

India's Foreign Policy Evolution in the Post-Liberalisation Era

Dr. Supreet S.J. Talwar
Associate Professor
Department of Economics
Apeejay College of Fine Arts, Jalandhar

Abstract

The 1991 liberalisation of India's economy triggered not only a domestic structural transformation but also a reorientation of its foreign policy. This paper examines how India's external engagements evolved in the three decades following the reforms, analyzing changes in orientation, priorities, and strategies. It argues that India shifted from an ideologically framed non-alignment approach toward pragmatic, interest-driven diplomacy marked by economic imperatives, multi-alignment, and an Indo-Pacific orientation. The paper expands on literature, policy documents, and case studies of India's Look East/Act East initiative, relations with major powers, multilateral activism, and neighbourhood policy. While liberalisation enabled a more assertive and outward-looking India, the trajectory has been uneven, constrained by domestic politics, capacity limits, and geopolitical volatility. The conclusion reflects on whether these changes represent transformation, adaptation, or continuity.

1. Introduction

The 1991 balance-of-payments crisis forced India to abandon the insulated "license-permit" economic model and embrace liberalisation, privatisation, and globalisation. This economic opening was not simply a domestic adjustment but a watershed moment with far-reaching implications for India's external posture. Prior to liberalisation, India's foreign policy was defined largely by ideological commitments: non-alignment during the Cold War, solidarity with the Global South, and reliance on the Soviet Union for defence and political support. India aspired to moral leadership in world affairs while maintaining a relative distance from Western-led economic structures. The reforms of 1991 fundamentally altered this logic. Integration into global markets demanded that Indian diplomacy pursue economic outcomes—foreign investment, technology partnerships, trade access, and energy security—on an unprecedented scale. Simultaneously, the collapse of the Soviet Union, U.S. unipolar dominance, and the rapid rise of East Asian economies reshaped India's strategic environment. In this transformed context, India could no longer rely on non-alignment as its guiding compass. Instead, it had to

adapt by diversifying partnerships, actively engaging in global institutions, and aligning foreign policy with the imperatives of growth. The decades since 1991 reveal both continuity and change: the persistence of strategic autonomy and sovereignty concerns on one hand, and new instruments—economic diplomacy, regional integration, and strategic partnerships—on the other. This paper interrogates these dynamics to understand how liberalisation reshaped India’s foreign policy.

2. Literature Review and Theoretical Framework

Scholars have approached India’s post-liberalisation foreign policy from multiple perspectives. Early analyses stressed the demise of Cold War constraints and the need for pragmatic engagement with market economies (Thakur, 1992). They noted that India’s traditional dependence on Soviet support was no longer viable, forcing New Delhi to seek accommodation with the West. A second strand of literature focuses on economic diplomacy. Analysts argue that foreign policy after 1991 became deeply entwined with commercial objectives (Raja Mohan, 2003). Embassies developed economic wings, trade missions proliferated, and the Indian diaspora was mobilized to attract investment and technology. In this reading, foreign policy shifted from being primarily political-strategic to being equally economic.

Another body of work conceptualizes India’s evolving grand strategy as one of “strategic autonomy” or “multi-alignment.” Rather than aligning fully with the United States or China, India cultivated multiple partnerships to maximize options (Pant, 2016). Scholars argue that India’s diplomacy since 1991 reflects a pragmatic balancing approach—engaging the U.S. for technology and security, maintaining Russian defense ties, leveraging Gulf states for energy, and cautiously engaging China for trade while hedging against its rise.

The literature also emphasizes India’s regional reorientation. Works on the Look East/Act East policy document India’s growing engagement with ASEAN, Japan, and later the Indo-Pacific framework (Haokip, 2011; Bajpae, 2017). Others highlight India’s multilateral activism, particularly in the WTO, BRICS, and G20, as evidence of its ambition to shape global governance (Tellis, 2001).

Finally, critical accounts stress limitations. Some note that India's foreign policy ambitions often outstrip its institutional capacities. Domestic politics, bureaucratic inertia, and resource constraints limit India's ability to translate strategic vision into consistent policy (IMF, 2004). Similarly, while India's partnerships with the U.S. and Japan have deepened, lingering mistrust and divergent interests prevent full alignment. Together, this literature suggests that liberalisation catalyzed a shift from ideology to pragmatism in Indian foreign policy, but the transformation remains partial and contested.

2.1. Look East / Act East Policy

One of the most visible post-liberalisation foreign policy initiatives was the Look East policy, launched in 1992 under Prime Minister Narasimha Rao. It signaled India's recognition that East and Southeast Asia were emerging as dynamic centers of global economic growth and strategic influence. The policy sought to integrate India with ASEAN, strengthen economic and cultural ties, and position India as an Asia-Pacific stakeholder. The Look East policy unfolded in phases. During the 1990s, the emphasis was on economic and trade cooperation with ASEAN and securing membership in regional institutions such as the ASEAN Regional Forum (ARF). In the 2000s, under Prime Minister Atal Bihari Vajpayee, it expanded to include security and strategic dimensions, including naval cooperation and dialogue partnerships. By the 2010s, under Prime Minister Narendra Modi, it was rebranded as the Act East policy, stressing connectivity projects, defence partnerships, and integration into the Indo-Pacific framework. The Act East policy reflects how liberalisation altered India's external orientation. A closed economy had little incentive to engage with East Asia's trade networks; an open economy depended on them. Engagement with ASEAN also served strategic purposes: countering Chinese influence, accessing Southeast Asian markets, and projecting India's role as a balancing power in the Indo-Pacific. However, scholars note that India's performance has lagged behind rhetoric, with limited progress on infrastructure connectivity and trade negotiations (Haokip, 2011; Bajpae, 2017).

3. Case Studies

3.1. Case Study 1: The India- U.S.A. Strategic Partnership

The transformation of India's relationship with the United States is arguably the clearest manifestation of post-liberalisation foreign policy change. During the Cold War, relations were strained, as India's policy of non-alignment tilted toward the Soviet Union, while the U.S.

viewed India with suspicion. After 1991, India's economic reforms made it an attractive partner for American businesses, and the end of bipolarity enabled strategic recalibration. A turning point came with the 1998 nuclear tests, which initially led to U.S. sanctions but ultimately prompted a strategic dialogue. The 2005 U.S.–India Civil Nuclear Agreement symbolized a major breakthrough, recognizing India as a responsible nuclear power despite its non-signatory status to the Non-Proliferation Treaty. This deal not only enabled civil nuclear cooperation but also paved the way for defence sales, joint military exercises, and technological collaboration.

Today, the partnership spans multiple domains: defence logistics agreements, growing arms purchases (C-17 transport aircraft, Apache helicopters, and drones), and increasing naval cooperation in the Indo-Pacific. Bilateral trade has grown substantially, making the U.S. one of India's largest trading partners. The Quad grouping further cements shared interests in ensuring a free and open Indo-Pacific. Yet the relationship is not without tensions. Trade disputes persist, with the U.S. pushing for greater market access and India resisting pressures that could harm its domestic industries. Divergences also exist on climate commitments, data regulation, and human rights. Nonetheless, the partnership illustrates India's pragmatic shift: balancing economic and security benefits while maintaining policy autonomy.

3.2. Case Study 2: India-China Relationship

India's relationship with China encapsulates the duality of cooperation and competition that characterizes its post-liberalisation foreign policy. On the one hand, China emerged as one of India's largest trading partners after 2000, with imports of electronics, machinery, and raw materials fueling India's industrial and consumer sectors. The expansion of trade was a direct product of India's open economic policies. On the other hand, strategic rivalry has intensified. Border disputes along the Line of Actual Control (LAC) have flared repeatedly, most recently in the 2020 Galwan Valley clashes, which resulted in fatalities on both sides. China's Belt and Road Initiative (BRI), particularly projects in Pakistan (the China–Pakistan Economic Corridor) and Sri Lanka, is perceived by New Delhi as encirclement.

India's response illustrates its liberalisation-era pragmatism. While maintaining trade ties, New Delhi has also sought to counterbalance China by strengthening relations with the U.S., Japan,

and ASEAN, and by promoting the Indo-Pacific concept. India's ban on Chinese apps and tighter scrutiny of Chinese investments after the 2020 border clashes reflects the new willingness to link security and economic policy. Thus, India–China relations reveal both the opportunities and limits of liberalisation-driven engagement.

3.3. Case Study 3: Neighbourhood Policy in South Asia

India's immediate neighbourhood offers another perspective on foreign policy changes. Pre-1991, India's regional policy was often defensive, focused on preventing external powers (particularly the U.S. and China) from gaining influence in South Asia. After liberalisation, the focus shifted toward economic connectivity and regional integration. The "Neighbourhood First" policy articulated in the 2010s emphasized trade, aid, and infrastructure. India offered concessional credit lines, engaged in energy sharing projects, and invested in connectivity corridors. Examples include electricity trade with Nepal and Bhutan, port development in Sri Lanka, and digital payment initiatives in Bhutan and Nepal.

However, challenges persist. SAARC, the South Asian Association for Regional Cooperation, has largely stagnated due to India–Pakistan hostilities. In response, India has prioritized sub-regional mechanisms like BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation) and bilateral partnerships. China's growing economic presence in Nepal, Sri Lanka, and the Maldives has complicated India's regional strategy, often forcing New Delhi to compete with Beijing through counter-investments or diplomatic outreach. To sum up, neighbourhood policy after liberalisation reflects India's recognition that economic influence is as vital as military dominance. While successes exist—such as Bhutan's hydropower cooperation—political instability and external competition limit the effectiveness of these initiatives.

4. Critical Analysis

Despite significant progress, India's foreign policy after liberalisation faces several critiques and constraints. First, there are capacity constraints. India's diplomatic corps remains under-resourced relative to other major powers, limiting its ability to implement wide-ranging initiatives. Economic statecraft has often been hampered by bureaucratic red tape and slow infrastructure delivery. Second, domestic politics frequently shape and sometimes distort foreign policy. Coalition politics in the 1990s restricted bold decisions, while partisan

contestation today can make continuity difficult. Economic nationalism and protectionism sometimes undermine liberalisation's logic. Third, India's foreign policy ambitions are constrained by external volatility. The rise of China, shifting U.S. strategies, and regional instability all create unpredictable conditions. India's multi-alignment strategy, while flexible, also risks incoherence and overextension. Fourth, scholars argue that India's economic performance, though impressive, has been uneven. Periodic slowdowns, persistent inequality, and infrastructure bottlenecks weaken the foundations of India's global ambitions (IMF, 2004).

Finally, critiques point out that India's neighborhood diplomacy often struggles to overcome suspicion from smaller states, who view India as hegemonic. Meanwhile, China's economic muscle sometimes outcompetes India's initiatives, especially in infrastructure finance.

5. Conclusion

Liberalisation in 1991 fundamentally reshaped India's foreign policy, moving it from ideology-driven non-alignment to pragmatic, interest-oriented diplomacy. Economic imperatives became central, leading to greater engagement with global markets, regional integration, and strategic partnerships with major powers. The Look East/Act East policy, deepening ties with the U.S., complex engagement with China, and renewed neighbourhood initiatives demonstrate the scale of transformation. Yet, continuities remain: India continues to value strategic autonomy, resist alignment, and emphasize sovereignty. Constraints in capacity, domestic politics, and external volatility temper India's rise as a global power. Thus, the story of India's post-liberalisation foreign policy is one of adaptation and partial transformation rather than complete rupture. As India approaches the midpoint of the 21st century, its foreign policy trajectory will depend on its ability to sustain economic growth, build institutional capacity, and navigate intensifying great power rivalry. Liberalisation provided the foundation, but future success will require consistent strategic clarity and domestic resilience.

References:

- Bajpae, C. (2017). Dephasing India's Look East/Act East Policy. King's College London. <https://www.kcl.ac.uk>
- Foreign Affairs. (1992). Thakur, R. India after Nonalignment. *Foreign Affairs*, 71(4), 1–10.
<https://doi.org/10.2307/20045413>
- Haokip, T. (2011). India's Look East Policy: Its Evolution and Approach. *South Asian Survey*, 18(2), 239–257.
<https://doi.org/10.1177/097152311201800206>
- International Monetary Fund. (2004). India in the 1980s and 1990s: A Triumph of Reforms. IMF Working Paper WP/04/43. <https://www.imf.org>
- Khilnani, S., Chhibber, P., & Varshney, A. (2013). Nonalignment 2.0: A Foreign and Strategic Policy for India in the Twenty-First Century. Centre for Policy Research.
- Ministry of External Affairs (MEA). (n.d.). Economic Diplomacy. Government of India. <https://mea.gov.in>
- Ministry of External Affairs (MEA). (n.d.). India's Foreign Policy. Government of India. <https://mea.gov.in>
- Pant, H. V. (2016). India's Foreign Policy and the World Order: Emerging Powers and Reshaping Global Governance. Cambridge University Press.
- Raja Mohan, C. (2003). Crossing the Rubicon: The Shaping of India's New Foreign Policy. New Delhi: Viking.
- Saran, S. (2017). How India Sees the World: Kautilya to the 21st Century. Juggernaut Books.
- Tellis, A. J. (2001). India's Emerging Nuclear Posture: Between Recessed Deterrent and Ready Arsenal. RAND Corporation. https://www.rand.org/pubs/monograph_reports/MR1127.html
- Wagner, C. (2010). India's Foreign Policy: Changing Perspectives in a Globalizing World. Stiftung Wissenschaft und Politik Research Paper.