

SOME ASPECTS OF THE "VALUE" OF SOUTHEAST ASIA
TO THE UNITED STATES

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I

How important is Southeast Asia to the United States? The same question can also be legitimately raised concerning the other major international trouble spots that rank high among current and potential U.S. foreign policy problems: Cuba, Berlin, Taiwan -- indeed, Western Europe, as well. The view put forward in this paper is that, although the question is unanswerable in a strict sense, some useful things can be said by way of clarifying the question, and helping to distinguish between more and less unsatisfactory answers to it.

The paper is mainly concerned with describing an analytical framework for considering the question of a country's or region's value to the United States, illustrating this framework with respect to Southeast Asia in particular, and suggesting at least some personal impressions as to what these illustrations add up to from the standpoint of Southeast Asia's importance to the United States. Finally,

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the paper will consider very briefly the bearing of this discussion on basic U.S. objectives in Southeast Asia; what we should be, and I think are, trying to accomplish there, to the extent that U.S. policy is able to influence the situation.

Let me begin by clarifying some terms and concepts that will be referred to later.¹ The first concept concerns the distinction between the direct and indirect value of a country or region to the United States. By direct value is meant those aspects which can be immediately related to U.S. interests. By indirect value is meant those aspects of a particular country's value which relate to other countries that, in turn, are of direct value to the United States.

The second point concerns a distinction between value to the United States, and value to the Soviet Union or to Communist China. Particular countries or regions may well differ in their cardinal and ordinal values to the United States, the Soviet Union, and to China; this paper will be mainly concerned with relating value to U.S. interests.

The third point concerns the obvious distinction between the value of a particular area in connection with local wars, and its value in various central war contingencies. A further distinction can be made between the value of an area to the United States in

¹The main theoretical framework summarized in this paper draws on a previous paper that will be published in the July 1963 issue of World Politics. See "Some Aspects of the 'Value' of Less-Developed Countries to the United States," The RAND Corporation, P-2649, October 1962. The referenced paper, as its title indicates, is focused on the less-developed countries, generally, whereas the present paper applies the same approach specifically to Southeast Asia.

connection with wars involving China, and wars involving the Soviet Union, or with both Communist powers.

Finally, there is a distinction between values, or components of value, that can be quantified, and those components which, at best, can only be qualified. The components of value that can be quantified are those for which an alternative cost can be estimated, or at least those aspects for which the concept of alternative cost has meaning. Where it is possible to estimate the cost of achieving some given and constant consequence or outcome in two different ways, the value of one way can be considered, as an upper bound, to be defined by the cost of obtaining the same result in the alternative way.

For some aspects of the value of an area, this notion of alternative costs can be usefully applied in order to give a rough indication of the magnitude of the quantifiable components of a country's value. For both the military and economic components of value, this approach has merit and applicability.

However, for other components of value, this approach doesn't make sense. When we discuss the political, psychological, and ideological components of an area's value to the United States, alternative cost doesn't help very much. For these aspects of value, we simply have to rely on opinions, discussion and judgments. Moreover, these qualitative aspects of value may well dominate those that can be quantified. This does not imply that we should refrain from trying to identify the relevant numbers wherever we can. Nor does it mean that all ways of expressing the qualitative components of a country's

value to the United States are equally clear, comprehensive, and useful. One can be qualitative in better and worse ways, just as one can be quantitative in better and worse ways.

II. SOME QUANTITATIVE COMPONENTS OF "VALUE"

Let us first consider those aspects of the value of other countries which can be approached quantitatively. My aim here is to give some idea of a method that might be employed, as well as a rough indication of some of the numbers that might enter this work. Incidentally, when I use the adjective "large" or "substantial" to characterize my conjectures about these numbers, I will have in mind five-year costs that are, say, over \$1 billion, while "small" will mean that my guess is that the figure would be below this threshold. (I want to emphasize the words "conjecture" and "guess" in the preceding sentence.)

A. Military Aspects of Value

The military value of a country or area can be upper-bounded by assuming the "loss" of the particular area, formulating a number of different war scenarios, and then asking what costs the United States would have to incur to make its expected outcome in these contingencies equivalent to its expected outcome without the loss of the country or area concerned. (In this context the term "loss" is used in a complete and unsophisticated sense to mean simply the inclusion of the country within the communist bloc so that the bloc is enabled to derive whatever military benefits the area might confer on it. In making this purposely extreme assumption, the implication is not that

such a "loss" is the only, or even the most likely alternative, to an existing relationship between the United States and the particular country. The implication is simply that the assumption of "loss," in this complete sense, provides a useful means for upper-bounding the military components of that country's value to the United States.)

Let me illustrate this notion of value more concretely. To pick a hypothetical but not implausible case, consider a scenario involving an attempt by North Viet Nam, China, or the Soviet Union to accelerate the buildup within South Viet Nam and Thailand of a capability for waging guerrilla war against the present governments in those countries. Now, assume the "loss" of Laos in the sense in which I'm using that term. Given this assumption, we could then estimate the military "value" of Laos by examining several different kinds of "costs" that would have to be incurred in order to maintain an equivalent counterguerrilla capability in Viet Nam and Thailand after this assumed "loss." One kind of cost would be that associated with maintaining enough additional surveillance along the 700-mile common border between Laos and Thailand, and the 200-mile common border between Laos and South Viet Nam, so that the support or buildup of guerrilla manpower, training, supplies and equipment would be as difficult (i.e., as costly) for the Communists as it would have been without the loss of Laos.

As an alternative, or supplement, to these surveillance costs, we could attempt to estimate the increase in Thai and Vietnamese paramilitary, civil-guard-type forces, which would be necessary to restrain the level of guerrilla, insurrectionist incidents to some

"acceptable" maximum, even allowing for some increase in the flow of guerrilla manpower and supplies across the common Thai and South Vietnamese borders with Laos.

To take another example, consider a scenario involving a direct invasion of Thailand or of South Viet Nam by a Viet Cong or combined Chinese-Viet Cong force of consequential size. In this scenario, the value of Laos might be estimated by calculating the increase in Thai and Vietnamese forces that would be required to gain the same defensive time and hold the same military infrastructures to enable intervention by friendly, e.g., U.S., forces, on the assumption that the loss of Laos meant that tactical warning began from the time Red forces crossed the Mekong or crossed the Chaine Annamite from Laos, rather than from the time they crossed the borders from China proper or from North Viet Nam into Laos.

Note that in both of these crude scenarios the value of Laos is related to contingencies involving countries other than Laos itself. It is in this sense that the "stack of cards" or "dominoes" analogy, which has sometimes been applied to the countries of Southeast Asia, makes a certain amount of sense. A "loss" of Laos increases the vulnerability of enviroing countries; stated in another way, such a loss requires that additional costs be incurred if the vulnerability of enviroing countries is to be held constant.

I might express a personal judgment here that both types of contingencies sketched above would require that large costs be incurred by the United States and the free world in order to maintain equivalent expected-outcomes after the loss of Laos. Perhaps these two scenarios are really just a roundabout way of making a

very obvious point: the military vulnerability of one or more countries in a particular area, for example, Thailand and South Viet Nam, can depend significantly on the military and political status and orientation of a neighboring country, in this case Laos. In this sense, the defense of South Viet Nam or Thailand is very closely related to the problem of defending Laos. To put it slightly different, we can consider the value or importance of Laos to be upper-bounded by what we and our Thai and Vietnamese allies would have to pay in order to offset the increase in their vulnerability that the "loss" of Laos would entail.

The same kind of analytical approach can be used to consider the question of the military value of all Southeast Asia including, say, Thailand, Burma, Viet Nam, Malaya and Indonesia, taken together. In this case, it might be more appropriate to consider scenarios that involved countries adjacent to this group of Southeast Asian countries, like the Philippines, India, Taiwan, and Australia.

For contingencies involving threats to island countries like the Philippines, Taiwan or Australia, the costs of maintaining equivalent military effectiveness, given the loss of all Southeast Asia, would probably not be exorbitant (although apparently the Philippines tends to view the military uncertainties that would be created by the accession of North Borneo to Malayan sovereignty as more dangerous than this suggests). In fact, countries that are entirely littoral may, by that fact, already be exposed to infiltration or invasion in a way that is unlikely to impose any additional exposure on them as the result of the loss of other mainland areas.

If Indonesia were to be lost, along with the mainland, the Philippines is probably right in its implicit assessment that some additional costs would be required to keep infiltration into Mindanao and the Sulu Archipelago within bounds, but in general I would think that such incremental costs would be relatively modest. On the other hand, for countries like India and Pakistan whose common land borders with communist countries would be extended by the loss of Southeast Asia, the incremental costs of maintaining equivalent defensibility might well be appreciable.

Again, as in the scenarios relating to the influence of Laos on the costs of defending Thailand and Viet Nam, the value of all of Southeast Asia from the military point of view relates mainly to limited, non-nuclear conflicts in such adjacent areas as India, Australia, Taiwan, Pakistan, and the Philippines. In other words, if one contemplates the expansion of militant Chinese communism into Southeast Asia, either directly or through indigenous proxies in the Southeast Asian countries, the cost of compensating for this expansion by an offsetting buildup of military capabilities in the adjacent countries, as well as of U.S. theatre capabilities to intervene in these adjacent areas, would be substantial.

On the other hand, if one considers various central war contingencies, involving nuclear conflict, whether of a counter-city, counterforce, or some other variety of controlled response pattern, between the United States and the Soviet Union, or the United States and Communist China, the value or importance of Southeast Asia is likely to be quite minor. Such value as the area might conceivably have in these contingencies would presumably relate primarily to

central war targets that might be assigned to Air Force units based in or staging through the area. Since reaching these targets from other areas, or through the use of other weapons systems not having such basing requirements, would probably not entail heavy incremental costs, the value of Southeast Asia in central war is likely to be of minor significance.

Presumably a perception of this fact lies behind such views as that expressed in the recent report on Viet Nam and Southeast Asia by a Senate group headed by Senator Mansfield. In effect, the Mansfield group tentatively concluded that perhaps the military significance of Southeast Asia had been exaggerated, and that "a thorough assessment of our own overall security requirements..." might very well show that "an orderly curtailment of [U.S.] programs and missions [in Southeast Asia] need not pose a significant increase in the threat to our national security."¹

While this view makes good sense if we think of national security interests in relation to major nuclear conflicts, it would be a mistake to conclude that the military value of Southeast Asia in all the relevant military contingencies, including non-nuclear conflicts in adjacent areas, is small. The United States is a world power with military commitments, allies, and interests in areas remote from its strategic bases at home and abroad. As such we must be concerned with the effect of major changes in the political and military orientation of areas like Southeast Asia on the defensibility of

¹Viet Nam and Southeast Asia, Report of Senators Mansfield, Boggs, Pell and Smith, the Committee on Foreign Relations, U.S. Senate, Washington, D.C., 1963, pp. 19-20.

adjacent areas. We must, for example, be concerned with the effect of a change in the status of Laos on the costs of defending and securing Thailand and South Viet Nam, and we must be concerned with the effect on the defense of India and Australia, as well as on the whole balance of forces in the Far East, of a "loss" of Southeast Asia, or of a change in the status of a major portion of the area such as Indonesia.

B. Economic Aspects of Value

The economic aspects of an area's value to the United States can be divided into several components: principally, the value of investments owned by American residents in the area; and the net value of (or "gains" from) trade with the area. As in the case of military aspects of value, the economic components can be approached in terms of the foregone benefits (or opportunity costs) of the hypothetically "lost" investments, imports, and exports. (Incidentally, it should be noted that "loss" in a military context does not necessarily imply "loss" in an economic sense. A country might become a part of the communist bloc, or even a communist military base, and still continue to trade with the free world. Conversely, a country might expropriate foreign assets and forego trading with the United States, while still refusing to permit communist military installations on its territory.)

1. The value of American investments in a particular area is the discounted value of the income stream associated with them. Stripped of jargon, the point is that the value of an asset is the earnings that are expected to be derived from it. The more distant

in time the earnings are expected to accrue, the less they are worth in the present; that is, future earnings must be discounted to give them a present value, and the sum of these discounted present values is the value of the asset.

Though the concept is clear, measurement is quite difficult because of the uncertainty connected with the income stream, and with the appropriate discount rate to use in calculating present value. However, as a practical matter, a number might be attached to this component of Southeast Asia's value by taking the average income received in the last four or five years from U.S. investments in the area as a basis for estimating the income stream over, say, a twenty-year useful life, and calculating present values by using three or four alternative, but plausible, discount rates. Alternatively, and still more simply, this component of value might be quantified by making an adjustment -- i.e., upwards -- in the book value of American assets in Southeast Asia (and perhaps supplementing this estimate with a further upward adjustment in the book value of similar assets, both direct and portfolio, of Western Europe and Japan in these areas). As an indication of the orders of magnitude that are involved here, the following figures on U.S. private direct investments in 1959 in all of Asia, compared with other areas, are of interest:¹

Latin America	\$ 8.2 billion
Europe	5.3 billion
Africa	.8 billion
Asia (excluding the Middle East)	1.0 billion
The Middle East	1.2 billion
Canada	10.2 billion
Other	<u>3.0 billion</u>
Total	\$29.7 billion

¹U.S. Business Investments in Foreign Countries, U.S. Department of Commerce, Washington, D.C., 1960, p. 92.

Of the Asian total, \$210 million represented direct investments in Japan. India, Pakistan and Ceylon accounted for \$178 million, leaving only slightly more than \$600 million for the Southeast Asian countries of which over 60 per cent was accounted for by the Philippines.

These figures are, of course, understated because they reflect book value, rather than present or market value. They are also understated, from the standpoint of the "value" problem, because they do not include, for example, the value of European investments in, say, the Far East and the Middle East, which are frequently greater than those of the United States, yet which are of indirect value to the United States. Anyhow, they give some indication of the general orders of magnitude that are involved. Obviously, in Southeast Asia, as a part of the relatively small Asian total, the value of American investments is minor, indeed.

2. The value of a country or area as a source of U.S. imports is not equivalent to the total value of imports from that area. Imports obviously have to be paid for, and the loss of imports from an area also means that the payment is saved. In a rough sense, the net value of gains from U.S. imports from a particular area can be approximated by the difference between what we currently pay for these imports and what we would have to pay if the imports were to be bought from the next-best source.

In the case of Southeast Asia, we can roughly approximate the value of U.S. imports in this sense by considering what, if any, effect there would be on the prices of rubber, tin, and copra, for example, if,

in the extreme case, Southeast Asia were to orient its trade entirely toward the communist bloc (a circumstance which, as previously noted, would not necessarily follow from an absorption of Southeast Asia into the communist bloc). Although Southeast Asia is a major world supplier of each of these commodities, we would have to examine fairly carefully the elasticity of their supply from other countries in order to get some notion of the effect on prices that would result from a change in Southeast Asia's status. Without having attempted any such examination, I would hazard the guess that the net value of Southeast Asia's imports, roughly estimated as the increase in prices that would result multiplied by the quantity of current imports by the United States from Southeast Asia, would be minor in comparison, for example, with the total magnitude of U.S. imports from Southeast Asia. To give some very rough idea of the orders of magnitude, total world imports by the United States, Canada, Western Europe and Japan were about \$72 billion in 1957 and about \$65 billion in 1958. Of these totals, about \$4.5 billion in each year was provided from the entire area of South and Southeast Asia, including India, Pakistan and Ceylon, as well as Singapore, Malaya, Indonesia, the Philippines, Thailand, Burma, Viet Nam, and Cambodia.¹

3. The value of a particular area or country as a market for U S. exports is not properly construed as the total value of the exports themselves. In general, such exports have an alternative, though less favorable outlet, so that in fact the net value or gains

¹Economic Survey of Asia and the Far East, Bangkok, 1959; and Direction of International Trade, New York, 1959.

from exporting to Southeast Asia can be approximated by the expected fall in U.S. export prices that would result from such a shift in market outlet, multiplied by the quantity of present exports to Southeast Asia. (Again, as previously noted, a change in the political orientation of Southeast Asia toward the communist bloc does not necessarily imply a loss of the area as an export market for the United States.)

To get some idea of what the value of Southeast Asia as an export market is, in this sense, would require examination of the elasticity of demand in other markets. Without such an examination, I would nevertheless hazard the guess that Southeast Asia's value as an export market for the United States and its major allies would be minor in the case of the United States, but probably major for some of our European allies. To give some rough idea of the orders of magnitude, exports by the United States, Canada, Western Europe and Japan to all of South and Southeast Asia amounted to \$7.6 billion in 1957 and \$5.8 billion in 1958, out of their total global exports of \$70 billion and \$67 billion, respectively.

III. POLITICAL AND PSYCHOLOGICAL ASPECTS OF VALUE

As previously mentioned, some, and perhaps most, important aspects of value, in this context, are nonquantitative. This does not mean that a serious attempt to fill in the numbers should not be made, where possible. But it does mean that the qualitative aspects must be borne prominently in mind before reaching conclusions on the basis of the economic and military components alone.

The first major qualitative consideration arises from the

political-psychological interdependencies among countries and areas. Some interdependencies (for example, those I've referred to between Laos on the one hand, and Viet Nam and Thailand on the other) can be identified in military and/or economic terms, costed, and compensated for, or simply accepted. But there are others, relating more to attitudes which can be described in terms of such phrases as "wave of the future," or "march of history," or "inevitable trend," that cannot be readily compensated for or accepted. Even though attempts can be made to take measures that will compensate for the apparent military and economic consequences of a particular country's loss, it is more difficult to find ways to compensate for the effect of even a dimly-perceived notion of trend on the loyalties and confidence of other people and countries. While this applies particularly to the underdeveloped areas, it extends beyond them. We would be wrong to think that the "loss" of a country like India might not have nearly as profound a psychological impact on the United Kingdom and Western Europe as, for example, the loss of Laos would have on confidence and loyalties in Thailand and South Viet Nam; or as the loss of South Korea might have on Japan.

Secretary Rusk has stated the point by saying: "If you don't pay attention to the periphery, the periphery changes, and the first thing you know, the periphery is the center." Even if there is more to a periphery than one point (or one country), there is an important truth in the Secretary's words.

If we try to consider the effect of the loss of Southeast Asia in particular, or of other Asian areas, on the mood and character of

U.S. society, the connections become more dubious, and tenuous, and certainly more difficult to measure. Unlike the effect of a "loss" of Western Europe, or even Japan, that resulting from a collapse of Southeast Asia might be minor. On the other hand, the effect on Western Europe and Japan themselves of such a detachment of Southeast Asia might be very substantial. As a result, the spectre of a progressive erosion of the free world might become a genuine possibility. One effect of such a spectre would certainly be to raise the U.S. defense budget, and to lower somewhat our real national product as well as its rate of growth. Notwithstanding some prophets of gloom, a 20 per cent, or a 50 per cent, or even a 100 per cent increase in the size of our defense budget would not "bankrupt" the United States, nor would a two per cent annual rate of growth in national product, rather than a five per cent growth rate, mean national doom. However, it is probably fair to say that substantially increased defense budgets maintained over a protracted period, if associated with a relatively slow rate of growth in the economy, would be likely to have significant effects on the character and quality of U.S. society domestically: on the extent of bureaucracy, on the control of information, and on the sense of tension and vigilance in daily living.

Such a progressive erosion is, fortunately, far-fetched, though not so far-fetched as to be fantastic. Under such circumstances, it might ultimately become extremely difficult for us to determine where the "iron curtain" began, and where it ended. A progressive reduction in the area of the world in which we could freely travel

would significantly curtail our freedom, quite apart from the effect of such insulation on the quality of domestic society in the United States. In effect, under such extreme contingencies, the "iron curtain" would become something around us, rather than around the Soviet bloc.

Finally, a world of such a piecemeal and sequential erosion would be one in which the temptations for new generations of Americans to affiliate with, rather than oppose, the trend would become increasingly difficult to resist. An inward-directed and withdrawn America might increasingly generate its own domestic opponents, as well as an increasing disposition to overturn it from within. It is all too easy to become gloomily apocalyptic about these matters if one lets one's imagination run wild. But if we posit a world in which the countries whose value we are assessing are in fact the rest of the free world, the John Birch Society might come to have a genuine mission in life -- and an increasingly difficult one at that!

IV. U.S. OBJECTIVES IN UNDERDEVELOPED COUNTRIES - CONCLUDING REMARKS

In brief, the previous discussion has made the following main points:

(a) the military value of Southeast Asia in regard to credible non-nuclear conflicts in adjacent areas is probably large, but its military value in regard to nuclear wars among the major powers is probably negligible;

(b) the economic value of Southeast Asia to the United States is probably small; to American allies in Western Europe and Japan, the economic value may be more nearly consequential;

(c) the political-psychological value of the area to the United States is hard to estimate, but at least it seems very likely that its indirect political-psychological importance, from the standpoint of effects on Western Europe, Japan, and other areas, and the effect of these in turn on attitudes and expectations in the United States, may very well be large.

In the light of these points, particularly point (a), it seems to me that much of the discussion in recent years of U.S. objectives in Southeast Asia has been unrealistic. Part of this discussion, for example, has focused on whether it should be an objective of U.S. policy to support allies or "neutrals" or both. Part of the accompanying dialogue, in which U.S. specialists on Asia have been particularly active, has been concerned with explaining how "neutralism" and "non-alignment" are understandable and sensible policies for Asian countries to follow. Actually, our interest is in a secure and independent southeast Asia. Its importance to us in the event of major wars with China or the Soviet Union, or for general deterrence purposes, is negligible. Instead, our interest in the area is in its defense and in its progress as an area whose independence from Soviet or Chinese Communist influence or control is secure. To say that a country in the area wants to, or should be, "nonaligned" with us in these objectives, is in effect to say it doesn't or shouldn't want to support its own defense and independence.¹

In Southeast Asia threats facing the area are both military and socio-economic, both internal and external. We would do well to

¹I am indebted for this point to a number of discussions with my colleague, Albert Wehlstetter.

remember that whatever the administrative inadequacies of civilian governments in Laos in the past and in South Viet Nam, as well, the main successes of the Pathet Lao and of the Viet Cong respectively have come about because of the relatively ineffective military capabilities of the government forces that were arrayed against them. Moreover, as the recent Chinese military probes in Ladakh and the northeast frontier demonstrated in India, domestic economic development cannot compensate for an invitingly weak military posture.¹ Indeed, I would be inclined to say that the military threat, both internal and external, to Southeast Asian countries, as well as to other less-developed countries on the Asian periphery, may very well intensify as and if they have more success than they have had so far in meeting the vast problems of economic and social improvement which face them. I would tend to support the proposition that the intensification of Viet Cong guerrilla activities in South Viet Nam since 1960 came about partly because of the marked economic and political improvements accomplished during the 1955-1960 period by the Diem regime, which had the effect of raising the ante that the communist countries were willing to stake on efforts to disrupt the Diem regime.

What does this imply with respect to the question of U.S. objectives in Southeast Asia? I think it implies that Southeast Asia is of substantial, though certainly not infinite, value to us, and that our aim in these countries should be to help them provide, or otherwise to obtain, a judicious balance between the capabilities and competences needed to meet both the internal and external, and both the military and nonmilitary, threats which they face: both the

¹See my "Defense and Development in Less-Developed Countries," Operations Research, November-December 1962, p. 837.

military threats of armed guerrillas and of invasions of various levels of violence, and the nonmilitary threats of internal stagnation, frustration, and hopelessness. There is no easy or formulary way of finding this judicious balance. Moreover, it is at best a dynamic balance. What may be adequate economic or military performance levels at one time, may become seriously inadequate at another time.

This doesn't give us a precise answer to the question, but it suggests where to look for answers and where not to look for answers. It suggests that we keep our sights and our aims on the balance between military and political-economic capabilities available or becoming available in these countries and, in the case of military capabilities, available for deployment into these countries. And it suggests that a formal declaration that a country is "neutralist," "allied," "committed" or "uncommitted," or that it will or will not receive aid from the Soviet bloc, may be less important to U.S. objectives in Southeast Asia than what countries do with respect to the improvement of their individual and collaborative defense capabilities and their economic development performance.

