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The Indo-Pacific Economic Framework: Can the US Pull It Off?

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SYNOPSIS

The US-led Indo-Pacific Economic Framework for Prosperity (IPEF) has been launched. It seems well-received by several regional economies. Nevertheless, the IPEF will face several challenges, triggering questions of whether and how the US will be able to advance it. Three member states of ASEAN have not been included, and there is no collective ASEAN position on it.

COMMENTARY

ON 23 MAY 2022, the US President Joe Biden unveiled the Indo-Pacific Economic Framework for Prosperity (IPEF) in Japan. Australia, Brunei, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam signed onto the launch.

The IPEF parties together account for 40 percent of the world's GDP. According to the Joint Statement, this scheme "is intended to advance resilience, sustainability, inclusiveness, economic growth, fairness, and competitiveness for our economies."

Four Policy Pillars

IPEF comprises four policy pillars. The *first* one is "Connected Economy" focusing on the making of rules regarding digital economy, labour and environmental standards, and corporate accountability. The *second* pillar is called "Resilient Economy". It emphasises the creation of an early warning system and collaboration on supply chain diversification to make the participating economies more resilient.

The *third* pillar is the "Clean Economy" which strives to tackle climate change via decarbonisation and renewable energy use. The *fourth* pillar is "Fair Economy" and it is aimed at "promoting fair competition by enacting and enforcing effective and robust tax, anti-money laundering, and anti-bribery regimes".

The Framework allows its participants to choose to join any of the four pillars. Yet, the members are expected to collaborate on all elements under the pillar(s) that they partake. About 12 to 18 months from now, the Biden Administration plans to end negotiations.

This conclusion will coincide with the Asia-Pacific Economic Cooperation (APEC) Economic Leaders' Summit which Washington will host in November 2023.

Well Received by the Signatories

IPEF signifies the US' re-engagement in the Indo-Pacific on the economic front after Washington's withdrawal from the Trans-Pacific Partnership Agreement (TPP). As President Biden announced at the launch of this Framework: "[T]he future of the 21st century economy is going to be largely written in the Indo-Pacific — in our region."

Also, the initiative's cooperation strands strive to address pressing issues facing the Indo-Pacific economies. For instance, the "Connected Economy" pillar will beef up the digital rules and standards, allowing the governments to better respond to the increasingly digitalized world.

The "Resilient Economy" pillar will help diversify the participants' production networks. It will hence enable them to galvanise their economic resilience against the backdrop of supply chains disruptions caused by multiple factors, for example, the COVID-19 lockdowns in China, and the Ukraine-Russia War.

Moreover, the Framework's 'by pillar' approach gives flexibility to its members. The latter can pick and choose the collaboration areas that they can undertake expeditiously. As a result, the Biden Administration successfully attracted a dozen of countries with diverse needs and development levels to sign up for the IPEF.

Criticisms and Questions: Not about Market Access

Positive reactions notwithstanding, the IPEF also draws criticisms and questions. For one thing, it is not a free trade agreement (FTA). The initiative is in fact intended to save US jobs. As stipulated by the US National Security Adviser Jake Sullivan, it is "part of President Biden's commitment to putting American families and workers in the centre of economic and foreign policy."

Unsurprisingly, Washington has no plan to discuss market access under the IPEF. As a result, its launch does not eliminate the criticism regarding the Biden Administration's trade policy stance exemplified by its maintenance of the Trump-era tariffs and hesitancy to ink new FTAs with other countries.

It should be noted that the 12 participants merely signed up to attending the consultations where they will discuss the scope of the negotiation. Without the US market access being used as an incentive, Washington will likely face difficulty advancing the IPEF substantively.

The earlier negotiations on the TPP reveal that the other parties grudgingly made concessions on matters that Washington pressed (e.g. intellectual property, labour standards). They did so in exchange for greater access to the US market. As this ‘bargaining chip’ is off the IPEF table, some countries might eventually find the IPEF talks unrewarding and would stay away.

High-Quality or Watered-Down Deal?

If the US successfully evades the deadlock, what would the likely outcomes be? The fact that the IPEF parties are to collaborate on all aspects under the pillar(s) that they join, the two likely outcomes are: watered-down cooperation with larger membership, and high-quality cooperation with smaller membership. Regarding the former, achieving collaboration in some areas will be relatively easy.

Examples include the establishment of an early supply chain warning system under “Resilience Economy”, and the green infrastructure development cooperation under “Clean Economy”. This is mainly because many IPEF signatories have been trying to strengthen their economic resilience and ‘green’ their respective economies in a long run.

However, reaching a high-quality deal among the participating economies will be daunting. The “Connected Economy” aimed at crafting rules pertaining to labour and environmental standards, and cross-border data transfers. For these matters, commitment discrepancies among the IPEF participants loom large.

Indonesia, the Philippines, and Thailand have yet to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). Their latest multilateral FTA – the Regional Comprehensive Economic Partnership (RCEP) – does not contain labour and environmental standards. India is not in the CPTPP and RCEP.

In addition, the CPTPP and RCEP rules governing transnational data flows differ. The former bans the blocking of cross-border data flows over the Internet and opposes data localisation with exemptions for financial services and public procurement. In contrast, the latter gives more leeway to its signatories to implement policies restricting information flows across participating economies when necessary.

As a result, some IPEF members partaking under the “Connected Economy” pillar may have specific reservations and likely to push for the less stringent terms. The cooperation may end up with a “lighter” version of commitments.

Can the US Pull It Off?

In the coming months, the IPEF signatories would announce the pillar(s) they intend to participate in and to negotiate. After the talks commence, a clearer picture will emerge and there should be a better appreciation on what is possible coming out of each of the four pillars.

It should also be noted that Cambodia, Laos, and Myanmar are three ASEAN member states not in the IPEF (just like they are not in the APEC membership). As such, a collective and potentially weighty ASEAN position is not there. Going forward, questions of whether and how the US is able to advance the IPEF remain unanswered.

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