From the Editor’s Desk

Dear FDI supporters,

Welcome to this week’s edition of the Strategic Weekly Analysis.

We begin this week with an examination of the recent presidential elections held in Sudan that the current incumbent, Omar Hassan al-Bashir, won with a landslide majority of 94 per cent. There appears to be a shift, however, in al-Bashir’s relations with some countries in the Middle East.

We move next to the United States to examine the impact of that country’s technological developments on its ability to access and extract oil and gas deposits once considered economically unviable. We look, furthermore, at the potential geopolitical developments this newfound ability could generate across South Asia and the Middle East.

Moving east to Burma, we analyse the strains that the Kokang conflict imposes on the country’s relationship with China. We note, however, that while diplomatic ties may be strained, the Burmese military stands to benefit.

We conclude our coverage this week with an analysis of the city of Jakarta’s decision to remunicipalise its water supply and sanitation networks. The annulment of a contract between Jakarta’s public water operator PAM Jaya and two private water operators earlier this year, however, has left the management of the city’s water supply and sanitation networks in limbo.

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

Major General John Hartley AO (Retd)
Institute Director and CEO
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Sudan Election Consolidates Bashir’s Hold on Power

*Sudan’s recent elections will have little effect on its current trajectory, although there appears to be a shift in Bashir’s relations in the Middle East.*

**Background**

Sudan’s recent elections resulted in President Omar Hassan al-Bashir being re-elected, continuing his 26-year rule. Over the course of his rule, hundreds of thousands – mainly from the Fur, Masalit and Zaghawa ethnic groups – living in the Darfur region have been killed, and further millions displaced as part of an on-going genocide in the region. Bashir has, consequently, been charged by the International Criminal Court with five counts of crimes against humanity, two counts of war crimes, and three counts of genocide against the people of Darfur. The latest elections saw Bashir claim 94 per cent of the vote, with reports of a low turnout due to widespread calls to boycott the elections following the arrests and harassment of members of opposition groups. As a result, the elections have been widely criticised as nothing more than a political charade and an attempt to legitimise Bashir’s continuing rule.

**Comment**

Minutes leaked from a Joint Military and Security Committee meeting held in Khartoum on 31 August support the claims of corruption relating to the elections. During the meeting, Presidential Advisor Mustafa Osman Ismail allegedly stated that the elections will give the government five more years of legitimacy and spoke of efforts to convince opposing parties to take part in the election to ensure its legitimacy. Deputy Chairman of the National Congress Party, Ibrahim Ghandue, allegedly spoke of efforts to influence the elections including inducements of around US$500 million to persuade the Popular Congress Party to participate in the process. Although the authenticity of the document is questionable, corruption allegations against the NCP are widespread. Given the alleged corruption and questions surrounding the legitimacy of the elections, it is unlikely that there will be any change in government policy.

There does, however, seem to be a shift in Bashir’s allegiances in the region. The decision to take part in the Saudi-led coalition against Houthi rebels in Yemen was surprising, and can be seen as an attempt to develop closer ties with Riyadh. This will be necessary if Sudan is to receive financial aid from Saudi Arabia, which is needed as Khartoum is becoming more dependent on external support after losing 75 per cent of its oil reserves to South Sudan after the split in 2011 and due to ongoing sanctions. This appears to indicate a shift in Khartoum’s relations with Iran, which is surprising given the support Iran has provided since Bashir seized power.

Deteriorating relations with Iran may, however, have played a role in Bashir’s apparent shift towards Saudi Arabia. From being traditionally strong, Iran-Sudan relations took a fall in September 2014 when Sudan ordered Iran to close its cultural centres and expelled the Iranian diplomats who ran them. A spokesperson for Sudan’s Ministry of Foreign Affairs said that the decision was made in response to the increasing influence of Shi’ite Islam in Sudan.
His Iranian counterpart, however, accused extremists of attempting to harm the relationship between the two countries while analysts pointed to pressure from Saudi Arabia. As noted in a previous article, however, the aforementioned minutes suggest that the closure of Iran’s cultural centres was done with the knowledge and agreement of the Iranian Government in an attempt to continue the relationship with Iran while simultaneously developing a closer relationship with Saudi Arabia. This, however, seems less likely now given Khartoum’s involvement in the Saudi-led coalition against the Houthi rebels, which runs counter to Iranian objectives in the region. The minutes also speak of Sudan providing the Houthis with weapons while Saudi Arabia was pressuring them to withdraw support. This is also very unlikely given the extent of the Sudanese contribution to the campaign and the swing in foreign policy this would require - from actively supporting the rebels to participating in a campaign against them.

The full implications of Bashir’s commitment to Saudi Arabia on Sudan-Iran relations are yet to be seen. There would need to be significant financial inducement from Saudi Arabia for Sudan to, essentially, abandon its relations with Iran. Such a scenario appears unlikely given Iran’s historical support to Sudan. It is in Khartoum’s best interests to maintain strong relations with both Iran and Saudi Arabia and, therefore, unlikely that Sudan’s commitments in Yemen will render this option impossible since Iran’s support for the Houthi rebels remains unclear and covert for the time being.

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US LNG Supplies Could Change the Geopolitics of Asia

If the US’s liquefied natural gas goals come about, they could change the Indo-US relationship and create two distinct camps in Asia

Background

US Secretary of Energy, Ernest Moniz, recently reported that the US is preparing to export huge amounts of liquefied natural gas (LNG). To this end, it is constructing four export terminals and plans to begin its shipments from this year or early 2016 at the latest. Mr Moniz also claimed that by the end of the decade the US would export LNG on a scale that rivals Qatar, currently the world’s largest exporter of the product. He put this down to technological developments that enabled gas deposits once considered uneconomical to develop to be accessed more easily, quicker and more efficiently. The Marcellus basin that stretches from West Virginia to New York state, for instance, now produces 113 billion cubic metres of LNG a year, approximately equivalent to Russia’s exports to Europe.
Comment

Two major reasons for the development of the US LNG industry are price and efficient development of gas fields. Whereas, as one organisation reported, it had taken them seventeen days to drill a 800 metre well as late as 2007, advanced technology now enabled it to drill a 1,650 metre well in just six. Consequently, as the US Energy Information Administration notes, US drillers can today access a full third more natural gas with 280 rigs than they could with 1200 in 2009. The ability to drill deeper quicker provides drilling crews with the ability to tap into more deposits, thus bringing down the price of LNG, which US energy organisations hope will stabilise around US$3 per million British Thermal Units.

This development has interesting geopolitical ramifications. China, for instance, the world’s largest importer of energy products, reached an agreement with Russia in May 2014 whereby it would purchase around US$400 billion worth of gas over the next thirty years at what it then thought was a fair price – US$10 per million metric British Thermal Units (mmBtu), which was almost half the price ($18 per mmBtu) Chinese users paid for gas in April of that year. China is now treaty bound to purchase gas from Russia at that price despite falling prices. This could have a major impact on its manufacturing costs and, as a flow on, the costs of its exported goods.

Beijing has also reached an agreement with Islamabad to develop Pakistan’s energy infrastructure by building power plants to be fuelled by oil obtained from Iran. The electricity generated would then be sold to Pakistan, thus bringing Pakistan even more under China’s political influence. Beijing is, moreover, making distinct inroads in establishing its influence in Iran and possibly obtaining a definite source of energy over an extended period. It is likely, therefore, that China, Pakistan and Iran will form an association of some kind, no matter how informal.

Pakistan’s ties with Iran will, however, cause Saudi Arabia to become even more concerned at the idea of losing an ally to an unstated rival than it presently is with what it sees as Tehran’s interference in the overthrow of an elected government in Yemen. Riyadh is already worried about the nuclear negotiations that have taken place between Iran on the one hand and the US-led P5+1 on the other. Saudi Arabia sees these negotiations as the prelude to a compromise on the part of the US that will permit Iran to continue its nuclear programme under one guise or another. The falling price of oil, once again prompted by the ability of the US drillers to access shale deposits more easily and efficiently than ever before, will be a further cause for Saudi concerns about losing market share. This could see Saudi Arabia turn to China to sell its oil, though Iran may try to export more to China, or try to increase its exports to India.

India, for its part, will welcome the opportunity to purchase increased amounts of energy products are lower prices. This will, however, be tempered by geopolitical demands. If it is to balance China, New Delhi requires Washington’s assistance. It would make sense, therefore, for India to purchase more of its energy products from the US. This would satisfy the geopolitical imperative as well as enable it to diversify its energy sources. It is precisely this thinking that saw major Indian organisations like Reliance Industries, Oil and Natural Gas
Corporation and the Gas Authority of India Limited want to buy shares in liquefied natural gas (LNG) terminals on the east coast of the US in 2012 as a prelude to shipping gas to India.

This would draw India closer to the US, which would want New Delhi to act as a balance to Beijing in addition to being a fast-developing market for its energy products and technology, especially the military kind. If India could access manufacturing technology from the US as well as gas at around US$5 per mmBTU it would be well-placed to usurp some of China’s manufacturing base.

It is likely there will be global losers in this play due to loss of market share; Russia, Saudi Arabia and Colombia come to mind immediately. There will also be winners and others who will have stepped sideways, if not exactly backwards, such as Pakistan. The next few years will prove very interesting indeed.

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**Kokang Conflict Strains Sino-Burmese Relations but Benefits the Military**

_The Burmese military benefits after the government blames China for the continuing Kokang conflict._

**Background**

Sino-Burmese relations have, generally, been close since the repression of Burmese pro-democracy riots in 1988. Throughout the next two decades, Western sanctions were instituted against the country leaving it dependent upon Chinese investment and trade. With Burma’s gradual transition towards a nominally civilian government, however, this dependence has been perceived by China to be threatened. The relationship further weakened after the Burmese air force bombed Chinese territory in March. The Burmese Government has since issued a statement in which it admitted responsibility and apologised for the incident. But, as if to compensate for that, officials in Naypyitaw have since begun to blame Chinese officials for the ongoing Kokang conflict.

**Comment**

Some officials in Naypyitaw argue that China is behind the resumption of fighting in Kokang. Rumour has it that the Myanmar Nationalities Democratic Alliance Army (MNDAA) was able to launch its new offensive after its Chinese bank accounts were unfrozen by Beijing. Some government officials have gone as far as to suggest that the conflict is a Chinese invasion. Other officials are calling upon China to prevent their officials in Yunnan from aiding the
MNDA. It is also thought that the MNDA’s leader, Peng Jiasheng, was sheltered by the government of Yunnan after the MNDA was defeated in 2009, claims the Yunnan government denies.

The suspicions are informed by history. Kokang was part of China until the Qing dynasty ceded it to Britain in 1897. During the Cold War, China supported the Communist Party of Burma (CPB), a guerrilla force that was disbanded in 1989. As a result, up to 90 per cent of the population of the region are Han Chinese and speak Mandarin. After it was disbanded the local Kokang CPB leader, Peng, formed the MNDA. In return for autonomy, it entered into a ceasefire agreement with the Burmese Government in 1989. Kokang then underwent an economic boom, based largely on the trade and trafficking of illegal drugs, prostitution and gambling.

Other segments of the Burmese Government have been careful not to implicate the Chinese government in the conflict. They have claimed that the MNDA is receiving support from Chinese mercenaries but stop at suggesting that the state could be supporting the insurgency. Armed ethnic groups supposedly allied to the MNDA have denied claims that Chinese mercenaries are engaged in the conflict and suggest it is a tactic employed by Naypyitaw to whip up nationalist fervour. Reports indicate that the government has been successful in doing so as the Tatmadaw (Burmese armed forces) have gained popular support for its war against the Kokang militia.

China has considerable strategic interests within Burma. In January 2015, for instance, trial operations began on pipelines carrying oil and gas from the west coast of Burma into the Chinese province of Yunnan. Fighting in both Rakhine state, where the pipelines begin, and in Kokang, where they cross the border, could concern to the Chinese to the extent that they could, perhaps, become engaged in the conflict. This is unlikely to occur, however, as Beijing has a strict policy of non-interference in the internal affairs of other countries and would gain little from its involvement.

Burma’s dependence upon China is beginning to weaken as it begins to diversify its international relations and this is possibly of some concern to Beijing. It could be that Beijing is attempting to derail the Burmese political transition in order to retain its hold over the country. Such a policy, however, carries considerable security risks, making it unlikely to eventuate. China has also stated that the large number of Burmese refugees has become burdensome, suggesting that they see no benefit in prolonging the conflict. These refugees could also pose security risks within Yunnan province. The Burmese Government, however, keen to boost the profile of its military forces ahead of the national elections that are scheduled for October or November,
has blamed China for the conflict. It seems that the Tatmadaw, which continues to play a significant role in Burma’s parliament, is the only institution that gains from the insurgency.

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Water Privatisation: Jakarta Latest City to Rule for Remunicipalisation

The annulment of a contract between Jakarta’s public water operator PAM Jaya and two private water operators earlier this year has left the management of the city’s water supply and sanitation networks in limbo.

Background

The Coalition of Jakarta Residents Opposing Water Privatisation (KMMSAJ) filed a lawsuit against Jakarta’s administrators in 2013 regarding the privatisation of water services and the failure of private water operators to provide an adequate supply of clean, potable water to the city’s residents. Amid reports of ongoing corruption and mismanagement, the cooperation between the city’s administrators and the private water operators reportedly met only 60 per cent of the needs of the city and the piped water, moreover, could not be consumed directly.

Comment

Jakarta is the latest city to rule against the privatisation of its water services. The Central Jakarta District Court annulled an agreement between the public water utility PAM Jaya and two private water operators, PT PAM Lyonnaise Jaya (Palyja) and PUT Aetra Air Jakarta (Aetra) earlier this year. An appeal from the two operators, however, has delayed the city administration’s takeover of services and it may take years before the legal process is completed.

The Constitutional Court’s annulment of Indonesia’s Water Resource Law, which formed the legal foundation for water privatisation in the country, has caused further uncertainty. The court, in doing so, has removed the legal framework for water governance in the country and reinstated the 1974 Water Law that predominantly addresses water for irrigation use and fails to account for private water use or domestic consumption.

In the past 15 years, 235 cities and towns have returned their networks to public management. The rate of this return has also accelerated, with the number of cities remunicipalisling doubling in the past five years compared with 2000-2010. Rising water prices and inadequate service delivery are the key drivers for this change; in Jakarta, the
failure to uphold citizen’s human right to water was the foundation for the court’s annulment of the city’s private water contracts.

Uncertainty surrounding Jakarta’s water management will remain until a new water law and legal framework governing water management is passed. The Public Works and Housing Ministry is responsible for responding to the court’s ruling and has said it will issue a decree this month to create more certainty surrounding water rights. All current public-private partnerships (PPPs) will remain lawful until the new law is finalised.

It will be integral for Jakarta’s administration to come up with a plan to meet resident’s water needs even as the appeal process continues. According to the Jakarta Post the city is considering the construction of self-managed operations, particularly for areas that are not connected to the piped water system. Ruling on the appeals could take years and the city would do well to take lessons from other large cities, including Paris and Buenos Aires, who have remunicipalised their services. The Jakarta City Council will form a transition team to take over water operations in the interim and public consultations and national dialogues began this month to draft a new water law. The transfer back to the public is both a challenge and an opportunity for the city to address the shortfalls in the quality, delivery and pricing of water.

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• What’s Next?

• Japanese Prime Minister Shinzo Abe’s visit to the United States continues until 3 May. While in the US, Mr Abe has met with President Barack Obama and will address a joint session of Congress on 29 April.

• The Southern African Development Community (SADC) will hold an Extraordinary Summit of Heads of State and Government on 29 April in Harare, Zimbabwe.

• The Japan-India Energy Forum 2015 will be held by the Confederation of Indian Industry and the New Energy and Industrial Technology Development Organisation of Japan in New Delhi on 29 April.

• Egypt and Sudan will open the Qastal port on 30 April.

• Twelve of Burma’s ethnic rebel groups will send representatives to a summit in Pangsang on 1-3 May.

• On 2 May, the Cairo Appeals Court will begin the trial of the head of the Central Auditing Organisation, Hesham Genena, editor-in-chief of Wafd newspaper Magdy Sarhanof and journalist Tahani Ibrahim on charges of defaming former Justice Minister Adel Abdel Hamid.
Any opinions or views expressed in this paper are those of the individual authors, unless stated to be those of Future Directions International.