

A new Economical & Political analysais for an Iranian Gas Project (A case study for IPI Gas Project)

Sina Mehrabi Rad
Faculty of economics
University of Tehran

Abstract

On the base of considerable economic and geopolitical implications of oil and gas in the contemporary world, Oil and Gas are considered as the most strategic sources of energy. Comparing oil and gas, natural gas due to its inherent sound environmentally nature, greater efficiency and cost effectiveness has been considered as the most preferred energy. Although given the unique features and increasing need of countries to natural gas, it can become bone of contention between the countries, the shared common basins or continental shelve, but at the same time, due to it's implication on durable and sustainable development, it can be served as a mean to reduce political conflicts and consolidate regional cooperation between participating countries in the natural gas transaction. Accordingly, while policy makers decide about natural gas export, they should consider economic as well as political implications of natural gas export.

Possessing the second largest reserves in the world, Iran is considered as the major gas producer in the Middle East as well as among OPEC member countries. So the examination of the effects of Iran's natural gas export on consolidation of regional cooperation will be very helpful for Iranian policy maker while decide about Iran's natural gas export to East Asia as well as to Europe. Since the Iran-Pakistan-India pipeline is a good example of the long term export of Iran's natural gas export on one side and on the other hand, it is intended to be concluded between India and Pakistan which are two conflicted neighbors, the present article has attempted to concentrate on the effects of IPI pipeline on consolidation of regional cooperation between Iran, India and Pakistan. Given the current dynamics and the composite dialogue process between India and Pakistan, the examination of IPI pipeline's effect on consolidation of the regional cooperation will be very useful to answer, How can IPI pipeline help India and Pakistan, with their legacy of conflict, to emerge as potential regional partners along with Iran?

Key Words: Natural gas, IPI pipeline, Iran, Pakistan, India, Regional Cooperation,

JEL codes: F15, F59, N75, O13, Q40

1. Introduction

Oil and gas are considered as the most strategic resources in the contemporary world. During the two major world wars, oil and gas played an important role for fuelling the war machines. In the post-war period these two energy carriers gained tremendous importance not only because of fueling the war machines but also because almost all

the countries in the world needed them for their socio-economic development. In a comparative analysis between oil and gas, the natural gas has emerged as the most preferred energy due to its inherent environmentally benign nature, greater efficiency and cost effectiveness. So the natural gas is termed as the fuel of choice for the 21st century. Accordingly the natural gas consumption follows the fastest trend compared with other primarily energy carriers and the share of natural gas in the world's energy basket is growing.

At the present time, Iran with its 15.8% share of the world's proven gas reserves needs to export its gas and the Asian market is knocking on its door. Asia is developing with enormous speed and gasping for more and more energy supply to keep the machinery going. Since the pipeline is the most reasonable way to transport gas, the survey of the effect of Iran-Pakistan-India pipeline on consolidation of the regional cooperation can be considered as the best way of finding out the effect of Iran's natural gas export on consolidation of regional cooperation.

Regarding regional cooperation in the South Asian context, this cooperation to harness energy resources poses some basic questions aimed at understanding the changing scope and dynamics of regional economic relations. What is the role of energy resources for regional economic cooperation and how can these resources and related technologies contribute to such cooperation? What are the prospects and implications of regional energy projects? What are the geopolitical considerations on energy questions? Can India and Pakistan, with their legacy of conflict, emerge as potential regional partners along with Iran? Given the various security threats haunting the region and the presence of extra-regional powers complicating the picture, how can efficient energy producer-consumer arrangements, i.e. energy transfer routes, be drawn up? Can the corporate sector in South Asia play a decisive role in conflict resolution and achieve the objective of a single market on the pattern of the European Union?

The present study is going to specially concentrate, among the above mentioned questions, on the first one which discusses about the role of natural gas on consolidation of regional economic cooperation.

2. Definition of Regional Cooperation

Although there can not be found a universal accepted definition of regional cooperation and regional integration, but Regional cooperation has often been treated as an appendix or sub-category of regional integration. The reason for this is partly that some of the elements of regional cooperation are derived from the development integration approach, partly probably because the cooperation approach is much more diverse and academically difficult to analyze schematically than, for example, market integration and development integration. However, the many problems attached to implementing the latter, and on the other hand the necessity for individual nation states to cooperate to enhance development opportunities have brought renewed attention politically and academically to regional cooperation (Robson, 1990).

Regional integration can be defined as "a process through which a group of nation states voluntarily in various degrees share each other's market and establish mechanism and techniques that minimize

conflicts and maximize internal and external economic, political social and cultural benefits of their interaction" Haas (1971).

Regional cooperation, on the other hand, can be defined as "a process whereby nation states in common solve tasks and create improved conditions in order to maximize internal and external economic, political, social and cultural benefits for each participating county" (Mansfield & Milner, 1997). In an evaluation of exiting arrangements, it is important to be noted that the cooperative efforts can be took place on a continuum stretching from a systematic framework, aiming at continuously increasing the level of cooperation; to an episodic style, where cooperation is limited to scattered projects created more by coincidence than intent. Furthermore, Regional cooperation may contain one of the following actions

- (i) Execution of joint projects, technical sector cooperation, common running of services and policy harmonization
- (ii) Joint development of common natural resources
- (iii) Joint stand towards the rest of the world
- (iv) Joint promotion of production

These points shall be elaborated one by one.

However it will be important to be noted that the elements specified in the definition are not necessarily all present in each regional cooperation attempt. Moreover, although the list probably represents the major relevant forms for regional cooperation presently, it is non-exhaustive, because other examples exist and new ones can be added.

It must however be noted that the exact definition and scope of regional cooperation may vary from region to region and the phenomenon of "regional cooperation", unlike "regional integration", must be separately defined and analyzed in each region through by focusing on the unique characteristics of that region.

3. The Brief Historical Relationship between Iran, India and Pakistan

The political environment in South Asia is marked by an ambience of hope and anticipation. The most intensive diplomatic engagement has been occurred between Pakistan and India. Three wars in 1947-48, 1965, and 1971 and a constant state of military preparedness on both sides of the border have marked six decades of bitter contest between India and Pakistan. The bloody and acrimonious nature of the 1947 partition of British India and continuing violence in Kashmir remain major sources of interstate tensions (Malik, 1993). Despite the existence of widespread poverty across South Asia, both India and Pakistan have built large defense establishments - including nuclear weapons capability and ballistic missile programs -at the cost of economic and social development. In 2004, New Delhi and Islamabad launched their most recent comprehensive effort to reduce tensions and resolve outstanding disputes.

The diplomatic relationship between Iran and these two countries has usually remained in stable situation. For example given the political, economic, religious, and energy reasons, political parties in India have encouraged friendly relations with Iran. Most importantly, Iran's growing role as an energy source in the Indian economy has accelerated Iran's prospects as a long-term supplier of

gas. However, given the close relationship between India and US, the significant affects of US pressures on Indo-Iran relationship should not be ignored (Maqsud ul Hasan Nuri). On the other hand Iran-Pakistan relations have not always been calm; they have fluctuated over the years. For example Pakistan's support of US policies on Afghanistan even while Iran perceived itself being encircled by the US, the presence of US forces on Pakistani territory and the status of Pakistan as a major non-NATO ally (MNNA) of the US created enough doubts in Iran on the prospects of stable relations with Pakistan. Despite this kind of potential contentious issues, Iran-Pakistan relations remain close. Iran extended moral, political, diplomatic, and financial support to Pakistan and supported Pakistan whenever it faced a serious crisis and was in danger. Both countries have shown their interest to cooperate while economy is a major instrument in influencing and strengthening ties Between Iran-Pakistan; it is issues relating to security and politics that dominate their relations.

4. Natural Gas Statues in Iran, India and Pakistan

Natural gas due to its unique features such as being the most environment- friendly fuel and its suitability in the terms of price is able to play an important role for promoting sustainable economic development. Iran as the world's second largest holder of natural gas owns 27 trillion cubic meters (15.8 of the world's reserves). The Iranian government by deciding to increase natural gas production (especially in South Pars field) can completely respond growing domestic demand. On the other hand it can allocate a huge amount of this production for exportation either in the form of LNG or via pipeline. There is a lot of proposal for the Iran's natural gas export to the countries such as: Ukraine, Europe, India, Pakistan, Armenia, Georgia, Turkey and etc about whom Iran should decide by considering all relevant economic and political consequent which Iran's natural gas export to them may have for Iran (National Iranian Gas Export Company, NIGEC, 2007).

The Indian economy continues to show impressive economic growth. The country's real gross domestic product (GDP) grew at an impressive rate of 9.1 percent during the first half of fiscal 2006 (April - September 2006), after growing by 8.7 percent in fiscal 2005. Together with the country's impressive growth, India has also become a significant consumer of energy resources. According to International Energy Agency (IEA) estimates, India was the fifth largest consumer of oil in the world during 2006.

Since India is the second largest developing country (after china) in the world, its natural gas consumption will rapidly increase in near future. Thereupon, Indian natural gas consumption with currently growth rate of 5.1%, will reach 2.8 trillion cubic feet in 2025. So the necessity of importing natural gas to meet India's energy demand is prima facie (Energy Information Agency, US Department of Energy).

Furthermore, Pakistan as a crowded country in the region, with the growth rate of 7.6%, is the third largest user of CNG in the world after Argentina and Brazil. Since the energy demand in this country is quickly increase, the government of Pakistan has considered the natural gas as a most appropriate energy to meet their domestic demand. Although the current natural gas production in the Pakistan

has been capable of responding its domestic demand, but due to the increasing of Pakistan's natural gas consumption in near future, the importing of natural gas will be inevitable.

5. IPI Pipeline, Background and Prospect

The idea of an overland, trans-Pakistan pipeline was first proposed in 1989 by Ali Shams Ardekani, acting Deputy Foreign Minister of Iran, and RK Pachauri, the Director General of the TATA Energy Research Institute (TERI) in New Delhi. Although the idea received a positive reaction in Iran, the initial response from New Delhi was doubtful, with Indian politicians wary of leaving their long-term energy security in the hands of Pakistan especially during a period in which their relations were becoming increasingly bitter.

However, the Persian Gulf War underlined India's need to diversify its energy sources. In 1991, Iraq and Kuwait totally supplied two-thirds of India's oil; when the war broke out, India's supply was reduced from 15 million tons to 5 million tons of oil overnight. India realized the need to form new relationships and, in 1993, India signed a Memorandum of Understanding with Iran (Temple, 2007).

As new technologies sparked interest in natural gas as a clean and cheap substitute for crude oil, India realized that the IPI could provide a large array of potential benefits. Since the Indian economy facing significant difficulties, natural gas provided India an avenue to energy without having to compete with the US, Europe and China for the attention of a small group of oil suppliers. On the other hand, Iran with the world's second largest proven gas reserves-unlike many of the other hydrocarbon suppliers-did not have its hands full of foreign demand. Iran was interested in finding a profitable market for its gas. With the added advantage of geographic proximity, the Iran option began to appear increasingly attractive. Since Iran's enormous supply could meet long-term demand, India could invest heavily in a capital-intensive infrastructure without worrying that restricted supply would undermine its investments.

However, even as India began to entertain the notion of a trans-Pakistan pipeline, Pakistan resisted the idea. Citing a lack of confidence between itself and India, Benazir Bhutto and Nawaz Sharif's government made it clear that the pipeline would not be welcome on Pakistani territory. Pakistan's reluctance, combined with considerable disquiet in India, led New Delhi to look into several alternate options for laying the pipeline from Iran. Aside from the overland route, India investigated two other options: a deep sea and a shallow water pipeline. When Pakistan realized that its stake in the project was being threatened, it changed its idea. Upon his accession to power, General Musharraf, who had opposed the pipeline as Army Chief, changed course and decided to treat the IPI project as separate from other terms of political dispute. Before 1995, both India and Pakistan seemed determined to link the pipeline to other issues. India tried to tie the pipeline to conditions about transit rights for trade links with Afghanistan and also to demands that Pakistan lift bilateral trade restrictions. Pakistan, on the other hand, sought to see the pipeline as an instrument to settle the Kashmir issue. However, since 2005, all parties have dropped such demands and determinedly kept politics and pipeline negotiations separate (Pandian, 2005).

With the three countries agreeing to guarantee the project as a commercial risk in January of 2005, the first real progress in the technological, commercial and legal aspects of the pipeline was made during the first six months of that year. The meetings took place bilaterally between Iran and India, and between Iran and Pakistan. This method ensured that political disputes would not overshadow the focus of the meetings. In December of 2005, India agreed to take part in trilateral meetings, the first of which took place in January 2006. Several major players from the gas industry attended the meeting and a variety of international companies made presentations on the relevant technology. Aside from price and a few details of contractual structure, the delegates from the three countries agreed on most of the important aspects of the pipeline, such as pressure, thickness, etc.

5.1. Present status

The environment surrounding negotiations during the past two years provides optimism for the success of negotiations. According to people present at the negotiations, all three countries involved appeared determined to treat the pipeline as independent from the vagaries of day-to-day politics. Therefore it can be claimed there all parties determinedly kept political and pipeline negotiation separate.

The last round of negotiations on IPI pipeline between Iranian and Pakistani delegations ended in 2007 December. After discussing all articles of the contract in different expert-level sessions in Islamabad and Tehran, the two sides ended their talks in Islamabad with the finalization of a deal to export gas which will be signed by the heads of the two countries. The Iranian delegation was led by Hojjatollah Ghanimifard, special representative of Iran's Petroleum Ministry, whereas the Pakistani delegation was led by Farrakh Qayyum, secretary of Ministry of Petroleum and Natural Resources. The two sides noted with satisfaction that each of them had initiated work to a certain level on the project as 40 percent of the construction of the pipeline within Iran had already been completed to provide gas to the eastern provinces of Iran and Pakistan was about to complete the work to appoint a consultant firm which would initiate the feasibility study of the project within Pakistan territory by the first quarter of the next year. Due to some unknown reasons, India decided not to attend three rounds of official talks in Islamabad and Tehran in the past few months. Some sources believe that India has taken this stance due to its agreements with the US to receive state-of-the-art nuclear technology. However it seems that this is not the main reason for India's refusal to attend the meetings given its considerable demand for energy in the coming years. In spite of the proposed Turkmenistan gas pipeline project and the US nuclear agreement, missing the opportunity to receive 30 million cubic meters gas per day from Iran would be unwise. Certain quarters believe that internal squabbling among Indian parties prompted it to adopt such a stance.

The Indian press published reports on corruption in the Oil Ministry which led to the dismissal of the minister, Mani Shankar Aiyar and his colleagues. Rumors about corruption and bribery created a tense situation which made the new team pursue the talks with caution. In addition, this group is trying to reduce the price of the gas to the minimum so as to protect themselves from being accused of corruption.

This made Indian officials reveal the details of the peace pipeline negotiations held in Tehran and the ensuing agreement of the three countries over setting gas price. Iran said the window for Indian participation to join the project might not remain open for an indefinite period on the existing terms and conditions of the project, Pakistan Times reported. India must independently continue talks to finalize the deal. It must also hold talks on a contract on the gas pipeline passing through Pakistan. India has not officially announced its decision on the gas deal, but the latest remarks of Indian authorities showed their interest in resuming negotiations. However it is well settled that Iran's gas productions are limited. Consequently, if India delays, it will definitely lose its opportunity.

6. IPI Pipeline and Regional Cooperation

To answer to this question that whether the IPI pipeline can promote regional cooperation or not, the factors which may cause probable success and unsuccess of this pipeline to consolidate regional cooperation must be examined. To this purpose the reasons which might cause IPI pipeline to promote regional cooperation as well as the obstacles which prevent this pipeline from playing a significant role in consolidation of regional cooperation will be discussed below.

6.1. The potential of IPI pipeline for Consolidation of Regional Cooperation

6.1.1. The inherent characteristic of each pipeline

At the first sight, it may seem obvious that natural gas can play an important role in consolidation of regional cooperation. But it must be analytically examined that whose characteristics of natural gas caused it to be a significant instrument for promotion of regional cooperation. Apart from being comparatively cleaner and cheaper source of energy which increase the importance and utility of natural gas among all countries in the world, there is a unique feature in the pipeline deal which increases it's potential to consolidate regional cooperation. Since the construction of pipeline requires huge investment and advanced infrastructure, the pipeline deal is usually made for a long term period. So the countries which participate in this kind of deal must keep their relationships in stabile mood and keep away the political conflict. Therefore the long term transportation of natural gas via pipeline, increase its potential to decrease conflict between participating countries and promote regional cooperation. However, this fact should not be disregarded that the probability of raising disputes between parties will increase in the long term deal.

6.1.2. Pipeline deal as a trade, reduce friction between trade participant

Since the natural gas transaction is usually understood as a trade, the examination of the effect of trade on the consolidation of regional cooperation will be very useful to demonstrate natural gas' impact on promotion of regional cooperation. Therefore the role of natural gas as a trade in consolidation of regional cooperation will be examined below.

The idea that trade can be an important force for creating and maintaining peaceful relations between countries, dates at least from

the 18th century. Increasing international trade might improve security in three related ways:

1. More trade means greater economic interdependence between the countries involved. This increases the stake each country has in the welfare of its neighbor and makes war more costly. It also increases the number of people who have an economic interest in peaceable relations and so helps strengthen political pressures against going to war.
2. More trade means more interaction between the peoples and governments of the two countries, more familiarity with the neighbor's goods and services, and greater understanding of their cultural, political and social institutions. All this likely to increase trust and promote regional cooperation.
3. Secure trading relations will reduce the likelihood of war by increasing security of access to the partner's supplies of strategic raw materials and reducing the threat of trade embargo. This argument is especially important in a world of high trade barriers where access to other sources is difficult (Duchene, 1994). Economists have examined some of the implications of uncertain access to strategic raw materials. Arad and Hillman show how fear of being cut off from foreign strategic sources of energy can cause countries to attempt try to consolidate regional cooperation. Hillman discusses the probability of consolidation of regional cooperation in exploitation of a mineral resource if the alternative foreign supply is uncertain. Obviously in this case a regional cooperation that ensured partner supplies would be both politically and economically advantageous (Arad Hillman & Arye, 1979).

Although direct evidence of the effect of trade on the likelihood of conflict between any pair of countries is limited, numerous studies have confirmed Polachek's conclusion that trade has a significant and negative impact on conflict by about 1 percent. A key feature of this result is that Polachek tested for causality and found that an increase in trade between partners caused a reduction in conflict but that reduced conflict did not increase trade. It has not been said that trade always promotes cooperation or that trade is sufficient for cooperation. Clearly, trade partners do fight, and sometimes over trade issues. On the whole, however, there is persuasive evidence that trade will generally tend to foster peaceable and cooperative, if not friendly, relations between countries.

The above discussion can be explored for the purpose of the present study meanwhile in the South Asia, trade is gradually becoming an important factor for the healthy growth of the economies of both Pakistan and India. The two countries export much more to countries in other regions than to each other. Not only do the people on both sides want peace and steady movement on all counts and peaceful settlement of disputes but several powerful lobbies and influential regional constituencies and non-state actors have also actively pushed the process forward in the areas of energy, trade and economic relations. The Associated Chambers of Commerce and Industry (Assocham) estimated that trade between India and Pakistan could touch the \$10-billion mark by 2010, provided the materialization of the IPI pipeline and the execution of the agreement on South Asian Free Trade Area (SAFTA) is not thwarted and the trade basket is diversified.

6.1.3. IPI Pipeline as a Confidence Building Measure

There are not many instances of large-scale cooperation between India and Pakistan. A lonely example is the often cited 1960 Indus Water Treaty (Khurshid, 1998). A shared gas pipeline is a strong platform for evolution of cooperation, leading to interdependence between Iran, India and Pakistan. It would also turn out to be an effective confidence building measure (CBM). There are few arenas as ripe for cooperation as the energy sector. Given the large investments and expenditures for energy and infrastructure in both countries, such cooperation could be the basis for continued cooperation in affiliated (and other) fields. There is precedent for gas pipelines to be built between countries with political differences. The Former Soviet Union began delivery of natural gas to Western Europe in 1968, and the pipeline was constructed during the height of cold war tensions (Davis, 1984).

While a joint pipeline might be a strong CBM, and appears to be economically attractive, many believe that this alone may not be a strong enough driver for consolidation of regional cooperation. They cite that India and Pakistan do not trade enough with each other, annually losing an estimated billion dollars. While part of this can be attributed to the lack of confidence between India and Pakistan, it can be argued that the success of this pipeline might build confidence between two countries and consequently solve this problem.

6.1.4. Regional Cooperation and Eastward Shift as a Priority in Iran's Foreign Policy

1. Regionalism:

Since the end of the war with Iraq (1988); the Islamic Republic of Iran has accorded regional relations and coalition building an increasingly important place in its foreign policy. Iran's geographical position, size, economic stature, and military muscle give it the potential to play a leading or pivotal role in the Persian Gulf, Greater Central Asia and the Caspian Basin. The collapse of the Soviet Union gave rise to a new awareness in Iran of the possibilities presented by the country's strength relative to other regional states and its geographical location at the heart of the Eurasian continent. In search of ways to frustrate Washington's policy of Iran's isolation, Iran looked towards cooperation with nearby and Muslim states and with possible alternative major centers of power (Russia, China, Europe and India). It also sought to use those regional and international organizations that were not susceptible to western domination for example, the Non-Aligned Movement, the Organization of Islamic Conference (OIC), the Organization of Petroleum Exporting Countries (OPEC) and the Economic Cooperation Organization (ECO)-for the same purpose. The constant themes of Iranian statements on regionalism have been self-reliance among regional states and the exclusion of extra regional powers, specifically the United States (Herzig, 2004).

Iran's conversion to regionalism can best be understood as the response of an independent state to the external challenge posed by the strong, in circumstances when the balancing option was taken out of play by the end of the Cold War. President Rafsanjani and his successors, Muhammad Khatami, and President Ahmadi Nejad, have all placed a strong emphasis on regional relations. Khatami's foreign minister, Kamal Kharrazi, stated in his first address to the UN

General Assembly in 1997 that "Iran's highest foreign policy priority ... is to strengthen trust and confidence and peace in our immediate neighborhood." The present Foreign Minister of Iran, Manouchehr Mottaki, has stated that the priority of Iran's foreign policy is to strengthen its Asian identity.

2. Iran's Eastward Shift:

Within the first two decades of the "anti-western" Islamic Republic, the dependence on the West for trade had been predominant. However, following the U.S. imposed economic sanctions in 1996; Iran's western options became more and more limited. On the other hand, the extraordinary growth of China and India's as regional and global economic powers shifted Iran's attention more and more towards the East (Estelami, 1999). This is linked with Iran's, what may be called a Look East policy, whereby in order to resist the pressures from the US, it has been building closer ties with the countries of South and Central Asia.

The attractions of trade relations with countries such as China, India and even Pakistan are numerous. For example, these countries can provide Iran with many of its needs in the case of more stringent sanctions by U.S. and Europe, in case there is no agreement in the United Nations Security Council for universal sanctions against Iran because of its violation of the Non-proliferation Treaty (NPT). Also none of these countries is likely to involve themselves in domestic Iranian politics. Additionally from Iran's perspective, if these countries have vested economic interest in Iran, they would be more likely to support Iran in the international political arena , (Mostashari, 2007).

Iran has vigorously moved to get associated with the South Asian Association for Regional Cooperation (SAARC). A formal application was submitted on March 3 2007 by Iran to the SAARC Secretariat for an Observer Status. This formal request underlined Iran's geographical proximity to the SAARC region, being a neighbor of two other members, Pakistan and Afghanistan, and also its economic strength, based largely on its energy resources.

Iran's historical and cultural links with the region are long-standing and deep-rooted. No wonder, SAARC Secretary General Lyonp Chekyab Dorji received the application positively, saying Iran's association with SAARC will be mutually beneficial to both. Decisions in SAARC are taken on the basis of unanimity. Any one negative voice can defeat Iran's aspirations for SAARC. Who from among the SAARC members will try to block Iran's entry remains to be seen. One hopes that Iran has done its homework to ensure that its membership application is not opposed by any. It can be however argued, that the regional cooperation which would be consolidated in the case of materialization of the IPI pipeline may persuaded the potential opponents not to block Iran's membership to SAARC.

6.2. The IPI pipeline's impediments for Consolidation of Regional Cooperation

The potential obstacles which may prevent IPI pipeline to promote regional cooperation can be described as following:

6.2.1 *The South Asian challenges*

In any survey of present-day regional cooperation, South Asia is liable to be cited as one of the problem cases (Cottey, 2006). The dominant strategic feature of the region is the tension and rivalry between India and Pakistan, two powers that have more than once gone to war or to the verge of war and that now have nuclear weapons. Even this major challenge is only one of the difficulties in the way of a non-zero-sum multilateral security order for the region. The discrepancy of size and power between India, a nation of over 1 billion people, and all its neighbors leads to natural concerns among the latter about India's dominance in the region and potential interference in their affairs. At different times this has been a significant strand in the policy thinking of states such as Bangladesh, Nepal and Sri Lanka and has led them to seek security assistance first and foremost from outside South Asia when they need it (Afroz, 2002).

Internal factors of insecurity among South Asian countries are present in the region's largest states either: Pakistan has alternated between weak civilian governments and military takeovers, while India has seen significant levels of internal violence connected with religious extremism, local patriotism or local struggles for power. Terrorism also comes into play as part of the internal security challenge (and a complication for any eventual settlement) in the disputed region of Kashmir, which is divided into *de facto* provinces under Chinese, Indian and Pakistani administrations. Pakistan's north-western borderland with Afghanistan has long been a bridge for terrorist infiltration (spontaneous or state-sponsored) in both directions, and poses further challenges for the central authorities because of the lawlessness of local tribes, (Khan 2006). All these features help to explain why military spending by the powers of South Asia has remained relatively high in spite of their relatively low per capita wealth, and why arms build-ups— notably between India and Pakistan—continue to show a distinctly competitive dynamic. Some regions have been driven towards the formation of security communities by threats from an outside power or guided there by its encouragement.

To get back to our discussion, the IPI pipeline must be examined in the light of above mentioned challenges in South Asia. As we mentioned above the priority of Iran's foreign policy is on eastward shift. This policy may be jeopardized by security problems because the area of the Balochistan- Punjab border, where the pipeline is supposed to run, is one of Pakistan's poorest areas and home to Balouch tribes hostile to the Pakistani government. In January 2003, sabotage of a gas pipeline from Sui cut off supply to the Punjab and it was followed by a wave of attacks against gas installations in the rest of 2003. The lack of security in this area will impact both India's willingness to invest in the IPI and its continuous feasibility as a reliable energy transit route. The success of the IPI therefore heavily relies on the ability of Pakistan to ensure the security of the pipelines and the supply chain passing through their problematic areas. This may be possible if buy-in from local leaders is secured and if some of the profits from the gas pipeline is used for regional development. Of course, that would affect the economic feasibility of the project for Pakistan, but could be seen as an important investment in domestic stability and border security (Bailes, Alyson, 2006).

6.2.2. *The Role of US*

Despite repeated statements by Indian officials that India's "relationship with one country does not depend on that country's relationship with other countries", the budding Indo-US relationship and the nuclear deal between the two countries will undeniably impact India's ability to negotiate the IPI with the Iranians. The confrontational history between Iran and the United States has already manifested itself in Indian opposition to Iran at the IAEA and in Indo-Iranian economic cooperation. Although there is universal agreement in the US that India could provide diplomatic leverage vis-à-vis Iran, US officials have been divided in their approach to assuring Indian cooperation. Certain US politicians have sought to explicitly link US-Indian relations to Iran. Ambassador David Mulford warned India that voting with Iran at the IAEA would "be devastating" to the future of the civil nuclear initiative. Likewise, US Representative Tom Lantos argued that "India will pay a very hefty price for its total disregard of US concerns vis-à-vis Iran. (Srivastava, 2005).

However, other US officials appear to believe that explicit measures to curb Indo-Iranian cooperation are unnecessary and counterproductive. While the House of Representatives bill on nuclear cooperation with India made it US policy to "secure India's full and active participation in United States efforts to dissuade, isolate, and, if necessary, sanction Iran for its efforts to acquire weapons of mass destruction", the legislation passed by the Senate Foreign Relations Committee contains no such wording. Moreover, an amendment to make the House stipulation on Iran binding was rejected, as were moves to delay the vote on the bill by officials who thought that India been adequately cooperative vis-à-vis Iran. In fact, one House Resolution, introduced in July 2005 actually expresses support for the pipeline as "an instrument of harmonizing the relations between India and Pakistan.". Both President Bush and Condoleezza Rice, who have invested significant political capital in heightened Indo-US relations, have sought to persuade India to help with Iran without explicitly linking Indo-US cooperation to the Iran issue. . In testimony before Congress, Rice downplayed the Iran issue, saying only that "the United States has made it very clear to India that we have concerns about their relationship with Iran."¹ Meanwhile, Bush has noted that "our beef with Iran is not the pipeline" and argued that he "understands" South Asia's need for gas. In fact, no US official has directly stated that the IPI would be considered a violation of ILSA.

7. Conclusion

There seems no controversy in respect with this fact that the energy cooperation is in the interest of entire Asia's growing energy demands, its skilled and hardworking manpower, together with regional strengths in industrial and managerial know-how and science and technology make it ideal for long-term economic complementarities and regional partnership. With the emergence of giant Asian consumers, the continent is set to become the gravity centre of the world's

¹ "India rejects linking Iran vote to nuclear deal Transcript, "Senate Foreign Relations Committee Holds Hearing on US-India Atomic Energy Cooperation," 5 April 2006.

energy consumption. A regional energy market could be formed through sustained dialogue. Asian countries, especially rapidly growing economies of the region, need long-term energy supply security. Energy producing countries are concerned about demand security. This is where regional interdependence may best serve the interests of all parties. Regional countries need to strive to establish a structure on the basis of reciprocity in the region. If South Asian countries don't get sufficient energy and fail to expand and diversify their regional cooperation, they will not be able to achieve the required rate of economic growth. Due to this fact that in the coming years, economies would be determined region-wise and not country-wise, Asia needs to prepare for the future challenges and should promote regional trade and energy cooperation. Accordingly, the regional countries need to develop and institutionalize regional energy pipeline association that should be dedicated to ensure a strong and viable transmission pipeline industry in the region in a manner that emphasizes public safety and pipeline integrity, social and environmental stewardship, and cost competitiveness for the entire region.

The dream of regional cooperation can gain a new boost once IPI pipeline project materializes. The potential for economic and developmental gain from natural gas will help the countries to reassess their roles and policies. There is an undeniable international trend towards the formation of regional and trans-regional groupings for the realization of peace and development. The speedy and smooth export of natural gas supplies from Western Asia (Iran) to South Asia (India and Pakistan) can be a venture that may change the face of regional politics and economics. Economic collaboration possesses the power to engender as well as transform social and political discourse. It facilitates conflict resolution. The IPI pipeline can also be a source of strength for expanding regional economies of Asia and will help normalize the hostile relationship between Pakistan and India. This project heralds an approach for inclusion, unity and reconciliation. It can be a formidable piece of political and economic reconstruction. The IPI pipeline of energy resources can contribute to real and meaningful regional cooperation.

Apart from the IPI pipeline, Iran has various pipeline options to natural gas exports. For example Nabucco pipeline which is proposed to run 2050 miles from Iran and other Caspian states through Turkey to Austria and European Union. If this pipeline would be finalized, it can strongly improve the Iran's position in the region and it can also help Iran to play a more crucial role in the consolidation of regional cooperation. Furthermore given the existence of considerable costumers for Iran's natural gas such as Ukraine, Armenia, Azerbaijan, Georgia, UAE, Kuwait and South East Asia countries, Iran shall endeavor to become axis of regional energy transportation network.

Given the special condition of Iran in the region and glob and due to political pressures imposed by some Western countries, it seems reasonable for Iran to dictate its energy policy with considering all relevant circumstances. Consequently, Iranian government while decides about Iran's natural gas export, should not restrain itself to economic issues such as natural gas price and it should take the political as well as geopolitical factors into consideration.

Finally I would like to recommend the other students and scholars to examine the geopolitical and political effects of the other available options of Iran's natural gas export (such as Nabucco pipeline) for strengthen of the Iran's geopolitical position in the region and world.

References:

- Afroz, S. (ed.),(2002), Regional Co-operation in South Asia: New Dimensions and Perspectives, Bangladesh Institute of International Strategic, Studies (BIISS): Dhaka.
- Arad,R and Hillman, A.(1979), Embargo Threat, Learning and Departure from comparative Advantage, journal of international Economic journal 108.
- Bailes,K, Alyson, J. (2006), Regionalism in South Asian Diplomacy, SIPRI Policy Paper No. 15.
- Cottey,A,J. (2006), Regional security cooperation in the early 21st century, SIPRI Yearbook 2006: Armaments, Disarmament and International Security, Oxford University Press: Oxford.
- David,T.(2007), The Iran-Pakistan-India Pipeline, the intersection of energy and politics, IPCS Research Papers ,Institute off Peace and Conflict Studies.
- Davis,J,D. (1984). Blue Gold: The Political Economy of Natural Gas. George Allen &Unwin: London.
- Duchene, F. (1994), the first statement of interdependence. New York: Norton.
- Estelami,H.(1999), A Study Of Iran's Responses To U.S. Economic Sanctions, MERIA Vol 3,No.3.
- Haas,E,B. (1971), The Study of Regional Integration, Harvard University press, Cambridge, Massachusetts.
- Hasan Nuri,M. (2003),India and Iran: Emerging Strategic Co-operation?, IPRI JOURNAL, Vol. III, No. 2.
- Herzig, E.(2004), Regionalism, Iran and Central Asia; International Affairs, Vol.80 No. 3.
- Khan A.U. (2006), The Terrorist Threat and the Policy Response in Pakistan, SIPRI Policy Paper No. 11, cited at, URL <<http://www.sipri.org>>.
- Khurshid ,K (1998). Confidence-Building between India and Pakistan: Lessons, Opportunities, and Imperatives. Stimson Center: Washington, D.C.p45
- Malik,H.(1993),soviet-Pakistan relations and post soviet dynamics,1947-1992.

Mansfield , E and Helen V. Milner , (1997) *The Political Economy of Regionalism*, Columbia University Press, New York.

Mostashari,A. (2007),*The political economy of the Iran -Pakistan - India gas pipeline*, *Iran Analysis Quarterly*, Vol.4, N. 1.

Pandian,S. (March 2005) "The Political Economy of Trans-Pakistan gas Pipeline Project," *Energy Policy*, Vol. 33 Issue 5.

Robson,P. (1990), *The Economics of International Integration*, Unwin Hyman, London.

Siddharth Srivastava,(2005),*US-India through the Tehran prism*, *Asia Times*.

Temple, David,(2007), *The Iran-Pakistan-India Pipeline, the intersection of energy and politics*, *IPCS Research Papers*, Institute off Peace and Conflict Studies

Energy Information Agency, US Department of Energy. www.eia.dov.gov

National Iranian Gas Export Company (NIGEC),(2007), *Managing Director News Conference*

www.shana.ir