

WRAP - UP

NEIGHBOURHOOD INSIGHTS  
ASSESSMENT OF ECONOMIES  
IN INDIA'S NEIGHBOURHOOD

Edited by

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# PREFACE

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The South Asia region presents a complex web of interrelated traditional and non-traditional challenges, including border disputes, cross-border terrorism, proliferation of extremist ideologies, illegal migration and trade, narcotics, and climate change. The region's unique geography is marked by significant asymmetry in size and resources. India is the largest country in South Asia by size and shares land borders with all other countries in the region, except for the island nations of Sri Lanka and Maldives. In contrast, the other states in the region do not share borders with each other. One potential advantage of this phenomenon is that India could evolve as a connector for regional trade and economic integration. Also, India's economic progress could be an engine of growth for the other regional nations. However, the disadvantage of India's geographical proximity to its neighbours is that India variably or invariably bears the fallout from challenges arising in the neighbouring countries and cannot escape the repercussions of instability in its regional neighbourhood.

While the regional countries continue to fight multiple challenges, one common issue that they face is their struggle with economic crises, with India as an exception. India is on track to become the third-largest economy in the world and is the fastest-growing

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economy, with a Gross Domestic Product (GDP) growth rate of 8.32 per cent in the last fiscal year. India's economic growth is critical to its position in global affairs and its ability to take an autonomous stance prioritising its national interests.

The economies in South Asia are struggling with fiscal deficits, high debt burdens, inflation, and a lack of opportunities for the youth. China has made inroads in the region through investments and debt diplomacy. Beijing's debt has led Sri Lanka to an economic default, and Pakistan consistently finds itself on the verge of financial default due to high interest payments.

Afghanistan has shown some signs of recovery, but its economy remains in flux and will continue to rely heavily on international aid and assistance. The Taliban have been desperate for international recognition but are not ready to compromise on their position on women's rights and freedom. Bangladesh's economy has shown remarkable progress in the last 10 years. But the ouster of former Prime Minister Sheikh Hasina in August 2024 following the student protests and the complete disruption of law and order in the country poses a serious challenge to its economic prospects. It remains to be seen how Dhaka will shape up in the coming months. Bhutan has been cherishing its economic comfort zone, but there is a serious need for it to diversify its revenue generation sectors, which are currently tourism and hydropower. The Maldives is economically vulnerable and needs to be cautious with the overwhelming Chinese interest and inflow of investments. In Nepal, frequent changes in the regime have led to inconsistent policies, posing a challenge to the economy. The country's trade deficit remains significant, and there has been a noticeable decline in foreign investment. Pakistan's economy is facing severe challenges of high debt servicing and low revenues. The country remains highly dependent on borrowing, and the debt remains unsustainable. Sri Lanka defaulted economically and went bankrupt in April 2022. This was followed by massive protests, intensifying the political and economic crises. The structural reforms outlined by the International Monetary Fund are expected to lead to some stability in the future.

As India's Neighbourhood First Policy continues to remain a focus area for the Modi 3.0 government, India is gradually moving

towards increasing economic assistance and cooperation with the neighbouring states, sans Pakistan. India's humanitarian assistance during the COVID-19 pandemic was received well in the region. India has revived its humanitarian aid to Afghanistan and continues to abide by its commitment to support the Afghans. Bangladesh remains India's largest trade partner in the region. Dhaka exported US\$1.97 billion in goods to India in 2023-24. The ongoing instability in Bangladesh and anti-India sentiments have generated ample uncertainty about the future of India-Bangladesh economic cooperation. India remains the main destination for Bhutan's exports and also the largest source of Bhutan's imports. Trade between India and Bhutan has grown significantly, from US\$484 million in 2014-15 to US\$1,615 million in 2022-23. This makes up about 80 per cent of Bhutan's total trade.

India's approach towards the Maldives has been consistent and patient in the last few years, and its cooperation with the Maldives has been diversified in the economic, military, health, education, and infrastructure sectors. With respect to Nepal, India has been consistently extending economic and technical support and has played a crucial role in supporting Nepal's economic initiatives. India responded proactively to the financial crisis in Sri Lanka and provided the country with nearly US\$4 billion in life-saving multi-pronged assistance.

The criticality of India's neighbourhood was evident from the statement made by Dr. S. Jaishankar at the Jasjit Singh Memorial Lecture at the Centre for Air Power Studies (CAPS) in August 2024, when he said, "What we have tried to do in the last 10 years is actually to economically bring our neighbours much closer... there will be political ups and down... these are realities we have to accept... but... we today have more resources, more capabilities, we are geographically at the centre, our size is so much bigger, ... we need to drive the process, we will set the pace, and we will go the extra mile." India's neighbourhood policy needs a push, and it cannot achieve its objective of being a US\$5 trillion economy without focussing on regional economic integration.

The CAPS wrap-up by the Neighbourhood Studies Vertical analyses the economies of South Asia to understand the

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