing market access, there are questions about its utility. Since the USA does not grant access to its market which are an incentive for other nations. Yet other nations are expected to comply with their standards. While flexibility seems to be a selling factor for the agreement, the four pillars are somewhat confusing. Additionally, each IPEF country has major trade interests in China, with most having large trade deficits with China. No strategy has been mentioned to counter this issue, however, with Covid19 and the recent withdrawal of industries from China might present a chance for newer markets in the region.[10]

A balanced presence of major powers is considered ideal and could contribute to more stable regional relations. This is why ASEAN members were concerned about the US exclusion in the region. Therefore, IPEF is definitely a step in the right direction, and despite its vague nature. IPEF allows for signatories to opt out of pillars, case in point India opting out of the Trade Pillar to protect its own national interests as per Piyush Goyal. India is waiting for clarity on the nature of the Trade pillar as officials said, *“India has agreed to the remaining three pillars (supply chains, clean economy, and fair economy). We are not yet clear on the binding commitments of the trade pillar. So we*

*will wait and see what are the commitments set out in further deliberations and we will act accordingly*” and *“India cannot agree on free agriculture trade, but if it is about high standards of export, (we can)”*(PTI). This might be seen as another flaw adding on to the vagueness of IPEF, however, it gives IPEF the uniqueness it requires in the presence of already established economic frameworks such as the RCEP or even the BRI(Belt and Road Initiative). Therefore, allowing for more nations to be able to integrate themselves with and join hands with the US on their own term, something which was required to counter-balance the region anyway.

From the perspective of Asian countries, IPEF is a welcome change as it still does not formally force them to choose sides between USA and China. It might not be the most welcome outcome to the USA however, gives the Asian nations a bigger bargaining chip. The vagueness of IPEF has encouraged ASEAN nations to be able to join the IPEF without any concerns or threats. Dandy Rafitrandi, an economics researcher at the Centre for Strategic and International Studies (CSIS) argues, “participating would still benefit Indonesia, even if it remains unclear what real commitments the US will offer. If we don’t join, we might be seen as less competitive [to the US] compared with other countries”. According to analysts in Vietnam, one of the four pillars of IPEF, green energy is a sector with enormous potential in Vietnam. Given its favourable geographic characteristics, Vietnam is destined to be the next country to receive investments in renewable energy, notably solar and wind energy. Building on its excellent connection and historically increasing exports to the US, the IPEF is also anticipated to propel Vietnamese exports to the US market to an even higher level. As reliable partners, the US and Vietnam’s relationship is strengthened by the framework, which fosters commerce and investment between the two nations. Hsien Loong, the prime minister of Singapore, stressed during his speech at the IPEF’s virtual launch event that Singapore understands the IPEF’s strategic and economic importance and that this presents a chance for the US to engage in economic diplomacy in the area. He had further stated, *“The four pillars include issues that will resonate strongly in the region. In particular, they will also cover cooperation in the digital economy and the green economy, which show promise of growth. It is important that the IPEF remains open, inclusive, and flexible. Enabling members to continue working with many other partners, in overlapping circles of cooperation, and leaving membership open to others to join later on, as and when they are ready to do so.”* The important thing to remember in this situation is to be flexible and provide room for future members, which might be a direct hint towards China.



Image source: The Hindu Business Line

It would be incorrect to write off the IPEF as being unimportant. It is relevant in the domains it identifies, although narrowly. For instance, if the US offered “green” loans for clean energy, it may help other countries escape the full effects of high fossil fuel costs as well as help them reach their pollution reduction goals. Similarly to this, many nations need to strengthen their digital security, and this may assist. However, IPEF falls far short of demonstrating that US involvement in Asia is supported consistently and across party lines. While President Biden is well-liked among Asian leaders, it is uncertain who will hold the US presidency after him and whether there would be a continuation of current policy. No country would want to invest billions of dollars in plants just for US policy changes to prevent them from operating as one could even draw parallels with US’s JCPOA withdrawal.[11]

Taiwan not being a part of IPEF was seen as a let-down however, it is in line with US policy. For the U.S., enabling Taiwan to join the IPEF framework under the same name carries the danger of legitimising agreements that undermine or diminish Taiwan’s sovereignty. Taiwan is now a member of the WTO under the name “The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu.” Additionally, the name “Taiwan” is out since it would conflict with the present U.S. One China policy. Doing this would also endanger and discourage the ASEAN nations from joining the IPEF as it would have been a direct stand against China.[12]

At the very least, IPEF participants ought to create uniform criteria for reliable, trustworthy, and sustainable supply chains. This would include establishing common standards for supply chain labour conditions and banning the importation of goods made using forced labour or illegal logging. Countries should endeavour to improve labour standards and safeguard workers, and they should do so in coordination with any current

International Labour Organization (ILO) initiatives that are already in place in the area. It is vital and compelling for the United States to implement a positive economic policy in the Indo-Pacific region. The Biden administration's idea for an Indo-Pacific economic framework bears promise. To be viewed as legitimate and long-lasting by regional partners and U.S. stakeholders, the framework will need to address a number of structural and substantive problems.

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