



A 2019 decision by Indian Prime Minister Narendra Modi (pictured in 2018) to withdraw from the Regional Comprehensive Partnership demonstrates India's longstanding stance to preserve its strategic autonomy while restoring its standing as a major economic power.

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INDIA as a modern state has pursued two interconnected objectives since independence from Britain in 1947. These goals, still relevant, are to restore the country's standing as one of the world's major economies, and to preserve geopolitical freedom of action, or 'strategic autonomy'. Economic strength is both an end in itself (to lift millions out of deep distress and poverty) and indispensable for maintaining autonomy.

Over this long period, India's engagement with the outside world has periodically changed to reflect domestic imperatives, global experience and changes in the external

environment. India seems engaged in such a reset at this time. What are the forces shaping India's present external posture, and what might they mean for India as an Asian player?

India is often regarded as innately protectionist, but as the economist Pravin Krishna has observed, at its independence India inherited a relatively open trade regime and in 1948 was one of the 23 original 'contracting parties' to the GATT. India's turn inward was facilitated a decade later when the GATT permitted 'special and differential treatment' for its poorer members. Policy was reinforced by geopolitics: Indira Gandhi of the Congress party who became prime minister in 1966 increasingly sided with the USSR in

the Cold War, reacting to US support of Pakistan and China under President Nixon. The economic outcome was dismal stagnation but 'strategic autonomy' was preserved.

India's return to openness in 1991 also occurred on the watch of a Congress-led coalition government. Parliamentary elections in 1989 led to the rejection of the ruling Congress party led by Indira Gandhi's son, Rajiv Gandhi. The inexperienced coalition government that took office was not in a position to handle a fiscal and balance of payments crisis. The crisis was exacerbated by external events: the collapse of the Soviet Union, an important trade and defence partner, and the first Gulf War. In the 1991 parliamentary election campaign

that followed, Rajiv Gandhi was assassinated, as his mother had been seven years earlier.

The electoral outcome was a Congress-led minority government headed by P. V. Narasimha Rao, the first Congress prime minister drawn from outside the Nehru-Gandhi family. Rao's technocratic finance minister, Manmohan Singh, advised the prime minister to seek support from the IMF. The program submitted to the IMF included a comprehensive set of reforms covering trade, public finance, the exchange rate regime and the reform of capital markets. While Prime Minister Rao provided valuable political cover he was not inclined to mount a frontal challenge to the party's centre-left orthodoxy associated with the iconic Indira Gandhi. External integration remained a largely technocratic project: 'reform by stealth' as it came to be known.

Though weak, this impetus to liberalisation lasted till the global financial crisis 20 years later. There was substantial reduction in average applied industrial tariffs over this period, though agriculture remained very highly protected. Liberalisation was largely unilateral, driven by a desire to emulate the export-led manufacturing success of the economies of East and Southeast Asia and thereafter China.

India was an active but unconvinced participant in the WTO's Doha Development Round launched under the WTO in 2001. India argued—with some justification—that a new round was premature as there was unfinished business from the earlier Uruguay Round to be dealt with, particularly where agricultural trade was concerned. Washington's retreat from committed multilateralism toward preferential agreements first with Canada and then

Mexico with NAFTA, as well as its support for China's WTO accession, together with the steady expansion of the European Community undermined India's faith in the multilateral order in the 1990s and early 2000s.

India remains by instinct a multilateral trading power, preferring to trade under the GATT's most favoured nation rules, and actively uses the protectionist flexibility afforded by the distinction between applied and bound tariffs, as well as the trade remedies (anti-dumping, safeguards) that are available. In the first decade of the new century it began to flirt with relatively shallow bilateral preferential trade agreements with a range of partners. It also agreed to participate in negotiations on the Regional Comprehensive Partnership (RCEP) in 2012 but in the end withdrew in 2019.

The patterns of comparative advantage that emerged under liberalisation were different from those anticipated and desired. The 20 years of liberalisation were by and large good for growth: by size of economy India is now a consequential, though still poor, middle-rank power. However, India did not succeed in boosting the share of manufacturing in domestic output; as agriculture declined the services sector boomed. This composition of output was also reflected in India's trade. While the overall balance of payments in general remained comfortable, its structure was closer to that of an advanced country, with a large deficit in industry balanced by surpluses in agriculture and services. The concentration of the manufacturing deficit in India's trade with China has been a problem given political and diplomatic tensions

As in the 1960s and again in the 1990s, a combination of external

and domestic forces has prompted a reevaluation of India's external engagement. While there is no crisis and the government is strong and popular, three contemporary developments are particularly significant. The economic, medical and political dimensions of the COVID-19 scourge have exposed and reinforced weaknesses in India's development trajectory. China's long-term economic success and its current political assertiveness are now shaping both the regional and global economic order as well as its bilateral relations with India. These developments have occurred at a time of declining support for multilateral co-operation following the global financial crisis and on into the pandemic. Taken together, these developments have prompted India to reconsider its external posture. Much remains obscure and seemingly inconsistent, but it does appear that India is reducing its bets on integration with its East Asian neighbours and investing greater energy in links with Europe and the United States.

The deeper message is that in its post-COVID recovery, India's pursuit of strategic trade and industrial policy means it prefers the flexibility offered by bilateral trade agreements over more ambitious regional structures. Its aim will be to make access to the Indian market most attractive for those willing to bring the latest technology, following the playbook of China and before it, Japan and South Korea. It will also seek to consolidate market access for its export of services in rich countries. [EAFQ](#)

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