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THE REBALANCE TO ASIA: WHY SOUTH ASIA MATTERS (PART II)

HEARING

BEFORE THE

SUBCOMMITTEE ON ASIA AND THE PACIFIC

OF THE

COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

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THE REBALANCE TO ASIA: WHY SOUTH ASIA MATTERS (PART II)

WEDNESDAY, MARCH 13, 2013

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ASIA AND THE PACIFIC,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 11 o'clock a.m., in room 2172 Rayburn House Office Building, Hon. Steve Chabot (chairman of the subcommittee) presiding.

Mr. CHABOT. The committee will come to order.

Good morning. I want to welcome all of my colleagues to this hearing of the Subcommittee on Asia and the Pacific and I'd like to extend a special thanks to our ranking member, Mr. Faleomavaega, who cannot be with us this morning as he is en route to Washington.

We originally intended to have this hearing later this afternoon but moved it to this morning to accommodate President Obama's visit to the Capitol this afternoon.

Mr. Faleomavaega graciously insisted we move forward without him, so I want to thank him and his staff for their flexibility. In his stead, I would like to welcome Mr. Ami Bera, who will sit in for the ranking member this morning during the course of this hearing and act as the ranking member of this subcommittee.

I'd also like to thank our witnesses for being here today and for their flexibility as well. Mr. Bera and I will make opening statements now and other members will be recognized for a minute to make a statement if they would wish to do so. We try to keep ours to 5 minutes if at all possible.

Today's hearing is a continuation of the hearing we held 2 weeks ago with Assistant Secretary Robert Blake and Acting Assistant Secretary Joseph Yun, which gave the administration the opportunity to address how it plans to increase South Asia's role as part of the strategic rebalance toward Asia. I think it's fair to say that there was bipartisan support in this room regarding the critical strategic importance of South Asia, particularly with India, to U.S. interests in the broader Indo-Pacific region. I want to emphasize today that I do not believe the administration's rebalance will succeed unless the U.S. does more to build a stronger relationship in that part of the world.

That said, 2 weeks ago we did not hear from our witnesses how the administration specifically plans to tackle the myriad of challenges the U.S. confronts in enhancing its engagement in that re-

gion, or tangible actions the administration intends to pursue to emphasize South Asia's critical importance and better integrate India into the regional architecture. Today, I hope that we can explore these challenges and examine actions the United States can take to further U.S. interests and foster stronger relations throughout the Indo-Pacific region.

The interconnection of U.S. economic, political and security objectives can be found in and along the Indian Ocean Rim. Economically, the region is a lifeline of international trade, carrying half the world's container ships, one-third of the bulk cargo traffic, and two-thirds of the world's oil shipments. Woven together by trade routes, it is a geographic area upon which the world greatly depends, and containing nearly a third of the world's population, the significant human resources and technological capabilities within the Rim-land is extraordinary.

It is certainly no surprise that China and India regard this region as critical, where economic interests meet security interests. Consequentially, actions and decisions made in this region will undoubtedly have a direct impact on the economy of the United States and on creation of American jobs. Since these actions will also help to shape the political landscape, it is now more important than ever that the U.S. focus on enhancing economic openness, political freedom and democratic governance in this region where so many nations are in the midst of political transition.

The opportunities we see in South Asia are at the same time challenges, and one of the biggest challenges we face is building a more dynamic relationship with India. It is vitally important for the U.S. that India takes a more active role in developing the Indian Ocean region and increases its engagement in the Asia Pacific; however, the real question is, how can we help India do this? India is still excluded from various security and economic groups, particularly U.S.-led global nonproliferation and arms control groups and a range of economic associations.

Now, India wants the U.S. to play an active role in maintaining regional security and promoting economic cooperation to balance what it calls "China's irredentist encroachment on the Global Commons." At the same time, India has been both unwilling and ostensibly unable to assume a leadership role as an international actor commensurate with its size and power. Indian leadership has been hampered by corruption, endemic poverty, and its acute dependence on unreliable regional allies. U.S.-India cooperation will likely remain incremental and measured as long as India strives to maintain its strategic autonomy.

While we could fault India on the sluggish bilateral relationship, for being overly focussed on maintaining its strategic independence and acting more reactionary than proactive and engaged, that would not bring about the change we want to see. We need to build on the strengths of the relationship, find ways to foster trust with India, and help India integrate into the international system. I believe there are steps the Obama administration can take to do this that it is not presently pursuing.

Assistant Secretary Robert Blake stated at our first hearing that, "While it may not get the same attention as our relationships with countries of East Asia, U.S. engagement in South Asia remains

central to our reinvigorated outreach to the entire continent." Well, frankly, South Asia has never been considered central to the rebalance in the first place. To that end, while South Asia is unlikely to play the central role, I am hopeful that it can increase its presence on the world stage.

An increased engagement strategy with South Asia will help the United States secure its long-term goals in Asia in a number of ways: Maintaining freedom of navigation, preventing the spread of radical Islam and terrorism, upholding human rights and helping to prevent the proliferation of nuclear weapons.

For the strategic rebalance toward Asia to be successful, not only does South Asia need to play a more active role, our policies need to have clear objectives and precise markers of success. The U.S. also needs to remain committed. Unfortunately, 2 weeks ago we did not hear specific steps the administration is taking or planning to take to address these many challenges. I look forward to hearing from our witnesses today and examining policy options the U.S. can take to strengthen America's engagement strategy in Asia.

I would now like to recognize Mr. Bera who, again, is sitting in as ranking member for Mr. Faleomavaega today. We welcome him and we welcome his opening statement at this time.

[The prepared statement of Mr. Chabot follows:]

One Hundred Thirteenth Congress

Congress of the United States

Committee on Foreign Affairs

Subcommittee on Asia and the Pacific

March 13, 2013

The Rebalance to Asia: Why South Asia Matters (Part II)

Chairman Steve Chabot (R-OH)
Opening Statement

Today's hearing is a continuation of the hearing we held two weeks ago with Assistant Secretary Robert Blake and Acting Assistant Secretary Joseph Yun, which gave the Administration the opportunity to address how it plans to increase South Asia's role as part of the strategic rebalance toward Asia. I think it's fair to say that there was bipartisan support in this room regarding the critical strategic importance of South Asia, particularly with India, to U.S. interests in the broader Indo-Pacific region. I want to emphasize today that I do not believe the Administration's rebalance will succeed unless the U.S. does more to build stronger relationships in that part of the world. Unfortunately, two weeks ago we did not hear from our witnesses how the Administration specifically plans to tackle the myriad of challenges the U.S. confronts in enhancing its engagement in the region, or tangible actions the Administration intends to pursue to emphasize South Asia's critical importance and better integrate India into the regional architecture. Today, I hope that we can explore these challenges and examine actions the United States can take to further U.S. interests and foster stronger relations throughout the Indo-Pacific region.

The interconnection of U.S. economic, political, and security objectives can be found in and along the Indian Ocean Rim. Economically, the region is a lifeline of international trade, carrying half the world's container ships, one third of the bulk cargo traffic, and two-thirds of the world's oil shipments. Woven together by trade routes, it is a geographic area that the world greatly depends on, and containing nearly a third of the world's population, the significant human resources and technological capabilities within this rim-land is extraordinary. It is certainly no surprise that China and India regard this region as critical, where economic interests meet security interests. Consequentially, actions and decisions made in this region will undoubtedly have a direct impact on the economy of the United States and on the creation of American jobs. Since these actions will also help to shape the political landscape, it is now more important than ever that the U.S. focus on enhancing economic openness, political freedoms and democratic governance in this region where so many nations are in the midst of political transition.

The opportunities we see in South Asia are at the same time challenges, and one of the biggest challenges we face is building a more dynamic relationship with India. It is vitally important for the U.S. that India takes a more active role in developing the Indian Ocean region and increases its engagement in the Asia-Pacific; however, the real question is how can we help India do this? India is still excluded from various security and economic groups, particularly U.S.-led global nonproliferation and arms control groups and a range of economic associations; but, India, like China, wants a greater role in the global order. It also wants the U.S. to play a constructive role in helping to maintain regional security and promoting economic cooperation—to balance what it calls "China's irredentist encroachment on the global commons."

At the same time, India has been both unwilling and ostensibly unable to assume a leadership role as an international actor commensurate with its size and power. Indian leadership has been hampered by corruption, endemic poverty, and its acute dependence on unreliable regional allies. U.S.-India cooperation will likely remain incremental and measured as long as India strives to maintain its strategic autonomy. While we could fault India on the sluggish bilateral relationship, for being overly focused on maintaining its strategic independence and acting more reactionary than proactive and engaged, that will not bring the change we want to see. We need to build on the strengths of the relationship, find ways to foster trust with India, and help India integrate into the international system. I believe there are steps the Obama Administration can take to do this that it is not presently pursuing.

Assistant Secretary Robert Blake stated at our first hearing that, "While it may not get the same attention as our relationships with countries of East Asia, U.S. engagement in South Asia remains central to our reinvigorated outreach to the entire continent." This statement is a little misleading because South Asia has never been considered central to the rebalance in the first place. To that end, while South Asia is unlikely to play the central role, I am hopeful that it can increase its presence on the world stage.

An increased engagement strategy with South Asia will help the United States secure its long-term goals in Asia in a number of ways: maintaining freedom of navigation, preventing the spread of radical Islam and terrorism, upholding human rights, and helping to prevent the proliferation of nuclear weapons. For the strategic rebalance toward Asia to be successful, not only does South Asia need to play a more active role, our policies need to have clear objectives and precise markers of success. The U.S. also needs to remain committed. Unfortunately, two weeks ago we did not hear specific steps the Administration is taking or planning to take to address these many challenges. I look forward to hearing from our witnesses today and examining policy options the U.S. can take to strengthen America's engagement strategy in Asia.

Mr. BERA. Thank you, Mr. Chairman, and thank you for calling this series of hearings in the—on the importance of South Asia.

America's pivot to Asia is critical at this juncture and is really a much needed evolution in our foreign policy. Far too often when we think about American diplomacy in Asia we have historically thought of this in terms of our long-standing allies in Japan, in South Korea and, more recently, in the shift toward China.

However, Mr. Chairman, as you've pointed out, as we look at our future, South Asia become increasingly important and critical to our relationship with South Asia is the U.S. relationship with India.

It's a strategic relationship both economically and strategically to stabilize this region. Late last year, President Obama remarked that the U.S.-India relationship is one of the most important partnerships of the 21st century.

Economically, we clearly see the opportunities and a robust trading relationship with India is vital as we start to accelerate our economic recovery and start to create jobs here at home. In fact, in my home state of California, exports to India are worth over $3.7 billion annually. It is a vital relationship.

Agricultural exports are especially important. According to the Department of Agriculture, exports to this sector in 2012 topped $440 million. Exports in tree nuts alone were worth $324 million. So opening up India's markets to our goods and services certainly are very strategic for us. We must continue to expand our economic relationship.

India is also emerging as a key strategic partner of the United States. You know, we're establishing deeper relationships with other nations throughout Asia using India as a strategic partner.

Our own interest in promoting regional stability make it imperative that the U.S. participate along with India in these regional organizations as well. In fact, as we talked about a few weeks ago at the hearing, as we begin drawing down our troops from Afghanistan, India and the U.S. share a common interest in promoting regional peace and international security.

India also has a critical role in holding and maintaining some of the gains we've made in helping anchor the stability in Southeast Asia. The United States is depending on India to serve as a regional economic anchor and a provider of security in the broader Indian Ocean region.

Three weeks ago, I had the opportunity to question Assistant Secretary of State Blake as he returned from a trilateral meeting with leaders of India and Afghanistan. Testifying before this committee, he restated our common vision for a strong, peaceful and prosperous region.

He also spoke about working together on common challenges and opportunities including combatting violent extremism and increasing regional trade and economic integration. As the only Indian-American in Congress, I'm curious to hear from our witnesses how this important relationship continue to grow.

I'm also curious to hear from our witnesses as to the challenges of growing this relationship and what we can do in this body, working with the administration, to overcome some of those challenges.

Again, Mr. Chairman, I'll yield back the rest of my time. Thank you.

Mr. CHABOT. Thank you very much, and we'll now yield 1 minute to members if they'd like to make an opening statement, and we will do it in the order in which they arrived.

The gentleman from North Carolina, Mr. Holding, is recognized, if you'd like to make a statement.

Mr. HOLDING. Thank you, Mr. Chairman, for hosting the second part of the subcommittee's hearing as we continue to examine the importance of South Asia.

As was demonstrated several weeks ago by Part I of the hearing, numerous questions still remain surrounding the implementation of this administration's pivot to Asia and the Pacific.

I thank our witnesses for their time and testimonies and I look forward to the answers you are going to give us and shed some light on the administration's pivot.

So thank you, Mr. Chairman, and I yield back.

Mr. CHABOT. Thank you very much.

The gentleman from California, Mr. Sherman, who is the ranking member of the Terrorism, Nonproliferation, and Trade Subcommittee, is recognized for 1 minute.

Mr. SHERMAN. Thank you, Mr. Chairman.

It's time to stop punishing India for becoming a nuclear state. India did not sign the NPT and cannot be called a violator of an agreement it did not sign and it has a good record on preventing proliferation.

Pakistan is the most problematic and least stable of the world's current nuclear states excepting North Korea and is one of the great intractable problems in difficult situations that we face in our diplomacy.

If we could create a peace between India and Pakistan, a lasting peace, then the Pakistani military could no longer claim its outside role. It would have to assume a role consistent with Pakistan's economy and population rather than a role the size or as close as they can get to the size of the Indian military, and that would be very important to bringing Pakistan democracy and stability.

I yield back.

Mr. CHABOT. Thank you very much. I believe the gentleman from Pennsylvania, Mr. Perry, is recognized for 1 minute.

Mr. PERRY. Thank you, Mr. Chairman, and I too want to applaud you for this second series of hearings.

I'm interested in hearing the information as well. I'm also concerned about the administration's rhetoric regarding the strategic importance of the region but it doesn't seem to be balanced with appropriate actions and I'll be interested to hear the testifiers' viewpoint on what those actions should be so we can get beyond the rhetoric and put something in place that's tangible that we can see and that is productive.

So I appreciate your presence here today. I'm looking forward to it, and I yield back.

Mr. CHABOT. Thank you very much. The gentleman from Georgia, Mr. Collins, is recognized.

Mr. COLLINS. Thank you, Mr. Chairman.

I appreciate it and, again, I appreciate you having these hearings and following because it's just a strategic emphasis that seems to be overlooked only except in times in crisis. And we can talk about a pivot. We can talk about wanting to be there.

But if you only look at it in terms of the importance of when it becomes an issue or when something happens, that's a problem and that's what I've seen in this area for too long. What I like about these hearings and the previous week's hearing is its focusing on what can we do to strengthen not only the political relationships, the economic relationships but also the very strategic relationships.

If you look at our commitment from a military perspective and others over the past few years they have been dominated a lot in this area or concerns about this area.

So I appreciate, Mr. Chairman, you doing this and I'm looking forward to continuing the hearing.

Mr. CHABOT. Thank you very much, Mr. Collins, and I believe Mr. Brooks from Alabama is next.

Mr. BROOKS. Thank you, Mr. Chairman, for calling this hearing.

Certainly, the southern part of Asia is extremely important in world affairs and I look forward to learning from the insight that will be shared by these witnesses.

Mr. CHABOT. Thank you very much.

And last but not least, Mr. Connolly, if you would like to make a 1-minute opening statement, you're welcome to do so.

Mr. CONNOLLY. Thank you so much, Mr. Chairman.

I have three hearings at the same time this morning and I want to welcome my friend, Sanjay Puri, to the—to the witness table. Thank you so much for holding this hearing.

I was just in India with a very large group under the auspices of the Aspen Institute—a large group of Members of Congress—which I think demonstrates this repivoting to Asia in a very complex but very important region. And so I'm looking forward to the testimony today, especially about the logic behind the so-called repivoting to Asia and what it means to the United States long term.

Thank you, Mr. Chairman.

Mr. CHABOT. Thank you very much, Mr. Connolly, and we'll now introduce our very distinguished panel here this morning.

First, Mr. Walter Lohman is director of the Heritage Foundation's Asian Studies Center. Before joining Heritage, Mr. Lohman served as senior vice president and executive director of the US–ASEAN Business Council for 4 years. He oversaw the Council's mission of building U.S. market share in Southeast Asia.

In the late 1990s, Mr. Lohman was the Council's senior country director representing American interests in Indonesia and Singapore. In 2002, he served under Senator Jesse Helms, advising him on issues affecting East Asia. From 1991 to 1996, he served as a policy aide to Senator John McCain on foreign policy, trade and defense issues. We welcome you here this morning.

Next, we'll hear from Vikram Nehru, who is a senior associate in the Asia Program and Bakrie Chair in Southeast Asian Studies at the Carnegie Endowment for International Peace. He is an expert on development economics, growth, poverty reduction, debt sustainability, governance and the performance and prospects of East Asia.

From 1981 to 2011, Mr. Nehru served in the World Bank where he was chief economist and director for poverty reduction, economic management private and financial sector development for East Asia and the Pacific. In this capacity, he advised the governments of developing countries in Asia on economic and governance issues. We welcome you here, Mr. Nehru.

Sadanand Dhume is a resident fellow at the American Enterprise Institute where he writes about South Asian political economy, foreign policy, business and society with a focus on India and Pakistan. He is also a South Asia columnist for the Wall Street Journal and has worked as a foreign correspondent for the Far Eastern Economic Review in India and Indonesia. We welcome you here, Mr. Dhume.

Last but not least, Sanjay Puri is president and CEO of the Alliance for U.S. India Business. As an expert on U.S.-India relations, Mr. Puri regularly leads delegations of business and political leaders to India and is a frequent public speaker on U.S.-India relations and the political impact of the Indian-American community.

Mr. Puri played an instrumental role in the passage of the U.S.-India Civil Nuclear Cooperation Agreement. He's also the founder and chairman of the board of Optimos Incorporated and Information Technology Company based in Reston, Virginia, and before founding Optimos he worked at the World Bank.

Without objection, all of the witnesses' prepared statements will be made part of the record. Each witness will have 5 minutes and there is actually a lighting system there that you'll see. When the yellow light comes on that means you have 1 minute to wrap up. When the red light comes on, we ask that you please terminate your statement at that time, if possible, or very closely thereto.

We will begin with you, Mr. Lohman. You're recognized for 5 minutes.

Mr. LOHMAN. Great. Thank you, Mr. Chairman.

Mr. CHABOT. If you would all, when you speak, pull the mic close to you and make sure it's on. Thank you.

STATEMENT OF MR. WALTER LOHMAN, DIRECTOR, ASIAN STUDIES CENTER, THE HERITAGE FOUNDATION

Mr. LOHMAN. Thank you, Mr. Chairman, Mr. Bera, other members of the committee. It's an honor to be here. I appreciate the invitation. It's also an honor to be here with several of my friends that I work with on an everyday basis. You've lined up a good set of folks.

I guess I'm going to start out with the challenges part and maybe my friends here can fill in more the opportunity. I've entitled my remarks, "The Importance of Reality in U.S-India Cooperation in East Asia."

I know it's a little bit provocative but I do want to make it clear that I'm a big supporter of closer U.S.-India relations and strategic cooperation in East Asia if we can find ways to do it and we can find ways to improve on things that we're currently involved in. It's just that I think we need to be realistic about the prospects, for the sake of American interests.

China is the big geopolitical challenge to the U.S. but if we're of divided mind on how to deal with China, imagine how the Indians

feel about the issue. India shares an armed and troubled border with China. For us, China is a geopolitical issue. For India, it's a local issue.

China is also a huge economic opportunity for India and they have a lot of common concerns in dealing with the problems of the developing world, which they both inhabit, and also as emerging very large economies.

Furthermore, India has its own diplomatic history—a tradition of nonalignment that still infuses its rhetoric today. It wasn't so nonaligned during the last 60 years but that's okay. I mean, that's the national myth, that they are nonaligned, strategic autonomy.

That means India is kind of prickly to deal with. It means it's prickly. It's not petty. It's not unserious. We may not agree with many of its positions, elements of its policy. But it's a sincere one and something that we have to account for.

It's similar in Southeast Asia, and given that Southeast Asia is geographically what separates India from the rest of East Asia and given that India's "Look East" policy has been in effect there for the longest time, my written testimony focuses a great deal on India's involvement in Southeast Asia and the potential for U.S. cooperation with them there.

But the world view in Southeast Asia is similar to India in that the Association of Southeast Asian Nations in the first place was created to give the region a little bit of space, a little bit of independent room for action.

That mode has been questioned at times but, again, that's the spirit of the region. That's the myth that motivates their current diplomacy.

Indonesia is the center of gravity in ASEAN. How does their foreign minister describe ASEAN? As "a new world paradigm where there is no longer need for competition," particularly between the U.S. and China. And "where all countries can gain."

And there's nothing new or unique about Minister Natalegawa—that's the Indonesian foreign minister—about his thinking on this. It reflects Indonesian foreign policy going back many decades to its founding, to independence and it infuses—that spirit infuses all of ASEAN's diplomatic culture.

So here we are, the United States, trying to make common cause with India, a country proud of its "strategic autonomy," and a geostrategic competition with China in a region that has little concerted interest in that competition.

With the regional organization, ASEAN, I must say that it's failing in its effort to manage the single biggest security problem in the region right now, which is the competing influence and disputes in the South China Sea.

Is Southeast Asia concerned about the down side of China's rise? Depending on the country that you're talking about, absolutely. But it's also concerned about a too powerful United States.

That's something that we miss in the day-to-day headlines here in our concern about China. It just so happens at this moment in history the Chinese are making our diplomacy easier and actually pushing many of the ASEAN members in our direction.

So where does this leave us in a conversation about why India matters in America's East Asia policy? It matters because of India's

long-term potential. Assistant Secretary Blake last month put the time horizon on this endeavor at 50 years.

For the sake of leaving American strategic options open over the coming decades, the U.S. should facilitate India's active involvement in the regional diplomatic architecture, a formal dialogue, bilateral and multilateral and day-to-day coordination among officials should be welcomed—joint military exercises, too.

My only constructive criticism is a warning that we proceed knowing that a U.S.-India strategic convergence is limited and, indeed, it's a long-term exploratory endeavor. We need to focus on the things that count the most to America's position in East Asia, which is our forward deployed military, our alliances and our support for free commerce throughout the region. Thank you.

[The prepared statement of Mr. Lohman follows:]

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CONGRESSIONAL TESTIMONY

The Importance of Reality in US-India East Asia Cooperation

Testimony before the
Subcommittee on Asia and the Pacific
Committee on Foreign Affairs
United States House of Representatives

March 13, 2013

Walter Lohman
Director, Asian Studies Center
The Heritage Foundation

My name is Walter Lohman. I am Director of the Asian Studies Center at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

An evaluation of why South Asia matters to America's *East* Asia policy and how the region's dominant power, India, can be effectively incorporated into it must begin with a clear conception of U.S. policy goals in East Asia and the current tools at its disposal.

Fundamentally, the objective of U.S policy in the Western Pacific should be – as it has been since the end of World War II – to backstop to peace, security, freedom, and prosperity. The main tools the U.S. employs in this effort are its alliance network, forward deployed military presence, and support for free commerce. Secondary tools include bilateral and multilateral diplomatic engagement. U.S.-India relations fall into a subcategory of this diplomatic category. There are no hard and fast lines separating these classifications. Singapore, for instance, is not a treaty ally of the U.S. It does, however, offer military capability, cooperation, and access as valuable as some formal allies. The U.S. has fruitful military-to-military relations with many countries in the region, including India. Consigning India to a lower category of priority is only to recognize that America's principal official interaction with it is diplomatic. It is also recognition that there is a world of difference between the value the U.S. derives from its Japanese, Korean, Australian, and even Thai and Philippines alliances, than it derives from its relationship with India.

With this as context, the questions then follow: What interests do the U.S. and India share in East Asia and what does each bring to the table to meet them?

Common U.S.-India Interest in Balancing China

The principal strategic challenge in East Asia is the task of peacefully incorporating a rising China into the region's political life to the benefit of the broadest cross section of interests, including American and Indian – and Chinese. Of course, from the U.S. perspective, we want the biggest possible share of that cross section, as do the Indians with regard to their interests. One area our interests correspond in managing China's rise is in balancing its growing power, and thereby creating the underpinnings of an effective regional diplomatic architecture.

This said, U.S. and Indian approaches to China diverge in ways that complicate this shared theoretical, geopolitical priority. Neither the U.S. nor India consistently pursues a "balancing" strategy vis-à-vis China; engagement is an equally prominent element of both nations' China policies. From the Indian perspective, China is first a neighbor – a relatively strong one that the Indian foreign policy and security establishments are loath to provoke. Secondly for India, China is economic opportunity. It is India's largest trading partner, and each has nascent, growing investment interests in the other.

For its part, the U.S. has fundamental conflicts of interest with China, among them, Taiwan's status, differences over maritime disputes, and security on the Korean Peninsula. The U.S., however, also has multiple open channels of communication and dialogue with the Chinese. The balance that America's forward-deployed military and alliance structure provides far outweighs any contribution that U.S.-India relations can make. On the economic front, China is a far more important partner to the U.S. than India. China is America's number two trading partner, while India is number 13 – the difference almost tenfold in dollar terms. In short, the U.S. has its own equities in U.S.-China relations and ample means at its disposal to deal with China, with or without India.

Because the U.S. and India each employ a mixture of balance and engagement, and because they are not mutually dependent, they are often out of cycle with one another. The India side in particular is sensitive to the domestic political charge of caving to American strategic interests, while the American relationship with China is so encompassing of its bureaucracies' energies that it has a dynamic all its own, often carried out without much regard for Indian equities.

The success of India's "Look East" policy, to the extent that it supports a stable balance of power, is in America's interest. To the extent it complicates Chinese efforts to further their extensive maritime claims in the Western Pacific, it is also positive. India's measured naval engagement and commercial interests in the Western Pacific help put the disputes there in an international light. Its statements about freedom of navigation in the South China Sea serve as useful political statements limiting Chinese ambitions. On their face, they support America's free commerce objective, i.e., protecting the global commons. Observers must bear in mind, however, that in a strict legal sense, India's position on freedom of the seas is closer to the Chinese interpretation. This is true, in particular, regarding military operations in exclusive economic zones – a major American priority. This, in a microcosm, captures the nature of shared U.S.-India interests when it comes to China: Theoretically intuitive, in reality, not quite congruent.

India in Southeast Asia

It is wise for the Subcommittee to focus attention on regional organizations. The development of the ASEAN-centric architecture endorsed by the Obama Administration is coming to pass. The Administration's public diplomacy over the last four years speaks loudly to the competition for influence there between the U.S. and China. A focus on Southeast Asia is also relevant, by function of India's geography and shorter power

projection horizon. It is also the sub-region that India has been applying "Look East" to for the longest time.[1]

Although the Obama Administration has done very well to regularize and increase the points of contact with ASEAN, the danger is that it will buy too deeply into its processes. ASEAN, in my view, is not so much "a fulcrum for the region's emerging regional architecture" as Secretary of State Hillary Clinton called it, but a meeting venue. It is a critically important one, but for U.S. purposes this engagement is simply one tool in our approach to the region. ASEAN's aspiration to be more than this to outside powers, including the U.S. (it is already more than this to its own members) is today foundering on its efforts to manage escalating disputes in the South China Sea.

As for India's profile in Southeast Asia, it is remarkable to consider what has occurred on the ground there since India launched its focus on East Asia in 1991. India's "Look East" policy predates China's own "charm offensive" in Southeast Asia by six years. Like China, India is now active in all the elements of the region's summitry, including the ASEAN Regional Forum, the East Asian Summit, the ASEAN Defense Ministers Plus, and ASEAN heads of state/government summits. It has also strengthened bilateral relations throughout Southeast Asia.

The economics – which was a major factor motivating ASEAN's engagement of India – tell a different story. By 2009, trade with China constituted 11.6% of ASEAN's total while India accounted for 2.5% of it. A year later, despite the entry into force of the India-ASEAN FTA, these shares remained virtually the same. ASEAN exports three times as much to China as India, and imports six times as much from China. Total direct investment inflows from China to ASEAN in 2002-2009 were more than twice that from India. For 2010, Indian investment jumped as a share of ASEAN's total inward investment to levels close to China – yet, not nearly enough to make up the accumulated difference.[2]

It is worthwhile to break these investment figures down by country to get a more precise view of what is happening. Investments in some countries yield greater political benefit than others. Singapore – ASEAN's most regular business environment, i.e., the place investment will buy you the least political influence – is by far the greatest recipient of Indian investment into ASEAN. (Almost half of all global direct investment into ASEAN goes to Singapore.) Singapore records twice as much investment from India as China.[3]

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[1] David M. Malone, *Does the Elephant Dance? Contemporary Indian Foreign Policy*, (New York: Oxford University Press, 2011), Location 4837, Kindle version of book.

[2] Association of Southeast Asian Nations, *ASEAN Community in Figures*, 2011, at http://www.scribd.com/doc/111873404/ASEAN-Community-in-Figures-ACIF-2011 (accessed March 11, 2013).

[3] Department of Statistics Singapore, *Foreign Equity Investment in Singapore,* 2010, at http://www.singstat.gov.sg/pubn/business/fei2010.pdf (accessed March 11, 2013). The vast bulk of investment is in equity. Figures do not include investments from Hong Kong.

All the other ASEAN countries which offer comparable figures – Vietnam, Malaysia, Thailand, Philippines, Indonesia – report Chinese investment levels that dwarf India's.[4] Burma, ASEAN's 2104 Chair, for instance, a country at the heart of what is often portrayed as a field of fierce China-India competition, reports China's share of foreign direct investment at 33%, India's share at less than 1.0%.[5] ASEAN's 2016 Chair, Laos, records $3.4 billion in approved Chinese investment projects through 2011, and roughly $149.7 million from India.[6] Vietnam is often held up as a regional leverage point in China's rise. Vietnam trades 10 times as much with China as with India.[7] On the investment side, Vietnam reports $3.7 billion in FDI from China through the end of 2010; and $214 million from India. It is a similar story of Indonesia. In fact, The Heritage Foundation's China Global Investment Tracker independently records a massive $25 billion in total Chinese investments and contracts for Indonesia.[8] Different countries record numbers differently, but any way one looks at the numbers, they do not look particularly good for India. They show India trailing China considerably in its effort to forge the sort of economic integration that Assistant Secretary Robert Blake suggested in his testimony before this subcommittee could be "*the* key" to regional stability.[9]

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[4] General Statistics Office of Vietnam, *Foreign Direct Investment Projects Licensed By Main Counterparts*, December 31, 2010, at http://www.gso.gov.vn/default_en.aspx?tabid=471&idmid=3&ItemID=11390 (accessed March 11, 2013). The Board of Investment: Thailand, *Table 1: PRC Investment Projects Submitted to BOI*, January 9, 2011, at http://www.boi.go.th/upload/content/T.PRC11_63028.pdf (accessed March 11, 2013). The Board of Investment: Thailand, *Table 1: Indian Investment Projects Submitted by BOI*, January 13, 2012, at http://www.boi.go.th/upload/content/T.INDIA11_52541.pdf (accessed March 11, 2013). Invest Philippines, *Total Approved Foreign Direct Investment by Country of Investor*, 2010, at http://www.investphilippines.gov.ph/statistic2.html (accessed March 11, 2013). Bank Indonesia, *Direct Investment Flows in Indonesia by Country of Origin*, 2012, at http://www.bi.go.id/seki/tabel/TABEL5_33.pdf (March 11, 2013). Central Bank of Malaysia, "International Investment Position (IIP): Malaysia", December 31, 2011, at http://www.bnm.gov.my/index.php?&lang=en (accessed March 11, 2013). Indian position confirmed via email exchange with Department of Statistics Malaysia.

[5] Ministry of National Planning and Economic Development, *Foreign Investment of Permitted Enterprises*, December 31, 2012, at http://www.dica.gov.mm/dicagraph1.htm (accessed March 11, 2013).

[6] Ministry of Planning and Investment Laos, *All Approved Investment Projects by Country*, December 2011, at http://www.investlaos.gov.la/files/rpt_Invest_Summary_Country1A.pdf (accessed March 11, 2013).

[7] General Statistics Office of Vietnam, *Exports of Goods by Country Group, Country, and Territory*, 2011, at http://www.gso.gov.vn/default_en.aspx?tabid=472&idmid=3&ItemID=13214 (accessed March 11, 2013).

[8] Association of Southeast Asian Nations, *ASEAN Community in Figures*, 2011, at http://www.scribd.com/doc/111873404/ASEAN-Community-in-Figures-ACIF-2011 (accessed March 11, 2013).

[9] Robert O. Blake, Jr., "The Asia Rebalance: Why South Asia Matters", testimony before House Foreign Affairs Committee, Subcommittee on Asia and the Pacific, February 26, 2013, http://docs.house.gov/meetings/FA/FA05/20130226/100306/HHRG-113-FA05-Wstate-BlakeR-20130226.pdf (accessed March 11, 2013).

The U.S. and China may be involved in a game of geopolitics in Southeast Asia. What is at play among the ASEAN countries themselves is tactical jockeying. Their objectives are narrowly focused on security, economy, and territory. There are also complicated internal divisions in each. Take a look at Vietnam's example. Vietnam is not the "billiard ball" of international relations theory. It has a complex government with competing priorities and factions. Vietnam shares a border with China, a very long history (not all of it bad), and party-to-party contacts with the potential for ameliorating conflict with China. Its foreign ministry is quite strategic-minded. When pressed by China on territorial issues in the South China Sea, it finds common cause with other ASEAN claimants and helps galvanize what little action ASEAN can muster. The high point in this regard was Vietnam's turn at the ASEAN Chair in 2010, when it very prominently featured its interests in the South China Sea – something the Chinese try very hard to prevent. At other times, however, Vietnam is more conciliatory toward China. The best example of this is the very high profile party-led visit to Beijing in the fall of 2011. During that visit, after a very difficult year at sea for China-Vietnam relations, the two sides reached agreement on a set of "basic principles on settlement of sea disputes" – the signing ceremony for which was formally witnessed by the secretary-general of each country's ruling communist party.

For its part, India also has competing visions at play in its approach to Southeast Asia. India's commercial interests in the South China Sea make for an interesting case study. Over the objections of Chinese authorities, India's state-owned Oil and Natural Gas Corporation (OVL) is working with the Vietnamese to jointly explore and develop two blocks in Vietnam's exclusive economic zone (EEZ). OVL's objectives are commercial, not geopolitical. By authoritative accounts, the Indian government has little say in OVL's individual investment decisions. OVL may make a healthy return on investment by maintaining its investment. It may do better ultimately by relinquishing it. Consider that OVL signed when the blocks were unproven. Selling its rights at a profit and divesting itself of all the trouble would be a rational business decision. It will not represent a victory for China.

The Indian navy is perhaps the most strategically minded part of the Indian establishment. It is custodian of India's greatest strategic asset, its geographic blessings along Indian Ocean sea-lanes, also a key priority for China. It has sought to parlay this valuable experience into the Pacific, where many of China's neighbors have concerns that mirror India's own in the Indian Ocean. The navy has been visible and vocal about OVL's interests in the South China Sea, and the navy's prerogatives in protecting them.[10] Recent remarks by the Indian Chief of Naval Staff that the navy is prepared to

[10] Rajat Pandit, "Ready to Tackle China Sea Threat: Navy Chief," *The Times of India*, December 4, 2012, at http://articles.timesofindia.indiatimes.com/2012-12-04/india/35594081_1_south-china-sea-accordance-with-international-laws-vietnam-coast (accessed March 11, 2013).

protect Indian interests there are noteworthy.[11] However, they represent only one part of India's foreign policy puzzle. It does not mean that this statement, every Indian port call in the Pacific, or incident such as occurred in July 2011 when an Indian naval vessel in international waters was apparently warned off by the Chinese, is a sign of China-India geostrategic rivalry. In fact, it is telling that each time something like this occurs, there is another part of the Indian government that downplays the development.

If push ever comes to shove in the South China Sea, one must wonder whether the Prime Minister's Office and the Ministry of External Affairs (MEA) would accede to risking India-China economic relations and priorities much closer to home (border issues, for example) for an investment an ocean away. Resolved of its own interests, India would be even less inclined to risk the benefits of India-China relationship for a principle more in keeping with America's role and broader interests in the region.

The U.S.-Vietnam relationship has moved at a glacial pace – restrained by strategic indecision on the part of the Vietnamese.[12] It is difficult to imagine Vietnamese authorities making up their minds and risking its relationship with China any quicker for India, a far less consequential player in its neighborhood than the U.S. This is especially the case as India does not seem to have made up its own mind.

First and foremost, India's foreign policy priority is on its borders and immediate neighborhood. With regard to Southeast Asia, this means Burma. Twenty years ago, amidst shifting dynamics in Burma, India switched from support for democracy to courting the Burmese military regime. What does India have to show for it today? When the Burmese junta recently reached out – arguably to counter an increasingly out of balance Chinese presence – it reached out first to the West, not to India. It did so for good reason; India does not have the capacity to offset the Chinese advantage. The disparity between Indian and Chinese investment numbers has been discussed. China is also a much bigger trading partner of Burma than India (more as a source of imports than export destination). China-Burma government-to-government ties and military ties are also much stronger than India-Burma ties. Historian Thant Myint-U, who travelled extensively throughout Burma for his 2011 book, *Where China Meets India: Burma and the New Crossroads of Asia*, characterized "contemporary Indian influences" in Burma as "practically non-existent."[13]

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[11] Ibid.

[12] Colonel William Jordan, Lewis M. Stern, and Walter Lohman, "U.S.-Vietnam Defense Relations: Investing in Strategic Alignment," Heritage Foundation *Backgrounder* No. 2707, July 18, 2012, at http://www.heritage.org/research/reports/2012/07/us-vietnam-defense-relations-investing-in-strategic-alignment (March 11, 2013).

[13] Thant Myint-U, *Where China Meets India: Burma and the New Crossroads of Asia*, (New York: Farrar, Straus and Giroux, 2011) Location 1169, Kindle version of book, http://www.amazon.com/Where-China-Meets-India-Crossroads/dp/0374299072 (accessed March 11, 2013).

India's experience in Burma's oil and gas sector is a good example of its government underperforming in the service of its own interests. Burma's natural gas reserves – tenth largest in the world – and India's acute energy needs have focused a great deal of attention on India's interest in energy infrastructure. India has the capacity to help develop these resources. Transporting them back is more complicated. The headline-grabbing story on this score was the offshore Shwe natural gas project, where despite the stakes of two state-owned Indian entities OVL and GAIL (Gas Authority of India Ltd.), China is to receive the actual resource. China is constructing a pipeline across Burma to take the gas to Yunnan province – a feat India was unable to accomplish for its own market in a competitive timeframe.

The bottom line is that for all its deference to the Burmese regime on human rights issues and recently accelerated diplomatic and assistance activity, India is not effectively balancing China's influence in Burma, or Southeast Asia more broadly. It has gained cooperation from Burmese authorities in cracking down on insurgents operating in its volatile Northeast border region. This it would appear is India's principal objective, not geostrategy. Shorn of its geostrategic content, the U.S. does not necessarily share India's priorities in dealing with Southeast Asia (although it does share an interest in curtailing any Chinese involvement with insurgents on its border with Burma).

Conclusion

The U.S. should facilitate India's active involvement in the regional diplomatic architecture. Formal dialogues – bilateral and multilateral – and day-to-day coordination among officials should also be welcomed. Joint military exercises should be, too. As India refines its strategic interests, it is good for the U.S. to have all its options for cooperation with regional powers fully developed. In his testimony, Assistant Secretary Blake put the strategic time horizon at 50 years. U.S.-India strategic convergence is, indeed, a long-term, exploratory endeavor.

American policymakers must be realistic about the operational role U.S.-India relations can play in achieving the number one strategic challenge currently facing East Asia – successfully managing China's entry in the political life of the region. We have to be realistic about India's current power base in East Asia – as well as India's own strategic priorities. India cares far more about its immediate neighborhood than the Western Pacific. And as any Indian MEA official will tell you, they have many "strategic partnerships," including with China and Russia.

There is a role for India in America's effort to maintain its historical commitment to ensuring the peace, security, prosperity, and freedom in East Asia. That role, however, is relatively minor, and will grow, if at all, only according to India's timetable and very proud world view. India will not serve, except passively, as part of an American policy to

balance China. And anytime the foreign policy establishment there feels it is being pulled in that direction, it will recoil.

Failing to recognizing India's limitations as a partner risks forging a relationship where the U.S. trades tangible benefits for theoretical geopolitical discussion. More importantly, it risks obscuring the relationships and other factors that provide the real basis of American power in the Western Pacific: our alliances, a robust forward deployed military, and commitment to free commerce.

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Mr. CHABOT. Thank you very much.

Mr. Nehru, you're recognized for 5 minutes.

STATEMENT OF MR. VIKRAM NEHRU, SENIOR ASSOCIATE, ASIA PROGRAM, BAKRIE CHAIR IN SOUTHEAST ASIAN STUDIES, CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

Mr. NEHRU. Thank you very much, Mr. Chairman, Congressman Bera, distinguished members of the subcommittee.

Thank you very much for giving me the honor to testify before you today. Your invitation to this hearing asked us for policy options that would enhance the strategic rebalancing toward Asia and further U.S. interests in the Indo-Pacific.

As an economist, I have viewed that question through an economic lens and wish to emphasize four points. First, in America's rebalance toward Asia, central importance must be given to building a constructive relationship of mutual trust and respect with China.

China's economic integration with its neighbors, especially Southeast Asia, has been one of the most important factors behind its transformation into an economic powerhouse.

Geographical proximity, declining transport and communication costs and a relatively free trade and investment environment have created East Asian production networks that have captured benefits of scale and specialization to become highly competitive in international markets.

The forces of economic integration are unlikely to weaken in the foreseeable future and may even strengthen.

Worryingly, however, Asia's rapid economic integration is occurring at a time when many issues between the countries in the region such as competing claims on the South China Sea remain unsettled. China's sheer size gives it a clear advantage relative to its neighbors and its assertiveness in the region appears to have increased in direct proportion to its rapidly growing military and economic strength.

Extrapolate that forward and it gives cause for concern about the prospect for peaceful and cooperative solutions to disagreements between China and its neighbors. America's strategic rebalance toward Asia, therefore, comes at a crucial time in restoring the balance of power in the region, maintaining the freedom of navigation, keeping open the sea lanes of communication and increasing the prospects for settling disputes through dialogue and negotiation—all critical ingredients for continued prosperity in the region.

At the same time, building a constructive relationship with China should be a central element of the rebalance toward Asia and in building that relationship the narrative should focus less on security dimensions and more on practical cooperation and issues that matter to both countries.

Fortunately, as the economic gap between China and the United States shrinks, the areas of convergent interests expand. For immediate interests of both sides could be the mutual development of clear safety standards throughout the food chain from farm to retail, fashioning a multilateral investment treaty, improving the governance of international financial institutions to better reflect

new economic realities in the global economy and even crafting a multilateral cybersecurity agreement.

Over the last 2 days, National Security Advisor Tom Donilon called for such an agreement and the Chinese foreign ministry announced just yesterday it was ready for such talks. These are encouraging developments in a very difficult area.

My second point is the importance of engaging India with the same intensity as China. India's preeminent position in South Asia gives it a pivotal role in the region and a natural counterpoint to China's emergence as Asia's predominant economic and military power.

Not only are India's long-term strategic interests in the region broadly convergent with America's, the U.S. has many options available to assist India in developing its national power and becoming a positive force for peace and prosperity in the region.

These policy options could include assisting India's energy security by allowing it to import shale gas from the United States, responding favorably to India's defense modernization needs, supporting its membership in APEC and even using India's competitive capabilities in launching American satellites for civil and scientific purposes.

My third point is the importance of engaging Southeast Asia which needs to be given its due weight in the overall strategy. The U.S. needs to apply a comprehensive strategy toward the countries of the region, much as has been done in Indonesia, that addresses economic, social and security issues.

Most countries in the region would benefit from such a comprehensive approach but none more so than Myanmar, where conditions are the most fragile and the forces for freedom, democracy, human rights and free markets deserve all the encouragement that they can get.

There is also a need to boost the capability of ASEAN itself so it can set priorities and implement and monitor its collective decisions collectively—effectively. My last point is the importance of advancing trade and investment liberalization in Asia.

Recognizing that the last stages of trade negotiations are the most difficult, it is important for the TPP negotiations to be completed successfully and the agreement given swift approval by Congress.

Perhaps the dark horse in the trade area is the Trans Atlantic U.S.-EU FTA, the free trade agreement announced recently by President Obama. It could potentially form such a large market—50 percent of global GDP, $4 trillion in cross border investment—that it would attract other countries to join and perhaps over time could even include India and China.

In conclusion, Mr. Chairman, the U.S. rebalancing strategy toward Asia is timely and a lot has been accomplished since it was announced 18 months ago. I think Congress and the administration can advance America's core interests in this rapidly growing and strategically vital region.

Thank you once again for giving me the opportunity to speak here. I look forward to taking your questions.

[The prepared statement of Mr. Nehru follows:]

CARNEGIE ENDOWMENT
FOR INTERNATIONAL PEACE
Congressional Testimony

THE REBALANCE TO ASIA: WHY SOUTH ASIA MATTERS

Testimony by **Mr. Vikram Nehru**
Senior Associate, Asia Program
Carnegie Endowment for International Peace

House Committee on Foreign Affairs
Subcommittee on Asia and the Pacific
March 13, 2013

WASHINGTON DC • MOSCOW • BEIJING • BEIRUT • BRUSSELS

Mr. Chairman, Mr. Ranking Member, and Members of the Subcommittee, thank you very much for the opportunity to testify before you today on why South Asia matters to the U.S. rebalancing toward Asia.

The rise of Asia in all its dimensions has profound implications for America's future. President Obama's strategic balancing strategy recognizes this and seeks to deepen American engagement with the region at many levels. The ultimate objective of the rebalancing strategy should be to support the rise of a stable, peaceful, and prosperous Asia that drives global growth to the benefit of the region and the world and works in partnership with other members of the global community to resolve regional and global challenges. A peaceful and dynamic Asia, integrated with the rest of the global economy, and actively participating in global institutions, is central to America's interests and will work to the long-term benefit of American companies, American workers, American jobs, and ultimately the American economy.

Extending America's rebalancing to include South Asia is not just important, it is essential. South Asia matters because a stable, peaceful, and outward looking South Asia that joins East Asia's production networks will offer a counterpoint to China's economic predominance in the region and provide additional impetus and resilience to Asia's rise. The Indo-Pacific region incorporating East Asia and South Asia—driven by the unrelenting logic of markets and geography—has the potential to become the world's economic powerhouse. Its peaceful rise should be a core objective of American foreign policy.

To be successful, the rebalancing strategy needs to have clear objectives and well-defined indicators of success, be comprehensive in reach, engage China, South Asia, and Southeast Asia, and be coordinated across its security, diplomatic, and economic dimensions in a whole-of-government approach.

Congress and the administration face growing challenges in the Indo-Pacific—from rising tensions in the South China Sea to the withdrawal of American combat troops from Afghanistan. At the same time, America's interests in the region have never been greater. The strategic rebalancing was a timely signal of America's long-term commitment to the region and its willingness to work toward common objectives with its Asian allies and friends.

China's Central Role in East Asia's Economic Integration

In the past three decades, the rapid growth of developing Asia has tripled its share of global GDP. The driver of this Asian renaissance was China, where the growth rate averaged 10 percent a year between 1980 and 2010. Indeed, if mainland China's 31 provinces were individual countries, then they would all be among the 32 fastest growing countries in the world.

The interplay between markets and geography played a central role in this transformation. A key ingredient was the rapid development of trade and investment links between China and its neighboring economies—Japan, South Korea, and most importantly, Southeast Asia. Today, intra-East Asian trade as a share of GDP is approaching the levels seen in the European Union. Geographical proximity, declining transport and communication costs,

and a relatively free trade and investment environment helped create East Asian production networks that have captured benefits of scale and specialization to become highly competitive in international markets.

In the next decade the forces of Asian integration will likely accelerate, not weaken. Just as the liberalization of trade in goods was the engine of growth in East Asia over the last three decades, the liberalization of trade in services will further integrate the economies of the region and drive growth in the next three decades. Similarly, investment in transport infrastructure is pouring into Southeast Asia—from the Asian Development Bank, World Bank, Japan, and China—strengthening the foundations of a highly integrated economy between Southeast Asia and southern China.

Finally, Chinese outward foreign investment within Asia is expected to increase sharply in coming years and, as Japanese investment did in the 1970s, will act as another integrative force among the economies of the region.

Why South Asia Matters

Three recent developments are spreading East Asia's economic integration further west to South Asia.

First is India's recognition that it must not only "look east" but also "engage east." Over the last decade, India's trade with China and Southeast Asia has grown at 40 percent and 20 percent a year, respectively. These rates of growth in trade could be higher still if India addresses its infrastructure and regulatory constraints. Furthermore, an expected wave of liberalization in services trade, supported by revisions to the India-ASEAN Free Trade Agreement, will play to India's strengths and boost its exports further. (Services already account for 35 percent of India's total exports.)

Increasingly, Japanese and Southeast Asian investors consider India as a potential location for their export-oriented investments as a hedge against their perceived over-dependence on China. India offers a large domestic market, industrial depth, urban centers, and sophisticated financial services—comparable to what China offered in the 1990s. While India's progress may initially not be as rapid as China's, and its policy process may occasionally be baffling and frustrating, it is only a question of time before it becomes an integral part of Asia's production networks and enjoys sustained rapid growth.

Second is Myanmar's pivot toward the outside world and away from autarky and dependence on China. This development has created new opportunities for India, opening a potential land bridge to Southeast Asia and southern China, and putting in place the last piece in the jigsaw for further integration between South and Southeast Asia.

Third is the South Asian Free Trade Agreement signed in 2004, which is on track to create a South Asia Free Trade Zone by 2016 (including Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka). Albeit still at low levels, intra-South Asian trade has grown at an average rate of 16 percent a year over the last decade—faster than growth in intra-Southeast Asian trade (12 percent a year). This is despite infrastructure weaknesses and lingering trade barriers. It is only a question of time before markets and geography in South

Asia overcome the legacy of suspicions and hostility that have plagued the region for more than half a century and build the trade and investment links that will drive South Asian growth in the future.

Challenges to Asia's Peaceful Rise and America's Rebalancing

Worryingly, Asia's rapid growth and integration is occurring among neighboring countries at a time when many issues—land borders, competing claims in the South China Sea, distribution of transnational riparian rights—remain unsettled between them. The ability of Asian countries to press their claims, however, is hardly symmetric. China's economic rise has been accompanied by an even faster rise in its military strength and reach, and this is rapidly concentrating power in the region. As China's neighbors have discovered, its willingness to exert its territorial claims has strengthened in proportion to its relative military capabilities. If this trend continues into the future then it gives cause for serious concern about the prospect for cooperative and peaceful solutions.

America's rebalance toward Asia, therefore, comes at a crucial time. It has been welcomed by most countries in the Indo-Pacific region—being seen as a useful contribution toward restoring the balance of power, maintaining the freedom of navigation, ensuring the safety and security of sea lanes of communication, and supporting peaceful resolution of disagreements between countries through dialogue and negotiation. But the countries of the Indo-Pacific have also made it clear that they do not wish to choose between the United States and China. They see the rebalancing as an opportunity to build deeper bilateral relations with the United States, but without sacrificing their relations with other countries, including China.

Policy Options to Strengthen America's Rebalancing Strategy

The substantial U.S. security, diplomatic, and economic investments underpinning the rebalancing can be justified on the grounds that a stable Asia is essential for regional and global peace and prosperity—and by implication critical to the long-term benefit of American companies, American workers, American jobs, and ultimately the American economy. U.S. interests will be served best by an Asia that promotes a nuclear-free Korean peninsula, drives global growth, and works in partnership with other members of the international community to resolve global challenges.

While the rebalancing of U.S. security, diplomatic, and economic resources has been broadly welcomed in Asia, it faces several challenges:

- First, whether the new U.S. security posture in the Asia-Pacific can be sustained over the long term given the country's fiscal challenges and tepid economic recovery and that tensions in other parts of the world could draw America's attention away from the region.
- Second, how U.S. policy toward China can more effectively build on convergent areas of interest that could then provide a platform for resolving more difficult regional and global challenges.
- Third, how the U.S. can build a strategic partnership with India, and through India draw South Asia into an Indo-Pacific arc of strengthened trade and investment links

and a regional institutional architecture committed to cooperative solutions to common problems.

- Fourth, how America's myriad foreign policy initiatives in support of Southeast Asia can be made more effective.
- And fifth, how best the U.S. can advance regional trade and investment liberalization that will benefit the region and the world.

Restoring America's economy clearly ranks as the highest priority in ensuring the credibility of the rebalancing policy toward Asia. As Secretary of State John Kerry has noted, America cannot be strong abroad if it is not strong at home. While this is not the focus of this hearing, it will be central to the efficacy of future policy toward Asia.

Engaging China on common concerns should be a priority. Working together on issues such as food safety, a multilateral investment treaty, improved governance in international financial institutions, and even cybersecurity, could be an effective way to create the environment required to successfully extend the effort to bigger and more challenging tasks. The U.S.-China relationship holds the key to peace, stability, and prosperity in Asia, and it must lie at the heart of America's rebalancing strategy.

In building that relationship, the narrative underpinning the U.S. strategic rebalancing should focus less on its security and more on its economic and diplomatic dimensions that seek mutually beneficial outcomes. The change in China's leadership opens fresh opportunities for such a dialogue. Encouragingly, U.S.-China engagement is broad and deep—through diplomatic exchanges, the U.S.-China Strategic and Economic Dialogue, and the U.S.-China Joint Commission on Commerce and Trade, as well as in multilateral settings, including Asia-Pacific Economic Cooperation (APEC), the East Asia Summit (EAS), IMF, World Bank, and the WTO.

Fortunately, as the economic gap between China and the U.S. shrinks, the areas of convergent interests expand. They now include an open multilateral trading and investment system, international financial stability, open and secure sea lanes of communication, and protection of intellectual property rights. (China now spends more on research and development than any country apart from the U.S.). China takes its international treaty obligations seriously and recognizes that if it expects other countries to observe global rules and norms, it must do so too.

There are an increasing number of areas of common interest to China and the U.S. Progress could be made on developing clear safety standards throughout the food value chain from farm to market; fashioning a multilateral investment treaty that holds all foreign investors to the same standards; ensuring the governance of international financial institutions better reflects the economic strength of emerging markets; and crafting a multilateral cybersecurity agreement that applies rules of cyber conduct and enforcement for all signatories. Other possibilities for partnership include improving health care systems, developing clean energy technology, ensuring environmental protection, and establishing global research and development networks. Cooperation in these areas confers shared benefits that can build trust and mutual respect, and could provide the foundations for resolving larger and more contentious issues.

Engaging India with the same intensity as China is an equally important priority for America's rebalancing. India's preeminent position in South Asia makes the U.S.-India relationship central to maintaining a counterpoint to China's emergence as Asia's predominant economic and military power. Furthermore, there is little doubt that the U.S. and India share similar geostrategic interests based on common values, a commitment to democracy and human rights, a common front against radical Islam, and a shared desire for an institutional architecture in the Indo-Pacific that promotes cooperation between countries. The two countries are further drawn together by the shared bond of a large Indian-American community, a common language, and both being multi-ethnic and multi-religious societies. Finally, India's good standing with Afghanistan's government makes it a vital partner in pursuing U.S. security interests in the region after 2014.

It is unfortunate, therefore, that their divergences have on occasion framed the narrative between the two countries rather than their expanding areas of cooperation and interaction. India's leaders have emphasized that the country's size, location, complexity, resources, history, and development imperatives demand that its foreign policy retain strategic autonomy—and America should expect neither reciprocity nor alignment from India. Instead, the success of U.S. policy toward India should be measured by whether India succeeds in developing its national power and becoming a positive force in advancing a peaceful and prosperous Indo-Pacific.

With President Clinton's visit to India over a decade ago, the U.S. made a long-term bet that Asia and the world would be a better place with a stronger India. Notwithstanding occasional disappointments since, that bet is still worth making today. It is true that India's foreign policy decisions may occasionally be puzzling, and its ability to translate aspirations into reality questionable, but India's entrepreneurs and market system, its growing trade and investment links with East Asia, a growing middle class, and an electoral system that is beginning to reward economic performance all augur well for the country's future growth and development. U.S. policy toward India should be anchored in the belief that a stable, independent, democratic, outward-oriented, and prosperous India is an essential cornerstone of the emerging architecture of the Indo-Pacific region—the development of which will serve the long-term interests of the U.S. in the region.

The policy options for future U.S. strategic support to India are many and reflect the multi-layered connections between the two countries:

- an energy-hungry India dependent on coal would benefit greatly from U.S. exports of shale gas, as well as transfers of energy-efficient and low-carbon technologies;
- setting aside disappointments with the medium multi-role combat aircraft deal, the U.S. should continue to respond positively to India's defense modernization needs. This includes equipment sales, training, joint exercises (U.S. naval exercises with India are already greater in number than with any other country), collaborative manufacturing, and technology partnerships. India, after all, is the world's largest military importer and is among the largest foreign buyers of U.S. defense equipment;
- the U.S. should use its leverage in the region to reduce the risk of hostilities between India and Pakistan;
- the U.S. should also consider championing India's membership of APEC. India's presence would make APEC a stronger and more inclusive institution which would

be more likely to serve U.S. interests, and India could gain from participating in cutting-edge approaches to international trade and financial cooperation;

- U.S. authorities could boost India's services sector by easing and simplifying visa requirements, rather than complicating and restricting them;
- in a time of fiscal consolidation, NASA could benefit by using India's very competitive launch technologies for low-earth orbit satellites for civil and scientific purposes; and
- U.S. officials and businesses should increasingly reach out to the leaders of India's states, some of whom are displaying innovative leadership and could prove to be receptive partners for public and private sector projects. This is true across a range of areas, including transport and energy infrastructure, urbanization, education, and health.

Engaging Southeast Asia should be no less a priority in America's rebalancing strategy. This is in part simply because of Southeast Asia's strategic location astride the Malacca Straits. But it is also because of its strong links and historical relationship with the U.S., its active regional organizations, and the region's increasing security concerns vis-à-vis China. The U.S. is already an active participant in the EAS, the ASEAN Defense Ministers' Meetings, the ASEAN Regional Forum, and more recently the U.S.-ASEAN Leaders Meeting, and is involved in a range of initiatives through ASEAN, as well as bilaterally with each of its member countries.

Late last year, the ASEAN Eminent Persons Group presented the U.S.-ASEAN Leaders Meeting with a comprehensive set of very sensible recommendations on measures needed to strengthen U.S.-ASEAN relations, ranging from supporting the development of a code of conduct in the South China Sea to creating an ASEAN-U.S. center in Washington. At the same meeting, President Obama announced the Enhanced Economic Engagement (E3), which is designed to assist implementation of trade facilitation measures and identifies specific cooperative activities to increase the efficiency of trade flows.

There are, therefore, more than enough recommendations and initiatives on the table for ASEAN to implement. The challenge is not to introduce more initiatives, but to make sure existing initiatives are effectively implemented and the whole is greater than the sum of its parts.

Most important among ASEAN's priorities—and deserving of U.S. support—is the finalization of the Code of Conduct in the South China Sea that includes the other major Pacific powers, especially China and the U.S. At this point, ASEAN's focus should not be on resolving competing claims, but on lowering tensions by getting all sides to implement confidence-building measures that reduce the risk of hostilities. Only when cooler heads prevail can the countries of the region turn their attention to the more difficult task of resolving the causes underlying the tensions in the South China Sea and developing cooperative solutions toward exploiting the mineral riches that lie under the seabed.

The U.S. also needs to offer Southeast Asia a comprehensive partnership that binds together its myriad components into one cohesive whole that presents a clear narrative, embodies principles of equality and mutual respect, and includes arrangements for joint monitoring of progress and mid-course corrections.

This is not a new concept. The United States already has a comprehensive partnership with a Southeast Asian country—Indonesia—that covers three broad dimensions: economy and development; political and security; and socio-cultural (which includes education, science and technology, environmental protection, and democracy promotion, among others).

These areas are being developed through six joint U.S.-Indonesian working groups. The U.S. secretary of state and the Indonesian foreign minister review their progress every six months. By working together on a broad range of topics of mutual interest and importance, both sides are building cooperative structures that will deepen understanding and advance shared interests.

Given the diversity of countries in Southeast Asia, developing a comprehensive partnership with the entire Southeast Asian region will prove difficult. Instead, the approach adopted by the U.S.-Indonesia comprehensive partnership is a model that could be advanced on a bilateral basis with other countries in the region.

Certainly, Thailand, Malaysia, Philippines, and Vietnam would be excellent candidates for deepening bilateral cooperation. But perhaps the most important could be Myanmar, where conditions are the most fragile and the forces for reform, human rights, democracy, and free markets deserve the greatest encouragement. The areas for partnership and joint development would need to be identified separately for each country and will likely be different in each case. Over time, however, as these partnerships develop, they will undoubtedly display common features that have the potential of being brought together gradually across the entire Southeast Asian region.

Finally, the U.S. could support a comprehensive review of the ASEAN Secretariat, which should emerge with recommendations on how the secretariat could be strengthened. ASEAN's aspirations tend to outrun its implementation capacity. Its secretariat of fewer than 300 staff organizes around 1,300 meetings a year—an average of between three and four every day—and is stretched thin across numerous initiatives, programs, and projects. Ironically, although countries like the U.S., Japan, and China have accorded ASEAN considerable importance in their relationship with the region, ASEAN members themselves have not been willing to strengthen the secretariat's capability to monitor, implement and follow up decisions made at ASEAN's many meetings.

These shortcomings weaken ASEAN and consequently weaken the impact of America's rebalancing toward Southeast Asia. It is in ASEAN's interest, as well as in America's, that the grouping is served by a strong institutional architecture capable of identifying strategic issues, putting forward sensible solutions, and monitoring implementation.

Advancing trade and investment liberalization in Asia has been complicated by two competing trade initiatives—the Trans-Pacific Partnership (TPP) supported by the U.S. and viewed as a critical element in the rebalancing strategy, and the Regional Comprehensive Economic Partnership (RCEP) which was launched late last year by ASEAN's ten member countries and the six countries with which it has free trade agreements (Australia, China, India, Japan, Korea, and New Zealand). If negotiations for the RCEP are successful, it will become the largest free trade agreement in the world.

At this point, negotiations for the TPP are more advanced, but they face significant challenges before they can come to closure. Discussions on the RCEP have only just begun and also face obstacles, but progress could accelerate if agreement on the basic parameters is reached soon.

While both trade agreements can coexist, they not only include a different combination of countries (most significantly, the TPP excludes China and the RCEP excludes the United States), but also represent different philosophies on how economic integration should be achieved. The philosophy behind the TPP is that trade agreements should include external commitments that promote domestic reform. That of the RCEP, on the other hand, is for domestic reforms to drive trade and for trade agreements to reflect market developments and prevent a retreat into protectionism. Although the RCEP will initially reflect the standards of the country least willing to liberalize its trade and investment, it is likely to be more adaptable—as the India-ASEAN and the China-ASEAN free trade agreements have proved.

One possibility is that as the RCEP is gradually upgraded to address behind-the-border trade barriers, its differences with the TPP could narrow to the point that it would make sense for the two trade agreements to be merged. Another possibility is that the U.S.-EU trade agreement announced by President Obama earlier this year would form such a large market (accounting for 50 percent of global GDP and $4 trillion in cross-border investment) that the prospect of access would attract a number of other countries to join which, in the long term, could even include India and China.

Conclusion

The U.S. rebalancing strategy toward the Indo-Pacific is a timely recognition of the profound shifts taking place in the global economy. A lot has been accomplished in the 18 months since it was announced—the increased U.S. security footprint in the region, the progress in TPP negotiations, and the announcement of the Enhanced Economic Engagement (E3) initiative. The challenge now is to deepen and sustain the effort and broaden it to include South Asia, in particular by strengthening ties with India, enhancing bilateral cooperation with the ASEAN nations, and advancing trade and investment liberalization across the entire Indo-Pacific. By doing so, Congress and the administration can advance core American political, economic, and security interests in the world's fastest-growing and strategically most vital region.

Mr. CHABOT. Thank you very much.

Mr. Dhume is recognized for 5 minutes.

STATEMENT OF MR. SADANAND DHUME, RESIDENT FELLOW, AMERICAN ENTERPRISE INSTITUTE

Mr. DHUME. Thank you, Mr. Chairman. Thank you, Congressman Bera and all distinguished members of the subcommittee for this opportunity to testify today on the rebalance to Asia and why South Asia matters.

I won't go over what I've gone into in greater detail in my written testimony but what I want to leave you here with in my opening comments is four broad points about the rebalance and the role of India.

The first is that the rebalance is only going to work if the U.S. continues to lead in Asia through strength, and over here it's very important for us to remember the lessons of the past 60 years—the lessons of the post World War II period where the U.S. as the dominant military power has presided over an unparalleled period of prosperity in Asia, including the rise of Japan, South Korea, Taiwan and then the eradication, to a large degree, of poverty in Indonesia, Thailand and Malaysia and, in more recent decades, the rise of China and India. All this has been underpinned by U.S. strength.

What this means is that as we head to defense cuts and we head to potentially the lowest level of defense spending as a percentage of GDP since 1970, it's very important that we keep that in mind as something that will be problematic because as we look to build the kinds of partnerships and alliances with friends in Asia it's important for the U.S. to be seen—to be—not only to be leading but to be seen to be leading from a position of strength.

The second big point is that we can't really pivot away from the troubles of the Middle East and the broader Muslim world. I know that psychologically for many of us here in the United States Asia Pacific and the Middle East really occupy very different parts of our mind and different parts of our imagination.

We think of the Asia Pacific more in terms of economic opportunity. We tend to think of the Middle East and the AfPak region more in terms of turmoil.

However—and I think this is why it's important to have India so central to this discussion today—India really symbolizes, in a way, how that distinction is a false distinction. Just last month, we had a terrorist attack in the southern Indian city of Hyderabad where 17 people lost their lives. All of us still remember the Mumbai attacks of 2008.

So, broadly speaking, the pivot—paying more attention to Asia makes sense but this cannot be at the cost of ignoring more traditional security challenges and it cannot be at the cost of ignoring what is happening particularly in Afghanistan and Pakistan with its problems of radicalization, terrorism, nonproliferation and so on.

My third point, as also emphasized by my colleagues, is that a stronger Indian role in the Asia Pacific is, indeed, in U.S. interests for many reasons that have come up in the testimony and that are fleshed out in more detail in my written testimony as well.

India is a democratic pluralistic nation of 1.2 billion people. It has one of the largest and most powerful navies in Asia. It's an English-speaking country.

Most countries in Southeast Asia view India as nonthreatening. It is seen as a much more benign presence than China, partly because it doesn't have territorial disputes with the countries of Southeast Asia, partly because it is much smaller and partly because it doesn't have the same kind of Chinese diaspora in many of the countries, which is seen as having a disproportionate economic weight in the domestic affairs of countries such as Malaysia and Indonesia.

So for all these reasons, India is seen as benign and that makes it a natural partner for the United States. Also, there's a cultural element to this.

The big religions of Southeast Asia—Buddhism and—well, Hinduism as a cultural element even though it's not there as a dominant religion anymore and to a certain degree even Islam—all came from India. So that—sort of the cultural links that bind India, especially to Southeast Asia, cannot be overemphasized.

My final point is that India's capacity and will to play a role in the region that we in the United States would like it to play hinges largely on its ability to sustain high economic growth, and over here we need to be a little worried.

Over the past 6 years, growth in India has gone from about 10 percent—nearly 10 percent to about 5 percent, and if this halving is not—if this is not—if this is just a blip there is nothing to worry about.

But if India is in fact entering a period of sustained lower growth then its capacity and its will to play the larger role both as a role model and in terms of its diplomatic and military clout in the region will seriously come under question.

So to sum up on that last point, it is in fact in the U.S.' interesta in Asia to pay attention to the Indian economy and to ensure to the degree possible that India in fact fulfils its economic potential.

Thank you. I look forward to taking your questions.

[The prepared statement of Mr. Dhume follows:]

AMERICAN ENTERPRISE INSTITUTE FOR PUBLIC POLICY RESEARCH

Testimony of Sadanand Dhume
Resident Fellow
American Enterprise Institute
Before the House Committee on Foreign Affairs, Subcommittee on Asia and the Pacific
"The Rebalance to Asia: Why South Asia Matters (Part II)"
Wednesday, March 13, 2013

The views expressed in this testimony are of the author alone and not necessarily of the American Enterprise Institute.

Mr. Chairman, Mr. Ranking Member, thank you for the opportunity to testify today before the Committee on "The Rebalance to Asia: Why South Asia Matters." I am Sadanand Dhume, a resident fellow at the American Enterprise Institute, a non-profit, non-partisan public policy research organization based in Washington, DC. My comments today are my own and do not necessarily reflect the views of AEI.

At the outset, I'd like to commend the Committee for bringing South Asia back under the rubric of Asia and the Pacific. Arguably this is where it properly belongs, whether viewed through the prism of the region's dominant cultural moorings, economic future or strategic significance to the United States. This is certainly true of India, the region's principal power, as well as for most of South Asia's smaller countries, including Bhutan, Nepal, Sri Lanka and Bangladesh.

At the same time, however, South Asia's countries are closer to the turmoil in the Middle East than their East Asian peers. Indeed, the problems roiling Afghanistan and Pakistan—terrorism, sectarian violence, nuclear proliferation and religious extremism—underscore the difficulty of drawing a sharp line between the western extremities of South Asia and the eastern edges of the Middle East.

Against this backdrop, I would like to take this opportunity to present the outline of a strategy toward South Asia that advances broad US interests in the Asia-Pacific and fosters peace and prosperity in the region. In a nutshell, this involves continuing to encourage India's integration into Asian political and economic institutions, urging India to remain on the path of economic reform to fulfill its own potential, and maintaining influence in Pakistan and Afghanistan in order to prevent violence there from destabilizing the region.

Key policy recommendations:

*Continue to encourage Indian integration into Asian political and economic structures. Develop the East Asia Summit as Asia's premier forum for discussion of political and strategic issues.

*Encourage closer strategic and economic ties between Japan and India, Asia's second and third largest economies.

*Recognize the importance of India's economic growth for the strategic balance in Asia, and encourage India to deepen much needed economic reforms.

*Develop a strategy to engage more robustly with India's best performing states in order to encourage growth and boost trade ties between our two countries.

*Ensure that events in Afghanistan and Pakistan don't destabilize South Asia and prevent India from playing a wider role in Asia.

Background:

1. US-India Relations

Over the past 15 years, the US-India relationship has arguably been transformed more fundamentally than the US relationship with any major Asian nation.

In 1998, the US imposed sanctions on India after it tested nuclear weapons. Seven years later, the two countries embarked upon an historic civilian nuclear deal that effectively gave India access to nuclear technology it had been denied for over a quarter century since its first nuclear test in 1974. Since 2000, three successive American presidents—Bill Clinton, George W. Bush and Barack Obama—have visited India. In November 2010, President Obama declared in India's Parliament that "India has emerged."

Bilateral trade between the two countries has surged 40% over the past three years and may touch $100 billion this year. Defense sales, virtually unthinkable during the Cold War when India leaned toward the Soviet Union, total close to $9 billion as India modernizes its armed forces, partly in response to massive Chinese spending on its own defense capabilities. India conducts more joint exercises with the US than with any other country. In addition, the US and India consult more broadly across a range of issues—from counter-terrorism to education to agriculture—than ever before.

2. Why India Matters:

Since the fall of 2011, the Obama administration has spoken of pivoting to the Asia-Pacific in order to influence the region's norms against the backdrop of China's rise as a global power. In simple terms, supporters of the pivot say it makes sense both politically and economically. It focuses US attention on a region that is home to China, the US's most obvious challenger, and a country whose peaceful integration into the global system is critical for Asian stability. The Asia-Pacific also houses some of the world's fastest growing major economies and biggest potential markets, including China, India and Indonesia.

Against this backdrop, India has emerged as one of a handful of Asian countries that can influence broader outcomes in the region. Simply put, a fast-growing democratic and pluralistic nation of 1.2 billion people acts as an obvious counterweight to any hegemonic ambitions an authoritarian China may hold. It also offers an alternative model of economic development—without sacrificing democratic values such as free speech and freedom of religion—to China. That neither the US nor India explicitly seek to contain China does not fundamentally alter this calculus.

In addition, India's ongoing naval expansion, civilizational imprint on Southeast Asia, and close diplomatic relations with Singapore, Thailand and Vietnam, make it an important partner in securing long term US goals in the region, including freedom of navigation, unfettered trade and the deepening of democracy in Southeast Asia.

3. Potential risks to US-India relations and its impact on the Asia-Pacific

Over the past decade, US policy makers have developed a bipartisan consensus that the rise of India is good for the US. In Asia, this has been buttressed by the fact that the Asean countries generally welcome India as a benign presence that reduces the threat of a region overwhelmingly dominated by China. As India's economic growth approached double-digit rates last decade, the prospect of India as a potential economic counterweight to China also began to be taken seriously in Asean capitals.

However, over the past two years the understanding that underpins this assessment has come under strain.

To begin with, India's economic growth has slowed dramatically, from 9.8% in 2007 to 4.5% this year. This sharp deceleration at what remains a low level of per capita income ($1500 per annum)—one at which countries such as China and Malaysia had no trouble sustaining higher growth rates—has raised questions about India's model of development, its ability to project sustained influence in Asia, and the size of the potential economic opportunity it offers. While it's far too early to write off India's economy—a single year of slower than normal growth does not mark a trend—the slowdown does raise questions about a populist polity's ability to steward the economy keeping the country's long term interests in mind.

Second, the ongoing US withdrawal from Afghanistan has raised concerns in Indian foreign policy and national security circles about the depth of US commitment to the region. India doesn't have the luxury of simply pivoting away from the badlands of the so-called AfPak region. If the US is seen as cutting and running by its Islamist foes, and this results in an upsurge of violence in both Afghanistan and India as in the 1990s, it will reduce trust between Washington and New Delhi and force the latter to focus more on interests closer to home than farther afield in East Asia. In this context, the importance of the US showing its continued willingness to lead, including by providing the military the resources it needs to project power, cannot be over-emphasized.

Third, in some circles in Washington there's a danger of so-called India fatigue setting in. India's failure to pass a nuclear liability bill that allows US commercial firms to benefit from the pathbreaking nuclear deal has damaged its stock in Washington. Simply put, there's a sense—including among many of the US-India relationship's supporters—that India has failed to repay the US effort to push through the nuclear deal in the face of tough domestic and international opposition.

In the foreseeable future, whether we like it or not, progress on nuclear contracts for US firms will remain a litmus test of sorts for the promise of the broader US-relationship. In the meantime, however, the US should not lose sight of the deal's non-commercial objectives, including building trust with India and integrating it into the international system. This means the US ought to continue to back India's attempt to attain membership of four key multilateral nuclear regimes: Nuclear Suppliers Group (NSG),

Missile Technology Control Regime (MTCR), Australia Group and Wassenaar Arrangement.

Policy recommendations to achieve US goals in South Asia and East Asia:

Despite these caveats, an Asia-Pacific in which democratic powers such as India, Japan, South Korea, Indonesia and Australia play a larger role remains a fundamental US interest. Given India's potential, and the size of the bet successive administrations have placed on it, it makes sense to continue to deepen engagement with India, as well as to encourage its own robust engagement with the region. Here are some ways to do this:

**Encourage further Indian integration into Asian political and economic structures, and continue to develop the East Asia Summit as Asia's premier forum for discussion of political and strategic issues.*

India has been a member of the East Asia Summit since its inception in 2005, and the US joined the grouping in 2011. Unlike the older Asean Regional Forum (ARF), the EAS is less unwieldy (18 members) and brings together heads of government of all eight ASEAN nations as well as eight ASEAN dialogue partners.

If the EAS evolves as the region's premier forum for political and strategic issues, it will create a venue where the US, India, Australia, Japan and other likeminded countries work with ASEAN to manage peace and security in the region. In addition, and based on the same principle of deepening South Asian integration with the broader Asia-Pacific, the US should back Indian membership in APEC. For now, the odds of India becoming part of the Trans-pacific Partnership (TPP) are slim. But the long-term goal for TPP ought to be its enlargement to include both India and Japan.

**Encourage closer ties between Japan and India, Asia's second and third largest economies.*

From a US perspective, one of the most encouraging developments in Asia in recent years has been a new warmth and purpose in India-Japan ties. At one level, Washington is directly involved with New Delhi and Tokyo in the form of a trilateral dialogue which began in 2011. At the same time, Japan has dramatically stepped up its engagement with India.

Loans from Japan's International Cooperation Agency cover 52% of the $7.7 billion cost of the Delhi-Mumbai dedicated freight corridor, which ought to be completed by 2018. Similarly the Japanese have provided soft loans totaling $4.5 billion toward the Delhi-Mumbai Industrial Corridor, an ambitious Indian project to kickstart manufacturing, in part by using foreign investment.

On the security front, the return of Shinzo Abe to power has implications for India-Japan relations that the US ought to welcome. In December last year Abe outlined his view of

a "strategic diamond" spanning Australia, India, Japan and the US state of Hawaii that would "safeguard the maritime commons stretching from the Indian Ocean region to the western Pacific." This Japanese impetus to partner more closely with India echoes a 2007 speech by Abe to India's parliament where he spoke of a "Strategic Global Partnership" between the two countries marked by shared strategic interests as well as a common belief in democracy and human rights.

**Recognize the importance of India's economic growth for the strategic balance in Asia, and encourage India to deepen much needed economic reforms.*

One of the main drivers of India's growing prominence in the Asia-Pacific has been its rapid economic growth since the advent of economic reforms in 1991. The ongoing slowdown, should it continue, will damage India's stature in the region and affect its ability to play a larger diplomatic, economic and military role. For example, faced with a large fiscal and current account deficit, this year the Indian government slashed budgeted defense spending to 1.79% of GDP, its lowest level in three decades.

While India's current economic woes are largely of its own making—it has embarked on populist programs such as loan waivers and rural employment guarantees while neglecting labor reform and infrastructure spending—the US can play a role in advising India to pursue more responsible policies. Meanwhile, as the engine of India's economic development shifts to fast-growing states, the US should consider a strategy to engage more robustly with India's best performing states in order to encourage growth and boost trade ties between the two countries. The most promising of these states include Gujarat, Odisha, Delhi, Tamil Nadu and Maharashtra.

**Ensure that events in Afghanistan and Pakistan don't destabilize South Asia and prevent India from playing a wider role in Asia.*

In many ways, South Asia underscores that rebalancing to Asia cannot mean ignoring traditional security threats from the Muslim world that have preoccupied the US over much of the past decade.

Even as the US draws down troops from Afghanistan, it cannot afford to abandon the country as it did after the Soviet withdrawal in 1989. A perceived victory for radical Islamist groups such as the Taliban and the Haqqani Network in Afghanistan will have consequences from Jordan to Jakarta. Simply put, it will send a message to Islamists everywhere that they have defeated not just one but two superpowers.

India, which has faced numerous terrorist attacks over the past two decades—including most infamously the Mumbai attacks of 2008 carried out by 10 Pakistani terrorists from the group Lashkar-e-Taiba—is particularly vulnerable to a resurgence of jihadism.

Keeping in mind broader US interests in the Asia-Pacific will mean paying continued attention to both Afghanistan and Pakistan. Afghanistan cannot be allowed to fall once

more into Taliban hands. Pakistan's generals cannot be allowed to return to destabilizing India through the use of jihadist proxies.

To sum up, the threats of the past decade—radical Islam and terrorism—cannot be ignored lest they undermine the very premise of the US pivot to Asia. This means continuing to engage with both Afghanistan and Pakistan using a mix of diplomacy, aid and, where required, military force against terrorist groups. Only a stable and secure India will be able to play a wider role in Asia that will be useful to both the region and US interests in it. This means ensuring that the rebalance to the Asia-Pacific does not come at the cost of ignoring or downplaying older challenges that remain unresolved.

* * *

Mr. CHABOT. Thank you very much.

Mr. Puri, you'll be recognized for 5 minutes.

STATEMENT OF MR. SANJAY PURI, FOUNDER AND CHIEF EXECUTIVE OFFICER, ALLIANCE FOR U.S. INDIA BUSINESS

Mr. PURI. Mr. Chairman, Ranking Member, and members of the subcommittee, thank you very much for the opportunity to testify before you today.

From energy security to defense cooperation to bolstering our economic ties and increasing opportunities for high-skilled workers to come to the U.S. or go to India, there are serious obstacles facing the U.S. as we rebalance to Asia.

However, I believe our mutual interests and shared values can get us where we need to be if the U.S. is committed to deepening the U.S.-India relationship, which is one of the most defining of the 21st century.

My esteemed colleagues have talked about a much more strategic level but I will try to address what Chairman Chabot and a lot of the people in the hearing have asked for—specific simple solutions.

I don't think we can boil the ocean in this relationship so I offer four potential opportunities for us: Enhanced education collaboration, which can change the dynamics of this relationship; STEM teacher exchange, which can be a game changer for the U.S.; the need to allow exports of natural gas to an energy-starved India; and starting to look beyond New Delhi to different states in India.

I'll just briefly elaborate on those four points. Enhancing education collaboration—a Hindu proverb states that you can change a nation through education and I'm a firm believer in this proverb because I think it holds the key for changing U.S.-India relations.

For all the short-term fixes we might talk about today, I believe education is a long-term solution which is required for the U.S.-India partnership to thrive.

The Alliance for U.S. India Business, which is an organization which I lead, we have been at the forefront of enhancing dialogue in both countries to create opportunities for building higher-quality education because we believe that building global partnerships between U.S. and Indian universities will strengthen the bonds between our two nations.

Some of the top CEOs and policy leaders in India today are educated from our universities. They take with them the knowledge, values and experiences of the United States.

They take with them the generosity of the American people and it automatically creates economic and cultural bridges between the two countries. It is not a coincidence that Indian companies which are led by American-educated CEOs are much more active in the U.S.-India economic relationship.

Students from India coming to the U.S. are the second largest group coming to this country. They contribute about $1 billion to us—to the United States. But demand for higher education in India is also increasing.

India needs 500 universities and 33,000 more colleges in the next 8 years, which is a $50 billion market. It also needs vocational and technical institutes, which is another $2 billion market opportunity.

But where will this additional capacity come from? If it comes from Indian universities partnering with universities and colleges in the states that you represent, I believe we will be on our way to making the kind of difference that needs to be made.

We are working and we have taken over a hundred university presidents, deans, provosts to India and they're engaged with over 1,000 of their counterparts in India. There are student exchanges, faculty exchanges and R&D going on.

This is a win-win relationship that happens. No jobs are lost on either side. Jobs are created, strong cultural bonds are created and corporate—and the values are shared. So I think that's a very important point that we should consider.

The second point I would make is regarding STEM education. The United States has a tremendous shortage of STEM teachers at the K–12 level. It is especially very acute in rural, inner city and remote areas in especially some of your districts. How can we expect our kids to have strong science and math skills when they don't have good teachers or have no teachers?

India has a tremendous pool of science and math experts that also speak English. We should consider a specialized short-term program that qualifies these teachers and brings them over for a short duration so that we can create our own pool of STEM experts for the future. Currently, we are working with several states to create a pilot program.

The third opportunity I see is for us to export gas to an energy-starved India. Currently, India competes with China and Japan for buying LNG from Qatar and Australia. India is talking to Iran for a gas pipeline.

Well, if we were able to export gas to India, if we can find economically viable and environmentally clear mechanism, it would do three things. It would create economic opportunity in the U.S. through exports, it would reduce India's dependence on the Middle East for gas and also build a more strategic relationship based on their desire for energy independence.

And the final point I would make is that we should start looking beyond New Delhi toward states. India has entered an era of coalition politics. The states are much more assertive and powerful. We need to start building ties with the states because sometimes policy paralysis gets to New Delhi.

And there are several dynamic states in India like Maharashtra, Gujarat, Andhra Pradesh and Tamil Nadu that we should engage with. These states are leaders with national aspirations and are looking to produce results through good governance and we can have a collaboration with them in agriculture, energy, education, technology and homeland security.

And our economic cultural interest would be much better fostered working with them. We recently took a delegation to the state of Punjab, which is the breadbasket of India, and their chief minister, who's the equivalent of our governor, met with the agriculture secretary from Iowa, and he wants to do a farmer-to-farmer exchange. He wants to send farmers from his state to Iowa, and Iowa farmers there so that they can have best practices.

And I can tell you that will do more than any other big strategic document that you could sign for the future.

I thank you for your time and for holding this important hearing and I look forward to answering your questions.

[The prepared statement of Mr. Puri follows:]

CONGRESSIONAL TESTIMONY

THE REBALANCE TO ASIA: WHY SOUTH ASIA MATTERS

Testimony by Mr. Sanjay Puri
President and CEO
Alliance for US India Business (AUSIB)

House Committee on Foreign Affairs
Subcommittee on Asia and the Pacific
March 13, 2013

Alliance for U.S.-India Business (AUSIB)

Testimony of Sanjay Puri
Founder and Chief Executive Officer
Alliance for U.S.-India Business (AUSIB)

Before the House Committee on Foreign Affairs
Subcommittee on Asia and the Pacific
"The Rebalance to Asia: Why South Asia Matters (Part II)

Wednesday, March 13, 2013

Mr. Chairman, Ranking Member, and members of the Subcommittee:

Thank you very much for the opportunity to testify before you today.

From energy security to defense cooperation to bolstering our economic ties and increasing opportunities for high-skilled workers to come to the U.S. or go to India, there are serious obstacles facing the U.S. as we re-rebalance to Asia. However, I believe our mutual interests and shared values can get us where we need to be if the U.S. is committed to deepening the U.S.-India partnership which is one of the most defining of the 21st century.

For purposes of this hearing, I will leave it to others to delve into counterterrorism and intelligence cooperation, military-to-military exchanges and defense trade. My objective is to focus on four broad issues which deserve our consideration.

The four are:

1) Enhanced education collaboration which can change the dynamics of this relationship
2) STEM teacher exchange which can be a game changer for the U.S.
3) The need to allow exports of natural gas to an energy starved India
4) Why we should look beyond New Delhi to different states in India

Enhance Education Collaboration: A Hindu proverb states that you can change a nation through education. I am a firm believer in this proverb and I think it holds a key for changing U.S.-India relations. For all the short-term fixes we might talk about today, I believe education is the long-term solution which is required for the U.S.-India partnership to thrive.

The Alliance for US-India Business (AUSIB) – a not-for-profit trade organization – has been at the forefront of enhancing dialogue between both countries to create opportunities for building higher quality education because we believe that building global partnerships between U.S. and Indian universities will strengthen the bonds between our two nations. Some of the top CEO's and policy leaders in India today are educated from U.S. Universities. They take with them the knowledge, values and experiences of the United States. They take back the generosity of the

American people. This automatically creates economic and cultural bridges between the two countries. It is not a coincidence that Indian companies, led by U.S. educated CEO's, are much more active in the U.S.-India economic relationship.

Students from India form the second largest group coming to the U.S. for higher education. But demand for higher education in India is also increasing. The Indian Higher Education sector is rising to meet global benchmarks although further efforts are needed to enhance the accessibility, funding and the quality of higher education in the country. India needs at least 500 Universities and 33,000 more colleges in the next 8 years. This alone is a $50 Billion market. India also has a great need for vocational and technical institutes which is another $2 Billion market opportunity.

Where will this additional capacity come from? If it comes from Indian universities partnering with universities and colleges in the States you represent, I believe we will be on our way to making the kind of difference that needs to be made. Through AUSIB EduNext, a higher education initiative which mobilizes organizations and drives tangible results to empower and make educational institutes more capable and future ready for purposes of preserving and promoting the values that India and the U.S. share, we have created a platform for Indian Colleges/Universities to interact and establish long term relationships with visiting U.S. universities. We focus our efforts in the fields of medicine, pharmacy, engineering, business, hotel management, energy, technology and agriculture.

Our results have led to student and faculty exchanges, joint R&D and we have created an online platform that academics on both sides can use to exchange best practices. We have hosted two of the largest U.S.-India education conclaves in 2011 and 2013 which were attended by over 100 education and policy leaders from the U.S. and over 1,000 from India. All three Provosts of Public Institutions in Iowa were represented at the highest level at this year's conclave besides other Universities.

Governors, Members of Congress from India and the U.S., University Presidents, Provosts, Chancellors, Deans, Department Heads and senior faculty have participated in AUSIB- led delegations and we encourage universities in your district to collaborate with us or the Indian Higher Education sector so that together we can promote the highest standards of education, value systems and governance. All of our conclaves have had a strong corporate participation from the U.S. and India and I believe it is important for Universities to understand what kind of educational capability that companies need and also for companies to form a Public-Private partnership model with the Universities.

Create a STEM teacher exchange program: The second point I would make is regarding STEM education. The United States has a tremendous shortage of STEM teachers at the K-12 level. It is especially very acute in rural, inner city and remote areas. How can we expect our kids to have strong science, math skills when they do not have good teachers? India has a tremendous pool of science and math experts that also speak English. We should consider a specialized short term program that qualifies trains and brings these teachers over to the U.S. for a short duration so that we can create our own pool of STEM experts for the future. AUSIB is currently working with several states to establish a pilot program.

Allow exports of gas to an energy starved India: Currently India competes with China and Japan for buying LNG from Qatar and Australia. Generally it ends up on the short end of the stick as the growing appetite by China has made China much more aggressive. The U.S. only exports Gas to FTA countries and since India is not it needs approval. If the U.S. can find a way to have an economically viable and environmentally clear mechanism to export gas to India it would do three things: increase economic opportunity in the U.S. through exports, reduce India's energy dependence on the Middle East and thirdly build a more strategic relationship with India given the country's tremendous need for energy independence.

Look beyond New Delhi outward to various dynamic states in India:

As India has entered a period of coalition politics, the states are much more assertive and powerful. The U.S. should build strong economic and cultural ties with these states since they will get away from the policy paralysis that sometimes affects New Delhi. AUSIB just took a delegation to the state of Punjab where the Chief Minister wants to start a Farmer to Farmer exchange with the U.S. since his state is an agriculture state and he wants to learn best practices from U.S. farmers.

There are several dynamic states in India like Maharashtra, Gujarat, Andhra Pradesh, Tamil Naidu that we should engage with. I would like to make a point about the U.S. relationship with the State of Gujarat and especially its democratically elected Chief Minister Narendra Modi. His state is one of the most economically dynamic and has attracted a lot of investments from U.S. companies like Ford and GM. I have participated with other delegates from around the world at one of the premier economic summits in India hosted by the State of Gujarat called Vibrant Gujarat. However, the U.S. Government has boycotted him. While all of us stand for human rights and deplore any violation, the fact remains that after ten years of investigation, India's Supreme Court has found no evidence against CM Modi regarding the 2002 Gujarat riots and he has been elected democratically thrice, representing more than 60 million constituents. Therefore, in my opinion, it is time for the U.S. to begin the process of engagement with CM Modi.

I thank you for your time and for holding this important hearing, and I look forward to answering your questions.

Mr. CHABOT. Thank you very much, Mr. Puri, and I'd like to thank all the members of the panel for their testimony this morning.

I think it was all very excellent, and we'll now recognize members for 5 minutes to ask questions and I'll recognize myself for that purpose.

There have been recent reports that local territorial disputes with China in fact have sharpened since Secretary of State Clinton's call for America's Pacific Century.

Is it just a coincidence that these conflicts between China and Vietnam and China and the Philippines and China and Japan, et cetera, have intensified since the so-called "pivot" to Asia? Could China be operating under the impression that their neighbors have become emboldened by the protection offered by increased military cooperation with the United States, for example? What other unstable dynamics, in addition to increasing tensions in the East and South China Seas, are likely to be generated in the near or distant future that could undermine our so-called Asia "pivot"?

I welcome any of the members of the panel to respond. Mr. Lohman?

Mr. LOHMAN. I would actually say it's just the opposite. That is, that the U.S. attention to the region and attention to the complaints of our allies—in some cases—in the case of the Philippines, a treaty ally—is a response to the pressure that the Chinese are putting on friends in the region and that impetus is coming from within China.

It's coming from a couple decades of patriotic education, things emphasizing their rights in those waters. There is also a media environment there that only gives people the outlet to criticize the United States or criticize the Philippines or criticize Japan, but allows them to sell newspapers. So how are they going to sell newspapers? They're going to criticize in the harshest possible terms.

So there's a certain dynamic in China, I think, that is driving their claims and their aggressiveness in their "near seas" and the U.S. is responding to those largely because our friends and allies are coming to us asking us to help.

Mr. CHABOT. Mr. Nehru?

Mr. NEHRU. Let me add to Mr. Lohman's point. Actually, China's claims in the South China Sea have been in existence for a long time, certainly for several decades. But they have never really pursued these claims actively.

But as their capabilities, especially naval capabilities, capabilities of the officials that regulate the law enforcement commission, the capabilities for—of local governments, which are the coastal regions, and their Coast Guard capabilities have increased, they have gradually extended their enforcement out into the South China Sea and that's led to some of these interactions.

So I would agree with Mr. Lohman. I don't think it's necessarily the U.S. pivot. I would just like to add one more point and that is the Vietnam issue really arose because of the passage of the Vietnam Maritime Law which included some of the islands in the Paracels as they were embodied in the law itself.

And that, I think, created enormous concerns in China and created a reaction because until that point it had never been embodied in any Vietnam—Vietnamese law.

Mr. CHABOT. Thank you.

Let me get my second question in and then I'll address that to Mr. Dhume and Mr. Puri.

As a way to help India become more economically integrated within the region, should the U.S. support India's participation in the Asia Pacific Economic Cooperation—APEC forum and if so, why? And why has India not yet been invited and how could APEC help India? Are there any risks that the U.S. faces by inviting India to join. If you wanted to comment at all on TPP—all of those things.

I have 1 minute between the two of you to try to do it. So Mr. Dhume?

Mr. DHUME. Well, I'll comment very briefly. The short answer is yes, the U.S. should support India's entry into APEC.

I think the broader—the broader principle at work over here is that the U.S. should support greater Indian integration into political and economic institutions in Asia and APEC is one of them.

The reason that it hasn't been there is that India has not traditionally been seen as a Pacific power. It's an Indian Ocean power. But I think that's—you know, those are just details and the broader idea should be to include India in all these institutions.

Similarly, the TPP—I think India is very far away from being in the TPP right now. But the principle behind the TPP, again, should be—should be expansive, inclusive and I believe that is the—that is the general idea behind it.

Mr. CHABOT. Okay. Thank you.

Any thoughts on those things, Mr. Puri? Anything you'd like to add?

Mr. PURI. No. I think my colleagues have talked about it and I think the United States should support India in terms of joining the APEC.

Mr. CHABOT. Okay. Thank you very much. My time has expired.

The gentleman from California, the ranking member today, is recognized for 5 minutes.

Mr. BERA. Thank you, Mr. Chairman, and thank you for the panelists. Your testimony was riveting.

Mr. Puri, you touched on the importance of the educational partnership and I'm a direct product of that. My parents, you know, immigrated here as students from India in the 1950s, as have many immigrants.

As we think about the Indian-American community, we've prospered and we've done very well here in the United States and have continued to give back to the United States economically, academically and so forth, and I'd ask any of the panelists to think about the role of the Indian-American community here domestically as we strengthen the partnership with India and, you know, what advice you would give to the community here to help accelerate this relationship and how to use that.

Mr. PURI. Well, I think the community here is already engaged in the dialogue. I mean, you're seeing some of us already here. So that's in the process.

But I think, to me, maybe I'm—I really believe education is very, very important because we look at those students who come from India as a big source of revenue because they pay full fare. But they also contribute a lot in terms of technology.

But you got to understand that in India there is a huge education market. Every Indian parent will sell their land or other things to educate their children.

It's a $50 billion market but it also builds very, very strong bonds. Having done two major conclaves, I can just tell you that if we get engaged then there's the benefits, especially we have started engaging corporates in there. So the last delegation we took Iowa—we took companies from Iowa with us, Principal Group and others, John Deere, et cetera.

The benefits are to those companies. Benefits are to the United States. Benefits are to India and to the educational institutions. So I think that's a win-win situation.

And we should start looking at STEM teachers here too because there's a crying need and, you know, Mr. Bera, some of the math and science experts that exist in India. It's incredible. They are currently being taught from Skype. Students here are being taught from Skype in India so we could do a lot better in doing those things.

Mr. BERA. Mr. Dhume?

Mr. DHUME. Thank you.

This is a question right after my heart. I spent a lot of time thinking about this. I would say that you could divide that question into two parts, really. There is a—there are the practical ways in which Indian—the Indian-American community, which is about 3 million strong, can contribute.

It's a wealthy and educated community that can give back in terms of business ties, Indian-American-owned companies investing and so on.

But I, in fact, think that the more important thing is the contribution of this community to India in terms of ideas. This is a community that has prospered in the United States precisely because the United States has got certain really big things right in terms of its ideas of pluralism, in terms of its ideas of tolerance, in terms of its ideas of economic freedom.

And so I think that if I had so summarize this in a sentence I would say the key role for the Indian-American community in terms of giving back to India is to take the principles that have made the U.S. prosperous and strong and find ways to promote those ideas in an Indian context.

Mr. BERA. Right. Thank you.

Let me try to get my second question in here. We've talked a lot about the U.S. relationship with China versus the U.S. relationship with India.

You know, is it possible during the rebalance—the Asian rebalance—for the U.S. to enhance both relationships or are they in conflict? And I'd direct that to Mr. Lohman or Mr. Nehru.

Mr. LOHMAN. Briefly, yes, I do think you can enhance both relationships. That's the difficulty because it makes for a very complex set of relationships. We're trying to improve relations with China

at the same time we're balancing against it and we're trying to come to the defense of our friends in the region.

We're trying to get the Indians involved in that effort and we're not even clear on what the object of our effort is in East Asia.

So I think it's possible. I think it also very much complicates the situation.

Mr. NEHRU. I would add that actually it's essential because I think India would find it very difficult if it felt that there was a G–2 being created between the United States and China that it was excluded from any future developments in the Asia Pacific region that was solely the product of the relations between those two countries.

Mr. BERA. Great. Thank you.

I'll yield back my time.

Mr. CHABOT. Thank you very much.

The gentlemen yields back. The gentleman from North Carolina, Mr. Holding, is recognized for 5 minutes.

Mr. HOLDING. Thank you, Mr. Chairman.

Mr. Lohman, a few weeks ago at Part I of our hearing on the rebalance to Asia and the importance of South Asia we heard from the administration officials that the pivot is going to require a balance of diplomatic, military and economic interests, and I'd ask you how you'd rate this balance thus far and which one of these three areas is going to present the greatest challenge moving forward?

Mr. LOHMAN. I think the military presence is the one that's going to be the biggest challenge because of what's going on here in Washington with budgets. I think that's the biggest problem.

But in terms of ranking the various elements of it, I think you have to recognize that the diplomatic element of that is completely dependent on the other two.

If you don't have an economic footprint in the region, if it's not big, if it's not something that can compete with the other powers or if you don't have the forward deployed military that we have had there for the last 70 years protecting the global commons, diplomats go to the table with a lot less behind them and they're a lot less effective.

Mr. HOLDING. Switching gears just a little bit, and I'm going to open this up to the whole panel but starting with Mr. Lohman, if you could elaborate on what role you believe Pakistan and the current relations between the U.S. and Pakistan will play in the administration as a pivot.

Because, you know, certainly we provide Pakistan with enough aid that, I think, that we have seen that we're not getting everything in return that we had hoped for with giving this aid.

And with Pakistan being a nuclear weapon state and the instability that we've seen over the years, you know, the concerns that you might have as we look at relations between Pakistan and India.

Mr. LOHMAN. I think for the most part Pakistan is irrelevant to East Asia. East Asia is a place of opportunity. It's not a place of conflict. It's not somewhere where Pakistan's normal toolbox is going to be of much use to anyone.

But I think if they could do something they could help facilitate a good outcome in Afghanistan—that is, they could stop making

our life more difficult in Afghanistan because especially getting involved in East Asia, if India is not comfortable with what's going on there—it's not comfortable with what's going on in Pakistan and Afghanistan—it's not going to be able to get more involved in East Asia.

So I think Pakistan could be a more constructive player in the AfPak theater. That would be the best thing it could do. Other than that, there's really no role that it can play in East Asia.

Mr. HOLDING. I'd like to open that up for some further comment from the panel.

Mr. DHUME. I'd like to agree with Mr. Lohman. I mean, in a nutshell, the role of Pakistan in the pivot it could play a role of a spoiler, and the reason it could—the way it could play the role of a spoiler is by essentially destabilizing the two countries on its border—Afghanistan and Pakistan—by the use of jihadist proxies that it has done in the past.

So I think the U.S. role, as I emphasized in my opening comments too, the U.S. role in South Asia, in Afghanistan and Pakistan, remains important mostly to ensure that Pakistan does not play that role of a spoiler, does not turn India westward looking at its core immediate domestic security concerns by—caused by things such as terrorism.

So in that sense, Pakistan is a player in it but not in a broader sense, as Mr. Lohman emphasized to you.

Mr. HOLDING. Well, if foreign aid to Pakistan isn't gaining us the influence and control over the situation that we might hope, what is the solution?

Mr. DHUME. I think it's—we're not going to get—we're not going to get to a perfect situation where the problem is solved. But we can try and improve it. It should be a combination of carrots and sticks.

I do believe that there needs to continue to be aid in order to influence Pakistan, to strengthen liberal voices within Pakistan society, to try and turn the discourse within the Pakistani military toward democratization.

So I think to that extent there has to be continued aid. There also have to be carrots. There also have to be sticks—sorry. There has to be a capacity to target people within the Pakistan establishment who continue to foment terrorism.

I think the drone program is essential and perhaps we may have to look at a time where the drone program is, depending on advances in technology, perhaps stepped up, even though it is unpopular in Pakistan.

So I think this is going to be an ongoing thing. It's not going to go away in the next year or 2 or even 5. But, broadly speaking, you have to remain engaged and you have to recognize that there is going to be an element that is played by—element that is played by aid but also an element of force that has to be on the table in that region.

Mr. HOLDING. Thank you. Mr. Chairman, I yield back.

Mr. CHABOT. The gentleman's time has expired.

The gentleman from the Commonwealth of Virginia, Mr. Connolly, is recognized for 5 minutes.

Mr. CONNOLLY. Thank you so much, Mr. Chairman, and thank you for noting we are a commonwealth, one of four.

Talking about Pakistan just a little bit, Mr. Nehru and Mr. Dhume in particular, as much as the United States is concerned about internal stability in Pakistan and the ability of the government to deliver on cooperation in the fight against terrorism and reestablishing control over unpoliced parts of the state, its relationship with its own military and so forth, surely India's got to be concerned about growing instability.

This is a huge country. It's got nuclear weapons. What are India's responsibilities and obligations to Pakistan in terms of trying to help with stability? Mr. Dhume, you listed some options for us. What about India?

Mr. DHUME. I think India has broadly acted quite responsibly toward Pakistan. You saw that in the response of India after the horrific Mumbai attacks of 2008. There's a broad consensus in India that Pakistan should not be allowed to fall apart and that means encouraging primarily a more robust economic relationship.

India has granted most favored nation trading status to Pakistan about a decade and a half ago. Pakistan has yet to—is in the process of reciprocating that but that has not fully been—fully been done.

But in a nutshell, the Indian policy toward Pakistan will continue to be more economic relations, more people-to-people contact, a robust engagement with liberal elements within Pakistani society the same way we do.

And so it's quite—in many ways, there's a real confluence of interest between the U.S. and India in Pakistan because both countries view this similarly. Of course, the U.S. has more tools. The U.S. has military tools that are—such as the drone program, which India does not.

But broadly speaking, both countries are trying to pull Pakistan or nudge Pakistan in the same direction where it's a country that begins to focus more on the welfare of its own citizens and less on exporting terrorism and other problems to countries on its borders.

Mr. CONNOLLY. Mr. Nehru?

Mr. NEHRU. Well, I'm actually not an expert on Pakistan. I concede that to Mr. Dhume. But let me just add one point.

I do believe that economic relations are going to be critical between those two countries, and if India is able to continue to grow rapidly, the incentives on the Pakistani side will increase over time to increase its trade with India simply from an economic perspective.

And therefore, actually economic growth in India—continued economic growth in India will be a very important feature or factor in improving economic relations between the two countries and I believe that then will be the key to an enduring peace.

Mr. Connolly. Speaking of that, Mr. Puri, and I see you want to—you want to come at this as well so feel free to do so. But can I just tack a question on, particularly to you?

Speaking of the Indian economy, I mean, the Indian economy was growing at 7, 8 percent. It's now down to about 5 percent.

In my recent visit to India, one of the refrains I heard particularly from non-Indian nationals but also from some Indian nation-

als was the bureaucracy, the red tape of doing business in and with India is so oppressive that it's actually contributing to some diminishment of robust economic growth and discouraging investment in the country, especially with American companies. I wonder if you'd comment.

Mr. PURI. Well, I'll just address the Pakistan issue that he raised and you raised.

I think Pakistan is a perception problem also for the United States and India. Every time I go to India the people always ask me, why do you guys always side with Pakistan—why do you guys side with Pakistan? You give them so much money.

So it is a perception issue and a perception problem for India. Mr. Dhume——

Mr. CONNOLLY. Which, by the way—excuse me—is ironic since the Pakistanis would—if you had a similar visit you'd hear why is American repivoting to India—why are you so favorable to India.

Mr. PURI. I know. India is a democracy, has a strong media. The other issues, obviously, if—you know, Indian politics also dictates if there is a serious attack the public wants some action.

When there was this Bombay attack, they were at the verge of responding because the public wanted some action just like any other democratic government would do. So that's the thin line that India always walks in terms of Pakistan.

Now, coming to the economic issue, which I agree—red tapeism, governance issues—and that's why I addressed the issue that United States should start looking and companies should start looking at states where they can actually do business, where there is less red tape, whether it's Maharashtra, Gujarat, Andhra Pradesh, Tamil Nadu because there are those core states where you can actually do business, do business fast and get things done and those states are growing at 15 percent, 14 percent.

And yes, there are other states which are growing at much less.

Mr. CONNOLLY. Yeah. Thank you very much. Thank—my time is up, Mr. Chairman.

Mr. CHABOT. Thank you. The gentleman's time has expired.

The gentleman from Georgia, Mr. Collins, is recognized for 5 minutes.

Mr. COLLINS. Thank you, Mr. Chairman. I appreciate that.

Mr. Dhume, I have just a quick—I don't want to spend the time here but you had mentioned—you brought up the sticks and carrots with Pakistan. Especially in light of and from my background in military and others maybe is it—maybe it's just a perception issue.

Should we—in using your analogy of carrots and sticks it seems to me we need to be using more sticks here than carrots. I mean, it just—at this point, we're not seemingly able to penetrate, I think, from my perspective. I'd like to hear your thoughts just briefly on that.

Mr. DHUME. I think the real problem we've had since 9/11 in Pakistan is that we've been good at wielding a really big stick, which is what we did after 9/11 when we sort of went to the Pakistanis and said that listen, you need to change your behavior and if you don't change your behavior you're going to suffer extremely grave consequences.

What we've been less good at is wielding smaller sticks and that's what you need in the day to day, and just historically it's not something—you know, it's an awkward—Pakistan puts us in an awkward position because we know how to be friends and we know how to be adversaries.

But this sort of in between stage where Pakistan is technically an ally of sorts but in fact has—its population is extremely hostile to the United States and its army and its intelligence agencies, in fact, have actively funded and trained elements that have attacked U.S. troops in Afghanistan, it's problematic.

I think drones are part of the solution but they're not the whole solution. We have to be looking at things like targeted sanctions at top ISI officials. So more sticks, I agree with you, but they have to be—they have to be smaller sticks than the ones that we've had traditionally.

Mr. COLLINS. Well, I tend to agree with you and that's why I wanted to give you a chance to clarify that because I do believe there needs to be more, as you call, little sticks. But I think that's something—a whole another hearing that we could do and especially if we're discussing drones and other issues that's coming apart here.

But I want to turn to Mr. Nehru—a question of economics for you. The—there's been a lot of discussion on China and especially currency manipulation and the issue there of what can we do to stop the currency manipulation.

But there's also another side of that as far as—and so the question would be is if China were to allow the RMB exchange rate to be adjustable based on market supply and demand, would the U.S. see a net increase in cheaper exports to China or what other aspects could we see there?

I know it's talked about a lot but I'd like to hear sort of—a balanced approach is the word thrown around in Washington these days.

Mr. NEHRU. Well, this is a—this is a very technical question. But let me just make the following point. If China were ever to allow its exchange rate to completely respond to market forces it would mean that there would have to be no convertibility restrictions between the renminbi and other currencies.

So there would have to be basically no capital controls. And for that to happen, you would have to have a financial sector that is very stable. Now, China saves 55 percent or close to 55 percent of its GDP. That's a large amount of savings, which are chasing increasingly riskier and riskier investments within China.

You bring down those capital controls and a lot of that—a lot of those savings will pour out of the country and actually seek higher rates of return in the rest of the world. In fact, already one estimate says that $250 billion leaves China illegally, illicit capital outflows seeking higher returns outside China.

When you have a large capital outflow from a country, the renminbi will depreciate, not appreciate. So you might have, in fact, an effect which is counter to what you would expect. So I would just say that this is a complex issue and has to be dealt with carefully.

Mr. COLLINS. Well, that's why I wanted to bring it up because it's an issue sometimes that's spoke of as a fix-all, if you would. It's brought up as well, if we just fix this manipulation then we have, you know, an open market or a lower cost, and there's some things.

But I wanted the—what you said there was, I think, something we all need to look at again in the bigger scheme of things is how we deal with not only the illegal outflow of capital that's coming out of China but if we did bring those down where would it go and how would it be, you know, met. And so I appreciate the answer.

Just sort of a broad question, very quickly, and we may not have a—finish—I just want to finish this way. We're focused many times on the—on the big players there—India, you know, Pakistan, China, Afghanistan, of course, and others.

I think at a certain point, Mr. Chairman, the other areas in that integral part of that Southeast Asia—the Nepals, the Bangladesh, the Sri Lankas—those are all an interesting part that, I think, play into a part of what we're doing on the economic side.

Mr. CHABOT. Don't forget Bhutan.

Mr. COLLINS. And Bhutan and the rest. As you go along—and I appreciate us bringing this because I believe it is something important for not only America but also taking the entire area to task.

So, Mr. Chairman, I yield back.

Mr. CHABOT. Thank you very much, Mr. Collins. We appreciate your questions.

And our last questioner this this afternoon will be the now ranking member of this committee, the gentlelady from Hawaii, Ms. Gabbard.

Ms. GABBARD. This is one of the few places where things happen fast, right, Mr. Chairman?

Thank you, gentlemen, for your—for your insight and for being here today with this very important discussion. As we all have recognized, the countries of South Asia are vital strategic, economic and security partners for our country and we experience this as a day-to-day reality in my state of Hawaii, where our economic vitality and success is largely dependant on our working relationships with many countries in Asia and the Pacific and understand and welcome the region's participation in particular with multilateral organizations such as APEC.

My first question is, really, going to focus on the economic impact here, specifically with visas and how we can improve the system that we have so that there is mutual economic benefit.

With H–1B high-skilled workers visas, Indian nationals currently receive about one-third. Of those overall visas, we've heard from our colleague from California how he has—he and his family have personally been recipients or part of that success story.

What ways can we improve this current temporary visa program so that our economy here can benefit from these high-skilled worker programs? I open that to whoever.

Mr. PURI. Well, I think there are a lot of solutions already that are floating around. But what happens is in Washington when you have a big comprehensive immigration debate some of these things get pushed aside.

There are so many different models. You look at the Canada model, which is a point-based model based on skills. You look at

Australia's model, which is, you know, they have just come out with a bonded visa that you put—if you want to get some of your family members in you put $10,000 and if they don't go back you lose that.

But as far as skilled visas are concerned, I think we really lose out when people come here to go to school for graduate studies and Ph.D.s, et cetera. We should absolutely figure out a way to keeping them here and maybe put together a point-based system that is necessary.

But what happens is today if somebody gets a green card but his or her spouse is in India, because of the waiting time that happens with India it takes them 10 years to bring their spouse here, which is not humanly right and also is a great motivator for that person to go back no matter what skills that person has.

So we really have to take a look at not just skill but also family-based immigration policy that we are looking at.

Ms. GABBARD. Thank you.

The second follow-up question, similarly along the same vein, is talking about how we can increase the capacity to process visas from fast-growing countries like India, largely which would allow for increased tourism and other visitors to the U.S.—really seeing an opportunity there for a huge infusion into our economy with minimal outlay either in infrastructure or other ways.

Wondering if you could talk about some opportunities that exist there as well as possibly some concerns with opening up the visa waiver program to countries like India, for example, or the global entry program and seeing how we can develop more bilateral Trusted Traveler arrangements.

Mr. DHUME. I could be mistaken but my understanding of the visa—are you talking about the visa waiver or are you talking about a lottery?

Ms. GABBARD. Visa waiver.

Mr. DHUME. Yeah. I think that that would sort of not be realistic at this point simply because of the pressures of immigration that would—that would perhaps follow.

But I do think that, to get back to Mr. Puri's point, what is important essentially in terms of looking at visa issues with India is the focus on attracting and retaining highly-skilled immigrants, particularly people with math and engineering skills, and I think that ought to be the focus.

In terms of processing times and so on, I don't have the figures at the top of my fingertips but I can tell you anecdotally that things have improved quite dramatically if you were to go to the Embassy in New Delhi or any of the consulates.

You know, there used to be a time where to get a visa to the U.S., you know, there were long lines and so on. I think of streamlining has taken place, especially in terms of management. And so things in that direction have—things have broadly gone in the right direction in terms of processing and handling and so on.

I mean, I'm sure there's always room for more improvement but that's my sense of it.

Ms. GABBARD. Thank you. Mr. Lohman?

Mr. LOHMAN. I just wanted to quickly add I think Mr. Bera suggested earlier or asked whether there was something that the In-

dian community should be doing. This actually would be a good issue to rally around.

I mean, on the U.S.-India nuclear agreement the Indian community got very involved and is really largely responsible for it happening. This would be the sort of thing you could also rally the community around and make happen.

Ms. GABBARD. Thank you. Thank you, gentlemen.

Mr. CHABOT. Thank you. The gentlelady's time has expired.

We would like to thank all the witnesses for their really excellent questions and answers this afternoon. Their testimony was really very good—I think very helpful to members.

I would ask unanimous consent that members have 5 legislative days to revise and extend their remarks and submit written questions if they'd like to do that. If there's no further business to come before the subcommittee, we're adjourned.

Thank you.

[Whereupon, at 12:16 p.m., the subcommittee was adjourned.]

APPENDIX

Material Submitted for the Hearing Record

SUBCOMMITTEE HEARING NOTICE
COMMITTEE ON FOREIGN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6128

Subcommittee on Asia and the Pacific
Steve Chabot (R-OH), Chairman

March 8, 2013

TO: MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS

You are respectfully requested to attend an OPEN hearing of the Subcommittee on Asia and the Pacific, to be held in Room 2172 of the Rayburn House Office Building (and available live on the Committee website at www.foreignaffairs.house.gov):

DATE: Wednesday, March 13, 2013

TIME: 11:00 a.m.

SUBJECT: The Rebalance to Asia: Why South Asia Matters (Part II)

WITNESSES:

Mr. Walter Lohman
Director
Asian Studies Center
The Heritage Foundation

Mr. Vikram Nehru
Senior Associate, Asia Program
Bakrie Chair in Southeast Asian Studies
Carnegie Endowment for International Peace

Mr. Sadanand Dhume
Resident Fellow
American Enterprise Institute

Mr. Sanjay Puri
Founder and Chief Executive Officer
Alliance for U.S. India Business

By Direction of the Chairman

The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202/225-5021 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the

COMMITTEE ON FOREIGN AFFAIRS

MINUTES OF SUBCOMMITTEE ON *Asia & the Pacific* HEARING

Day *Wednesday* **Date** *3.13.13* **Room** *2172*

Starting Time *11:02 AM* **Ending Time** *2:16 PM*

Recesses [ ] (____to____) (____to____) (____to____) (____to____) (____to____) (____to____)

Presiding Member(s)
Steve Chabot (R-OH)

Check all of the following that apply:

Open Session [✓]
Executive (closed) Session [ ]
Televised [ ]

Electronically Recorded (taped) [✓]
Stenographic Record [✓]

TITLE OF HEARING:
The Rebalance to Asia: Why South Asia Matters (Part 2)

SUBCOMMITTEE MEMBERS PRESENT:
Steve Chabot (R-OH), Dana Rohrabacher (R-CA), Mo Brooks (R-AL), George Holding (R-NC), Scott Perry (R-PA), Ami Bera (D-CA), Tulsi Gabbard (D-HI), Brad Sherman (D-CA), Gerald E. Connolly (D-VA)

NON-SUBCOMMITTEE MEMBERS PRESENT: *(Mark with an * if they are not members of full committee.)*

HEARING WITNESSES: Same as meeting notice attached? Yes [✓] **No** [ ]
(If "no", please list below and include title, agency, department, or organization.)

STATEMENTS FOR THE RECORD: *(List any statements submitted for the record.)*

TIME SCHEDULED TO RECONVENE _____
or
TIME ADJOURNED *2:16 PM*

Subcommittee Staff Director

COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

SUBCOMMITTEE ON ASIA AND THE PACIFIC
ENI F.H. FALEOMAVAEGA (D-AS)
RANKING MEMBER

The Rebalance to Asia: Why South Asia Matters (Part II)

March 13, 2013

Mr. Chairman:

I commend you for focusing our first two hearings on why South Asia matters. For too long, I believe we have viewed India, in particular, only through the prism of our security interests, and this may be why India, for some time, was a part of the Subcommittee on the Middle East rather than the Subcommittee on Asia and the Pacific, where it rightfully belongs.

India is an Asian superpower. Like it or not, India is a counterbalance to China, although I do not believe it serves U.S. interests for us to pit either against the other, especially when India and China just announced that they will conduct joint military exercises.

I also do not believe we should ask India to be the answer to U.S. concerns in Afghanistan. Traditionally, bilateral relations between India and Afghanistan have been strong and, frankly speaking, I question U.S. initiatives which pressure India to assume security-related postures and activities which are contrary to its history of non-alignment. Furthermore, Chinese and Indian companies are investing in Afghanistan, despite the risks.

To deepen the U.S.-India relationship – which must be deepened if it is to become a defining partnership of the 21st century – I do believe it is to our benefit to focus on economic cooperation, energy security and education. This is why I am pleased that Mr. Sanjay Puri, Founder and CEO of the Alliance for U.S.-India Business (AUSIB), is testifying today.

AUSIB has been at the forefront of pushing for greater energy cooperation, having hosted the first ever U.S. Congressional India Renewable Energy Conference held on Capitol Hill. Mr. Puri was also instrumental in galvanizing the Indian American community in support of the successful passage of the U.S.-India Civil Nuclear Cooperation Agreement. By enhancing dialogue and building business and trade collaboration between the U.S. and India, AUSIB is opening new channels of communication between business and government leaders in both countries. So, I especially look forward to hearing from Mr. Puri as to why South Asia matters and what the U.S. can do to bolster relations.

During Part I of our hearing on February 26, 2013, I called upon the U.S. to open a dialogue with Chief Minister Narendra Modi who may be India's next Prime Minister. Since then, critics have tried to dismiss this call for serious engagement by questioning my motives. My motives are plain and public, and my message is the same message championed by leaders from the European Union, the UK, Thailand, Japan, Germany, Canada, Denmark, delegates from over 121 countries who attended the Vibrant Gujarat 2013 Summit, Ford, General Motors, powerhouse companies like Reliance and Tata, and Britain which just ended its diplomatic boycott.

I believe the basis of the message being put forward is that all of us stand against human rights violations and we recognize that, in democratic societies, the judicial system plays a major role in defining and preserving our human rights. In the case of the 2002 riots in Gujarat – after ten years of judicial proceedings and adjudications – India's Supreme Court has not found CM Modi culpable. Therefore, for critics and activists – and even the U.S. – to push this case beyond the scope of the law is not the way of democracy. In a free and democratic society, we do not hold men guilty based on allegations and speculation. Courts are also to guarantee individuals the right to a speedy, public trial -- a freedom CM Modi has been denied.

So I stand by my position regarding the need for U.S. engagement with CM Modi. CM Modi is one of India's most influential leaders and, considering that India is the lynchpin for our re-balance to Asia, the U.S. must engage now. I also believe we should encourage our Governors and State delegations to engage directly with other States in India which are committed to cutting through the bureaucracy and strengthening our economic relationship.

Once more, Mr. Chairman, I thank you for your leadership and insights. I agree with you that the U.S. must be serious about its relationship with South Asia as South Asia is vital to our strategic, economic and political interests. From WMDs to terrorism to trafficking to food and energy security, we face many challenges in the region. But we, like our partners, also share the same objectives for peace and stability and economic growth and opportunity.

So I welcome our witnesses and look forward to their testimony about how we can press the reset button for purposes of moving U.S.-South Asia relations forward.

The Honorable Gerald E. Connolly (VA-11)

The Rebalance to Asia: Why South Asia Matters (Part II)
Wednesday, March 13, 2013
11am

South Asia has not had a reputation for tranquility since the 1947 Partition and the events of the past decade have exacerbated the volatility of the region. Territorial disputes, a nuclear rivalry, a slew of wars fought between India and Pakistan, and cross border terrorist attacks are some of the reasons why the subcontinent requires constant monitoring. U.S. involvement in Afghanistan has complicated the situation and demonstrated the existence of a hodgepodge of terrorist groups clamoring for influence in different parts of the region.

The United States has repeatedly attempted to work with its allies on the subcontinent. India is the world's largest democracy and has presented unique business opportunities for American companies. And the militaries of Pakistan and the United States have worked together to pursue terrorists who use the porous border in the region to their advantage. The U.S. has certainly invested large sums of money in Pakistan in the hopes of gaining Pakistan as a useful ally. (This cooperation is nothing new, and goes back to the days of the Cold War when General Zia ul Haq ruled Pakistan).

In recent years, Pakistan has seen a significant increase in financial commitments from the United States, including the $1.5 billion per year for five years in development aid passed in the 111th Congress (through the Enhanced Partnership with Pakistan Act of 2009). Moreover, since 2001, the US Government has appropriated about $24 billion in assistance and military reimbursements to Pakistan. The Abbottabad raid on Osama bin Laden's compound brought to the surface complications in the relationship.

INDIA

Discussions about the United States' security interests in South Asia often center on Afghanistan and Pakistan and neglect to mention the country that shares Pakistan's eastern border and has the fifth highest GDP in the world—India. As the world's largest democracy and South Asia's most populous country, India ought not to be hastily placed in an already established South Asian narrative. India's location on the subcontinent, its history with Pakistan (including three wars), and its access to the Arabian Sea and Bay of Bengal make it an important country with regard to U.S. security interests.

Counterterrorism cooperation is a dimension of the bilateral relationship, as both the U.S. and India have experienced horrific terrorist attacks perpetrated by militant Islamist groups. Just this summer, two major Indian cities were targeted in bomb attacks. The July 2011 triple bombing of public gathering places in Mumbai killed 20, and an August briefcase bomb killed 12 near a New Delhi courthouse. And the infamous 2008 Mumbai attacks resulted in 166 casualties, including six Americans. U.S. cooperation in the investigation of the 2008 attacks was significant, with Federal Bureau of Investigation agents assisting Indian officials.

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This cooperation was not the first of its kind. State Department has organized 82 police courses for Indian law enforcement under the Antiterrorism Assistance program. For FY12, the Administration requested $4.5 million in Antiterrorism Assistance for India, and the State Department recently concluded a seminar for mid-level policy officials from across India in investigative analysis techniques. Moreover, State concluded a two week seminar for Indian law enforcement on forensics techniques.

Our past dealings with India regarding counterterrorism show that there is a real space for bilateral counterterrorism cooperation. The threats that India faces from militant groups, coupled with its potential to be a counterterrorism anchor in the region, make it a natural partner for the U.S.

HAQQANI NETWORK

When the State Department announced the Haqqani Network's designation as a Foreign Terrorist Organization (FTO) in September, senior officials said that the designation "strengthen[s] our whole-of-government effort against the Haqqanis and demonstrates the seriousness with which we take the task of protecting our personnel in Afghanistan."[1] The officials called Pakistan an "extremely valuable ally in countering extremism and terrorism"[2] and repeatedly emphasized that an FTO designation is not the same as a state sponsor of terror designation. Despite these qualifiers, there is robust skepticism of Pakistan's denials about its support for the Haqqani Network.

According to *The New York Times*:

> The Haqqanis are Afghan members of the Zadran tribe, but it is in the town of Miram Shah in Pakistan's tribal areas where they have set up a ministate with courts, tax offices and radical madrasa schools producing a ready supply of fighters. They secretly run a network of front companies throughout Pakistan selling cars and real estate, and have been tied to at least two factories churning out the ammonium nitrate used to build roadside bombs in Afghanistan.[3]

If the Haqqanis can operate robustly and without abandon with a U.S. troop presence across the border, they are likely counting down the days to the U.S. troop withdrawal from Afghanistan. It is a question in need of an answer how the United States plans to leave Afghanistan with the Haqqani Network intact next door in Pakistan, given the initial objectives of Operation Enduring Freedom. Even more troubling are the widespread reports that the Haqqanis operate freely with the approval, tacit or otherwise, of the Inter-Services Intelligence directorate (ISI). The fact that the ISI sees the Haqqani Network as a hedge against any instability in Waziristan and Afghanistan is widely discussed in foreign policy circles. Pakistan

[1] Special briefing by Senior Administration Officials on the Terrorist Designation of the Haqqani network (via teleconference), September 7, 2012.
[2] Ibid.
[3] Haqqani Network, Times Topics, *New York Times*.

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watchers contend that the Haqqanis are seen as a tool to maintain influence in the region after 2014. Such a notion is not far-fetched, as Pakistan's history with groups such as Lakshar-e-Tayibba(LeT) has shown us.

The FTO designation is an important step in committing to the dismantling of the Haqqani network. Another key piece of the puzzle is the cooperation of Pakistan. As our purported ally in the fight against extremist violence in South Asia, it is reasonable to demand that Pakistan undertake definitive steps to confront the Haqqani Network threat. Pakistan also ought to be forthcoming about the true nature of the relationship between the Haqqanis and well placed individuals in Pakistan's state apparatus. As we have seen in the past [such as with A.Q. Khan], rogue individuals in Pakistan have the ability to do great damage to the national security of multiple countries. Though the bilateral relationship has seen peaks and valleys, it behooves the United States and its allies to fully dismantle the Haqqani Network.

LAKSHAR E-TAYIBBA

In order for the United States and its allies to have credibility in the fight against extremist violence, any ties to known terrorist groups ought to be publicized and confronted. It is quite troubling, to say the least, that the terrorist group Lakshar e-Tayibba (LeT) was founded, financed, and continues to be supported by individuals in Pakistan's state apparatus—specifically some members of Pakistan's Intersevices Intelligence Agency (ISI) and its Army. Such ties may raise questions about the commitment to combat extremist violence and have the potential to harm the United States' relationship with India, the largest democracy in South Asia.

Initially, LeT was supported by the Pakistani government to undermine Indian authorities in the disputed Kashmir region. Not only has LeT undertaken violent attacks there, but there is strong evidence that in 2008, the group went beyond the borders of Pakistan and Kashmir and attacked civilians in the Mumbai hotel attacks, where almost 200 people were killed. Given the severity of this attack and the investigation following it, LeT's threat cannot be overestimated.

Analysts characterize the group as possessing a global worldview with the ultimate goal of creating a worldwide Islamic Caliphate—a goal also shared by al Qaeda. After reviewing the testimony of today's witnesses there also is much discussion that LeT has the potential to surpass al Qaeda in terms of its global reach. It is a mistake to think that LeT will continue to strike only within South Asia. As this Committee recently discovered with a hearing on Yemen, al Qaeda has expanded to the Arabian Peninsula. There is no reason to think that LeT has not attempted to expand as well. LeT also has adopted practices like providing social services in rural areas—a strategy that Hamas has used in the Palestinian territories. The security threat from LeT ought to be taken seriously.

Through our relationship with Pakistan, the United States ought to pressure its leaders to fully dismantle LeT. As our ally in the fight against extremist violence in South Asia, it is reasonable to demand that Pakistan undertake definitive steps to confront the LeT threat. Pakistan also ought to be forthcoming about the true nature of the relationship between LeT and well placed

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individuals in Pakistan's state apparatus. As we have seen in the past [such as with A.Q. Khan], rogue individuals in Pakistan have the ability to do great damage to the national security of multiple countries.

South Asia has long held strategic interests for the United States. Having just returned from the subcontinent, I viewed firsthand how the region is changing in the face of globalization and a dynamic regional and international landscape. The U.S. may begin to draw down military forces in Afghanistan in 2014, but our interests and presence in the region will continue to endure. I look forward to hearing the panel's thoughts on how a cogent, long-term strategy for South Asia fits into our larger rebalancing toward Asia.

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