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**Before the**

**House Committee on Foreign Affairs  
Subcommittee on Asia and the Pacific**

**February 26, 2012**

**“The Rebalance to Asia: Why South Asia Matters (Part 1)”**

Mr. Chairman, Mr. Faleomaveaga, and Members of the Subcommittee, thank you very much for inviting me here today to testify on the importance of the Indian Ocean and South Asian region to our strategic rebalance to the broader Asia-Pacific region, as well as for the chance to outline key elements of our engagement in the region. I would also like to take a moment to commend this subcommittee for its role in building a bipartisan consensus on the importance of engaging the Asia-Pacific region and advancing U.S. interests there. Our partners in the region pay close attention to Congressional views, and it is vital to demonstrate the bipartisan nature of our commitment to enhancing our regional engagement.

It is increasingly important that the United States views the Indian Ocean region and East Asia in a coherent and integrated manner. The current organization of this subcommittee to include both South Asia and East Asia is an important recognition of this strategic imperative. I believe that, going forward, this new vision will help the United States address the key challenges and opportunities that will arise in this part of the world.

Home to nearly half of the world’s population and over half of global trade and economic output, the Asia Pacific has witnessed very strong rates of economic growth and poverty reduction. Over the past decade, Asian nations have also increased their profile on the world stage and continue to increase their role and clout in addressing global challenges. Their views and decisions on transnational concerns, such as climate change and financial architecture, among others, will have consequences that will reverberate far beyond Asia, to Africa, the Middle East, and Latin America.

Our strategic “rebalance” to the Asia-Pacific region therefore reflects a deep recognition that the United States must substantially increase its political, economic, development, and defense investments in the Asia-Pacific given the region’s fundamental importance to our future prosperity and security. We are bound to Asia through our geography, history, alliances, economies, and people-to-people ties, which will continue to grow in importance over the next decade. Over the last four years, we have made a deliberate and strategic effort to broaden and deepen our engagement in the region. Continuing and strengthening our engagement and our commitment to the region are essential for both seizing future opportunities and confronting

challenges to build partnerships and a more secure and prosperous future. Given geographic, historical, and economic ties, South Asia will play a critical role in this endeavor.

At the core of our approach is an understanding that diplomatic, security and economic relationships in the Asia-Pacific region are mutually supportive. Growing numbers of American companies are investing in and exporting their products and services to rapidly expanding East Asian markets. Asian-Pacific businesses are increasing their profiles in the United States and providing jobs for American workers. Record numbers of American citizens now live, work and study in this part of the world. These connections help underscore that we have a significant stake in the region's stability and prosperity; that is, our security and economic interests are intertwined.

Our multifaceted approach to the Asia-Pacific region reflects this reality. We have sought to amplify our political and security ties as well as our economic engagement. We are moving ahead in strengthening and modernizing our long-standing alliances with Japan, the Republic of Korea (RoK), Australia, Thailand and the Philippines that have for decades underpinned the region's stability. That stability created the conditions for robust market and trade expansion that have formed the basis for the region's growing prosperity. Our alliances leverage our presence and enhance our regional leadership at a time of evolving security challenges.

As we renew our alliances to meet new demands, we are also working to build new partnerships throughout the region that can help solve shared challenges. Given the strategic importance and collective significance of Southeast Asia and the Pacific, we have increased our engagement with Indonesia, Vietnam, Singapore, Malaysia, Brunei, New Zealand, and the Pacific Islands. Our efforts with China, which include an unprecedented number of high-level and people-to-people exchanges and interactions, aim to build a stable, multifaceted bilateral relationship that is grounded in reality, true to our principles and interests, and focused on results. We understand that countries in East Asia, South Asia, and the Pacific seek good relations with China, and we encourage them to do so. A China that plays by established rules and norms, actively cooperates in addressing regional challenges, and is a source of global economic growth benefits all of us.

And beyond our bilateral relationships, the United States is committed to continuing our high-level engagement in helping to develop effective and results-oriented multilateral institutions, not only with the Association of Southeast Asian Nations (ASEAN), its affiliated institutions, and the Asia-Pacific Economic Cooperation (APEC) forum, but also through fora such as the Pacific Islands Forum and through mini-lateral dialogues aimed at building regional cooperation like the Lower Mekong Initiative.

The United States has a robust economic agenda that recognizes the importance of the Asia-Pacific region. We are working to accomplish the objectives of our economic agenda through multiple avenues, including the Trans-Pacific Partnership (TPP), a comprehensive high standard trade and investment agreement that will boost U.S. economic growth and support the creation and retention of high-quality American jobs. And at a broader level, we continue to work through APEC, which we hosted in 2011, to strengthen regional economic integration and promote trade and investment liberalization among the twenty-one member economies. More recently, at the U.S.-ASEAN Leaders meeting this past November, President Obama and the

Leaders of the ten ASEAN states announced the launch of a new initiative, the U.S.-ASEAN Expanded Economic Engagement (E3), which is a new framework for economic cooperation designed to expand trade ties between the United States and ASEAN, creating new business opportunities and jobs in all eleven countries. At the East Asia Summit (EAS) last November, the President announced a new initiative called the U.S.-Asia-Pacific Comprehensive Energy Partnership, which cuts across ASEAN, APEC and other Asian regional forums to promote the development of new and sustainable energy markets in the region.

Of course, the Asia Pacific's remarkable economic growth over the past decade and its potential for continued growth in the future depend on the security and stability that has long been guaranteed by the U.S. military. The United States has a vision for the region where freedom of navigation is assured, disagreements are managed cooperatively, and the Korean Peninsula is free from nuclear weapons. A peaceful and prosperous Asia-Pacific benefits the peoples of the United States and the region, who can enjoy the jobs and opportunity that come from unhindered shipping and trade; and who can raise their children without the specter of conflict. We continue to assess our force posture and presence in the region that can better respond to non-traditional security threats, protect allies and partners, and defend U.S. national interests.

Across the Asia-Pacific region, the United States is seeking sustained adherence to democratic practices and improved governance, quality health and education, strengthened disaster preparedness/emergency response, and increased natural resource management, which will contribute to greater human security, stability, and prosperity, as well as deepen U.S. ties in the region. Our commitment to advancing freedom, democracy, and the rule of law has manifested itself in our steadfast support for reform and opening in Burma, known by many as Myanmar, where positive developments on a range of concerns of the international community have allowed us to open a new chapter in bilateral relations. The opening of a USAID Regional Office in Papua New Guinea after an absence of 15 years has helped strengthen the U.S. commitment to the Pacific Islands. Similarly, we will continue to press for improvements with those governments that fall short on human rights and democracy issues while supporting those fighting for the values we share. In doing so, we recognize that the Asia-Pacific is home to some of the world's largest and most vibrant democracies. Democracy and human rights are increasingly part of the fabric of the Asia-Pacific.

Each element of this strategy is mutually reinforcing and is intended to advance peace, prosperity, and security in the Asia-Pacific strategic environment. And thus far, Asian states have welcomed with enthusiasm our efforts to reinvigorate our engagement. The most frequent message to the United States has been the same: The United States' role in Asia is critical, and we want to see you even more engaged on all fronts - diplomatically, militarily, and economically.

Our Asia-Pacific interlocutors, however, are quite attuned to developments in domestic American politics. They are concerned about the possibility of decreased U.S. engagement in the Asia-Pacific region and a reduction in foreign assistance for Asia. They hear talk of sequestration, growing calls for slashing foreign assistance, and they see the comparatively larger amounts of resources devoted to U.S. engagement elsewhere in the world. In some quarters, doubts continue to linger, particularly regarding our financial ability and political will – given

pressing security challenges elsewhere in the world – to maintain a long-term regional presence. We believe it will be increasingly vital for U.S. officials to continue to underscore – in concrete terms – our firm and unwavering commitment to the Asia-Pacific region.

On the original question of how South Asia fits into the rebalance, we need to remember that the cultures of the Indian subcontinent have influenced Southeast Asia for millennia and are visible across the region. South Asian traders and merchants have long been sailing to what they called the *Suvarnadwipa*, or “Golden lands.” Similarly, China’s maritime presence at its height once extended to the coast of Africa and the Arabian Peninsula. In fact, when one looks at the Asia-Pacific and the wider Indian Ocean region, it becomes readily apparent that there are imprints from historical East and South Asian civilizations.

The rapid economic growth that has taken place in East and South Asia is a catalyst that is reenergizing these patterns of engagement. The increasing economic integration of South and East Asia has strengthened the strategic significance of the Indian and Pacific Oceans as a continuous thoroughway for global commerce and energy. Approximately 90 percent of globally traded merchandise travels by sea. China, Japan, RoK, and others in East and Southeast Asia depend upon the secure access of energy imports from the Persian Gulf and natural resources and other materials from Africa to fuel their economies and ship their exports to important markets in the Middle East, South Asia, and Europe. As much as 50 percent of the world’s container traffic and 70 percent of global energy trade now transits the Indian Ocean. Similarly, as India’s trade with East Asia and North America grows, India has a growing stake in the security of the Straits of Malacca and the South China Sea, through which half of the world’s tonnage flows.

As these trends continue into the future, it becomes clear that any significant disruption of trade in the Indian and Pacific Oceans would have serious global repercussions, repercussions that would also be felt here at home by American businesses and workers. As our economic and strategic interests continue to span the breadth of the Indo-Pacific, we have an important stake in ensuring freedom of navigation, promoting respect for international law, and fostering greater cooperation and dialogue with and among the countries of both regions on maritime security.

Enhanced economic integration, while yielding immense benefits to the region, also means that regional instability in South and Southeast Asia – brought on by interstate conflict, terrorism, proliferation of weapons of mass destruction, and non-traditional security threats, such as pandemic diseases, climate change, and environmental degradation – can pose a threat to the entire global economy.

No country can address these challenges singlehandedly; multilateral cooperation is vital. This interdependence is why we have placed so much importance on strengthening our relations with the region’s burgeoning multilateral architecture. The Administration has taken important steps in building stronger ties with regional institutions such as ASEAN, the EAS, the security-oriented ASEAN Regional Forum (ARF), and the ASEAN Defense Ministers Meeting Plus (ADMM+).

As Southeast Asia connects both sides of the Indian and Pacific Oceans, we see a strong and integrated ASEAN as an important component in bolstering the security of the entire Asia-Pacific.

Following the signing of the Treaty of Amity and Cooperation in 2009, the opening of the U.S. Mission to ASEAN in 2010, and the appointment of the first resident U.S. Ambassador to ASEAN, the Administration has elevated our relationship with ASEAN to a strategic level. We are working with ASEAN to build a strong ASEAN Secretariat capable of addressing pressing security and economic policy issues, to facilitate the development of an ASEAN Economic Community, and to strengthen ASEAN member states' coordination and cooperation with regard to managing disasters, mediating and resolving conflicts, mitigating pandemic threats, combating illicit trafficking of persons and goods, and on other transnational security concerns.

As part of our overarching effort to strengthen regional cooperation in Southeast Asia and address the growing list of non-traditional security issues, we also have redoubled our efforts to broaden and deepen our engagement through the Lower Mekong Initiative (LMI), a U.S.-led effort to foster greater sub-regional integration and cooperation among Burma, Cambodia, Laos, Thailand, and Vietnam in the areas of health, environment and water, education, connectivity, energy security, and food security. The LMI, along with Japanese, Korean, and other Mekong organizations that seek to promote greater cooperation among the lower Mekong countries, is helping to build greater East-West connectivity in Southeast Asia by encouraging Mekong countries to work more closely together on pressing transnational challenges, but also on enhancing their physical and institutional connectivity. In particular, the dramatic series of reforms that have taken place in Burma over the past two years have also opened the possibility for greater infrastructure financing and development in the country and for enhanced integration into the regional and global economy. Located directly at the crossroads between China, India, and Southeast Asia, an economically and physically integrated Burma that respects human rights and achieves national reconciliation with its ethnic minorities can provide a crucial land-link between East Asia and South Asia.

East Asia and South Asia are also linked in other important regional structures. India's membership in the East Asia Summit and the ADMM+, and India, Pakistan, Bangladesh and Sri Lanka's membership in the ASEAN Regional Forum, also provide us an opportunity to engage both South Asian and East Asian nations in the same multilateral fora to address shared concerns and build tangible habits of cooperation.

India's participation in the EAS is especially important in light of the expanding role and influence of the Summit. Since the President's participation in the November 2011 East Asia Summit in Bali, the United States has actively supported efforts to shape the Summit into the region's premier forum to discuss political and strategic issues, including non-proliferation, maritime security, and disaster management. As a Leaders-led forum, the EAS plays an important role in defining the agenda for other ASEAN related institutions such as the ASEAN Regional Forum, and the ADMM+. Accordingly, the EAS will guide those organizations to take concrete steps to address both traditional and non-traditional security challenges.

We see a strong role for Indian leadership in these fora and for greater U.S.-India cooperation on regional security in the Asia-Pacific and elsewhere. India shares many of our values, including a commitment to human rights and democratic government and adherence to the international system of norms and rules, including freedom of navigation and access to resources in accordance with principles of international law. Following the birth in 1991 of its “Look East” policy, India has made considerable progress raising its profile in East Asia. India’s overtures to its eastern neighbors have been met with welcome enthusiasm, as various East Asian countries see India as a rising power that will contribute to the regional balance and its large and growing domestic market as an opportunity to diversify their economic engagement.

This was clearly evident in December 2012 when nine of ten ASEAN leaders travelled to New Delhi to take part in a Commemorative Summit celebrating 20 years of India-ASEAN relations. India has also sought to engage the countries of the lower Mekong sub-region through the Mekong-Ganga Cooperation initiative which focuses on enhancing connectivity among member countries. India has forged closer ties with U.S. allies like Japan and Australia and key partners such as Singapore, Indonesia, and Vietnam. India is also developing a cooperative relationship with China, through enhanced bilateral discussions and the BRICS (Brazil, Russia, India, China, South Africa), fully cognizant that the relations between these two economic and demographic giants will play an important role in shaping the regional, and indeed global, environment for many years to come.

Looking at India’s growing engagement leaves no question that there are significant areas of strategic convergence between India and the United States in Asia. This is why, in 2009, we launched the U.S.-India Consultations on the Asia-Pacific as part of an effort to ensure that our two countries exchange views on the development of this vital region. The consultations have offered us an important platform not only for discussing how we can better align our strategies to reinforce one another’s engagement, but also for discussing our disagreements openly. We continue to engage India through the U.S.-Japan-India trilateral consultation on regional issues that helps leverage our resources to strengthen the region’s multilateral architecture.

Lastly, I would like to address the importance of India’s growing economic engagement in the Asia-Pacific and the implications for U.S. policy of an India that is economically integrated with Southeast Asia. The rules-based system that the United States created after 1945 and our continued role as a major trading and investment partner underpin the region’s vibrancy. India shares the U.S. values of open societies. With its young and dynamic population, India presents an opportunity to sustain economic expansion in Asia, while Japan, RoK, and China face challenging demographic trends. Likewise, the U.S. and Indian economies will continue to benefit from deeper involvement in East Asia’s economic engine.

Like the United States, India is making efforts to deepen its formal engagement with East Asia. At the November EAS, Indian Prime Minister Manmohan Singh acknowledged that India’s economic future is also tied to East Asia. During 2012, India finalized an agreement on services to complement the 2010 India-ASEAN Free Trade Agreement on goods. Indian-ASEAN trade is now approaching approximately \$80 billion. Trade between India and ASEAN can be expected to rise even faster if and when countries in the region can overcome the considerable

infrastructure and policy gaps that prevent the free and efficient flow of goods between South and East Asia.

India boasts a \$ 2 trillion economy today. Experts anticipate that India's economy will continue growing through the coming decades until India peaks demographically in 2060. At that time, India will represent one fifth of the global economy. For East Asia, the economic potential of enhanced trade with India is significant: India's large and growing market is a destination for both high-value added and consumer goods. India's prowess in the service industry complements China's strength in manufacturing goods. Additionally, Indian companies offer a potential new source of investment for Southeast Asia. The Indian economy has been the leader in business process outsourcing (BPO) for many years, but as economies like the Philippines—with high educational standards and strong English skills—move up the BPO value chain, they stand to benefit from increasing investment opportunities in the BPO sector.

From a strategic perspective, our allies and partners in East and Southeast Asia also benefit immensely from increasing economic engagement with India. In particular, for the smaller economies of Southeast Asia, an East-West corridor can supplement their traditional North-South economic ties, offering an opportunity to diversify markets and hedge against future risks.

Creating an Indo-Pacific Economic Corridor between South Asia and Southeast Asia will require significant investment in physical infrastructure throughout the region: road, rail, sea and air connectivity between these two regions must be developed. While financing will necessarily come primarily from countries in the region and international financial institutions, U.S. companies are well-positioned to participate in connectivity projects and stand to benefit from some of the increased commercial opportunities that will result. Additionally, we have encouraged the Asian Development Bank (ADB) to identify gaps in the Indo-Pacific Economic Corridor that could be filled by public-private investment.

In this context, the United States also has strongly supported India's commitment to invest \$500 million in road connectivity between Northeast India and Burma.

In conclusion, Mr. Chairman, I would underscore that from a strategic perspective, as we continue to implement our strategic rebalance, we are acting in recognition of the emerging realities of the new Indo-Pacific world. Our commitment to the Asia-Pacific region is strong and irreversible, and we support and welcome the involvement of India and other countries of South Asia in the Asia-Pacific region as well. We face numerous challenges in continuing our involvement in the region, but the United States will also realize multiple benefits as well.

Thank you for giving me the opportunity to testify today. I am pleased to answer any questions you may have.