

**Statement of Ambassador Alice Wells**  
**Acting Assistant Secretary, Bureau of South and Central Asian Affairs**  
**U.S. Department of State**  
**Before the HFAC Subcommittee on Asia and the Pacific**  
**“Maintaining U.S. Influence in South Asia: The FY 2018 Budget”**  
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**Introduction**

Chairman Yoho, Ranking Member Sherman, members of the Subcommittee: thank you for inviting me to testify today on fiscal year 2018 foreign assistance priorities for South Asia.

It is an honor to appear before this Subcommittee today as both Acting Assistant Secretary for South and Central Asia and Acting Special Representative for Afghanistan and Pakistan. The re-integration of the State Department’s policy offices for Afghanistan, Pakistan, and South Asia will enable us to more effectively tackle challenges to U.S. national security interests across the entire region. Given the jurisdiction of this Subcommittee, my remarks today will focus on policy opportunities and challenges with respect to our fiscal year 2018 budget request for South Asia, not including Afghanistan and Pakistan. I look forward to briefing you, along with members of the Subcommittee for the Middle East and North Africa, on our budget priorities for Afghanistan and Pakistan in the near future.

South Asia matters to the United States. Right now, a quarter of the world’s population – 1.7 billion people live in South Asia. It is the fastest growing region in the world with almost half of the population under the age of 24. This drives economic growth -- expected above 7 percent from 2018 onwards -- along with unprecedented opportunities for trade. Nowhere are those opportunities greater

than in the growing road, air, and sea links between India, Bangladesh, Burma, Nepal, and Sri Lanka and the rapidly expanding ASEAN economies. Seventy percent of the infrastructure required to sustain and support the India of 2030 has yet to be built. This will be an enormous opportunity for U.S. companies that have the technology and expertise. For example, Boeing alone foresees a market for 2,000 commercial aircraft in South Asia over the next 20 years. The region's growth has potential to create a half billion new customers for U.S. businesses in consumer goods, financial services, technology, infrastructure, the health sector, energy, education, tourism, and more.

In 2014, the United States exported more than \$22 billion worth of goods to South Asia, making us the region's number one trading partner. These exports support thousands of jobs in many of your districts and, as the region rises over the next 15 years, thousands more are likely to be created as a result. We are committed to increasing market access for U.S. companies throughout the region in support of that important goal.

Within that context, I will now review how the policies and programs supported by our \$220.8 million FY 2018 budget request will sustain greater stability, security, and prosperity in both South Asia and here in the United States. My USAID colleague, Gloria Steele, will then provide more detail on the development programs.

## **India**

I will begin with India, one of our most important strategic partners in the Indo-Pacific region. This year marks the 70th anniversary of India's independence and our strategic partnership, underpinned by our shared interests and values, continues to grow at a rapid pace. I want to acknowledge and thank Congress for their

tremendous leadership in growing this partnership over the past decade. Prime Minister Modi's address before a joint session of Congress last year captured the energy and excitement defining this partnership. In the words of President Trump, the "relationship between India and the United States has never been stronger, has never been better." The President's first meeting with Prime Minister Modi in June set a positive tone and ambitious agenda for strengthening bilateral ties, particularly in the areas of defense, energy, and trade.

Defense and security cooperation continues to be a central pillar of the U.S.-India partnership. In July, the Departments of State and Defense submitted a report to Congress outlining the tremendous progress we've achieved thus far in our defense relationship. The designation of India as a Major Defense Partner last year was a significant milestone as was this year's MALABAR naval exercise, which featured over 10,000 personnel from Japan, India and the United States. The Major Defense Partner designation will help further increase bilateral defense trade, which has risen to more than \$15 billion over the past decade. Defense sales increase our security cooperation while also generating jobs at home. The Department of State is committed to advocating on behalf of American companies as they compete for defense deals in the Indian market. The F-18 and F-16 fighter proposals put forth by Boeing and Lockheed Martin have the potential to take our defense relationship to the next level. We strongly support these transfers. If India can seize these opportunities we can enhance interoperability between our militaries and support thousands of jobs in both countries.

The reason defense cooperation with India is so vital to U.S. interests is because we need India to be a net security provider in the Indo-Pacific, a region that serves as the fulcrum of global trade and commerce, with nearly half of the in the world's 90,000 commercial vessels – many sailing under the U.S. flag – and two thirds of

traded oil traveling through the region. It is also home to nearly half the planet's population and some of the fastest growing economies on earth. Working with like-minded partners, India has the strategic and economic potential to uphold the international order that has served so much of humanity over the past seven decades. The investments we make in our security partnership now will pay dividends for decades to come.

As fellow democracies, counterterrorism cooperation is the critical priority for both India and the United States. India is situated in a dangerous neighborhood, where terrorist attacks have killed both Indians and Americans alike. Joint training and capacity building are essential to expanding our CT cooperation. For example, through the State Department Anti-Terrorism Assistance (ATA) program, more than 1100 Indian security personnel have received U.S. training since 2009. By building capacity and sharing expertise, we can improve the security of both our nations' citizens.

Let me now turn to our economic relationship. India is on the way to becoming a market of 350 million middle-class consumers, which offers major opportunities for U.S. exporters. Our bilateral trade has more than doubled in the last decade from \$45 billion in 2006 to more than \$114 billion in 2016. U.S. exports to India support more than 260,000 American jobs across all 50 states. Cumulative two-way investment between the United States and India in 2016 was nearly \$40 billion. Last year alone, investment from Indian companies supported more than 52,000 jobs in the United States.

There are also tremendous opportunities in India's civil aviation market – one of the fastest growing in the world. In early January 2017, SpiceJet, a private Indian airline, announced an order of 155 new Boeing 737 MAX 8s, taking its tally for

this Boeing model up to 205 total planes. The final assembly of the MAX 737 takes place at the Boeing production facility in Renton, WA. At today's list prices, these transactions have an estimated value of \$23 billion and, according to Boeing, would create or sustain more than 130,000 U.S. jobs. Another Indian firm, Jet Airways, also ordered 75 737 MAX 8s in 2017.

We also see significant opportunities in the energy sector. India is the third-largest energy consumer in the world after China and the United States, and its large and growing population ensures it will remain one of the largest energy consumers for decades. In August, Indian companies began to purchase U.S. crude oil for the first time, and Indian firms are also turning to U.S. liquefied natural gas (LNG) to meet demand and diversify supply. India's state gas utility, for example, signed a 20-year supply agreement with U.S. LNG producer Cheniere Energy and has already taken delivery of multiple shipments of gas.

While the U.S.-India economic relationship has largely been on a positive trajectory, we do need to do more to balance the trade deficit between our two countries, which totaled nearly \$30 billion last year. We are working closely with USTR and the Commerce Department to address the concerns of the U.S. business community regarding India, including tariff and non-tariff barriers, subsidies, localization policies, restrictions on investment, and intellectual property concerns that limit market access and impede U.S. exporters and businesses from entering the Indian market. We are committed to ensuring our trade relationship with India is fair and reciprocal, and will continue to press India to further open its markets and create a level-playing field for U.S. companies.

Our science & technology (S&T) and health cooperation with India is strengthening the strategic partnership by promoting economic growth and

enhancing the well-being of our citizens. This cooperation also helps us to create an enabling environment for joint research and its commercialization, and fosters ties with the private sector, at the institution-to-institution and scientist-to-scientist level, which is also critical to the long-term sustainability of our strategic and commercial partnership.

While India is an emerging world leader, it still needs to address the daunting challenges of disease, poverty, and development in a nation of 1.3 billion. As India's economy grows, it will have more resources to devote to these challenges, but our \$33.3 million request can go a long way in assisting India in a few crucial areas, such as strengthening the capacity of India's health workforce and improving care for life-threatening infant and child infections. USAID will discuss these important issues further. The request also supports efforts to strengthen counterterrorism cooperation and enhance strategic trade controls, both important priorities in our larger partnership.

## **Bangladesh**

Let me now turn to Bangladesh, the world's eighth-most populous country and third-most populous Muslim-majority country. Bangladesh sustains global peace with over 7,000 police and armed forces deployed to ten U.N. peacekeeping operations, contributes to global food security, and can provide a moderate alternative voice to counter violent extremism in a troubled region. Bangladesh is a development success story and a growing market for U.S. firms that has become an important venue in the fight against transnational terrorism.

ISIS and al Qaeda in the Indian Subcontinent (AQIS) have claimed responsibility for nearly 40 attacks in the country. In the wake of ISIS' Holey Bakery attack in July 2016, we are advancing our strong security partnership through community

policing, anti-money laundering and counterterrorism finance efforts, and military and joint exercises.

As Bangladesh continues to struggle against these threats, we stress the importance of government officials and security forces respecting the rule of law and human rights in countering terrorism to bolster Bangladeshi society's resistance to radicalization. The United States also urges Bangladesh to ensure that its national elections in 2018 are free and fair and to preserve democratic space for civil society and the press to operate freely.

Despite the country's security challenges, Bangladesh remains the second largest supplier of apparel worldwide and an important economic partner for U.S. buyers. The United States works closely with Bangladesh and our international partners to improve worker rights and safety in this sector. Bangladesh has made important progress on factory building and fire safety, and it is currently considering legislative improvements that would conform its labor laws to international standards. We continue to strongly advocate for progress in these areas.

Bangladesh's economy, which has averaged over 6 percent growth for more than two decades, has proven remarkably resilient, weathering natural disasters, political unrest, and stiff economic competition from abroad. More women have entered its workforce than ever before, which further fuels the nation's development. The World Bank calls Bangladesh a global model in human development and poverty reduction. Its advances in public health have cut infant mortality substantially over the past five years.

The country achieved lower-middle income status according to the World Bank's recent ranking and is well-positioned to achieve middle-income status in the coming years. Bangladesh is also beginning to diversify its economy away from

apparel and agriculture to light manufacturing. These are impressive gains, especially in light of the country's daunting challenges, and its government is rightfully proud of these accomplishments.

U.S. assistance will continue to focus on expanding economic opportunities for Bangladeshis, improving governance, and developing basic education, which will greatly contribute to Bangladesh's goal of becoming a middle-income country. The foreign assistance request of \$138.5 million for Bangladesh utilizes resources to counter terrorism and violent extremism, including strengthening law enforcement, the rule of law, and related capacities. FY 2018 resources will be used to improve governance and continue support for civil society organizations. Funding will advance agricultural productivity; broaden access for U.S. businesses; support workforce development for youth and other vulnerable groups; increase food security; and improve nutrition and maternal and child health.

## **Nepal**

The United States aims to help Nepal pave the path to a stronger democracy that could address persistent ethnic conflicts, achieve justice for abuses resulting from Nepal's decade-long civil war, and promote economic growth and regional stability. If these efforts succeed, Nepal will serve as a model for other fragile post-conflict democracies.

In addition to supporting a stable, democratic government that respects the rule of law, the United States promotes investor-friendly energy development and regional connectivity. Nepal has been selected for one of the United States' most high profile projects to increase regional connectivity within the Indo-Pacific. In August the Millennium Challenge Corporation's (MCC) Board of Directors approved a \$500 million compact with Nepal, MCC's first compact in South Asia.



The Government of Nepal has committed to contributing an additional \$130 million to support MCC's investment, and pending congressional notification, this compact will be signed this September by both governments.

The compact will focus on two projects: an Electricity Transmission Project and a Road Maintenance Project. The Electricity Transmission Project would strengthen the high voltage electricity transmission network to support new investments in generation, which would not only address serious power shortfalls domestically but also permit the country to export surplus hydroelectricity in the future. This project also will offer significant opportunities for American firms both in project implementation and downstream, electricity-dependent sectors. The Road Maintenance Project is designed to improve the maintenance regime in Nepal and will complement existing efforts by others to build new roads.

In addition, our foreign assistance request of \$38.8 million aims to strengthen democracy and improve government transparency and accountability. Programs will increase food security and help foster an environment conducive to increased U.S. business opportunities. FY 2018 resources will work to improve education service delivery as well as maternal and child and nutrition health services, efforts that are essential to support a skilled workforce and long-term sustainable economic growth. Funding will also increase the Nepalese government's capacity to manage and monitor their borders.

## **Sri Lanka**

Since its historic January 2015 elections ushered in a path to reform and reconciliation, the United States has been partnering with Sri Lanka to make its workers more skilled and its citizens more empowered, while ensuring the

Government continues its ambitious reform agenda. Our cooperation continues in economic development, governance, trade, and security.

We are working together to fulfill the steps to which our nations agreed in a resolution (30/1) at the UN Human Rights Council (HRC) in 2015, and which were reaffirmed in a further HRC resolution (34/L.1) in March 2017. These resolutions committed the Sri Lankan government to transitional justice and prevention of the recurrence of the violence and abuses experienced during the nation's 26-year conflict through constitutional, legislative, and security sector reforms. Specific steps include constitutional reform devolving more administrative power from the central government to Sri Lanka's regions, the replacement of the Prevention of Terrorism Act (PTA) with a law that meets international standards of fairness and due process, the return of land seized by the military during the war, and the establishment of transitional justice mechanisms such as the Office of Missing Persons (OMP), a truth and reconciliation commission, an office for reparations, and a credible mechanism to investigate and prosecute alleged war crimes. The United Nations will continue its oversight of the implementation of these steps through March 2019.

The current coalition government's commitment to a reform agenda has prompted growing interest in expanding engagement with the U.S., including in military-to-military relations. All along, however, we have recognized the need for Sri Lanka to take concrete steps toward its reform objectives. In accordance with limits set by Congress, our modest military-to-military engagement has therefore expanded slowly and incrementally.

Our FY2018 request of \$3.4 million in foreign assistance focuses on strong support for security cooperation and enhanced strategic trade controls, while contributing to Sri Lanka's progress toward becoming a mine-impact-free nation by 2020.

Additionally, the MCC is developing a compact with Sri Lanka after it successfully passed the MCC policy scorecard in 2016. In June, MCC approved an initial \$7.4 million to study potential projects and conduct due diligence work in the transport and land sectors. MCC is working closely with the Government of Sri Lanka to bring a compact for Board approval in 2018.

## **Maldives**

Maldives is a small, but strategically situated nation of some 1,000 coral islands spread across 35,000 square miles of the Indian Ocean. It sits astride key shipping lanes and counts India, Saudi Arabia, and China among its benefactors. We have real concerns about the status of rule of law and democracy in the country. Lack of higher educational opportunities, high youth unemployment, rise of social media, and weak institutions all contribute to an environment in which Islamist violent extremism is on the rise. Our work with the government to combat violent extremism remains critically important, in a country with a grim distinction: per capita, it has produced more terrorists who have fought in Iraq and Syria than any other country in the world.

Our request of \$440,000 in foreign assistance for Maldives continues limited support for maritime security cooperation. Maritime security is of great concern due to threats posed by narcotics trafficking, piracy in the Indian Ocean, and sea-borne trade in illicit materials of potential use for terrorist activity. Maldives abuts the same sea lanes that pass by Sri Lanka and account for two-thirds of the world's oil and half of its container shipments.

## **State SCA Regional: Regional Connectivity, Integration, and Stability**

South Asia remains among the least economically integrated regions in the world, and non-tariff barriers to trade are a major cause. Currently, it takes up to 20 separate authorizations for merchants to import and export goods between India and Bangladesh and, even thereafter, cargo must be reloaded onto new trucks because of differences in axle loading and road quality. Fortunately, the countries of the region have prioritized increasing regional trade and investment, and during the recent Foreign Ministers meeting of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) in Kathmandu, the seven-member states laid the groundwork for stronger regional cooperation on a host of economic and commercial issues. Given this momentum, we are focused on facilitating stronger economic linkages between the countries of South Asia to encourage private-sector led economic growth and promote prosperity and stability in the region.

With targeted interventions, our request of \$6.4 million in foreign assistance for regional programs will be used to support programs aimed at overcoming non-tariff barriers and facilitating regional trade and investment. For example, in advance of the MCC Compact in Nepal, our regional connectivity efforts provided countries in the region with the technical skills and expertise needed to move toward an integrated energy market. We also implemented programs aimed at strengthening legal and regulatory regimes across the region in an effort to encourage greater foreign direct investment. These essential efforts will continue under the FY2018 request, thereby helping ensure the MCC Compact is a success. Additionally, the request enhances efforts for regional security cooperation, focused on law enforcement, transnational crime, and strategic trade controls across South Asia.

## **Conclusion**

In the coming years, the countries of South Asia will likely assume an ever-greater role and importance in global affairs. The policies and programs supported by our FY 2018 Request will ensure that the United States continues to be a leader in the region by promoting economic connectivity and growth, advancing good governance and democracy, and ensuring regional security and stability. With smart, focused engagement, we can ensure that South Asians and Americans alike continue to reap the benefits of stability, security, and prosperity. Thank you.