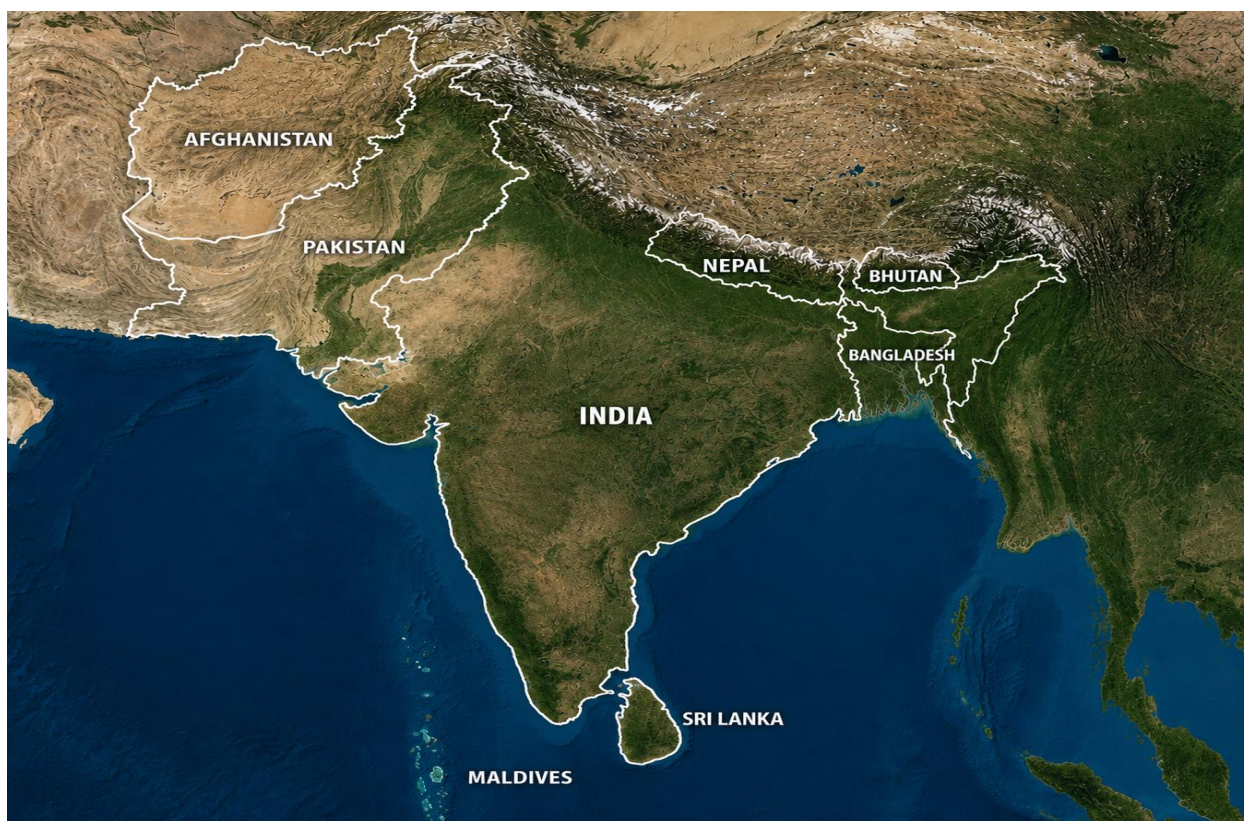


Energy Diplomacy in South Asia Amid Shifting Geopolitical Realities

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Source: AI Generated

The closure of the Strait of Hormuz on 28 February 2026 created one of the biggest disruptions to global oil supplies in recent years.² The strait is a critical route for global energy trade. Around one-fifth of the world's oil and a large share of its LNG normally pass through it. The impact was particularly serious for South Asian countries. Qatar and the UAE together supply 99 percent of

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² International Energy Agency (IEA), *Southeast Asia Energy Outlook 2026* (Paris: International Energy Agency, 2026), <https://www.iea.org/reports/southeast-asia-energy-outlook-2026>.

Pakistan's LNG imports, 72 percent of Bangladesh's, and 53 percent of India's.³ When the strait was closed, South Asian buyers faced a sharp rise in energy costs. The price of delivered Brent crude reached as high as \$132 a barrel, even though futures markets were expecting the disruption to be resolved relatively quickly.⁴ A ceasefire in June brought some relief. The waterway briefly reopened, oil prices came down, and talks mediated by Doha raised hopes that the situation would stabilize. However, the ceasefire did not last.⁵ By late July the ceasefire had frayed again, with Iran once more claiming the strait closed and transit volumes falling to a fraction of their pre-war baseline.

For South Asia the exposure was structural rather than incidental. Energy security in this region was never really secure. That quiet broke in February, 2026.⁶ It broke again in Kashmir, where a terror attack in April 2025 led India to suspend a 65-year-old water treaty and start treating Himalayan rivers as an instrument of pressure on Pakistan.⁷ And it has been breaking slowly for three years now in the shipping lanes carrying discounted Russian crude to Indian refineries, as Washington tightens sanctions one round at a time.⁸ Together they describe a region whose energy map is being redrawn by conflicts it did not start, sanctions regimes it cannot control, and rivalries playing out on its ports, pipelines, and rivers.

Geopolitical Drivers of Energy Diplomacy in South Asia

South Asia's energy security concerns, infrastructure development, resource access, and cross-border energy cooperation are not determined solely by economic considerations. They are deeply influenced by strategic alignments, security calculations, sanctions regimes, and great-power

³ Haneea Isaad, "Pakistan's LNG Surplus Crisis: Assessing Evolving Energy Dynamics and the Need for Flexibility," Institute for Energy Economics and Financial Analysis (IEEFA), March 19, 2026, <https://ieefa.org/resources/pakistans-lng-surplus-crisis-assessing-evolving-energy-dynamics-and-need-flexibility>.

⁴ SolAbility, "Gulf Crisis 2026: The Daily Cost of the Closure of the Strait of Hormuz," *SolAbility News & Insights*, updated April 12, 2026, <https://solability.com/news-insights/iran-war-marginal-cost>.

⁵ "With Hormuz Reopened, Has the Oil Shortage Turned into a Glut?," *Al Jazeera*, July 2, 2026, <https://www.aljazeera.com/news/2026/7/2/with-hormuz-reopened-has-the-oil-shortage-turned-into-a-glut>.

⁶ Spencer Kimball, "The Strait of Hormuz Is Facing a Blockade. These Countries Will Be Most Impacted," *CNBC*, March 3, 2026, <https://www.cnn.com/2026/03/03/strait-of-hormuz-closure-which-countries-will-be-hit-the-most.html>.

⁷ David Michel, "Can India Cut Pakistan's Indus River Lifeline?," *Center for Strategic and International Studies (CSIS)*, May 1, 2025, <https://www.csis.org/analysis/can-india-cut-pakistans-indus-river-lifeline>.

⁸ [Strict Enforcement Needed To Curb Indian Imports of Russian Oil](#)

competition. Consequently, energy diplomacy has become a key instrument through which South Asian states navigate evolving geopolitical realities.

At the regional level, political relations among South Asian states and longstanding political disputes often obstruct deeper regional energy connectivity. Regional energy cooperation remains constrained by political tensions, particularly between India and Pakistan. Despite repeated proposals for cross-border pipelines and regional energy grids, mutual distrust has prevented meaningful energy cooperation. As a result, projects that could improve regional energy security remain politically stalled.

The deterioration of India-Pakistan relations has also affected the water-energy nexus. After the Pahalgam attack in April 2025, India put the Indus Waters Treaty on hold. This also suspended the sharing of hydrological data and the treaty's dispute-resolution mechanisms. India has linked the restoration of the treaty to Pakistan's actions against cross-border terrorism. The issue is particularly serious for Pakistan. Around 90 percent of its agricultural production depends on the Indus Basin. All of its major hydropower facilities are also located within the basin. As a result, control and management of water resources have become an important strategic concern, with direct consequences for Pakistan's energy security.⁹

India has simultaneously accelerated hydropower development on western rivers, including the long-delayed 1,856 MW Sawalkote project on the Chenab River. Pakistan has challenged such projects through international legal channels. There are also growing concerns in Pakistan that India could use control over water flows as a strategic tool. As a result, water and hydropower are no longer separate from the wider political tensions between the two countries. They have increasingly become part of India-Pakistan energy diplomacy.

Another regional initiative affected by geopolitical realities is the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline. Although the project has recently regained momentum amid concerns over maritime energy supply disruptions, its ultimate viability continues to depend on political stability in Afghanistan and the broader relationship between India and Pakistan.

⁹ S. Paul Kapur, "The Case for India's Suspension of the Indus Waters Treaty," *The National Interest*, May 8, 2025, <https://nationalinterest.org/blog/silk-road-rivalries/the-case-for-indias-suspension-of-the-indus-waters-treaty>.

China's influence in South Asia is driven by the BRI and CPEC, with about 74% of its investment in Pakistan focused on the energy sector. Under CPEC 2.0, China is expanding into renewable energy, energy storage, and electric vehicles, while also investing in Bangladesh and exploring opportunities in Sri Lanka. However, security challenges in Pakistan and Russia's growing energy ties with the region complicate China's role. India has become a major importer of discounted Russian oil, reducing energy costs but creating tensions with Western partners.

Russia's influence extends beyond hydrocarbons. Russian firms are involved in major nuclear energy projects across the region, including the Kudankulam nuclear reactors in India and the Rooppur Nuclear Power Plant in Bangladesh. Moscow has also expressed interest in expanding nuclear cooperation with Pakistan. These initiatives position Russia as both an energy supplier and a strategic partner for several South Asian states.



Source: BSS

Western sanctions have become an important factor in South Asia's energy diplomacy. Pakistan's decision to suspend the Iran-Pakistan gas pipeline was influenced heavily by concerns over possible US sanctions. The lack of a waiver from Washington also made it difficult for Islamabad to move forward with the project. Sanctions on Russian energy exports have created similar challenges for India. They have complicated India's energy purchases and forced the government

to balance its economic interests with wider geopolitical pressures. Bangladesh has faced the same problem. In March, Dhaka asked Washington for the same sanctions relief that the US Treasury had recently given to India.¹⁰ The US State Department later granted Dhaka a new 60-day waiver to import refined Russian fuel oil.¹¹ This shows that even in a crisis, energy diplomacy does not solely depend on market conditions or source diversification. Geopolitical factor and a country's diplomatic relationships can influence its energy diplomacy.

Climate change is becoming an increasingly important part of energy diplomacy in South Asia. All South Asian countries have signed the Paris Agreement and have set targets to expand renewable energy. At the same time, South Asia's growing economies need more electricity. This has led countries to continue investing in coal and natural gas. It has created a difficult balance between meeting development needs and reducing emissions. This tension has also made climate finance, technology transfer, and access to green energy infrastructure important parts of South Asian energy diplomacy. Countries in the region need international support if they are to expand clean energy without slowing economic growth.

Energy Cooperation in South Asia

One of the most successful examples of energy cooperation in South Asia has been in electricity trade. It has been limited in scale, but it shows what deeper regional cooperation could look like. Nepal started exporting hydropower to India in 2021. In October 2024, Nepal, Bangladesh, and India signed an agreement that allowed Nepal to export electricity to Bangladesh through India's transmission network. The trade began the following year.¹² The amount of electricity involved is still small. Nepal currently supplies 40 megawatts to Bangladesh during the June-November period. However, the arrangement was significant because it was Nepal's first electricity export to

¹⁰ Rezaul Karim, "Dhaka Seeks US Waiver to Buy Russian Oil," *The Daily Star* (Bangladesh), July 24, 2026, <https://www.thedailystar.net/news/bangladesh/news/dhaka-seeks-us-waiver-buy-russian-oil-4126786>.

¹¹ Shazzad Hossen and Imtiaz Rume, "US Grants Bangladesh Fresh 60-Day Waiver for Russian Fuel Imports," *The Business Standard*, April 17, 2026, <https://www.tbsnews.net/bangladesh/us-grants-bangladesh-fresh-60-day-waiver-russian-fuel-imports-1413501>.

¹² Monali Zeya Hazra, "South Asia's Integrated Grid and Clean Energy Transition," *Observer Research Foundation*, March 30, 2026, <https://www.orfonline.org/research/south-asia-s-integrated-grid-and-clean-energy-transition>.

a third country. It also helped Nepal earn a record NPR 29.32 billion from cross-border electricity trade in fiscal year 2025–26, a 68 percent increase from the previous year.¹³

The Potential to Deepen Cooperation

Nepal and Bhutan hold hydropower potential that vastly exceeds domestic demand. Together both countries represent one of the most concentrated reserves of untapped hydropower potential in the world. Nepal possesses an estimated 83,000 MW of hydropower potential¹⁴ ¹⁵, of which approximately 43,000 MW is technically and economically feasible¹⁶. Under its Energy Development Roadmap and Action Plan 2023–2035, Nepal aims to generate 28,500 MW of electricity and export up to 15,000 MW to neighboring countries¹⁷. Bhutan's endowment is comparably vast. With approximately 2,500 MW of hydropower already operational and about 3,000 MW under construction, Bhutan plans to achieve a total installed capacity of 30,000 MW by 2040¹⁸.

Bangladesh faces a persistent winter power deficit that regional hydro could help offset; India's western and southern grids carry solar surpluses at midday that could, in principle, be exported east. A genuinely integrated regional grid would allow each country to substitute domestic or imported fossil generation with power drawn from a neighbor's surplus, reducing the region's collective exposure to global fuel markets rather than each state absorbing that exposure alone. The European Union's July 2026 launch of a four-year, €5 million initiative called Energy Connectivity in South Asia, covering Bangladesh, Bhutan, India, Nepal, and Sri Lanka, and

¹³ "Nepal Sets New Record in Power Trade, Earns Rs 29.32 Billion from Electricity Exports to India and Bangladesh," *Fiscal Nepal*, July 23, 2026, <https://www.fiscalnepal.com/2026/07/23/27092/nepal-sets-new-record-in-power-trade-earns-rs-29-32-billion-from-electricity-exports-to-india-and-bangladesh/>.

¹⁴ Hari Man Shrestha, "Facts and Figures about Hydropower Development in Nepal," *Hydro Nepal: Journal of Water, Energy and Environment* 20 (2017): 1–5, <https://doi.org/10.3126/hn.v20i0.16480>.

¹⁵ Saugat Aryal, Swastik Ghimire, Suraj Tiwari, Yubin Baaniya, and Vishnu Prasad Pandey, "Evolution and Future Prospects of Hydropower Sector in Nepal: A Review," *Heliyon* 10, no. 10 (2024): e31139, <https://doi.org/10.1016/j.heliyon.2024.e31139>.

¹⁶ Sanju Adhikary and Mahendra Aryal, "Hydropower Development in Nepal: Progress, Policies, Climate Risks, and Sustainable Pathways," *SSRN Electronic Journal* (2025), <https://doi.org/10.2139/ssrn.5280250>.

¹⁷ "Nepal Sets 28,500 MW Target, Eyes 15,000 MW Exports in Decade-Long Energy Strategy," *The Himalayan Times*, April 27, 2026, <https://thehimalayantimes.com/nepal/nepal-sets-28500-mw-target-eyes-15000-mw-exports-in-decade-long-energy-strategy>.

¹⁸ Ministry of Energy & Natural Resources, Royal Government of Bhutan, *National Energy Policy 2025: Empowering Energy Security & Sustainable Growth* (Thimphu: Ministry of Energy & Natural Resources, June 2025), <https://www.moenr.gov.bt/wp-content/uploads/2017/07/National-Energy-Policy-2025.pdf>.

explicitly modelled on lessons from the ASEAN Power Grid reflects a similar external assessment that the subregional model is worth scaling.¹⁹ The underlying trend is encouraging: cross-border power trade within the BBIN subregion has nearly tripled since 2013, from 7.8 to 21 terawatt-hours, even without a single anchor institution coordinating it.²⁰



Source: The Daily Star

India's Role in Regional Cooperation

India has a unique position in South Asia. It shares borders with most of the countries in the region and has a much larger power system than its neighbors. This gives India the capacity to absorb surplus electricity from neighboring countries. India's Cross Border Trade of Electricity (CBTE) guidelines, introduced in 2016 and revised in 2018, created a framework for expanding regional electricity trade. Later regulatory reforms also allowed neighboring countries to participate in Indian power markets. Together, these measures have helped India become an important hub for

¹⁹ European External Action Service, "Energy Connectivity in South Asia," Delegation of the European Union to Bangladesh, July 26, 2026, https://www.eeas.europa.eu/delegations/bangladesh/energy-connectivity-south-asia_en.

²⁰ Monali Zeya Hazra, "South Asia's Integrated Grid and Clean Energy Transition," *Observer Research Foundation*, March 30, 2026, <https://www.orfonline.org/english/research/south-asia-s-integrated-grid-and-clean-energy-transition>.

electricity trade in the region.²¹ India has also used its “Neighborhood First” policy to support cross-border energy infrastructure. One example is the 69-km Motihari–Amlekhgunj petroleum pipeline connecting India and Nepal. India has also provided billions of dollars in development credit to neighboring countries and promoted the One Sun One World One Grid (OSOWOG) initiative, which aims to improve global connectivity in renewable energy.

This centrality carries responsibilities as well as advantages. By mid-2026, the limits of this role had become clear. Nepal and Bangladesh had agreed in principle to increase their seasonal electricity trade from 40 to 60 megawatts during the monsoon season. Nepal’s state utility then asked India for approval to add the extra 20 megawatts before the June 2026 export cycle. India’s Central Electricity Authority, however, did not approve the request. The reason given was a lack of spare capacity on the transmission line that passes through Indian territory. As a result, the trade remained at 40 megawatts while the countries worked on a revised tripartite agreement and waited for further review by the Joint Steering Committee. The transmission capacity in question is located entirely within India’s grid. This means that Nepal and Bangladesh have limited ability to independently verify or challenge India’s technical assessment. This creates an important asymmetry. India’s control over the regional transmission network allows it to facilitate cooperation, as it did with the Nepal-Bangladesh electricity trade. At the same time, that control also gives India considerable influence over how much electricity can actually move through the network.

India’s influence goes beyond any single decision on electricity transmission. Geography is also a major factor. Nepal and Bhutan are landlocked, while Bangladesh’s most practical way of importing hydropower from the Himalayas is through overland transmission lines. This means that electricity from Nepal or Bhutan must pass through Indian territory before reaching Bangladesh. As a result, India controls the main transit route for this trade. This makes India not only as the region’s largest electricity market, but also as an important gatekeeper for regional power trade. The same dependence can be seen in Bhutan. The country sends most of its hydropower to India and relies heavily on the revenue from these exports. Nepal also plans to increase its hydropower exports significantly, with a target of 15,000 megawatts by the mid-2030s. But reaching that target

²¹ Ministry of Power, Government of India, “Trade in Electricity,” Press Information Bureau, March 19, 2020, <https://www.pib.gov.in/PressReleasePage.aspx?PRID=1607177®=3&lang=2>.

will depend largely on India approving the transmission capacity needed to move the electricity. This creates a complicated relationship. India is both Nepal's main potential buyer and the main transit route for reaching Bangladesh. This dependence raises concerns about whether regional hydropower cooperation could become a form of hydro-hegemony. Therefore, South Asia needs a more transparent and rules-based framework could strengthen confidence in India's role as a regional energy facilitator rather than a gatekeeper.

BIMSTEC's Role in Driving Energy Cooperation

BIMSTEC has promoted regional energy cooperation since its first Energy Ministers' Meeting in 2005, which endorsed cross-border grid interconnection and a shared regulatory framework.²² Progress, however, has been slow. BIMSTEC signed the Grid Interconnection MoU in 2018, and it came into force in 2019. But several important parts of the framework are still being developed, including the Master Plan, common electricity tariff mechanisms, and regional trading rules. The main barriers are not political. They are mostly technical and administrative. Grid systems across the region do not follow the same technical standards, transmission infrastructure remains incomplete, and there is still no open regional electricity market. Financing is another major problem, as individual governments have been slow to provide the investment needed to connect these systems.

BIMSTEC has an advantage because of its membership. Unlike SAARC, it is not directly affected by India-Pakistan tensions. It also connects South Asia with Southeast Asia, creating opportunities for wider regional electricity trade. However, these opportunities will only become meaningful if existing agreements are turned into practical arrangements. This means creating the infrastructure, rules, and institutions needed for a functioning regional energy market.

Way Forward

South Asia's energy vulnerability is not primarily a question of resource scarcity but of dependence, fragmentation, and geopolitics. The region remains heavily exposed to external

²² Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), "BIMSTEC Energy Ministers' Meeting," accessed August 4, 2026, <https://bimstec.org/bimstec-energy-ministers-meeting>.

supply disruptions, sanctions regimes, maritime chokepoints, and political disputes that shape access to energy as much as economic considerations do.

The region's experience also suggests that progress is more likely to come from improving existing mechanisms than creating new ones. The BBIN electricity corridor is a good example. It shows that practical cooperation is possible even when wider regional politics remain difficult. Expanding cross-border transmission networks and creating clearer and more predictable rules for electricity trade could also help countries make better use of their complementary energy resources. At the same time, countries need to reduce their dependence on a small number of external energy suppliers. They also need stronger systems to deal with sanctions, conflicts, and sudden supply disruptions. These will remain important for regional energy security.

In the end, the future of energy diplomacy in South Asia will depend less on new agreements and more on how existing ones are implemented. If current initiatives can be turned into a more connected and rules-based regional energy system, South Asian countries could reduce their external vulnerabilities, support the shift towards cleaner energy, and build a system that is better prepared for future geopolitical shocks.