

TO BE EMBAROGED UNTIL DELIVERY.
CHECK AGAINST DELIVERY.

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Distinguished Guests
Ladies and Gentlemen

INTRODUCTION

1 Let me extend a warm welcome to all participants of this conference. I commend ISAS for organising this timely event which brings together local and international scholars to discuss a most important topic. Energy and geopolitics are closely intertwined. The quest for energy security has emerged as a key objective in many countries' foreign policies. Oil and natural gas, the main fuel for our manufacturing plants, power generators and transportation networks, are finite resources. How we deal with energy security will have implications for how nations address other scarce resources like land and water.

THE GEOPOLITICAL CONTEXT

2 Following the end of the Second World War, the rise of Japan and other East Asian economies had ushered in a period of stability and security in the region. The US has played a critical role in maintaining the geopolitical balance of power in Asia, and kept in check potential flashpoints in the Taiwan Straits, the Korean peninsula and South Asia. The US' presence in the Asia Pacific region and its transfer of capital and technology to East Asia and Southeast Asia have also fuelled the region's growth. American naval superiority has provided for the security of sea lanes from the Arabian Sea to the Straits of Malacca, through which much of oil exports and the world's trade passes.

3 The re-emergence of China and India has shifted the economic centre of gravity to Asia. China's economic transformation has been spectacular. Since it started its reforms in 1978, China has posted an average annual GDP growth of 9.4%. Its economy is projected to continue growing strongly. China's emergence as a global power has been viewed with concern in some quarters. China, on its part, has been trying to portray a positive image of its rise. With ASEAN, China is pursuing a FTA as well as playing a constructive role in the emerging regional architecture. China has also raised its profile in South Asia through its participation as an observer in the South Asian Association for Regional Cooperation (SAARC) and through greater economic and cultural linkages.

4 The trends in China's external relations with South Asia, in particular India, also bode well for the stability of South Asia and beyond. China's ties with India have improved significantly, anchored by their rapidly expanding trade. Although both countries fought a war in 1962 and the unresolved boundary dispute remains an irritant in bilateral ties, both have pursued economic development and stable relations. Last year, China-India trade hit US\$25 billion from just US\$339 million in 1992. Their bilateral cooperation also extends to the energy sector. In 2006, India and China announced plans to explore cooperation in the hydrocarbon sector, as well as energy efficiency and conservation programmes. China and India have made joint bids for energy assets in countries such as Syria and Columbia. In December 2005, the China National Petroleum Corporation and India's state-owned Oil and Natural Gas Corporation (ONGC) jointly acquired 37% of Petro-Canada's stake in Syrian oilfields. The ONGC has also entered into a joint venture with China National Petroleum Company in Sudan, while ONGC Videsh Ltd (a subsidiary of ONGC) is working with China in an Iranian gas field.

5 India has come a long way since its 1991 economic reforms. Its average GDP growth has been around 6% since its reforms began. Last year, the Indian economy grew by 9.4%, a rate that is expected to be sustainable for the next few years. India has stepped up its engagement with the vibrant economies of East Asia through its "Look East" policy". India's strategic engagement of Southeast Asia will be anchored with an ASEAN-India FTA, although there is still some way to go before negotiations are concluded. Still, India's trade with ASEAN has increased five-fold in the past ten years and the FTA will surely lead to a significant expansion of economic linkages. The successful conclusion of the US-India civilian nuclear deal will help realise India's aspirations to be a major player in the region and shape the US' budding strategic partnership with India.

6 Led by India, South Asia has posted strong economic growth in the last few years. Since 2003, the region has grown at an average of more than 7.5% a year. There is much at stake for South Asia which has been the scene of much conflict in past decades. The US-India civilian nuclear deal will promote the peaceful use of nuclear energy in India. It is unlikely to negatively affect the the positive momentum in the India-Pakistan peace process. India and Pakistan appear to have kept up their dialogue and remain committed to working out a constructive relationship and continue exploring options for a peaceful negotiated settlement of the Kashmir issue. Despite their internal preoccupations, Bangladesh, Nepal and Sri Lanka want to be part of the South Asian growth story. Collectively, as members of SAARC, the South Asian countries have taken steps to establish a South Asian Free Trade

Area. With the outlook for peace improving, I am confident that South Asia will become the next region of growth in Asia if the current climate of stability is maintained.

ENERGY TRENDS IN SOUTH ASIA

7 The strong performance of the Chinese and South Asian economies, and South Asia's demographic explosion has resulted in a rapid increase in energy consumption and demand for oil, natural gas and other raw materials. The region's large and rapidly growing population constitutes more than one-fifth of the world's total population. A rapidly growing middle class segment is also contributing to higher energy consumption as their buying power extends to private motor vehicles, airconditioners and other household appliances. Growing personal incomes are also fuelling a boom in air travel. Energy consumption will increase to the point where, in 2020, the developing world may be close to overtaking developed countries. Between 1993 and 2003, energy consumption in South Asia grew by about 50%.¹ India alone accounts for nearly 4% of global consumption and ranks as the fifth largest energy consumer in the world. China currently lies in second place, after the US.

Rising Energy Demand

8 Between 1970 and 1994, Asia's energy demand grew 400%, with the demand for oil rising by 274%. In contrast, global demand grew a mere 63% over the same period.² Industry sources project that global energy demand will increase by half over the next two decades. About half of that increase is expected to come from developing countries in Asia.

9 According to the International Energy Agency, China is expected to account for 12% of global oil demand by the year 2030. South Asia, and in particular India, will add very significantly to the demand. Natural gas and oil from South Asia's domestic sources fall far short of demand, and imports are increasing dramatically. India's demand for oil is expected to triple in the next twenty five years.³ The International Energy Agency projects that India will account for nearly 6% of oil demand by 2030 and that India's dependence on oil imports will rise to 94% by then. In comparison, China will rely on imports for 45% of its oil use by 2010.⁴ Even by gaining access to nuclear fuel supplies under the India-US civilian nuclear deal, it will take at least 20 years before nuclear energy becomes commercially viable in India. Even by the middle of this century, the share of nuclear power in India's overall energy production is set to increase to just around 25%.

¹ Source: Energy Information Administration, US Department of Energy.

² Source: "Geopolitics of Oil" by Talmiz Ahmad, November 2005.

³ Source: "The Great New Game" by Talmiz Ahmad, Hardnews, June 2007.

10 Notwithstanding the growing demand for energy in the region, South Asia ranks among the lowest in the world in terms of per capita energy consumption and overall electrification rates. Most South Asian countries are still grappling with energy shortfalls and outages, primarily because their infrastructure has not kept pace with rapid economic expansion and rising incomes. Improving the supply and distribution of energy, especially electricity, will be important for these countries' efforts at sustaining the pace of development and meeting the aspirations of its populace. Like in Southeast Asia but unlike the developed world, there is no regional energy grid in South Asia. With high oil prices, the push for alternative sources of energy, including nuclear energy, will gain momentum. However, traditional sources of energy, namely, fossil fuels, will not lose their importance in South Asia.

GLOBAL CLIMATE CHANGE

11 One implication of rising energy demand is its impact on the region's carbon footprint and global climate change. As of 2003, South Asia accounted for about 5% of global carbon emissions. With the demand for coal in South Asia growing, a significant increase in carbon emissions can be expected. The Asian economies will be among the world's largest emitters of greenhouse gases over the next 50 years. The impact of global warming is evident in the extreme weather conditions, natural disasters such as floods and droughts, rising sea levels, retreating glaciers and the spread of life-threatening diseases we are witnessing. In a densely populated region like South Asia where many communities live near coastlines and rivers and engage in agricultural activities, the region will be even more vulnerable to changes in ecosystems that could affect food production and the submergence of low-lying areas.

ENERGY CORRIDORS – OLD AND NEW

12 The boom in demand for energy coupled with the dependency of China and South Asia on energy imports will lead to a deepening sense of energy insecurity in the region. If the region responds to this largely in a nationalistic way, then the outlook could be negative. It is not surprising that energy security has emerged as an important component in foreign policy or that the energy-rich countries of the Middle East, sub-Saharan Africa and Central Asia are being courted by the major powers. South Asia is highly dependent on oil and gas

⁴ Source: Energy Information Administration, US Department of Energy.

from the Gulf states which possess 70% of the world's oil reserves. The Middle East, which currently supplies about half of China's oil imports, is set to supply 80% of China's oil by 2010.⁵ Saudi Arabia contributes to two-thirds of India's total energy needs. Given the importance of this relationship, India announced it was entering into a "strategic energy partnership" with Saudi Arabia last year.

13 Following a pattern set by the US, China and South Asia have also embarked on a diversification strategy and are turning to less traditional energy suppliers in Central Asia and sub-Saharan Africa. Together with the Middle East, the bulk of natural gas reserves is found in Russia and Central Asia. Not surprisingly, Central Asia, in particular, Kazakhstan and Russia are emerging as alternative energy sources for India. It is a region India has engaged through active diplomacy and its participation in the Shanghai Cooperation Organisation. Besides Kazakhstan, Indian companies are also engaged in gas exploration activities in Uzbekistan. That India established a military base in Tajikistan, its first in a foreign country, reflects the strategic importance of the region to India. In January and November 2005, India organised ministerial meetings bringing together China, Japan, South Korea and India, Asia's largest energy consumers, in dialogue with the main oil-producing countries in Central Asia and Southeast Asia.

14 Sub-Saharan Africa, which accounts for a tenth of world production and possesses about 8% of global oil reserves, has also emerged as an important oil supplier. Sub-Saharan Africa is fast becoming an important supplier for India, accounting for about a quarter of India's total energy imports. To enhance its influence in the continent, India has stepped up its engagement of Africa by announcing new initiatives including a summit with Africa, writing off of debts and extension of credit. Later this year, India plans to hold an international conference on "Africa-India for Oil and Gas".

Pipeline Politics

15 The growing dependence on external sources of energy renders South Asia vulnerable to militant and terrorist attacks. Most of the region's states - Afghanistan, India, Nepal, Pakistan and Sri Lanka - face security threats from domestic groups which could disrupt energy supply lines. I am confident that this common threat could prompt greater cooperation in the region in the area of energy. India's smaller neighbors are potential suppliers or conduits of energy through a web of transnational pipelines that could produce a common interest in cooperation but could also become targets for militants. These pipelines

⁵ Source: "Geopolitics of Oil" by Talmiz Ahmad, November 2005.

are envisaged to run from India westward to Iran, northwest to the Central Asian Republics and east to Myanmar. The realisation and success of the pipelines will be determined by the region's geopolitical considerations and domestic politics.

16 South Asia could emerge as an important energy corridor if the proposed Iran-Pakistan-India, Turkmenistan-Afghanistan-Pakistan-India (TAPI) and Myanmar-Bangladesh-India pipelines are built. The US\$3.5 billion TAPI pipeline, which is backed by the US and the Asian Development Bank, is expected to be approved later this month. Even though these pipelines are set to terminate in India, there is no reason why they cannot be extended in future to benefit other countries, including China. If the challenges of distance and terrain can be surmounted, such pipelines have the potential to lock the participating countries in a web of economic dependency that could bolster regional cooperation and understanding. Pakistan's strategically-located Gwadar port has the potential to become an important node in the energy corridor connecting the Middle East, Central Asia and South Asia.

17 These transnational pipelines have the potential to transform the geopolitical equation in Central Asia and South Asia. The US' staunch support for the TAPI can be attributed to its desire to uplift Afghanistan from decades of conflict through the increased economic activity the pipeline will bring. The pipelines also have the potential to invest the countries concerned with such a stake in them that the political and economic costs of a conflict breaking out could be unacceptably high. A stable South Asia is vital for enabling the region's economy to take off.

IMPLICATIONS OF GROWING ENERGY DEMAND

Regional Stability

18 Competition for energy resources could become a source of future conflict but it is not an inevitable outcome. There are positive signs of a regional approach emerging. The South Asian Association for Regional Cooperation (SAARC) has included new members from Central Asia. There are sound geopolitical reasons for South Asia to link up with Central Asia, a region that is rich in energy resources. The Shanghai Cooperation Organisation is another, where Pakistan and India are observers. If transnational cooperation materialises with concrete projects, South Asia will be in a good position.

19 The possibility of terrorist attacks on major shipping lanes and piracy attacks has also become a major security concern. Of particular vulnerability to Asia are the Straits of

Hormuz and the Indian Ocean. The Straits of Malacca is a vital sea lane for energy transportation, with nearly 60% of world oil exports passing through it to China, Korea and Japan. 80% of China's oil imports pass through the Straits of Malacca, along with 30% of world trade. The US has played a major role in protecting these maritime supply lines. In recent years, China and India have built up their naval capabilities substantially. It is reasonable to believe that one objective of this projection of naval power is to ensure the security of sea lanes vital to each country's economic interests. The growing attention being paid to maritime security can be seen in the growing number of coordinated patrols and joint naval exercises being held amongst countries in the region. Maritime security provides a platform for the region's stakeholders to cooperate together to promote a stable and secure external environment.

Regional Cooperation

20 Ensuring a supply of clean, reliable and sustainable sources of energy is a responsibility for all governments. Few countries can claim to be entirely self-sufficient in energy, or to be able to fully address the challenges on their own. The same applies in South Asia, as it does in Southeast Asia. More often than not, bilateral cooperation with one's neighbours, or regional cooperation in a larger context, will be useful. In our region, we value the importance of regional cooperation to enhance our respective energy security. This is best illustrated by the proliferation of regional fora where energy security is discussed and plurilateral cooperation is encouraged. For example, we have the ASEAN Ministers for Energy Meeting and the ASEAN+6. More recently, the Leaders of the East Asia Summit (EAS) proposed the formation of the EAS Energy Cooperation Task Force to promote greater regional energy cooperation. APEC is another very important forum where energy issues are given prominence.

21 As with anywhere else in the world, no country in South Asia can adequately address such issues on its own. More often than not, coordinated regional strategies are needed. For South Asia, there are regional platforms for South Asian nations to interact with one another on energy issues. These include SAARC and the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation, better known as BIMSTEC. A concrete example of ongoing cooperation is the SAARC Energy Centre. The centre was established in Pakistan in 2005 to strengthen the region's capability to address energy issues by enhancing coordination in strategies among the SAARC members. The USAID-sponsored South Asia Regional Initiative for Energy Cooperation and Development (SARI-E) is yet another example. Launched in 2000 to build energy linkages between South Asian states, it

aims to build up institutional capacity within national governments for sustainable energy development, promote private-sector support and strengthen regional energy fora.

22 An open, competitive and inter-connected market for energy trade and investment can strengthen energy security in the longer term. For this reason, a key focus of the EAS Energy Cooperation Task Force is to promote regional energy market integration. The countries of South Asia appear to share this view. There has been considerable progress on cross-border infrastructure projects such as the MOU signed between India and Nepal for transmission lines, and the agreement between Sri Lanka and India for an interconnecting submarine electricity cable. Bhutan has also been exporting hydroelectric power to India for some time now, which has become a major source of revenue for the country.

23 There is also considerable scope for South Asian nations to cooperate with countries outside their region on energy matters. India is a member of the EAS and participates actively in the EAS Energy Cooperation Task Force. India, Bangladesh, Bhutan, Pakistan and Sri Lanka are members of the Asia Cooperation Dialogue, where energy security is regularly discussed. Bilateral and plurilateral cooperation on energy matters with countries outside South Asia is ongoing. Examples include ongoing negotiations among Kyrgyzstan, Tajikistan, Afghanistan and Pakistan on a South and Central Asian electricity corridor, the joint bid by China National Petroleum Corp and India's Oil and Natural Gas Corp (ONGC) in December 2005 to acquire 37% of Petro-Canada's stake in Syrian oilfields, and the proposed trans-regional power transmission network among BIMSTEC members. All these show that the quest for energy security is not a zero-sum game, but that there is room for cooperation, even among the large energy users.

Ladies and Gentlemen

Conclusion

24 There is no doubt that energy security and global climate change are becoming important concerns for all countries. Both have long-term implications for growth and stability. To address global warming effectively, the key countries of Asia must support climate change initiatives for them to succeed and believe that it is in their interests to do so. As long as nations recognise that their search for energy security is placed within the larger regional context, I remain hopeful that cooperation will prevail. Thank you.

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