Energy Resources and Regional Economic Cooperation in SAARC Countries

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Rich energy resources are the lifeblood of thriving economies. As one approaches the subject of energy resources for regional economic cooperation one runs into a host of basic questions aimed at understanding the changing nature, scope and dynamics of regional economic relations. Providing answers could point the way to structuring a new regional economic order.

Given the current dynamics and composite dialogue between India and Pakistan, how can the regional leadership expect a win-win geo-economics? What is the role of energy resources for regional economic cooperation and how these resources and related technologies can contribute to such cooperation? What are the prospects and implications of regional energy projects? What are the geopolitical dimensions and considerations on energy questions? Can India and Pakistan with their legacy of conflict and confrontation emerge as potential regional powers along with other South Asian countries? Given the various security threats haunting the region and the presence of extra-regional powers complicating the picture, how easy and efficient energy producer-consumer arrangements, i.e. energy transfer routes, be drawn up and finalised? Can the corporate sector in South Asia play a decisive role for conflict resolution in the region and for reaching the objective of a single market, single currency and single economic entity on the pattern of European Union?

The paper by taking up some of these questions aims to cover the overall nature and changing dimensions of regional trade and economic relations.

Some historical parallels: The EU

Before considering the subject in the context of this region it seems relevant to have a look at the first successful experiment that turned almost a whole continent into a model of regional cooperation — the European Union.

The Schuman Plan, as it became known, was the basis for the European Coal and Steel Community (ECSC) that was established in 1952. In late 1954, the six governments that made up the ECSC began to consider a new economic initiative that would complement their original coal and steel pact. It was agreed that the six countries that signed the Treaty of Paris, Belgium, France, Italy, Luxembourg, the Netherlands and West Germany, would pool their coal and steel resources. In 1958 the European Coal and Steel Community evolved into the European Economic Community (EEC). In 1993 the organisation was renamed the European Union (EU). In January 2002 the euro became the sole currency. Along with political will and resolve, resources like coal and steel did contribute to promoting European economic cooperation and integration. The EU despite all odds realised its objective of economic integration. Today EU is a power to be reckoned with. What SAARC countries can learn from this? The answer is simple.

The way Robert Schuman proposed the integration of coal and steel production in Europe the same way Asian nations can come to an agreement and move ahead for the

realisation of their common economic interests. Definitely there is lot to learn from these historical processes and parallels for South Asian governments. Increased intraregional market accessibility prompts investment and reduces product prices and increases total surplus. Integrating economies are more likely to gain from improving intraregional market accessibility than from tougher external trade policies.[1]

Energy scenario in South Asia

Major South Asian countries use a variety of energy sources, both commercial and non-commercial. Fuel wood, animal waste and agricultural residue are the traditional or `non-commercial' sources of energy that continue to meet the bulk of the rural energy requirements in South Asia even today. However, the share of these fuels in the primary energy supply has declined. The traditional fuels are gradually getting replaced by the 'commercial fuels' such as coal, lignite, petroleum products, natural gas and electricity. Economic and population growth in South Asia has resulted in rapid increases in energy demand. The region's energy demand as a percentage of the world's energy demand increased from 2.4% in 1987 to 4% in 1998.[2] The US Energy Information Administration (EIA) estimated a 50% growth in the primary energy demand in the period 1990-98. This figure however excludes the traditional energy forms that account for more than half of the energy demand in the region. [3]

According to SSGC calculations, Pakistan would face a shortfall of 350-mmcfd from the year 2010 and going up to 1,691-mmcfd in 2015 and 3,156-mmcfd in 2020. The demand for gas is increasing by 7 to 8 per cent per annum and further delay in completion of pipeline projects would create supply problems for Pakistan.

Similarly, India's commercial energy demand, which by far makes up the dominant share of the South Asian energy demand, is projected to increase by 3.8%-4.3% a year through 2020. The oil demand growth rate for India is projected at 2.3% per year in the low economic growth scenario and is the highest in Asia. However, despite rapid growth in energy demand, the per capita energy consumption in South Asia continues to be amongst the lowest in the world, while energy consumption per unit of GDP is amongst the highest. [4] Driven by the rising population, expanding economy and a quest for improved quality of life, energy usage in the region is expected to rise in the coming years. Considering the ever-increasing demand of energy and its geo-economic significance, cheaper and environment friendly natural gas will continue to occupy centre stage in the region's total energy scenario. In recent years South Asia has been recognised as an area of increasing interest due to its vast size and opportunities for trade. After US president Clinton's visit to South Asia in 2000, a new economic and trade emphasis in the US-South Asian, EU-South Asian and Sino-South Asian relations is taking new shape. The active economic diplomacy is expected to inspire some key decisions on energy contracts, corridors and development activity in the entire region.

Current gas production in South Asia is estimated at 56 BCM, with India accounting for about 50% of the total production. Domestic availability in India is, however, expected to decline in the future. As per estimates made by the Group on India Hydrocarbon Vision 2025, domestic gas production by 2025 is expected to decline to 13

BCM from the current 27 bcm.[5] Indian gas requirements are, thus, likely to be met primarily from gas imports. Outlook on gas production in Bangladesh is optimistic. While current gas reserves are estimated at 10.6 TCF, opinions on actual reserves vary from 30-50 tcf. A detailed reassessment of reserves is currently underway. The oil major, Unocal, has struck significant gas finds in Bangladesh. The company is keen on exporting gas from the Bibiyana gas field to India via a 0.5 bcfd pipeline. Reportedly, the government would consider gas exports to India only if the domestic resources are enough to cater to home requirements for the next 50 years.[6] India is also considering gas imports from Iran, Qatar and Turkmenistan via Pakistan. It is also negotiating with Myanmar and Bangladesh.

For the first time, in a long time, both Pakistan and India are talking on energy issues at the highest level. During the Musharraf-Manmohan meeting on 24 September 2004 at New York and then the Shaukat-Manmohan meeting on 23 November 2004 at Delhi, the two countries discussed the proposed Iran-India gas pipeline project. India once again demanded guarantees from Iran and assurances from Pakistan, for continuous supply of gas, without disruption and compensation in case of such an eventuality. India also maintained its position of linking the gas pipeline deal with a "larger context of expanding trade and economic relations" — a term used by Indian prime minister in the joint statement issued after his New York meeting with President Musharraf. The trade context explicitly refers to the Indian demand for transit trade facilities from Pakistan for trading with Afghanistan, Central Asia and Iran. Pakistan's Prime Minister Shaukat Aziz discussed the energy issue with his Indian counterpart when he visited New Delhi in his capacity as Chairman of the South Asian Association for Regional Cooperation (SAARC).[7] In an interview with *The Wall Street Journal* on 26 January 2004, Prime Minister Shaukat Aziz said Pakistan would discuss and indeed push the issue of the Iran-Pakistan-India gas pipeline. during his meeting with Indian Prime Minister Manmohan Singh at the next SAARC summit. Pakistan's prime minister said the $4.0 billion pipeline project from Iran to India, would be a priority during his talks with his Indian counterpart.[8] Shaukat Aziz said that Manmohan Singh expressed 'good interest' in recent talks on the issue. Pakistan's offer of "an energy corridor to India" is justified by the increasing needs of both countries for imported energy. India has already announced plans for a $2 billion pipeline that would run from Myanmar to eastern India through Bangladesh. Pakistan-Iran gas project would be even more ambitious. A third of the gas would serve Pakistan and the rest would go to India as Iran is the most convenient supplier geographically for both countries.[9] The two countries and their leadership is conscious of the energy scale and supply as they know that more than any other commodity, energy is the lifeblood of modern economies and the engine of all machines. It is a source of enormous profit and political might. The major powers have gone to great lengths over the past century to secure access to it and influence the terms of its trade.[10]

India and Pakistan today have prime ministers who represent the modern face of peace and development. The new leadership in the two countries needs to show that the modern corporate mind can deliver on the national and regional policy objectives.[11] Inflexible and rigid past approaches of confrontation and futile fighting will not pay any more. The construction of more energy pipelines will help further improve relations

between the regional countries and if the pipelines are extended from Pakistan to China or from India to Bangladesh and then possibly extended to Myanmar and Thailand, Asia will get an interlinking gas system.[12]

Iran being South Asia's immediate neighbour is rich and has an edge in terms of natural gas reserves. And since the discovery of natural gas reserves in its South Pars fields in 1988, the Iranian government began increasing efforts to promote higher gas exports. The prospects for profit are especially high in South Asian countries where energy demand exceeds supply. This is the background where a customer —consumer relationship can be conceived, evolved and strengthened for enhanced regional and trans-regional economic cooperation. [13] Energy experts are of the opinion that natural gas would become the fuel of choice for power generation by 2030 in the face of the growing energy needs.

Economic factors & shifting priorities

India's burgeoning industry is desperately looking for natural gas, the cleanest and cheapest fuel. India's existing demand of 151mm cmpd is likely to shoot up to 391 mm by 2025. [14] The present domestic gas supply is 65 mm. Pakistan is the shortest and most proximate route through which India can access the Central and Western Asian markets. This is the matrix of the mutuality of interests which influences the policies of the regional countries.

Pakistan's economy is growing rapidly and is expected to achieve a recorded GDP growth rate of 7-8 per cent in the year 2005. "With the rising growth rate and to meet energy requirements Pakistan is planning to import gas or LNG at competitive rates, Pakistan is committed to the pipeline projects at the highest level. The success of the energy projects can bring the significant economic shift in inter- and intra-regional politics. The only goal that can lift Pakistan and India from their bilateral, indeed regional, difficulties is a true rapprochement from grassroots up — on the Franco-German model. This reconciliation can easily be extended to the whole of South Asia. If a people-to-people reconciliation is to be strived for, and more stress is laid on economic realities, most difficulties and disputes can be contained or resolved peaceably in the altered climate of opinion.[15]

The dream of regional prosperity can gain a new boost once these energy pipeline projects are materialised. The potential for economic and developmental gain from natural gas will help the countries to reassess their roles and policies. There is an undeniable international trend towards the formation of regional and trans-regional groupings for the realisation of peace and development.

Keeping in view the changed economic and political conditions at regional and international levels, the role of energy resources has become a key factor for economic cooperation. Energy deposits are not limited to oil and gas resources alone. The geographic situation of the region and characterisation allows the utilisation of other energy resources, namely electricity and water. Once numerous energy alternatives are factored into arrangements between energy producers and consumers, new circumstances

will certainly govern the geopolitics of the region. The unique geographical situation of Pakistan at the threshold of China, Central, Western and South Asia makes it an important destination and transit route for future trade and economic activities. Given the various threats haunting the region and the presence of extra-regional powers complicating the picture, it is here to see how the energy arrangements are shaped and developed and how the same contribute to regional peace and prosperity.

Trade, pipelines and regionalism

The speedy and smooth exportation of energy supplies from Western or Central to South Asia can be a venture that may change the face of regional politics and economics. Economic collaboration possesses the power to engender as well as transform social and political discourse. It fosters conflict resolution. The energy projects can also be a source of strength for expanding regional economies of Asia and will help normalise the hostile relationship between Pakistan and India. Prospects of enhanced trade and the larger experience of regional economic cooperation hold the new dawn. There is evolved new economic partnership between Pakistan-Russia, Pakistan-China, Pakistan-Iran on the one side and Iran-India, China-India, Russia-India on the other. For the larger economic gains there is larger convergence of interests between the adjacent regions stretched from East to West and North to South. Addressing at Third India-Asean Business Summit on 19 **October 2004**, Indian Prime Minister Manmohan Singh was quite apt when he remarked, "As we look east and you look west it is natural that we look at each other in this enterprise of resorting Asia to its rightful place."**(16)**

Trade is gradually becoming an important factor for the healthy growth of regional economies of both Pakistan and India. The two countries export much more to countries in other regions than to each other. Not only the people on both sides want peace and steady movement on all counts and peaceful settlement of disputes but also several powerful lobbies and influential regional constituencies and non state actors have got activated to push the process forward in the areas of energy, trade and economic relations. The Associated Chambers of Commerce and Industry (Assocham) estimated that trade between India and Pakistan could touch the $10-billion mark by 2010 provided the execution of the South Asian Free Trade Agreement (SAFTA) is not thwarted and the trade basket is diversified.**(17)** The future prosperity of South Asia will be characterised more by energy factors. The current economic realities in Asia highlight the necessity of energy and economic collaboration in coming decades.

The energy projects herald an approach for inclusion, unity and reconciliation. They can be a formidable piece of political and economic reconstruction. The 'peace pipelines' of energy resources can contribute to real and meaningful regional cooperation. No serious attempt was made by South Asian leaders to restructure the regional economy and to remove the weaknesses that had caused growth to stagnate and poverty to increase. With signs of recovery on the horizon, the time has come for laying a solid foundation for a robust structure that would last and grow in size. Pakistan and India should keep in mind that it is very important to improve the lot of the people and give them an opportunity to realise their economic, social and intellectual potential in a competitive world. Instead of dealing with external threats, the regional leadership should secure its

people against poverty and economic hardship. Once out of the groove created by past policies, misperceptions and isolationist rhetoric, the regional countries are bound to emerge as powerful economic actors in the region and the world.

In January 2005 at Davos in Switzerland Pakistan's prime minister reiterated that Pakistan's offer of "an energy corridor to India is justified by the increasing needs of both countries for imported energy". "This is a win-win situation for us all and this will promote peace. The project offers attractive returns to all players." Pipelines would be driven by economics and this is a pretty complex stuff and it makes economic sense.

Economic & commercial complementarities

Regional energy cooperation is in the interest of entire Asia. South Asia's growing energy demands, its skilled and hardworking manpower and together with regional strengths in industrial and managerial know-how and science and technology make ideal space for long-term economic complementarities and regional partnership.

With the economic agenda of SAARC countries gaining importance, the idea of setting up an energy grid in the region is very encouraging. In this regard, the gas pipeline project would be an outstanding example of regional cooperation.**(18)** With limitless possibilities, the idea of cooperating in supply and availability of energy resources should be taken up on a priority basis. Discussions on fostering regional connectivity in the field of energy and the establishment of a ministerial forum on energy have been held in addition to considering proposals for setting up a SAARC energy centre. However, these well-intentioned proposals need to be followed up with some tangible action.

Indian Petroleum Minister Mani Shankar Aiyar while inaugurating the third Asian gas buyers' summit in February 2005 proposed that the gas pipeline from Iran via Pakistan should be extended to China, a move that could lend political security and urgency to the billion-dollar project. "We should look beyond a national gas grid. Asian natural gas industry players should come together to form an Asian gas grid," Asian region was rising as India, Pakistan and China were turning major buyers of gas. "It is possible that Iranian gas would be made available to China by extending the proposed Iran-Pakistan-India pipeline to South China." Aiyar also stressed that the Asian gas grid would enable the countries in the region to maximise the gains, end the "wretched western dominance" and ensure energy security and economic growth in Asia.

On 6 January 2005, India, which imports most of its crude oil needs, called for the development of an Asian petroleum market with trading exchanges to serve the region's fast-growing economies and soften price volatility. "It's essential we develop a sophisticated Asian market for petroleum and petroleum products" to ensure supply stability and reduce price volatility, Indian Oil Minister Mani Shankar Aiyar told a regional energy conference.**(19)** India, which has a vital interest in stable oil markets as it sources 70 per cent of its crude oil needs abroad, is interested in promoting supply security through regional linkages. Booming economic growth has turned Asia into one of the main buyers of Gulf oil but a lack of partnerships between producers and consumers has made Asian nations vulnerable to global oil price volatility. Asian nations

are also trying to diversify and gradually move towards other alternatives of energy like gas for their future needs.

With the emergence of giant Asian consumers, the continent is "set to become the gravity centre of the world's energy consumption." A regional energy market could be formed through sustained dialogue. "Asian countries, especially rapidly-growing economies of the region, need long-term energy supply security. Energy producing countries are concerned about demand security. This is where regional interdependence may best serve the interests of all parties. Regional countries need to strive to establish a structure in which regional producers would charge less from regional consumers on the basis of reciprocity in the region. Asia is one of the fastest-growth markets for oil in the world where half of the total incremental oil demand is forecast to take place during the next few years. Gas is increasingly taking the place of oil as a comparatively cheaper and cleaner source of energy. It is therefore quite logical that the development of partnerships between producers and consumers should go a long way in addressing mutual concerns. The surge in international energy prices leads to higher costs of production and to some extent slows economic growth.

Regional economic cooperation is unlikely to succeed without political harmony and convergence in economic perceptions that are essential prerequisites for future economic and trade alliances. The signing of SAFTA has created euphoria in the South Asian countries. However, there may be some hindrances in the free flow of goods and services but intraregional trade may grow at a rapid rate after some time if mutual trust is sustained and enhanced. At the same time it is all the more important to build trust on the issues of energy, trade and economic cooperation. The "trust deficit" between Islamabad and New Delhi will widen if the two fail to resolve the gas pipeline projects amicably, and this is bound to have an indirect impact on the continued peace process and regional atmospherics.

Pakistan and India have taken a significant step towards their common objective of restoring peace and prosperity by holding their sustained dialogue. The two countries have signalled their will to strengthen their contacts. They proposed to do so not by setting up formal institutional mechanisms but through a process of sustained discussion. With the commencement of the pipeline and energy dialogue Pakistan and India have begun to consider the bigger perspective, and in particular common interests, shared perceptions, and coordinated action on the regional and world stage. As the process of dialogue gathers momentum, they could begin to explore the vast potential that exists for cooperative endeavour in a variety of fields. Both face some formidable threats and challenges and require addressing them collectively on the basis of sincerity and flexibility.

While some hardliners perceive Pakistan and India as rivals competing for pre-eminence in the subcontinent, the leaders of the two countries appear determined to prove them wrong. The pace of bilateral visits has picked up. The economic relationship between the two countries needs to be transformed and strengthened, with the two-way trade exceeding $5 billion in 2006 when SAFTA comes into formal existence. There are indications that scope exists for two countries to cooperate in the development of

petroleum resources in Central and Western Asia and other parts of the globe. The record indicates that the composite dialogue approach the two countries have adopted in recent years is both viable and necessary.

Picking preferences & alternatives

Ultimately it is Pakistan and India that will have to make the more difficult, painful yet fruitful choices. It will be unrealistic if the policymakers fail to realise the great long-term trade and economic benefits coming along with the energy pipelines. The ideal and final way out should be a win-win situation for all and dropping the suspicions for the realisation of regional prosperity. South Asian partners are required to embark on a concerted 'pipeline diplomacy' to meet their growing energy demands. When Indian officials sit down with their counterparts in the coming days, the negotiations are expected to be long and tortuous, but if deals are struck it would be, most of all, to the advantage of India, whose energy demands, both in oil and gas, are expected to double by 2020.[(20)].

According to a report, a few months ago it would have been unthinkable for Bangladesh to strike any deal on either exporting gas to India or offering a transit pipeline for Burmese gas. Indian officials say with the proposed deal Bangladesh can get a hefty transit fee and eventually Dhaka may also decide to sell its gas. For its part, Dhaka is reportedly trying to extract additional concessions from its big neighbour — like a trade corridor to the landlocked Nepal and Bhutan.[(21)]

A new chapter in the geopolitics of South Asia was opened on 12 January 2005 when energy ministers from India, Bangladesh and Myanmar sat down together to consider the proposal for supplying Myanmar offshore gas to India via a pipeline traversing Bangladeshi territory. The meeting was unique and historic since this was the first such trilateral encounter where the three countries agreed in principle to the formation of a techno-economic working committee. [(22)]

India may be hard-pressed to satisfy its energy requirements, but on the other hand Indian oil companies are extending their reach — from Russia to Angola, and in the past few years India's public-sector oil companies — like the Oil and Natural Gas Commission, Videsh and Oil India — have made bids in oil exploration and production deals in Libya, Iran and Central Asia.[(23)] If South Asian countries don't get sufficient energy and fail to expand and diversify their regional cooperation, they won't be able to achieve the required percentage of economic growth. The South Asian countries need to prepare for the future challenges and should promote regional trade and energy cooperation because, in the coming years, economies would be determined region-wise and not country-wise. The need of the hour is to develop and institutionalise regional energy pipeline association that should be dedicated to ensuring a strong and viable transmission pipeline industry in the region in a manner that emphasises public safety and pipeline integrity, social and environmental stewardship, and cost competitiveness for the entire region.

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