

The IPEF holds promise but there are perils too (GS Paper 2, International Relation)

Why in news?

- Recently, the U.S. administration launched its own version of a “pivot to Asia” through the establishment of the Indo-Pacific Economic Framework for Prosperity (IPEF).
- The IPEF reignites the twin ambitions of the U.S. to **provide economic leadership** and to **challenge China’s hegemony in the region**.



Member nations:

- IPEF was launched with other partner countries; Australia, Brunei, India, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, Vietnam and the United States.
- Within days of its launch, IPEF expanded its membership to the Pacific Island states, with Fiji joining the initiative.

How IPEF is “Made in America”?

- An American initiative to bring together its allies in the Indo-Pacific region to enhance economic cooperation is bound to lead to comparisons with one of former U.S. President Barack Obama’s pet projects, the **Trans-Pacific Partnership (TPP)**, which was spiked by Donald Trump.
- The U.S. Trade Administration had touted the TPP as “Made in America”, a tag that seems equally appropriate for the IPEF.
- At its launch, the IPEF was proposed as an elaborate **framework of rules covering four pillars**, namely, **fair and resilient trade, supply chain resiliency, clean energy decarbonisation, and tax and anti-corruption**.
- U.S. has been carefully constructing the framework ever since President Biden had first spoken about it in October 2021 during the East Asia Summit, in the presence of all IPEF signatories except Fiji.

Stakeholders:

- It invited public comments in March from “interested parties” on the four pillars to assist its trade administration for developing the U.S.’s position in IPEF negotiations.
- Major corporations, including Google, Microsoft, IBM, Intel and Cargill and influential industry associations such as the Biotechnology Innovation Organization and the Pharmaceutical Research and Manufacturers of America (PhRMA) responded to the call.

Why IPRs have been excluded?

- The U.S. has announced that under the “fair and resilient trade” pillar, it “aims to develop high-standard, worker-centered commitments” covering **labour rights, the environment and climate, the digital economy, agriculture, transparency and good regulatory practices**, competition policy and trade facilitation.
- The clear focus of this agenda is to focus on issues which the U.S. considers vital to further its interests. One notable **exclusion from this list is intellectual property rights (IPRs)** that have generally been at the heart of the U.S.’ economic engagements with its partner countries.
- One possible reason for excluding IPRs could be that these are seen as the major reason why only 16.2% of people in low-income countries have received at least one dose of the COVID-19 vaccine until today.
- But with several corporations, including those from the pharmaceutical and electronics sectors, and members of the Congress making a strong pitch for their inclusion, IPRs could soon figure in the IPEF negotiations.

Fair and resilient trade:

- Promoting “fair and resilient trade” defines the U.S.’s agenda on trade, side-stepping its pursuit of the free trade ideal. The reason behind this shift could be that for most IPEF signatories, import tariffs are passé. Only four of the 14 signatories have average tariffs in double digits.
- The primary objective of the IPEF is to ensure a high degree of regulatory coherence and to make market access contingent upon realisation of regulatory standards.
- It must be pointed out that standards and **regulations in most developed countries often create discretionary/discriminatory barriers to trade** and overcoming these barriers is usually beyond the capacities, both institutional and otherwise, of lesser developed countries.

Contentious issues:

- Two contentious issues that are generally included in free trade agreements (FTAs) involving the U.S., namely, **labour rights and the environment and climate change**, are duly included in the IPEF. Enforcement of labour rights using trade rules is quite contentious, having been rejected by the members of the World Trade Organization (WTO) on several occasions.
- WTO members had arrived at a consensus that the “internationally recognized core labour standards” of the International Labour Organization (ILO) should be used to deal with issues pertaining to labour rights. They had also **rejected the use of labour standards for protectionist purposes**.
- As regards the environment, the **United Nations Framework Convention on Climate Change (UNFCCC)** had cautioned that “measures taken to combat climate change, including unilateral ones, should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade”. The IPEF could threaten abrogation of these decisions at the WTO and the UNFCCC.

Data portability:

- A third set of issues, whose ramifications on the future of the digital economy and beyond can be far reaching, are those related to **standards on cross-border data flows and data localisations**.
- Control over data, the driver of the digital economy, will increasingly determine the dynamics of economies, and hence the issue of data portability assumes critical importance.
- Although China was not mentioned at the official launch of the IPEF, possibly for diplomatic reasons, the second largest economy has been at the centre of America’s strategies for the Indo-Pacific, especially with regard to supply chains.
- However, the crux of the American narrative on this issue is the hope that U.S. manufacturing giants, most of which have made China their preferred production bases at least since the 1990s, would move to the other countries in the Indo-Pacific.

- But even if these corporations move to countries other than China, how can the U.S. ensure supply chain resilience?

Challenges ahead for India from the IPEF:

- While endorsing the IPEF, Indian Prime Minister had spoken of India's aspiration to participate more substantially in the supply chains in the region. However, this would have its challenges.

Data localization challenge for India:

- For instance, while addressing the needs of the digital economy, the U.S. has emphasised the importance of "high-standard rules... on cross-border data flows and data localization".
- On this issue of data localisation, the Government of India has not yet taken a clear position. In 2019, its likely preference was revealed in the Draft National e-Commerce Policy, wherein it had backed restrictions on cross-border data flows.
- The key challenge for India is to sustain this diametrically opposite view to an uncompromising position of the U.S. on data localisation.

Flexible labour market:

- India should also be wary of the considerable emphasis that is being given to strengthening labour rights in the on-going discussions on the IPEF, both by corporate interests and members of the Congress.