

Energy key in the new Asian architecture

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IN THE energy business, more than in any other aspect of international economic activity, fortune favours the brave. While the Indian establishment spent five years agonising over whether it should go ahead with the construction of a natural gas pipeline from Iran to India via Pakistan, China took just 10 months to propose, construct, and operationalise a 1,000 kilometre oil pipeline from Atasu in Kazakhstan to Alashankou in Xinjiang. No sooner was that project completed a few months ago than China indicated its eagerness to lay a gas pipeline along the same route as well. “We completed the 4,500 km-long pipeline from Xinjiang to Shanghai in just two and a half years,” Chin Geng, president of the China National Petroleum Corporation (CNPC) told India’s Petroleum Minister, Mani Shankar Aiyar, and a group of top Indian executives in Beijing earlier this month. The Indian side was suitably impressed.

Though a recent convert to the cause of pipelines, India is seeking to compensate for its earlier lack of interest with an ambitious proposal for an Asian gas grid that would take these two connections — Iran-India and Kazakhstan-China — and extend them in a way that links Asia’s major energy producing and consuming regions to one another. “The energy-short countries of Asia are located cheek-by-jowl in the immediate vicinity of their energy-abundant Asian cousins,” Mr. Aiyar said in a speech on India and China’s joint quest for energy security. “Yet, if you compare a pipeline map of Europe with a pipeline map of Asia, Asia today looks almost naked.”

At the meeting in New Delhi in November of principal North and Central Asian energy producing and consuming countries, India unveiled an ambitious \$22.4 billion pan-Asian gas grid and oil security pipeline system. The grid has four principal elements. The first would extend the existing Baku-Tbilisi-Ceyhan pipeline system — originally conceived by the U.S. as a means of shipping Central Asian hydrocarbons westward — down to the Red Sea via Syria, Jordan, and Saudi Arabia, allowing Caspian crudes to be exported easily to the Indian Ocean littoral. Second is the famous Iran-Pakistan-India pipeline, with the possibility of two additional sourcing spurs, one from the Caspian-Turkmenistan region to Iran, the other from Turkmenistan via Afghanistan. The third element would be a pipeline system connecting eastern India to Myanmar and south-western China with one connection running from Sittwe on the Burmese Bay of Bengal coast to Mizoram, Manipur, and Assam into China, eventually connecting up to the West-East China gas pipeline near Shaanxi, the other from Yangon to Kunming. The fourth element would involve the laying of pipelines that would connect the Sakhalin deposits in Russia to Japan, China, and South Korea. (See map)

Pipelines aim to deliver gas, crude or products between discrete points but this does not mean they have to be a zero sum game. The underlying economic logic of a grid is that the capital costs can be more easily absorbed and amortised and energy supplies calibrated to

match demand variations in the consuming countries without too much effort. But there is a political logic as well. As Asian grid will create mutual dependencies, giving countries a stake in the political and economic stability of one another, and hasten the process of regional integration. If at all Asia is to make progress towards creating an Asian counterpart to the International Energy Agency (IEA) and develop a regional market for energy with its own price markers, the construction of physical infrastructure such as pipelines is essential.

Virtually all the Chinese energy officials and scholars this reporter interacted with on a recent visit to Beijing seemed convinced the route to greater Asian cohesiveness lies through cooperation in the energy sphere with India and other countries.

The Chinese strategic community is aware of the pressure being exerted on India by the United States to curtail its links with Iran and believes the U.S. policy towards Iran has the potential of upsetting the Asian applecart. "The U.S. is trying to coordinate with all countries around Iran in order to isolate it," says Liu Xuecheng, director of the Beijing Centre for American Studies and a senior fellow of the China Institute for International Studies. "India and China have good relations with the U.S. but must follow their own strategy on Iran. If India gives up on Iran in the hope of securing nuclear energy from the U.S., it may end up with nothing. You would lose your strategic pipeline and the U.S. might also abandon the nuclear deal at some point in the future. Pipelines from Iran and Central Asia are a strategic lifeline for Indian energy security."

"The nuclear deal offered by the U.S. makes sense from the Indian perspective," says Zhai Dequan, deputy secretary general of the China Arms Control and Disarmament Association, "but India should be on guard against American conditions." As an ancient civilisation, he adds, "India cannot be manipulated by anyone. It has its own way of doing things." Dr Liu agreed that if India could make a deal with the U.S. on nuclear energy, this would not be a bad outcome. "It could get something it needs. But this should not be at the cost of pipelines."

Chinese scholars see the emerging U.S. policy towards Asia as motivated, in part, by the emergence of the Shanghai Cooperation Organisation as a framework for all-round cooperation — from anti-terrorism, to economic interaction, including energy. "With India, Iran and Pakistan joining the SCO as observers, I think the U.S. already sees that happening and they don't want this grouping to emerge in a big way because it will pose a strategic challenge to the U.S. in this region," says Dr. Liu. The U.S., he says, appears to be basing its regional strategy for the moment on the creation of a four-country alliance linking itself, India, Japan, and Australia "based on cold war logic."

According to Dr. Liu, Washington has four priority areas in Asia for making new political inroads — Mongolia, Afghanistan, Nepal, and Sri Lanka — and three "targets", i.e. Iran, Syria, and North Korea. "If I am right in my analysis, then it would seem to me that the U.S. needs India to work with it to accomplish its goals." India, on the other hand, is also crucial to any strengthening of the cooperative process in Asia, particularly at the "mid-level" where institutions like the SCO in "Northeast Asia" and the East Asian Summit in "Southeast Asia" have emerged. "China and India are in both so we bear great responsibilities to promote both processes."

Though they do not explicitly say so, the Chinese appear unsure of the degree of Indian commitment to the SCO. Given the Bush administration's apprehensions about the grouping and the new direction in Indo-U.S. strategic relations, they believe India would not want to

send the wrong signals to Washington by embracing the organisation too enthusiastically. Partly due to this uncertainty, China is not contemplating a formal “upgrade” of status for any of the three SCO observers any time soon on the plea that the “rules” for expansion of membership have yet to be adopted.

As far as the larger regional oil and gas question is concerned, the question assumes importance because of Beijing’s apparent preference for the SCO as the vehicle through which Asian energy cooperation should eventually be pursued. But even here, the emphasis is on the bilateral to begin with. “It is my opinion,” says Dr. Zheng Ruixiang, a specialist on South Asia at the CIIS, “that first you have the bilateral, then trilateral and finally multilateral.” In other words, whatever shape the Asian energy architecture takes in the long run, a strong partnership between India and China would have to lie at its foundation. A partnership based on each country acting on the basis of its own enlightened self-interest and not the diktats or blandishments of outside powers.

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