From the Editor’s Desk

Dear FDI supporters,

Welcome to the Strategic Weekly Analysis.

We open this week’s edition with an examination of Tanzania’s efforts to battle the corruption that plagues its energy sector. The country could lose much of its foreign aid if action is not taken soon.

Turning to next South Asia, we observe that the recently-held South Asian Association for Regional Co-operation summit in Kathmandu was dominated by India-Pakistan relations. We note that it is imperative for this relationship to improve if the Association’s goals are to be realised.

Turning to Mauritius, we analyse the move towards an executive presidency with expanded powers and note that while this move will have no major impact in the short term, it could create political uncertainty in the future.

Returning to South Asia we analyse the progress of the China-Nepal railway project and note that India could face new strategic challenges if China continues to advance strategically in Nepal.

We conclude this week’s coverage, while remaining in the region, with an analysis of China’s proposal to construct the Zangmu Dam across the Yarlung Zangbo River in Tibet, which flows into India as the Brahmaputra. The dam could potentially increase the risk of downstream floods. India has raised its objections to its construction but these may be politically driven.

I trust you will enjoy this edition of the Strategic Weekly Analysis.

Major General John Hartley AO (Retd)
Institute Director and CEO
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Tanzania in Battle to Tackle Corruption that Hinders Energy Plans

The Public Accounts Committee (PAC), formed to plug the haemorrhaging of public monies, has presented a report accusing key energy companies of malpractice. In response, the international community is threatening aid withdrawals if action is not taken, vindicating the warnings of PAC Chairman and opposition spokesman, Zitto Kabwe.

Background

Since independence, Tanzania has been dogged by widespread, institutional and cultural corruption, damaging the country’s international reputation and socio-economic outlook. With large hydrocarbon deposits found and ready to be extracted, the government in Dar es Salaam is aware of the need to address the energy supply and infrastructure woes that are limiting output and foreign direct investment.

Comment

The Tanzanian Government is eager to become East Africa’s leading mining investment destination. To capitalise on the exploitation of its growing oil and gas reserves, Dar es Salaam recognises that its legislation is not yet sufficient. In line with East African sentiment that the “trickle down” effect of extractive industries must be widespread and provide impetus for social improvement, the government faces strong regional demands for the transparency of business deals.

On 3 November, two high-ranking officials from the state-owned Tanzania Petroleum Development Corporation (TPDC) were arrested for failing to disclose 26 oil and gas contracts. The two men were released the following day, suggesting the move was a token display of the power of the PAC. The TPDC claims that they were not given enough time to comply with the PAC’s requests, being unable to gain swift approval for disclosure of sensitive information from private companies that were involved.

The excuse may even be valid and, if nothing else, the episode confirms the severe deficit of solid industrial legislation: the 2010 Mining Act is in dire need of an upgrade to better guide the opening up of Tanzania’s markets. Commenting on the arrests, Mr Kabwe professed that ‘transparency of contracts is fundamental for ensuring proper management of natural resources: without transparency, no accountability’.

Other notable developments are the accusations of the siphoning, by government figures, of public monies from the central bank to private entities. In a comprehensive report by Mr Kabwe, the PAC Chairman discovered that US$124 million has been ‘looted’ from the Bank of Tanzania via the route of Public-Private-Partnerships (PPPs). The companies in the firing line are Pan Africa Power Tanzania Ltd (PAP) and Independent Power Tanzania Ltd (ITPL). Their leaders received huge profits from power plants and obscure percentage-deals attributed to their names. Mr Kabwe noted that the leaders’ stakes came after not having ‘invested a single shilling’ in the respective projects.

Tanzanian economic growth sits at an average 7.1 per cent, while growth in power generation has managed only 4.2 per cent over the past decade. Coupled with a 13 per cent
annual growth in energy demand, the problems are easy to see. Given that only 36 per cent of Tanzanians have access to electricity, albeit up from a mere ten per cent for registered bill-payers in 2010, unless the sector improves, the country will not be able to manage the influx of mining operations. According to Mr Kabwe, ‘There is no story of power in Tanzania, of the energy sector in Tanzania, without corruption’.

The government is yet to respond to the to the full PAC report, tabled in Parliament by Mr Kabwe on 26 November after an unsuccessful last-minute request to the High Court for an injunction to stop parliamentary debate on the report. With the Chama Cha Mapinduzi party having been in power for the past 37 years, excuses may be thin on the ground, especially now that US$500 million worth of foreign aid grants is set to be withheld if sufficient action is not taken. Even in the recent past, up to 40 per cent of the national and 80 per cent of the development budget was attributed to foreign aid. Following the withdrawal from Tanzania of some of the Nordic countries, a spokesman for the UK Department of International Development said that Britain ‘will not disburse any further budget support to Tanzania until we have considered the findings of the inquiries’. The response bears out Mr Kabwe’s fears that unaddressed public sector corruption will damage the international ‘credibility of the country’.

Earlier, the entire Ministry of Agriculture, Food Security and Co-operatives was placed under suspension for its poor handling of the surplus maize harvest. Given two weeks to justify the performance, Agriculture Minister Kadume was told to redraft “feasible strategies” or be sacked. Holding government officials to account over incompetence is important in the attempts to restructure of Tanzania’s political and business culture. With PAC Chairman Kabwe forecast to contest the 2015 presidential elections, the young statesman may prove the catalyst for his opposition Chadema party (Party of Democracy and Progress), to mobilise electors frustrated with the lack of government transparency and accountability.

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India-Pakistan Relations Headline SAARC Summit

_Tensions underpinning India-Pakistan relations have hindered progress within the latest summit and need to be addressed if the goals of SAARC are to be realised._

Background

India-Pakistan relations have dominated the headlines surrounding a recent summit held by the South Asian Association for Regional Co-operation (SAARC). Pakistan initially refused to
sign any agreements proposed by India until the final day, when Pakistani Prime Minister Nawaz Sharif agreed to sign the SAARC Framework Agreement for Energy Co-operation. This was seen as a positive step in the thirty-year history of SAARC, which has long been shadowed by political deadlock between India and Pakistan. Two other agreements on freeing up road and rail movement were still left unsigned however, highlighting the need for relations to improve.

Comment

The primary objective of SAARC is to promote co-operation within South Asia on a wide range of areas including economic, social, cultural, technical and scientific fields. Progress within these areas has been marginal at best. Despite the establishment of a South Asian Free Trade Area in January 2006, the region accounts for less than five per cent of global trade. SAARC members are also amongst the most poorly connected: air travel between countries is often disjointed and rail connections are poorly connected, consequently impeding intra-regional trade. A recent FDI Associate Paper noted Indian-Pakistan relations as a major constraint to SAARC’s progress.

India and Pakistan are the two biggest economies in South Asia. Having these two countries at constant odds reduces any hope of progress within SAARC. For SAARC to achieve its objectives, it is important that India-Pakistan relations do not continue to translate into political deadlock. This is difficult, as some policy makers in India and Pakistan believe that the issues addressed by SAARC are of little importance in the face of the zero-sum Kashmir conflict.

This is an issue that SAARC cannot adequately deal with, as its members are vulnerable to pressure from both India and Pakistan. Both countries have been able to postpone annual meetings when displeased with developments in the other country. Co-operation between India and Pakistan is seen as a low-gain, high-risk affair. According to Stephen Cohen of the Brookings Institute, if co-operation fails between the two countries, the ensuing losses will not only be politically damaging to both but they will also run the risk of intensifying conflict in the Kashmir region.

A recent clash along the Kashmir border has further called into question the state of India-Pakistan relations. An FDI Strategic Analysis Paper published in 2013 noted the deep-rooted nature of tensions between the two countries. The separation of Pakistan and India in 1947 and the less-than-optimal procedures adopted by the British during partition led to the on-
going conflict over Kashmir. This dispute has led to two wars, brought immense suffering to the people of the state, and has been a major drain on state resources. Water disputes have also played a role in hostilities. A number of Indian hydro-electric projects along its western rivers will affect waters to which Pakistan has the rights. This has serious potential to precipitate conflict in the future, especially given the rising requirements and shrinking supplies.

There is little that SAARC members can do to reduce tensions between India and Pakistan. Trade, economic co-operation and socio-cultural ties cannot progress in the absence of sustained peace and stability. India is also reluctant to accept foreign mediation on the issue, preferring bilateral negotiation, which emphasises the need for a focus on bilateral engagement to address the cause of tensions underpinning India-Pakistan relations. Both states need to move away from offensive security postures and recognise the huge potential benefits bilateral trade will provide. Within that context, SAARC may become more effective in promoting regional co-operation within South Asia.

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Mauritius Election Heralds Constitutional Change

The imminent move towards an executive presidency with expanded powers is unlikely to cause any major disruptions in the short term, but it does leave the door open for potentially greater political uncertainty in the future.

Background

Voters in Mauritius will go to the polls on 10 December in an election that is expected to bring little change to the overall composition of the Parliament, but that will very likely lead to the creation of a Second Republic under a more powerful presidency.

Comment

Mauritian politics operate in a world of changing coalitions in which yesterday’s opponents can be today’s partners and who, tomorrow, may have seats at the Cabinet table.

This year’s election is no different and sees the ruling Parti Travailliste (PT: Labour Party) of Prime Minister Navinchandra Ramgoolam uniting with the Mouvement Militant Mauricien (MMM: Mauritian Militant Movement), led by former Prime Minister Paul Bérenger, against a three-party alliance headed by Sir Anerood Jugnauth of the Mouvement Socialiste Militant (MSM: Militant Socialist Movement), himself a former prime minister and president.
In keeping with the fluid nature of Mauritian politics, the MMM and the MSM have previously been coalition partners. The MSM is itself a splinter group that broke away from the MMM in 1983. From the 2010 election until August 2011, the Labour Party and the MSM were the two largest parties in the three-party Alliance de l’Avenir, which was victorious against the Alliance du Cœur led by the MMM. All three parties are broadly centre-left in orientation.

Among the 15 “Key Measures” of the PTr-MMM manifesto is an innocuous-sounding undertaking to introduce ‘a Second Republic to ensure a better balance between the responsibilities of the President and those of the Prime Minister’. The proposal is tucked away in third place on the list, after the introduction of a national minimum wage. Electoral reform is a long-running theme in Mauritian politics and one that has been the subject of many reports and commissions over the years. If elected, the PTr-MMM coalition has indicated that it will not just fine-tune the electoral system to better reflect modern Mauritian society, but that it go further and amend the Constitution and expand the powers of the president, from a largely ceremonial role to something more akin to an executive presidency.

Currently elected by parliament – the National Assembly – under the Second Republic proposal, the president would be directly elected by universal suffrage. The role of the president will be expanded to include appointing the prime minister, dissolving the National Assembly, chairing Cabinet meetings, addressing the National Assembly and, in concert with the prime minister, taking responsibility for foreign policy. The proposed changes represent a considerable expansion of the powers of the president, moving the role into areas previously the responsibility of the prime minister.

The PTr-MMM coalition is expected to win the 10 December poll comfortably, giving it the three-quarters majority in parliament that it will need to change the Constitution and usher in the Second Republic, under which Mr Ramgoolam would stand for the presidency and Mr Bérenger would move into the role of prime minister.

Mauritius has an open and diversified economy that has allowed it to weather the global downturn in reasonably good shape. Leveraging its stability, good governance and proximity to Africa, the country has positioned itself as a gateway to that continent. Its close business and cultural links with India are supplemented by economic ties with China.

In the near future, the political, social and economic stability of Mauritius is unlikely to be affected by the constitutional changes, at least while the country is led by longstanding,
centrist leaders such as Messrs Ramgoolam and Bérenger, even if the Second Republic proposal does appear to have an air of a gentleman’s agreement for the neat division of roles between the two statesmen. The presence on the PTr-MMM joint ticket of former Finance and Economic Development Minister Ramakrishna Sithanen – the force behind the reforms that the economy is currently benefiting from – will help to assuage investor concerns.

Even in the interim, animosity between the two leaders cannot be ruled out but, as always, the greatest uncertainty may lie in the future, with a president who has more wide-ranging executive powers operating in a potentially fractious coalition environment. In a worst-case scenario, the president may choose to unilaterally exercise his or her powers by stepping in and dissolving parliament, perhaps even before the collapse of a coalition. That may not necessarily be anything too extraordinary – coalitions in Mauritius can be short-lived – but the uncertainty that it creates has the potential to scare investors and undermine the quest for unity and modernity in an Indian Ocean success story.

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China-Nepal Railway Project Could Pose Strategic Challenge for India

As China plans to expand its railway network through Nepal, India is falling behind on its development commitments. India will face new strategic challenges if China continues to advance strategically in Nepal.

Background

China is expected to progress with the extension of the Qinghai-Tibet railway, set for completion by 2020. The recent extension in Tibet, from Lhasa to Shigatse, incurred a cost of US$2.6 billion. The connection from Shigatse to Rasuwagadhi, just inside the Nepalese border, will be the next link. The 500 kilometre line to Rasuwagadhi is expected to have two additional extensions, branching off to the borders of India and Bhutan. India, for its part, has announced a US$177 million plan to expand its own rail services along the India-Nepal border.

Comment

China is embarking on a major long-term infrastructure programme, connecting the Tibet Autonomous Region to adjacent Himalayan countries. India and China remain locked in a
dispute over Arunachal Pradesh and parts of Kashmir, adding to tensions in New Delhi over Beijing’s development efforts in the region. India is attempting to renew ties with Nepal, but the Marxist-Leninist ideologies of Nepal’s Maoist parties could benefit China.

Investment in transport infrastructure was a key feature of the twelfth Chinese five-year plan, which included the target of a 45,000 kilometres express railway network by 2015. The inroads into Nepal are expected to be a key part of the thirteenth plan, and follow a pattern of Chinese investment in the developing region. China has claimed that the railway programme will enhance economic and cultural ties with Nepal, increasing the speed and ease of cross-border trade and improving tourism opportunities.

The developments have the potential to further emphasise the Sino-Indian border disputes, in turn engendering a greater military presence on their common border. In September 2014, Indian and Chinese troops were engaged in a 16-day stand-off after Chinese construction workers attempted to build roads in Chumar, part of the disputed Leh district. Indian troops destroyed both the roads, claiming that the workers had violated the Line of Control (LAC). The stand-off was resolved after a meeting between President Xi Jinping and Prime Minister Narendra Modi.

The on-going border dispute will continue to have a bearing on Prime Minister Modi’s Nepal policy. With the Chinese five-year plan set to roll over in April 2015, Modi will have to consider the strategic implications of the new infrastructure programmes that Beijing has set for the region. India’s rail projects with Nepal have developed inconsistently, the eight-kilometre long Jogbani-Birantnager line is 68 per cent complete on the Indian side, but only 20 per cent in Nepal. Beijing will likely take a more proactive approach to its railway programme, as it strives to meet its five-year goals.

The reality for Modi is that India does not have the capacity to match Beijing’s investment proposals, so China’s deep pockets and low-cost infrastructural developments will continue to be attractive. India, on the other hand, is still a key partner for Nepal and is its major trading partner. Fifty-nine per cent of Nepalese exports go to India, which also the source of just over half of Nepal’s imports. India currently has a liberal border regime with Nepal, which allows Nepalese students access to Indian educational institutions. It is possible that, if China develops the railway extensions, India may feel the need to review its overall relationship with Nepal, a prospect that will likely not benefit either country.

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China First To Dam the Brahmaputra: India Concerned About Consequences

*China’s new Zangmu Dam may increase the risk of downstream floods from the Brahmaputra River. India has voiced environmental concerns, but its apprehension may be politically driven.*

**Background**

China has completed and begun to operate the Zangmu Dam on the Tibetan side of the Brahmaputra/Yarlung Zangbo River. Constructed at 3,300 metres above sea level, this is the first of five dams comprising the US$1.5 billion Zangmu hydropower station. The project is designed to generate 2.5 billion kilowatt hours of electricity annually, but could also affect the flow of the Brahmaputra into Arunachal Pradesh and other parts of north-eastern India. India has expressed concern that damming the Brahmaputra will increase the risk of landslides and flash floods in downstream areas.

**Comment**

According to the 2013 International Energy Outlook, world electricity consumption is expected to grow by more than 56 per cent between 2010 and 2040. In the Tibetan Plateau region, power deficit is an ongoing problem that creates a barrier to development. The construction of hydroelectric dams offers a potential solution: power derived from the perennial Himalayan rivers can meet power demand in the region and also create surplus electricity for export.

Damming the Brahmaputra/Yarlung Zangbo River has been highly controversial. The river is one of the largest and most volatile in the Tibetan Plateau region. It is dramatically affected by monsoon cycles and traverses a highly seismic area, so erosion and landslides along its banks are common. During construction of the Zangmu hydropower station, China maintained that its plans were restricted to run-of-the-river hydroelectric dams, but India has expressed fears that China’s plans extend beyond this. India has said that it intends to commission extensive investigations into the impact of the dams on the Brahmaputra.

China has responded to India’s concerns by promising that it will take ‘full account’ of flood prevention efforts in downstream areas. Chinese Foreign Ministry spokesperson Hua Chunying has said publically that ‘the Chinese side and the Indian side have been in communication and co-operation on the issue.’

In reality, China and India have no specific agreement on managing the Brahmaputra/Yarlung Zangbo. In July this year, the two states agreed to strengthen co-operation on shared waters, but this is limited to the sharing of flood data during monsoon season. Without an official water management agreement, India has limited avenues by which to monitor Chinese projects and water flows.

India’s reaction to the Chinese dams is also cause for scepticism. India has based its objection to the Zangmu station on environmental concerns, but Prime Minister Narendra Modi recently gave approval for the construction of a 3,300MW dam on the Dibang River, a
tributary of the Brahmaputra, without any public consultation or study of its potential
downstream impacts.

In fact, India has planned to construct more than 160 dams on its side of the Brahmaputra
River. If China’s Zangmu Station does affect downstream flows, the impact will be felt in the
Assam region in north-eastern India. The region has been described as India’s future
powerhouse and is at the core of India’s damming programme.

Potentially, India and China are starting a “race to dam the Brahmaputra”. The two states
already compete for regional hegemony and influence over Nepal and Bangladesh. Unless
China and India can come to a water management agreement, the cumulative
environmental impacts of their use of the Brahmaputra may extend well beyond Assam,
potentially endangering Bangladesh and the Tibetan Plateau.

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What’s Next?

- The Organization for Security and Co-operation in Europe will hold its annual
  Ministerial Council in Basel, Switzerland from 4-5 December.
- The third annual Greek-Turkish High-Level Co-operation Council will convene in
  Athens under the chairmanship of the Greek Turkish Prime Ministers from 5-6
  December.
- US President Obama will host Jordan's King Abdullah II at the White House on 5
  December.
- French President Francois Hollande will visit Astana, Kazakhstan from 5-6
  December.
- The Business Leaders Delegation of the Confederation of Indian Industry will
  participate in the Iranian government’s conference to be held in Tehran from 7-
  10 December to promote trade relations between the two countries.
- A business delegation of the Federation of Indian Chambers of Commerce and
  Industry will visit Israel from 7-11 December.
Notes

Any opinions or views expressed in this paper are those of the individual authors, unless stated to be those of Future Directions International.