
UPI AND INDIA'S DIGITAL DIPLOMACY: TRANSFORMING REGIONAL COOPERATION IN SOUTH ASIA

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ABSTRACT

Launched in 2016 by the National Payments Corporation of India¹, the Unified Payments Interface (UPI) has not just been a hub of financial inclusion in India, but has also become one of the pillars of digital diplomacy in the country. UPI represents a new type of soft power projection that places India as a provider of digital public goods in the Global South by allowing secure, inexpensive, and interoperable digital transactions. The paper will explore two fundamental questions, including: first, why UPI is a good example of how India is demonstrating its digital diplomacy and transforming its approach to soft power with South Asia; and second, whether UPI can be used to trigger South Asian countries to begin working together again, considering the historical constraints to integration in South Asia. Although UPI heightens the appeal of India as a technological innovator and provides viable avenues towards functional regionalism, the initiative encounters challenges like mistrust between geopolitics, disparities in regulations and rivalry against Chinese digital projects. This study claims that UPI, with its non-political, functionalist approach to integration, can put SAARC back on a road to cooperation and cement the leadership of India in digital diplomacy in the region.

Keywords: Unified Payments Interface (UPI), Digital Diplomacy, Soft Power, South Asian Cooperation, SAARC, Financial Inclusion, Digital Public Goods

¹ National Payments Corporation of India, *Unified Payments Interface (UPI)*, NPCI, <https://www.npci.org.in/what-we-do/upi> (last visited Sept. 28, 2025).

Introduction:

In its classical form, diplomacy was mainly understood as an art of dealing with other states by negotiating, forming alliances and political concessions. Most of the twentieth century, its mechanisms were based on military deterrence, trade agreements and the highest-level meetings. However, due to the increasing rate of globalization and technological advancement, diplomacy has been compelled to adjust to a world in which power is no longer necessarily determined by territorial domination or military strengths. Digital technologies in the twenty-first century are essential tools of statecraft. Digital platforms, financial technologies and data ecosystems are increasingly defining how states project influence, negotiate cooperation, and how they establish their role in the international system.

This is commonly referred to as digital diplomacy and it describes how states use technology to reach out to audiences around the world, control cross-border digital infrastructure and establish international standards in cyberspace. Digital diplomacy is more networked, inclusive, and people-centric, unlike in traditional diplomacy, which is mostly limited to state-to-state relations. It spreads directly into the life of foreign nationals without the influence of bureaucracies and redefines international relations in the form of interdependence of technologies.

India has become a worthy participant of this new kind of diplomacy. By introducing its Digital India program, which was also introduced in 2015, the nation indicated its intentions not only to redraw its internal government, but also to position itself as a technological innovator who can add exportable digital solutions. Its focus on so-called digital public goods, or infrastructures which are not only open and interoperable but also open to everyone, has been instrumental in the Indian approach. The model is a unique anti-narrative to the Western technology ecosystem of and by the private sector and Chinese Digital Silk Road projects of state.

The Unified Payments Interface (UPI) is the most revolutionary of the digital innovations in India. UPI, which was first introduced by the National Payments Corporation of India (NPCI) in 2016, was originally created as a national system to drive financial inclusion. It offered a very easy, low cost, mobile based platform allowing instant peer-peer and peer-merchant transactions. The success was unparalleled: in several years, UPI turned out to be the core of the Indian digital economy, managing billions of transactions monthly and enabling millions

of hitherto unbanked Indian citizens. Unlike payment systems based on cards and the global financial powerhouses such as Visa or Mastercard, UPI flourished as it was affordable, compatible, and very low in fees.

This domestic popularity of UPI soon made it an instrument of digital diplomacy of India. Exporting UPI to other countries not only gave India an opportunity to spread its technological tentacles but also build its international image. UPI has already been adopted or integrated in other countries including Nepal, Bhutan, Singapore, the United Arab Emirates, Sri Lanka and Mauritius. It is in negotiations with Bangladesh and many other economies. UPI has become so much a symbol of Indian soft power: an appeal not to force or military power, but to technological empowerment and convenience.

The South Asian situation gives a very strong background on which to investigate the potential of UPI. The South Asian Association of Regional Cooperation (SAARC) was formed in 1985 as envisioned to serve as a forum of economic and cultural integration among the eight-member states; Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. But almost forty years later, SAARC is still amongst the least integrated organizations around the world. The intra-regional trade is lower than five percent² of the total trade of the region as compared to ASEAN (20 percent), or European Union (more than 60 percent).

It is widely believed that this failure is mainly caused by political suspicion, especially between India and Pakistan, but also by the lack of infrastructures and economic imbalances. Efforts at integration by conventional means like free trade agreements or cross border infrastructure have failed on numerous occasions. As a result, institutional stagnation has overtaken SAARC to a level where a significant majority of scholars have cast doubt on its viability in the long-term.

However, with digital technology it is a new road. Digital infrastructures can, in comparison, cross the physical boundaries with fewer political and financial expenses than highways, pipelines, or customs unions. The development of digital regionalism, in which integration takes place by both using the same technology base, not necessarily physical trade, is an opportunity to facilitate SAARC. In this respect, UPI is a functionalist solution: it provides collaboration in non-political areas like remittances, tourism payments, and small-scale trade.

² World Bank, *South Asia Regional Integration: Trade Program*, World Bank, <https://www.worldbank.org/en/programs/south-asia-regional-integration/trade> (last visited Sept. 28, 2025).

According to functionalist theories of regional integration, this kind of practical cooperation has the potential to produce trust, and to subsequently produce more significant kinds of collaboration over time.

This question is important to more than just South Asia. India is in a strategic competition with China that has three-time faster Digital Silk Road construction of digital infrastructures in Asia, Africa, and Latin America. To smaller South Asian states, UPI presents a third way - it is not as intrusive or exclusionary but instead based on how India frames digital systems as public goods. Whether UPI will be able to live up to this promise, however, will hinge on conquering enduring obstacles: conflicting financial regulation, overreliance on India, poor digital infrastructure in certain nations, and competition with Chinese fintech ecosystems.

Research problem:

It is on this ground that this paper is attempting to answer two related research questions:

1. What does UPI represent of the digital diplomacy of India and how does it redefine its soft power policy in South Asia?
2. Can UPI strengthen regional cooperation within SAARC, considering the historical constraints of the South Asian region integration?

By responding to these questions, the paper places UPI in the nexus of digital diplomacy, soft power, and regional cooperation. It claims that UPI does not just consolidate the soft power of India by portraying a people-oriented model of digital common goods but also offers a unique chance to revitalize SAARC with the help of functionalist integration. Simultaneously, it recognizes the barriers of geopolitical distrust, regulatory regime variance, and jurisdictional rivalry pointing out that the UPI promise is not automatic and guaranteed.

UPI in this regard is not just a financial technology. It is a diplomatic tool, a strategic story and a case study of whether digital technologies can work where traditional statecraft has failed in South Asia.

Research analysis:

1. How does UPI exemplify India's digital diplomacy and reshape its soft power strategy in South Asia?

1.1 The evolution of digital diplomacy

Traditional diplomacy was completely focused on political negotiations, trade agreements and military alliances. With passage of time, diplomacy now is shaped by technological advancements. So now, the most important usage of diplomacy is the sector of communication by employing technology as a way of exercising the influence of one country on another. In India, we pay attention to the digital India initiative, which focuses on the global digital diplomacy wherein the goal is to expand access of online services to other countries. One of the most pertinent outcomes of such a diplomacy by India is UPI (unified payment interface) which was developed by the national payment's corporation of India in 2016 and later exported this interface thereby using this as a tool for strengthening diplomacy.

Digital diplomacy is not about establishing connections and communicating between governments. Cross border digital ecosystems and international technology standards are a part of it. When we talk about UPI, India uses this as a tool and leverage for advancing global influences.

1.2 UPI and the Reconfiguration of Soft Power

Soft power is a concept that was given by Joseph Nye³ who emphasized on the fact that states have the ability to shape influences and preferences on other countries through attraction than force or coercion. India has inherently been trying to follow this concept in the south Asian realm through cultural diplomacy, yoga, student exchanges for education and more. Although these already help improve the ties with other countries, UPI introduced a completely new dimension of inculcating soft power through financial inclusion.

The attractiveness of UPI is its availability. As opposed to credit-card-based payments, which would need a formal banking system and can be very costly, UPI offers a virtually frictionless way of making payments via mobile phones. To South Asian states that contain large numbers of people who are not part of the formal financial system, UPI is not just a convenient tool, but an empowering one. By exporting this model, India sets itself as an accountable innovator and partner, and this will boost its image within and outside the region.

India contests the traditional hegemony of Western financial systems like Visa, Mastercard, and the Society for Worldwide Interbank Financial Telecommunications (SWIFT) by proving

³ JOSEPH S. NYE, JR., *Soft Power: The Means to Success in World Politics* 5 (2004).

it is possible to develop a low cost, interoperable, and highly scalable system of digital payments. UPI provides a plausible native substitute, which rings especially well with less developed economies in South Asia, where they often must deal with endemic financial exclusion, insufficient banking penetration, and expensive transaction costs.

1.3 UPI Internationalization: Domestic to Global.

One of the most obvious dimensions of the Indian digital diplomacy has been its internationalization of UPI. The system has already related to financial networks in the United Arab Emirates, France, Bhutan, Nepal and Singapore⁴. Bilateral agreements with Sri Lanka and Mauritius have also widened the scope of UPI and talks with Bangladesh among other partners are underway.

The use of UPI in Nepal has made it easier to transact payments that are related to tourism and Indian visitors could easily transact across borders, thereby making it easier and more feasible for the Indians who visit the neighboring countries. Bhutan has adopted one of the earliest ones, which illustrates the strong financial and political relations that India has with Bhutan. Sri Lanka which is struggling with economic instability has adopted UPI integration to cut off reliance on western financial intermediaries and cut costs of remittance. In the case of Bangladesh, whose economy is strongly dependent on Indian trade and migrant remittances, UPI will significantly lower the transaction costs of millions of workers.

The UPI internationalization is an example of how domestic invention can be turned into a weapon. Much like the emergence of the digital China through Alipay and WeChat Pay signaled the emergence of the digital India, UPI is now seen as an effort by India to define the global digital financial architecture. In comparison to the state-oriented approach in China, however, India establishes UPI as an open, interoperable, and cheap system, which consequently is more likely to appeal to the spirit of inclusivity and south cooperation.

1.4 Stories of Leadership in the Global South.

The foreign policy of India has traditionally stressed its leadership of the Global South. China has frequently been disputing this leadership in the digital realm with its own Digital Silk Road

⁴ Business Standard, *NPCI's International Arm to Take UPI Live in 4–6 New Countries in 2025* (Dec. 18, 2024), https://www.business-standard.com/industry/news/npci-s-international-arm-to-take-upi-live-in-4-6-new-countries-in-2025-124121801257_1.html

program being part of the Belt and Road system. But UPI provides India the chance to cut a unique identity.

India using UPI could be used to portray itself as a source of public digital goods especially in those areas where Western and Chinese models are often inaccessible or even politically sensitive. This story is consistent with the larger objective of India to be a net security provider in the Indian Ocean and a responsible international citizen. Ensuring that UPI is marketed as a common digital infrastructure, India enhances its potential to present itself as a tech-savvy country and the innovations do not target its people in isolation but should be shared amongst other regions and nations in the world.

This is an especially appealing story in South Asia. Smaller states that frequently feel over-buffered by the political and military power of India might experience UPI as a milder variant of the interaction that is not so intimidating as conventional versions of Indian leadership. India can more easily make goodwill in the region by linking its influence not to coercive power, but to financial convenience and inclusiveness.

2. Is it possible that UPI can enhance regional collaboration on behalf of South America by South Asian countries considering the integration difficulties in the past?

2.1 Limitations in SAARC History.

The South Asian Association of Regional Cooperation (SAARC) was formed in 1985, and it was envisioned as a tool to promote cooperation in various fields, including trade, culture, technology, etc. But, regardless of its potential, SAARC is one of the least integrated regional organizations in the world. Intra-SAARC trade, which comprises of less than five percent of the total trade in the region, is a measure against ASEAN surpassing 20 percent, and over 60 percent in the European Union.

This weakness is mainly attributed to political mistrust especially between India and Pakistan whose conflicts frequently stifle the efforts of SAARC. Although the organization has achieved success in other sectors like disaster management and cultural exchanges it has not succeeded much in institutionalizing economic cooperation.

UPI proposes another model in this regard. Instead of addressing controversial trade and political topics, it puts an emphasis on financial interoperability and digital cooperation.

Compared to traditional infrastructure projects, which are expensive and politically sensitive, UPI may be implemented comparatively fast and with resource-less requirements. This is a way to renew SAARC by focusing on functional non-political cooperation.

2.2 Digital Regionalism.

The barrier to the concept of regionalism in the South Asian region has been in the physical and political barriers. Borders are highly militarized; infrastructure is not well-developed and nationalistic politics tend to hinder substantial integration. Nevertheless, online collaboration is one method that can be used to bypass these challenges. Unlike pipelines or highways, digital platforms can cross borders with only a comparatively small amount of investment.

The new phenomenon has been termed as digital regionalism, in which collaboration is encouraged in terms of common technological standards and digital platforms, instead of physical connection. UPI being a local payment system can be easily placed within this model. It facilitates efficient cross-border financial dealings thereby forming viable bridges that hold the region together in a manner that conventional diplomacy has not been able to do.

2.3 The role of UPI in particular SAARC States.

The introduction of UPI into the countries of the SAARC shows a real possibility of digital regionalism. UPI has also simplified transactions involving tourism in Nepal and money remittances, and the dependence on cash and foreign intermediaries has been minimized. The introduction of UPI in Bhutan has also enhanced its financial interdependence with India to complement the existing tight financial and political links.

Sri Lanka, which is experiencing one of the worst economic crises in decades, has found the UPI integration useful in stabilizing the flow of financial activities, in areas such as tourism and remittance. Bangladesh, which has a huge number of workers in foreign countries, especially in the Gulf region, would enjoy a lot once UPI lowers the cost of remittance.

Pakistan is also an outlier because it does not get along with India. Nevertheless, in this case, the UPI potential cannot be disregarded. This would benefit the business fraternities and migrant workers across the border due to increased financial connectedness. Political animosity stands in the way of an immediate adoption, but in a post-conflict situation, UPI may eventually be a form of confidence-building.

2.4 Hurdles to UPI-based Regional Cooperation.

UPI presents several challenges in the SAARC system although it promises to be great. The biggest challenge is geopolitical suspicion especially towards Pakistan though in many cases this is also true of other countries like Nepal and Sri Lanka, whose influence is frequently disputed. The integration is also troubled by regulatory divergence which is that financial laws, currency controls and digital governance frameworks differ across the region.

Another limitation is the difference in infrastructure. Countries such as Afghanistan and some of Bangladesh cannot afford the large-scale adoption but India, Nepal, and Bhutan have relatively developed digital facilities. Moreover, the neighbors of India might be afraid of being digitally addicted and view UPI as an Indian control tool instead of a common resource.

Lastly, the increased digital presence of China in South Asia creates an additional competitive dimension. China already installed its fintech and digital infrastructure in Pakistan, Sri Lanka, and Bangladesh in the Belt and Road Initiative and Digital Silk Road projects. UPI is thus not only subjected to competition with western financial systems but also with Chinese alternatives, and its implementation into the region is therefore a politically challenging task.

2.5 UPI as a Functionalist Way to the Re-Energizing of SAARC.

Nevertheless, UPI is a rare chance to reinvigorate SAARC using functionalism. It is proposed that functionalist theories of regionalism propose that cooperation in the technical and non-political spheres will lead to the development of confidence and may be transferred to the more significant process of integration. UPI, with its emphasis on financial convenience, not on political concerns, may offer such a functionalist point of entry.

UPI has the potential to create interdependence among South Asian populations on their daily basis by facilitating easy payments of tourism, remittance, and other small-scale trading. This contrasts with the top-down, state-driven initiatives which have traditionally prevailed in SAARC. In the long term, this functional integration may create the pressures of more formal cooperation, which will rejuvenate the relevance of SAARC in an area that has long been characterized by fragmentation.

3. The future of Digital Diplomacy in India in South Asia and its opportunities and challenges.

3.1 Strategic Opportunities

The UPI internationalization has several strategic benefits to India. It makes financial inclusion in South Asia stronger, strengthens remittance transfer, and increases the participation of India in the world as a technological innovator. Another benefit of UPI is that it gives India a balance to the Chinese digital ascendancy, providing smaller states with an option that is less politically manipulative than Chinese solutions. As well, it strengthens the leadership of the Global South of India, as it allows the country to rebrand itself as a digital public goods provider.

3.2 Persistent Challenges

However, India is under serious problems. Issues of privacy and data safety may cast doubt on UPI. The situation of regulatory misalignment between South Asian states is still a daunting challenge that needs to be negotiated and aligned. The system cannot achieve its full potential due to political mistrust especially with Pakistan. Also, China has rival digital infrastructures that might be competitive alternatives, which require careful tradeoffs by the states of South Asia.

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