This strategic-economic bloc will only tighten the leash

In November 2019, India walked out from the trade pact called the Regional Comprehensive Economic Partnership (RCEP) involving China, Japan, South Korea, Australia, New Zealand and the 10-state Association of Southeast Asian Nations (ASEAN) grouping. Fast forward to 2023, and now India along with many of the same countries, but with China replaced by the United States, is getting into the U.S.-driven Indo-Pacific Economic Framework for Prosperity (IPEF). The obvious questions are: what has changed? And how are the two economic partnership frameworks different?

The devil and deep sea

The one clear difference is of China versus the U.S. Developing a strategic partnership with the U.S. is India's top foreign policy priority. Its relationship with China has, meanwhile, further deteriorated. But a strategic partnership with the U.S. need not come at the cost of economic dependency on it. With China, the big economic fear was any trade deal's impact on India's manufacturing sector; of cheap Chinese goods flooding Indian markets. But the economic issues with the U.S. have been no less problematic, e.g. about agriculture, intellectual property, labour and environment standards, and the digital economy. Strategic partnership should not mean accepting a completely U.S. self-interest-driven economic framework that does not suit India's current economic interests.

Traditionally, trade deals used to be mostly about tariffs. Increasingly though, issues related to intellectual property, services, investment, domestic regulation, digital, and labour and environmental standards, are becoming more important. The U.S.'s IPEF proposal completely removes the tariff element of typical trade deals, and is entirely about all these other areas. In any case, traditional trade deals in the U.S. face likely roadblocks in the legislature. The U.S. has also found a tariffs-free trade deal, presented as a new kind of win-win economic partnership, as a good way to get around the resistance of many countries, including India, to free trade agreements, as they used to be called.

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The U.S.-driven Indo-Pacific Economic Framework for Prosperity would result in a complete stranglehold over the economic systems of the participating countries

However, the IPEF's 'new age' language itself is the biggest trap. It knits vaguely-worded webs that are not obvious in their actual economic impact, other than to U.S. strategists who created the proposals. Early assessment by many experts shows that the IPEF would result in a complete stranglehold over the economic systems of the participating countries, in a manner that is to the complete advantage of the U.S. The IPEF is really about developing a strategic-economic bloc – an integrated economic system centred on the U.S., and, as importantly, excluding China. The systemic integration caused by the IPEF's actual long-term impact will leave little leeway for domestic policies to help a country's own industrialisation (for example through tight supply chain integration that many elements of the IPEF contribute to).

A trade deal googly

Developing country trade negotiators are used to the traditional language of free trade agreements. Having honed their skills looking for problems in them, they find it quite difficult to understand and respond to the sophistry that the IPEF's innocent-sounding text is filled with. This is especially so given that the IPEF is proposed to be concluded by November 2023, and when real engagements only began late last year. Traditional free trade agreements are much more focused but still take years to conclude. The supposed innocence of the relatively high-level language of the IPEF is being used as an excuse to rush it through. However, this is precisely the kind of language that will unsuspectingly trap countries in economy-wide permanent commitments, with domestic policy making space considerably compromised, but whose real implications will only become obvious by and by.

The IPEF has four pillars: trade, supply chains, clean economy, and fair economy. Fearful of a possible trap, India has joined the other three pillars but not trade. But there is great pressure on it to join trade too, and India could relent. Joining the trade pillar is the worst, but the other pillars too contribute to developing hard new economic architectures and structures that are not tariff-based.

In the long run, that could have an even stronger effect on economic and trade flows than tariffs. In the digital arena it is said that 'code is law, and architecture is policy'. In an increasingly digitalising world, hard-wiring supply chains and giving up policy spaces in key areas such as digital, labour and environment, and export constraints, would take the form of a gilded techno-legal cage of irreversible economic dependency. Does a strategic partnership with the U.S. need to come at such a price?

The IPEF can already be seen to have deep implications in agriculture, in terms of genetically modified seeds and food, surrendering policy space for regulating Big Tech, and compromising a comparative advantage in manufacturing because of unfair labour and environment standards. It will also seriously affect India's ability to create a vibrant domestic ecosystem in emerging areas such as a digital economy and green products.