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India's Quest for Energy in Central Asia

Modi has an opportunity to make inroads into the energy-rich region, but will need some clever diplomacy.

By Richard Wallace
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The domestic political scene in India has been electrified with the arrival of the “Modi-wave,” which swept the reformist former chief minister of Gujarat, Narendra Modi of the Hindu nationalist Bharatiya Janata Party (BJP) to power as the prime minister of the world’s largest democracy. As yet, much remains to be known about the direction in which Modi will steer India in on the international stage, and his foreign policy posture towards Central Asia remains particularly undefined.

Under the previous Congress-led government there were few successful attempts to engage in the geopolitical arena of Central Asia. However, the young BJP government now has the opportunity to assert India’s influence in Central Asia and secure greater access to the region’s abundant natural resources. This would mean re-invigorating a diplomatic activism with the CARs, Pakistan and Afghanistan, which never quite got off the ground under the last government.

India is the world’s fourth largest energy consumer, with its energy demand perpetually rising in parallel with national power shortages and an insufficiently developed energy infrastructure. There has been a recognition in New Delhi’s diplomatic circles of the need for greater energy

diversification and Central Asia, with its abundant oil, gas, and uranium reserves as well as hydroelectric potential, is key to reducing its energy dependency on the Middle East.

India has made some important strides in the right direction recently. They can be encapsulated in its “Connect Central Asia” policy, launched in 2012 with a focus on promoting cooperation in education, medicine, IT and, crucially, energy. Prior to this in 2006, India announced the provision of a \$17 million grant to assist in the development of the recently inaugurated *Varzob 1* hydropower station, in the hope of tapping into Tajikistan’s hydroelectric potential.

Yet India’s energy footprint is barely visible in the region. India’s trade with its CAR neighbors stands at a paltry \$500-760 million. Its flagship investment in Kazakhstan’s Caspian Satpayev field (a 25 percent stake controlled by India’s Oil and Natural Gas Corporation), whilst in some ways a geopolitical success in showcasing a growing presence in the region, will yield limited dividends and is estimated to hold only 3 percent of Kazakhstan’s known reserves.

In contrast, India’s regional rivals China and Russia possess vast economic resources and more efficient state machinery that they can galvanize to project their economic power and access the region’s energy market. Beijing’s capacity to rapidly mobilize resources in developing communication, transport and pipeline infrastructure in Central Asia is unrivalled in scope, scale and speed. It is often said that whereas India spends millions, China spends billions.

Notably, India was outmaneuvered by China during its attempt to secure an 8.4 percent stake in Kazakhstan’s giant offshore Kashagan oil field, coming back empty handed in what was a huge blow to national prestige and India’s vision of establishing a foothold in the region.

Russia has deep connections with the five republics forged through years of bilateral interaction, whilst its energy giant Gazprom jealously guards its control of much of Central Asia’s pipeline architecture, putting India at a strategic disadvantage.

All of this reveals a yawning gulf between India’s regional aspirations and the local realities.

Caspian Pipedreams

India’s quest for access to Central Asia’s energy supplies is also fraught with logistical complexities. Two options have been touted at various stages in the last decade.

The first is the construction of an ambitious pipeline (called TAPI) connecting the Caspian gas fields in Turkmenistan to Afghanistan, Pakistan and finally India. However, there are clear barriers to the fulfillment of this project, including India’s turbulent relationship with Pakistan, with both countries restricting transit across their border. Then there is the ongoing instability in Afghanistan, which may well worsen following the NATO military pullout later this year, something that would rule out a transit route through its territory.

A second proposed scheme was to install a pipeline from the gas fields in Baluchistan, Iran through Pakistan and on into India, though this still fails to address the dilemma with Pakistan.

Iran has also been hit by heavy sanctions from the United States, which would strongly object to the project as long as the nuclear dispute between Iran and the West remains ongoing.

India therefore faces a predicament: How can it accomplish successful oil and gas diplomacy in the face of strong competition for energy resources from the two powerhouses of Russia and China, transportation bottlenecks, and the absence of a direct border with any of the CARs?

A New Modi-Operandi?

The key may lie in a possible breakthrough in diplomatic relations with Pakistan. Though newly elected Modi has remarked that he will not tolerate belligerence from Pakistan, hinting at perhaps a hawkish tone in foreign policy, he may be compelled to respond to the ongoing demands of the business community in the border states of Punjab, Rajasthan and Gujarat, which are thirsting at the prospect of a fluid cross-border trade with Pakistan.

It is well-established that Modi aims to foster a friendlier investor climate in India, rolling out his free-market “Gujarat model” on a national scale and pursuing a commercially driven foreign policy. With the election of the equally business-minded Nawaz Sharif to power in Pakistan late last year, the ingredients for advanced co-operation may now exist. Sharif has recently expressed his desire for a détente and in an important gesture of goodwill, attended Modi’s swearing in ceremony. For there to be a rapprochement, Sharif will need to convince the powerful military to become a stakeholder in peace and progress, whilst Modi will need to moderate his nationalist, populist rhetoric so as not to antagonize Pakistan.

India can also play a more constructive role in Afghanistan, the second missing piece in the puzzle of India’s energy diversification dilemma, which could host a pipeline and land route linking India and Pakistan to the Central Asian energy market.

Russia, a key benefactor in Central Asia, and India can develop a complementary rather than a competitive relationship in the region through enhanced security co-operation to stabilize Afghanistan after the NATO pullout. Already India provides security personnel for relief and construction work; going forward, both countries could share the burden of development and humanitarian assistance, spreading the financial risk of such ventures and increasing the volume of aid. They could also consider jointly investing in the region’s underdeveloped infrastructure and promote increased growth in trade across the Tajik-Afghan border. India has already been involved in the building of hydropower dams on Afghan rivers, and has emerged as one of the largest regional donors to the country. This co-operation could amplify its soft power further in the region, building on existing positive Afghan perceptions of its involvement, projecting its influence, and ultimately facilitating access to energy resources in the region.

The omens are promising and it is in such rare windows of opportunity that India can make inroads into Central Asia. However, so long as there is no real progress in advancing intensive cooperation with Pakistan or an improvement in the security situation in Afghanistan, Central Asia will remain an elusive backyard: near but just beyond reach and positioned firmly in the orbit of its powerful neighbors, Russia and China.