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INDIA'S NEIGHBOURHOOD POLICY NEEDS A STRATEGIC UPGRADE—NOW

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India's Neighbourhood Policy Needs a Strategic Upgrade—Now

Personality Trap

Prime Minister Narendra Modi and Nepal's Prime Minister K.P. Sharma Oli in Janakpur during the early years of India's Neighbourhood First Policy.



The greatest test of India's emergence as a leading power may lie closest to home. From Bangladesh and Nepal to Sri Lanka and the Maldives, a changing regional landscape is exposing the limits of New Delhi's current neighbourhood strategy. As China deepens its regional footprint and political transitions reshape South Asia, what would a genuinely transformative Neighbourhood First Policy look like?

BY ASHOK K. KANTHA

IMAGE COURTESY: Prime Minister's Office, Government of India (GODL)

India's immediate neighbourhood is not a problem that has to be managed. It is a vibrant living space, constituted through overlapping histories, shared ecologies, migratory patterns, and co-owned cultural heritage that both precede and exceed the logic of state policy. What binds the countries of South Asia is not homogeneity but proximity and the dense web of interactions that it produces across frontiers.

It is precisely this base of tangible and intangible bonds—and not merely strategic calculation—

regional emergencies. Yet the policy has not fully converted these synergies into a durable strategic architecture. Its structural limitations are now increasingly exposed, and a more ambitious upgrade is overdue.

The urgency of this upgrade is not theoretical. Bangladesh, India's most successful neighbourhood partnership through the Sheikh Hasina years, has only recently begun cautious normalisation under Prime Minister Tarique Rahman's BNP government.

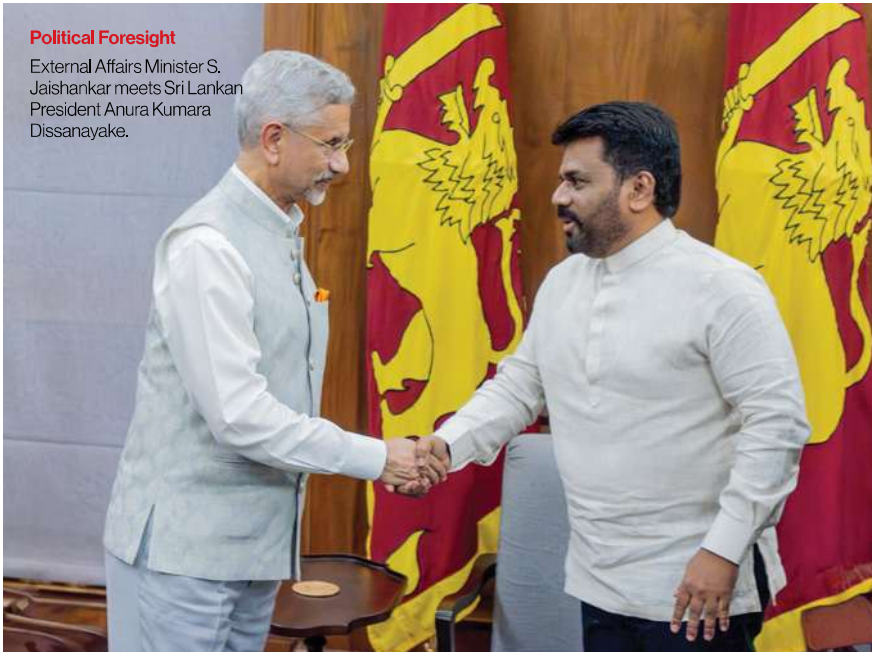
Nepal has seen a generational rupture: the October 2025 Gen Z uprising swept away the K. P. Oli government, and the Rastriya

compromise India's security interests near the Jampheri Ridge overlooking the Siliguri Corridor, even as the Gelephu Mindfulness City project signals Thimphu's cautious economic opening.

The Maldives has recovered from its 2023–24 "India Out" phase, but its electoral volatility—every ruling party since 2013 has been voted out—guarantees that no reset is permanent. Myanmar is going through an internal war where China plays both sides. Afghanistan under the Taliban has prompted India to step up engagement without formal recognition, leveraging Kabul's

Political Foresight

External Affairs Minister S. Jaishankar meets Sri Lankan President Anura Kumara Dissanayake.



that gives neighbourhood policy its deepest rationale and its greatest untapped potential. The Neighbourhood First Policy (NFP) that Prime Minister Narendra Modi's government launched in 2014 drew on this intuition and registered real achievements: high-visibility political engagement, a landmark land boundary settlement with Bangladesh, decisive economic assistance to Sri Lanka during its 2022 crisis, expanded connectivity with Bangladesh and Nepal in particular, and the emergence of India as a credible first responder in

Swatantra Party's Balendra Shah has taken office with a markedly more assertive posture, stonewalling an invitation to visit India and publicly foregrounding Nepal's territorial claims on Kalapani, Lipulekh, and Limpiyadhura.

Sri Lanka is the most productive bilateral relationship that India now has in the neighbourhood, but it remains structurally fragile with China's deeply embedded presence. Bhutan faces sustained Chinese encroachments in its western territories, with Beijing pressing for a boundary settlement that would

The policy of refusing dialogue until terrorism ends has frozen India into a reactive posture that neither shapes Pakistan's internal trajectory nor moderates its external alignments

estrangement from Pakistan. And then there is Pakistan, deliberately excluded from NFP's non-reciprocal framework yet critical to any accounting of India's strategic environment. China requires standalone treatment and is left aside here.

Takeaways from the Recent Past

The original NFP rested on three pillars: a mode of engagement that would be consultative, non-reciprocal, and outcome-oriented; connectivity, trade and development assistance; and a normative frame of the five Ss of *Samman* (respect), *Samvad* (dialogue), *Shanti* (peace), *Samriddhi*

(prosperity) and *Sanskriti* (culture). This was a notable advance over previous episodic engagement, but it revealed structural weaknesses that constrain India's ability to shape a stable and cooperative periphery.

The policy is summit-driven and personality-dependent. When governments changed in Dhaka and Male, India found itself flat-footed, over-identified with departing leaders and under-invested in durable institutional linkages. India has sometimes played favourites in ways that create awkward situations when those leaders lose power. India should engage with incumbents but simultaneously maintain contact across the political spectrum and build institutional ties that survive electoral cycles.

New Delhi did the right thing in Sri Lanka when it invited the then-opposition presidential candidate Anura Kumara Dissanayake for a visit before the 2024 election: his subsequent victory confirmed the wisdom of that outreach. It was less deft in Bangladesh, where close association with Hasina was read by the succeeding dispensation as partisanship, and the signals of displeasure that followed, including restrictive visa policies that hurt ordinary Bangladeshis, were read in Dhaka as punitive rather than principled.

Equally problematic has been India's tendency to look at neighbourhood issues through a domestic political prism, particularly those involving minority communities. Interventions on behalf of Sri Lankan Tamils, Madhesis in Nepal, and Hindu minorities in Bangladesh have been motivated by genuine concern, but they have repeatedly generated nationalist pushback, empowered anti-India coalitions and opened space for external actors. India's intervention in Nepal's 2015 constitution-drafting and subsequent actions, widely seen in Kathmandu as an unofficial blockade, handed K.P. Sharma Oli a



Political Courage

The exchange of ratification documents in Dhaka formalised the 2015 India–Bangladesh Land Boundary Agreement.

Beijing now actively restructures the region's political economy, with Belt and Road commitments exceeding \$100 billion and deep embeddedness in party systems, elite networks, media ecosystems, and defence procurement chains

nationalist platform that he exploited for years, culminating in Nepal's revised political map.

The neighbourhood remains Asia's least integrated economic space by the metrics that formal trade statistics capture. India's trade

surplus with SAARC countries is significant but relatively static, with exports of some \$26 billion against imports of \$7 billion in 2025, and there are no robust regional supply chains to speak of. More sobering is the China comparison: Beijing's trade surplus with SAARC countries excluding India exceeds \$51 billion, and China has become the leading trading partner of nearly every South Asian country. Yet the "least integrated" narrative obscures South Asia's socio-cultural ties, informal trade, densely inhabited borderlands, and shared ecological systems that formal frameworks have failed to capture or protect. The challenge for NFP 2.0 is not merely to deepen integration in its formal and informal dimensions but to shift the character of relationships from centre-periphery dependency toward genuine mutual interdependence—a distinction that India's neighbours are acutely sensitive to.

Constricted Space

Three vectors converge to narrow India's strategic space. China's regional footprint is the most

consequential shift. Beijing now actively restructures the region's political economy, with Belt and Road commitments exceeding \$100 billion and deep embeddedness in party systems, elite networks, media ecosystems, and defence procurement chains. China's battlefield collusion with Pakistan during Operation Sindoor in May 2025—providing real-time operational support during the 87-hour conflict—demonstrated the full extent of this new strategic reality. India also faces a marked divergence with the United States on neighbourhood issues. The US rapprochement with Pakistan, Washington's early embrace of

attack demonstrated that post-Balakot signalling did not deter terrorism, and while Operation Sindoor established greater space for conventional operations below the nuclear threshold, the “new normal” of forceful kinetic responses creates an expectation trap. Every future terrorist outrage will generate domestic pressure for a military strike, when non-kinetic, unpredictable or delayed actions could be less escalatory and more effective. The absence of political channels increases India's dependence on outside powers during crises. Pakistan, far from being isolated, has leveraged the post-Sindoor period to expand

Assistance builds goodwill; trade and investment create durable stakes. India must treat its neighbourhood as a strategic economic space, offering phased non-reciprocal market access where neighbours have a comparative advantage, systematically reducing non-tariff barriers that negate the concessions India already offers, and creating two-way investment vehicles.

The ambition of a road-rail link between India and Sri Lanka exemplifies the visionary thinking NFP 2.0 requires; a reimagined boat mail service linking Talaimannar and Rameswaram, integrated into India's national rail network, is immediately achievable.



Defence Cooperation
SLNS Sayurata, built by Goa Shipyard for the Sri Lanka Navy, reflects India's expanding defence-industrial partnership with Sri Lanka.

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the Yunus interim government in Bangladesh, and the US sinking of the Iranian frigate IRIS Dena in Sri Lanka's Exclusive Economic Zone in March 2026 while returning from the “MILAN” goodwill exercise hosted by India, collectively illustrate that Washington and New Delhi are not on the same page on key regional issues. South Asian neighbours, meanwhile, exercise far greater agency than at any point since Independence, acutely aware of India's strategic constraints and expanding their manoeuvring room.

Against this backdrop, India's Pakistan policy has not achieved its core objectives. The Pahalgam

its diplomatic space, formalising a mutual defence pact with Saudi Arabia and positioning itself as mediator between the US and Iran.

Elements of a Reimagined Policy

What then does a reimagined NFP 2.0 require? The broad answer is a shift from symbolic reassurance to systemic integration, from bilateralism to functional regionalism combined with robust bilateral engagement, and from reactive crisis management to anticipatory arrangements.

Economic partnership must become the strategic centrepiece.

Reforming India's cabotage laws to permit vessels from neighbouring countries to participate in coastal and inland waterway trade would demonstrate that India's geography is a shared resource. The feasibility of a South Asian Regional Development Bank, led by and headquartered in India, deserves serious examination: it would provide predictable, long-term financing for regional public goods through a durable, rules-based mechanism.

India must institutionalise cross-spectrum engagement with political, economic, and societal actors in neighbouring states, engaging all major entities with careful calibration.



It cannot adopt a hands-off attitude, but its involvement should not result in the micromanagement of political outcomes or over-identification with any particular regime. NFP 2.0 must also shift from loud public statements on minority issues to quiet diplomacy, embedding these concerns within broader frameworks of development cooperation and rights-based governance, and adopting a principle of no public conditionality. This means replacing episodic, high-visibility interventions with institutionalised, low-key channels: development projects, Track 1.5 dialogues, parliamentary exchanges, judicial cooperation, and civil-society partnerships.

A related concern is the securitisation of neighbourhood relationships—the tendency for security agencies to dominate bilateral conduct in ways that generate anxieties undermining India's long-term influence. National security is better served by strengthening existing linkages and creating new stakes for neighbours, pursued quietly rather than foregrounded.

Digital connectivity is an underutilised instrument of regional integration. India's Unified Payments Interface, already extended to Nepal, Bhutan, Sri Lanka, and the Maldives, could become a transformative South Asian public good, reducing remittance costs and building financial interdependence. Revitalising the Ganga-Brahmaputra waterways through regulatory harmonisation and shared governance could open inland water trade routes currently underserved by road connections. Nepal and Bhutan's hydropower surpluses, Sri Lanka's untapped offshore wind and solar potential, and Bangladesh's acute energy deficit create natural complementarities that a regional Power Pool, with India as hub, could harness to mutual advantage. The Indian Energy Exchange platform and revised Cross-Border Electricity Trading framework already provide the institutional scaffolding, with the first trilateral transaction moving Nepali hydropower to Bangladesh through Indian territory now operational.

Bilateral irritants must be resolved proactively through appropriate, enforceable mechanisms. The 2014–15 settlement of the India-Bangladesh land and maritime boundary disputes remains the template: politically difficult compromises, undertaken in consultation with state governments, transformed bilateral relations. The Ganga Water Treaty with Bangladesh, due to expire in December 2026, requires timely renewal. The long-deferred Teesta waters agreement, now potentially reopened by the BJP government in Kolkata, requires a sequenced approach combining a politically acceptable formula with local adaptation investment. The fisheries dispute with Sri Lanka merits a compact banning destructive bottom trawling, funding the transition to deep-sea fishing, and creating joint monitoring mechanisms. The Kalapani issue cannot be resolved on Nepal's terms, but a more accommodating approach to revising the 1950 Treaty of Peace and Friendship could signal respect for Nepal's sovereignty.

Climate change is an increasingly

urgent neighbourhood challenge that Indian policy has not addressed as an opportunity to produce regional public goods. Accelerating glacial melt threatens river flows on which hundreds of millions depend; recurrent flooding affects Bangladesh, the Indian northeast, and Nepal; and coastal exposure is a shared vulnerability across the Bay of Bengal littoral. India's *Panchamrit* commitments, renewable energy ambitions, and first-responder

BIMSTEC students, streamlining visa and work-permit rules for graduates, and positioning itself as the region's R&D platform through Innovation Corridors linking Indian tech hubs with neighbourhood startup ecosystems. A stable, people-centric visa policy is essential: the episodic tightening of visas as a political signal punishes ordinary people and erodes the reservoir of goodwill.

India's role as a first responder must be institutionalised and conducted

India is well-positioned to supply the defence hardware requirements of friendly neighbours. The Colombo Security Conclave, now institutionalised with its own Charter and permanent secretariat, is an effective model for collective maritime security and should be deepened and expanded. The Gorkha recruitment issue, disrupted by the Agnipath scheme, must be resolved through structured dialogue with Nepal: this channel and the welfare architecture it supports are too strategically important to be allowed to atrophy.

India must use regional and subregional platforms more strategically. BIMSTEC and BBIN should be treated as laboratories for modular, project-based cooperation, with India investing in effective institutions. The risk of SAARC's paralysis is that China leads a parallel South Asian grouping minus India; India should use SAARC's existing Charter provisions to advance practical cooperation on connected economic space, cultural exchange, and digital governance among willing members. A critical qualification is that taking ownership of regional initiatives is not the same as dominating the agenda. India has historically not learnt to socialise comfortably in SAARC settings—building relationships, listening and shaping consensus informally—as have other large economies in regional groupings such as ASEAN and the EU. India's instinct to drive agendas from the front has often generated the very resistance it seeks to overcome.

Strategic communication must be treated as a core policy function. The disjunction between professional messaging of the Ministry of External Affairs and statements from political parties on neighbourhood issues creates confusion that can be exploited, and India's implementing agencies sometimes project a tone perceived as patronising, undermining the goodwill that projects generate.

Genuine institutional



Diplomatic Reset

Prime Minister Narendra Modi's 2025 state visit to the Maldives marked a renewed phase in bilateral ties following the 'India Out' episode.

capacity could be assembled into a regional climate strategy positioning India as a provider of clean energy grids, early warning systems, and climate-resilient financing.

Ask First, Deliver Fast, Never Brag

People-to-people ties must be rebuilt for a new generation. Nepali youth no longer view India as a preferred destination for education or quality employment; Chinese universities, with their scholarships and English-medium programmes, are drawing thousands away. India must treat education as strategic infrastructure, expanding seats in flagship institutions, creating dedicated scholarship schemes for SAARC and

with humility. A Neighbourhood Rapid Response Mechanism, with prepositioned supplies, standby financial instruments, and trained joint teams deployable on request, would give this role institutional form. The guiding principle must be: ask first, deliver fast, never brag.

Defence and maritime cooperation remain underutilised assets. The Sri Lankan acquisition of Advanced Offshore Patrol Vessels from Goa Shipyard, made possible by a credible alternative to a Chinese offer, shows what is possible when diplomatic engagement, concessional financing and industrial capability combine.

With defence production capacity increasing significantly with the induction of private sector players,

reform requires reimagining the Development Partnership Administration as a financially empowered entity with greater autonomy, flexible procurement rules, a transparent project-monitoring dashboard, and a professional cadre for long-term regional programmes. The Sri Lanka housing project, which replaced contractors with an owner-driven model with direct cash transfers into beneficiaries' bank accounts and delivered a 99% completion rate with significant cost savings, shows what DPA can achieve when given the freedom to innovate. The Foreign Secretary can focus more effectively on the neighbourhood if other MEA Secretaries are adequately empowered in their domains. An inter-ministerial Committee of Secretaries on neighbourhood policy, modelled on the China Study Group and chaired by the Foreign Secretary, would cut across silos, and a Cabinet Committee on Neighbourhood would provide the political oversight these issues require.

Equally important is a coherent borderlands policy. The dominant framework at India's land borders remains centred on national security, which tends to lose sight of trans-border economic engagement that China has developed with considerable effect in its border provinces with other countries. Similarly, Indian state governments, most directly affected by neighbourhood policy, must be institutionalised partners, not afterthoughts consulted when a treaty needs ratification.

A Neighbourhood Doctrine Anchored in Mutual Benefit

An Indian corollary to the Monroe Doctrine—asserting an exclusive sphere of influence in South Asia—is both impractical and counter-productive. Neighbours will inevitably seek to maximise their options vis-à-vis the largest country in the region, more so given China's growing presence and a US strategic posture

not closely aligned with India's. Yet India needs a practicable sphere of influence anchored in mutual benefit rather than exclusion: a dense web of economic, institutional, and social linkages, from interoperable customs and digital rails to cross-border energy grids, regional blended finance vehicles, Colombo Security Conclave-style arrangements, and people-to-people exchanges. Such a sphere is not exclusionary but sticky—creating mutual dependencies that are costly to unwind and hard for external actors to replicate.

India must treat its neighbourhood as a strategic economic space, offering phased non-reciprocal market access where neighbours have a comparative advantage

India's Pakistan policy should be recalibrated. As former High Commissioner Sharat Sabharwal has argued, coercion without diplomacy risks becoming an endless journey of conflict and crises. The policy of refusing dialogue until terrorism ends has frozen India into a reactive posture that neither shapes Pakistan's internal trajectory nor moderates its external alignments. However, the non-reciprocal logic of NFP has no purchase in a relationship defined by structural rivalry, unresolved territorial disputes, and a Pakistan Army whose institutional DNA is built around hostility to India. This conflictual relationship can, at best, be managed—through calibrated responses to terrorist provocations, institutionalised crisis management channels, back-channel communication that keeps

escalation ladders visible, and active Gulf diplomacy to ringfence India's enormous economic and diaspora stakes in that region. Dialogue and communication should not be projected as a reward for Pakistan's good behaviour, because they are essential tools for managing a difficult relationship.

The neighbourhood is foundational to India's rise, not peripheral to it. India's path to *Viksit Bharat*—achieving developed-country status by 2047—will be significantly harder without a stable, relatively cooperative and economically integrated periphery. A rising power with a turbulent and China-penetrated periphery is more constrained, not less—and the answer lies not in obsessing over the China challenge but in improving India's own game, tapping existing synergies, and building linkages that China cannot replicate. The India-Nepal energy breakthrough, the first trilateral power trade with Bangladesh, and the Colombo Security Conclave demonstrate the efficacy of combining political will with institutional imagination and investment. If India can build a neighbourhood of shared prosperity, resilient connectivity, dispute resolution through objective mechanisms, effective Pakistan deterrence, and India as a trusted first-responder when invited, it will have transformed the most contested terrain of its rise into the most durable foundation of its strength. That is the task before Indian foreign policy. *iw*

ABOUT



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