

India, Japan and South Asia Geoeconomics

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Summary

The recent Indo-Japanese initiative to promote sub-regional connectivity with Bangladesh in the North-eastern subcontinent and policy coordination between Delhi and Tokyo to support Sri Lanka's debt restructuring mark an important moment in the evolution of South Asia's geoeconomics.

A couple of recent developments reflect a major structural change unfolding in the subcontinent. One is the joint effort by Bangladesh, India and Japan to develop connectivity across the Eastern part of the subcontinent. The other is the political and policy coordination between Delhi and Tokyo supporting Sri Lanka's restructuring of its massive external debt and revitalising its economy.

That India is working with third parties on key issues in the region is certainly new. In the past, India actively sought to prevent or [resist third party involvement](#) in regional affairs. Over the last two decades though, India has steadily overcome its past obsession with the idea that the South Asian subcontinent must remain an exclusive an Indian sphere of influence.

In the second half of the 20th century, Delhi sought to persist with the strategic inheritance from the British Raj – its primacy in the subcontinent. That policy, however, [could not be sustained](#), thanks to the partition of the subcontinent, its enduring conflicts with Pakistan, its relative economic decline, rising nationalism in the smaller neighbours and the growing influence of the major powers in the region.

For one, it could not stop Pakistan from mobilising major powers like the United States (US), the United Kingdom and China to balance India in the region. Nor could it stop its close strategic partner, the Soviet Union, from sending troops into Afghanistan in 1979. Nor could it prevent the counter-mobilisation by the West and the Gulf states to support Pakistan as a frontline state in the effort to push the Red Army out of Afghanistan. Despite this, India maintained relentless pressure against its other neighbours from being drawn into third party alliances. The results, however, were mixed.

India has undoubtedly reversed its relative decline in the 21st century, thanks to its economic reforms that led to sustained high growth rates. India has emerged as one of the world's fastest growing economies and has a lot more resources today to support its geopolitical objectives in the neighbourhood.

Delhi has emphasised on a number of new regional objectives in the 21st century. These include greater volumes of developmental assistance, efforts to resolve long-standing

political disputes, improve connectivity, and greater trade liberalisation and security cooperation.

However, India discovered that its new positive approach to the region was running against a China that had already risen to be a great power. To be sure, China had begun to offer wide-ranging support to India's neighbours starting from the 1960s. However, the scale and impact of Chinese projects in the subcontinent were of [hugely higher order of magnitude](#).

In the 20th century, when the relative power capabilities of India and China were similar, Delhi found it within its power to manage the growing shadow of China. However, as the 21st century unfolded, India struggled to prevent China's rising influence in South Asia. This, in turn, persuaded India to recalibrate its regional policies to include greater collaboration with like-minded partners in the West on regional issues. The sharpening conflict between China and the US and its Asian allies has also created new incentives for the latter to work with India to blunt Beijing's growing influence in South Asia.

The trilateral connectivity initiative involving Bangladesh, India and Japan is part of this new paradigm in South Asia. The project involves the construction of an industrial hub and a port in Bangladesh with connectivity to India's land-locked North-east as well as Bhutan and Nepal. The project will also enable the [development of supply chains](#) across the eastern subcontinent, which is home to some of the poorest people in the world. This significant project could also provide the much-needed evidence to the argument that China is not the only game in town for regional connectivity.

This is not a random idea, but very much part of Japan's ambitious strategy to develop a 'Free and Open Indo-Pacific'. The idea was [mooted in a speech](#) by Japanese Prime Minister Fumio Kishida when he visited Delhi in March 2023 to outline a new vision for Indo-Pacific. The original framework for the Indo-Pacific was articulated by the late prime minister [Shinzo Abe, when he spoke at the Indian parliament](#) in August 2007. Kishida's commitment to deepening connectivity within South Asia was demonstrated by [quick follow up](#) on funding as well as official consultations between the three governments.

India and Japan have also developed political and policy cooperation in engaging with the economic crisis in Sri Lanka. They have taken the lead in setting up a [new platform, along with France](#), to coordinate the restructuring of Colombo's US\$7.1 billion (\$\$9.5 billion) debt to bilateral creditors, including China, Japan and India.

The platform is open to China, but Beijing is yet to signal a formal commitment to Colombo's debt restructuring. Here again, the eagerness of India, Japan and the West to assist Sri Lanka stands in contrast to Beijing's hesitations, rooted in China's dilemmas on developing a broader policy to deal with a large number of its debtors that are in trouble today. Although India, Japan and the West are eager to have China participate in the collective restructuring, they may be open to [going ahead without Beijing's immediate participation](#).

Until a couple of years ago, it appeared that China had no competition in promoting regional connectivity and the economic transformation of South Asia. The deepening regional cooperation between Delhi and Tokyo could well provide credible alternatives to Beijing.

Given the size and depth of its economy, China will remain a powerful economic force in the subcontinent. But the new regional competition is likely to offer the smaller South Asian states more room for geoeconomic bargaining.

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