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**Subhas Chandra Bose Chair  
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**CU-SCB/2026-27/MG-001  
MONOGRAPH**

**Towards Neighbourhood First 2.0:  
A Reimagined Strategic Framework  
for India's Periphery – Foundations,  
Propositions and Implementation**

**ASHOK K. KANTHA**

# Ashok K. Kantha

Subhas Chandra Bose Chair Professor  
of International Relations

Ashok K. Kantha is Subhas Chandra Bose Chair Professor of International Relations at Chanakya University, Bengaluru. He is a Distinguished Fellow at Vivekananda International Foundation, New Delhi; a Distinguished Fellow at Council for Strategic and Defence Research, New Delhi; and an Honorary Fellow and former Director (2017–22) of the Institute of Chinese Studies, New Delhi.

He is a former career diplomat who served as Secretary (East) in Ministry of External Affairs (MEA) and Ambassador/High Commissioner of India to China, Sri Lanka and Malaysia.

In his diplomatic career, Kantha specialised in India's neighbourhood and extended neighbourhood with a particular focus on China and South Asia. Apart from three diplomatic assignments in China, he handled relations with China in policy positions at MEA for eight years and was the lead Indian negotiator for key agreements with China, including the Agreement on Political Parameters and Guiding Principles for Boundary Settlement.

Kantha also served as Joint Secretary (East Asia), MEA, Consul General in Hong Kong, Deputy Chief of Mission in Nepal, Director (China), MEA, Director (Iran, Pakistan, Afghanistan), MEA, Counsellor (Political), Embassy of India, Washington DC, and Special Assistant to Chairman, Policy Planning Committee and Policy Advisory Committee, Cabinet Secretariat (Shri G. Parthasarathi).

Kantha has an advanced certificate in Chinese language from National University of Singapore.

**Subhas Chandra Bose Chair of International Relations  
Chanakya University, Bengaluru**

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-Foundations, Propositions and Implementation**

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ASHOK K. KANTHA

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# Executive Summary

India's Neighbourhood First 2.0 framework is proposed as a strategic upgrade to the country's regional policy, responding to a dramatically altered geopolitical and domestic landscape in South Asia. The discussion paper covers the historical foundations of the Neighbourhood First policy (NFP) and assesses its successes and misses in part I, while making a case for Neighbourhood First 2.0. It then outlines ten core propositions to guide NFP 2.0 in Part II. Part III translates the propositions into an actionable implementation framework. The paper examines India's relations with Afghanistan, Bangladesh, Bhutan, Maldives, Myanmar, Nepal and Sri Lanka but does not cover Pakistan and China which require a separate discussion.

## Historical Arc

India's neighbourhood strategy has been a core of its foreign policy since Independence with bilateral and regional engagements shaped by developments in different neighbouring countries and larger geopolitical context. The post-colonial vision of South Asian cooperation, embodied in the experiments leading to the creation of the South Asian Association for Regional Cooperation (SAARC), sought to institutionalise regional economic and development collaboration. However, the institutional weaknesses of SAARC led to bilateral and sub-regional templates. In the 2010s, the rising presence of China in the region, evolution of non-traditional security challenges, and India's economic growth as well as other factors led to the realisation of a changing neighbourhood requiring a new strategy.

The formalisation of Neighbourhood First in 2014 comprised mainly three key elements of consultative, non-reciprocal and outcome-oriented form; connectivity, trade and development assistance; and **"5S of Samman (respect), Samvad (dialogue), Shanti (peace), Samriddhi (prosperity) and Sanskriti (culture)"**.

The new strategy delivered important gains in high-visibility political engagement, crisis-response leadership, expanded connectivity, development partnerships, and a more coherent regional narrative—but it also revealed structural limitations that now constrain India's ability to shape a stable and cooperative periphery.

## Recent Developments and Gaps

India's periphery remains the least integrated in Asia by almost every metric—trade, connectivity, finance, and energy flows. India's ability to deliver regional public goods has improved but not consistently enough to prevent strategic drift among neighbours. Equally, it has not been able to co-opt regional partners into its supply chains and global trade relations.

While India enjoys a positive trade balance with its South Asian neighbours, China has emerged as the leading trading partner of these countries. Most countries have also signed on China's Belt and Road Initiative with Chinese loans and investment worth billions of dollars flowing into key projects in the region. The slow speed of India's developmental



partnership and connectivity projects lead to gaps in delivery even while India's role as a security provider and first responder in the region has expanded. New Delhi and neighbours have not been able to forge a connected economic space which can leverage growth stimulus emanating from India. Increasingly, the aspirational youth of the neighbourhood looks beyond India for education or high-value job opportunities.

The region's volatility and domestic as well as security developments have exposed the fragility of India's neighbourhood engagement. A review of bilateral relations reveals a mixed picture.

**Bangladesh**, after strong gains made during Sheikh Hasina's stewardship of the country, has entered a period of political uncertainty and rising anti-India sentiment among significant segments of the public, though the outcome of parliamentary elections in February 2026 offers an opportunity for bringing the relationship back to an even keel.

**Nepal** continues to oscillate between political instability, constitutional contestation, and competitive nationalism, with periodic downturns in relations driven by border disputes and domestic political incentives, arguably fuelled by some errors of judgment by India.

**Sri Lanka** remains economically fragile and politically divided; while there is appreciation for India's timely and substantial economic assistance of nearly US\$ 4 billion, which helped pull the island nation away from the precipice of an economic meltdown and political crisis, structural problems persist, including China's pervasive footprint complicating India's strategic space.

**Bhutan** is undergoing a generational transition, cautious external opening and impatience to resolve its boundary dispute with China, requiring India to recalibrate its approach to hydropower, connectivity, youth aspirations and the China challenge. After the Doklam standoff, China has progressively expanded its presence in Western Bhutan and maintain pressure on it for a boundary settlement on terms that will adversely impact India's security interests.

**Maldives** has become a theatre of geopolitical contestation, with sharp swings in political orientation and public narratives, though India has managed to significantly retrieve its position through patient diplomacy. However, the China factor continues to loom large.

**Myanmar** presents an acute challenge: a collapsing state, intensifying civil war, humanitarian spillovers along India's Northeast, and China playing both sides of domestic strife. Post-elections, policy implications for New Delhi remain largely unchanged: sustain calibrated, high-level engagement with Naypyidaw to protect border security and project continuity; expand discreet, humanitarian and development links with non-state and ethnic actors to reduce localised instability; and deepen multilateral and bilateral mechanisms for refugee management, counter-terrorism intelligence, and disaster response. India's room for manoeuvre is constrained by the civil war and China's entrenched position.

**Afghanistan**, under Taliban rule, remains outside the scope of normal diplomacy but continues to affect regional security and India has wisely stepped up engagement with the regime without formally recognising it. Afghanistan's inherent problems with Pakistan

on the Durand Line boundary and other issues and its traditional affinity with India create conditions for improved bilateral relations, but deep concerns about the Taliban's reactionary policies continue to inhibit any major upgradation of ties.

**China** and **Pakistan** are deliberately excluded from the ambit of NFP 2.0 because the policy's core principles—non-reciprocity, development partnership, and cooperative regionalism combined with strong bilateral engagements—cannot be meaningfully applied to relationships defined by structural rivalry, unresolved territorial disputes, and adversarial security dynamics.

The paper does not accept an increasingly fashionable notion that India's trajectory toward becoming a \$30 trillion economy by 2047 will render its immediate neighbourhood less consequential. Rather than transcending its periphery, India must prioritise the neighbourhood because: it is the arena where the country's most serious traditional security threats originate; internal political churn in neighbouring states has direct consequences for India; a more connected economic space in the region will give a boost to development of both India and its neighbours; the intensification of climate shocks in the region creates shared vulnerabilities that no national strategy can address in isolation; and neglect of the neighbourhood creates a vacuum that external powers—especially China—have been quick to fill through infrastructure financing, political leverage, and military partnerships. On balance, the periphery must be seen as an opportunity for India rather than a problem (and vice versa).

China's multidimensional penetration across infrastructure, digital systems, political influence, security cooperation, and elite capture has reshaped the strategic environment, while the United States' engagement in South Asia has become more episodic and less aligned with India's core neighbourhood interests. Importantly, South Asian countries have strengthened their agency and enjoy wider strategic room. These shifts underscore the need for a more institutionalised, resilient, and future-oriented framework.

### **Ten Propositions for Neighbourhood First 2.0**

NFP 2.0 is therefore conceived as a strategic upgrade—moving from symbolic reassurance to systemic integration, from bilateralism to functional regionalism combined with robust bilateral engagements, and from reactive crisis management to anticipatory arrangements. The paper articulates ten interlinked propositions that collectively define this upgraded framework.

**First**, economic partnership must become the strategic centrepiece, with a focus on trade facilitation, regional value chains, investment and innovation corridors, and regulatory harmonisation. Offering non-reciprocal market access to neighbours will require phased integration, systematic whittling down of non-tariff barriers, and extending ease of doing business beyond inter-state and national boundaries of India to foster a progressively more connected economic space. It will also require political honesty in explaining why such arrangements are needed.



**Second**, connectivity must be resilient, politically hedged, and embedded in coherent architecture, spanning multimodal transport, energy, and digital domains. It must also align with local absorptive capacity. There must be a clear vision and roadmap with speedy implementation.

**Third**, India must institutionalise its role as a first responder while respecting sovereignty and avoiding terminology like net security provider which causes anxieties. The motto ought to be “ask first, deliver fast, never brag”. India may create a Neighbourhood Rapid Response Mechanism to be available on request for humanitarian aid, disaster relief and economic stabilisation. This can be foregrounded while simultaneously playing a discreet but effective security role for the region.

**Fourth**, bilateral irritants must be resolved proactively through timely, innovative, enforceable mechanisms, insulating them from political cycles. The way settlement of land border and maritime boundary in 2014–15 through politically bold and wise decisions by the new NDA government set the stage for transformation of bilateral relations with Bangladesh provides a template for dealing with accumulated irritants wherever feasible. This applies to fisheries, water and resource issues and other areas. The support of Indian state governments will be critical for the success of these mechanisms as was the case with Bangladesh a decade ago.

For instance, renewing the 1996 Ganga Waters Treaty—due to expire in December 2026—is essential to prevent avoidable friction in India–Bangladesh relations at a time of political transition in Dhaka. A timely renewal, grounded in transparent data sharing and consultations with West Bengal, would reassure the new Bangladeshi leadership of India’s commitment to equitable river management and help stabilise a relationship that has otherwise entered a more delicate and contested phase.

At the same time, firm positions must be maintained on matters affecting India’s sovereignty and vital national interests, like the Kalapani issue with Nepal.

**Fifth**, people-to-people ties must be deepened through youth engagement, mobility, education, and positioning India as the region’s R&D platform, building on India’s deep civilisational and economic bonds with its neighbours but also recognising the youthful demography and aspirations of our neighbours that are no longer responsive to traditional rhetoric and methods. Education and mobility opportunities for youth of these countries strengthen these bonds. The paper offers concrete recommendations in this regard, prioritising a reworked community and youth-centric approach rather than focussing primarily on engagements with governments or harking on hackneyd sentiments that no longer resonate.

A stable and predictable visa regime is essential for sustaining India’s neighbourhood engagement. Sudden tightening of visas—whether for tourism, business, education, healthcare or employment—can be read as political signalling, as seen in Bangladesh where episodic restrictions have fuelled negative public sentiment. While exceptional situations like

post-2021 Afghanistan required unavoidable security-driven controls, India's broader neighbourhood policy must avoid using visas as instruments of displeasure and instead anchor mobility in consistency, transparency and people-centric engagement. In case of Afghanistan, too, restrictions have been excessive.

**Sixth**, defence, security and maritime partnerships must be strengthened, including in the Indian Ocean. India's defence, para-military and police training ecosystem can play a large role in neighbours' capacity building and we can supply high quality defence hardware to friendly neighbours with our growing defence industry. If given a viable option of a good product backed up with financing arrangement, our neighbours can be partially weaned away from Chinese offers, as the case of supply of Advanced Offshore Vessels to Sri Lanka showed. Defence and security collaboration (including intelligence sharing on the basis of greater respect) is an under-utilised asset with the potential to become a force-multiplier if pursued with imagination, generosity and keeping in mind needs of partner countries. Real assets like recruitment of Nepalese Gorkhas in Indian armed forces must not be allowed to be devalued and lost.

**Seventh**, India must use multilateral and sub-regional platforms pragmatically, focusing on BIMSTEC, BBIN, and the Colombo Security Conclave, taking a leaf from China's playbook on utilisation of such platforms. There is also a case for reviving SAARC, which cannot be substituted by BIMSTEC; the absence of an active South Asian architecture is creating a real risk of China leading a parallel grouping minus India. Instead, India can lead initiatives on a SAARC (minus Pakistan, if needed) platform on connected economic space, cultural exchanges, and technical collaborations. BIMSTEC and BBIN can be leveraged for modular, project-based cooperation, socialising India's narratives and investing in institutional depth with funded secretariats. The key to revival of regional and sub-regional arrangements lies in India boldly taking ownership of initiatives and shedding its hesitant attitude.

**Eighth**, strategic communication and narrative shaping must be elevated to a core policy function. India can deploy leverage in ways that do not harm neighbouring citizens or generate resentment and its strategic communication must be decentralised, community-anchored and expectation-sensitive. The country's security interests are vital but their public foregrounding is not the best way of promoting them.

**Ninth**, India must institutionalise cross-spectrum engagement with political, economic, and societal actors in neighbouring states. It should engage with all major political entities with careful calibration and sensitivity. It cannot adopt a hands-off attitude, but its involvement should not result in micromanagement of political outcomes, playing favourites, or over-identification with a political regime (as happened in Bangladesh and the Maldives). The patchy track-record of interventions on behalf of minority communities in the neighbourhood (Tamils in Sri Lanka, Madhesis in Nepal, and Hindus in Bangladesh) has sobering lessons for India which must be internalised and zealous actions that often prove counter-productive avoided. While domestic politics will inevitably influence foreign policy, the temptation to look at issues in the near abroad through partisan political prism must be



consciously controlled.

**Tenth**, India must prepare for strategic competition while managing partnerships with external powers through calibrated, non-zero-sum approaches. Red lines must be defined conservatively and communicated well. Cooperation and coordination with other partners should be welcomed if aligned with India's priorities. At present, working with China in our neighbourhood is not a viable proposition.

An Indian corollary to the Monroe Doctrine in South Asia is both impractical and counter-productive. If India seeks strategic autonomy, it cannot overlook the agency of its neighbours and the fact that they would inevitably endeavour to maximise their options vis-à-vis the largest country of the region, more so given China's relentlessly growing presence, its countervailing stance and a U.S. strategic posture that is not closely aligned with India's. Yet, India needs to foster a "practicable" sphere of influence in the region to safeguard its vital interests. This can be anchored in networks of influence and mutual benefits. India can build a durable regional advantage by weaving a dense web of economic, institutional, and social linkages: interoperable customs and digital rails; energy grids and cross-border power markets; regional blended-finance vehicles and local-level development partnerships; Colombo Security Conclave and bilateral defence and security arrangements; people-to-people exchanges and educational consortia; and so on. This "sphere" is not exclusionary; it is sticky because it creates mutual dependencies that are costly to unwind.

However, in an international environment of growing concerns about weaponisation of integration by the powerful, the exercise of leverage must be resorted to sparingly and then too, after making a distinction between targeted signalling to governments and "punitive" actions hurting people at large of the concerned country. The latter can do long-term damage to relations and undermine the case for closer integration, as happened in Nepal in 2015 due to India's last-minute public intervention in the constitution-drafting process and its subsequent actions that were perceived as amounting to a "blockade" to penalise Kathmandu. Likewise, in its responses to unhelpful actions and utterances of the Yunus-led interim government of Bangladesh in 2024-25, India sought to convey displeasure to Dhaka on issues ranging from security cooperation to minority protection, yet its signalling at times lacked the nuance needed to separate criticism of the government from its long-standing commitment to the Bangladeshi people.

NFP 2.0 must recognise that overt advocacy for minority communities—whether Sri Lankan Tamils, Madhesis in Nepal, or Hindus in Bangladesh—can unintentionally trigger nationalist pushback, empower anti-India political coalitions, and provide openings for external actors. To avoid this, India should shift from loud public signalling to quiet diplomacy, embedding minority concerns within broader frameworks of development cooperation, connectivity, and rights-based governance. 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. India should also adopt a principle of "no public conditionality"—avoiding statements or actions that appear to link bilateral benefits to minority-related concessions—while continuing to raise

concerns privately at senior levels.

Targeted development projects in minority-dominated regions—implemented through local governments, NGOs, or even UN agencies—can improve welfare outcomes without politicising India's role. Simultaneously, India should strengthen early-warning and crisis-response mechanisms with neighbours to address communal violence or displacement swiftly but quietly, ensuring that humanitarian assistance is framed as support for national resilience rather than intervention on behalf of a specific group. By embedding minority concerns within a broader architecture of cooperation, India can safeguard vulnerable communities while preserving political goodwill and strategic space in its neighbourhood.

## Implementation Frameworks

The implementation of these ten propositions requires stronger institutional coordination in India. Suggested changes include empowering the Foreign Secretary to focus on the neighbourhood by reducing other responsibilities, institutionalising a Committee of Secretaries in MEA, an inter-ministerial Committee of Secretaries headed by Foreign Secretary to cut across ministerial silos (along the model of China Study Group), political oversight and support from a Cabinet Committee on Neighbourhood, creating neighbourhood specialisation in the IFS cadre, revamping Developmental Partnership Administration with more autonomy, flexible regulations and professional cadre, monitoring projects with accountability and public-facing dashboard on key initiatives, institutionalised arrangements for working with states as key stakeholders, building neighbourhood studies programs, and regular parliamentary and civic society dialogues, among others.

Operational priorities include defining sectoral corridors of partner country strengths for economic integration, physical and digital connectivity, institutionalising India's role as a first responder on request, resolving bilateral irritants, deepening people-to-people ties, strengthening defence cooperation, pragmatic multilateralism through sub-regional platforms, strategic communication, cross-spectrum engagement and coordination mechanisms within India.

In particular, new financing models such as blended finance, regional bonds, risk pools and a regional bank can support economic targets. Legal and regulatory harmonisation and customs modernisation can help trade. Sectoral strategies on energy, transport, digital and climate resilience sectors can benefit from the region's complementarities. Other operational factors can extend to human capital, skill development and mobility, security cooperation and sequencing to manage political economy constraints, prioritising quick wins to build public support.

## Seven Case Studies

These propositions are grounded in seven illustrative case studies that demonstrate both the potential and the constraints of India's regional engagement.

The Indian Housing Project in Sri Lanka showcases the success of owner-driven development cooperation and the importance of delivery



credibility, anchored in learning from mistakes and adopting innovative approaches with full community involvement.

The Colombo Security Conclave illustrates India's ability to build minilateral security architectures focused on maritime domain awareness, cyber security, and counter-terrorism.

The resolution of India's land and maritime boundary disputes with Bangladesh in 2014–2015 stands as a landmark in India's neighbourhood diplomacy. It demonstrated that politically difficult compromises—undertaken after careful domestic consultation—can generate long-term strategic dividends and transform bilateral relations.

The India–Sri Lanka Fisheries Compact offers a roadmap for technical, enforceable solutions based on phased transition to deep-sea fishing to overcome a persistent bilateral irritant.

The India–Nepal Energy Corridor demonstrates how power trade can evolve into a regional grid architecture, building on gains already made in power trade among India, Nepal and Bangladesh.

The South Asian Digital Payments Corridor shows how India's digital public infrastructure can serve as a regional public good.

The revitalisation of the Ganga–Brahmaputra waterways illustrates the transformative potential of multimodal connectivity when aligned with ecological and political realities.

## Conclusion

Neighbourhood First 2.0 differs from the first iteration in several concrete ways. Where NFP relied on summit diplomacy and personality-driven engagements, NFP 2.0 emphasises institutionalised mechanisms and interactions across the spectrum in political and societal domains, eschewing the tendency to play favourites in the ruling dispensations and instead shape outcomes through sustained, patient and low-profile efforts. Where NFP focused on bilateral projects, NFP 2.0 prioritises regional architectures such as energy grids, digital corridors, R&D platform in hub-and-spoke mode and multimodal transport networks along with vigorous bilateral engagements. Where NFP emphasised non-reciprocal generosity, NFP 2.0 stresses mutual economic interdependence and shared prosperity anchored in non-reciprocity, regional value chains and creating conditions for neighbouring countries to benefit from India's growth story and Indian business to drive growth in the country's periphery. Where NFP responded to crises, NFP 2.0 seeks to anticipate and prevent them through early-warning systems, climate-resilience planning, and political-economy analysis. And where NFP was largely state-centric, NFP 2.0 expands engagement to youth, innovators, private sector actors, civil society, and borderland communities.

While NFP has a mixed record on India's entanglements in domestic political processes in the neighbourhood, NFP 2.0 argues that though India cannot adopt a hands-off attitude, its involvement should not result in micromanagement of political outcomes, playing favourites, or over-identification with a political regime, or blatant interference in issues relating to minority communities. NFP 2.0 also suggests working with "like-minded" countries in the neighbourhood, while recognising limitations in this regard. It advises against obsessing over the challenge posed by China and recognising that much of the response to this challenge will involve building on India's strengths and synergies in the region and stepping up its own act.

Taken together, these elements position Neighbourhood First 2.0 as a strategic investment in India's long-term stability, prosperity, and regional leadership. A secure and cooperative neighbourhood strengthens India's economic resilience, enhances borderland development, reinforces social cohesion, and expands India's strategic autonomy in an increasingly contested Indo-Pacific. The upgraded framework is thus not merely a foreign-policy adjustment but a foundational pillar of India's rise as a leading power.





# **Towards Neighbourhood First 2.0: A Reimagined Strategic Framework for India's Periphery – Foundations, Propositions and Implementation<sup>1</sup>**

**ASHOK K. KANTHA**

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<sup>1</sup>Based on ideas initially articulated in a Chanakya University Distinguished Lecture on “Towards Neighbourhood First 2.0”, delivered by the author at Indian Institute of World Culture, Bengaluru on 4 December 2025.





## Introduction

The idea of a renewed and forward-looking “Neighbourhood First 2.0” has emerged from a recognition that India’s strategic and regional environment is undergoing profound transformations. In a world going through a reordering process, the political geography of South Asia and the extended neighbourhood is marked by shifting alignments, domestic uncertainties, economic transitions, and intensifying major-power rivalries. These dynamics have created both opportunities and vulnerabilities, making it imperative for India to articulate a comprehensive, resilient and future-oriented neighbourhood strategy. Such a strategy must move beyond episodic initiatives and reactive crisis management to embrace a long-term, multi-dimensional and institutionalised framework for regional integration, connectivity, cooperation, and conflict-prevention.

The neighbourhood matters fundamentally for India’s economic stability, national security, social cohesion and international ambitions. The objective of securing a developed country status, “Viksit Bharat”, by 2047 will be far more challenging without securing relatively stable, cooperative and mutually beneficial relations with its immediate neighbours. For India, this is not merely a matter of foreign policy or geopolitical positioning; it is intertwined with domestic development, sub-national governance, borderland economies, and the aspirations of millions of people residing in frontier regions. The premise of Neighbourhood First is therefore both external and internal, encompassing connectivity corridors that bridge borders and governance reforms that strengthen capacities within.

Neighbourhood First emerged from historical roots and evolved progressively as a formal policy framework in the past decade. India’s post-Independence approach to its periphery oscillated between idealism and pragmatism, between attempts at regionalism and bilateral crisis response. The early post-colonial vision of South Asian cooperation, embodied in the experiments leading to the creation of the South Asian Association for Regional Cooperation (SAARC), sought to institutionalise regional economic and development collaboration. Yet, structural political tensions, the persistence of unresolved bilateral disputes, and asymmetries of power rendered SAARC increasingly ineffective. As a result, South Asia became one of the least economically integrated regions worldwide, with low levels of intra-regional trade, minimal cross-border value chains, and limited cooperative institutions.

The shift from SAARC-centric regionalism to more flexible and functional sub-regional cooperation was gradual but deliberate. India’s Look East Policy developed into the Act East Policy and strengthened linkages with Southeast Asia, but it also reinforced the understanding that the Northeast region could flourish only through deeper cross-border connectivity with neighbouring countries. Sub-regional frameworks such as the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), the Bangladesh-Bhutan-India-Nepal (BBIN) initiatives, and various bilateral connectivity projects provided the building blocks for a more pragmatic, results-oriented and tailored approach to regional partnership.

The Neighbourhood First policy (NFP) emerged in this context as a deliberate policy



declaration that India places its immediate region at the core of its diplomatic and developmental engagements. It reaffirmed the premise that India would extend support to neighbours through development assistance, trade facilitation, connectivity investments, humanitarian relief, capacity building, and security cooperation. Since 2014, these commitments have manifested in a range of initiatives, including greater leadership-level engagements, infrastructure projects, power-trade agreements, lines of credit, expanded people-to-people ties and crucially, India's role as the first responder in crisis situations in the vicinity.

However, the rapidly changing regional landscape necessitates a more ambitious, structured and forward-looking approach — one that builds on past achievements but moves toward a more institutionalised architecture. Neighbourhood First 2.0 must address the limitations of the earlier phase, which overly relied on diplomacy driven by leadership summits and political signalling rather than systemic institutional frameworks. The second generation of the policy must therefore focus on deeper economic interdependence, resilient connectivity, governance reforms, inclusive development, transparent cooperation, and long-term regional stability.

This paper seeks to stimulate a dialogue on a comprehensive and expanded framework for such a NFP 2.0. It begins by analysing the structural and historical foundations of neighbourhood policy and then articulates ten propositions that collectively define the essential components of a strengthened neighbourhood strategy. These propositions are derived from contemporary geopolitical realities, empirical evidence on the benefits of connectivity and governance reforms, and a forward-looking understanding of regional development needs.

NFP 2.0 must ultimately be seen as a commitment to building a stable, prosperous and interconnected region. It must also be understood as an investment in India's own future. A secure, cooperative and integrated neighbourhood enhances India's strategic autonomy, economic resilience, role as a responsible regional anchor and global standing. It strengthens domestic development, and supports long-term peace by reducing incentives for conflict and encouraging interdependence.

This paper is intended as a discussion draft. It is organized in a manner that permits both policy practitioners and academic analysts to engage with its propositions, critique its assumptions, and refine its recommendations. It includes under India's neighbourhood the countries of Afghanistan, Bangladesh, Bhutan, the Maldives, Nepal and Sri Lanka—members of the South Asian Association for Regional Cooperation (SAARC)—and Myanmar, with which India shares a long land border and immediate maritime space. The discussion largely excludes bilateral relations with Pakistan and China which require a separate set of strategies owing to the complex issues in play; besides, some defining features of NFP, like non-reciprocity, cannot be applied to these two countries.

The paper proceeds in three parts. Part I lays out the historical foundations of NFP, identifies its core contents, offers an appraisal of its achievements and limitations since its articulation in 2014, and makes a case for reimagining the neighbourhood policy. Part II outlines ten

core propositions that should guide NFP 2.0. Part III translates those propositions into an actionable implementation framework, detailing institutional reforms, financing instruments, sectoral strategies, and illustrative case studies. The aim is to provide a policy architecture that is both ambitious and realistic: ambitious in its long-term vision of regional integration, realistic in its appreciation of political constraints and the need for incremental, verifiable delivery.





## Part I

### The Foundations — Origins and Evolution of Neighbourhood First

Historically, South Asia has been marked by deep interdependence across geography, ecology, economy, demography, and culture. Yet the region simultaneously holds some of the world's least integrated economic structures, most porous borders, and densest security dilemmas. Shivshankar Menon has argued persuasively that the region's borders are “porous by nature and contested by history,” making them sites of perennial insecurity rather than stable boundaries between well-formed nation-states<sup>1</sup>. In this context, India—the largest state by far in population, economy, military capability, and geo-strategic weight—has been compelled from the outset to play a stabilising role.

#### India's Early Regional Vision

Jawaharlal Nehru's vision of the subcontinent, though couched in the language of moral purpose and opposition to “power politics,” was in fact grounded in a hard-headed appreciation of geography, capability, and national interest. His speeches in the 1950s made this explicit, insisting that “India's defence does not begin at her borders; it begins in the surrounding region,” a formulation that reflected a deeply realist understanding of India's strategic environment<sup>2</sup>. In his letters to Chief Ministers, Nehru repeatedly argued that India's foreign policy must begin with its immediate neighbours not out of sentiment, but because geography imposed unavoidable constraints and responsibilities<sup>3</sup>. His emphasis on “friendship and goodwill” was therefore a strategic instrument rather than a moral indulgence: India's security, economic development, and regional influence depended on stable and cooperative relations in the subcontinent. At the same time, he recognised that India's size and centrality could generate apprehensions among smaller neighbours, and thus advocated restraint, reassurance, and non-coercive influence—urging that India act with “patience” and “understanding,” while remaining firmly anchored in its national interest. This synthesis of normative aspiration with a realist appreciation of power asymmetries became the defining feature of India's early neighbourhood diplomacy and shaped the long-term architecture of its regional engagement.

Indian diplomacy in the first two decades after Independence therefore attempted to stabilise the disturbed frontiers, broker cooperative relationships, and prevent hostile penetration by extra-regional actors.

Nehru's government helped mediate political outcomes in Nepal (1950–51) and influenced Bhutan's external orientation through the 1949 Treaty of Friendship. India supported Sri Lanka's early development and maintained regular dialogue with Burma/Myanmar. However, structural constraints—particularly the deep mistrust between India and Pakistan, and progressive deterioration of India–China relations in late 1950s onwards as well as great-power rivalries—limited India's ability to consolidate a stable regional system.

The 1962 war with China, the wars with Pakistan (1965, 1971, 1999), the birth of Bangladesh



(1971), and the Sri Lankan ethnic conflict (1983–2009) shaped Indian threat perceptions and regional engagement strategies. By the late 20th century, India often found itself reacting to crises rather than shaping a long-term regional architecture. Yet despite episodic tensions, India remained the region's primary economic destination, security provider, and political stabiliser.

India's hesitation toward any regional architecture stemmed from concerns that such an organisation dominated by smaller neighbours could constrain its strategic autonomy and allow Pakistan to internationalise bilateral disputes, making regional cooperation politically risky and diplomatically cumbersome. Although SAARC was formally established in December 1985 in Dhaka, India entered the grouping cautiously, convinced that the consensus-based framework would enable Pakistan to block regional initiatives and stall meaningful integration. As a result, India consistently preferred bilateral engagement— which offered greater control, flexibility, and insulation from Pakistan's obstructionism— over investing heavily in SAARC's regional mechanisms, a pattern that later encouraged New Delhi to shift its focus toward more functional, Pakistan-free platforms such as BIMSTEC, BBIN, and other subregional arrangements.

## **A Historical Arc: From SAARC to Neighbourhood First**

The policy's evolution has also been shaped by the failures and limitations of regional multilateralism. SAARC's institutional weakness, exacerbated by India-Pakistan antagonism, has constrained regional cooperation to the lowest common denominator.<sup>4</sup> As intra-SAARC trade stagnated around 5 percent of total regional trade, bilateral and sub-regional templates gained prominence.<sup>5</sup> Platforms such as BIMSTEC, the BBIN initiative, the Colombo Security Conclave, and trilateral energy/transport accords emerged as functional alternatives to the paralysis in SAARC. These mechanisms provided India with pragmatic instruments to advance economic interdependence and security coordination without being held hostage to political blockages. However, their sub-optimal outcomes are also evident.

## **The Post-1991 Reorientation**

India's economic liberalisation in 1991 opened new possibilities for regional integration. Growing trade, improved infrastructure, and a desire for stable borders led to initiatives such as the SAARC Preferential Trading Arrangement (SAPTA), the 1996 Ganga Water Treaty with Bangladesh, and the expansion of development cooperation with Afghanistan after 2001. However, SAARC remained stalled by political frictions, particularly between India and Pakistan due to regular cross-border terrorist attacks and threats.

In 2010s, it had become clear that India's neighbourhood was changing rapidly:

China's presence in South Asia intensified dramatically across economic, political, technological, and security dimensions.<sup>6</sup>

As India's relations with the U.S.-led West improved, concerns vis-à-vis those countries, so evident earlier (for instance, in India-Sri Lanka accord of 1987), was replaced by the

readiness to look at them as “like-minded” nations with which regional policies could be coordinated to some extent.

The last SAARC Summit was held in November 2014 in Kathmandu, and no leaders’ summit has taken place since then. The SAARC process became largely dormant, after the 2016 Islamabad summit collapsed as India, Bangladesh, Afghanistan and Bhutan boycotted it following the Uri terrorist attack and the deteriorating India–Pakistan relationship.

Non-traditional security challenges—terrorism, disasters, pandemics, cyber vulnerabilities—became more acute.

Climate and ecological disruptions and more recently, the Covid pandemic, increased the vulnerability of regional economies.

Large-scale economic migration and rising remittance dependence interacted with the persistent failures of entrenched political elites to deliver governance and economic stability, reshaping domestic politics across Nepal, Bangladesh, and Sri Lanka by fuelling public discontent, altering social expectations, and intensifying pressures for political change.<sup>7</sup>

India’s sustained economic growth since 1991 generated resources that it could deploy in its engagements with friendly neighbours. The asymmetries between India and its neighbours also increased, exaggerating anxieties in the proximate region.

Multilateral trading organisations like the WTO became progressively dysfunctional and international trade was increasingly routed through regional and bilateral free trade arrangements, with South Asia remaining an outlier in this shift towards regionalism.

The neighbourhood’s strategic salience is reinforced by structural factors: India has thousands of kilometres of land borders with almost all countries of continental South Asia, hosts 70 percent of the region’s population, and commands a central geopolitical position with direct maritime reach into the Indian Ocean, the Bay of Bengal, and the Arabian Sea.<sup>8</sup> India shares land or maritime boundaries with seven of the eight SAARC members. Disruptions in any neighbouring country—whether political instability, economic crises, cross-border terrorism, refugee flows, or climate-induced disasters—inevitably impose costs on India. Conversely, integrated regional growth will potentially generate dividends in trade, connectivity, energy flows, and collective security.

Prime Minister Narendra Modi’s government clearly articulated “Neighbourhood First” in 2014 as a response to these structural shifts. High-visibility summits, crisis-response diplomacy, cross-border connectivity projects, lines of credit (LOCs), and increased energy cooperation signalled a more activist regional policy.

The decision to invite SAARC leaders to the Prime Minister’s inaugural ceremony in 2014, and later BIMSTEC leaders in 2019, underscored the region’s primacy in India’s foreign policy imagination.

The conceptual lineage of Neighbourhood First has its roots in India’s post-Independence foreign policy doctrines, especially Prime Minister Jawaharlal Nehru’s early articulation of “special responsibilities” toward neighbouring states, Prime Minister Indira Gandhi’s



insistence on political stability in the subcontinent as a prerequisite for India's security, the Gujral Doctrine's emphasis on non-reciprocal generosity, and the first NDA government's strategic outreach.<sup>9</sup> These earlier templates generated varying degrees of trust and suspicion among neighbours, but they jointly entrenched the strategic reality that India could neither withdraw from nor dominate its periphery without consequences.

India's NFP has historically evolved as a composite of inherited strategic compulsions, enhanced capabilities, accumulated diplomatic experience, and episodic innovations in regional engagement. Its underlying premise—that the stability and prosperity of the subcontinent are indispensable to India's own rise—has persisted across governments, though degrees of emphasis have varied. The policy's formal articulation in 2014 symbolised a deliberate resetting of India's regional priorities and the reassertion of political will in a region where institutional mechanisms had atrophied<sup>10</sup>.

While earlier decades were marked by alternating periods of neglect and outreach, defensive postures, or crisis-driven engagement with neighbouring states, the NFP intentionally re-centred South Asia in India's strategic imagination. It reinforced a structural reality that geography is destiny and that India's rise—economic, political, and civilisational—would remain incomplete if it failed to cultivate a relatively stable, connected, and prosperous periphery. The frequency with which regional crises—political upheavals in Sri Lanka, Bangladesh and Nepal, refugee flows from Myanmar, economic meltdown in Sri Lanka, terrorism emanating from Pakistan, or a regime change in Bangladesh—spill across borders has underscored the strategic indivisibility of South Asia.

## Core articulation of Neighbourhood First

In his Nikkei Asia's "Future of Asia Forum" address on 24 May 2024, Minister of External Affairs Dr. S. Jaishankar thus distilled the Neighbourhood First doctrine as the foundational layer of India's external engagement:

"Under PM Modi's leadership, it initiated the Neighbourhood First Policy for the Sub-Continent. This is a consultative, outcome oriented and non-reciprocal approach that has promoted regionalism by extending credit lines and grants. They have been used for road and rail connectivity, construction of transmission lines, improving border customs infrastructure, enhancing health, education, women empowerment and making provision of essential supplies by neighbors. India continues to focus on enhancing physical, digital and people to people connectivity across the region, augmenting trade and development, and ultimately contributing towards building a secure and stable neighbourhood."<sup>11</sup>

This basic template was repeated in Parliament in Dr. Jaishankar's written reply to a starred question on 13 December 2024:

"The 'Neighbourhood First' policy, which guides the management of India's relations with countries in its immediate neighbourhood, focuses on creating mutually beneficial, people-oriented, regional frameworks for stability and prosperity, including through the building of physical, digital and people to people connectivity. India engages with these countries

on a consultative, non-reciprocal and outcome-oriented basis, driven by the principles of Samman (respect), Samvad (dialogue), Shanti (peace), and Samridhhi (prosperity).

As part of India's 'Neighbourhood First' policy, the Government has been extending necessary developmental assistance and capacity building initiatives, as per needs and aspirations of the neighbouring countries, thereby contributing towards holistic economic development of their countries. Under this approach, India has been assisting neighbouring countries on development of infrastructure projects ranging from large scale infrastructure to community related provisioning of assets and platforms, augmentation of capabilities and extending financial, budgetary and humanitarian assistance."<sup>12</sup>

Analytically, three elements recur in Jaishankar's public remarks:

**Form: "consultative, non-reciprocal, outcome-oriented";**

**Substance: connectivity (physical, digital, people-to-people), trade, and development assistance; and**

**Normative frame: the "5S" vocabulary of respect, dialogue, peace, prosperity (and, in other venues, 'sanskriti' or culture), framing the policy as a regional public good rather than hegemonic.**

## Appraisal of Neighbourhood First

The trajectory from SAARC in 1985 to Neighbourhood First in 2014 reflects both the promise and the limitations of multilateral regionalism. SAARC's founding vision—to promote regional integration modelled loosely on ASEAN—was thwarted repeatedly by India-Pakistan bilateral hostility, which froze progress on economic cooperation. As noted above, intra-regional trade in South Asia stagnated at roughly 5 percent of total trade, significantly below the 25 percent recorded within ASEAN and the nearly 60 percent in the EU. The South Asian Free Trade Area (SAFTA), implemented in 2006, did not meaningfully expand trade flows, partly because Pakistan refused to grant India Most Favoured Nation (MFN) status to India and blocked transit routes to Afghanistan.

The cumulative result was a fragmented and under-integrated region, whose countries increasingly turned outward—to China, the Gulf, Southeast Asia, and beyond to the West—for trade, investment, education, labour opportunities, and political patronage. Against this backdrop, India's Neighbourhood First approach was an explicit recognition that SAARC-style multilateralism could not be the key driver of regional cooperation. Instead, bilateralism, sub-regionalism (such as BBIN and BIMSTEC), and infrastructure-led connectivity would form the bedrock of a reinvigorated neighbourhood strategy.

Though the idea of non-reciprocal generosity toward smaller neighbours has animated Indian statecraft for decades, the post-2014 articulation marked a shift from episodic engagement toward an avowed strategic doctrine. As noted above, the government of India formally embraced the idea of "a consultative, outcome-oriented and non-reciprocal approach that has promoted regionalism."



The articulation of NFP as a coherent doctrine in the mid-2010s reflected an attempt to align India's external engagements with its developmental priorities. This formulation emphasised connectivity, development partnership, humanitarian assistance, people-to-people linkages, and security cooperation. It also aligned neighbourhood engagement with the "Act East" policy, recognizing the critical role of the Northeast as India's bridge to Southeast Asia.

Neighbourhood First 1.0 has registered significant achievements. One of the most visible achievements has been the restoration of high-level political engagement after a period of drift in the preceding decade.<sup>13</sup> Modi was the first leader in almost two decades to visit Nepal and Sri Lanka. Regular summits with Bangladesh, Bhutan, Nepal, Sri Lanka, and the Maldives have facilitated structural decisions on trade, connectivity, and security cooperation. India's development assistance—ranging from ambulance services and community development projects to mega-infrastructure projects—has made progress, especially in Sri Lanka, Bhutan, and Maldives.

In Sri Lanka and the Maldives, India's role as a first responder, its diplomatic patience in dealing with different regimes, and immunising relations to domestic pressures is seen as successes.

The 2015 Land Boundary Agreement (LBA) with Bangladesh, which resolved a dispute dating back to 1947 and exchanged 162 enclaves, stands out as a landmark, demonstrating India's ability to undertake far-reaching compromises when the political moment is ripe. Earlier, India's immediate and unequivocal acceptance of the July 2014 award of the Permanent Court of Arbitration in India-Bangladesh maritime boundary dispute<sup>14</sup> demonstrated a deliberate commitment to rules-based regional order under its emerging Neighbourhood First 2.0 posture. By accepting a judgment widely viewed as materially favouring Bangladesh—granting it roughly 76% of the disputed maritime area—India signalled that long-term stability and cooperative diplomacy and the need to bring amicable legal closure to a decades-old dispute outweighed short-term political calculations.

These two decisions significantly strengthened political trust, enabling deeper security, connectivity, and economic cooperation between the two neighbours, and set the stage for transformation of bilateral ties into one of India's most successful neighbourhood partnerships until the ouster of Sheikh Hasina's government in August 2024<sup>15</sup>.

In Sri Lanka, India's decisive support during the 2022 economic crisis—amounting to over US\$ 4 billion in assistance—was widely recognised as a demonstration of India's willingness to act as a first responder when neighbours sought help.<sup>16</sup> In Nepal, Bhutan, and Bangladesh, major connectivity and energy projects advanced, including cross-border electricity trade, integrated check-posts, railway linkages, and port access arrangements.<sup>17</sup> India's humanitarian assistance and disaster response profile expanded significantly following cyclones, the Nepal earthquake, the COVID-19 pandemic and most recently, in the aftermath of catastrophic Cyclone Dityah in Sri Lanka in December 2025.<sup>18</sup> India's ability to rush in rapid, large-scale and humanitarian assistance, Dr. S. Jaishankar's visit to Colombo on 23 December 2025 as Prime Minister's special emissary and his announcement of an immediate

assistance package (including grant of US\$ 100 million and concessional LOC of US\$ 350 million) for Sri Lanka's recovery, showcased India's role as an effective first responder in the region.<sup>19</sup>

Yet shortcomings persist. Implementation delays, regulatory bottlenecks, domestic political sensitivities, pronounced tendency to look at issues in neighbouring countries (particularly those relating to minority communities there) through a partisan political prism, and inconsistent institutional coordination have often undermined goodwill.<sup>20</sup> Political volatility in neighbouring states has periodically disrupted bilateral progress, while India's interventions—real or perceived—have sometimes generated backlash. Meanwhile, climate change, transboundary river disputes, migration pressures, and maritime vulnerabilities have added layers of complexity.

Diplomatic energy has not always translated into operational reliability. While bilateral engagement is steady with most neighbours, the record with Nepal and the Maldives has been cyclical, reflecting political oscillations within those states and the ease with which domestic actors mobilise anti-India sentiment. These fluctuations reveal a structural weakness: neighbourhood policy cannot rely on high-level signalling beyond a point but must also cultivate deep institutional, economic, and people-to-people linkages resilient to political turnover. There are obvious limits to the efficacy of summit or high-level diplomacy.

## **Economic Engagement: Fractured Value Chains and Limited Investments**

India's periphery remains the least integrated in Asia by almost every metric—trade, connectivity, finance, and energy flows. India's ability to deliver regional public goods has improved but not consistently enough to prevent strategic drift among neighbours. Equally, it has not been able to co-opt regional partners into its supply chains and global trade relations.

India enjoys a positive trade balance with its bordering nations, with its imports from the SAARC countries going up from US\$2.6 billion in 2014 to US\$ 5.4 billion in 2024 and exports rising at a slower pace from US\$ 19.8 billion to US\$ 27 billion. The compound annual growth rate (CAGR) for India's exports during this period was slightly less than the CAGR for its total exports at 3.2 percent, while its imports from these countries rose faster at a CAGR of 7.6 percent. This reflects easier access to the India market for the neighbouring countries.

Trade with Nepal grew at the fastest pace through the decade with robust growth in trade with Sri Lanka and Bangladesh. India signed its first ever free trade agreement with Sri Lanka in 1998. Negotiations for upgrading this to a Comprehensive Economic Partnership Agreement (CEPA) commenced after 2003 and the document was finalised in July 2008, but it could not be signed at the 15th SAARC Summit in Colombo (August 2008) because the Government of Sri Lanka developed last-minute reservations. Discussions under the umbrella of an Economic and Technology Cooperation Agreement (ETCA) have been ongoing since 2015–16.<sup>21</sup>



With Myanmar, a different picture is presented as, over the decade, India's exports rose slightly but fell from 2019 onwards, standing at less than the figure for 2014. However, its imports from Myanmar which had dropped in 2017 and 2018 compared to 2014 recovered from 2019 onwards and crossed US\$ 1.5 billion in 2024.

*Table 1: India's Trade with SAARC 2024, US\$ million*

Item	India's from SAARC imports		India's exports to SAARC		Trade Balance	
	2014	2024	2014	2024	2014	2024
<b>SAARC total</b>	<b>2592</b>	<b>5420</b>	<b>19836</b>	<b>26951</b>	<b>17244</b>	<b>21531</b>
<b>Bangladesh</b>	517	1927	6255	11490	5738	9563
<b>Pakistan</b>	530	0.5	2170	1201	1640	1200
<b>Sri Lanka</b>	592	1414	6435	4879	5843	3465
<b>Nepal</b>	561	884	4193	7008	3633	6124
<b>Afghanistan</b>	244	649	443	338	199	-311
<b>Maldives</b>	4	100	140	839	135	739
<b>Bhutan</b>	144	445	200	1193	56	748
<b>Myanmar</b>	1,393	1,524	869	619	-524	-905

Source: International Trade Centre Trade Map<sup>22</sup> Note: Figures may not add up due to rounding<sup>22</sup>

Note: Figures may not add up due to rounding

India's imports from SAARC plus Myanmar in 2014 comprised just about 0.9 percent of its total imports which had still not crossed 1 percent by 2024, while on the export side, the share stood at 6.4 percent in 2014 and 6.2 percent in 2024, reflecting little change in the importance of the region for India's global trade over the decade.<sup>23</sup>

At the same time, China's trade with South Asia expanded but has become increasingly imbalanced in its favour. Thus, according to International Trade Centre data for 2024, China exported US\$ 173 billion to the SAARC region and imported less than US\$ 23 billion with exports growing at a CAGR of 7.3 percent since 2014. It had a trade surplus of US\$ 150 billion, of which India accounted for US\$ 102 billion. China's trade surplus with SAARC countries excluding India stood at \$48 billion, with its imports from the region at \$4.4 billion and exports at over \$52.5 billion.

The following tables show how China has emerged as the leading trading partner of SAARC countries, eclipsing India. However, it is notable that China's exports to India have risen by a CAGR of 8.3 percent, considerably faster than that for the rest of SAARC at 5.2 percent compared to India's exports to SAARC at 3.2 percent.<sup>24</sup>

Table 2: China's Trade with SAARC 2014–2024, US\$ million

Item	Imports by China		Exports by China		Trade Balance	
	2014	2024	2014	2024	2014	2024
<b>Total SAARC</b>	20,187	22,524	85,829	173,032	65,642	150,508
<b>India</b>	16,359	18,055	54,217	120,514	37,858	102,459
<b>SAARC Minus India</b>	3,828	4,470	31,612	52,518	27,784	48,049

Source: International Trade Centre Trade Map<sup>25</sup>

Table 3: Bilateral Trade of India and China with SAARC Countries (January–November 2025), US \$ million

Item	Export	Import	Total Trade	Trade Balance
India – SAARC Countries	19,476	5,011	24,487	14,465
China – SAARC Countries	173,423	21,630	1,95,053	151,793
China – SAARC Countries (Minus India)	40,471	4,023	44,494	46,303

Source: International Trade Centre Trade Map<sup>26</sup>

For the first 11 months of the year 2025 (January–November), India's total trade with SAARC stood at about \$24.5 billion, \$20 billion less than of the China's total trade with SAARC minus India. India's trade surplus with SAARC countries during January–November 2025 was \$14.4 billion, while China's surplus with SAARC countries minus India was as high as \$46.3 billion.

These tables also reveal how South Asia has emerged as a major trading partner for China, with its trade surplus with the region (\$151.7 billion) accounting for 15 percent of its global trade surplus during January–November 2025. China has got away with very little criticism in the region for its increasingly lop-sided trade advantage and asymmetric dependencies, while India's much smaller trade surplus is often highlighted.



On the investment side, Sri Lanka is the largest destination for Indian outward direct investments (ODI) followed by Myanmar as per the table below:

Table 4: ODI Outflows from April 2000 to March 2025, US\$ million

Country	Cumulative ODI
Sri Lanka	6826
Myanmar	1764
Bangladesh	780
Maldives	605
Nepal	261
Bhutan	84
Afghanistan	11

Source: Department of Economic Affairs, India, Overseas Direct Investment Data from April 2000 to March 2025<sup>27</sup>

India has invested both in commercial businesses as well as in infrastructure projects. Investments include sectors of telecommunications, food processing, textiles and apparel, pharmaceuticals and others. The level of interest from Indian business, including public sector enterprises, follows primarily from the political relationship and represents just 3 percent of India's total ODI.

Most of India's neighbouring countries apart from Bhutan have signed on to China's Belt and Road Initiative (BRI) under which an inflow of billions of dollars has taken place into the region, covering multiple projects including those with strategic implications for India. The limited commercial relationship between India and its immediate neighbours leaves the door open for other countries to step up their strategic engagement backed up by state guarantees. It is therefore essential to build a separate carve-out of incentives that will encourage Indian investors to enter into cross-border business relationships.

## Development Partnership: Gains, Constraints, and the Imperative of Delivery

High-level coordination enabled the expansion of development partnerships: India extended over USD 8 billion in lines of credit across South Asia between 2014 and 2024, making it one of the largest development partners in the region after Japan and China.<sup>28</sup>

India's development cooperation has been a major instrument of goodwill. The success of housing, railway, and port projects in Sri Lanka after 2009, and electricity-related projects in Nepal and Bhutan, helped solidify India's reputation as a reliable development partner. India's emergency response to the 2022 Sri Lankan economic crisis—comprising US\$ 4 billion in assistance, credit lines, and fuel support—was the largest any country provided, stabilising a neighbour at a moment of existential fragility.<sup>29</sup> Similarly, Nepal's post-earthquake reconstruction saw Indian disbursements exceeding US\$ 1.6 billion and the rebuilding of 50,000 houses.

The limitations of India's development delivery mechanism nevertheless remain pronounced. Despite improvements, project completion rates have lagged behind China's "speed-scale" model, and institutional coordination challenges persist between the Ministry of External Affairs, line ministries, and agencies such as EXIM Bank. Moreover, absorptive capacity constraints within neighbours often impede implementation, as do land acquisition delays, environmental clearances, and political instability.

Neighbourhood First 2.0 must confront these structural obstacles through institutional redesign, predictable timelines, financial innovation, and an expanded cadre of technical experts.

## **Connectivity: Areas of Progress and the Work Still Pending**

Connectivity has been a centrepiece of India's regional strategy. The BBIN framework for motor vehicles, multimodal transport corridors linking India and Bangladesh, the expansion of Integrated Check Posts on the Nepal and Bangladesh borders, the restoration of railway links disconnected since 1965, and coastal shipping agreements together mark a qualitative advance. By 2024, India and Bangladesh had operationalised seven railway links, three bus services, and multiple shipping routes, reducing logistics costs by up to 40% on several corridors.<sup>30</sup> India–Nepal power trade reached record highs, enabled by market access, grid synchronisation, and open access regimes allowing Nepal to sell surplus hydroelectricity to India.

Nevertheless, major gaps persist as we will discuss in Part II and a reimagined approach to our connectivity agenda is required.

## **Security Cooperation: Maritime Leadership and Continental Duality**

India's role as a security provider and first responder has grown steadily. The Colombo Security Conclave (CSC)—comprising India, Sri Lanka, Maldives, and Mauritius—has emerged as an effective plurilateral mechanism for maritime domain awareness, information sharing, and coordinated responses to non-traditional threats. India's sustained humanitarian assistance and disaster relief (HADR) role—from cyclone responses in Sri Lanka and Bangladesh to assistance in Nepal and the Maldives—has deepened trust. Naval patrols in the western Indian Ocean during disruptions in the Red Sea underscored India's ability to safeguard maritime routes.

However, continental challenges remain more acute. Myanmar's civil war, the ethnic conflicts in the India–Myanmar–Bangladesh borderlands, the persistence of cross-border terrorism from Pakistan, and political instability in Bangladesh and Nepal pose persistent risks. India's security role is also complicated by China's deepening military and dual-use infrastructure presence in the region, including ports capable of supporting PLA Navy deployments.



## India's Handling of Minority Issues in Sri Lanka, Bangladesh and Nepal

India's increasingly assertive advocacy on behalf of co-ethnic or co-religious minorities in its neighbourhood—Sri Lankan Tamils in Sri Lanka, Madhesis in Nepal, and Hindus in Bangladesh—has complicated its case to be a benign regional security provider. In Sri Lanka, New Delhi's long history of involvement over Tamil issues, from the India–Sri Lanka Accord (1987) to post-war devolution debates, has left a lingering perception in Colombo that India instrumentalises minority questions to exert leverage, even when Indian diplomacy is framed in humanitarian or rights-based language. In Bangladesh, periodic Indian concern over attacks on Hindu minorities is read in Dhaka as selectively moral, given India's own domestic communal tensions, and as a potential wedge issue that can be mobilised in Indian domestic politics. The net effect is to narrow the political space for pro-India constituencies in these countries, and to encourage ruling elites to hedge more visibly with China or other external partners.

Nowhere have the costs of this minority-centric activism been more visible than in Nepal. India's last-minute public intervention in the constitution-drafting endgame in September 2015—through Foreign Secretary S. Jaishankar's visit urging further accommodation of Madhesi demands—was widely portrayed in Kathmandu as an attempt to veto a sovereign constitutional process at the behest of a cross-border community with close ties to India. When, within days of promulgation, cross-border flows of fuel and essential goods collapsed and Nepal experienced a crippling shortage, the perception of an “unofficial Indian blockade” took firm root, despite New Delhi's insistence that the disruption was solely due to Madhesi protests on the Nepali side of the border. The #BackoffIndia slogan and street protests, amplified by Nepali media and social networks, fused older resentments about perceived Indian high-handedness with fresh anger at India's perceived willingness to use economic pressure in the immediate aftermath of the 2015 earthquake.

In this charged context, KP Sharma Oli was able to convert anti-Indian sentiment into durable political capital by casting himself as the defender of Nepali sovereignty against an overbearing neighbour. Editorials and commentary in outlets such as the Kathmandu Post later noted that Oli's “dogged stand against the 2015–16 Indian blockade” became the core of a nationalist brand that he repeatedly reinvested in subsequent confrontations with India. This nationalism card was most dramatically played in 2019–20, when, after India issued a new political map and opened a road via Lipulekh, Oli's government responded by publishing a revised map of Nepal incorporating Kalapani, Lipulekh and Limpiyadhura, and securing cross-party parliamentary endorsement for the expanded territorial claim. The cartographic move, accompanied by sharp anti-India rhetoric and a visible tilt towards China, signalled that the political aftershocks of the 2015 episode had structurally altered the incentives of Nepali leaders: standing up to India now paid more than managing the relationship quietly.

These developments also undercut the reservoir of goodwill generated by Prime Minister Narendra Modi's earlier outreach to Nepal, including his highly successful 2014 visit, prompt and effective assistance rendered in the aftermath of the earthquake in Nepal in 2015 and articulation of a “neighbourhood first” policy. Modi's speeches in Kathmandu and Janakpur

had raised expectations of a more partnership-based Indian approach, but the 2015 intervention and perceived blockade were read in Nepal as proof that, when core interests or minority constituencies are involved, India still resorts to coercive instruments and public pressure. India's public pursuit of Madhesi interests—however normatively justified in terms of inclusion and federalism—ended up weakening its broader neighbourhood policy by encouraging a key neighbour to harden territorial claims, weaponise nationalism, and diversify strategically towards China, while eroding the soft power gains of Modi's earlier charm offensive.

A similar dynamics has played more recently in Bangladesh after the ouster of Sheikh Hasina's government in August 2024. India's vocal concern over repeated episodes of violence against Hindus has been welcomed by many Bangladeshi Hindus but viewed by sections of Dhaka's political and intellectual class as selective, moralising, and increasingly entangled with Indian domestic politics. The controversy around the 2026 Indian Premier League, where the BCCI instructed Kolkata Knight Riders to release Bangladeshi fast bowler Mustafizur Rahman after a wave of social media pressure linking his presence to anti-Hindu violence in Bangladesh, has become a vivid symbol in Dhaka of India's willingness to let domestic ideological currents shape cross-border cultural and economic ties. Bangladesh's retaliatory decision to ban IPL broadcasts and to withdraw from the T20 World Cup hosted by India was framed explicitly as a defence of national dignity against perceived punitive behaviour. In Bangladeshi media and policy circles, this episode has reinforced the impression that India is prepared to instrumentalise minority protection narratives—and even cricket—to discipline a neighbour, thereby narrowing space for quiet cooperation and pushing Dhaka to diversify its external partnerships.

## Recent Upheavals in Sri Lanka, Bangladesh, and Nepal

Recent political and economic upheavals in India's neighbourhood have further tested Neighbourhood First, reshaping dynamics with implications for both India and China.

In Sri Lanka, the 2022 economic crisis—triggered by debt distress, forex shortages, and protests—led to President Gotabaya Rajapaksa's ouster. India provided over \$4 billion in aid, including fuel and essentials, positioning itself as a reliable partner and countering China's influence to a certain extent.<sup>31</sup> This bolstered India's image but highlighted the region's vulnerabilities to global shocks; China, facing loan defaults, renegotiated terms but lost narrative ground.

Bangladesh's August 2024 political churn saw Sheikh Hasina's government toppled amid student-led protests, ostensibly against quotas but rooted in accumulated grievances, leading to an interim regime. India's close ties with Hasina raised perceptions of over-identification, straining relations amid anti-India rhetoric and concerns about targeting of Hindu minorities.<sup>32</sup> China, with investments in infrastructure, exploited the vacuum, advancing BRI projects, though its history of elite capture backfired in some cases.

However, in the wake of the February 2026 election, Modi's prompt telephonic call to incoming Prime Minister Tarique Rahman and other quiet, early contacts exemplified a



pragmatic, low-profile approach designed to re-establish institutional channels. These immediate overtures signalled New Delhi's priority to protect core interests—security, connectivity and people-to-people links—while avoiding public posturing that could be read as interference at a time political sensitivities in Dhaka remained high.

Nepal's Gen Z protests in October 2025, focused on nepotism, governance and economic issues, echoed regional youth unrest. India's engagement across spectra mitigated fallout, but China's elite-capture assets became non-performing amid shifts, reducing its leverage.<sup>33</sup> Prime Minister Narendra Modi's public congratulations to Interim Prime Minister of Nepal, Sushila Karki, and his praise for the constructive role of Nepalese youth—delivered from Manipur and framed as a message of friendship and support for democratic renewal—were carefully calibrated gestures that resonated positively in Kathmandu and among Nepali public.

These events underscored India's need for diversified ties, while China faced setbacks in its influence operations. Collectively, these upheavals amplified India's first-responder role but exposed risks of political volatility and over-involvement in internal politics; for China, they revealed limitations of elite capture diplomacy, prompting India to prioritise resilience in Neighbourhood First.

## A Bird's-Eye View of Bilateral Relations with SAARC Countries

A concise assessment of the current state of India's relations with SAARC countries reveals a mixed state of play. Briefly:

**Afghanistan**, under Taliban rule, sees cautious engagement from India,<sup>34</sup> reflecting a pragmatic shift from earlier non-engagement toward selective, interest-driven contacts, including upgrading its mission in Kabul, letting Taliban diplomats take over the Afghanistan mission in New Delhi, resuming humanitarian assistance and initiating senior-level dialogue, notably a high-profile visit of the Afghan Foreign Minister to India. This recalibration is driven by security concerns, especially the need to counter Pakistan-linked militant activity and not ceding open space to China for influence in Afghanistan, alongside India's desire to protect past investments, preserve traditional affinities and sustain humanitarian channels. The Taliban's deteriorating relationship with Pakistan — especially over cross-border militancy and the Durand Line — has created diplomatic space for India, though security risks remain high. New Delhi's approach mirrors a broader strategy of cautious pragmatism, engaging the Taliban without granting recognition while safeguarding regional interests.<sup>35</sup>

Since the political upheaval in **Bangladesh** in August 2024, bilateral relations have entered a far more delicate and fluid period, marked by provocations and mixed signals from Dhaka, but also by New Delhi's own difficulty in calibrating its response. The ouster of Sheikh Hasina abruptly ended a decade and a half of unprecedented stability in India-Bangladesh relations. Until then, Bangladesh had been the most successful example of India's neighbourhood policy—anchored in resolved boundary disputes, expanding connectivity, deep security cooperation, and growing trade. Hasina's removal, however, reopened political fault lines and introduced a period of volatility in which India became entangled in Bangladesh's

domestic polarisation.<sup>36</sup> The Hasina factor—her long-standing personal equation with India's leadership and her symbolic status among segments of Bangladeshi society—created apprehensions within Dhaka's new political class that New Delhi remained emotionally invested in her fate. The interim government under Muhammad Yunus amplified this sensitivity through mixed signals: while professing neutrality and democratic restoration, it also adopted rhetoric that framed Hasina's ouster as a liberation, implicitly casting India as aligned with the old order. Dhaka's diplomatic gestures—including outreach to Pakistan, rhetorical signalling on extradition demands, and ambivalence on connectivity projects—added layers of uncertainty.<sup>37</sup> This unsettled the foundations of trust and complicated India's ability to engage without appearing partisan. India has sought to convey displeasure to the new leadership on issues ranging from security cooperation to minority protection, yet its signalling has at times lacked the nuance needed to separate criticism of the government from its long-standing commitment to the Bangladeshi people, a distinction essential for preserving India's political capital in a society where public sentiment is polarised and shifting.

The BNP's two-thirds majority in the February 2026 elections and the passage of the July Charter referendum have again fundamentally altered the political landscape. The party's sweeping victory in the elections, which barred the participation of the Awami League, has now consolidated a new political order under Prime Minister Tarique Rahman, but it has not eliminated uncertainty. The incoming government faces ideological and organisational pressures from Jamaat-e-Islami networks and its own cadre base, which historically shaped BNP's ambivalence on issues central to India—counter-terrorism cooperation, border management, and cross-border connectivity. The Hasina factor remains an undercurrent shaping perceptions. Sheikh Hasina's long personal equation with India's political and security establishment, and her symbolic status among segments of the Bangladeshi population, have created apprehensions within the BNP that India may remain emotionally invested in her fate. The possibility of an extradition request—already hinted at by senior BNP leaders—adds a sensitive legal and political dimension. How India handles this issue will be read in Dhaka as a test of neutrality.

Early signals from Dhaka reflect this tension: pragmatic overtures toward India coexist with politically charged positions such as calls for Sheikh Hasina's extradition and hints of recalibrating connectivity arrangements. Dhaka's new leadership is asserting autonomy, testing boundaries, and signalling that it intends to redefine the terms of engagement. Dhaka may seek reversal of what it perceives as Indian "punitive measures" adopted during the turbulence of 2024–25, including tariff decisions, visa restrictions, and tightened border protocols. Yet structural incentives for cooperation remain strong. The BNP's landslide victory has altered the political context, but Bangladesh's vital needs—stability, economic recovery, energy integration, and predictable regional partnerships—continue to align with India's long-term interests. Bangladesh's export-led economy, energy dependence, and need for post-crisis stability limit the scope for adversarial posturing. The BNP leadership itself has publicly indicated that its foreign policy will be guided by national interest and constructive ties with neighbours, suggesting that ideological impulses will be tempered by economic and geopolitical realities.



For India, the strategic challenge is to navigate this transition with firmness and finesse. New Delhi must protect core interests—border security, counter-terrorism, connectivity—while avoiding rhetoric or measures that could be interpreted as punitive by ordinary Bangladeshis. EAM's visit to Dhaka in December 2025 for Khalida Zia's funeral, PM's reaching out to Tarique Rahman to felicitate him on the BNP's election victory and the presence of the Speaker, Lok Sabha at his swearing in as new Prime Minister have all been well-received in Bangladesh. India must clearly distinguish between principled concerns about governance or minority protection and its long-standing commitment to the Bangladeshi people. At the same time, India should deepen institutional channels with the BNP government, expand engagement across the political spectrum, and anchor cooperation in mechanisms that are resilient to political churn. Likewise, India should consider rolling back measures seen as "punitive" in Dhaka, including curtailment of visa services, a temporary drawdown of non-essential staff at the High Commission and some administrative and procedural steps affecting Bangladesh's trade.

The objective is not to recreate the personalised warmth of the Hasina era but to build a stable, interest-driven partnership grounded in geography, interdependence, and shared security imperatives. In this delicate phase, calibrated diplomacy—not reactive signalling—will determine whether India can preserve its hard-won gains and shape a constructive trajectory for the next decade of India–Bangladesh relations.

With Bhutan, ties remain strong, anchored in hydropower cooperation and strategic alignment, though the China factor, climate vulnerabilities and the aspirational youth which feel less connected to India pose challenges and a subtle drift is visible.<sup>38</sup> The ongoing boundary negotiations between Bhutan and China, China's expanding intrusions into Western Bhutan and India's reported moves around the Jampheri Ridge, fuelling anxieties in Thimphu, have introduced layered sensitivities.

**Maldives** oscillates between pro-India and pro-China stances, with the "India Out" campaign of the present government in Male straining ties. New Delhi has retrieved the situation with patient and measured diplomacy and economic engagement.<sup>39</sup> The withdrawal of Indian military personnel was managed without escalation, and cooperation in tourism, health, and infrastructure has resumed. Yet political rhetoric in Malé remains unpredictable, and China retains strong leverage through infrastructure and elite networks. India has regained balance, but vulnerabilities remain.

India's engagement with **Myanmar** remains pragmatic but limited by the situation on the ground. India has maintained direct diplomatic contact with the State Administration Council (SAC), even as Western governments isolate it. India's recent outreach to Myanmar's junta has followed a dual-track pattern: continued formal engagement with Senior General Min Aung Hlaing at the highest levels<sup>40</sup>, alongside an opening to anti-junta actors and ethnic stakeholders in an effort to preserve humanitarian access and manage cross-border risks. The recent junta-managed elections that returned the military-aligned Union Solidarity and Development Party (USDP) with majority—widely described as engineered to normalise military rule—have closed a political loop set in motion by the 2021 coup and reduced the prospect of a rapid political opening that might have expanded India's leverage.

Operationally, India's room for manoeuvre is constrained by the fragmentation of authority inside Myanmar. Large swathes of territory are contested by powerful ethnic armed organisations and parallel civilian administrations; central control over key transit zones is weak; and the humanitarian crisis and internal displacement have intensified. These realities limit New Delhi's ability to translate diplomatic contacts into reliable project delivery. The Sittwe port and associated Kaladan/Paletwa–Zorinpui connectivity remain emblematic: while Sittwe has been operationalised in formal terms, the Paletwa–Zorinpui road traverses contested terrain and has not produced dependable, large-scale connectivity benefits for India's Northeast. India's engagement therefore prioritises keeping projects alive, managing refugee flows, and preventing spillover of militant activity rather than attempting to shape internal political outcomes.

China's posture in Myanmar stands in stark contrast and further circumscribes Indian options. Beijing combines political backing, economic lifelines, and security cooperation with the junta while simultaneously cultivating deep ties with ethnic armed groups along the China–Myanmar border and advancing the China–Myanmar Economic Corridor. This dual engagement gives China leverage across both central and peripheral actors and enables it to underwrite projects and security arrangements at a scale and risk tolerance that India cannot match. Consequently, India's influence is inherently limited by both Myanmar's fragmentation and China's entrenched presence.

Post-elections, policy implications for New Delhi remain largely unchanged: sustain calibrated, high-level engagement with Naypyidaw to protect border security and project continuity; expand discreet, humanitarian and development links with non-state and ethnic actors to reduce localised instability; and deepen multilateral and bilateral mechanisms for refugee management, counter-terrorism intelligence, and disaster response. Public messaging should emphasise India's non-interference and people-centred assistance while quietly institutionalising channels that survive political churn. Given the electoral outcome and Beijing's deepening footprint, India must prioritise risk management and resilience—keeping connectivity options open where feasible, but avoiding over-reliance on single-route projects that traverse contested zones.

Despite strong people-to-people links and economic interdependence, relations with **Nepal** fluctuate due to its political hedging with China and domestic anti-India sentiments which were amplified by New Delhi's ill-timed and public intervention in the constitution-drafting process and other developments in 2015 that were perceived in Kathmandu as a blockade.<sup>41</sup> K.P. Sharma Oli's nationalism and pro-China orientation created friction, but India's deft handling of the Gen Z protests — which contributed to the fall of the Oli government — has restored some balance. Still, China is deeply entrenched across political, economic, and security domains. With elections approaching and outcomes uncertain, India must navigate a volatile landscape. The relationship is structurally important but perennially fragile.

**Pakistan** remains adversarial due to its congenital contradictions, the inbuilt hostility of its military, terrorism and a host of other challenges, which can at best be managed but are not likely to see resolution anytime soon.<sup>42</sup> India's 88-hour conflict with Pakistan in May 2025 underlined both the credibility and the limits of deterrence: calibrated conventional strikes



and cross-domain signalling demonstrated political will and military capability, but they did not—and cannot—eliminate the risk of future sub-conventional probes or proxy terrorism under the nuclear shadow. The so-called “New Normal” of forceful Indian responses to Pakistan-linked terrorist attacks is therefore contingent, and with limited efficacy—its enforceability is constrained by the emerging China–Pakistan battlefield collusion, as well as a more equivocal U.S. posture.<sup>43</sup> Operation Sindoor has hardened Pakistan’s strategic posture rather than softened it. Islamabad has improved its diplomatic standing with Washington, leveraging counterterrorism cooperation, reinventing its geopolitical utility and pandering to President Donald Trump and his associates. The China–Pakistan nexus remains structurally strong. Pakistan’s political class shows no shift in its negative orientation toward India; cross-border terrorism concerns persist; and dialogue remains frozen. The bilateral relationship is stable only in the sense that neither side expects improvement.

In this environment, India must pursue a dual track: retain the option of swift, punitive, and preferably deniable or limited responses to major terrorist provocations, while institutionalising crisis-management channels with Pakistan—as it has done with China even in the most fraught periods—through diplomatic links, hotlines, back-channels, DGMO-level understandings, and discreet third-party messaging, so that escalation ladders remain visible and off-ramps are always available.

India’s rapid assistance to **Sri Lanka** during the 2022 economic collapse and again after the recent cyclone reaffirmed its role as the most reliable first responder. This has generated genuine goodwill among policymakers and the public. However, China’s strong, systemic presence—in ports, debt, and political and social networks—continues to shape Colombo’s strategic calculus. India has regained influence, but it competes with a deeply embedded Chinese footprint. On balance, the relationship is positive but strategically contested.<sup>44</sup>

Overall, we have a mixed picture in our neighbourhood necessitating a reset for Neighbourhood First 2.0. There are perceived concerns about India’s security-centric diplomacy, ideological signalling, and leadership rhetoric.<sup>45</sup> There is a strong case for India dealing with challenges in relations with its neighbors not in an isolated bilateral manner, but as a structural shift visible across the regional spectrum. This is not to suggest that engagements with neighbours will move away from the primacy of the bilateral track but to advocate taking a more holistic view of the neighbourhood policy, as was done in 2014.

## **A Strategic Imperative: Why the Neighbourhood Endures as India’s Anchor**

One of the arguments that NFP 2.0 must confront is the increasingly fashionable notion that India’s trajectory toward becoming a \$30 trillion economy by 2047 will render its immediate neighbourhood less consequential.

It has been argued that the concept of “South Asia” has weakened as a meaningful geopolitical or identity frame, that India’s strategic thinking remains overly constrained by this shrinking mental map, and that smaller South Asian states now look beyond the subcontinent for security, economic ties and identity, while non-resident powers such as

China operate without the historical baggage that limits India's influence. Therefore, India should transcend a narrow South Asia-centric policy and reimagine its neighbourhood to include broader regions such as the Indian Ocean and West Asia if it seeks greater global influence and strategic flexibility.<sup>46</sup>

While India's extended neighbourhood needs greater attention, that need not come at the expense of the proximate neighbourhood. First, South Asia remains the arena where India's most serious traditional security threats originate—from cross-border terrorism linked to Pakistan-based groups to the possibility of a two-front challenge involving China and Pakistan. Second, internal political churn in neighbouring states has direct consequences for India, as seen during the 2015 Nepal 'blockade' crisis, the 2022 Sri Lankan economic collapse, or the post-2024 political transitions in Bangladesh and Nepal. Third, the intensification of climate shocks—glacial melt in the Himalayas, riverine flooding, cyclonic events in the Bay of Bengal—creates shared vulnerabilities that no national strategy can address in isolation.

Finally, and perhaps most importantly, neglect of the neighbourhood creates a vacuum that external powers—especially China—have been quick to fill through infrastructure financing, political leverage, and military partnerships. Beijing's Belt and Road Initiative (BRI), launched in 2013, has committed more than USD 100 billion in loans and investments across South Asia, including the China-Pakistan Economic Corridor (CPEC), port projects in Sri Lanka, airport construction in Nepal, and significant infrastructure in Bangladesh and the Maldives. These engagements, while offering development opportunities to smaller states, have also created new dependencies and sharpened regional competition for influence.

For India, therefore, the neighbourhood is not a peripheral concern but a central arena of strategic contestation and opportunity. The question before policymakers is not whether India ought to prioritise the neighbourhood but how it can do so in ways that build durable interdependence, mitigate the influence of external powers, and convert geographic contiguity into economic and political advantage.

## Why “South Asia” Endures: The Politics of Regional Identity

An ancillary debate has emerged in recent years about whether India should abandon the term “South Asia” in favour of “the Indian Subcontinent”—a label that some argue better reflects geographical reality and India's centrality. Yet terminology in international relations is rarely neutral, and such a shift risks being interpreted as hegemonic by India's neighbours. “South Asia”, a term that gained acceptance during the Cold War partly because of its neutrality, is now institutionalised in SAARC, academic discourse, and international organisations. Attempts to rename or redefine the region could reopen old anxieties about Indian dominance, especially in countries where domestic political constituencies remain sensitive to perceived encroachments. Therefore, while India may reasonably conceptualise its neighbourhood in broader Indo-Pacific terms through initiatives like SAGAR (Security and Growth for All in the Region), preserving the term “South Asia” remains politically prudent.



## Contemporary Strategic Context for India's Neighbourhood Policy

India's neighbourhood policy is unfolding in a strategic environment that has shifted markedly over the past year, largely to New Delhi's disadvantage. Three external vectors—China's entrenched and growing regional presence, the United States' recalibrated and increasingly selective engagement, and aggravation of non-traditional security pressures—have combined to narrow India's strategic space. Simultaneously, South Asian neighbours possess greater agency than at any point since Independence, and they are consciously leveraging the altered balance of power to expand their strategic room for manoeuvre vis-à-vis India.

China's regional footprint remains the most consequential structural shift. Over the past decade, Beijing has established a multidimensional presence encompassing infrastructure, trade ties, defence, political influence, soft power, and maritime access.

Since 2013, China has started looking at the region as its immediate strategic periphery. We have seen the evolution of China's strategic outlook towards South Asia, especially since the convening of 'Work Forum on Chinese Diplomacy Toward the Periphery' by the Central Committee of the Communist Party of China in October 2013. China is not inclined to accept India's central and special role in South Asia (minus Pakistan, which falls in a different category and was never considered within the sphere of influence of India) – moving beyond the policy of offering itself as a countervailing force to India to adoption of a more proactive and dominant stance.

There is greater willingness to invest sizeable resources in South Asia under the Belt and Road Initiative (BRI) and its subset, the China–Pakistan Economic Corridor (CPEC). South Asia has emerged as a key component in China's Maritime Silk Road and Indian Ocean strategies. However, there are questions about the viability of many of these Chinese-funded projects and the ability of the recipients to handle the large debt that these projects involve. Sri Lanka's debt distress resulted in Chinese entities acquiring Hambantota port on a 99-year lease. Many of these unsustainable projects have roots in elite capture by China.

China is increasingly entangled in domestic affairs of India's neighbours and is seeking to shape political outcomes.<sup>47</sup> This aspect of China's behaviour has been examined in-depth by scholars like Deep Pal<sup>48</sup> and Shibani Mehta.<sup>49</sup>

China is not averse to deployment of coercive tactics vis-à-vis smaller South Asian neighbours (for instance, territorial encroachments in northern and western Bhutan and manufacturing territorial claim on Sakteng to 'persuade' Bhutan to agree to an unfavorable boundary settlement; use of China-based/supported ethnic groups as leverage in its dealings with the military in Myanmar; forcing Nepal to stop movement of Tibetan refugees through its territory to India and imposing strict restrictions on their activities in Nepal; and so on).

Though financial commitments for BRI/CPEC projects in South Asia have come down in the post-Covid period, China has managed to create a network of facilities that embeds it deeply in the region's political economy. China has built ports, highways, special economic zones, and energy grids in Sri Lanka, Pakistan, Nepal, Bangladesh, and the Maldives. Some projects

have raised concerns about debt dependence, sovereignty, and dual-use infrastructure; yet they have also offered neighbours alternatives to India's historically limited financing instruments and slower delivery cycles.<sup>50</sup> Its financing model—rapid, large-scale, and ostensibly free of political conditionalities—continues to appeal to South Asian leaders seeking visible development gains (and sometimes unearned pecuniary benefits).

The structural asymmetry between Indian and Chinese economic capabilities—combined with Beijing's willingness to provide quick loans and its increased appetite for managing outcomes in South Asia through inducements—has reduced India's relative prominence. Beijing's influence now extends into party systems, elite networks, think tanks, and media ecosystems across South Asia.

Likewise, China's presence in the defence and security space in South Asia has continued to expand. India's neighbours have been among the primary recipients of Chinese defence hardware. According to SIPRI data, Pakistan and Bangladesh are the top two defence export destinations for China. A combined 63.4 per cent of China's conventional weapons sales between 2010 and 2020 has found its way to Pakistan, Bangladesh and Myanmar.<sup>51</sup> Updated SIPRI trend data (2010–2024) confirms that Pakistan, Bangladesh and Myanmar remain the dominant destinations for Chinese arms exports. A reconstructed estimate based on SIPRI's five-year TIV datasets shows that these three countries together account for over 60 per cent of China's major-arms exports over the 2010–2024 period — a pattern broadly unchanged from the earlier 63.4 per cent figure for 2010–2020. Pakistan remains by far China's largest defence-export market, with Bangladesh and Myanmar consistently among the top recipients.<sup>52</sup>

China's 'all-weather' strategic partnership with Pakistan, including extensive military cooperation, nuclear and missile proliferation history, and the CPEC project running through POK, poses a direct and persistent security challenge for India.

This collusive challenge has acquired greater urgency in the wake of China's role during Operation Sindoor. Unlike previous India–Pakistan hostilities in 1965, 1971 and 1999 when China avoided getting involved militarily, China achieved a low-risk, high-impact form of collusion—amplifying Pakistan's battlefield lethality and essentially creating an extended Pakistan theatre with China lurking in the background and providing critical support, through significant role of Chinese hardware, fusion of Chinese platforms in Pakistani inventories, real-time ISR/data feeds, provision of Beidou satellite navigation and C2/targeting links, and battlefield advisory inputs. Battlefield collusion is no longer a theoretical concern; it is a lived experience. This has altered India's deterrence calculus and signalled to the region that China can influence military dynamics in South Asia at acceptable cost.<sup>53</sup>

In the maritime domain, China is progressively deploying a 'two-ocean' strategy in the Pacific Ocean and the Indian Ocean Region (IOR).<sup>54</sup> The Western Pacific, particularly the Taiwan Strait and the first island chain, remains the area of primary interest for China. However, beginning with anti-piracy operations in the IOR in 2008, the PLA Navy has gradually 'normalised' its operations in India's maritime neighbourhood. The Chief of Naval Staff Admiral R. Hari Kumar stated on 1 December 2023, that China now has 'a sustained



presence' in the IOR with six to eight warships deployed at any given time, apart from research or spy vessels and fishing fleet.<sup>55</sup>

The second major shift is the disturbance in the positive trajectory of India–U.S. strategic relations that had held for nearly twenty–five years. The United States' engagement in South Asia has become more episodic and less aligned with India's core neighbourhood interests. Washington's recalibrated posture—reflected in the 2025 National Security Strategy—places the Western Hemisphere at the centre of U.S. priorities and treats China primarily as an economic competitor rather than a systemic challenger. This has reduced India's centrality in American strategic thinking. U.S. overtures to Pakistan, selective concessions to Beijing, and diminished sensitivity to India's concerns in Bangladesh have created new uncertainties. The cumulative effect is a more transactional U.S. approach that complicates India's ability to rely on Washington as a stabilising force in its neighbourhood.

Simultaneously, U.S. attention to South Asia has fluctuated, oscillating between counterterrorism priorities, Afghanistan–related concerns, and episodic interest in regional political trajectories.<sup>56</sup> U.S. policies under the second Trump administration have created doubts about America's commitment to strategic partnership with India and its readiness to respect New Delhi's vital interests in its periphery; indeed, the latter trend was visible even under the Biden administration. The United States has adopted a more selective and sometimes unpredictable posture. U.S. concerns over democratic backsliding in Bangladesh or political movements in Nepal have occasionally created divergences with Indian positions. These external dynamics have required India to recalibrate its neighbourhood policy with an eye to strategic competition, while avoiding zero–sum binaries and maintaining the autonomy to cooperate where interests align.

These shifts intersect with a third vector: the rise of non–traditional security pressures—climate change, pandemics, cyber vulnerabilities, and transboundary migration—that require cooperative regional responses. Yet regional cooperation is increasingly impeded by political fragmentation, external competition, and the hedging strategies of smaller states.

Most importantly, South Asian neighbours today exercise far greater agency. They are not passive recipients of Indian policy but active players seeking to diversify partnerships, maximise autonomy, and negotiate from positions of leverage. They are acutely aware of India's strategic constraints—its two–front contingency, the demands of managing live borders, a fraught relationship with China, and the recalibration of U.S. policy—and use this awareness to widen their manoeuvring room.

The U.S. remains committed to preventing Chinese hegemony in Asia but is less inclined to prioritize relations with India as a strategic counter to China. Meanwhile, China believes it has gained relative advantage vis–à–vis the U.S., while our Chinese interlocutors argue that India's interest in stabilising relations with China stems from turbulence in India–U.S. ties. These twin perceptions make China less inclined to accommodate India's concerns.<sup>57</sup> India's neighbours are cognisant of these dynamics which are freely articulated by Chinese strategic community.

## Why an Indian Variant of Monroe Doctrine is neither feasible nor helpful

The net result is a neighbourhood that is more contested, more transactional, and more difficult to shape from India's perspective. It is both impractical and counterproductive to talk about an Indian variant of Monroe Doctrine, which rested on a single dominant external guarantor and exclusive sphere of influence. Today's South Asia is multipolar and normatively hostile to exclusive spheres with the countries of the region having agency and options, particularly given China's large footprint and countervailing presence, U.S. strategic interests, sovereignty norms and multilateral institutions. Attempts to assert exclusive control would provoke balancing behaviour and accelerate hedging by neighbours. Scholarly critiques have long argued that India's historical "Monroe" instincts must be replaced by adaptive leadership rather than exclusionary doctrine.

## Divergence between India's Self-perception and Neighbours' Perceptions

India tends to view itself as the natural security and development anchor of South Asia — a benign "big neighbour" whose economic weight, cultural ties, and security interests justify leadership. Neighbours, however, often perceive India more ambivalently: as a dominant power whose policies can feel intrusive, conditional, or personalised to particular governments. This gap is driven by (a) historical memory (interventions and "asymmetric" treaties), (b) policy practice (ad-hoc coercive measures or personalised diplomacy), and (c) external alternatives (China's deep financing and the U.S.'s episodic engagement), which give smaller states options to hedge. Empirical polling supports this complexity: a 2024 Pew survey found largely positive views of India in Bangladesh and Sri Lanka overall, but with substantial variation by political affiliation and education, indicating that elite politics and domestic polarisation shape perceptions.<sup>58</sup>

As a recent ORF report brings out, India has not been able to counter its negative perceptions as it is still viewed as an interventionist power. Certain policies like the 2015 "blockade" in Nepal, politicising of the Kachchatheevu issue, and excessive identification with friendly regimes in Bangladesh and the Maldives have worsened this perception.<sup>59</sup> Second, India's security-oriented outlook for the region, including offering alternatives to China and pushing back against China through diplomatic means, has continued to foster suspicion towards India's intentions. Third, neighbouring countries continue to view the slow implementation of Indian projects as a challenge (along with perception of China as a more efficient partner). In some cases, these delays have created new environmental and financial complexities, such as increasing costs of projects and growing debts. Fourth, India's inability to resolve irritants (apart from the Land Boundary Agreement and the maritime boundary dispute with Bangladesh), such as the pending Teesta water sharing agreement with Bangladesh, Suvidha taxes with Bhutan and illegal fishing in Sri Lankan waters, continue to complicate bilateral relationships.

This report makes the argument that despite an increase in development assistance, high-level political engagements, and push for connectivity, India has yet to address critical



irritants and foster a positive image among its neighbours.

## Problem of Dual Asymmetries

India suffers from major asymmetries vis-à-vis other South Asian countries in terms of size, population, economic heft, military capabilities and R&D base, which all engender apprehensions among its neighbours. These concerns have increased now since there are multiple instances of weaponisation of integration or inter-dependence by the U.S. (Donald Trump's "reciprocal tariffs" weaponising America's position as the largest market) and China (effectively deploying its primacy in global value chains as an instrument of coercion). India's neighbours are prepared to ignore China's trackrecord of leveraging its economic strengths as inducement or punishment to shape behaviour of other countries because they see India with its asymmetric advantages as a more direct challenge. In their response, they find it useful to exploit India's relative asymmetries vis-à-vis China, which has deeper pockets and in the past decade or so, been increasingly prepared to deploy its vast resources in its "strategic periphery", including South Asia. India thus suffers from the problem of dual asymmetries – perceived strength vis-à-vis smaller neighbours causing apprehensions and perceived weakness vis-à-vis China permitting the latter to position itself as a countervailing force.

It is argued in following sections that NFP 2.0 must move beyond symbolic outreach, episodic interventions and exclusionary claims toward a structured, sustained, and strategically coherent framework based on institutions creating a dense web of inter-linkages that bring visible benefits to both sides and impose costs on them for undermining those arrangements. It must deepen economic interdependence, enhance resilient connectivity, strengthen security cooperation based on consent and mutuality, expand development partnerships, safeguard sovereignty, manage external influences with strategic maturity, and build institutional capacity to deliver outcomes. The task is not merely to respond to crises, but to shape a regional architecture that supports India's long-term trajectory as a stable, prosperous and influential power and sought-after partner.

Neighbourhood First 2.0 requires a distinctive blend of political realism and strategic imagination. It must embrace non-reciprocal generosity while demanding accountability, offer alternatives to external dependence while respecting the agency of neighbours, and combine economic tools with security partnerships in ways that reflect regional asymmetries without reinforcing dominance. Neighbourhood First 2.0 requires a layered security framework: enhanced maritime cooperation, deeper intelligence fusion with willing neighbours, credible deterrence capabilities, and pragmatic engagement with all stakeholders to mitigate risks from extra-regional influences.<sup>60</sup>

The ten propositions that follow present a practical, implementable roadmap for achieving these goals.

## Part II

### Ten Propositions for Neighbourhood First 2.0

**A**gainst this backdrop, let us outline ten interlinked propositions for Neighbourhood First 2.0. These propositions are not abstract; they are practical, politically realistic, and mutually reinforcing. They build on the foundations of the original policy while addressing its shortfalls, incorporating lessons from regional volatility and external competition. Each proposition is amplified with insights from recent scholarship and empirical evidence to provide a robust framework for implementation.

#### Proposition 1: Make Economic Partnership the Strategic Centrepiece

If Neighbourhood First 1.0 emphasised assistance, Neighbourhood First 2.0 must emphasise economic partnership. Assistance buys goodwill; trade and investment create durable stakes. India must treat its neighbourhood as a strategic economic space, not merely a zone of enlightened benevolence.

How do we move towards a common or more connected economic space in South Asia, excluding Pakistan? Our greatest strength is the potential of India as an engine of growth for the region and readiness to offer non-reciprocal arrangements to neighbours to create stakes and involve them. Can we promote linkages that bring together South Asian economies in mutually beneficial supply chains? That will advance our interests as well.

The agenda of ease of doing business is of critical importance not only within states, across state borders, but also across national borders. India already includes Afghanistan, Bangladesh and Myanmar under its Duty Free Preference Scheme for Least Developed Countries, while Bhutan and Nepal have separate trade treaties with unfettered access (subject to some safeguards).<sup>61</sup> India also has agreements allowing Nepal and Bhutan full access to the sea through Indian ports for trade with third countries.

There is merit in some of the complaints of neighbours about non-tariff barriers (NTBs) which negate non-reciprocal concessions offered by us. At the same time, we need to match generosity with safeguards to prevent misuse—say, by third countries. This is not a call for unfettered liberalisation. Domestic political sensitivities are real. The approach must be selective, phased, and accompanied by compensatory measures for sectors that face adjustment costs. The political task at home is to explain that a modest opening for neighbours is an investment in stability and in long-term growth for India itself.

Connectivity—roads, rail, riverine, power grid, ferries, digital, and, if possible, even a land bridge connecting Northern Sri Lanka with Southern India, as proposed by Ranil Wickremesinghe—remains key.

Indeed, land connectivity between India and Sri Lanka is the kind of ambition that India should display under a reimagined neighbourhood policy. A land-bridge / overland connectivity project linking India and Sri Lanka by road and rail was first proposed by Ranil



Wickremesinghe during his 2002–2004 term as Prime Minister. The proposal received positive response from India when Wickremesinghe visited India as President of Sri Lanka in July 2023. The joint statement issued on 21 July 2023 contained an understanding to “establish land connectivity between Sri Lanka and India for developing land access to the ports of Trincomalee and Colombo, propelling economic growth and prosperity in both Sri Lanka and India, and further consolidating millennia old relationship between the two countries.”<sup>62</sup> It was agreed that a feasibility study for such connectivity would be conducted at an early date. While the idea has not progressed further, overland connectivity will be a gamechanger in bilateral relations and should be pursued, despite challenges involved.

Economic partnership also means integrating neighbours into supply chains and logistics networks in ways that make them stakeholders in India’s prosperity. When a neighbour’s factories supply Indian manufacturers, when its ports serve Indian trade, when its energy pipelines feed Indian grids, the cost of antagonism rises. That is the strategic logic of economic interdependence.

Reviving proven connectivity models with modern technology—such as a renewed ‘boat mail’ system linking Talaimannar and Rameswaram—offers a practical pathway to deepen India–Sri Lanka people–to–people ties. With the Sri Lankan northern railways already extended to Talaimannar and construction of a new jetty at Talaimannar and other facilities on both ends a doable proposition, a seamless ferry link integrated with India’s nationwide rail, road, and air networks, supported by centralised digital booking platforms, can deliver a far more efficient and accessible multimodal corridor than in the past.

All this requires a shift in mindset and practice. India should offer targeted market access to neighbouring producers where they have comparative advantage, coupled with capacity building to meet standards. It should create two–way investment vehicles that share risk and reward, encouraging Indian firms to invest in neighbours and vice versa. Public procurement and infrastructure demand in India can be used to create predictable export opportunities for neighbours.

Let us be candid about trade–offs. Opening markets to neighbours sometimes creates political costs at home.

The response ought to be simple: strategic patience and political honesty. Government must explain to its citizens the long–term national interest in a stable, prosperous neighbourhood. It must be transparent about costs and benefits. India must be willing to make politically difficult choices because the alternative—neglecting its periphery—is more costly.

Since a fully common economic space is elusive due to political divergences, a roadmap toward a “connected economic space” offers a pragmatic alternative. This entails phased integration: first, harmonising standards and reducing NTBs through bilateral accords; second, expanding subregional mechanisms like BBIN for sector–specific linkages (e.g., energy, transport, textiles); third, leveraging digital platforms for seamless trade facilitation, such as unified e–customs and fintech corridors; fourth, co–investing in resilient infrastructure with transparency norms to counter opaque financing; and fifth, piloting joint economic zones in border areas to build trust and scale successes regionally.<sup>63</sup>

Capacity building of exporters in key neighbouring countries must also be a priority along with securing Indian investments to enhance value-chain linkages. Finally, the idea of a regional FTA open to South Asian neighbours (minus Pakistan) and select non-contiguous maritime neighbours like Mauritius and Seychelles can be explored. This will be a different kind of FTA where India offers non-reciprocal access to its market for goods and services with safeguards against misuse by third countries by routing their products. This approach fosters interdependence without requiring uniform commitments, aligning with non-reciprocal arrangements.

We should also examine the feasibility of a dedicated South Asian Regional Development Bank, led by and headquartered in India, which would provide the region with a long-term, predictable source of financing for connectivity, energy, climate resilience, and cross-border infrastructure—areas where existing multilateral institutions often move slowly or impose external conditionalities. Such an institution would allow India to anchor regional economic integration through concessional lending, blended-finance instruments, and project-preparation support tailored to the needs of smaller neighbours. By institutionalising development cooperation rather than relying on ad-hoc bilateral lines of credit, India can create a durable, rules-based mechanism that survives political cycles, reduces dependence on extra-regional financiers, and fosters a denser web of economic interdependence across South Asia.

Recent analyses highlight how economic interdependence can mitigate geopolitical tensions. For instance, in the context of South Asian supply chains, integrating Nepal and Bhutan into India's manufacturing ecosystem through hydropower and logistics linkages has not only boosted bilateral trade but also reduced opportunities for external actors to exploit economic vulnerabilities. Similarly, Bangladesh's integration into Indian textile value chains has created mutual stakes, as evidenced by the growth in bilateral trade from \$6.5 billion in 2014 to \$15 billion in 2024, fostering resilience against political churn. Neighbourhood First 2.0 should expand such models, incorporating digital trade platforms and fintech collaborations to lower barriers for small and medium enterprises, thereby broadening the constituency for economic partnership.

In short, India can build a durable regional advantage by weaving a **dense web of economic, institutional, and social linkages**: interoperable customs and digital rails; energy grids and cross-border power markets; regional blended-finance vehicles and local-level development partnerships; people-to-people exchanges and educational consortia. This "sphere" is not exclusionary; it is sticky because it creates mutual dependencies that are costly to unwind. Operationally, India should prioritise public-goods projects (regional disaster response, disease surveillance, climate adaptation) that deliver visible benefits and are hard for external actors to replicate at scale without local buy-in.



## Proposition 2: Make Connectivity Resilient, Politically Hedged, and Anchored in Coherent Architecture

Connectivity is central to integration, but physical corridors alone are insufficient. Projects must be designed with political risk mitigation, local ownership, and redundancy. The India–Myanmar–Thailand Trilateral Highway, BBIN initiatives, and proposed corridors such as the International North–South Transport Corridor (INSTC) and the India–Middle East–Europe Economic Corridor are strategically valuable. But they are vulnerable to political/geopolitical change, security disruptions, and implementation delays. The chequered history of the Chabahar port project in Iran (meant to be the entry point for INSTC) and the reported “strategic withdrawal” of India from the port in the face of the looming U.S. sanctions illustrate all these risks.<sup>64</sup>

A resilient connectivity strategy anticipates these risks to the extent feasible. It insists on local community buy-in and transparent procurement to reduce backlash. It builds redundancy—alternative routes, multimodal options, and contingency plans—so that a single political event does not sever connectivity. It institutionalises corridor governance through subregional platforms so that disputes can be managed without derailing projects.

We have the example of Sittwe port and Kaladan Multimodal Corridor in Myanmar which have suffered due to inadequate attention to backward linkages of the port and subsequent deterioration in the security situation. Sittwe Port is operational since 2023, with the riverine segment of the Kaladan Multimodal Transit Transport Project completed, including the Sittwe and Paletwa terminals and the navigational channel along the Kaladan River. However, the project’s viability remains severely constrained because the 109-km Paletwa–Zorinpui road link is stalled. The original Kaladan design under-estimated the complexity, cost, and political risk of the hinterland segment, leaving the project exposed when the situation deteriorated. The situation has worsened since the Arakan Army captured Paletwa, the key transit node, and large parts of Rakhine and Chin States have slipped out of Naypyidaw’s control, making secure access to the hinterland unpredictable. As a result, Sittwe currently functions as a stand-alone port, not the integrated sea–river–road corridor originally envisioned, and the prospects depend on Myanmar’s security trajectory, which remains deeply uncertain.<sup>65</sup>

Connectivity must also be paced to local absorptive capacity. Overreaching projects that lack local legitimacy are likely to be reversed. India must be patient and pragmatic, prioritising projects with clear economic payoffs and manageable political risk. In short, connectivity must be both ambitious and realistic.

Scholarship on regional infrastructure underscores the importance of resilience in politically volatile contexts. The BBIN Motor Vehicles Agreement, for example, has faced delays due to domestic politics in Bhutan, but its multimodal alternatives (rail and riverine) have provided redundancy, ensuring partial implementation.<sup>65</sup> Neighbourhood First 2.0 should incorporate climate-resilient design, as rising sea levels and Himalayan thaws threaten corridors, integrating environmental assessments into planning to enhance long-term viability.<sup>66</sup>

However, ambition and speedy implementation are essential, since major gaps exist in India's regional connectivity agenda. Key regional corridors—including the Trincomalee–Nagapattinam pipeline, India–Sri Lanka power grid connectivity, the Raxaul–Kathmandu railway, and the Assam–Mizoram–Myanmar road grid—remain incomplete or delayed. Port-led connectivity also requires substantial investment: Colombo, Chittagong, and Mongla have improved port operations by integrating Chinese capital and technology, while Indian projects have advanced more slowly due to procedural constraints. Digital connectivity remains uneven. The absence of cohesive aviation and coastal shipping frameworks among South Asian states continues to impede seamless movement.

These gaps underline the need for a comprehensive connectivity architecture supported by diversified financing, predictable regulatory alignment, and integrated logistics systems that reduce transaction costs while enhancing economic stakes.

### **Proposition 3: Institutionalise India's Role as a First Responder, while Avoiding Terminology of Net Security Provider and Respecting Sovereignty**

India's geographic proximity and operational capabilities uniquely position it to provide rapid humanitarian assistance and short-term economic stabilisation in its neighbourhood. Acting as a reliable first responder builds essential trust and goodwill. Assistance must be offered with humility and respect for sovereignty, guided by the principle: ask first, act fast, never brag.

India's response to the April 2015 Nepal earthquake exemplifies this role. India mounted an exceptionally swift and substantial first-responder operation after the April 2015 Nepal earthquake, with military aircraft carrying relief supplies, specialised rescue teams, and sniffer dogs landing in Kathmandu within hours of the Prime Minister's conversation with his Nepalese counterpart. Yet this commendable effort was partially overshadowed by the conduct of sections of the Indian media, whose intrusive and triumphalist coverage generated widespread resentment in Nepal. The resulting backlash—captured in the viral hashtag #GoHomeIndianMedia—reflected a perception that the tragedy was being turned into a public-relations spectacle, undermining the empathy and humility expected in a moment of profound national distress.<sup>67</sup>

India should consider creating a Neighbourhood Rapid Response Mechanism that can be deployed on request for humanitarian assistance, disaster relief, and short-term economic stabilisation. This mechanism should include prepositioned supplies, standby financial instruments, and trained joint teams that can work with host governments. Assistance should be delivered in partnership with local actors and, where appropriate, with multilateral or bilateral co-financing to dilute perceptions of unilateralism.

While India foregrounds its first responder identity, it simultaneously undertakes broader security responsibilities that underpin regional stability—though without overtly branding itself as a “Net Security Provider.” This subtle security role supports crisis response effectiveness and long-term resilience, reinforcing India's credibility as a stabilising partner.



The distinction between “First Responder” and “Net Security Provider” is important. The former focuses on rapid humanitarian assistance, disaster relief, and short-term economic stabilisation offered with humility and respect for sovereignty. The latter involves a broader, more assertive security role, including deterrence, strategic partnerships, and shaping regional security architecture. India can foreground its first responder role publicly while discreetly developing its security responsibilities, allowing both roles to coexist without emphasizing the latter.

Examples of India’s discreet security role include its strategic partnerships and military cooperation with neighbours and regional powers, maritime security patrols in the Indian Ocean, and participation in multilateral security dialogues. These efforts underpin regional stability and complement India’s first responder identity without overtly projecting a hegemonic security posture.

Neighbourhood First 2.0 could expand this dual role through joint humanitarian assistance and disaster relief (HADR) exercises under BIMSTEC, incorporating advanced technologies like satellite imagery for disaster prediction. This would institutionalise cooperation, enhance operational readiness, and reduce perceptions of unilateralism.

Crucially, India must resist the temptation to use assistance as leverage. Unsolicited intervention is politically toxic. The credibility of India’s first-responder role depends on respect for sovereignty and on transparent, predictable protocols.

India’s response to Sri Lanka’s 2022 crisis exemplified effective first-responder diplomacy, providing US\$ 4 billion in aid without conditions, which rebuilt trust and countered Chinese influence.<sup>68</sup> In contrast, the 2015 Nepal ‘blockade’ highlighted the risks of perceived coercion, eroding goodwill.<sup>69</sup>

#### **Proposition 4: Resolve Practical Bilateral Irritants through Technical, Enforceable Solutions**

Persistent irritants—fisheries disputes, border incidents, resource sharing—erode trust and can escalate. Neighbourhood First 2.0 must prioritise technical, enforceable, and mutually beneficial solutions to these problems. This unglamorous and painstaking work will not be easy but will help improve the ambience of the relationship and prevent crises.

Take the fisheries dispute with Sri Lanka. It is not an abstract issue; it affects livelihoods, local politics, and bilateral trust. The right approach is a comprehensive fisheries compact that bans destructive bottom trawling in ecologically sensitive zones, promotes capacities in both countries for deep-sea fishing, funds transition assistance for affected fishermen, and creates a joint monitoring and enforcement mechanism using satellite tracking and coordinated patrols. This compact should be accompanied by community-level programmes—training, alternative livelihoods, and fisherfolk councils—that create local ownership. This will also involve quietly rebutting misperceptions like woes of Indian fishermen being linked to India handing over Kachchatheevu to Sri Lanka. Waters in the vicinity of that island have long been denuded of fishery resources and Indian fishermen

are hardly ever detained in that maritime zone; they tend to operate much closer to the Sri Lankan shores and close to other islands like Delft.

The idea of a fisheries compact with Sri Lanka has been spelt out in a case study in Part III below.

Similarly, border management should be professionalised with joint mechanisms, rapid communication channels, and local cross-border projects that create mutual benefits.

Water and resource disputes should be handled by technical commissions with independent scientific panels and clear dispute resolution clauses. By and large, India has been a responsible co-riparian, in sharp contrast to China's behaviour. However, there are areas where we can finetune our approach and policies.

For instance, we must develop the habit of fully involving the concerned State governments in deliberations with neighbouring countries on trans-border rivers, so that they have a clearer understanding of the dynamics of those negotiations as also a sense of ownership of their outcomes. Messaging at the political level on sensitive issues will elicit better appreciation of national interests and constraints of dealing with a neighbour. Indeed, embedding the concerned state governments in neighbourhood diplomacy is an area where progress has been made but much more needs to be done.

Matters pertaining to trans-border rivers are extremely sensitive and require patience, technical expertise, and a willingness to make modest concessions to secure durable arrangements.

The India–Bangladesh experience with transboundary rivers illustrates the value of anticipating problems early and building technical mechanisms that can withstand political fluctuations. The protracted disputes over the Farakka Barrage in the 1970s and 1980s demonstrated how unresolved hydrological issues can poison the broader relationship. It was only when both sides invested in sustained technical engagement that a durable solution emerged in the form of the 1996 Ganga Water Sharing Treaty, which created a predictable, data-driven formula for lean-season flows and a Joint Committee to monitor implementation.<sup>70</sup> This institutional architecture helped stabilise the relationship even during periods of political strain, showing that well-designed technical mechanisms can defuse irritants and create space for broader cooperation.

The same logic applies today: the 30-year Ganga Treaty expires in December 2026, and both countries have already begun joint hydrological measurements and technical assessments—despite a difficult political climate in Dhaka—to ensure that negotiations are grounded in shared data and realistic projections of future demand.<sup>71</sup> Renewing the 1996 Ganga Waters Treaty is essential to prevent avoidable friction in India–Bangladesh relations at a time of political transition in Dhaka. A timely renewal, grounded in transparent data sharing and cooperative federalism with West Bengal, would reassure the new Bangladeshi leadership of India's commitment to equitable river management and help stabilise a relationship that has otherwise entered a more delicate and contested phase.

A similar logic applies to India–Nepal water cooperation: the Kosi (1954, revised 1966)



and Gandak (1959) agreements show that engineering-driven solutions can unlock major developmental gains, but also that delays in updating ageing arrangements can generate mistrust. In Nepal, the Mahakali Treaty has faced implementation challenges due to lack of enforceability.<sup>72</sup>

Taken together, these experiences highlight a consistent regional lesson: durable cooperation in South Asia requires anticipating hydrological and environmental stresses early, building robust technical institutions, and maintaining engagement even when the political climate is adverse.

However, there are issues where it would be not advisable to signal any ambivalence. Let's take the example of Kalapani in India–Nepal border deliberations.

India and Nepal had made steady progress on border demarcation for decades through the Joint Technical Level Boundary Committee, completing work on roughly 98 percent of their 1,850-kilometre boundary. Only two pockets remained unresolved: Kalapani in the far west and Narsahi–Susta in the southern plains. The Susta issue arose from shifting river courses along the Gandak, creating overlapping claims but never escalating into a political flashpoint. Kalapani, by contrast, has become increasingly contentious. The dispute stems from differing interpretations of the 1816 Treaty of Sugauli, which designated the Kali River as the boundary; India maintains that the river originates near Kalapani, placing the area within Uttarakhand, while Nepal argues that the river begins further northwest at Limpiyadhura. Although this disagreement had long been managed diplomatically, Nepal dramatically escalated its position beginning in May 2020, when it issued a revised political map incorporating Kalapani, Lipulekh, and Limpiyadhura into its territory. This was followed by a constitutional amendment in June 2020 to formalise the new map, transforming what had been a technical boundary issue into a matter of national identity. Nepal has since reinforced this claim symbolically, including by issuing a new ₹100 banknote in 2025 bearing the revised map that places all three areas within Nepal.<sup>73</sup>

Given this sequence of unilateral actions, it is neither feasible nor strategically prudent for India to signal flexibility on Kalapani. India's position is grounded in long-standing administrative control, historical cartography, and consistent interpretation of the river's origin, and it has repeatedly emphasised that the Lipulekh road inaugurated in 2020 lies entirely within Indian territory. Historically, Lipulekh has been a major trading route for India–Tibet border trade as also for pilgrimage to Kailas–Mansarovar and formally acknowledged as such in India–China agreements even after the establishment of the People's Republic of China in 1949. Moreover, once Nepal constitutionalised its maximalist claim and embedded it in state instruments such as currency and official maps, the dispute moved beyond negotiable technicalities into the realm of domestic political symbolism in Nepal. Any Indian concession under such circumstances would set a precedent encouraging further unilateral cartographic assertions and undermine the integrity of a boundary settlement process that had otherwise functioned smoothly for decades. India remains open to dialogue, but only within the framework of established historical evidence and without validating claims that emerged not from negotiated understanding but from political escalation.

## Proposition 5: Deepen People-to-People Ties through Youth Engagement, Education, Mobility and Professional Exchanges, and by Positioning India as R&D Platform for South Asia

India shares profound socio-cultural, civilisational, and economic affinities with its neighbouring countries, excluding Pakistan, which has consciously distanced itself from this shared identity. These enduring bonds, rooted in common languages, traditions, religious practices, family ties, and economic interdependence, naturally orient societies like Nepal southwards towards India rather than northwards towards Tibet or China. These societal and civilisational links, far deeper and more resonant with India than with China, evoke powerful intangible connections and foster goodwill, as witnessed during the Kapilvastu relics exposition in Sri Lanka.

During my tenure as High Commissioner in Colombo, holy bone fragments of Gautam Buddha were sent to Sri Lanka from the National Museum, New Delhi in 2012 at the request from President Mahinda Rajapaksa and the response from the majority Sinhala Buddhist community was overwhelming with kilometres-long queues forming to get a glimpse of the relics, which were accorded the protocol status of a visiting Head of State, brought to Colombo and sent back in special aircraft, with Ministers accompanying. This was a reminder to us of the convening power of such bonds which can potentially create a conducive environment for stronger bilateral relations when nurtured with sensitivity and respect.

Yet, these traditional linkages have not been fully cultivated or adapted to contemporary realities, risking gradual erosion amid evolving aspirations and global opportunities. Neighbours are rightly protective of their sovereign identities and wary of being perceived as appendages to India, necessitating a careful, respectful approach that affirms their autonomy while revitalising shared ties.

People-to-people ties create social capital that outlasts political cycles. Neighbourhood First 2.0 must scale up scholarships, vocational training, and professional exchanges, and liberalise mobility for students, researchers, and professionals from neighbouring countries.

**Youth Engagement:** Engaging the youth is no longer a peripheral add-on to India's neighbourhood policy; it is a strategic imperative shaped by demography, geopolitics, and the accelerating competition for influence in South Asia. Nearly every neighbouring country has a youth-heavy population, and this cohort is increasingly shaped by global digital cultures, foreign education pathways, and narratives that do not automatically align with India's worldview. If India does not invest in shaping these perceptions early, others will fill the space—whether through scholarships, digital platforms, cultural outreach, or employment pipelines. A forward-looking neighbourhood policy therefore needs to treat youth engagement as a core pillar of regional stability, economic integration, and long-term goodwill, not as a soft-power afterthought.

A credible strategy would begin with scaling up educational and skills pathways discussed below. India can also build youth innovation corridors—linking start-up ecosystems in Kathmandu, Colombo, Dhaka, Thimphu, Male, and Yangon with Indian incubators—to create



shared economic stakes. Expanding youth mobility through simplified visas, internship exchanges, and regional volunteering programmes would help anchor India as the natural hub for South Asian talent.

Equally important is digital engagement: curated content in local languages, collaborative online courses, and India-led regional platforms for debate, culture, and problem-solving. Finally, India should invest in long-horizon relationship-building—alumni networks, mentorship programmes, and annual youth dialogues that create a sense of belonging to a wider South Asian community. When youth engagement becomes systematic, well-funded, and regionally coordinated, it can transform India's neighbourhood policy into generational partnership.

**Educational and Academic Exchanges:** Let's illustrate with the experience of Nepal, a country

I served in as Deputy Chief of Mission in the Indian Embassy in Kathmandu (1997–2000), when higher education in India was still highly coveted and cultural contacts were robust.

A striking feature of India–Nepal relations today is the gradual erosion of several traditional people-to-people ties that earlier generations took for granted. Rather than being reinforced by India's economic rise, some of these connections have weakened, particularly among younger Nepalis whose aspirations and mobility patterns differ sharply from those of their parents.

A recent dialogue with a Gen-Z delegation underscored this shift: contemporary Nepali youth no longer view India as a preferred destination for higher education or relatively high-end employment. This is consistent with broader empirical trends. Nepal's outbound student mobility has surged dramatically, with students spending Rs 47.34 billion on overseas education in just the first five months of FY 2024/25, and choosing destinations such as China, Japan, Southeast Asia, the UK, the US, Australia, and New Zealand over India.<sup>74</sup> China, in particular, has emerged as a major education hub for Nepali students, offering affordable tuition, English-medium programmes, and extensive scholarship opportunities, with 6,000–7,000 Nepali students enrolled in Chinese universities in 2025–26.<sup>75</sup> Academic studies confirm that Nepali students are driven abroad by perceptions of better career prospects, higher-quality education, and more predictable academic environments—factors that increasingly overshadow India's earlier advantages of proximity, cultural familiarity, and cost.<sup>76</sup>

These patterns extend to labour mobility as well: for high-end employment, Nepali youth now look primarily to advanced economies and dynamic Asian labour markets rather than to India. The cumulative effect is a structural transformation in Nepal's educational and employment preferences, with long-term implications for India's soft power and its ability to shape regional human-capital flows.

This is not merely soft power. Students who study in India, professionals who train in Indian institutions, and civil society actors who collaborate across borders become natural bridges in times of strain. Earlier generations of political leaders who had studied in India enjoyed dense networks of connections across borders, which will be far less pronounced for the upcoming

generations with no corresponding exposure to India.

India's long-term neighbourhood strategy requires a deliberate effort to position itself as a premier educational hub for South Asia, not merely as a low-cost option but as a site of high-quality, globally competitive learning. This means treating education as strategic infrastructure: expanding seats in flagship public institutions and credible private universities; creating dedicated regional scholarship schemes for SAARC and BIMSTEC students; and building seamless pathways from undergraduate study to research, internships, and employment in India's growth sectors. If India can offer a coherent package—quality instruction in STEM and social sciences, predictable academic calendars, transparent admission and visa processes, and safe, well-serviced campuses—it can recapture much of the aspirational space now ceded to China, Southeast Asia, and the West.

To get there, several concrete steps are essential. **First**, upgrade regulatory and quality-assurance frameworks so that foreign students encounter reliable standards rather than bureaucratic opacity. **Second**, create “Neighbourhood Chairs” and regional centres in key universities focused on South Asian studies, public policy, technology, and health, signalling that students from the region are not peripheral but central to India's academic project. **Third**, streamline visas and work-permit rules so that foreign graduates can undertake internships and short-term employment in India, tying education to real career prospects. **Fourth**, invest in targeted branding—regional education fairs, multilingual digital outreach, alumni networks—so that India's best institutions are visible to Gen-Z audiences in Kathmandu, Dhaka, Colombo, and beyond. Done together and sustained over a decade, these measures would turn education into a core instrument of India's neighbourhood policy and a durable source of influence.

**India as R&D fulcrum in South Asia:** India's bid to become the fulcrum of R&D in South Asia is both plausible and strategically necessary—but it will only work if it is framed as a shared pursuit of innovation, not a one-way export of Indian expertise. India already has the deepest scientific base, the largest innovation ecosystem, and the most mature digital public infrastructure in the region. Neighbouring countries bring complementary strengths—hydropower and mountain ecology (Bhutan, Nepal), public-health experimentation (Bangladesh, Sri Lanka), blue-economy expertise (Maldives), and social entrepreneurship across the region. The proposition works best if India positions itself as the platform state—providing infrastructure, standards, and convening power—while co-creating knowledge, IP, and opportunities with partners rather than treating them as passive recipients.

To operationalise this vision, India can launch **South Asia R&D Missions** on climate resilience, Himalayan ecology, infectious diseases, agri-tech, and disaster-risk reduction, with India hosting mission secretariats but research nodes distributed across the region. This should be complemented by **South Asia Innovation Corridors** linking Indian tech hubs with start-up ecosystems in Dhaka, Kathmandu, Colombo, Thimphu, and Male through accelerators, challenge funds, and co-working platforms. India's high-end scientific infrastructure—supercomputing centres, biotech labs, remote-sensing facilities, and digital public infrastructure sandboxes—can be opened to regional researchers through structured access windows and joint calls for proposals, creating a shared scientific commons.



Finally, India can **cultivate a long-term innovation ecosystem by investing in people and platforms**: a South Asia Young Scientists and Innovators Scheme; regional testbeds built on India Stack for payments, health records, and skills credentials; and cross-border research hubs in border cities focused on river basins, mountain systems, and coastal resilience. Joint IP frameworks and co-investment funds would ensure that benefits are equitably shared. With these steps, India can evolve from being the region's largest knowledge economy to becoming the platform state that enables South Asia's collective leap in science, technology, and innovation.

**Mobility and Professional Exchanges:** India can enhance professional exchanges and mobility with South Asian neighbours (excluding Pakistan) by easing visa regimes, investing in digital and physical connectivity, mutual recognition of degrees, and fostering sector-specific collaborations in health, technology, and climate resilience.

Enhancing professional exchanges and mobility between India and its South Asian neighbours demands a comprehensive strategy centred on harmonising professional standards and mutual recognition agreements (MRAs) for qualifications among SAARC countries, simplifying visa and work permit regimes with multi-entry options, and creating regional platforms for networking, joint training, and exchange programmes.

Through these measures, India can create a more conducive environment for professionals to engage in cross-border assignments, training, and collaborative projects. Complementing physical mobility with digital platforms for remote service delivery will further expand opportunities, especially where geographic or political barriers exist.

To facilitate these exchanges, specific Mode of Service agreements under the General Agreement on Trade in Services (GATS) are crucial. Mode 4 agreements enable the temporary movement of skilled professionals across borders, while Mode 3 agreements support commercial presence, allowing firms to establish operations in neighbouring countries. Additionally, Mode 1 agreements promote cross-border supply of services through teleconsultations and digital exchanges, reflecting the growing importance of remote professional interactions in the region.

India's longstanding initiatives, such as the ITEC programme which has trained over 200,000 professionals from neighbouring countries since 1964<sup>77</sup>, and educational exchanges with Bhutan<sup>78</sup>, provide valuable foundations. Neighbourhood First 2.0 could enhance this through digital platforms for virtual exchanges, addressing pandemic disruptions, and joint certification programmes to facilitate labour mobility.

Building on these, digital platforms for dissemination of information about education opportunities and scholarships in India, virtual exchanges, joint certification programmes, and robust alumni networks can diversify and modernise people-to-people ties.

Despite these prospects, several constraints hinder professional mobility in South Asia. These include inconsistent professional standards, restrictive immigration policies, and political sensitivities that complicate cooperation. Infrastructure limitations for digital service delivery and the absence of comprehensive regional agreements further challenge

progress. Overcoming these barriers requires sustained diplomatic efforts, regulatory harmonization, and investment in regional cooperation frameworks, with India positioned to lead pilot initiatives and foster integration through mutual recognition agreements and digital innovation.

**Consistent and predictable visa policy:** Stable visa policy is essential for sustaining India's neighbourhood diplomacy. Tourism, business travel, education, healthcare access, and employment mobility are among the most visible markers of goodwill for ordinary citizens, and abrupt tightening of visa rules is often interpreted as a political signal rather than an administrative adjustment. India's experience with **Bangladesh** illustrates this clearly: periodic restrictions on visas—whether for students, medical patients, or business travellers—have been read in Dhaka as expressions of displeasure, feeding negative public sentiment even when the underlying intent was limited or temporary. By contrast, maintaining stable visa norms, even during political turbulence, reinforces India's long-standing commitment to the Bangladeshi people and prevents bilateral disagreements from spilling into the societal domain.

While exceptional situations like post-2021 Afghanistan required unavoidable security-driven controls, India's broader neighbourhood policy must avoid using visas as instruments of displeasure and instead anchor mobility in consistency, transparency and people-centric engagement. (Even in case of Afghanistan, visa controls have possibly been too severe, undermining investments made in the past through generous ITEC program and other initiatives.) When disagreements arise, India's responses should be calibrated through diplomatic channels, not through measures that directly affect students, patients, workers, or families. A stable visa policy thus becomes a quiet but powerful tool for sustaining goodwill, reducing misperceptions, and anchoring India's regional engagement in long-term societal trust rather than short-term political signalling.

**Safeguards and Managing Backlash:** Expanded educational and professional contacts must be accompanied by safeguards to prevent domestic backlash and political sensitivities. Managing anxieties about jobs and migration requires sustained dialogue, public communication, and mechanisms that protect local labour markets while facilitating mobility.

Respect for neighbours' sovereign identities and agency must remain paramount. Engagements should avoid any perception of dominance or dependency, instead fostering partnerships based on equality, shared interests, and mutual respect.

**Conclusion:** Revitalising people-to-people ties through education, mobility, and professional exchanges offers India a strategic avenue to deepen regional integration and soft power. By honouring civilisational affinities, adapting to contemporary aspirations, and instituting robust frameworks and safeguards, India can build resilient, diversified connections that serve the long-term interests of both itself and its neighbours.



## Proposition 6: Develop Defence Linkages, Build Maritime Partnerships, and Protect Sea Lines of Communication

Defence collaboration remains an underutilized asset in our neighbourhood diplomacy.

India's role as a regional security provider is expressed most tangibly through its long-standing function as a principal training partner for the armed forces of neighbouring countries. This partnership is not episodic but institutional: India offers entry-level, mid-career, and senior-command training across its premier military academies—the National Defence Academy, Indian Military Academy, Officers Training Academy, Defence Services Staff College, National Defence College, and specialised institutions in counter-insurgency, jungle warfare, aviation, cyber, and maritime security. For many South Asian militaries, these courses constitute the backbone of professional military education, shaping officer cohorts over multiple generations. The appeal lies not only in the quality and breadth of instruction but also in the exposure to jointness, democratic civil-military norms, and operational doctrines relevant to the region's terrain and threat environment.

For countries such as Nepal, Bhutan, Bangladesh, Sri Lanka, and the Maldives, India's training ecosystem provides scale, continuity, and affordability unmatched by external partners. It also offers something that extra-regional actors cannot replicate: deep familiarity with shared geography, similar operational challenges, and long-standing habits of cooperation. As India expands its defence-industrial base and strengthens its own joint-forces structures, the training relationship is likely to deepen further—positioning India not only as a supplier of platforms but as a long-term partner in shaping the professional ethos, interoperability, and strategic culture of neighbouring armed forces.

With India's defence-production ecosystem now driven by both public-sector companies and a rising private-sector presence, New Delhi is increasingly well-positioned to supply high-quality defence hardware to friendly neighbours, thereby reducing China's dominance in regional military procurement.

Sri Lanka's procurement of two Advanced Offshore Patrol Vessels (AOPVs) from India offers an instructive example of how timely diplomatic engagement, concessional financing, and expanding industrial capacity can translate into strategic influence. As I recall from my tenure as High Commissioner in Colombo, Sri Lanka was on the verge of placing the order with a Chinese company when India intervened with a credible and competitively structured alternative. The Managing Director of Goa Shipyard Ltd. (GSL) travelled to Colombo to brief Defence Secretary Gotabaya Rajapaksa and senior Sri Lanka Navy officials, and New Delhi backed the proposal with a concessional line of credit. The contract, signed in 2014, resulted in the construction of two 2,350-tonne AOPVs based on an Indian Coast Guard design but as per specifications given by Sri Lankan Navy.<sup>79</sup> GSL delivered the first vessel, SLNS Sayurala, ahead of schedule in 2017, earning strong commendation from Sri Lankan authorities for build quality and operational performance.<sup>80</sup> This track record was maintained with the second AOPV, SLNS Sindurala, which was handed over in 2018 and similarly received positively by the Sri Lanka Navy.<sup>81</sup>

Likewise, cooperation in the maritime domain has already expanded under the SAGAR initiative and can be stepped up, using bilateral and regional platforms, as appropriate. The Indian Ocean is central to India's economic and strategic interests. Sea Lines of Communication carry trade, energy, and strategic goods. Disruptions to these lines have outsized effects. India must lead in maritime security cooperation across the Indian Ocean and the Bay of Bengal.

This means expanding maritime domain awareness through shared surveillance, information-sharing platforms, and joint exercises with littoral states. It means offering maritime capacity building—coast guard training, port security upgrades, and joint patrols—to neighbours. It means institutionalising convoy and escort protocols for merchant shipping in times of crisis, coordinated with regional partners.

India's naval role in protecting SLOCs during crises has been valuable. But maritime cooperation must be framed as collective security, not dominance. India should invite participation from neighbours and external partners to share burden and legitimacy. The Colombo Security Conclave (CSC) exemplifies this. The CSC experience is elaborated upon in Part III as a case study.

The recruitment of Nepali nationals—particularly from the Gorkha community—into the Indian armed forces has long constituted a distinctive pillar of India–Nepal relations, rooted in the 1947 tripartite agreement between India, Nepal, and the United Kingdom. This arrangement created a transnational military recruitment system that has endured for nearly seven decades, with Nepali Gorkhas forming roughly sixty percent of the seven Gorkha regiments of the Indian Army, amounting to an estimated 45,000 soldiers. The institutional depth of this relationship is further reflected in the extensive welfare architecture maintained in Nepal for retired personnel: approximately 122,000 Nepali ex-servicemen receive pensions and benefits through a network of three Pension Payment Offices (PPOs) and twenty-five District Soldier Boards (DSBs), administered by the Defence Wing of the Indian Embassy and the Nepal Bharatiya Gorkha Sainik Board.<sup>82</sup> These mechanisms provide not only predictable financial transfers but also education, healthcare, and community-level welfare, making the Gorkha connection a significant socio-economic stabiliser in many districts of Nepal.

The introduction of India's Agnipath scheme in 2022 has, however, disrupted this long-standing institutional ecosystem. Nepal's reservations regarding the scheme's short-term contractual structure and absence of pension entitlements led to a suspension of Gorkha recruitment, generating an estimated shortfall of 12,000 soldiers and raising concerns about the operational continuity of the Gorkha regiments. More importantly, the halt threatens to weaken a historically resilient channel of military cooperation.

Within the broader architecture of India's defence cooperation—encompassing training at premier Indian institutions, joint exercises, maritime domain awareness, and capacity-building—the Gorkha recruitment system has functioned as a foundational layer of trust and interoperability. Its continuity is therefore essential to sustaining the depth and texture of India–Nepal defence ties. It is highly desirable that India and Nepal engage in structured



dialogue to address concerns associated with Agnipath and develop a mutually acceptable framework that preserves the heritage, operational value, and stabilising function of Gorkha recruitment within the wider matrix of regional defence cooperation.

### **Proposition 7: Use Multilateral and Subregional Platforms Pragmatically**

SAARC remains paralyzed by India–Pakistan tensions, limiting its potential for broad regional integration. BIMSTEC, BBIN, and platforms like the Colombo Security Conclave operate below optimal levels due to inconsistent engagement and resource constraints. India must adopt a flexible multilateral approach, prioritizing functional outcomes over rigid structures. This involves India leading initiatives, allocating diplomatic and financial resources, building coalitions patiently, and navigating obstructions. Interactions with regional stakeholders indicate that most neighbors, excluding Pakistan, favour India’s leadership and urge shedding past ambivalence toward multilateralism.

Reviving SAARC is feasible despite challenges. Hosting a summit in Islamabad need not be catastrophic; while Pakistan may block consensus on key projects, the SAARC Charter allows “Minus Pakistan” sub–regional cooperation without requiring unanimous participation. Progress depends on India discreetly assuming ownership, supporting people–centric initiatives like steady but sustained progress towards a more connected economic space, cultural exchanges, technical collaborations, and virtual engagements to sustain normative goals amid political hurdles. Additional revival strategies include: initiating sector–specific virtual summits on non–contentious issues like health, climate, and digital economy to build momentum; establishing opt–in mechanisms for economic projects, allowing willing members to proceed without vetoes; enhancing the SAARC Secretariat’s capacity with Indian funding and expertise for independent monitoring; promoting track–II dialogues involving think tanks and civil society to generate bottom–up pressure for cooperation; leveraging current geopolitical uncertainties and the trend towards greater regionalism to encourage participation; piloting “SAARC Plus” formats inviting observers like Japan or ASEAN for co–financed initiatives; and focusing on deliverables like a “SAARC Minus” visa scheme for business and education to create tangible benefits, fostering goodwill and gradual de–escalation of bilateral frictions.

A roadmap for SAARC revival, with India leading, leverages Article VIII of the SAARC Charter, which states: “The Standing Committee may set up Action Committees comprising Member States concerned with implementation of projects involving more than two but less than all Member States.” This provision enables sub–regional cooperation excluding recalcitrant members like Pakistan. India could: 1) convene a ministerial meeting to propose Action Committees for priority areas (e.g., connectivity, energy); 2) fund pilot projects under these committees, demonstrating benefits; 3) engage civil society for advocacy; 4) integrate with global forums for legitimacy; and 5) monitor progress via enhanced Secretariat, aiming for gradual full revival.

The BBIN (Bangladesh, Bhutan, India, Nepal) subregional cooperation framework has emerged as a valuable platform for piloting innovative cross–border initiatives that can

potentially be scaled across South Asia. Among its notable achievements is the Protocol to the Motor Vehicles Agreement (MVA). The long-pending Protocol to operationalise the BBIN Motor Vehicles Agreement was finally concluded in April 2025, a decade after the MVA itself was signed in Thimphu in June 2015. While Bhutan remains outside the implementation phase, the finalisation of the Protocol represents a significant step toward sub-regional connectivity through seamless movement of passenger, personal, and cargo vehicles without the need for transshipment at borders and the revival of BBIN cooperation, even as broader SAARC processes remain stalled. The current status of the MVA reflects a functional but evolving agreement, with trial runs conducted on key routes connecting major cities across Bangladesh, India, and Nepal. While Bhutan is yet to join, the operationalization of the MVA among the other three countries marks a significant step toward deeper regional integration.

Additionally, BBIN has pioneered cross-border energy trade through interconnected power grids, enabling Nepal to export hydropower to Bangladesh via India, with plans to scale capacity significantly by 2027.

The pilots also include multimodal transport corridors integrating roads, railways, and waterways to improve connectivity in the Northeast region of India.

Despite these successes, BBIN faces several constraints that limit its full potential. Bhutan's initial opting out from the MVA and varying levels of infrastructure development among member countries pose operational challenges. Political sensitivities and differing regulatory frameworks complicate harmonization efforts, while limited digital infrastructure affects real-time monitoring and management of cross-border activities. Continued efforts to address infrastructural gaps, regulatory disparities, and political concerns will be crucial for BBIN to realize its vision as a model for South Asian subregional cooperation.

Such subregional frameworks can act as testing grounds for pilot projects—such as cross-border energy grids or transport accords—that, if successful, can be scaled up regionally.

BIMSTEC serves as a vital bridge linking South and Southeast Asia, emphasizing trade facilitation, connectivity enhancements, and disaster management. India must lead without viewing BIMSTEC as a SAARC substitute, recognizing its complementary role—BIMSTEC lacks SAARC's historical and cultural depth, focuses more on economic ties with ASEAN overlap, and excludes SAARC members like Afghanistan and Pakistan, limiting its scope for comprehensive South Asian issues.<sup>83</sup>

China's use of BRICS and the SCO shows how a state can treat imperfect, even internally contradictory, regional platforms as instruments of long-term agenda-setting rather than as clubs of like-minded states. In both forums, Beijing has had to live with serious constraints: divergent threat perceptions (e.g., Russia plus China vs. India on the Indo-Pacific), competing economic interests, and the presence of members—India above all—who are wary of any Chinese “pole position.” Yet China has persisted in three ways. First, it has used these platforms to normalise its preferred narratives (on multipolarity, non-interference, development finance, and “Global South” leadership), even when outcomes are lowest-common-denominator. Second, it has pushed institutional innovations—such



as the New Development Bank and the BRICS Contingent Reserve Arrangement—that create concrete levers of influence without requiring full political convergence. Third, it has treated BRICS and the SCO as signalling devices: venues to showcase alternative governance models, deepen selective alignments (e.g., with Russia and Central Asian states), and complicate Western coalition-building, even if internal frictions remain unresolved.

For India, the lesson is not to emulate China's behaviour, but to internalise its strategic patience and instrumental view of regional institutions. SAARC, BIMSTEC, and BBIN are all constrained—by Pakistan's obstructionism in SAARC, capacity gaps in BIMSTEC, and uneven political will in BBIN—but they are still valuable theatres for agenda-setting, norm-shaping, and coalition-building. India can, like China, separate comfort from utility: it does not need perfectly aligned partners to use these platforms to entrench its priorities on connectivity, disaster management, public health, digital public goods, and capacity-building.

Three moves follow. First, treat BIMSTEC and BBIN as experimental labs for modular, project-based cooperation (power grids, transport corridors, fintech, education) that can proceed even when politics is difficult. Second, use every regional forum—SAARC included where feasible—to socialise India's own narratives on “neighbourhood first,” human-centric development, and resilient supply chains, so that over time these become default reference points. Third, invest in institutional depth: secretariats with real analytical capacity, predictable funding, and Indian-backed initiatives (scholarships, training, crisis-response mechanisms) that bind elites and bureaucracies to Indian-led solutions.

In short, China's experience with BRICS and the SCO underlines that regional platforms are rarely harmonious, but they can still be strategically productive if a major power is willing to play a long game of agenda-setting, institution-building, and narrative work. India can apply the same logic—on its own terms and with greater transparency—to turn SAARC, BIMSTEC, and BBIN into cumulative assets rather than episodic talking shops.

Likewise, South Asian University (SAU) remains an ambitious but under-performing regional institution: it has pockets of academic strength, a reasonably diverse student body, and a mandate that no other South Asian institution possesses, yet it has struggled to evolve into a genuine centre of excellence. Its early years were constrained by delays in campus construction, underfunding, and political tensions within SAARC, which limited faculty recruitment, research depth, and long-term planning. Academic programmes have often depended on visiting or short-term faculty, research output has been uneven, and governance has also been affected by inter-state disagreements. As it is based in New Delhi, India must take greater ownership of the institution and invest in building it up to its potential.

## Proposition 8: Strengthen Strategic Communication, Signalling, Community Engagement, Narrative Building, and Expectation Management

A credible neighbourhood policy requires not only persuasive narratives and community-level engagement, but also a disciplined approach to strategic signalling—the calibrated use of words and actions to convey support, concern, or displeasure. In South Asia’s dense and emotionally charged political space, such signalling can shape elite calculations and policy choices, but it can also backfire if it is perceived as coercive or punitive towards ordinary citizens. The core principle should be clear: India may need to deploy leverage at critical moments, but it must do so in ways that do not inflict sustained harm on the common man and woman or generate long-term resentment. Strategic communication and signalling must therefore be tightly integrated, with a constant eye on how measures will be interpreted not just by governments, but by societies.

The India–Nepal experience offers cautionary examples. The closure of key transit routes in 1988–89—recalled in Nepal as a “blockade” that exploited its vulnerability as a land-locked state dependent on India for access to the sea—left a deep psychological imprint that far outlasted the immediate dispute. In a widely cited article<sup>84</sup>, “Remembering the 1989 Blockade”, Tek Narayan Bhattarai has argued that ordinary Nepalis bore the brunt of the crisis: shortages of fuel, medicines, and essential goods created widespread hardship, and the blockade’s timing—shortly after a major earthquake—deepened the sense of injustice. Bhattarai has also highlighted the long-term psychological and political consequences of the blockade. It delegitimised the Panchayat regime, contributed to the 1990 democratic movement, and entrenched a narrative of India as a hegemonic neighbour willing to use economic pressure to enforce political compliance. This memory, he argues, has remained deeply embedded in Nepali society and resurfaces whenever India–Nepal relations face strain. (When I arrived in Kathmandu for my diplomatic assignment in February 1997, I was struck by the immediacy and impact of the ‘blockade’ that had happened eight years ago; this was partly a cultivated memory which could be usefully deployed vis-à-vis India, when required.)

Similar dynamics resurfaced in 2015, when India’s concerns over aspects of Nepal’s constitution-drafting process were conveyed publicly and forcefully, and subsequent disruptions at the border were again perceived as an Indian-engineered “informal blockade.” These perceptions, regardless of India’s stated intent, rekindled memories of the late 1980s and created fertile ground for political actors such as K. P. Sharma Oli to mobilise anti-India sentiment, adopt an extreme nationalist posture on issues like Kalapani, and tilt demonstratively towards China.

The lesson is stark: signalling that appears to weaponise geography or economic dependence against a neighbour’s population can produce durable damage to India’s image and strategic position, even if it yields short-term tactical leverage.

A similar sensitivity is required in managing post-Hasina developments in Bangladesh. India has legitimate security and economic interests, and it sometimes needed to convey



firm messages to the interim dispensation on issues such as cross-border terrorism, illegal migration, or protection of minorities. However, if India is seen—rightly or wrongly—as collapsing the distinction between a regime and the people, or as supporting punitive measures that hurt ordinary Bangladeshis (for example, through abrupt restrictions that affect livelihoods, mobility, access to essential goods, or even wanton exclusion of a Bangladeshi cricketer from the IPL Cricket League), this will erode the substantial reservoir of goodwill built up over the past decade. Strategic signalling must therefore be designed to target decision-makers, not societies: calibrated diplomatic démarches, quiet conditionalities, and carefully framed public messaging are preferable to actions that can be framed domestically as collective punishment and then exploited by anti-India forces.

These experiences reinforce the broader argument that strategic communication must be decentralised, community-anchored, and expectation-sensitive. India can no longer rely on elite-centric diplomacy and traditional media alone in a region where digital penetration and youth mobilisation have transformed the information landscape. In Nepal, for instance, internet penetration has risen sharply, with a digitally savvy youth cohort using online platforms for education, employment, remittances, and political expression. The Gen-Z mobilisation there showed how social media can rapidly amplify narratives of grievance or solidarity.

For India, this means that every act of signalling—whether supportive or critical—will be refracted through a dense digital ecosystem and interpreted by audiences far beyond official circles. Strategic communication must therefore:

- Engage communities and youth directly, through local-language content, partnerships with regional media, universities, and civil society, and platform-specific digital outreach;
- Explain India's actions and constraints transparently, including what India can and cannot deliver, to avoid inflated expectations and subsequent disillusionment; and
- Reinforce the core narrative of partnership, not patronage—India as a long-term partner in development, connectivity, and human capital, rather than a domineering “donor”.

Expectation management is central to this proposition. Over-promising on projects, timelines, or security guarantees and then under-delivering creates fertile ground for disappointment and hostile narratives. Conversely, clear, realistic communication about India's capacities, domestic constraints, and decision-making processes can build credibility, even when outcomes fall short of maximalist demands.

In today's world where even smaller countries have agency and options, there is nothing like an exclusive strategic preserve or the so-called “Monroe Doctrine.” Yet, there is a legitimate expectation that India's vital but conservatively defined interests, especially in the security domain, will be respected by our neighbours, with exceptions like China and Pakistan.

However, there is a perception that India has an excessively security-centric neighbourhood policy which must also be avoided.<sup>85</sup>

India must articulate its own vital interests—especially in the security domain—in a manner that is firm but not hegemonic, making it clear through appropriate communications channel that there are legitimate red lines whose breach will have consequences. The test of a mature strategic communication and signalling strategy is whether it can protect those interests without alienating societies, avoiding measures that punish ordinary people or feed long-term resentment.

When neighbours perceive India as domineering or transactional, there is greater incentive for them to seek external balancing partners. India must tell a consistent, credible story about its neighbourhood policy—one that emphasises partnership, respect for sovereignty, and mutual benefit—and it must back that story with consistent behaviour.

Perceptions of Indian dominance have fuelled anti-India sentiment in the neighbourhood, as seen in “India Out” campaigns in the Maldives.<sup>86</sup> Strategic communication through digital diplomacy has helped counter this, with India’s first responder role and COVID vaccine exports building positive narratives.<sup>87</sup> Neighbourhood First 2.0 should invest in regional media partnerships and narrative tracking to proactively address misinformation.<sup>88</sup>

In sum, Neighbourhood First 2.0 must treat strategic communication, signalling, youth engagement, community outreach, and expectation management as a single, integrated function. India’s leverage in the region is real, but how and when it is used is as important as its existence. A partnership-driven, understated, and people-sensitive approach—combined with disciplined signalling and honest expectation management—offers the best prospect of shaping outcomes without sacrificing long-term goodwill and stability.

## **Proposition 9: Institutionalise Cross-Spectrum Engagement with Neighbours but Avoid Playing Favourites**

India has sometimes been overly identified with particular leaders in neighbouring countries. When governments change, India’s influence can diminish sharply. To avoid this, India must build durable institutional links across the political spectrum—diplomatic contacts and party-to-party links cutting across party-lines, parliamentary exchanges, civil service linkages, and subnational partnerships.

By and large, Indian diplomats interact with political leaders from both the ruling dispensation and opposition parties. Parliamentary diplomacy and state-to-province cooperation create multiple channels of engagement that survive electoral cycles. Civil service exchanges and joint training programmes create professional networks that facilitate cooperation. Local governance projects empower municipal and provincial actors to cooperate on shared challenges.

This is slow, unglamorous work. But it is the work that creates continuity and resilience in bilateral relations.

Engaging in the domestic politics of our South Asian neighbours must be done with careful calibration and sensitivity. India cannot adopt a hands-off attitude, but its involvement should not result in micromanagement of political outcomes or over-identification with a



political regime.

India did the right thing by keeping in touch with all key candidates for the presidential elections in Sri Lanka in September 2024. Months before the elections, New Delhi made an unusually forward-leaning diplomatic move by inviting Anura Kumara Disسانayake (AKD), the National People's Power (NPP/JVP) presidential candidate, for an official visit in February 2024, where he was received by the External Affairs Minister, National Security Advisor and Foreign Secretary—a level of engagement that signalled New Delhi's intent to build channels with all major political forces in Sri Lanka rather than rely solely on incumbents. AKD's subsequent election as the President of Sri Lanka confirmed the wisdom of the initiative to reach out to him when he was an opposition candidate.

India had a productive relationship with Bangladesh under Sheikh Hasina, but perhaps it could have done more to allay the impression of being complicit in her election rigging and given more public signals about its discomfort with some of the unpopular and autocratic policies she was pursuing. India should never give even its close friends a veto on its keeping in touch with all key stakeholders. Such open-ended engagement helps in dealing with grey rhino events like the one we are witnessing in Bangladesh.

India's engagement with all Sri Lankan parties during the 2022 crisis ensured continuity post-regime change.<sup>89</sup> In Bangladesh, over-identification with Sheikh Hasina led to backlash after the 2024 churn.<sup>90</sup> In the wake of the Gen-Z movement-inspired change of government, India showed remarkable deftness in its response.

The sudden political transition in Nepal offered an important test of India's ability to adapt quickly to fast-moving domestic developments in its neighbourhood. Unlike earlier episodes—most notably in 2015—when India's signalling was seen as heavy-handed, New Delhi responded to the new political configuration in Kathmandu with markedly greater nimbleness. Prime Minister Modi's early outreach after the political transition in Kathmandu was widely interpreted as a calibrated gesture of respect for Nepal's democratic process and an acknowledgment of the Gen-Z youth mobilisation that had driven the change. He moved quickly to congratulate the new Interim Prime Minister and, in a public address soon after, praised the constructive civic actions of Nepali youth as a sign of “a new dawn” in Nepal.

This approach combined quiet diplomacy with visible gestures of support to the incoming leadership, while ensuring continuity in key areas of cooperation. The shift reflected a broader recognition that Nepal's political landscape is now shaped as much by youth-driven digital mobilisation as by traditional party structures, and that India's engagement must be attuned to these new societal forces.

By contrast, India's handling of the political transition in Bangladesh displayed a more cautious and security-centric posture. The abrupt change of government in Dhaka unfolded amid heightened concerns about cross-border security, extremist mobilisation, and the safety of minorities—issues that have historically shaped India's threat perceptions. India's initial signalling therefore prioritised stability and continuity in security cooperation, but this created a perception among segments of Bangladeshi society that New Delhi was insufficiently attentive to the widespread alienation with the outgoing government.

India's response also failed to distinguish between the interim authorities and the broader population, and risked being read as directed at ordinary Bangladeshis rather than at specific political actors, as we have discussed earlier. This stood in contrast to the more people-sensitive and politically agile approach adopted in Kathmandu.

Taken together, these two cases illustrate the importance of context-specific calibration in India's neighbourhood diplomacy. In Nepal, India demonstrated that rapid, low-key engagement aligned with societal sentiment can stabilise relations during political churn. In Bangladesh, the experience underscores the need to balance legitimate security concerns with careful signalling that avoids alienating the public or feeding narratives of external interference. The broader lesson is that India's regional diplomacy must combine strategic clarity with political sensitivity, ensuring that its actions are read as supportive of democratic processes and societal well-being rather than as coercive or regime-centric.

India must also be clear about the limits of its involvement in domestic affairs of even friendly neighbours. India may have legitimate interests in the welfare of certain communities among its neighbours—Madhesis in Nepal, Sri Lankan Tamils in Sri Lanka, Hindu minorities in Bangladesh—but what we can do for them is limited. India's zeal to help them may in fact undermine their interests. Looking ahead, India must be careful about getting too directly involved in issues relating to minority communities. It can empathize, closely monitor developments of concern, and give quiet advice, but should avoid giving the impression of interfering directly in internal affairs of its neighbours.

### **Proposition 10: Prepare for Strategic Competition while Managing Partnerships with External Powers**

China's footprint across the neighbourhood has grown, and smaller states have continued the practice of using external powers to balance India. At the same time, India's partnerships with other great powers—especially the United States, Japan, and Australia—have deepened. These partnerships are valuable, but they are not without complications.

We have discussed earlier that over the last decade or so, China has progressively come to view South Asia and India's immediate maritime neighbours as part of its strategic periphery. Arguably, Beijing seeks dominance, and not merely expanded influence, in this zone of overlapping footprint. India must prepare for sustained strategic competition with China in this geography while avoiding unnecessary escalation. That means strengthening deterrence and defence cooperation, deepening maritime partnerships, and building resilient economic ties and other linkages with neighbours so that they are less susceptible to inducements and coercive economic diplomacy.

India's primary response has rightly been to leverage its strengths and assets, taking advantage of its strategic geography and major synergies that neighbours have with it (with the exception of Pakistan which dances to a different tune), rather than competing with China for projects (though occasionally projects will have to be wrested back from China as was done in the case of the Northern Railway Project and Advanced Offshore Patrol Vessels project in Sri Lanka soon after the end of the civil war).



Such interventions will have to be selective and cost-effective, lest India's neighbours manipulate it in a bidding war with China. Across-the-board competition for projects is not a viable proposition. China is the second largest economy, the largest trading nation, and the leading source of investments and loans combined globally; it has much deeper pockets compared to India; and besides, India's neighbours have the agency in their decisions on such projects. It is only in a limited number of cases that the Government of India can get directly involved by putting together a suitable alternative to preclude Chinese presence; in other instances, Indian companies should be encouraged to compete vigorously and requisite facilitation extended, including EXIM Bank lines of credit for eligible projects.

There are some red lines regarding Chinese presence and activities in India's neighbourhood. These red lines must be defined conservatively and conveyed suitably to the concerned authorities. One fat, red line will be establishment of a Chinese military base in India's neighbourhood.

However, India's relations with its neighbours go far beyond China-related considerations. An excessive preoccupation with China is counter-productive as it gives both Beijing and neighboring countries leverage and room to exploit New Delhi's apprehensions. Without obsessing over the China factor, India needs to build on its strengths and synergies with neighbours, as proposed in Propositions 1-9 above.

As discussed earlier, an Indian corollary to the Monroe Doctrine is both impractical and counter-productive. Yet, India needs to foster a "practicable" sphere of influence in the region to safeguard its vital interests. This can be anchored in realisation of the fact that influence is now networked, not territorial. India can build a durable regional advantage by weaving a dense web of economic, institutional, and social linkages: interoperable customs and digital rails; energy grids and cross-border power markets; regional blended-finance vehicles and local-level development partnerships; people-to-people exchanges and educational consortia. This "sphere" is not exclusionary; it is sticky because it creates mutual dependencies that are costly to unwind. Operationally, India should prioritise public-goods projects (regional disaster response, disease surveillance, climate adaptation) that deliver visible benefits and are hard for external actors to replicate at scale without local buy-in.<sup>91</sup>

If it is not realistic to expect South Asia to be India's strategic preserve, how far can it work with other major powers in this region? Given the present state and structural challenges in relations with China, India cannot work on the construct of "India, China plus" proposed by China for cooperation in South Asia (and briefly explored by India for training of Afghan diplomats). India has rightly refrained from buying power from China-funded or operated hydel projects in Nepal. The conclusion of such power purchase agreements (PPAs) must be in sync with its interests and India has no incentive to make such projects viable.

However, somewhere down the road, India may have to adopt a more flexible stance on Pokhara airport in Nepal, which has been developed by China but Indian carriers' access and direct flight approvals have been delayed or constrained pending bilateral clearances, safety audits, and operational arrangements. If these regulatory issues are resolved for Pokhara, a more accommodating stance may be warranted, as India's refusal to let its airlines fly to

such airports, if commercially viable, will generate a backlash in Nepal, apart from being inconsistent with its connectivity agenda.

As for other “like-minded countries” like the U.S., Japan, UAE, EU, and Australia, New Delhi may continue to explore collaborative arrangements through closer dialogue, even if it faces occasional problems as witnessed in Bangladesh where India and the U.S. have not been on the same page. There are times when U.S. policies—driven by its own strategic priorities—can appear to work at cross-purposes with India’s neighbourhood objectives. For example, when external powers apply pressure on a neighbour in ways that are perceived as punitive or as favouring one domestic political faction, it can create backlash and open space for China. The US factor in India’s neighbourhood deserves more explicit analytical attention.

India must be candid with the United States and other partners. It should welcome cooperation but insist that such cooperation be aligned with India’s neighbourhood priorities and be mindful of local sensitivities, including respect for sovereignty.

The India–US relationship in South Asia and the Indian Ocean has never been one of settled alignment. The current moment combines structural convergence on China, technology, and defence — reflected in the Quad, the foundational defence agreements, and defence industrial cooperation — with some of the sharpest immediate divergences seen in recent decades.

However, even structural convergence on China has undergone marked change. The U.S.–China rivalry will endure, but its character is changing in ways that matter enormously for India<sup>92</sup>. For much of the past decade, Washington framed its relationship with Beijing as great-power competition, placing China at the centre of its grand strategy and the Indo-Pacific as the pivotal theatre. In the second Trump administration, China is treated primarily as an economic competitor rather than a systemic rival. The Western Hemisphere has been elevated above Asia as the centrepiece of U.S. strategy. Ideological rivalry has been downplayed, and transactional bargains with Beijing foregrounded.

Both Washington and Beijing now share an interest in maintaining a degree of stability in their relationship—though for different reasons. The U.S. seeks to manage competition while attending to domestic economic and political priorities amid a profound strategic recalibration involving alliances, trade, industrial policy, and global commitments. China seeks stability to deal with economic headwinds, complete its technological self-reliance drive, and buy time in domains where it still lags. The result is a relationship less confrontational in tone but no less competitive in substance—and one whose equilibrium increasingly favours Beijing.

In parallel, there are marked tensions in India’s relations with the U.S. Washington remains committed to preventing Chinese hegemony in Asia, but it is a distracted great power, less willing to accommodate India as a strategic counterpoise to China.

Chinese analysts argue that India’s interest in improved relations with China derives from turbulence in India–U.S. ties—a reading that reduces Beijing’s incentive to offer meaningful concessions. India’s salience has declined in both capitals, and this dual marginalisation



presents strategic vulnerability.

## India-US Divergences in South Asia: A Structured Assessment

The tensions between India and the US over their respective approaches to South Asia are neither new nor accidental. They reflect a structural divergence of interests that has resurfaced with particular sharpness since 2024: the US approaches South Asia as a theatre for its global priorities — counterterrorism, China competition, access to strategic resources, and the promotion of a particular vision of democratic governance — while India views the same geography as its strategic periphery, where interference by any external power, including Washington, impinges on core interests. The episodes of the past eighteen months have brought this divergence into unusually clear focus.

The US-Pakistan rapprochement of 2025 is the development that most directly challenged India's core security calculus. Washington's readiness to engage Pakistan's army was underscored by Field Marshal Asim Munir's three visits to the US between June and September 2025 — including an unprecedented White House lunch, attendance at the CENTCOM change-of-command ceremony in Florida, a joint meeting with PM Shehbaz Sharif at the White House, and Pakistan's role as the leading intermediary between the U.S. and Iran, with Munir seen as the key player. The symbolism was pointed: Munir is the architect of Pakistan's security apparatus and, from India's perspective, the commander of a force that had just conducted operations against India during Operation Sindoor in May 2025.

The strategic logic Washington was following is not difficult to reconstruct. Trump's Pakistan pivot appears to be calibrated partly against New Delhi's own strategic hedges with Moscow and Beijing. However, a more important factor has been how Pakistan has pandered to Trump's ego and offered deals to his family members and key associates. Islamabad was offering rare earth minerals, a trade deal, counterterrorism cooperation, and useful regional access, including its positioning as conduit to Iran, and its potential leverage over Afghanistan and the Gulf. India publicly refuted Trump's claim to have brokered the May ceasefire, insisting it was bilateral, while Pakistan enthusiastically endorsed Trump's mediation role and even nominated him for the Nobel Peace Prize — a divergence that illustrates how the two countries were using the same episode to pull US positioning in opposite directions, with Pakistan proving more agile.

From India's perspective, this reset revived the most troubling historical pattern in US South Asia policy: treating the India-Pakistan relationship as a balance-of-power problem to be managed rather than a terrorism accountability problem to be resolved. Every major US-Pakistan rapprochement in the post-Cold War era — in the 1990s, post-9/11, and again now — has come at the cost of India's ability to hold Pakistan accountable for cross-border terrorism.

The Bangladesh case is another revealing instance of the India-US gap. Under the Biden administration, Washington was pressing the Hasina government on democratic backsliding and human rights abuses, even as India appeared to convince the US to back off ahead of the January 2024 elections — elections the BNP boycotted after its senior leaders were

jailed. When the July 2024 uprising swept Hasina from power, the divergence became acute. Sections of the Indian strategic community, including a former high-ranking diplomat close to the current government, went so far as to claim that Yunus was “an artificial creation” of the United States, reflecting the depth of suspicion in Indian official circles about Washington’s role in the transition.

Whether or not those suspicions are warranted, the operational reality is that the US moved rapidly to engage the Yunus administration in ways that India found uncomfortable. After months of engagement with the Trump administration, Bangladesh secured a new framework trade agreement with Washington under which its exports would face a competitive 20 per cent tariff — a signal of US economic goodwill toward Dhaka at a moment when India–Bangladesh relations were at a post–2024 nadir. Washington’s engagement was structured around democratic transition, governance reform, and economic stabilisation — values that India does not oppose in principle but which in this instance served to legitimise a government with which India had deep unresolved tensions over security cooperation, minority protection, Hasina’s continued presence on Indian soil, and shifting strategic alignments. Yunus signalled a deliberate break from the India-centric orientation of his predecessor, seeking closer ties with China, Pakistan, and Turkey, and the US engagement with his administration provided international validation for that reorientation, regardless of intent. The result was that US goodwill toward Dhaka during 2024–25 materially reduced India’s leverage at a moment when New Delhi was trying to signal displeasure and condition the relationship.

The Sri Lanka case is less inflamed but analytically important. Washington framed its engagement with Colombo primarily through the Indo-Pacific Strategy lens, treating Sri Lanka as a key node in a broader maritime architecture and targeting economic and governance cooperation through instruments like the US Development Finance Corporation’s investments. This is broadly aligned with India’s own interests in Colombo, but with a crucial difference of emphasis: the US approach treats Sri Lanka as a piece of a global China-competition strategy, while India views it as an irreplaceable part of its immediate maritime neighbourhood where it has primary equities and first-mover responsibility.

The tensions are more latent than overt in the Sri Lanka case, partly because the Dissanayake government has been carefully calibrated in managing both relationships and partly because India has invested heavily and successfully in resetting ties since 2022. The risk is not immediate divergence but longer-term structural friction: if US engagement with Colombo deepens in ways that do not adequately accommodate India’s role as the primary regional security partner — including on sensitive questions like port access, maritime surveillance, and the terms of any US–Sri Lanka defence or economic agreements — the Indian Ocean management question will become acute. The IRIS Dena incident in March 2026 is a harbinger of exactly this friction.

The sinking of the Iranian frigate IRIS Dena by a US submarine in international waters close to Sri Lanka’s coast in March 2026 — five days after US–Israel strikes on Iran began, as the vessel was returning from India’s own MILAN naval exercise — was conducted without prior notification to India. Former Navy Chief Admiral Arun Prakash’s public observation that a



US nuclear submarine had been “lurking” near India for days without informing New Delhi crystallised a central tension: the US treats the Indian Ocean as a global commons to be policed by its operational priorities, while India views it as its strategic domain. This is not a relationship of equals; it is a senior–junior dynamic that India’s self–image as a major power cannot accept.

In Nepal, US–India tensions have been less operationally sharp but are structurally present. Washington’s engagement with Kathmandu has emphasised democratic governance, human rights, and energy development — frames that do not conflict with India’s interests but that sometimes operate independently of India’s neighbourhood calculus. During the Oli period, US concerns about democratic erosion under Oli occasionally created unusual alignments with India, but the more persistent dynamic is that Nepal has actively sought US engagement as a hedge against both India and China, and Washington has been willing to play that role, at times with insufficient sensitivity to India’s core interests in Nepali political stability and connectivity governance.

The US–India divergence in South Asia is not a rupture and should not be characterised as one. The structural alignment on China, the defence industrial relationship, and the broader Indo–Pacific framework remains real but weaker. But Washington consistently approaches South Asia through the lens of its global priorities — China competition, democratisation, counterterrorism, and transactional resource bargains — without adequately internalising that India has primary interests in its own neighbourhood that cannot simply be subordinated to US preferences.

Three structural features generate recurring friction. First, the US tends to treat South Asian states as individual bilateral relationships to be optimised for American interests, rather than as part of an integrated regional system where India has legitimate primary equities. Second, the US–Pakistan relationship, whenever it warms, invariably comes at India’s security expense, because Pakistan has successfully made itself a swing actor whose cooperation Washington periodically needs more than it needs Indian sensitivities respected on terrorism. Third, the US treats the Indian Ocean as a global commons to be managed according to its operational priorities, a conception that is structurally incompatible with India’s self–image as the resident maritime power and the ambitions underpinning MAHASAGAR. These tensions will not resolve themselves. They require active, candid, and ongoing diplomatic management — and India must communicate its red lines with clarity and consistency rather than allowing its discomfort to be expressed only in retrospect or through strategic hedging.

This does not mean India should distance itself from the US partnership, which remains valuable and substantial on the larger canvas of Indo–Pacific security, technology access, and defence industrial cooperation. The strategic logic that brought the two countries together — managing China’s rise — has not disappeared, and the US needs India far more than it needs Pakistan for its China competition strategy. But it does mean that NFP 2.0 cannot treat the US as a reliable co–manager of India’s immediate neighbourhood. Washington has its own operational logic for South Asia — a logic that has periodically treated the subcontinent as a chessboard for its global priorities. India must therefore engage the US as a strategic

partner on shared Indo-Pacific concerns while firmly managing its own neighbourhood, communicating red lines clearly, and ensuring that US engagement in South Asia is calibrated in dialogue with India rather than imposed unilaterally. The pendulum will swing; the deeper question is whether India can recalibrate the partnership from a quasi-alliance framework toward a more genuinely reciprocal one where India's equities in South Asia and the Indian Ocean are treated as inputs into, not afterthoughts from, American strategic planning.

This is not a call for strategic hedging or for abandoning partnerships. It is a call for strategic coherence. Indeed, India should continue its efforts to diversify its partnerships—engaging Japan, the EU, Australia, and friendly Gulf states—to create broader arrangements that can offer transparent alternatives to opaque financing. Such arrangements also have the advantage of enhancing local buy-in for such projects, overcoming anxieties about over-dependence on India.

However, past experience shows that such joint projects have mostly not taken off. With the recent turn in the U.S. foreign policy, prospects for collaboration with Washington have dimmed further. Japan and the Gulf states can be valuable partners for developmental projects, including in the infrastructure space. It is debatable to what extent the EU, given its present anxieties and preoccupations, has bandwidth or resources to spare for collaborative projects in South Asia. Russia not providing major defence hardware to Pakistan should be seen on the positive side of the ledger.

At the same time, there has been valuable collaboration with like-minded countries in handling of specific challenges, like helping Sri Lanka deal with its economic crisis in 2022. While India was the immediate first responder, the United States, Japan, the EU, France and other partners provided complementary finance, technical assistance, and governance support. Together these coordinated bilateral actions and creditor consultations helped stabilise reserves, sustain essential imports, and create the conditions for a credible IMF programme. At the same time, creditor coordination evolved into a formal process: an Official Creditor Committee (OCC)—with India, Japan and France among its leading members—helped structure the debt-restructuring dialogue that was necessary for medium-term solvency. Operationally, partners divided tasks according to comparative advantage—India used geographic proximity and logistics to deliver immediate relief and operational support; Japan and France brought concessional financing and project expertise; the US focused on macro-financial advice and private-sector engagement; and the EU emphasised governance, trade and grant-based assistance—thereby avoiding duplication and political friction.

Likewise, in 2024–25 India acted as the immediate first responder to the Maldives' balance-of-payments stress—providing urgent liquidity support, T-bill rollovers, and operational assistance—while the U.S., Japan, the EU, France and other partners supplied complementary finance, technical expertise, and governance support; together these coordinated actions stabilised reserves, sustained essential imports, and created space for a broader, multilateral stabilisation.



In the security domain, India has translated “like-minded” cooperation into concrete neighbourhood outcomes — not by building a single alliance, but by combining recurring naval exercises, shared maritime-domain infrastructure, logistics and data-sharing pacts, equipment transfers and calibrated joint diplomatic signals.

At the institutional level, India established the Information Fusion Centre – Indian Ocean Region (IFC IOR) in 2018 and hosts international liaison officers and routine information-sharing linkages that provide a continuous, shared maritime picture for partner navies and coast guards.

This coordinated approach has utility and should be stepped up. With recent uncertainty in U.S. policy, New Delhi is rightly leaning more on pragmatic minilaterals and bilateral partnerships (France, Japan, UK, EU, Gulf partners) to sustain security cooperation without over reliance on any single framework.

India’s neighbours will engage in a policy of hedging and balancing to compensate for their asymmetries vis-à-vis the central player (India), to create options and sometimes out of sheer cussedness, taking advantage in particular of China’s expanded footprint in our shared periphery. India also practises strategic autonomy and it will be futile for it to fret over smaller South Asian countries invoking China to balance its pre-eminence as long as they do not actively undermine its interests in the security field in particular.

India must respond on multiple fronts. It must strengthen its own economic attractiveness by opening markets selectively, by offering transparent financing, and by delivering high-quality projects that respect local needs. It must deepen maritime and defence cooperation with neighbours to deter coercion. It must build resilient connectivity that reduces the appeal of single-source dependence. And it must be prepared to compete in the realm of ideas—offering a development model that is transparent, sustainable, and respectful of sovereignty.

To strengthen outcomes, India must combine faster, more flexible financing, deeper commercial partnerships with private sector risk-sharing, and calibrated political engagement that respects partner sensitivities. Investing in mid and long-term capacity building—technical assistance, joint industrial projects, and regional value-chain integration—will reduce the appeal of one-off Chinese offers. Equally important is a nuanced diplomatic posture that pairs development delivery with respect for partner autonomy, and a clearer narrative of mutual benefit rather than patronage. If India scales up concessional finance, streamlines project execution, and deepens economic linkages while sustaining high-level political outreach, the “Neighbourhood First” ambition can move from episodic successes to a resilient regional strategy that counters external influence and builds durable partnerships.

At the same time, India must avoid the trap of seeing every Chinese engagement as a zero-sum loss. There are areas where cooperation with China is possible and desirable—climate change, pandemic response, and certain regional infrastructure projects. But cooperation

must be calibrated and cautious. India must be clear about red lines and must build the capacity to enforce them.

In short, India must be strategic in its competition with China and pragmatic in its partnerships with the United States and others. It must lead, not follow, and it must ensure that external cooperation strengthens rather than undermines its neighbourhood objectives.

India must accept that influence in South Asia is earned through durable institutions, predictable delivery, and reciprocal bargains, not through episodic patronage or exclusionary claims. That requires shifting resources from headline bilateral largesse to transparent, and locally anchored instruments that survive political churn and make the costs of hedging away from India materially and politically high for neighbours.





## Part III

### Interlinkages and Implementation

These ten propositions represent a cohesive system. Economic partnership creates the material stakes that make connectivity valuable and politically sustainable. Resilient connectivity enables trade and people-to-people ties. First-responder capacity builds trust that underpins cooperation. Resolving bilateral irritants reduces friction that can derail multilateral platforms. Strategic communication and cross-spectrum engagement make gains durable across political cycles. Partnerships with external actors provide financing and legitimacy that make large projects feasible without appearing unilateral.

Implementation requires institutional coherence. Too often, India's foreign policy is dispersed across ministries and agencies with overlapping mandates.

### Institutional Reform and Capacity Building

None of this will happen without institutional reform. Several changes can be considered. An illustrative list follows:

- 1. Enable the Foreign Secretary to focus more on the neighbourhood by re-empowering Secretaries of Ministry of External Affairs (MEA):** In recent years, there is a trend of virtually all major foreign policy issues gravitating towards the Foreign Secretary, with a correspondingly diminished role of other Secretaries. This lop-sided arrangement leads to sub-optimal outcomes. India should return to the earlier division of responsibilities where the Foreign Secretary looked after the immediate neighbourhood and P-5 countries and select functional responsibilities, apart from having an overall coordinating role. Secretaries should be fully empowered to deal with territorial and functional divisions assigned to them, reporting directly to Minister of External Affairs and Prime Minister, as required. The Foreign Secretary can be kept in the loop on policy matters, with the authority to advise on cross-cutting issues. This will give the Foreign Secretary more bandwidth to deal with the neighbourhood.
- 2. Formalise Committee of Secretaries in MEA:** There should be an institutionalised Committee of Secretaries within MEA to ensure better coordination across geographies and issues.
- 3. Create neighbourhood specialisation:** Handling the complex and unique issues in the neighbourhood requires a deep understanding, long experience and deft expertise. This cannot be done by officers dealing with the neighbourhood on a one-off or irregular basis. A small cadre of IFS officers needs to be gradually evolved to oversee the crucial relationships, both in the missions and at the MEA, with the necessary training and sensitivities regarding India's concerns situated within the larger picture of overall neighbourhood issues.



4. **Strengthen Development Partnership Administration:** Though Development Partnership Administration (DPA) was a good initiative, it has gradually become a bunch of divisions within MEA, rather than an empowered agency overseeing all partnership projects. There is a need to reimagine DPA, and make it a single, cohesive, financially empowered entity under MEA, headed by a Secretary. Foreign Secretary and heads of concerned territorial divisions will continue to play an important role in selection and oversight of projects but the DPA should enjoy a measure of autonomy and high degree of accountability. It should have transparent and more flexible financing rules and practices. There is a case study given later in this paper on a major housing project in Sri Lanka which could be rescued after the failure of the pilot project and became rather successful because the Government of India approved several innovative measures, including dispensing with the lowest bid requirement (L-1), excluding contractors, letting owner-beneficiaries build houses themselves with direct transfer of funds into their bank accounts, and selecting four implementing agencies not on the basis of their financial bids alone but taking into account their track-record and capacities.  
DPA will also need a small professional cadre that can manage long-term projects, explore alternative financing instruments and sustain engagement across political cycles, apart from Foreign Service officers. Best practices must be developed for rigorous project evaluation and monitoring. Digital dashboards for project tracking could improve transparency, reducing delays noted in audits. Procurement rules for regional projects should be standardised to ensure transparency and speed. India should adopt a “one project, one window” approach for major cross-border initiatives, where a single coordinating office shepherds projects from conception to execution. The Indian Missions in the neighbourhood will play a critical role in selection and execution of such projects. Capacity building through joint training with neighbours would enhance execution, as seen in successful India-Bhutan hydropower ventures.<sup>93</sup>
5. **Neighbourhood Rapid Response Mechanism:** Such a mechanism can be deployed on request for humanitarian assistance, disaster relief, and short-term economic stabilisation, as discussed in Part II above.
6. **Tackling Intra-Ministerial/Agency Issues:** It may be useful to have an empowered group headed by Foreign Secretary and with senior representatives of the concerned ministries and agencies to coordinate neighbourhood policy across ministries. The model of China Study Group with its secretariat in MEA might be relevant.
7. **Political Oversight:** There should be an institutionalised arrangement for periodic review of major neighbourhood projects and initiatives by Cabinet Committee or Task Force on Neighbourhood (alternatively, by the Cabinet Committee on Security) to provide strategic direction, resolve interministerial disputes, and monitor outcomes.
8. **Domain Expertise:** The practice of getting domain experts from other Ministries, armed forces and from outside the government on secondment or deputation to MEA may be strengthened. Capacity building for Indian diplomats and development

professionals should emphasise project finance, public-private partnership design, and community engagement to improve on-the-ground delivery.

9. **Working with States:** There should be institutionalised arrangements for consulting, coopting and briefing states sharing land or maritime borders with neighbouring countries.
10. **Sub-national Linkages:** At the subnational level, states and provinces should be incentivised to engage with neighbouring counterparts through matching grants and technical assistance. State governments in India's border regions often have the most direct stake in cross-border projects; empowering them with resources and decision rights will accelerate implementation and create local ownership. Indian Institutes of Management and other specialised institutions may be tapped to impart such training.
11. **Neighbourhood Studies:** The ecosystem of neighbourhood studies needs turbo-charging as also putting in place mechanisms for two-way dialogue between MEA and think-tanks and academia.
12. **Resource Diplomacy Forum:** We should also consider establishing a regional resource diplomacy forum, hosted by India, leveraging data analytics for equitable sharing, to prevent escalation and build confidence.<sup>94</sup>
13. **MEA-led Universities:** Both South Asia University (SAU) and Nalanda University are under performing assets with great unutilised brand value. Transforming them into true centres of excellence requires a shift from minimalist existence to strategic investment and academic ambition. Now that both have made progress towards establishment of their permanent campuses, which need to be fully operationalised, they need a merit-driven, internationally competitive faculty recruitment system, with incentives for research, publication, and externally funded projects. In case of SAU, a key priority is to build flagship research clusters in areas where South Asia has comparative needs—climate adaptation, public health, regional integration, digital governance, and peace studies—supported by multi-year funding and partnerships with global universities. For Nalanda University, reviving its international character by tapping into MOUs signed with East Asia Summit countries and bringing them on board will be in keeping with the vision with which the university was set up. Governance reforms are equally important. SAU, for instance, needs greater academic autonomy, predictable financing, and insulation from political fluctuations among member states. Finally, both universities must cultivate an international intellectual ecosystem through visiting fellowships, joint degrees, open-access research platforms, and regional doctoral networks. With these and other changes, SAU and Nalanda University can live up their original promise and grow into genuinely influential knowledge institutions shaping regional policy and scholarship.
14. **Parliamentary and Civic Society Conversations:** Finally, India should institutionalise regular parliamentary and civic society dialogues with neighbours. Parliamentary diplomacy and civic society cooperation create durable channels that survive electoral



cycles and reduce the risk of over-identification with particular leaders. These dialogues should be structured and linked to measurable outcomes so that they are not merely ceremonial.

A reimagined neighbourhood policy is a strategic necessity. The neighbourhood is complex. It requires sustained attention, technical competence, and political patience. To yield optimal results, India must invest in the institutions that deliver them.

## Operational Priorities

Neighbourhood First 2.0 therefore requires a calibrated mix of economic statecraft, institutional innovation, and political sensitivity. The ten propositions outlined in Part II are the conceptual scaffolding; the remainder of this section elaborates the operational logic behind them and sketches the contours of an implementation architecture that is both pragmatic and ambitious.

**The first** operational priority is to make economic partnership the strategic centrepiece. Economic integration is not merely a matter of trade statistics; it is a political instrument that creates mutual stakes and raises the cost of antagonism. India should prioritise a set of sectoral corridors where neighbouring countries have comparative advantage and where Indian demand can be reliably channelled. Agricultural value chains, light manufacturing, electronics, renewable energy, and digital services are natural candidates. The objective is to create predictable, long-term demand for neighbouring producers while enabling Indian firms to diversify supply chains and reduce exposure to single-country dependencies. This requires a combination of market access, capacity building, and regulatory harmonisation that is phased and politically calibrated so as to protect sensitive domestic constituencies while delivering tangible benefits to partners.

Connectivity is **the second** operational priority, but it must be resilient and politically hedged. Physical corridors should be designed with redundancy and multimodality so that a single political disruption does not sever economic lifelines. Riverine transport, for example, offers low-cost, low-carbon alternatives to road and rail in many parts of the region; investing in navigational infrastructure, dredging, and port facilities along shared waterways can yield outsized returns. Digital corridors are equally important: cross-border data flows, secure payment systems, and interoperable regulatory frameworks for fintech can knit markets together even when physical movement is constrained. Crucially, connectivity projects must be accompanied by governance mechanisms that include dispute resolution, community participation, and transparent procurement to reduce the risk of elite capture and local backlash.

**The third** operational priority is to institutionalise India's role as a first responder while scrupulously respecting sovereignty. India's proximity and logistical capabilities make it a natural provider of humanitarian assistance and short-term economic stabilisation. But assistance must be delivered on request and in partnership with local actors. As noted

above, a Neighbourhood Rapid Response Mechanism, with pre-positioned supplies, standby financial instruments, and trained joint teams, would enable India to act quickly when invited while avoiding the political toxicity of unsolicited intervention. Such a mechanism should be interoperable with multilateral agencies and regional partners so that assistance is coordinated, scalable, and perceived as legitimate.

Resolving practical bilateral irritants is **the fourth** operational priority. Recurrent disputes—fisheries, border incidents, water sharing—are the irritants that erode trust and create openings for external actors. Technical, enforceable solutions are the antidote. Fisheries compacts that combine conservation measures, joint enforcement, and transition assistance for affected communities can convert a source of conflict into a platform for cooperation. Border management can be professionalised through joint protocols, rapid communication channels, and local cross-border projects that create mutual benefits. Water disputes should be addressed through independent scientific panels and binding dispute-resolution mechanisms that reduce the scope for politicisation.

Deepening people-to-people ties is **the fifth** operational priority. Scholarships, vocational training, and professional exchanges create social capital that outlasts political cycles. Visa liberalisation for students and professionals, accompanied by safeguards for labour markets, will build networks of trust and shared expertise. Subregional academic consortia and joint research initiatives on shared challenges—climate resilience, public health, disaster management—can institutionalise collaboration and produce public goods that are visible and valued by local constituencies. Several practical suggestions regarding people-to-people contacts, educational exchanges and mobility of professionals have been given in Part II.

Defence linkages and maritime partnerships are **the sixth** operational priority. Defence cooperation is not merely about hardware; it is about interoperability, shared doctrine, and mutual confidence. India's training programmes, defence education exchanges, and capacity-building initiatives have historically created durable ties. Expanding responsibly structured defence sales, backed by lines of credit and maintenance support, can deepen interoperability without creating dependency. Maritime cooperation must be framed as collective security: shared surveillance, information-sharing platforms, and coordinated patrols protect common interests and reduce the temptation for unilateral action. India should invite littoral states to co-design maritime domain awareness architectures so that surveillance is perceived as a public good rather than a projection of Indian power.

**The seventh** operational priority is pragmatic multilateralism. SAARC's paralysis is a structural problem, but it does not preclude functional cooperation. BIMSTEC, BBIN, and other subregional platforms can serve as laboratories for pilot projects that, if successful, can be scaled. India should be willing to pursue "minus one" approaches where necessary while keeping SAARC's normative goals alive through people-level initiatives and technical cooperation. Pragmatic multilateralism also means leveraging existing global institutions where they can add value—development banks for financing, UN agencies for humanitarian coordination, and specialised agencies for technical standards.



Strategic communication is **the eighth** operational priority. Perceptions of dominance or transactionalism drive hedging behaviour among neighbours. India must tell a consistent story about partnership and mutual benefit, backed by transparent reporting on financing and outcomes. Communication must be local and granular: project benefits should be explained in local languages, and civil society and local media should be engaged to create ownership. Policy coherence across ministries is essential so that diplomatic messaging aligns with development and security actions.

Institutionalising cross-spectrum engagement is **the ninth** operational priority. Durable influence requires multiple channels that survive electoral cycles. Parliamentary diplomacy, civil service exchanges, and state-to-province cooperation create networks that persist beyond individual leaders. India must avoid over-identification with particular regimes and instead build institutional ties that endure. This includes supporting subnational partnerships—provincial cooperation on water management, municipal twinning on urban resilience, and joint training for local administrators—that create practical, everyday incentives for cooperation.

**The tenth** operational priority is to build a neighbourhood architecture that is institutional, predictable, and future-ready. This architecture requires dedicated coordination mechanisms within India, long-term financing instruments for regional infrastructure, regulatory harmonisation, climate and disaster-resilience frameworks, and a shared narrative of prosperity. It also requires a willingness to experiment with new financing models—blended finance, regional infrastructure bonds, and pooled sovereign guarantees—that can reduce risk and mobilise private capital for public goods. Some of these ideas have been spelt out later in this paper.

These operational priorities are interdependent. Economic integration reduces the salience of security dilemmas; resilient connectivity enables trade and people-to-people ties; institutionalised cooperation builds trust that survives political cycles. Implementation will require political courage, bureaucratic reform, and patient diplomacy. It will also require a candid conversation with Indian citizens about the costs and benefits of regional integration: modest market openings for neighbours, targeted lines of credit, and shared infrastructure are investments in national security and long-term prosperity.

India will have to translate these priorities into a concrete implementation framework. Below, we propose some institutional reforms within India to coordinate neighbourhood policy, outline financing instruments to underwrite regional projects, present sectoral strategies for energy, transport, and digital connectivity, and offer case studies that illustrate how the propositions can be operationalised on the ground. We also address the political economy of implementation—how to manage domestic constituencies, how to sequence reforms, and how to measure success through verifiable indicators.

The neighbourhood is the terrain on which India's rise will be consolidated or contested, and not a mere passive backdrop. Neighbourhood First 2.0 remains a compelling strategic imperative for India to strengthen goodwill for durable interdependence, to institutionalise

cooperation so that it survives political churn, and to build a regional architecture that is resilient to external pressures. The work ahead is difficult, but the alternative—strategic drift, vacuums filled by others, and recurrent crises—is far costlier.

## **Financing Instruments: Regional Bank, Blended Finance, Regional Bonds, and Risk Pools**

Financing is the lynchpin of any ambitious regional agenda. Traditional lines of credit and concessional loans will remain important, but they are insufficient to underwrite the scale and diversity of projects required. Neighbourhood First 2.0 must therefore innovate in financing by combining public risk capital with private investment through a regional bank, blended finance, regional infrastructure bonds, and pooled sovereign guarantees.

As discussed earlier, the feasibility of a regional bank should be carefully examined. South Asia remains one of the world's least economically integrated regions despite its dense geography, shared development challenges, and enormous potential for cross-border growth. Existing multilateral institutions often move slowly, impose externally driven conditionalities, or prioritise projects outside the region's core connectivity and climate-resilience needs. At a time when India seeks to stabilise its neighbourhood policy and counterbalance extra-regional financial influence, the creation of a South Asian Regional Development Bank, led by and headquartered in India, offers a strategic and institutionally durable solution. The bank would provide predictable, long-term financing for regional public goods: transport corridors, energy grids, digital connectivity, climate adaptation, disaster-response systems, and cross-border value chains. Smaller neighbours often struggle with project preparation, risk assessment, and access to concessional capital; a regional bank can fill these gaps through blended finance, technical assistance, and local-currency lending. By pooling capital from India, willing South Asian partners, and global development funds, the bank would multiply India's financial leverage without requiring disproportionate fiscal outlays.

Crucially, such an institution would create a rules-based, multilateral mechanism that survives political cycles in partner countries. It would also reduce dependence on extra-regional financiers whose projects often create debt vulnerabilities or bypass local priorities. For India, the bank would be a platform to anchor regional economic interdependence, shape standards, and ensure that connectivity and infrastructure networks evolve in ways that reinforce stability and shared prosperity—one that is resilient to political churn, attractive to global partners, and aligned with India's long-term vision of a connected, stable, and prosperous region.

Likewise, blended finance structures can mobilise private capital for projects that have clear revenue streams but face early-stage political or regulatory risk. India can seed regional blended funds with concessional capital from its development budget, leveraging multilateral co-financing from institutions such as the Asian Development Bank and the World Bank. These funds should prioritise projects with demonstrable local benefits—renewable energy, cross-border logistics hubs, and digital infrastructure—where India has



recognized strengths and where private investors can expect stable returns once initial risks are mitigated.

Regional infrastructure bonds are another promising instrument. A pooled bond issuance, underwritten by a regional guarantee facility, can finance cross-border corridors and energy interconnectors. Such bonds would be attractive to institutional investors seeking long-dated, relatively secure assets, provided that governance and revenue models are transparent. India could lead the creation of a South Asia Regional Infrastructure Facility that issues bonds denominated in a basket of regional currencies or in a stable international currency, with repayment streams tied to user fees, tariff revenues, or sovereign contributions.

Pooled sovereign guarantees can reduce the cost of capital for smaller neighbours by sharing risk across a broader base. India, in partnership with multilateral lenders, could create a guarantee pool that underwrites a portion of project risk, thereby lowering borrowing costs for partner countries. Guarantees should be conditional on transparent procurement, environmental safeguards, and measurable social impact to avoid moral hazard.

Finally, India should expand the use of outcome-based financing for social and human-capital projects. Results-based grants and social impact bonds can align incentives for service delivery in education, health, and vocational training, ensuring that funds are disbursed against verifiable outcomes rather than inputs alone.

## Legal and Regulatory Harmonisation

Economic integration requires more than physical infrastructure and finance; it requires regulatory convergence. Tariff liberalisation without harmonised standards invites non-tariff barriers and regulatory arbitrage. Neighbourhood First 2.0 should therefore prioritise a phased programme of legal and regulatory harmonisation focused on customs procedures, sanitary and phytosanitary standards, digital interoperability, and investment protection.

A practical approach is to begin with mutual recognition agreements in targeted sectors where harmonisation is feasible and politically acceptable. For example, mutual recognition of testing and certification for pharmaceuticals and medical devices can facilitate cross-border trade in health products, a priority given the region's vulnerability to pandemics. Similarly, harmonised standards for renewable energy equipment and grid interconnection protocols can accelerate cross-border electricity trade.

Customs modernisation is a low-hanging fruit. Coordinated adoption of electronic single windows, risk-based inspections, and interoperable transit documentation can reduce border delays and transaction costs. India should offer technical assistance and capacity building to help neighbours adopt these systems, while providing transitional support to mitigate short-term revenue losses.

Investment protection agreements, tailored to the political sensitivities of partner countries, can be designed to protect legitimate public policy space while offering investors predictable dispute-resolution mechanisms. These agreements should favour arbitration mechanisms

that are transparent and include provisions for local content and technology transfer where appropriate.

## Sectoral Strategies: Energy, Transport, Digital, and Climate Resilience

Operationalising Neighbourhood First 2.0 requires sectoral strategies that translate broad principles into concrete projects. Four sectors deserve immediate priority: energy, transport, digital infrastructure, and climate resilience.

In energy, the region's complementarities are striking. Bhutan's hydropower potential, Nepal's riverine resources, and India's growing demand create opportunities for mutually beneficial power trade. Cross-border electricity markets, supported by regional balancing mechanisms and grid stability protocols, can reduce costs and increase renewable penetration. India should prioritise investments in cross-border transmission, regional balancing markets, and regulatory frameworks that allow for transparent pricing and dispute resolution.

Transport connectivity must be multimodal. Road and rail links are essential, but riverine transport and coastal shipping can provide cost-effective alternatives that reduce carbon intensity. Investments in inland waterways, port modernisation, and last-mile logistics will yield high returns when accompanied by streamlined customs and corridor governance. Special economic zones and logistics parks near border crossings can catalyse manufacturing and value-chain integration, provided that labour mobility and regulatory harmonisation are addressed.

Digital infrastructure is a strategic enabler. Cross-border data flows, secure payment rails, and interoperable digital identity systems can knit markets together and facilitate trade in services. India's strengths in software and fintech can be leveraged to provide regional public goods—secure payment gateways, e-governance platforms, and telemedicine networks. However, digital cooperation must address legitimate concerns about data privacy, sovereignty, and cyber security through regional norms and technical safeguards.

Climate resilience must be mainstreamed across all projects. The Himalayan region is a climate-sensitive zone where glacial melt, changing precipitation patterns, and extreme weather events threaten livelihoods and infrastructure. Regional climate adaptation funds, joint early-warning systems, and cooperative water-management institutions are essential. Infrastructure projects must be climate-proofed through resilient design standards and nature-based solutions that protect ecosystems while delivering human benefits.

## Human Capital and Mobility

Economic integration without mobility of people and skills is incomplete. Neighbourhood First 2.0 should therefore expand legal channels for temporary labour mobility, professional exchanges, and student flows. A regional framework for skilled mobility—temporary work permits tied to sectoral needs, portable social security arrangements, and recognition of professional qualifications—can address labour shortages and provide remittance benefits



while protecting domestic labour markets.

Education diplomacy is a long-term investment. Scholarships targeted at critical skills—public health, climate science, engineering, and governance—create networks of professionals who understand India and have a stake in regional cooperation. Joint research centres and regional PhD consortia can produce policy-relevant knowledge on shared challenges.

Health cooperation is equally important. Cross-border disease surveillance, joint procurement of essential medicines, and regional vaccine manufacturing capacity reduce vulnerability to pandemics and create public goods that are politically salient. India's pharmaceutical manufacturing base positions it to be a regional supplier, but this requires regulatory harmonisation and quality assurance.

## Security Cooperation and Confidence-Building

Security cooperation must be reframed from zero-sum rivalry to cooperative security that addresses shared threats. Counterterrorism, maritime security, cyber security, and disaster response are areas where joint action produces clear mutual benefits. India should expand training programmes, intelligence-sharing arrangements, and joint exercises focused on non-traditional threats while ensuring that such cooperation is transparent and respects civil liberties.

Confidence-building measures along land borders—hotlines, joint patrol protocols, and local cross-border development projects—reduce the risk of escalation from accidental incidents. Water diplomacy, in particular, requires technical commissions with independent scientific inputs and dispute-resolution mechanisms that depoliticise resource management.

## Response to the Problem of Dual Asymmetries

How does India respond to the problem of dual asymmetries described earlier. The answer lies in multiple instruments discussed earlier but reiterated below:

**Leverage comparative advantages:** India's strengths are market access, software/fintech, pharmaceuticals, and cultural ties. Scale these where they matter (digital payments corridors, vaccine/regional pharma hubs, IT-enabled services).

**Asymmetry to accommodation** — accept that asymmetry must be managed through reciprocity, compensatory development packages, and credible grievance redress. These measures reduce the perception that India's power is arbitrary and increase the political cost to neighbours of pivoting away.

**Institutionalise policy predictability and transparency:** Tie guarantees and credits to transparent procurement, local content, and measurable social outcomes to reduce moral hazard and elite capture.

**Localise delivery:** Partner with subnational governments, local banks, and civil society to

make projects visible and politically resilient.

**Blended finance and risk-sharing:** Use modest concessional capital to catalyse private and multilateral co-finance (regional bonds, guarantee pools) so India's fiscal outlay is multiplied.

**Measure and communicate outcomes:** Publish independent, annual metrics (trade share, travel time reductions, jobs created) to demonstrate tangible returns and counter narratives of coercion.

## Sequencing, Political Economy, and Risk Management

Implementation must be sequenced to manage political economy constraints. Quick wins—small, visible projects that deliver local benefits—should be prioritised early to build momentum and public support. Simultaneously, medium-term investments in regulatory harmonisation and financing instruments should be advanced in parallel. High-risk, high-reward projects should be piloted in bilateral or subregional settings where political conditions are favourable.

Risk management requires honest assessment of political, financial, and environmental risks. Projects should be stress-tested for political volatility, currency risk, and climate impacts. Contingency plans and exit options must be built into contracts to protect public resources. Transparency and independent monitoring reduce the risk of corruption and elite capture, thereby increasing the likelihood of long-term success.

## Illustrative Case Studies

The six case studies given below illustrate how Neighbourhood First 2.0's principles can be operationalised, learning from earlier best practices and building on them. The first is a large housing project in Sri Lanka already successfully completed; the second (Colombo Security Conclave) is on the right trajectory; the third (India-Sri Lanka Fisheries Compact) offers a framework for the resolution of a prickly bilateral issue; while the remaining three (an India-Nepal energy corridor leading to a regional energy grid; a South Asian digital corridor for cross-border payments; and a riverine transport initiative on the Ganges-Brahmaputra system) are potential large initiatives in the neighbourhood which are feasible looking at progress already made in respective domains. We are looking beyond the current turbulence in relations with Bangladesh and working on the assumption that the two countries will be able to bring bilateral relations back on track.

### 1. Indian Housing Project in Sri Lanka

India's commitment in 2010 to construct 50,000 houses for internally displaced persons (IDPs) in Sri Lanka post the conflict era marked one of the most ambitious development partnership initiatives undertaken by New Delhi. Focused largely on the war-ravaged Northern Province, the project evolved from a challenging start into a widely acknowledged



success story. Its trajectory offers valuable lessons for India's development cooperation across the neighbourhood.<sup>95</sup>

**The Pilot Phase and the Limits of the Contractor-Driven Model:** The project began with a pilot phase of 1,000 houses, implemented through a traditional contractor-built model. This approach, familiar in many government-funded construction programmes, quickly proved unsuitable for the post-conflict terrain of northern Sri Lanka. Contractors subcontracted work at unsustainably low rates, payments to subcontractors stalled, and construction slowed to a near standstill. The High Commission of India, headed by the author at the time, had to intervene repeatedly to salvage the effort. Independent assessments later noted that the pilot's difficulties were symptomatic of deeper structural issues: scattered sites, poor logistics, and the absence of community ownership made contractor-driven delivery both inefficient and expensive. The experience demonstrated that scaling up this model to 49,000 additional houses would risk failure on a massive scale.

**A Course Correction - Embracing the Owner-Driven Model:** Learning from the pilot, the High Commission recommended a fundamental shift to an owner-beneficiary model. This approach, already validated in India's Gujarat earthquake reconstruction and endorsed by UN-Habitat and other humanitarian agencies, placed beneficiaries at the centre of the rebuilding process. The High Commission had also absorbed and operationalised the lessons from the post-tsunami housing experience of 2004-09 in Sri Lanka. The earlier tsunami programme had shown that donor-driven, relocation-heavy models produced delays, mismatches with livelihoods, and uneven quality. President Mahinda Rajapaksa also advised the Indian High Commissioner to opt for an owner-driven model, recalling that in post-tsunami contractor-built houses, beneficiaries did not have a sense of involvement.<sup>96</sup>

The Government of India accepted this recommendation, marking a significant departure from conventional donor practice. Under the new model, beneficiaries themselves undertook construction or repair of their homes, supported by technical guidance and financial assistance. The shift was transformative. It reduced costs dramatically, ensured that houses reflected local needs and cultural preferences, and restored agency and dignity to families emerging from years of conflict. Studies have since highlighted that this model strengthened social capital, revived local construction skills, and stimulated the regional economy through demand for labour and materials.

**Direct Cash Transfers and an Innovative Financial Architecture:** One of the most striking innovations was the decision to transfer funds directly into beneficiaries' bank accounts in tranches linked to construction milestones. This required the High Commission to establish a dedicated payment unit, verify progress on thousands of dispersed sites, and coordinate with Indian banks operating in Sri Lanka. The Ministries of External Affairs and Finance agreed to this unprecedented arrangement, recognising that it would eliminate leakages, prevent fund-parking with implementing agencies, and enhance transparency. The mechanism worked smoothly and became a defining feature of the project's credibility. It also aligned with India's broader commitment to direct benefit transfer systems, demonstrating their applicability even in overseas development contexts.

**Transparent, Norm-Based Beneficiary Selection:** Perhaps the most politically sensitive element was the selection of beneficiaries. In the Northern Province, where political contestation and mistrust ran deep, any perception of bias could have undermined the project. India insisted on a fully norm-based, transparent, and participatory process. A weighted scoring model was developed to select beneficiaries through vulnerability-based objective criteria such as war-related damage, livelihood status, number of dependents, and disability. Lists were publicly displayed, objections invited, and grievances resolved through open hearings. Despite initial reservations, the Government of Sri Lanka cooperated fully, and the process unfolded without major controversy. This was unusual in the Sri Lankan context and became one of the project's most widely appreciated features.

**Selecting Implementing Agencies on Capacity, Not Lowest Cost:** To support the owner-driven model, India selected four implementing agencies through a competitive two-stage process. Unlike standard procurement norms that prioritise the lowest financial bid (L-1), the selection emphasised experience, technical capacity, and familiarity with community-based housing. Agency charges varied between roughly 5 and 12 per cent, reflecting differences in capacity and operational scope. This capacity-based allocation ensured quality and avoided overburdening any single organisation. It also demonstrated that India was willing to innovate within its financial rules when justified by context and scale.

**A Consultative, Locally Grounded Approach:** Throughout the project, India adopted a deeply consultative approach. Humanitarian agencies, local authorities, community leaders, and beneficiaries were engaged at every stage—from design to implementation. This ensured that the project remained sensitive to local realities and avoided the pitfalls of donor-driven reconstruction. The Government of Sri Lanka, despite initial hesitations, extended full cooperation, particularly in land allocation, documentation, and grievance redressal.

**A Successful, Timely, and Cost-Effective Outcome:** By 2015, nearly 46,000 houses in the Northern and Eastern Provinces had been completed under the owner-driven model. The project was delivered without cost overruns, met its timelines, and generated savings of over INR 1,000 crore compared to a contractor-driven approach.

Independent assessments by UN-Habitat, the World Bank, the Government of Sri Lanka, the Ministry of External Affairs (MEA), and the International Crisis Group (ICG) characterised India's 50,000-house owner-driven housing programme as one of the most effective post-conflict reconstruction efforts in Sri Lanka. UN-Habitat evaluated it as a best-practice owner-driven model, noted that the project's owner-driven "participatory process provided returnee families with a sense of achievement by managing the house construction process themselves," and highlighted its strong community ownership.<sup>97</sup> The World Bank's comparative study cited the Indian project as a model of transparency and community empowerment, and assessed that it "outperformed contractor-built housing in cost efficiency and beneficiary satisfaction."<sup>98</sup> The Government of Sri Lanka's reports repeatedly cited the Indian project as efficient, transparent and community-supported, and recorded its "high completion rates and positive community acceptance."<sup>99</sup> MEA's project completion report highlighted its 99% completion rate, direct-benefit transfer mechanism, and strong community acceptance, and described it as "one of India's most successful development



partnership initiatives.”<sup>100</sup> The ICG observed that India’s approach was “widely welcomed by war-affected communities” and avoided the political controversies that affected other donor-driven schemes. A peer-reviewed study by Sri Lankan scholars concluded that the Indian project “avoided the systemic failures of post-tsunami donor-driven housing” and noted that the Indian model “strengthened local markets, restored dignity, and ensured culturally appropriate housing.”<sup>101</sup>

**Lessons for India’s Neighbourhood Development Partnerships:** The Sri Lanka housing project demonstrates that India’s development cooperation can be innovative, transparent, and people-centric when it is willing to learn from experience and adapt. The success of the owner-driven model, the integrity of the beneficiary selection process, and the effectiveness of direct cash transfers offer valuable templates for future initiatives across the neighbourhood. Above all, the project underscores that development partnership is most impactful when it empowers communities, builds trust, and reflects India’s commitment to dignity and self-reliance.

## 2. Colombo Security Conclave

The Colombo-headquartered Colombo Security Conclave (CSC)<sup>102</sup> provides a good example of how regional security cooperation can be developed while ensuring that other partner countries have a sense of ownership and do not feel that their sovereign space is being eroded.

Growing Steadily from Trilateral to Regional Platform: The CSC represents a significant evolution in regional security cooperation within the Indian Ocean Region (IOR). Originally launched in 2011 as a trilateral initiative among India, Sri Lanka, and the Maldives, the Conclave has expanded its membership to include Mauritius and Bangladesh, with Seychelles joining later as a member. This expansion underscores the growing recognition among littoral states of the need for a collective approach to address shared security challenges. It focuses on five core pillars: maritime safety and security, counterterrorism and radicalization, combating trafficking and transnational organized crime, cybersecurity and protection of critical infrastructure, and humanitarian assistance and disaster relief (HADR). Through regular National Security Advisor-level meetings, joint maritime exercises, and coordinated information-sharing mechanisms, the CSC fosters trust and operational interoperability among member states, which is crucial given the strategic vulnerabilities and complex security environment of the IOR.

The Conclave’s activities have enhanced regional cooperation by enabling member states to collectively respond to non-traditional security threats such as piracy, drug trafficking, human smuggling, cyberattacks, and climate-induced disasters. By providing a platform for smaller and medium-sized littoral states to collaborate beyond bilateral arrangements, the CSC strengthens regional stability and security. It complements broader Indo-Pacific security architectures while focusing on actionable, subregional cooperation. The CSC also serves as a strategic instrument for India to anchor its maritime diplomacy, promoting a rules-based, inclusive security order that balances the growing influence of external powers

in the region without direct confrontation.

**Towards Institutionalisation:** On 30 August 2024, the member states signed a Charter and a Memorandum of Understanding (MoU) for the establishment of a permanent CSC Secretariat, hosted in Colombo, Sri Lanka. This development marks a significant step in operationalizing the Conclave, providing it with a formal institutional structure to coordinate activities related to maritime security, counter-terrorism, transnational crime, cybersecurity, and HADR. The Secretariat is expected to enhance the Conclave's ability to conduct joint exercises, information-sharing, and policy coordination, thereby strengthening trust and cooperation among member states in a geopolitically sensitive maritime domain.

**Continuing Constraints but on Right Track:** Despite these advances, the CSC faces several constraints that could affect its long-term effectiveness. Political transitions and differing threat perceptions among member states sometimes slow decision-making and consensus-building. The Conclave currently lacks a fully developed institutional framework beyond the Secretariat, including formalized funding mechanisms and permanent staffing, which limits its operational capacity. Additionally, varying levels of technological and intelligence-sharing capabilities among members pose challenges to seamless cooperation. The geopolitical competition in the IOR, with external powers seeking influence, also complicates the CSC's efforts to maintain an inclusive and balanced regional security architecture. Addressing these constraints will be critical for the CSC to sustain its role as a key platform for regional maritime security and counter-terrorism cooperation.

Nevertheless, the Conclave's ongoing expansion and deepening cooperation reflect its increasing importance as a regional security forum. It exemplifies how regional states can build trust and collective capacity to manage shared vulnerabilities in a geopolitically sensitive and economically vital maritime domain.

### 3. Settlement of the India–Bangladesh Land and Maritime Boundary Issues

The resolution of India's land and maritime boundary disputes with Bangladesh in 2014–2015 stands as a landmark in India's neighbourhood diplomacy. It demonstrated that politically difficult compromises—undertaken after careful domestic consultation—can generate long-term strategic dividends and transform bilateral relations.<sup>103</sup>

**Enclaves, Adverse Possessions, and Law-and-Order Challenges:** The land boundary problem was a legacy of the Radcliffe Award and the peculiar status of the princely state of Cooch Behar. When Cooch Behar acceded to India in 1949, its scattered enclaves became Indian territory inside East Pakistan, while several Pakistani enclaves remained inside India. By the 2000s, there were 111 Indian enclaves inside Bangladesh and 51 Bangladeshi enclaves inside India, along with numerous adverse possessions.

These enclaves were effectively ungoverned spaces. Residents lacked access to police, courts,



schools, electricity, and basic services. Over time, the enclaves became hubs for smuggling, narcotics trafficking, human trafficking, cattle smuggling, and other illicit activities, as criminal networks exploited the absence of state authority. The border was porous, and the lack of legal jurisdiction created persistent law-and-order challenges for both countries. The humanitarian situation was equally dire: enclave residents lived in legal limbo, unable to access citizenship rights or state protection.

**The Maritime Boundary Arbitration (PCA Award, 2014):** Bangladesh initiated arbitration under UNCLOS in 2009. The Permanent Court of Arbitration (PCA) delivered its award on 7 July 2014.<sup>104</sup> The tribunal accepted Bangladesh's argument for a "cut-off effect" caused by India's coastline and applied an equitable solution rather than a strict equidistance line. As a result:

**Bangladesh received approximately 76% of the disputed maritime area, including rights over a large portion of the continental shelf;**

**India received roughly 24% of the disputed zone; and**

**Bangladesh gained sovereign rights over about 19,467 sq. km of maritime space it had claimed.**

The award was widely viewed as favourable to Bangladesh. India, however, chose to accept it in full—despite domestic criticism—recognising that contesting it would undermine its credibility and complicate parallel land boundary negotiations.

**Political Consultations with West Bengal and Assam:** The land boundary settlement required a constitutional amendment. The Modi government undertook extensive consultations with Governments of West Bengal and Assam.

Concerns of West Bengal (ruled by the Trinamool Congress, in opposition at the Centre) centred on migration, political sensitivities in Cooch Behar, and administrative burdens. The Centre assured the state of: financial support for rehabilitation; development packages for border districts; careful sequencing of implementation; and respect for state-level political sensitivities. Chief Minister Mamata Banerjee's eventual support was decisive.

Assam's concerns related to adverse possessions and demographic impacts. The 2011 Protocol had already been negotiated with Assam's concurrence, and the Modi government reaffirmed these commitments, ensuring that Assam's territorial and political concerns were addressed.

The result was rare unanimity: the 119th Constitutional Amendment Bill passed both Houses of Parliament without opposition in May 2015.

**Implementation and Exchange of Enclaves:** The 2015 Land Boundary Agreement implemented the 2011 Protocol in full. India transferred 111 enclaves (17,160 acres) to Bangladesh and received 51 enclaves (7,110 acres). Residents were given the choice of nationality; most chose to stay where they lived. Adverse possessions were regularised, and the entire 4,096-km boundary was finally demarcated.

Role of the Hasina Government: The cooperative stance of the Sheikh Hasina government was indispensable. Dhaka ensured bureaucratic coordination, political stability, and a constructive negotiating environment. Hasina's earlier actions—especially against insurgent groups operating in India's Northeast—had already built trust. Her government treated the LBA as a strategic priority, enabling rapid implementation.

**Impact and Timing:** The timing of the two decisions was critical:

**India's acceptance of the PCA Award (July 2014) created goodwill and removed a major irritant; and**

**The LBA ratification (May–August 2015) resolved a humanitarian crisis, strengthened border management, and eliminated a chronic source of mistrust.**

Together, they transformed India–Bangladesh relations. Connectivity projects accelerated, cross-border power trade expanded, and security cooperation deepened. For nearly a decade—until Hasina's ouster in August 2024—the relationship was widely regarded as the most successful example of India's Neighbourhood First diplomacy.

#### 4. India–Sri Lanka Fisheries Compact

**Background:** The fisheries conflict between India and Sri Lanka, particularly in the Palk Bay and Gulf of Mannar, is deeply rooted in ecological, political, and historical factors. Tamil Nadu fishermen had relatively unhindered access to Sri Lankan waters during the years of ethnic conflict (1983–2009), as the Sri Lankan armed forces focused primarily on interdicting the LTTE and associated fishermen rather than Indian fishermen. Meanwhile, Sri Lankan Tamil fishermen faced restrictions in their own waters, creating an anomalous dominance by Tamil Nadu fishermen. However, with the return to normalcy in Sri Lanka, this situation became untenable. There was strong pushback from the Sri Lanka side, both the government authorities and Sri Lankan Tamil fishermen, against Indian fishermen operating within Sri Lankan waters and engaging in prohibited activities like bottom trawling.

**Challenges:** The depletion of fishery resources in the coastal waters of India, especially in the Palk Bay, is compounded by the reluctance or inability of Tamil fishermen on both sides to engage in deep sea fishing. The fishing industry is politically entangled, placing ordinary fishermen in vulnerable positions, often leading to illegal fishing in Sri Lankan territorial waters, sometimes dangerously close to the Sri Lankan coastline. The commonly cited linkage between the Kachchativu issue and the fishermen's problem is untenable upon closer scrutiny, as waters near Kachchativu play a minor role in the trans-IMBL (International Maritime Boundary Line) fishing activities of Tamil Nadu fishermen, with most detentions occurring elsewhere in Sri Lankan territorial waters.

**Negotiations and Political Dynamics:** Various negotiations between the Indian and Sri Lankan governments through the Joint Working Group and other forums, as well as dialogues between fishermen themselves, have sought to resolve or find interim solutions to these issues. The Government of Tamil Nadu has also engaged with the Government of India on the sensitive fishermen and Kachchativu issues, including several strongly-worded letters from



the Tamil Nadu Chief Minister to the Prime Minister and other leaders.

**Resolution Pathways:** Resolution does not lie in seeking retrieval of Kachchativu, as abrogating international agreements would harm India's international standing. Similarly, expecting Sri Lanka to grant Tamil Nadu fishermen rights in waters near Kachchativu on the Sri Lankan side of the IMLB is unrealistic. Likewise, the notion of treating waters between the two countries in the Palk Bay as 'common heritage' is untenable given established international law and bilateral agreements, including the 1974 and 1976 exchange of notes.

**Long-Term Solutions and Capacity Building:** A sustainable resolution requires emphasis on capacity building among fishermen to transition towards deep sea fishing, which offers a long-term solution to resource depletion and maritime conflicts. This approach would reduce dependence on contested coastal waters and promote sustainable livelihoods. Capacity building initiatives should be supported through bilateral cooperation, technical assistance, and community engagement to empower fishermen with skills, equipment, and knowledge for deep sea fishing.

**Compact Design and Implementation:** Building on these insights, a fisheries compact should prohibit destructive fishing practices like bottom trawling, establish joint monitoring and enforcement mechanisms, and create a timebound transition fund to support and retrain affected fishermen to migrate to deep-sea fishing in a phased manner while financing alternative livelihoods such as aquaculture and eco-tourism. Financing would blend Indian concessional support for capital and technical assistance, Sri Lankan co-financing for implementation, and targeted international conservation grants for scientific work and transition costs. Community governance and scientific collaboration would underpin sustainable resource management, while phased capacity building would ensure enforcement and livelihood transitions are effective and equitable.

**Implementation roadmap:** The compact could begin with a six-month design and confidence-building phase to establish a joint secretariat, run joint fact-finding missions and launch a communications campaign to rebut misperceptions and explain benefits; a 6–18 month pilot would test a no-trawl zone, VMS-enabled joint patrols and a cohort of transition beneficiaries while the scientific panel produces baseline surveys; successful pilots would be scaled and institutionalised over years two to four by formalising fisherfolk councils into local management units and integrating compact rules into bilateral maritime protocols, with annual joint evaluations guiding adaptive adjustments.

**Conclusion.** By recognizing the historical context, ecological realities, and political complexities, and by prioritizing capacity building and deep sea fishing as a long-term strategy, India and Sri Lanka can transform a persistent source of conflict into a cooperative framework that restores marine resources, stabilizes coastal livelihoods, and fosters bilateral trust and peace.

## 5. The India–Nepal Energy Corridor and Its Evolution into a Regional Grid

**From Stagnation to Momentum:** For nearly a decade, the promise of an India–Nepal energy partnership remained largely unrealised. Despite Nepal’s immense hydropower potential and India’s growing need for flexible renewable energy, progress was slow, uneven, and often stalled by regulatory uncertainty, financing constraints, and the absence of a predictable cross–border trading framework. Over the past couple of years, however, the landscape has shifted decisively. New transmission agreements, expanded power trade, and trilateral arrangements involving Bangladesh have created the first sustained period of forward movement in years. These developments offer a compelling demonstration of how Neighbourhood First 2.0 can be operationalised through practical, mutually beneficial cooperation.

**Recent Breakthroughs:** The most visible sign of renewed momentum is the strengthening of cross–border transmission infrastructure. In 2025, India and Nepal signed major agreements to develop new 400 kV transmission corridors—Inaruwa–New Purnea and Lamki–Bareilly—implemented through joint ventures between POWERGRID and the Nepal Electricity Authority. These corridors are expected to significantly enhance electricity exchange, strengthen grid resilience, and support regional energy security.<sup>105</sup>

Alongside these infrastructure commitments, Nepal’s electricity exports to India have grown steadily, supported by long–term purchase guarantees that have unlocked financing for hydropower projects. The operationalisation of cross–border lines has also enabled Nepal to export surplus monsoon electricity to Bangladesh through Indian territory—marking the first practical step toward a trilateral energy market in the eastern subregion.

**Building the India–Nepal Energy Corridor:** The emerging India–Nepal energy corridor rests on a simple complementarity. Nepal possesses more than 40 GW of economically viable hydropower potential, while India’s eastern grid requires flexible, dispatchable renewable energy to stabilise its system as solar and wind penetration increases. Hydropower from Nepal provides precisely this balancing capability.

To consolidate recent gains, the corridor now requires institutionalisation. A joint energy commission with technical subcommittees on grid stability, tariff harmonisation, environmental safeguards, and market design would provide the governance backbone for long–term cooperation. Financing must also evolve from project–specific arrangements to a blended regional fund seeded by Indian concessional capital, multilateral co–financing, and private equity. A regional guarantee facility would reduce sovereign risk premiums and attract private developers who have historically been wary of political volatility.

Equally important is the integration of local communities in Nepal through benefit–sharing mechanisms that allocate a portion of project revenues to local development funds. This reduces the political risks associated with displacement, land acquisition, and elite capture—issues that have derailed hydropower projects in the past.

**Expanding to a Trilateral Market:** The three–way power trade involving India, Nepal, and Bangladesh represents a quiet but significant breakthrough. Bangladesh’s growing demand



for clean energy, combined with its willingness to sign long-term purchase agreements, provides Nepal with an additional market and strengthens the commercial viability of large hydropower projects. India's role as a transit country signals a more confident and regionally integrated approach to energy diplomacy. Hopefully, the disruption caused by the current political volatility in Bangladesh will settle down, and over time, these trilateral flows can evolve into a regional balancing market that allows for seasonal exchanges, ancillary services, and cross-border renewable integration across the BBIN subregion.

**Sri Lanka's Entry – Completing the BBIN-Plus Regional Grid:** Sri Lanka's potential integration into this emerging grid adds a new and promising dimension. The long-discussed India-Sri Lanka power grid interconnection, once completed, would allow Sri Lanka to export surplus wind and solar power—resources that far exceed the absorption capacity of its domestic grid.

The India-Sri Lanka Economic Partnership Vision Document of 21 July 2023 remains central to this ambition.<sup>106</sup> It commits both countries to concluding an MoU on renewable energy cooperation, developing Sri Lanka's offshore wind and solar potential, and helping the country achieve its target of generating 70 percent of its electricity from renewables by 2030. It also envisages a high-capacity interconnection enabling bidirectional electricity trade between Sri Lanka and the BBIN region, lowering electricity costs for Sri Lankan consumers while creating a dependable source of foreign exchange. The document further emphasises expediting the Sampur solar project, LNG infrastructure, and cooperation in green hydrogen and green ammonia—each of which strengthens the foundation for Sri Lanka's integration into a regional clean-energy architecture.

**Toward a South Asian Renewable Energy Grid:** Taken together, these developments point to a future in which the India-Nepal energy corridor becomes the nucleus of a broader South Asian renewable energy grid. Such a grid would stabilise national power systems, reduce the cost of energy, attract large-scale investment, and create durable economic interdependence across the region.

Most importantly, it would demonstrate that Neighbourhood First 2.0 represents an outcome-oriented and practical framework for shared projects. The recent achievements—after years of stagnation—show that transformative regional projects rest on political will from all parties, regulatory clarity and financial innovation. The task now is to consolidate these gains, institutionalise cooperation, and expand the corridor into a genuinely regional platform that includes Nepal, India, Bangladesh, and eventually Sri Lanka.

## 6. Building a South Asian Digital Payments Corridor

**The Case for a Regional Digital Payments Architecture:** South Asia remains one of the world's most expensive regions for sending money across borders. High remittance costs, fragmented payment systems, and regulatory frictions continue to burden migrant workers, small traders, and MSMEs. The average global remittance cost remains above 6 percent—double the UN Sustainable Development Goal target—underscoring the need for structural reform in cross-border payments. India, as the world's largest recipient of remittances and

home to one of the most advanced digital payment ecosystems, is uniquely positioned to lead such reform. A regional digital corridor for small-value payments would convert India's fintech capabilities into a genuine regional public good.<sup>107</sup>

**UPI as a Model for Interoperability:** India's Unified Payments Interface (UPI) has transformed domestic payments by enabling instant, low-cost, interoperable transactions across banks and platforms. UPI now processes over 10 billion transactions monthly at near-zero cost, demonstrating the power of open APIs, standardised protocols, and a unified switching architecture. Its growing international footprint—through linkages with Singapore, the UAE, and Mauritius—shows that UPI's design principles can be adapted for cross-border use. In the neighbourhood, UPI is successfully integrated in Bhutan, Nepal and Sri Lanka, fostering tourism and enabling payments. Analysts note that UPI's success stems from network effects, low transaction costs, and strong regulatory oversight, making it a promising template for regional integration.<sup>108</sup>

**Designing the Regional Digital Corridor:** A regional interoperable payment gateway would require a shared technical and regulatory foundation. The core infrastructure would be built on secure APIs, enabling real-time authentication, settlement, and reconciliation across jurisdictions. Governance would rest with a multilateral consortium of central banks and payment authorities, ensuring neutrality and trust.

To function effectively, the system would require harmonised anti-money-laundering (AML) and counter-terror-financing (CTF) standards, common data-privacy safeguards, and clear mechanisms for currency settlement. These requirements mirror the challenges identified in recent assessments of UPI's cross-border expansion, which highlight interoperability, foreign-exchange management, and regulatory harmonisation as key constraints.

**Phased Rollout:** A pragmatic approach would begin with two pilot corridors between India and neighbouring countries with high remittance flows—such as Nepal and Bangladesh. Nepal already participates in UPI-linked arrangements, demonstrating the feasibility of cross-border instant payments on a limited scale. This can be scaled up as the first pilot project.

Bangladesh, with its large migrant workforce in India and the Gulf, stands to benefit significantly from reduced remittance costs. However, this second pilot project will be contingent on stabilisation of the situation in Bangladesh and its relations with India.

The pilot phase would include capacity-building programmes for financial regulators, training for payment-service providers, and the establishment of consumer-protection frameworks to prevent fraud and misuse. Once stabilised, the system could expand to Bhutan, Sri Lanka, and eventually the wider BIMSTEC region.

**Economic and Political Payoffs:** The economic benefits of such a digital corridor would be immediate. Migrant workers would save substantial amounts on remittance fees; small traders would gain access to fast, low-cost settlement; and MSMEs would be able



to integrate more easily into regional value chains. The Payments Association notes that UPI-based cross-border systems can dramatically reduce transaction costs and settlement delays, especially when linked to local-currency settlement frameworks.

The political dividends would be equally significant. A shared digital payments infrastructure would deepen economic interdependence, build trust among central banks, and create a visible symbol of regional cooperation. For India, it would reinforce its role as a provider of regional public goods and strengthen goodwill among neighbouring populations.

**Feasibility Assessment: Opportunities and Constraints:** The initiative is feasible but requires careful sequencing. Technically, UPI-style interoperability is proven and scalable. Politically, most neighbouring countries have expressed interest in digital connectivity. However, challenges remain. Currency-settlement mechanisms must be robust; data-sharing agreements must be trusted; and AML/CTF harmonisation requires sustained regulatory cooperation. The experience of UPI's international pilots shows that cross-border adoption depends on policy coordination as much as technology.

Despite these challenges, the strategic logic is compelling. A South Asian digital payments corridor would reduce costs, increase financial inclusion, and strengthen regional integration—making it one of the most promising connectivity initiatives under Neighbourhood First 2.0.

## 7. Revitalising the Ganga–Brahmaputra Waterways

**Reclaiming a Historic Artery of Regional Commerce:** The Ganga–Brahmaputra river system once served as the primary commercial artery of colonial eastern India, linking hinterlands to global markets. Over time, the rise of road transport, political partition, and declining investment in river infrastructure eroded this natural connectivity. Today, however, the logic of reviving inland waterways has re-emerged with force. Rising logistics costs, climate imperatives, and the need for resilient supply chains have pushed India, Bangladesh, and the northeastern states to reconsider the strategic value of river transport. A pilot corridor connecting Kolkata with inland ports in Bangladesh and onward to Assam and Tripura offers a practical demonstration of how Neighbourhood First 2.0 can be translated into climate-sensitive, cost-effective regional cooperation.

**Economic and Environmental Logic of Inland Water transportation:** River transport is significantly cheaper and cleaner than road-based logistics. Studies consistently show that inland waterways consume less fuel per tonne-kilometre, emit fewer greenhouse gases, and reduce congestion on highways. For northeastern India, riverine routes shorten distances to seaports and reduce dependence on the narrow Siliguri Corridor. For Bangladesh, they reinforce its role as a transit and logistics hub. For India, they diversify connectivity options and support decarbonisation goals. Yet these benefits cannot be realised without coordinated dredging, navigational aids, and port modernisation across multiple jurisdictions—none of which can be undertaken unilaterally.

**Designing the Pilot:** A feasible pilot would focus on a high-value corridor linking Kolkata

to major Bangladeshi river ports such as Narayanganj, Khulna, and Mongla, and from there to inland terminals in Assam and Tripura. The corridor would require modern river terminals with container-handling equipment, cold-chain storage, and seamless road-rail integration. A digital freight platform integrating booking, tracking, documentation, and payment would reduce transaction costs and make riverine logistics competitive with road transport. Interoperable customs procedures—building on the India–Bangladesh Protocol on Inland Water Transit and Trade—would be essential to ensure predictable movement of cargo.

**Governance and Environmental Safeguards:** Given the transboundary nature of the river system, governance must be institutionalised rather than ad hoc. A corridor authority—comprising India, Bangladesh, and representatives of the relevant northeastern state governments (as part of the Indian contingent)—would coordinate dredging schedules, safety standards, and operational protocols. Representation from private operators and local communities would ensure commercial viability and social legitimacy. Environmental safeguards would be central: dredging must follow ecological windows to protect fish breeding cycles, and a share of user fees should finance riverbank restoration, wetland conservation, and community-based monitoring. This approach would demonstrate that connectivity and conservation can reinforce each other.

**Critical Feasibility Assessment:** While the corridor is conceptually strong, its feasibility depends on addressing several structural challenges. First, dredging requirements on the Ganga–Brahmaputra system are substantial and recurrent; without sustained financing, navigability cannot be guaranteed year-round. Second, river morphology in Bangladesh is highly dynamic, requiring continuous hydrographic surveys and adaptive navigation systems. Third, customs harmonisation—though improving—still faces bureaucratic delays that could undermine the corridor’s competitiveness relative to road transport. Fourth, private logistics operators will only shift to riverine routes if reliability improves and turnaround times become predictable. Finally, political continuity is essential: riverine cooperation must be insulated from periodic tensions in India–Bangladesh relations.

Despite these challenges, the pilot remains feasible if approached pragmatically. A phased rollout, beginning with a limited set of high-volume commodities and a small number of well-equipped terminals, would allow the corridor to build credibility before scaling. The environmental safeguards proposed are realistic and align with global best practices. Most importantly, the corridor’s economic logic—lower costs, lower emissions, and reduced pressure on road networks—is compelling enough to justify sustained investment.

**Toward a Scalable Regional Model:** If the pilot succeeds, it could serve as a template for expanding riverine connectivity across the eastern subregion. Bhutan’s river valleys, Nepal’s Terai, and Myanmar’s western waterways could eventually be linked into a broader network of climate-friendly transport routes. Such a network would deepen economic interdependence, reduce logistics costs for landlocked regions, and strengthen the resilience of supply chains across South Asia. In this sense, the Ganga–Brahmaputra initiative is not merely a transport project but a strategic investment in regional stability and shared prosperity.



## Managing Domestic Political Economy

No regional strategy can succeed without domestic political buy-in. India must therefore communicate clearly to its citizens the rationale for neighbourhood investments: that modest market openings, targeted lines of credit, and shared infrastructure are investments in national security and long-term prosperity. Transparent reporting on project costs, benefits, and safeguards will reduce suspicions of waste or favouritism. Where projects have distributional impacts, compensatory measures—such as retraining programmes, local development funds, and phased implementation—should be built into project design.

Political leaders must also be prepared to make difficult trade-offs. Short-term electoral incentives may favour protectionism, but strategic patience is required to realise the long-term dividends of regional integration. Civil society and the media should be engaged as partners in monitoring and accountability, not merely as critics, to build a broader constituency for the neighbourhood agenda.

## Risk Assessment and Contingency Planning

Risk assessment must be integral to project design. Political risk, currency volatility, environmental hazards, and implementation capacity should be modelled and stress-tested. Contingency plans—alternative routes, insurance mechanisms, and contractual exit clauses—should be standard features of major projects. Environmental and social impact assessments must be rigorous and independent, with mechanisms for grievance redress that are accessible to affected communities.

External shocks—such as sudden political shifts in partner countries or global financial turbulence—require flexible instruments. The blended finance facility should maintain a contingency tranche to stabilise projects in times of stress, and the Neighbourhood Rapid Response Mechanism should include financial stabilisation tools that can be deployed quickly on request.

## Metrics and Accountability

A credible metrics framework is essential for accountability. Core indicators should include intra-regional trade as a share of GDP, reductions in transport time and cost on key corridors, increases in cross-border electricity trade, numbers of students and professionals participating in exchange programmes, and measures of local economic impact such as employment and household incomes. Independent audits and annual public reporting will sustain political support and enable course corrections.

## Borderlands Policy

India has no coherent land border policy: the dominant framework at the border is national security, which has left an absence of any trans-border economic engagement policy of the kind that China has developed with considerable effect. No state government has a

department dedicated to borderlands or trans-border economic engagement, even as border districts and communities are among the most directly affected by neighbourhood policy outcomes. There is a strong case for establishing border economic zones on the Indian side, mirroring arrangements that have worked successfully in China's border provinces, and for giving state governments a structured role in their design and management.

Many popular perceptions in our neighbouring countries are shaped by what they see is the state of these districts along the border. In most cases, in Bangladesh and Myanmar for example, our side is better developed with relatively good infrastructure compared to the opposite side. However, that is not the case elsewhere. Consider Bhutan. The King of Bhutan (K5) is implementing the Gaylephug (Gaylephu) Mindfulness City (GMC) right along our border with Assam along the Bodo autonomous area. K5 visualises this as a region with a different system of governance from the rest of Bhutan, rather on the pattern of Hongkong and modelled on Singapore, yet drawing upon Buddhist Bhutanese traditions of life and architecture, carbon neutral and ecologically sensitive. The link to South East Asia will be through Assam. Foreign consultants have been recruited. The objective is to retain educated Bhutanese talent in the country rather than seeking employment opportunities abroad, primarily Australia.

The Bhutanese are free to take their own decisions on what they deem best for their country, but have we planned for the impact this can have on our side, in a politically sensitive and ecologically critical region? So far the people of Gaylephu were economically dependent on and looked up to the neighbouring Indian districts. With the GMC changing the economic scenario, if it succeeds (which it will, given the enormous political impetus given to the proposal) this will change perceptions – the Indian districts will look poorly in comparison, an attitude that will permeate across Bhutan with all that it implies. There will be immigration of foreign expertise into Bhutan, including, inevitably, Chinese right next to our border. We need to match the Bhutanese development with imaginative ideas on our side, in tune with the land, ethos and culture of Bodo / neighbouring Assam, to balance the prospects. Can we match the forward looking and sensitively designed Bhutanese initiative, or do we let matters drift as seems to be happening presently? Otherwise we will end up with a disaster, an urban ghetto developing along the border like Jaigaon, with immigration from outside the area (Including from Bangladesh), guaranteeing unmanageability.<sup>109</sup>





## Conclusion: A Strategic Investment in India's Future

Neighbourhood First 2.0 is meant as a clear-eyed strategic investment in India's future. The neighbourhood is the terrain where India's economic ambitions, security interests, and moral responsibilities intersect. A policy that treats the region as an afterthought will invite vacuums that others will fill; a policy that invests in durable economic interdependence, resilient connectivity, and institutionalised cooperation will create a stable foundation for India's own growth and rise.

The work ahead is complex and politically demanding. It requires institutional reform, innovative financing, technical expertise, and patient diplomacy. It also requires humility: India must listen to its neighbours, respect their agency, and design partnerships that deliver mutual benefits. If executed well, Neighbourhood First 2.0 will transform fault lines into bridges, episodic assistance into shared prosperity, and strategic competition into cooperative resilience. The alternative is strategic drift and recurrent crises that will sap India's resources and constrain its ambitions.

The roadmap outlined here is a beginning, not an endpoint. It offers a practical sequence of actions, financing instruments, and institutional reforms that can be implemented within a five-year horizon while laying the groundwork for deeper integration thereafter. The ultimate measure of success will be whether the people who live in the borderlands and littoral communities—farmers, fishermen, traders, students, and municipal officials—experience tangible improvements in their lives. If Neighbourhood First 2.0 can deliver that, it will have succeeded not only as a foreign-policy doctrine but as a national project that secures India's future by investing in the futures of its neighbours.





## Concluding Observations

We close this paper with a set of candid observations.

First, the neighbourhood is not a problem to be solved once and for all. It is a strategic space that will require continuous attention, resources, and political imagination. New Delhi must expect setbacks and plan for them.

Second, influence is not omnipotent. Neighbours have agency. They will make choices based on domestic politics and external options. New Delhi's job is to make India the most attractive and reliable option, not the only option.

Third, practicality trumps symbolism. Grand summits and rhetorical commitments are useful only if they translate into projects that improve lives. The work that matters is technical, often unglamorous, and requires patience.

Fourth, respect for sovereignty is essential. India's assistance and engagement must be offered with humility and on terms that respect the political autonomy of neighbours. The principle of "ask first, act fast, never brag" must guide our first-responder role.

Fifth, we must be honest about trade-offs. Opening markets to neighbours creates political costs at home. Investing in large projects requires fiscal discipline. Engaging with external partners requires careful calibration to avoid being drawn into great-power rivalries.

Sixth, leadership and institutions must work together. Political will must be matched by institutional capacity. The political leadership can set the direction, but the daily work must be done by capable, empowered institutions.

Seventh, India must be prepared to learn and adapt. Policies that worked in one context may fail in another. Continuous evaluation, honest feedback, and willingness to course-correct are essential.

Eighth, deeper engagement with India's periphery is not charity; it is enlightened self-interest. Helping neighbours prosper, utilising shared seas and rivers, and resolving bilateral irritants are investments in India's own security and prosperity.

Ninth, New Delhi must be candid with the public, and explain the costs, the benefits, and the time horizons. Democracy thrives on transparency. For Indian citizens to support a neighbourhood strategy, the government must be frank about what it entails.

Finally, the neighbourhood is a source of strength, not a problem to be contained. If India gets its periphery right, it gains economic resilience, strategic depth, and diplomatic leverage. If it neglects the periphery, it creates vulnerabilities that adversaries can exploit.

Neighbourhood First 2.0 is a disciplined, interlinked set of propositions that require political courage, institutional reform, and operational competence. It asks India to be generous in spirit but strategic in execution; to be a partner, not a patron; to be patient, not passive.

If we can build a neighbourhood where prosperity is shared, where connectivity is resilient, where disputes are resolved through objective and enforceable means, and where India is a



trusted first responder when invited, then we will have transformed a zone of uncertainty into a zone of strength.

That is the task before us. It is practical, it is achievable, and it is in our national interest.

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NH-648, Haraluru, Near Bangalore International  
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