



New Directions in India Neighbourhood Diplomacy

This editorial is based on "[Nepal's convulsions, lessons for India: Rethinking South Asian integration](#)" which was published in The Business Standard on 16/09/2025. The article brings into picture the youth-driven discontent in Nepal and Bangladesh amid elitist governance, urging India to adopt people-centric, sustained regional diplomacy beyond its aspirational "Neighbourhood First" policy.

For Prelims: [Belt and Road Initiative](#), [Rohingya refugee crisis](#), [China-Pakistan Economic Corridor](#), [Act East](#), [India-Myanmar-Thailand Trilateral Highway Project](#), [Turkmenistan-Afghanistan-Pakistan-India \(TAPI\) Pipeline](#), [SAARC](#), [BIMSTEC](#)

For Mains: Major Challenges Confronting India's Neighbourhood, Implications of Rising Instability on India.

Recent political upheavals in **Nepal and Bangladesh** share a common thread, frustrated, educated youth **lacking economic opportunities despite being digitally connected and globally aware**. These democracies have **drifted toward oligarchy**, with political elites becoming increasingly disconnected from popular aspirations while enriching themselves through office. India's "**Neighbourhood First**" policy remains largely aspirational, hampered by episodic political engagement and inadequate diplomatic resources. The subcontinent's shared geopolitical space demands both **sustained bilateral relationships and a comprehensive regional perspective** to address these interconnected challenges effectively.



What Major Challenges Confront India's Neighbourhood?

- **Economic Vulnerability and Debt Traps:** Several of India's neighbors are grappling with severe economic crises, exacerbated by unsustainable debt burdens, which creates regional instability.
 - These economic weaknesses are often exploited by external powers, leading to a loss of strategic autonomy for the nations involved.
 - For instance, [Sri Lanka](#), after its debilitating economic crisis in 2022, is showing signs of stabilization. However, the World Bank highlights that poverty remains elevated.
 - Also, socio-economic disparities, such as income inequality and uneven development, fuel political unrest, as seen in Nepal, and can drive radicalization, as in Bangladesh.
- **Pervasive Political Instability:** Chronic political instability in neighboring countries presents a persistent challenge, often leading to governance vacuums, internal conflicts, and a climate of uncertainty.
 - The lack of stable governance hinders long-term bilateral engagements and undermines efforts towards regional integration and cooperation on critical issues.
 - [Bangladesh](#), for example, has been in a state of political unrest recently, marked by protests, contentious elections, and a deeply polarized political environment.
 - This ongoing instability hampers consistent policy-making and creates an

unpredictable security situation on India's eastern border.

- **Resurgence of Radicalism in Afghanistan: The Taliban's control over Afghanistan has created a complex security and humanitarian crisis with significant regional ramifications.**
 - The regime's policies, particularly towards women and minorities, have led to international isolation, while the country remains a potential safe haven for transnational terrorist groups.
 - This situation poses a direct threat to regional stability and has compelled neighboring countries to reassess their security and diplomatic postures.
 - The **UN reports a dire humanitarian situation, with a significant portion of the population requiring assistance**, alongside ongoing human rights concerns, especially the systematic erosion of women's rights.
- **China's Expanding Strategic Footprint: China's growing economic, political, and military influence in South Asia presents a formidable strategic challenge to India.**
 - Through its [Belt and Road Initiative \(BRI\)](#), China has significantly increased its presence in the region, often through large-scale infrastructure projects that create economic dependencies.
 - A key example is the [China-Pakistan Economic Corridor \(CPEC\)](#), a flagship BRI project with investments exceeding \$60 billion.
 - Similarly, China's substantial infrastructure investments and loans to countries like **Sri Lanka and the Maldives** have raised concerns about **debt-trap diplomacy and its long-term strategic implications for the Indian Ocean region**.
- **The Protracted Rohingya Refugee Crisis: The [Rohingya refugee crisis](#) represents a significant humanitarian and security challenge, particularly for Bangladesh, which hosts over a million refugees.**
 - The crisis strains resources, creates social tensions, and has the potential for regional destabilization.
 - The lack of a durable solution and the ongoing instability in Myanmar's Rakhine State prolong the suffering of the Rohingya and pose a long-term challenge to regional stability.
- **Escalating Climate Change and Environmental Degradation:** South Asia is one of the world's most vulnerable regions to the impacts of [climate change](#), including rising sea levels, [extreme weather events](#), and water scarcity.
 - These environmental challenges threaten the livelihoods of millions, exacerbate resource competition, and can lead to internal and cross-border displacement.
 - The transboundary nature of these issues necessitates regional cooperation, which is often hampered by political tensions.
 - Changing weather patterns are expected to **directly impact over 800 million people by 2050** and will continue to burden South Asian countries' economies. ([World Bank](#))
 - Recent data indicates an **increase in the frequency and intensity of cyclones in the Arabian Sea and severe heatwaves across the subcontinent**, underscoring the urgent need for climate adaptation and resilience measures.

How does Rising Instability in the Neighbourhood Affect India?

- **Heightened National Security Threats: Political and economic turmoil in neighboring countries directly amplifies India's national security threats by creating ungoverned spaces conducive to terrorism and extremism.**
 - This instability can lead to an increase in cross-border infiltration and the radicalization of populations, forcing India to enhance its surveillance and military preparedness along its frontiers.
 - The porous nature of these borders makes it challenging to completely seal them off from such spillover effects, as witnessed in the recent [Pahalgam terror attack](#).
- **Impediments to Economic Integration and Growth:** Regional instability acts as a significant barrier to India's economic aspirations, particularly its ["Act East"](#) and ["Neighbourhood First" policies](#), which envision greater regional connectivity and trade.
 - Political volatility, trade barriers, and lack of reliable infrastructure in neighboring nations stymie the potential for a thriving South Asian economic bloc.

- This directly impacts India's ability to leverage its economic prowess for regional leadership and mutual prosperity.
 - For instance, as **Nepal's largest trading partner**, India's trade worth **\$8.5 billion annually** is disrupted by recent instability.
- South Asia's intra-regional trade within **SAARC** is about **\$23 billion**, significantly below its estimated potential of **\$67 billion**. This stark gap underscores the untapped opportunities for deeper economic integration in the region.
 - This is in stark contrast to **ASEAN**, where intra-regional trade stands at around **25%**, underscoring the economic cost of regional instability.
- **Increased Refugee Influx and Demographic Pressures: Political persecution, civil strife, and economic collapse in neighboring countries often trigger large-scale refugee influxes into India, placing immense strain on its resources and creating complex socio-political challenges.**
 - Managing these refugee populations involves significant financial expenditure on relief and rehabilitation, and can lead to demographic shifts and social tensions in border states.
 - Following the **2021 military coup in Myanmar**, India has witnessed a steady influx of refugees into its northeastern states, particularly Mizoram and Manipur.
 - As of 2023, **India has been home to more than 78,731 refugees from Myanmar since the military coup**, creating a humanitarian and administrative challenge for the state governments.
- **Erosion of Diplomatic Leverage and Regional Influence: The growing presence of extra-regional powers, notably China, in an unstable South Asian landscape, directly challenges India's traditional sphere of influence.**
 - As neighboring countries facing internal crises seek external support, they often become more susceptible to the influence of powers offering substantial economic and military assistance.
 - China's extensive investments in projects like **Hambantota Port in Sri Lanka**, **Gwadar Port in Pakistan** and **Chattogram (Chittagong) Port (Bangladesh)**, deepening ties with **Sri Lanka** are prime examples.
 - China has lent **USD 48.1 billion to countries in India's neighbourhood (World Bank)**, illustrating its expanding economic and strategic footprint in India's immediate neighborhood.
- **Disruption of Energy Security and Connectivity Projects: India's energy security is intrinsically linked to the stability of its neighborhood, as several crucial transnational energy pipelines and connectivity projects transit through these volatile regions.**
 - Political instability, conflicts, and governance issues in neighboring countries can lead to significant delays, cost overruns, or even the abandonment of vital infrastructure projects.
 - The **Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline**, a project of immense strategic importance for India's energy security, has been stalled for years due to the dire security situation in Afghanistan.
 - Similarly, projects aimed at enhancing connectivity Southeast Asia, such as the **India-Myanmar-Thailand Trilateral Highway Project**, have faced significant hurdles due to instability in Myanmar.
- **Rise in Illicit Trade and Transnational Crime: Instability and weak governance in neighboring countries create a permissive environment for the proliferation of transnational criminal networks involved in drug trafficking, arms smuggling, and human trafficking.**
 - These illicit activities not only pose a direct threat to India's internal security but also fuel a shadow economy that undermines legitimate economic activity.
 - The proceeds from these criminal enterprises are often used to finance terrorism and other destabilizing activities.
 - The **Death (Golden) Triangle region**, bordering **India's northeast**, remains a major hub for narcotics production and trafficking.
 - According to the **United Nations Office on Drugs and Crime (UNODC)**, there has been a significant surge in the **production of synthetic drugs in this region**, with India being a major transit and destination country.



- **Diversion of Resources and Impact on Development:** The persistent instability in its neighborhood compels India to allocate a significant portion of its national resources towards defense and internal security.
 - This diversion of funds from developmental sectors such as education, health, and infrastructure has long-term opportunity costs for India's socio-economic progress.
 - The need to manage volatile borders and counter external threats invariably shapes national budgetary priorities.
 - **India's defense budget for the Financial Year (FY) 2025-26** was set at approximately **₹6.81 lakh crore**, constituting a significant portion of its total expenditure.

How can India Enhance its Engagement and Cooperation with Neighbouring Countries?

- **Institutionalized Regional Mechanisms:** India should push for revitalizing dormant **regional groupings** like **SAARC** through smaller sub-regional formats such as **BIMSTEC**.
 - By institutionalizing annual summits, ministerial dialogues, and permanent secretariats, India can create predictability in regional diplomacy.
 - This will **reduce ad-hocism in cooperation and help build long-term trust**. A structured mechanism also ensures continuity even during political fluctuations in member states.
 - Such sustained frameworks strengthen **India's image as a stable anchor in the region**.
- **Connectivity as a Trust-Building Tool:** Rather than only investing in large infrastructure, India can prioritize seamless **multimodal corridors that integrate roads, rail, waterways, and digital highways**.
 - Simplifying customs, harmonizing standards, and ensuring community participation at border regions would make connectivity people-centric.
 - This **transforms cross-border projects from strategic rhetoric into everyday enablers** of livelihood.
 - By reducing logistical bottlenecks, India can emerge as the natural hub for South Asia. Connectivity then becomes not just economic but also a trust multiplier.
- **Joint Climate and Disaster Management Platforms:** With climate threats intensifying, India can spearhead a **South Asian Climate Action Plan** in the lines of the dormant SAARC Action

Plan on the Environment.

- This would pool satellite data, weather forecasting systems, and joint rapid-response units for floods, cyclones, and earthquakes.
 - India can leverage its **Indian Remote Sensing (IRS) satellites** for regional data sharing, supporting joint climate monitoring, disaster management, and resource planning.
- Cooperative disaster management builds goodwill beyond politics because it directly impacts vulnerable communities.
 - **Such collaboration can extend into renewable energy integration** across grids for energy security.
 - Climate cooperation positions India as a benevolent leader in a universally shared challenge.

▪ **Regional Health Security Framework:** Post-pandemic, India can champion a collective mechanism for regional disease surveillance and health supply chain resilience.

- Establishing **common vaccine storage hubs, digital health platforms, and training of paramedics** across borders would strengthen capacities of smaller neighbours.
- **Health diplomacy also softens traditional security suspicions** and builds human-centric ties.
 - A predictable health partnership would institutionalize India's reputation as the region's first responder. This framework could expand into **Ayurveda and traditional medicine exchanges as a soft-power tool**.

▪ **Defence and Security Confidence Building:** Instead of only hard military postures, India can adopt graduated confidence-building measures with neighbours (excluding Pakistan) through its **MAHASAGAR Vision**.

- These include **joint border patrols, coordinated river policing, information sharing on terrorism, and maritime domain awareness**.
- Conducting **low-intensity joint exercises like HADR (Humanitarian Assistance and Disaster Relief)** avoids sensitivities while fostering operational trust.
 - Security cooperation rooted in mutual benefit reduces suspicion and creates habits of collaboration.

▪ **Cultural and Knowledge Diplomacy:** India must transform its historical and cultural linkages into institutionalized knowledge networks. Establishing regional universities, cross-border cultural festivals, and **scholarships tied to local heritage promotes people-to-people affinity**.

- Digital platforms showcasing shared epics, languages, and crafts can counter divisive narratives.
- Unlike hard projects, **cultural diplomacy creates intangible yet enduring bonds**. It ensures that political disagreements do not erode civilizational closeness.
 - In times of **yuddha, India can promote Buddha** by emphasizing non-violence, dialogue, and compassion as guiding principles to resolve conflicts and build regional trust.

▪ **Smart Trade Corridors and Value Chains:** Instead of only pushing for tariff reductions, India should focus on integrated value chain **creation in textiles, agriculture, and pharmaceuticals**.

- Special economic zones across borders can serve as joint production hubs, reducing dependence on extra-regional powers.
- **Digital customs and fintech solutions** will ensure transparency and curb illicit trade. Such cooperative value chains make neighbours stakeholders in India's growth.

- Trade corridors thus become strategic connectors rather than sources of asymmetry.

▪ **Hydro and Hydropower Diplomacy:** India should pursue proactive water and hydropower diplomacy with its neighbours.

- This includes water-sharing and river management dialogues with Bangladesh, Nepal, and China to ensure equitable and sustainable use of transboundary rivers, alongside joint river commissions, flood warning systems, and cooperative irrigation projects to build trust.
- Simultaneously, India can deepen hydropower collaboration with Bhutan through joint infrastructure, power trade agreements, and capacity-building initiatives, strengthening energy security, creating mutual economic dependence, and fostering long-term strategic goodwill.

- **Digital Public Goods Export:** India's success with **Aadhaar, UPI, and CoWIN** can be scaled to create a regional digital ecosystem.
 - By sharing open-source platforms, capacity building, and cyber-security frameworks, India can help neighbours leapfrog in governance technology.
 - This builds dependency on Indian digital infrastructure, reducing external technological dominance.
 - **Regional fintech integration** can also promote cross-border remittances and inclusion. **Afterall, Digital diplomacy** will define the new frontier of neighbourhood engagement.

Conclusion:

India's neighbourhood policy stands at a critical juncture where episodic engagement must **evolve into sustained, multidimensional partnerships rooted in trust, inclusivity, and resilience**. The path forward demands both pragmatism and empathy, ensuring India emerges not as a hegemon but as an enabler of shared prosperity. ***"In South Asia, India's strength will not be measured by its size, but by its ability to convert proximity into partnership and geography into goodwill."***

Drishti Mains Question:

"Instability in India's neighbourhood poses both immediate security risks and long-term strategic challenges." Discuss with reference to recent political and economic developments in South Asia.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims:

Elephant Pass, sometimes seen in the news, is mentioned in the context of the affairs of which one of the following? (2009)

- (a) Bangladesh
- (b) India
- (c) Nepal
- (d) Sri Lanka

Ans: (d)

Q. Consider the following statements: (2020)

1. The value of Indo-Sri Lanka trade has consistently increased in the last decade.
2. "Textile and textile articles" constitute an important item of trade between India and Bangladesh.
3. In the last five years, Nepal has been the largest trading partner of India in South Asia.

Which of the statements given above is/are correct?

- (a) 1 and 2 only
- (b) 2 only
- (c) 3 only
- (d) 1, 2 and 3

Ans: (b)

Mains:

Q. "China is using its economic relations and positive trade surplus as tools to develop potential military power status in Asia". In the light of this statement, discuss its impact on India as her neighbour. (2017)

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