

New Priorities in South Asia:

U.S. Policy Toward India,
Pakistan, and Afghanistan

New Priorities in South Asia: U.S. Policy Toward India, Pakistan, and Afghanistan

*Chairmen's Report of an Independent Task Force
Cosponsored by the
Council on Foreign Relations and the Asia Society*

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Marshall M. Bouton, Co-Chairs
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Project Co-Directors

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FOREWORD

After the September 11 attacks and the massing of a million men on the borders of nuclear-armed India and Pakistan in 2001, Americans should need no more reminders of the critical importance of South Asia to global security. Consolidating U.S. ties with India, and securing a moderate Muslim state in Pakistan, actively encouraging peaceful relations between Pakistan and India, and ensuring an Afghanistan where terrorists can never again find shelter—all must be U.S. priorities. The following Chairmen’s Report of an Independent Task Force on India and South Asia, cosponsored by the Council on Foreign Relations and the Asia Society, calls on Congress and the Bush administration to adjust U.S. policy toward the region and give it sustained, high-level attention.

Founded in the summer of 2001 by a merger of the Council’s Task Force on South Asia and the Asia Society’s Roundtable on India, the Task Force’s original purpose was to examine ways to improve U.S. relations with India. But the tragic events of September 11, 2001, transformed the South Asian security context and led the Task Force to explore U.S. policy toward the countries of the region in a broader framework.

In June 2003, the Task Force produced a report assessing the situation in Afghanistan and issued recommendations to the U.S. government regarding immediate policy priorities in security and reconstruction assistance. Now, the Task Force has published its broader findings on American policy toward India and Pakistan and the Kashmir dispute.

This chairmen’s report offers several recommendations for improving U.S. relationships with three of the principal countries of South Asia and for protecting U.S. foreign policy interests in the region. The Task Force recommends strengthening the U.S.-India relationship in the economic and security realms; making Pakistan’s evolution a top foreign policy priority and tying the level of U.S. assistance to Pakistan’s undertaking specific economic, political,

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and foreign policy reforms; taking a more active American role in the resolution of the Kashmir dispute; and bolstering the hand of the Hamid Karzai government in Afghanistan lest it lose the hard-won peace.

The Task Force chairmen, Ambassador Frank G. Wisner II, Ambassador Nicholas Platt, and Dr. Marshall Bouton, brought an immense amount of government and private-sector experience in the region to their work. Co-directors Dennis Kux and Mahnaz Ispahani contributed generous amounts of time and much expertise. With more than fifty members, the Task Force is one of the largest and most varied that the Council has ever sponsored. Over the past two years, the group held more than two dozen meetings to probe a wide range of political, economic, security, and social issues relating to South Asia. The keen contributions and insights of the members have measurably sharpened this report. My deepest appreciation goes to each and every one of them. Their hard work has produced a timely and relevant report on some of the United States's most pressing foreign policy concerns.

Richard N. Haass
President
Council on Foreign Relations
November 2003

ACKNOWLEDGMENTS

In our challenging deliberations and, indeed, in all aspects of Task Force work, we have been extraordinarily fortunate in having three wise and experienced co-chairs. Frank Wisner, Nicholas Platt, and Marshall Bouton have skillfully guided our search for answers to the policy challenges that the United States faces with India, Pakistan, and Afghanistan. Frank's unflinching insistence that Task Force products reflect the highest standards and his unflagging encouragement, fluid pen, and policy insights have helped produce a much better report than would otherwise have been the case. Nick patiently led many of our sessions and was ever ready to provide counsel. Marshall, who conceived the project before he left the Asia Society for the Chicago Council on Foreign Relations, remained a source of valuable advice and guidance.

The Task Force has benefited greatly from its more than fifty members, mostly in New York City and Washington, D.C., who have provided an unusually broad range of expertise. They have brought wide experience in government, business and finance, the law, philanthropy, and academe. Their committed and informed participation in discussions and their perceptive comments on report drafts have greatly strengthened the final product.

We also received magnificent support from the Council and Asia Society staff. We want to single out for special praise and appreciation Alyssa Ayres of the Asia Society, who directed the initial stages of the Task Force, and Sanjeev Sherchan, also of the Asia Society, who mastered an unending chain of administrative challenges over the past two years with great patience, unflinching good cheer, and enormous effectiveness. We greatly benefited from the high-quality work and good humor of Faiza Issa, Council research associate, who did a superb job on all aspects of the Task Force from research assistance to preparing outstanding summaries of Task Force meetings to ensuring a smooth publication process. Harpinder Athwal, research associate at the Woodrow Wilson

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International Center for Scholars, was also a tremendous asset in providing research and other help. There are others to whom we owe much and would like to express our appreciation for their help and support: at the Asia Society, Vice President Robert Radtke; and at the Council, Executive Vice President Mike Peters, Senior Vice President Janice Murray, Vice President and Director of Studies James Lindsay, Acting Director of the Washington Program Lee Feinstein, Communications Vice President Lisa Shields, and New York Meetings Vice President Anne Luzzatto. We are also grateful for the contributions of Council staff members Patricia Dorff, Jennifer Anmuth, Marie Strauss, Laura Sylvester, Lindsay Workman, and Abigail Zoba.

The Task Force is greatly indebted to the leaders of the Council and the Asia Society, Richard N. Haass (and his predecessor, Leslie H. Gelb) and Nicholas Platt (one of our co-chairs), for their support of our work. As co-chair, Nick's contributions strengthened the substance of our report. Richard's and Les's incisive counsel considerably sharpened its focus and structure. Nick, Richard, and Les have made every resource of their organizations available to us and we are deeply appreciative to them for all their help.

Finally, the Task Force would not have been possible without the financial support of the Ford Foundation, the Starr Foundation, the Rockefeller Foundation, the BGM Kumar Foundation, Desai Capital Management, and W. Bowman Cutter. We deeply appreciate their generosity.

Dennis Kux and Mahnaz Ispahani
Project Co-Directors

EXECUTIVE SUMMARY

South Asia¹ may be halfway around the globe from the United States, but in the age of the Internet and globalization, what happens there—as the September 11, 2001, terrorist attacks by al-Qaeda tragically underscored—can affect all Americans. The challenge to U.S. policy over the medium term (through 2010) is to design and implement a stable and sustained approach that will solidify bilateral ties with three of the key countries of the region—India, Pakistan, and Afghanistan—and give the United States an opportunity to influence major regional developments. This report assesses the strengths and weaknesses of India, Pakistan, and Afghanistan and recommends how U.S. policy can best take advantage of the opportunities while addressing the dangers that they present. Success in dealing with South Asia will require sustained and high-level attention, sensitive diplomacy, a realistic view of what is possible, and, especially with Pakistan and Afghanistan, investment of substantial resources.

Democratic India, with its political stability and a decade of steady economic advance, has the potential for a long-term political and security partnership and substantially expanded trade and economic relations with the United States. Unlike during the Cold War years, U.S. and Indian interests broadly coincide. The medium-term policy challenge is to complete the transition from past estrangement through constructive engagement on to genuine partnership.

Pakistan presents one of the most complex and difficult challenges facing U.S. diplomacy. Its political instability, entrenched Islamist extremism, economic and social weaknesses, and dangerous hostility toward India have cast dark shadows over this nuclear-

¹For lack of time and resources, the Task Force did not consider the other major countries of South Asia: Nepal, Bangladesh, and Sri Lanka. All of these have considerable importance for U.S. interests, face serious problems, and deserve detailed study of their prospects and thoughtful review of U.S. policy toward them.

armed nation. Even though Pakistan offers valuable help in rooting out the remnants of al-Qaeda, it has failed to prevent the use of its territory by Islamist terrorists as a base for armed attacks on Kashmir and Afghanistan. The United States has a major stake in a stable Pakistan at peace with itself and its neighbors and should be prepared to provide substantial assistance toward this end. The extent of U.S. assistance, however, should be calibrated with Islamabad's own performance and conduct.

To help the reform process, Congress should authorize the Bush administration's proposal for \$3 billion in economic and security assistance for the five years starting with fiscal year (FY) 2005. This package should be revised so that it includes more economic and less security assistance. Instead of the fifty-fifty split that the Bush administration wants, two-thirds of U.S. aid should go for economic and social efforts and only one-third for security assistance. Above a baseline level (\$300 million annually over five years, for a total of \$1.5 billion), assistance should be conditioned on Pakistan's progress in implementing economic and political reforms, in barring the use of its territory to sustain insurgencies against its neighbors, and in fulfilling nonproliferation responsibilities.

Given the dangers inherent in the festering India-Pakistan rivalry, the United States should become more active in trying to help the two nuclear-armed enemies manage their differences, including the Kashmir dispute.

In addition, and in light of the nuclear proliferation risks in South Asia, the executive branch should be searching for ways to integrate a nuclear India and Pakistan within the global nonproliferation framework. Meanwhile, it should be working to ensure tighter controls against leakage of sensitive nuclear technology and material.

In Afghanistan, reconstruction has stalled, partly because of inadequate resources, but mainly because of deteriorating security outside Kabul, especially in the Pashtun areas that share a border with Pakistan. The Task Force welcomes the decision to provide needed additional resources but believes that much more should be done to improve security and to strengthen the capabilities of

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Hamid Karzai's government. *In particular, the United States should be actively supporting:*

- accelerated training for the new Afghan National Army and police force;
- genuine implementation of reforms to make the Afghan Ministry of Defense more truly national;
- the phased program of demilitarization and demobilization of warlord militias that is getting under way; and
- the assumption of security responsibilities outside Kabul by the International Security Assistance Force (ISAF), now under the permanent leadership of the North Atlantic Treaty Organization (NATO).

THE CHALLENGE WITH INDIA

The fundamental improvement in U.S.-India ties in recent years marks a major turning point. With more than one billion people, democratic institutions, a large defense establishment, and a steadily growing economy, India represents a partner of great value. As the twenty-first century unfolds, India will have one of the world's largest economies and will become an increasingly significant security factor in the Indian Ocean region and in Asia as a whole. Despite policy disagreements with the United States (for example, regarding Iraq and international economic and trade issues), India's government and people find increasing overlays between their interests and those of the American people. After four decades of cool ties, Washington and New Delhi are now actively and constructively engaged. The task over the medium term, through 2010, is to consolidate the "transformed" relationship into a genuine partnership. *To this end, the Task Force recommends that the United States and India:*

- work to expand political, security, military, and intelligence cooperation;
- intensify both official and nonofficial dialogue on economic and trade issues; and
- negotiate a trade agreement in services.

The Task Force recommends that the United States:

- ease restrictions on cooperation with India in the civilian satellite sector;
- treat India as a “friendly” country in granting export licenses for transfers of defense equipment;
- ease restrictions on the export to India of dual-use items that have civilian and military uses; and
- encourage U.S. foundations, businesses, and scientific and educational institutions to expand efforts to develop cooperative programs with Indian counterparts.

The Task Force recommends that India:

- implement domestic economic reforms with greater vigor to promote more rapid growth;
- open its economy further to the global market by reducing administrative restrictions and other barriers to foreign trade and investment; and
- modify policies and reduce administrative restrictions that impede cooperative academic and foundation activities.

THE CHALLENGE WITH PAKISTAN

In the wake of September 11, 2001, bilateral relations have dramatically improved and Pakistan has become a valued partner in the war on terrorism. But, as in the past, U.S. and Pakistani policies only partially coincide. U.S. interests in pursuing the war on terrorism conflict with Pakistan’s continued support for Islamist terrorists engaged in “jihad” against India in the disputed territory of Kashmir (Pakistan considers many of these militants to be “freedom fighters”) and Pakistan’s failure to prevent pro-Taliban elements from using the Pashtun tribal areas as a base to attack Afghanistan. Islamabad’s dissatisfaction with the status quo in Kashmir continues to fuel dangerously high tensions with India (with which the United States is seeking better relations) and has caused concern about reported nuclear commerce with North Korea.

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America has a major stake in friendly and long-term ties with Pakistan. A positive relationship, however, will be difficult to sustain unless Islamabad firmly turns its back on terrorist groups and plays by nonproliferation rules. In his seminal speech of January 12, 2002, President Pervez Musharraf said that he wanted to make Pakistan “a modern, progressive, and dynamic state.” Achieving this laudable goal will not be easy given the country’s unstable political institutions, its weak economic and social development, and the uncertain commitment of its military leadership to reform. The Task Force, at this juncture, believes that Pakistan can pursue the reform agenda; supporting this effort should be the principal aim of U.S. policy over the medium term. Washington should, however, adopt a much more nuanced approach than that followed by the Bush administration.

In the economic and security assistance arena, the United States should:

- obtain early congressional approval for a five-year, \$3 billion assistance package, but the package should be revised so that two-thirds (\$400 million annually) is allocated for economic and one-third (\$200 million annually) for security assistance, instead of the fifty-fifty division proposed by the executive branch;
- condition release of aid above a baseline level (\$1.5 billion over five years, or \$200 million of economic assistance and \$100 million of security assistance annually) on Pakistan’s progress in implementation of a political, economic, and social reform agenda; its cooperation in the war on terrorism; and its prevention of leakage of sensitive nuclear technology and material;
- make education the principal focus of U.S. assistance, with high priority also for projects to aid Pashtun areas;
- boost economic and technical support for institutions on which good government rests—the courts, parliament, police, democratic political parties, and revenue collection;
- continue to use appropriated funds to buy back Pakistan’s official debt to the United States; and

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- ease restrictions on Pakistani textile imports into the United States and avoid new barriers after the multifiber agreement comes into effect in 2005.

To promote democracy, the United States should:

- urge publicly as well as privately an enhanced civilian and a reduced army role in governance;
- oppose continued involvement of the Inter-Services Intelligence Directorate (ISI) in the electoral process; and
- provide increased assistance in bolstering civil society.

To promote regional stability, the United States should:

- press President Musharraf to make good on his pledge to stop infiltration across the Line of Control (LOC, the de facto border between Indian-administered and Pakistan-administered parts of Kashmir) permanently;
- press Musharraf not to permit the use of Pakistani territory as a base for neo-Taliban attacks on Afghanistan; and
- make clear that Pakistan's failure to do a better job of preventing the use of its territory by terrorists will reduce U.S. assistance levels.

THE CHALLENGE OF MANAGING INDIA-PAKISTAN TENSIONS

India-Pakistan differences over Kashmir, still unresolved fifty-six years after independence, lie at the heart of their rivalry. If the two countries are to live amicably with one another, they will have to address the issue, contain the dangers, and pursue—and eventually implement—a settlement. Their festering hostility remains the greatest single threat to regional stability and therefore to U.S. interests in South Asia. Given the fact that India and Pakistan are now nuclear armed, the possibility of a conflict involving the first use of nuclear weapons since 1945 remains all too real. To date, neither government appears to have made the political decision that its national interest would be served by movement toward genuine détente and a Kashmir settlement—except on its own terms.

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U.S. policy in recent years over Kashmir has been one of crisis management. Washington leaps into action whenever the alarm bell rings to signal a possible India-Pakistan fire. At other times, the United States has limited itself to rhetorical calls for dialogue. Notwithstanding other demands on Washington's attention, the Task Force chairmen believe that this approach is inadequate given the dangers inherent in India-Pakistan hostility and the seeming inability of New Delhi and Islamabad to achieve progress on their own.² What is required is more forward-leaning and sustained U.S. engagement. There should be a long-term U.S. diplomatic effort to assist—not to mediate or arbitrate—India and Pakistan's intermittent efforts to bridge their differences. Facilitation should focus on starting and sustaining a bilateral process that will gradually lead to resolution of bilateral differences, ultimately including the dispute over Kashmir. *To help get the process going, the United States should stress with Pakistan the need to:*

- permanently prevent infiltration across the LOC; and
- modify its present negotiating stance, which makes progress on Kashmir a precondition for dealing with other India-Pakistan issues.

The United States should stress with India the need to:

- do more to reach an understanding with the elected Jammu and Kashmir State government that better addresses the aspirations of Kashmiris and increases the pace of economic development; and
- reduce the level of activity by Indian security forces and improve their human rights record.

Facilitation should be a long-term effort, implemented under White House and State Department oversight. The goal of U.S. diplomacy should be to help India and Pakistan develop a framework that will enable them to address more constructively than

²Some Task Force members thought "crisis management" remained the best U.S. course of action. Others felt that the consensus proposal did not go far enough in view of the dangers of India-Pakistan conflict. These members urged a more active stance, including putting forward U.S. ideas about a Kashmir settlement.

they have in the past issues such as nuclear confidence-building measures (CBMs), de-escalation along the LOC and the Siachen glacier, expanded trade relations, easing movement of people, and reducing hate propaganda. Although the Kashmir dispute itself cannot be ignored, the wide gap between Indian and Pakistani positions and the current depth of mutual mistrust make it counter-productive to put forward U.S. ideas about the shape of a settlement or how to get there. At this point, U.S. suggestions would surely be rejected by one side or the other, or both, and set back the facilitation process. In the final analysis, only New Delhi and Islamabad can resolve their rivalry and reach an accord over Kashmir. The United States can—and, in the Task Force's view, should—try to help the process.

THE CHALLENGE IN AFGHANISTAN

Two years after the defeat of the Taliban and their al-Qaeda confederates, Afghanistan remains a long way from the U.S. goal of a stable state that reflects the will of its people, promotes their economic and social development, and no longer serves as a haven for terrorists. Afghanistan is a troubled country with a central government whose writ does not run much beyond the Kabul city limits, only limited progress on economic reconstruction, and, above all, an increasingly insecure environment, especially in the ethnically Pashtun south and southeast.

Since the Afghanistan section of this report was issued on June 18, 2003, the executive branch has proposed a major increase in U.S. assistance. The Task Force welcomes this and urges Congress to approve additional funds sought for security and reconstruction aid. At the same time, the Task Force has serious concerns that the United States is still failing to address underlying security problems that have, in fact, worsened over the summer. Only in Kabul, where the ISAF operates, does reasonable calm prevail. Unless the security situation improves, it will be difficult to make progress on reconstruction, even if sufficient funds are avail-

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able. Afghanistan could well slide back into the warlord-dominated anarchy that set the stage for the Taliban and al-Qaeda.

To prevent this from happening, the United States should be doing much more to bolster the security capability of the Karzai government by:

- accelerating the training of the new Afghan National Army and national police force;
- actively supporting the UN-led process of demobilization and demilitarization of local militias that is getting under way;
- working to ensure implementation of reforms to make the Afghan Ministry of Defense more national in character;
- promptly deploying additional Provincial Reconstruction Teams, now that the concept has proven worthwhile, and encouraging more of our allies to follow suit;
- actively supporting assumption by the ISAF, now permanently led by NATO, of responsibility for improving the security environment in areas outside Kabul; and
- pressing Pakistan to do a more effective job of preventing pro-Taliban elements from mounting cross-border attacks from Pakistan's tribal areas.

THE CHALLENGE OF NUCLEAR WAR AND FURTHER PROLIFERATION

Thanks to developments in North Korea, East Asia has replaced the South Asian subcontinent as the area with the highest risk of nuclear war. Still, the possibility of a conventional India-Pakistan conflict turning nuclear remains real. Neither country shows concern commensurate with the dangers that the use of nuclear weapons would pose to its national survival. There is an urgent need for a serious nuclear dialogue between the two nations. *To this end, the United States should:*

- urge India and Pakistan to initiate nuclear discussions without holding these hostage to progress on the Kashmir dispute. The talks should seek agreement on nuclear CBMs,

including establishment of nuclear risk reduction centers, to lessen the chance that accidents, misperceptions, or misunderstandings might trigger a nuclear response.

Even though fitting India and Pakistan into the global nuclear nonproliferation system poses extremely difficult and complex policy problems, the nuclearization of South Asia is a fact that cannot be reversed. The Task Force believes the U.S. government should search for ways to find a place for a nuclear India and Pakistan within the global nonproliferation system. At the same time, it is essential that more rigorous controls to prevent the export of sensitive nuclear technology or material be implemented. Any further leakage—such as the reported Pakistani assistance to North Korea's uranium-enrichment program—should have serious consequences for bilateral relations, including a reduction of U.S. assistance levels, and not be swept under the rug.

THE CHALLENGE OF BROADENED SOCIAL-SECTOR ENGAGEMENT

Every key issue that U.S. private philanthropic groups, non-governmental organizations (NGOs), and private volunteer organizations address around the globe—including poverty, illiteracy, population, health, human rights, social justice, and environmental degradation—presents a major challenge in India, Pakistan, and Afghanistan. Just as U.S. strategic interests are served by enhanced engagement with the region, philanthropic, educational, and research organizations would gain from more active involvement than in recent years, and this would further serve to broaden bilateral relations.

The state of the social sector and civil society varies from country to country, and it is difficult to generalize. In India, a vibrant civil society already exists and offers a sturdy organizational base for expanded activity. In Pakistan, where the institutions of civil society are weak, the need for support is even greater. In Afghanistan, after two decades of turmoil, the institutions of civil society are only beginning to develop. Elsewhere in South Asia, above all in

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Bangladesh, the success of indigenous nongovernmental organizations in promoting social and economic development provides a model that all three countries under examination should try to emulate.

Although the World Bank, the Asian Development Bank, and other international and bilateral donors provide the bulk of funding, private U.S. foundations, educational institutions, and research centers could usefully expand their investment and cooperative activities. A large web of nongovernmental social-sector partnerships, along with broadened business and commercial links, would bring its own positive benefit, but would also buttress and stabilize bilateral relationships from the inevitable bumps and troughs on the political side.

The Ford Foundation has long been a leader in India, and, more recently, the Bill and Melinda Gates Foundation has become heavily engaged there in helping address the increasingly grave HIV/AIDS problem. In a host of other areas, U.S. foundations and private-sector groups could follow their lead. Just as Rockefeller Foundation support for agricultural research in the 1960s helped produce the “green revolution,” exploring ways to exploit modern technology to overcome the economic and social barriers that trap so many Indians, Pakistanis, and Afghans in poverty should be an exciting area for corporate and foundation initiatives.

INDIA

In 1998, India's prime minister, Atal Bihari Vajpayee, raised more than a few eyebrows when he called India and the United States "natural allies." Five years later, Vajpayee's comments no longer seem like diplomatic hyperbole. After half a century marked mainly by disagreement, the world's two largest democracies are finding increasing overlap in their interests and policies. In a landmark development in U.S.–South Asia relations, the United States and India are getting along better than at any time since India became independent in 1947. Over the medium term, the policy challenge through 2010 is to broaden and deepen the links that bind the two countries so that their relationship will mature into a genuine partnership.

For the United States, India—with its billion-plus population, democratic institutions and values, steadily growing economy, and substantial defense establishment—represents a partner of great value. In a few years, India will become one of the world's largest economies, the principal security factor in the Indian Ocean region, and increasingly important in the overall and uncertain Asian power equation. India has become a partner in combating terrorism and, despite past differences on nuclear issues, shares U.S. concerns about preventing the further spread of weapons of mass destruction (WMD). On the economic side, the United States stands to gain from steadily expanding ties, especially in knowledge industries in which India possesses major strengths. More cooperative U.S.-India ties can also narrow the gap between industrialized and developing countries on global issues such as trade, the environment, AIDS, and poverty alleviation.

New Delhi has an equal if not greater stake in transformed relations with Washington. As India presses ahead with its economic development, it sees good relations with the world's largest economy as a spur to more foreign direct investment, to increased trade, and to easier access to advanced technology, in particular to what

India

Indian leaders call “the trinity” of (civilian and military) dual-use products, renewed cooperation in nonmilitary space activities, and civilian nuclear technology. India also hopes that closer ties will further increase American sensitivity to New Delhi’s key security concerns, most of all those relating to Pakistan. In the broader Asian context, cooperative security ties would serve Indian interests—like those of the United States—as a hedge were China to become an aggressive threat.

Both New Delhi and Washington have learned from past problems in dealing with each other. The United States is paying more sustained high-level attention to India. New Delhi is handling its relations with Washington in a more pragmatic and self-assured fashion. When India disagrees with U.S. policy, it says so frankly but does not go out of its way to offer gratuitous public criticism, as was often the case in the past. The two countries have learned to disagree without being disagreeable.

To consolidate the “transformed” relationship, a number of important steps are needed over the medium term. *The United States and India should:*

- continue, at the highest levels, to publicize and emphasize to their respective bureaucracies their support for enhanced U.S.-India cooperation;
- maintain and, when possible, enhance official cooperation and dialogue in political, security, and intelligence areas;
- reinstitute an official dialogue on bilateral and international economic policy issues; and
- negotiate a bilateral trade agreement in services to spur expanded economic ties.

The United States should:

- ease restrictions on cooperation in the civilian satellite sector;
- treat India as a “friendly” country in granting export licenses for sale of defense equipment and dual-use items;
- study ways to fit India (and Pakistan) into the global nuclear nonproliferation system without upsetting the system; and

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- encourage U.S. foundations, businesses, and scientific and educational institutions to intensify their efforts to develop cooperative programs with Indian counterparts.

India should:

- demonstrate greater commitment to domestic economic reform by implementing policies and administrative measures needed to spur more rapid growth;
- intensify efforts to open its economy to the global market by reducing administrative restrictions and other barriers to foreign trade and investment;
- modify policies and administrative restrictions that make academic research and study more difficult than in most other democratic countries; and
- adopt more rigorous export controls on sensitive WMD technology and material.

FROM ESTRANGEMENT TO ENGAGEMENT

During the Cold War, India's preachy neutralism and close security ties with the Soviet Union upset Americans. Close U.S.-Pakistan security ties and the U.S. tendency to lecture others upset the Indians. New Delhi's socialist economic policies, particularly the emphasis on import substitution and reluctance to accept foreign investment, were a further impediment. Although India and the United States shared the common values inherent in democracy, the two nations often found themselves not only geographically, but politically and economically on opposite sides of the globe.

This began to change in the 1990s. First came the end of the Cold War and the subsequent collapse of the Soviet Union. Although India has maintained close arms-supply relations with Russia, this no longer causes serious concerns in Washington. Second, U.S.-Pakistan security ties were ruptured after sanctions were imposed against Pakistan for its nuclear program in October 1990, suspending military and economic aid. The relationship

remained in the doldrums until Pakistan joined the war on terrorism after September 11, 2001. Third, in 1991, when forced by circumstances, India introduced major economic reforms to reduce government controls and restrictions in a shift from socialist toward free-market policies.

Despite these developments, U.S.-India relations did not get better immediately. Memories of past problems remained a burden. Indian economic reforms stirred considerable positive U.S. interest, but bilateral frictions, especially over nuclear nonproliferation issues, continued. After India conducted nuclear tests in May 1998, relations plummeted once again. A disappointed Clinton administration imposed an array of congressionally mandated sanctions.

Paradoxically, relations then improved. Even though twelve rounds of talks between U.S. Deputy Secretary of State Strobe Talbott and Indian Minister of External Affairs Jaswant Singh failed to significantly narrow differences on nuclear issues, the discussions gave New Delhi and Washington a clearer understanding of each other's viewpoints and marked the most intensive high-level U.S.-India dialogue in decades. Washington's vigorous intervention in the 1999 Kargil crisis to pressure Pakistan to withdraw its forces from the Indian side of the Line of Control (LOC) in Kashmir had a further positive impact. In 2000, President Bill Clinton's highly successful five-day visit to India and Prime Minister Vajpayee's more subdued but successful visit to the United States signaled a new, positive chapter in relations.

Soon after George W. Bush took office in 2001, he made clear his interest in continuing and intensifying the Clinton opening to India. New Delhi quickly showed interest in reciprocating. The Vajpayee government muted criticism of U.S. opposition to the Kyoto Protocol on global climate change and reacted positively to President Bush's controversial missile-defense initiative.³ When al-Qaeda terrorists struck on September 11, 2001, India promptly offered its full cooperation in the war on terrorism. After Pak-

³The official Indian response to Bush's May 2001 speech was crafted carefully to remain consistent with New Delhi's long-standing support for the total abolition of nuclear weapons.

istan joined the antiterrorist coalition and turned on its former Afghan Taliban allies, New Delhi feared that Washington would again “tilt” toward Islamabad. Even though the United States has only partially allayed these concerns, the improved relationship has not been derailed.

In response to major terrorist attacks by Pakistan-based groups between October 2001 and May 2002, India threatened military retaliation. After the United States extracted a pledge from Pakistani President Pervez Musharraf to permanently stop infiltration across the LOC, New Delhi refrained from hitting back. Washington, however, lost credibility when it failed to react strongly to Musharraf’s failure to deliver. Many Indians concluded that the Bush administration has a double standard on terrorism: one when America is the target and another when India is the victim. Although disappointed, Indian authorities have continued to pursue stronger ties with the United States. Still, Pakistan will remain a highly sensitive issue in the U.S.-India bilateral equation as long as Islamabad and New Delhi continue to be hostile neighbors.

India’s handling of Iraq also reflects the desire for better relations. Although the U.S.-U.K. military action was widely unpopular in India and condemned by both houses of Parliament, the Vajpayee government muted official criticism and was careful not to align India with outspoken critics such as France, Germany, and Russia. Similarly, the government tried to avoid an outright rejection of the U.S. request for peacekeeping troops by finding a variety of diplomatic excuses not to agree—e.g., lack of an adequate UN mandate, absence of a domestic political consensus, and need for the troops in combating insurgencies within India.

INDIAN FOREIGN POLICY

Since the end of the Cold War, India’s foreign policy has substantially evolved. Long-standing support for nonalignment and intimate security ties with the Soviet Union have lost much of their relevance. In the altered global landscape, New Delhi has sought to

improve and broaden relations with as many major power centers as possible, especially, but not exclusively, with the United States. In the hopes of enlarging its room for maneuver, India has launched strategic dialogues and undertaken other initiatives with the European Union (EU) and the major nations of western Europe, with Southeast Asian countries, and with Iran and Israel. (The first-ever visit by an Israeli prime minister to India in September 2003 and major arms sales underscore how far India-Israel relations have progressed.)

Even though India greatly values improved relations with Washington, it remains uncomfortable with the idea of a single dominant superpower. New Delhi prefers a multipolar world in which India will, in time, become a pole. Even though Indians realize that substantially more economic growth is needed to achieve great power status, they would like a permanent seat on the UN Security Council but are not currently pressing the issue. If and when there is a comprehensive restructuring of the Security Council, the United States should be prepared to give serious consideration to India's membership.

New Delhi's primary foreign policy concern remains its neighbor Pakistan. India-Pakistan relations and their bitter dispute over Kashmir are discussed in a separate section of this report. Suffice it to say here that chronic tensions, in addition to triggering three wars and periodic crises, have diminished the political role that India can play on the global stage. Until India finds a way to work out a *modus vivendi* with Pakistan, it is likely to face continuing difficulties in achieving international status commensurate with its aspirations.

Relations with the other nations of South Asia—Bangladesh, Nepal, Sri Lanka, the Maldives, and Bhutan—are also of key importance to New Delhi policymakers. In dealing with these countries, India has swung between acting as the regional hegemon, putting pressure on smaller capitals when they refuse to follow its lead, and at times following a “good neighbor” policy. The latter approach—known as the “Gujral Doctrine” after the policy adopted by Foreign Minister and then Prime Minister Inder K. Gujral in the mid-1990s—enabled India and Bangladesh to resolve a dispute over

the Farakka Barrage that had damaged relations for several decades.⁴

After the disintegration of the Soviet Union led to the establishment of five independent Central Asian republics, India had high hopes for closer trade and political relations with the new states. While frustrated by tensions in Afghanistan and troubles with Pakistan, these hopes have been revived since the fall of the Taliban in November 2001. Their realization will depend on establishing viable overland transit links so that commerce in bulk can move freely between India and Central Asia. In turn, this will require a thaw in India-Pakistan economic relations and a stable Afghanistan.

New Delhi has established close and friendly ties with the post-Taliban Afghan regime. India had previously provided assistance to the Northern Alliance, and many current Afghan leaders, including President Hamid Karzai, have lived in India. In addition to providing a substantial assistance program, New Delhi has established consulates in several Afghan cities, a step that dismayed Islamabad. The United States and India share common goals in a stable Afghanistan and have cooperated toward this end. It is important that they continue to do so.

Relations between India and China—the world's most populous countries share a two-thousand-kilometer border in the Himalayas—have strategic significance well beyond South Asia. As India's defeat in the 1962 border war with China has slowly receded from memory, Beijing and New Delhi have gradually improved their bilateral relations. Trade has expanded substantially. There has been a series of high-level goodwill visits, the latest by Prime Minister Vajpayee this past summer. Even though India and China have yet to settle the frontier dispute that triggered the 1962 clash, they have gradually improved other facets of their relations. Indeed, the manner in which New Delhi and Beijing

⁴In the 1960s, India built a barrage across the Hooghly River to increase the flow of water in the winter dry season. This reduced water available for downstream users in East Pakistan (later to become Bangladesh). After years of futile discussion, a formula for sharing the limited dry-season flow was agreed upon once the political leadership gave the green light.

India

have handled their ties provides a model that India and Pakistan could usefully adopt in their bilateral dealings.

India has been deeply impressed by China's dynamism and the rapid development of the Chinese economy over the past two decades. At the same time, Indians are proud of democracy and the political freedoms that are absent in China. Strategically, New Delhi continues to regard its northern neighbor warily. Beijing's traditionally close security ties with Pakistan remain a matter of concern. Chinese assistance for Pakistan's nuclear weapons and missile programs has not been forgotten. In large part, India justified its own nuclear tests in 1998 as a response to the Chinese nuclear threat rather than the one from Pakistan. Clearly, how these two giant nations manage their relations will have a major impact on the future balance of power not only in the subcontinent but also throughout Asia and on the global scene.

INDIA'S ECONOMY

The Indian economy can be viewed as a glass "half full" or "half empty." Despite the hesitant pursuit of reform in recent years, India's gross domestic product (GDP) has grown at a respectable 6 percent annually over the past decade. Even though India's 2002 growth of 5.8 percent remains below the peak achieved in the mid-1990s—when the country's GDP increased by more than 7 percent for three years in a row—the Indian economy is moving ahead. Among the larger Asian economies, India's overall performance has been second only to China's. Still, India could advance significantly faster and achieve an 8–9 percent annual growth rate were the government more vigorous in introducing and implementing necessary policy and administrative reforms.

Indian authorities have repeatedly spoken of the need to rationalize bankrupt state electricity boards, to reduce nonproductive subsidies, to ease restrictive labor laws, to lower bars to mass production of low-technology manufactures (where China has excelled), to accelerate the privatization of money-losing public-sector enterprises, and to reduce the combined federal-state

fiscal deficit (now 11 percent of GDP). In the face of opposition from special interests, the bureaucracy, and anti-foreign- and pro-public-sector sentiment from the extreme ends of the political spectrum, action on economic reforms by the ruling National Democratic Alliance (NDA) coalition, which is led by the Hindu-nationalist Bharatiya Janata Party (BJP), has fallen short of rhetoric. The budgets for fiscal years (FYs) 2002 and 2003 took some modest steps to advance the reform agenda but represented less than a full-fledged commitment. A recent disappointment was the decision to defer introducing a national value-added sales tax in the face of opposition from the trading community.

Information technology (IT) has been the bright star of the Indian economy. Even though the global computer industry remains depressed, Indian IT continues to grow at a brisk pace and now accounts for more than 3 percent of India's GDP and 16 percent of its exports. Industry turnover passed the \$15 billion level in 2002, including \$7.5 billion in exports. More than two-thirds of foreign sales were to the United States. Earnings abroad come mainly from software programming for the U.S. market, but computer-related services—call offices and help lines, medical transcriptions, and back-office operations for financial institutions, airlines, and other large enterprises—have been booming of late. Indeed, *The Economist* has predicted that this sector will develop into a \$17 billion industry and employ more than 1 million people by 2010.

A number of factors explain this success. First, thanks to India's first prime minister, Jawaharlal Nehru, and his emphasis on science and technology education, India has a large pool of well-trained, English-speaking computer engineers and specialists. Second, because of its relatively low wage rates, India has comparative advantage over the United States and other industrial countries in providing qualified computer engineers. Third, satellite communications directly link Indian and U.S. companies, bypassing India's poor telecommunications system. Fourth, the IT sector had the good luck to mature in the postreform environment and has been able to operate largely free of government regulation and control. Finally, the presence in the United States of so many Indian-American computer specialists has aided the outsourcing of soft-

India

ware programming and research activities to India. Today, Microsoft, Intel, IBM, Sun Microsystems, Adobe, Oracle, Texas Instruments, and other major U.S. computer firms have significant and growing operations in India. In what is becoming an annual affair, Bill Gates paid his third visit to India in November 2002. During the trip, Gates announced a further \$400 million investment by Microsoft in India.

U.S.-INDIA ECONOMIC RELATIONS

After the decline of U.S. development aid in the 1970s, America's economic engagement with India was relatively limited during the next two decades. In 1990, the year before India launched its reforms, U.S. private-sector investment in India was a minuscule \$19 million. The removal of many—but far from all—administrative restrictions on foreign investment spurred a major increase. Investment by U.S. companies rose to \$500 million a year by the mid-1990s but has since declined. Globally, India currently receives about \$3.5 billion a year in foreign direct investment (FDI). The United States remains the largest source as well as the major provider of funds flowing through the financial markets, accounting for \$7 billion of India's total \$13 billion of portfolio investment. Although of late portfolio investment has substantially increased, India attracts comparatively less FDI than many other Asian emerging markets and less than half of the government's target of \$10 billion a year. The ponderous hand of bureaucracy, residual policy restrictions, the slow decision-making process, high import duties, restrictive labor laws, and weak infrastructure explain why. Even though India continues to have a reputation as a difficult place to conduct business, many Fortune 500 companies have profitable activities there. With 19,000 employees, including 15,000 in "back office" operations, General Electric (GE) has the largest Indian stake of any U.S. concern and in 2002 earned more than \$1 billion from India.

Although investment from abroad remains well below Indian expectations, foreign trade has grown steadily. Exports and imports

rose from 13.3 percent of GDP in 1990–91 to 21.8 percent a decade later. Bilateral trade with the United States has also increased, with Indian exports to the United States growing far more rapidly than U.S. sales to India. The United States is the largest destination for Indian exports, accounting for about 20 percent. In 2002, Americans bought \$11.8 billion worth of goods and \$5.8 billion of IT services from India, for a total of \$17.5 billion, a striking 20 percent increase over 2001 levels.

According to a recent McKinsey & Co. study, India's computer-related sales to the United States could reach \$30 billion annually by 2008. If this bullish forecast proves accurate, bilateral trade in goods and services would more than double. There is also optimism about the prospect for substantial growth and earnings from biotechnology. This is an industry in which India possesses many of the same advantages that it has in IT. One area, however, where the numbers have been less impressive has been U.S. exports to India. Since 1995, these have not increased substantially even though, in 2002, sales of merchandise (\$4.1 billion) and services (\$3.1 billion) to India rose 9 percent over 2001 levels.

In the early 1990s, India's restrictive trade policies, especially its unwillingness to protect intellectual property, led the United States to threaten retaliation under Section 301 of the Trade Agreements Act. Since then, India has gradually opened its markets to the world in keeping with its obligations as a World Trade Organization (WTO) member. Quantitative restrictions on imports have been lifted. India will implement patent reforms in 2005 and has pledged further reduction of import duties—which, nonetheless, remain among the highest in the world despite the fact that the 5 percent cut announced in the 2003 budget brought the peak tariff average down to 25 percent.⁵

It is important for India's credibility as a trading partner that it proceed in a deliberate and steady fashion to continue lowering tariffs and fulfilling its WTO obligations. It is in India's own interest, if only for the sake of its consumers, export industries, and

⁵The dilemma that Indian budgeters face is that customs duties remain a major source of government revenues.

economic growth, to open the door wider to imports. Indian trade barriers remain a formidable hurdle for U.S. and other foreign exporters. In the years when New Delhi faced chronic foreign-exchange shortages, controls could be justified. But in September 2003, with more than \$80 billion in reserves (a record), there is little justification for India's not adopting a substantially more liberal attitude toward imports.

Before India embarked on economic liberalization in 1991, it used international economic forums as a platform to articulate Third World concerns. During these years, India routinely excoriated economic policies of the United States and other industrialized countries. Over the past decade, New Delhi's international economic discourse, like its political-security counterpart, has been evolving. Despite the fact that the United States and India continue to have major differences on trade issues, as evidenced in the unsuccessful September 2003 WTO negotiations at Cancun, Mexico, they share somewhat more common ground than was the case in the past.

In statistical terms, India still cuts a very modest international economic figure (less than 1 percent of world trade), but it provides a good deal of intellectual horsepower for the developing world in economic and trade forums. The United States and other major trading countries have found it in their interest not to ignore India. The Bush administration has made a considerable effort to expand the official economic dialogue; indeed, Ambassador Robert Zoellick, the U.S. Trade Representative, was the first cabinet member to visit India after President Bush took office in January 2001, and this year Zoellick appointed an assistant trade representative to concentrate on South Asia. Numerous top-level Treasury, State, and Commerce Department officials have traveled to New Delhi for substantive discussions. India's finance, foreign and commerce ministers have made parallel visits to Washington for talks with their U.S. counterparts. To ensure continuing high-level dialogue on economic issues, the Task Force recommends that the two governments consider re-instituting a bilateral economic forum to permit more regular exchanges on investment climate, economic policy reform, and trade.

Looking ahead, despite sharp differences at Cancun, the United States and India share common ground in areas such as services, lowering industrial tariffs, and reducing restrictions on agricultural trade. In dealing with these and related policy issues, it is in the U.S. interest to show continuing sensitivity to India's concerns as a developing country and in India's interest to avoid taking positions that echo pre-reform ideology. In recent years, the United States has negotiated free-trade agreements on goods with a number of countries. In the case of India, however, a standard free-trade agreement does not seem practical. New Delhi would face serious domestic political problems because its far higher tariff levels would mean that India would have to make substantially greater concessions. For its part, the United States would encounter strong domestic opposition from industries (e.g., textiles) that would feel threatened by a possible surge in imports under a free-trade agreement with India.

A more promising initiative would be for Washington and New Delhi to negotiate a trade agreement focused on services. The United States and India both have major strengths and interests in the service sector and would stand to benefit from an agreement to reduce existing barriers and to prevent new ones. Such an accord would remove restrictions on the provision of financial, legal, information technology, accounting, and related services and would promote the freer movement of specialist personnel between the two countries. Serious administrative hurdles that American lawyers, accountants, and financial institutions, for example, encounter in conducting business in India would be addressed. Such an accord would also allay Indian concerns about the growing threat of restrictions on offshore contracting for computer-related services. As more "back office" jobs shift abroad from the United States, New Delhi fears political pressures will increase for "Buy America" restrictions like the ones considered recently in New Jersey.

Negotiating a bilateral services agreement would represent a major challenge because of the complexity of the issues involved. There is also no precedent for an agreement limited to services. A successful negotiation would, however, significantly advance U.S.-India relations in an area with great growth potential for both countries.

Apart from mutual economic benefits, a U.S.-India services accord would have global significance because it would provide a model for similar agreements with other countries.

In contrast to political-security issues, on which there has been a plethora of official talks and nongovernmental interaction sponsored by think tanks and private foundations, there has been only limited nonofficial dialogue on trade and economic questions. Recent policy talks sponsored by the Confederation of Indian Industries, the U.S.-India Business Council, and the Carnegie Endowment for International Peace were an important path breaker. The Federation of Indian Chambers of Commerce and Industry (FICCI) has also become more active in this field. An expanded nonofficial trade and economic dialogue would fill a need, permitting relevant nongovernmental forums to discuss controversial issues and to consider possible policy initiatives. In addition to educating the business communities of the two countries, such sessions could provide helpful inputs to the policymaking process of the two governments.

India and the United States have come a long way since the early 1990s, when Washington threatened to impose sanctions in retaliation against New Delhi's restrictive trade policies. The policy challenge over the medium term is to see that economic relations continue to expand. Ultimately, this will depend on the rate of India's economic growth and its openness to outside participation in the economy, on a more positive perception of India by the U.S. business community, and on the willingness of the two governments to find pragmatic solutions to trade and economic problems. Enhanced commercial ties would have great mutual benefit, especially for the smaller Indian economy. They would also provide valuable ballast to steady the overall relationship in the face of inevitable political differences.

EXPANDED SECURITY RELATIONS

After decades of limited contact, there has been a surge of high-level visits and cooperative activities between the U.S. and Indi-

an military services during the past two years. U.S. forces and their Indian counterparts have parachuted to the ground near the Taj Mahal, held cold-weather exercises in Alaska and Ladakh, conducted jungle-warfare training in Assam, patrolled the Malacca Strait, and held joint air force exercises. Even though these activities have been small in scale, they have considerable political significance. None would have been thinkable during the Cold War. In short, U.S.-India military-to-military cooperation is evolving along lines that the Pentagon has established with many nonallied but “friendly” countries. The policy challenge is to continue this enhanced cooperation and, where possible, to enlarge its parameters. One promising area would be to expand joint naval activities in the Indian Ocean, where India and the United States share an important common interest in ensuring that sea lanes remain open and secure.

India and the United States have also begun a new military sales relationship. This became possible when the executive branch and Congress lifted sanctions imposed after India’s 1998 nuclear tests and eased many (but not all) administrative restrictions on exports of dual-use technology. Planned before September 11 but implemented after the terrorist attacks, these actions cleared the way for the sale of defense equipment to India for the first time in many years. Among other items, New Delhi has purchased \$200 million worth of sophisticated counter-battery radars and a substantial number of GE engines for India’s Light Combat Aircraft project. Talks are under way about the possible sale of P-3 maritime surveillance aircraft. Washington has also approved Israel’s selling India Phalcon airborne radars as part of a proposed Indian airborne warning and control system (AWACS).⁶

U.S. willingness to provide India with defense equipment marks a substantial policy shift. While welcoming the more positive American stance, New Delhi has nagging doubts about

⁶In the mid-1980s, Washington approved the sale of GE engines, but then blocked delivery in the 1990s when export controls were tightened following the discovery of Iraq’s clandestine nuclear program after the Persian Gulf War. Approval of the Phalcon sale was given in principle in 2001, but the formal green light came only in May 2003 after the reduction in India-Pakistan tensions. The United States had earlier vetoed the sale of a similar Israeli system to China.

whether the United States will prove to be a “reliable supplier” over the long term. Because of past problems, Indians remain concerned that Washington at some future point might again impose sanctions to interrupt the transfer of equipment. A sustained period of cooperative security relations will be needed to ease these concerns. For its part, the United States should make clear its willingness to provide India the same range of military equipment and supplies that it would transfer to other “friendly” countries. It should ease current administrative restrictions to ensure that this goal is realized. U.S. export-control and licensing procedures for military equipment and for dual-use items—those with both civilian and military applications (and the first element of India’s high-technology trinity)—should become more expeditious and less opaque. Following a statement of principles on high technology signed in February 2003, specialists are exploring ways to facilitate exports of dual-use items in part by reducing policy restraints and in part by ensuring fuller understanding about U.S. procedures by both exporters and importers. There will, per force, continue to be constraints on U.S. defense sales to India for national security reasons, as is the case with virtually all other countries. In keeping with the new relationship, however, India should be considered a “friendly” country; this would represent a tangible shift from past practice, when the review of export-license requests to India usually began with the assumption either of denial or of non-action.

Another security-related U.S. policy, and the second element of the “trinity” that calls for a fresh look, is the restraint on all space cooperation. India’s public-sector Indian Space and Research Organization (ISRO) develops and produces rockets used as launch vehicles for military purposes, including those for delivery of nuclear weapons, but also makes rockets that launch civilian satellites. Although India understands that the guidelines of the Missile Technology Control Regime (MTCR) exclude U.S. cooperation with its missile program, it hopes that Washington will open the door to other facets of civilian space cooperation. Specifically, ISRO would like authorization to work with Americans in areas such as telecommunication and scientific satellites. New Delhi

is also seeking U.S. approval to launch for third countries purely civilian satellites that contain U.S.-licensed components. Obligations under the MTCR bar exports that would assist in missile development (it is impossible to distinguish between military and civilian rocket technology), but extending the ban, as Washington has done until now, to include the civilian satellite sector seems unjustified on the merits. In keeping with the new relationship that the United States and India are trying to build, Washington should lift these restrictions. For its part, India should be prepared to adopt and implement tighter controls over missile technology, a step that the Americans regard as important in any bilateral accord permitting renewed cooperation with ISRO.

A much more troublesome policy decision relates to providing missile defense systems to India, specifically whether the United States should permit Israel to discuss and possibly sell the Arrow antimissile system, jointly developed with the United States, or to allow similar technical discussions regarding the U.S. Patriot system. The Task Force did not reach a firm view on this issue. Some members favored a U.S. green light for technical discussions. They see this action as consistent with the new cooperative security relationship and also with the logic of the Bush administration's policy to promote missile defense. Other Task Force members oppose giving approval. Believing that the India-Pakistan strategic dynamic is already dangerously unstable, they are concerned that providing India with missile defenses designed to nullify Pakistan's weapons capability will only result in an intensified drive by Islamabad to find offensive "work arounds." They feel that the transaction could dangerously aggravate regional instability, increase the risk for nuclear escalation in the event of India-Pakistan military conflict, and upset global nonproliferation norms.

THE NUCLEAR ISSUE

Nuclear nonproliferation—a decade ago the key problem in bilateral relations—has moved off center stage. Although the 1998–99 Talbott-Singh talks failed to obtain agreement on India's

freezing production of fissile material, signing the Comprehensive Test Ban Treaty (CTBT), or adopting other nuclear restraints, the Bush administration has not pressed on this front except to urge stricter Indian controls over exports of materials and technology that could be used for WMD. New Delhi agrees in principle, and talks are under way about ways to tighten India's export controls. On the CTBT, the two countries appear to be on the same page given the Bush administration's opposition to the treaty. Both continue to maintain respective moratoria on testing, but U.S. decisions on developing new types of nuclear weapons (e.g., bunker busters) could have an impact on Indian thinking.

Soon after assuming office, the Bush administration upended traditional nonproliferation policy by abrogating the anti-ballistic missile treaty in order to develop a missile defense system. To Washington's surprise, New Delhi did not respond negatively when the president publicly unveiled the controversial concept in May 2001. Since then, there have been periodic bilateral discussions on missile defense. In operational terms, however, the immediate issue that the Bush administration faces is Indian interest in technical discussions about the joint U.S.-Israeli Arrow missile-defense system or about the U.S. Patriot system.

Regarding India's own nuclear weapons, New Delhi seems set on following the recommendations of its Nuclear Security Advisory Board to develop "a minimum credible deterrent" force to meet the nuclear threat perceived from China and from Pakistan. India has not yet specified how large a force constitutes a minimum deterrent and is unlikely to do so. (Current estimates suggest that India has between fifty and one hundred nuclear devices.) In terms of nuclear doctrine, unlike Islamabad, New Delhi has declared that it will not be the first to use nuclear weapons but will employ them only in response to a nuclear attack.

Barring some sort of South Asian arms agreement, India and Pakistan are almost certain to continue expanding their nuclear weapon capabilities in response to what each perceives the other is doing (and, in the case of India, also what China is doing). This is similarly true with regard to missile-delivery systems. Thus, especially in the absence of India-Pakistan nuclear discussions and

confidence-building measures (CBMs), the threat of any major conflict's going nuclear remains real. At present, India can deliver its nuclear weapons against targets in Pakistan via French Mirage and Soviet SU-30 fighter-bombers or indigenous Agni medium-range missiles. India is working on a longer-range missile, the Agni plus, capable of striking major urban centers in eastern China. India also hopes to develop a submarine-based delivery system in order to have the third leg of a nuclear triad. Based on past experience, if India persists in the exercise, it will eventually succeed in developing a submarine-based launch capability. Funding constraints and technical difficulties, however, will surely make the process a long and drawn-out affair.

FINDING A PLACE FOR INDIA IN THE INTERNATIONAL NUCLEAR SYSTEM

To date, the Bush administration has not tackled the thorny problem of trying to find a place for India and Pakistan in the international nuclear system. This is admittedly a difficult and complex task. The basic bargain of the nuclear Nonproliferation Treaty (NPT) was that states willing to forego the development of nuclear weapons would be eligible to receive peaceful nuclear cooperation, commerce, and technology, and that nations refusing to give up the weapons option would be ineligible for nuclear assistance and trade. The NPT does not allow for recognition of "new" nuclear weapons states, and the Nuclear Nonproliferation Act of 1978 (NNPA) precludes U.S. nuclear cooperation or commerce with countries, like India, that have not accepted International Atomic Energy Agency (IAEA) safeguards on all their nuclear facilities (so-called full-scope safeguards).⁷

Nearly four decades after the signing of the NPT, one can argue that the global nuclear circumstances have greatly changed. The NPT system has become virtually universal; only India, Pak-

⁷This requirement of the 1978 NNPA was later accepted by the multilateral Nuclear Suppliers Group as a precondition for a country's eligibility for nuclear commerce.

India

istan, Israel, and, since it withdrew from the treaty earlier in 2003, North Korea are nonparties to the treaty. Because both India and Pakistan exploded nuclear devices after the January 1, 1968, cutoff date, they are in any case no longer eligible to join the treaty (even in the unlikely event that they chose to do so) unless they destroy their weapons (as South Africa did). It is unrealistic, however, to believe that either India or Pakistan will give up this capability or that any conceivable external pressure will be sufficient to convince them to alter their positions. In the absence of some new nuclear understanding, the two countries are likely to continue to enlarge their stocks of fissile material and to expand their nuclear arsenals and delivery capabilities. This will increase the already dangerous proliferation risks in South Asia as well as the chances for leakage from the region of sensitive nuclear technology and material. It is important that India (and Pakistan) demonstrate responsible stewardship of its nuclear capabilities; in particular, New Delhi should adopt and implement strengthened export controls. As discussed later in this report, it is also essential that India and Pakistan have a nuclear dialogue that results in concrete CBMs to reduce the risk of a nuclear exchange triggered through misperceptions and misunderstandings.

For its part, the U.S. government needs to think much more searchingly about possible ways to fit India (and Pakistan) into the global nonproliferation system. This presents a tough policy challenge, but that is no reason for not trying to explore options and devise steps to avoid the dangers that a likely nuclear arms race between India and Pakistan will pose for regional and global stability. Although any proposal on this issue will be difficult to implement given the restraints posed by current nonproliferation ground rules, the U.S. government and others should be trying harder to come up with constructive ideas.

SHARED DEMOCRATIC VALUES

India has succeeded where most developing countries have failed: in establishing and maintaining an open political system. Like that

of the United States, India's democracy is based on constitutional norms, representative government, free speech, and free elections. Although pursuit of national interests remains the principal foreign and security policy driver, shared political values matter and have become an increasingly important, if intangible, component of the U.S.-India relationship. In recent years, the two countries have begun to cooperate in promoting democracy elsewhere. There is much for other nations to learn from America's and India's democratic experiences—similar in the fundamentals, but radically different in the societal and historical settings.

Domestically, major changes in the Indian political landscape during the past decade have seen the replacement of the Indian National Congress, the party that ruled the country for forty-five years, as the leading political force by the Hindu-nationalist BJP. Regional parties limited to a single state now also play a much larger role than they did previously. As neither of the major parties seems likely to win a national majority, coalition governments will probably continue in New Delhi. Apart from a promise of less corrupt and more effective governance than was the norm under the Congress Party, the BJP's principal and emotionally charged electoral plank has been its desire to promote *Hindutva*, or Hindu values, as the country's political and social leitmotif. The BJP wants to substitute *Hindutva* for the "secular values" stressed by India's founders, especially Jawaharlal Nehru, who emphasized the importance of respect and tolerance for all religions and communities in India's pluralistic society.

How the campaign for *Hindutva* plays out in upcoming state and national elections and in the years beyond will have a vital impact on India's social peace and communal equilibrium—already badly shaken by the violence against Muslims in Gujarat last year. If extremists in the BJP prevail, strident Hindu chauvinism could well undermine India's cultural and political pluralism and severely impair the human rights of its 150 million Muslims, 20 million Christians, and other, smaller, minorities. Recurrence of large-scale communal violence, such as that which followed the destruction of a mosque in Ayodhya in northern India in 1992 and savaged the state of Gujarat in 2002, could tear apart the country's fragile social fabric. Over

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the years, India has demonstrated enormous resiliency in containing social unrest and integrating diverse religious, ethnic, and social groups; this has been one of the greatest strengths of India's democracy. The Task Force is hopeful that Prime Minister Vajpayee and other moderates will prevail over BJP extremists. If they fail, the consequences will be grave for India, its democracy, its relations with the United States, and its standing in the world.

GROWING PEOPLE-TO-PEOPLE TIES

U.S.-India people-to-people ties have expanded tremendously in recent years. When the United States liberalized immigration laws in 1965, there were only 25,000 Indian Americans. The 2000 census counted some 1.7 million. In 2003, the total is about 2 million. Indians are by far the largest recipients of work visas: in 2002 they accounted for 43 percent of all H1-B visas issued. In academic year 2001-2002, 66,836 Indian students attended U.S. colleges and universities and India moved past China as the largest source of foreign students. The Indian-American community is extremely well educated. Eighty-seven percent have finished high school and 58 percent of those over the age of twenty-five have at least a bachelor's degree. They have been extraordinarily successful economically. In medicine, in the business world, and especially in computers and information technology, Indian Americans have excelled. Their median family income of \$60,093 is the highest of any ethnic group and well above the U.S. national median of \$38,885.

In many ways, Indian Americans have become an increasingly sturdy and significant bridge between the two countries, greatly enlarging U.S. understanding of India and Indian understanding of the United States. The community's success in the computer, medical, and scientific areas has also markedly improved the Indian image in this country. The image has received a further boost from the contribution of Indian authors to contemporary English literature. At the time of Indian independence in 1947, few Americans would have been able to name a single Indian author. With the exception of Nobel Prize winner Rabindranath Tagore and author

R. K. Narayan, virtually no Indian had works generally available in U.S. bookstores. Today, a host of writers from India and the diaspora (V. S. Naipaul, Anita Desai, Jhumpa Lahiri, Arundhati Roy, Amitav Ghosh, Rohinton Mistry, Salman Rushdie, Vikram Seth, and Shashi Tharoor are among the better known) have gained best-seller status and many prizes for their literary achievements.

Another area where India looms much larger in the United States is on Capitol Hill. Familiar with the give-and-take of democratic politics, Indian Americans have become active participants in U.S. political life and significant financial contributors to election campaigns. Ten years ago, Representative Frank Pallone (D-NJ) took the initiative to organize a bipartisan India caucus in the House of Representatives. Reflecting the growing significance of the community, membership in the caucus has risen rapidly and, in 2003, numbers some 163—more than a third of the House of Representatives. In 2002, India's Parliament organized a parallel group, now some 80 strong, that is called the Indo-U.S. Parliamentary Forum. Delegations from the forum have twice visited Washington to meet with their counterparts, most recently in June 2003, and many India caucus members have traveled to India. In addition to having a positive influence on bilateral relations, the two parliamentary groups provide an important vehicle for Indian and U.S. politicians to gain greater understanding about each other's political process.

American academic programs on India flourished in the 1950s and 1960s, but then fell off sharply during the next three decades. In part, this reflected the view that India had become relatively marginal for U.S. political and economic interests. Policy restrictions imposed by India on foreign scholars also reduced interest, and India programs and courses decreased in number and scope. In the past few years, the study of India has enjoyed a considerable revival. The desire of young Indian Americans to learn more about their heritage has been one reason. Another has been the perception that India was being neglected and warranted greater academic attention. Thus, in the past two years, George Washington University's Elliott School of International Affairs and the Johns Hopkins University's Nitze School of Advanced Interna-

India

tional Studies have both enhanced their South Asia programs, and the University of Pennsylvania has successfully completed a major fund-raising program to expand its Center for the Advanced Study of India. Indian Americans were major contributors to these efforts and to others programs being bolstered on campuses around the country.

Think tanks and research centers in Washington and elsewhere have also been showing substantially greater interest in South Asia. In the 1990s, few had regional specialists and their focus was almost entirely on nuclear nonproliferation and the threat of India-Pakistan conflict. Today, more than half a dozen of the leading centers have programs on India and South Asia that consider a broad range of political and economic as well as strategic issues.⁸ Hardly a week goes by without several South Asia programs on the Washington think-tank or public-interest circuit. Here too, Indian Americans have become an important source of financial backing.

Despite the overall warming in relations, however, India's approach to academic exchanges still leaves much to be desired. Although there has been improvement, the government of India continues to pose difficulties for those interested in pursuing academic exchanges and research. Restrictive policies and the slow-moving and cumbersome administrative approval process make India a more difficult place for scholars to work than almost any other democratic country. The result often puts off the very people who want to learn more about India and over time would bring increased understanding of India to the higher reaches of U.S. government, business, and academe. As part of the mutual effort to broaden and deepen relations, it is in India's interest to make American (and other foreign) academics and researchers more welcome by a vigorous attack on policy barriers and bureaucratic red tape.

⁸In the Washington, D.C., area, the Woodrow Wilson International Center for Scholars, the American Enterprise Institute, the Brookings Institution, the Center for Strategic and International Studies, the Council on Foreign Relations, the Carnegie Endowment for International Peace, the Rand Corporation, the U.S. Institute of Peace, and the Henry L. Stimson Center all currently have South Asia specialists and programs.

In the days of large bilateral U.S. aid programs during the 1950s and 1960s, many social and economic development activities received generous funding. As official aid tapered off to its current modest levels, the Ford Foundation became the major U.S. sponsor of these programs in India. Other U.S. foundations could do much more, especially in social-sector and health areas. Recently, the Bill and Melinda Gates Foundation became a major player in the field with its 2002 grant of \$100 million to combat India's increasingly serious HIV/AIDS problem. Other U.S. foundations could well consider following the example set by the Ford and Gates Foundations.

Exploring ways to use modern technology to bridge the economic and social barriers that keep so many Indians in poverty should be an exciting area for corporate cooperation and foundation efforts. In the 1960s, research funded by the Rockefeller Foundation paved the way for the "green revolution" that has enabled India to increase dramatically its food-grain production. In recent years, wealthy Indian Americans have begun to provide financial support for health, social, and antipoverty programs in their country of origin. As the community prospers in the United States, its help for cooperative programs should provide an important bilateral link. Here too, with regard to private cooperative activities, the Indian government should be making a greater effort to reduce policy and administrative roadblocks.

CONCLUSIONS AND RECOMMENDATIONS

India, it is sometimes said, is like a giant ocean liner that steams ahead at a slow but steady and generally predictable pace and changes direction only very gradually. It is easier to project the probable path that India will follow over the medium term than it is for Afghanistan or Pakistan. India will remain democratic. Its economy will make steady if uneven progress. Externally, the main focus will continue to be on Pakistan and the South Asian region, but India will gradually advance toward great power status. Regardless of whether the BJP or Congress holds power in New Delhi,

India is likely to find its national interest served by better relations with the United States. Even though bilateral differences will continue, the forces in favor of a stronger and more cooperative U.S.-India relationship have achieved a critical mass.

Looking ahead to 2010, there are, nonetheless, imponderables that will influence how far the U.S.-India relationship will progress.

The Pace of Economic Growth. How rapidly India grows economically will have an obvious and major impact on the breadth and depth of bilateral economic ties, as will India's willingness to open its economy to investment from abroad. The pace of economic growth will determine when India will have the economic base to sustain great power status and, if New Delhi wishes, to cast a shadow beyond South Asia.

Relations with Pakistan. Another major imponderable relates to the future course of India-Pakistan relations. Although the short-term outlook for a Kashmir settlement is not at all promising, more normal relations are possible and would clearly facilitate bilateral ties and U.S. interests in regional stability. Conversely, a war, especially one that involved the use of nuclear weapons, would have disastrous consequences for both India and Pakistan.

Maintaining Domestic Social Peace. India's ability to maintain domestic peace remains in question. Were Hindu extremists to upset further the delicate social and communal equilibrium, India's international image and human rights standing would be badly tarnished, its attractiveness as a place for private investment reduced, and relations with the United States negatively affected.

In moving ahead to solidify the "transformed" relationship over the medium term, the Task Force recommends that the United States and India:

- deepen official cooperation and dialogue in the foreign policy, security, intelligence, and law enforcement realms;
- seek to broaden military-to-military cooperation;
- negotiate a bilateral trade agreement on services;
- intensify official economic dialogue to spur increased bilateral trade and broader commercial links and to reduce differences on international economic issues; and

New Priorities in South Asia

- expand nonofficial discussions on economic issues between the U.S. and Indian private sectors and think tanks.

The Task Force recommends that the United States:

- treat India as a “friendly country” in granting export licenses for transfers of defense equipment and dual-use items;
- ease restrictions on cooperation in civilian space satellite programs;
- conduct a comprehensive study of possible ways of fitting India (and Pakistan) into the global nonproliferation system;
- encourage foundations, businesses, and educational and scientific institutions to make a greater effort to carry on cooperative programs in India; and
- encourage the private sector to take a fresh look at India as a place for direct investment.

The Task Force recommends that India:

- make a more vigorous effort to reduce policy barriers and to simplify and speed up bureaucratic procedures that impede foreign investment and trade;
- accelerate implementation of domestic economic reforms to promote more rapid growth;
- liberalize policies and simplify administrative procedures for cooperative educational activities and research and for programs in scientific, social welfare, and health cooperation; and
- adopt more effective controls over sensitive WMD technology and materials.

The turnaround in U.S.-India relations has been remarkable when viewed against the background of the previous half-century of estrangement. If New Delhi and Washington continue to broaden and deepen official and nonofficial ties, the prospects are good that by 2010, the world’s two largest democracies will succeed in consolidating a genuine partnership. The policy challenge through 2010 for both countries is to maintain the positive momentum of recent years.

PAKISTAN

Pakistan represents one of the toughest and most complex policy challenges that the United States faces anywhere in the world. The record of bilateral relations of the past fifty years has been checked and volatile and the United States has been unable on a sustained basis to accomplish its key objective: a stable Pakistan at peace with itself and its neighbors. The challenge for U.S. policy over the medium term is to develop and maintain a positive relationship that helps Pakistan become “a modern, progressive, and dynamic” nation, as President Pervez Musharraf put it in January 2002. The United States must have clear objectives and policies, be willing to use its influence, and devote substantial assistance resources in improving the prospects for Pakistan’s success. Its national failure would have enormous costs for the entire region and the Muslim world at large and put at risk vital U.S. stakes in a stable and peaceful Afghanistan, in the developing partnership with India, and in winning the war on terrorism. The United States needs to take a fresh look at its approach to Pakistan.

This almost entirely Muslim country of 145 million people—a population the size of Russia’s—has been plagued by chronic political instability, lack of a clear sense of national identity, sub-par economic performance, and deteriorating institutions. Even though the economy has recently improved, severe educational, health, and unemployment challenges remain. Enmity with neighboring (and seven times more populous) India dominates national security policy and has spurred extremely high spending on conventional military forces and the development of nuclear weapons. Pakistan’s support for a violent insurgency in the disputed territory of Kashmir has brought the foes to the edge of a war that could involve nuclear weapons, notwithstanding the stated policies of the two countries. Domestically, radical Islamist political parties have gained substantial ground, especially in the strategic Northwest

Frontier Province (NWFP) and Baluchistan, both of which share a border with Afghanistan.

Since President Musharraf joined the war on terrorism after September 11, 2001, official U.S.-Pakistan relations have dramatically improved. As in the 1980s, geography has made Pakistan a critical staging area for the pursuit of America's foes in Afghanistan. Washington has a vital interest in ensuring Islamabad's cooperation in rooting out terrorist remnants that have fled to Pakistan. Yet, as in the past, U.S. and Pakistani interests and policies only partially coincide and in some important respects conflict.

In the war on terrorism, Pakistan provides valuable help against al-Qaeda but has been less aggressive in pursuing Taliban supporters. It has also continued to back "*jihadi*"⁹ groups, labeled terrorists by the United States and freedom fighters by Pakistan, that are active in India-administered Kashmir. (In practice, there is substantial overlap among al-Qaeda, the Taliban, and Kashmir-focused "*jihadi*" groups.)

While Washington has been striving for more cooperative relations with New Delhi, Pakistan continues to regard India as the major and active threat to its national security.

For the United States, preventing the further spread of nuclear weapons has the highest priority, yet Pakistan's record of nuclear and ballistic-missile transactions with North Korea suggests a willingness to become involved in the most dangerous kinds of nuclear proliferation.

Encouraging Pakistan to advance toward becoming "a modern, progressive, and dynamic state" should be the principal aim of U.S. policy over the medium term. The task will not be easy. Pakistan's unstable polity, weak human and institutional infrastructure, and increasing support for Islamist extremism, and the depth and intensity of anti-U.S. sentiments pose formidable obstacles. Moreover, the sincerity of the Pakistan army, the ultimate arbiter of power, in carrying through fundamental reform remains uncertain.

⁹Terms such as *jihadi* (holy warriors) are placed in quotation marks in acknowledgment that the designation is self-appropriated by the militants.

The Task Force believes that there is still a chance for Pakistan to successfully pursue a modernist agenda and that the United States should back this effort. The extent of U.S. support, however, should depend on Pakistan's own performance. In the 1960s, 1970s, and 1990s, the U.S. policy of imposing sanctions and aid cut-offs failed to move Pakistan in the direction Washington wanted. Since September 11, 2001, the Bush administration's approach has been essentially to reward Pakistan for its help against al-Qaeda. The Task Force recommends a more nuanced U.S. policy—one that offers Pakistan positive incentives above a baseline program if Islamabad shows that it is genuinely willing to implement reforms, be a full-fledged partner in the war on terrorism, and respect nonproliferation ground rules.

To implement this strategy, the United States should take the following actions:

Economic Assistance

- Congress should approve the proposed five-year \$3 billion assistance package, but this should be revised so that two-thirds (\$400 million annually) goes for economic help and one-third (\$200 million annually) for security assistance, instead of the fifty-fifty division proposed by the executive branch.
- A baseline program should be fixed at \$1.5 billion for the five years, or \$200 million of economic assistance and \$100 million in security assistance annually. Appropriations above this level should be linked to Pakistan's actions in implementing the political, economic, and social reform agenda and its cooperation in the war on terrorism, as well as its fulfilling of nonproliferation responsibilities.
- Education should be made the principal focus of U.S. aid, with priority also for projects in ethnically Pashtun areas and projects that promote civil society and democracy.
- Congress should appropriate funds to buy back Pakistan's remaining official debt to the United States.
- Restrictions on Pakistani textile imports should be eased before the multifiber agreement comes into effect in 2005.

Support for Democracy

- The United States should be urging, in public and private, an enhanced civilian and a reduced army role in government.
- It should stress opposition to the continued involvement in domestic politics of the Inter-Services Intelligence Directorate (ISI).
- It should be providing increased economic and technical assistance to strengthen civil society and to help improve the institutions on which stable representative government rests: parliament, the political parties, the courts, the police, and revenue collection.

Promoting Regional Stability

- Musharraf should be pressed to prevent the use of Pakistani territory by “*jihad*” elements in support of the insurgency in India-administered Kashmir and by pro-Taliban elements to attack Afghanistan.
- Washington should help India-Pakistan efforts to reduce tensions on a sustained basis (discussed later in this report).

Advancing Nonproliferation Goals

- Islamabad should be strongly urged to start talks with India on nuclear matters not linked to progress on Kashmir.
- Pakistan should be pressed to implement effective controls against the export of sensitive nuclear technology and material.
- The executive branch should search for ways to provide a constructive place for Pakistan (as well as India) in the global nuclear nonproliferation system.

VOLATILE U.S.-PAKISTAN RELATIONS

Despite the flowery rhetoric during Musharraf’s June 2003 state visit to Washington, interaction between the United States and Pakistan is handicapped by a half-century of relations that have been like a roller-coaster ride. Driven by a Cold War search for alliances, the United States made Pakistan a military ally against

communism in 1954. Later, Islamabad served as the bridge for President Richard Nixon's dramatic opening to China in 1971 and was the key partner in the struggle against the Soviet occupation of Afghanistan in the 1980s. Today, the Bush administration talks of Pakistan as an "indispensable ally" in the war against terrorism.

Yet, during the 1960s, Pakistan's burgeoning friendship with then-enemy China angered Washington. In the late 1970s and again in the 1990s, Pakistan's search for nuclear weapons triggered the suspension of American military and economic help. As the new century began, Islamabad's support for the Taliban and for the insurgency in Kashmir, its nuclear weapons tests, and the army's ouster of the elected civilian government further strained ties. The extraordinary volatility of past relations, especially the U.S. refusal to back then-ally Pakistan during its 1965 war with India and Washington's imposition of nuclear sanctions in 1990 after the Soviet military withdrew from Afghanistan, has convinced many Pakistanis that the United States is a fickle and unreliable friend. Deep opposition to U.S. actions in the Israeli-Palestinian dispute, and in Iraq and Afghanistan, has intensified anti-American sentiments. There is also resentment about the treatment of Pakistanis in the United States since September 11, 2001; new visa procedures are regarded by many as onerous, humiliating, and contradictory to U.S. assertions that it regards Pakistan as a good friend.

Since Islamabad joined the war on terrorism, Washington has waived sanctions and other restrictions to provide substantial amounts of economic assistance, debt relief, and security aid. Close military, intelligence, and law-enforcement ties have been re-established. Although the ISI's intimate links with Islamist extremists helped fuel global terrorism, Pakistan's strategic location and Musharraf's decision to turn against the Taliban have made it part of the solution. Islamabad cooperated with U.S. forces during Operation Enduring Freedom and has continued to do so in pursuing the remnants of al-Qaeda. Islamabad has been less vigorous in pursuing Taliban supporters that have found refuge in the Pashtun tribal areas bordering Afghanistan, particularly after pro-Taliban

Islamist parties won provincial elections in the NWFP and joined the ruling coalition in Baluchistan.

A previous U.S.-Pakistan balancing act in the 1980s (a period in which Islamabad's pursuit of nuclear weapons was deemed less important by Washington than its cooperation in evicting Soviet forces from Afghanistan) ended in a painful divorce. The current balancing act (in which Washington regards Islamabad's continued cooperation against al-Qaeda as more important than its nuclear and missile activities and halfhearted actions against Taliban remnants and Kashmir-oriented "*jihadis*") could end in another painful U.S.-Pakistan separation. The U.S. government would do well to recall the lessons of the Afghan war years of the 1980s, when it handsomely supported President Mohammed Zia ul-Haq and ignored his domestic Islamization agenda, which had long-lasting and harmful consequences for Pakistan, Afghanistan, and the United States. America has a strong interest in friendly, stable, and long-term ties with Pakistan. Such a relationship, however, will be difficult to sustain unless Islamabad firmly turns its back on terrorist groups, plays fully by nonproliferation rules, and genuinely seeks to live at peace with its neighbors.

FAILURE TO ESTABLISH POLITICAL STABILITY

In the fifty-six years since Pakistan became an independent state, it has not been able to achieve a stable political system; instead it has careened between periods of civilian and military rule. Pakistan had the bad luck of losing its two most capable leaders, Mohammed Ali Jinnah and Liaquat Ali Khan, in its formative years. Their successors lacked the ability to dominate senior army and civil service officers who, believing that Pakistan was not ready for democracy, seized power in 1958. By then, the Muslim League, the umbrella movement that had spearheaded the drive for Pakistan, had splintered as a national political party after achieving its goal of the partition of India into two countries.

Neither Pakistan's soldiers nor its politicians have offered honest or competent leadership for any extended period and the

country has failed to develop a clear sense of national identity. No elected government has yet completed its term in office. Civil service and judicial standards have eroded. Only the Pakistani military has been able to maintain its institutional cohesion. But the price has been the military's entrenchment as the country's dominant political force and very high outlays on defense to the detriment of the country's economic and social development.

During the three years after the army seized power in October 1999, Musharraf's regime—a mix of technocrats and military officers—emphasized curbing corruption (selective progress was made), devolving significant powers to locally elected bodies (uncertain that the sweeping changes will work), and putting Pakistan's battered economy back on track (substantial progress has been made at the macroeconomic level). On the positive side, Musharraf did not appreciably tamper with the free press that had developed over the previous decade. Far less creditable were his "confirmation" as president in a dubious referendum in April 2002¹⁰ and his altering of the 1973 Constitution by fiat so that he (rather than the civilian prime minister) would retain the substance of power.

In the October 2002 national elections, the ISI blatantly interfered to promote a pro-Musharraf faction of the Pakistan Muslim League, the PML-Quaid-i-Azam (PML-Q),¹¹ and to weaken Benazir Bhutto's Pakistan Peoples Party (PPP) and Nawaz Sharif's faction of the Muslim League (PML-N). The PML-Q ultimately emerged as the largest party in the National Assembly and was able to cobble together a bare majority government led by a little-known Baluchi politician, Mir Zafrullah Khan Jamali. Both Bhutto and Sharif, each a former prime minister, were barred from taking part in the elections and remained in exile. Despite official harassment, the PPP gained more votes than the PML-Q but won fewer seats thanks to Pakistan's first-past-the-post voting system.

¹⁰Musharraf had appointed himself president in June 2001.

¹¹Quaid-i-Azam, meaning "Great Leader," was the title by which Pakistan's founder, Mohammed Ali Jinnah, was often called.

The biggest surprise of the elections was the unexpectedly strong showing of the Muttahida Majlis-e-Amal (MMA), a coalition of religious parties that gained nearly one-fifth of the National Assembly seats, won a landslide victory in NWFP provincial elections, and formed a coalition government in Baluchistan. An unlikely assemblage of formerly squabbling Islamist parties, including some that are vehemently pro-Taliban, the groups in the MMA share several common positions: strong anti-American views, opposition to Pakistan's role in the U.S.-led war on terrorism, and a desire to impose an Islamist state on Pakistani society. Nationally, the MMA won only 11 percent of the vote, roughly equal to the previous best showing of the religious parties. The unaccustomed unity, however, gained the MMA an unprecedented 18 percent of National Assembly seats.

THE ISLAMISTS

Because Pakistan was created as political homeland for the Muslims of British India, there has been a rhetorical emphasis on Islamic principles from the country's earliest days. Islamist political parties, however, made few inroads and had little impact during the first two decades of independence. Founder Mohammed Ali Jinnah was a strong secularist, as was Mohammed Ayub Khan, Pakistan's first military dictator and the country's president from 1958 to 1969. Moreover, the major Islamist party, the Jamaat-e-Islami, and its influential leader, Maulana Maududi, actually opposed the creation of Pakistan. The religious parties began to acquire legitimacy only in the late 1970s thanks largely to the promotion of Islamization by Zia ul-Haq after he seized power in a military coup. Their legitimacy and organizational strength grew in the 1980s as a result of ties established with the ISI to wage "jihad" against the Soviets in Afghanistan. The Islamist parties were further helped in the 1990s by their support, again in league with the ISI, for the Taliban in Afghanistan and the anti-India insurgency in Kashmir. Militant offshoots of different religious parties provided many of

the foot soldiers for the anti-Soviet and anti-India insurgencies and for the Taliban.

As to the future, some observers doubt that the MMA's success in the 2002 elections will be repeated, judging this largely to have been a consequence of strong anti-U.S. sentiments among Pashtuns and of the ISI efforts to weaken the PPP and split the PML. Others, however, believe that the Islamists are likely to register further gains in view of the unpopularity of Musharraf's pro-U.S. policy, the unchecked spread of Islamist propaganda, and the disarray of the mainstream political parties. Unlike the PPP and different Muslim League factions, the MMA has a political message: to impose Islamist values as the answer to Pakistan's ills. Although the MMA speaks a good democratic game, the ultimate aim is more likely to be the imposition of an authoritarian state. This was the political model promoted by Jamaat-e-Islami founder Maulana Maududi, who saw democracy as a means to this end.

After Musharraf joined the war on terrorism, his government at first cracked down on extremist groups. The most radical, including the Jaish-e-Mohammed and Lashkar-e-Taiba (both designated as terrorist organizations by the U.S. government), were banned. Their leaders and many followers were arrested. The pressure on these extremists has since eased, however. All but a handful of detainees have been released, including Jaish-e-Mohammed leader Mazood Azhar and Lashkar-e-Taiba head Hafiz Saeed. The banned groups have resurfaced under different names,¹² have been able to agitate openly for violent action, and are accused of supporting continued terrorist attacks in Indian-controlled territory.

How does one explain Pakistan's cooperation against al-Qaeda and its more relaxed attitude toward other terrorist groups? Even though Musharraf strongly opposes Islamist extremism, he and his Pakistan army colleagues favor a hard-line policy on Kashmir and believe that they need the militants to maintain pressure on India. Musharraf has thus been unwilling (or unable) to rein in "*jihadis*"

¹²Jaish-i-Mohammed is now called Anjuman Khuddam-i-Islam, and Lashkar-i-Taiba has become Jamaat-ud Dawa.

despite his promise to stop infiltration across the Line of Control (LOC) in Kashmir permanently. Moreover, the people and terrorist groups active in Kashmir have substantial links with al-Qaeda and the Taliban, and it is not easy to maintain distinctions between them. Although the Bush administration has intermittently pressed Musharraf to deliver on his pledge, it has been unwilling to push the Pakistani leader too hard for fear that this would result in reduced cooperation against al-Qaeda. Washington, however, should be raising the issue in a more explicit and persistent fashion. What is being asked of Pakistan—to end support for terrorists, as promised by Musharraf—is consistent with Islamabad's participation in the war on terrorism and is in Pakistan's own interest in reducing the threat to itself from Islamist extremism.

POLITICAL REFORM

It remains to be seen whether Musharraf's political dispensation will prove any more durable than those of Pakistan's earlier army rulers. In addition to sharp political differences with the Islamist parties, Musharraf has managed to alienate many "mainstream" Pakistani politicians who back the PPP or the PML-N. His base of support, the PML-Q, is narrow and opportunistic; ultimately, Musharraf depends on the continued backing of his fellow generals to stay in power. Since his unwise referendum in April 2002 and his manipulation of the October 2002 national elections, Musharraf has not shown a sure political touch. His thinking continues to reflect the traditional antipathy of the senior military toward civilian politicians and the messiness of Pakistani politics. Partly as a result of his disdain for mainstream politicians and his reluctance to deal with them, Musharraf currently faces a deadlock in the National Assembly and a potential crisis over his desire to change the constitution by fiat and to stay on as army chief while serving as president.

Although Pakistan is not going to become a Westminster-style democracy any time soon (a goal that has eluded it throughout the past half-century), the United States should be weighing in more

vigorously in favor of democratic government. *Specifically, Washington should:*

- press Musharraf and his army colleagues publicly and privately to reduce the military's political role and to give civilian government primary responsibility for running the country's political life;
- voice strong opposition to the ISI's continued involvement in domestic politics (unless checked, the ISI will remain a profoundly destabilizing and inherently antidemocratic factor in Pakistan's political life); and
- urge Musharraf to make his peace with the mainstream parties in order to fill the political space currently occupied by the Islamists.

Even though the record of Pakistan's civilian politicians is hardly inspiring, over the long run democracy must be given a chance if Pakistan is truly going to implement the reform agenda. With this in mind, the United States should be giving priority to assistance projects that will strengthen civil society, governmental institutions, and the mainstream parties. By themselves, these activities will not bring about fundamental change, but they can help improve Pakistan's weak civilian institutions. They will also underscore that the United States is interested in promoting long-term reform that benefits all Pakistanis, not just in rewarding Musharraf's cooperation against al-Qaeda in the war on terrorism.

PAKISTAN'S ECONOMIC AND SOCIAL PROBLEMS

In the mid-1960s, Pakistan boasted one of the most promising economies in the developing world. At the time, it had the highest growth rate in South Asia and exported more manufactured goods than did Indonesia, Malaysia, the Philippines, and Thailand combined. A textile industry based on indigenous cotton evolved from scratch in 1947 to become an important global producer of cotton yarn and gray goods. In recent years, Pakistan has not only been left behind by the East Asian "tigers," but its growth rate has fallen below those of India and even Bangladesh.

Political instability, poor quality of governance, bad economic policy choices, and chronic tension and conflict with India have been the main causes of Pakistan's sub-par economic performance. The 1965 war with India over Kashmir had heavy costs, including the loss of U.S. military aid and reduced economic assistance. In the 1970s, Prime Minister Zulfikar Ali Bhutto's nationalization of major industries, commercial banks, and insurance companies burdened Pakistan with an inefficient and corrupt public sector. In the 1980s, a surge of foreign assistance from the Afghan war and a substantial rise in remittances from Pakistani workers in the Persian Gulf boosted growth of the country's gross domestic product (GDP) to 6 percent a year. Even though poverty declined significantly, President Zia ul-Haq failed to address underlying weaknesses, especially inadequate schools and health care, and did not dismantle the money-losing public sector.

Foreign assistance dropped precipitously after the Soviet military withdrew from Afghanistan and the United States, in October 1990, barred new economic and military aid because of Pakistan's nuclear program. Under Prime Ministers Bhutto and Sharif, the economy deteriorated because of heavy foreign borrowing, frequent policy shifts with changes of government, rampant corruption, and growing physical insecurity caused by increased lawlessness and surging sectarian violence between Sunni and Shiite extremists. Over the past decade, violence in Karachi, the country's commercial and manufacturing hub and its sole seaport, has badly damaged the economy and had a chilling impact on foreign investment. Sometimes the bloodshed has been due to Karachi's brutal ethnic politics, sometimes to sectarian rivalries, sometimes to apolitical banditry, and sometimes to attacks by terrorists. (The murder in 2002 of *Wall Street Journal* correspondent Daniel Pearl was the most highly publicized such incident.)

When Musharraf took power in October 1999, Pakistan was nearly bankrupt and in danger of defaulting on service of its foreign debt. Although the economic situation has much improved since then, the underlying statistics remain troubling and point to Pakistan's past failure to meet basic needs. Average GDP growth

dropped to only 0.6 percent per annum between 1996 and 2000, far less than either Bangladesh or India during the same period. The Pakistani government's economic survey reported that those living in poverty (defined as earning less than \$1 a day) soared from 18 percent of the population in 1987–88 to 32 percent in 1998–99. Limited educational opportunities for girls and the lack of a strong family planning program have helped keep Pakistan's population growth rate well ahead of those of India and Bangladesh: in 2000, Pakistan's population rose at 2.4 percent a year, India's at 1.8 percent, and Bangladesh's at 1.6 percent.

EDUCATION AND THE MADRASSAS

Depressing literacy figures reflect the dismal state of education: only 43.2 percent of adult Pakistanis could read and write in 2000—57.5 percent of males and a shockingly low 28.9 percent of females. The minority of young Pakistanis who belong to the middle and upper economic classes has access to reasonably good education through an extensive private-school system that now includes some 36,000 institutions and teaches six million students. For the poor majority, however, the choice lies between crumbling government schools and bare-bones *madrassas* (Islamic schools). Enrollment in government schools actually declined in the 1990s owing to rising poverty and lower educational standards. Public expenditure on education dropped from 2.7 percent of GDP in 1996–97 to 2.1 percent in 2000–2001.

Zia ul-Haq began promoting the *madrassas* in the late 1970s as part of his support for Islamization. Since then, they have mushroomed and now are estimated to be educating more than a million students. Funding for the *madrassas* comes from private Pakistani donations and from abroad, especially from Saudi Arabia. For many of the rural and urban poor, the religious schools offer the only possibility of education. The traditional function of preparing students for the clergy by teaching them to recite the Qur'an by rote is hardly sufficient to ready youngsters for the challenges of modern life and society. Even though many *madrassas*

are apolitical, their graduates are narrowly trained to become clerics and lack broader skills. More radical *madrassas*, sponsored by Islamist extremists, however, imbue their students with hatred of alleged enemies of Islam (the United States, India, the West, etc.). It is these *madrassas* that served as incubators for the Taliban and that continue to graduate fanatic foot soldiers ready to give their lives for “jihad.”

Musharraf has declared publicly that he wants to reform the *madrassas* by bringing their finances under government control and by broadening their academic curricula. In effect, he has proposed to transform them into a Pakistani version of the parochial school. His words, however, have not been followed by actions. Musharraf and his army colleagues have either lacked the political will or felt unable to implement proposed reforms in the face of opposition from Islamist organizations. The army has been reluctant to take on the very groups on whose “*jihadi*” offshoots it depends to implement the country’s hawkish Kashmir policy. The political success of the MMA has made the task of *madrassa* reform harder. Yet unless Pakistan modernizes its Islamic schools and makes a far larger investment in public education, most of its youth will continue to be woefully unprepared for the challenges of the twenty-first century and will be even more susceptible to the call of Islamist extremism.

PROGRESS IN ECONOMIC REFORMS

To his credit, Musharraf has made economic reform a top priority and has developed a program (in close cooperation with international financial institutions) to:

- reform the system of tax collection and expand the government’s revenue base;
- restructure and privatize public-sector companies, including state-run commercial banks;
- reduce the country’s heavy debt-service burden; and
- implement a comprehensive poverty-reduction program designed to improve education, health care, and economic opportunities.

Substantial progress has been registered in government finance and in the balance of payments. Foreign-exchange reserves have risen from almost nothing when Musharraf took over to more than \$10 billion, nearly equal to a year's imports.¹³ The trade picture has also much improved. Reflecting better economic performance, GDP rose 4.5 percent in 2002, the best showing in many years. If current budget projections are realized, the coming years will show a considerable increase in social-sector expenditures, notably for education and health. These areas have been starved for funds for more than a decade, contributing to the disastrous increase in poverty and the disturbingly low literacy and health performance.

Even though the International Monetary Fund (IMF) and the World Bank have given Pakistan good marks for its economic performance, it remains premature to conclude that the corner has been turned definitively. Much of the improvement has been due to increased foreign aid and debt relief since September 11, 2001. There has not yet been a significant increase in domestic investment nor has foreign investment substantially picked up. While both are essential for job creation, foreign investment has particular importance in view of Pakistan's low level of domestic savings. In short, Islamabad has only begun to tackle the country's deep-seated social and economic ailments. Economic and social reform will have to remain a top priority for many years. To achieve sustained growth and a reduction in poverty, Pakistan needs a solid stretch of domestic political stability and peace with its neighbors.

U.S. ASSISTANCE TO PAKISTAN

After Pakistan joined the war on terrorism, the United States lifted or waived various sanctions and has since provided substantial

¹³The stronger foreign-exchange position is partly due to tightened controls over the informal *hawala* system in the wake of September 11 to make it harder for terrorist groups to move funds around. As a result, a large amount of money transfers previously handled by the informal sector is passing through the commercial banking system. It is also partly due to U.S.-resident Pakistanis' sending money back for fear that the U.S. government might restrict the transfer of funds.

economic and military aid. In fiscal year (FY) 2002, \$626 million of economic aid was made available, of which \$600 million went directly into the Pakistani treasury to help reduce the debt burden and offset costs of the war in Afghanistan, and \$26 million was allocated for economic development projects. For FY 2003, the total amount was a bit over \$500 million, with some \$188 million appropriated to buy back \$1 billion worth of debt owed to the United States. The remainder was divided between project assistance and security-related aid. The FY 2004 request is for approximately \$400 million, with about half for debt reduction, \$75 million for economic assistance, and \$125 million for security-related help. During Musharraf's June 2003 visit to Washington, President Bush proposed that Congress authorize a five-year, \$3 billion assistance program for FYs 2005 through 2009, to be divided equally between economic and military aid (i.e., roughly \$300 million of each annually).

The administration's decision to seek a multiyear assistance authorization is welcomed as a tangible sign of the U.S. commitment to help Pakistan over the longer term. *The Task Force supports early congressional approval of this funding, but recommends that the United States:*

Revise the Package to Provide More Economic and Less Security Aid. Instead of the fifty-fifty split proposed by the executive branch, the Task Force favors two-thirds for economic assistance and one-third for security help. U.S. assistance should be emphasizing support for economic, social, and political reforms, not further strengthening of Pakistan's defense establishment.¹⁴

Set a Baseline Assistance Program at \$1.5 Billion (or \$200 million in economic and \$100 million in security aid annually). Funds beyond this amount should be released in line with Pakistan's progress in implementing the domestic reform agenda, cooperating in the war on terrorism, and fulfilling nonproliferation responsibilities.

¹⁴In 1987, the last time that the U.S. Congress authorized a five-year aid program for Pakistan, 57 percent went for economic and 43 percent for military aid. With Pakistan's economy and institutions now far weaker, there seems no plausible rationale for reducing the economic share and increasing support for the military, as the Bush administration has proposed.

Make Education the Top Priority. U.S. officials regularly say that education is the top assistance priority, but the \$100 million projected over the next five years—averaging a modest \$20 million a year—will hardly result in any significant improvement. Given the glaring deficiencies and the essentiality of improving and expanding the school system for Pakistan's future, education should receive much more generous financial support. The goal should be a program that would result in increased investment in Pakistan's public schools, reform of the *madrassas*, and imaginative, effective educational programs carried out by nongovernmental organizations (NGOs). One of the greatest needs is for training large numbers of female instructors to teach girls in rural schools. Teachers are key to improving Pakistan's educational system, and the country does not have remotely enough literate women willing to teach in villages. A useful idea would be for the U.S. Agency for International Development (USAID) to support a joint group of Pakistani, American, and international educators and specialized NGOs (with experience in Pakistan) to map a coordinated and transparent strategy to improve and modernize schooling.

Stress Help for Pashtun Areas. The United States should be making support for projects in the Pashtun-populated areas of the NWFP, Baluchistan, and the federally administered tribal areas (FATA) a second major priority. The fact that the Pashtun belt remains one of the poorest parts of Pakistan is doubtless one factor behind the appeal of the religious parties. Yet both the NWFP and Baluchistan have considerable although unexploited potential for supplying products needed for the reconstruction of neighboring and even less economically developed Afghanistan. A wide variety of small industries could find significant markets across the border as the Afghan reconstruction effort gains momentum. Microfinance, rural development, better schools, and improved maternal and child health programs could significantly boost economic prospects in a region that has been chronically left behind and neglected.

Strengthen Civil Society and Government Institutions. Along with education and support for the Pashtun areas, a third major focus of U.S. economic assistance should be to promote democ-

racy by strengthening Pakistan's weak civil society and its political and governmental institutions. One priority should be to help the mainstream political parties become more accountable, professional, and issue-oriented organizations. Regrettably, the MMA was the only party to issue a political program during the 2002 elections. Although the PPP and the PML, in the Pakistani context, are considered to be center-left and center-right groups, respectively, neither is internally democratic and both have suffered badly after the exile of their respective leaders, Benazir Bhutto and Nawaz Sharif.

A related priority should be to help improve Pakistan's system of justice and law enforcement. The court system and the police suffer from lack of professionalism, political interference (as much during the Bhutto-Sharif era as under Musharraf), poor salaries, and related endemic corruption. With the possibility of long-term funding, a multiyear program should be developed that aims at better training and stronger professionalism.

Strengthen NGOs. Wherever possible, assistance should be given to strengthen Pakistan's nongovernmental organizations. Many of these groups are visionary yet weak, especially those that emphasize education and access to financial assets for women, rural development, and the promotion of human rights. In Bangladesh (the former East Pakistan), local NGOs have registered extraordinary achievements in promoting economic, educational, and social progress in areas such as female education, family planning, small-industry growth, and microfinance. Bangladesh provides a model of how dramatic progress can be achieved by involving people at the grass-roots level in the development process. U.S. assistance should be used to help Pakistan try to replicate the Bangladesh success story.

Buy Back Official Debt. To date, the Bush administration has been especially helpful in providing debt relief and should continue this as part of the multiyear assistance program. During FY 2003, the United States wrote off \$1 billion worth of debt after Congress appropriated \$188 million for this purpose. Washington also rescheduled another \$3 billion of debt and supported the IMF's rescheduling of \$9 billion of Pakistan's total external debt of \$38.5

billion. Reduction in the debt-service burden has been a key factor in enabling Pakistan to increase its spending on the social sector, so essential in the reform process. Provided Pakistan continues to allocate additional budgetary resources to implement social-sector programs, the United States should buy back the remaining official debt, appropriating the funds necessary for this purpose.

Ease Import Restrictions on Pakistani Textiles. Increased foreign trade provides more immediate and significant economic benefits than aid, but regrettably the Bush administration has been unwilling to accede to Islamabad's request for an easing of import barriers for textiles, Pakistan's major export to the United States. In 2001–2002, textile sales accounted for some two-thirds of total Pakistani exports of \$9.2 billion and were nearly 90 percent of its \$2.2 billion in sales to the United States. Even though U.S. quotas will end when the international multifiber agreement to eliminate these barriers comes into force in 2005, greater access to the American market during the coming two years would provide a quick and helpful boost to economic activity and employment, especially in the hard-hit but critical city of Karachi. Given the U.S. stake in Pakistan's "getting it right," the Bush administration should be willing to bear the political criticism from domestic producers by making it easier for Pakistan to sell its major export product in the United States. Since the Bush administration is urging Musharraf to take steps that are politically difficult in the Pakistani context, it should not shrink from taking some politically difficult steps itself by widening market access for Pakistani textile products.

Provide Security Assistance. On the security side, military-to-military relations that atrophied after 1990 have resumed. Substantial transfers of defense equipment, barred since 1990, have begun. The executive branch has called for a major boost in security assistance to Pakistan—\$300 million annually from FY 2005 through 2009—as part of the multiyear aid commitment. As stated above, the Task Force supports the five-year program but believes that there should be more economic and less security aid. Instead of a fifty-fifty division proposed by the Bush administration, the Task Force favors one-third for security and two-thirds for economic

help. Pakistani military officers are again receiving military training in the United States under the International Military Education and Training Program (IMET). The Task Force urges that this program be fully funded and supported. Sustained training links are an invaluable way to give foreign military officers the opportunity to gain a firsthand understanding of the United States. Maintaining the IMET program is particularly important given the key role that the military plays and current strong anti-American sentiments in Pakistan.

NATIONAL SECURITY POLICY: INDIA, INDIA, AND THEN INDIA

The driver for national security policy has been and remains India and Pakistan's related dissatisfaction with the status quo. The two neighbors have fought three and a half wars since they gained independence from the United Kingdom (the 1999 Kargil episode is the "half" war). The world fears that the "jihad" that Pakistan has been supporting in Kashmir could trigger a fourth conflict. Under pressure from the United States and others after New Delhi threatened war in December 2001 and again in May 2002, Musharraf promised to take steps to stop infiltration permanently across the LOC. He has done so only partly, however, presumably calculating that the U.S. need for Pakistani cooperation against al-Qaeda is such that Washington will not press too hard on this issue. Musharraf and his fellow generals want to keep the pressure on India. But as the Bush administration has repeatedly stated, there are no good or bad terrorists, just bad ones. Pakistan should thus be pressed harder to prevent its territory's being used by "*jihadi*" terrorists to mount attacks against Kashmir. (See the next section of this report for the Task Force's recommendations on managing India-Pakistan tensions.)

Even though there are few direct financial costs to Pakistan from supporting "jihad" in Kashmir, the indirect costs have been substantial. Apart from periodically threatening war and serving as the main cause of regional instability, chronic tension with India has provided the rationale for Pakistan's extremely high defense

expenditures—roughly a quarter of its national budget and 5–6 percent of GDP. With the Indian economy growing at about 6 percent per annum and its defense spending not more than 3 percent of GDP, New Delhi can absorb the additional costs of dealing with the Kashmir insurgency without greatly impairing its overall economic prospects. Pakistan, however, is too poor to opt for both “guns and butter.” Continuing the hawkish approach toward India, in effect, is a decision to opt for “guns.” Indeed, ever since the army regained effective control of national security policy after the ouster of Zulfikar Ali Bhutto in 1977, Pakistan has underfunded the social sector with devastating impact on the country’s social and human development. A change in the military’s mindset on Kashmir and its India-centric outlook is an essential step if Pakistan is to find the resources needed to implement the domestic economic and social reform agenda.

AFGHANISTAN

Pakistan recognized and supported the Taliban regime until Musharraf reversed course after September 11, 2001. Abandoning the Taliban marked a defeat for Islamabad’s “forward” policy of trying to transform Afghanistan into a client state to provide “strategic depth” against India. Even though Islamabad is not happy with the strong Tajik position in the Karzai government, it has desisted from officially sponsoring disgruntled Afghan Pashtuns. Yet, in the border areas of the NWFP and in FATA, where the central government’s control is weak, pro-Taliban elements have been able to find sanctuary and have used FATA as a base to stir trouble in the Pashtun-dominated southern and eastern parts of Afghanistan.

The situation has substantially worsened since the MMA with its ties to the Taliban came to power in the NWFP.¹⁵ The surge

¹⁵For example, renegade Pashtun mujahideen commander and longtime ISI favorite Gulbuddin Hekmatyar has long had close links to Islamist groups in Pakistan. The virulently anti-American Hekmatyar reportedly has been responsible for many of the attacks across the porous border.

in attacks from Pakistan's tribal areas has caused a serious deterioration in security, set back reconstruction, and weakened the position of the Karzai government even further in the Pashtun areas of Afghanistan. For their part, the Afghan authorities have blamed Pakistan for failing to prevent the use of its territory by pro-Taliban elements. Relations were further shaken when an angry mob attacked the Pakistani embassy in Kabul. In an effort to prevent additional trouble, the United States, Pakistan, and Afghanistan have recently established a commission to address security issues.

For its part, the United States should make crystal clear to Musharraf that ISI support for cross-border attacks against Afghanistan is unacceptable. Washington should emphasize that this support is not only inconsistent with Pakistan's role in the war on terrorism, but will have serious negative consequences for U.S.-Pakistan relations, including the amount of assistance to be made available.

NUCLEAR WEAPONS

In acquiring nuclear weapons, Pakistan's goal was to match the capability that India had demonstrated in 1974 and to provide a deterrent against its neighbor's conventional military superiority. Possession of nuclear weapons has taken the edge off India's conventional arms advantage by raising the stakes any time New Delhi considers military action against Islamabad. Even though Pakistan has achieved its deterrent, recent near-war crises underscore that it has not yet become secure. As discussed in the section on India, there may well be a continuing nuclear arms race and mounting proliferation dangers in South Asia. Although the Bush administration has so far avoided this issue, which admittedly presents difficult and complex policy choices, the Task Force believes that Washington should seriously and comprehensively explore ways to fit Pakistan and India into the global nonproliferation system.

The most immediate proliferation concerns relate to the leakage of sensitive nuclear technology and to command-and-control and security over weapons. When U.S. officials learned of North

Korean help to Pakistan's missile program in 1998, they questioned top leaders in Islamabad as to whether Pakistan was providing uranium-enrichment technology in return. Pakistani officials responded that they would stop such activity if, in fact, it was occurring. Despite these assurances, it has been reported that transfers of technology to North Korea took place subsequently and that these may have continued after September 11, 2001. After firmly avoiding comment on the issue, the executive branch asserted in March 2003 that it had insufficient cause to impose sanctions on Pakistan for helping North Korea. At the same time, because of confirmation that Pakistan was continuing to receive missile assistance from North Korea (first announced in 1998), Washington barred the Khan Research Laboratories, a key part of Pakistan's nuclear weapons program, from any dealings with the United States. (As those laboratories were already blacklisted, the sanctions were meaningless.)

The whole episode seems murky at best; at worst it suggests that the executive branch overlooked a major breach of nonproliferation rules and ignored a transfer of sensitive nuclear technology that poses the gravest possible threat to U.S. and international security concerns. If the reports are correct—and Secretary of State Colin Powell's refusal to "talk about the past" whenever questioned on the subject suggests that they are—President Bush would have been far wiser to have used the authority that the law gives him to waive sanctions in the national interest. The danger to U.S. and international security posed by North Korea's uranium-enrichment program is too serious for Pakistan's involvement to be swept under the rug.

CONCLUSIONS AND RECOMMENDATIONS

In his address of January 12, 2002, President Musharraf strongly condemned Islamist extremism and terrorists. Squarely facing Pakistan's future, he asked, "It is a day of taking major decisions. Do we want to convert [Pakistan] into a theocratic state? Can we run the country only through religious education or make

Pakistan a progressive, modern and dynamic state?" The choice that Pakistan faces could not be put more starkly. The United States should be prepared to invest heavily in helping Pakistan become "a progressive, modern, and dynamic state." The amount of U.S. assistance beyond a basic level of \$1.5 billion over the coming five years should, however, depend on Pakistan's own willingness to advance the domestic reform agenda as well as its cooperation in the war on terrorism and its fulfilling of its nonproliferation responsibilities. *In dealing with Pakistan over the medium term, the United States should take the following actions:*

To Promote Democracy

- urge an enlarged civilian and a reduced military role in government;
- press for an end to the ISI's involvement in domestic politics;
- urge Musharraf to make peace with the mainstream political parties; and
- provide technical aid to make the mainstream political parties more accountable, professional, and effective.

To Promote Economic and Social Development

- approve the five-year, \$3 billion program, but modify the economic-military aid balance from 50-50 to 2-1 in favor of economic assistance;
- condition assistance above a baseline level of \$300 million annually (\$200 million in economic and \$100 million in security assistance) on Pakistan's meeting reform benchmarks, cooperation in the war on terrorism, and fulfilling of its nonproliferation responsibilities;
- make education the principal focus of U.S. assistance;
- make aid to the Pashtun areas of the NWFP, Baluchistan, and FATA another assistance priority;
- support strengthening of Pakistan's civil society, governmental institutions, and mainstream political parties;
- help Pakistan try to replicate Bangladesh's success in promoting grass-roots development;

Pakistan

- seek appropriated funds (as part of the overall aid package) to buy out the remainder of Pakistan's official debt to the United States; and
- reduce barriers to Pakistani textile exports to the United States in 2003 and 2004.

To Promote Regional Stability

- press Musharraf harder to end permanently the use of Pakistani territory as a base for “*jihad*” attacks on Kashmir and pro-Taliban efforts against Afghanistan; and
- maintain a fully funded IMET program, even if overall security assistance levels are reduced.

To Reduce Nuclear Risk

- urge Pakistan to initiate talks on nuclear confidence-building measures (CBMs) with India delinked from Kashmir and other India-Pakistan issues;
- press for more effective controls to prevent leakage of sensitive nuclear technology and material; and
- study possible ways to find a place for Pakistan (and India) in the global nuclear nonproliferation system.

Despite its many grave problems, Pakistan still has a chance to achieve more stable and open political institutions, to curb Islamist extremism, and to enjoy sustained economic growth. Yet this will occur only if its leaders, especially the Pakistani military, which currently dominates policymaking, decide to focus the country's energies and resources on redressing domestic political, economic, and social ills. Should Musharraf (and his successors) fail to adjust the thrust of national policies, the outlook for Pakistan will be gloomy and the situation could reach the point where a productive U.S.-Pakistan relationship will not be possible. Musharraf warned in his January 2002 speech that Pakistan could become a “bigoted theocratic state” with all the dangers that such a nuclear-armed nation would portend for its people, for South Asia, and for the world. The United States has an enormous stake in helping Pakistan achieve the alternative vision of “a modern, progressive, and dynamic state.”

MANAGING INDIA-PAKISTAN TENSIONS AND KASHMIR¹⁶

When the British folded their imperial tents in August 1947, they left the future of Jammu and Kashmir unresolved. Within months, India and Pakistan, the two successors to the Raj, were fighting over the princely state. After a UN-sponsored cease-fire came into force more than a year later, on January 1, 1949, India controlled the southern two-thirds of the state, including the Kashmir valley, the core of the dispute and the home to most speakers of the Kashmiri language. Pakistan possessed the northern one-third. Nearly fifty-five years later, the cease-fire line, since renamed the Line of Control (LOC), continues to separate the territory held by India and Pakistan, and differences over Kashmir remain at the heart of their rivalry.¹⁷ If the two countries are to live amicably with one another, they will have to address the Kashmir issue, contain the dangers, and one day achieve a settlement. Their festering hostility remains the greatest single threat to regional stability. Given that India and Pakistan are now armed with nuclear weapons, the possibility that another conflict might involve the first use of atomic weapons since Hiroshima and Nagasaki in 1945 is all too real.

Frictions over Kashmir have fueled religious extremism in both India and Pakistan and will continue to do so unless tensions are better managed. Political cultures in the two states have

¹⁶The term "Kashmir" has several overlapping meanings: it can refer to the Kashmir valley, to the Indian state of Jammu and Kashmir, or, most broadly, to the entire territory of the pre-1947 princely state of Jammu and Kashmir.

¹⁷Pakistan controls two areas: a long strip called Azad (Free) Kashmir, which is largely ethnically Punjabi and has quasi-provincial status under tight control of the central government, and the remote and tribal Northern Territories of Gilgit and Hunza in the high Himalayas, which Islamabad governs directly. The territory under Indian control, ruled by the elected Jammu and Kashmir State government, consists of three distinct areas: the overwhelmingly Muslim Kashmir valley, Hindu-majority Jammu, and Buddhist-majority Ladakh in the high mountains. Although the state's total population is about sixteen million, the dispute mainly focuses on the future of the roughly five million speakers of Kashmiri who live in the valley.

evolved in a way that makes the Kashmir question highly emotional and renders it extremely difficult for the national leadership of either country to put forward ideas for its resolution that the other side is likely to find palatable. The gap between the Indian and Pakistani positions remains too wide to be easily bridged. Yet until the problem of Kashmir is settled or in some fashion mitigated, it will remain a major barrier to India's aspirations for great power status, Pakistan's hopes for achieving fundamental reform, and American interests in a peaceful and stable South Asia.

In recent years, U.S. policy toward Kashmir has been one of crisis management. Washington has sprung into action to prevent crises from getting out of hand—in June–July 1999 after Pakistan crossed the LOC near Kargil, in December 2001 after terrorists attacked the Indian Parliament, and in May 2002 when several dozen women and children were killed at an Indian army camp in Kashmir. At other times, the United States has limited itself to hortatory calls for the two protagonists to try to solve their problems through peaceful dialogue.

After considerable deliberation, the Task Force consensus concludes that such a reactive approach is inadequate given the inherent danger that an India-Pakistan crisis will one day spiral into a broader conflict, conceivably one involving use of nuclear weapons. New Delhi and Islamabad have a poor record of managing their differences, and the present pause, like past respites, is likely to be the lull before the next storm. The Task Force therefore proposes more forward-leaning U.S. diplomacy that would facilitate—not arbitrate or mediate—Indian and Pakistani efforts to manage their tensions and to create an improved environment that eventually will permit a solution of the Kashmir dispute.¹⁸ To this end,

¹⁸This issue was debated with much vigor in Task Force deliberations, and there were differences of view. Some members thought that the current reactive policy was appropriate and did not support increased U.S. attention to the problem. Given India-Pakistan intransigence, they did not think that greater activity would yield more positive results. Other members urged an even more active effort than outlined above to help the parties attain a settlement, including U.S.-suggested guidelines that might inform an accord. They argued that the passage of time was making a settlement more difficult and that a more purposeful effort than “small steps” by Washington was needed to bridge gaps and to point the parties toward realistic outcomes.

a special working group should be established among those dealing with South Asian affairs in Washington. Its purpose should be to (1) track Kashmir developments and discussions between New Delhi, Srinagar, and Islamabad; and (2) provide ideas, guidance, and instructions to U.S. chiefs of mission in India and Pakistan and senior visitors to the region on how progress can best be achieved.

In the short term, the goal for U.S. diplomacy should be to help start a bilateral process of India-Pakistan negotiation.

- Pakistan should be pressed more vigorously to make good on Pakistani President Pervez Musharraf's pledge to stop infiltration across the LOC.
- India should be urged to lighten the pressure on Kashmiris from security forces as militancy declines.
- Pakistan should alter its negotiating strategy of holding all bilateral differences hostage to progress toward a Kashmir settlement.
- India should strive harder to reach an understanding with the elected Jammu and Kashmir State government to permit greater political autonomy and spur economic development.
- A plausible place to start India-Pakistan discussions would be working out a comprehensive cease-fire along the LOC, the most likely flashpoint of wider conflict.
- Other issues that should be addressed include steps to reduce the risk of nuclear war, to resolve the Siachen glacier dispute, to promote bilateral trade, to ease restrictions on the movement of people, and to reduce hate propaganda.

Despite the recent thaw in relations, neither New Delhi nor Islamabad at this time seems inclined to move purposefully toward a final Kashmir settlement—except on its own terms. Given this fact and the depth of mutual mistrust, it would be counterproductive at this point for the United States to put on the table ideas about an ultimate settlement and how to get there. Instead, Washington should focus on lending behind-the-scenes and sustained help so that New Delhi and Islamabad can start and maintain a process that, over time, moves the two antagonists onto a more positive bilateral path. Even if the near-term outlook for progress is cloudy, a constructive and long-term U.S. effort could fuel new

thinking about a way forward, help lessen tensions between India and Pakistan, reduce the risk of war, and improve prospects for an eventual Kashmir accord.

OFFICIAL INDIAN AND PAKISTANI POSITIONS ON KASHMIR

The official Indian position on Kashmir has long been that:

- The entire former princely state of Jammu and Kashmir has been an integral part of India since its accession by Maharajah Hari Singh to India on October 26, 1947. Nothing in UN Security Council resolutions in any way modifies Indian sovereignty over the territory of the entire pre-independence princely state.
- In keeping with UN resolutions, the only legally admissible issue on the table is the need for Pakistan to “vacate” the Kashmir territory it occupies. The future status of the state is an exclusively Indian domestic matter to be settled “within the four corners of the Indian constitution.”
- Talks on Kashmir should be conducted bilaterally in conformity with the agreement India and Pakistan reached at Simla in July 1972.

Notwithstanding the official position and periodic rhetoric claiming the entire state, India has long been willing to settle on the basis of the status quo, converting the LOC into an international border. Prime Minister Jawaharlal Nehru suggested this to Secretary of State John Foster Dulles as long ago as May 1953. Except for the extreme right wing, the entire Indian political spectrum could support such a settlement. There is firm opposition, however, to any arrangement or process that would result in a loss of territory to Pakistan, an independent Kashmir, or a diminution of Indian sovereignty.

The official Pakistani position is that:

- The state of Jammu and Kashmir has been disputed territory ever since the end of British rule. The October 1947 accession to India was provisional, as acknowledged in UN Security Council resolutions of August 1948 and January 1949.

- Talks should focus on implementing the right of self-determination for the Kashmiri people in accordance with UN resolutions. These would offer Kashmiris the choice of permanent accession to either India or Pakistan.
- An international mediatory effort should not be excluded and is not ruled out by the Simla Agreement.

Although the official Pakistani position has not changed over the years, the unofficial stance has evolved. Today, Pakistan would be willing to accept something less than a statewide plebiscite, such as one along district lines. It would also probably be prepared to agree to an independent status for the Kashmiri-speaking areas or some special arrangement for the Kashmir valley as long as this no longer remains totally subject to Indian sovereignty. Few Pakistanis, however, are willing to accept the status quo as the basis for a settlement. There is some support for putting Kashmir “on the back burner” while trying to improve other facets of India-Pakistan relations, but the Pakistan army, which effectively determines policy, shows little sign of a significant shift on the issue.

PAST EFFORTS TO RESOLVE KASHMIR

In 1947–48, Pakistan tried to seize Kashmir by force. In the fall of 1947, irregulars took physical control of the area now called Azad (Free) Kashmir (or, in India, POK or Pakistan-Occupied Kashmir).¹⁹ After the maharajah of Jammu and Kashmir acceded to India, Indian forces and Pakistani troops and irregulars battled during 1948 before the two sides accepted a UN-sponsored cease-fire that came into effect on January 1, 1949.

From 1948 through 1961, Pakistan pressed its case through diplomacy mainly at the UN. A series of UN (and also three U.S.²⁰) mediation efforts foundered largely on Indian unwillingness to proceed. After Pakistan became a military ally of the United States in 1954, New Delhi hardened its stance on the plebiscite, asserting that the

¹⁹The local militia in distant Gilgit and Hunza, led by a British officer, took the initiative to join Pakistan.

²⁰In 1949, 1958, and 1961.

Managing India-Pakistan Tensions

1952 elections for a constituent assembly showed that Kashmiris wanted to be part of India and no further vote was needed.

In 1962 and 1963, India and Pakistan tried direct negotiations. Six rounds of bilateral India-Pakistan talks—initiated under pressure from London and Washington after the Sino-Indian border conflict—failed to advance a settlement but marked the last sustained bilateral effort to resolve the dispute. During the discussions, both countries rejected a U.S.-U.K. proposal to partition the Kashmir valley as a basis for an accord.

In 1965, Pakistan's effort to seize Kashmir by force ended in full-scale war. India won the seventeen-day conflict by not losing. After accepting a UN-proposed cease-fire, India and Pakistan agreed in the Soviet-brokered Tashkent Agreement to return to the status quo ante in Jammu and Kashmir. The dispute did not play a significant role in the 1971 India-Pakistan war that resulted in the emergence of an independent Bangladesh.

In July 1972, the two sides agreed at Simla to settle Kashmir and other disputes bilaterally but without prejudice to each other's principles. The cease-fire line was renamed the Line of Control and physically demarcated on the ground. A decade and a half of relative calm followed. Kashmir remained an issue but did not cause intense India-Pakistan tensions.

Since 1989, Kashmir has been racked by a violent insurgency. Indian mismanagement and election-rigging helped spark the trouble. Subsequently, Pakistan's Inter-Services Intelligence Directorate (ISI), drawing on its experience in fighting a guerilla war against the Soviets in Afghanistan, has helped train, equip, and provide tactical guidance to Islamist extremists who infiltrate across the LOC. (India and the United States call the extremists "terrorists," while Pakistan regards them as "freedom fighters.")

RECENT INDIA-PAKISTAN DEVELOPMENTS

Despite frosty relations, India and Pakistan have taken three major but unsuccessful initiatives toward better relations in recent years.

- In 1997, Prime Ministers Nawaz Sharif and Inder K. Gujral began wide-ranging talks on bilateral problems, including Kashmir. The discussions petered out when the weak Gujral government collapsed.
- In February 1999, after the two countries conducted nuclear weapons tests, Indian Prime Minister Atal Behari Vajpayee visited Lahore, where he and Nawaz Sharif agreed on a comprehensive agenda that included talks on Kashmir; this effort began what came to be known as the “Lahore process.” Several months later, Pakistan’s effort to occupy strategic heights on the Indian side of the LOC near Kargil scuttled the Lahore process and triggered a new crisis, which was resolved only after Pakistan, under U.S. pressure and in the face of a strong Indian military response, agreed to withdraw its forces across the LOC.
- In July 2001, Vajpayee invited Pakistan’s president and army chief, Pervez Musharraf, who had by then taken power from Nawaz Sharif, to India. Their unscripted summit at Agra failed, however, when they were unable to agree on a communiqué.

After the U.S. war on terrorism began, India-Pakistan bilateral relations badly deteriorated. The two countries came close to war following major terrorist actions against India by groups linked to Pakistan. High-level intervention by the United States and others helped avert Indian military retaliation in December 2001 after an assault on the Indian Parliament and in May 2002 following the killing of many women and children in an Indian army camp in Kashmir. For nearly a year, more than a million troops were massed along the border and the LOC. Virtually all ties between India and Pakistan were cut.

In October 2002, the situation on the ground in India’s part of Kashmir significantly changed after elections for the Kashmir State Assembly. Despite a boycott by separatists and a wave of terrorist attacks, 44 percent of those eligible voted to defeat the long-ruling but unpopular National Conference. The victors were the opposition Indian National Congress Party and the Peoples Democratic Party (PDP), whose leader, Mufti Mohammed

Sayeed, became Kashmir's chief minister. A regional party, the PDP supports a peace platform and has promised to bring a "healing touch" to long-suffering Kashmiris. The new government in Srinagar has made moves to ease tensions by releasing some political prisoners and abolishing the Special Operations Group, a local police force notorious for human rights abuses.

The elections have given India a fresh opportunity to seek an accommodation with its Kashmiris, presumably by agreeing to greater autonomy in line with the 1952 agreement between Nehru and then-Kashmiri leader and National Conference founder Sheikh Mohammed Abdullah, by doing more to boost economic development, and by reducing the heavy hand of Indian security forces. A successful negotiation with the state government would weaken the basis for an insurgency rooted in Kashmiri unhappiness with New Delhi's manipulation of the state's internal affairs and the erosion of the autonomy promised in the 1952 agreement. Such an accord would mark tangible progress toward India's taking into account the wishes of the Kashmiri people.

It remains to be seen how much flexibility India's Hindu nationalist-led government will show in dealing with the Kashmiris, especially with general elections coming up next year. To have maximum impact, New Delhi and Srinagar will need to associate Kashmiri dissidents in some fashion with any accord. New Delhi's recently announced willingness to talk with moderate Kashmiri dissidents is thus a step forward, but all groups should be offered a chance to participate in the dialogue. So far, the hard-line militants and Pakistan have been playing the spoiler's role, trying to undercut a New Delhi-Srinagar dialogue rather than letting it succeed—or fail—on its own. Pakistan has regularly castigated the Mufti government as an Indian puppet. Since the snows melted in the spring of 2003, violence in Kashmir has once more risen.

NEAR-TERM PROSPECTS FOR PROGRESS NOT BRIGHT

In April 2003, after India had gradually pulled back its troops from the international border, although not from the LOC, Prime

Minister Vajpayee broke the bilateral deadlock by offering “the hand of friendship” to Pakistan in a speech in Srinagar. A few days later, speaking in Parliament, he called for yet another effort to resolve the Kashmir dispute. Whatever Vajpayee’s motives, his words thawed the frozen bilateral atmosphere. High commissioners returned to New Delhi and Islamabad to re-establish full diplomatic relations. There was a flurry of goodwill visits and exchanges. Bus service between New Delhi and Lahore resumed. Air service will presumably at some point be restored.

Although the two countries have begun preliminary exchanges about bilateral discussions, neither has as yet shown willingness to alter any of its basic positions. New Delhi insists that serious talks cannot begin until Pakistan stops infiltration across the LOC and dismantles “the infrastructure of terror.” Islamabad denies that infiltration is taking place and reiterates its intention to continue linking progress on issues such as trade to forward movement on Kashmir. The leadership in neither country appears to have decided that genuine accommodation with the other would advance its national interest. For Islamabad, this would mean placing dramatically more weight on internal stability and economic soundness in the concept of national security. For India, it would mean recognition that a peaceful neighborhood is unattainable without reaching a *modus vivendi* with Pakistan.

A MORE ACTIVE U.S. APPROACH

Since September 11, 2001, the Bush administration has swung into action whenever some egregious terrorist act threatened to spark a wider India-Pakistan conflict. This has been short-term crisis management and not part of any longer-term effort or strategy to help India and Pakistan manage their tensions, reduce the chances for nuclear war, and progress toward a *modus vivendi*. The Task Force consensus favors a different, more active, and more forward-leaning American approach and, to this end, the establishment of a special working group in Washington on Kashmir and India-Pakistan tensions. Present Indian and Pakistani policies and

attitudes are unlikely to result in any significant improvement in relations. The dangers of conflict evident in the subcontinent will not diminish with the passage of time, and a fresh crisis is likely unless the bilateral environment improves. Pakistan has long been eager for international involvement, especially from the United States. In a change of heart that reflects improved relations with Washington, New Delhi no longer opposes U.S. efforts to facilitate a reduction of tensions, although it continues to be against outside "mediation."²¹ The Task Force consensus believes that major U.S. interests in a more stable South Asia would be served by trying to help India and Pakistan start and sustain a productive process that would result in less acrimonious bilateral relations and ultimately create an atmosphere conducive to working out a Kashmir settlement.

The special working group should become the focal point of U.S. government behind-the-scenes facilitation. It should develop and provide ideas and suggestions to the governments of India and Pakistan, using our embassies as the principal channel, and, as needed, should pass messages and explanations to ensure clarity of communication and understanding between New Delhi and Islamabad. The aim should be to help the parties think through their choices and inform each about U.S. perceptions of attitudes in the other's capital on specific issues.²² The very first task must be a more energetic U.S. effort to help India and Pakistan initiate the bilateral process. Although New Delhi and Islamabad will probably be able to agree on the format and procedure for talks, they have so far been unable to clear away the obstacles that continue to block mutual agreement to start discussions.

To be effective, the special working group must have clear high-level backing and oversight by the White House and the Secretary of State. Behind-the-scenes diplomacy should be the guide.

²¹Traditionally, India has opposed U.S. involvement on India-Pakistan problems and has sought to deal bilaterally with Pakistan. However, since President Bill Clinton's intervention pressing Pakistan to pull back across the LOC during the 1999 Kargil crisis, the Indian attitude has gradually softened.

²²This approach draws substantially on the "building blocks for peace" concept developed by Teresita Schaffer of the Center for Strategic and International Studies (CSIS).

Developing a more positive bilateral framework is not a one-shot or short-term endeavor; it will require patient as well as persistent engagement. Even though India and Pakistan, at the present time, believe that the United States has the most influence to make a difference in mitigating their problems, Washington should consult with other major powers that have an interest in South Asian stability and might be willing to lend a helping hand—e.g., the European Union, China, Russia, and Japan.

For its part, the United States would welcome any solution that satisfies the two antagonists and the wishes of the people of Kashmir. At this juncture, however, most Task Force members believe that Washington should leave the shape and details of a final Kashmir arrangement for India and Pakistan to tackle when the opportunity presents itself. Putting on the table American ideas of what a Kashmir accord might look like, such as by proposing “elements of a settlement” (as the Kennedy administration did during the unsuccessful 1962–63 Kashmir negotiations), would not be productive. Neither India nor Pakistan is currently willing to consider the Kashmir end game—except on its own terms. One or the other (or both, as in 1963) is nearly certain to reject U.S. proposals and thereby undermine the chances for constructive U.S. facilitation.

Reducing the Risk of Conflict along the LOC. The most logical, but not necessarily the only, place for discussions (and the U.S. facilitation effort) to begin is establishing a comprehensive cease-fire along the LOC. An accord that stills the guns along the LOC would defuse the most likely flashpoint for future India-Pakistan conflict and make it easier for the two countries to take up other issues. To de-escalate the military face-off, both sides should agree to re-institute and maintain a cease-fire along the LOC. They should do this in the context of a more comprehensive set of steps to close down the infrastructure of terrorism and militancy in Pakistan and to reduce the scope of counterinsurgency operations by Indian security forces. The two armies have followed stylized rules of engagement for years along the LOC, often involving heavy and provocative artillery, mortar, and small-arms exchanges in response

to firing from the other side or as cover for infiltrating insurgents. The behavior was less hazardous before New Delhi and Islamabad tested and inducted their nuclear weapons in May 1998. Since then, it has become a dangerous anachronism that should be stopped. Indeed, nuclear risk reduction starts at the LOC.

Following agreement on a comprehensive cease-fire, another important step would be to get India and Pakistan to thin out troops deployed along the LOC. In order to make infiltration more difficult to conduct and easier to detect, India should acquire sensors and related equipment to boost its capability to monitor the LOC by technical means. India should also drop its long-standing opposition to international monitoring teams on its side of the LOC. (Nehru ended the presence of UN monitors in the mid-1950s because of the U.S.-Pakistan military alliance and his belief that the UN, under U.S. influence, was pro-Pakistan.) Some form of international monitoring or testing of Islamabad's sincerity by accepting its proposal for joint patrols along the LOC would clearly be helpful to India, in that it would increase the pressure on Pakistan to curtail any cross-LOC infiltration.

Nuclear War Risk Reduction. At the Lahore summit in February 1999, the two sides agreed "to engage in bilateral confidence-building on security concepts, and nuclear doctrines, with a view to developing measures for confidence-building in the nuclear and conventional fields, aimed at avoidance of conflict." A dedicated diplomatic process is badly needed on this range of issues and should not be held hostage to the Kashmir dispute. India and Pakistan should resume diplomatic exchanges to complete and implement promising steps in the memorandum of understanding that they signed at Lahore. The nuclear discussions should revisit previous ideas, agree on the most promising, flesh them out in detail and definition, and develop appropriate consultation mechanisms to deal with disputes. Establishing nuclear risk reduction centers and agreement on ways to reduce misunderstanding regarding missile movements and flight tests would be of particular importance.

Even absent a less hostile political environment, a start on defining and refining nuclear confidence-building measures

(CBMs) would be of major benefit to both India and Pakistan. Even though Vajpayee and Musharraf have declared publicly that nuclear war would wreak horrible damage on their peoples, neither the leadership nor public opinion in India or Pakistan appears to share the concerns about the dangers of nuclear war voiced by U.S. leaders such as former president Bill Clinton. Thus, while nuclear confidence-building ranks as a top U.S. priority, it is a hard sell in India and Pakistan. Indeed, senior leaders in both countries have suggested that a sub-nuclear threshold for conventional military action against the other exists. This dangerous game of nuclear chicken underlines the critical need for serious India-Pakistan dialogue on the nuclear basics.

Both countries have adopted nuclear doctrines of massive retaliation—India publicly and Pakistan inferentially. These doctrines do not address the dangerous consequences of possible accidents, mistakes, miscalculations, or misperceptions. To make progress, nuclear diplomacy must be conducted in private and without publicity. Neither India nor Pakistan should engage in the traditional practice of trying to score public relations points or of playing to political galleries back home. Reiterating grandiose or rhetorical proposals shows a lack of seriousness in addressing the genuine nuclear dangers that India and Pakistan face.

Siachen Glacier. India and Pakistan should try again to end their two-decade-old mini-war over the twenty-thousand-foot-high Siachen glacier in northern Kashmir. This dispute arose in the mid-1980s over conflicting interpretations of where the 1972 Simla Agreement placed the LOC in the high mountain region.²³ When India asserted its claim by sending troops into the forbidding snow-covered heights in 1984, Pakistan responded in kind. Ever since, the two countries have been waging low-level, but extraordinarily

²³At Simla, India and Pakistan agreed to demarcate the LOC on the ground from the international boundary in the south to the high mountain ranges in the north. However, beyond a certain point they merely described the location of the LOC and, because of the difficult terrain, did not physically demarcate it on the ground. Subsequently, Delhi and Islamabad differed about the meaning of the verbal description of the LOC in the Siachen glacier area.

demanding high-altitude combat over Siachen. Even though the glacier has scant strategic importance, the struggle has become a matter of national pride for both countries. It has also been very costly in financial and human terms, especially for India, since Indian access to the glacier is more difficult than Pakistan's.

A decade ago, New Delhi and Islamabad came tantalizingly close to settling the Siachen dispute. Indian and Pakistani negotiators had actually reached agreement, but the negotiations were not completed because the political will, in this case in India, was lacking to close the deal. (Then-Prime Minister P. V. Narasimha Rao decided against signing the agreement lest this trigger criticism by the political opposition.) Provided the political will exists, negotiating a solution to the Siachen problem should not pose an insuperable challenge. Apart from its own value, a Siachen agreement would provide a visible demonstration of Indian and Pakistani ability to resolve a long-standing dispute relating to Kashmir.

India-Pakistan Trade and Economic Cooperation. The current absence of significant bilateral trade deprives both India and Pakistan of important economic benefits. It also results in the loss of customs revenues as goods are routed illegally through third countries or smuggled across borders. Quite apart from mutual economic gains, an expansion of trade and commerce would also strengthen constituencies in each country with a positive stake in reducing tensions and sustaining more normal relations. To make these discussions productive, however, Pakistan must drop its insistence that broader trade relations must await progress toward a Kashmir settlement.

In fact, the most dramatic economic measure is one in which India, not Pakistan, has to give ground. This would be an agreement to import natural gas to energy-short India through a pipeline that crosses Pakistan. Originating in large, untapped gas fields in Iran or Turkmenistan, the energy supplies would feed a burgeoning Indian market at a price substantially lower than called for by alternative proposals, such as an undersea pipeline from Iran to western India. Pakistan would gain substantial profits

from transmission fees. India would get badly needed energy. It would be a win-win endeavor for both countries.

So far, India has rebuffed the idea on security grounds. It fears that Islamabad could use control over energy supplies as a political lever and in times of tension might cut off the gas flow as a way of damaging the Indian economy. Mechanisms could be found to address Indian concerns. Something akin to the 1960 Indus Waters Treaty could serve as a model for an accord that would advance the economic interests of both countries. Spelling out the details of such an accord is surely within the capability of the World Bank, the Asian Development Bank, and other financial institutions. On other economic issues, it is the Pakistani leadership that must be persuaded to back off from a rigid stance. In this instance, it is India that needs to be more flexible.

Promoting People-to-People Contacts. Nonofficial visits and dialogue between business, cultural, media, and other groups can play a positive role in reducing India-Pakistan tensions. For example, since 1994 civil society leaders working under the aegis of the Pakistan-India People's Forum for Peace and Democracy have become a force pressing the two governments to improve relations. After the recent thaw in relations, there has been a welcome resurgence in bilateral delegations, including ones involving Indian and Pakistani politicians. Establishing contacts and dialogue between politicians has special significance. What the political world says and thinks in India's vibrant and Pakistan's struggling democracy greatly influences media coverage and, to some extent, policy-making. Too often, public statements and private thoughts are based on prejudice and ignorance. More frequent, informal, face-to-face encounters between political and cultural figures should have a positive impact in softening attitudes and lowering the decibel count of the public discourse on India-Pakistan issues.

Although increased dialogue and people-to-people contacts will not resolve India-Pakistan differences, they can improve public understanding of the other side, strengthen constituencies for improved relations, and provide nonofficial venues for airing policy options. Such initiatives have often been limited by lack of funding and

provide an area in which U.S. foundations could play a useful role (as the Ford Foundation did in the 1990s by funding the multi-year Neemrana dialogue involving academics, retired officials, and military officers and other track-two activities).

In the past, steps to allow more normal travel of Indians and Pakistanis to each other's country have been discussed and intermittently implemented. It is time for there to be genuine and sustained action on such measures. This would result in reduced visa restrictions to make it easier for people to move across the frontier and fewer bars to in-country travel by Indian or Pakistani visitors. This issue has great humanitarian importance for Muslim families. Split by partition between India and Pakistan, they continue to face serious obstacles in meeting their relatives across the border.

Reducing Hate Propaganda. India and Pakistan should try to dampen "hate" propaganda by government agencies and the media. In the past, the two countries have from time to time agreed to take steps to dampen inflammatory criticism, but these accords have proven short-lived affairs. One side or the other has always found it convenient to resume the propaganda war. Although New Delhi and Islamabad do not control privately owned media, they have considerable influence over the tone of press commentary and what is shown on private television channels. The central governments, however, directly manage publicly owned radio and television stations and are responsible for the message they convey.

The Indian and Pakistani governments also have a major voice in determining the tone and content of textbooks used in the school systems. Regrettably, both countries have been guilty of efforts to rewrite history to stir antipathy against the neighbor. Pakistani textbooks cast Hinduism and Hindus in a negative light; in India, the Hindu-nationalist Bharatiya Janata Party (BJP) has been spearheading an effort to denigrate the role of Muslims in South Asian history. Avoidance of distorted histories that encourage hostility in Indian and Pakistani children would mark a major step forward. Forging respective national identities based on a cooperative future rather than a conflicted past poses an enormous

challenge for both India and Pakistan, but one that must be addressed if the two countries are to achieve lasting resolution of bilateral differences.

DEALING WITH THE KASHMIR ISSUE ITSELF

Although it would be counterproductive at this point to inject U.S. views regarding what a final settlement might look like or how to get there, the Task Force does recommend that the following three principles govern diplomacy on Kashmir:

- No settlement can be reached that humiliates either India or Pakistan. Both must feel that the ultimate arrangement is honorable.
- Any adjustments in borders should be approached with extreme care and can proceed only with the consent of all the concerned parties. Territory cannot change hands through use of force or terrorism. Support for violence across the LOC should no longer be used by Pakistan as an instrument of national policy.
- Kashmiris must be fully consulted in the course of determining the final resolution of the state's future. Any lasting settlement is likely to require some change in the way the areas populated by Kashmiri speakers are governed. Proposals for various degrees of autonomy and special status have been put forward. Other ideas may be forthcoming. All deserve a serious hearing.

South Asia, its stability, and the avoidance of a possible nuclear war between India and Pakistan have enormous importance for the United States, especially in winning the war on terrorism. Washington has a deep political and economic interest in broadening and deepening the relationship with India. The United States has a huge stake in Pakistan's becoming a "modern, progressive, and dynamic" nation and not a failed state. In seeking a way out of India and Pakistan's historical conundrum, Prime Minister Vajpayee's April 2003 statement on Kashmir—"It is time to change things!"—offers wise guidance. In keeping with this advice, the United

Managing India-Pakistan Tensions

States should shift its policy gears from its current reactive stance to become actively engaged on a sustained basis to help India's and Pakistan's own efforts to manage their dangerous rivalry and ultimately to work out their differences, including the Kashmir dispute.

AFGHANISTAN²⁴

Nineteen months after the defeat of the Taliban and their terrorist al-Qaeda allies, Afghanistan is still a long way from the U.S. goal of a stable self-governing state that no longer provides a haven for terrorists. In recent months, the country has become increasingly insecure outside the capital city of Kabul, where the International Security Assistance Force (ISAF) maintains order. In much of Afghanistan, political power remains in the hands of semiautonomous regional leaders and warlords. Progress in economic reconstruction has been slow. Public discontent has been rising. The political process calling for a constitution and national elections by June 2004 remains shaky. Unless the situation improves, Afghanistan risks sliding back into the anarchy and warlordism that prevailed in the 1990s and helped give rise to the Taliban. Such a reversion would have disastrous consequences for Afghanistan and would be a profound setback for the U.S. war on terrorism. To prevent this from happening, the United States must provide more effective security, diplomatic, and economic support to the transitional government of President Hamid Karzai.

Current security policy, as articulated by Secretary of Defense Donald Rumsfeld during his May 1, 2003, visit to Kabul, does not include peacekeeping responsibilities for U.S. forces. In the Afghan setting, where the United States has the primary military power, this approach fails to address the growing security challenge that the Karzai government faces. Until the authorities in Kabul develop greater capability to maintain the peace, the United States should be prepared to help, especially in dealing with recalcitrant regional leaders and warlords. *Specifically, Washington should:*

- make peacekeeping outside of Kabul part of the mandate for the 11,000 U.S. and coalition forces or, alternatively, support an enlarged ISAF with an expanded role;

²⁴This section of the Task Force Report was first issued on June 18, 2003.

- actively participate in the planned effort to demobilize, demilitarize, and reintegrate (DDR) local militias; and
- dramatically accelerate the training and development of the Afghan National Army (ANA). The current target of 9,000 troops for the summer of 2004, when a permanent Afghan government is slated to assume office, is painfully inadequate. To give the central government a more credible peacekeeping capability, the United States should be targeting a force of approximately 27,000 men, including integrated militias. The Ministry of Defense also needs to be reformed into a more nationally representative organization.

Given the extent of Afghanistan's physical and human damage, a long-term assistance effort, stretching at least until 2010, will be required before the country can get back on its feet. There should be no illusions on this score. Although successful reconstruction depends on whether Afghanistan can achieve political stability and physical security, an adequate flow of foreign assistance is also vital. Secretary of State Colin Powell was correct when he told attendees at a September 2002 international donor's conference, "Without [our sustained assistance], [the Afghans] will surely fail." *As part of the international effort, the United States should:*

- provide at least \$1 billion a year for reconstruction—over and above relief help—for the next five years (this is one-third of the \$15 billion that the World Bank says is needed; in 2002, combined U.S. relief and reconstruction aid totaled \$928 million);
- make sure that U.S. assistance programs match the priorities that the Karzai government has established and that the programs are implemented through the central government; and
- ensure that the Kabul-Kandahar road is rebuilt by the end of 2003, in line with President George W. Bush's promise, and urge other donors to move expeditiously on their segments of the effort to rebuild major road links.

The United States should also do more diplomatically to bolster the Afghan government by taking stronger steps to deter neighbors from interfering in Afghanistan. *In this area, Washington should:*

- urge Iran and Russia to avoid undercutting the Karzai government by supporting different Afghan factions, and press Pakistan to work harder at preventing pro-Taliban elements from using Pakistani tribal territory for attacks across the border; and
- launch a major diplomatic initiative to obtain a broad international agreement among all of Afghanistan's neighbors and other interested powers not to interfere in Afghan affairs, to bar arms supplies to warlords, and to recognize Afghanistan's frontiers.

Despite the fact that Secretary Rumsfeld has proclaimed an end to combat operations in Afghanistan, the victory in Operation Enduring Freedom will be jeopardized unless the United States helps provide the transitional government more effective tools to assert its authority and to promote economic reconstruction. The world thinks of Afghanistan as America's war. Losing the peace through inadequate support for the Karzai government would gravely erode U.S. credibility around the globe and make it far more difficult to obtain international support in dealing with similar crises in the future.

THE INTERNATIONAL EFFORT IN AFGHANISTAN

Unlike in Iraq, the process of political and economic reconstruction in Afghanistan has involved a broad multinational coalition coordinated by the UN and supported by donor agencies and many nations. After the fall of the Taliban, the United States and the international community developed the following common goals for Afghanistan:

- re-establish a viable self-governing state structure reflecting the will of the Afghan people;
- secure its national borders, maintain domestic peace, and deprive terrorists of a haven;

Afghanistan

- stand on its feet economically and resume its traditional role as an interregional trade corridor;
- protect the rights of women and minorities and eschew religious extremism; and
- control narcotics production.

The rapid defeat of the Taliban during Operation Enduring Freedom caught the world unprepared to tackle the daunting political and economic challenges that Afghanistan posed. Fortunately, at the December 2001 Bonn conference, the major Afghan groups reached a broad agreement to establish an interim government led by Hamid Karzai, a Pashtun opponent of the Taliban. The Bonn accords also established a timetable for a political process leading to the formation of a permanent Afghan government within three years. In June 2002, a major milestone was successfully passed when a *loya jirga* (grand national assembly) elected Karzai to lead a transitional Afghan government. The Bonn conference also called for a draft constitution and a second *loya jirga* to consider the basic law by December 2003, and national elections conducted by the transitional administration to select a permanent government under the new constitution by June 2004.

Under the direction of the UN secretary-general's special representative, Lakhdar Brahimi, the UN has been leading the coordination of political and economic assistance. In a division of labor among the major external players in the security area, the United States is principally training the new Afghan army; Germany has assumed responsibility for training the national police force; Italy is focusing on legal reform; Japan is funding the effort to demobilize, demilitarize, and reintegrate the militias; and the United Kingdom has agreed to head the narcotics control effort. To provide security in the capital city of Kabul, ISAF has been established. U.S. forces continue the military effort against al-Qaeda and Taliban remnants but do not have a mandate for enhancing security.

HOW TO DEAL WITH GROWING INSECURITY

A year and a half after the defeat of the Taliban, Afghanistan has become an increasingly insecure country. In recent months, the situation has worsened in the Pashtun-populated areas of the south and east, especially near the borders with Pakistan. Taliban elements and their allies, often operating out of Pakistan's tribal belt, have been responsible for attacks against Karzai supporters, foreign aid officials, and the U.S. military. Elsewhere in the country, an uneasy calm, punctured by sporadic violence, prevails. Strife between rival commanders (for example, in the Herat and Mazar-e-Sharif areas) or just plain banditry and lawlessness are the main sources of trouble, rather than incidents by pro-Taliban elements.

In Kabul itself, ISAF, a 4,800-strong international peace-keeping force, has had a positive impact. Led for rotating six-month periods by the British, the Turks, and the Germans and the Dutch, ISAF will come under the leadership of the North Atlantic Treaty Organization (NATO) in August 2003. The force has been successful in ensuring reasonable security and deterrence in the capital city. During the winter of 2002, there was discussion of expanding ISAF to five cities outside of Kabul and of establishing a "flying brigade" to provide a rapid-reaction capability elsewhere in the country. After the United States refused to provide airlift, intelligence, and extraction support, however, the proposal died. One of ISAF's major weaknesses—rotating leadership every six months—should be solved when NATO assumes permanent charge this summer. The possibility of expanding ISAF's charter to include security-enhancement functions outside the capital city should be revisited on an urgent basis, especially if the United States continues to be unwilling to accept these responsibilities. This time around, Washington should be forthcoming in providing necessary support to ISAF.

Reducing the political and military strength of semiautonomous regional leaders and commanders has now become an urgent need. American military cooperation with, and dependence on, local warlords and their militias during Operation Enduring

Afghanistan

Freedom has made it harder now for the central government to assert its authority. Although the mere presence of U.S. and coalition troops has provided a measure of stability in areas where they are located, the Pentagon has unwisely excluded from their mandate either security enhancement or support for the central government's efforts to bring unruly warlords under its sway. Over the long term, the presence of large armed militias—estimated at as many as 100,000 fighters—controlled by local leaders, instead of Kabul, is incompatible with a viable national government. Even though Afghanistan has a history of local tribal levees, these were traditionally integrated into the national military. With Japan taking the financial lead, agreement on a DDR program has finally been reached, supposedly with the backing of the major warlords, and is slated in theory to begin in summer 2003.

Under the DDR plan, some fighters would receive financial support to lay down their arms and others would find a place in the new national army. With the right combination of incentives and disincentives, many warlords can gradually be integrated into the national system, probably through a lengthy process of negotiation and consensus-building. Hard-core spoilers, however, are unlikely to respond positively and will have to be uprooted forcefully. The Kabul government needs sufficient financial resources and security forces to persuade (and, where necessary, to compel) local commanders to cooperate. The current reluctance of the Pentagon to authorize active participation by the U.S. military in implementing the DDR effort is likely to doom the program. Instead of standing aloof, U.S. forces should be instructed to work in tandem with the Afghan transitional government, the UN, Japan, and others engaged in implementing a project that is vital for the creation of a stable Afghanistan.

U.S. strategy has been to allow regional forces and militias to remain intact while the new Afghan National Army and other institutions, especially the national police, take shape and ultimately provide the security underpinning for the Kabul government. Although the concept is laudable, the pace of establishing, training, and equipping the ANA has been painfully slow and the force

targets grossly inadequate. To date, just eight battalions have completed their ten-week basic training cycle. At the current rate, the ANA will have only 9,000 soldiers when the new government takes office a year from now. At the present schedule, under which a new battalion begins training every five weeks, only 6,000 troops will be added annually.

The projected ANA force is far too small to deal with the security problems that the post-June 2004 government of Afghanistan will face. A 9,000-man force cannot be widely used around the country and will be too inexperienced to maneuver as a unit against regional militias. The United States should drastically increase the pace of developing the ANA in order to give the post-2004 government a reasonable peacekeeping capability. Instead of 9,000, the United States should be targeting a force of around 27,000, including troops from militias integrated into the ANA. In addition to boosting the numbers of those passing through basic training, more attention also needs to be paid to the functioning and training of the ANA beyond the initial ten-week cycle. Salaries are too low for the common soldier to live in inflation-ridden Kabul. Inadequate pay has been a factor in the poor quality of recruits, a high dropout rate, and a lack of professionalism.

Another problem concerns Minister of Defense Muhammad Fahim, the one-time deputy to the late Ahmed Shah Masood. Fahim took over military leadership of the Northern Alliance after the assassination of Masood on September 9, 2001, and has continued to operate in a semi-independent manner. Along with his factional supporters, who come largely from the Panjsher Valley, Fahim needs to provide more active backing to the new Afghan National Army. Like other regional leaders, Fahim must also over time permit (or be compelled to allow) forces currently loyal to him to be demobilized or integrated into a broadly representative defense force that takes its orders from the central government. As part of this process, the Ministry of Defense needs to be reformed in order to remove it from factional control.

On the positive side, initial reports indicate that the ANA battalions have received good support in areas of continued training and have done well in their temporary employment in stability oper-

ations. There has also been a considerable effort to make sure the soldiers in the ANA battalions represent a reasonable mix of Afghanistan's major ethnic groups. Given Afghanistan's strong ethnic sentiments, it is essential that the ANA be a truly national force. It is similarly important that there be a nationally representative officer corps, not a factional one.

In many respects, the development and training of a national police force is as important as building the ANA. Police functions will include not only usual law-and-order responsibilities but also the control of Afghanistan's borders and the collection of customs duties. The latter is of great importance economically, since customs will provide the major source of revenue for the central government. As in the case of the ANA, progress toward training the new national police has been far too slow. Germany and others involved in the process need to accelerate their efforts to provide an adequate, professional force.

Recently, the United States decided to deploy eight provincial reconstruction teams (PRTs), each of which includes fifty to seventy U.S. military personnel along with diplomatic- and, in principle, economic-assistance specialists. To date, PRTs have been established in Kunduz, Bamian, and Gardez. The concept is controversial; aid officials and many nongovernmental organizations (NGOs) worry about blurring the distinction between security and reconstruction and between military and civilian purposes. The PRTs' main purpose is to help in reconstruction by "winning hearts and minds through small projects." Secretary Rumsfeld stated on April 26, 2003, that the PRTs "will demonstrate to the people of Afghanistan that supporting the central government is a good thing, it benefits them, and that is the path of the future." Although it is wishful thinking to believe that eight PRTs will have a significant impact on the overall reconstruction effort in a country of twenty-four million people, their mere presence will be a stabilizing factor in the areas where they are located. The U.S. government should promptly deploy the announced complement of eight PRTs. If the experiment proves successful, establishing additional PRTs should be considered.

POLITICAL DEVELOPMENTS

In June 2003, the transitional Afghan government remains in the early stages of extending its authority beyond Kabul's city limits. Governance outside the capital is shared between autonomous local leaders—the most prominent of which are Ismail Khan in Herat, Abdurrashid Dostum and his rival Atta Muhammad around Mazar-e-Sharif, and Gul Agha in Kandahar—and functionaries that work for the transitional administration. Some local leaders are responsible, but most are old-fashioned warlords—in many cases the very same warlords whose depredations, including toward women, paved the way for the rise of the Taliban. In the Pashtun areas in southern and eastern Afghanistan, political authority remains highly fractured. Karzai is often viewed as a token Pashtun and front man for Panjsheri and American interests. In the absence of effective security forces of the central government, private armies and militias continue to hold sway over most of the countryside.

The immediate political tasks spelled out by the Bonn agreement are to complete work on a new constitution and to hold national elections. Significant constitutional and legal questions need to be resolved before convening a *loya jirga* to consider the draft constitution. Modern Afghanistan has a history of centralized governance in nearly permanent tension with semiautonomous local and regional tribal rule. The challenge for the constitution-makers is to find a legal formula that captures this continuing reality. The constitution must also define the role of Islam in the new state. This calls for balancing traditional Islamic legal values with the legal system that the monarchy established in the 1920s. Although religious conservatives continue to have a strong voice, life under the Taliban provided Afghans with a cautionary example that may serve as a brake on the revival of the harshest forms of Islamist rule and of the related persecution of women.

The task of organizing and conducting national elections by June 2004 poses complex challenges. Election and political party laws need to be adopted. Voters have to be registered. Some sort of census must be conducted to ensure the fair allocation of parlia-

mentary seats. This is a daunting task in a country with such poor communications and administrative infrastructures. In determining the representation of different regions and ethnic groups, the census count and subsequent allocation of seats will raise extremely delicate political issues. To date, little if any progress has been made in these tasks. Time is running short.

Although the timetable for drafting the constitution and holding a *loya jirga* still seems feasible, there are growing doubts that national elections can be organized in an orderly and fair manner before June 2004. One way to address this problem would be to separate presidential and parliamentary polls, holding the voting for the head of state in line with the Bonn timetable but putting off the parliamentary elections until later. This would provide the additional time needed for the complex and highly sensitive task of conducting the census and demarcating electoral districts that accurately reflect the population's distribution. Such a procedure would be far preferable to a disorganized electoral process that fails to gain acceptance as free and fair and impairs the legitimacy of the future Afghan government.

The Afghan people badly want to get on with the job of building a new state structure after two decades of destruction and despair. Despite increased ethnic, regional, and sectarian rivalries, Afghans retain a strong sense of nationhood. Although politically weak, President Karzai has gained legitimacy and far greater nationwide popularity than any other Afghan figure. Even if their cooperation is often halfhearted, regional and local leaders are willing, rhetorically at least, to acknowledge Karzai's preeminence and leadership.

EXTERNAL INTERFERENCE

During the past two decades, Afghanistan's neighbors have actively interfered in the country's internal affairs, supporting ethnic and tribal brethren and local favorites. Breaking this habit will be difficult, but the United States must make this a major policy objective in the effort to bolster the stability of the new Afghan government. The recent upsurge in attacks by Taliban supporters, often

mounted from Pakistan's tribal areas, has once more brought this issue to the fore.

The porous frontier and the history of recent years make clear that elements in Pakistan can interfere in Afghanistan any time they choose to do so. Hence the deep concern caused by the electoral success of pro-Taliban Islamist parties in the October 2002 Pakistani elections. The Pakistani Inter-Services Intelligence Directorate (ISI) is widely assumed to have maintained operational contacts with Taliban remnants, who have sought refuge in Pakistan's border areas, as well as with Gulbuddin Hekmatyar, a renegade former mujahideen commander. Whether these links are the result of lower-level rogue operatives or have the tacit support of upper echelons of the ISI remains an open question. The United States should press Pakistan to do a better job of controlling the border areas and make emphatically clear that any official or unofficial support for interference in Afghanistan would be inconsistent with Pakistan's role in the war against terrorism and with improved U.S.-Pakistan relations.

Iran can also disturb the fragile situation in Afghanistan by intensifying military and political support in certain areas, especially Herat and the Hazarajat. Even though the United States has no diplomatic relations with Iran, the two countries have had ongoing discussions, including Afghan-specific talks. Tehran may also listen to others, in particular, Europe and Russia, concerning Afghanistan. Moreover, the United States has considerable leverage, in terms of both military and financial carrots and sticks, with Herat's governor, Ismail Khan, who has close ties with Iran. Reports of Russia's providing military equipment to warlord Abdurrashid Dostum's forces and maintaining a separate, direct relationship with Marshall Fahim, while keeping cordial relations with the transitional government, are also disturbing and need to be addressed.

In the new strategic environment, Afghanistan's neighbors stand to benefit from its stability. The country's poverty and enormous reconstruction requirements ensure that no government in Kabul will be able to threaten regional stability or peace for the foreseeable future. But Afghanistan's neighbors can aggravate existing instability if they once more actively interfere in Afghanistan's

internal affairs. Their governments all say that they are not interfering and in fact desire friendly relations with the Karzai government. The aim of U.S. diplomacy should be to see that reality corresponds with stated policy.

In trying to deter outside meddling in Afghanistan, the United States should undertake a major diplomatic initiative to follow up the December 2002 effort of the Karzai government that obtained noninterference pledges from Afghanistan's neighbors. This was a useful step but should be buttressed by a far broader and more ambitious international undertaking, the purpose of which would be to reaffirm and strengthen the pledge of noninterference in Afghanistan's internal affairs, to agree on banning the supply of arms and other military equipment to local Afghan groups, and to accept current Afghan borders, including the Durand Line frontier with Pakistan. The U.S.-sponsored initiative should also promote regional agreements between Afghanistan and its neighbors to improve customs collection, transit trade, and border control.

To be effective, the initiative must involve Afghanistan, all its immediate neighbors—Pakistan, Iran, Turkmenistan, Uzbekistan, Tajikistan, and China—and other interested powers, including the United States, Russia, Saudi Arabia, India, the European Union, and Japan. Although such a major international accord could not on its own end cross-border interference, it would create a barrier to this highly destabilizing conduct and strengthen the position of the new Afghan state. It would also provide a politically palatable vehicle to resolve the long-standing and still potentially troublesome frontier dispute with Pakistan. For the agreement to have maximum impact, its signing should coincide with the assumption of power by the new Afghan government in 2004.

RECONSTRUCTING AFGHANISTAN

Two decades of conflict—during which Afghanistan experienced Soviet occupation, jihad, civil war, Taliban rule, and Operation Enduring Freedom—have left the country a wasteland. Never well developed, the country's infrastructure lay in ruins when the

Taliban were ousted in November 2001. Roads, electric power plants, hospitals, schools, and irrigation and telecommunications facilities were heavily damaged. The capital city of Kabul was in shambles. Afghanistan's administrative structure had collapsed.

The process of developing a blueprint for rebuilding Afghanistan, deciding on a division of labor among aid donors, and establishing a coordinating mechanism has required time. The Karzai government started from scratch. In the beginning, there were ministers but no ministries. The assistance effort was at first predictably beset by confusion, differing and often conflicting procedures and priorities among donors, and inadequate donor coordination. Although the aid machinery has begun to function more efficiently, significant problems remain in the areas of donor coordination, high administrative costs, and ensuring the flow of adequate resources for reconstruction.

Understandably, the initial focus of assistance lay on meeting immediate humanitarian needs. The impact of several years of drought and an unexpectedly large inflow of returning refugees (in itself a positive sign) required a massive effort to prevent starvation and provide shelter from the winter's bitter cold. The transitional government has slowly gained capacity, even if it remains a work in progress. One important achievement was the successful introduction of a new currency in the fall of 2002, a symbolically important assertion of sovereignty and authority.

As summer 2003 begins, emphasis is shifting from providing short-term relief and humanitarian assistance to the longer-term task of national reconstruction. To its credit, the Karzai government has developed rational operational and development priorities and incorporated these into a consolidated national budget for 2003. In meetings in Kabul and in Brussels during March 2003, the foreign donor community accepted the Afghan budget as the basis for moving ahead. It agreed in principle to funnel assistance through the central government and to ensure that donor priorities match those that the Afghans themselves have established. It is essential that the United States and other donors implement these undertakings; failure to do so will seriously undercut the credibility of the central government and the reconstruction effort.

The 2003 budget calls for a total expenditure of \$2.25 billion—\$550 million for salaries and government operations and \$1.7 billion for development. Donor pledges cover 88 percent, leaving a gap of \$276 million. Of the uncovered amount, \$200 million is slated to cover salaries and government operations, a highly sensitive area. The transitional government, at this juncture, collects few taxes or customs revenues and has to rely on the uncertain largesse of foreign aid donors to pay civil servants and meet other basic administrative expenses. In order to strengthen the central government, it is vital that control of customs collection at the major border crossing points passes from regional leaders to the authorities in Kabul. Reportedly, Ismail Khan in Herat took in \$100 million in custom duties last year, a sum larger than the \$80 million that the transitional government was able to collect nationwide. He turned over only \$10 million to the central government.

During fiscal year (FY) 2002, the United States contributed \$928 million (the figure combines relief and reconstruction activities) and has said that it intends to meet or exceed this amount in 2003. It is essential that the United States and other donors deliver fully on their aid pledges, that contributions are made in a timely manner, and that they address needs that the transitional authorities have identified. It is also important that foreign donors, including the United States, work through and not bypass the central government in developing and implementing their assistance projects. One of Hamid Karzai's major political strengths has been his ability to secure substantial amounts of foreign assistance. His capability to direct aid activities to different parts of the country—in effect the power of patronage—gives him a potent tool in enlarging the authority of the central government and valuable leverage in the process of incorporating regional leaders into the national administrative structure. A key element of the demobilization process will be Kabul's ability to provide alternative employment for former militia fighters.

Economic development is also vital in stopping the resurgence of poppy production. Unfortunately, Afghanistan has once more become the world's largest producer of opium. In 2002, according to the UN, Afghanistan produced 3,400 tons of the drug—

more than eighteen times the amount produced during the last year of Taliban rule. The estimated value of this harvest to producers and traffickers (mostly the latter) was \$2.5 billion—twice the total aid Afghanistan received from all donors in 2002. The British have taken lead responsibility in dealing with the narcotics problem but, absent alternative sources of income for the farmers, have made little progress.

AFGHANS FRUSTRATED BY SLOW ECONOMIC PROGRESS

Despite significant achievements since the defeat of the Taliban, Afghans feel frustrated and disappointed by the slow pace of economic reconstruction. Reality has fallen far short of public hopes and expectations. In part to provide more tangible signs of progress, the donor community agreed to rebuild the major roads between Kabul and the other principal Afghan cities: Mazar-e-Sharif in the north, Jalalabad in the east, Kandahar in the south, and Herat in the west. After two decades of conflict and neglect, these transportation links—mostly constructed by the United States or the Soviet Union during the Cold War competition—are in terrible condition. Their ruts and potholes represent a serious barrier to the resumption of more normal life and economic recovery.

The United States has assumed responsibility for the stretch of road between Kabul and Kandahar. Saudi Arabia, Iran, Japan, and the Asian Development Bank have agreed to undertake other parts of the project. To bolster the overall credibility of the United States and the international assistance effort, it is essential that the U.S. Agency for International Development (USAID) complete the American portion by the end of 2003, as promised by President Bush, and that other donors move expeditiously in their sectors. The road projects have enormous symbolic value but will also have a great and positive economic impact.

Over the coming five years, the World Bank and the government of Afghanistan believe that \$15 billion in development assistance is needed over and above funds for relief and rehabilitation. At a minimum, the United States should be prepared to provide

one-third of this total, or \$1 billion a year in reconstruction help. This is about the amount that the U.S. Congress authorized for FYs 2003 and 2004 in the Afghan Freedom Support Act in November 2002. President Bush has repeatedly promised that the United States will stay the course in Afghanistan, even pledging a long-term commitment modeled on the Marshall Plan. Thus far, the funds that the United States has delivered for reconstruction have fallen short of such promises, especially when one recalls that the United States was already providing \$174 million in relief assistance in the last year of Taliban rule.

CONCLUSIONS AND RECOMMENDATIONS

Success in achieving U.S. goals in Afghanistan depends on several factors, among which the following are key:

- establishment of a new and nationally acceptable political structure;
- restoration of security throughout the country and demobilization and reintegration of local militias;
- noninterference from neighbors in Afghanistan's internal affairs; and
- progress in reconstruction and rehabilitation.

Apart from Afghanistan itself, perhaps no nation has a greater stake than the United States has in Afghanistan's achieving these goals and not reverting to civil war and anarchy. To ensure that this does not happen, the United States must take a number of steps to bolster the Karzai government.

In the security area, the United States should:

- maintain adequate military forces until the Afghan state can assume this responsibility;
- task U.S. troops with the mission of peacekeeping outside of Kabul, unless an enlarged and expanded ISAF assumes this responsibility;
- cooperate actively with the UN and the Kabul government in supporting implementation of a DDR program instead of remaining aloof;

New Priorities in South Asia

- drastically increase the size of the ANA projected for June 2004, increase salaries for ANA soldiers, and provide enhanced unit and combat training;
- support reform of the Ministry of Defense to make it a more nationally representative organization; and
- deploy the eight planned PRTs promptly and consider additional PRTs if the experiment proves successful.

In the political and diplomatic area, the United States should:

- support holding presidential and parliamentary elections separately if there appears to be inadequate time to prepare properly for both by June 2004;
- press Iran, Russia, and Pakistan to bring their real policy into line with their stated policy of noninterference in Afghanistan's internal affairs; and
- seek high-level international agreement from Afghanistan's neighbors and others to keep their hands off Afghanistan's internal affairs, ban the transfer of arms and equipment to warlords, accept Afghanistan's frontiers, and promote trade, transit, and customs-collection arrangements.

In the reconstruction area, the United States should:

- provide at least \$1 billion of economic assistance annually over the coming five years, over and above humanitarian help;
- ensure that U.S. economic assistance priorities are consistent with those of Afghanistan and that programs are implemented under the aegis of Afghanistan's central government; and
- complete the Kabul-Kandahar road project by the end of 2003 and press other donors to implement their portions of the road project as quickly as possible.

At the March 17, 2003, meeting of donors in Brussels, Afghanistan's finance minister, Ashraf Ghani, starkly sketched two possible futures for his country: "With a national vision, wise policy choices, and coordinated and cogent international support, Afghanistan could become a self-sustaining, moderate Islamic, friendly state; a bridge between western and Islam[ic] civilizations. However, with fragmented support, or a loss of international

Afghanistan

interest, Afghanistan at best will become another development failure, lurching from crisis to crisis, and at worst a narco-mafia state, with a criminal elite and no respect for rule of law or civil and human rights.”²⁵

If the United States is to win the war against terrorism in Afghanistan, the vision of a self-sustaining moderate Islamic state—not the bleak alternative—must become reality. In support of this vision and of U.S. national interests in a stable Afghanistan, it is essential that Washington sustain high-level attention on Afghanistan and provide more effective security, economic, and diplomatic support to the central government there.

²⁵Summary, Afghan High-Level Strategic Forum, Brussels, March 17, 2003.

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