

Challenges in South Asia: Moderator Remarks

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India has been relatively insulated from the global financial crisis but nevertheless has not escaped and is being hit at a critical time: after a three year “dream run for the economy” of more than 9 percent growth per annum. India needs to sustain this level of growth for at least a decade to make a significant dent in lifting an estimated three hundred millions out of absolute poverty and providing employment to the majority excluded from the benefits of high growth in agriculture and in the informal sectors. Currently, growth for 2008-09 and 2009-10 is estimated at below 7 percent. Moreover, these high growth rates relied on record levels of Foreign Direct Investment (US\$36.8 billion in 2007-08) which appears to remain on trend, but also portfolio investment, whose net outflows reached \$U.S. 5.5 billion from April-September 2008. In the interim, the Mumbai terror attack has raised serious questions about the city’s future as a world class financial center: in addition, the Prime Minister and the Home Minister have warned about the impact on India’s development of the widening operations of revolutionary (Naxalite) groups and the increasing despair of the Muslim community, which can give rise to new waves of terror. Confronted by the pressures of the global financial crisis and the growing alienation of large domestic groups by passed by India’s high growth, what are the realistic prospects that India can realize its potential as a major economy and great power. What are the implications for domestic law and order if growth rates indefinitely plateau at six or seven percent? What impact will all these factors have on prospects for deepening the Indo-US security partnership, arguably the greatest legacy in foreign policy of the Bush Administration?

Pakistan is already in deep financial crisis dependent on a lifeline from the IMF, and proposals for 1.5 billion in aid from the US for the next five years. But such financing comes with economic, and political strings, and it is uncertain Pakistan can manage to meet these conditionalities. Is it time to prepare for the worst case scenario, that civilian government collapses, that even a military regime cannot or will not restore control over the FATA, and NWFP, that the Taliban begins to expand its control beyond these areas, or at least make stable governance impossible through more and more terror attacks.

How concerned should we be about the Taliban, al Qaeda, LeT, etc. gaining access to Pakistan's nuclear weapons or fissile materials?, and what should be the US strategy for responding to the possibility of a political implosion in Pakistan?

What are the implications for a failed state in Pakistan for U.S. policy in Afghanistan? How realistic is the emphasis of the Obama Administration on diplomacy as a major instrument of policy in the region? With whom can the US negotiate and about what?