



India in South Asia: Quest for regional dominance in a multipolar world

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Ankita Barthwal and Anna Eriksen Rio

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Executive summary

This report analyses India's role in South Asia at a time of heightened geopolitical uncertainty and domestic volatility across the region. As India's economic and strategic weight grows, its immediate neighbourhood has become the most consequential arena in which the opportunities and constraints of its rise are revealed.

Three cross-cutting dynamics shape our analyses of the current geopolitical environment in South Asia.

First, economic relations form an increasingly important pillar of India's regional engagement. India is the dominant trading partner, transit provider, energy supplier, and source of development finance for most South Asian countries. Investments in railways, ports, power transmission, pipelines, and hydropower have expanded connectivity and tied neighbouring economies more closely to India's growth trajectory. Despite this, intra-regional trade remains among the lowest in the world, and economic asymmetries generate persistent political resentment. The cases of Nepal, Bangladesh, Sri Lanka, and Bhutan illustrate how dependence on Indian markets and infrastructure can coexist with efforts to diversify economic partnerships, particularly toward China. While economic interdependence has generally proven resilient, it remains vulnerable to security concerns or domestic politics, as seen in stalled connectivity projects and retaliatory trade measures.

Security dynamics constitute the second core dimension. South Asia is one of the world's most militarised regions, shaped by enduring India–Pakistan hostility and an expanding Chinese footprint across the subcontinent and the Indian Ocean. India's security concerns increasingly extend beyond its western border to its eastern flank and maritime periphery. Chinese investments in ports, airfields, and dual-use infrastructure, alongside growing defence cooperation with India's neighbours, give a sense of strategic encirclement around India. India has responded by strengthening border infrastructure, expanding naval presence, deepening defence partnerships, and engaging in multilateral frameworks such as the Quad, while remaining wary of formal alliances. The Indian Ocean Region has emerged as a critical theatre where economic and security interests are inseparable, with maritime trade routes, energy flows, and crisis response capabilities shaping India's regional posture.

Domestic politics form the third and often underappreciated pillar shaping regional relations. Dense people-to-people ties, migration, shared cultural spaces, and ethnic linkages mean that domestic

developments in neighbouring countries routinely spill over into bilateral relations. Political transitions in Bangladesh, Nepal, Sri Lanka, and the Maldives have directly altered their foreign policy orientations toward India. At the same time, domestic political incentives within India—particularly rising nationalism and electoral mobilisation around migration and security—constrain diplomatic flexibility. Episodes such as the Madhesi unrest in Nepal, anti-India sentiment in Bangladesh, and “India Out” campaigns in the Maldives demonstrate how internal politics can rapidly erode carefully built economic and security cooperation. In response, India has increasingly favoured restraint and engagement over overt intervention, reflecting lessons drawn from earlier coercive approaches.

Across all three dimensions, a consistent pattern emerges: smaller South Asian states are actively hedging between India, China, and other external actors. This mirrors India’s own strategy of strategic multi-alignment, rooted in historical experience and reinforced by an increasingly fragmented global order. China’s growing presence has narrowed India’s room for manoeuvre, but it has not displaced India’s centrality in the region. Instead, South Asia is becoming a space of negotiated influence rather than exclusive dominance.

Introduction

Amid global uncertainty, India's rising status has become increasingly consequential. Some commentaries have described India as a swing power,¹ others think of India as an emerging major power in its own right,² while more cautious assessments highlight the persistent developmental challenges that still remain.³ These differing views highlight the absence of a single, consistent perspective on India's growth and geopolitical trajectory, but they also underscore the increasing attention being paid to India's position as a key global player.

Much of what can be said about India's rise — its specific challenges, opportunities, and strategic choices — is reflected in its position in the immediate neighbourhood. In other words, South Asia serves as a representative microcosm of the broader opportunities and constraints shaping India's trajectory as a nation on the rise.

The South Asian region, comprising India, along with Bangladesh, Bhutan, Myanmar, Nepal, Pakistan, and Sri Lanka, can be characterized as one of the most dynamic regions in the world today. Home to nearly 23% of the world population, it is the fastest growing regional economy in the world. It is also among the youngest regions of the world, with the average age in countries ranging from 22 years (in Pakistan) to 33 years (in Sri Lanka).

These broad statistics, however, mask substantial internal divergence. While India is the fastest growing large economy in the world,⁴ the economic outlook of other countries is more mixed (Figure 1). Furthermore, several countries in the region have also undergone internal turmoil, resulting in regime change: Sri Lanka in 2022 underwent massive protests against the alleged corruption of the Rajapaksha

¹Kupchan, C. (2023). 6 Swing States Will Decide the Future of Geopolitics. Available at: <https://foreignpolicy.com/2023/06/06/geopolitics-global-south-middle-powers-swing-states-india-brazil-turkey-indonesia-saudi-arabia-south-africa/>.

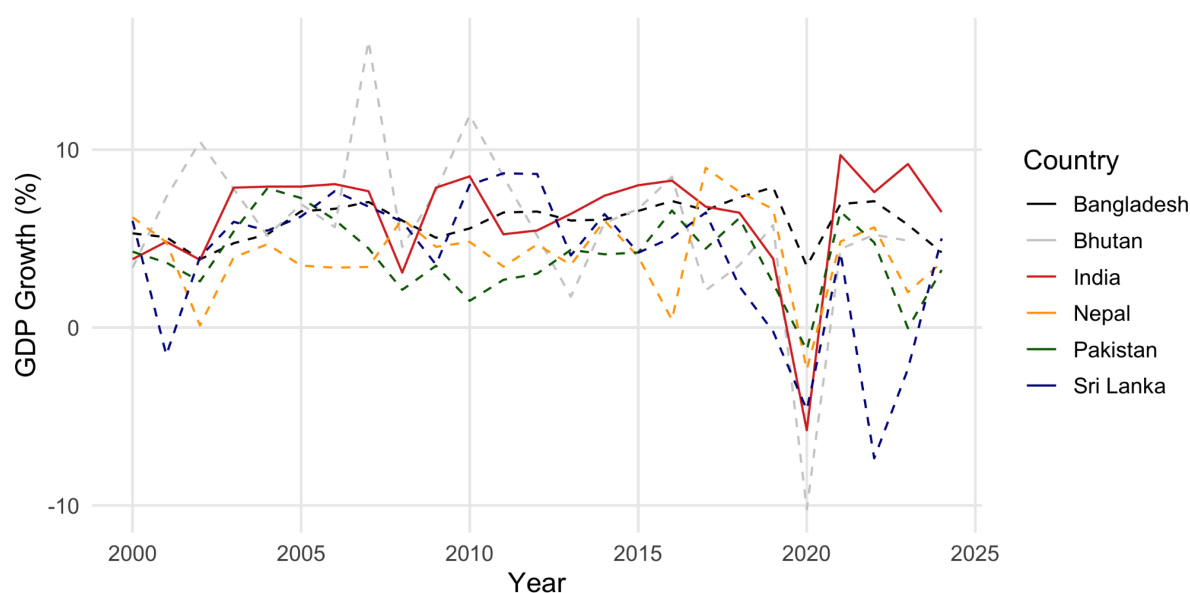
²Agarwal, R. (2025). India now 'major power' in Asia Power Index 2025, behind only US and China. Available at: https://www.business-standard.com/india-news/asia-power-index-2025-india-ranking-china-us-economy-diplomatic-ties-125112800651_1.html.

³Khan, M. (2025) 'The 'but' in the India story', *The Diplomat*, [online], available at: <https://thediplomat.com/2025/06/the-but-in-the-india-story/> (accessed December 2025).

⁴*The Times of India* (2025) 'India GDP growth Q2 FY26: live updates on second-quarter economic data', [online], available at: <https://timesofindia.indiatimes.com/business/india-business/india-gdp-growth-q2-fy26-live-updates-second-quarter-indian-economy-growth-gross-domestic-product-data-donald-trump-tariffs/liveblog/125634422.cms> (accessed December 2025).

government, which ultimately led to a regime change and ousting of the political dynasty after 15 years in power.⁵ This was followed by country-wide agitation in Pakistan, where jailed prime minister Imran Khan's supporters took to violent protests against the military.⁶ In Bangladesh, Sheikh Hasina was forced to flee the country in 2024, after the Awami League-led protestors stormed the national capital.⁷ More recently, in Nepal, a social media ban imposed in 2025 brought out several young protestors and caused the government to fall, leading to the 14th change in government since it became an electoral democracy in 2008.⁸

Figure 1: GDP growth in South Asia, since 2000



Source: World Bank Data, accessed from <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>

⁵ Deutsche Welle (2024) 'Sri Lanka declares state of emergency after president flees', *DW*, [online], available at: <https://www.dw.com/en/sri-lanka-declares-state-of-emergency-after-president-flees/a-62453705> (accessed November 2025).

⁶ Al Jazeera (2022) 'Clashes in Pakistan as ex-PM Imran Khan begins march to capital', *Al Jazeera*, [online], available at: <https://www.aljazeera.com/news/2022/5/25/clashes-in-pakistan-as-ex-pm-imran-khan-begins-march-to-capital> (accessed November 2025)

⁷ BBC (2025) 'Euphoria in Bangladesh after PM Sheikh Hasina flees country', *BBC News*, [online], available at: <https://www.bbc.com/news/articles/clywww69p2vo> (accessed December 2025).

⁸ The Economist (2025) 'Huge demonstrations bring down Nepal's government', *The Economist*, [online], available at: <https://www.economist.com/asia/2025/09/09/huge-demonstrations-bring-down-nepals-government> (accessed November 2025).

These events suggest that South Asia is very much a region in flux: While young, developing economies create potential for growth, political upheavals jeopardise national and regional stability. India's role in the region must be seen in light of this flux. At different times, the bilateral relationship between India and its individual neighbours is subject to a variety of pressures, owing to **economic** interdependencies, internal and international **security** developments, and **domestic political** dynamics. Together, these themes capture the main factors that shape geopolitical relations within the region and inform the analyses that follows.

The South Asian countries – including India – can collectively be described as developing economies. The World Bank classification categorizes these countries as lower middle income, though there is substantial variation between countries, especially on the question of human development indicators. Sri Lanka, for instance, has relatively high HDI ranking compared to other countries, even though in income terms it is also in the same category. In recent years, Bangladesh and India have made sharp improvements in several of their human development parameters. Nevertheless, high population pressures along with high inequality means that despite economic growth, the South Asia region is among the world's most economically challenged regions.

Deepening economic integration between countries is therefore an avenue that can be exploited for spurring economic growth. Intra-regional trade in South Asia, however, is strikingly low, accounting for only around 7% of the region's total trade volume.⁹ This stands in sharp contrast to Europe's 70% and Sub-Saharan Africa's 20%, underscoring both the barriers to trade within South Asia and the substantial untapped potential for integration. As the largest country and the most dominant economic power, India's role in spurring trade-led economic integration is big. This realization is also increasingly reflected in New Delhi's strategy in its own neighbourhood. Much of this strategy received a fillip with the current government's stated policy objective under "Neighbourhood First."

This report uses the economic lens to chart out the main new bilateral developments between India and its neighbours, focusing specifically on how these impact the broader strategic dynamics in the region.

⁹ World Bank (n.d.) 'Detailed Regional Trade Analysis', World Integrated Trade Solution (WITS), [online], available at: <https://wits.worldbank.org/visualization/detailed-regional-trade-analysis-visualization.html> (accessed September 2025)

Beyond economy and trade, the cross-national security challenge is a significant factor that impacts relations between countries. The South Asian region is one of the most heavily militarized zones in the world. The heavy military presence along the India-Pakistan border is well-recognized, but the India-Bangladesh border is also witnessing heightened security tensions. The Indian side has made concerted efforts to fence the border, and some have noted the increasing presence of armed forces in the region.¹⁰ To the south, the Indian ocean is also seeing more naval exercises, not just by India but also in partnership with other countries such as the UK and the US.¹¹

South Asia therefore appears to be emerging as a significant theatre of great power competition between the United States and China. United States interests in the region have a long geopolitical history, beginning with the efforts to counter Soviet influence during the Cold War of the 20th century. With China's ascendance, the region appears again to be in the crosshairs of great power competition, particularly for instance in the case of Pakistan, and the larger Indian Ocean Region (IOR). This, coinciding with India's own rise and the widening power gap between itself and its neighbours means that there is currently a trilateral competition to enhance regional dominance, between China, India, and the United States. Smaller nations in the region use this to balance India with China and vice versa, leading to both cooperation and competition. Security concerns may thus supersede any short-term trade concerns. This report uses the security lens to trace key bilateral events in recent years and how they may impact the overall security dynamic of the region.

India's "backyard" is not just about the economic opportunism or security challenges of the current moment, but also of deeper historical, religious, and cultural ties between India and the countries in the region. Historically, India's ambition to emerge as a global leader has been rooted in its sense of primacy and dominance in its own region. Indian policymakers have envisioned the South Asian region as a neighbourhood for close co-operation, a region with unique (and shared) cultural characteristics, and even at times a vast geographical land of Hindu civilization.¹² Across these different conceptions, there has remained a largely stable belief that India has the exclusive claim, among global powers, of

¹⁰ Deutsche Welle (2023) 'Why is India upping forces at chokepoint with Bangladesh?', DW, [online], available at: <https://www.dw.com/en/why-is-india-upping-forces-at-chokepoint-with-bangladesh/a-74745741> (accessed November 2025).

¹¹ UK Government (2025) 'UK Carrier Strike Group strengthens partnership with India', GOV.UK, [online], available at: <https://www.gov.uk/government/news/uk-carrier-strike-group-strengthens-partnership-with-india> (accessed September 2025).

¹² Atul Mishra. "From Backyard to Expanse: Theorizing India's Approaches to South Asia". *India's World*. March/April 2025. Available at: <https://indiasworld.in/> (accessed October 2025).

leadership in this region, which should not be contested by the presence of extra-regional powers.¹³ This belief is enhanced by cross-boundary people-to-people relations, which have at different times both constrained India's influence and contributed to its popularity among its neighbours. Thus, for instance, the presence of a sizable Hindu community in Bangladesh, of Madeshis in southern Nepal, and Tamil-speaking populations in northern Sri Lanka have in the past compelled a direct involvement by the Indian state, with the aim of influencing internal politics of these countries. Such involvement has not always yielded advantageous results. These lessons from the past, as one analyst pointed out,¹⁴ have shown New Delhi the value of using cooperation over overt coercion. In recent years, such cooperation has been signalled through the increasing use of cultural diplomacy, along with state-backed investment opportunities from private Indian firms.

The appeal of greater regional cooperation is, however, complicated by domestic political dynamics within individual states. In India, rising religious polarization and increasing majoritarianism constrain engagement with Pakistan and Bangladesh, as they create political incentives for the government in New Delhi to avoid appearing lenient on issues central to its Hindu nationalist support base. In Bangladesh, the death sentence against Sheikh Hasina has worsened the already tense relations between Dhaka and New Delhi, and even in Nepal, the domestic mood turned against India, coinciding with greater pro-China posturing by the communist leadership in the country. In these instances, leaders may shape domestic opinion but also find themselves constrained by it. Domestic politics can thus be a critical, sometimes overlooked, factor in understanding geopolitical relations in South Asia.

Relevance for Norway and EU countries

As South Asia heads for new alignments and re-alignments in the face of the changing geopolitics, it also creates opportunities for international players in the region. The economic integration, on the back of increasing trade ties with India, has the potential to unleash powerful economic forces and capture the pent-up demand from a young, upwardly mobile population. European countries, in particular, have

¹³ C. Raja Mohan. "India's Geopolitics: The Legacy of the British Raj". *India's World*. March/April 2025. Available at: <https://indiasworld.in/> (accessed October 2025).

¹⁴ Interviews with policy-experts and diplomats took place from 1st to 10th October 2026, held in different locations in Delhi, India.

responded to this opportunity with enthusiasm. Several new MoUs have been signed in recent years,¹⁵ focusing particularly in the clean energy sector. Norwegian funds such as Norfund have also invested close to NOK 1 billion in the power sector in India.¹⁶

Increasingly however, some of these investments are also headed to Bhutan and Nepal, made possible through India-funded infrastructure projects in these countries. The Bangladesh, Bhutan, India, Nepal (BBIN) regional agreement towards infrastructure development for energy sharing has seen renewed enthusiasm from partner countries in recent years. Furthermore, the trade deal on the horizon between the EU and India is another opportunity that could fuel economic growth not just for India, but through it in other countries as well. The Nordic trade deal has already been in place, which has been described as ‘one of the most important trade deals that Norway has ever entered’ by prime minister Jonas Gahr Støre.¹⁷

In the security domain, India and the European Union have expanded their cooperation in recent years. Most notably, in October 2025 they conducted their first joint counterterrorism exercise focused on drone threats, a significant step in operational collaboration. Such initiatives reflect a growing recognition on both sides of the value of closer security ties, even as their positions diverge on issues such as relations with Russia.

By focussing on the three core themes of economic relations, security situation, and domestic politics, this report aims to encapsulate the regional opportunities and challenges that will be of interest to India watchers in Europe. We draw on a review of publicly available sources – including government data and statements, news reporting, and policy analysis from research institutions – as well as interviews conducted in New Delhi in October 2025. Interviews included officials in the Ministry of External Affairs, policy experts at leading think tanks, and foreign diplomats stationed in Delhi, and give important insights regarding the empirical facts presented here. The report is structured as follows: The chapters on Bhutan, Nepal and Bangladesh are organized around the three key themes reported above. The

¹⁵ LiveMint (2025) ‘India, EU agree to expand collaboration in high-technology, green energy and trade sectors’, LiveMint, [online], available at: <https://www.livemint.com/news/india/india-eu-agree-to-expand-collaboration-in-high-technology-green-energy-and-trade-sectors-11740756098269.html> (accessed December 2025)

¹⁶ Norfund (2025) ‘Norfund and KLP invest NOK 1.1 billion in power grid development in India’, Norfund, [online], available at: <https://www.norfund.no/norfund-and-klp-invest-nok-1-1-billion-in-power-grid-development-in-india/> (accessed December 2025).

¹⁷ Press Release (2024) ‘Norway enters into historic trade deal with India’, Norway in India [online], available at: <https://www.norway.no/en/india/norway-india/news-and-events/norway-enters-into-historic-trade-deal-with-india/>

chapter on Pakistan is organised mostly around security, as there exists no formal trade relationship between these two countries. The Indian Ocean chapter addresses the regional integration of the island nations with India and focuses on examining India's engagement with key maritime neighbours – particularly the Maldives and Sri Lanka – as well as the multilateral frameworks that have become increasingly important in the maritime domain.

A note on strategic multi-alignment

Any discussion of India's foreign policy, particularly in Western policy circles, inevitably raises the question of alignment. India's reluctance to fully situate itself with the West, most visible in its continued engagement with Russia, has been a cause of vocal scepticism, particularly in Europe. Indian policymakers, on the other hand, have maintained the policy of strategic multi-alignment, irrespective of the party that governs from New Delhi. This has produced an enduring tension: even as India–Europe relations deepen through trade negotiations and sectoral cooperation, doubts persist about India's broader strategic orientation. There is therefore a need to better understand the motivations behind strategic multi-alignment, which this report argues should be seen as a coherent doctrine rather than an ad-hoc response to shifting global conditions.

The roots of this approach are historically deep. While non-alignment¹⁸ is often associated with the Cold War and India's leadership in the Non-Aligned Movement, its intellectual origins predate independence.¹⁹ Already in 1947, leaders across Asia were considering what a plausible alternative to a European world order may look like, motivated by the need to chart a separate narrative based on non-Western values.²⁰ Non-alignment was not only seen as an effective way of avoiding being pulled into great power competition, but a coherent ideological response rooted in anti-imperialism and decolonization.²¹

The political economy of 20th century India furthered Indian policymakers' belief in non-alignment. In particular, leaders like Nehru were committed to the India of import substitution led growth for the Indian industries. The early decades after independence in 1947 were marked by state protection and

¹⁸ Non-alignment was the term often used in the pre-2014 context. "Strategic multi-alignment" encapsulates the same idea and has now become the more standard terminology used by Indian policymakers.

¹⁹ India gained independence from British rule on 15th August 1947. On 26th January 1950, the nation officially adopted its new constitution, resulting in the birth of the Republic of India.

²⁰ Abraham, I. (2008) 'From Bandung to NAM: Non-Alignment and Indian Foreign Policy, 1947–65', *Commonwealth & Comparative Politics*, 46(2), pp. 195–219, available at: <https://doi.org/10.1080/14662040801990280> (accessed December 2025).

²¹ Nayudu, S. K. (2025) *The Nehru Years: An International History of Indian Non-Alignment*, 1st ed, Cambridge: Cambridge University Press, available at: <https://doi.org/10.1017/9781009579063> (accessed December 2025).

patronage to the fledgling industrial sector, with heavy tariffs and trade restrictions of foreign goods. Although this model produced inefficiencies and entrenched patronage networks,²² it also embedded an enduring belief in economic self-reliance. This legacy continues to inform contemporary initiatives such as “Make in India” and persistent resistance to trade liberalisation in politically sensitive sectors like agriculture, where food security remains a core concern.²³

Early security experiences further reinforced India’s scepticism toward rigid alignment with a single camp. In particular, the 1962 India–China war and the 1971 India-Pakistan war (which led to the creation of Bangladesh) occupy an important place in this narrative: Some policymakers and commentators see the limited Western support for India’s positions as a sign that Western partners may be unreliable in moments when India most needs external backing.²⁴ Subsequent decades deepened this perception due to sustained US military assistance to Pakistan, even as Indian policymakers continued to raise this issue publicly.²⁵ These experiences have emboldened a belief that external security guarantees are unreliable, reinforcing the preference for strategic autonomy.

Beyond economics and security, a third factor that is often underappreciated in shaping India’s strategic multi-alignment is its self-perception. While area experts may associate terms such as *vishwa guru* (world leader)—used by Prime Minister Narendra Modi to signal India’s aspiration to play a leading global role²⁶—with the current political moment, the underlying idea has deep and broadly bipartisan roots. Long before independence, figures such as Jawaharlal Nehru, Mahatma Gandhi, and Rabindranath Tagore articulated visions of India as a civilizational actor with something distinctive to contribute to global political and moral thought, often positioning it as an alternative rather than a subordinate to Western frameworks.²⁷ Although these ideas differ in important ways from the more assertive

²² Arvind Panagariya, *The Nehru-Era Economic History and Thought & Their Lasting Impact*, 1st ed. (Oxford University Press New York, NY, 2024), <https://doi.org/10.1093/9780197774649.001.0001>.

²³ Reuters (2025) ‘Modi Urges Indians to Get Rid of Foreign Products amid Strained US Ties’, *Reuters*, 21 September, [online], available at: <https://www.reuters.com/world/india/modi-urges-indians-get-rid-foreign-products-amid-strained-us-ties-2025-09-21/> (accessed December 2025).

²⁴ Alikhan, A. (2016) ‘In 1962, India and US Were “That” Close to Becoming Allies in a War against China’, *Scroll.in*, [online], available at: <http://scroll.in/article/802276/in-1962-india-and-us-were-that-close-to-becoming-allies-in-a-war-against-china> (accessed December 2025).

²⁵ Bhattacharya, D. (2025) ‘With 1971 War Ammo, Indian Army Fires Back at US over Russian Oil Hypocrisy’, *India Today*, [online], available at: <https://www.indiatoday.in/india/story/indian-army-us-arms-pakistan-1971-trump-russian-oil-tariff-threats-2766510-2025-08-05> (accessed December 2025).

²⁶ Hall, I. (2017) ‘Modi’s Vision for India as a Normative Power’, *East Asia Forum*, [online], available at: <https://eastasiaforum.org/2017/02/08/modis-vision-for-india-as-a-normative-power/> (accessed December 2025).

²⁷ Sagar, R. (2022) *To Raise a Fallen People: The Nineteenth-Century Origins of Indian Views on International Politics*, New York: Columbia University Press.

nationalist interpretations associated with Hindutva, they point to a sustained preoccupation with India's place in the world. This longstanding self-conception helps explain why India resists being seen as a junior partner within any alliance system and sheds light on its policy preferences and its enduring emphasis on autonomy.

Nevertheless, this continued preference for hedging between major powers is not without its domestic critics. In conversations in New Delhi, several experts noted that this approach has clear limits. One example frequently cited was the muted international response following the Pahalgam terrorist attack. With the notable exception of Israel, few Western governments offered unequivocal public support to India. Some analysts interpreted this as, at least in part, a consequence of India's own reluctance to clearly condemn Russian aggression in Ukraine. From this perspective, strategic ambiguity may reduce India's ability to mobilize political solidarity in moments of crisis.

Furthermore, the growing importance of supply chain diversification, combined with India's need to sustain high growth by accessing new markets, has pushed New Delhi toward clearer and more structured bilateral relationships. Government bureaucrats we interviewed were especially focused on the importance of maintaining trade relations despite momentary diplomatic tensions. While these moves do not amount to formal alignment with the West, they signal an intent among policymakers to avoid framing India's trajectory as one defined by anti-westernism or isolationism.²⁸

New Delhi increasingly recognizes mutual interdependence as a tool of foreign policy, one that can be leveraged to secure economic resilience and strategic flexibility in a fragmented global economy. In this context, multi-alignment may have evolved from a strategic preference into a practical necessity: Some suggest India's liminal stance should be understood against the backdrop of an increasingly fluid international order, in which the world is fragmenting into multiple, overlapping blocs rather than consolidating into two rigid camps.²⁹ Such a view is particularly well-supported by India's External Affairs Minister S. Jaishankar, who argues that consistency in policy choices makes little sense when

²⁸ C. Raja Mohan (2024). *India's New Alignment: "Non-West" but Not "Anti-West"* NUS Institute of South Asian Studies (ISAS), available at: <https://www.isas.nus.edu.sg/papers/indias-new-alignment-non-west-but-not-anti-west/> (accessed November 2025).

²⁹ Rao, N. (2025) 'Liminal India Plays a Unique Role in a Divided World', *Mint*, [online], available at: <https://www.livemint.com/opinion/online-views/india-strategic-autonomy-india-liminality-concept-india-foreign-policy-2025-india-global-south-leadership-india-us-china-11744371737536.html> (accessed December 2025).

circumstances themselves are unpredictable.³⁰ Regardless of whether one interprets this strategy through the lens of history, economics, or politics, it is important to recognize that it reflects a form of geopolitics emerging from the Global South. Paying closer attention to this perspective is essential for understanding how a transitioning world order is perceived and navigated by states that do not see themselves as natural extensions of any single power bloc.

³⁰ Jaishankar, S. (2019) 'External Affairs Minister's Speech at the 4th Ramnath Goenka Lecture', Ministry of External Affairs, Government of India, [online], available at: <https://mea.gov.in/Speeches-Statements.htm?dtl/32038> (accessed December 2025).

Chapter 1: India-Bhutan

Brief overview

Bhutan, a landlocked Himalayan kingdom of fewer than 800,000 people, finds itself squeezed between two giants. To its north lies China—an ascendant superpower that is steadily expanding its presence and influence across South Asia. To its south sits India—a rising power whose regional influence depends on maintaining strategic control over its immediate neighbourhood. This positioning has made Bhutan's security inseparable from the broader Sino-Indian rivalry.

Despite this geographic squeeze, Bhutan's strategic calculations are overwhelmingly focused on its relationship with India – a partnership that provides both security guarantees and structural constraints. The India-Bhutan relationship remains India's most stable bilateral partnership in South Asia, characterized by deep economic integration and security cooperation. Yet Bhutan's heavy dependence on India is creating pressures for greater diversification, manifested in cautious engagement with China, including the resumption of border negotiations and the first-ever visit by a Bhutanese Foreign Minister to Beijing in 2023.³¹ However, Indian officials and experts interviewed for this report emphasized that New Delhi views these developments without alarm, seeing them as Bhutan's natural desire for diplomatic space rather than an actual realignment. The relationship's stability, they argue, rests not only on strategic and economic ties but also on deep people-to-people connections and shared cultural bonds. The question is whether this confidence is justified, or whether growing economic pressures and China's positioning in the Himalayas will drive more significant hedging over time.

The relationship between India and Bhutan is described as a 'special relationship'.³² Diplomatic relations were established in 1949 when the Treaty of Friendship was signed between the two countries. The treaty was revised in 2007, marking an important evolution in the relationship. Most significantly, Article

³¹ Carnegie Endowment for International Peace (2024) 'On Thin Ice: Bhutan's diplomatic challenge amid the India-China border dispute', Carnegie Endowment for International Peace, [online], available at: <https://carnegieendowment.org/posts/2024/04/on-thin-ice-bhutans-diplomatic-challenge-amid-the-india-china-border-dispute?lang=en> (accessed November 2025).

³² Shivamurthy, A. G. (2022) 'The changing contours of Bhutan's foreign policy and the implications for China and India', Observer Research Foundation, [online], available at: <https://www.orfonline.org/research/the-changing-contours-of-bhutan-s-foreign-policy-and-the-implications-for-china-and-india> (accessed November 2025).

2 of the original treaty, which required Bhutan to “be guided by the advice of the Government of India in regard to its external relations,” was removed.³³ The revised treaty instead states that the two governments shall “cooperate closely with each other on issues relating to their national interests,” granting Bhutan greater sovereignty in its foreign policy decisions while maintaining the mutual security commitment. However, as the Doklam standoff – discussed in later sections – demonstrates, India retains significant de facto influence over Bhutan’s external affairs, particularly in matters concerning Indian security interests. Thus, while promises of mutual respect for the sovereignty and territorial integrity of both countries remain key to the stability of the relationship, it remains overwhelmingly asymmetrical. Bhutan is dependent on India for defence and security, relies on it as its largest trading partner, and is the recipient of substantial Indian investments and foreign aid.

This section examines the India-Bhutan relationship through three interconnected dimensions. Economically, India’s dominance is overwhelming – accounting for approximately 80% of Bhutan’s external trade, providing the infrastructure for Bhutan’s economic lifeline through hydropower cooperation, and financing major development projects including the ambitious Gelephu Mindfulness City. The recent railway links and trade agreements underscore India’s role as both Bhutan’s primary market and its gateway to the world. From a security perspective, Bhutan serves as a critical buffer between India and China, with the 2017 Doklam standoff highlighting how Bhutanese territorial integrity is inseparable from Indian strategic interests. China’s territorial claims on Bhutanese land – including the strategically vital Doklam Plateau – create a triangular dynamic where Bhutan must carefully navigate between its two giant neighbours while relying on India as its de facto security guarantor. Politically, the relationship reflects both deep cultural bonds rooted in shared Buddhist heritage and the tensions inherent in asymmetry, as Bhutan seeks greater diplomatic autonomy while remaining constrained by its geographic vulnerability and economic dependence.

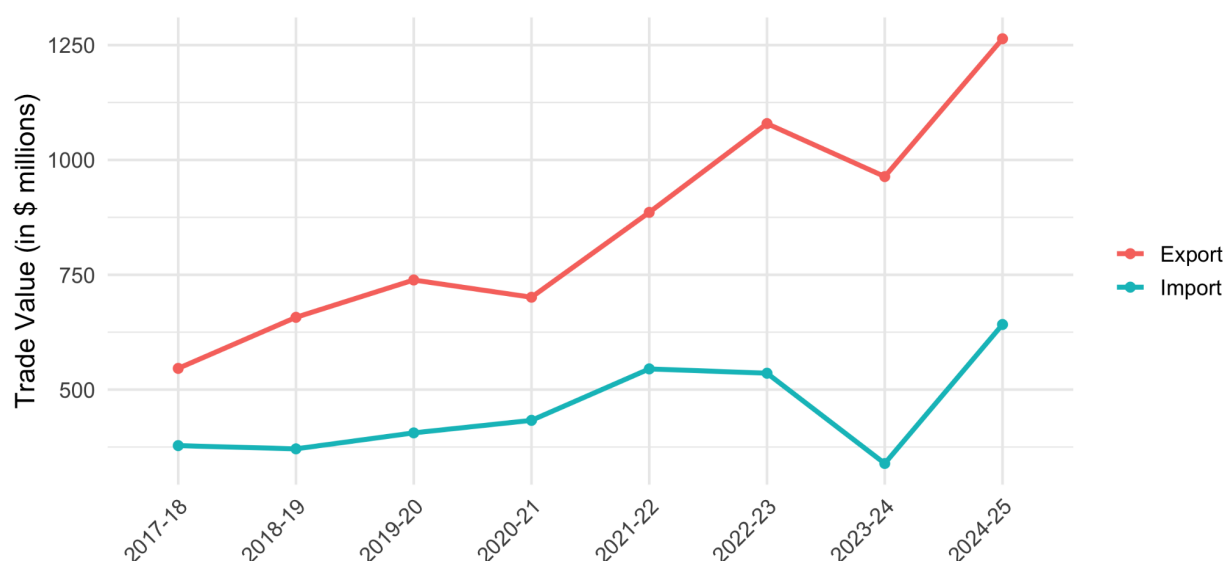
For India, Bhutan represents both a model of successful neighbourhood engagement under its ‘Neighbourhood First’ policy and a test case for whether it can maintain influence in an era of growing Chinese assertiveness in South Asia.

³³ Ministry of External Affairs, Government of India (2007) ‘Treaty of Friendship between the Government of the Republic of India and the Royal Government of Bhutan’, Ministry of External Affairs, [online], available at: <https://www.mea.gov.in/images/pdf/india-bhutan-treaty-07.pdf> (accessed November 2025).

Trade and infrastructure

India's economic dominance in Bhutan is comprehensive and multifaceted. As of 2024-25, bilateral trade between the two countries reached USD 1,777 million, which was a dramatic increase over the last years, as shown in the figure below. While the increase reflects the deepening of economic ties under India's 'Neighbourhood First' policy, the clear asymmetry in the balance of trade consistently favours India, with Indian exports to Bhutan more than double its imports from Bhutan.³⁴

Figure 2: Trade between Bhutan and India over the years



Source: Author calculations based on data from <https://tradestat.commerce.gov.in/>

This asymmetry extends across critical sectors. Bhutan imports petroleum products, food grains, machinery, vehicles and construction materials from India. In return, Bhutan exports electricity, ferro-silicone, dolomite, cement, and cardamom to India.³⁵ The composition of this trade reveals structural dependency: hydropower and related products constitute approximately 63% of Bhutan's total export

³⁴ World Trade Organization (n.d.) 'Bhutan – member profile', WTO Tariff & Trade Data, [online], available at: <https://ttd.wto.org/en/profiles/bhutan> (accessed September 2025).

³⁵ Embassy of India, Thimphu (no date) 'India-Bhutan trade relations', [online], available at: <https://indembthimphu.gov.in/pages/MzI> (accessed December 2025).

earnings,³⁶ making the energy sector the linchpin of bilateral economic relations and leaving Bhutan with limited export diversification.

The institutional architecture reinforces this integration. The 2016 Agreement on Trade, Commerce and Transit – the fifth revision of the original 1972 accord – establishes a free trade regime between the two countries, with Bhutanese exports enjoying duty-free transit through Indian territory to third countries. This is critical because as a landlocked nation, Bhutan's trade with other countries must transit through India, creating structural dependency on Indian infrastructure and goodwill. Moreover, bilateral trade is conducted in Indian rupees, with the Bhutanese Ngultrum pegged at par with the Indian currency. This monetary arrangement effectively integrates Bhutan into India's economic sphere, limiting Bhutan's monetary policy autonomy while ensuring currency stability.

India's role extends beyond trade to investment and development financing. As of December 2024, India accounted for approximately 55% of total FDI inflows in Bhutan, with investments concentrated in hydropower, banking, IT services, and infrastructure development.³⁷ For Bhutan's 13th Five-Year Plan (2024-2029), India pledged Rs 10,000 crore (approximately USD 1.2 billion) – double the assistance provided in the 12th Plan – covering project-tied assistance, high-impact community development, and economic stimulus programs.³⁸ This level of financial support makes India not just Bhutan's largest trading partner and investor, but also its primary development partner.

India's commitment to physical connectivity with Bhutan has accelerated in recent years, most dramatically in the railway sector. In September 2025, India announced two landmark cross-border railway projects worth approximately USD 480 million, marking Bhutan's first-ever rail connectivity with India.³⁹ The Kokrajhar-Gelephu line (69 km) will connect Assam to Bhutan's southern industrial town at a cost of INR 34.6 billion, while the Banarhat-Samtse route (20 km) will link West Bengal to Bhutan's

³⁶Royal Bhutanese Embassy, New Delhi (no date) 'Bhutan-India hydropower relations', Royal Bhutanese Embassy, New Delhi, [online], available at: <https://www.mfa.gov.bt/rbedelhi/bhutan-india-relations/bhutan-india-hydropower-relations> (accessed November 2025).

³⁷ Embassy of India, Thimphu, 'India-Bhutan trade relations', [online], available at: <https://indembthimphu.gov.in/pages/MzI> (accessed December 2025).

³⁸Ministry of External Affairs, Government of India (2024) 'Brief on India-Bhutan relations', Ministry of External Affairs, [online], available at: https://www.mea.gov.in/Portal/ForeignRelation/Brief_on_India_Bhutan_Relations_March_2024.pdf (accessed November 2025).

³⁹ Newsable (2025) 'India launches first rail links to Bhutan: What Kokrajhar-Gelephu and Banarhat-Samtse lines will change', Newsable, [online], available at: <https://newsable.asianetnews.com/india/india-bhutan-train-connectivity-what-it-means-for-india-articleshow-ahhq04e> (accessed December 2025)..

industrial hub at a cost of approximately USD 64 million. The Kokrajhar-Gelephu line is expected to be completed in four years and the Banarhat-Samtse route in three years, with construction involving 29 major bridges, six stations, and two viaducts for the former project alone.⁴⁰

The financing model reflects India's commitment: the Ministry of Railways will fund works on Indian territory, while the Ministry of External Affairs will finance construction within Bhutan as part of India's assistance for Bhutan's 13th Five-Year Plan. For Bhutan, the rail connectivity provides access to India's 150,000 km railway network, enhancing access to global markets via Indian ports. Both routes pass near the Siliguri Corridor – the strategically sensitive 'Chicken's Neck' connecting India's northeastern states to the mainland – enhancing both trade efficiency and regional security. In November 2025, a memorandum of understanding was signed between Bhutan and India for the construction of two additional cross-border roads, further deepening physical integration.

These infrastructure projects serve dual purposes. Economically, they facilitate trade and reduce transportation costs, potentially making Bhutanese exports more competitive. Strategically, they enhance India's ability to rapidly deploy forces near the China-Bhutan-India tri-junction, particularly around the sensitive Doklam area. The infrastructure, while ostensibly economic, has unmistakable security implications in the context of Sino-Indian rivalry.

The most important aspect of the bilateral trade relationship between India and Bhutan, however, is electricity and specifically hydropower. In the words of Indian minister of external affairs S. Jaishankar, hydropower cooperation represents the “most visible symbol of mutually beneficial bilateral cooperation” between India and Bhutan.⁴¹ For Bhutan, the sector contributes approximately 20% of GDP and 26% of government revenues.⁴² India benefits from clean, renewable energy to meet its growing power demands. Four hydroelectric projects totaling 2,136 MW are already operational and supplying electricity to India, including Chukha (336 MW), Kurichhu (60 MW), Tala (1,020 MW), and

⁴⁰ Insights on India (2025) 'Kokrajhar–Gelephu Special Railway Project (SRP)', Insights on India, [online], available at: <https://www.insightsonindia.com/2025/09/27/kokrajhar-gelephu-special-railway-project-srp/> (accessed December 2025).

⁴¹ CSEP (2025) 'India-Bhutan hydropower cooperation: Perceptions and politics', Center for Strategic & Energy Policy (CSEP), [online], available at: <https://csep.org/blog/india-bhutan-hydropower-cooperation-perceptions-and-politics/> (accessed November 2025).

⁴² IDSA (2025) 'India-Bhutan hydropower cooperation', Institute for Defence Studies and Analyses (IDSA), [online], available at: <https://www.idsa.in/publisher/comments/india-bhutan-hydropower-cooperation> (accessed December 2025).

Mangdechhu (720 MW) (ibid.).

However, the partnership faces structural challenges. The 2008 commitment to develop 10,000 MW by 2020 achieved less than 25% of its target, with total installed capacity at only 2,326 MW as of 2024.⁴³ The shortfall stems from multiple factors: challenging Himalayan geology causing project delays, cost overruns averaging 100-200%, and climate change risks including glacial outburst floods.⁴⁴ The financial burden is staggering. Hydropower debt now exceeds 80% of Bhutan's GDP and accounts for nearly 70% of its external debt.⁴⁵ Financing terms have deteriorated significantly: the Punatsangchhu I project received 40% grant and 60% loan, while Punatsangchhu II received only 30% grant and 70% loan, both at 10% annual interest rates.⁴⁶ Cost overruns have been severe: Punatsangchhu I was budgeted at USD 425 million but has cost USD 1.1 billion and remains incomplete; Kholongchhu has ballooned from USD 400 million to USD 660 million.⁴⁷ Further, hydropower increasingly faces competition from cheaper solar and wind energy in India, raising questions about long-term economic viability.

Signs of Bhutan seeking greater balance with China have emerged through accelerating diplomatic engagement. Despite lacking formal diplomatic relations, the two countries signed a Memorandum of Understanding in 2021 on a 'Three-Step Road Map' for accelerating boundary negotiations – a significant step toward potential diplomatic recognition.⁴⁸ In 2024, Bhutan's Foreign Minister Damcho Dorji met with Chinese Foreign Minister Wang Yi in Beijing to discuss boundary talks and bilateral cooperation.⁴⁹ These engagements represent a marked shift: after 24 rounds of border talks since 1984,

⁴³ Scroll.in (2023) 'India's renewable energy ambitions has ended up wedding Bhutan to hydropower despite rising costs', Scroll.in, [online], available at: <https://scroll.in/article/1045362/indias-renewable-energy-ambitions-has-ended-up-wedding-bhutan-to-hydropower-despite-rising-costs> (accessed December 2025).

⁴⁴ IDSA, 'India-Bhutan hydropower cooperation', [online], available at: <https://www.idsa.in/publisher/comments/india-bhutan-hydropower-cooperation> (accessed December 2025).

⁴⁵ Scroll.in, 'India's renewable energy ambitions has ended up wedding Bhutan to hydropower', [online], available at: <https://scroll.in/article/1045362/indias-renewable-energy-ambitions-has-ended-up-wedding-bhutan-to-hydropower-despite-rising-costs> (accessed December 2025)

⁴⁶ Ibid.

⁴⁷ Scroll.in, 'India's renewable energy ambitions has ended up wedding Bhutan to hydropower', [online], available at: <https://scroll.in/article/1045362/indias-renewable-energy-ambitions-has-ended-up-wedding-bhutan-to-hydropower-despite-rising-costs> (accessed December 2025)

⁴⁸ Ministry of Foreign Affairs, People's Republic of China (no date) 'China and Bhutan', Ministry of Foreign Affairs, [online], available at: https://www.fmprc.gov.cn/eng/gjhdq_665435/2675_665437/2686_663376/ (accessed November 2025).

⁴⁹ YaleGlobal Online (2015) 'China turns charm offensive on Bhutan', YaleGlobal, [online], available at: <https://archive-yaleglobal.yale.edu/content/china-turns-charm-offensive-bhutan> (accessed December 2025).

momentum appears to be building toward resolution.⁵⁰ Chinese tourism to Bhutan has also surged in recent years.⁵¹ While clearly India still dominates Bhutan's trade, the increased diplomatic dialogue with China signals Bhutan's interest in diversifying its foreign relations beyond its traditional dependence on India.

Bhutan's Mindfulness City economic project embodies both the degree of India-Bhutan integration and Bhutan's search for new development pathways. Announced by King Jigme Khesar Namgyel Wangchuck in December 2023, the Gelephu Mindfulness City is a 2,500 square kilometer Special Administrative Region – three times the size of Singapore – designed as a 'sustainable economic hub' that integrates Bhutan's distinctive Gross National Happiness philosophy with modern infrastructure and business-friendly regulations.

The project's location is significant: Gelephu sits in Sarpang District in southern Bhutan, directly on the border with India and at the terminus of one of the new railway lines India is constructing. The city is envisioned as a 'wellbeing economic hub' featuring green spaces, mindfulness centres, special economic zones, advanced infrastructure, and business-friendly policies designed to attract international investment while maintaining Bhutanese cultural identity and environmental standards.

The timing of the announcement is also notable. Coming in December 2023, just months after Bhutan's first Foreign Minister visit to China and as China's share of Bhutan's trade crossed 25%, Gelephu can be read as Bhutan's attempt to maintain economic growth while gradually reducing relative dependence on hydropower debt. The project explicitly seeks to attract diverse international investment while using Bhutan's unique GNH framework as a competitive advantage – a form of differentiation that could provide economic resilience beyond the India-Bhutan hydropower model.

For India, Gelephu presents both opportunity and risk. If successful and deeply integrated with Indian infrastructure via the railway link, it could further embed Bhutan in India's economic sphere while providing a physical manifestation of the partnership's success. However, if Gelephu attracts significant Chinese or other non-Indian investment, it could become a vehicle for diversifying Bhutan's economic

⁵⁰ YaleGlobal Online, 'China turns charm offensive on Bhutan', [online], available at: <https://archive-yaleglobal.yale.edu/content/china-turns-charm-offensive-bhutan> (accessed December 2025).

⁵¹ Ibid.

relationships – precisely what the hydropower-centered model was supposed to prevent through its creation of structural dependency.

Security

As the relationship between Bhutan and India is cordial – with India acting as Bhutan's primary security partner – the immediate security concern in the India-Bhutan relationship is not bilateral but triangular, centered on China. Bhutan and China share a 477-kilometer partially disputed border through the Himalayas, running between two tripoints with India. This boundary has remained undemarcated since China's annexation of Tibet in 1951. China claims approximately 581 square miles of Bhutanese territory across multiple areas, with disputes concentrated in western, northern, eastern areas of the kingdom.

The 2017 Doklam standoff crystallized the stakes of the India-Bhutan relationship and exposed the constraints that security interdependence places on Bhutanese sovereignty. On June 16, 2017, China began extending a road southward on the Doklam plateau, a spur of land claimed by Bhutan but contested by China. Two days later, on June 18, approximately 270 Indian troops with two bulldozers crossed from Sikkim into the disputed territory to physically block Chinese construction in what India termed Operation Juniper. The standoff lasted 73 days, ending on August 28 when both sides withdrew troops from the immediate confrontation site.

Figure 3: Map showing Siliguri Corridor and India-Bhutan-China trijunction



Source: Mapped accessed from [dw.com](https://www.dw.com)

The standoff revealed several critical dynamics. First, India intervened not primarily to defend Bhutanese sovereignty but to protect its own strategic interests. The Doklam Plateau overlooks the Siliguri Corridor (see figure 2), the narrow strip of land – just 17 miles wide at its narrowest point – that connects India’s northeastern states to the rest of the country. If China were to gain control over this strategically elevated plateau, it could dominate the corridor and potentially sever India’s northeastern states from mainland India during armed conflict. This geographic vulnerability makes the Bhutan-China border dispute inseparable from India’s own national security calculations.

Second, the standoff demonstrated that India will make decisions about Bhutanese territory with limited Bhutanese agency. While India consulted with Bhutan, the decision to intervene militarily was fundamentally an Indian calculation about Indian security interests. This reflects the fact that Bhutan’s 1949 treaty obligation (revised 2007) to be ‘guided by’ India on foreign policy effectively means India

possesses a veto over Bhutanese decisions that affect Indian security – and India defines what affects its security broadly.⁵²

Third, the post-standoff environment has been characterized not by resolution but by continued competition. Satellite imagery (provided by Planet Labs) reveals that China maintained and even expanded its infrastructure in northern Doklam after the standoff, including the construction of new roads, bunkers, and communication facilities.⁵³ China has also accelerated construction of ‘border villages’ in disputed areas, creating facts on the ground that may support future territorial claims. India has responded with its own infrastructure development, creating a situation of mutual fortification that makes the tri-junction area increasingly militarized.

For Bhutan, the Doklam experience was sobering. It demonstrated the reliability of Indian security guarantees – India was willing to risk military confrontation with China to protect strategic interests that included Bhutanese territorial integrity. However, it also highlighted the degree to which Bhutan has become a theatre for Sino-Indian rivalry. Bhutanese officials made few public statements during the standoff.

Further, despite India’s overwhelming dominance, several developments since 2021 may suggest that Bhutan is cautiously exploring greater diplomatic autonomy, particularly in its engagement with China. The question is whether these moves constitute genuine ‘hedging’ behaviour or simply reflect a small state’s desire for diplomatic breathing room.

The most significant development was the signing of a ‘3-Step Roadmap’ Memorandum of Understanding between China and Bhutan in October 2021 during the 10th Expert Group Meeting in Kunming. This roadmap envisaged a three-stage process: first, delimitation of the border on maps through talks; second, joint surveys; and third, actual demarcation of the 477 km border.⁵⁴ This represented a new urgency in negotiations that had been ongoing since 1984 with limited progress.

⁵² Strategic Analysis (1999) ‘Indo-Bhutan relations: Serving mutual interests’, Strategic Analysis, [online], available at: https://ciaotest.cc.columbia.edu/olj/sa/sa_99mup03.html (accessed November 2025).

⁵³ CNN (2024) ‘China is building new villages on its remote Himalayan border. Some appear to have crossed the line’, CNN, [online], available at: <https://edition.cnn.com/2024/11/05/asia/china-bhutan-border-dst-intl-hnk> (accessed November 2025).

⁵⁴ Observer Research Foundation (2023) ‘Bhutan-China: Settling border issues’, Observer Research Foundation, [online], available at: <https://www.orfonline.org/english/expert-speak/bhutan-china-settling-border-issues> (accessed November 2025).

After an eight-year hiatus following the Doklam standoff, Bhutan and China held the 25th round of border talks in October 2023.⁵⁵ The resumption was accompanied by accelerated diplomacy: Bhutanese Prime Minister Lotay Tshering made remarks to a Belgian newspaper in March 2023 stating that Thimphu would look at ways to resolve the border issue with China in ‘one or two meetings’,⁵⁶ suggesting a shift toward urgency in resolving the dispute.

The diplomatic breakthrough came in October 2023 when for the first time ever, Bhutanese Foreign Minister Tandi Dorji visited China and met Chinese Foreign Minister Wang Yi on October 23, despite the fact that Bhutan and China do not have officially established diplomatic relations. The following day, Chinese Vice President Han Zheng met with Dorji, with both sides agreeing to accelerate the boundary demarcation process and the establishment of diplomatic relations.⁵⁷ For a country that has never exchanged ambassadors with China and has no formal diplomatic relations, this represented a significant departure from past practice.

Beyond border diplomacy, Bhutan has begun diversifying its hydropower development model away from exclusive government-to-government arrangements with India. In November 2025, Tata Power signed commercial agreements with Druk Green Power Corporation for the 1,125 MW Dorjilung hydroelectric power project, with a total cost of Rs 13,100 crore (USD 1.46 billion), to be executed through a Special Purpose Vehicle with DGPC holding 60% equity and Tata Power 40%.⁵⁸ This is part of a broader partnership where Tata Power and DGPC committed to jointly develop at least 5,000 MW of clean energy capacity in Bhutan, including 4,500 MW of hydropower and 500 MW of solar projects.⁵⁹ While still involving Indian companies, this shift from government financing to private sector partnerships reflects Bhutan's search for more sustainable development models that reduce reliance on concessional loans

⁵⁵ Singh, G. (2023) ‘On Bhutanese FM Tandi Dorji’s trip to China, and the implications for India’, *The Quint*, [online], available at: <https://www.thequint.com/amp/story/opinion/on-bhutanese-fm-tandi-dorji-trip-to-china-and-the-implications-for-india> (accessed December 2025)

⁵⁶ Singh, ‘On Bhutanese FM Tandi Dorji’s trip to China, and the implications for India’, *The Quint*, [online] (accessed December 2025).

⁵⁷ Xinhua (2023) ‘Chinese vice president meets Bhutan’s foreign minister’, Xinhua, [online], available at: <https://english.news.cn/20231024/8dd4376048674a8385c776587f2a9a0e/c.html> (accessed November 2025).

⁵⁸ International Water Power (2025) ‘Tata Power and DGPC sign commercial agreements for Dorjilung hydropower project, Bhutan’, International Water Power, [online], available at: <https://www.waterpowermagazine.com/news/news-tata-power-and-dgpc-sign-commercial-agreements-for-dorjilung-hydropower-project-bhutan-10987542/> (accessed November 2025).

⁵⁹ Tata Power (2024) ‘Tata Power and Bhutan’s Druk Green Power Corporation forge partnership to develop 5,000 MW of clean energy projects’, Tata Power, [online], available at: <https://www.tatapower.com/media/press-releases/2024/tata-power-and-bhutan-dgp-partnership.aspx> (accessed November 2025)

that have created unsustainable debt burdens.

Notably, Bhutan has paired these China overtures with intensive reassurance efforts toward India. Immediately after the 25th round of border talks with China, Bhutan's King Jigme Khesar Namgyel Wangchuck embarked on an eight-day visit to India, meeting Prime Minister Modi and External Affairs Minister Jaishankar—moves that can be seen as Bhutan's attempt to reassure India that it recognizes the relationship between border disputes and broader bilateral relations.⁶⁰ In March 2024, Prime Minister Tshering Tobgay chose New Delhi for his first foreign visit after assuming office, further signalling Bhutan's sensitivity to Indian concerns.

Bhutan's recent diplomatic initiatives have generated debate among analysts about their significance and India's response. The interpretations fall into three broad camps. Some experts explicitly characterize Bhutan's behaviour as strategic hedging. Bhutanese political commentator and editor of *The Bhutanese* newspaper Tenzing Lamsang has argued for what he calls Bhutan's 'disciplined silence' as a rational strategy for a small nation sandwiched between two more powerful neighbours, describing how Bhutan behaves 'in the current way to avoid unnecessarily antagonising either side'.⁶¹ Atlantic Council analysis describes how 'Bhutan practices hedging of a different kind, where it defines its international posture through minimalist diplomacy and self-protective slowness, rather than binary choices'.⁶² From this perspective, Bhutan is deliberately creating strategic ambiguity to maximize its autonomy.

A second group of analysts view these moves as reflecting Bhutan's desire for greater diplomatic space without constituting fundamental hedging. USIP experts including Nilanthi Samaranayake and retired Bhutanese ambassador Sonam Rabgye noted that 'both these smaller South Asian countries [Nepal and Bhutan] seek greater autonomy in the conduct of their international relations' while understanding 'the

⁶⁰ Samaranayake, N., et al. (2024) 'On Thin Ice: Bhutan's diplomatic challenge amid the India-China border disputes', Carnegie Endowment for International Peace, [online], available at: <https://carnegieendowment.org/posts/2024/04/on-thin-ice-bhutans-diplomatic-challenge-amid-the-india-china-border-dispute?lang=en> (accessed November 2025).

⁶¹ Lamsang, T. (2017) 'View from Bhutan: Indian and Chinese media need to calm down', *The Bhutanese* (republished in *The Quint*), [online], available at: <https://www.thequint.com/news/world/view-from-bhutan-indian-and-chinese-media-need-to-calm-down> (accessed November 2025).

⁶² Atlantic Council (2025) 'How South Asia's 'swing states' navigate India-Pakistan tensions', *Atlantic Council*, [online], available at: <https://www.atlanticcouncil.org/blogs/new-atlanticist/how-south-asias-swing-states-navigate-india-pakistan-tensions/> (accessed December 2025).

reality of India's preponderance of capabilities'.⁶³ This view sees Bhutan as trying to establish diplomatic relations and resolve border disputes as a natural sovereign function, not as a strategic reorientation away from India.

A third group questions whether Bhutan has meaningful room to hedge at all. USIP's Samaranayake argues that 'smaller South Asian countries are often viewed as either playing large powers against each other or hedging in their strategic orientation. But when examining the foreign policy traditions and security outcomes of these countries, it is clear that their leaders have little space for balancing or hedging'.⁶⁴ From this perspective, structural dependencies – Bhutan's landlocked geography, 80% trade dependence on India, currency peg, and security guarantees – leave little room for genuine strategic diversification regardless of Bhutan's diplomatic rhetoric.

Significantly, Indian officials and experts interviewed for this report consistently expressed confidence that these developments do not threaten the fundamental India-Bhutan relationship. Ministry of External Affairs officials emphasized that New Delhi views Bhutan's China engagement as a natural desire for diplomatic space rather than a fundamental realignment. They pointed to several factors underlying this confidence: the structural economic dependencies that cannot be quickly diversified; India's irreplaceable role as Bhutan's security guarantor, particularly regarding the Doklam tri-junction; and the 2012 India-China agreement that tri-junction boundary points must be finalized in consultation with all concerned countries, which effectively gives India a veto over any Bhutan-China deal involving Doklam.

Moreover, Indian experts and officials we interviewed for this report emphasized a dimension often overlooked in strategic analyses focused solely on economics and security: the depth of people-to-people connections and shared cultural bonds between India and Bhutan. These ties, they argued, provide a foundation of stability that transcends transactional calculations and helps anchor the

⁶³ Samaranayake, N., Bhandari, A., and Rabgye, S. (2025) 'India on one side, China on the other: Small-state security in the Himalayas', United States Institute of Peace, [online], available at: <https://www.usip.org/publications/2025/01/india-one-side-china-other-small-state-security-himalayas> (accessed December 2025).

⁶⁴ Samaranayake, Bhandari, and Rabgye, 'India on one side, China on the other: Small-state security in the Himalayas', [online], available at: <https://www.usip.org/publications/2025/01/india-one-side-china-other-small-state-security-himalayas> (accessed December 2025).

relationship even as Bhutan explores greater diplomatic autonomy. Understanding this people-to-people dimension is important for assessing the relationship's durability.

Domestic politics

The India-Bhutan relationship is being reshaped by a generational shift within Bhutan. Bhutan became the world's youngest democracy only in 2008, when King Jigme Singye Wangchuck voluntarily introduced democratic elections despite popular resistance to the change. Approximately 60% of Bhutan's 800,000 population is under the age of 35.⁶⁵ This young generation has grown up in a different environment than their parents – connected to the internet, exposed to global media, and possessing aspirations that extend beyond Bhutan's borders. Unlike the older generation that witnessed Indian support as essential for development, younger Bhutanese increasingly question the costs of this dependence.

This generational divide manifested clearly in Bhutan's January 2024 elections, which centered almost entirely on economic grievances. The People's Democratic Party (PDP), led by former Prime Minister Tshering Tobgay, won 30 of 47 National Assembly seats on a platform promising economic revival.⁶⁶ Both the ruling Druk Nyamrup Tshogpa and opposition Druk Phuensum Tshogpa were eliminated in the primary round—the first time in Bhutan's democratic history that both governing parties failed to advance.⁶⁷ The election campaigns focused relentlessly on youth unemployment, which had reached 28.9% in 2022, stagnant wages, and limited career prospects, with both parties acknowledging what Prime Minister Tobgay later termed an 'existential crisis'.⁶⁸

⁶⁵ Observer Research Foundation (2025) 'Young Bhutan and the world: A preliminary survey of perceptions on foreign policy', Observer Research Foundation, [online], available at: <https://www.orfonline.org/research/young-bhutan-and-the-world-a-preliminary-survey-of-perceptions-on-foreign-policy> (accessed November 2025).

⁶⁶ Election Commission of Bhutan (2024) 'Declaration of results of the 4th National Assembly Elections, 2023-2024 (General Election)', Election Commission of Bhutan, [online], available at: <https://www.ecb.bt/declaration-of-results-of-the-4th-national-assembly-elections-2023-2024-general-election/> (accessed November 2025).

⁶⁷ Observer Research Foundation (2024) 'Analysing Bhutan's fourth National Assembly elections', Observer Research Foundation, [online], available at: <https://www.orfonline.org/expert-speak/analysing-bhutan-s-fourth-national-assembly-elections> (accessed December 2025).

⁶⁸ Asia Society Policy Institute (2024) 'Bhutan's 2024 elections: Economic complexities and regional dynamics', Asia Society Policy Institute, [online], available at: <https://asiasociety.org/policy-institute/bhutans-2024-elections-economic-complexities-and-regional-dynamics> (accessed November 2025)

That crisis is mass emigration. Since 2020, Bhutan's population abroad has doubled to over 66,000 – nearly 9% of the total population—with Australia hosting more than 25,000 Bhutanese by 2024.⁶⁹ According to a World Bank report, 53% of migrants hold university degrees (versus 7% of Bhutan's working-age population), and nearly half were civil servants, with teachers and health workers especially prominent.⁷⁰ This 'brain drain' is driven by economic pressures—limited job opportunities, low wages, and youth unemployment—though younger Bhutanese also increasingly question development arrangements with India that some view as creating unsustainable debt.

Younger Bhutanese increasingly criticize India's loans and hydropower investments as creating unsustainable debt and constraining autonomy. Young bloggers describe India as "a jealous big brother" blocking Bhutan's China engagement.⁷¹ This generation lacks the visceral fear of China that shaped their predecessors, views Chinese economic growth as potentially helpful, and increasingly sees China as attractive for trade and investment.⁷² While threat perceptions persist and India remains essential for sea access and security, the economic crisis driving emigration and generational attitude shifts create pressure for Bhutan to diversify its historically India-centric foreign policy.

⁶⁹ Bhutan Broadcasting Service (2025) 'Bhutan's external migration surges twofold from 12,000 to 25,000 in 4 years: World Bank', Bhutan Broadcasting Service, [online], available at: <https://www.bbs.bt/229061/> (accessed November 2025).

⁷⁰ World Bank (2025) 'Reforms can help Bhutan benefit from sustainable migration', World Bank, [online], available at: <https://www.worldbank.org/en/news/feature/2025/10/01/reforms-can-help-bhutan-benefit-from-sustainable-migration> (accessed December 2025).

⁷¹ Observer Research Foundation (no date) 'Young Bhutan's opinion on its mega neighbours', Observer Research Foundation, [online], available at: <https://www.orfonline.org/research/young-bhutan-and-the-world-a-preliminary-survey-of-perceptions-on-foreign-policy> (accessed November 2025).

⁷² Shivamurthy, 'The changing contours of Bhutan's foreign policy and the implications for China and India', [online], available at: <https://www.orfonline.org/research/the-changing-contours-of-bhutan-s-foreign-policy-and-the-implications-for-china-and-india> (accessed December 2025).

In sum:

- **Overwhelming economic integration creates dependencies and tensions:** India accounts for 80% of Bhutan's trade and dominates development financing, but hydropower debt now exceeds 80% of GDP with projects experiencing massive cost overruns, raising questions about the sustainability of the current model.
- **Security relationship reveals asymmetric dynamics:** The 2017 Doklam standoff demonstrated that India will intervene militarily to protect its own strategic interests in Bhutanese territory, with limited Bhutanese agency in decisions affecting its sovereignty.
- **Debate over whether Bhutan is 'hedging':** Accelerated China engagement (2021 border roadmap, 25 rounds of talks since 1984, 2024 ministerial visits) prompts competing interpretations - some see strategic hedging, others see natural desire for diplomatic space, while structural dependencies may limit genuine diversification options.
- **Domestic economic crisis driving pressure for change:** Mass emigration (66,000 people, 9% of population, 53% university-educated), youth unemployment at 28.9%, and generational shift questioning India-centric arrangements create political momentum for exploring alternatives.
- **People-to-people ties as stabilizing factor:** Deep cultural bonds and shared Buddhist heritage provide relationship foundation that transcends transactional calculations, a dimension Indian officials emphasize when expressing confidence despite Bhutan's China overtures.

Chapter 2: India-Nepal

Brief overview

The India–Nepal relationship is among India’s closest and longest bilateral partnerships in South Asia, shaped by deep economic and security cooperation and dense people-to-people ties. Nepal’s geographic position between India and China gives it outsized strategic importance for New Delhi, a reality reflected in the 1950 Treaty of Peace and Friendship, which laid the foundation for this extensive cooperation. Nevertheless, the relationship has gone through low points where the Nepalese leadership conveyed their sense of frustration with New Delhi’s actions, which they viewed as a challenge to their sovereignty. Despite these tensions, however, the India-Nepal relationship appears robust, even as Chinese and US bilateral ties with Nepal have also deepened.

Economically, India’s dominance is structural. As Nepal’s largest trading partner and primary transit route to global markets, India accounts for the bulk of Nepal’s goods trade, most of its petroleum supplies, and a significant share of services and remittance-linked flows. The countries are also currently emphasising greater connectivity and energy cooperation, investing in rail links, integrated check posts, port access, and cross-border pipelines. Hydropower trade has emerged as a potentially transformative sector, offering Nepal a pathway to rebalance its trade relationship through energy exports.

On security, Nepal’s balancing of its Indian ties through Chinese cooperation has gained more momentum. For India, any expansion of Chinese influence in Nepal raises strategic concerns, given sensitivities around the Himalayan frontier and the Siliguri Corridor. Nepal’s efforts to balance between the two Asian giants, and its occasional alignment with China during periods of heightened anti-India sentiment, underscore the limits of India’s leverage despite its preponderance.

Domestic politics and societal linkages play a crucial role. Visa-free travel, shared cultural space, and extensive labour mobility bind the two countries together in everyday ways that are unmatched elsewhere in the region. More recently, India has adopted a more restrained approach, seeking to avoid overt involvement in Nepal’s domestic politics and signalling a preference for engagement over coercion.

Trade and infrastructure

India's position as Nepal's largest trade partner opens doors for cooperation but also produces tensions that can impede it. In years since independence, India has sometimes used its trade leverage to shape economic and social policies in Nepal, to varying measures of success. The Treaty of Peace and Friendship, signed between the two countries in 1950, has set the broad framework for the relationship. Nepal's strategic importance for India—both as a buffer between India and China and as a geographically critical neighbour—is underscored by the fact that this was the first major treaty India signed after independence. This recognition of Nepal's importance has continued over successive political regimes in New Delhi. Although the treaty has stood the test of time, and political turmoil, several Nepalese leaders have expressed their concern regarding the lopsided nature of the treaty, and the indirect restrictions it imposes on Nepalese leadership. In particular, articles 2 and 5, which deal with the question of consultation during adverse events and the imports of arms and ammunition from third countries, have been seen by some as an imposition on Nepalese sovereignty.⁷³

Nepalese concerns can be understood in light of its geographical location, shown below. As a landlocked country, Nepal is fully dependent on Indian access to ports for larger volumes of imports and third-country exports. In fact, nearly one-third of all third country trade from Nepal takes place through Indian ports and shipment facilities. At the same time, on the other side it is squeezed by China. The Tibetan plateau is scarcely populated, and as a result, the China-Nepal border does not have major population and commerce centres like the India-Nepal border does. The areas bordering Indian states of Uttar Pradesh and Bihar have relatively flatter terrain compared to the northern and western parts of Nepal, which further increases dependence on these routes for trade and connectivity.

⁷³ National Strategy Foundation (2025) '75 years of the India-Nepal Friendship Treaty: A time-tested bond or a relic of the past?', National Strategy Foundation, [online], available at: <https://www.natstrat.org/article/detail/publications/years-of-the-india-nepal-friendship-treaty-a-time-tested-bond-or-a-relic-of-the-past-218.html> (accessed December 2025)

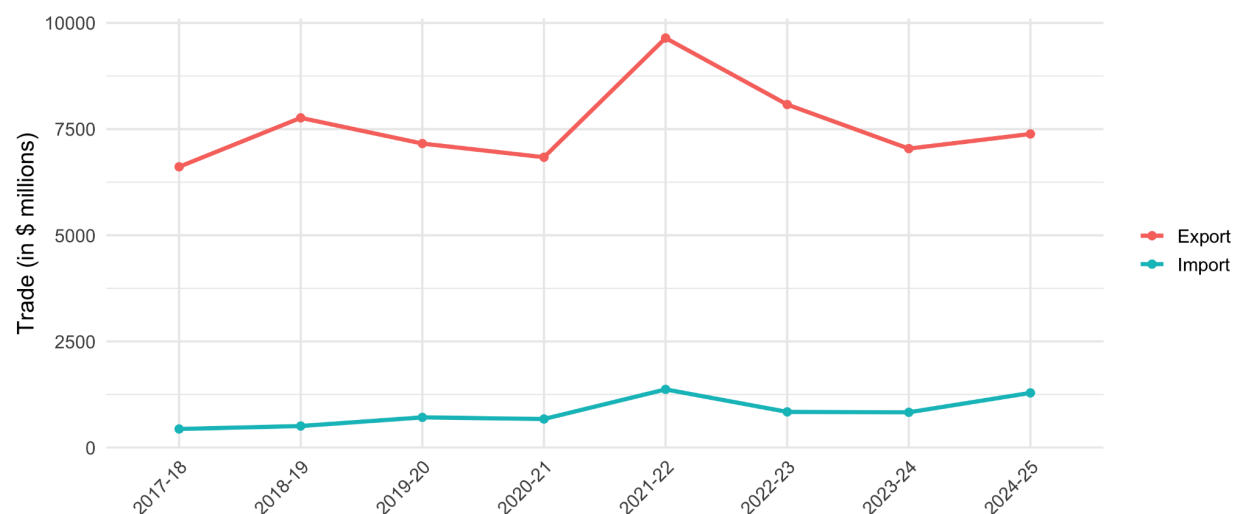
Figure 4: India-Nepal Map



Source: Accessed from <https://www.mapsofindia.com/>

India is Nepal's largest trading partner on account of these advantages. In addition to controlling transit access, it accounts for nearly two-thirds of the goods and one-third of the service trade in the latter. It also exports nearly all of the petroleum requirements of Nepal, in addition to iron products and substantial rice exports. On the other hand, its imports from Nepal are minimal, and account for less than 1% of the total value of imports. This disbalance creates a large trade deficit, outlined in the figure below (Figure 5).

Figure 5: Trade between India and Nepal over the years



Source: Author calculations based on data from <https://tradedstat.commerce.gov.in/>

This trade deficit, and the advantageous position afforded to India because of it, has for long been a contentious issue in Nepal, particularly since the commencement of parliamentary democracy in 2008. The Indian state has responded with a mixed strategy: It has enhanced investment in infrastructure projects, particularly those in the field of connectivity and energy, while also relying on more coercive methods at times. In terms of infrastructure investment, the two countries operate nearly 40 cooperation mechanisms across sectors. Connectivity has expanded in recent years, with three Integrated Check Posts now functional and a cross-border passenger railway line— the first ever between the two countries — now operational.⁷⁴ These improvements have streamlined trade and mobility for goods as well as people.

Nepal's access to Indian ports is particularly crucial. Recent authorisation for Nepal to use Mundra Port, India's largest container port, has been an important step in integrating Nepalese exporters into global supply chains. While this access simultaneously reduces Nepal's over-dependence on bilateral trade with India it also deepens the structural dependence inherent in its reliance on Indian transit. This dynamic illustrates the deeply interwoven nature of the economic relationship, in which diversification and dependence coexist.

Energy cooperation is another critical dimension of infrastructure development. Because India supplies almost all of Nepal's petroleum products, reliable energy connectivity is vital for Nepal's economic functioning. India's first international petroleum pipeline was constructed to supply Nepal, and became operational in 2019, with plans for further expansion. Beyond petroleum, hydropower trade has emerged as a transformative sector. India is both a major buyer of hydropower from Nepal and a facilitator that enables Nepal to export electricity to third countries. In June 2025, Nepal exported electricity to Bangladesh for the first time using India's transmission grid, made operational under the tripartite agreement for power trading signed by the three countries in 2024.⁷⁵ India has further committed to large future purchases of Nepalese hydropower, and experts indicate that sustained export-oriented hydropower production could add nearly 40 percent to Nepal's GDP, compared to

⁷⁴ Arpan Gelal (2024) 'Rejuvenating Nepal-India bilateral relations through digital connectivity', Observer Research Foundation, available at: <https://www.orfonline.org/expert-speak/rejuvenating-nepal-india-bilateral-relations-through-digital-connectivity> (accessed December 2025).

⁷⁵ Reuters (2025) 'Nepal begins first power exports to Bangladesh via India's grid', Reuters, [online], available at: <https://www.reuters.com/business/energy/nepal-begins-first-power-exports-bangladesh-via-indias-grid-2025-06-16/> (accessed December 2025).

estimates without such production.⁷⁶ For Nepal, this pathway offers a means to reduce its chronic trade deficit with India; for India, it provides access to clean energy aligned with its decarbonisation goals.

Both governments have also begun to decentralise cooperation by encouraging subnational partnerships. Indian border states such as Uttar Pradesh play a large role in facilitating cross-border trade, and proposals for greater trade ties at the federal level reflect growing interest in ground-up integration.⁷⁷

Security

Situated between two Asian giants, Nepal has long sought to strategically balance relations with both India and China. Its ties with India remain deeper and more extensive, shaped by open borders, shared history, and longstanding military linkages. These linkages also mean that India is sensitive to any closeness in Nepal-China relations.

One of the most sensitive issues is defence procurement: under the 1950 Treaty of Peace and Friendship, Nepal is expected to inform India of major arms purchases from third countries, a clause that many in Nepal view as an infringement on sovereignty. For India, however, such provisions are essential to its national security calculus. The Indian Army maintains close military ties with Nepal, not least through the tradition of Nepalese citizens serving in the Indian Army's Gorkha regiments. Today, the Indian Army has seven Gorkha regiments, and thousands of Nepalese soldiers have served in them over the decades, creating deep institutional and social links between the two militaries.

Nepal's involvement with major territorial armies is not just limited to India though. In recent years, the presence of Chinese investment in the defence forces in Nepal has become more prominent.⁷⁸ Nepal also maintains military links with other powers. A number of Nepalese citizens continue to serve in the British Army's Brigade of Gurkhas, and China has in recent years expanded defence engagement with

⁷⁶ Bhattacharya, B. (2025) 'Nepal's unrest is a wake-up call for India's trade', *The Print*, [online], available at: <https://theprint.in/opinion/nepals-unrest-is-a-wake-up-call-for-india-trade/2740268/> (accessed December 2025).

⁷⁷ Sinha, R. (2025) 'Rethinking India-Nepal connectivity through southern corridors', *India's World*, [online], available at: <https://indiasworld.in/rethinking-india-nepal-connectivity-through-southern-corridors/> (accessed December 2025)

⁷⁸ Specialeurasia (2025) 'Nepal, China, and geopolitics', *Specialeurasia*, [online], available at: <https://www.specialeurasia.com/2025/05/18/nepal-china-geopolitics/> (accessed December 2025).

Kathmandu through regular training exercises. These overlapping relationships highlight how major powers seek influence within Nepal's relatively small strategic space.

Domestic political sentiment in Nepal also shapes its external security alignments. Periods of heightened anti-India sentiment tend to coincide with closer engagement with China, as Nepalese leaders pursue hedging strategies similar to those observed in other South Asian states. This dynamic became particularly pronounced as left-wing parties gained influence in Kathmandu. In the period of the civil war, Maoist leadership often claimed that India covertly supported the monarchy.⁷⁹ In recent years, when factional splits among Nepalese communist parties created political deadlock, China has often played a behind-the-scenes role in urging unity and facilitating coalition formation, reflecting Beijing's abiding interest in Nepal's political landscape.⁸⁰

Furthermore, China's economic presence has expanded significantly through investments in major infrastructure projects, including airports, hydropower facilities, and the development of border trading points.⁸¹ Some of these border points were shut during the COVID-19 pandemic, disrupting local livelihoods and leading to considerable public frustration inside Nepal. Nevertheless, Chinese funding for projects in health and education has continued, contributing to its broader image as a development partner. Yet these investments have also generated controversy. In the case of Chinese-built airports in Pokhara and Bhairahawa, India raised air-safety and procedural concerns and declined landing clearance for Chinese aircraft, effectively limiting international connectivity from these new facilities. This episode underscored how Chinese projects in Nepal can become entangled in India-China competition, creating operational constraints for Nepal.

China's increasingly assertive diplomatic style has also occasionally strained its standing in Nepal. Several statements by Chinese ambassadors in recent years were widely criticised in Kathmandu as being unduly interventionist.⁸² Furthermore, analysts note that Nepal has become an important arena for strategic competition not only between India and China but also between China and the United States.

⁷⁹ Deutsche Welle (2008) 'India's behind-the-scenes role in Nepal', DW, [online], available at: <https://www.dw.com/en/indias-behind-the-scenes-role-in-nepal/a-5747611> (accessed December 2025).

⁸⁰ Observer Research Foundation (2024) 'How China soured on Nepal', Observer Research Foundation, [online], available at: <https://www.orfonline.org/research/how-china-soured-on-nepal> (accessed December 2025).

⁸¹ Observer Research Foundation (2025) 'Sweeping changes in Nepal-China relations', Observer Research Foundation, [online], available at: <https://www.orfonline.org/expert-speak/sweeping-changes-in-nepal-china-relations> (accessed December 2025).

⁸² Ibid.

The ratification of the U.S. Millennium Challenge Corporation (MCC) Nepal Compact in 2022 was particularly controversial. While the US side claimed the Chinese led a disinformation campaign against the ratification, the Chinese maintained their own protest, citing this treaty as an attack on Nepal's sovereignty.⁸³ The Indian side maintained tacit approval, as it saw this as a way of balancing China's influence due to the Belt and Road Initiative.

Conversely, in August 2025, Nepal expressed strong displeasure at warming India–China ties following the announcement of an expanded trading route through the Lipulekh Pass. Kathmandu claims Lipulekh as its own territory, and the Indian–Chinese decision to move forward with opening the pass was met with protest from the Nepalese government.⁸⁴ This episode underscores how unresolved border issues and great-power coordination can create a rapidly changing geopolitical dynamic, where smaller countries may seek to balance bigger powers but also be sidelined by them.

Domestic politics

India and Nepal share one of the closest people-to-people relationships in South Asia. This closeness is built on a shared culture and freedom of mobility and commerce that citizens enjoy across the border. Nepalese citizens, for instance, can serve in India's elite civil services, and can hold jobs in both Railways and the Indian Army. The scale of this integration is significant. According to some estimates, nearly 1.5 million Nepalese citizens reside or work in India, forming a critical source of remittance and economic support for Nepal.⁸⁵ Pension payments alone, stemming from past service in Indian security and administrative institutions, amount to roughly INR 2,800 crore annually, flowing directly into Nepal's economy.⁸⁶ Furthermore, there is a long tradition of inter-marriage between Hindu families spread across the two countries, a testament of the close cultural affiliations shared by the people. The

⁸³ Official communique from the Chinese Embassy in Nepal dated 15th July 2022, available at: https://np.china-embassy.gov.cn/eng/News/202207/t20220715_10722125.htm (accessed December 2025).

⁸⁴ Puspa Sarma (2025). 'India-China Latest Understanding: Nepal Feels Betrayed' ISAS Policy Brief, NUS, available at: <https://www.isas.nus.edu.sg/papers/india-china-latest-understanding-nepal-feels-betrayed/> (accessed December 2025).

⁸⁵ Souptik Biswas (2025). 'Worried migrants head home from India after Nepal turmoil'. BBC, available at: <https://www.bbc.com/news/articles/c15kzx99qevo> (accessed December 2025).

⁸⁶ Nikhil Sahu (2025). '75 Years of the India-Nepal Friendship Treaty: A Time-Tested Bond or a Relic of the Past?', Observer Research Foundation, available at: <https://www.natstrat.org/articledetail/publications/years-of-the-india-nepal-friendship-treaty-a-time-tested-bond-or-a-relic-of-the-past-218.html> (accessed December 2025).

India-Nepal relationship is thus not peripheral; its closeness is visible in everyday life, family networks, and labour markets.

Because the societal linkages are so dense, shifts in bilateral relations often reverberate into domestic politics in both countries and vice versa. In Nepal, accusations of Indian interference periodically erupt, particularly during political crises or moments of internal contestation. A major example was the prolonged unrest over the Madhesi issue: inhabitants of the plains at the foothills of the Himalayas, bordering the Indian state of Uttar Pradesh and Bihar are generally referred to as Madhesis. They have long demanded better representation from the political leadership, who they accuse of favouring the hill populations. In 2015, an amended constitution failed to adequately respond to these demands, following which violent protests occurred in the country. India is known to have supported the demands of the Madhesis and is accused of having blockaded the border check-points, which caused acute shortage of oil in Nepal. While the Indian government has officially denied these charges, many in Nepal blamed New Delhi for the severe disruption to supply lines. This episode created a veritable anti-India sentiment in Nepal, which was further exploited by the left-wing political leadership to gain greater popularity. This period also catalysed closer ties between Nepal and China, both because Nepali leaders sought to reduce their dependence on India and because the political forces that gained prominence were communist in orientation and maintained close links with Beijing.⁸⁷

Despite momentarily capturing public support, the Nepalese leadership largely failed to ensure political stability in the country. The anti-establishment Gen-Z protests were primarily aimed against corruption and poor governance under previous regimes. While murmurs of Indian, and even Chinese, interference were circulated in social media, the Indian establishment this time around chose to maintain its distance. A policy expert in New Delhi suggested that New Delhi had learnt its lessons from the Madhesi episode: Any signs of obvious interference and coercion would only serve to alienate Nepalese citizens.⁸⁸

These episodes underscore the double-edged nature of Nepal's closeness with India. On one hand, deep societal integration creates mutual economic dependence, stabilises relations, and embeds India

⁸⁷ Shakya, S. (2025) 'From uprising to renewal: Understanding Nepal's transformation', India's World, no. November 2025, [online], available at: <https://indiasworld.in/from-uprising-to-renewal-understanding-nepals-transformation/> (accessed December 2025).

⁸⁸ From authors' interviews in Delhi, conducted between 1st to 10th October, 2025.

in the everyday lives of Nepali citizens. On the other hand, it also makes bilateral relations acutely vulnerable to domestic political developments. Elections in Nepal are scheduled to be held in 2026, and the interim government under Prime Minister Sushila Karki has so far been successful in maintaining peace and allaying protests. Karki has also gestured towards more peaceful relations with New Delhi, calming some of the tensions that marked the relations in the tenure of the previous leadership.

In sum:

- **Trade asymmetry fuels resentment despite mutual dependence:** India accounts for two-thirds of Nepal's goods trade and nearly all petroleum, but Nepal represents less than 1% of India's imports, creating chronic deficit; hydropower exports could potentially add 40% to Nepal's GDP and rebalance relationship (first Bangladesh export via Indian grid June 2025)
- **Geographic dependence inescapable but politically contested:** As landlocked country, Nepal relies on Indian transit for one-third of third-country trade and access to ports, but 1950 Treaty of Peace and Friendship provisions viewed by many Nepalis as sovereignty infringement despite India's security rationale
- **Hedging between India and China intensifying amid great-power competition:** Chinese defence equipment procurement expanding, China mediating internal political deadlocks, controversial infrastructure investments (Pokhara/Bhairahawa airports - India blocked Chinese aircraft landing clearance), US MCC compact ratification contentious, while deep military ties with India persist (7 Gorkha regiments, several Nepalese citizens in India)
- **India's strategy evolved from coercion to restraint:** 2015 alleged blockade during Madhesi protests generated severe anti-India backlash and catalysed China ties; during recent Gen-Z protests India maintained distance, reflecting lesson that “obvious interference and coercion would only serve to alienate Nepalese citizens”
- **Small state vulnerability to great-power coordination:** August 2025 Lipulekh Pass dispute - Nepal's territorial claims ignored as India-China proceeded with expanded trading route, demonstrating how smaller countries “may seek to balance bigger powers but also be sidelined by them”

Chapter 3: India - Bangladesh

Brief overview

The India–Bangladesh relationship had long been regarded as one of India’s more pragmatic diplomatic achievements. However, political change in Dhaka after the July 2025 revolution, which led to the ousting of Sheikh Hasina and her eventual exile to India, has led to a steady deterioration of these ties.

Economically, India and Bangladesh have continued their mutual engagement. India’s role is particularly critical for Bangladesh’s textile sector, where Indian cotton yarn constitutes a key input, underscoring the structural dependence of Bangladesh’s export-led growth model on Indian supplies. Beyond trade, the relationship rests on an extensive connectivity architecture built over the past decade with substantial Indian investment, owing to the importance given to Bangladesh in New Delhi’s “Neighbourhood First” policy. These interconnections have appeared robust so far. As a result, despite growing tensions, trade volume between the two countries has not registered decline.

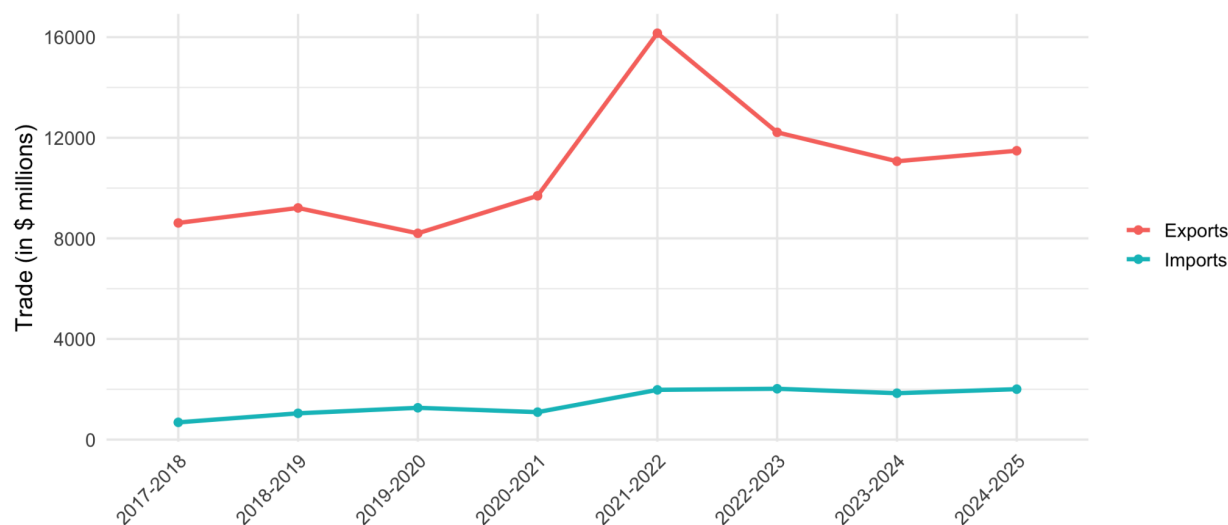
Security dynamics, on the other hand, have witnessed a steep decline. The India–Bangladesh border has become increasingly securitised, with accelerated fencing, enhanced surveillance, and growing mutual suspicion. Furthermore, this period is also noteworthy for the warming ties between Bangladesh, Pakistan, and China. India has responded by reinforcing its military infrastructure around strategically vulnerable areas, such as the Siliguri Corridor.

Domestic political developments in both countries have compounded these challenges. Migration from Bangladesh into India has become a highly charged political issue, particularly in Indian border states, where allegations of illegal migration and demographic manipulation feature prominently in electoral discourse. Such rhetoric has strained bilateral relations and generated resentment in Bangladesh. Conversely, developments within Bangladesh since the change of government have alarmed New Delhi. Reports of violence against Hindu minorities, the political marginalisation of the Awami League, and uncertainty surrounding future elections have raised concerns about social stability and governance.

Trade and infrastructure

Trade between India and Bangladesh remains one of the few relatively robust axes of economic exchange in South Asia, even though intra-regional trade among South Asian countries has remained low overall. The graph below shows the total yearly exports and imports from India to Bangladesh over the last two decades. Despite currently going through a period of diplomatic tensions in the aftermath of Sheikh Hasina's ouster and exile to India, the trade figures have not registered any noticeable decline so far. Indian imports account for nearly 12% of total volume of imports in Bangladesh, making India the second largest trade partner after China.⁸⁹

Figure 6: Trade between India and Bangladesh over the years



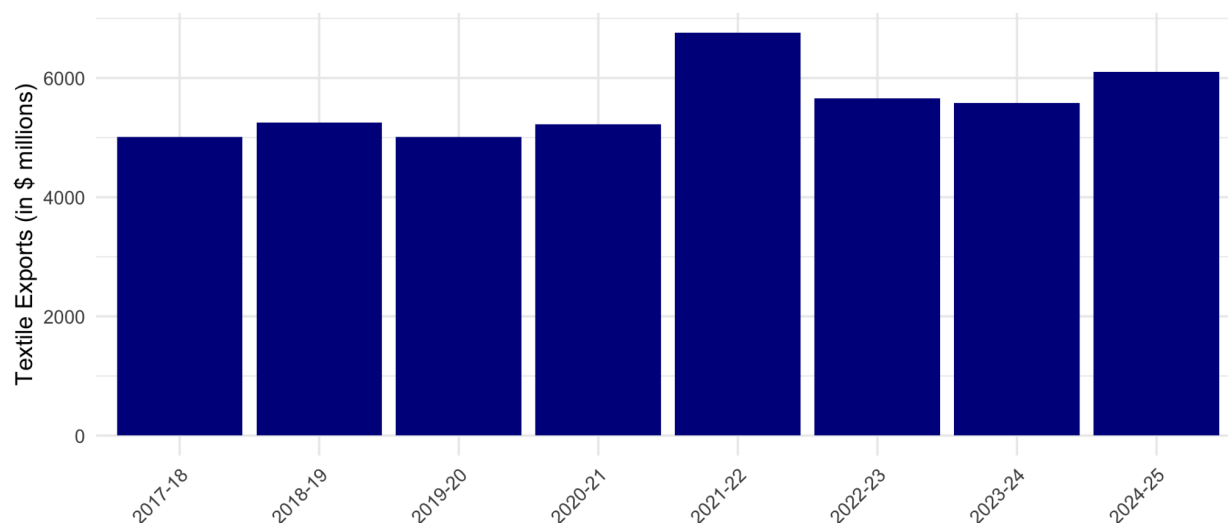
Source: Author calculations based on data from <https://tradedat.commerce.gov.in/>

Such dependence on Indian imports also carries into the most important industry for Bangladesh: textiles. Here, India is a major supplier of cotton yarn, an essential raw material for the textile industry. According to data available with the Indian Ministry of Commerce, in the financial year ending in March 2025, India exported 2803 million dollars worth of cotton to Bangladesh. This was an 18% increase

⁸⁹ According to trade figures reported in the World Integrated Trade Solution, an online repository of global trade volume and information. Can be accessed at: <https://wits.worldbank.org>

since the previous financial cycle. Though reliable estimates are difficult to come by, reports suggest that India may be the largest source of raw material for the textile industry. The graph below shows that the annual textile exports to Bangladesh too have not registered any decline, despite tensions.

Figure 7: Indian textile exports (2017-2025) to Bangladesh



Source: Author calculations based on data from <https://tradedat.commerce.gov.in/>

The India-Bangladesh economic relationship is not just about trade volumes but about a broader connectivity architecture. Over the last decade, both countries have implemented multiple rail, energy, and transit-infrastructure projects to anchor trade, energy security, and regional integration. Multiple cross-border rail links have been revived or inaugurated revitalising freight and passenger transport and lowering logistic costs.⁹⁰ Such trading facilities hold significance for both countries: While these give logistic support to Bangladesh's crucial textile industry, these also give port access to the north-eastern states of India, which are otherwise landlocked and lack facilities for robust cross-border trade.

On the energy front, bilateral cooperation has deepened significantly: the Bangladesh–India Friendship Pipeline — inaugurated in March 2023 — supplies petroleum products from India to Bangladesh.

⁹⁰ Jayshree Sengupta (2023), 'Time to Boost India-Bangladesh Trade and Economic Relations', Observer Research Foundation. Available at: <https://www.orfonline.org/research/time-to-boost-india-bangladesh-trade-and-economic-relations> (accessed December 2025).

Bangladesh has also begun importing electricity from India through bilateral power-grid interconnections, making energy trade a core component of economic cooperation.

Beyond trade logistics and energy, cooperation includes development assistance and structural investments: According to the Ministry of External Affairs, India has extended nearly \$8 billion dollars for investment in development projects to Bangladesh. In fact, the country is the single largest recipient of such aid from India. This development aid is in addition to social welfare projects run with the assistance of the Indian government, such as education centres for visually impaired students, schemes for upgradation of laboratories, and assistance in setting up high-tech IT facilities.⁹¹ Such substantive cooperation beyond trade shows the prominence given to Bangladesh in India's "Neighbourhood First" doctrine.

The relationship between the two countries, however, is far from equitable. Imports from Bangladesh in the financial year 2024-2025 accounted for less than 1% of the total volume of goods imported into India. And while India is the second largest trade partner for Bangladesh, Indian goods exported to Bangladesh in the same period were only 2% of the total volume of goods exported from India globally. As a dominant partner in the relationship, the Indian position has often come under criticism from different sectors in Bangladesh. In the current turmoil, several opposition voices joined the "India-out" campaign,⁹² in a public display of anti-India sentiment.

Political actors have further instigated the anti-India sentiment through speeches given to national media. In the most recent episode, a retired army official made claims about the need of India division into "several smaller countries" to ensure peace and prosperity in Bangladesh.⁹³ Whereas such nationalistic rhetoric is mostly meant to rile and capture audience attention in manufactured TV debates, Dhaka has indeed made some adjustments to balance its dependence on India. Most notably, the interim government banned the import of Indian cotton yarn over land, and closed down several of

⁹¹ Information accessed from Ministry of External Affairs performance dashboard, available at: <https://meadashboard.gov.in/>

⁹² Mahmud, F. (2024) "India Out" campaigns simmer in Bangladesh amid election fallout', *Al Jazeera*, [online], available at: <https://www.aljazeera.com/economy/2024/2/7/india-out-campaigns-simmer-in-bangladesh-amid-election-fallout> (accessed December 2025).

⁹³ India Today (2025) 'India must break into pieces for Bangladesh's peace: Ex-army officer's bombshell', available at: <https://www.indiatoday.in/world/story/india-break-into-pieces-bangladesh-peace-former-army-general-jamaat-chief-son-2829987-2025-12-03> (accessed November 2025).

the major land trading hubs it shares with India.⁹⁴ Given the imbalance in trade relations, this is unlikely to significantly impact Indian economic trajectory, but the signal behind such actions would not be missed by policy-makers in New Delhi.

The Indian side too has taken strong measures: In April 2025, it rescinded Bangladesh's access to trans-shipment facilities in India. Since 2020, traders from Bangladesh have been using the land custom facilities in India to transport to third countries. This helped ease some of the pressure on seaports and reduced transportation costs. According to one estimate, nearly \$1 billion worth of goods were transported using this service. With the rescission of this access, traders are likely to face greater transport costs, bringing down their margins and the overall volume of trade may suffer.⁹⁵

Other connectivity projects, launched with much fanfare, also face an uncertain future. India has stalled the extension of the Friendship Pipeline,⁹⁶ and an ambitious plan to modernize electricity grid connections between India, Bangladesh, and Nepal is in limbo.⁹⁷ These interruptions highlight the fragility of trade-centered connectivity when security and political conditions deteriorate.

Security

A core objective of Indian security strategy has long been to prevent a replication of the China-Pakistan axis on India's eastern flank via a China-Bangladesh-Pakistan alignment. Historically, New Delhi pursued a dual-track approach to this end. First, it cultivated multi-dimensional ties with Bangladesh in trade, energy, and infrastructure to secure its leverage over Dhaka. Second, on the basis of its leverage, it has tried to dissuade closer China-Bangladesh relations. Since the ouster of Sheikh Hasina, however,

⁹⁴ India Today (2025) 'Three land ports with India closed by Bangladesh; operation suspended at one port, decision taken by Advisory Council of Yunus', *India Today*, [online], available at: <https://www.indiatoday.in/india/story/three-land-ports-with-india-closed-by-bangladesh-operation-suspended-at-one-port-decision-taken-by-advisory-council-of-yunus-2778997-2025-08-29> (accessed December 2025).

⁹⁵ BBC (2025) 'Bangladesh PM announces new trade measures amid border tensions with India', BBC News, [online], available at: <https://www.bbc.co.uk/news/articles/c4g2y1yg8r2o> (accessed December 2025).

⁹⁶ TBS News, 'India halts diesel pipeline extension project citing political crisis in Bangladesh', [online], available at: <https://www.tbsnews.net/bangladesh/india-halts-diesel-pipeline-extension-project-citing-political-crisis-bangladesh-931276> (accessed December 2025).

⁹⁷ Bose, S., and Gupta, P. (2024) 'The fate of India-Bangladesh connectivity projects', Observer Research Foundation, [online], available at: <https://www.orfonline.org/expert-speak/the-fate-of-india-bangladesh-connectivity-projects> (accessed December 2025).

India appears to have suffered setbacks on both fronts. The erosion of the economic-infrastructure leverage was discussed in the previous section; here we focus on the deteriorating New Delhi-Dhaka security dynamics.

The most visible arena of this downward trend is along the 4,096-kilometre border between the two countries, which is the world's fifth-longest. While disputes over riverine islands or transboundary water sharing (notably the Teesta River) have existed in the past, both sides sought to resolve these amicably. Recently, though, the border has become increasingly securitized. The Indian government has accelerated fencing operations along substantial stretches of the boundary. Alongside physical barriers have come the installation of lighting and biometric scanners.⁹⁸ These measures are aimed at strengthening border control but are perceived by Dhaka as violations of the 1975 joint India–Bangladesh Border Guidelines, which prohibit the erection of any defence structures within 150 yards of the border. As a result, Bangladesh has registered its strong opposition to this exercise on several occasions.

The ongoing tensions have prompted Delhi to pay much closer attention to its vulnerability in the Siliguri Corridor. This narrow 22-kilometre stretch, often called the “Chicken’s Neck,” is the only land link connecting the northeastern states to the rest of India (See Figure 3). Amid rising bilateral strain, senior figures in Dhaka, including Mohammed Yunus himself, have explicitly highlighted this vulnerability. Interpreting these remarks as veiled warnings, India has reportedly established three new army garrisons at strategic outposts along the corridor.⁹⁹ The eastern theatre command of the armed forces has also conducted recent defence exercises in the region. In parallel in Dhaka, an unprecedented visit by the Pakistan naval chief earlier this year added to the ongoing tensions. All these developments point to a growing shift toward security-driven strategy in the region.

Further fuelling alarm was a trilateral meeting earlier this year among diplomatic representatives of

⁹⁸ The Diplomat (2025) ‘Why India’s fence along its Bangladesh border riles Dhaka’, *The Diplomat*, [online], available at: <https://thediplomat.com/2025/01/why-indias-fence-along-its-bangladesh-border-riles-dhaka/> (accessed December 2025).

⁹⁹ Deutsche Welle, ‘Why is India upping forces at chokepoint with Bangladesh?’, [online], available at: <https://www.dw.com/en/why-is-india-upping-forces-at-chokepoint-with-bangladesh/a-74745741> (accessed December 2025).

Bangladesh, China and Pakistan in Kunming, China.¹⁰⁰ Under the interim government of Muhammad Yunus, Bangladesh's pivot toward China has been stark: China was the first international destination that was visited by the leader. Such a position was earlier reserved for India. Chinese firms have been invited to modernize Bangladesh's strategic ports and airfields, some of which lie very close to the Indian border. Reports suggest Dhaka is considering the revival of the decades-dormant Lalmonirhat Airbase, with Chinese help, raising the prospect of dual-use military infrastructure near Indian territory.¹⁰¹ This airbase was particularly important for sending military aid from the British to China during World War II. The significance of possible revival and Chinese operations from this base, combined with reports of a defence deal between China and Bangladesh for the procurement of advanced Chinese fighter air-crafts could further hurt the already tense India-Bangladesh relations. While many of these developments are still in early stages, even partial implementation of some of these arrangements could dramatically alter the geopolitical situation in South Asia.

Domestic politics

The close historical ties and people-to-people connections between India and Bangladesh, especially in the border areas, mean that domestic developments in each country can significantly influence the bilateral relationship. One such factor is migration: in the early years after Bangladesh's independence, an estimated 8 million Bengali refugees crossed into India.¹⁰² Of these, between 60-80% refugees were Hindus. Whereas such migration was contentious even in the past, particularly in states that were directly impacted by the influx, the Indian state did not actively seek to deport the undocumented migrants. In recent years, however, the issue of Bangladeshi immigrants has become particularly contentious, and is playing a much larger role in the internal political discourse in India.

¹⁰⁰ Md. Himel Rehman (2025). 'Strategic Implications of the First China-Pakistan-Bangladesh Summit', *The Diplomat*, available at: <https://thediplomat.com/2025/06/strategic-implications-of-the-first-china-pakistan-bangladesh-summit/> (accessed November 2025).

¹⁰¹ Economic Times (2023) 'Dragon's shadow near Siliguri: China aiding revival of WW2-era Bangladeshi airbase near India's Chicken's Neck', *Economic Times*, [online], available at: <https://economictimes.indiatimes.com/news/defence/dragons-shadow-near-siliguri-china-aiding-revival-of-ww2-era-bangladeshi-airbase-near-indias-chickens-neck/articleshow/121246761.cms?from=mdr> (accessed December 2025).

¹⁰² United Nations High Commissioner for Refugees. *The State of The World's Refugees 2000: Fifty Years of Humanitarian Action*. Oxford: Oxford University Press, 2000.

According to government estimates,¹⁰³ nearly 20 million illegal Bangladeshi immigrants were living in India as of 2016. A long, porous border and the possibility of easily acquiring fake identity documents in India complicates the process of counting immigrants. This issue is further complicated by the demographics of such migration. In border states of West Bengal and Assam, political actors allege that migrants — particularly Muslim migrants — have been given voter identity cards to create a captive vote bank.¹⁰⁴ These claims have inflamed public debate, creating tension not only within India but also triggering concern in Bangladesh, where political speeches about “illegal migrants” are often viewed as insulting and fuelling bilateral strain.

Meanwhile, the domestic political situation in Bangladesh itself has become a source of concern for India. Reports document a wave of violence and growing attacks on the Hindu minority community in Bangladesh since the change of regime.¹⁰⁵ For a Hindu-nationalist government in India, such developments put added pressure to take a hard line, as political and public opinion against Hindus in the neighbourhood demand a visible reaction. Further, the sidelining or persecution of the former ruling party Awami League, including the death sentence given to many of its leaders such as Sheikh Hasina, has deepened domestic polarization in Bangladesh and heightened distrust between governments.

Regime change has altered Bangladesh’s internal governance: under Hasina, the state had maintained strong control over radical Islamic groups. With her removal, there are widespread fears that those constraints have weakened, creating space for increasing influence of Islamist actors.¹⁰⁶ The uncertainty around upcoming elections, especially given that the largest political party – the Awami League – may be prevented from contesting, exacerbates doubts about political legitimacy and democratic stability. These domestic shifts raise profound questions for Indo-Bangladesh relations: as Bangladesh’s internal trajectory becomes more unpredictable, India’s strategies, which once relied heavily on economic,

¹⁰³ In 2016, Minister of State for Home Affairs, Kiren Rijju, quoted this figure in the Indian parliament. Official sources, however, do not give a clear estimate.

¹⁰⁴ Soumya De Sarkar (2025), Hindu outfit seeks refugees' vote rights, flags fears over Bengal's SIR exercise, *The Telegraph*, available online: <https://www.telegraphindia.com/west-bengal/hindu-outfit-seeks-refugees-vote-rights-flags-fears-over-bengals-sir-exercise-prnt/cid/2133622> (accessed December 2025).

¹⁰⁵ Al Jazeera (2024) “Our lives don’t matter” in post-Hasina Bangladesh: Hindus fear future’, *Al Jazeera*, [online], available at: <https://www.aljazeera.com/features/2024/12/12/our-lives-dont-matter-in-post-hasina-bangladesh-hindus-fear-future> (accessed December 2025).

¹⁰⁶ Observer Research Foundation (2024) ‘The upsurge of radical and fundamentalist Islamic elements in Bangladesh’, Observer Research Foundation, [online], available at: <https://www.orfonline.org/expert-speak/the-upsurge-of-radical-and-fundamentalist-islamic-elements-in-bangladesh> (accessed December 2025)

cultural, and migration-linked leverage, may need to be recalibrated to account for evolving security, social-cohesion, and demographic risks.

In sum:

- **Most dramatic bilateral deterioration following July 2025 revolution:** Hasina's ouster and exile to India transformed what was considered one of India's most stable partnerships into the most severely strained relationship, yet trade volumes remain robust (12% of Bangladesh's imports from India, \$2.8B cotton yarn exports up 18%)
- **Economic interdependence persists despite political hostility:** Bangladesh's textile industry structurally dependent on Indian cotton yarn, extensive connectivity architecture (cross-border rail, Friendship Pipeline, electricity grid) built over decade with \$8B Indian development assistance, but relationship highly asymmetric (Bangladesh <1% of India's imports vs India 2nd largest partner for Bangladesh)
- **Security anxieties escalating around China-Bangladesh-Pakistan axis:** Trilateral Kunming meeting, Chinese firms invited to modernize strategic ports/airfields near Indian border, potential revival of Lalmonirhat Airbase with Chinese help, defence deals for Chinese fighter aircraft, Pakistan naval chief visit - India responding by establishing three new garrisons along vulnerable Siliguri Corridor.
- **Border increasingly militarized amid mutual suspicion:** Accelerated fencing of 4,096km border with lighting and biometric scanners violates 1975 guidelines (Bangladesh claims), both sides taking retaliatory economic measures (India rescinding trans-shipment access affecting \$1B trade, Bangladesh banning Indian cotton yarn imports over land).
- **Domestic politics in both countries inflaming bilateral tensions:** Indian political discourse around 20 million 'illegal Bangladeshi immigrants' viewed as insulting in Dhaka, while reports of Hindu minority violence post-revolution and Awami League persecution (Hasina death sentence) pressure Modi government to take hard line, weakening state control over Islamist groups raises governance concerns

Chapter 4: India – Pakistan

The India–Pakistan relationship is today defined almost exclusively by adversarial dynamics. While the bilateral relationship has a long and complex history, including brief periods of engagement and dialogue, it has sharply deteriorated since the Pulwama terror attack in February 2019, in which 41 Indian paramilitary personnel were killed. The attack, claimed by the Pakistan-based militant group Jaish-e-Mohammed, marked a turning point in India’s response to cross-border terrorism.¹⁰⁷ In response to the Pulwama attack, India conducted air strikes on what it described as terrorist training camps in Balakot, located inside Pakistani territory near the international border. This marked a significant departure from earlier patterns of restraint and set a precedent for future crises. Experts suggest that New Delhi may have adopted a more explicitly kinetic doctrine, which sees diplomatic response as an unsatisfactory response to terrorist violence emanating from Pakistan.¹⁰⁸

A similar approach was evident following the Pahalgam attack, in which 28 Indian tourists were killed in Kashmir in April 2025. The scale of the attack is considered to be a significant escalation: While civilian casualties are not uncommon in previous attacks in the region, the targeted killing of non-local Hindu men put immense pressure on the government to respond. India responded with strikes against what it claimed were terrorist facilities deep inside Pakistan. Pakistan retaliated, leading to a brief but intense military escalation. This episode marked a new low point in bilateral relations and represented the first direct military confrontation between two nuclear-armed states in several years.

Given the risks involved, calls for restraint emerged from multiple international actors. A ceasefire was eventually declared on 10th May 2025, three days after India’s strikes. Nevertheless, the political and diplomatic aftershocks have persisted, particularly in India’s relations with the United States. The Trump administration has repeatedly claimed that Washington played a decisive role in brokering the ceasefire, a narrative consistent with its broader self-portrayal as a global peacemaker and reiterated in recent US

¹⁰⁷ Schwemlein, J. (2019) ‘Reciprocal attacks inflame India-Pakistan hostilities’, Carnegie Endowment for International Peace, [online], available at: <https://carnegieendowment.org/posts/2019/02/reciprocal-attacks-inflame-india-pakistan-hostilities?lang=en> (accessed December 2025).

¹⁰⁸ Shah, K. (2019) ‘Avenging Pulwama: Surgical strikes to force Pakistan rethink?’, Observer Research Foundation, [online], available at: <https://www.orfonline.org/expert-speak/avenging-pulwama-surgical-strikes-to-force-pakistan-rethink-48570> (accessed December 2025).

strategic documents.¹⁰⁹ Pakistan has echoed this position, with Prime Minister Shehbaz Sharif publicly nominating President Trump for the Nobel Peace Prize.¹¹⁰ India, however, has firmly rejected these claims in both domestic and international forums.¹¹¹ This resistance reflects a long-standing principle in Indian strategic thinking: the categorical rejection of third-party mediation in disputes with Pakistan.

This divergence has emerged at a moment when US–Pakistan ties appear to be warming. Historically, Pakistan has been a key US security partner, providing access to military infrastructure, including air bases, during the Cold War and later during US operations in Afghanistan. Following the withdrawal of US forces from Afghanistan and the decline of Pakistan’s strategic utility, bilateral relations had cooled. However, growing concern in Washington over China’s expanding influence in South Asia has renewed interest in re-engaging Pakistan. Islamabad has responded by offering cooperation in areas such as access to rare earth minerals, contributing to a gradual deepening of the relationship.¹¹²

Pakistan’s position within the broader US–China rivalry is inherently complex. On the one hand, it maintains an exceptionally close partnership with China, underpinned by large-scale investments through the Belt and Road Initiative and extensive cooperation in both civilian and military infrastructure. On the other hand, Pakistan’s relationship with the United States predates these ties and stretches back to the early years after independence, when Pakistan aligned with Washington while India pursued non-alignment.¹¹³

For India, this external entanglement reinforces the logic of strategic multi-alignment. In our interviews in New Delhi, we found the widespread recognition that the US-Pakistan relationship may continue to

¹⁰⁹ Lissner, R., Freeman, W., Sacks, D., Fix, L., Cook, S. A., Gavin, M., and Paul, B. (2025) ‘Unpacking a Trump twist of the National Security Strategy’, Council on Foreign Relations, [online], available at: <https://www.cfr.org/expert-brief/unpacking-trump-twist-national-security-strategy> (accessed December 2025).

¹¹⁰ Al Jazeera (2025) ‘Pakistan to nominate “genuine peacemaker” Trump for Nobel Peace Prize’, Al Jazeera, [online], available at: <https://www.aljazeera.com/news/2025/6/21/pakistan-to-nominate-genuine-peacemaker-trump-for-nobel-peace-prize> (accessed December 2025).

¹¹¹ The Times of India (2025) ‘“No room for any third party”: India at UN rejects Trump’s ceasefire claim – issues warning to Pakistan on terror’, *The Times of India*, [online], available at: <https://timesofindia.indiatimes.com/india/no-room-for-any-third-party-india-at-un-rejects-trumps-ceasefire-claim-issues-warning-to-pakistan-on-terror/articleshow/124175938.cms> (accessed December 2025).

¹¹² Murad, M. (2025) ‘With Pakistan-US relations on the upswing, should China be worried?’, *The Diplomat*, [online], available at: <https://thediplomat.com/2025/10/with-pakistan-us-relations-on-the-upswing-should-china-be-worried/> (accessed December 2025).

¹¹³ Tripathi, D., and Shams, T. (2025) ‘The complicated history of U.S.–Pakistan relations | Explained’, *The Hindu – World*, [online], available at: <https://www.thehindu.com/news/international/the-complicated-history-of-uspakistan-relations-explained/article70208457.ece> (accessed December 2025).

strengthen. Both groups — the experts we spoke to, and the general scholarship — tend to view multi-alignment as a response in a positive light, even though there is arguably very limited support for going back to the Russia-leaning foreign policy of the Soviet years.

The involvement of additional actors further complicates the landscape. In discussions with British diplomats in New Delhi, concerns were raised about how India–Pakistan tensions spill over into domestic politics in the United Kingdom, where communal violence between Indian-origin and Pakistani-origin groups has occurred in the past.¹¹⁴ Reports suggesting the presence of Turkish drone operatives during the recent conflict have also fuelled Indian perceptions of expanding external involvement on Pakistan’s side.¹¹⁵

As a result, the India–Pakistan rivalry cannot be understood solely as a bilateral or regional conflict. It is embedded within wider patterns of great-power competition which is currently playing out in South Asia. Against this backdrop, India has sought to strengthen ties with countries that share borders with Pakistan, notably with Afghanistan. Engagement with the Taliban-led government in Kabul has increased, including the reception of senior Taliban leaders in New Delhi in October 2025, marking their first official diplomatic visit abroad. This was followed by additional visits, signalling India’s intent to retain influence in Pakistan’s immediate neighbourhood despite regional instability.¹¹⁶

Given the trajectory of bilateral relations, prospects for normalization remain limited. Trade between India and Pakistan is effectively non-existent, even though some reports suggest that unofficial trade, particularly undertaken through third-party liaison, has continued.¹¹⁷ In addition, the domestic situation in both countries currently makes any rapprochement untenable: The national government under Prime Minister Modi has built its brand on strongman politics which cannot be reconciled with a conciliatory stance on national security, while the current military leadership under Asim Munir in Pakistan has

¹¹⁴ Lowbridge, C. (2022) ‘Large-scale disorder breaks out in Leicester’, BBC News, [online], available at: <https://www.bbc.com/news/uk-england-leicestershire-62943952> (accessed December 2025).

¹¹⁵ Ri, S. (2025) ‘Turkey’s role in helping Pakistan confirmed, two Turkish drone contractors killed in Indian airstrike’, *Republic World*, [online], available at: <https://www.republicworld.com/world-news/turkey-role-helping-pakistan-confirmed-two-turkish-drone-contractors-killed-in-indian-airstrike-operation-sindoor> (accessed December 2025).

¹¹⁶ Bajpae, C. (2025) ‘India is seeking to reset relations with the Taliban. But can this rapprochement last?’, Chatham House, [online], available at: <https://www.chathamhouse.org/2025/10/india-seeking-reset-relations-taliban-can-rapprochement-last> (accessed December 2025).

¹¹⁷ Shankar, P., and Sharma, Y. (2025) ‘The \$10bn India-Pakistan trade secret hidden by official data’, *Al Jazeera*, [online], available at: <https://www.aljazeera.com/news/2025/5/1/the-10bn-india-pakistan-trade-secret-hidden-by-official-data> (accessed December 2025).

adopted a more religious outlook towards its conflict against India.¹¹⁸ The relationship is thus likely to remain locked in a pattern of hostility, shaped not only by bilateral grievances but also by the strategic calculations of external powers and domestic political constraints.

In sum:

- **India's doctrine shifted from restraint to kinetic response after Pulwama:** February 2019 Balakot strikes inside Pakistani territory marked departure from earlier patterns; April 2025 Pahalgam retaliation (strikes deep inside Pakistan after 28 tourists killed) represented the first direct military confrontation between two nuclear states in years.
- **Third-party mediation remains categorically rejected by India:** Trump administration's claims of brokering May 2025 ceasefire (echoed by Pakistan nominating Trump for Nobel Prize) firmly rejected by India, reflecting long-standing principle against external involvement in Pakistan disputes
- **US-Pakistan warming complicates India's strategic environment:** growing Washington concern over Chinese influence in South Asia driving re-engagement with Islamabad (rare earth minerals cooperation), despite Pakistan's simultaneous deep partnership with China through BRI and military infrastructure - this external entanglement reinforces India's multi-alignment logic.
- **Conflict embedded in wider great-power competition:** Additional actors complicate landscape (Turkish drone operatives, UK diaspora tensions), while India pursues counter-engagement through Taliban outreach (October 2025 New Delhi visits) to retain influence in Pakistan's immediate neighbourhood
- **No prospects for normalisation:** Trade effectively non-existent, domestic politics in both countries make rapprochement untenable (Modi's strongman brand vs Asim Munir's religious outlook on conflict).

¹¹⁸ Singh, N. (2025) 'Why Pakistan Army Chief Asim Munir's "two-nation" speech is going viral', *Business Standard*, [online], available at: https://www.business-standard.com/external-affairs-defence-security/news/pakistan-army-general-asim-munir-speech-hindus-muslims-two-nation-theory-125041700279_1.html (accessed December 2025).

Chapter 5: India and the Indian Ocean Region

Brief overview

The emerging importance of the South Asian region as a stage for geopolitical competition is nowhere more apparent than in the Indian Ocean Region (IOR), where developments over the past few years have underscored the stakes involved for the region itself, but also for the global order. About 80% of the world's maritime oil and 9.84 billion tons of cargo pass through the Indian Ocean annually, with about 40% of global oil production passing daily through the region's critical choke points.¹¹⁹ The Indian Ocean accounts for over one-third of the world's cargo traffic and two-thirds of the world's oil shipments, making it an artery as vital to global commerce as any maritime space on earth.¹²⁰

¹¹⁹ Baruah, D. M., Labh, N., and Greely, J. (2023) 'Mapping the Indian Ocean Region', Carnegie Endowment for International Peace, [online], available at: <https://carnegieendowment.org/research/2023/06/mapping-the-indian-ocean-region?lang=en> (accessed December 2025).

¹²⁰ International Journal of Social Sciences and Management Review (2025) 'The Indian Ocean trade routes and their global significance', *International Journal of Social Sciences and Management Review*, [online], available at: https://ijssmr.org/uploads2025/ijssmr08_44.pdf (accessed December 2025).

Figure 8: Map showing choke points in the IOR



Source: Carnegie Endowment. Available here:
<https://carnegieendowment.org/research/2023/06/mapping-the-indian-ocean-region?lang=en>

The choke points – the Strait of Hormuz, the Strait of Malacca, and Bab-el-Mandeb – represent critical vulnerabilities in the system of global trade. The Strait of Malacca alone accommodates over 94,000 vessels annually, representing approximately 25% of global trade volume with cargo valued at USD 2.8 trillion, while the Strait of Hormuz serves as the only maritime outlet for five of the world’s top ten oil producers, carrying 34% of global seaborne oil exports and making it the world’s most critical energy choke point.¹²¹ Bab-el-Mandeb, the gateway between the Red Sea and the Gulf of Aden, handles 8.7% of global seaborne trade valued at over USD 2 trillion.¹²² Any disruption to these passages would

¹²¹ Baruah et al., ‘Mapping the Indian Ocean Region’, [online], available at: <https://carnegieendowment.org/research/2023/06/mapping-the-indian-ocean-region?lang=en> (accessed December 2025).

¹²² United Nations Conference on Trade and Development (2024) *Review of Maritime Transport 2024*, United Nations Conference on Trade and Development, [online], available at: https://unctad.org/system/files/official-document/rmt2024_en.pdf (accessed December 2025); see also informedi.org (2024) ‘The six choke points that can upend global trade’, *Weekly Business Insights*, [online], available at: <https://informedi.org/2024/05/31/weekly-business-insights-8/> (accessed December 2025).

cascade through global supply chains, affecting everything from energy prices to pharmaceutical supplies and agricultural commodities.

Economics and trade

The economic dimensions of IOR dynamics are increasingly complex, intertwined with challenges that blur traditional distinctions between economic and strategic concerns. India has continued to purchase Russian oil following the 2022 invasion of Ukraine, making it a major destination for Russian energy exports. Simultaneously, the emergence of the Russian ‘shadow fleet’, aging tankers used to circumvent Western sanctions, has complicated maritime governance. It is estimated that the shadow fleet now accounts for approximately 17% of the global oil tanker market, with many vessels sailing under flags of convenience such as Gabon, Comoros, or Liberia, carrying Russian crude primarily to markets in India and China.¹²³ Beyond the regulatory challenges, these poorly maintained vessels pose enormous environmental risks, threatening oil spills that could devastate fishing industries and coastal economies across the Indian Ocean. These risks fall disproportionately on small island states with limited disaster response capabilities.¹²⁴

Illegal, Unreported and Unregulated (IUU) fishing represents another persistent challenge where economic and security concerns intersect. Nearly 80% of respondents in a survey of maritime agencies from ten Indian Ocean countries identified illegal fishing as the most significant maritime security threat.¹²⁵ Chinese distant-water fishing fleets operating in the Indian Ocean have become a particular concern, with Indian naval monitoring reporting a significant and growing presence of Chinese fishing vessels concentrated in the northern Indian Ocean.¹²⁶

¹²³Center for Maritime Strategy (2025) ‘Dark waters: Strategic implications of Russian shadow tankers in the Red Sea and Indian Ocean’, Center for Maritime Strategy, [online], available at: <https://centerformaritimestrategy.org/publications/dark-waters-strategic-implications-of-russian-shadow-tankers-in-the-red-sea-and-indian-ocean/> (accessed December 2025).

¹²⁴ Geopolitical Monitor (2025) ‘Russia’s shadow fleet: A masterclass in sanctions evasion’, Geopolitical Monitor, [online], available at: <https://www.geopoliticalmonitor.com/russias-shadow-fleet-a-masterclass-in-sanctions-evasion/> (accessed December 2025).

¹²⁵Carnegie Endowment for International Peace (2025) ‘Hidden tides: IUU fishing and regional security dynamics for India’, Carnegie Endowment for International Peace, [online], available at: <https://carnegieendowment.org/research/2025/06/hidden-tides-iuu-fishing-and-regional-security-dynamics-for-india?lang=en> (accessed December 2025).

¹²⁶Economic Times (2023) ‘Spurt in China’s distant-water fishing vessels in high seas on radar of Indian security set-up’, Economic Times, [online], available at: <https://economictimes.indiatimes.com/news/defence/spurt-in-chinas->

These challenges – shadow fleets evading sanctions, illegal fishing depleting marine resources, and Chinese vessels operating with impunity – illustrate how economic security in the Indian Ocean has become inextricably linked to geopolitical competition. For India, addressing these transnational threats requires not just naval capability but also the trust and cooperation of island neighbours who control critical maritime spaces and whose economic vulnerabilities make them susceptible to external influence. This reality became particularly evident during the turbulent period of 2022-2024, when simultaneous crises in both Sri Lanka and Maldives tested India's capacity to use economic statecraft as a tool for maintaining regional influence.

Sri Lanka's economic collapse in 2022 brought regional instability into sharp focus, demonstrating how quickly a neighbour's crisis could affect India's security environment. The Maldives' 'India Out' political campaign of 2023-2024 initially suggested that Indian influence was waning, as a newly elected government campaigned explicitly on reducing Indian presence. Yet by late 2024, both relationships had not only stabilized but deepened, showcasing India's growing maturity in regional diplomacy. India responded not with the heavy-handed approaches of the past, but with substantial economic support, and a willingness to let democratic politics in these countries run their course.

The challenge India faces is pressing competing with Chinese capital without needing to match it dollar-for-dollar. China's deep pockets and willingness to extend large commercial loans for infrastructure projects gives it advantages that India cannot replicate. Instead, India has sought to leverage its comparative advantages: geographic proximity that allows for rapid crisis response, cultural and historical ties that provide a foundation of trust, and a development partnership model emphasizing grants and concessional loans rather than commercial lending that can lead to debt traps. But for this to be an effective strategy, India needs to maintain its good relations with these island nations.

This chapter examines India's evolving Indian Ocean strategy through three analytical lenses: trade and economic engagement, security cooperation, and political dynamics. We focus particularly on the bilateral relationships with Sri Lanka and Maldives—India's closest maritime neighbours – while also examining how India is leveraging multilateral frameworks like the Quad and the Indo-Pacific Oceans Initiative to amplify its regional influence. The analysis demonstrates that India is transitioning from a

[dwf-vessels-in-high-seas-on-radar-of-indian-security-set-up/articleshow/97627612.cms](https://www.dwf-vessels-in-high-seas-on-radar-of-indian-security-set-up/articleshow/97627612.cms) (accessed December 2025); see also Carnegie Endowment, 'Hidden tides'

reactive, bilaterally-focused approach to a proactive, multilayered maritime strategy. The chapter argues that while significant challenges remain – from capacity constraints to neighbours' hedging strategies – India's experiences in 2024 reveal a power learning to balance economic statecraft, security provision, and respect for sovereignty in ways that mark a genuine evolution in its regional diplomacy.

Maldives

India's economic relationship with the Maldives has grown substantially in recent years, with bilateral trade reaching USD 978.56 million in 2023–24, including Indian exports of USD 892 million to the Maldives.¹²⁷ India became Maldives' largest trade partner in 2023, surpassing Oman and China. Indian exports to the Maldives include pharmaceuticals, industrial equipment, construction materials like cement and aggregates, and essential agricultural products such as rice, spices, fruits, vegetables, and poultry.¹²⁸ Maldivian exports to India consist primarily of scrap metals, though efforts are underway to expand duty-free tuna exports following agreements reached in 2022.¹²⁹ Beyond trade, India has become the Maldives' primary source of financial support, providing a USD 1.4 billion assistance package in 2018 that included budgetary support, currency swap arrangements, and infrastructure financing.¹³⁰ The Greater Malé Connectivity Project—a \$500 million Indian-funded initiative to link the capital Male with surrounding islands through bridges and causeways – is India's largest infrastructure commitment in the Maldives.¹³¹ The Indian expatriate community in the Maldives is one of the largest foreign worker groups in the country, with an estimated 27,000 Indian nationals working primarily in the health, education, and service sectors, including as doctors, teachers, nurses, and other professionals.¹³²

¹²⁷ Ministry of Commerce and Industry, Government of India (2025) *Annual trade statistics: India–Maldives bilateral trade in 2023-24*, Ministry of Commerce and Industry, Government of India, [online], available at: <https://tradecouncil.org/india-expands-export-channels-to-maldives-with-new-port-approvals/> (accessed December 2025)

¹²⁸ High Commission of India, Malé (2025) *India–Maldives Bilateral Relations*, High Commission of India, Malé, [online], available at: <https://www.hcimale.gov.in/page/bilateral-relations/> (accessed December 2025).

¹²⁹ High Commission of India, Malé (2025) *Bilateral Relations*.

¹³⁰ Ministry of External Affairs, Government of India (2024) *Bilateral Brief: India–Maldives*, Ministry of External Affairs, Government of India, [online], available at: <https://www.mea.gov.in/Portal/ForeignRelation/Bilateral-Brief-Unclassified-March-2024.pdf> (accessed December 2025).

¹³¹ High Commission of India, Malé (2025) *Bilateral Relations*.

¹³² Ministry of External Affairs, Government of India (2024) *Bilateral Brief: India–Maldives*.

The Maldives relationship encapsulates both the challenges and opportunities of India's economic diplomacy in the Indian Ocean. The challenges became apparent when Mohamed Muizzu won the 2023 presidential election on an explicit 'India Out' platform, promising to withdraw Indian military personnel from the country and reduce perceived Indian dominance. To many in New Delhi, this represented a worrying shift toward China in a strategically vital location.

The tensions came to a head in January 2024 through two parallel developments. First, derogatory remarks about Prime Minister Modi by junior Maldivian ministers triggered a social media firestorm in India, leading to a #BoycottMaldives campaign that gained massive traction. The economic impact was immediate and severe: Indian tourist arrivals to the Maldives declined by 37.47% compared to the previous year. Given that India had been the largest tourist source for the Maldives, and that tourism represents approximately 25% of Maldivian GDP and 70% of employment (direct and indirect), the stakes were extraordinarily high.

Second, also in January 2024, Muizzu visited China and upgraded the bilateral relationship to a 'comprehensive strategic partnership' – the highest level in China's diplomatic hierarchy. Chinese-funded infrastructure projects expanded, and Chinese military vessels docked in Malé harbour with increasing frequency. To many observers, it appeared that the Maldives was decisively tilting away from India and toward China, potentially providing Beijing with a strategic foothold at a critical location—what analysts describe as the 'toll gate' between the western chokepoints of the Gulf of Aden and Strait of Hormuz and the eastern Strait of Malacca.

Yet India's response was notably restrained. Indian officials maintained diplomatic engagement while allowing the Maldivian government space to recognize its economic vulnerabilities.¹³³ By mid-2024, those vulnerabilities had become acute. The Maldives faced a severe foreign exchange crisis (mainly debts owed to China and India), with reserves covering only 1.5-1.8 months of imports and usable reserves falling below one month.¹³⁴ The fiscal situation deteriorated rapidly, with over USD 600 million

¹³³Observer Research Foundation (2025) 'From India Out to Opting In: Why Muizzu Recalibrated Ties with India', ORF Expert Speak, [online], available at: <https://www.orfonline.org/expert-speak/from-india-out-to-opting-in-why-muizzu-recalibrated-ties-with-india> (accessed December 2025).

¹³⁴ World Bank (2025) *Maldives Development Update: October 2025*, World Bank, [online], available at: <https://www.worldbank.org/en/country/maldives/publication/maldives-development-update-october-2025> (accessed December 2025).

in debt repayments due in 2025 and USD 1 billion in 2026,¹³⁵ and the government found itself unable to service its debt obligations without external support.

President Muizzu's state visit to India in June 2024 marked the turnaround. What Maldivian officials described as recognition of India as their 'key development partner' resulted in a comprehensive package of economic agreements. Prime Minister Modi's reciprocal visit to Malé in July 2025 – coinciding with the Maldives' 60th Independence Day – consolidated this reset. The visit produced thirteen Memoranda of Understanding across defence, health, education, and infrastructure sectors, alongside a USD 565 million credit line, a currency swap agreement worth USD 756.8 million, and a USD 50 million rollover of Treasury Bills to ease immediate debt pressures. According to Indian government data, India's development assistance to the Maldives increased by 50% in 2024.

Sri Lanka

The relationship between Sri Lanka and India stretches back millennia, rooted in shared Buddhist heritage, linguistic ties, and centuries of trade across the narrow Palk Strait. For modern India, Sri Lanka occupies an important position. The island sits astride vital shipping lanes connecting the Arabian sea to the Bay of Bengal. The port of Colombo handles 30-40% of Indian transshipment cargo.¹³⁶ This geographic and economic interdependence transforms Sri Lanka from merely a neighbour into what Indian policymakers view as an extension of India's domestic security perimeter.

India and Sri Lanka maintain substantial economic ties, with bilateral merchandise trade reaching approximately USD 5.5 billion in fiscal year 2023-24 – making India one of Sri Lanka's largest trading partners.¹³⁷ The relationship is governed by the India-Sri Lanka Free Trade Agreement (ISFTA), which entered into force in March 2000 and provides duty-free access for thousands of product lines.¹³⁸ India's exports to Sri Lanka – worth USD 4.1 billion in 2023-2024 – consists primarily of petroleum products,

¹³⁵Business Standard (2025) 'Maldives Debt Crisis: Default Risk Looms Amid Rising Loans and Repayments', Business Standard, [online], available at: https://www.business-standard.com/world-news/maldives-debt-crisis-default-risk-looms-amid-rising-loans-and-repayments-125031400373_1.html (accessed December 2025).

¹³⁶Jamestown Foundation (2025) 'China's Port Investments in Sri Lanka Reflect Competition with India in the Indian Ocean', Jamestown Foundation, [online], available at: <https://jamestown.org/chinas-port-investments-in-sri-lanka-reflect-competition-with-india-in-the-indian-ocean/> (accessed December 2025).

¹³⁷Ministry of External Affairs, Government of India (2024) *Bilateral Brief: India–Sri Lanka*.

¹³⁸High Commission of India, Colombo (2025) *India–Sri Lanka Economic and Trade Engagement*, High Commission of India, Colombo, [online], available at: <https://www.hcicolombo.gov.in/page/india-sri-lanka-economic-and-trade-engagement/> (accessed December 2025).

textiles, pharmaceuticals, and food items, while Sri Lanka exports goods worth approximately USD 1.4 billion.¹³⁹ Again, the significant trade imbalance reflects Sri Lanka's dependence on Indian imports for essential goods, particularly during times of economic stress.

This became very clear during the recent and severe economic crisis in Sri Lanka, which lasted from 2019 to 2024. The crisis started with the 2019 Easter Bombings, where over 250 people were killed in coordinated attacks on churches and hotels. The revenue from tourism, one of the main drivers of Sri Lanka's economy, declined immediately following this, and the situation collapsed with the arrival of the COVID-19 pandemic in 2020. Additionally, the Sri Lankan government banned fertilizer imports to save foreign currency, but plummeting crop yields forced even costlier food imports. Foreign reserves plummeted and inflation soared, leaving the country unable to pay for essential imports or service its debt. When Sri Lanka defaulted on its foreign debt in April 2022, the economic situation was desperate. With forex reserves at just USD 1.6 billion, sufficient for less than one month of imports, and USD 6.9 billion in foreign currency debt repayments scheduled for 2022, the island nation faced what the United Nations warned could become a 'full-blown humanitarian emergency'.¹⁴⁰ The crisis triggered political upheaval, with mass protests forcing the Rajapaksa family from power after decades of dominance in Sri Lankan politics. For India, the Neighbourhood First policy meant being the first – and for months, the only – major partner to provide substantial assistance.

India responded with around USD 4 billion in emergency financing before the IMF process could even begin. External Affairs Minister Jaishankar stated: 'When Sri Lanka had a very serious financial crisis while the rest of the world largely sat on its hands, we actually came forward with a package of more than USD 4 billion, which was almost twice the size of the IMF package'.¹⁴¹ However, as Jaishankar himself acknowledged in the same speech, this generosity came with expectations: 'while we are a larger economy and by and large we are generous and non-reciprocal we have interests like any nation. So, we also expect our neighbours to recognize that and to cater to our sensitivities as well.'¹⁴² India's

¹³⁹ Board of Investment / Sri Lanka Export Development Board (2025) *India Market Profile 2025*, srilankabusiness.com, [online], available at: <https://www.srilankabusiness.com/pdfs/market-profiles/2025/india-2025.pdf> (accessed December 2025).

¹⁴⁰ Observer Research Foundation (2024) 'Sri Lankan Economy: Crisis, Consolidation, and Collaboration', ORF Research, [online], available at: <https://www.orfonline.org/research/sri-lankan-economy-crisis-consolidation-and-collaboration> (accessed December 2025).

¹⁴¹ Chatham House (2025) 'A Conversation with Dr S. Jaishankar, External Affairs Minister of India', Chatham House, [online], available at: <https://www.chathamhouse.org/events/all/open-event/conversation-dr-s-jaishankar-external-affairs-minister-india> (accessed December 2025).

¹⁴² Chatham House (2025) 'Conversation with Dr S. Jaishankar'.

willingness to provide such substantial assistance came against a backdrop of intensifying Sino-Indian competition in Sri Lanka. China had surpassed India as Sri Lanka's largest FDI source in 2011, and by 2022 held significant leverage through debt obligations on megaprojects like Hambantota Port.¹⁴³

Indian crisis assistance came through multiple mechanisms: currency swaps, bilateral import credit including a USD 700 million fuel credit line, and Asian Clearing Union trade credit deferrals.¹⁴⁴ The effects of this were clear. About 50 percent of Sri Lanka's goods imported from India in 2022 were financed through these mechanisms, covering essential items like fuel, medicine, food, and fertilizer that prevented the humanitarian crisis. India had become, in the terminology of crisis economics, Sri Lanka's 'lender of last resort'.¹⁴⁵

After the emergency aid, India's economic ties with Sri Lanka deepened. India became Sri Lanka's largest source of tourists in 2024. New direct flights were set up between Chennai and Jaffna, in addition to multiple daily Colombo connections. However, India's growing economic presence also sparked controversy. The Adani Group's proposed USD 442 million wind power project became a major issue in Sri Lanka's 2024 election.¹⁴⁶ Critics pointed out that Adani's proposed tariff of 8.26 cents per kilowatt-hour was nearly double a competitive bid of 4.88 cents and raised environmental concerns about the project's location on ecologically sensitive Mannar Island. President Anura Kumara Disسانayake had campaigned against the project, but reversed course after taking office, pragmatically accommodating India's economic interests despite earlier nationalist rhetoric.

¹⁴³Jamestown Foundation (2025) 'China's Port Investments in Sri Lanka'.

¹⁴⁴ The Diplomat (2023) 'India as a Lender of Last Resort', The Diplomat, [online], available at: <https://thediplomat.com/2023/07/india-as-a-lender-of-last-resort/> (accessed December 2025).

¹⁴⁵Air University, Journal of Indo-Pacific Affairs (2023) 'India's Extraordinary Support during Sri Lanka's Crisis: Motivations and Impacts', Journal of Indo-Pacific Affairs, [online], available at: <https://www.airuniversity.af.edu/JIPA/Display/Article/3859529/indias-extraordinary-support-during-sri-lankas-crisis-motivations-and-impacts/> (accessed December 2025).

¹⁴⁶Business Standard (2024) 'Sri Lanka's JVP Vows to Cancel Adani Wind Energy Project if Elected', Business Standard, [online], available at: https://www.business-standard.com/world-news/sri-lanka-s-jvp-vows-to-cancel-adani-wind-energy-project-if-elected-124091600482_1.html (accessed December 2025).

Security

India's economic engagement with Sri Lanka and the Maldives—the crisis financing, trade relationships, and infrastructure investments discussed above—cannot be understood in isolation from security imperatives. The two dimensions are inseparable in contemporary Indian Ocean geopolitics, where commercial ports double as potential naval facilities, debt relationships create strategic dependencies, and control over critical maritime infrastructure translates directly into geopolitical influence. As global supply chains become increasingly securitized, the distinction between economic and security competition has collapsed entirely in the Indian Ocean Region.

Thus, for India, this convergence of economic and security concerns has intensified dramatically over the past two decades, driven primarily by China's expanding naval presence and its growing network of port facilities across the region. The so-called 'String of Pearls' strategy – a term coined in a 2005 U.S. Department of Defence report—describes China's network of commercial ports and potential naval facilities stretching from mainland China to Port Sudan in Africa.¹⁴⁷ Key areas include Pakistan's Gwadar Port, Sri Lanka's Hambantota Port, Bangladesh's Chittagong Port, Myanmar's Kyaukpyu Port, and China's first overseas military base in Djibouti, established in 2017.

India is thus encircled by Chinese controlled or operated ports in Pakistan to the west, Sri Lanka to its south, and Myanmar to its east. As over 80% of India's oil imports transit through Indian Ocean sea lanes, and any Chinese ability to monitor or disrupt these routes poses a threat to Indian energy security. The Hambantota Port in Sri Lanka released to China for 99 years after the debt crisis— sits just 300 nautical miles from India's southern coast. More concerning still is Gwadar Port in Pakistan, which gives China direct access to the Arabian Sea and the ability to monitor Indian naval movements from the west. Chinese submarines and intelligence-gathering vessels now regularly operate in waters India has long considered its backyard.¹⁴⁸

¹⁴⁷Khurana, G. S. (2008) 'China's "String of Pearls" in the Indian Ocean and Its Security Implications', *Strategic Analysis*, 32(1), pp. 1–39, [online], available at: <https://www.tandfonline.com/doi/pdf/10.1080/09700160801886314>

¹⁴⁸ Swadeshi Shodh (2023) 'China's "String of Pearls": Policy Implications for India', Swadeshi Shodh, [online], available at: <https://swadeshishodh.org/chinas-string-of-pearls-policy-implications-for-india/> (accessed December 2025).

The threat is not merely hypothetical. China's People's Liberation Army Navy (PLAN) has grown into the world's largest navy with 370 warships as of 2024, expected to reach 435 by 2030—far outstripping India's 132 warships.¹⁴⁹ China's deployment of advanced Type 039A "Yuan" class submarines with air-independent propulsion makes them exceptionally difficult to detect, while its new Type 096 nuclear-armed submarines pose challenges not just for India but for the United States as well.¹⁵⁰

Multilateral security frameworks

India's bilateral security arrangements are complemented by multilateral cooperation, most prominently through the Quadrilateral Security Dialogue (Quad) with the United States, Japan, and Australia. Originally formed in 2007 following the 2004 tsunami relief effort, the Quad was revived in 2017 as China's regional assertiveness intensified. Japanese Prime Minister Shinzo Abe's concept of a 'Free and Open Indo-Pacific' provided the intellectual framework for this revival.¹⁵¹

While officially described as a diplomatic partnership rather than a military alliance, the Quad's maritime security focus is clear. The annual Malabar naval exercises have expanded significantly, with all four navies now practicing anti-submarine warfare, surface combat, and air defence together.¹⁵²

Additionally, in 2022, the Quad launched the Indo-Pacific Partnership for Maritime Domain Awareness (IPMDA), designed to enhance surveillance capabilities across the region.¹⁵³ This initiative pools satellite data and maritime intelligence to track vessels engaged in illegal fishing, smuggling, and other illicit activities. For India, IPMDA addresses a critical gap: the ability to monitor vast ocean expanses where Chinese vessels operate beyond the range of shore-based surveillance.

¹⁴⁹ Asia Pacific Foundation of Canada (2024) *Balancing Tides: India's Competition with China for Dominance of the Indian Ocean Region*, Asia Pacific Foundation of Canada, [online], available at: <https://www.asiapacific.ca/publication/balancing-tides-indias-competition-china-dominance-indian> (accessed December 2025)

¹⁵⁰ Asia Pacific Foundation of Canada (2024) *Balancing Tides: India's Competition with China in the Indian Ocean*.

¹⁵¹ East Asia Forum (2024) 'The Quad's Growing Focus on Maritime Security', East Asia Forum, [online], available at: <https://eastasiaforum.org/2024/02/28/the-quads-growing-focus-on-maritime-security/> (accessed December 2025).

¹⁵² East Asia Forum (2024) 'The Quad's Growing Focus on Maritime Security'.

¹⁵³ IP Defense Forum (2025) 'Quad's Maritime Domain Awareness Initiative Strengthens Indo-Pacific Security', IP Defense Forum, [online], available at: <https://ipdefenseforum.com/2025/06/quads-maritime-domain-awareness-initiative-strengthens-indo-pacific-security/> (accessed December 2025).

However, India's role and position within the QUAD have been particular and occasionally constrained. With a disputed land border, recent border clashes with Chinese forces, and a historical tradition of non-alignment, India has been the most cautious about the Quad's military dimension and the most reluctant to explicitly name China as a threat. India advocates for a broader, more inclusive Indo-Pacific concept that emphasizes cooperation on climate change, health security, and infrastructure rather than explicitly countering China. The 2023 Quad Vision Statement centered on 'Enduring Partners for the Indo-Pacific' signals growing coordination across six working groups covering climate, critical technologies, cybersecurity, health security, infrastructure, and space.¹⁵⁴

Bilateral

India's bilateral security relationships across the Indian Ocean Region vary significantly in their scope and success. Rather than provide a comprehensive survey, this section examines four cases that illustrate different dimensions of India's security engagement: Mauritius and Seychelles represent India's attempts to establish forward operating locations for maritime surveillance, with different results that show the importance of also managing sovereignty sensitivities. The discussions of Sri Lanka and Maldives, demonstrate how India has restructured its security cooperation in response to both economic crisis and political pressures, highlighting the evolving approach to balancing strategic interests with respect for the autonomy of their partners.

India's bilateral security relationships in the Indian Ocean have produced mixed results. The Agalega facility in Mauritius, referred to by media sources as 'India's claim to power' in the IOR,¹⁵⁵ Agalega consists of two small islands more than 1,100 km from the main Island. The 87–192-million-dollar project, agreed upon during Modi's 2015 visit to Mauritius and inaugurated virtually in February 2024, involved constructing a 3,000-meter runway capable of hosting Boeing P-8I maritime patrol aircraft, two deep-water jetties for berthing naval vessels up to 149 meters in length, and communications infrastructure for intelligence gathering.

¹⁵⁴The White House (2025) 'The United States' Enduring Commitment to the Indo-Pacific Region', The White House, [online], available at: <https://bidenwhitehouse.archives.gov/briefing-room/statements-releases/2025/01/10/the-united-states-enduring-commitment-to-the-indo-pacific-region/> (accessed December 2025).

¹⁵⁵ Al Jazeera (2021) 'Island of Secrets', Al Jazeera, [online], available at: <https://interactive.aljazeera.com/aje/2021/island-of-secrets/index.html> (accessed December 2025).

In 2015, India signed an agreement with Seychelles to develop a joint military facility on remote Assumption Island, strategically positioned to monitor the Mozambique Channel. However, domestic resistance in the Seychelles proved too challenging. President Wavel Ramkalawan, elected in 2020, explicitly campaigned against the deal on sovereignty grounds, and the project was ultimately cancelled. The failure left India without access to what military planners considered superior to Agalega for monitoring maritime traffic between Africa and Madagascar.¹⁵⁶

India's security relationship with Sri Lanka underwent a significant transformation in April 2025 with the signing of the first formal Memorandum of Understanding on Defence Cooperation—nearly four decades after the controversial Indian Peace Keeping Force deployment during Sri Lanka's civil war.¹⁵⁷ The MoU established an umbrella framework for institutionalizing cooperation across high-level military exchanges, joint exercises, capacity building, and humanitarian assistance operations, with Sri Lankan President Anura Kumara Dissanayake committing that Sri Lanka would not permit its territory to be used 'in any manner inimical to the security of India'.¹⁵⁸ This formal framework codified deepening cooperation: India annually trains far more Sri Lankan military personnel than China, with the majority of Sri Lankan officers pursuing training in India due to colonial legacy and institutional similarities.¹⁵⁹ Joint exercises have become regularized, including the annual MITRA SHAKTI army exercise, SLINEX naval exercises, and the trilateral Dosti coast guard exercise with Maldives.¹⁶⁰ India has also invested in Sri Lanka's maritime surveillance through patrol aircraft, a floating dock facility, a Maritime Rescue

¹⁵⁶ Center for Strategic and International Studies (CSIS) (2022) 'Agaléga's Strategic Value: in the Eye of the Beholder', CSIS, [online], available at: <https://amti.csis.org/agalegas-strategic-value-in-the-eye-of-the-beholder/> (accessed December 2025).

¹⁵⁷ Tamil Guardian (2025) 'Explained: The New India–Sri Lanka Defence Agreement', Tamil Guardian, [online], available at: <https://www.tamilguardian.com/content/explained-new-india-sri-lanka-defence-agreement> (accessed December 2025).

¹⁵⁸ Indian Council of World Affairs (ICWA) (2025) 'India–Sri Lanka MoU on Defence Cooperation: An Important Shift in Policy', ICWA, [online], available at: https://www.icwa.in/show_content.php?lang=1&level=3&ls_id=12855&lid=7855 (accessed December 2025).

¹⁵⁹ The Diplomat (2024) 'Sri Lanka's Defense Cooperation with India: Strengthening Ties or Strategic Dependence?', The Diplomat, [online], available at: <https://thediplomat.com/2024/07/sri-lankas-defense-cooperation-with-india-strengthening-ties-or-strategic-dependence/> (accessed December 2025).

¹⁶⁰ High Commission of India, Colombo (2024) 'Press Release — Bilateral Exercise Mitra Shakti-X between India and Sri Lanka Concludes', High Commission of India, Colombo, [online], available at: <https://www.hcicolombo.gov.in/section/press-releases/bilateral-exercise-mitra-shakti-x-between-india-and-sri-lanka-concludes/> (accessed December 2025).

Coordination Centre, and inclusion in India's Information Fusion Centre-Indian Ocean Region.¹⁶¹

However, the relationship operates within constraints imposed by Sri Lanka's need to balance between great powers. Chinese research vessels – including space-tracking ships capable of monitoring satellite and ballistic missile launches – have repeatedly docked at Hambantota and Colombo, triggering Indian security concerns about intelligence gathering near Indian waters.¹⁶² While Sri Lanka imposed a moratorium on foreign research vessels to address these concerns, it subsequently lifted the ban with new standard operating procedures.¹⁶³ The defence cooperation faces domestic scrutiny in Sri Lanka, with opposition parties demanding full disclosure of the MoU and expressing concerns about sovereignty and potential automatic involvement in India-China conflicts.¹⁶⁴ The defence framework coincided with a tripartite India-Sri Lanka-UAE agreement to develop Trincomalee as an energy hub—giving India and its partners commercial stake in a strategic port that China might otherwise seek to leverage, reflecting India's evolving approach of participating in developing Sri Lanka's strategic assets rather than simply opposing Chinese infrastructure investments.¹⁶⁵

India's experience in the Indian Ocean during 2022-2024 demonstrates both the possibilities and limits of economic statecraft in an increasingly contested maritime space. The simultaneous crises in Sri Lanka and the Maldives presented acute challenges that ultimately resulted in strengthened bilateral relationships, with India emerging as the primary financial partner for both nations by 2024. Yet these successes occurred against a backdrop of deepening regional instability and mounting security threats.

The Maldives presented a different challenge, where President Muizzu's "India Out" campaign made military presence the central political issue. India accommodated by replacing military personnel with

¹⁶¹ Observer Research Foundation (ORF) (2024) 'Sri Lanka's Changing Defence Discourse: What's in it for India?', ORF, [online], available at: <https://www.orfonline.org/expert-speak/sri-lankas-changing-defence-discourse-whats-in-it-for-india/> (accessed December 2025).

¹⁶² Raksha Anirveda (2025) 'India-Sri Lanka Defence Pact: A Decisive Move to Counter China', Raksha Anirveda, [online], available at: https://raksha-anirveda.com/indias-transformational-strategy-to-counter-china-by-2047/?srsltid=AfmBOorknmiospRWe412bb3_tpJFRB-F2Xt9fhV_Sb07XYK64-URVUiB (accessed December 2025)

¹⁶³ Indian Council of World Affairs (ICWA) (2025) 'India-Sri Lanka MoU on Defence Cooperation: An Important Shift in Policy', ICWA, [online], available at: https://www.icwa.in/show_content.php?lang=1&level=3&ls_id=12855&lid=7855 (accessed December 2025).

¹⁶⁴ Tamil Guardian (2025) 'Explained: India-Sri Lanka Defence Agreement'.

¹⁶⁵ Indo-Pacific Defense Forum (2025) 'Indian, Sri Lankan Leaders Sign Defense, Energy Pacts', Indo-Pacific Defense Forum, [online], available at: <https://ipdefenseforum.com/2025/04/indian-sri-lankan-leaders-sign-defense-energy-pacts/> (accessed December 2025).

civilian technical staff—maintaining operational capability while addressing sovereignty concerns.¹⁶⁶ Defence cooperation continued through other means: joint exercises proceeded, bilateral defence dialogues resumed and both countries adapted a vision document on Comprehensive Economic and Maritime Security Partnership.¹⁶⁷ The restructuring of India’s military presence – replacing uniformed personnel with civilian staff – was an adjustment to changed political circumstances in Male while preserving the functional aspects of the security partnership.¹⁶⁸

¹⁶⁶ The Diplomat (2024) ‘India Completes Drawdown of its Military Personnel from Maldives’, *The Diplomat*, [online], available at: <https://thediplomat.com/2024/05/india-completes-drawdown-of-its-military-personnel-from-maldives/> (accessed December 2025).

¹⁶⁷ Observer Research Foundation (ORF) (2025) ‘The Modi-Muizzu Playbook for Changing India–Maldives Relations’, ORF, [online], available at: <https://www.orfonline.org/expert-speak/the-modi-muizzu-playbook-for-changing-india-maldives-relations> (accessed December 2025).

¹⁶⁸ ORF (2025) ‘The Modi-Muizzu Playbook for Changing India–Maldives Relations’[online]. Available at: <https://www.orfonline.org/expert-speak/the-modi-muizzu-playbook-for-changing-india-maldives-relations> (accessed November 2025).

In sum:

- **Chinese infrastructure investment creates long-term economic presence:** projects like Hambantota Port, Colombo Port City, and Velana Airport establish a sustained economic footprint, while Sri Lanka owes China USD 7 billion in bilateral debt alongside additional commercial loans.
- **India's crisis assistance reveals both capability and limits:** USD 4 billion Sri Lanka stabilization package and flexible Maldives engagement demonstrated India's ability to mobilize existing financial mechanisms rapidly, but these interventions addressed immediate needs rather than competing with China's infrastructure scale.
- **Sovereignty sensitivities constrain security cooperation:** Maldives 'India Out' campaign and Sri Lanka's delayed Defence Cooperation MoU (40 years post-IPKF) show deep domestic resistance to visible military presence, forcing India to restructure operations (HAL civilians replacing military personnel) while maintaining capability
- **Political volatility in the region:** Yameen's authoritarian pro-China turn, Solih's India pivot, and Muizzu's anti-India campaign demonstrate how leadership changes produce foreign policy swings, creating potential instability in security partnerships.
- **Multilateral frameworks acknowledge India cannot secure region alone:** Quad's Indo-Pacific Maritime Domain Awareness initiative, Colombo Security Conclave, and IFC-IOR network represent recognition that India's 132 warships vs China's 370, plus transnational challenges (illegal fishing, trafficking, climate), require collective approaches beyond bilateral arrangements
- **Hedging is the norm:** Even with effective crisis response and sovereignty respect, geography and power asymmetries ensure Indian Ocean states will maintain relationships with multiple powers – India's goal is influence, not exclusivity.

Summary and key take-aways

This report has examined India's role in South Asia at a moment of profound regional and global transition. India's economic and geopolitical weight is increasingly consequential, yet its influence is not uncontested. The South Asian reality reflects this tension clearly. Countries in the region are enmeshed through economic and cultural inter-dependence, but historically rooted tensions persistently flare up, resulting in greater competition and lower threshold for cooperation and diplomacy. India's neighbourhood is therefore not simply a passive backdrop to its global ambitions, but a critical testing ground for how it manages power, asymmetry, and restraint in a changing world. Below, we focus on some key take-aways from the report.

Control through cooperation rather than coercion

Indian leadership and diplomacy in South Asia have matured over time. Tensions between India and its neighbours are not new and have surfaced repeatedly in relations in the past. In particular, relations with the Maldives, Bangladesh, Nepal, and Sri Lanka are a good case study of this. In earlier periods, most notably during the Madhesi unrest in Nepal and during the civil war in Sri Lanka, India responded to challenges through more coercive or interventionist approaches. These actions generated lasting political resentment and reinforced perceptions of Indian heavy-handedness in the region.

In recent years, however, India has increasingly adopted a cooperation-based, pragmatic approach. This shift is evident in its handling of both the Maldives episode and the current tensions with Bangladesh. Despite provocative public statements by political leaders in both countries, New Delhi has largely refrained from escalating rhetoric or issuing confrontational public responses. The Maldivian leadership was invited to India and bilateral relations were subsequently stabilised while Bangladesh's National Security Adviser was invited to participate in the Colombo Security Conclave meetings held in New Delhi even amid ongoing tensions. These instances suggest that visible diplomatic strain does not necessarily signal a breakdown in the resilience and depth of the relationship India has with its neighbours.

Trade and infrastructure can drive mutual growth

India has come to view economic integration as a key instrument for strengthening relations with its neighbours. Our interviews with policymakers and regional experts suggest that New Delhi increasingly believes in the adage that a rising tide can lift all boats. Rather than relying primarily on political leverage, India has sought to draw neighbouring countries closer by offering them a stake in its expanding economy.

This approach is most visible in India's facilitation of cross-border private sector investment, particularly in power, energy, and connectivity-related projects. In recent years, several large-scale energy initiatives have become operational, while new rail and transport links have improved the movement of goods and people across borders. These investments serve both economic and strategic purposes, embedding India more deeply into regional supply chains while supporting development in neighbouring states. South Asia remains one of the least economically integrated regions in the world, with intra-regional trade accounting for only a small share of total trade volumes. The potential gains from this strategy are therefore substantial.

The shadow of rising security concerns

While trade and growth are often presented as the primary narratives for regional cooperation, security concerns are increasingly shaping relations in South Asia. Ties between India and Pakistan continue to deteriorate, a trend that carries significant implications not only for the two countries but for regional stability more broadly. At the same time, renewed interest from global powers has transformed South Asia into a key arena of geopolitical competition.

This competition is most visible in the expanding Chinese presence across the region, including rising arms sales, infrastructure investments with potential dual-use implications, and deeper diplomatic engagement with nearly all of India's neighbours. Parallel to this, the United States has also sought and secured greater access to countries in India's immediate neighbourhood, including in Nepal and Bangladesh. The brief but intense military confrontation with Pakistan, combined with signs of closer coordination between Pakistan and Bangladesh, has reinforced perceptions of vulnerability and encirclement from all sides.

New Delhi has responded by placing greater emphasis on defence preparedness. This includes increased defence procurement, a stronger push for domestically manufactured military equipment under the 'Make in India' initiative, and heightened military reinforcements along sensitive border regions. These actions suggest that Indian policymakers are acutely aware of the shifting geopolitical situation in their backyard and its security implications.

Caught between two Asian giants, smaller states have opportunities to explore

Even as the region experiences heightened insecurity and the risk of conflict remains real, smaller South Asian states continue to exploit the strategic space created by competition between the two Asian giants. Rather than aligning exclusively with one side, they hedge between India and China, leveraging this rivalry to extract economic, political, and security benefits. This has resulted in a somewhat predictable pattern, where cooperation with one power is periodically balanced by outreach to the other.

Such strategic oscillation is likely to persist. Importantly, as India itself pursues a policy of strategic multi-alignment at the global level, smaller states in the region are mirroring this approach within South Asia. The result is a pragmatic policy that is flexible and suited to the shifting geopolitical situation in the region.

China's influence is rising but is not a foregone conclusion

China has clearly emerged as a significant and increasingly influential player in South Asia. Its economic footprint has expanded steadily, and Beijing remains proactive in seeking to draw regional states closer through infrastructure investments, trade, and security cooperation. Yet it is not yet a regional hegemon in South Asia. In several instances, China's assertive diplomatic posture has generated backlash, while opaque lending practices associated with large infrastructure projects have fuelled public and political resistance within recipient countries.

These frictions create openings for India to reposition itself as a more reliable and “all-weather” friend, drawing not only on geographic proximity but also on deep social, cultural, and historical ties that distinguish it from external powers like China. Ultimately, the regional balance may well be shaped by the broader trajectory of competition between the United States and China. For now, however, China’s growing role should not be interpreted as inevitable dominance.

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