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Donald Trump's Afghanistan Policy Statement – Economic Implications for India

In his comprehensive statement on America's policy towards Afghanistan on 22 August 2017, United States (US) President Donald Trump outlined his country's efforts to bring an end to its nearly 16-year-long war in Afghanistan. Among other things, the president called for a more proactive involvement by India and Pakistan in the US' strategy towards Afghanistan. While Trump's focus on these two South Asian countries will likely have considerable impact on geopolitics in the Indian subcontinent, might it also have any economic implications for India? This paper argues that the economic implications for India will be marginal, at any rate, in the short term.

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In his first comprehensive statement on America's policy towards Afghanistan on 22 August 2017, United States (US) President Donald Trump emphasised a greater political and material commitment to bring America's longest war – American forces entered Afghanistan in October 2001 – to a definite conclusion. While the policy statement was primarily focussed on the US involvement in Afghanistan, it was also seen as an attempt to reconstruct

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America's relations with Afghanistan's neighbours – India and Pakistan – signalling a potential reconfiguration of South Asian geopolitics.²

The policy statement included two key points with reference to India.

First, while expressing his gratitude to India for its important contributions to restoring stability in Afghanistan, Trump called on New Delhi to do more. He said, "...India makes billions of dollars in trade with the United States, and we want them to help us more with Afghanistan, especially in the area of economic assistance and development. We are committed to pursuing our shared objectives for peace and security in South Asia and the broader Indo-Pacific region."³

The second contextual point was made in relation to Pakistan. The American President said, "...Pakistan often gives safe haven to agents of chaos, violence and terror. The threat is worse because Pakistan and India are two nuclear-armed states whose tense relations threaten to spiral into conflict. And that could happen."⁴

Unlike his statement on North Korea a week earlier which was more bluster than thoughtful, Trump's Afghanistan policy was a carefully crafted and prepared statement, and, therefore, deserving of greater scrutiny.

Might this policy stance have any economic implications for India? This is a critical question for India, given its imperative to accelerate its growth rate and the importance of economic cooperation with the US to achieve this aspiration. In an article for The Brookings Institution on 22 June 2017, Joshua P Meltzer and Harsha Vardhana Singh said that, "Under both Republican and Democratic administrations, U.S.-India relations have improved significantly over the past 10 years. Today, the two countries have a \$115 billion [\$156 billion] two-way

² For an understanding of the potential geopolitical implications of Trump's policy statement on South Asia, see "America's Reset of Afghan Strategy: Potential Realignment of South Asian Geopolitics", *ISAS Insights* No. 456, C Raja Mohan, 23 August 2017. <https://www.isas.nus.edu.sg/isaspapers/Pages/Insights1.aspx>. Accessed on 2 September 2017.

³ "Full Transcript and Video: Trump's Speech on Afghanistan", *The New York Times*, 21 August 2017. <https://www.nytimes.com/2017/08/21/world/asia/trump-speech-afghanistan.html?mcubz=1>. Accessed on 2 September 2017.

⁴ Ibid.

trading relationship, growing foreign direct investment, and an increasingly shared vision of the region's strategic outlook that has bolstered bilateral defense interests.”⁵

The author's assessment is that the economic implications of Trump's Afghanistan policy statement for India will be marginal, at any rate, in the short term. It should be noted that the context of the Trump statement was entirely strategic and political. The reference to India was incidental within that overall context. The economic implications for India, if any, are unlikely to have been on the US policy radar.

Even so, could there be some unintended economic implications?

Short-term and Direct Implications

The Trump stance is decidedly negative for Pakistan. The president was highly critical of Pakistan for harbouring “criminals and terrorists”. Asserting that Pakistan was hurting American interests, he said, “...Pakistan has also sheltered the same organizations that try every single day to kill our people. We have been paying Pakistan billions and billions of dollars at the same time they are housing the very terrorists that we are fighting. But that will have to change. And that will change immediately. No partnership can survive a country's harboring of militants and terrorists who target U.S. service members and officials. It is time for Pakistan to demonstrate its commitment to civilization, order and to peace.”⁶

Trump's strong stance against Pakistan is bound to make US trade and investment cautious about increasing their exposure to Pakistan. Indeed, other western countries too might follow the US signal. However, will Pakistan's loss be India's gain? In other words, will India benefit on the rebound? That is hardly likely because India and Pakistan are in different brackets in the perceptions of international trade and investment circles. India is several notches above Pakistan in the economic league table. It will not be an automatic or even appropriate destination for what is vacated out of Pakistan.

⁵ “Growing the U.S.-India economic relationship: The only way forward”, Joshua P Meltzer and Harsha Vardhana Singh, *Brooking*, 22 June 2017. <https://www.brookings.edu/blog/up-front/2017/06/22/growing-the-u-s-india-economic-relationship-the-only-way-forward/>. Accessed on 1 September 2017.

⁶ “Full Transcript and Video: Trump's Speech on Afghanistan”, op cit.

Long-term and Indirect Implications

Even if there are no direct economic implications for India, could there be indirect economic consequences? It is possible, but they are unlikely to be positive.

Pakistan's dependence on American aid has been declining in recent years. On the other hand, its reliance on China for trade, investment and economic assistance is growing. The Trump stance could push Pakistan more solidly into the Chinese orbit. The policy statement resulted in widespread anger in Pakistan with several analysts and commentators accusing Trump of conspiring with India against their country.

The US initiative to elevate India to the status of a key partner in bringing peace and security to Afghanistan may, in fact, strengthen the China-Pakistan nexus. According to Harsh Pant, Professor of International Relations at King's College in London, "China is the shield now behind which Pakistan can be expected to continue to play its double game...The more aid America will cut, Pakistan will be expecting China to fill the vacuum."⁷ If as a consequence of the strengthening of the China-Pakistan link, India has to spend more on defence and security, it will be a negative for the country.

Is it at all possible that this prospective India-US partnership in Afghanistan will serve as a platform to take the bilateral economic relations to a higher level? There does not appear to be much of a promise in that regard as well.

The Trump statement is certainly a recognition of India's importance as a strategic partner in Afghanistan. However, the nuancing was curious. Trump did not request or solicit India's involvement in Afghanistan. On the contrary, he seemed to demand it as India's obligation because "India makes billions of dollars in trade from the United States." This nuancing does not show any recognition of India's economic promise or any signal that the partnership in Afghanistan will be the launch pad for stronger relationship beyond just security concerns. Indeed, there may be no softening of US stance on outstanding issues such as visa restrictions for software professionals or non-tariff restrictions on Indian exports. On the contrary, there

⁷ "With Chinese Support, Pakistan Can Ignore Trump on Afghanistan", Iain Marlow and Ismail Dilawar, Bloomberg, 24 August 2017. <https://www.bloomberg.com/news/articles/2017-08-23/with-chinese-support-pakistan-can-ignore-trump-on-afghanistan>. Accessed on 2 September 2017.

have been speculations in recent months that the Trump Administration is even investigating if India should be declared a currency manipulator. Given his transactional attitude to foreign policy, Trump may, in fact, link US investment in arms production in India to the quantum of support from India in Afghanistan.

Will the positive bias towards India, even if only in the security domain, give a positive signal to potential US trade and investment partners? This too is unlikely. Trade and investment reaction to political signals is typically asymmetric. They react to negative signals quickly but not to positive signals. As such, while the negative economic implications for Pakistan will be strong and quick, the positive implications for India will be feeble and slow. In any case, the signal from the government is only one of the many variables that influence trade and investment decisions. Any difference it will make, or any implications it may have, will only be in the long run, should America stay the course of Trump's views on India and Pakistan.

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