The surge of geopolitics in South Asia's power trade

India's new trade rules are political and an irritant; instead, New Delhi should be planning a stable institutional model

ADITYA VALIATHAN PILLAI

India has released new rules governing the trade of electricity across its borders (https://bit.ly/3lG5oIb). They define the contours of the South Asian electricity market, placing clear limits on who can buy from and sell into India. This has ramifications for the electricity markets of Bangladesh, Bhutan, and Nepal, which, to varying degrees, have aligned their energy futures with the Indian market. The new rules show that India's approach is unmistakeably political. It attempts to balance China's growing influence in the region with developmental aims, both its own and the region's.

Rules on ownership

Of central importance is the ownership of power plants wishing to sell to India. In masterful legalese, the rules strongly discourage the participation of plants owned by a company situated in "a third country with whom India shares a land border" and "does not have a bilateral agreement on power sector cooperation with India". Chinese companies hoping to establish plants in Nepal, Bhutan, or Bangladesh will presumably have a hard time making good on their investments with the Indian market cut off. The rules place the same security restrictions on tripartite trade, say from Bhutan to Bangladesh through Indian territory. To make things even more airtight, the rules establish elaborate surveillance procedures to detect changes in the ownership patterns of entities trading with India.

With this, it seems South Asia's electricity politics has hit a holding pattern after several years of unpredictability. In the months after the Narendra Modi government came to power in 2014, India used the framework of the South Asian Association for Regional Cooperation (SAARC) to make historical moves towards liberalising electricity trade. China soon began to make its presence felt in the region, and India responded by walking back its free-market impulses.

It imposed stringent restrictions that dissuaded everyone other than Indian and government entities from participating. That threatened to undermine private sector participation and promising joint ventures across the region. Nepal and Bhutan protested for years, leading to new guidelines in 2018 that tried to find a middle ground; these rules formalise that balancing act. They allow private sector participation but exclude Chinese investments.

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India-centricity no advantage

The institutional structure that has emerged through this churn over the last decade is India-centric. The Government of India, through ministries, regulators, planning bodies and utilities, determines the rules of the road. India's geographic centrality combines with its economic heft to give it a natural advantage in determining the shape of the market; all electrons must pass through it and most electrons will be bought by it. The prospect of an independent regional body governing trade, championed by theorists, is thus unlikely to begin with. It is nearly impossible to fathom in the context of an ailing South Asian project characterised by low levels of trust. India will thus enjoy pre-eminent rule-setting powers, but continually attract the ire of its smaller neighbours who feel their economic growth is being stunted by decisions in Delhi.

Mega solar project

These rules provoke some larger questions that must be tackled soon. India's ambition of anchoring a global super-grid called One Sun One World One Grid, or OSOWOG (https://bit.ly/3f4lcDj) needs an institutional vision. It aims to begin with connections to West Asia and Southeast Asia and then spread to Africa and beyond. The South Asian lesson, contained in these latest rules, is that political realities will constantly collide with, and damage, expansive visions of borderless trade. Impartial institutions for planning, investments and conflict resolution are crucial to multi-country power pools.

Managing the needs of three relatively small neighbouring economies in South Asia has consumed large amounts of time and political capital for the better part of a decade. Papering over the cracks of a power pool of a dozen countries or more will be much harder. An *ad hoc* design also makes the Indian project less attractive to countries looking to sign up to a power trading project.

The logic underpinning OSOWOG is sound. Renewable energy transitions benefit from grids that cover vast areas and diverse geographic conditions. Multi-country grids allow for the unpredictable outputs from renewable energy plants to be balanced across countries, thus avoiding expensive country-specific balancing technologies such as hydropower and gas plants.

Countering China

It is quite likely, though, that India's plans will be one among many in a soon-to-be competitive space. China, for example, has its own power pool ambitions. An attractive institutional model can lock countries into the pool by setting standards that investors and utilities plan towards and profit by. Once locked in, countries are thus unlikely to defect to other pools. The likely first battle will be in Southeast Asia, where China presently holds sway. A considered, stable institutional model will likely surpass anything China has to offer. It is worth considering releasing the vice-like grip on South Asia, aimed at countering China, by creating a rule-based regional institution that can counter Chinese offerings in other theatres.

Aditya Valiathan Pillai is an Associate Fellow at the Centre for Policy Research