



Delhi Policy Group

Advancing India's Rise as a Leading Power

INDIA STRATEGIC REVIEW SEPTEMBER 2026

Author

Deependra Singh Hooda

Volume VII, Issue 9



Delhi Policy Group

Core 5A, 1st Floor, India Habitat Centre, Lodhi Road, New Delhi- 110003

www.delhipolicygroup.org

India Strategic Review
Vol. VII, Issue 9
September 2026

ABOUT US

Founded in 1994, the Delhi Policy Group (DPG) is among India's oldest think tanks with its primary focus on strategic and international issues of critical national interest. DPG is a non-partisan institution and an independently funded non-profit Trust. Over past decades, DPG has established itself in both domestic and international circles and is widely recognised today among the top security think tanks of India and of Asia's major powers.

Since 2016, in keeping with India's increasing global profile, DPG has expanded its focus areas to include India's regional and global role and its policies in the Indo-Pacific. In a realist environment, DPG remains mindful of the need to align India's ambitions with matching strategies and capabilities, from diplomatic initiatives to security policy and military modernisation.

At a time of disruptive change in the global order, DPG aims to deliver research based, relevant, reliable and realist policy perspectives to an actively engaged public, both at home and abroad. DPG is deeply committed to the growth of India's national power and purpose, the security and prosperity of the people of India and India's contributions to the global public good. We remain firmly anchored within these foundational principles which have defined DPG since its inception.

INDIA STRATEGIC REVIEW

The ISR features an assessment of key developments, trends, and policies pertaining to India's immediate and continental neighbourhood, and is authored by Lt. Gen. Deependra Singh Hooda (Retd.), Distinguished Fellow for Military Strategy, assisted by Mr. Shreyas Deshmukh, Research Associate. Your comments and feedback may be addressed to Shreyas Deshmukh at shreyas@dpg.org.in. To subscribe, please [click here](#).

The views expressed in this publication are those of the author and should not be attributed to the Delhi Policy Group as an Institution.

Cover Images:

1. Military Chiefs of Pakistan, Turkey and Saudi Arabia (from left to right), held meeting in Riyadh on September 25, 2026. Source: [X/@PakistanFauj](#)
2. India's Defence Minister Rajnath Singh and President of Sri Lanka Anura Kumara Disanayake virtually inaugurated three Bailey Bridges constructed by the Indian Defence Forces on September 9, 2026. Source: [PIB](#)
3. Finance Minister of Nepal Swarnim Wagle held meeting with India's Minister of External Affairs Dr S Jaishankar in New Delhi on September 18, 2026. Source: [X/@EONIndia](#)

© 2026 by the Delhi Policy Group

Delhi Policy Group

Core 5A, 1st Floor,
India Habitat Centre,
Lodhi Road, New Delhi- 110003.
www.delhipolicygroup.org

India Strategic Review

Vol. VII, Issue 9

September 2026

Contents

PAKISTAN	1
<i>The First Test of Makkah Pact</i>	1
<i>Indus Water Treaty</i>	2
<i>Internal Security</i>	3
AFGHANISTAN	5
<i>Escalation of Pakistan-Afghanistan Conflict</i>	5
<i>Humanitarian Crisis and Returnee Pressure</i>	6
DEVELOPMENTS ON THE INDIA-CHINA LINE OF ACTUAL CONTROL (LAC)	7
<i>Modi-Xi Meeting</i>	7
<i>Border Tensions</i>	7
BANGLADESH	8
<i>India-Bangladesh Relations</i>	8
<i>Energy Crisis</i>	9
NEPAL	10
<i>Impact of Bhotekoshi Floods</i>	10
SRI LANKA	11
<i>Economic Recovery</i>	11
<i>Rajnath Visits Sri Lanka</i>	11

India Strategic Review

by

Lt. Gen. Deependra Singh Hooda (Retd.)

PAKISTAN

The First Test of Makkah Pact

The Makkah Joint Defence Agreement signed by Pakistan, Saudi Arabia and Türkiye on August 7 has moved from a political declaration towards an institutional and military framework. Foreign and defence ministers and military chiefs of the three countries met in Istanbul on August 31 for the first Strategic Political and Defence Committee meeting. They decided to establish a Secretariat, headed by a Secretary General, in Saudi Arabia.¹ On September 23, Pakistan's Foreign Ministry announced that retired Lieutenant General Nauman Mahmood had been appointed as the first Secretary General.²

The first test of the agreement comes as Saudi Arabia faces an escalation in missile and drone attacks from Yemen's Houthis. By the third week of September, the Houthis had taken most of Yemen's Red Sea coastline, extending their control over the Bab el-Mandeb Strait. The Houthis simultaneously stepped up attacks against Saudi Arabia, striking cities and oil installations in Southern Saudi Arabia.³

Separately, drones launched from Iraqi territory struck Saudi Arabia's strategic East-West oil pipeline, which carries crude from the kingdom's eastern oilfields to the Red Sea port of Yanbu. The pipeline has grown more important after disruptions to shipping through the Strait of Hormuz. It has been moving 4 million to 5 million barrels per day, amounting to 4% to 5% of global supply. Its closure forced Saudi Arabia to temporarily suspend crude loadings at Yanbu and cancel some deliveries to European customers.⁴

On September 24, the foreign ministers of Pakistan, Saudi Arabia and Türkiye met in New York on the sidelines of the United Nations General Assembly. According to the Saudi foreign ministry, they discussed arrangements for an urgent chief of staff meeting to explore ways of supporting Saudi Arabia under the pact. Pakistan sounded more cautious. Foreign Minister Ishaq Dar said that the ministers had "reviewed progress towards establishing the institutional structures under the agreement and exchanged views on regional and international security issues."⁵

On September 25, the three military chiefs met in Riyadh. They agreed to deepen their military and intelligence cooperation and enhance the integration of defensive

capabilities under the Makkah Joint Defence Agreement. They also reaffirmed their commitment to collective defence and their determination to protect the “security, sovereignty and territorial integrity” of Saudi Arabia.⁶ However, there is no indication yet that Pakistan or Türkiye intends to participate directly in strikes against the Houthis.

It remains unclear how the collective defence agreement will play out and what level of military support Pakistan will provide. Islamabad’s position is also complicated by its attempts to broker peace between Iran and the US. This balancing act can survive only if Pakistan does not use its military capabilities directly against the Iran-backed Houthis. While there are substantial incentives- diplomatic and financial- for Islamabad to deepen its Gulf security role, the Houthi escalation has also exposed the costs of the Makkah Pact.

Indus Water Treaty

On August 31, the Court of Arbitration at The Hague issued an award on the status of the Indus Water Treaty (IWT) following India's decision in April 2025 to hold the Treaty in abeyance after the Pahalgam terrorist attack. The court ruled that India could not unilaterally suspend or terminate the Treaty; it remains in force, and India remains bound by its provisions.⁷

In a separate order on interim measures, the court also imposed restrictions on construction at India's Ratle Hydroelectric Plant on the Chenab River. India has been directed not to concrete certain portions of the dam above specified levels until 90 days after a decision by the Neutral Expert, which is expected in July 2027.⁸ India did not participate in the proceedings.

India's objection to the Court of Arbitration goes back to 2016. That year, Pakistan sought a Court of Arbitration over the Kishenganga and Ratle projects, while India asked for a Neutral Expert to examine the same questions. India's position has been that the Treaty provides a graded sequence for resolving disagreements. Differences go first to the Permanent Indus Commission, then to a Neutral Expert for technical questions, and only then to a Court of Arbitration for questions of legal interpretation. India maintains that running both forums at once, on the same dispute, breaches the Treaty and creates the risk of contradictory findings. On that basis, New Delhi treats the court as improperly constituted.⁹

India rejected the Court of Arbitration ruling, stating, "This so-called Court was constituted by the World Bank in patent breach of the terms of the Treaty and India categorically rejects its so-called award, just as it has firmly rejected all prior pronouncements by this illegally constituted body." It further added that India’s decision to hold the IWT in abeyance remains in force.¹⁰

On September 1, Pakistan Prime Minister Shehbaz Sharif raised the issue of IWT at the Shanghai Cooperation Organisation (SCO) Summit in Bishkek, describing water as the “lifeblood” of the region. He said that treaties governing shared waters are “solemn binding international commitments” and “must be honoured unconditionally in both letter and spirit.”¹¹

Prime Minister Sharif adopted a significantly stronger position while addressing the UN General Assembly on September 25. He said India's decision to place the Treaty in abeyance had no legal basis and cited the Court of Arbitration's ruling to support Pakistan's position. He warned that any attempt by India to stop, impede or divert Pakistan's share of the Indus waters would be treated as an “act of war.”¹²

India's Foreign Minister Dr S Jaishankar responded strongly to Prime Minister Sharif's remarks at the General Assembly, rejecting attempts to “normalise terrorism” and claim immunity from its consequences. Without mentioning IWT directly, he said “friendship and goodwill cannot co-exist with terrorism” and that understandings based on such an approach would “naturally” be called into question. It is therefore for “the perpetrator of terrorism to mend its ways.”¹³

The IWT dispute has now moved beyond disagreements over the technical design of Indian hydroelectric projects to the more critical issue of Pakistan's support for cross-border terrorism. With bilateral relations frozen and the two sides adopting fundamentally incompatible legal positions, the IWT has emerged as another potential fault line in India-Pakistan ties.

Internal Security

Pakistan's internal security situation remained critical during September, with sustained militant violence in Khyber Pakhtunkhwa (KP) and Balochistan. Security forces are inflicting substantial casualties on militant groups, but this has not prevented them from carrying out attacks against security forces and economically important infrastructure.

Counterterrorism operations intensified in Balochistan. On September 1, the Pakistan Army claimed that 21 militants, six security personnel and a customs official were killed in two separate incidents in Chagai and Pishin districts.¹⁴ On September 4, the army stated that 48 militants were killed in a series of raids on hideouts in Balochistan over the past 72 hours. It also described the killed militants as “Indian-sponsored terrorists,” without providing any evidence.¹⁵ On September 27, the army said 73 militants were killed over 96 hours in operations in Quetta, Ziarat, Noshki and the Mand area of Tump district.¹⁶

Despite these operations, the Baloch insurgency retains the ability to threaten the state's security and economic interests. The Baloch Liberation Army (BLA) and Baloch

Republican Guards (BRG) have separately claimed responsibility for several operations in Lasbela, Jiwani, Mashkel and Kachhi. The BLA also reiterated its opposition to lithium exploration and mining projects in Balochistan and warned both local and international companies against involvement in such projects.¹⁷

The situation in KP deteriorated sharply during the second half of September. On September 17, a roadside bomb in Hangu district killed six soldiers. A day later, militants launched a complex assault on the Police Lines compound in Kohat. A vehicle bomb detonated near a mosque during Friday prayers, after which at least seven gunmen attacked the compound, which houses a counterterrorism police unit. At least 21 people were killed and around 80 injured, most of them police personnel.¹⁸

A second major attack occurred on September 26 near Dera Ismail Khan. A suicide bomber drove an explosives-laden vehicle into a police checkpoint at Aman Mela in the Darazinda area, killing at least 12 people and injuring about 35. Gunmen subsequently opened fire on an ambulance carrying casualties from the attack, killing a rescue worker and wounding two others. The Tehrik-e Taliban Pakistan (TTP) claimed responsibility.¹⁹

Violence continued through the end of the month. On September 28, motorcycle-borne gunmen opened fire on a traffic police vehicle in Tank district, killing three police officers and wounding three others before escaping.²⁰ Taken together, the attacks in Hangu, Dera Ismail Khan and Tank illustrate both the geographical spread of the violence and the growing burden placed on the provincial police.

The deteriorating security situation has also sharpened differences between the federal and KP governments. Following the Dera Ismail Khan attack, Chief Minister Sohail Afridi called for a change in counterterrorism policy and greater provincial participation in security decision-making. He argued that the approach pursued over the past two decades had failed to produce lasting peace.²¹ On the other hand, federal ministers have alleged that the KP government was facilitating terrorists for political and financial reasons and called for imposing governor's rule or an emergency in the province.²²

The political confrontation could damage the counterterrorism effort. KP is the principal theatre of TTP violence, but responsibility for responding to the threat is divided among the federal government, provincial administration, military, intelligence agencies and police. A widening political divide between Islamabad and Peshawar makes it more difficult to develop a coherent approach.

AFGHANISTAN

Escalation of Pakistan-Afghanistan Conflict

The fragile calm between Afghanistan and Pakistan broke down on September 21 when Pakistan carried out airstrikes in Afghanistan's Kunar and Paktika provinces. Islamabad claimed that 28 militants had been killed in strikes against training and operational facilities. The Taliban government stated that the strikes had hit civilian areas. The United Nations Assistance Mission in Afghanistan (UNAMA) confirmed that three civilians had been killed. Kabul summoned Pakistan's chargé d'affaires, and Taliban spokesman Zabihullah Mujahid warned that Afghanistan would “respond appropriately to this aggression.”²³

The strikes ended almost three months of relative calm following the fighting earlier in the year. Pakistan linked the military action to the sharp increase in militant attacks inside Khyber Pakhtunkhwa, particularly the September 18 assault on the Police Lines complex in Kohat. Islamabad continues to maintain that the Tehreek-e-Taliban Pakistan (TTP) and affiliated groups operate from sanctuaries inside Afghanistan. Kabul rejects these allegations and argues that Pakistan's militant violence is primarily the consequence of its own internal policies.

The confrontation escalated on September 24 when Pakistan struck ten locations in Kandahar, Paktia and Khost provinces. Islamabad said the targets were facilities used to launch and store drones that had attacked Pakistani territory the previous day. The Taliban denied involvement in the drone attacks and said four civilians had been killed in the Pakistani strikes.²⁴

Cross-border ground fighting followed. On September 25, Pakistani security sources claimed that Pakistani forces had thwarted an attempted Afghan aggression in the Gulistan sector of Balochistan and killed several Taliban personnel. Pakistan claimed that 13 Afghan Taliban personnel had been killed. Kabul rejected the casualty figures and said Afghan forces had destroyed a Pakistani border post near Spin Boldak.²⁵

On September 27, Afghanistan's Defence Ministry said that its forces had killed 28 fighters and captured or wounded another 32 in Nuristan after they crossed into Afghanistan from Pakistan. Kabul alleged that the group included Islamic State members and former Afghan security personnel recruited and trained with Pakistani assistance. Pakistan categorically rejected the allegations as “frivolous, baseless and devoid of any truth.”²⁶

Repeated mediation has failed to resolve the central dispute. Chinese intervention helped reduce fighting earlier this year, and talks in Urumqi in April produced commitments to avoid further escalation. However, no mechanism has emerged that

could bridge Pakistan's demand for visible action against the TTP and the Taliban's refusal to accept any role in Pakistan's domestic militancy. A senior Pakistani official said relations have "reached a point of no return."²⁷

Humanitarian Crisis and Returnee Pressure

The humanitarian situation remains under severe pressure from the combined impact of mass returns from neighbouring states, declining international assistance and continuing economic weakness. By September, about 1.27 million Afghans had returned to the country during 2026, principally from Iran and Pakistan.²⁸ This follows 2.9 million returns during 2025 and adds to an extraordinary demographic shock that has brought millions back into an economy with limited capacity to provide employment, housing, and basic services.

The character of returns from Iran has also changed. The continuing US-Iran conflict and the collapse in Iran's economy are now compelling increasing numbers of Afghan families to leave voluntarily because there is no employment and their savings have lost much of their value. Only 29 per cent of recent returnees from Iran had any savings remaining, while average incomes had fallen by almost one-third compared with pre-crisis levels.²⁹

The surge in returnees is placing growing pressure on an already severely underfunded humanitarian response. The United Nations' 2026 Humanitarian Response Plan for Afghanistan requires \$1.71 billion but was only about 31 per cent funded by mid-September. UNHCR announced that its cash assistance for Afghan returnees had been reduced from \$375 to \$170 per person as part of wider funding cuts. The agency warned that reductions of this magnitude undermine returnees' ability to meet immediate needs and increase pressure on already impoverished host communities.³⁰

Women and girls face a particularly difficult choice. Many families that had remained in Iran despite earlier deportation campaigns are now returning to Afghanistan, where women face severe restrictions on education, employment and freedom of movement. For adolescent girls who had continued their education in Iran, return means an abrupt end to formal schooling.

The restrictions imposed by the Taliban on women are also directly affecting humanitarian assistance. September marked one year since Afghan female employees were prevented from accessing United Nations compounds across the country. In a statement issued on September 7, UN Secretary-General António Guterres said the restrictions undermine the UN's capacity to carry out its mandate and deliver assistance, particularly to vulnerable Afghans, including women and girls.³¹

Afghanistan thus presents a paradox. The Taliban government is more politically secure than at any stage since returning to power, but the country remains deeply vulnerable. The state has consolidated authority, yet large parts of the population remain dependent on humanitarian assistance. International funding cuts are turning the returnee crisis into a longer-term problem of unemployment, poverty and social instability.

DEVELOPMENTS ON THE INDIA-CHINA LINE OF ACTUAL CONTROL (LAC)

Modi-Xi Meeting

Prime Minister Narendra Modi and President Xi Jinping met in New Delhi on September 12, on the sidelines of the BRICS summit. It was President Xi's first visit to India in seven years.

India and China issued separate readouts of the meeting. The two readouts agreed on the need to sustain the improvement in relations, expand economic and people-to-people engagement and maintain stability along the border. However, the Indian account described peace and tranquillity along the LAC as an essential basis for developing bilateral ties, while the Chinese readout presented progress on the boundary and the broader relationship as parallel processes. Chinese Foreign Ministry also stated that India's policy and position on issues relating to Taiwan and Tibet remain unchanged, and it will not allow any force to engage in anti-China activities on its territory. This statement did not appear in the Indian account of the meeting.³²

The meeting continued the gradual normalisation of relations that began in October 2024. However, the situation at the LAC remains a potential source of tension. Even as preparations for President Xi's meeting were underway, military commanders were dealing with a local situation in Arunachal Pradesh.

Border Tensions

In June, reports had emerged of Chinese forces encroaching on traditional tribal lands near Taksing in the Upper Subansiri district of Arunachal Pradesh. The Print reported that in early August Chinese troops had set up 2-3 tents about 2.5 km inside the LAC.³³ Although the Indian Army and the government have denied any claims of territory being lost, local groups remain vocal about the issue and held meetings with Chief Minister Pema Khandu and Governor Lt Gen K T Parnaik (Retd) in September.³⁴

Against this backdrop, India and China held their first Corps Commander-level talks in the Eastern Sector on September 6 and 7. The first round took place at Wacha on the

Indian side of the border in Arunachal Pradesh, and the second at Damai on the Chinese side. Lieutenant General Girish Kalia, Commander of the Rangapahar-based 3 Corps, led the Indian delegation.³⁵ Until now, Corps Commander-level talks had been held mainly at Chushul-Moldo in eastern Ladakh, a practice established after the Galwan clash of 2020.

While details of the meeting are not known, Ministry of External Affairs spokesperson Randhir Jaiswal said it took place pursuant to the understandings reached between the Special Representatives of India and China in August 2026. That round produced an eight-point outcome, which included two additional meeting points for senior commander-level talks and two additional military hotlines.³⁶

Another potential source of tension is the 1963 China-Pakistan Boundary Agreement under which Pakistan transferred control of the Shaksgam Valley to China. On September 16, Pakistan and China operationalised a new Pakistan-China Boundary Joint Commission at its inaugural meeting in Islamabad. Pakistan said the commission would promote cooperation in border management, joint border surveys, trade flows, and people-to-people connectivity.³⁷

India rejected the establishment of the commission, saying there is “no boundary” between the two countries, and that Islamabad has no “locus standi” to enter into arrangements with third countries on the Union Territories of Jammu and Kashmir and Ladakh. India also holds the 1963 agreement as illegal and invalid.³⁸

The commission does not alter the territorial situation on the ground, but it gives an institutional arrangement to the disputed Shaksgam tract and adds another dimension to India's territorial dispute with China beyond the LAC.

The developments in September reflect the broader trajectory of India-China relations. Political ties continue to improve, even as unresolved boundary disputes generate periodic friction and require management through strengthened military and diplomatic mechanisms.

BANGLADESH

India-Bangladesh Relations

Two political issues continue to shadow India-Bangladesh relations: Sheikh Hasina's continued presence in India and the future of the Ganges Water Sharing Treaty.

The Hasina issue remains the most immediate source of friction. Dhaka continues to press for her extradition and has objected to her political activities while residing in India. On September 15, Prime Minister's Information and Broadcasting Adviser

Zahed Ur Rahman described the return of Hasina, former Awami League General Secretary Obaidul Quader, and other wanted individuals in India as an "important condition" for easing bilateral relations.³⁹ India has maintained that Bangladesh's extradition request is being examined under established procedures.

The second issue is the 1996 Ganges Water Sharing Treaty, which expires on December 12. Bangladesh has stated that it wants a new agreement rather than a renewal of the existing Treaty. Water Resources Minister Shahiduddin Chowdhury Anee said Dhaka would seek a guarantee clause to ensure minimum dry-season flows and measures to address excessive flows during the monsoon. The existing Treaty contains a formula for sharing water-flow data, but does not provide Bangladesh with a fixed minimum guaranteed flow.⁴⁰

Formal negotiations on a replacement treaty have not yet begun. India has indicated that discussions should take place through the established Joint Rivers Commission mechanism and has not publicly accepted Dhaka's demand for an entirely new treaty.⁴¹ Water is a state subject under the Indian Constitution, and this further complicates the agreement. Both Bihar and Bengal have called for the state's interests to be protected in any new agreement.⁴²

With less than three months remaining before the Treaty expires, water sharing is emerging alongside the Hasina issue as an important test of the two governments' ability to rebuild trust.

Despite the political difficulties, economic and functional links have continued. Bangladesh's imports from India rose to \$10.96 billion in FY2025-26 from \$9.62 billion the previous year, an increase of almost 14 per cent.⁴³ Energy cooperation continues. Between September 13 and 15, nearly 4,000 tonnes of diesel were delivered to Bangladesh through the India-Bangladesh Friendship Pipeline.⁴⁴ Discussions are also underway to restart the Maitree, Mitali and Bandhan Express trains operating between Bangladesh and India.⁴⁵

Energy Crisis

The war in West Asia, which has disrupted energy supply chains and raised costs, has adversely affected Bangladesh's economy. Bangladesh draws over 40% of its electricity from imported LNG, and disruptions in deliveries from Qatar have forced Dhaka to chase costlier cargoes on the spot market. On September 21, the government raised domestic fuel prices by up to 17.4 per cent. State-owned Bangladesh Petroleum Corporation incurred \$1.9 billion in losses between March and August.

The more serious impact has been on industrial production, particularly the garment sector. A survey by the Bangladesh Knitwear Manufacturers and Exporters

Association of 134 factories found that 78 per cent had partially suspended production because of gas and electricity shortages, while 55 per cent reported buyers cancelling or reducing orders. Eighty-seven per cent reported shipment delays.⁴⁶

Bangladesh's trade deficit widened by 38.36 per cent to \$2.08 billion in July, mainly because imports grew sharply while exports fell. Among the import bills, petroleum goods imports rose by 83.3 per cent to \$1.37 billion.⁴⁷ The Asian Development Bank has cut Bangladesh's economic growth projection for fiscal year 2026–27 to 4 per cent, down from its earlier forecast of 4.5 per cent made in July, citing persistent banking-sector stress, structural bottlenecks and severe energy shortages.⁴⁸

NEPAL

Impact of Bhotekoshi Floods

The scale of the August 26 Bhotekoshi floods became clearer in September. A Rapid Damage and Needs Assessment prepared by the National Planning Commission and the National Disaster Risk Reduction and Management Authority estimated that Nepal will need about \$4.74 billion, almost 10 per cent of Nepal's GDP, to rebuild the damaged infrastructure.⁴⁹ The hydropower sector has been particularly badly affected. Fourteen projects with a combined capacity of around 783 MW suffered damage in the August floods, while generation from projects totalling around 190 MW remained disconnected from the national grid by the end of September.⁵⁰

On September 17, Finance Minister Swarnim Wagle travelled to New Delhi on his first foreign visit after taking office. During a meeting with his Indian counterpart, Nirmala Sitharaman, Wagle said Nepal expected significant assistance from India for the reconstruction effort. Sitharaman responded positively, saying India would assess Nepal's needs once the Post-Disaster Needs Assessment was completed.⁵¹ India has also approved exporting power to Nepal for 18 hours a day until December 31 to meet its domestic shortages.⁵²

Addressing the UN General Assembly on September 25, Prime Minister Balendra Shah argued that climate-vulnerable states should not be forced to take on more debt to rebuild after disasters to which they contributed little. He called for reconstruction assistance to be provided principally through grants. He proposed a regional Himalayan mechanism involving Nepal, India, and China to share satellite data, monitor glaciers and glacial lakes, strengthen early warning systems, and coordinate disaster response.⁵³

The floods have highlighted the limits of Prime Minister Shah's reserved approach toward Nepal's neighbours. Nepal's geography makes sustained cooperation with

India and China unavoidable. Shah's own proposal at the UN for a Nepal-India-China Himalayan mechanism implicitly acknowledges this interdependence. Nepal must pursue an independent foreign policy, but active diplomatic engagement is essential.

SRI LANKA

Economic Recovery

An International Monetary Fund (IMF) mission visited Colombo from September 10 to 23 for the seventh review of the Extended Fund Facility (EFF). The Fund's assessment of the economy was broadly positive. It noted that the economy had expanded by 4.2 per cent in the second quarter of 2026, marking eleven consecutive quarters of growth. While inflation rose to 8 per cent in August, gross official reserves increased to \$6.9 billion by the end of August; the financial system remained well capitalised, and the fiscal outcome for the first half of the year was strong.⁵⁴

However, the Middle East conflict has reversed some of the favourable trends seen during the earlier stages of the recovery. Sri Lanka recorded a cumulative current-account deficit of \$291 million during January-August 2026, compared with a surplus during the corresponding period of 2025. The cumulative trade deficit widened sharply to \$7.2 billion, from \$4.3 billion a year earlier, while fuel imports increased by more than 60 per cent. Tourism earnings, another important source of foreign exchange, fell by 10 per cent in the first eight months. This has been partly offset by workers' remittances, which rose by almost 20 per cent to \$6.1 billion during the same period.⁵⁵

Sri Lanka has moved considerably beyond the acute economic crisis of 2022, but the recovery remains vulnerable to external shocks. Higher energy costs, weaker tourism earnings and a widening trade deficit show how quickly developments outside the country can erode the progress made.

Rajnath Visits Sri Lanka

Indian Defence Minister Rajnath Singh visited Sri Lanka from September 8 to 10, the first official visit by an Indian Defence Minister in 38 years. Singh met President Anura Kumara Dissanayake, Prime Minister Harini Amarasuriya and senior defence officials, with discussions covering maritime security, defence cooperation, capacity building, and the wider India-Sri Lanka relationship.

During the meeting with Rajnath, President Dissanayake reiterated that Sri Lanka would not allow its territory to be used for activities inimical to India's security interests. Rajnath emphasised that, as Sri Lanka's closest friend and neighbour, India

considered it not a favour but a responsibility to provide assistance as the first responder, and would continue to do so in the future as well.⁵⁶

The visit produced three defence agreements. India will help upgrade L-70 air-defence guns operated by the Sri Lanka Air Force, while separate MoUs establish institutional cooperation between the National Cadet Corps of the two countries and their National Defence Colleges.

The visit reflects an improvement in India-Sri Lanka relations since President Dissanayake took office. Colombo continues to pursue relations with multiple external partners, including China, but has simultaneously sought to reassure New Delhi that closer ties with other powers will not be permitted to undermine Indian security interests. For India, deeper defence cooperation with Sri Lanka strengthens maritime coordination in a strategically important part of the Indian Ocean.

ENDNOTES

- ¹ "Strategic Political and Defence Committee of the Makkah Agreement for Joint Defence, Joint Statement, August 31 2026 / Republic of Türkiye Ministry of Foreign Affairs." <https://www.mfa.gov.tr/strategic-political-and-defence-committee-of-the-makkah-agreement-for-joint-defence-joint-statement--31-august-2026.en.mfa>.
- ² Daily Sabah. "Mecca Defense Pact Brings Military Chiefs Together in Saudi Arabia." September 25, 2026. <https://www.dailysabah.com/politics/mecca-defense-pact-brings-military-chiefs-together-in-saudi-arabia/news>.
- ³ Siddiqui, Usaid. "Saudi-Houthi Fighting in Yemen Escalates: What Happened, and What's next?" Al Jazeera. <https://www.aljazeera.com/news/2026/9/8/saudi-houthi-fighting-in-yemen-escalates-what-happened-and-whats-next>.
- ⁴ Ghobari, Mohammed, Eman Abouhassira, and Yasmine Ghania. "Saudis Shut down Oil Pipeline as Houthis Tighten Grip on Red Sea Shipping." Energy. Reuters, September 12, 2026. <https://www.reuters.com/business/energy/saudis-shut-down-oil-pipeline-houthis-tighten-grip-red-sea-shipping-2026-09-12/>.
- ⁵ Hussain, Abid. "Pakistan, Türkiye Edge Closer towards Joining Saudi War against Houthis." Al Jazeera. <https://www.aljazeera.com/news/2026/9/25/pakistan-turkiye-edge-closer-towards-joining-saudi-war-against-houthis>.
- ⁶ "Saudi Arabia, Pakistan and Türkiye to Deepen Military Cooperation amid Escalating Houthi Attacks." September 25, 2026. <https://www.arabnews.com/saudi-arabia/saudi-arabia-pakistan-and-turkiye-to-deepen-military-cooperation-amid-escalating-houthi-attacks-3003175>.
- ⁷ "Court of Arbitration Finds That the Indus Water Treaty Remains in Force." <https://asil.org/ilib/court-of-arbitration-finds-that-the-indus-water-treaty-remains-in-force/>.
- ⁸ "Indus Waters Treaty: India Rejects Hague Tribunal's Directions on Ratle, Defends Hydropower Rights." ETGovernment.Com. <https://government.economictimes.indiatimes.com/news/defence/indus-waters-treaty-india-rejects-hague-tribunals-directions-on-ratle-defends-hydropower-rights/133695497>.
- ⁹ "The Case for India's Suspension of the Indus Waters Treaty - The National Interest." <https://nationalinterest.org/blog/silk-road-rivalries/the-case-for-indias-suspension-of-the-indus-waters-treaty>.
- ¹⁰ "Matters Pertaining to the Illegally-Constituted so-Called Court of Arbitration." https://www.mea.gov.in/press-releases?dtl/41720/Matters_pertaining_to_the_illegallyconstituted_socalled_Court_of_Arbitration.
- ¹¹ CNBCTV18. "Pakistan's Shehbaz Sharif Raises Indus Waters Treaty Issue at SCO Summit - CNBC TV18." September 2, 2026. <https://www.cnbctv18.com/india/pakistans-shehbaz-sharif-raises-indus-waters-treaty-issue-at-sco-summit-19982040.htm>.
- ¹² "Pakistan's Sharif Warns Any Diversion of Indus Waters Will Be 'Treated as an Act of War' | UN News." September 25, 2026. <https://news.un.org/en/story/2026/09/1168452>
- ¹³ "India Hits Back at Pakistan at UN, Says 'Serial Practitioner of Terrorism' Cannot Claim immunity." <https://www.firstpost.com/world/india-hits-back-at-pakistan-at-un-says-serial-practitioner-of-terrorism-cannot-claim-immunity-14048583.html>.
- ¹⁴ "21 Militants, 6 Security Personnel Killed in SW Pakistan: Military." <https://english.news.cn/asiapacific/20260901/159a9fa37cdd4ed0a53a91524eaecaf7/c.html>.
- ¹⁵ "Pakistani Security Forces Kill 48 Militants in Balochistan Raids | AP News." <https://apnews.com/article/pakistan-militants-killed-multiple-raids-balochistan-339bdaaaca592d2d9f19a9509708aa0a>.

- ¹⁶ The Tribune. "Pakistan Army Says 73 Terrorists Killed in Balochistan Operations." <https://www.tribuneindia.com/news/pakistan/pakistan-army-says-73-terrorists-killed-in-balochistan-operations/>.
- ¹⁷ The Tribune. "BLA, BRG Claim Series of Operations across Balochistan, Including Military Convoy Attack and Lithium Site Arson." September 14, 2026. <https://www.tribuneindia.com/news/world/bla-brg-claim-series-of-operations-across-balochistan-including-military-convoy-attack-and-lithium-site-arson/>.
- ¹⁸ "Bombing at Mosque in Pakistan Kills at Least 21 | AP News." <https://apnews.com/article/pakistan-mosque-bombing-northwest-pakistan-ebfc29859f724630e25f8549116859c8>.
- ¹⁹ "Suicide Bomb Blast at Police Checkpoint in Pakistan Kills 12 | AP News." <https://apnews.com/article/pakistan-attack-suicide-36b11b45aef7ac67bb1d34cc6e9ff02e>.
- ²⁰ AP News. "Officers Killed in Suspected Militant Attack on Police Vehicle in Northwest Pakistan." September 28, 2026. <https://apnews.com/article/pakistan-gunmen-attack-police-northwest-fb5360d05d8006bba91e6c84d9a8aa98>.
- ²¹ The Nation. "CM Afridi Calls for Policy Shift to Restore Peace in KP." September 29, 2026. <https://www.nation.com.pk/newspaper/29-Sep-2026/cm-afridi-calls-policy-shift-restore-peace-kp>.
- ²² The Nation. "Centre-KP Rift Deepens as Ministers Accuse PTI of Facilitating Terrorists." September 29, 2026. <https://www.nation.com.pk/newspaper/29-Sep-2026/centre-kp-rift-deepens-ministers-accuse-pti-facilitating-terrorists>.
- ²³ Reuters. "Pakistan Says It Killed 28 Militants, Afghan Taliban and UN Report Three Civilian Deaths." Asia Pacific. September 21, 2026. <https://www.reuters.com/world/asia-pacific/least-three-killed-pakistani-airstrike-afghanistan-tolo-news-reports-2026-09-21/>.
- ²⁴ AFP, AP, and Reuters. "Afghanistan Vows to Respond after Pakistani Air Strikes Kill Four." Al Jazeera. <https://www.aljazeera.com/news/2026/9/24/pakistan-says-it-launches-air-strikes-on-afghanistan-after-drone-attacks>.
- ²⁵ "13 Afghan Taliban Personnel Killed in Border Clash, Pakistan Claims | AP News." <https://apnews.com/article/pakistan-afghanistan-overnight-border-fighting-southwest-787f857b24c3737c1cdfbabc2086657e>.
- ²⁶ Reuters. "Afghanistan Says 28 Fighters Killed after Crossing from Pakistan; Islamabad Denies Ties." Asia Pacific. September 27, 2026. <https://www.reuters.com/world/asia-pacific/afghanistan-says-28-fighters-killed-after-crossing-pakistan-2026-09-27/>.
- ²⁷ "Ties With Taliban At 'Point Of No Return', Says Pakistani Official." September 28, 2026. <https://www.afintl.com/en/202609281650>.
- ²⁸ "Situation Afghanistan Situation." <https://data.unhcr.org/en/situations/afghanistan>.
- ²⁹ Yawar, Mohammad Yunus, Sayed Hassib, Ahmad Masih Noori, Rick Noack, and Rick Noack. "Impoverished by War in Iran, Afghan Migrants Return to Taliban Rule." Asia Pacific. Reuters, September 17, 2026. <https://www.reuters.com/world/asia-pacific/impoverished-by-war-iran-afghan-migrants-return-taliban-rule-2026-09-17/>.
- ³⁰ Poidevin, Olivia Le. "UN Agency Warns Funding Crisis Could Leave 8.3 Million People without Aid." World. Reuters, September 29, 2026. <https://www.reuters.com/world/un-agency-warns-funding-crisis-could-leave-83-million-people-without-aid-2026-09-29/>.
- ³¹ United Nations Peace Operations. "Statement Attributable to the Spokesperson for the Secretary-General - on Afghanistan." UNAMA. <https://unama.unmissions.org/en/news/statement-attributable-to-the-spokesperson-for-the-secretary-general-on-afghanistan>.
- ³² "President Xi Jinping Meets with Prime Minister Narendra Modi of India_Ministry of Foreign Affairs of the People's Republic of China." https://www.fmprc.gov.cn/eng/xw/zyxw/202609/t20260913_12021206.html.

- ³³ Philip, Snehash Alex. "As India-China Face-off in Arunachal Pradesh, MEA Says State of Border Will Reflect State of Ties." ThePrint, August 11, 2026. <https://theprint.in/diplomacy/as-india-china-face-off-in-arunachal-pradesh-mea-says-state-of-border-will-reflect-state-of-ties/3011374/>.
- ³⁴ "Khandu Apprises Defence Minister of PLA Incursion into Taksing Circle." Arunachal Observer, September 12, 2026. <https://arunachalobserver.org/2026/09/13/khandu-apprises-defence-minister-of-pla-incursion-into-taksing-circle/>.
- ³⁵ Philip, Snehash Alex. "Amid Taksing Tensions, India and China Hold 2 Corps Commander-Level Talks in Eastern Sector." ThePrint, September 8, 2026. <https://theprint.in/defence/amid-taksing-tensions-india-and-china-hold-2-corps-commander-level-talks-in-eastern-sector/3036997/>.
- ³⁶ "Eight Points of Outcomes and Consensus for the 25th Round of Talks between Special Representatives of India and China on the Boundary Question." https://www.mea.gov.in/press-releases?dtl/41700/Eight_Points_of_Outcomes_and_Consensus_for_the_25th_round_of_Talks_between_Special_Representatives_of_India_and_China_on_the_Boundary_Question.
- ³⁷ "New China-Pakistan Boundary Joint Commission: What It Is, Why India Has Objected." The Indian Express, September 17, 2026. <https://indianexpress.com/article/explained/new-china-pakistan-boundary-joint-commission-india-objection-history-10882418/>.
- ³⁸ Padmanabhan, Keshav. "India Rejects Pakistan-China's 'so-Called' Boundary Commission – 'No Boundary between Them.'" ThePrint, September 17, 2026. <https://theprint.in/diplomacy/india-rejects-pakistan-chinas-so-called-boundary-commission-no-boundary-between-them/3045077/>.
- ³⁹ BSS. "Extradition of Hasina, Quader, Others Needed to Ease India Ties: Zahed | News Flash." https://www.bssnews.net/news-flash/424696/Extradition-of-Hasina,-Quader,-others-needed-to-ease-India-ties:-Zahed?utm_source=chatgpt.com.
- ⁴⁰ "Bangladesh Wants New Ganges Water-Sharing Treaty with Guarantee Clause: Water Resources Minister." <https://unb.com.bd/category/Bangladesh/bangladesh-wants-new-ganges-water-sharing-treaty-with-guarantee-clause-water-resources-minister/196161>.
- ⁴¹ "Bangladesh-India Ganges Water-Sharing Issue to Be Discussed through Joint Rivers Commission: Jaiswal | The Business Standard." <https://www.tbsnews.net/world/south-asia/bangladesh-india-ganges-water-sharing-issue-be-discussed-through-joint-rivers>.
- ⁴² "Ganges Water Sharing Treaty Renewal | Bihar's Push Against Ganges Treaty: What It Means for Dhaka | The Daily Star." <https://www.thedailystar.net/slow-reads/geopolitical-insights/news/bihar-wants-delhi-not-renew-ganges-treaty-what-does-it-mean-dhaka-4264161>.
- ⁴³ "Bangladesh Imports 6 Times More Than Export from India | Imports from India Rise, Exports Remain Almost Unchanged | Bangladesh India Trade | The Daily Star." <https://www.thedailystar.net/business/economy/news/imports-india-rise-exports-remain-almost-unchanged-4260636>.
- ⁴⁴ NDTV. "India Sends 47 Lakh Litres Of Diesel To Bangladesh via Friendship Pipeline." <https://www.ndtv.com/india-news/india-sends-47-lakh-litres-of-diesel-to-bangladesh-via-friendship-pipeline-12055491>.
- ⁴⁵ Hossain, Anowar. "Move to Resume Maitree, Bandhan and Mitali Express Services between Bangladesh and India." Prothomalo, September 7, 2026. <https://en.prothomalo.com/bangladesh/bae89czm0f>
- ⁴⁶ "Bangladesh Knitwear Factories Lose International Orders | Energy Crisis Hits Orders at 55% of Knitwear Factories | The Daily Star." <https://www.thedailystar.net/business/news/energy-crisis-hits-orders-55-knitwear-factories-4273931>.
- ⁴⁷ "Bangladesh's Trade Deficit Widens 38% in July | The Daily Star." <https://www.thedailystar.net/business/news/bangladeshs-trade-deficit-widens-38-july-4268011>.

⁴⁸ “ADB Bangladesh Economic Growth & Inflation Forecast 2027 | ADB Cuts Bangladesh Growth Forecast to 4% for FY27 | The Daily Star.” <https://www.thedailystar.net/business/news/adb-cuts-bangladesh-growth-forecast-4-fy27-4280746>.

⁴⁹ “Rapid Assessment Puts Bhotekoshi Recovery Needs at Rs723 Billion.” <https://kathmandupost.com/national/2026/09/10/rs723-billion-needed-to-rebuild-flood-hit-areas-government-assessment-finds>.

⁵⁰ Government Seeks Reconstruction Model for Flood-Damaged Hydropower Projects - OnlineKhabar English News. Economy. September 30, 2026. <https://english.onlinekhabar.com/government-seeks-reconstruction-model-for-flood-damaged-hydropower-projects.html>.

⁵¹ “Wagle Seeks India’s Support for Post-Flood Reconstruction.” <https://kathmandupost.com/national/2026/09/18/wagle-seeks-india-s-support-for-post-flood-reconstruction>.

⁵² “India Approves Export of Power to Nepal after Deadly Flood | Reuters.” <https://www.reuters.com/business/energy/india-approves-export-power-nepal-after-deadly-flood-2026-09-14/>.

⁵³ Reuters. “Nepal Seeks Grants, Not Loans, for Flood Recovery after Deadly Glacier Disaster.” Environment. September 25, 2026. <https://www.reuters.com/business/environment/nepal-seeks-grants-not-loans-flood-recovery-after-deadly-glacier-disaster-2026-09-25/>.

⁵⁴ “IMF Delegation Concludes Visit to Sri Lanka, Discussions on Seventh Review to Continue.” <https://adaderana.lk/news/cmueckx82000a356p513i2h9b>.

⁵⁵ “External Sector Performance - August 2026 | Central Bank of Sri Lanka.” https://www.cbsl.gov.lk/en/news/external-sector-performance-august-2026?utm_source=chatgpt.com.

⁵⁶ “Raksha Mantri Pays a Courtesy Call on Sri Lankan President in Colombo.” <https://www.pib.gov.in/www.pib.gov.in/Pressreleaseshare.aspx?PRID=2308213>.



Delhi Policy Group

Core 5A, 1st Floor,
India Habitat Centre, Lodhi Road
New Delhi - 110003
India

www.delhipolicygroup.org