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INFRASTRUCTURE STATECRAFT IN THE BACKYARD: Evaluating India's

"Neighborhood First" Policy as an Asymmetric Counter to China's South Asian Sphere of Influence (2020–2026)

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Abstract

From 2020 to 2026, the subcontinent saw the emergence of an issue with respect to which traditional balance-of-power theory offers no satisfying explanation as to why overwhelming material power advantages do not necessarily equate to political dominance. By the end of the 2010s, China had established itself through its Belt and Road initiative in all ports, grids and transport links in the countries located adjacent to India, and the assumption prevalent in the literature is that material power, once acquired, should have automatically translated to strategic hegemony. It didn't. This paper aims to explore the reasons why, and how India maintained and even furthered its position despite being materially weaker than China and without matching the economic investment put forward by Beijing. Following the principles of neoclassical realism and considering geoeconomics as the form of statecraft, this paper examines four cases in which different mechanisms were applied, namely the stabilization of crises in Sri Lanka, the politics of maritime infrastructure in the Maldives, energy and transport connectivity in Bangladesh and Nepal, and coalition-based operations with Japan and the Quad. This contrast reveals that New Delhi moved away from slow, norm-driven diplomacy towards an asymmetric approach based on India's non-replicable capabilities, i.e., closeness, rapid response, regulatory authority over its own market, and the ability to bring in outside capital. There is no basis for the claim of Chinese dominance and/or Indian decline. Instead, the findings reveal competitive interdependence where smaller powers have real agency through their ability to hedge, and where power comes not just from who builds most but also from who is more embedded in the daily workings of its neighbors' economic life. This research concludes by making policy recommendations to sustain India's gains beyond 2026.

Keywords: India; China; BRI; Neighborhood First Policy; geoeconomics; South Asia; strategic hedging; Indo-Pacific.

1. Introduction

A. Background of the Study

Until recently, in fact, much of the post-decolonization period was characterized by India's dominance within the regional system of South Asia. It derived from the country's land mass, its population, and its control over key access routes. New Delhi maintained this dominant role in a manner less dependent upon money and more based upon the idea of cultural proximity. This worked well, for quite some time, until any outside power could challenge this dominance due to lack of interest or capability.

Such equilibrium, however, could not withstand the advent of operationalizing the Belt and Road Initiative of China since 2013. The BRI made Beijing an instrument through which China could penetrate the subcontinent by operating from inside rather than a faraway balancing country. This was through financing infrastructure such as ports in Sri Lanka and Bangladesh, cross-Himalayan trade corridors in Nepal, and telecommunication infrastructure in the subcontinent (Thapa, 2025). Financing became appealing as a result of lack of conditionalities attached to the loan since state-owned Chinese banks provided loans in massive amounts within a very short time. Governments in Colombo, Dhaka, Kathmandu, and Malé, which were faced with serious deficits in infrastructure and needed to modernize, found it impossible to turn down such offers.

The legacy strategy had little to offer by way of answering back to that question, as it was more oriented towards civilizational bonds and proximity than quick action to build large-scale infrastructural works. This was reflected in the perception of India's notorious administrative lethargy, which became a permanent fact of life for neighbors used to delays and non-delivery. The strategic community within India did take note of China's investments in building up potentially dual-purpose ports around the littorals of the Indian Ocean as signs of India's strategic encirclement (Mohan, 2013; Saroha, 2025). Yet the remarkable thing about the 2020-26 period is that both of these ideas were poor predictors of the future.

B. Statement of the Problem

The problem that this research aims at solving is the disparity between a predicted structural condition and a factual result. The prediction made according to defensive and offensive versions of structural realism would suggest that an emerging state with superior material capabilities will eventually be able to replace the incumbent state in a region. By all measures of aggregate capabilities—be it output, energy reserves, or industrial capacity—China enjoys the upper hand in comparison with India. It is precisely such superiority that enabled Chinese statecraft based on economic penetration to emerge.

There are two aspects that complicate the issue in ways that do not appear in the structural narrative. For one, the smaller states were not acting as mere pawns of the contest for great power influence; instead, they consciously maneuvered, taking the benefit of Chinese funding for their arms purchases while relying on India for balance and security assistance, thus aligning with the larger powers to maximize benefits from both. For another, India did not remain idle either. Realizing it could not out-fund the Chinese, it altered its Neighborhood First approach into an asymmetric response that exploited its strengths that China could not mimic.

C. Research Questions

These two issues form the core of the inquiry:

1. Why was China unable to turn its greater financial engagement and infrastructural power play under BRI into political dominance over the smaller countries in South Asia?
2. To what degree, through which means, was the Neighborhood First strategy employed by India in an effort to neutralize Chinese advantages and maintain relevance in its own right from 2020 to 2026?

D.Research Objectives

This research seeks to achieve four objectives: first, to describe the paradigm shift in Indian strategy from its normative focus to geoeconomic imperatives; second, to specify the actual instruments used by India to pursue its strategy—namely, crisis finance, connectivity, regulatory conditionality, and alliance building; third, to analyze the role of smaller powers as mediators of the great-power rivalry; fourth, to draw some theoretical conclusions and formulate policy recommendations from the asymmetric strategy.

E. Significance of the Study

Analyses of the rivalry between India and China in South Asia tend to focus either on the military and maritime dimensions, or the debt trap phenomenon that emerged after Hambantota. The geoeconomic rivalry, which is fought through grid systems, customs systems, power purchase agreements, and third-party capital mobilization, has largely been neglected despite being the arena where much of the real contestation has been played out. By tracing the rivalry in the context of four sector-specific case studies, the research sheds light on the dynamics of balancing by weak states, and why geoeconomic influence is so difficult to turn into compliance.

1.6 Scope and Delimitation

This study is temporally confined within the period of 2020-2026, when India's recalculation is most observable, but also accounts for earlier trends like the shift in the Maldives under the leadership of Yameen and the growth of Chinese projects in Sri Lanka post-2009 as crucial background information. It is geographically confined to four countries: Sri Lanka, the Maldives, Bangladesh, and Nepal. The exclusion of Pakistan is intentional, as it is a case of an entirely different kind of China alignment, and hence, will be detrimental to research on hedging countries instead of committed states. Bhutan is discussed in the context of energy integration in the region.

F. Structure of the Paper

The literature review and theoretical background are provided in Section 2, where the theoretical approach taken is identified and the research gap and concept model are outlined. Section 3 elaborates on the research design, data sources, and method of case selection. Section 4 traces the history and tools of the asymmetric strategy in India. Section 5 outlines the four cases analyzed in this study. Section 6 analyzes minilateral entanglement and external engagement. Section 7 discusses the cases in comparative analysis.

2. Literature Review and Theoretical Framework

A.The Belt and Road Initiative and Geoeconomic Statecraft

The academic literature dealing with the implications of the BRI project in South Asia has shifted, within a span of almost a decade, from documenting the magnitude of Chinese loans to evaluating their geostrategic ramifications. One prominent and persistent school interprets the BRI from the perspective of indebtedness and dependency, presenting the Hambantota port lease deal as an archetypal example of commercial failure transforming itself into strategic advantage (Thapa, 2025), a thesis that has been championed by Chellaney (2017). A more skeptical approach rejects the narrative of the debt-trap as overly simplistic, acknowledging instead that much of the Chinese lending has been motivated by commercial considerations and local demand, and yielding only a patchwork of political dividends for Beijing (Brautigam, 2020; Singh, 2020). The commonality in the two perspectives lies in their shared interest in the phenomenon of geoeconomics, or the employment of economic tools for geostrategic purposes (Luttwak, 1990; Blackwill & Harris, 2016), as the means of contesting influence in South Asia today (Pestsov, 2025).

B. India's Neighborhood First Policy

Discussions of Neighborhood First have generally been confined to measuring the policy against its own declarative goals and failing to measure up because of the usual gap between promise and performance. More recent scholarship seems to be recognizing the move to new methods as well. The analytical framework that Saraf and Saxena (2025) offer for judging India's economic diplomacy divides its instruments into those of trade, investment, grants, and labor mobility, and suggests that its strength comes from building credibility and goodwill rather than pouring in money. In line with this approach, Kapoor (2024) and Konwer (2025) locate Neighborhood First within India's increasing interest in minilateral and topic-specific groups, such as BIMSTEC, as replacements for the "dead" SAARC. This paper builds upon this approach, but goes one step further, arguing that this new approach is much more than diplomatic; it is structural.

C. Neoclassical Realism

For a study such as the present one, structural realism offers an expectation about the relationship between material inequality and alignment; it cannot explain variation, however, since it views the states as undifferentiated actors responding to system pressures. For this purpose, neoclassical realism seems more suitable. According to Rose (1998), the systemic pressures are indeed true, but they act indirectly, filtered by the domestic intervening variables before translating into policy actions—the state's ability to generate and mobilize resources, the perceptions held by its strategic elite, and survival considerations of regimes on the other side. Viewed thus, Chinese capital serves as a systemic pressure, not as a determiner of the outcome. Whether the capital results in alignment will depend on the way Indian capacity for delivery, threat perceptions, and political imperatives of regimes in Colombo and Male handle this pressure.

D. Geoeconomics as an Analytical Framework

The use of the term geoeconomics, for purposes of this paper, means the statecraft structure by which states leverage economic tools like credit facilities, currency swap agreements, market access, conditional regulation, and infrastructure development, in order to create geopolitical outcomes and to influence regional equilibrium. Geoeconomics was coined by Luttwak (1990) with the anticipation that the laws of conflict were increasingly to find expression in the language of economics, and later elaborated on as a comprehensive theory of economic statecraft by Blackwill & Harris (2016). This concept is valuable in that it draws attention away from a binary framework of aid vs. coercion towards the nature of dependency: whether the relationship is temporary or sustained, and whether it becomes embedded in the everyday life of the partner or remains distinct from it.

E. Research Gap

Three reasons make the study compelling. Firstly, while the debt trap narrative has come to dominate debates about the BRI in South Asia, little work has been done in theorizing the contest for institutions in grids, transport, and regulation, despite the fact that India has had success through them. Secondly, while some literature has been done on Neighborhood First, very little of it has followed a comparative framework, which would have helped isolate the effects of various instruments used by different actors. Thirdly, whereas the agency of weak states in hedging strategies has been well theorized in Southeast Asia (Kuik, 2016), the agency of the smaller states of South Asia has been acknowledged but not given prominence.

F. Conceptual Framework

A theoretical framework that underpins this theory is depicted in the following figure. There is pressure that is exerted in the region due to Chinese infrastructure statecraft within the systemic context. These pressures are then acted upon by intervening domestic considerations from India and the smaller states: India's capability in terms of budgeting and implementation and threat assessment from India's strategic leaders, and considerations from regime survival and elections from the smaller states. The response to this will be an asymmetric geoeconomic response from India, coupled with hedge strategies from the smaller states.

3. Research Methodology

A.Research Design

In the research design of this project, qualitative comparative analysis through a systematic and concentrated comparative case study method will be used to explore how mechanisms result in strategic outcomes in an examination of their causal relationship. The study will examine mechanisms that lead to particular strategic outcomes as identified by the causal relationship that exists between the geoeconomic variables and the strategic outcomes. In this case, neoclassical realism will serve as the theory, while geoeconomics will serve as the perspective. The process is illustrated in figure 2 below.

B. Data Collection

The data are sourced from documentary information divided into four types. The official documentation from India, China, and the four host nations that consists of bilateral agreements, statements, announcements made by their respective foreign offices comprises the official record of the obligations incurred. The documentary information concerning specific projects and funding includes project descriptions prepared by the respective development agencies and statements made by the respective state financial institutions. The information contained in the reports compiled by multilateral organizations and the central banks of the respective host nations constitutes an independent evaluation of the host nations' debts and balance of payments. Academic articles discussing Indo-Pacific geopolitics constitute commentary on the data. No primary fieldwork is undertaken for this study.

C. Source Triangulation

This is because there is always some form of built-in bias within each stream. Official statements tend to exaggerate cordiality; media reports tend to overemphasize conflicts; and financial statements tend to understate troubles, and only those that have been verified in more than two sources may be regarded as true. For instance, information regarding terms and conditions of the Greater Male' Connectivity Project Agreement is validated via independent studies and reports from India and the host governments before being confirmed as true.

D. Comparative Process Tracing

In each individual case study, process tracing provides the ability to go from correlation to causation by not only showing that there was an Indian move made when strategy change happened but also how it might have caused this strategy change to happen by identifying the intervening move and ruling out any other possible explanations. The comparative analysis among the four cases ensures that the analysis stays consistent in answering the same questions about alignment.

E. Case Selection

The four cases were chosen based on the variation in the independent and dependent variables. All of the cases involve all the four aspects of India's foreign policy strategy. These include managing the crisis in the case of Sri Lanka, dealing with the issue of maritime infrastructure in case of a domestic backlash (in the Maldives), ensuring connectivity through energy and transit corridors (in Bangladesh and Nepal), and working on coalition-building with respect to multilateral cooperation. In addition, there is also some variation in the outcome, which goes from India's strong relevance to Sri Lanka, to some uncertainty about what will happen in the Maldives. This approach ensures that we are not making an assumption of a general theory based on a single case study.

F. Limitations of the Study

Firstly, the fact that no interviews nor archives were used to obtain any primary data suggests that the perceptions of the elites constitute an interpretation of what is presented in the secondary sources rather than observations of those elites. Secondly, given that the time frame for the analysis, namely 2020-2026, is rather recent, some of the findings may have been preliminary, like the one related to the Maldives. Thirdly, although the technique of inference used in this analysis does not allow us to generalize about the findings, we can see the findings as analytically generalizable rather than statistically generalizable.

4. India's Asymmetric Geoeconomic Strategy

Before analyzing specific examples, it is important to lay out the strategy as a whole, since its consistency will be more readily apparent from a bird's-eye view than in any particular instance. This strategic shift, illustrated in Figure 3, consists of the realization that India no longer attempted to engage in symmetry with China. Instead of matching loan for loan and megaproject for megaproject—a battle that it simply could not afford financially—India took the contest to another battlefield where its strengths reigned supreme and China's did not.

A.Evolution of Neighborhood First

The reworking was both a gesture of strength and an admission of vulnerability. By the time the year 2020 rolled around, it was evident in New Delhi that any kind of one-for-one reaction to the BRI was simply not financially feasible, nor was it strategically prudent, hence the redesigning that followed after this realization (Saraf & Saxena, 2025; Mohammed, 2025). The strategy had evolved from a policy of grand statements to one of action, more specifically, strategic action, where civilizational rhetoric made way for connectivity and partnership.

B. Infrastructure versus Connectivity

The critical conceptual leap was the separation between infrastructure and connectivity. The creation of a port or an airport by the Chinese is an asset: impressive, singular, and once constructed, institutionally autonomous in the sense that it can run without constant involvement on the part of its creator. A power line or customs corridor is an entirely different matter. Such things simply cannot operate without ongoing collaboration and cooperation, which produces a densely interconnected network of interactions between the nations involved. India's strategy here was to rely upon the assumption that the latter would be more difficult to break than the former, because breaking it meant tearing apart something essential to the nation in question.

C. Crisis Diplomacy

The fact that it was closer also afforded India a tool that proximity denied China, namely that of being able to act promptly should the neighbor's economic machinery grind to a halt. Monetary support from emergency lines of credit, currency swaps, shipments of fuel and food, as well as humanitarian aid, could quickly cross a land boundary or a narrow sea passage, and get there precisely when it counts—during an economic crisis, when good will is earned and either cultivated or destroyed. Sri Lanka in 2022 served as a vivid example, but the dynamic played out across South Asia: the one who arrives at the crisis site gains credibility.

D. Institutional Integration

The connectivity theory was realized using the mechanism of institutional integration, which involved linking the systems of energy, transport, and regulation of the neighboring country to those of India. Electricity transmission lines ensured that Nepalese energy production and Bangladeshi energy consumption would be linked with India; railway and port access agreements ensured that cross-regional trade would pass through India and facilities linked to India; customs regulations and power purchase agreements made Indian standards part of the neighbors' business practice.

E. Minilateral Partnerships

Finally, India overcame its post-colonial reluctance to bring external powers into its immediate neighborhood and learned how to play the role of convenor. In cases where it did not have the resources to implement a project, it found partners who could provide transparent and concessive financing – especially Japan and more broadly the Quad countries – and became the point where these projects were connected into an architecture for the region. This aspect of India's new policy will be discussed in Section 6 below, but it is sufficient at this point to say that convening external funds allowed India to increase its leverage without increasing its costs.

5. Case Studies

A. Sri Lanka: Economic Crisis and Strategic Reorientation

Sri Lanka provides the clearest example of whether crisis response might overcome existing infrastructure investment. In the last decade, it was the star performer of the BRI in South Asia. In 2022, however, it was the country that demonstrated the shortcomings of that approach in the region and where the viability of India's rival strategy gained legitimacy.

B. Chinese Infrastructure Diplomacy

Since the end of the civil war in 2009, the Sri Lankan government has been actively searching for foreign investors to help with its reconstruction process. Colombo saw the Chinese as such partners since they were willing to offer generous loans on an unprecedented scale, and without the conditionality imposed by Western lenders. As a result, several major projects appeared in Sri Lanka—Hambantota Port, the construction of the Colombo Port City, the Mattala Rajapaksa International Airport, and the construction of the Southern Expressway. Yet all those initiatives have proven to be financially unviable from the very beginning.

It was in 2017 that the episode occurred which provided the language for the broader debate. At that time, Sri Lanka, unable to pay off the debt, leased out the port of Hambantota, along with some 15,000 acres of land around it, to a Chinese state company for ninety-nine years. While China insisted that the deal was purely business, the critics, invoking Chellaney (2017), saw it as an illustration of how infrastructural investments, combined with sovereign debt, could translate into strategic gains. Subsequent literature would complicate this narrative, asserting that the lease was a manifestation of poor fiscal management by Colombo rather than being any part of a premeditated Chinese trap (Brautigam, 2020). However, reality may well have been somewhere between the two, but the symbolic significance was clear and unambiguous.

C.India's Crisis Response

It would be unfair to solely blame China for the downfall of Sri Lanka in 2022. Mismanagement of finances, the shrinking export economy, the impact of the pandemic on the country's tourism industry, and a disastrous decision made in 2021, when chemical fertilisers were banned in Sri Lanka, leading to decreased agricultural production – all these factors led to the depletion of foreign exchange reserves to an extent that the country could not afford its essential imports.

What proved to be strategically significant is what followed. Colombo's hope that Beijing, its single largest bilateral creditor, could come up with an emergency loan turned out to be misplaced; Beijing opted for debt renegotiation talks rather than a swift infusion of cash in order to avoid setting a precedent in its troubled Belt & Road Initiative portfolio. It was left to India to fill this gap, which it did by providing Colombo with close to US$4 billion in credit facilities, currency swaps, and deferred payment plans from 2020 to 2022—help so large that it effectively made India the lender of last resort as the country defaulted on its sovereign debt (Jha, 2023; Observer Research Foundation, 2025). The subsequent International Monetary Fund program was, in turn, predicated on this assurance of financial assistance provided by India.

D. Strategic Outcomes

As a result, there was a strategic restructuring in Colombo itself. India, after offering assistance during the crisis, built up its own presence through its economic interests as well, in the form of involvement in projects such as the Colombo West International Terminal, which is a deep sea port and a counter to the Chinese-owned ports in the same area (U.S. International Development Finance Corporation, 2023; Seatrade Maritime News, 2023). This particular incident shows how the central theory of this research is proven without doubt: asset possession created presence for China while stabilization ability created influence for India.

E.Maldives: Maritime Security and Infrastructure Politics

Whereas the asymmetric strategy operates with relative ease in the case of Sri Lanka, the same cannot be said for the Maldives, where the strategy functions under duress and amid challenges from the country's internal politics but has been partially resolved within the scope of this study (Saroha, 2025). The strategic importance of the Maldives greatly exceeds its physical dimensions, since it controls the passage of key maritime arteries.

F.India Out Campaign

While the asymmetric strategy is relatively easily employed when it comes to Sri Lanka, the opposite is the case when it comes to the Maldives, where the strategy is carried out under pressure and in light of obstacles raised by the domestic politics of the country, although to some degree it has been resolved in this research (Saroha, 2025). Strategically, the importance of the Maldives far outweighs its size because it commands the chokepoints of key sea routes.

I. Greater Malé Connectivity Project

The impression was deceiving, however, and the answer can be found not in rhetoric, but in structure. The Maldives imports almost everything it needs—food, fuel, medicines, and building materials—and being scattered across numerous islands ensures that reliable, speedy marine logistics remain a constant requirement and only a neighborly relationship can fulfill it. In this context, India has been proceeding steadily toward completion of the Greater Malé Connectivity Project, a massive project worth close to half a billion dollars, connecting Malé Island with Villingili, Gulhifalhu, and Thilafushi via bridge-and-canal systems. The GMCP constitutes not only the biggest investment India has made into infrastructure projects in the country, but, more importantly, it is also specifically of the connectivity variety rather than the monument kind—it helps overcome the spatial congestion that limits the economy of the Maldives and ensures engagement of India in the archipelago's life processes rather than monuments.

J.Strategic Balancing

The behavior towards the Muizzu regime, in fact, is also an example of magnanimous strategy. The Indian government did not seek escalation but opted for accommodation, replacing the army personnel with civilian technical experts to ensure that the promise was kept, without compromising the capacity. Exporting goods at specially allocated rates also proceeded despite the deterioration in bilateral relations. Eventually, by 2025-2026, due to heavy debt levels and financial burden, the Muizzu regime once again began seeking engagement with India. The lessons from the case have been two-pronged. There is no doubt that structural constraints impose practical boundaries on the room available to a weaker player. However, such limitations work incrementally and do not provide the same closure to the Maldivian experience as Sri Lanka's.

K.Bangladesh: Energy Connectivity and Transit Corridors

The case study of the place that embodies the logic of connectivity is Bangladesh. It has always been a natural gateway connecting mainland India and the northeastern states due to its location between the Bay of Bengal and the eastern part of the subcontinent; and the rapid development of Bangladesh's industry required just the kind of connectivity that could help address the need (Konwer, 2025). There were similar investments made by China, but mainly focused on construction of infrastructure projects such as industrial parks, bridges, and special economic zones. The Indian answer was integration.

Energy connectivity became one of the key areas of cooperation. Bangladesh was able to receive high-voltage electricity from the Indian grid, and India-Bangladesh Friendship Pipeline transported diesel fuel from the Numaligarh refinery of Assam through northern Bangladesh. What is crucial here is that, in contrast to bridges, grid connections and fuel pipelines cannot operate on their own. The need for constant coordination in terms of prices, schedule, maintenance, etc., creates a relationship that becomes increasingly difficult to break.

The next item on the agenda was transport. The opening of rail lines closed off by the partition, viz., Haldibari-Chilahati and Akhaura-Agartala, was significant not only in that they had been reopened (The Economic Times, 2024-2026), but that they allowed for trade between northeast India and the rest of the country via Bangladesh, thereby giving India the advantage of quicker, less costly routes while also offering transit fees to Bangladesh and allowing it to earn the prestige of being an unavoidable transit point.

L. Nepal: Hydropower and Regulatory Statecraft

Nepal uses the most complex tool in the Indian toolkit of regulatory statecraft. Its strategic significance resides in the enormous hydropower potential, which is largely untapped, while its historic vulnerability is its dependence on Indian corridors of transit, which led the Kathmandu government more than once to court Beijing. Naturally, BRI provided Kathmandu with new options in the north, but Himalayan geography did not play favorably with this strategy; the route was costly, vulnerable, and seasonal, and the benefits never materialized.

In contrast, India chose another path, one of market integration. Transmission facilities like the Dhalkebar-Muzaffarpur Line facilitated trade on a large scale, yet what was crucial, India opened up its gigantic electricity market to Nepali imports, changing the game entirely; it provided previously uneconomic hydropower facilities with a reliable buyer of their product (SJVN Limited, 2021-2025; Hydropower & Dams International, 2022). Thus, long-term agreements on power purchases backed such mega-projects as Arun-IV and Lower Arun.

The key decision here was regulatory. According to India's regulations regarding power trade across borders, any power that is imported into India has to originate from an approved project satisfying specific criteria of ownership, excluding any generation from third countries through which Chinese investment would have been routed. The brilliance of this strategy is that India did not have to explicitly reject Chinese investments, but merely ensured that it would only accept Chinese power if China met specific terms set by India. Energy exports to India became an important part of Nepal's foreign exchange income by 2026, binding the two economies together through regulatory instruments.

6. Minilateral Enmeshment and External Partnerships

The most important strategic innovation of India during this period was using its own resource constraints not as an excuse for failing to live up to its commitments but as a way of organizing other actors around them. Failing to meet China's standard for state-backed finance meant taking a convening role among foreign investors – a strategy which meant giving up a longstanding colonial-era inclination to exclude outside actors from its sphere of influence.

A. India–Japan Cooperation

This strategy was exemplified by India's alliance with Japan, who shared with India worries about debt sustainability, infrastructural transparency, and sea lane security. Where India could not deliver concessional funding through long-term commitments as efficiently as Japan did via the Japan International Cooperation Agency, Japan could offer a regional strategy for such investments, particularly through its Bay of Bengal Industrial Growth Belt project, which focused on Bangladesh.

B.Quad and Development Diplomacy

As for the Quadrilateral Security Dialogue, on par with its development into a more economic-focused structure than simple consultation on security issues, the members of this forum were exploring a concept of coordinated development finance and investment transparency standards as an alternative to Chinese terms. In essence, the idea was not to substitute for the assets already possessed by China but rather to deprive Beijing of having a monopoly in such matters so that smaller countries could have another alternative to choose from.

C. Matarbari Deep Sea Port

The Matarbari deep-water port in Bangladesh exemplifies this model most clearly, having been constructed based on principles different from those guiding the construction of many BRI projects, with its emphasis on viability, environmental standards, and local capability rather than swift commercial lending using highly concessional JICA financing (Institute of Developing Economies, 2025; Japan International Cooperation Agency, n.d.). The significance of this project goes far beyond Bangladesh. This deep-water port, capable of handling ships which the current infrastructure in the area is incapable of accommodating, would be linked into a logistical network serving the Indian northeastern states via the financial investment of India to link it via highways, customs facilities, and railway to the rest of the economy. India did not invest money here but instead integrated this Japanese project into a trilateral economic network including both Dhaka and Tokyo.

D.Coalition-Based Infrastructure

It is not the impact of any individual initiative that is important, but rather its cumulative effect. In isolation, projects like Matarbari or Colombo West would appear small-scale, but taken as a whole, they make up a larger regional infrastructure ecosystem, one defined by plurality and institutional choice, the very conditions in which it is impossible for any one foreign party to gain an overwhelming advantage. On a theoretical level, the strategy represents a move from the classic model of balancing, which involves stockpiling military capacity, to what could be termed network balancing, where institutions and economies band together to collectively limit a competitor. To the smaller countries, the emergence of new financing represented a liberation from the old dynamic.

E.Digital Connectivity

The same logic of coalitions increasingly spilled over into the domain of digital technology, including submarine cables, digital infrastructure, cybersecurity, and digital public goods, where issues of dependence on technology became as important as dependence on physical infrastructure (Dahdal & Abdel Ghafar, 2025). The key difference in minilateralism's approach in this context was that it focused on transferring technologies and building capabilities in recipient countries rather than simply shifting their dependence.

7. Findings and Discussion

A.Why China’s Economic Penetration Did Not Produce Political Dominance

The contrast gives a consistent reply to the first research question as well. Chinese investment brought presence but not loyalty, owing to the type of dependency that it engendered which was inappropriate. When a project such as a port or an airport is finished, it ceases to be dependent on its sponsor since it is operational by itself and does not provide any further leverage; in fact, the project turns into a burden whenever there is debt that goes bad, as in Hambantota. The distance from Beijing only made things more difficult since China could not step in to assist its partners whenever it was most needed, which was seen in Colombo in 2022.

B.India’s Asymmetric Balancing Strategy

With regard to the second question, it was due to the fact that India did not accept the terms of engagement offered by China. All four Indian instruments, namely crisis stabilization, connectivity, regulation conditionality, and coalition convening, were all based on factors that could not be bought with money: proximity, speed, possession of a huge market, and credibility to convene democratic alliances. The above instruments, their mechanism, and corresponding outcome can be found in Table 1 below, and what becomes apparent from them is that when India used embedding instruments, its influence lasted long.

C.Strategic Agency of Smaller South Asian States

The third observation is about the behaviour of these smaller states themselves, which was not entirely dictated by either great power. Colombo, Malé, Dhaka, and Kathmandu managed to hedge themselves with remarkable skill, getting Chinese weaponry and Indian stability while simultaneously switching their rhetoric for internal consumption while undergoing structural dependency changes in the meantime—an example of hedging under uncertainty in line with the theory developed in the context of Southeast Asia (Kuik, 2016). The example of the Maldives is the most illuminating: although the "India Out" campaign represented an authentic display of agency, the exercise of agency was limited by structural constraints that no campaign could do away with. This agency cannot be denied—it is the very foundation of the argument since another actor, who has its own preferences, enters into play.

D.Competitive Interdependence in South Asia

Overall, what the cases indicate is a scenario where it would be appropriate to speak of competitive interdependence in the region. China is still a dominant economic player with an important edge in financing; India has certain geographical, institutional, and political strengths that cannot be reproduced by capital alone. None has succeeded in establishing dominance over the region, and none seems set to dominate the region based on the information at hand. It is, however, organized through connectivity and competition between different development models and the hedging strategies of states benefiting from the competition.

E.Theoretical Contributions

There are three contributions made by the study. Firstly, there is the provision of an empirical falsification of the simplistic structural hypothesis that asymmetry leads to alignment, and the articulation, through the neoclassical realist framework, of the domestic factors that disrupt the connection. Secondly, the use of the connectivity-infrastructure dichotomy as an analytical tool for explaining what types of economic interaction are embedded and what types are not. Lastly, the introduction of networked balancing as an analysis of how the middle powers can constrain their stronger rivals using alliances instead of capabilities.

8. Policy Recommendations

These successes are real, yet unsustainable without further effort. Ensuring them entails shifting the balance from reaction to entrenchment, and there are five key priorities that emerge from this analysis.

A. South Asian Energy Community

First, the success story of cross-border electricity trading must be scaled up from an ad hoc arrangement between several pairs of countries to something more systematic, with the creation of a regional energy community among Nepal, Bhutan, Bangladesh, and Sri Lanka via submarine cables. A South Asian Energy Community would strengthen ties of interdependence, foster decarbonisation across the region, and transform an instrument for leverage into architecture for cooperation. Meanwhile, any changes in the regulatory framework regarding power trade ought to make market access even more selective, with emphasis placed on the role of transparency and sustainability in securing it.

B.Infrastructure Delivery Reforms

Second, it cannot be stressed enough how vital implementation is. India's reputation for delays constitutes its most significant challenge to its credibility, which lies at the heart of the entire strategy. Implementation of projects, like the GMCP, within the set timeframe is far more important as a signal about reliability than its economics, which is a strategic resource in and of itself.

C.South Asia Development Fund

With the China financing gap not closing, there is a need for institutionalization of finance for the coalition, instead of trying to cobble it together on a case-by-case basis. India should spearhead a South Asia Development Fund with Japan, U.S., Australia, the European Union, and multilateral financial institutions to offer concessional financing based on high standards. Key uses for the funds would be:

1) Digital Public Infrastructure and secure data centers/ cloud computing;
2) Future telecommunications and AI governance structures;
3) Climate resilient infrastructure and renewables-based energy systems;
4) Green Shipping lanes and modern port facilities.

D.Strategic Magnanimity

And herein lies the toughest lesson from the Maldives: in a part of the world where the issue of sovereignty is particularly sensitive, influence must not be pursued using any means that can be interpreted as either coercive or interfering. What needs to be done is for India to pursue a policy that is characterized by restraint and predictability – wider market access for neighbouring exporters, lower non-tariff restrictions, preferential treatment for least-developed countries, and always being prepared to help in times of crisis – so that engagement becomes the easiest route to take.

E.Digital Public Infrastructure

The subsequent stages of competitive struggle will largely be digitized, where India enjoys a unique position in terms of exportable public goods. An expansion of India's Unified Payments Interface, identity systems, and interoperable electronic governance networks into the region would provide for an additional level of institutional connectivity that will complement the physical connectivity; invisible, intangible, and yet embedded with the Indian standard.

9. Conclusion

A.Major Findings

In undertaking this research, the goal was to explain the divergence between predictions made by structural theories of politics regarding the relationship between China and South Asia from 2020 to 2026, and reality in terms of what actually happened. This was the case since China, despite having the superior economy, did not become politically dominant, whereas India, with an inferior economy, did not go into decline. This, according to the analysis presented herein, is because power in this particular struggle was determined by which of the two countries had managed to embed itself within the economic lives of their neighbors. It was through its responsive action, connectivity, regulatory capability, and coalition building that India accomplished this feat – asymmetric actions, leveraging certain non-purchasable strengths.

B.Contribution to International Relations Scholarship

For the discipline, this era provides a well-documented example where asymmetrical, geoeconomic balancing made up for a massive material disadvantage, and also provides a body of theoretical tools—the distinction between infrastructure and connectivity, network balancing, the role of small states—by which to analyse such situations. It indicates that the transformation of economic power into political alignment is much more conditional than balance-of-power theory would expect, and that the conditionality rests not in the aggregate figures but in the domestic filters and nature of the dependencies.

C.Future Research Directions

Here are three research questions for further exploration. Firstly, the identified mechanisms need to be evaluated in other parts of the world where there is a case of a middle power residing within a region, facing an external financier giant. Secondly, there needs to be a focus on studying the role of the digital domain, which is still emerging during this period, yet could emerge into another key domain of competition in due course. Finally, the resilience of competitive interdependence itself needs to be studied; it remains unclear whether this balance will hold out and whether some shock event, such as a debt crisis, a regime change, or even a broader Indo-Pacific restructuring, will push the region towards either one of its poles.

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