

*CONGRESSIONAL TESTIMONY*

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**The Importance of Reality in US-India East Asia  
Cooperation**

**Testimony before the  
Subcommittee on Asia and the Pacific  
Committee on Foreign Affairs  
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My name is Walter Lohman. I am Director of the Asian Studies Center at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

An evaluation of why South Asia matters to America's *East Asia* policy and how the region's dominant power, India, can be effectively incorporated into it must begin with a clear conception of U.S. policy goals in East Asia and the current tools at its disposal.

Fundamentally, the objective of U.S. policy in the Western Pacific should be – as it has been since the end of World War II – to backstop to peace, security, freedom, and prosperity. The main tools the U.S. employs in this effort are its alliance network, forward deployed military presence, and support for free commerce. Secondary tools include bilateral and multilateral diplomatic engagement. U.S.-India relations fall into a subcategory of this diplomatic category. There are no hard and fast lines separating these classifications. Singapore, for instance, is not a treaty ally of the U.S. It does, however, offer military capability, cooperation, and access as valuable as some formal allies. The U.S. has fruitful military-to-military relations with many countries in the region, including India. Consigning India to a lower category of priority is only to recognize that America's principal official interaction with it is diplomatic. It is also recognition that there is a world of difference between the value the U.S. derives from its Japanese, Korean, Australian, and even Thai and Philippines alliances, than it derives from its relationship with India.

With this as context, the questions then follow: What interests do the U.S. and India share in East Asia and what does each bring to the table to meet them?

#### Common U.S.-India Interest in Balancing China

The principal strategic challenge in East Asia is the task of peacefully incorporating a rising China into the region's political life to the benefit of the broadest cross section of interests, including American and Indian – and Chinese. Of course, from the U.S. perspective, we want the biggest possible share of that cross section, as do the Indians with regard to their interests. One area our interests correspond in managing China's rise is in balancing its growing power, and thereby creating the underpinnings of an effective regional diplomatic architecture.

This said, U.S. and Indian approaches to China diverge in ways that complicate this shared theoretical, geopolitical priority. Neither the U.S. nor India consistently pursues a "balancing" strategy vis-à-vis China; engagement is an equally prominent element of both nations' China policies. From the Indian perspective, China is first a neighbor – a relatively strong one that the Indian foreign policy and security establishments are loath to provoke. Secondly for India, China is economic opportunity. It is India's largest trading partner, and each has nascent, growing investment interests in the other.

For its part, the U.S. has fundamental conflicts of interest with China, among them, Taiwan's status, differences over maritime disputes, and security on the Korean Peninsula. The U.S., however, also has multiple open channels of communication and dialogue with the Chinese. The balance that America's forward-deployed military and alliance structure provides far outweighs any contribution that U.S.-India relations can make. On the economic front, China is a far more important partner to the U.S. than India. China is America's number two trading partner, while India is number 13 – the difference almost tenfold in dollar terms. In short, the U.S. has its own equities in U.S.-China relations and ample means at its disposal to deal with China, with or without India.

Because the U.S. and India each employ a mixture of balance and engagement, and because they are not mutually dependent, they are often out of cycle with one another. The India side in particular is sensitive to the domestic political charge of caving to American strategic interests, while the American relationship with China is so encompassing of its bureaucracies' energies that it has a dynamic all its own, often carried out without much regard for Indian equities.

The success of India's "Look East" policy, to the extent that it supports a stable balance of power, is in America's interest. To the extent it complicates Chinese efforts to further their extensive maritime claims in the Western Pacific, it is also positive. India's measured naval engagement and commercial interests in the Western Pacific help put the disputes there in an international light. Its statements about freedom of navigation in the South China Sea serve as useful political statements limiting Chinese ambitions. On their face, they support America's free commerce objective, i.e., protecting the global commons. Observers must bear in mind, however, that in a strict legal sense, India's position on freedom of the seas is closer to the Chinese interpretation. This is true, in particular, regarding military operations in exclusive economic zones – a major American priority. This, in a microcosm, captures the nature of shared U.S.-India interests when it comes to China: Theoretically intuitive, in reality, not quite congruent.

### India in Southeast Asia

It is wise for the Subcommittee to focus attention on regional organizations. The development of the ASEAN-centric architecture endorsed by the Obama Administration is coming to pass. The Administration's public diplomacy over the last four years speaks loudly to the competition for influence there between the U.S. and China. A focus on Southeast Asia is also relevant, by function of India's geography and shorter power

projection horizon. It is also the sub-region that India has been applying “Look East” to for the longest time.<sup>1</sup>

Although the Obama Administration has done very well to regularize and increase the points of contact with ASEAN, the danger is that it will buy too deeply into its processes. ASEAN, in my view, is not so much “a fulcrum for the region's emerging regional architecture” as Secretary of State Hillary Clinton called it, but a meeting venue. It is a critically important one, but for U.S. purposes this engagement is simply one tool in our approach to the region. ASEAN's aspiration to be more than this to outside powers, including the U.S. (it is already more than this to its own members) is today foundering on its efforts to manage escalating disputes in the South China Sea.

As for India's profile in Southeast Asia, it is remarkable to consider what has occurred on the ground there since India launched its focus on East Asia in 1991. India's “Look East” policy predates China's own “charm offensive” in Southeast Asia by six years. Like China, India is now active in all the elements of the region's summitry, including the ASEAN Regional Forum, the East Asian Summit, the ASEAN Defense Ministers Plus, and ASEAN heads of state/government summits. It has also strengthened bilateral relations throughout Southeast Asia.

The economics – which was a major factor motivating ASEAN's engagement of India – tell a different story. By 2009, trade with China constituted 11.6% of ASEAN's total while India accounted for 2.5% of it. A year later, despite the entry into force of the India-ASEAN FTA, these shares remained virtually the same. ASEAN exports three times as much to China as India, and imports six times as much from China. Total direct investment inflows from China to ASEAN in 2002-2009 were more than twice that from India. For 2010, Indian investment jumped as a share of ASEAN's total inward investment to levels close to China – yet, not nearly enough to make up the accumulated difference.<sup>2</sup>

It is worthwhile to break these investment figures down by country to get a more precise view of what is happening. Investments in some countries yield greater political benefit than others. Singapore – ASEAN's most regular business environment, i.e., the place investment will buy you the least political influence – is by far the greatest recipient of Indian investment into ASEAN. (Almost half of all global direct investment into ASEAN goes to Singapore.) Singapore records twice as much investment from India as China.<sup>3</sup>

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<sup>1</sup> David M. Malone, *Does the Elephant Dance? Contemporary Indian Foreign Policy*, (New York: Oxford University Press, 2011), Location 4837, Kindle version of book.

<sup>2</sup> Association of Southeast Asian Nations, *ASEAN Community in Figures*, 2011, at <http://www.scribd.com/doc/111873404/ASEAN-Community-in-Figures-ACIF-2011> (accessed March 11, 2013).

<sup>3</sup> Department of Statistics Singapore, *Foreign Equity Investment in Singapore*, 2010, at <http://www.singstat.gov.sg/pubn/business/fei2010.pdf> (accessed March 11, 2013). The vast bulk of investment is in equity. Figures do not include investments from Hong Kong.

All the other ASEAN countries which offer comparable figures – Vietnam, Malaysia, Thailand, Philippines, Indonesia – report Chinese investment levels that dwarf India’s.<sup>4</sup> Burma, ASEAN’s 2104 Chair, for instance, a country at the heart of what is often portrayed as a field of fierce China-India competition, reports China’s share of foreign direct investment at 33%, India’s share at less than 1.0%.<sup>5</sup> ASEAN’s 2016 Chair, Laos, records \$3.4 billion in approved Chinese investment projects through 2011, and roughly \$149.7 million from India.<sup>6</sup> Vietnam is often held up as a regional leverage point in China’s rise. Vietnam trades 10 times<sup>7</sup> as much with China as with India.<sup>7</sup> On the investment side, Vietnam reports \$3.7 billion in FDI from China through the end of 2010; and \$214 million from India. It is a similar story of Indonesia. In fact, The Heritage Foundation’s China Global Investment Tracker independently records a massive \$25 billion in total Chinese investments and contracts for Indonesia.<sup>8</sup> Different countries record numbers differently, but any way one looks at the numbers, they do not look particularly good for India. They show India trailing China considerably in its effort to forge the sort of economic integration that Assistant Secretary Robert Blake suggested in his testimony before this subcommittee could be “*the key*” to regional stability.<sup>9</sup>

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<sup>4</sup> General Statistics Office of Vietnam, *Foreign Direct Investment Projects Licensed By Main Counterparts*, December 31, 2010, at [http://www.gso.gov.vn/default\\_en.aspx?tabid=471&idmid=3&ItemID=11390](http://www.gso.gov.vn/default_en.aspx?tabid=471&idmid=3&ItemID=11390) (accessed March 11, 2013). The Board of Investment: Thailand, *Table 1: PRC Investment Projects Submitted to BOI*, January 9, 2011, at [http://www.boi.go.th/upload/content/T.PRC11\\_63028.pdf](http://www.boi.go.th/upload/content/T.PRC11_63028.pdf) (accessed March 11, 2013). The Board of Investment: Thailand, *Table 1: Indian Investment Projects Submitted by BOI*, January 13, 2012, at [http://www.boi.go.th/upload/content/T.INDIA11\\_52541.pdf](http://www.boi.go.th/upload/content/T.INDIA11_52541.pdf) (accessed March 11, 2013). Invest Philippines, *Total Approved Foreign Direct Investment by Country of Investor*, 2010, at <http://www.investphilippines.gov.ph/statistic2.html> (accessed March 11, 2013). Bank Indonesia, *Direct Investment Flows in Indonesia by Country of Origin*, 2012, at [http://www.bi.go.id/seki/tabel/TABEL5\\_33.pdf](http://www.bi.go.id/seki/tabel/TABEL5_33.pdf) (March 11, 2013). Central Bank of Malaysia, “International Investment Position (IIP): Malaysia”, December 31, 2011, at <http://www.bnm.gov.my/index.php?&lang=en> (accessed March 11, 2013). Indian position confirmed via email exchange with Department of Statistics Malaysia.

<sup>5</sup> Ministry of National Planning and Economic Development, *Foreign Investment of Permitted Enterprises*, December 31, 2012, at <http://www.dica.gov.mm/dicagraph1.htm> (accessed March 11, 2013).

<sup>6</sup> Ministry of Planning and Investment Laos, *All Approved Investment Projects by Country*, December 2011, at [http://www.investlaos.gov.la/files/rpt\\_Invest\\_Summary\\_Country1A.pdf](http://www.investlaos.gov.la/files/rpt_Invest_Summary_Country1A.pdf) (accessed March 11, 2013).

<sup>7</sup> General Statistics Office of Vietnam, *Exports of Goods by Country Group, Country, and Territory*, 2011, at [http://www.gso.gov.vn/default\\_en.aspx?tabid=472&idmid=3&ItemID=13214](http://www.gso.gov.vn/default_en.aspx?tabid=472&idmid=3&ItemID=13214) (accessed March 11, 2013).

<sup>8</sup> Association of Southeast Asian Nations, *ASEAN Community in Figures*, 2011, at <http://www.scribd.com/doc/111873404/ASEAN-Community-in-Figures-ACIF-2011> (accessed March 11, 2013).

<sup>9</sup> Robert O. Blake, Jr., “The Asia Rebalance: Why South Asia Matters”, testimony before House Foreign Affairs Committee, Subcommittee on Asia and the Pacific, February 26, 2013, <http://docs.house.gov/meetings/FA/FA05/20130226/100306/HHRG-113-FA05-Wstate-BlakeR-20130226.pdf> (accessed March 11, 2013).

The U.S. and China may be involved in a game of geopolitics in Southeast Asia. What is at play among the ASEAN countries themselves is tactical jockeying. Their objectives are narrowly focused on security, economy, and territory. There are also complicated internal divisions in each. Take a look at Vietnam's example. Vietnam is not the "billiard ball" of international relations theory. It has a complex government with competing priorities and factions. Vietnam shares a border with China, a very long history (not all of it bad), and party-to-party contacts with the potential for ameliorating conflict with China. Its foreign ministry is quite strategic-minded. When pressed by China on territorial issues in the South China Sea, it finds common cause with other ASEAN claimants and helps galvanize what little action ASEAN can muster. The high point in this regard was Vietnam's turn at the ASEAN Chair in 2010, when it very prominently featured its interests in the South China Sea – something the Chinese try very hard to prevent. At other times, however, Vietnam is more conciliatory toward China. The best example of this is the very high profile party-led visit to Beijing in the fall of 2011. During that visit, after a very difficult year at sea for China-Vietnam relations, the two sides reached agreement on a set of "basic principles on settlement of sea disputes" – the signing ceremony for which was formally witnessed by the secretary-general of each country's ruling communist party.

For its part, India also has competing visions at play in its approach to Southeast Asia. India's commercial interests in the South China Sea make for an interesting case study. Over the objections of Chinese authorities, India's state-owned Oil and Natural Gas Corporation (OVL) is working with the Vietnamese to jointly explore and develop two blocks in Vietnam's exclusive economic zone (EEZ). OVL's objectives are commercial, not geopolitical. By authoritative accounts, the Indian government has little say in OVL's individual investment decisions. OVL may make a healthy return on investment by maintaining its investment. It may do better ultimately by relinquishing it. Consider that OVL signed when the blocks were unproven. Selling its rights at a profit and divesting itself of all the trouble would be a rational business decision. It will not represent a victory for China.

The Indian navy is perhaps the most strategically minded part of the Indian establishment. It is custodian of India's greatest strategic asset, its geographic blessings along Indian Ocean sea-lanes, also a key priority for China. It has sought to parlay this valuable experience into the Pacific, where many of China's neighbors have concerns that mirror India's own in the Indian Ocean. The navy has been visible and vocal about OVL's interests in the South China Sea, and the navy's prerogatives in protecting them.<sup>10</sup> Recent remarks by the Indian Chief of Naval Staff that the navy is prepared to

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<sup>10</sup> Rajat Pandit, "Ready to Tackle China Sea Threat: Navy Chief," *The Times of India*, December 4, 2012, at [http://articles.timesofindia.indiatimes.com/2012-12-04/india/35594081\\_1\\_south-china-sea-accordance-with-international-laws-vietnam-coast](http://articles.timesofindia.indiatimes.com/2012-12-04/india/35594081_1_south-china-sea-accordance-with-international-laws-vietnam-coast) (accessed March 11, 2013).

protect Indian interests there are noteworthy.<sup>11</sup> However, they represent only one part of India's foreign policy puzzle. It does not mean that this statement, every Indian port call in the Pacific, or incident such as occurred in July 2011 when an Indian naval vessel in international waters was apparently warned off by the Chinese, is a sign of China-India geostrategic rivalry. In fact, it is telling that each time something like this occurs, there is another part of the Indian government that downplays the development.

If push ever comes to shove in the South China Sea, one must wonder whether the Prime Minister's Office and the Ministry of External Affairs (MEA) would accede to risking India-China economic relations and priorities much closer to home (border issues, for example) for an investment an ocean away. Resolved of its own interests, India would be even less inclined to risk the benefits of India-China relationship for a principle more in keeping with America's role and broader interests in the region.

The U.S.-Vietnam relationship has moved at a glacial pace – restrained by strategic indecision on the part of the Vietnamese.<sup>12</sup> It is difficult to imagine Vietnamese authorities making up their minds and risking its relationship with China any quicker for India, a far less consequential player in its neighborhood than the U.S. This is especially the case as India does not seem to have made up its own mind.

First and foremost, India's foreign policy priority is on its borders and immediate neighborhood. With regard to Southeast Asia, this means Burma. Twenty years ago, amidst shifting dynamics in Burma, India switched from support for democracy to courting the Burmese military regime. What does India have to show for it today? When the Burmese junta recently reached out – arguably to counter an increasingly out of balance Chinese presence – it reached out first to the West, not to India. It did so for good reason; India does not have the capacity to offset the Chinese advantage. The disparity between Indian and Chinese investment numbers has been discussed. China is also a much bigger trading partner of Burma than India (more as a source of imports than export destination). China-Burma government-to-government ties and military ties are also much stronger than India-Burma ties. Historian Thant Myint-U, who travelled extensively throughout Burma for his 2011 book, *Where China Meets India: Burma and the New Crossroads of Asia*, characterized “contemporary Indian influences” in Burma as “practically non-existent.”<sup>13</sup>

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<sup>11</sup> Ibid.

<sup>12</sup> Colonel William Jordan, Lewis M. Stern, and Walter Lohman, “U.S.-Vietnam Defense Relations: Investing in Strategic Alignment,” Heritage Foundation *Backgrounder* No. 2707, July 18, 2012, at <http://www.heritage.org/research/reports/2012/07/us-vietnam-defense-relations-investing-in-strategic-alignment> (March 11, 2013).

<sup>13</sup> Thant Myint-U, *Where China Meets India: Burma and the New Crossroads of Asia*, (New York: Farrar, Straus and Giroux, 2011) Location 1169, Kindle version of book, <http://www.amazon.com/Where-China-Meets-India-Crossroads/dp/0374299072> (accessed March 11, 2013).

India's experience in Burma's oil and gas sector is a good example of its government underperforming in the service of its own interests. Burma's natural gas reserves – tenth largest in the world – and India's acute energy needs have focused a great deal of attention on India's interest in energy infrastructure. India has the capacity to help develop these resources. Transporting them back is more complicated. The headline-grabbing story on this score was the offshore Shwe natural gas project, where despite the stakes of two state-owned Indian entities OVL and GAIL (Gas Authority of India Ltd.), China is to receive the actual resource. China is constructing a pipeline across Burma to take the gas to Yunnan province – a feat India was unable to accomplish for its own market in a competitive timeframe.

The bottom line is that for all its deference to the Burmese regime on human rights issues and recently accelerated diplomatic and assistance activity, India is not effectively balancing China's influence in Burma, or Southeast Asia more broadly. It has gained cooperation from Burmese authorities in cracking down on insurgents operating in its volatile Northeast border region. This it would appear is India's principal objective, not geostrategy. Shorn of its geostrategic content, the U.S. does not necessarily share India's priorities in dealing with Southeast Asia (although it does share an interest in curtailing any Chinese involvement with insurgents on its border with Burma).

### Conclusion

The U.S. should facilitate India's active involvement in the regional diplomatic architecture. Formal dialogues – bilateral and multilateral – and day-to-day coordination among officials should also be welcomed. Joint military exercises should be, too. As India refines its strategic interests, it is good for the U.S. to have all its options for cooperation with regional powers fully developed. In his testimony, Assistant Secretary Blake put the strategic time horizon at 50 years. U.S.-India strategic convergence is, indeed, a long-term, exploratory endeavor.

American policymakers must be realistic about the operational role U.S.-India relations can play in achieving the number one strategic challenge currently facing East Asia – successfully managing China's entry in the political life of the region. We have to be realistic about India's current power base in East Asia – as well as India's own strategic priorities. India cares far more about its immediate neighborhood than the Western Pacific. And as any Indian MEA official will tell you, they have many "strategic partnerships," including with China and Russia.

There is a role for India in America's effort to maintain its historical commitment to ensuring the peace, security, prosperity, and freedom in East Asia. That role, however, is relatively minor, and will grow, if at all, only according to India's timetable and very proud world view. India will not serve, except passively, as part of an American policy to



balance China. And anytime the foreign policy establishment there feels it is being pulled in that direction, it will recoil.

Failing to recognizing India's limitations as a partner risks forging a relationship where the U.S. trades tangible benefits for theoretical geopolitical discussion. More importantly, it risks obscuring the relationships and other factors that provide the real basis of American power in the Western Pacific: our alliances, a robust forward deployed military, and commitment to free commerce.

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