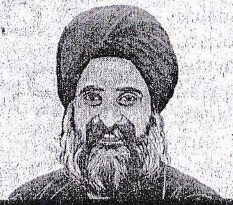
India and IPEF



NIRVIKAR SINGH

Professor of economics, University of California, Santa Cruz

India's government and its business leaders will have to work together to take advantage of the opportunity that the IPEF is creating

LAST MONTH, THE US hosted both the Asia-Pacific Economic Cooperation (APEC) leaders' meeting and the Indo-Pacific Economic Framework for Prosperity (IPEF). India is not a member of APEC, while China is. But IPEF provides an alternative grouping that excludes China and includes India. It is less than two years old, but is gaining momentum. IPEF has four pillars: trade, supply chains, clean economy, and fair economy (the last referring to rule of law and control of corruption, in particular). India has stayed out of the trade pillar, but is fully engaged in the other three. The November 2023 meeting saw the IPEF members, including India and the US, sign a supply chain resilience agreement, the main purpose of which is to reduce reliance on China in global supply chains. Progress was also made on the clean economy and fair economy pillars, which will result in agreements being signed soon.

Assuming that the next US presidential election does not lead to any abrupt changes in policy (which could well happen in Donald Trump is elected), the IPEF represents a major regional collaboration for reshaping the global economy and for dealing with the threat of climate change. Ultimately, what actually transpires will depend on private sector actors as well as governments. In this respect, the US perspective on the IPEF agreements is most revealing. A day or two after the supply chain agreement was signed, the White House issued a Fact Sheet, which focused on the PGI IPEF Investment Forum—all about increasing (US) private investment in the non-US IPEF members that are developing nations. By population, India is by far the largest of those target countries, though its economy is not commensurately big—its population is 20 times that of Thailand, but its economy is only three times as large. So, India will have to compete for investment within the IPEF.

PGI stands for Partnership for Global Infrastructure and Investment, and the Investment Forum included not only IPEF government leaders, but also 10 corporate leaders, nine of whom head major financial firms, such as BlackRock, Citi, and KKR. The exception from a non-financial firm was the CIO and CFO of Alphabet/Google, which has cash and cash equivalents of $120 billion. That figure is considerably greater than India's annual FDI inflows. The point, of course, is that US corporate cash balances (approximately $4 trillion) represent a major source of funding for investments that can promote economic development and deal with the existential threat of climate change. This money, and how it is spent, are what ultimately will matter.

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What role will the IPEF play? From 2024, there will be an annual IPEF Clean Economy Investor Forum. The US is also creating a PGI IPEF "Investment Accelerator," where it will work with IPEF partners to develop country-tailored investment approaches for key sectors of the recipient economies. The goal will be to increase project-specific financing and high-quality project development. These are all areas where developing countries struggle, due to lack of expertise and prior experience, and this accelerator, if it succeeds, could be a major innovation in channelling investment to developing IPEF nations. The plan also envisages non-profit participation for promoting worker upskilling and providing environmental protections. Of course, none of this is being provided from purely altruistic motives—US private investors will expect to earn competitive rates of return, and the US government is pursuing its own strategic motives. But countries like India can benefit from the expertise being offered along with the access to new sources of capital, with the US government's non-economic interests potentially acting both as a catalyst for investment and a constraint on exploitation.

The test for this optimistic scenario will come as money is committed and spent. The Fact Sheet indicates that tens of billions of dollars' worth of new projects are in the pipeline for IPEF members. For India, the examples include up to $1 billion for an India Green Transition Fund, other renewable energy and logistics projects, and several microfinance projects. Some of these projects may end up being less significant than their initial hype, but that is the nature of capitalist investment. India, as a recipient of these investments, will have to play an active role in building its capacity to choose and design projects well, and implement them effectively—its government and its business leaders will have to work together and work effectively to take advantage of the opportunity that the IPEF is creating.

As is obvious to everyone, the fact that India's diaspora in the US has become very successful, to the point of leading major US corporations in technology, finance and other sectors, becoming thought leaders in business schools, and making a mark in the media, law and politics, all bodes well for the economic front. This optimistic possibility may even help in promoting values that have been shared ideals in both countries, though now at risk in both as well. US corporations, financial or non-financial, have never been paragons of virtue, but transparency, fairness and equal respect are normative characteristics of open, democratic societies, and the IPEF investment institutions can certainly operate within those bounds.