

## **CHALLENGES FOR CROSS BORDER GAS PROJECTS IN SOUTH ASIA: GEOPOLITICAL ISSUES**

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### **Abstract**

Cross border gas trade has been a challenge for the South Asian countries in recent years. This paper observes that for developing a mature gas market in the region and also for the long-term economic development, the region needs an energy cooperation based on a regional gas grid. However, the geopolitical issues have been the main challenges for cross border gas trade in the region. This study observes that in order to address the geopolitical challenges of cross border gas projects in the region, a SAARC-based regional energy cooperation is a viable option. This paper has shown that natural gas can play an important geopolitical role in South Asia. It argues why the South Asian countries should join the Energy Charter Treaty (ECT).

### **1.1. Introduction**

In an age of global interdependence, state behaviour is primarily characterised by its economic affairs. It represents a departure from the dominant neo-realist approach which focused on military capabilities.<sup>1</sup> While the growing importance of trade in foreign policy is a product of an era of interdependence, sensitivity and vulnerability to external shocks, such as oil crises, constantly challenges national policies. The linkage between energy and security thus becomes critical and reveals new constraints and dilemmas that states' have to constantly grapple with.<sup>2</sup> With the worldwide growth in natural gas demand and the depletion of resources in some domestic markets, the gas sector is now undergoing radical change. After years of being utilised in mainly domestic markets, natural gas resources in isolated locations are now being taken across national borders to foreign markets.<sup>3</sup> Cross border gas trade has been a challenge for the South Asian countries in recent years.

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<sup>1</sup> Conference Report, IDSA-PRIO International Conference on The Geopolitics of Energy Security: The Rise of Asia, 15-16 December 2006, New Delhi, India.

<sup>2</sup> Ibid.

<sup>3</sup> Resources Law International, *Great Expectations: Cross-Border Natural Gas Trade in APEC Economies*, APEC Energy Working Group November, APEC Secretariat, Singapore: 2004; see also: H. Dupin, *Globalization of the Gas Market: From a Regional to a Global LNG Market*, 19th World Energy Congress, Sydney, Australia, 2004.

Politically, South Asia is a volatile region. The two neighbouring countries India and Pakistan fought two wars in 1965 and 1971<sup>4</sup> and a mini-war in Kargil in 1999, while Bangladesh fought liberation war against Pakistan in 1971.<sup>5</sup> It is mentioned in the preceding part of the study that in the two major gas markets in South Asia - India and Pakistan- the currently known domestic gas reserves would be insufficient to support the growth potential and the forecast is that the gas markets in these two countries will depend on the imported gas.<sup>6</sup> India needs to import gas from its west (Iran, Turkmenistan, Qatar and Oman) through Pakistan<sup>7</sup> and from its east -Bangladesh and Myanmar. Even if it imports gas from Myanmar, it will have to bring pipelines through Bangladesh. On the other hand, the size of Bangladesh's gas reserves is still uncertain.<sup>8</sup> In the given situation, for developing a mature gas market in the region and for the long term economic development, the region needs an energy cooperation based on a regional gas grid. However, the geopolitical issues have been the main challenges for cross border gas trade in the region. Past legacy of mistrust and suspicion which has so far impeded the process of regional cooperation has proved to be costly to all the countries of the region.<sup>9</sup> It is imperative that the earlier negative mindset is substituted by one of trust and confidence which alone can lead to fruitful cooperation.

It is to be noted that gas pipeline and LNG projects are alternative delivery channels for cross-border trade. Either one or the other is more suited to a particular application. In some projects, both pipelines and LNG

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<sup>4</sup> A. Kapur, *The Indian Subcontinent: The Contemporary Structure of Power and the Development of Power Relations*, Asian Survey, Vol. 28, No. 7. (Jul., 1988), pp. 693-710

<sup>5</sup> G. W. Choudhury, *Bangladesh: Why It Happened*, International Affairs (Royal Institute of International Affairs), Vol. 48, No. 2. (April, 1972), pp. 242-249

<sup>6</sup> See: C. Linde and J. Stern, *The Future of Gas: Will Reality Meet Expectation?*, 9th International Energy Forum 2004 22-24 May, Amsterdam, the Netherlands

<sup>7</sup> Also through Afghanistan in the case of pipeline from Turkmenistan. See: Appendix 1:4 and 1:5

<sup>8</sup> GOB, *National Committee Report on Gas Demand projections and Determination of Recoverable Reserve & Gas Resource Potential in Bangladesh*.

<sup>9</sup> I. H. Bokhari, *South Asian Regional Cooperation: Progress, Problems, Potential, and Prospects*, Asian Survey, Vol. 25, No. 4, SARC: Four Views and a Comparative Perspective. April 1985, pp. 371-390

are required.<sup>10</sup> Geopolitical issues pose challenges for the pipeline projects; LNG projects are not subject to such challenges. The purpose of this paper is to analyse how the geopolitical issues impede the prospects of the cross border gas pipeline projects in the Indian subcontinent and to recommend how these three countries can address these issues.

## 1.2. Geopolitics: Definition

Geopolitics - the study of the influence of geographical factors on political action, has existed ever since human beings first engaged in politics.<sup>11</sup> Napoleon said that "the politics of a state is in its geography," thinking that he was merely stating an age-old truth. The Monroe Doctrine has been described as "geopolitics," because it was based on the fact that America is a continent separated from the others by vast oceans.<sup>12</sup>

Geopolitics is not an immanently meaningful term but a historically ambiguous and unstable concept. Originally coined in Swedish by Rudolf Kjellen in an article on the boundaries of Sweden in 1899, the word *geopolitik* was first introduced into German in a review of Kjellen's work in 1903 and subsequently by Kjellen himself in 1905.<sup>13</sup> Popularised most famously by Karl Haushofer, who discovered Kjellen's work during World War I, the term established itself in interwar Germany and took on a set of meanings distinct from its use as a category in Kjellen.<sup>14</sup> This is how the German school of "Geopolitik" was developed which provided a useful intellectual foundation for

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<sup>10</sup> An example is the Sakhalin 2 project presently being developed on Russia's Pacific coast. After being brought onshore, gas is piped 800 km to a liquefaction plant in the south before being transported by ship as LNG. See: Resources Law International, *Great Expectations: Cross-Border Natural Gas Trade in APEC Economies*, APEC Energy Working Group November, APEC Secretariat, Singapore: 2004

<sup>11</sup> J. Gottmann, the Background of Geopolitics, *Military Affairs*, Vol. 6, No. 4, Winter, 1942, pp. 197-206; see also: L. K. D. Kristof, The Origins and Evolution of Geopolitics, *The Journal of Conflict Resolution*, Vol. 4, No. 1, The Geography of Conflict. (Mar., 1960), pp. 15-51

<sup>12</sup> Ibid; see also: W. J. Cahnman, Concepts of Geopolitics, *American Sociological Review*, Vol. 8, No. 1. (Feb., 1943), pp. 55-59

<sup>13</sup> G. Ó. Tuathail and G. Toal, Problematizing Geopolitics: Survey, Statesmanship and Strategy, *Transactions of the Institute of British Geographers*, New Series, Vol. 19, No. 3. (1994), pp. 259-272

<sup>14</sup> Ibid; see also: L. K. D. Kristof, The Origins and Evolution of Geopolitics, *The Journal of Conflict Resolution*, Vol. 4, No. 1, The Geography of Conflict. (Mar., 1960), pp. 15-51