



## The United States and South Asia: An Expanding Agenda

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Mr. Chairman, Members of the Committee:

Thank you for inviting me to speak about our policy in South Asia. As this subcommittee knows well, South Asia is a dynamic region at the forefront of the United States' foreign policy agenda. As the new Assistant Secretary of State for South and Central Asian Affairs, I am excited about the opportunities that lie ahead of us in this region. With nearly a quarter of the world's population, the region can become ever more stable, free and prosperous if we can seize these opportunities in democracy, economics, education and in other areas.

In moving to positive growth, the region also faces many challenges – religious extremism, terrorism, weapons of mass destruction, and formidable challenges in areas such as democratization, human rights, poverty, and illiteracy. These are challenges that we believe we can overcome with the right policies and the right programs, and as partners with the countries themselves and the international community. The help of the U.S. Congress, of course, is also vitally important to our success. In that vein, I am happy to have this opportunity to discuss with you our strategy to implement the President's freedom agenda in the countries of South Asia, and how we plan to use our assistance funding to achieve our policy goals in this strategically important region.

To succeed in the region, the Department of State is employing U.S. foreign assistance to pursue a three-pronged strategy that aims to: (1) build regional stability through counterterrorism, counter-narcotics, and conflict resolution efforts; (2) provide opportunities for integrating and connecting South and Central Asian nations with energy, water, infrastructure, trade and communication projects; and (3) build and reinforce the key foundations of democracy – education, economic growth, rule of law, the protection of human rights and transparent government.

**Democracy:** Each country in South Asia faces its own particular challenges, and you will see that our assistance priorities seek to address these issues in a focused way, rather than in a "one size fits all" manner. For example, we find a flourishing democracy in India, but democracy is in difficult straits elsewhere. Corruption and bitter intra-party rivalries challenge the 2007 elections in Bangladesh. Pakistan has chosen the right course but will need continued support to hold free and fair elections in 2007. There have been positive developments in Nepal over the past weeks, and we hope that country is now on the path to restoring democracy to its people. Sri Lanka continues to be challenged by ongoing conflict. To foster the desires of those people who seek a democratic voice, we continue to build the base upon which modern democracies can stand: through investment in anti-corruption and transparency projects, rule of law support, local governance and encouragement of civil society participation in decision making. These efforts are critical to regional stability.

**Economics:** Our economic programs are intended to jump-start development and growth by helping to build capacity and encouraging changes in the policies and regulations that hamper the strong entrepreneurial spirit that pervades South Asia. These programs run the gamut, from micro-enterprise programs in Bangladesh to entrepreneurship centers in Pakistan, from trade facilitation in Sri Lanka and customs reforms at borders in Afghanistan to institutional reforms in India -- all essential components of creating healthy economies and trading partners. India's economy is already growing at a rate of around 8 percent a year, fueled in no small part by trade and investment with its largest trading partner, the United States. Pakistan is another economic success story. Due to its own reforms and opportunities that we have helped create, Pakistan's economy is also growing at 6-8 percent annually, despite continuing high oil prices and last year's devastating earthquake. By stimulating reforms at the national level and encouraging intra-regional trade, we hope to help the other countries of the region grow at a similar pace and spread prosperity. In these two large and growing markets, as well as in smaller markets in the region, stimulating economic growth through sustainable development, we are also increasing trade opportunities for American firms and thereby creating a win-win environment for prosperity.

**Education:** Education, particularly the education of women and girls, is one of the strongest positive forces in South Asia. It is the foundation for improving social, economic and even political development, because it leads to people taking greater control of their own lives and engaging directly in reducing infant/maternal mortality, improving health care, increasing civic participation, accelerating economic growth, and improving the quality of their lives in countless other areas. We intend to extend our educational partnerships throughout the region. For example, we will encourage our friends in South Asia to work with their Central Asian neighbors to attract students and faculty from across the region and develop skills and connections that will serve them in their home countries – and strengthen regional capacity.

**Basic Needs:** South Asia faces a looming water crisis. Trans-boundary disagreements over scarce water resources have already caused disputes among South Asian countries. Further, more than 240 million people lack access to safe water. Half a billion do not have proper sanitation. Sadly, one child dies an average of every 15 seconds because of lack of access to safe water and sanitation. In response to this tragedy and through the Water for the Poor Initiative, we are working with our partners in India, Pakistan and Bangladesh to increase access to healthy water and sanitation. Our efforts focus on improving regional cooperation to resolve trans-boundary disputes, ensuring access to local financing for water infrastructure, improving the effectiveness of utility operations, promoting household hygiene and sanitation, and expanding environmental sanitation in urban areas.

In each South Asian country – Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka – we encounter unique and challenging issues. Mr. Chairman, I'd like to briefly highlight for you the state of affairs in each of the countries in the region.

**India** India is on a trajectory to be a leading nation of the 21<sup>st</sup> Century. By any measure -- its economic growth, its growing intellectual capital, even its ability to project its culture and art through its dynamic film industry -- India is on its way to achieving the rank of global power.

Prime Minister Singh and President Bush share a vision for a new relationship that brushes away past suspicions and antagonism to reveal a bedrock foundation of common values: a commitment to democracy and to political forums that encourage a range of opinions and a view of ethnic, cultural and religious diversity as a treasured national resource.

Prime Minister Singh's visit to Washington last July and the President's March trip to India this year grounded our growing ties in a range of practical projects for cooperation, from agricultural knowledge-sharing to encouraging economic ties to an expanded defense relationship and science and technology cooperation. Most of these initiatives share a common thread: using technology to improve the lives of ordinary people.

I will discuss in more detail in a moment the U.S.-India Civil Nuclear Cooperation Initiative, but let me stress at the outset that our enthusiastic endorsement for the Initiative will go a very long way towards taking our relationship with the Indian people and their government to a higher plane. It will secure their increasing conviction that there is solid support from the United States Government for long-term civil nuclear cooperation, and thereby open the door to cooperation across the board. Simply put: if we can do nuclear power, we can do anything together. The advantages of such a relationship for regional stability and for the future of over a billion people are many.

**U.S. Economic Relationship with India**

The U.S.-India economic relationship has taken off. We are working with India on a full agenda of economic issues through our Embassy in New Delhi, the many cabinet-level visits to the sub-continent, and the four policy forums of the Economic Dialogue -- the Trade Policy Forum, the Financial and Economic Forum, the Environment Dialogue, and the Commercial Dialogue -- as well as two cross-cutting forums focused on biotechnology and information technology. India is increasingly becoming a major U.S. trading partner. From just \$16 billion in two-way trade in 1998, U.S.-India trade has grown to \$26 billion in 2005. U.S. exports, now at approximately \$8 billion, grew almost 30 percent last year and we expect continued strong growth.

In the past year, we have taken steps that are opening many new opportunities for both India and the U.S. We have resolved the long-festering Dabhol project and are sorting out several troubled independent power projects in Tamil Nadu. We negotiated in a few short months a comprehensive open skies agreement that has brought momentum to the aviation sector. Since then Boeing has sold almost \$15 billion in new aircraft to India and two U.S. airlines have opened non-stop routes to India. Airport privatization is underway and the air transport market has grown by close to 40 percent in the past year.

India has also amended its Patent Act to recognize product patents and bring its Intellectual Property Rights regime into conformity with the World Trade Organization Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), and we are working to build new intellectual property rights programs and to assure enforcement of standards. We are enthusiastic that the Indian government has lifted its cap on foreign direct investment in telecommunications and partially opened the retail sector. Other changes are likely to come.

In the agricultural sector, the President and Prime Minister launched the U.S.-India Agricultural Knowledge Initiative with a commitment to link our universities, technical institutions, and businesses to support agriculture innovation. This initiative will revive and transform our long history of cooperation in agriculture. It will help create the environment conducive to agricultural growth, development of efficient markets, and trade and investment. It will re-invigorate university linkages, work to get technology more quickly into the hands of farmers, prepare agricultural students for the challenges of the future, and create new rural employment opportunities, particularly in the food processing and distribution sectors. U.S. private sector companies are on the Knowledge Initiative's newly formed board and see opportunities in India's priority commitment to agricultural reform.

In the areas of Innovation and the Knowledge Economy, President Bush and Prime Minister Singh announced on March 2 the intention to establish a Bi-National Science and Technology Endowment Fund and a standing Science and Technology Joint Commission. These initiatives will accelerate cooperation in many technical fields of mutual interest to India and the United States and benefit the economy and well-being of citizens of both countries. The United States and India will each contribute 15 million dollars to start the Bi-National Science and Technology Endowment Fund. Important focus areas will be biotechnology, health and infectious diseases, clean water technologies, basic space, atmospheric and earth sciences.

### **India's Energy Needs**

India is a nation of close to 1.1 billion people. With its rapid economic expansion, it has a massive and rapidly growing appetite for energy and is already the world's sixth largest consumer of energy. We are working with India on a broad range of issues in the U.S.-India Energy Dialogue, aimed at strengthening energy security and promoting the development of stable and efficient markets in India. We are working to facilitate energy conservation, greater use of natural gas as a clean fuel and the deployment of clean energy technologies such as clean coal technology and helping to create a more attractive energy investment climate. It is also important to help India further diversify its energy sources through developing nuclear energy which would be an important component of an energy strategy that hopes to use cleaner and more sustainable sources. The goal is to create a balance of energy sources that will meet India's growing demand while strengthening its energy security.

### **U.S. - India Civil Nuclear Cooperation Initiative**

One of the most important aspects of our strategic partnership with India is, of course, the U.S.-India Civil Nuclear Cooperation Initiative. As Secretary Rice said during her hearing before the full committee early last month, this initiative is an historic strategic achievement that will advance energy security, further environmental protection, foster economic and technological development in both of our countries, bolster international security, and strengthen the global nonproliferation regime. Civil nuclear cooperation with India will elevate the U.S.-India relationship to heights we have never previously achieved.

The significance of this initiative should not be underestimated. India has pledged, for the first time, to submit its entire civil nuclear program to international inspection and to take on significant new nonproliferation commitments in exchange for full civil nuclear cooperation with the international community. With this initiative, the world expects India to be a full partner in nonproliferation, and India expects the world to help it meet its growing energy needs. We will continue to work with India on a range of nonproliferation issues as it implements its Joint Statement commitments and our strategic partnership further unfolds.

Implementing this Initiative is a top priority for both the United States and India. We continue to engage our Indian counterparts on a daily basis as we both move forward. In doing so, we look to Congress as a full partner in this endeavor. Your support for this is crucial and we look forward to continuing to work closely with you to ensure that we grasp this important opportunity.

### **Cooperation on Democratization**

India is working closely with us to ensure that its resources and ours are used effectively to advance democracy among those nations seeking help. India has already put its money where its mouth is by making a charter donation to the UN Democracy Fund.

One of the most promising areas for our cooperation may be Central Asia, where we have a strong interest in India expanding its presence and influence as a positive example of a successful democratic country and a natural market for the region's abundant energy resources.

### **Pakistan**

During President Bush's March visit to Pakistan, he and President Musharraf affirmed the long-term strategic partnership between our two countries. The two leaders are determined to strengthen our broad, stable, and enduring relationship. Pakistan's importance to the U.S. extends far beyond the war on terror. Our strategic partnership and friendship is based on our shared interests in building stable and sustainable democracy and in promoting peace and security, stability, prosperity, and democracy in South Asia and across the globe. We want to help Pakistan succeed as a moderate society, a democratic nation and a prosperous people.

This Strategic Partnership will expand U.S.-Pakistan bilateral ties in a wide variety of areas. This bilateral dialogue will strengthen the historic ties between our countries and promote tolerance, respect and mutual understanding. With this in mind, the Presidents announced the beginning of a series of dialogues in energy, education and science and technology which we will pursue in the months ahead.

### **Counterterrorism Cooperation and Nonproliferation**

Both Pakistan and the U.S. understand that terrorism, in all its forms and manifestations, threatens us all. Following the September 11 attacks, the United States and Pakistan joined international efforts to fight the scourge of terrorism. We are grateful for Pakistan's strong and vital support in the war on terror. The sacrifices of Pakistan's troops in fighting extremists in the Federally Administered Tribal Areas are often underappreciated. We applaud those efforts and will continue to provide Pakistan with the support necessary to carry on the fight against terror.

In the area of nonproliferation, our countries share the concern about the threat to global stability posed by the proliferation of weapons of mass destruction and the threat of terrorist groups acquiring such weapons. We encourage Pakistan to play a constructive role in international efforts to prevent proliferation. We also encourage Pakistan to bring its export controls fully in line with international standards and practices, and to enhance enforcement capabilities. We stand prepared to assist its efforts in this

regard. We will continue to engage with Pakistan on a range of nonproliferation issues.

#### **Democratic Reform**

In his second inaugural speech, President Bush put promotion of democracy on the front burner of U.S. policy. President Musharraf has committed to hold national elections in 2007 in accordance with Pakistan's constitution. As Pakistan prepares for these elections, the U.S. is working with all parties and Pakistan's election officials to ensure free and fair elections in which all parties participate fully and without unlawful interference. We are assisting the recently-appointed Chief Election Commissioner in making the Election Commission an independent and respected body with the technical ability and political credibility to oversee free and fair polls.

While elections are critical to Pakistan's democratic evolution, electoral assistance is only one component of our multi-faceted program designed to strengthen democratic institutions. Through this program, we support the strengthening of national and provincial legislative institutions, assist political parties to develop into credible, democratic entities, and work to build effective and responsive local government. With these institutional changes, we hope to assist Pakistan in creating an enduring democratic culture and strong governing institutions.

**U.S. Assistance** Our assistance is intended to demonstrate the American people's long-term commitment to Pakistan. We have pledged \$3 billion over five years to Pakistan, starting in Fiscal Year 2005. This pledge includes \$300 million annually in assistance to economic projects and budget support, with an emphasis on education and health, as well as \$300 million annually to support the Government of Pakistan's program to modernize its military forces, promoting regional stability and enhancing Pakistan's capacity to support the Global War on Terror. Following the October 2005 South Asia earthquake, we pledged \$510 million to assist the people of Pakistan in emergency relief operations and long-term reconstruction of the devastated areas – a commitment of solidarity that earned the gratitude and respect of the Pakistani public. Our operations are making a smooth transition from the relief phase to the reconstruction phase – but remain as strong as ever. We also are strengthening people-to-people ties with Pakistan, with the world's largest Fulbright exchange program and a reinvigorated International Military Education and Training (IMET) program, and are continuing to broaden our bilateral science and technology cooperation program.

#### **U.S.-Pakistan Economic Ties**

We are also taking steps to increase private-sector trade and investment between our countries. Pakistan's remarkable economic turnaround is attracting record levels of foreign investment. So is the pro-business reform program that prompted the World Bank to name Pakistan one of the top ten reforming economies of the world last year. One such reform is significant progress on intellectual property protection, including the closure of several major optical disc plants, which prompted the U.S. Trade Representative (USTR) to move Pakistan from the Special 301 Priority Watch List to the Watch List last month – a very positive step. Most of the American companies in Pakistan currently have plans to expand their operations in the near future. Still, we think there is considerable scope to expand our bilateral economic ties further. Toward that end, we are negotiating a high-standard Bilateral Investment Treaty, which we hope will encourage more U.S. companies to take a second look at Pakistan, both as a booming market of 160 million people and also as a potential hub for regional trade and transportation.

#### **Indo-Pakistani Relations**

Relations between India and Pakistan are steadily improving. We continue to quietly encourage their bilateral dialogue and applaud the courageous and visionary leadership that Prime Minister Singh and President Musharraf have demonstrated. We believe they have the political will and ability to remove the obstacles to mutually beneficial relations between their two countries.

Normalized relations and increased trade and people-to-people ties will benefit both countries and the region. We are encouraged by the most recent round of the Composite Dialogue held two weeks ago in New Delhi. Confidence-building measures, such as the opening of bus and rail links, are helping to create a constituency for peace in both nations. We will continue to encourage peace efforts between the two countries, including a resolution of the question of Kashmir that is acceptable to India, Pakistan and the Kashmiri people.

**Pakistani-Afghan Relations** In all our discussions with Pakistan, we are in agreement on the need for a stable Afghanistan and the urgent need for economic development in the border regions. Under the auspices of the Tripartite Commission, we are working with both nations to enhance military cooperation in the region.

#### **Bangladesh**

Bangladesh is a traditionally moderate and tolerant country that has made impressive progress in establishing democracy since gaining independence in 1971. Over its history, Bangladesh has made great strides in building its economy and improving the well-being of its people. Much credit goes to its dynamic civil society organizations. Beyond the accomplishments that have benefited their own society, non-governmental organizations such as the Grameen Bank have devised innovative approaches in micro-finance with world-wide applicability.

In recent years Bangladesh's Gross Domestic Product has grown at over 5 percent a year. That is respectable, but a higher rate would have a more dramatic impact on the Bangladeshi standard of living. The main obstacles are corruption and poor governance, which are a drag on the country's economy. This is keeping the Bangladeshi people from realizing their potential and preventing the levels of growth that would make significant progress in reducing poverty. For this reason, the U.S. has increased its assistance to Bangladesh for promoting democracy and good governance and combating corruption to over \$8 billion in Fiscal Year 2006.

Recently Bangladesh has scored some impressive victories against extremists. It has arrested the leaders of the Jama'atul Mujahideen Bangladesh, which was responsible for terrorist attacks including coordinated bombings last summer and fall. We encourage Bangladesh to strengthen its vigilance against violent extremists and to do so in a way that conforms to the rule of law and respects the human rights of all of its citizens.

Our countries enjoy excellent relations. We share a commitment to democracy, human rights, and the rule of law. In 2007, Bangladeshis will elect a new government, which will be their fourth consecutive democratic election, a noteworthy accomplishment for this young country.

#### **Nepal**

Nepal is at a juncture both hopeful and uncertain, with the potential for a dramatic move toward democracy and peace. Demonstrations in April against the King's autocratic rule and in favor of the restoration of democracy finally forced the King on April 24 to retreat from his stubborn attempt to assert autocratic rule. Parliament convened for the first time since 2002 with G.P. Koirala of the Nepali Congress Party at the helm of a new government of national unity. The new government and the Maoists declared a cease-fire.

The people of Nepal have shown they are not prepared to live under an autocratic monarch. Their success in forcing a return to democracy has created a broad spirit of optimism for the future. We are looking at ways in which we can further strengthen democracy and, through greater public participation in the political process, strengthen the momentum for peace.

I traveled to Nepal earlier this month with my National Security Council counterpart to assess the situation firsthand and to emphasize U.S. support for the new government. We found normally fractious party leaders of the 7-party coalition ready to cooperate. The army, which had largely stood apart from Nepal's recent chaotic transition, is ready to follow a civilian leadership in the new democratic setup.

The Administration stands ready to support the aspirations of the Nepali people for democracy. We laid the foundations for this support before the recent unrest when USAID refocused its assistance programs on democracy, governance and conflict mitigation. In FY 2006 alone, we are using U.S. assistance to strengthen the Election

Commission, Peace Secretariat, National Human Rights Commission, and corruption ombudsman. We have sought to broaden participation in political parties and make them internally more democratic.

Areas in which we feel we can make a positive difference include technical assistance and equipment to the Parliament and to a constitutional reform process, assisting reintegration of internally displaced persons, and funding election monitors. In addition, we want to assist the Nepali people with projects that can promote economic recovery, especially in rural areas.

The U.S. supports the new government's efforts to bring peace to Nepal. The cease-fire is holding and the new government has made clear its readiness for peace. I told Prime Minister Koirala on May 2 that we stand ready to provide assistance to security forces if his government were to make a request. This offer includes our ongoing commitment to improve the human rights record of Nepal's security forces.

The alliance between the political parties and the Maoists, based on their mutual antagonism to the King and his autocratic ambitions, is based on a "12 Point Understanding." According to this agreement the government will support elections to a constituent assembly, a long-standing Maoist demand. In exchange, the Maoists have accepted a commitment to support multi-party democracy. In keeping with the high hopes and expectations of the people of Nepal, the government is moving forward to implement this agreement with the Maoists -- but we remain wary. The Maoists have been an exceptionally brutal insurgency, and their forces have become accustomed to control over the countryside exercised through terror. They must renounce violence and the instruments of control, such as extortion, that have terrorized Nepal. Should they lay down their weapons, end their use of violence and intimidation and accept the rule of law, and accept the will of the Nepali people through the democratic process, there will be a place for them in Nepal's political arena. Until the Maoists take steps to change their character, we will not be convinced that they have abandoned their stated goal of establishing a one-party, authoritarian state.

We stand ready to work with other governments to ensure the realization of Nepal's democratic gains, and the benefits of peace. The international community has an important role to play. During the period of royal misrule and usurpation of power a number of donor governments withdrew or reduced their assistance. We hope that these governments will join us in supporting democracy, good governance and human rights as they evaluate how best to support Nepal over the longer term.

Those of us who watched images of Nepalese from all sections of society, young and old, demanding democracy in their largely non-violent demonstrations last month can only be inspired by the faith and hope they have placed in their future. We have no interest in prescribing the shape of Nepal's democracy; it is for Nepal to decide. We stand behind the people's right to make their own choices through a free, fair and open process.

### Sri Lanka

Escalating violence in Sri Lanka has brought the peace process to a standstill since negotiators for the Government of Sri Lanka and Liberation Tigers of Tamil Eelam (LTTE) met in Geneva in February. This meeting was the first time in over three years the two sides had formally met for discussions. An increasing number of ceasefire violations by both sides in recent months, including the Tigers' April 25 assassination attempt on the Commander of the Army, the May 11 attack on a troop transport, and government air strikes on Tiger positions, have put the country at risk for returning to war. Norwegian peace facilitators continue to work with both sides to reach agreement to return for a second round of negotiations. We are working with our partners Norway, Japan, and the EU in the Sri Lanka Co-Chairs donor group to urge both sides to show restraint and return to negotiations. We are also looking at ways to expand multilateral engagement on Sri Lanka with a broader range of governments to focus on the Tigers' financing and arms procurement.

Tsunami relief and reconstruction efforts continue to be among our highest priorities. The U.S. Government is providing assistance totaling \$134.6 million for tsunami-related relief and reconstruction in Sri Lanka. Immediately following the disaster, we funded emergency services, such as temporary shelter, food, water, relief supplies, water purification, health surveillance, psycho-social services and protection for children, and cash-for-work programs that infused money into local economies. More recently, our efforts have focused on reconstruction, including large scale infrastructure projects, workforce development, and sewage management. We are engaging youth in reconstruction efforts and using these projects to bridge ethnic differences in attempts to contribute to peace building efforts. A U.S. Government-funded anti-corruption program was also launched in 2005 to enhance oversight of tsunami rehabilitation programs.

Sri Lanka has been selected as a country eligible to receive Millennium Challenge Account assistance for Fiscal Year 2006. Sri Lanka submitted its compact proposal focusing largely on rural development to the Millennium Challenge Corporation in August 2005 and due diligence is underway, along with negotiation of compact terms. **Conclusion** Our policy objectives for South Asia are ambitious, but well worth the effort. Success will result in reduced regional tensions, stable development, stronger partnerships, increased trade, a better educated South Asia populace and solid examples of democracies for others to emulate.

Mr. Chairman, members of the Committee, thank you again for this opportunity to discuss this important region. I am ready to take your questions.

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