TRENDS GLOBAL
ترندز جلوبال

South Asia Brief

(Vol 2- June 2026)

INDIA VIRTUAL OFFICE
مكتب الهند الافتراضي

By Simran Sodhi

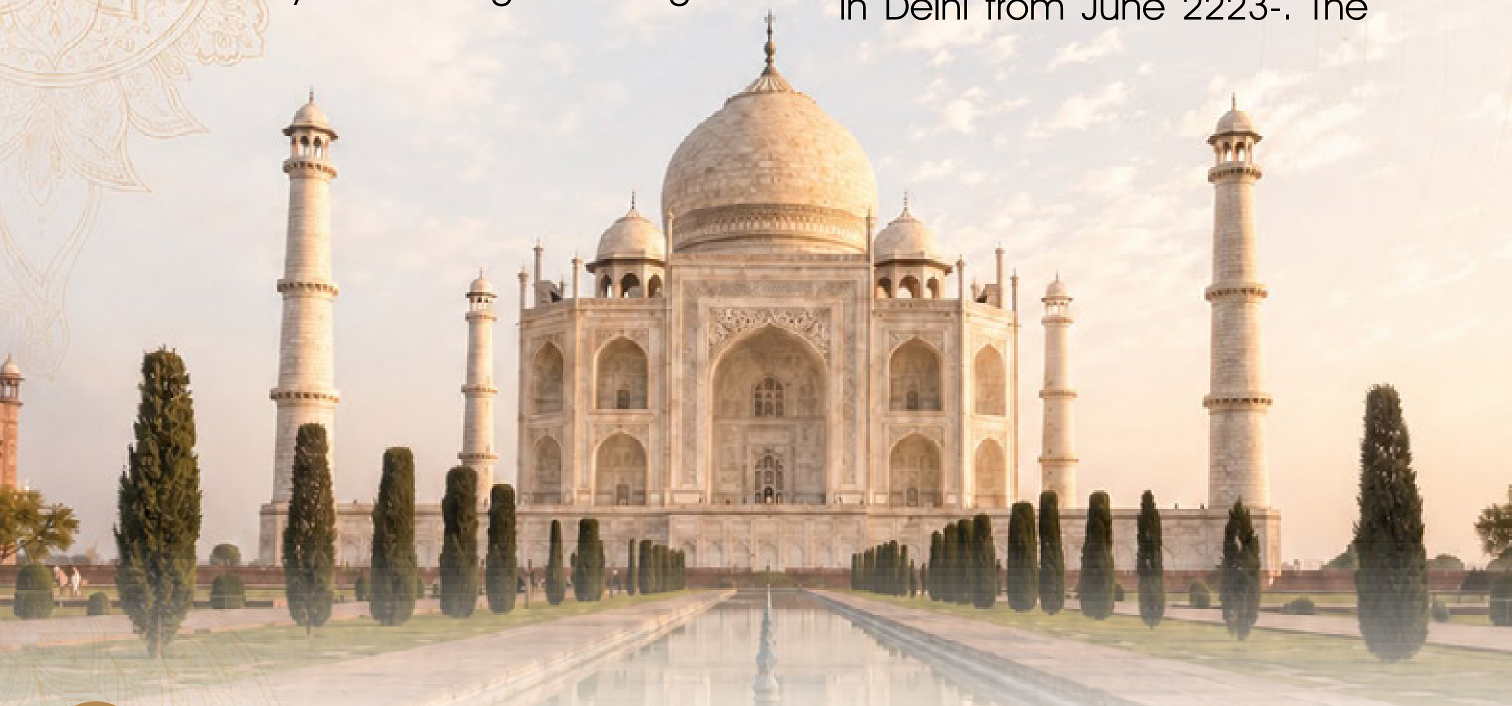
South Asia Brief

June 2026 saw important political and economic developments in the South Asia region. From external factors like the effects of the Middle East conflict on energy supplies, to internal developments, the region saw a re-alignment in certain places and a maintenance of the status quo in others. In South Asia Brief (SAB), we take a look at seven countries of South Asia- India, Pakistan, Nepal, Bangladesh, Bhutan, Sri Lanka and the Maldives on a monthly basis. The idea is to analyze the important political and economic developments that have taken place in that particular country and its repercussions for India and the MENA (Middle East North Africa) region.

India

On June 10, 2026, Indian Prime Minister Narendra Modi marked a historic milestone by completing 12 years as an elected Prime Minister. Modi first took office in May 2014 and began his third consecutive term on June 9, 2024, following the victory of the National Democratic Alliance's (NDA) in the 2024 elections[1]. He has now surpassed Jawaharlal Nehru by becoming the longest continuously serving PM in the history of India. The PM's political party, the Bhartiya Janata Party (BJP), held celebrations all over the country to mark the occasion. This celebration also underlined the fact that the BJP is today India's largest and richest party, and controls either directly or through coalitions, 21 Indian states.

India hosted the BRICS National Security Advisors (NSA) meeting in Delhi from June 2223-. The



spotlight however was on the meeting between India's National Security Advisor Ajit Doval and Chinese Foreign Minister wang Yi which took place on the side-lines of the NSAs meet. India's foreign ministry described the talks between Doval and Wang as "constructive and forward-looking". The Chinese FM urged the resumption of bilateral dialogue mechanism and promoting exchange in trade, finance, law enforcement and media2. A significant outcome of the meeting has been a 'thaw in the India-China ties.'

Another important development in June 2026 was the resumption of cross border trade between India and China through the Lipulekh Pass in the Himalayas. This is being viewed as one of the first steps in an attempt to bring down the tensions between the two Asian nations.

The Lipulekh pass, at over 5,300 metres (17,400 feet), is one of India's three designated border trade points with China, alongside Shipki La Pass and Nathu La Pass3. Trade was suspended across these points firstly due to the Covid-19 pandemic and later following the 2020 Galwan clashes between India and China that left 20 Indians and at least four Chinese soldiers dead. There now seems to be an attempt to re-calibrate the India-China ties towards less hostility post the visit of the Chinese Foreign Minister Wang Yi to India. As mentioned above, Wang visited India June 2223- to attend the BRICS National Security Advisors (NSA) meeting. Cross border trade has resumed after a gap of six years and it would be a fair assessment to make at this point that while issues like the border dispute still remain a source of tension between India and China, this resumption of trade is however a positive step forward.

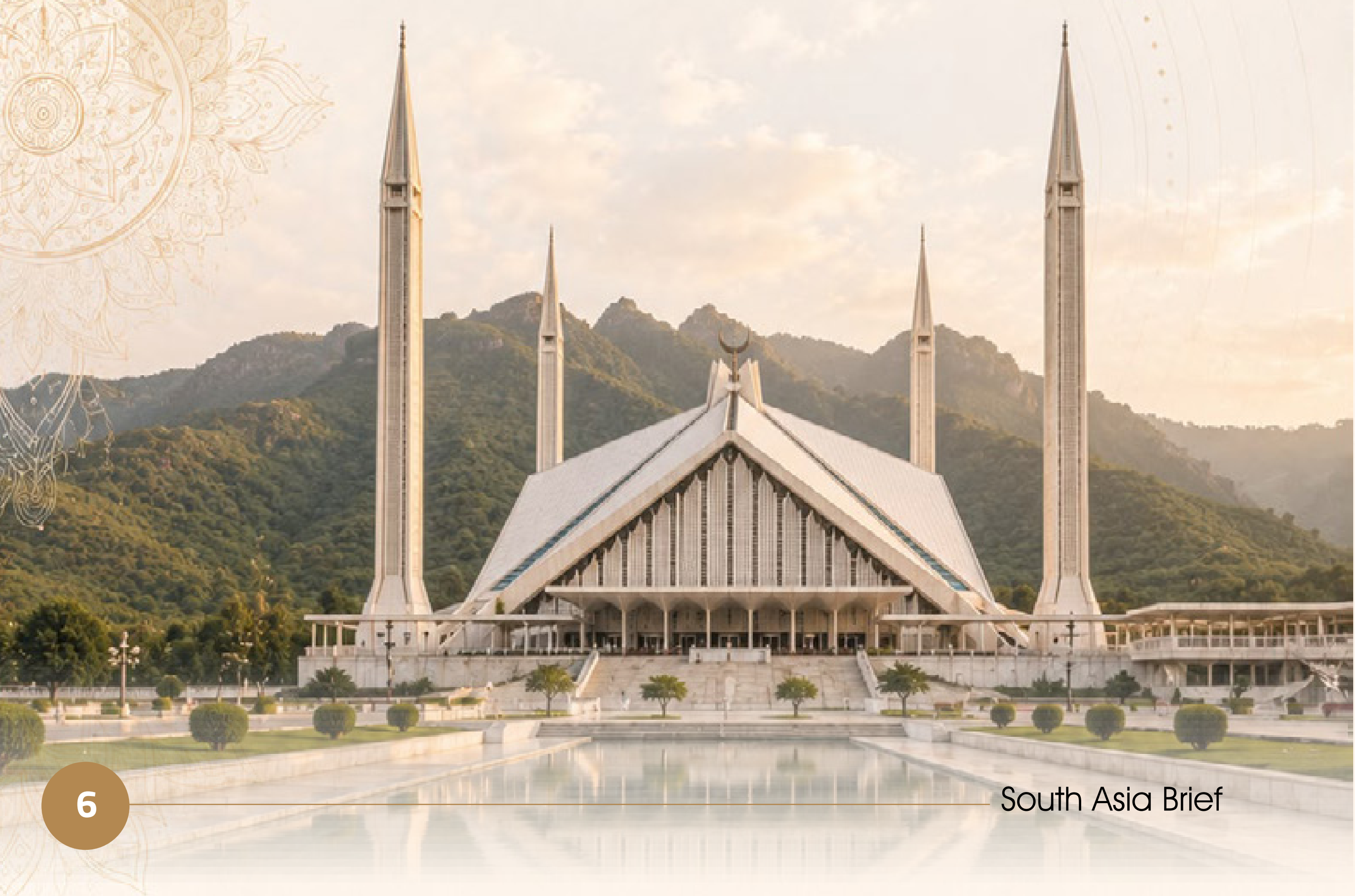
On the economic front, India's fuel consumption in June fell about 3.7% from a month earlier to 19.42 million metric tons, data from the Petroleum Planning and Analysis Cell (PPAC) of the oil ministry showed4. To off set the disruptions caused by the Middle East conflict, India turned to the United States to purchase LPG. As a result, India's imports of LPG from the US are set to top 1 million tons, which is a new record in itself.

> For the MENA region, the takeaway in June is that for India, the Gulf remains its biggest source of energy demands. As the data above shows, the conflict in the Middle East forced India to seek alternative sources of energy and in some cases, India even ended up paying more.

Pakistan

The flare up of tensions between Pakistan and Afghanistan in June is a worrisome development, not just for Pakistan, but for South Asia as a whole. Since the return of the Taliban to power in 2021, after the withdrawal of the US troops, the relationship between the two has soured. Pakistan has repeatedly accused the Afghan Taliban of supporting the jihadist militant group, Tehrik-e-Taliban Pakistan (TTP), more commonly known as the Pakistani Taliban. Kabul has rejected these allegations.

In June, Pakistan launched an air raid inside Afghanistan killing 26 Taliban fighters. Afghanistan reacted stating that the air



raids resulted in the death of 13 civilians, including children[5]. These attacks have been the deadliest so far amid fears that Pakistan, a nuclear-armed state, is getting into a prolonged conflict with its neighbour. The problem is that these conflicts seldom remain limited within borders. For India, Iran, Russia and China, which share borders with either countries or have a major stake in the region, this conflict getting out of had will de-stabilise the region further.

For India, which is now normalizing its ties with the Afghan Taliban, this is a tricky situation. Any further conflicts in the region will have repercussions for India in terms of regional security, terrorism and development. For the MENA region, a flare up of this kind tends to transmit through Iran to the rest of the region. The connections between the Taliban and Saudi Arabia are well known and that brings the Gulf States also closer to the spill-over effects of such conflicts. China and Russia, both global powers in their own right, have deep interests in the region and will watch the developments of this conflict closely. Meanwhile, Qatar, Saudi Arabia and Russia have also offered to act as meditators between the two[6].

Nepal

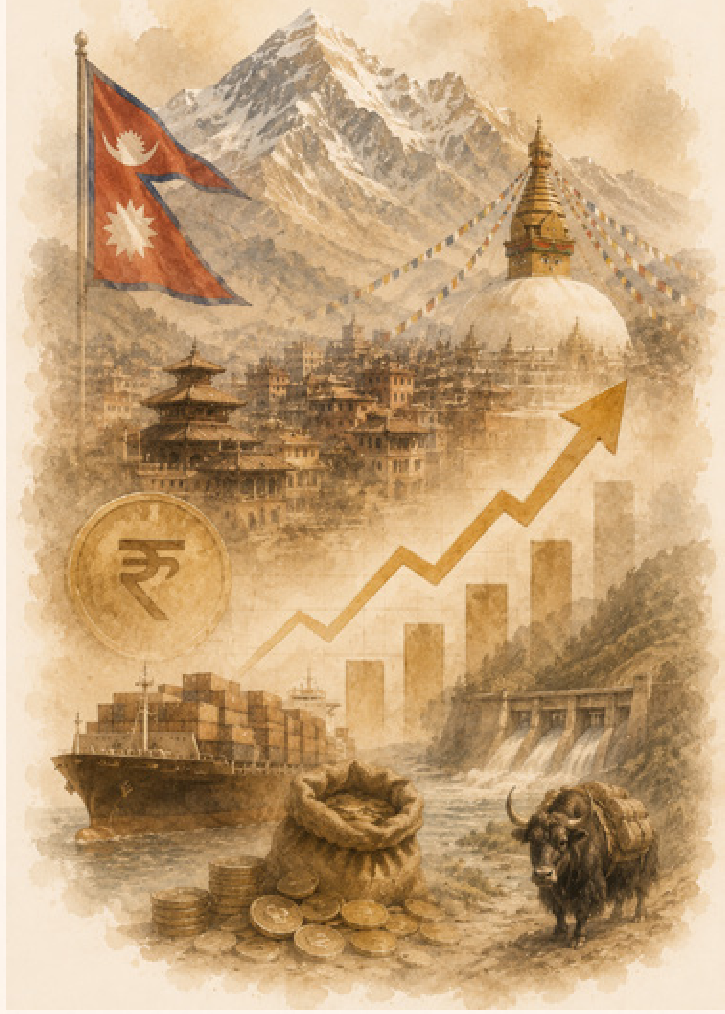
In March of this year, Nepal elected a new party to power following Gen Z protests against the previous government. The three-year-old Rastriya Swatantra Party (RSP) won 182 of 275 parliamentary seats and elected Balen Shah, a 36-year-old former rapper, as Nepal's next Prime Minister. Since then, Nepal has been charting a new course for itself. Historically, Nepal has aligned with India especially in matters of foreign policy. In the last decade or so, China has desired and made efforts to increase its footprint in the Himalayan nation. Nepal then again becomes another place in South Asia where India and China compete for greater influence.

One of the earliest signs of this strategic balancing was evident in June 2026 when Nepal's Foreign Minister Shishir Khanal paid visits to India and China. Khanal first visited India from June 57- during which he met with External Affairs Minister Dr. S Jaishankar. He later travelled to Beijing on a four-day official visit, from June 1417- where he met his Chinese counterpart and other leaders.

Nepal is treading carefully when it comes to the India-China equation within Nepal. Khanal described his India visit as a "special one", and he pointed out in various public statements that his country wants to deepen ties with both India and China through economic diplomacy, trade and engagement7.

In China, Khanal met Chinese Foreign Minister Wang Yi and senior Communist Party official Wang Huning and discussed cooperation in Nepal's agriculture, health and tourism sectors, as well as in science and technology research. Nepal is also seeking greater investment from China so that Nepal can grow economically and create jobs; political promises made by the new party.

In the coming days, Nepal is a country India will watch carefully. Balen Shah's statement a month back where he sought third party intervention to resolve the border issues with India rankled many in India. For the MENA region, Nepal is a place where the old political guard has been replaced by a new and young administration. How Balen Shah sets the future course of Nepal with China is still open to debate. But for many Gulf nations, Nepal is also an opportunity to explore investment opportunities in a country that is looking for Foreign Direct Investment (FDI) to build itself and redefine its place in South Asia.



In Economic terms, according to World Bank data, Nepal's economic growth stood at 3.4%, heavily constrained by the fallout of political friction and poor agricultural yields (drought followed by unseasonal harvest rains). The primary economic driver was the industrial energy sector, which added nearly 385 MW to the domestic electricity grid, accelerating infrastructure construction and refined oil re-exports. Inflation plummeted to a historic low of 1.7% mainly due to plunging local food prices.

Bangladesh

The most important development coming out of Bangladesh in June was the visit of its new Prime Minister Tarique Rehman to China. He visited China from June 22 to 26. This was also his first official foreign visit after becoming the PM. While in Beijing, Rehman met Chinese President Xi Jinping and Premier Li Qiang.

The Chinese foreign ministry in a statement said that it was willing to support Bangladesh advance the development of the China-Myanmar-Bangladesh Economic Corridor, which is aimed at connecting China's Yunnan province to the two countries[8]. Also, that China was willing to explore cooperation in artificial intelligence, green and low-carbon development,

healthcare and education, among other areas with Bangladesh.

Bangladesh joined China's Belt & Road Initiative in 2016. According to the World Bank, Bangladesh owes China $6.2 billion. Bangladesh also owes India $1.6 billion.

For India, the fact that Rehman chose China as his first official foreign visit reflects the change happening within Dhaka. India-Bangladesh relations saw a golden period of co-operation when Sheikh Hasina was in power from 20092024-. Her ouster from power has led to a re-calibration of the bilateral relationship. Dhaka has also been a contested sphere of influence between India and China. So far, Rehman has walked a tightrope balancing ties with both the countries. But his China visit has given many in India concern that his administration might lean towards Beijing over Delhi.

For the MENA region, the competing forces of India and China in Bangladesh would be an important development to follow. Many economic projects and strategic decisions will follow the outcome of who gets a bigger footprint in Dhaka.

In late June, the Bangladesh National Assembly also debated the expansive new fiscal budget. The Bangladesh Bank (the central bank) issued a conservative economic forecast, projecting a 6.1% GDP growth rate for the new fiscal year. This was slightly lower than the government's highly optimistic 6.5% target.

Bhutan

In a significant development, the Asian Development Bank (ADB) approved a $160 million loan to scale up solar power generation in Bhutan[9]. Bhutan mainly relies on hydropower for its power supply and this diversification will help the country's energy demands. During the dry winter months, river flow drops, causing power generation to decline and forcing the country to import electricity. This loan will support Bhutan's national energy policy target of harnessing 5,000 MW of solar power by 2040.

In June, Bhutan, in an attempt to deal with the declining birth rate announced cash incentives for families to have more children. The program officially applies to all eligible third and subsequent children born on or after June 4,

2026. Bhutan's total annual births have fallen from 11,001 in 2015 to 8,153 in 2024, a decline about 26%, and the total fertility rate - children per woman - has declined to almost the replacement level of 2.1 in the period, official data show10. Bhutan is worried that its youth is seeking to move out and seek life in other countries such as Australia. A declining birth rate and an ageing population is the primary reason behind this move by the Bhutanese government.

For India, Bhutan holds a special place. The bilateral relationship has been historically a close one and India endeavours to maintain the status quo. China again is the worry here as China has been trying to develop stronger ties with Bhutan.

> For the MENA region, Bhutan and its strategic position within South Asia makes it an important player. The MENA nations are expanding their ties with India rapidly, especially in the economic sector. But it is to be remembered that India gets affected by developments in Bhutan which can sometimes play a part in India's broader national and foreign policies.

Sri Lanka

For Sri Lanka (SL), the month of June saw some worrying economic trends. Tourism earnings, remittances and foreign reserves all dipped in June 2026.

Sri Lanka's economy depends heavily on tourism. 12% of the country's GDP comes from the tourism sector. The Middle East conflict has badly affected the flow of tourists to the island nation as the price of fuel soared and airlines faced route disruptions. Tourism earnings stood at US$151.1 million in June, down from US$155.7 million in May and US$169.5 million recorded in June 202511.

Compared to May 2026, June also saw a downward trend in remittances. But the silver lining was that when compared on a year-on- year basis, the flow of inward remittances was on the

positive side. Sri Lanka has a large number of people working and living in the MENA region and their remittances add to the economy. The latest data from the Central Bank of Sri Lanka (CBSL) showed that inflows rose 9.3% year-on-year (YoY) to $ 695 million in June this year. However, on a month-on-month basis, registered a 18% dip compared to May, whilst making it the lowest monthly recorded so far during 202612.

Sri Lanka's foreign reserves also fell 6.2 percent to US$ 6,450 million by end June 2026, from 6,873 million dollars a month earlier13. The Sri Lankan economy faced a sharp setback as the headline inflation (measured by the Colombo Consumer Price Index) shot up to 6.8% in June—its highest peak since mid-202314.

Meanwhile, an official delegation from the International Monetary Fund (IMF) wrapped up its discussions in Colombo on June 30. IMF Mission Chief Evan Papargeorgiou in a statement said that for SL, "Staying the course on the reform agenda remains critical to solidify Sri Lanka's recovery and to preserve fiscal and external sustainability." This followed the IMF Executive Board's approval of an earlier $695 million funding tranche in May 2026.

The Middle East conflict has affected the Sri Lankan economy in more than one way. Sri Lanka imports 100% of its oil and the crude oil for its refinery comes from the Middle East. Refined products reach SL via Singapore, Malaysia and South Korea. The island nation has no strategic reserves beyond approximately one month of consumption and no domestic production whatsoever. As a result of the Middle East conflict, Sri Lanka raised petrol and diesel prices by nearly 50%, triggering a surge in energy prices15.

For India, a stable and prosperous Sri Lanka is always good news. Any political or economic difficulties in SL make it a tense neighbourhood for India.

> For the MENA region, Sri Lanka is a source of labour in many of its nation-States. For Sri Lanka, the remittances these workers send back home help add strength to the economy. The geo-political tensions in the Gulf region have hit Sri Lanka badly, especially the tourism sector.

Maldives

India is one of the Maldives' largest trading partners, with bilateral trade rising by 13.5% to approximately $771.76 million in the 202526- fiscal year. For India, the Maldives is also very important from a strategic view point. It is again a country where one often gets to see an India-China competition over who gets a bigger footprint in the Maldives. Hence, India has always endeavoured to keep the Maldives close to itself economically. June 2026 saw both countries make a formal commencement of negotiations for a Free Trade Agreement (FTA).

June 21 was a special day for the Maldives as it welcomed its one millionth tourist for 2026. However, owing to the Middle East conflict, the Maldives saw lesser tourists in June this year when compared to the numbers last year. Total arrivals stood at 1,040,976 as of 24 June, down 4.9 percent from the same period in 2025, according to the

Maldivian Ministry of Tourism and Civil Aviation16.

The Maldivian economy is heavily dependent on its tourism sector, which is the major source of foreign exchange earnings. To urism directly accounts for ab out quarter of GDP of Maldives and indirectly for a much larger proportion of GDP. In terms of direct employment, tourism accounts for > 13/rd of job opportunities for Maldivians and if the allied sectors are included, the contribution of tourism sector in total employment (direct and indirect) would rise up to nearly 70%17.

For India, the Maldives is of great strategic importance due to its geographical location in the Indian ocean. Even though the Maldives is the smallest of all the South Asian nations, its importance, especially when it come to maritime trade and maritime security is very high. China has also invested in the Maldives which again puts India on the alert. Hence, the economic and political developments of the Maldives are followed closely by India.

"For the MENA region, the Maldives is a perfect example of how a small South Asian nation, primarily driven by tourism, can get affected by the geopolitical tensions of the Gulf. As airline routes got disrupted, cost of fuel surged and global instability set in, the Maldives economy suffered setbacks.

Conclusion

The world today is a deeply inter-connected web. As this brief shows, all the seven countries of South Asia are affected by what happens in the rest of the world. The Middle East conflict, the closure of the Strait of Hormuz, and the disruptions in energy supplies again proves that a nation's economy is tied to events happening thousands of miles away. Tensions and regional insecurity quickly translate into global insecurity. The decisions of the White House and the actions of the Gulf actors have a direct impact on the lives of people and countries of South Asia. It is both a positive and negative consequence. Going forward, the world needs to build on the positive connections as inter-dependency of nation-states is here to stay.

Endnotes

1 FP News Desk, "PM Modi celebrates 12 years in office, highlights big policy moves", Firstpost.com, June 9, 2026, https://www.firstpost.com/india/trust-progress-and-welfare-pm-modi-celebrates-12-years-in-office-highlights-big-policy-moves-14020499.html.

2 "India says ties with China normalizing as top officials meet in Delhi", Reuters, June 22, 2026, https://www.reuters.com/world/china/india-says-ties-with-china-normalising-top-officials-meet-delhi-2026-06-22/.

3 Shi Jiangtao, "Himalayan pass reopens as 'goodwill' gesture in China-India thaw", South China Morning Post, July 1, 2026, https://www.scmp.com/news/china/diplomacy/article/3359016/himalayan-pass-reopens-goodwill-gesture-china-india-thaw.

4 "India's June fuel consumption slips 3.7% from previous month", Reuters, July 6, 2026, https://www.reuters.com/business/energy/indias-june-fuel-consumption-slips-37-previous-month-2026-07-07/.

5 Al Jazeera Staff, AFP and AP, "Pakistan claims killing 26 Afghan fighters, Taliban says civilian killed", Al Jazeera, June 0, 2026, https://www.aljazeera.com/news/2026/6/10/afghanistan-says-pakistan-air-raids-killed-13-people-including-children.

6 Clara Fong, "Why are the Afghan Taliban and Pakistan in an open war?", Council on Foreign Relations, March 18, 2026, https://www.cfr.org/articles/why-are-the-afghan-taliban-and-pakistan-in-an-open-war.

7 India Today World Desk, "Nepal seeks balanced India-China ties, puts economic diplomacy first", India Today, July 2, 2026, https://www.indiatoday.in/world/story/nepal-india-china-ties-economic-diplomacy-shisir-khanal-ptag-2939191-2026-07-02.

8 Joe Cash, "Bangladesh urges China to reduce trade gap, speed infrastructure delivery", Reuters, June 25, 2026, https://www.reuters.com/world/china/bangladesh-urges-china-reduce-trade-gap-2026-06-26/.

9 "ADB approves a $160 million loan to scale up Bhutan's solar power and attract private investment", ADB, June 30, 2026, https://www.adb.org/news/adb-approves-160-million-loan-scale-bhutan-solar-power-and-attract-private-investment.

10 Gopal Sharma, "Bhutan to give cash incentives to families for more babies", Reuters, June 5, 2026, https://www.reuters.com/world/china/bhutan-give-cash-incentives-families-more-babies-2026-06-05/.

11 "Sri Lanka tourism earnings, remittances fall from May levels in June", News Wire, July 11, 2026, https://www.newswire.lk/2026/07/11/sri-lanka-tourism-earnings-remittances-fall-from-may-levels-in-june/.

12 "Workers remittances remain robust in 1H", Daily FT, July 13, 2026, https://www.ft.lk/front-page/Workers-remittances-remain-robust-in-1H/44-794579#:~:text=1H%20remittances%20up%2023.2%25%20YoY,tensions%20in%20the%20Middle%20East..

13 "Sri Lanka foreign reserves fall 6.2-pct in June 2026", economy next, July 11, 2026, https://economynext.com/sri-lanka-foreign-reserves-fall-6-2-pct-in-june-2026-278189/.

14 Sienna De Silva, “Sri Lanka’s inflation hits three-year peak in June 2026, approaching Central bank’s upper limit”, June 30, 2026, https://srilankachronicle.com/sri-lanka-s-inflation-hits-three-year-peak-in-june-2026-approaching-central-bank-s-upper-limit/.

15 AFP, “Sri Lanka cuts fuel prices, inflation hits three-year high”, Dhaka Tribune, June 30, 2026, https://www.dhakatribune.com/world/asia/414004/sri-lanka-cuts-fuel-prices-inflation-hits.

16 Shamáan Shakir, “Maldives passes one million tourists for 2026, but arrivals stay behind last year”, Maldives Business Review, July 1, 2026, https://mbr.mv/story/00043b28-1296-469e-99a1-dc0a49fb5b3d.

17 “India Maldives bilateral relations”, Indian High Commission in Male, July 2025, https://www.hcimale.gov.in/page/bilateral-relations/.

18 Caroline Davies, “How Pakistan helped secure a fragile ceasefire between the US and Iran”, BBC, April 7, 20226, https://www.bbc.com/news/articles/cj401qvgg19o.

انضم إلينا
JOIN US

TRENDS GROUP
مجموعة تريندز