

**AMERICAN ENTERPRISE INSTITUTE FOR PUBLIC POLICY RESEARCH**

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

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**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.

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