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BEFORE THE

HOUSE FOREIGN AFFAIRS COMMITTEE
SUBCOMMITTEE ON ASIA AND THE PACIFIC

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I. Introduction

Thank you very much, Mr. Chairman, and thanks as well to the Ranking Member and members of the committee for inviting me here today.

Before I begin I wanted to quickly congratulate the Committee on the reorganization of the Subcommittee to include South Asia together with East Asia and the Pacific. Many of the policies we have been promoting in the region over the past few years reinforce the subcommittee's new organizational structure, so we see this as a positive development that will help us better address the challenges and opportunities presented by this dynamic part of the world.

One last quick note: the South Asia region that I cover consists of India, Nepal, Bangladesh, Sri Lanka, Bhutan and the Maldives; so while Afghanistan and Pakistan of course play a large role in South Asia, my focus here today will be mostly on India, the Asia Pacific, and greater connectivity between the two. This is also reflected in the more comprehensive written statement I have submitted for the record.

II. Why Does South Asia Matter?

To fully understand why South Asia matters, we need to first look at the Asia-Pacific as a single geographically coherent space; one that not only ends on our own shores, but also expands westward to encompass the Indian subcontinent. Much of the history of the 21st century will be written in this broader Asia-Pacific region, projected to become home to over 5.2 billion people by 2050. That history will have a profound impact on the people and the economy of the United States.

The United States' strong geopolitical focus on Asia is a whole-of-government acknowledgement that, over the next century, events in Asia – from Delhi to Beijing – will drive global politics and economics. And while it may not get the same attention as our relationships with the countries of East Asia, U.S. engagement in South Asia remains central to our reinvigorated outreach to the entire continent.

Throughout the Asia-Pacific, economics – alongside more traditional forms of national power – are increasingly shaping the strategic landscape. Regional powers like India and China are gaining strength by putting economics at the center of their foreign policies, focusing on economic growth even more than the size of their armies. As these countries successfully use the growing size of their economies to project global power, we need to ensure that our policies remain focused on an Asia-Pacific defined by economic openness, democratic governance, and political freedom, because an Asia-Pacific rooted in peaceful and predictable patterns of behavior will ultimately bolster our own growth and security.

This is particularly true as we look to the future, where rising powers like India and China will increasingly shape the global system. Accommodating this new center of gravity in global affairs will not always be smooth or easy, but I believe we can chart a path in this region that avoids conflict and that builds on the areas where our interests align, strengthening the region's stability and its (and our own) prosperity. A key, perhaps *the* key, to this rests in deeper economic cooperation and integration, not only between the United States and the region, but between the regional powers themselves.

III. India: Anchor of Growth

So, when looking at why South Asia matters, there is probably no better place to start than India. It is one of our most trusted and valuable partners in the region, and really the foundation upon which greater regional economic cooperation and expansion will be built. I have been working on U.S.-India relations for a decade now, and I can tell you that our relationship, from defense sales and exercises to our growing education and clean energy partnerships, has never been stronger.

Increasing Indian prosperity has only strengthened our bonds of shared democratic values, common regional priorities, and a joint vision for a more secure and prosperous future. Just think about how far India has come in the past 20 years, with a GDP 10 times what it was in 1993. What was then a closed economy is now the United States' 13th largest trading partner in goods. As the Indian market

continues to open and integrate more fully with the global economy, the future looks even brighter. In fact, Standard Chartered has called India “*the key driver of the current global super-cycle,*” projecting that the Indian economy could reach \$30 trillion in 2030, up from only \$1.6 trillion two years ago. This expanding economic base, which includes everything from high-tech and media to finance and tourism, could be even larger if the Indian government addressed policy and regulatory restrictions that constrain imports from the U.S. and elsewhere.

With this growth will come enormous resource constraints, particularly in infrastructure. Current estimates suggest that 80 percent of the infrastructure required to sustain and support India in 2030 has yet to be built. The United States is home to some of the most competitive road, bridge, water supply, electrical grid, and telecommunications companies in the world. So we see an enormous opportunity in this growth to deepen our commercial partnership with India, working together with American companies to build the airports, power plants, water and sanitation systems, and fiber optic networks of India’s future.

Of course, the extent of our economic relationship with India isn’t just confined to infrastructure development. With a population of 1.2 billion and a fast-growing middle class, India is already an enormous market for U.S. goods and services. Proof of this potential lies in our trade relationship: from 2002 to 2011, U.S. services exports to India more than tripled, while goods exports to India quintupled. If trade continues to expand at this pace, total two-way trade in goods and services between India and the United States may surpass \$100 billion in 2013, for the first year on record.

Simply put: American companies are open for business in India.

Outside of our robust economic relationship, we are also fostering increasingly strong defense ties, a development that will reap extraordinary dividends both in economic and security terms in the years to come. Those ties have helped fuel skyrocketing U.S. defense sales to India over the last decade, with over \$8 billion in sales over the past four years. Our two militaries also enjoy an active series of exchanges, strengthening the critical linkages that will help us cooperatively address future challenges in the Indian Ocean, the Asia Pacific, and beyond. Examples include the recent completion of a series of army exercises that were unprecedented in both complexity and scale, and the conduct of MALABAR, a 10-day navy exercise involving thousands of soldiers and sailors and an entire carrier strike group. From counter-piracy to disaster relief, this sort of military

cooperation establishes deep and abiding levels of cooperation between our two militaries, our two governments, and ultimately our people.

IV. Indo-Pacific Economic Corridor:

Although the U.S.-India relationship is a topic that could easily take up our entire afternoon, I'd like to quickly shift our focus to India's immediate neighborhood, a region where prospects for economic growth loom larger than anywhere on Earth. Thanks in part to Burma's ongoing political and economic reforms – punctuated by the President's visit last November – as well as India's continuing diplomatic outreach toward its neighbors – we now see unprecedented opportunities for trade and engagement between South and East Asia. Nowhere are those opportunities more pronounced than along the emergent road, air, and sea links between India, Bangladesh, Burma, and the rapidly expanding economies of the Association of South East Asian Nations, or ASEAN.

While there were serviceable road and rail networks connecting these countries up until World War II, overland connectivity is now outdated or in disrepair. What roads and railways do exist suffer from a lack of ports; sparse multi-modal connections to broader railway networks; and too few low-cost trans-shipment facilities.

In spite of those challenges, trade between India and the countries of Southeast Asia has increased by 37% percent over the past year. This emerging "Indo-Pacific Economic Corridor" isn't just a boon for the region; it also provides American businesses with substantial new markets. Based in part on the prospect of this increased regional trade, Bangladesh is attracting unprecedented levels of interest and investment from U.S. companies like GE, Coca-Cola, Honeywell, Rockwell Automation, Tyco, and Merck. Meanwhile, large American energy concerns like Chevron are making strategic investments in Bangladesh and elsewhere, developing regional energy resources and fueling the region's economic growth.

By reducing the time and cost associated with shipping goods between the huge markets of India and ASEAN, this burgeoning Indo-Pacific Economic Corridor promises to increase prosperity and regional stability and help secure our regional interests. Because by working collaboratively with our partners toward responsible regional economic integration, we help ensure that countries like Burma are encouraged, supported, and rewarded for pursuing democratic and economic reforms.

As a proof of this concept, we might envision Ford Figos assembled in Chennai one day getting shipped via multi-modal transport across the Bay of Bengal to bustling showrooms in Bangkok, or tea, cultivated with American machinery in the northeastern Indian state of Assam making its way overland to processing plants in Hanoi.

In many ways, this Indo-Pacific Economic Corridor is a realization of India's longstanding "Look East" policy, which, as India's Ambassador to the United States Nirupama Rao recently noted, is fast becoming an "Act East" policy. For evidence of this, we needn't look further than Indian Prime Minister Singh's May 2012 visit to Burma, where India offered its neighbor a \$500 million line of credit to repair over 60 bridges linking India's northeast with the regional centers of Mandalay and Rangoon, while also agreeing to help upgrade the Trilateral India-Burma-Thailand Highway to one day include Laos, Cambodia, and Vietnam.

Further east, Thailand's Prime Minister pledged to help build fledgling road and sea transportation routes that will link India and Thailand through Burma, while committing to increase bilateral trade to \$10 billion over the next two years. To bolster these efforts, multilateral development banks, including the Asian Development Bank, are lining up partial credit guarantees for many of these projects, boosting project credit ratings and accelerating financing.

This sort of regional cooperation doesn't stop with infrastructure development. Late last year, India and ASEAN announced a free trade agreement that aims to increase intra-regional trade to \$100 billion by 2015, doubling the 2011 figure. New Delhi now also hosts the India-ASEAN Delhi Dialogue on an annual basis to foster more pan-Asian ties, while maintaining an \$80 billion trade relationship with China, the largest in the region. India also notably concluded new bilateral economic partnerships with Singapore, Malaysia, Japan, and South Korea, and established new strategic partnerships with Indonesia and Vietnam. These partnerships can help strengthen trade and investment flows between and among these countries. In so doing, they complement America's policy objectives in the region of greater economic integration through reduced barriers to trade.

On our end, we have been encouraging new and innovative U.S. regional partnerships, spearheading both a U.S.-India-Japan trilateral dialogue and a U.S.-India-Afghanistan trilateral dialogue. These mechanisms have quickly evolved into frank and constructive forums for discussing a wide range of issues - from investment and infrastructure, to maritime security, to regional multilateral

concerns - all of which reinforce the concept that an integrated Asia-Pacific is in our interest, and in the interests of our partners and allies.

V. A Global Architecture of Cooperation

While the main thrust of this Indo-Pacific cooperation is economic, it shouldn't be considered solely as a means to accelerate economic growth. It should also be seen as an effective way to address broader socioeconomic and environmental issues facing the region, as part of a broader "global architecture of cooperation." Economic growth and cooperation will, for instance, play a key role in women's economic empowerment in the region. Investing in women and girls is an essential driver of economic growth that creates better social and political outcomes. That is exactly what we are doing through initiatives such as the South Asia Women's Entrepreneurship Symposium, which provides a platform for the networking, training, and cross-border collaboration necessary to overcome many of the economic barriers facing women in the region.

Regional cooperation is also an integral part of managing the impact of environmental issues, such as water use, marine habitats, energy production and distribution, urbanization, climate change, and disaster management. With river systems like the Mekong, Indus, and Ganges all crossing national borders and essential to local livelihoods in this region, establishing and implementing fair and practical water-sharing and conservation arrangements is increasingly critical.

When I look at this region, I see the system of open trade which we have long championed taking root. More trade within the region translates into more investment, which means more economic growth. And as these governments work to build economic partnerships that add value rather than extract it, there is more incentive for the citizens of these countries to pursue opportunity. That is good for the people of the region, but also for our regional interests, which are better served by this larger, freer, and fairer market, and the more stable, prosperous, and democratic region it helps create.

VI. The Indian Ocean

The last theme I want to touch upon here today also has a regional focus, and that is the Indian Ocean. The Indian Ocean not only provides the backdrop for the increased Indo-Pacific economic engagement, but also plays host to a number of other vitally important American interests in South Asia and beyond. The Indian Ocean covers over one quarter of the Earth's surface, but unlike the Atlantic and

the Pacific, maritime traffic on the Indian Ocean is channeled through only three narrow waterways – the Strait of Hormuz, the Strait of Malacca, and Bab el Mandeb. Each year an estimated \$200 billion of oil transits the Strait of Hormuz, and some \$60 billion transits the Strait of Malacca, mostly en route to China and other countries in East Asia.

Fueled by Asian economic expansion and the growing need for raw materials and energy resources from Africa and the Middle East, fifty percent of the world's container traffic and seventy percent of global energy trade transits the Indian Ocean. As these numbers continue to grow, it becomes clear that any significant disruption in Indian Ocean region trade would have serious global repercussions.

India, like us, sees itself as a steward of these waterways, and we welcome India as a partner and provider of security in the broader Indian Ocean region. Sri Lanka and the Maldives, both strategically located along the busiest shipping lanes of the Indian Ocean, are also deeply invested in shaping the future of the region. As we continue to develop our own approach to the variety of opportunities and challenges in the Indian Ocean, we believe our interests will be best served by stronger and more cooperative partnerships with these and other littoral states.

This is something on which we are working hard. In addition to participating in the ASEAN Regional Forum, the East Asia Summit, and the Asian Defense Ministers Meeting - Plus Eight, we were also recently admitted as an observer into the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC), a 20-member body devoted to strengthening maritime security, economic growth and trade in the Indian Ocean. This is progress we will build on as we explore future maritime security cooperation.

VII. Conclusion

Mr. Chairman, just a few words in closing. We are bullish on the future of this region, but we are also clear-eyed about the challenges that we face – the ever present threat of global terrorism, regional rivalries, protectionism, nuclear proliferation, refugees, and human trafficking. From the lack of progress on worker rights throughout the region, reflected in the recent factory fires in Bangladesh, to the potentially catastrophic effects of global climate change in countries like the Maldives, regional stumbling blocks remain.

We work every day (and many nights) to address and ameliorate those issues. But despite these challenges, we continue to view South and Southeast Asia, including

the Indian Ocean, as a crucial driver for America's economic growth and prosperity. Because a globalized South Asia, from Kabul to Colombo, will play a leading role not only in our own economic future, but also in improving the lives of fully one-fifth of the world's population.

In fifty years, I think we will look back at this region and be astonished at the degree to which the burgeoning people-to-people ties and commercial innovations we have discussed here today have transformed the region's political and economic landscape. And we will be thankful we had the foresight to build and facilitate these regional and bilateral partnerships now, so that our country could continue to grow and prosper throughout the 21st century and beyond.

So thank you again, Mr. Chairman. I'll now look forward to taking any questions.