

POWERING SOUTH ASIAN INTEGRATION

Relevant for: International Relations | Topic: SAARC

On December 18, the Union Ministry of Power issued a seemingly anodyne memo that set the rules for the flow of electricity across South Asian borders. Evaluated against the turbulent politics around the issue, the new guidelines are a startling departure from India's previous stance. In an atmosphere of regional intrigue and mistrust, it is a rare and recent example of political pragmatism. It is important not only because it leads South Asian electricity trade in progressive directions but is also a concession to India's neighbours in an area of political and economic importance.

The revision is a response to two years of intense backroom pressure from neighbours, particularly Bhutan and Nepal, to drop trade barriers put up in 2016. The new guidelines meet most of their demands, that were timed to coincide with the recent visit of Bhutan's new Prime Minister. India has thus signalled that it is serious about working with neighbours on the issues that should undergird 21st century South Asian regionalism, such as electricity trade.

This course correction is a return to a trajectory of incremental, hard-earned progress developed over the decades. Ideas of tying South Asian Association for Regional Cooperation (SAARC) countries together with cross-border energy flows — that punctuated the early 2000s — began to gain steam with substantial power trade agreements between India and Bhutan (2006) and Bangladesh (2010). These were driven by India's need for affordable power to fuel quickened growth in a recently liberalised economy.

The apotheosis came in 2014 with the signing of the SAARC Framework Agreement for Energy Cooperation and the India-Nepal Power Trade Agreement in quick succession. The new government in New Delhi was keen on regional cooperation, and these agreements imposed few restrictions on trade. Instead, they laid the contours of an institutional structure that would allow private sector participation and facilitate market rationality in electricity commerce. At the Fifth SAARC Energy Ministers' meeting that year, Power Minister Piyush Goyal said he dreamt of 'a seamless SAARC power grid within the next few years' and offshore wind projects 'set up in Sri Lanka's coastal borders to power Pakistan or Nepal'. Yet, two years later, the Union Ministry of Power released guidelines that imposed a slew of major restrictions on who could engage in cross-border electricity trade.

There was a strong undercurrent of defensiveness in the guidelines of 2016. They seemed to be a reaction to perceptions of increased Chinese investment and influence in the energy sectors of South Asian neighbours.

The guidelines prevented anyone other than Indian generators in the neighbouring country, or generators owned by that country's government, from selling power to India. Excluded were scores of privately held companies, particularly in Nepal, that had hoped to trade with India. In restricting access to the vast Indian market, the economic rationale for Nepali hydropower built for export was lost. Bhutan was worried about a clause that required the exporting generation companies to be majority owned by an Indian entity. This created friction in joint ventures between India and Bhutan. Bhutan also fretted about limited access to India's main electricity spot markets, where it would have been well placed to profit from evening peaks in demand. Bangladesh had sensed an opportunity to partially address its power crisis with imports from Bhutan and Nepal routed through Indian territory but the guidelines complicated this by giving India disproportionate control over such trade.

After two years of protests from neighbours, the new guidelines resolve all these issues and restore the governance of electricity trade to a less restrictive tone. Earlier concerns that India was enabling the incursion of foreign influence into neighbouring power sectors seem to have been replaced by an understanding that India's buyer's monopoly in the region actually give it ultimate leverage. More broadly, India seems to have acknowledged that the sinews of economic interdependency created by such arrangements have the political benefit of positioning India as a stable development partner rather than one inclined to defensive realpolitik.

A liberal trading regime is in India's national interest. As India transitions to a power grid dominated by renewables, regional trade could prove useful in maintaining grid stability. Major commitments to renewables, which could amount to half of India's installed power within a decade, have prompted justifiable concerns about stabilising the grid when the sun goes down or in seasons when renewables are less potent. Harnessing a wider pool of generation sources, particularly hydropower from the Himalayas that ramps up instantly as India turns on its lights and appliances after sunset, could be an important instrument in achieving a greener grid. Nepal and Bhutan have long recognised that their prosperity is tied to the sustainable use of vast hydropower reserves.

The new guidelines are a tentative first step towards the creation of a true regional market in which generators across the subcontinent compete to deliver low-cost, green energy to consumers. Since this would soften the hard borders of South Asia, it is essentially a political vision. The new guidelines are a significant step in this direction because, for the first time, they allow tripartite trading arrangements, where power generated in a country is routed over the territory of a neighbour to be consumed in a third. This is a crucial move towards the evolution of complex, multi-country market arrangements. Such markets require the construction of regional institutions that absorb the politics and manage the technicalities of electricity trade.

At present, this function is managed by the Indian state because of its geographic centrality and the ready availability of institutions that manage its domestic power sector. As volumes increase and experience in regional trade grows, South Asian nations might feel the need to build joint, independent regional institutions that proffer clear and stable rules of the road. The political vision to create this — felt in the new guidelines — must be maintained.

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