The US ought to counteract the influence of Chinese authoritarianism early and often. One relatively low-cost way is to encourage India to engage more deeply as a competitor with China in the global economy.

A democracy since its independence in 1947, with a population about the same as that of China, India is that country’s natural rival in Asia. Beginning with India’s decision in 1990-91 to liberalize its economy, the nation has gradually opened its vast market to global trade. Fueled by fresh access to foreign capital and technology, India’s economy grew over six percent during the first decade of the 21st century.

In May 2014, this progress was further advanced by the election of Prime Minister Narendra Modi. For the first time in India’s history, a conservative administration had a clear parliamentary majority, making it possible to legislate foundational, market-positive reform.

India has adopted a new insolvency and bankruptcy code and replaced multiple taxation regimes across its states with a federal goods and services tax, which is welcome. But India has done little to end its excessive protectionism. Its distrust of foreign corporations, a legacy of colonial rule, endures.

Indian policy makers may believe that the US is so eager for Indian competition with China that Washington will grant them a pass on restrictive trade and investment policies. But there is a better choice.

India is nowhere near its full economic potential, and the fix isn’t complicated. The Biden agenda for India should
encourage India to lower tariffs, to remove barriers to foreign retail, to roll back unnecessarily restrictive data privacy rules, and to provide economic incentives for foreign investment.

India’s Challenge
The slowing down of India’s economic growth began well before the pandemic. From a high of 8 percent in 2014-16 India’s economy declined to 7% in 2017, 6 % in 2018, 4% in 2019 and 3.1 % in March 2020. The strict lockdown imposed by the government had a drastic impact on the economy. For the first time in the history of modern India, the country went into a technical recession with a negative economic growth of 10 percent for 2020. While both the World Bank and the International Monetary Fund project that India will bounce back in 2021 and grow at 5 percent by 2022, those projections depend on a more open economy.

The results of current constraints are obvious. For instance, India produces only three percent of the world’s manufactured goods, just above Italy and France, even though India’s population is 20 times larger than each of those countries. And as of 2020, China accounted for 28 percent of global manufacturing output, followed by the US at 17 percent, about nine and five times greater, respectively, than that of India.

For Indian consumers and business, protectionist practices deliver the opposite of protection. Softened restrictions could attract American and European companies that are moving away from China. With fewer (or at least more precise) regulation, India’s large and largely young population could gain access to a greater volume of jobs – and new kinds of jobs.

India’s protectionism is a function of an age-old pursuit of economic self-sufficiency. For the last seven decades, India has sought to build its own brands and tried to ensure that its domestic companies are not wiped out by foreign competition. The problem is that the global economy does not leave room for any nation to live in a bubble. Preventing competition within the Indian market and using regulation to benefit indigenous companies has impaired India’s growth and limited its potential within the global economy.

Another major challenge for the Modi administration? None of India’s major political parties describe themselves as pro-market. Some of India’s socially and politically conservative leaders otherwise describe themselves as “socialists.” Opinion polls show general skepticism within India of the power of market forces to generate socially desirable outcomes.

India’s federal and state legislatures often pass laws and enact regulations without serious concern about economic distortions. Political opposition to the entry of large-scale foreign enterprises comes from organizations such as the Confederation of All-India Traders, a group claiming to represent 70 million small retailers, and groups such as Swadeshi Jagran Manch (Forum for Promoting Indian-Made Goods) who oppose all foreign investment.

The Way Forward
The new US administration can encourage India in many ways. Here are a few particulars to start:

India must abandon or at least reduce its use of retroactive taxation. India’s standing has been hurt by two cases involving U.K.-based companies, both of whom have been hit with large capital gains tax demands based on legal changes after mergers or acquisitions. Tax authorities refused to relent even after Telecom giant, Vodafone, and energy company Cairn won cases in India’s Supreme Court, resulting in awards against India through the World Bank’s International...
Center for Settlement of Investment Disputes (ICSID) and The Hague tribunal. In addition, IBM, has $865 million stuck in an escrow account since 2009 while a tax dispute meanders through India’s legal system.

India should stop foot-dragging on implementation of court decisions that favor foreign companies. This requires a change not in regulation or law but in priorities. For instance, the Indian government could withdraw its appeals in retroactive taxation cases, which courts have indicated the government would lose. Instead of long court battles pitting bureaucrats against corporations, India’s government needs to assure investors that it wants to work with them in good faith for mutual benefit.

India must roll back overregulation, particularly of services, manufacturing, and agriculture. The information technology boom of the first decade of the 21st century came under a largely hands-off regulatory regime. This boosted India’s economic growth and helped reduce poverty and unemployment. Restrictions are now rising in the form of certain ill-considered data privacy rules and constraints on e-commerce far stricter than those of other countries in competition for investment.

India should be mindful of the value of foreign capital in research and development. Foreign companies conduct R&D abroad only if the economic situation is inviting, or at least not problematic. India was once that way. In 1998, IBM set up a research lab in India. General Electric (GE)’s largest research lab outside of the US is already in India. As a bonus, Indian scientists and technology professionals would then be able to work for global companies without having to emigrate.

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India should join the US and its allies in countering China’s expansionism in Asia, but it also needs to learn from them. As a member of the Indo-Pacific Quad, Japan is a small island nation with a modest-sized population. But Japan has been one of the more productive nations of the twentieth century and continues to be a major economic power. This was accomplished even though Japan had limited natural resources and domestic capacity. How? By adopting foreign practices that work, and then improving upon them. Instead of viewing trade and globalization as antithetical to India’s interests, India can grow, prosper, and be a more vital ally to her global partners by eliminating its multiple barriers to foreign investment. The Biden administration can and should promote this.
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