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AI and India's Neighborhood First Policy: India's Engagement with Sri Lanka

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Abstract- India's Neighbourhood First Policy has been a cornerstone of its foreign relations since 2014, yet it continues to evolve. The rise of Artificial Intelligence (AI) is reshaping how India approaches this policy, particularly in its engagement with Sri Lanka. This article explores how AI-driven tools—digital trade platforms, surveillance systems, and data-sharing networks—are influencing bilateral relations. It asks whether AI strengthens India's role as a supportive neighbor or complicates an already delicate partnership. By examining policy shifts, agreements, and practical examples, the paper argues that India must adopt a people-centric digital strategy if AI is to enhance diplomacy rather than undermine trust.

Keywords: Artificial Intelligence, Neighborhood First Policy, India–Sri Lanka Relations, Digital Diplomacy, Maritime Security, Regional Connectivity.

I. Introduction: Why This Matters Now

Let us be honest. When most people think about India-Sri Lanka relations, they envision disputes among fishermen, Tamil political issues, or trade deals. What they likely do not picture is cloud-based surveillance systems, AI algorithms, or satellite data networks. But that gap in imagination is precisely the issue.
We are living through a time when technology is not just changing what countries can do — it is changing what countries mean to each other. And in South Asia, this shift is is occurring rapidly, whether our policy frameworks are ready or not.

India's Neighbourhood First Policy, launched under Prime Minister Narendra Modi's government in 2014, was founded on a straightforward concept: before India engages with far-off nations, it should first focus on its immediate surroundings. The rationale was that a stable and prosperous South Asia benefits India's own security and development. The policy emphasized the importance of connectivity, trade, energy, and people-to-people ties with neighboring countries like Nepal, Bangladesh, Bhutan, Maldives, Afghanistan, and notably, Sri Lanka.

For a while, this this functioned quite well on paper. India entered into agreements, established credit lines, constructed hospitals and railways, and provided emergency assistance during crises. However, there was a crucial element missing. India was still operating with the traditional concepts of geography and economics. The emerging concepts like digital infrastructure, AI-driven services, data sovereignty was not yet part of the conversation.

That is beginning to change now. And Sri Lanka may be the most compelling case study to understand this change.

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Sri Lanka is positioned at a pivotal point in the Indian Ocean. It is close to major shipping lanes. China has actively pursued relationships there through port investments and infrastructure projects. Moreover, it experienced a severe economic collapse in 2022 that forced it to rethink many of its partnerships. In this context, how India uses — or fails to use — AI as a diplomatic and strategic tool with Sri Lanka tells us a great deal about where regional politics in South Asia is headed.
This article delves into that narrative. It is not solely a technical document. It serves as a political analysis that takes technology into account.

II. Understanding the Neighbourhood First Policy

India's Neighbourhood First Policy was introduced with the vision of fostering stronger ties with its immediate neighbors. The policy underscores the belief that India's prosperity is intrinsically linked to the stability and development of the South Asian region. By prioritizing regional cooperation, India aimed to counterbalance the growing influence of external powers, particularly China, and to promote peace and economic integration. The policy has led to increased development assistance, infrastructure projects, and humanitarian aid across countries like Nepal, Bhutan, Bangladesh, and Sri Lanka. However, despite these efforts, the policy has faced criticism for lacking a cohesive digital strategy, especially in an era where digital connectivity is as crucial as physical infrastructure.

Sri Lanka's Strategic Importance

Sri Lanka occupies a pivotal position in the Indian Ocean, situated near major maritime trade routes that connect Asia with Europe and Africa. Its ports, particularly the Hambantota and Colombo ports, are of immense strategic value. China's investments in these ports under the Belt and Road Initiative have raised concerns in New Delhi about potential military and economic encirclement. Sri Lanka's economic crisis in 2022 further highlighted its vulnerability and the importance of reliable partnerships. For India, engaging Sri Lanka through AI and digital diplomacy offers a chance to reinforce its influence while supporting a neighbor in need.

III. The AI Turn: Transforming Bilateral Engagement

Digital Trade and Economic Integration

Let's begin with trade, as that is where some of the most noticeable AI-related advancements are taking place. India and Sri Lanka maintain a well-established trading partnership. India stands as Sri Lanka's foremost trading ally. The nations are bound by the India-Sri Lanka Free Trade Agreement initiated in 2000, and discussions have been ongoing to broaden this into a more extensive economic collaboration. However, trade between the two nations has frequently been hindered by inefficiencies — such as customs holdups, excessive paperwork, and inadequate port connectivity.

This is where artificial intelligence becomes practically significant. India's digital trade framework — which includes the ICEGATE customs system, the Unified Logistics Interface Platform (ULIP), and various AI-driven invoice processing solutions — is now being extended to regional allies as part of digital connectivity initiatives. For Sri Lanka, connecting to these platforms could result in quicker clearances, improved supply chain transparency, and reduced transaction expenses.

This may seem dull and administrative. Yet, it holds considerable geopolitical importance. When a nation's trade operations rely on another nation's digital framework, a dependency is formed. The key question is whether this dependency is perceived as beneficial or as restrictive. For India, the potential lies in being genuinely advantageous. The danger is in being viewed as promoting its own technological ecosystem for strategic gain.

Sri Lanka has expressed interest in these systems but has also approached the situation with caution. Colombo is negotiating with several partners at once — including Singapore, Japan, and China — regarding digital trade structures. India must present a convincing argument, not only focused on efficiency but also on building trust.

Maritime Surveillance and Security Cooperation

The Indian Ocean is a theater of strategic competition, particularly with China's expanding naval presence. India and Sri Lanka have signed agreements to collaborate on maritime security, including joint naval exercises and real-time data sharing. AI enhances these efforts by enabling predictive analytics, anomaly detection, and automated threat assessments. However, questions about data ownership, usage rights, and ethical oversight remain. India must approach this collaboration with transparency and a commitment to equal partnership.

AI in Health, Agriculture, and Education

Beyond security and trade, AI is making inroads into sectors like health, agriculture, and education. India has provided AI-based diagnostic tools and telemedicine platforms to Sri Lanka, particularly in rural areas. These tools enhance healthcare delivery by enabling remote consultations, early disease detection, and efficient health record management. In agriculture, AI applications help predict weather patterns, optimize irrigation, and detect crop diseases—critical for Sri Lanka's tea, rubber, and rice sectors. Collaborations between Indian and Sri Lankan universities are fostering joint research and knowledge exchange.
In education, AI-driven platforms are being used to personalize learning, assess student performance, and bridge gaps in access to quality instruction. India's experience with digital learning initiatives like SWAYAM and DIKSHA can serve as models for Sri Lanka. By supporting digital literacy and capacity building, India can strengthen people-to-people ties and promote inclusive development.

Comparative Insights: India vs. China's Digital Diplomacy

China's Digital Silk Road has made significant inroads in Sri Lanka through investments in telecommunications, smart cities, and data centers. Companies like Huawei have played a central role in building Sri Lanka's digital infrastructure. These projects often come with long-term financial obligations and concerns about surveillance and data control. In contrast, India's approach emphasizes open-source platforms, interoperability, and capacity building. India's Digital Public Infrastructure (DPI) model—featuring Aadhaar, UPI, and ONDC—has been lauded by global institutions for its inclusivity and scalability. By offering transparent, customizable, and locally governed digital solutions, India can present a compelling alternative to China's more transactional model.

Ethical Considerations and Data Sovereignty

As AI becomes embedded in governance and public services, ethical considerations become paramount. Issues such as algorithmic bias, surveillance overreach, and data privacy must be addressed proactively. India must ensure that its AI exports to Sri Lanka include safeguards, transparency mechanisms, and respect for human rights. This is especially important in politically sensitive areas like the Tamil-majority regions, where surveillance technologies could be misused. India should advocate for data localization, independent audits, and community oversight to build trust and legitimacy.

IV. Looking Ahead: Possible Futures for AI Diplomacy

1. Constructive Partnership
In this optimistic scenario, India and Sri Lanka co-develop digital infrastructure, share AI research, and collaborate on regional security. India supports Sri Lanka's digital transformation through training programs,

joint ventures, and inclusive platforms. Sri Lanka retains control over its data while benefiting from Indian expertise. This model fosters long-term trust and positions India as a reliable digital partner in South Asia.

2. Transactional Muddle

Here, cooperation is fragmented and driven by short-term interests. Multiple agencies sign uncoordinated agreements, leading to inefficiencies and missed opportunities. Sri Lanka continues to hedge between India and China, leveraging both for its benefit. India's influence remains limited, and its digital diplomacy lacks coherence and strategic depth.

3. Digital Friction

In the worst-case scenario, a data breach or misuse of surveillance tools triggers a political backlash. Sri Lanka distances itself from Indian digital systems and leans further into China's orbit. Domestic political tensions in Tamil Nadu escalate, and civil society voices raise concerns about India's role in digital repression. This outcome would represent a significant setback for India's regional ambitions and highlight the risks of neglecting ethical considerations.

V. Conclusion

The Neighbourhood First Policy began with roads and ports; today it must adapt to data flows and AI systems. Sri Lanka, with its strategic location and cultural ties, is the ideal partner to test this digital turn. India's challenge is to ensure that its AI engagement is not merely transactional but transformative. By prioritizing trust, ethics, and inclusivity, India can redefine regional diplomacy for the digital age. The future of India–Sri Lanka relations will depend not just on technology, but on the values that guide its use.

The political science argument is strengthened by connecting governance, information access, user satisfaction and fuzzy cognitive modelling [16]-[19]. This literature is relevant because public policy and digital governance increasingly require transparent, adaptive and citizen-oriented decision frameworks. Additional governance and AI-policy references are added for broader support [20]-[22].

The study shows that AI and digital governance have the potential to improve transparency, participation and service delivery. At the same time, ethical safeguards, accountability, privacy protection and citizen awareness are necessary to ensure that technological governance remains democratic and inclusive.

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