

SAARC

Dynamics of Emerging New Regionalism

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1 Introduction

Regionalism besides its strategic, geo-political and foreign policy dimensions has been a major plank of development cooperation and integration in many parts of the world.

There are ample examples of a variety of regional groupings that have transformed the conventional outlook and aspirations into more open, dynamic and wider systems and practices of peaceful coexistence, collective responsibility and regional development.

There are instances where bilateral conflictual issues have been effectively dealt with by larger concept of and win-win situation generated by regionalism and multilateralism.¹

¹ Mansfield, Edward D and Helen V Miner, *The Political Economy of Regionalism*, Columbia University Press, New York, 1997. Also see Maurice Schiff and L Alan Winters, *Regional Integration and Development*, World Bank and Oxford, Washington, 2003; Miroslav N Jovanovic, *International Economic Integration :Limits and Prospects*, Routledge, London, 1998

Regional cooperation has been a subject of great interest in several parts of the world. It has brought about significant transformations in some of the region's strategic options, political actions, economic orientations and development gains. On the other hand, integration process is an advanced and matured form of cooperation ultimately leading to economic union where goods, services, labour and capital move freely without any restrictions. This is a peak stage where the coordination and harmonization of economic activities and policies of the constituent countries are institutionalised.²

Nations across the world are finding it both complex and challenging to adjust with the fast changing and newly emerging situations. They are identifying newer instruments of foreign policy and looking for new partners, alignments and linkages. They are creating new institutions with more upfront policy orientations.

In all these efforts and strategisation, the key element has been understanding the immediate neighbours, strengthening both the traditional and freshly emerging ties with them and make a much more concerted regional effort in consolidating its position.³

Cooperation is called for because larger geographic areas are required for the success of higher forms of economic growth. However, cooperation always implies that certain resources are shared, and thus, the national control over them. The abandoning of national control in turn, means an erosion of national sovereignty and to a large extent confiscation of national identity. Therefore, states are reluctant to cooperate on merely economic goals.

Regionalisation can be a powerful collective policy instrument for states to disrupt, weaken or dilute nationally entrenched oligopolies, rent seekers and special interest groups. It can dilute the rigidifying, growth retarding powers of such domestically entrenched groups by radically enlarging the domestic and regional market and

² El-Agraa, Ali M., *Regional Integration : Experience, Theory and Measurement*, Macmillan, London 1999

³ Mansfield, Edward D and Helen V Miner , *The Political Economy of Regionalism*, Columbia University Press, New York, 1997

stimulating competition.⁴ This can usher in a sense of competition within the region and these stronger competitive forces can in turn strengthen growth and the region's competitive dynamism in global market. In other words, so far this region strengthens internal competition by enhancing deep policy integration; it can enhance member states' collective policy sovereignty vis-à-vis the market. This in turn will facilitate the effectiveness of their policy measures, while strengthening the region's competitiveness vis-à-vis the rest of the world.⁵

There are several strategic factors that have determined the cooperation and integration process in other regional blocs. Broadly the economic determinants have been i) level of economic development in the region and the differences between member countries; ii) level of existing economic and other inter-dependence of member countries; iii) the optimisation of the newly formed economic area (zone), with particular reference to the; iv) complementarity of resources and factors of production as well as to the development potential as a whole; v) the nature of economic relation with third countries and the position of foreign economic subjects in the national economy of a given groups (like trans-national corporations) and vi) the suitability of the selected model and types of integration policies in view of the actual conditions in a given group.⁶

Similarly one can roughly identify the political determinants as i) the degree of political homogeneity in the region, ii) level and stability of political will favouring integration, iii) the pattern of foreign political relations of the groups, especially with super power and former metropolitan powers and iv) efficiency of common institutes and the possibilities of their creative activity in favour of collective interest within the group.

⁴ Oman, Charles, *Globalisation and Regionalisation : The Challenge for Developing Countries*, Development Centre Studies, OECD, 1994, p 15

⁵ *ibid*, p 17

⁶ Vaitsos C.V. "Crisis in Regional Economic Cooperation among Developing Countries", *World Development*, vol.6, June 1978. Also see, Jeffrey A Frankel, *Regional Trading Blocs in the World Economic System*, Institute for International Economics, Washington, 1997; Stefan A Schirm, *Globalisation and the New Regionalism*, Polity, Cambridge 2002

2 New Regionalism

Regionalism in the 1990s is not to be considered as a movement toward territoriality-based autarkies as it was during the 1930s. Rather it represents concentrations of political and economic power competing in the global economy with multiple inter-regional and intra-regional flows.⁷ There are very contrasting differences in the ‘old’ and ‘new’ regionalisms⁸. (Table 1)

Table 1
Old vs New Regionalism

Old Regionalism	New Regionalism
<p>Was formed in and shaped by a bipolar cold-war context</p> <p>Was created ‘from above’</p> <p>Economic integration was inward-oriented and protectionist</p> <p>Was specific with regard to objectives, some organization being security oriented and other being economically oriented</p> <p>Only concerned relations between formally sovereign states</p>	<p>Taking place in a multi-polar world order</p> <p>Is a more spontaneous process from within the region and also “from below” in the sense that the constituent states themselves.</p> <p>Increasingly also other actors are the main proponents for regional integration</p> <p>Often described as ‘open; and thus compatible with an interdependent world economy</p> <p>More comprehensive multi-dimensional process which includes trade and economic integration, environment, social policy, security and democracy,</p> <p>Issue of accountability and legitimacy.</p>

The new regionalism forms part of a global structural transformation in which non-state actors are active and manifest themselves at several levels of the global system. It could

⁷ Mittelman, James H, “Rethinking the New Regionalism in the Context of Globalisation” in Bjorn Hettne et al, *Globalism and the New Regionalism*, UNU/WIDER Study, Macmillan, London, 1999, p 27

⁸ Hettne, Bjorn et al, *Globalism and the New Regionalism*, UNU/WIDER Study, Macmillan, London, 1999.

not be understood from the point of view of a single region. The new regionalism also pre-supposes the growth of a regional civil society, opting for regional solutions to some local, national and global problems. Under such circumstances not only economic, but also social and cultural networks are developing more quickly than the formal political cooperation at the regional level.

The new regionalism enlarges the scope of 'old regionalism' by incorporating in it aspects which were hitherto exclusive to the 'old regionalism'. The five degrees of 'regionness' in a way indicate as to how the new regionalism remains a non-traditional and inclusive initiative.

- i) Region as a geographical unit, delimited by more or less natural physical barriers and marked by ecological characteristics
- ii) Region as social system, which implies trans-local relations of varying nature between human groups
- iii) Region as organized cooperation in any of the cultural economic, political and military fields
- iv) Region as civil society, which takes shape when the organizational framework promotes social communication and convergence of values throughout the region
- v) Region as acting subject with a distinct identity, actor capability, legitimacy and structure of decision making.⁹

In other words, there are several drivers or actors from the State, market and civil society as the pushing forces in the new regionalism. "The new regionalism also proposes the growth of a regional civil society opting for regional solutions to local and national problems. The implications of this are that not only economic, but also social and cultural networks are developing more quickly than the formal political cooperation at the

⁹ Hettne, Bjorn, "Globalisation and the New Regionalism : The second Great Transformation", in Bjorn Hettne et al, *Globalism and the New Regionalism*, UNU/WIDER Study, Macmillan, London, 1999, pp 7-11

regional level.”¹⁰ Unlike the top-down approach adopted by most of the regional groupings based on traditional paradigm, the new regionalism is mainly triggered from below by i) private market and business oriented forms of regionalization. Private economic forces have been reacting faster or at least more effectively than the state actors to the new situation and the more liberalized political economy. In several regions, there is a great variety of private and ethnic businesses and networks, both big and small which have well developed regional strategies. E.g. in Southern Africa, South African firms have quite sophisticated regional strategies in such fields as food and beverage, trade and commerce, mining, banking and financial services and the productive sectors.

And ii) society induced ones. This is seen in growing interdependence and cooperation between a great diversity of civil society organizations and inter-personal transnational networks (e.g. diasporas, ethnic or family networks, religious ties).¹¹

3 Emerging Regional Civil Society

Besides the traditional state policy planners a far more extensive set of actors are emerging across South Asia which have started questioning the State’s monopoly in determining various matrices of issues of public interests. These include transnational religious organizations, environmental groups, human rights organizations, regional economic cooperatives, local communities, MNCs, diasporas and migrants/refugees.¹² These actors have entered into various forms of cooperation and collaboration. They vary from informal coalitions to global conferences and from non-governmental organizations (NGOs) and non-official national and international institutions and regional organization

¹⁰ Hettne, Bjorn, “The New Regionalism : Implications for Development of Peace” in Bjorn Hettne and Andras Inotai (ed), *Comparing Regionalism : Implications for Global Development and International Security*, A UNU/WIDER Study, Helsinki, 1994.

¹¹ Michael Schultz et al in Bjorn Hettne and Andras Inotai (ed), *Comparing Regionalism : Implications for Global Development and International Security*, A UNU/WIDER Study, Helsinki, 1994. pp 254-255.

¹² Latham, R, “ Thinking about Security after the Cold War”, *International Studies Notes*, vol 20, no 3 1995, p 13

working in diverse areas. These forms of cooperation are dynamic and have flexible regional character.¹³ This has further led to the revitalization of civil societies at national, regional and global levels. In fact, in some of the conflictual situations the NGOs have very vital role both in its management and resolution. In other cases, they have acted as major agents in preventive diplomacy.¹⁴

Many of these non-state actors advocate and advance regionalism for varied reasons. They exert a lot of pressure on official institutions at different levels. Organisations of civil society exert moral influence on many issues. The most recent example is that of the coming together of organizations and activists working in the area of trafficking of girl children and women for immoral purposes in South Asia. These organizations have been networking among themselves to prevent these illegal trafficking across the region and were convinced that this issue required a serious regional intervention. They have been asking their respective and the neighbouring countries' governments to make adequate legal provisions for fighting this menace. Ultimately it was this networking of the civil society activists which pressurized the SAARC leaders to sign a Convention to fight against this critical problem in the XIth SAARC Summit held in Kathmandu in January 2002.

These non-state actors acting autonomously or as sub-contractors to States are characterised by the following quintessential features :

- i) Have their own forms of political and diplomatic behaviour.
- ii) Have significant effects on political processes and outcomes
- iii) Have added unprecedented measure of complexity to security operations.
- iv) Their inclusion imparts more complicated multidimensional character to security operations
- v) Create possibilities for potentially more effective action, in areas of confidence

¹³ Shaw, Timothy M and Sandra J Maclean, "The Emergence of Regional Civil Society : Contributions to a New Human Security Agenda" in Jeong, Ho-Won, *The New Agenda for Peace Research*, Ashgate, England, 1999, p 290

¹⁴ Voutira E & Shaun A W Brown, *Conflict Resolution : A Review of Some Non-Governmental Practices*, Refugees Studies Programme, University of Oxford, 1995

- building, preventive and early warning strategies and peace building.¹⁵
- vi) Deal with potential conflictual issues at the most local level and hence could keep the process of regional formation and cooperation alive.

A revealing facet of this new phenomenon is the induction of a novel bottom up forms of regionalism initiated by the civil society which are emerging partly in response to the social disruptions, inequalities and insecurities. This regionalism combines comparative, historical and multilevel perspectives and has three dimensions :

- i) concerns common interest, problems or aspects of history which are shared by groups of proximal states in specific geographic areas.
- ii) involves the organizational structures that are established to deal with the collective needs of groups of neighbouring States
- iii) involves civil societies as well as states, consisting of forms of 'socio-cultural, political and /or economic linkages that distinguish (certain geographical areas) from the rest of the global community

Traditional approach to regionalism also encompass these three dimensions but most have focused on limited scope such as market integration. The inter-relatedness of social, economic and political aspects are increasingly recognized and these transnational interactions among civil societies in technical (or functional) areas would correspond to a linear progression in political integration.

Despite a slow pace progress, one of the remarkable contributions of SAARC has been the fact that it has been able to trigger off a whole range of activities outside the official SAARC forum. These activities in private sector, in non-governmental organisations and community level activities across the region, have in fact, withstood all kinds of political ups and downs. It was estimated that in 1998-99 alone there were over 38 Track II channels working in South Asia.¹⁶ The process towards regional consolidation has been

¹⁵ Ibid . p 291

¹⁶ Naik, Niaz, A, "Confidence Building in South Asia : Problems and Prospects", seminar paper presented in the International Seminar on *South Asian Economic*

going on regardless of SAARC's officialdom. In fact, the parallel process of activities has far overtaken the official process with the latter pulling back the former. These are the activities which will hold SAARC in good stead in the long run and sustain the process. These are also fast emerging as domestic and regional peace constituencies.

In the entire process of this emerging new regionalism, there are very interesting initiatives that is likely to transform the entire SAARC process into a robust people-centric project oriented programme. Equally interesting aspect has been the growing orientations towards larger initiatives that involve countries outside the region. The inclusion of Afghanistan as the eighth member of the SAARC and initiatives to give observer status to China and Japan in the Dhaka summit held in 2005 is the example towards this direction. An attempt has been made here to identify and discuss three such initiatives that would add much require dynamism and vigour to South Asia.

4 **Infrastructural Linkages and Expanding Regional Markets**

SAFTA brings new hopes, builds confidence and generates a chain of opportunities for the South Asian countries to look beyond the SAARC region. A critical aspect of this new horizons is the possibility of cross border infrastructural linkages which is now taking firm shape. An attempt has been made here to briefly highlight how much the South Asian people could gain if the region is able to realize four major projects viz., the reopening of trade route to China through Sikkim, participation in Kunming initiative, establishing the power grids and laying gas pipelines both within the region and with West and Central Asian countries.

i) Road to China through Nathu la Pass in Sikkim¹⁷

The reopening of the traditional trade route between Tibet Autonomous Region (TAR) of China and Sikkim in India through Nathu la pass in 2006¹⁸ is likely bring about a significant change in India's economic exchanges with South Asian countries. This agreement is likely to have a much larger scope both in terms of the coverage of geographical regions and nature of goods and services. This is because of a relatively easier accessibility to the pass leading to markets and more developed physical and institutional infrastructures in and around the trading points. Further, this trade route was a very active means of economic exchanges for Tibet vis-à-vis India and to other countries mainly through Calcutta port before it was closed in the early 1960s. Institutions like banking, post offices and custom points were set up and remained functional for many years.

China has been consciously trying to make economic inroads at the very local level. It has extensively used the border trade as its main instrument to realize this goal of local economic integration. It is broadly estimated that border trade through its 120 inland towns and ports constitute nearly half of China's total foreign trade of \$ 1 trillion. This has been largely supported and regulated by a comprehensive policy document known as "Provisions of Administration on Border Trade of Small Amount and Foreign Economic and Technical Cooperation of Border Regions" promulgated by Ministry of Foreign Trade & Economic Cooperation and China's Customs General Administration in 1996. China has achieved much success in its similar trade and investment related initiatives in its other neighbourhoods including that in the South China Growth Triangle (SCGT) comprising of Hong Kong, the Guandong and Fujian provinces of China and Taiwan ; the Greater Mekong Basin Growth Triangle (GMBGT) consisting of Myanmar, Cambodia, Laos PDR, Southern China, Vietnam and Indonesia and the Golden

¹⁷ For details see Lama, Mahendra P, *Sikkim-Tibet Trade via Nathu la : A Policy Study on Prospects, Opportunities and Requisite Preparedness*, prepared by Nathu la Trade Study Group for the Government of Sikkim, August 2005

¹⁸ *Memorandum between the Government of the Republic of India and the Government of the People's Republic of China on Expanding Border Trade*, signed at Beijing on 23 June 2003 signed during Prime Minister Atal Behari Vajpayee's visit to China in 2003

Quadrangle covering Thailand, Myanmar, Laos PDR and southern China. The northern Chinese provinces of Heilongjiang, Xinjiang and Inner Mongolia have been in the forefront of border trading with Russia and other central Asian republics. The Kunming and Nathu la initiatives therefore, could be categorically called as an extension of these lab to field models wherein China has pocketed handsome and largely sustainable gains.

A major driving force for China to open its border for more trade and investment intercourse has been the urgent need to bring its own provinces in the periphery mainly the western region to the national mainstream. This could supplement mainland China expand its politico-military leverages over these units.¹⁹ The western region which covers two-thirds of the nation's territory, with a population making up nearly 23 percent of the national total, comprise nine provinces and autonomous regions i.e. Gansu, Guizhou, Ningxia, Qinghai, Shaanxi, Sichuan, Tibet, Xinjiang and Yunnan in addition to Chongqing Municipality. This region has plenty of land and natural resources including oil and gas. It is hoped that after the Eastern China's 14000 km long coastlines brought fortunes to China in the last two decades, it is now western China with 3500 km land frontier lines that will become second golden area of reopening.²⁰ The resulting accelerated growth and development in these politically volatile provinces and regions could to a large extent quell the political dissents in much more smooth and durable manner. Therefore, provision of autonomy and flexibility in their cross border

¹⁹ China is a mountainous country with two-thirds of its total land area covered by mountains, hills and plateaus. It has land border of 22143.34 kms and is bordered by 14 countries : Korea in the east; Russia in the north east and north west, Mongolia in the North; India, Pakistan, Bhutan and Nepal in part of the west and South west; Myanmar, Laos and Vietnam in the South. This also has borders with Kazakhstan, Kyrgyzstan, Tajikistan and Afghanistan.

China's 27 provinces are divided into four regions :

Northeast (3) : Liaoning, Jilin and Heilongjiang

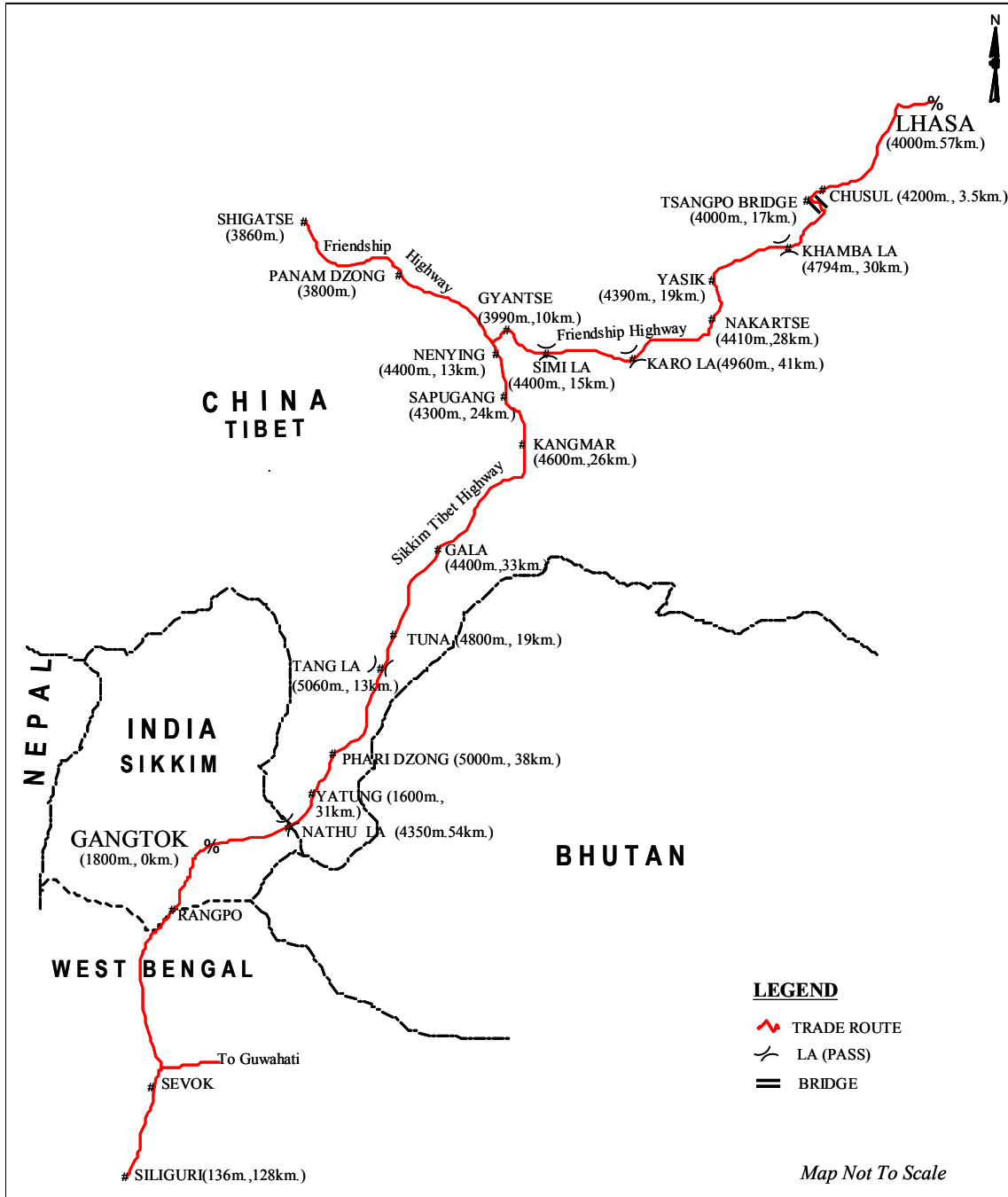
Middle (8) : Shanxi, Hebei, Henan, Hubei, Hunan, Guangdong, Guangxi and Hainan

Eastern (6) : Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong

Western (10) : Sichuan, Gansu, Guizhou, Ningxia, Qinghai, Shaanxi, Tibet, Xinjiang and Yunnan in addition to Chongqing Municipality

²⁰ *China 2002*, New Star Publishers, Beijing, 2002, pp113-114. Also see Jun, Fu, *China Online*, China International Press, 2001

Gangtok-Lhasa Trade Route



Source : Lama, Mahendra P, *Sikkim-Tibet Trade via Nathu la : A Policy Study on Prospects, Opportunities and Requisite Preparedness*, prepared by Nathu la Trade Study Group for the Government of Sikkim, August 2005

interactions were considered vital for which several promotional measures including legislative and financial were adopted.

Though a significant section of policy echelons in India considers reopening of Nathu la Pass route in Sikkim as a mere symbolic border trade venture, China at least in the long run looks at it as a vital physical economic entry into the 1.3 billion people market of South Asia. In terms of feasibility this is arguably the shortest route (roughly 590 kms between Lhasa, Tibet and Gangtok, Sikkim) to reach the ever burgeoning middle class in Indian mainland, Bangladesh, Bhutan and Nepal. The likely completion of 1142 km railway from Golmud city in Qinghai province to Lhasa by 2006 and the refurbishing of overland access through Sichuan-Tibet Highway could transform the entire physical accessibility to and from mainland China for Tibet and the neighbouring provinces and also the neighboring countries.

The Scenario I of higher projection showed that trade flow through Nathu la will be \$ 48 million (Rs 206 crore) by 2007, \$ 527 million (Rs 2266 crore) by 2010 and \$ 2.84 billion (Rs 12203 crore) by 2015. The Scenario II lower side projection shows that the trade volume passing through Nathu la route will be Rs 353 crore in 2010, Rs 450 crore in 2015 and Rs 574 crore in 2020.²¹

It could drastically reduce the tortuous sea route entries. The domestic impulse in China is that the resulting gains and prosperity could trigger a major development action in the otherwise backward and frigid western China. This may ultimately provide succour in effectively dealing with traditional and emerging pockets of discontentment in the region including Tibet. For India besides Lhasa, these new transport infrastructures could open access to other crucial business centres in western, eastern and south-eastern sea coast of China.

²¹ Lama, Mahendra P, *Sikkim-Tibet Trade via Nathu la : A Policy Study on Prospects, Opportunities and Requisite Preparedness*, prepared by Nathu la Trade Study Group for the Government of Sikkim, August 2005

The distance between Siliguri and Phulbari corridor is hardly 10-30 kms. Bangladesh, Bhutan and Nepal can in the long run plan to use this route. The high level Nathu la Trade Study Group in its report recommended that in 2015 there should be inclusion of movement of freights to and from the neighbouring countries including Bangladesh, Bhutan and Nepal through this route. And 2018 onwards SAARC tourism should be integrated with tourism activities of third countries of the region including Bangladesh, Bhutan and Nepal. The Nathu la pass should be opened for all the tourists to cross the border.²²

As usual there are status quoists with insurmountable mindsets. Their arguments against reviving this traditional trade route vary from security to influx of Tibetan refugees and flooding of local markets by cheap Chinese goods to environmental concerns. It was the same mindsets that literally marginalised India in Myanmar where the former once had unparalleled historical strongholds, political and social constituency and substantive economic influence. India should have in fact long harnessed these huge cross border opportunities. Prime Minister Manmohan Singh's well acclaimed plea for cross border infrastructure projects in the last SAARC Summit in Dhaka in 2005 belatedly yet definitely recognizes this clamour for lost opportunities.²³

One should not be unaware of the fact that this local integration strategy of China including with Taiwan, Myanmar, Hong Kong, Vietnam, Thailand, Laos, Indonesia and Korea have paid them handsomely. There are examples galore like that of South China Growth Triangle (SCGT), Greater Mekong Basin Growth Triangle (GMBGT) and Golden Quadrangle. The northern Chinese provinces of Heilongjiang, Xinjiang and Inner Mongolia have been in the forefront of border trading with Russia and other central Asian republics.

²² Ibid.

²³ Lama, Mahendra P, "Trade is only the beginning of the Story", *Indian Express*, June 18, 2006

ii) The Kunming Initiative

The Kunming Initiative is another potential area where India's north East, East and Bangladesh could be integrated to trade with Myanmar and China. There have been several visits by the trade, development and investment officials and private sector from Yunnan Province to mostly the Eastern and North Eastern states of India including West Bengal and Assam. With their single point agenda of establishing trade and investment linkages with the vast untapped market and naturally contrasting but well endowed regions of eastern India, these delegates give an impression that they have been given a 'free hand' by their federal government to negotiate the larger process of "Kunming Initiative". Its advocates are actively promoting the reopening of Stilwell road (named after General Joseph Warren Stilwell 1883-1946, Chief of Staff to Allied Forces in China-Burma-India). Built by the US forces during the Second World War this double-track all-weather road connects Assam (61 kms) in India, with Kunming (632 km) in China) via Myanmar (1,033 km). It remained unused for last five to six decades. The single-mindedness with which they are pursuing this 'Initiative' even involves Bangladesh, Myanmar and other neighbouring countries.²⁴

iii) Power Exchange and Trading

Economic gains based on regional cooperation in the energy sector have become a firmly established practice across the regional groupings. Many developing countries, because of their low income and resulting small market size, are unable to capture by themselves the inherent economies of scale of major infrastructure investments. Cross border energy exchanges will bring the entire issues of regional cooperation and integration in this sector to the forefront. The possibility of energy trading has opened new vistas of cooperation. Cross border energy trade could lead to i) effective utilisation of natural resources, ii) increase in reliability of power supply, iii) economy in operation and mutual support during contingencies, iv) bring about large scale transformation in the sectors

²⁴ Lama, Mahendra P, "India and China in Border Trade" , *Hindustan Times*, New Delhi, April 27, 2005

contributing to economic growth, v) act as the single most effective confidence building measure (CBM) through the participation of multiple stakeholders and vi) substantially promote market integration in energy related goods and services .

Several studies have concluded that major economic, social and technical benefits would accrue to South Asia from power exchanges and trading. A very recent study conducted by the scholars and experts in the region has revealed a wide range of positive social and economic benefits that await such exchanges.²⁵

The seasonality factor in both generation and demand is highly noticeable in the South Asian countries. This has in turn generated a lot of interest in the cross border power trading in the region. In India, there exists clear seasonality in power generation. It particularly becomes clear in the hydel power generation. The peak months for hydro power generation are August-September while the lean remains from January to June. The thermal plants generation has been mostly designed to match and balance the trough months created by the hydel plants in winter and the pre-monsoon season.

The power map of India has five different regions viz., Northern, Southern, Western, Eastern and North Eastern. In the whole of 1990s the Northern and the Southern regions faced maximum demand-supply gaps. All the regional grids face perennial energy shortage except Eastern Region, which has surplus power varying from 1000 MW to 3000 MW throughout the year. Regionwise projection of power demand and supply for the year 2012 indicates a serious shortfall in all the major regional power markets viz., Northern, Southern and Western. Since the projected surplus power in the East and Northeast regions would not be adequate to meet the gap in demand, the import of power

²⁵ Lama, Mahendra P, Abul Barkat & Suresh C. Chalise, *Economic and Social Benefits Analysis of Power Trade in the South Asia Growth Quadrangle Region*, NEXANT/ USAID SARI/Energy Program, September 2004.

from the neighbouring countries will be the only the least cost viable option available.²⁶
(Table 2)

Table 2

India's Supply/Demand Scenario through 2012

Region	Present Demand 2001 (MW)	Projected Demand 2012 (MW)	Planned Capacity Addition by 2012 (Central Govt) (MW)	Surplus or Shortfall (MW)
Northern	21,000	49,000	14,000	(-)14,000
Southern	20,400	42,000	10,000	(-)12,000
Western	24,900	46,000	16,000	(-) 5,100
Eastern Northeastern	8,750	19,000	23,000	(+)12,750
Total	75,050	156,000	63,000	(-) 17950

Source : The Four Borders Project : Reliability Improvement and Power Transfer in South Asia : A Pre-feasibility Study, prepared for USAID-SARI/ E Program by Nexant , November 2001, p 2-11

²⁶ Lama, Mahendra P, Mohan Man Sainju & QK Ahmad “Reforms and Power Sector in South Asia : Scope and Challenges for Cross Border Trade” in Mohsin S Khan (ed) *Economic Development In South Asia* , Tata McGRaw – Hill, New Delhi, 2005

Power trading can provide emergency supplies and thus help offset shortages. A study done by Nexant indicated power outages in Bangladesh cost about \$ 1 billion a year and reduces GDP growth by about a 0.5% point. Interconnecting the two power grids simultaneously with that of Bhutan and Nepal would reduce the T&D losses by 90 MW resulting in a saving of US\$ 79.12 million in fresh investment for new capacity addition. Some of the border areas of these countries could be better served by interconnecting them with the grid substations of the neighboring country. Such interconnections would reduce the losses further. A loss reduction of an additional 50 MW by such interconnections would enhance the total saving to the level of US\$ 123.08 million.

Energy trade would change the composition of the export baskets of power exporting countries and help to address the issue of adverse balance of trade and balance of payment. Additional income from energy export and enhanced level of economic activity can be invested in social infrastructure.

A recent study has shown that availability of electricity would enhance employment generation, increase income for the poor, increase savings, lead to progressive pattern of food-non food expenditure, cause relative high share of education and health expenses, and increase influence over asset building.²⁷ Electricity significantly influences the shift of a household from poor to non-poor category.

Among the several options available to use the rich gas resource base of Bangladesh the electricity generation and export of gas through pipelines are considered to be the most viable and profitable ones. There has been a chain of study carried out to assess the gas reserves and also to examine the possibility of its harnessing for the cross border

²⁷ Barkat, Abul, "Rural Electrification and Poverty Reduction: The Case of Bangladesh", in *Social Science Review*, Vol.21, No.1, June 2004, University of Dhaka, Dhaka, 2004; Barkat Abul, SH Khan, M Haque, R Ara, S Zaman and A Poddar, *Impact Study of Rural Electrification Project: Mechanism of Poverty Alleviation Fostered by Rural Electrification*, Human Development Research Centre, prepared for Japan Bank for International Cooperation, Dhaka, 2003 and also see Lama, Mahendra P, Abul Barkat & Suresh C. Chalise, *Economic and Social Benefits Analysis of Power Trade in the South Asia Growth Quadrangle Region*, NEXANT/ USAID SARI/Energy Program, September 2004.

exchanges. This has generated a lot of interest and speculation also as the estimates of gas reserves have varied sharply from one assessment to another study.²⁸

Revenue generated by Nepal through sale of power to India has recorded almost six fold increase from 75.5 million in 1993 to Rs 441 million in 2001. In case of the 336 MW Chukha project on Wanchu river, Bhutan earned as high as Nu 2367 million (\$ 52 million) in 2002-2003 mainly from its power export to India (1472 GWh). This constituted almost 45 percent of Bhutan's exports to India and 11 percent of Kingdom's GDP.²⁹

Four areas can be identified for cooperation in the oil and gas sector between Bangladesh and India i) Trans-boundary natural gas trade, ii) trade in refined petroleum products. iii) cooperation in oil and gas exploration and iv) cooperation in NGV developments.

iv) Cross Border Gas Trading

Besides electricity, the three areas which can be identified for cooperation in the oil and gas sector in South Asia region are i) trans-boundary natural gas trade, ii) trade in refined petroleum products and iii) cooperation in oil and gas exploration

Sizable gas shortfall is expected in both India and Pakistan³⁰ unless some major exploration and drilling operations are undertaken. In India alone supply gap is likely to go up to 102 mmcmd in 2007 and 238 mmcmd in 2025. In the second scenario it is likely

²⁸ A study carried out jointly by Petrobangla and the US Geological Survey in 2001 estimated the technically recoverable, undiscovered resource or "New Field Discoveries" on a countrywide basis to be ranging from a minimum case of 8.4 TCF to a maximum case of 65.7 TCF, with a mean of 32.1 TCF. More recently studies carried out by Gas Reserve Determination Committee constituted by the Government of Bangladesh showed that the proven as well as probable gas reserve of the country was between 12.04 TCF and 15.55 TCF for 22 gas fields. The possible gas in place was estimated to be in the range of 4.14 TCF to 11.84 TCF.

³⁰ Raza, Hilal A, "Potential of Trade in Oil and Gas" in in Jasjit Singh (ed), *Oil and Gas in India's Security*, Knowledge World and Institute for Defense Studies and Analysis, New Delhi, 2001, p 102

to be 173 mmcmd and 355 mmcmd respectively. (Table 3) Indian Government policy in the recent years has sought to promote the imports of natural gas.

Table 3
India - Gas Deficit (MMCMD)

Scenarios	2002	2007	2012	2025
Demand Scenario 1	117	166	216	322
Supply - given scenario	70	58	45	36
Supply -optimistic scenario	70	64	78	84
Gap	47	108	171	286
Demand Scenario 2	151	231	313	391
Supply - given scenario	70	58	45	36
Supply -optimistic scenario	70	64	78	84
Gap	81	173	268	355

Source : *Report of the Group on India Hydrocarbon Vision – 2025*, Government of India, New Delhi, 2000

Smaller countries like Bhutan, Maldives and Nepal are also likely to record a quantum jump in the gas consumption in the next decade or so. Optimal techno-economic solution is for India, Pakistan and other South Asian countries to jointly pose their demands to potential suppliers in north and west and other central Asian countries so that economies of scale result in a substantial reduction in unit cost of supply to both countries.

Though the South Asian countries particularly India and Pakistan have been envisaging both on-shore (Iran-Pakistan, Turkemenistan- Pakistan) and off-shore (Qatar-Pakistan, Iran-India and Oman-India) pipelines, nothing concrete has emerged because of : i) huge financial implications and related investment risks, ii) geo-political apprehensions, iii) unsure confirmation of natural gas reserves, iv) pricing of supplied gas, v) third country approval of transits, vi) legal hurdles and vii) environmental fall outs. This has also been the case in intra-regional gas pipeline between Bangladesh and India. Singh remarks that ‘the most attractive economic solution have the most serious political problems and

conversely, easier political solutions highest economic costs.³¹

How important is regional cooperation in this regard is pointed out in the *Report of the Group on India Hydrocarbon Vision –2025* when it states that “ various proposals for importing piped gas from neighboring countries such as Bangladesh and Myanmar, need to be pursued, as this will be a cheaper option compared to LNG. In this contest, emphasis should be laid on regional cooperation involving SAARC, BIMSTEC and other regional bodies such as ASEAN, Gulf Cooperation Council in developing regional gas trade.”

One of the attractive options of this trans-boundary natural gas trade is to undertake the Iran-Pakistan-India Pipeline which was conceived in 1989.³² In January 2005, India and Iran agreed to pursue the project as a straightforward purchase of Iranian gas at the India border. It was supplemented by an agreement between Iran and Pakistan to cover supply of gas to the latter and transit to India.³³ Iran has shown urgent interest (particularly after the discovery of gas field at Tabnak) in supplying gas overland through Pakistan to India. The Pakistan government also formally announced its acceptance of such a facility to India.³⁴ Iran and Pakistan already have had several rounds of talks on technical issues and gas pricing of \$7.4 billion Iran-Pakistan-India gas pipeline.

Oil ministers of India, Iran and Pakistan had agreed during a meeting in Doha in April 2006 to materialise the project despite the US opposition on the background of Iran’s nuclear programme. Iran had offered \$6 per MMBTU sale price for its gas. Though India

³¹ Singh , Jasjit, “Geopolitics of Energy and Security” in Jasjit Singh (ed), *Oil and Gas in India’s Security*, Knowledge World and Institute for Defense Studies and Analysis, New Delhi, 2001, p 20

³² 2775 km pipeline in length this pipeline is expected connect the gas fields like Assalye in Iran with the markets in Karachi in Pakistan and Delhi in India.

³³ Ahmad, Talmiz, “Advantages of Transnational Gas Pipelines”, *The Hindu*, New Delhi, April 24, 2006

³⁴ Iran proposed such a pipeline almost a decade back during Benazir Bhutto’s regime. Since then Pakistan has been consistently denying such permission. *Business Recorder*, Karachi, April 8, 2000

continues to show its interest in the project,³⁵ there are serious uncertainties created by India's Nuclear Energy deal with the United States of March 2006 and US's anti-Iran stance. This may induce India not to have any long-term energy deals with Iran. "...a direct consequence of the US – led pressure on Iran in which India has acquiesced, it seems likely that the Government of India is merely going through the motions of continuing to talk to Iran on the pipeline issue".³⁶

This has a historical parallel. The US was deadly against the Soviet supplies of gas to Western Europe on the ground that the latter will be vulnerable to Soviet political pressures. "The Reagan administration was anxious to persuade Europe not to import Soviet gas, and imposed sanctions first on US companies exporting pipeline components and then on European subsidiaries of those corporations. Subsequent disagreements between members of the Atlantic Alliance- gave rise to a difficult period in transatlantic relations." ³⁷

Pakistan has rather pre-empted India's move by unilaterally signing a broad agreement with Iran on bilateral gas pipeline, clearly indicating that India could not become part of it due to capacity constraints.³⁸ The option for India to join the second parallel pipeline is being kept opened. The parties to the project are yet to decided whether to adopt a segmented or an integrated approach.³⁹ This trilateral pipeline project is otherwise a "win-win" project where Pakistan besides getting annually over \$ 200-400 million is likely to accrue to Pakistan as transit fees and royalty.

³⁵ India's Petroleum Secretary MS Srinivasan mentioned that a tripartite deal will be signed in the Ministerial level meeting in Teheran in June 2006. *Hindustan Times*, New Delhi 1 May 2006.

³⁶ T Jayaraman, "Price of the Nuclear Deal", *Economic and Political Weekly*, 15 April 2006, Mumbai, p 1420

³⁷ Belgrave, Robert , Charles K Ebinger and Hideaki Okino (eds), *Energy security to 2000*, Gower Publishing Company Ltd, Aldershot, 1987 pp 206-207

³⁸ Kiani, Khaleeq, "Pakistan to get 33pc more gas: India almost out of Iran pipeline project", *Dawn*, Islamabad, May 1, 2006

³⁹ Kiani, Khaleeq, "Gas pricing talks with Iran", *Dawn*, Islamabad, April 26, 2006

Turkmenistan's natural gas reserves are officially estimated at 98-155 Trillion cubic feet (TCF) with an official R/P ratio of 82-129 years⁴⁰. Envisaged in mid 1990s, India was formally invited to join the Turkmenistan-Afghanistan-Pakistan gas pipeline in February 2006. In February, 2005 Pakistani Prime Minister Shaukat Aziz assured Afghan finance minister of Pakistan's full support to the construction of TAP⁴¹. The TAP project can bring 20 bcm of natural gas annually from Daulatabad gas field in Southeast part of Turkmenistan to consumers in Afghanistan, Pakistan and India through a 1700 kilometers long pipeline. This will be for the first time South Asia could access gas from Central Asia. There are possibilities that other countries like Uzbekistan, Kazakhstan and Azerbaijan and even Russia could join this pipeline.

Very recently an agreement to transport gas from Myanmar to India through a pipeline via Bangladesh has been signed. This is to be operated by an international consortium "The Governments of Bangladesh and India reserve the right to access the pipeline as and when required, including injecting and siphoning off their own natural gas. The route of the pipeline may be determined by mutual agreement of the three Governments with a view to ensuring adequate access, maximum security and optimal economic utilization."⁴² If realized this could be a major breakthrough for other projects also that have been hanging fire for long in the region. In this deal two very unnoticed yet far-reaching aspects were a shift in India's policy from traditional bilateral to multilateral engagements in its neighborhood and also the negotiations responsibility given to the technical ministries rather than the traditionally followed Ministry of External Affairs.

⁴⁰ Tongia, Rahul and V. S. Arunachalam "Natural Gas Imports by South Asia: Pipelines or Pipedreams? TransAsia Pipeline System (TAPS): A Shared Natural Gas Pipeline for India and Pakistan from West and Central Asia." Dept. of Engineering & Public Policy Carnegie Mellon University Pittsburgh, PA 15213 USA, September 1998. A version of this appeared in Economic and Political Weekly (1999) XXXIV(18)

⁴¹ Newspaper report published in Pakistan Times. Internet Edition of February 11, 2005 <http://pakistantimes.net/2005/02/11/top7.htm>

⁴² Joint Press Statement (Trilateral - between Minister for Energy of Myanmar, Minister of Energy and Mineral Resources of Bangladesh and Minister of Petroleum and Natural Gas of India), Yangon, January 13, 2005

However, there has been no progress made so far as Bangladesh has insisted on including references in the tripartite MOU India related bilateral issues including (i) transmission of hydro-electricity from Nepal and Bhutan to Bangladesh through Indian territory; (ii) corridor for supply of commodities between Nepal and Bhutan and Bangladesh through Indian territory; and (iii) necessary measures to reduce trade imbalance between the two countries.⁴³ India apparently wants to discuss this in the bilateral framework as agreed in the in the tripartite MOU. “With respect to issues of bilateral cooperation which impinge on their trilateral cooperation, such as hydroelectricity and other diversified sources of energy supply, trade and transit, the Ministers of the three countries agreed that such bilateral issues will continue to be pursued bilaterally.”⁴⁴ As a result, the Indian government is seriously thinking the pipeline to be routed through the North East region of India.

Any of these pipelines, if laid, could change the energy as well as the economic picture of the entire region besides providing a robust CBM between India and Pakistan. These projects will substitute expensive imported liquid fuels to improve balance of payment, bring relief to the hard-pressed infrastructure of ports, roads and railways used in movement of liquid petroleum, improve environment, and reduce cost of electricity generation, besides several other direct and indirect benefits as a result of multi-billion dollar investments in the gas pipeline as well as in the downstream industry using the gas. As neither India nor Pakistan possess the necessary finances and technology to build such a pipeline, multinational and multilateral resources will have to be tapped.

The economies of scale will substantially reduce the cost of a unit of gas energy imported jointly than individually. According to an economic analysis conducted for a UNDP sponsored project on Energy-Environment Cooperation in South Asia, based on the then prevailing prices in March 1998, the tariff cost of the pipeline project could be reduced

⁴³ Joint Press Statement (Bilateral - between Minister of Energy and Mineral Resources of Bangladesh and Minister of Petroleum and Natural Gas of India to promote bilateral energy cooperation), Yangon , January 13, 2005

⁴⁴ Joint Press Statement (Trilateral), Yangon , January 13, 2005

by about 26% by having a joint pipeline for India and Pakistan as compared to having separate pipelines.

Indian concerns about the safety of the pipeline and assured supply through territory of Pakistan can be addressed through a dialogue and legally binding guarantees by multilateral institutions.⁴⁵ This can be even ensured by extending this pipeline to Nepal, Bhutan and Sri Lanka. In fact, recent months have seen considerable progress in India laying gas pipeline into Nepal and Indian Oil Corporation's (IOC) planning to sell petroleum products in Sri Lanka.⁴⁶ Any of these pipelines, if laid, could change the energy as well as the economic picture of the entire region.

If political apprehensions are set aside, there are strong possibilities and scope for bringing gas from Bangladesh through pipeline. A number of feasibility studies have been done in this regard including by UNOCAL⁴⁷, and Indian gas utilities like Gas Authority of India Limited (GAIL) and Oil and Natural Gas Commission (ONGC) of India. TERI's estimates suggest comparatively much higher netback for gas imported from Bangladesh if supplied to North India.⁴⁸ There has been a chain of study carried out

⁴⁵ Lama, Mahendra P and Rasul Bakhs Rais, *Pipelines and Powergrid for Peace*, Occasional Paper, ICPI, Mumbai and Kings College, London (2001)

⁴⁶ A joint venture of Nepal Oil Corporation (NOC) and Indian Oil Corporation (IOC) for cooking gas plants through pipeline is being implemented. This will link Nepal's main distribution depot at Amalekhganj, about 175 km south of Kathmandu, with IOC's supply centre at Raxaul in Bihar on the Indo-Nepal border. The pipeline will help Kathmandu save on transportation time and curb adulteration of the fuels while being hauled across the border in truck-tankers. *Himalayan Times*, Kathmandu, 29 January 2004

⁴⁷ Unocal Corporation's Natural Gas Pipeline Project from Bangladesh to India includes construction of a new 30-inch diameter 1363-kilometre natural gas pipeline with a capacity to transport 500 MMSCFD of gas from Bibiyana fields in Bangladesh to major markets in India. Government of Bangladesh could expect to begin receiving estimated revenues and tax receipts of at least \$ 3.7 billion over the 20-year life of the project. The proposed pipeline is also expected to result in a direct investment of \$ 500 million to \$ 700 million for field development and pipeline construction in Bangladesh. There are several additional benefits to Bangladesh.

⁴⁸ As of today power generation with 46 % of the total gas consumption constitutes the most vital sub-sector for gas use followed by fertilizer production 30 %, industry 13 % and domestic and commercial 11%. All gas fields so far discovered are located in the East Zone, Consequently, all the power plants in the East Zone use gas as the fuel, while

to assess the gas reserves and also to examine the possibility of its harnessing for the cross border exchanges. This has generated a lot of interest and speculation as the estimates of gas reserves have varied sharply from one assessment to another.⁴⁹

More recently two Committees constituted by the Government of Bangladesh carried out studies. The Committees submitted their reports in June and August 2002. The Gas Reserve Determination Committee concluded that, as of April 2002, the proven as well as probable gas reserve of the country was between 12.04 TCF and 15.55 TCF for 22 gas fields. The possible gas in place was estimated to be in the range of 4.14 TCF to 11.84 TCF.⁵⁰ The Gas Utilization Committee “arrived at the finding, after in depth examination, that under the short and mid-term demand supply projections, there is a problem of short supply which militates against export of gas from the current reserves”.⁵¹

Swapping of Indian gas with Bangladesh gas is another proposal that also stands as mutually gainful project. The proposal is that ONGC will sell the gas found in North East India, which could not be brought to mainland India since it would be too costly a

all plants in the West Zone are fuelled by oil of various grades. The completion of the bridge on the (Brahamaputra) river and the construction of a gas pipeline through the bridge and the subsequent gas supply to west zone and its connection with Baghabari plant is likely to change the power situation drastically.

⁴⁹ A study stated that the estimated hydrocarbon resource base of Bangladesh ranges from a low side scenario of 34.2 TCF to a high side scenario of 51.5 TCF with a mean or “best technical” estimate of 42.1 TCF. Another study carried out jointly by Petrobangla and the US Geological Survey in 2001 estimated the technically recoverable, undiscovered resource or “New Field Discoveries” on a countrywide basis for Bangladesh. This showed that the total potential of New Field Discoveries ranges from a minimum case of 8.4 TCF to a maximum case of 65.7 TCF, with a mean of 32.1 TCF. Brown TA, AHM. Shamsuddin and MJ Rickard, *Hydrocarbon Resource Base of Bangladesh*, Proceedings of the 13th South East Asia Petroleum Exploration Society (SEAPEX), Exploration Conference, Singapore, 4-6 April 2001

⁵⁰ Report of the Committee for Gas Demand Projections and Determination of Recoverable Reserve and Gas Resource Potential in Bangladesh, submitted to Government of Bangladesh (GoB), Ministry of Energy and Mineral Resources, June 2002

⁵¹ *Committee Report on Utilization of Natural Gas in Bangladesh*, submitted to Government of Bangladesh, Ministry of Energy and Mineral Resources, August 2002.

proposition, to Bangladesh that would sell equivalent quantity of gas to India in return. However, nothing much has happened on this front. Yet another proposal is to allow the right-of-way to lay a gas pipeline across Bangladesh to bring Indian gas, stranded in North East, to mainland India. This will bring transit fees to Bangladesh without any gas sales from the country. More than this, the delay in any deals has been very costly for the concerned countries. There are expert views that recent discoveries in the East Coast (Godavari) in India may thwart the plans to import natural gas into the country.⁵²

There are very critical issues that need to be worked out. For instance, pricing of imported gas would largely determine the prices of fertilizers, petrochemicals and even power. The bigger power utilities like the National Thermal Power Corporation (NTPC) is skeptical in using gas for power generation if the gas delivered at the generating plant is priced at more than \$ 3 per MMBTU (million British thermal units). This against the indication that the lowest possible cost of piped gas delivered in India by the exporting agencies could be higher than \$ 3.5 per MMBTU.

In order, therefore, to promote regional energy cooperation through trade of natural gas via trans-boundary gas pipelines in South Asia, these countries need to work on four major directions viz., i) full-fledged preparatory techno-economic work, ii) intergovernmental agreement, iii) informed public opinion and iv) promotion of international commercial and financial interest in the proposed projects. . This could be done only if an appropriate climate of trust is progressively created.

⁵² Bhandari, Preety, *India Country Study on Regional Cooperation in the Energy Sector in South Asia*, CPD-CASAC Research Programme, 2003.