

Changing Visions of East Asia, 1943–93

Transformations and continuities

R.B. Smith

Edited by Chad J. Mitcham

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Changing Visions of East Asia, 1943–93

A contemporary question of crucial importance is: how will Asia develop in the future? This book by the late Ralph Smith, a highly respected historian of East Asia, demonstrates that what appeared, at various points in the past, to be the future course of the region often did not turn out as expected. In fact, East Asia's historical development took some very unexpected turns, from which one could conclude that there may be more unexpected turns going forward. The book explores changing perspectives of the region from 1943–93, analysing patterns of political, diplomatic, military, and financial collaboration and conflict at ten year intervals. At each stage it examines expectations and aspirations, and the extent to which these were fulfilled or overtaken by history. It begins with Japanese, American, British and Communist perspectives of 1943; and Allied post-war strategies. Developments in communication, news and propaganda set the stage for the Cold War in Asia at two critical junctures, in late 1953, following the Korean armistice when powers sought to stabilise the regional military-ideological balance; and in late 1963 as this equilibrium deteriorated. Then, in 1973, with the Arab oil embargo and Nixon's strategy of détente with Moscow and Beijing, East Asia was deeply affected by the transfer of income to the petroleum producing countries and by the growth of off-shore dollar lending. Diplomatic and financial relations in 1983 and 1993 are set against a background of technological revolutions in communications, finance and military affairs with the Cold War in its final phase. Overall, the book shows how both Smith's thinking about the future course of the region and the broader context of regional prospects changed radically throughout this turbulent time, and will be essential reading for all those seeking a clearer perspective on continuity and change in East Asia in the latter half of the twentieth century.

R.B. Smith was Professor of the International History of South-East Asia at the School of Oriental and African Studies, University of London, where he taught from 1962–2000. His works include *Viet-Nam and the West* (1971); and the three volume: *An International History of the Vietnam War* (1983, 1985, 1990). **Chad J. Mitcham** is a Canberra-based writer and researcher. He completed his PhD at the School of Oriental and African Studies, University of London and is the author of *China's Economic Relations with the West and Japan, 1949–79: Grain, Trade and Diplomacy* (Routledge, 2005).

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Preface

'Time flies' as the saying goes. As one old enough to insist on the Latin *Tempus Fugit*, I have seen more of that flight than many of those to whom this book is addressed. It is not, however, a plea to 27-year-olds to have more 'respect' for those values that seemed to prevail in 1966 when I was that age and first visited East Asia.

On the contrary, this is a book about change: the result of efforts by a 61-year-old to understand what has changed in that vital area of the globe, in the second half of the twentieth century: to ask why the 1990s turned out to be so very, very different from both the world of the early 1940s and also from conflicting aspirations of those who 'shaped destiny' in that far off age. Perhaps, even more, it is an attempt to understand why even the aspirations of the early 1960s proved to be so wide of the mark, when measured against what actually came about by the 1980s and 1990s. Only when one has come to grips with change is it possible to ask about continuities.

An important reason for writing a book like this is my fear that, among many other changes, the 1990s began to witness a growing lack of awareness or concern about the past, except as a sequence of media-hyped anniversaries. It is not so much 'the end of history' as Francis Fukuyama called it in 1989,¹ but the 'rise of amnesia', or more pertinently perhaps, the death of historical and geographical perspective.

Autumn 2000, London
R.B.S.

Editor's note

Pioneering international historian R.B. Smith had nearly completed this book at the time of his death on 20 December 2000. It draws together the product of his archival research, reading and extensive international travel between 1966 and 2000. It also incorporates a distillation of ideas and themes explored in his earlier papers, articles and books, including his acclaimed three volume work: *An International History of the Vietnam War* (1983, 1985 and 1990).

As usual, Professor Smith had enthusiastically discussed and debated – with many of his colleagues and postgraduate students at the School of Oriental and African Studies (SOAS), University of London, as well as with his many friends and contacts dispersed throughout the world – the ideas and findings which would be included in what was to be his last major research project. He began this book in 1997, taking research leave, facilitated by a Leverhulme Grant and involving interviews and archival visits in several countries, to work on it during the 1999–2000 academic session.

After Professor Smith's death Dr Beryl Williams, the legal guardian of Smith's personal papers, and Ms Judith A. Stowe viewed *Changing Visions of East Asia, 1943–93: Transformations and Continuities* for the first time and found that he had essentially completed five of ten chapters in the table of contents – although no footnotes were found with these drafts. Nevertheless, draft sections of nearly all of the other five chapters were eventually found in 16 handwritten journals that Professor Smith kept while preparing the manuscript. Also dispersed throughout these journals and other files from his personal papers are detailed notes on sources and precise citations used while preparing the work.

Thus Dr Williams and Ms Stowe agreed that it would be a tragedy for this very interesting work to sit forgotten and asked me if I would consider preparing the manuscript for publication. I then agreed to edit the work, on the condition that I not include any of my own ideas. There are, however, two major tangible differences between this book and the one that Professor Smith had intended to complete. First, all of the main points that he hoped to discuss in four relatively brief opening chapters on 1943 are covered here in just two longer chapters (1 and 2).

Second, the quantity, quality and diverse perspective of the written material

on 1983, dictated that there needed to be two chapters covering that year rather than just the one that Professor Smith had planned at the outset. Nevertheless, this change complements the fact that there are two chapters each for 1943, 1973 and 1993.

The task of editing this work has been facilitated, to a considerable degree, by the suggestions, help and/or encouragement provided by Professor Robert F. Ash at SOAS; Dr Ang Cheng Guan, Professor Matthew Jones, Dr Le Manh Hung, Mrs Sheila Thompson, Ian Thompson and Doug Thompson.

Above all, it would have been impossible for me to prepare this manuscript for publication without the huge amount of help, suggestions and encouragement provided by my wife, Dr Sue Thompson; my sister Dr Stephanie Mitcham, my parents (Professor Peter Mitcham and Professor Allison Mitcham) and Dr Williams and Ms Stowe. I am very grateful to Dr Williams and Ms Stowe for providing me with the opportunity to work on this project.

Chad J. Mitcham
Canberra

Abbreviations

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AJUF	Anti-Japanese United Front
ANZUS	Australia, New Zealand, United States Security Treaty
AP	Associated Press
APEC	Asia–Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ARPANET	Advanced Research Projects Agency Network (US Department of Defence)
ARVN	Army of the Republic of Vietnam
ASEAN	Association of South East Asian Nations
BAPPENAS	Badan Perencanaan Pembangunan Nasional (Indonesia’s National Development Planning Council)
BBC	British Broadcasting Corporation
BIS	Bank of International Settlements
BRUSA	British–United States Signals Intelligence Agreement
CCP	Chinese Communist Party
CFE	The Conventional Armed Forces Agreement
CFTA	US–Canada Free Trade Agreement
CHINCOM	China List (aka ‘The China Differential’) of COCOM
CIA	Central Intelligence Agency (US or South Korean)
CIS	Commonwealth of Independent States (Russian Federation)
CMEA	Council of Mutual Economic Assistance (COMECON)
CNN	Cable News Network
COCOM	Coordinating Committee of the Consultative Group of Governments (NATO)
COMECON	Council for Mutual Economic Affairs (Communist countries)
COMINT	Communications Intelligence
CPSU	Communist Party of the Soviet Union
CSCE	Conference on Security and Cooperation in Europe
CST	Collective Security Treaty
CWC	Chemical Weapons Convention
DLP	Democratic Labor Party (Australia)

DMZ	Demilitarised Zone between North and South Korea
DRNV	Democratic Republic of Vietnam
ECAFE	Economic Commission for Asia and the Far East (UN)
ECCI	Executive Committee of the Communist International
EEC	European Economic Community
EU	European Union
FBIS	Foreign Broadcast Information Service (US)
FDI	Foreign Direct Investment
FFYP	First Five Year Plan (PRC)
FRG	Federal Republic of Germany
GATT	General Agreement on Tariffs and Trade
GCHQ	Government Communications Headquarters (UK)
GDP	Gross Domestic Product
GLF	Great Leap Forward (PRCs)
IAEA	International Atomic Energy Authority
IBRD	International Bank for Reconstruction (aka The World Bank)
ICP	Indochina Communist Party
IGGI	Inter-Governmental Group on Indonesia
IMF	International Monetary Fund
INF	Intermediate-Range Nuclear Force
INLA	Indian National Liberation Army
INTELSAT	The International Telecommunications Satellite Organisation
ITU	International Telecommunications Union
JCS	Joint Chiefs of Staff (US military)
JPC	Japan Peace Committee
JSE	Jakarta Stock Exchange
JSP	Japanese Socialist Party
KCIA	Korean Central Intelligence Agency
KGB	Committee on State Security (Komitet Gosudarstvennoi (Soviet) Bezopasnosti)
KLSE	Kuala Lumpur Stock Exchange
KMT	Nationalist/Guomindong Party of China (later of Taiwan)
KOPSPI	Korean Composite Stock Price Index (ROK)
KSE	Korean Stock Exchange (ROK)
L-T	Liao-Takasaki Trade Memorandum
LDCs	Less Developed Countries
MACV	Military Assistance Command Vietnam
MAS	Monetary Authority of Singapore
MCA	Malayan Chinese Association
MCP	Malayan Communist Party
MFN	Most Favoured Nation
MIA	Missing In Action (American military personnel)
MIRVs	Multiple Independently Targetable Re-entry Vehicle
MITI	Ministry of International Trade and Industry (Japan)
MOFT	Ministry of Foreign Trade (PRC)

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MPAJA	Malayan People's Anti-Japanese Army
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organisation
NEI	Netherlands East Indies (Indonesia)
NIC	Newly Industrialised Country
NLFSVN	National Liberation Front of South Vietnam
NPC	National Party Congress
NSAM	National Security Action Memorandum (US)
NSC	National Security Council (USA)
NVN	North Vietnam
NYSE	New York Stock Exchange
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of Petroleum Exporting Nations
OSS	Office of Strategic Services (US)
OWI	Office of War Information (US)
PAVN	People's Army of Vietnam (North Vietnamese)
PERNAS	Perbadanan Nasional (Malaysia's National Corporation)
PETA	Pembela Tanah Air (Volunteer Army for Defense of the Fatherland – Japanese inspired Indonesian organisation)
PETRONAS	Petroleum Nasional Berhad (Malaysia)
PKI	Indonesian Communist Party (Partai Komunis Indonesia)
PLA	People's Liberation Army (PRC)
PNG	Papua New Guinea
PNI	Parti Nasional Indonesia/Indonesian Nationalist Party
POL	Petroleum, Oil and Lubricant Products
PPR	Polska Partia Robotnicza (Polish Workers' Party)
PRC	People's Republic of China
PRGSVN	People's Revolutionary Government of South Vietnam
ROC	Republic of China (Taiwan)
ROK	Republic of Korea
SALT	Strategic Arms Limitation Treaty
SCAP	Supreme Commander of the Allied Powers in Japan
SEAC	South-East Asia Command
SEATO	South-East Asia Treaty Organisation
SEHK	Stock Exchange of Hong Kong
SEM	Single European Market
SET	Stock Exchange of Thailand
SFYP	Second Five Year Plan (PRCs)
SIGINT	Signals Intelligence
SIMEX	Singapore Mercantile Exchange
SOE	Special Operations Executive
START	Strategic Arms Reduction Treaty
SVN	South Vietnam
TFYP	Third Five Year Plan (PRC)
UK	United Kingdom

UKUSA	UK-US Signals Intelligence Agreement
ULTRA	Code Name for Ultra-Secret (UK Classification for Signals Intelligence)
UMNO	United Malay National Organisation
UN	United Nations
UNECA	United Nations Economic Council for Asia
UPI	United Press International
US	United States of America
USSR	Union of Soviet Socialist Republics
VNWP	Vietnam Workers' Party
VOA	Voice of America
WTO	World Trade Organisation
ZNLA	Zapatista National Liberation Army (Mexico)
ZOPFAN	Zone of Peace, Freedom and Neutrality (ASEAN)

Introduction

Global perspective and historical analysis

History, I now see, is tragic, but not in the way we all think. Not because of war and murder and famine and depression. The tragedy of history lies in that nobody understands the truest part of it as it is happening. We live through it without understanding a bloody thing.

... I live in the past like you, but I do not, like you, treat it as a guide to the present or promise of the future.

James Buchan, *High Latitudes* (1996)

... they must have been terribly important for people to agree to make them the subject of those rare pictures. They had been chosen in preference to all the rest... and yet there were a lot of episodes which had greater pictorial value, and others which had greater historical interest...

Amy describing how, as a little girl, she used to sit and contemplate the vast tomes of Jules Michelet's *History of France*.

Excerpt from Jean-Paul Sartre's, *La Nausée* (1938)

The whole of the twentieth century in East Asia,¹ as in the rest of the world, has been a story of rapid and continuous change; and in the process many visions and possibilities, including some for which many lives have been sacrificed, have been overtaken by events whose actual sequence and consequences were unpredictable. Nevertheless, the interaction between visions of possibility and the actuality of change can provide a starting point for historical reflection and enquiry.

Among the illusions that have accompanied the dawn of a new millennium is the belief that 'we of the present' have no need of 'the past'. The resulting danger is that twenty-first century people, conscious of the rapidity of change, of the 'new' technology and the 'new' economy, will rapidly lose touch with the twentieth century.

This work argues the opposite view that only by attempting to understand the twentieth century more fully can we have any chance at all of coming to terms with change.

The need for 'historical perspective' has not simply evaporated with the birth of the Internet, although there is good reason to question how that particular view is defined.

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'Sovereignty of the present' and historical analysis in the twentieth and twenty-first centuries

One consequence of focusing on a short-term perspective, a 'present' defined as a few months in 'the past', is that one can recognise the temporary nature of what, at the time, are imagined to be universally valid concepts and principles; or at least, developments in general thinking which represent a measure of 'progress' towards that ultimate validity.

In practice, by 1993, many of the ideas, as well as expectations, of 1973 seemed ephemeral or illusory; at best, 'of their day' and now out of fashion. But that was also true, in 1973, of the current perceptions of ideas that had seemed to have lasting value in 1953.

The underlying continuities that emerge from this kind of study go deeper than the level of ideas and rhetoric; but the changes of thinking may be indicative of deeper change. A logical corollary of this argument is that the 'present' of 2000 does not have any better claim than previous years to an intellectual sovereignty. For example, the rash of literature claiming to enunciate the 'lessons' of 1997–98, most appearing in 1998–99, may prove just as ephemeral as the radical critique of 'American imperialism' in the early 1970s. The 'lesson' is that each new 'present' should be analysed in its own terms, especially operational terms, and then compared and contrasted with 'past' situations, analysed in their own terms.

There are at least three main reasons why 'conventional' academic perspectives are not necessarily adequate for dealing with the late twentieth century as an historical era in its own right. First, the social sciences tended to be rooted in a conceptual framework generated by the 'norms' of the period 1850–1950, often assuming a national 'framework' for 'the economy', 'the state', 'the society' etc. or on 'International Relations' based on assumptions about sovereignty. These frameworks have been challenged by a process of global change that is easily dubbed 'globalisation', but not, so far, adequately represented by a genuinely global conceptual system.

Second, conventional frameworks, including historical ones, tend to be rooted in the norms of 'the West': either in terms of an assumption of universality for Western norms; or a tendency to regard Asian and African differences as something needing explanation; in terms of either their own backwardness or the special character of the West. Globalisation is often seen as the ultimate triumph of Westernisation. Nevertheless, an appropriate response is not one that falls back on the rhetoric of Asian values as that would merely be a basis for 'counter-myths'. What is needed is global knowledge based on change – a genuinely global framework of analysis, in which each region of the globe is treated as of equal historical value in relation to every other region, including the Atlantic region known as the West.

Third, there is also a tendency for conventional academic frameworks to partition knowledge according to categories and to specialise: thus politics and economics are separate; cultural studies separate yet again. Awareness of their

interconnectedness is not yet fully developed into any single, more adequate framework – except, perhaps, in terms of a residual Marxism, which is not pursued with much rigour. There has been a good deal of debate among economists and others – especially among Japanese and those living in countries following the ‘Japanese model’ – about the nature of Asian economic development. Economists seek to explain everything in terms of economic (especially econometric) concepts and models, while others have argued that institutions do make a difference. Institutions are the product of law and changes in law are often a matter of politics. Relating economy (especially finance) to law and to politics, at least until some adequate theory emerges, requires an historical approach, but one that is also analytical.

The need for historical perspective

During the last two decades of the twentieth century there was a decline in both geographical and historical perspective. The tendency of everyday life was to focus on a fast-changing present, requiring most people’s full attention just to keep up, and thus people tended to respond to the past (even to the previous decade) as no longer relevant. The word ‘traditional’ was increasingly used to refer to how things were done ‘before’ – i.e. before the most recent change or discovery.

In the 1980s and 1990s there were several significant obstacles hindering the growth of an adequate sense of global historical perspective. The media possesses a propensity to demand the focus of a whole public’s attention on a small number of stories to the exclusion of most other possible stories, even yesterday’s news. Emotion, judgement and instant interpretation are demanded without an attempt to get things into perspective or to measure the story against a larger background. The media is inclined to assume their own power to decide which stories were highlighted, and how they were handled.

The day to day volatility of the markets makes longer-term trends and perspectives seem no longer relevant to short-term calculations. But even some historians have lost interest in political and financial perspectives and consequential decision-making in their eagerness to concentrate on grass roots history or microhistory and the immediate social or cultural experience of ‘ordinary folk’ whose own sense of perspective was limited. This approach tends to take for granted or reject, even – a wider framework of reference; rather than seeking to challenge it on its own terms. Perspective is even seen by some as elitist.

The tendency of many historians is to look with suspicion on grand narratives and on the myths that they tend to generate. Some historians – the so-called post-modernists insist that one should talk not of history but of histories: each representing a point of view which reflects the individual historian’s own background and life experience. For the leftists among them, this becomes a matter of class background; and there develops a tendency to dismiss all historical study which focuses on consequential decision-making and on the sources which

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document it as elitist, reflecting too much sympathy with the bourgeois ruling class. The appropriate corrective is seen as a study of the 'ordinary people' – which often leads to microhistory.

Another obstacle arises within the kind of history which does focus on decision-making: from the very fact of the steady release of more and more government and business archival material. The vast quantity of archival sources for the period after 1945 and for the Second World War itself has tended to reinforce the individual historian's natural preference for specialised work – focusing on one particular sequence of decision-making or diplomacy, or one particular battle; and the tendency also of many historians to focus on the critique of work that has already begun to receive attention, rather than to focus on the gaps where too little research has been done.

Thus even the historians who do believe in principle in studying consequential decisions or conflicts tend to become bogged down in detail, long before they have constructed an adequate larger perspective.

The sense of rapid technological change in the 1990s – the development of user-friendly means to access and to browse the Internet, in the form of a World Wide Web, especially since 1995 – has led a new generation to regard everything before around 1990 as 'traditional': no longer worthy of respect or remembrance. The new disciplines of 'modern' electronic communication and computation have replaced the historical disciplines of research designed to establish what exactly happened in the past.

The sheer volume of factual information available, both in relation to the compendium of knowledge via the Internet, and to the range and quantity of news on any given short period of media activity, mitigates against the maintenance of a stable framework of reference. But also another tendency of our information age, especially of the Internet, is to fragment and to compress information. Facts are what can be easily encompassed by a video screen and a search mechanism. But again, perspective – a view of the complete system – does not emerge or even is not required.

The media frequently concern themselves with anniversaries, focusing on some famous event that happened 25, 50 or a 100 years ago. My own starting point, indeed, is a pair of anniversaries of that kind. But the media takes little interest in how a changing situation during the interval in question produced the contrast between 'then' and 'now'. The problem of perspective can only be tackled effectively by finding some way to get to grips with the complex sequences of change, and also by rendering certain continuities more explicit, during the decades between the 1940s and 1990s.

My response to this lack of concern with the longer perspective is to suggest that no serious understanding of the most recent past, the so-called present, is possible without a methodology which takes into account at least two generations of change (say 50 to 60 years) and which seeks to relate individual events and impressions to a wider, but still historical, framework of reference.

Nevertheless, a work embracing periods as recent as the 1980s and 1990s must come to terms with special problems of methodology. Since the archives

are not yet available for academic research, it is impossible to adopt the approach of the conventional diplomatic or military historian. The nature of the on-line archives, when they do become available for the late twentieth century, may in any case require a new kind of approach to the writing of history.

It is necessary to come to terms with the nature, limitations and changing role of the media both as a source of historical information and as a dimension of political and diplomatic life. In one sense, this is a dimension which must be taken into account for all of the short periods studied here. In all parts of the world, during the Second World War, there was a high degree of state control of the media. Even in the US, the press and radio were governed by an office of war information and Hollywood was given a major role in promoting war propaganda. By the 1990s, the emphasis was on the 'freedom' of the media; but with a strong emphasis on their profitability as a sphere of business operations, embracing their role in advertising and public relations, as well as or perhaps even more than, their responsibility for free reporting of news.

With respect to decision-making it is necessary to consider the relationship between the public sphere and that of high-level government or of private finance or business. It is also necessary to consider several questions such as: how sensitive to public opinion are decision-makers?; which measures of opinion matter, in different contexts?; and how far are the real considerations of decision-makers deliberately and successfully kept secret from the public?

When examining the nature of the media, one finds its perspective is essentially that of the story on which journalists, editors and other decision-makers within the media have chosen to focus a high degree of attention. By the 1990s, that also involved a high-level of technology and expenditure.

The historian has an obligation to challenge the right of the media to establish the historical, as opposed to the current or present, perspective. The historical analytical perspective must be governed by principles of consequentiality rather than by those of sensation and excitability; and by detachment of emotions. But the historian cannot, even so, ignore the fact that in some cases – and for good reason – controversial issues at the time will remain controversial for historians.

Another main problem of methodology for a work of history which encompasses the 1980–2000 period is coming to terms with the distinction, in the academic sphere, between international history and international relations – as a supposedly scientific discipline. The tendency, throughout the decades from the 1940s to the 1990s has been for historians to leave to International Relations the study of the most recent, or current, events and issues and to insist that history can only come into play after about 30 years. This approach has tended to mean that the 1940s and 1950s were allowed to become history by the 1970s and 1980s respectively – although there has not emerged any strong tendency in the 1990s to treat the 1970s as history. By the same token, the study of the 1980s and 1990s had been dominated by the political scientists.

But the distinction between the two disciplines is more subtle than that: or rather, has to be defined in a different way. For each of the short periods analysed here, it is necessary to appreciate the evolution of Western – and

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essentially Anglo-Saxon or American – thinking about current situations in conceptual as well as practical terms. But in what sense can a discipline whose terms of conceptual reference are themselves subject to historical change, claim to be universal?

The tendency is for the International Relations specialists to develop their own version of the present by assuming a natural interplay, or mutual relevance, between the present situation of world affairs and their own conceptual approach to it. In this respect, however, the end of the Cold War came as something of a shock to the system. In some senses, it rendered obsolete the Cold War discourse of International Relations itself. In another sense, it forced the political scientists to consider which of its concepts could truly claim universality.

One result was a convergence, in some academic circles at least, between International Relations discourse and that of international law: above all, the notions of human rights and the evolution of civil society – often used as virtually synonymously with the public sphere. But the human rights discourse is itself very much a product of the globalisation of discourse in the 1990s. My own approach is to emphasise the discourses of practical operations of which legal discourse is one of many. The task of the historical analyst is to relate these discourses to one another, in a particular historical context, rather than to allow any one to dominate.

Despite the tendency of modern rhetoric to emphasise the theme of globalisation, a great deal of actual research in the social sciences, and in recent history still assumes the primacy of a national perspective. This is especially the case in the study of East and South-East Asia, where the natural and universal tendency to study one's own country in the greatest depth is reinforced by the difficulty for Western scholars of becoming fluent and comfortable in more than one Asian language. Much of the literature of the period since the 1940s has therefore taken 'national' specialisation for granted; and even many books which set out to cover the whole East Asian (or Asian) perspective do so by collecting papers by specialists on individual countries – whether as politics, national economies, or as international actors in the strategic-diplomatic arena.

My response to this problem is twofold. First, it is necessary, and possible, to adopt a geographical as well as historical perspective which transcends individual nations/states, going beyond the tendency to study the relations between just two such states. This would insist that the whole population of a given area is an appropriate unit of study, in this case, the whole of East and South-East Asia, without necessarily having a conscious shared identity of the kind normal for one nation-state or one ethnic group.

Second, one way of developing this approach is to focus on four main operational activities and structures which, to a greater or lesser degree, also transcend the boundaries of nations and states: i) diplomacy and international law; ii) warfare and strategy; iii) international finance and monetary affairs; as well as iv) communications and technological change.

My approach seeks to exploit those operational spheres, and their interaction with one another, in relation to a region whose extent was first defined, very

largely, by the range of Japanese conquests and objectives in the years 1937–42; only to be liberated by the US and its Allies in 1945.

When historians, and others, use the phrase *historical perspective* they are usually referring to a *diachronic perspective*, extending over a period in time and held together mainly by the construction of a narrative: either of decision-making, or of change. Applied to a large region, such as the region of East Asia, this approach can lead very easily into one or another of two unsatisfactory directions. First, if it attempts to be encyclopaedic it will tend to become swamped by the mass of detail; and degenerate into a mere chronicle of events or a compendium of statistics. Such works of reference are useful, but the more fully they are pursued the less easy it is to keep sight of any perspective at all.

Second, if it attempts to be broadly general, focusing on selected themes and ideas, it will tend to generate a grand narrative designed to fulfil some intellectual purpose of the author, or some intellectual establishment – such as explaining the backwardness of Asia compared with Europe and the US or extolling the virtues of socialism and its challenge to capitalism.

As a way out of these dilemmas, I propose the construction of a *geographical–historical–operational perspective* which is *synchronic* rather than *diachronic*. That is, to understand the structures prevailing at a particular short period of time and the purpose as well as consequences of major decisions taken at that time. This involves an element of narrative: but its aim is not to get from A to B, from 1943 to 1953 for example, taking in everything along the way. Rather, it is to understand A in its own terms when B remained in the unpredictable future; then to understand B, in its own terms, in order to appreciate the elements of both change and continuity that seem to explain the contrasts between them.

I see this as a methodology of historical analysis. It is analytical, in the sense that it examines structurally the operational frameworks of the time in question: focusing on the four spheres listed above. But it is historical in the sense that it seeks to explore the interaction between these operational structures in the specific historical circumstances of the selected moment in time.

Such a method may serve as an important step towards defining those things which need to be explained, although it may not add up to explanation in the fullest sense. But neither need it be committed to any single interpretation along explanatory lines. With each of the selected situations or moments in time it is necessary to take account of the individual perspectives of many different groups and actors, without taking sides.

There are two kinds of historical/geographical perspective. Historical perspective has come to be regarded, especially among historians writing in the twentieth century about earlier periods, as essentially a temporal perspective based on what might be called the *diachronic principle* – meaning linguistic change or evolution. It can take various forms from the traditional narrative which relates a story sequence of events involving people, such as wars and political events, to a more structured theme of change involving society or even a wider entity. Much of the established historical writing, from Herodotus or the

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Confucian historians onwards, has been of this kind. A classic genre is the national history (or grand narrative) which buttresses national identity.

While the latter type of diachronic approach has become especially important for historical studies of the period from the sixteenth (or even the fourteenth century) to the eighteenth or nineteenth century, it is less easily applied to the twentieth century. This is partly because such a 'recent' period cannot be analysed in terms of the eventual outcome of long-term trends; but also because, even within the limits of our present knowledge it is clear that the twentieth century has been a period of unprecedentedly rapid change.

The response of historians has been to revert to the narrative mode, and to offer essentially the same kind of historical studies of the twentieth century crises and conflicts as were pioneered by Thucydides and Polybius and practised by medieval chroniclers. A large part of the historical profession, on the other hand, has chosen to retreat from political and military history altogether – in search of more fundamental themes such as the history of mentalities and of everyday life.

A second kind of historical/geographical perspective is the synchronic perspective which requires more introduction. Swiss linguist Ferdinand de Saussure (1857–1913) introduced the distinction between language examined from diachronic as opposed to the synchronic perspective, the latter of which he intended to mean the value of structural analysis of a whole system (such as language, its syntax, lexicon, etc) as an entity which has a continuing validity so long as it remains alive, is used, and changes only gradually.² Seeking to distinguish the synchronic approach to language from that of Indo-European philology – the history of language relationships and change – he emphasised the need to focus on the former because languages are shaped solely by their own contemporary configurations.

For the international historian, the systems or structures which matter most are essentially operational: in particular, the conduct of diplomacy, the maintenance and use of armed forces, the planning of military operations in actual warfare, the conduct of public and private financial and monetary operations, and the pursuit of power in many different political contexts. Each of these practical spheres can be studied in terms of its own structure.

For the historian, synchronic perspective is less theoretically based – but it does recognise the structural/operational nature of a great deal of social-historical activity. The synchronic perspective in history focuses on a particular area or other spatial/institutional entity, or even the whole globe as it is at a given time: how it works, and how the decisions of that time have consequences.

Historical analysis means taking a short period of the past – a few years or even a few months – and analysing them in terms of a) events in the context of possibility or structure; b) interactions between structures, in a particular situation: e.g. war and finance, geographical opportunity and human need, laws, diplomacy and conflicting aspirations, etc.

The Annales school of historical thought maintains that rather than focusing on narrative and chronology (*histoire événementielle*), historians should place

greater emphasis on long-term structures and trends (*la longue durée*), involving the integration of the various kinds of history – economic, political, and social etc. The dominant figure of the Annales school during the 1940s and 1950s was French historian Ferdinand Braudel (1902–85), whose pioneering work uses synchronic structural analysis as a means of defining and understanding change over time by relating different structural perspectives to one another; taking account of many operational levels, from the structures of everyday life to those of long distance trade and governance. Braudel focuses, however, on earlier periods, especially *la longue durée* of 1500–1800, raising the question of how far this can be applied to the fast changing period of the second half of the twentieth century.

The objective of this book is to explore the changing perspectives of the East Asian region as a whole, and beyond that, the wider global context between 1943 and 1993 through a synchronical analysis of patterns of collaboration and conflict existing at the beginning and end of the period and at a number of critical junctures at roughly ten-year intervals in between. While taking account of events in individual countries, the work avoids focusing primarily on nation-states or on bilateral comparisons and highly abstract theoretical debates.

This book, developed partly from a paper which I gave at St Antony's College, Oxford in autumn 1997,³ is not intended to be (or a substitute for) a short history of the region during the whole period 1943–93. A linear or diachronic narrative of that kind is liable to become merely an attempt to define stages by which the present pattern of international relations in the region has come about. My concern is rather to try to understand a succession of past situations in what might loosely be called their own terms.

The task of the historian, however, is not merely to understand each in its own terms but also to demonstrate how they interact in actual – and still open-ended – historical situations. This amounts to more than simply labelling different factors or causes as diplomatic, military, economic, or political. My aim therefore was to analyse the objectives of a multiplicity of decision-makers, in each of the chosen situations, in terms of the possibilities generated by the various operational structures in that situation.

I focus on such operational structures, attempting to embrace political, diplomatic, military and financial operations within a single framework of historical analysis. At each stage the analysis will focus not only on actual conflicts, alliances, and institutions, but also on expectations and aspirations – and the extent to which the latter were either fulfilled or overtaken by history. In other words to recognise the possibilities and conflicting aspirations of a situation whose future was still open, rather than to present history as if it were an unrolling carpet with a pattern already inscribed on it.

Despite James Buchan's assertion that one should not '... treat ... [history] as a guide to the present or a promise of the future ...' it is only in the 'here and now' that anyone stands the least chance of influencing what happens or of bringing about the slightest deliberate change in the world.

Prologue: the Seattle ‘Summit’, November 1993

Although this book draws together the fruits of my research reading and travel throughout the world between 1966 and 2000, the idea for this project first occurred to me in November 1993, when US President Bill Clinton convened a meeting (18th–20th) of the leaders of the Asia–Pacific Economic Cooperation (APEC) Forum at Seattle.

The Seattle Summit was ‘historic’ in that it brought together for the first time ever around one table the presidents of China and the US and the prime minister of Japan.

It also had more immediate importance as an opportunity for the US to define its aspirations towards greater openness of trade and financial relations across the region.

In the context of economic ‘globalisation’ and of market optimism towards the ‘emerging economies’ of China and South-East Asia, and despite a slow-down in Japan since 1990, Clinton’s principle concern was to reassert the American claim to economic and political leadership in the region extending from the West coast of North America to the Straits of Melaka. The one invited leader to refuse the invitation, Prime Minister Mahathir Mohammad of Malaysia, recognised the potential conflict between American-centred globalism and Asian aspirations towards achieving greater national wealth.

Those areas of the Asia–Pacific region not represented at Seattle – the Russian Far East, North Korea, Vietnam, Laos and Cambodia – had for some decades belonged to a ‘socialist system’ in decline following the collapse of the USSR and the Council of Mutual Economic Assistance (CMEA) (aka COMECON) in 1991. The ‘division into two camps’, the alignment of countries with either the Capitalist or Communist side, which had characterised the East Asian region since 1950, was seen as coming to an end. Normalisation of Sino–Vietnamese relations and elections in Cambodia, both in 1993, were steps along that road. By 1995, Vietnam and Laos had joined ASEAN, and Hanoi–Washington relations had normalised. China, although still ruled by a Communist Party, was also seeking membership of the global system since opening up in 1978–79.

At a time when American and European leaders were preparing to celebrate on a grand scale the spate of anniversaries associated with victory in the Second

World War, from the D-Day landings of mid-1944 to the Japanese surrender of 2 September 1945, it occurred to me that the Seattle meeting was taking place almost exactly 50 years after two earlier 'summit' meetings held in November 1943: the 'Assembly of Greater East Asian Nations' convened in Tokyo by Japanese Prime Minister Tojo Hideki on 5–6 November 1943; and the Cairo Conference, from 22–26 November 1943, at which US President Roosevelt and the British Prime Minister Churchill met the President of China, Chiang Kai-Shek (Jiang Jieshi).

These two anniversaries, and the visions of the future they represented, went entirely uncelebrated in 1993. The Tokyo conference had led nowhere: Japan's concept for the future of the region was overturned by military defeat less than two years later. But neither did the principals at Cairo fulfil all of their hopes, despite the Allied victory over Japan. The British found themselves unable to restore their former imperial role in Asia and were obligated to relinquish power over India, Pakistan and Burma in 1947–48; while the future role of China, in the form anticipated by Roosevelt and Chiang, was overtaken by events of 1949–50 in which China was reunified under Communist rule and became the ally of the Soviet Union in a 'world divided into two camps'. It was impossible in November 1943 to predict even the situation that would emerge a mere ten years later, at the end of 1953, when the French and the Viet Minh were preparing to fight the battle of Dien Bien Phu against a background of diplomatic moves that would culminate in the Geneva Conference of 1954; and when the Americans were looking towards the creation of a South-East Asia Treaty Organisation to counter the possible further ambitions of Beijing.

If we adopt an approach to history which traces the course of events forwards in time, studying the global situation at subsequent ten year intervals from 1943–93, rather than always looking backwards with the supposed 'benefit of hindsight', it is obvious that the realities of East Asia at each of these points in time were also totally beyond the powers of prediction of either the political leaders or the so-called 'experts' of the previous respective decades.

Nevertheless, my aim is to achieve a better understanding of the situation in East Asia, within the regional and global perspective, at ten year intervals from 1943–93 by analysing each 'present' in terms of the conflicting perceptions and aspirations which were expressed at the time; and to examine their possible implications, had those different visions actually been fulfilled.

Part I

Visions of the future

November–December 1943

1 The Tokyo Conference and the 'Greater East Asia' perspective, 1943

...the ardent pledge based on the spirit of firmly establishing the Greater East Asia co-prosperity sphere by mutual cooperation beyond the scope of love among the people of the same race. Here the Imperial government with its people expresses its heartfelt and sincere appreciation to the brethren of the Greater East Asia sphere who are imbued with a strong determination.

From Foreign Broadcast Monitoring Service (FBIS forerunner) translation of speech by Premier of Japan, General Hideki Tojo, at the opening of the Imperial Diet, 27 May 1942.

...Japan is now presumably in a position to secure adequate supplies of rubber and tin from occupied territory; but in oil she might begin to face a deficiency if by the end of this year she has been unable to place the ... [NEI] and Burma wells ... in full production again; while in iron and steel Japan's shortage must be a continuing one and it is difficult to believe that her existing stocks, coupled with what she can derive from occupied territory, will satisfy her enormously increased requirements for more than a year ahead.

From British Ambassador to Japan Sir Robert Craigie's final report of 4 February 1943 following his repatriation after having been released from internment as part of a prisoner exchange.

Shipping, essential imports and Tokyo's changing perspective, 1943

By April 1942, the Japanese controlled the former Western colonies of the Philippines, Malaya and the Netherlands East Indies (NEI) – now known as Indonesia; had occupied Indochina and Thailand without taking government administrative control, and were well on their way to conquering Burma too. But what were the 'boundaries' of this new empire or 'Co-Prosperity Sphere'? And how would they be defended? The boundary between Burma and British India would be easily established until such time as either the Japanese were strong enough to invade India; or until the British invaded Burma and/or Sumatra.

The 'China Incident' was, however, more problematic as it could not be satisfactorily resolved by military means in 1940–41. It required Japanese possession of the oil resources of South-East Asia, hence the priority given to the southward

advance – whether diplomatic or military. In the period to July 1941, and some might say, even to October or November of that year, diplomacy had the edge; but military plans were being prepared. Japan controlled the oil of NEI, and other resources of South-East Asia, by April 1942, but China remained a problem and the need to defend the newly conquered areas made it impossible to mount a massive new offensive in that country.

The Japanese had to allow a military stabilisation in China, during 1942–43, with KMT leader Chiang Kai-shek still surviving in Chongqing and controlling much of the hinterland. Chiang's forces were by then receiving US military assistance, via the aerial 'hump route' from India, but not enough to sustain a major ground offensive. The main damage to Japan's position in 'its own' areas of China was the ability of the 14th USAAF to attack supply routes within China, and off its coasts.

By spring 1943, the 'battle' for China was essentially political and diplomatic: could the Nanjing regime be made attractive enough to win active Chinese support? Could Chiang be persuaded to make peace with Japan? If not, Chiang's alliance with the US might eventually force a resumption of Japanese military operations in China, Northern Burma and North-East India. The latter is what actually happened in 1944.

Nevertheless, since the end of 1942 it had been clear to the Japanese that their initial strategy of forcing the US and Britain to negotiate had failed and the question was emerging whether the Japanese Navy could defend the whole area it had seized the year before. The problem was not just strictly one of Japan's military capability and strategy.

The Japanese were unaware that American signals intelligence (SIGINT), through its highly secretive decryption operation, code-name MAGIC, had broken diplomatic code and that US naval code-breakers had cracked Japan's naval code. Deciphered messages from these sources provided the Allies with key information about Japanese movements and plans.¹

Japan's growing problems also related to resources and shipping. By about April, the Japanese became deeply worried by unforeseen losses to their merchant tonnage – a situation which became increasingly grave by December of that year.² Unfortunately for the Japanese, much of Malaya's shipping had been scuttled or evacuated by the British, although in April 1942 Japan did take over French Indochina's merchant fleet, such as it was. Perhaps most importantly, however, the Japanese, despite considerable study on the topic, failed to fully appreciate the shipping problems faced by Britain in the First World War and anticipate the dangers posed by submarine warfare.

In 1943 and 1944 Japanese shipping construction was absorbing a growing proportion of dwindling domestic steel, iron ore and coal supplies, leading to reductions in quantities of the metal allocated for producing trucks, guns and tanks. In short, by that time a vicious cycle had developed, characterised by a shortage of shipping, affecting the supply of raw materials, which in turn reduced the country's ability to build more ships to replace rising losses that year.³

The strategy of building up a large oil reserve lay at the heart of Japanese planning, but their clearly thought out strategy, outlined in a Japanese Cabinet Planning Board Paper of December 1941, was based on three main premises, the latter two of which proved to be inaccurate. One was that such a war would not last more than three years (i.e. up to the end of 1944). The other was that Japanese shipping losses from 1941–44 would be no more than one million tons, leaving merchant vessel capacity above the estimated 5.05 million tons required. Another was that domestic oil reserves in conjunction with increased production in Japan and in the conquered Southern region would be adequate to support successful military operations and meet the industrial needs of Japan itself.

The Allied oil embargo imposed in July 1941, however, led to a sharp fall in Japan's petroleum imports in that year and forced the Japanese to draw on ten million barrels from their 48.9 million barrel reserve. The Japanese failed to dramatically raise their synthetic oil output and their crude oil production in 1944 fell 900,000 barrels short of demand. They had considerable success in restoring crude production in the 'Southern Regions' in 1943–44 after repairing damage inflicted – especially in Sumatra, Brunei and Kalimantan – by the Allies during the retreat of early 1942. But the oil still had to be transported to Japan itself as well as to its forces on the battlefield and in 1943 Japanese tanker tonnage was reduced from approximately 834,000 to about 446,000 tons as a result of Allied air and submarine action. Then, in early 1944 one third of the tankers attached to the Japanese Combined Fleet were sunk by US carrier-based aircraft in two attacks on Truk (now known as Chuuk) in the Caroline Islands, in the North Pacific in the Federated States of Micronesia; and on Palau, east of the Southern Philippines and west of the Federated States of Micronesia. Already by March this had seriously inconvenienced the Japanese Navy, and it was further handicapped during the second half of the year when it became necessary to divide the Japanese Fleet to enable one part to go to Singapore and the other to the Southern region to be refuelled at source.⁴

A growing shortage of foreign exchange and fluctuating harvests also made it increasingly difficult for the Japanese to meet their grain requirements. In 1941 and 1942 the Japanese purchased more rice from Indochina, which extended credit terms to finance the purchases. Burma, Thailand, Korea and Taiwan remained important suppliers, although the latter's rice export capacity was contracting because of increased domestic demand from the growing number of Japanese troops stationed there. Then, in 1943 Indochina and Thailand provided 74 per cent of Japan's total rice imports.

The following year when the Japanese imported much less rice, Korea alone provided 71.5 per cent; Taiwan another 19.2 per cent; with Indochina and Thailand together providing less than 10 per cent. The Allied blockade had nearly halted Japanese imports of Taiwanese rice and sugar and, thus, as the war continued, soybean became more important in terms of Japan's food supplies. The main source of this commodity was Manchuria, whose close proximity to Japan made supply routes less vulnerable than those from South-East Asia.⁵

By about April 1943 all of these factors left the Japanese concerned that they

would eventually be defeated by the US and its allies, unless some compromise, short of total military defeat and capitulation, was found to end the war. Japanese reports and official statements also reflect the country's mounting serious problems, and there were indications that a secret 'peace faction' existed within the Tokyo government as early as March.

At the Imperial Conference of 31 May 1943 the Japanese decided to try to improve their relations with countries in the region by making conciliatory moves: both towards Prime Minister Wang Jingwei of the pro-Japanese regime in Nanjing and China's Nationalist government at Chongqing; during Japanese Prime Minister and General Tojo Hideki's visits to South-East Asia; through the granting of 'independence' to Burma and the Philippines; by providing territorial concessions to Thailand; and through continued diplomacy with French Indochina after successfully pressuring the Vichy government, the previous December, to sign a new bilateral economic agreement with the intention of binding Indochina to Japan's economic sphere.⁶

In early August Chief of Army Staff, Field Marshal Hajime Sugiyama's intelligence report maintained that it would be impossible to mount an immediate counteroffensive.⁷ Also Admiral Kichisaburo Nomura's report, delivered about that time, on his visit to Germany indicated that prospects for that country were very serious. The Soviets had been victorious at Kursk (Kurskaya) in July and at Kharkov (aka Kharkiv) by 23 August. Benito Mussolini had fallen on 25 July, 15 days after the US-British landing at Sicily, and the Italian armistice was reached on 3 September.

Those attending the conference convened by Imperial General Headquarters at Tokyo in September 1943 recommended that with Italy out of the war and German forces fighting hard in Italy itself and on the Russian front, Japan could not expect help from Europe and thus needed to:

- 1 prepare to defend the home islands against invasion;
- 2 make preparations on the Manchurian front to avoid war with Russia and to prevent possible Russian-American collaboration;
- 3 defend oil-bearing areas of the Southern region and Japan's sea communications with it;
- 4 avoid becoming involved in a major conflict in China but continue to destroy Chinese resistance to Japan;
- 5 defeat any Allied offensive against Burma, or the Andorrans, or Sumatra;
- 6 prepare for a new defensive line in the Pacific, extending from Timor and Western New Guinea to the Caroline Islands and the Kuriles. Although it was anticipated that the Americans might attack the Gilbert Islands in Kiribati in late 1943, no major offensive was expected in the Central Pacific. American pressure in New Guinea was also expected to continue.

These recommendations were approved at a Liaison Conference on 25 September and confirmed by an Imperial Conference five days later.⁸

This new Japanese strategy in the Pacific gave a continued, and vital, role to

the Japanese bases at Rabaul, at the conjunction of New Britain and the Solomon Islands; and at Chuuk. However, in both cases the Americans decided that they were too strong to be taken by landing Marines. Instead, the Americans used their growing air power to attack both bases heavily from the air, attacking Rabaul with aircraft of the South-West Pacific command beginning on 12 October 1943 and launching the first major strike, with US navy planes, on Chuuk on 17 February 1944. The result was to neutralise the effectiveness of both bases, while the main fighting on both fronts was carried farther and farther westward in 1944.⁹

For their part the Japanese had not expected the major US offensive in the Central Pacific, which began to materialise by early 1944. By October 1943 Tokyo was even more concerned about its growing losses of shipping and shortages of raw materials as well as its prospects in the war against the US and its allies. The urgent need to increase production led to the creation of the Ministry of Munitions in November 1943. That same month Advisor to the Imperial Household, Rear Admiral Takagi Sokichi, who had been studying conditions since September, briefed Marquis Koichi Kido, Lord Privy Seal and Emperor Hirohito's closest advisor throughout the Second World War, on the seriousness of the war situation.¹⁰ In December the Emperor asked Cabinet advisor Suzuki Teiichi to check Takagi's conclusions.¹¹

It was during the last two months of 1943 that the Japanese 'revised' their original purpose of going to war. Unlike the position they had espoused until at least 1940–41, the Japanese now maintained that their main aim was to 'liberate' the region from the yoke of British–American domination. In short, Tokyo's changing policy towards its Asian 'allies' took place against a background of awareness that the future was uncertain.

The Tokyo Conference, 5–6 November 1943

The actual 'assembly' of leaders from the countries of Greater East Asia, and the formal declaration to which they adhered on 6 November 1943, was little more than a propaganda gesture designed to rally regional support for the next stage of the war – by redefining the ideals for which it was supposedly being fought. Under the chairmanship of Prime Minister and General Tojo Hideki, accompanied by the ministers of Greater East Asia (Aoki Kazuo) and of foreign affairs (Shigemitsu Mamoru), the meeting was attended by representatives of the other five countries in the Sphere whose governments were recognised as theoretically sovereign – and therefore as allies of Japan rather than as part of its empire:

- 1 Manchukuo, formed in 1934 following the Japanese conquest of Manchuria in 1931, was represented by its Prime Minister Zheng Jinghui;
- 2 China, in the form of the Nanjing regime recognised by Japan in 1940, with which a new and more equal treaty had just been signed on 30 October 1943, was represented by Prime Minister Wang Jingwei;
- 3 Thailand, which under the leadership of prime minister Phibulsonggram had

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- been a Japanese ally since December 1941, was represented by Prince Wan Waithayakorn;
- 4 Burma, conquered by the Japanese between January and May 1942 and given formal independence in August 1943, was represented by its prime minister, Ba Maw;
 - 5 the Philippines, conquered in the campaign of late 1941 and early 1942 and given formal independence as recently as 14 October 1943, was represented by its president José Laurel.¹²

Four other areas of the Co-prosperity Sphere, however, were not represented. Two of them, Korea and Taiwan, had long been colonial provinces of the Japanese Empire and there was no plan to grant either of them even nominal autonomy. French Indochina, although closely associated with Japan through a series of formal agreements, was treated as being still a colony of France, whose government at Vichy had been recognised by Tokyo in 1940. Lastly, the various regions of present-day Malaysia and Indonesia were still under direct military or naval administration, following a decision in May against giving them nominal independence. The only concession made to those areas was that, ten days after the formal conference, the Indonesian leaders Achmed Sukarno and Muhammad Hatta were invited separately to Tokyo for informal consultations.

Although the Tokyo meeting itself was little more than an occasion for formal rhetoric, it should nevertheless be seen as the climax of a significant reformulation of Japanese policy which had been taking shape since the end of the previous year and which had crystallised in a series of decisions taken by an Imperial Conference on 31 May 1943.¹³ From the point of view of the peoples of South-East Asia it has to be recognised that their whole framework of reference had been transformed, in less than a year, by Japan's military campaigns between mid-1941 and mid-1942. They were, naturally, given little encouragement to suppose that the transformation was likely to be reversed anytime soon. On the other hand, the highest levels of leadership in Tokyo were already becoming aware of Japan's own military limitations, following the defeat on Guadalcanal and the news of German setbacks at Stalingrad and in North Africa. In these circumstances it became necessary to establish a longer term of political and institutional collaboration in the Southern region: one which would provide a more effective basis, than direct colonial domination, for mobilising the resources of the region behind the Japanese war effort; and would also serve as a framework for diplomatic compromise if it became necessary at some future stage to abandon the military struggle altogether.

The change in Japanese policy during 1943 was especially important in relation to China, where Wang Jingwei's pro-Japanese regime in Nanjing was in competition with the Nationalist government in Chongqing and with the Communist government in Yanan – the two latter being loosely allied in an anti-Japanese united front originally formed in 1937. Tokyo's minimum objective, in the months following a visit to Tokyo by Wang Jingwei at the end of 1942, was to provide greater incentive to the Nanjing government to cooperate in the war

effort. It was only on 9 January 1943 that the Nanjing government actually declared war on the US and Britain. The *quid pro quo* was that Japan would bring to an end both its own extra-territorial concessions in China and also its administration of other international concessions taken over at the end of 1941 – particularly that in Shanghai.

The retrocession of Japan's own privileges took place during a visit by Tejo himself to Nanjing on 14 March 1943; the handing over of responsibility for the international settlement at Shanghai followed in June. Finally, on 30 October 1943, the Sino-Japanese treaty of November 1940, which Wang himself had regarded as unfair to China, was superseded by a Pact of Alliance which formally recognised China's sovereignty and promised the withdrawal of Japanese forces after the end of the war. A reflection of the high priority accorded to the developments was the decision, in April that year, to move Shigemitsu Mamoru from his position as Japanese ambassador in Nanjing to that of foreign minister in Tokyo.

A second, more ambitious Japanese objective during the summer and autumn of 1943 may have been to bring about a rapprochement between Nanjing and Chongqing, and to sign a separate peace with Chiang Kai-shek. That appears to have been the reason why Colonel Tsuji Masanobu was sent on a mission to Nanjing in August 1943. He appears to have hoped to arrange a visit to Chongqing to negotiate with Chiang Kai-shek in person; but it failed to materialise.¹⁴ The whole question of secret communications between Nanjing and Chongqing during the war is still shrouded in secrecy. In particular, it is difficult to gain a clear picture of the role of Zhou Enlai, a close aide of Wang Jingwei since their 'defection' from Chongqing at the end of 1938, who had maintained secret contact with some of his former colleagues in the Nationalist capital and was by now in regular radio communication with them – apparently with Japanese approval.¹⁵

Another element of uncertainty, on the Nationalist side, was the relationship between Chiang Kai-shek and his generals during the second half of 1943. Some of them, notably Ho Yingchin, had been trained in Japan and may have been receptive to a rapprochement with Nanjing; others were probably strongly opposed. American diplomats in Chongqing reported signs of disaffection among provincial commanders, some of whom boycotted the 11th plenum of the KMT central executive committee in September. There were even reports that in November 1943 Chiang Kai-shek's chief of military intelligence General Dai Li foiled a plot by a number of younger generals to seize the Generalissimo on his way back from the Cairo Conference and to force him to take firmer action against corruption in his government. It appears that in the aftermath some of the plotters were executed and others purged, but the full story has not emerged.¹⁶

It may, indeed, be possible for historians now to know enough about the details of internal Chinese politics to decide whether there was ever a realistic possibility of achieving a separate peace between Chongqing and Tokyo at this time. The notion was certainly taken seriously by US President Franklin D. Roosevelt, as we shall see, and fear of such a rapprochement probably influenced American policy towards Chiang Kai-shek throughout 1943.

Stages in conciliation between Japan and its other 'allies'

Phibulsongram decided not to attend the Tokyo conference, possibly as a result of his assessment of the changing war situation and/or out of insecurity about his own leadership in Bangkok. The Japanese had, nevertheless, been seeking to reassure the Thais and secure their goodwill. Hence their decision at the Imperial Conference in Tokyo in May to cede to Thailand the four northern Malay states lost to Britain in 1909 and the Shan States, previously part of Burma.¹⁷ Tcjo's visit to Bangkok in early July was followed in August by the signing of a Thai–Japanese treaty on the return of the 'lost territories' and the completion in October of the Thai–Burmese railway.

Meanwhile, in Burma an Independence Preparatory Committee, headed by Ba Maw, was appointed in May. As Tcjo met with Ba Maw in Singapore in early July the council of senior Buddhists continued to call for unity of the Buddhist faith, while supporting the Greater East Asia Co-prosperity Sphere. The Burmese 'Declaration of Independence' was issued on 1 August with Ba Maw as Adipadi (head of State) and that same day the country declared war on Britain and the US. About seven weeks later Japan and Burma signed the Rangoon Treaty under which the latter was permitted to annex those Shan States not already given to Thailand and other non-Burmese territories.¹⁸ The 'Declaration of Independence' was, as in the Philippines, a step towards creating the 'myth' of Japan's liberation of the region.

Kalibapi (Association for Service to the New Philippines) – the sole political party in the Philippines – had been established in early December 1942 with the purpose of gaining greater support for the Japanese administration there. When Tcjo visited Manila at the beginning of May he had also promised early independence for the Philippines and in mid-June, on Japanese instructions, Kalibapi established the Preparatory Commission for Philippine Independence. A draft constitution was completed in early September and when the National Assembly, chosen by Kalibapi, met late that same month it elected José Laurel as president. Shortly thereafter Laurel, accompanied by the director general of Kalibapi Benigno S. Aquino (soon to become speaker of the House of Representatives) and Jorge B. Vargas, chairman of the Executive Committee of the Provisional Philippine Council of State, visited Tokyo. Although Philippine independence was proclaimed on 14 October and a Japanese–Philippine treaty of alliance was signed, Laurel continued to refuse to declare war against the US and Britain.

Japan's policy towards Indochina, Malaya, Singapore and the NEI

There was continuity in Japanese policy towards Indochina from 1940–42, involving far less disruption after December 1941. No fighting occurred in Indochina until the US bombing began, mainly in 1943, and the material economy remained intact after having been reoriented towards Japan from May

1941. It is true that Indochina was handicapped, in relations with Japan and other parts of the Co-prosperity Sphere, by the increasing shortage of shipping – although the Japanese had taken over the French Indochinese merchant fleet in April 1942. However, Indochina retained its banking system, and the French government had its own budget and changing taxation system. Also, the Chinese in Indochina were no longer punished after February 1942 and by the spring of 1943, the Japanese promoted independent development in the region to help meet needs that were more difficult to obtain through trade. This reflected Japan's less 'centralised' or 'unified' policy towards the development of the 'Sphere' as a whole.

Nevertheless, there were signs of change even in Indochina in 1943. While Japan's military occupation of Indochina began in earnest in July 1941, the colony had been left under French administration and remained so until 9 March 1945. The new Vichy government of France dismissed the Governor General of Indochina in September 1939 and in mid-July 1940 appointed Vice-Admiral Jean Decoux, Commander of the French Naval Forces in the Pacific, to the post. At the end of May Governor Decoux had created 'Le Conseil Fédéral de l'Indochine', which had given more representation to Vietnamese, Cambodians and Laotians.¹⁹ Decoux had protested when retired general and president of the Association of Greater East Asia Matsui Iwane's speech to Vietnamese journalists in Saigon in early July questioned French sovereignty in Indochina and declared that Japan would liberate the colony anyway. Decoux then had the title of 'prince protector' of Annam conferred upon him at the Dalat ceremony, on 23 July – an event boycotted by emperor Bao Dai, the last ruler of the Nguyễn dynasty who would abdicate on 25 August 1945.

However, the Cao Đài and Hoa Hao politico-religious sects were thriving under Japan's protection. The Japanese had returned Tran Quang Vinh to Saigon from Cambodia to reconstruct the Cao Đài sect, whose leader Pham Công Tac had been deported by the French in August 1942, which prevented him from being arrested in late July 1943. About that time the Japanese were also protecting Huynh Phú So, the founder and leader of the Hoa Hao Buddhist movement, who they had helped to escape from house arrest in October 1942. Then, between late 1943 and early 1944 the Japanese transported the influential political moderate Nguyen Van Sam as well as educator and historian Tran Trong Kim to Singapore. It was Kim who emerged as Prime Minister of an 'independent' Vietnamese government, after the Japanese took full political control of Indochina in March 1945, although his government proved too weak to survive Japan's surrender later in the year.²⁰

In Malaya, considerable disruption occurred between mid-February 1942, when the British wound up their administration, and the time that the Japanese military administration was established. Some damage had been done by the fighting, but much more was caused through deliberate sabotage on the part of the British as they left the country. Thus the Japanese had been unable to simply take over a 'working economy'. Malayan shipping was in an even worse state than that of Indochina – much of it having been scuttled or evacuated by the

British. As with the situation in Indochina, Malaya suffered from an increasing shortage of shipping from around August 1943. The Japanese encouraged independent development in Malaya as well, from the spring of 1943. British and other foreign banks no longer operated under the Japanese occupation of Malaya.

The Japanese, however, seem to have had no intention of granting independence to Malaya, probably because of the strength and vital strategic position of the Chinese community in Singapore. Tcjo visited Singapore in early July 1943 and in the autumn Malaya and Sumatra were given separate military administrations, having already been combined in 1942. This may have been to reassure the Sumatrans of a distinct identity. Although the Malay rulers were still technically allowed sovereignty over their states they were provided Japanese 'advisors'. In short, Malaya and Singapore remained as virtual Japanese colonies.

In the NEI, Japan's aim was to use political mobilisation, short of independence, to step up its war effort. At the end of May 1943 the Imperial Conference, Tokyo decided against 'independence' for Java and other former Dutch territories, agreeing instead on greater participation of Indonesians, especially the Javanese, in administrative affairs. Tcjo visited Jakarta in early July and at the beginning of August Java created a central advisory council and regional council, including some nominees of the Sultanates. In early October the Japanese issued a decree for the formation of Pembela Tanah Air (PETA), a 'Volunteer Army for Defence of the Fatherland' and the first group of its officers was installed in a ceremony on 8 December. Meanwhile, when (nationalists) Sukarno, Hatta and Ki Bagus Hadikusumo visited Tokyo in mid-November, they were refused a grant of independence. Later that same month 'Madjlis Sjuro Muslimi Indonesia' (the 'Consultative Council of Indonesian Muslims') was formed under Japanese direction, creating a united front of orthodox and modernist Muslims, whose executive was to be drawn from the Muhammadiyah and Nahdatul Ulama organisations.²¹

Meanwhile, in early July Subhas Chandra Bose, leader of the Indian National Liberation Army (INLA) met Tcjo at Singapore. Composed of Indians living in South-East Asia who opposed Indian leaders Jawaharlal Nehru and Mahatma Gandhi, the INLA movement had been 'encouraged' by the Japanese with the hopes that it would spearhead a Japanese invasion of India. On 21 October, Bose formed the Bangkok-based 'Provisional Government of Free India' – a Japanese puppet administration, which declared war on Britain four days later.²² This development occurred just as South-East Allied Command (SEAC), established by the Allies in August at the Quebec ('Quadrant') Conference to conduct operations in Burma and beyond, was being set up in the field.

The economic and financial dimensions of 1943: Japan's Co-Prosperty Sphere

Beneath the rhetoric of the Tokyo Conference of 1943, and the treaties and declarations leading up to it, it is possible to discern a relatively coherent Japan-

ese vision of the Co-Prosperity Sphere in terms of how it was intended to operate once the war was over. That vision, as well as assuming that all progress depended on the leadership of Japan, incorporated two essential principles, both derived ultimately from European economic thinking in the 1930s.

The first of these was the principle of autarky: the creation of a political-economic 'bloc' in East Asia whose future development would be allowed to depend as little as possible on inputs from the rest of the world. Taken together the countries embraced by the Co-Prosperity Sphere possessed most of the natural resources required for a modern industrial economy, as well as an abundant supply of labour and a growing command of modern technology and communications. To a large extent, those requirements were already met within the region under Japanese domination at the end of 1943. In the longer term the coherence of the region would be increased if it were expanded to include the whole of China – and also India, with its output of raw cotton and jute and its market for rice, timber and other products of South-East Asia. In the short-term, however, Japan already controlled the key mining and industrial areas of China; while Indian cotton and jute could (in theory) be replaced by the promotion of those crops in Indochina.²³

The second principle was that of centralised economic management, which would enable large private business enterprises to play their part in achieving goals of production and distribution set by the imperial government in Tokyo. This idea too had its parallel in Western thinking during the 1930s: old style capitalism was seen evolving logically into the 'managerial society', which Stalinist Russia, Nazi Germany and 'New Deal' America each exemplified in its own way.²⁴ In that respect Japan was seeking to apply comparable methods to achieve the transformation of Greater East Asia.

The effectiveness of such management depended, even so, on the smooth operation of banking facilities, foreign exchange mechanisms, and other elements of a modern financial system. The Japanese had had sufficient experience in that field to be able to manage the 'new order' in northern areas of Asia. But when they advanced into the countries of the Southern region, which had formerly been dominated by Europe, they found themselves having to adapt to their own purposes a financial system that had already been shaped by the colonial powers: a system, moreover, whose previous effectiveness had depended on its links with the major banks and financial markets of Europe and North America, but which now had to serve the needs of a trading system centred upon Japan. They also needed a financial structure capable of meeting, in each area, the currency requirements of a Japanese army of occupation.

Inevitably the system as it existed in 1943 was in a state of transition, if not total disorganisation, and the pressures of war would render its operations increasingly difficult to coordinate over the following two years.²⁵ On the other hand it could be argued that wartime chaos did not provide an adequate test of the principles themselves, or of their relevance to achieving genuine change throughout East Asia. Japan's essential objective was to permit the economic

development of the region on a basis which would no longer take for granted its subservience to the industrial needs of the Western powers.

Japan and colonial South-East Asia: financial and economic impact

By 1931, it was becoming clear – to more ambitious ‘militarist’ Japanese at least – that the existing colonies of Formosa (Taiwan) and Korea were not enough to allow a large-scale growth of Japan’s heavy industry and military strength. Therefore from 1931–33 the Japanese expanded territorial control to include Manchuria (in Northeast China) and then North China; eventually moving into Central and Southern China. But, even that was not enough, especially in view of the failure to ‘settle’ the ‘China incident’ by 1940 because of continuing Chinese resistance.

In 1940–41, the collapse of continental Europe under the impact of German expansion and the continuing war between Germany and Britain left the European colonies in South-East Asia vulnerable to Japanese advance. The latter’s moves were to substitute their own territorial control there for that of the Europeans. By mid-1942, they had brought about that change and their own ‘empire’ was substantially ‘complete’ in economic terms. That is, they controlled the territories which produced key resources needed for their own ‘metropole’, its industry and its defence, once peace was restored. They did not need to produce as much of certain products as had been produced by the Europeans; but they could use the same land to produce their own primary materials.

Japan’s interests in South-East Asia by 1940–41 were predominantly ‘economic’ in the sense that Japan needed new materials from the region to develop its own economy, and also its military strength. Japan’s own economy would benefit, in the long run, from more direct access to the raw materials of a region hitherto dominated by European and American colonial rule:

- 1 food, especially rice from Korea, but also later, in theory, from Indochina and Thailand;
- 2 oil from South-East Asia as well as coal from Korea and China;
- 3 iron ore from China and in principle from Malaya;
- 4 tin and other ores/metals from South-East Asia;
- 5 rubber, abaca and palm oil products from South-East Asia; and
- 6 phosphates from Northern Indochina.

The Japanese also hoped to produce in this region, cotton, hemp and other raw materials which previously had to be imported from Egypt, India and the US. This ‘imitation of empire’ might, in theory, work – but it would depend also on the principle of autarky.

Unfortunately for the Japanese, the European empires had not been based on such a completely ‘exclusive’ pattern of economic activity. While the Europeans and even the British had tended to become more ‘protectionist’ in relation to

their empires during the depression of the 1930s; to ensure captive markets for their own industrial products if nothing else, the British empire, in particular, had been able to generate capital through the conduct of trade and shipping beyond its own boundaries and through the provision of financial services using sterling instruments based in London, or the banking structure of the sterling area. Even the French had an imperial-financial structure which generated capital growth in Paris.

Japan did not possess an adequate capital base in Tokyo to provide the new investment needed by its new 'empire', especially in shipping and mining. Neither did it have the opportunity to generate capital through trade, in the form of exporting the 'surplus' primary produce of South-East Asia in international markets. At the time when Japan chose to imitate the European imperial or economic model of empire this construct was itself in terminal decline. The global pattern of wealth and capital accumulation required a continually evolving global division of labour. Even before the European and the Pacific War, it was evident that a growing part of demand for both primary raw materials and manufactured goods depended on a world market, including, above all, the US, which had only limited imperial possessions, but had both a potentially rising Gross National Product (GNP) and demand for certain imports. In short, Japan's aims could not be met simply by taking over the existing colonial pattern of economic production – certainly not by doing so through armed force, which would alienate the rest of the world, or on the principle of autarky within a Japanese dominated 'co-prosperity sphere'. The colonised areas of South-East Asia had an economic and commercial logic, and a whole financial structure, which was oriented to wholly different purposes from those entertained by Japan.

First, the pattern of production and trade in raw materials (commodities) which had evolved in South-East Asia over the previous century, had been geared to a world market whose main centres of gravity were Western Europe and the US, and to a lesser extent British India and other European imperial possessions. Within that framework, only a limited proportion of South-East Asia's commodity output had gone to Japan or to areas which by 1940 were dominated by Japan, including much of China as well as Korea and Taiwan.

The Japanese, if they took over the region by force, would find themselves dominating economies which produced far more rubber, tin, abaca, etc. than the Japanese empire itself could consume; which produced large amounts of rice and timber for India; and especially in Java and the Philippines, vast quantities of sugar for which Japan had no use at all. The viability of the South-East Asian economies, as they existed on the eve of Japanese conquest, depended on combined participation in global trade. This had been demonstrated twice over in the preceding decade: first, by the impact on the region of the collapse of Western (especially American) demand for raw materials, resulting from the 'depression' of the 1930s; and second, by the impact, on Malaya and the NEI especially, of American military stockpiling of items such as tin and rubber after 1939.

The commodities of South-East Asia were sold on world markets, at prices which depended on global demand and that was the basis of the region's

'prosperity'. Of course a large proportion of the income generated by such production and trade was 'repatriated' by the enterprises involved to the colonising countries and so did not accrue to South-East Asia itself. If the colonial economies of South-East Asia were simply cut off from their principal markets, the result would be a depression far worse than that of ten years before.

Second, the financial structures of colonial South-East Asia, including Thailand and the Western 'concessions' in China, especially Shanghai, were linked to systems whose centres of gravity lay outside Asia. This was true in at least three respects:

- 1 The largest enterprises involved in the production and trading of the major commodities were, for the most part, capitalised outside the region: in London, Paris, Amsterdam or New York. The form of that capitalisation might vary – depending more on equity markets in the British and American areas, and more on bank lending in the French and Dutch areas. But the value of their various estates and installations in the region was not, on its own, the main source of their ability to go on operating. They depended on capital raised in Europe and America and on their ability to deliver profit to their investors.
- 2 This applied also to Western banks in the region, which were in some cases branches of European (including British) banks and in other cases dependent on financial investment by larger banks in the metropolitan country. Indochina's banking system remained intact, centred on the Bank of Indochina. After liquidating 12 foreign banks in Malaya in March 1943 the Japanese improvised, using local branches of the Yokohama Specie Bank, the Bank of Taiwan, eventually falling back on various Chinese banks, which in April were given permission to reopen. In some respects the Southern Regions Development Bank acted as a central bank in Malaya,²⁶ but the Japanese were probably unable to resolve the 'banking problem' as a whole in Malaya.
- 3 The currencies in which South-East Asian trade was carried on also depended, ultimately, on the backing of Western central banks: sterling, whose lender of last resort was the Bank of England; the US dollar, dependent on the US Federal Reserve System; the French franc and Dutch guilder which both remained directly linked to gold. The gold and silver reserves, which also played a part in the foreign exchange system, were not for the most part situated in Asia and could not be seized by military conquest.

The question for Japan was whether its financial system could take the place of the Western colonial structures, on the basis of its own capital resources, its own banking structures and its own currency (the yen). Or, failing that, whether other forms of organisation of labour and trade transactions could become the basis of production and trade.

The collapse of those parts of the system which had depended on Western capital and world markets, especially the large enterprises and the banking

system, left open the possibility that a greater role might now be played by the capitalist financial institutions that had been developed, on a limited scale, by Asians operating within the colonial framework, especially in the 30 years since 1910. This included the activity (especially banking) of Indian and Chinese capitalists; and, since British India's own financial structures were also cut off after December 1941, especially the Chinese.

Exploration of this dimension requires a look at the extent to which Chinese capital was able to increase its role in the former colonial economies and in Thailand, with Japanese encouragement, in 1942–43. Japanese studies of the late 1930s and early 1940s reflect Japan's interest in the 'potential usefulness' of 'Overseas Chinese' in this respect. There was a need for Asian-based enterprises to develop 'import substitution' to meet demand for manufactured and other items no longer importable from outside the 'Co-prosperity Sphere'. Japan's own industrial output during the 1930s had met Asian needs just as effectively as, but more cheaply than, the Western products that ordinary Asians could no longer afford after 1930–31 – although in wartime conditions even this source of manufactures dried up owing to Japan's own war priorities.

The economic impact of the Japanese occupations transformed South-East Asia in ways which historians of 'colonial rule' failed to appreciate until the research of the 1980s and 1990s.²⁷ Le Manh Hung's recent work provides important new insights into *The Impact of World War II on the Economy of Vietnam 1939–45*, demonstrating that the development of Vietnamese (and Chinese) enterprise in Saigon and Hanoi as well as Indochina's economy at large, during the Japanese period, led to the strengthening of the Vietnamese 'middle class'. It may be that this development has parallels elsewhere in the region.

Prior to Japanese occupation, South-East Asia relied on India and America to meet the region's cotton and jute requirements. After mid-1941 Japan was cut off from its previous sources of raw cotton – especially India, Egypt and the US. Thus, based on the recommendations of career diplomat Yokoyama Masayuki's survey mission of 1941–42, Japan's five year plan (introduced in mid-April 1942) sought to promote cotton growing in South-East Asia – initially to supply Japanese industry. As a result, in Indochina a much larger amount of arable land was turned over for cotton cultivation. But although Indochinese production of this commodity more than doubled from 1940–43 a Japanese directive of late April 1943 called for Indochina to expand its domestic textile industry to a level which could not be met, based on excessive cotton growing targets.

Jute production was also given high priority by Yokoyama Masayuki's report as the commodity was used for manufacturing gunny bags required for transporting rice. In 1941 the British had imposed restrictions, followed by a total embargo by the year's end, on the number of Indian gunny bags sold to Thailand in order to block Thai rice exports to Japan. Tokyo responded by convincing the French to convert large areas of Indochina's arable land from producing 'traditional' crops to growing jute, a strategy which contributed to the domestic famine of 1945 – which in turn precipitated the Vietnamese revolution.²⁸

Furthermore, when the Japanese occupation and the Second World War itself left traders unable to import Indian and Iranian opium, mainland South-East Asia trade was initiated to meet the needs of urban consumption and government revenues. This involved the creation of a potentially criminal network, which came increasingly into its own during the massive inflation of 1944–45.

Before 1940 the governments of South-East Asia – including Siam, as well as the colonial powers – encouraged the sale of opium, through government monopoly outlets, in the main cities and towns of the region. Although the ‘campaigns’ of the 1920s and 1930s had led to some reductions of this activity in some areas, opium profits were still a major factor in government revenues: ranging from 1 per cent in Burma to 15 per cent in French Indochina; and around 8 per cent in Siam. This involved official importation of opium from India, Iran and Turkey. French Indochina also imported some of its supplies from Yunnan. (A certain amount of opium was smuggled into South-East Asian areas, from Yunnan and the Shan states. But governments discouraged smuggling, since it tended to reduce profits from their own monopoly outlets.)

In China, at least before the war of 1937–38, some opium and especially heroin was imported by Western firms (especially French) into Shanghai and other ports. But a substantial part of Chinese demand was met by opium produced in Yunnan and Sichuan where output expanded in the 1920s and 1930s.²⁹

After 1940 when the French were the first to be cut off from their Middle-Eastern supplies (40 tons per annum) they responded by encouraging production within Indochina in the Hmong areas of Laos and the White Tai areas of North-West Tonkin. This was successful, in that those areas were producing 60 tons annually by 1944.

So far there are no accounts of how the problem was dealt with in Malaya, or in the NEI. Nevertheless, after 1941 Thailand – which had not expanded production at that stage – seems to have turned to the Shan States and possibly Yunnan for the approximately 32 tons of opium it had previously tended to import each year from Iran and Turkey.³⁰

Three areas in the ‘Hinterland’ areas of Mainland South-East Asia seem to have expanded opium production in the early 1940s. One was Yunnan and although we have few details on where opium from here went, Shanghai ‘opium king’ Du Yuesheng and possibly Dai Li may have played an important role.³¹ Another was the Shan States and the other was Laos and Tonkin – where Hmong areas increased output to sixty tons by 1944, completely replacing previous imports from the Middle East, although, A.W. McCoy argues that output from the Shan States and Laos was very small, during this period, compared with levels of production in the ‘Golden Triangle’ by the 1960s.

Nevertheless, the important consequence was that the need for opium in South-East Asia in 1941–45, given the end of importation from India and the Middle East, could be met by production in the above areas. And in the process, structures of production and distribution (or trade) were established – or strengthened – in forms which could be developed further after 1945; and espe-

cially after 1949. The roots of 'Golden Triangle' production may lie earlier than 1940; but they developed vigorously during the war period.³²

Despite Japan's defeat in 1945 and the collapse of its 'East Asia Co-Prosperity Sphere' the impact of some elements of Japanese rule in East Asia could never be reversed. These changes would resonate through subsequent decades despite the leading role of the Western Allies in shaping the post-War world.

2 US, British and Communist perspectives on East Asia, 1943

Towards a post-war global economy

This was the first time I had met Chiang Kai-shek. I was impressed by his calm, reserved and efficient personality ... he stood at the height of his power and force. To American eyes he was one of the dominant forces in the world ... [;] the champion of 'the New Asia' ... [;] a steadfast defender of China against Japanese invasion ... [; and] a strong anti-Communist. The accepted belief in American circles was that he would be the head of the great Fourth Power in the world after the victory had been won.

Sir Winston Churchill's recollection of meeting Chiang at the Cairo Conferences of November–December 1943, *The Second World War Vol. V Closing the Ring* (1952)

... any sort of international centre would encounter insuperable obstacles in solving the problems facing each separate country.

Extract from Formal Resolution recommending the dissolution of the Communist International, Presidium of the Executive Committee of the Communist International (ECCI), 15 May 1943

The Cairo Conferences of November–December 1943

At this point one must consider American and British perceptions of the war situation generally, and of the problem of China in particular, as Roosevelt and Churchill prepared to meet Chiang Kai-shek in Cairo (22–26 November 1943). That encounter was in fact only one element in the Conference, which was also a major operational strategy meeting (under the code-name 'Sextant') between the American and British leaders and their Combined Chiefs of Staff. The latter dimension involved a second series of discussions in Cairo (4–6 December) to complete Allied military planning for the next stage of the war in both Europe and Asia. By the time this second Cairo meeting got under way, following on the heels of the Teheran meeting of Roosevelt, Churchill and Stalin from 28 November to 1 December 1943, Chiang had left for home.¹

In proposing that the Chinese leader should be invited to a summit meeting of this kind, Roosevelt was seeking to establish the idea that China was destined to replace Japan as the leading power in East Asia; and would in due course become the fourth world power, alongside the US, Britain, and the USSR.

Churchill was rather cool towards this notion, fearing that Chiang Kai-shek's long-term ambitions might not be compatible with the restoration of Britain's position in Malaya, Siam and Hong Kong. Nevertheless, Roosevelt had persuaded Britain to join the US in signing new treaties with Chiang's government on 11 January 1943, returning to China all the extra-territorial concessions accorded to them under the various unequal treaties of the nineteenth century. In this respect, the US and Britain were well ahead of Japan's promises to Wang Jingwei.²

In similar vein Roosevelt agreed, in March 1943, to meet Chiang Kai-shek's request for a separate US air force to operate in the China theatre: he gave command of the 14th Air Force to General Chennault, a strong supporter of Chiang, and promised to airlift increased supplies to Chongqing and Kunming 'over the hump'. That decision led to tension between Chennault and Joseph Stilwell, the US army officer in charge of training Chinese ground forces, who was more critical of Chiang. Chennault was nevertheless able to use his new resources to inflict considerable damage on Japanese supply routes in eastern China and in northern Indochina during 1943 and early 1944.³

Roosevelt's enthusiasm for Chiang was stimulated by his desire to prevent any separate peace between Chongqing and Tokyo. Conversely, the Americans were anxious to prevent any worsening of relations between Chiang Kai-shek and the Communists: a possibility which began to appear imminent in June and July 1943, when it looked as if Chiang was about to deploy more of his forces to the north in an attempt to force Mao Zedong to dissolve the separate government in Yanan and to incorporate Communist forces into a single Chinese army. The Communists certainly complained of such a threat; and the Americans were convinced that it was their own intervention which persuaded Chiang to abandon such plans and instead to urge the KMT's 11th plenum in September 1943 to treat the 'Communist problem' as one to be resolved by political rather than by military means.⁴

Underlying these American moves was an acute awareness of the strategic role of China in the unfolding military struggle against Japan. Although by the spring of 1943 both Roosevelt and Churchill were committed to bring about the 'unconditional surrender' of Japan, a precise strategy to achieve that end had still to take shape. The Washington ('Trident') Conference from 12–25 May 1943 approved a 'Strategic Plan for the Defeat of Japan' which recognised the potential importance of China as a base for eventual operations against the Japanese home islands, as well as the need for specific military moves in Burma and in the Central Pacific. The Quebec (Quadrant) Conference (14–24 August) went one stage further, taking initial steps towards defining an Allied strategy in Asia and the Pacific. These included the decision to divide the China-Burma-India theatre and create SEAC to conduct operations in the region.

Although he was dismayed that China and South-East Asia were placed under the same jurisdiction, the day after the conference ended British Admiral Lord Louis Mountbatten was appointed Supreme Allied Commander with General Joseph Stilwell as his Deputy. Then, in October when Mountbatten

visited Chongqing for meetings with Stilwell and Chiang Kai-shek, the Chinese KMT leader accepted SEAC's control of operations in Burma and reached a 'gentleman's agreement' with the British Admiral on Thailand and Indonesia. The following month, SEAC headquarters were opened at Delhi, 40 miles from the base of Force 136 – the Far Eastern branch of Britain's Special Operations Executive (SOE). As Churchill's brainchild, SOE had been established in 1940 to train people in enemy-occupied territory for subversion and sabotage and Force 136 was staffed by businessmen, diplomats and others who had escaped from various countries invaded by the Japanese.⁵

There existed, however, Anglo-US friction over the limitations of unilateral British and American power, jurisdiction, and operations in East Asia. A key area of Allied disagreement was in intelligence, where the American Office of Strategic Services (OSS) – established in 1941 under the command of General William J. 'Wild Bill' Donovan – competed with Force 136. US military commanders excluded the OSS from operating in their jurisdictions in the Pacific, severely limiting the size of the OSS' potential field of operations to the China-Burma-India theatre. Furthermore, the organisation had difficulty securing authority to operate in China, although most of the OSS-SOE rivalry was played out in that country.

Allied difficulties in coordinating their efforts in South-East Asia were exacerbated by Chinese and American suspicion that British operations were aimed at preserving and expanding Britain's colonial influence in the region. The US, which in 1943 had decided to grant the Philippines independence by 1946, remained opposed to Britain's long-term approach to granting full independence to India. For their part, the British did not consider India to be a colony and although there had been moves afoot, well before the Second World War, to establish an independent government there, no date had been set as it remained a controversial issue in Britain. A key opponent was Churchill who objected on the grounds that he did not want to preside over the dissolution of the British Empire.

Other problems also remained in the coordination of British and Chinese efforts in South-East Asia. The allocation of military resources to pursue any specific operational plan in Burma involved issues of priority, in competition with the more immediate requirements of the war in Europe and the Mediterranean.

Chiang Kai-shek's own perspective was different: he urgently needed the reopening of the route to China through Burma as the only hope to restoring China's economy and his own power base.⁶ He insisted, as a condition for any early Chinese operation against the Japanese in northern Burma, that the British should mount a simultaneous amphibious operation from the Indian Ocean. Roosevelt was inclined to support that view, but Churchill was reluctant at that stage to allow SEAC to claim supplies and equipment which he believed would be better used in the Mediterranean. This very practical issue came to a head in Cairo. Roosevelt was still ready to make promises to Chiang even though the Combined Chiefs of Staff regarded them as unrealistic in the light of the

decisions then being finalised for the next stage of the fighting in Europe – including the invasion of France in mid-1944. In any event no amphibious operation was undertaken against the Burmese coast in early 1944, nor any offensive by Chinese forces in the north.

The Cairo Conference, although it probably did reduce the possibility of a separate peace between Chongqing and Tokyo, did not in the end establish closer military coordination between China and the Western allies. One reason for this may have been a decline, around that time, in the strategic importance attached to China, by the Americans themselves, in the overall context of the war. Three factors may have contributed to such a reassessment by the first week in December.

First, at the Teheran meeting, Stalin, for the first time, made an explicit commitment to join in the war against Japan following the defeat of Germany in Europe. That opened up the possibility of using North-East Asia as a base for operations against the home islands of Japan, which might prove more accessible for that purpose than eastern China.

Second, there was increasing likelihood that during 1944 the US would have a new and more effective long-range bomber available for operations against Japan. The B-29 which was already in production by the end of 1943, even though it had not yet been fully tested, would have a maximum range of 5,830 miles as well as a maximum speed of 365 miles per hour at 25,000 feet. The new plane would thus be capable of assaulting Japan from air bases much further away than those needed for existing bombers. Already in August 1943 it had been decided to build a new airfield at Chengdu (north of Chongqing) which could be used by B-29s to bomb Japan itself without being exposed to the danger of a Japanese ground attack on their base. It would also be possible, should the opportunity arise, for B-29s to be used against Japan from island bases in the Western Pacific.⁷

Third, in November 1943 the war in the Pacific itself was going remarkably well for the US Navy and the Marines. The Tokyo conference took place against the background of a further Japanese reverse in the South Pacific, where they failed to prevent US forces landing on the island of Bougainville (1–8 November). By the start of the Cairo meeting, the Americans had made further progress in that battle and on 20 November had also inaugurated their Central Pacific campaign by successfully landing on Tarawa in the Gilbert Islands.⁸

The combination of progress in the Pacific campaign and the expected availability of large numbers of B-29s during 1944 opened up a possible scenario which had already been discussed in Washington: namely that the Americans might eventually succeed in inflicting defeat on the Japanese by way of the Pacific so as to allow their allies only a secondary role in the final outcome of the war in Asia. That idea had been put forward in general terms by William Howard Gardiner, former president of the Navy League, in March 1943, in a letter to Under-Secretary of State Joseph Grew (who had also been American Ambassador to Tokyo in 1941) which is known to have been seen by Roosevelt himself, although his comments are not recorded.⁹ By the end of the year what

had initially seemed merely desirable to many Americans was beginning to look like a practical possibility. The Japanese offensive of mid-1944 forced the British to fight in Burma; while the Americans themselves fought to recover their own former colony in the Philippines. But the decisive victories were won in the Pacific, and in the final bombardment of Japan from the air.

From the point of view of China, however, the result of the decision to concentrate on the Pacific campaigns – and as it turned out, not even to land American forces on the China coast or in Taiwan – was to downgrade the strategic importance of the Chinese interior. It was in that context, too, that the Americans were to decide against giving substantial military assistance to Mao's forces. On their side, however, the Japanese may have been slow to appreciate the change of emphasis: in mid-1944 their strategy was to launch major offensives against the Chinese in southern China (the Ichi-Go campaign) and against the British on the frontier of Burma and India. The consequence was to make it more difficult than ever for the Western allies to use China as their principal base against Japan, or to support an early Chinese advance into Indochina. Continuing American plans to strengthen Chiang Kai-shek's forces for a possible role in the last phase of a war that might still last into 1947 were overtaken by Japan's surrender in August 1945. The longer-term future of China was then left to depend on the balance of conflicting forces within the country, and a civil war became all but inevitable.

The formal Anglo-American commitment to Chiang Kai-shek at the Cairo Conference thus proved to be no more decisive for the future of China than the aspirations expressed in Tokyo's Pact of Alliance with Nanjing.¹⁰ As often happens in war, rhetorical declarations of principle were liable to be undercut by practical decisions, geared more closely to the achievement of immediate military advantage than to the fulfilment of longer term political or economic ideals. The implications of those larger ideals and objectives nevertheless have significance for an understanding of the evolution of the East Asian region in the longer perspective. An analysis of those implications may at least suggest answers to the question: what was the war for Greater East Asia really about? This was, after all, the first time in the history of these countries that it became possible to think of East Asia as a single region with a potential identity of its own.

Anglo-American financial and monetary strategy for the post-war world

American and British objectives included, of course, the dismantling of both the German and Japanese autarkic systems. However, to understand what the Western allies intended to put in their place, one must look not to the military discussions at Cairo but to the Anglo-American negotiations already taking place in the autumn and winter of 1943–44 at the US Treasury Department in Washington. The protagonists were the eminent British economist and Treasury representative John Maynard Keynes and American Harry Dexter White, aid to US Secretary of the Treasury Henry Morgenthau, and the outcome of their

deliberations – the ‘Joint Statement by Experts on the Establishment of an International Monetary Fund’ published in April 1944 – would become the basis of the international payments system adopted at the Bretton Woods Conference the following July.¹¹

Britain and the US had somewhat different conceptions of the future of the world monetary system. They were, however, no longer equals in terms of national wealth or financial power; and the Americans were especially conscious of their own vast reserves of gold. The initial positions of the negotiating teams had been set forth in two white papers produced in April 1943. Keynes envisaged a system in which the key role would have been played by an ‘International Clearing Union’, with powers to establish an international reserve currency in the form of quota deposits by member countries and to transfer sums from one account to another as a means of settling national imbalances. (Alternately where imbalances became too high, it might oblige member countries to pledge gold or convertible foreign currencies to cover the deficit.) What he proposed, in effect, was a new kind of international bank – modelled to some extent on the Bank of England but operated on a global scale. It would have had a good deal of control over exchange rates between actual currencies; but it would also have allowed a measure of deficit financing, and would thus have contributed to expanding world liquidity.

Britain was anxious above all about preventing a repetition of the collapse of international trade which had led to the Depression of the early 1930s, but to do so in ways which would not put the sterling area at a hopeless disadvantage. The Americans, on the other hand, were principally concerned to prevent trade discrimination of the kind which they themselves had experienced after 1918, against a country whose currency had become ‘scarce’. White’s proposals therefore envisaged an ‘International Stabilisation Fund’ (without the powers of a bank) whose operations would be based on fixing exchange rates for all other currencies in relation to a US dollar valued against gold at \$35 per ounce. International imbalances between national central banks would be settled through drawing on the foreign exchange reserves held by the international fund, on the basis of quotas fixed for each member country. In short the Americans were proposing a system in which the dollar would become the principal international reserve currency, guaranteed by the gold reserves of the US through the convertibility to gold of any dollars held by foreign central banks.

That, in essence, was the system implemented after the Bretton Woods Conference of July 1944. (Involving the International Bank for Reconstruction, later known as the World Bank, and the International Monetary Fund (IMF), formed in 1946.) It remained in force for a little over two decades, until it ran aground in the crises of 1967–71. Its survival, however, depended on several modifications in the years 1947–49. The Marshall Aid Plan for Europe in 1947, and the corresponding decision to encourage Japan’s economic recovery in Asia, were initiated in order to overcome the ‘dollar gap’ which would otherwise have hindered the export of American goods. The subsequent devaluation of sterling in 1949 was necessary when it became evident that Britain’s dollar indebtedness made it

impossible to sustain the pound at its original fixed exchange rate. But it is noticeable, from the perspective of East Asia, that after 1945 the US no longer had much interest in making the stabilisation of China's financial position a matter of international priority. Ironically, by 1950 it was Japan whose international payments would in the longer term be protected by the Bretton Woods system.¹²

The new international payments system differed from the various exchange structures that had emerged during the years of depression and war between 1930 and 1945, in that it was intended to embrace the world as a whole. The sterling area and the franc zone, as they had existed in the 1930s, had been geared to the needs of two imperial powers; while the German and Japanese payments structures which had been overthrown in 1945 were even more deliberately restricted to areas under the military and political control of a single power. But, despite its global aspirations, the Bretton Woods system itself proved unacceptable to the USSR, which – along with its allies – declined to participate; and in 1950 the US itself insisted on the exclusion of the People's Republic of China (PRC).

The resulting division of the world into 'two camps', in an international monetary sense, cut across the East Asian region – artificially separating China (along with North Korea and North Vietnam by the mid-1950s) from a 'world economy' which embraced Japan and much of South-East Asia, as well as the US, Britain and Western Europe. By the mid-1950s the US was encouraging a pattern of Japanese economic recovery based on close trade and investment relations with South-East Asia, including agreements to pay 'reparations' to countries formerly under Japanese military occupation; and was seeking to undermine any attempt to restore Japanese economic cooperation with the PRC. In the circumstances of late 1943, to have predicted the emergence of such an outcome a mere ten or 15 years later would have seemed bizarre.

These decisions marked the real beginning of what by the 1990s would be called 'globalisation' of the world economy, reflecting the desire of US economists, taking shape since around 1937, for a world trading system embracing all countries.

British perspectives on Burma, Hong Kong and Malaya

The British sterling area would still play a subsidiary role within the structure of the Bretton Woods Agreement, under which Britain would need a basis for earning dollars. There would have to be an emphasis on exports from the sterling area after the war and in 1943 Britain had every interest in: preserving its 'invisible' earning capacity in East Asia, especially through insurance and banking activities, including some of which were in the Philippines; and recovering key parts of what they had lost to the Japanese in 1941–42 – including Burma, the Borneo territories and Hong Kong as well as business interests in Thailand, China and elsewhere.

Had Keynes's original proposals been accepted, the sterling area would have

been in a different position as Burma and India would have been more important. But if it had to choose between Burma and Malaya, in a post-War situation, Britain would choose Malaya (as it did in 1946–47), which was important for its tin and rubber, despite the growth of the American synthetic rubber industry.

By late March 1943 Colonial Office officials in London had made considerable progress towards three plans which would finally emerge in 1944–45 for reorganising and ‘rationalising’ British rule in Malaya as well as in other colonial territories in South-East Asia under Japanese control. These involved:

- 1 the appointment of a ‘supreme British regional authority, without direct government functions within any of the units concerned, but with direct control over all the chief officers of the several administrations’.
- 2 the separate treatment of Singapore from the rest of British Malaya, on the basis of its different interests, its economic role as a free port and its defence role as a naval base.
- 3 the establishment of greater unity of control in the rest of British Malaya, in the form of a Union or Federation, which might require the revision of British treaties with the Malay rulers, to give Britain sovereign jurisdiction.¹³

The Malayan Planning Unit, established in July 1943, was the product of consultation between the Colonial and War Office, but was placed under the latter’s jurisdiction because it was envisaged that the first stage of restoration of British control would take the form of a military administration. Headed by Major General Sir Ralph Hone, the Malayan Planning Unit was composed largely of Colonial officials in uniform, and tended to favour a ‘close union’ (a Malayan Union).¹⁴

It was assumed that British forces would have to fight their way back to Malaya, and that the resulting material damage would need to be repaired before the rubber estates and tin mines resumed operations. Nevertheless, those in London with business interests in Malaya appeared to be thinking of opportunities that might arise for ‘rationalisation’ of both rubber and tin production, after the restoration of British rule.

However, the (Malayan) Rubber Growers Association Council was worried that although there might now be new approaches to old problems, some government decisions could be unfavourable to growers, especially any policy too conciliatory towards the Americans regarding synthetic rubber. The War Office was already not providing representatives with ‘even a partial knowledge of military plans’ and although the Colonial Secretary had consulted with Guthrie’s Corporation and the Rubber Growers Association there could be no reporting back.¹⁵

Although it is unknown if any official response was made to the communiqué, in November, Tan Cheng Lock, former prominent businessman and member of the overseas community in Malaya, wrote to the Colonial Secretary, from exile in India, to tell him that overseas Chinese who had fled South-East

Asia to India had formed their own Overseas Chinese Association. Members had 'important and extensive interests in Malaya' and he envisaged, following their return, the creation of a 'Malayan Chinese Association devoted to the interests of the country ... to protect Chinese capitalist interests in anticipation of a period of economic and political rehabilitation in Malaya'.¹⁶

That same month the Malayan Planning Unit issued an initial directive on the general shape of a British Military Administration for Malaya. In December, the Colonial Office's Far Eastern Department finalised its memorandum on the creation of a Malayan union.

Meanwhile, the Burma Office and the War Office had already presented the War Cabinet with a memorandum on future British Military Administration for Burma, but the Treasury remained very cautious of proposals to provide financial aid to British firms there and thus Cabinet refused to back the strategy.

With respect to Hong Kong, the China Association had emphasised the importance of holding on to the colony as a base for China trade and in August the Hong Kong Planning Unit was established in London. Although Chinese Foreign Minister T.V. Soong did not raise the issue of Hong Kong during his visit to London in the summer of 1943, he assumed that its sovereignty would eventually return to China. However, at the end of meetings with American officials in London in November, Churchill rejected any such idea.¹⁷

The Teheran Conference and Communist perspectives: Moscow, Yanan and South-East Asia

Long-term Communist ambitions in Asia and the world encompassed three kinds of contradiction: i) class struggle between workers and the bourgeoisie; ii) anti-feudalism, essentially another form of class struggle; iii) and national liberation through anti-imperialism involving a united front of classes.

At the other extreme from 'nationalist' anti-imperialism stands, was the Leninist notion of an international imperialism which had to be opposed on a global scale. Lenin saw the Russian revolution as merely the first step towards overthrowing global capitalism, by means of both further national uprisings and international class struggle. To orchestrate international workers' and peasants' struggles in the capitalist countries as well as in the Asian, African and Latin American areas of imperialist domination, Lenin established the Comintern (aka. the Third International) as a world organisation of Communist Parties, in 1919; the Profintern (aka 'Red International of Labour Unions') in 1921; and the Krestintern (aka the 'Red Peasant International') in 1923.

Class struggle could also be seen as the next stage in national revolutions across the world; and, in Asia especially, 'national' revolutions as the ally of the international worker even though the national independence revolutionary movement in each country may even have involved a 'national bourgeoisie'. From 1923–24, the possibility arose of 'united front' tactics, involving class alliances of this kind, within nationalist revolutionary movements such as those which occurred in China, Indonesia and Vietnam from 1923–27. This caused

confusion, in a sense, allowing national revolution to be seen as a stage towards socialist revolution and blurring the distinction. In 1928, the 6th Comintern Congress reacted against class alliances with bourgeoisie elements, retaining the notion of separate Communist parties and urging their formation in Asian countries under colonial rule. By the end of 1930 there were separate Communist parties in Indonesia, Indochina, Malaya, Siam and the Philippines – the latter two of which were comprised mainly of Chinese people.

Viewed from predominantly ‘nationalist’ or ‘progressive’ terms, the Indochinese Communist Party (ICP) may have been ‘too international’ from 1930–35, but by the mid-1930s, both it and the Chinese Communist Party (CCP) had developed the notion of a national revolution under Communist Party leadership (even during the ‘national-democratic’ phase) that would be the essence of the Maoist approach.¹⁸ Within this framework, Communist Parties, and their ‘correct line’, fluctuated in their attitudes to ‘rich peasants’, ‘national bourgeoisie’, and ‘intellectuals’, but as of 1928–32 the emphasis was on the proletariat and the poor middle peasants.¹⁹

In 1943 the question of achieving an eventual ‘Communist World’ and economy was still too remote for precise practical thinking, although, on general terms, it was clear that the realisation of that objective would ultimately require the overthrow of the Anglo–American system. This, in part, explains Soviet ambivalence towards the Bretton Woods system.

Stalin’s commitment, at the Teheran Conference, to enter the war against Japan once Germany was defeated in Europe was directly associated with Soviet dependence on American ‘lend lease’ aid for supplies in contemporary campaigns. It was agreed at the Conference that Iran would receive independence after the war, while other topics of discussion included Roosevelt’s proposal for a united nations organisation – with the USSR, the US, the UK and China as permanent ‘executive committee’ members; Stalin’s request that the USSR be permitted to use the ice free port of Dalian and that Churchill and Roosevelt promise an invasion of France.²⁰

After having been engaged in battle since the previous November, remnant German forces had surrendered at Stalingrad at the beginning of February 1943. Soviet forces – growing stronger owing to US Lend–Lease food, weapons and steel supplies – were preparing to follow up on that success, at the Southern Front, though remaining vigilant for a German counteroffensive against the Kursk salient.²¹

If the German forces retreated further during the new phase of the war, preparations would be required for the early liberation of the East European countries occupied by the German Nazis. This raised the question of the role of Communist Parties in the final phases of struggle for those countries and resulted in the Formal Resolution of the Presidium of the ECCI on 15 May 1943 recommending the dissolution of the Communist International and a shifting of focus to the differences between individual countries and their respective revolutionary struggles. This decision was reminiscent of Marx’s own resolution to dissolve the First International after it had ‘fulfilled its historical task’.²²

42 *Visions of the future*

Although the US and its Western allies considered the Comintern decision as a gesture towards Stalin's non-Communist allies in the West, it could also be viewed as one element in a new 'line', which included:

- 1 recognition of the complexity of the world situation and the need to assess each national situation separately as no single 'line' would cover all countries in the new stage of the war;
- 2 the perception that a choice had to be made between a 'broad front' strategy based on agreement with 'bourgeois' liberation forces and leaders as well as a front of political forces in which the decisive leadership would be that of national Communist Parties themselves in rivalry with bourgeois nationalism rather than on the basis of compromise with it.

This, in effect, was the Polish Communist strategy from mid-1943. The 'line' being followed since late 1942 was one of pursuing active collaboration between Wladyslaw Gomulka's Polish Worker's Party/Polska Partia Robotnicza (PPR) and non-Communist resistance elements, particularly Prime Minister Wladyslaw Sikorski's Government of the Polish Republic in exile in London and his followers inside Poland.

However, in April 1943, after the Germans announced the discovery of the remains of 3,000 Polish officers in a mass grave near Smolensk and blamed the Soviet army for the massacre, Sikorski demanded a Red Cross enquiry into the matter. Stalin responded by breaking off relations with the 'London government' ending any chance of achieving a 'broad front' between the PPR and the 'London government'. Aided by the formal abolition of the Comintern, Gomulka strengthened the PPR, while Sikorski met his death in a plane crash when returning from the Middle East in early July.²³ Boleslaw Bierut, trained at the School of the Communist International and survivor of the great purge of Polish Communists in 1938, played a key role in the Soviet takeover of Poland, emerging as PPR leader in 1943 and head of the Polish Provisional Parliament from 1944–47.

The Chinese situation at Yanan from April to June 1943 was remarkably analogous to that of Poland. The KMT and CCP had both subscribed in principle to a united front against Japan; but tension between the two Chinese sides was increasing in the summer and autumn of 1943. Mao, chairman of the Party secretariat and politburo since March and inspired by rivalry with the pro-Comintern Wang Ming, had launched the 'rectification movement' within the CCP at Yanan in 1942 and was developing his own revolutionary methods and objectives. P.P. Vladimirov, a TASS correspondent, Comintern agent and the chief Soviet representative at Yanan from 1942–45, notes that CCP Security Services Director Kang Sheng gained influence in February 1943 as Wang Ming's health deteriorated.

In late March Vladimirov noted his suspicion about the medicine provided to Wang Ming, as Mao forbade Wang from leaving Yanan for Moscow.²⁴ At the beginning of April the CCP Central Committee issued its 'Decision on Carrying

on the Rectification Movement', which nearly 50 years later the CCP admitted had exaggerated the degree to which the Party had been infiltrated by KMT secret agents and greatly 'enlarged . . . [the] scope of anti-espionage struggle'.²⁵

Mao was elated by the news of the resolution to dissolve the Communist International²⁶ as he felt that it acknowledged the correctness of the 'line' which he himself had held since spring 1943 based on emphasising: i) 'nationalism' in the CCP's own struggle, including Mao's own ideas about mobilisation; and ii) the break with the KMT and the 'KMT spies' issue to whip up support for the CCP's own 'correct line'. On 26 May the CCP Central Committee 'decided to fully agree with the decision'.²⁷

Then, during a CCP Politburo meeting in late August and early September Wang Ming became isolated when it established the ascendancy of Mao, and 'accepted' self-criticisms from those whose views differed from his.²⁸ The Soviets who were following closely the deterioration in CCP-KMT relations had initiated a press campaign about the anti-Japanese role of the People's Liberation Army (PLA) and CCP, which maintained that Chiang Kai-shek's forces were not opposing the Japanese. Nevertheless, Chiang was formally elected President of China on 13 September and at the 11th Plenum of the KMT Central Committee, at Chongqing that same month, the CCP was also criticised for failing to counter the Japanese, although a political rather than a military solution to Chinese internal affairs was considered desirable.²⁹

During CCP Politburo meetings in November Wang Ming and his pamphlet, *The Two Lines* (1931), were strongly criticised and by the end of December Wang himself capitulated.³⁰ Nevertheless, the situation of 1943 gave no reason for anyone, not even Stalin, to predict Mao's eventual triumph in reunifying China by 1949.

Representatives of the Japanese, Korean and Vietnamese Communist Parties were also at Yanan in the early 1940s. They had gone there after having been repatriated when the Dalburo, the Soviet-run East Asia branch of the Comintern which sent people to be educated in Moscow, ceased to operate following the Japanese occupation of Shanghai where it was based.

Plans for Communist action in Indochina were not for an independent rising, but were linked to the idea of a possible CCP role in that country if world conflict spread there. By the end of 1943 General Zhang Fakui, KMT commander in South-East China, was seeking to build a united front in which 'nationalist' exiles would work with the Communists in preparation for a Chinese military advance into Indochina. Although ICP and Viet-Minh (aka the League for the Independence of Vietnam) founder Ho Chi Minh was released from prison by the Chinese Nationalists in mid-September 1943, he was still confined to Guangxi. Viet-Minh leader Vo Nguyen Giap was, nevertheless, organising resistance against the Japanese in North Vietnam and building a base area in Cao Bằng, while General Secretary Truong Chinh of the ICP was also building a base area north of Hanoi. Yet, despite attempts to 'spring' ICP prisoners from Son La and to develop the Party organisation, setbacks occurred when the French counterattacked in early 1944.

Elsewhere in South-East Asia during 1942–43 various ‘liberation movements’ developed in which Communist parties participated. The Communist-led Hukbalahap (aka Huk) guerilla resistance movement was established in March 1942 after the Japanese arrested and murdered the principal leaders of the Communist Party of the Philippine (CPP)-Socialist Party of the Philippine (SPP) alliance. Little is known about communication between Moscow or Yanan and the Filipino and Malayan Communist Parties, but the general position was in keeping with Stalin’s ‘line’ to ‘support Allies’ which in South-East Asia meant opposing Japan.

South-East Asian Communist parties involved in the anti-Japanese anti-Fascist struggle from 1942 were also potential collaborators with US and British forces. Almost all of the ‘stay behind’ groups established by Force 136 in Malaya – to provide guerilla warfare and intelligence training to locals, who eventually included Malayan Communist Party (MCP) members – were killed or captured during the first half of 1942. But although the Japanese continued to form organisations aimed at mobilising the population, their economic strategy for the country was increasingly hampered by shortages of both fuel and ships. Then, during the summer, the MCP formed the Central Military Committee to act as supreme command of both the Malayan People’s Anti-Japanese Army (MPAJA) and the Anti-Japanese United Front (AJUF) in the struggle for national liberation. In the autumn, however, after having been betrayed to the Kempeitai by their ‘comrade’, the British-Japanese agent Lai Teck, various MCP leaders in Singapore were eliminated and arrested by the Japanese. But despite Japanese appeals in early February 1943 for the anti-Japanese armed gangs to surrender so that they might be pardoned, Communist guerrilla resistance continued.

From May to December 1943 Force 136 landed British operatives and Chinese agents in Malaya from Ceylon by Dutch submarines. This involved linkups between Force 136 Chief Commander, Colonel John Davis and Chin Peng, head of MPAJA at Perak and one of the three dominant MCP leaders. On 29 November Mountbatten had authorised Davis to ‘aid and strengthen’ the MPAJA resistance movement, leading to the formal SEAC-MPAJA-MCP agreement of 1 January 1944.³¹ Force 136 and SEAC then moved their headquarters from Delhi to Trincomalee, Ceylon (known as Sri Lanka since 1972) in December 1944.

The Burmese Communist movement was also very strong, but by 1943 the Burmese Communist Party (BCP) itself was divided. One of the main elements, Communist general Aung San was collaborating with the Japanese after having been promised that Burma would receive independence. In December 1941 he had been appointed deputy of Colonel Suzuki’s Burmese Independence Army (formed in Bangkok), but by 1943 it was clear that the Japanese were unwilling to give the Burmese genuine sovereignty. Thus, Aung San sought covertly to form a broad anti-Japanese coalition to work with the Western Allies to fight the Japanese. Established in August 1944, the Anti-Fascist and People Freedom League (AFPFL) included: i) Aung Sung’s Burma National People’s Volunteer

Organisation; ii) the BCP led by Thakin Than Tun; and iii) the Socialist Party of Burma led by Kyaw Nyein and Ba Swe. Aung San became AFPFL President with Thakin Nu (aka U Nu) as vice-president of the organisation.

Communications, news and propaganda

The war of 1939–45 was one in which mobilisation of opinion, and conflict on the level of ‘international’ propaganda, played an even greater role than in previous wars. As of 1943 there was a veritable radio war going on in Asia and the Pacific.³² In Asia the media tended to be state controlled and used for political purposes. Short wave radio transmissions were mainly a means for governments to disseminate propaganda abroad or to communicate with their own officials. Listening habits varied from country to country according to national habits and availability of radio sets. The number of people with short wave sets was very small and those (including officials) who owned them had to be very careful about which propaganda broadcasts they listened to. The Thai government tried to ban regular citizens from listening to short wave, but had little success. In Vietnam, where there was no tradition of listening to short wave, officials were instructed to listen to French broadcasts on medium wave. For their part the Japanese attempted to prevent the ordinary public from using short wave receivers and in occupied South-East Asian countries the possession of such equipment was punishable with death.

The Japanese took the lead in 1927 by establishing a very powerful short wave station, Nippon Housou Kyokai (NHK), which by December 1941 was broadcasting in 16 languages – mainly to front lines in China, Indochina, the Philippines, Thailand and the British West Indies. State regulation of this medium was important from the beginning, but its role increased after the military ‘coup’ of 1936, becoming a more deliberate instrument of government propaganda. During the Second World War, foreign broadcasts by Japanese radio propagandist ‘Tokyo Rose’, aimed specifically at undermining the fighting spirit of US troops, had an enormous impact in the South-West Pacific.³³

Nationalist China and the USSR were also pioneers in short wave radio during the 1920s. The Chinese Press Agency (CPA) had established a very powerful short wave station at Nanjing at that time for broadcasting to overseas Chinese in South-East Asia. The Nationalist government used it to issue policy statements on South-East Asia and for fundraising after the Japanese attacks on China. So great was the subsequent flow of funds from South-East Asia to Nationalist China’s war chest that governments of the region implemented controls on money transfers to the Chinese Mainland. Then, in 1939 the Nationalist short wave broadcasting station was moved, along with the seat of government, from Nanjing to Chongqing. China Radio International (CRI) was established on 3 December 1941.

The most important pioneers of short wave, in global terms, were the Russians, who began broadcasting in 1925. This medium had special value to them, given the vast size of their country. Short wave was also perfect for

disseminating Soviet propaganda – based on ideas espoused by Lenin at the turn of the century on the need to combine propaganda and agitation in the interests of revolution under the leadership of an omniscient Party – at home and abroad. A vast expansion of Soviet broadcasting was inaugurated in 1933, under Stalin's 'radiofication' programme. During the 1930s the Soviets broadcast in both Russian and English and short wave radio was important in relations between Moscow and its international supporters. The Communist International used it to develop its news agency, Imprecor, and the Comintern relied on this medium for disseminating propaganda and keeping in contact with its spies and agents in the field, as far away as China, Japan and possibly even South-East Asia.³⁴

Britain had dominated global communications systems prior to 1940 and, conscious of the imperial dimension, it had become interested in short wave broadcasting at an early stage. The British Broadcasting Corporation's (BBC) Empire Service, forerunner of its World Service, was inaugurated in 1932 to broadcast in English to the Dominions. By the mid-1930s, however, a new voice had emerged in Europe; that of Hitler, whose Nazi Party had its own uses for radio and all other mass media. The art of propaganda, in broadcast and the media, was carried to new heights by Nazi Germany, under Minister of Propaganda Joseph Goebbels from 1933–45. From 1943–45, in the aftermath of Stalingrad, Goebbels was allowed complete freedom to pursue his 'total war' propaganda with less and less reference to reality. But even in Nazi Germany the lies were no longer entirely believed by the masses: the power of radio was great, but not absolute.

By the late 1930s Britain, and eventually the US, had to find some way of responding to the challenge of Hitler and Mussolini. Attempts by the League of Nations to produce an international code of radio practice between nation-states had failed completely. British efforts at counter-propaganda were based on the principle that the most effective response to lies is accurate reporting of news. However, both Britain and the US imposed wartime controls over domestic information. In Britain these included censorship of war news and control of the BBC by the revived Ministry of Information.

Two measures were taken by the BBC (a public corporation since 1927), in conjunction with the Foreign Office, in response to growing international tensions of the late 1930s. First, it introduced foreign language broadcasting to key areas of the world: initially in Arabic, to counter Italian as well as German ambitions in the Near East; and in Spanish to Latin America. The Empire Service gradually branched out, by 1939, into other foreign language broadcasting – especially in European languages, but also in Burmese, Chinese, Japanese and Thai. BBC broadcasts to Asia had previously been relayed through Singapore, but were now transmitted via Delhi. After 1939 the number of languages in which the BBC broadcast steadily grew, reaching 40 by the end of 1941. A Chinese language service was established in 1940.

Second, was the monitoring of foreign radio stations, which began in August 1939 and led to the issuing of a 'Daily Digest' of world broadcasts, which was initially for internal government use only.

As the war continued and the BBC expanded its foreign broadcasting it acquired more powerful transmitters for Europe, while its broadcasts continued to be relayed to Asia via India. All India Radio (AIR), which broadcast out of Delhi, was also founded in the early 1940s and while not officially part of the BBC, it controlled the transmitters used to relay Empire Service broadcasts. AIR broadcasts in Vietnamese and Malay were facilitated by people who had fled Malaya before the Japanese occupied that country.

American monitoring of foreign broadcasts had begun at Princeton University in the late 1930s, but, until the Second World War, US short wave had developed more slowly as the Americans were not interested in broadcasting in foreign languages. Despite support from IBM, Walter Lemmon's experimental station in Boston in 1934 failed to expand, while a Department of Commerce proposal, in 1936, for a Navy-run station to promote US trade in Latin America, failed to secure Congressional approval. An attempt to start a commercial short wave station began in 1939, but only wartime needs justified the establishment of the Foreign Information Service (FIS) at San Francisco in mid-1941 to broadcast to Asia. By June 1942, the date of its first direct broadcast to Asia, Voice of America (VOA), had evolved from FIS under the Office of War Information (OWI), to oversee US short wave broadcasting to the Far East from its San Francisco headquarters. American monitoring of foreign broadcasts was also taken over by the government in 1942, leading to the emergence of the Foreign Broadcasting Intelligence Service (FBIS).

Meanwhile, the official Soviet Russian news agency TASS had been established in 1925, while the Red China News Agency was formed in 1931, becoming *Xinhua* (aka *New China News Agency*) six years later. But generally in this field the other Communist countries were way behind. Although the Republic of China's Central News Agency (CNA) was founded at Guangzhou in 1924, Western news agencies had dominated the business until the early 1930s on the basis of treaties between the American firms, Associated Press (AP) and United Press International (UPI) – originally known as United Press (UP); the British agency Reuters; Havas of France; and Wolff of Germany. However, Wolff was placed under Nazi state control at the beginning of 1933.

European resentment of British domination of the world cable system became acute at the end of the nineteenth century and by the early 1900s the French, German and Americans were eager to catch up. Despite the emergence of telegraph systems and news agencies in China and Japan at that time, Reuters remained the dominant news agency in Asia. Growing rivalry between AP and Reuters in Asia in the early 1930s led to a final break in 1933–34, ending the news agencies' 'Treaty' system once and for all. But, by then, the world as a whole was entering a new and dangerous phase of international tension.

The AP–Reuters rivalry had been especially intense in Japan, but in 1936 Japan's news agencies were consolidated to form Domei, which was subsequently under Japanese government control. During the Second World War Domei was the main source of news for the local press in Japanese occupied countries of South-East Asia.

Orwell's perspective, 1940s

George Orwell would have been the first to resist suggestions that his novel *Nineteen Eighty-Four* was an attempt to predict the actual future 36 years ahead. The title seems to have been a simple reversal of the last two digits of the year in which the book was completed: 1948. His main purpose was to warn contemporaries about the dangerous political and intellectual trends he had observed over the preceding decade; above all to frighten them into greater awareness of the potential contradiction between their professed ideals and the bureaucratic and technological realities of a changing world.

It is well known among Orwell scholars that *Nineteen Eighty-Four* owed a great deal to Orwell's experience of wartime control of information, from 1941–43, when he was employed by the BBC Empire Service producing broadcasts to India. Several years before that, in his memoir *Homage to Catalonia*, he had reacted sharply against 'Stalinist' misrepresentation of the Barcelona Uprising of 1937: an event which 'the Party', for its own propaganda reasons, had deliberately blamed on a 'fascist conspiracy' but which he himself witnessed as arising from immediate circumstances on the ground. What hope was there for genuine social progress if the power of those who claimed to be pursuing it depended on lies and deception? Yet by 1941, and even more so by 1943, conditions of 'total war' seemed to be allowing a policy of deliberate lying to take hold on all sides. The essential themes that would be developed in *Nineteen Eighty-Four* were thus already taking shape in Orwell's mind by the end of 1943. The model for his 'Ministry of Truth' was almost certainly the British Ministry of Information. The simplified language of 'Newspeak', supposedly beginning to flourish in Orwell's imaginary 1980s, also had an identifiable origin in the 'Basic English' which the BBC External Services were being encouraged to use for some of their broadcasts. Originally invented by C.K. Ogden before the war, it had attracted the attention of Churchill himself, who praised it in a speech at Harvard University in September 1943. A War Cabinet Committee subsequently pronounced on its use as a vehicle for the clear and simple expression of the British point of view over the airways. Orwell's concern was that its very simplicity tended to limit the range and subtlety of individual thought. It was a theme to which he would return in 1946 in an essay entitled 'Politics and the English Language': a sharp attack on the consequences of growing laziness and imprecision in the use of words, and unnecessary dependence on clichés. Command over language was an essential prerequisite of continued freedom to express creative ideas.

We should not exaggerate Orwell's reaction against the BBC, however. He gained a great deal from the experience of broadcasting to the English-speaking elite of India: both in appreciating new perceptions of English culture and in acquiring the skills needed for succinct expression of his own thoughts over the air. What disturbed him, in the end, was the insistence of the Ministry of Information on regulations which treated certain aspects of the English tradition as potentially subversive when transferred to the Indian context. In particular he

seems to have run into trouble with higher authority by inviting his fellow-socialist Kingsley Martin to contribute talks on the freedom of the press in a democracy. In September 1943, frustrated at being unable to make the kind of impact he believed ought to be possible in broadcasts to India, he decided to resign and devote himself to 'print' journalism and political fiction.

Orwell had had no direct experience of the actual scientific advances being made in the latter stages of the Second World War, at such highly secret establishments as the Government Code and Cypher School (GCCS) at Bletchley Park or the Post Office research laboratories at Dollis Hill, just outside London. GCCS was home to the Ultra (code-name for ultra-secret – the British classification for SIGINT) programme which deciphered Axis and neutral signals in cipher. At Bletchley Park, the British also unravelled the workings of the German 'Enigma' cipher machine, after analysing one that they had discovered upon capturing a German submarine.

By 1942 there had also been growing Anglo-American rivalry over transatlantic cables as well as the use of captured Italian and German cables. A US intelligence team visited Bletchley Park, in April 1943, to discuss cooperation in communications intelligence (COMINT) and the following month the British–United States Agreement (BRUSA) on SIGINT was signed.³⁵ By the end of the year, the US was gaining control of more cables across the Atlantic, reflecting the changing balance of power in the Second World War.³⁶

It was also in the nature of official secrecy that Orwell and his colleagues should not learn of such things. Only many years later did it become known publicly that, for most of the year 1943, a group led by the mathematician Max Newman and the engineer T.H. Fowler had engaged in producing the 'Colossus' – a machine invented at the Post Office research laboratories at Dollis Hill and subsequently set up at Bletchley Park, in December 1943, to solve problems of cryptography and deciphering³⁷ – which, in certain respects, could claim to be the world's first practical electronic computer. There was even less chance for an English layman to acquire knowledge of American efforts in this field. In 1944–45 a team at the University of Pennsylvania had taken the first steps towards creating the even more ambitious 'Electronic Discrete Variable Calculator': forerunner of the first commercial computers, which began to emerge by the end of the decade.

Nor was it likely that a writer with Orwell's educational background would become aware of the highly sophisticated mathematical theories on which these advances were based. The work of Alan Turing in England, and of Norbert Weiner and John Von Neumann in America, was published in journals which only specialists could read. Orwell's ignorance of such things makes it all the more remarkable that he should have produced (in his novel) a classic statement of the potential relationship between political power and technological control of information. It remained to be seen if his work would be prophetic.³⁸

Communications, news, intelligence and propaganda: the immediate post-Second World War perspective

Britain shared in the sense of 'cultural' victory in 1945, albeit as a junior partner from then on. The prestige of the BBC had never been higher, the British press was highly respected, and Reuters remained strong, despite the new global position of AP and UP. The British Empire was transforming itself into a Commonwealth, and the granting of independence to India, Pakistan and Ceylon in 1947–48 was the first step towards gradual 'de-colonisation' over the following two decades.

In the post-war world Britain and the US encouraged a free press and news system, particularly in the liberated areas of Europe and Japan. The Allied victory had reinforced the pattern of news agencies operating in East Asia as of 1943 as the power of Reuters and the American news agencies in the region had been renewed. In France Agence France Press (AFP) was established in 1944 with French government support, while *le Monde* was also created. In their respective zones of Germany the Allies created new newspapers and news agencies, leading to the emergence of Deutsche Press Agentur in 1949. In Hamburg, the British founded *Die Welt* (modelled on *The Times*), and in 1952 they sold it to Axel Springer, the founder of *Bild-Zeitung* (modelled on the *Daily Mirror*) who was building his own media empire.

In Eastern Europe, however, the Soviet model began to prevail after 1946–47. It was based on a Party monopoly over all media; and in the late 1940s, the same pattern spread to Asia – where *Xinhua* was already established. Antara, Indonesia's News Agency, which could trace its origins back to 1937, was established in 1945. It broadcast local correspondence and news on Indonesia in English, according to the official government line, for international consumption. The Press Trust of India was established in 1947, in the runup to Indian independence and was that country's national news agency. The Japanese news agency Kyodo was formed in 1950, to replace Domei, although there remained the question of 'freedom' in the Asian countries.

There was no longer any doubt about which of the two 'Anglo-Saxon' powers dominated the alliance between them; and which of them now had the greatest influence in the sphere of global communications. Despite a battle in the US over whether VOA should survive, it, along with the BBC's external services, was expanding after 1945, a development that was rationalised on the grounds that both were the guardians of 'freedom' and 'truth'.

The BBC set up a relay station in Southern Malaya in 1945–46. The development of Asian broadcasting and news agencies after 1945 was influenced by nationalism and 'decolonisation'. Radio played an important role in holding post-colonial states together in India and Indonesia where Radio Republic Indonesia (RRI) was formed in 1945. The Viet-Minh also created the Voice of Vietnam (VOV), in September of that year, by taking over studios which had been used by the French in an ill-fated attempt to broadcast Ho Chi Minh's Declaration of Independence.³⁹

Although the Second World War had stimulated rapid technological change, it had interrupted international cooperation. The International Telecommunications Union (ITU) had been established at the Madrid Conference (1932) by merging the two main international radio and telephone regulatory organisations. The question of allocating radio frequencies had also received considerable attention during the 1930s: at the European Broadcasting Conferences at Lucerne (1933) and the Inter-American Radio Conference at Havana (1937). The Cairo Administrative Conferences in 1938 sought specifically to allocate wavelengths on a global scale.⁴⁰ Evidence at a US Senate Committee hearing in April 1945, however, suggested that demand for frequencies after the war would be twice what was physically available.

Nevertheless, a full-dress Telecommunications Conference of the ITU, and an 'Administrative Conference' of the same organisation at Atlantic City in 1947 were charged with the allocation of radio frequencies. Both constitute a landmark in the history of global communications as they provided for the re-organisation of the ITU, recognised it within the framework of the UN; created a permanent secretariat for it in Geneva; and set up the International Frequency Registration Board. While this new system was dominated by America, the USSR – which was greatly expanding its short wave services from the late 1940s – participated in this system. China was represented by the Nationalists.

Behind the scenes after the Second World War, Allied SIGINT had begun focusing on the USSR. In early 1946 Britain's GCCS and its linguistic and technical staff were transferred from Bletchley Park to a new civilian service, the Government Communications Headquarters (GCHQ) at Eastcote, Middlesex. GCHQ, which was subordinate to the Foreign Office, was subsequently moved again to Cheltenham in 1953. Bletchley Park continued to operate as the headquarters of the Diplomatic Wire Service (DWS), the gathering point for all outgoing and incoming British diplomatic signals.

The foundations of post-Second World War Allied SIGINT cooperation were laid in October 1948 with the signing of BRUSA's successor, the UK-US agreement (UKUSA) on SIGINT – to which Australia and Canada were also party. Its exact terms remain secret and neither governments have acknowledged its existence. Although the Americans subsequently did most of their monitoring for the Far East at Okinawa and Bangkok, under UKUSA substantial numbers of American linguists and translators were based at GCHQ and at another facility at Caversham, Reading.

Also the BBC and the American Central Intelligence Agency (CIA), established in 1947 as the successor to the OSS,⁴¹ monitored foreign broadcasts, which along with FBIS translations were a key source of information about the USSR, China and the other Communist countries as well as the basis for the growth of both 'Kremlinology' and 'China watching' during the 1950s.

In April 1950 the PRC's Central People's Broadcasting Station began transmitting externally in six languages, while a growing number of monitoring stations began operating in that country during the early 1950s.

These developments led to the emergence in the 1950s of the notion of a

'world divided into two camps', with freedom of the media as one criteria for membership of the 'free world'. In the newspaper sphere, the Americans established the International Press Institute in 1951 to do what UNESCO – which included the Soviet Union and other Communist UN members – could not do: promote Western-style press freedom. In international broadcasting, the BBC and the VOA, which was moved under the jurisdiction of the State Department in January 1948, continued to be active; while the Americans sponsored Radio Liberty and Radio Free Europe as avowed propaganda media. The British view of American 'freedom' in this sphere was tempered, however, by awareness of anti-Communist elements which governed the hidden policy of the US media during the late 1940s and 1950s.

Part II

**The ‘Cold War’ in
East Asia**

1953 and 1963

3 'A world divided into two camps'

November–December 1953

In the world chess game, the Reds today have the better position. . . . Practically everywhere one looks, there is no strong holding point, and danger everywhere of Communist penetration. . . .

John Foster Dulles' remarks to the White House 'Solarium' meeting,
8 May 1953

When we say that the socialist system will win in the competition between the two systems – the capitalist and the socialist systems – this by no means signifies that victory will be achieved through armed interference by the socialist countries in the affairs of the capitalist countries. . . . We have always held and continue to hold, that the establishment of a new social system in this or that country is the internal affair of the peoples of the countries concerned.

N.S. Khrushchev to the 20th Congress of the CPSU, February 1956

It seems unlikely that anyone analysing the global situation in late 1943 would have been able to predict the state of affairs a mere ten years ahead; particularly the situation in East Asia. The eventual defeat of Japan was certainly predictable by 1945; but not the circumstances of that defeat, nor its aftermath. The suddenness of the war's end caught everyone by surprise, and worked to the disadvantage of America's allies. In the case of Russia, it was probably Washington's actual intention to forestall a Soviet military advance beyond Manchuria and North Korea – thus excluding Stalin from a role in post-war Japan.

A price was paid in China, however, where US assistance to Chiang Kai-shek had not yet had time to produce a modernised Nationalist army capable of reuniting the whole country. The most unpredictable post-war development in Asia, not anticipated even by Stalin in 1943, was the victory of the Chinese PLA over the KMT by 1949. This had resulted in the creation by the CCP of a People's Republic (PRC) embracing all of China except Taiwan, which became known as the Republic of China (ROC) under the command of KMT leaders who had fled the Mainland. In 1950, the PRC signed a formal treaty of alliance with the USSR, placing itself firmly in the 'Soviet camp'. These developments, moreover, increased the ability of Communist movements in South-East Asia to bid for leadership in the various anti-colonial movements after 1945.

In South-East Asia, the suddenness of the Japanese collapse in 1945 had made the complete restoration of colonial rule virtually impossible, despite the initial illusions of some Europeans. The Americans were already committed to the full independence of the Philippines, confirmed in 1946; and Washington expected other Western powers to follow suit. Britain, having been forced to grant independence to India, Pakistan, Burma and Ceylon by early 1948, kept only Hong Kong, Malaya, Singapore and the Borneo territories as colonies in Asia. The Netherlands, after trying to suppress the Indonesian Republic, proclaimed in 1945, was forced by a combination of guerrilla resistance and Anglo-American diplomacy to accept full Indonesian independence in 1949. France likewise fought to dominate Indochina after 1945; but by 1950 it had to seek US military aid against a Communist-led Viet-Minh struggle directly supported by the Chinese PLA. By 1950, too, the Americans were assisting an independent Philippines against the left-wing Huk uprising; while Britain faced a serious Communist insurrection in Malaya.¹

The European background to the course of events between 1946 and 1950 was one of growing estrangement between the Western powers and their former Soviet allies, leading to the partition of Germany and the creation of an 'iron curtain' between Western and Eastern Europe. The US had committed itself to a strategy of 'containment' and to the military and naval defence of non-communist Europe through the North Atlantic Treaty Organisation (NATO) alliance of 1949. This pattern of commitment eventually found a parallel in Asia, where US refusal to recognise a Communist regime in Beijing was reinforced by the outbreak of war between North and South Korea in 1950. Under formal UN authority, the US sent its own forces to Korea. It also gave stronger support to the Chinese Nationalist forces on Taiwan and to Chiang Kai-shek's claim that the ROC was the only legitimate government of China; and it extended to that country the embargo on strategic trade which had been imposed on the USSR in Europe. The US also decided to end the state of war with Japan by sponsoring the San Francisco Treaty of September 1951; but the PRC was excluded from the negotiation of that treaty, and the USSR refused to participate. Ironically, by 1953 the US was committed to the defence both of Japan and of that country's former colonies in Taiwan and South Korea, against the 'threat' from a reunified China.

By November 1953, Communist ambitions in Asia had reached their limit, at least for the time being. Stalin died in March 1953; Beria was deposed in July and executed in December. The new Soviet leadership was willing to compromise with the Western powers in Europe and Asia, while the Chinese Communists wanted to concentrate on economic development. In July 1953, China felt secure enough to end the Korean war by signing an armistice which left the country divided at the same point as in 1950: along the 38th parallel. Apart from the continuing insurgencies in Malaya and the Philippines, whose prospects of success were receding, the one area of continuing military confrontation was Indochina – where the Viet-Minh struggle for independence from France had become dependent on Chinese PLA support and the French were even more

dependent on US military aid. One of the urgent questions on the international agenda was whether, and how, that conflict too might be ended through negotiations.

The Bermuda Conference (4–8 December 1953) and its background

Soon after taking office in January 1953 the Eisenhower administration began a comprehensive review of America's global strategy. At the White House 'Solarium' Meeting in May, an eight week exercise was initiated in which 'task forces' were to consider America's strategic options:

- 1 The 'Grand Scale' version of containment and massive retaliation: based on the warning to the USSR that if any country fell, by attack or subversion, to Communist rule it would be a *casus belli* for war between the Soviet Union and the US. (The main focus here would be in Europe.)
- 2 The 'lesser-scale' version: limited to Asia, possibly in the context of an 'Asian NATO', involving the US 'tak[ing] measures of its own choosing'.
- 3 To attempt to restore the West's prestige '...by winning, in one or more areas, a success or successes': an idea which might be linked to the notion of 'rollback'.²

Shaped by the 'task forces' analyses, which were reported to the National Security Council (NSC) in mid-July, and the recent signing of the Korean War Armistice, NSC Document 162/1, presented at the Council's 168th meeting on 29 October:

- 1 assessed the continuing 'Soviet threat'; the 'Soviet Bloc' and the role of China within this alliance;
- 2 discussed the need to exercise American–Allied strength at that time in the hope of producing a change in Soviet policy over the longer-term;
- 3 emphasised the primary US role, *vis-à-vis* allies, in light of atomic weapons and recognition of the consequences of Soviet possession of such weapons;
- 4 stressed the need to maintain American military and economic strength – accomplishing the latter by balancing the budget and avoiding over-commitment of US power;
- 5 highlighted America's need for allies and bases in Europe, the Middle East as well as in East and South-East Asia; and
- 6 emphasised the need for the economic recovery of Japan.

The document itself, approved by Eisenhower the following day, outlined the strategy of 'massive retaliation'; the need to avoid nuclear war if at all possible; accepted US responsibility for strengthening the defences of the 'free world' in

Europe, South and East Asia as well as shouldering the financial burden this would involve.³

Nevertheless, the Eisenhower administration needed to spend the coming weeks considering the state of the US–European alliance within the framework of NATO; the importance of achieving a European Defense Community (EDC), since the concept had been rejected by the French in 1952; the relationship between the French problem in Indochina and in Europe centred around France's military weakness, which in this case would culminate in an 'agonising reappraisal' at the NATO ministerial meeting of 15 December 1953; whether to commit American forces to Indochina, to prevent the Viet-Minh from achieving military defeat over French forces; and the encouragement of France's offensive strategy (the Navarre Plan).

Just over ten years after the Cairo meeting of 1943, US President Dwight D. Eisenhower and British Prime Minister Churchill, the latter returned to power with the Conservative's defeat of the Labour government in the October 1951 election, met in Bermuda (from 4–8 December) to discuss, among other things, the next stage in East–West diplomacy, their respective attitudes towards China, and a possible denouement in Indochina. On this occasion, the third participant in the 'summit' was French Prime Minister Joseph Laniel. Anglo–American differences regarding Asia were less deep than in 1943; but Britain, with an important but vulnerable dollar-earning colony in Hong Kong, did recognise the PRC and was willing to allow non-strategic trade with the Chinese mainland. Britain, like France, also had an interest in ending the Indochina conflict, recognising the impact that further escalation would have on the ability of both countries to meet their obligations in Europe.

Regarding the next stages of diplomacy in Asia, the Bermuda meeting first discussed the question of a political conference on Korea whose objective would be to translate the July armistice into a lasting peace; and then the question of Indochina.⁴ A Soviet Note of 28 September had proposed a five-power conference on Asia, at which the PRC would be the fifth power; this began a diplomatic sequence, culminating around 27 November in an agreement to hold a four-power meeting on Berlin, which would allow further discussion of the five-power proposal. The eventual outcome was the Geneva Conference of April to July 1954, which soon reached a deadlock on Korea but went on to produce a series of ceasefire agreements on Indochina.⁵

Indochina: the military situation

By the spring of 1953, the Viet-Minh controlled much of the land area of northern Vietnam, and were strong enough to make an incursion into northern Laos, which alarmed the Thais and worried the British in Malaya. They were less strong in southern Vietnam and Cambodia. As the possibility of serious negotiations took shape in November–December 1953, both sides needed a military success. The French, with American support, relied on the Navarre plan, which included the establishment of a fortified base at Dien Bien Phu (starting on

20 November); they remained optimistic about defeating the Communists in a set piece battle – but that optimism depended on the arrival of more French reinforcements, which Paris decided not to send. The Viet-Minh, with Chinese advice and support, rose to the challenge by ordering three divisions into that area, and the eventual climax was a fresh defeat there on 7 May 1954. The Communists were not strong enough to win an absolute victory in purely military terms; but combined with negotiations, Dien Bien Phu itself had a virtually decisive impact.⁶ That outcome, however, was still unpredictable at the end of 1953.

Both the Americans and the British, at Bermuda, still hoped that the Navarre plan would succeed. A Viet-Minh victory was seen as having potentially serious implications for Thailand, and possibly for Malaya and Burma. It was the British, in effect, who initiated what came to be known as the 'domino theory' when, in 1950–51, they persuaded the US that a Communist victory in Indochina would be disastrous for the whole region. (In 1954 Eisenhower and Secretary of State John Foster Dulles advanced the 'domino theory'.) Yet, the Americans had not yet faced up to the question of whether they themselves would intervene directly if the French could not hold on; but having ended the carnage in Korea, Eisenhower would be reluctant to put ground troops into another conflict on the Asian mainland.⁷

Drawing the line

Britain and the US had rather different perceptions of the best way of countering Chinese influence in non-Communist Asia. The Americans believed in the principle of containment, which had two essential aspects: the definition of a line beyond which the Communists should not be allowed to advance further; and the development of mutual security treaties between the US and firmly anti-Communist allies along that ideological frontier. In Europe, that had meant American participation in a coherent alliance and command structure; but the US was unwilling to extend its NATO commitments to Asia. A measure of cooperation between France, Britain and the US in relation to Indochina was not allowed to develop into a permanent defence arrangement. The US preferred bilateral treaties with its Asian allies: Japan, South Korea, the Philippines and (by late 1954) Taiwan. Australia and New Zealand were drawn by the US into the ANZUS pact of 1951, from which the British were deliberately excluded. The strategy also included a series of US military and naval bases, stretching from Japan and South Korea in the north to Taiwan and the Philippines in the south. In effect the US was seeking to maintain its own domination of non-Communist Asia, which had been established by its victories in 1943–45.

The partition of Vietnam was seen by the Americans not as one stage in the evolution of a 'national' Vietnamese Revolution, but as the 'loss' of one important area of the region. What had to be defended was the rest of mainland South-East Asia; and beyond that, the maritime countries further south. However, the lesson of Korea was that wars on the Asian mainland were too costly for the US

to bear alone. The South-East Asia Treaty Organisation (SEATO) – formed in Manila in September 1954 (inaugurated in February 1955) drew together the US, Australia, New Zealand, Britain, France, the Philippines and Thailand, as well as Pakistan and was designed to provide a temporary bulwark against attack by land as well as prevent both the spread of Communism and the ‘domino theory’ from being played out in South-East Asia. It was the eastern arm in the chain link of Western-inspired defense pacts stretching from NATO to the Baghdad Pact on to East Asia. Two concepts were fundamental to American thinking about SEATO: first, that South-East Asia was a single region; and second that strategic deterrence was the best means of containing Communism.

Although it had initially been the ultimate objective of US diplomacy, SEATO did not reproduce the NATO-type of command structure. After all, only America was thoroughly committed to defending the independence of South Vietnam. Within the region it could rely only on the Philippines and Thailand – the only two independent states of the region to join SEATO – as military allies and the ultimate deterrent remained the use of nuclear weapons against the Communist powers themselves. The main advantage of the Pact, however, was that it allowed Thailand to participate without signing a bilateral security treaty with the US; and permitted SEATO members to make a ‘protocol’ commitment to the non-Communist areas of Indochina which might emerge from a compromise settlement there.

The British perception, reflected in a Cabinet paper of November 1953, discussed in advance of the Bermuda meeting, was less rigid. They sought to avoid too sharp a distinction between those Asian countries committed to a ‘free world’ security alliance and those who preferred a policy of neutrality between Western and Communist powers: notably India, but also Burma and Indonesia. The latter should not be treated as ‘suspect’ merely because they refused to join in anti-Communist defence pacts.⁸

It proved impossible to achieve the US objective of drawing a precise line of containment and ensuring that all countries on the non-Communist side of that line had security treaties with the West. Such a line existed in Korea, and in the Taiwan Strait; but where should it be drawn in South-East Asia? On the Mainland – perhaps through the partition of Indochina, which would make Thailand a frontline state? Or on the Kra Isthmus, on the grounds that Thailand had proved its ‘unreliability’ in 1941: a memory still fresh in the mind of Churchill when, in response to the Laos crisis of April 1953, he proposed reviving British plans for defence of the Songkhla salient. The partition of Vietnam would create a ‘line’ at the 17th parallel; but it did not extend across Laos, whose neutrality would be guaranteed (along with that of Cambodia) under the Geneva settlement of 1954.⁹

The Singapore (‘Mallaig’) Meeting (3–7 December 1953)

Simultaneously with the Bermuda summit, the British Commissioner-General in South-East Asia, Malcolm MacDonald, convened a meeting of diplomats and colonial officials at his residence in Singapore to review the situation in the

region. Surveying past and current 'Cold War' conflicts, they judged the insurgencies in Malaya, the Philippines and Burma to be no longer a serious threat to existing governments: only in Indochina did the Communists have a chance of 'winning the shooting war', but the French might still win even there. Looking to the future, however, the British anticipated a new phase of Communist strategy in South-East Asia in which the USSR and China would place emphasis on political and economic rather than armed struggle.¹⁰

In this respect the end of the Korean War boom, which had raised commodity prices during 1950–52, might create an opening for China and the USSR to engage in barter trade with countries like Burma or Ceylon, which by that point had a surplus of unsold primary produce such as rice and rubber. The Communists might also exploit growing poverty in the region to mobilise support through legal political activity – as in Indonesia, where the Indonesian Communist Party/Partai Komunis Indonesia (PKI) already had seats in parliament. It was therefore necessary to counter the new stage of the Communist 'threat' by promoting increased prosperity through economic aid and technical cooperation.

The Colombo Plan, set up after having been proposed by the British at a Commonwealth Conference in the Ceylonese capital, from 9–15 January 1950, was one example of this new strategy. It enabled Commonwealth countries and the US to collaborate in the field of development aid to make available, over six years, £1,868 million in technical assistance to former British territories in South and South-East Asia, as well as to Indo-China, Indonesia, the Philippines and Thailand.

Another example was the UN's Economic and Social Commission for Asia and the Pacific (ESCAP), located in Bangkok since 1949 after having been moved from Shanghai, where it was founded in 1947 as the Economic Commission for Asia and the Far East (ECAFE).¹¹ Its mission, like that of the four other regional UN organisations, was to promote economic and social development through regional and subregional cooperation. One of ECAFE's most ambitious projects was the Mekong Committee, established in 1957 to coordinate comprehensive development of the water and related resources of the Lower Mekong Basin, although its efforts were constantly disrupted by conflict in the region.

Economic dimensions: China as a socialist economy

If Chiang Kai-shek had been able to reunify China after the Second World War (using the kind of modernised forces he might have possessed had the war lasted until, say 1947) his regime would probably have attempted industrialisation on the basis of capitalist foundations laid in Shanghai and other coastal cities in the decades before 1937, and on American and other foreign investment. In the actual circumstances of 1953, capitalists in Shanghai and other regions had been suppressed – or had fled to Hong Kong – and foreign investors had been expelled; while the Bank of China and its gold reserves had been moved to Taiwan. Mao Zedong and the CCP were committed to the Stalinist model of

economic development, based on land reform and agricultural cooperativisation; state-owned industries and trade, and a number of Soviet economic and technical aid projects. The year 1953 was the first of a Five Year Plan, in which the emphasis was on rapid growth of heavy industry – based on the mobilisation of labour rather than on the deployment of financial capital.

By 1953 moves were being made toward greater centralisation of government to replace the relatively decentralised system adopted in 1949–50. In agriculture, with land reform largely complete and lower level cooperativisation under way, the Party leadership was engaged in the same kind of debate as occurred in Russia in 1928–30: whether to base agricultural growth on tax incentives to peasants or on state control of marketing and rapid collectivisation.¹²

Bo Yibo, as minister of finance, favoured the former (Bukharin line): he was defeated by Gao Gang, head of state planning in meetings of August–September 1953. But between October and December 1953 Gao Gang overreached himself by also trying to oust Liu Shaoqi from second place in the CCP leadership (under Mao) and was himself under attack: in 1954 he was purged. In October, too, a Party-led meeting of private capitalists prepared the way for socialist transformation of commerce, industry and handicrafts.

Mao's speech of 7 February 1953 urged everyone to 'learn from the USSR', and China's dependence on Soviet aid and trade was considerable. But there were also tensions between Beijing and Moscow: for example in relation to the continued Soviet naval presence at Port Arthur (currently known as Lüshun in Liaoning Province), and also the rigorous repayment conditions attached to a relatively meagre number of aid projects (around 140 were approved by the end of 1953).¹³ During 1952–53, China began to look to the possibility of restoring economic links with Japan on the basis of 'non-official' trade agreements of June 1953 and 29 October 1953: but the scale was small.¹⁴

The US was anxious to prevent the resumption of close Sino–Japanese economic relations, except those between Japan and Taiwan: and to hamper the PRC's economic development by restricting all trade between its own allies and 'mainland China'. The US itself imposed a partial embargo on trade with China in October 1949 which became complete in late 1950, and was accompanied by a ban on US imports of Chinese products. In May 1951 the US also sponsored a UN resolution imposing an embargo on exports of 'strategic' goods to China. Although non-binding on members it reinforced the 'behind-the-scenes' US policy of extending to China the effective embargo on 'strategic' trade with Communist countries under NATO's Coordinating Committee of the Consultative Group (COCOM aka the 'Paris Group') arrangements originally directed against the USSR by the US and its NATO allies in 1949; a China Committee of COCOM (CHINCOM aka 'the China Differential'), formed in September 1952, also included Japan. After the end of the war in Korea, the PRC hoped to erode the embargo imposed by US allies, and to expand its trade with non-Communist countries.¹⁵ In addition to a rice-for-rubber barter agreement with Ceylon in 1952, the Chinese signed trade agreements with Indonesia on 30 November

1953; with Burma in April 1954,¹⁶ and non-official agreements with Japan on 1 June 1952 and on 29 October 1953. Its longer term aim was trade with Japan, Britain and other West European countries – which for the time being were inhibited by the American attitude.

Taiwan and Hong Kong

By 1953, Chiang Kai-shek had laid the foundations of economic development on Taiwan, independently of the PRC but relying on US aid and on Taiwan's former ties with the Japanese bureaucracy. Land reform, based on compensation of landlords, partly in kind and partly in the form of shares in industrial enterprises, was under way (Land-to-the-Tiller Act, January 1953).¹⁷ The British sought to develop the economy of Hong Kong, despite the recession of 1952–53 arising from the embargo on trade and financial remittances to China. They began to promote industrial manufacturing in Hong Kong, financed by bank-lending and shareholding: a key role was played by refugee entrepreneurs from Shanghai.¹⁸ In the longer run, the PRC benefited from being able to use Hong Kong as its unofficial line for economic relations with the capitalist world.

Economic dimensions: the US, Japan and South-East Asia

By 1953 the US regarded a strong Japan as a necessary counterweight to China in East Asia: the reverse of its position in 1943. Already from 1947 the Americans were promoting the economic recovery of Japan. That aim was even more important after 1950, when Japan benefited from the Korean War boom. After regaining its sovereignty in late April 1952, under the San Francisco Treaty of September 1951, Japan was admitted to the IMF and World Bank: its economic recovery could take place only within the framework of the American-dominated international system of trade and monetary arrangements. But the Japanese faced the possibility of a serious recession following the end of the war in Korea. US concern about this was evident in talks held in Washington (from 5 to 30 October 1953) between Assistant Secretary of State Walter Robertson and former Japanese Finance Minister Ikeda Hayato. Also during that period, on 23 October, the members of GATT voted to allow Japan to become a provisional member on special terms – despite British fears that rising Japanese exports might damage their own trade opportunities in Asia.¹⁹

Two views are possible with regard to US policy towards Japan: a 'Cold War' view, emphasising the need for a prosperous Japan as a counterweight to the Communist regime in China; and an 'economic' view, emphasising the US need to sustain its own economy by ensuring the ability of trading partners to overcome the 'dollar gap'. A parallel concern in Europe had led to the Marshall Plan of 1947 and the subsequent Economic Recovery Programme. A comparable plan for Asia was not seen as appropriate; but the Japanese economic recovery was related in US minds to a restoration of its economic links with South-East Asia and with Taiwan. The US also tried to promote cooperation

between Japan and South Korea, but talks between them in October 1953 became deadlocked after two weeks.

However, US domination of Japanese economic recovery was by no means complete, even before April 1952. The first phases of the Occupation of Japan, down to 1949, had been governed by a simple desire to dismantle the institutions, and purge the individuals, held responsible for the expansionist policies of 1931–45. When economic recovery was first envisaged in 1947, the US objective was probably to reconstruct Japan's economy on the American model, with freedom for Japanese capitalist enterprises to develop on the basis of equity holdings and a vigorous stock exchange. In practice that did not happen.²⁰

One factor why this did not occur was the continuing importance of the economic bureaucrats such as Ikeda and Governor Ichimada Hisato of the Bank of Japan who, unlike military officers and police officials, were not targets of the purge after 1945 and tended to act as a counterweight to the Supreme Commander of the Allied Powers in Japan (SCAP) even before 1950 – keeping alive older habits and structures of prioritisation, developed especially under the system of mobilisation of capital adopted in 1943. A second factor was the need to strengthen the system of prioritising bank loans (supposedly as a temporary measure) in response to the recession of 1949–50. A third was the sudden impact of the Korean war boom itself in 1950–51, when increasing Japanese industrial production became a priority shared by the US and Japan. Finally, the Japanese bureaucracy gained greater freedom with the restoration of sovereignty in April 1952 and were able to undo some of the SCAP-imposed measures. By then it was clear that bank-lending, shaped by the minister of finance and the Bank of Japan, still dominated the accumulation and allocation of capital for industrial growth. Equity capital was of relatively minor importance.²¹ However, as of 1953 there was still a political brake on the bureaucracy, since the pro-American Shigeru Yoshida remained prime minister until 1954.

An important document of late 1953, emanating from MITI, was the Okano Plan ('On Making our Economy Independent'): it called for the deliberate fostering of heavy and chemical industries, as a basis for eventually expanding Japanese export industries, and also for the growth of import-substitution industries. In all of this, MITI would have a key role alongside the Finance Ministry. The Plan was rejected by Yoshida,²² but it anticipated what actually developed from the later 1950s. Thus by 1953 the essential elements of the 'Japanese model' were already in place. Japan would not follow the 'American model' based on corporate decision-making in a free market and on equity ownership of capital. The essential level of decision-making was at the national, bureaucratic level; not that of the private corporation, subject merely to 'fair play' legislation.

Japanese relations with South-East Asia – including finalisation of bilateral peace treaties – was linked to the issue of war reparations, in the form of Japanese grants or soft loans, whose effect would be to promote trade and investment. Negotiations were necessary to find a compromise between the large sums demanded by the South-East Asian countries and what Japan was prepared to

pay. That was the purpose of visits to Manila, Jakarta and Rangoon, by the Japanese Foreign Minister Okazaki Katsuo, during the first half of October 1953.²³ Again, the time was not yet right for the fulfilment of this idea: agreements were not reached until later – with Burma in 1954, the Philippines in 1956, and Indonesia in 1958. But here too by 1953 the longer-term pattern was beginning to take shape.

The 'Cold War' in Asia and Nixon's tour of November–December 1953

During talks in Moscow in July 1949 Stalin had told Chinese leader Liu Shaoqi that with the focus of world revolution having moved from Europe to Eastern Asia both the CCP and PRC should play a more 'active and aggressive' role, under discreet Soviet control, in this latter region.²⁴ The focus of the East–West conflict in Asia, during the early 1950s, was on those countries already committed to either the socialist or imperialist 'camp' and those which might soon be 'ripe' for Communist-led revolution. On the socialist side was the PRC, North Korea, the DRVN, the MCP, the Philippines Communist Party, the PKI, the Burmese Communist Party, and the Indian Communist Party. The imperialist side included the ROC/Taiwan, the ROK, anti-Communist Vietnam, British and/or independent Malaya, the pro-US Philippine government, and Pakistan. It was not until 1955–56 that the focus of the East–West conflict in Asia shifted toward countries such as Indonesia, India and Burma whose governments were seeking to remain neutral. Meanwhile, there was a major shift in international policy towards the end of 1953 and diplomatic efforts initiated about that time resulted in the Geneva Conference of mid-1954 and the formation of ANZUS as well as SEATO.

That was the prevailing climate when US Vice-President Richard Nixon toured Asia from 5 October to 14 December 1953,²⁵ almost exactly ten years after the Tokyo, Cairo and Teheran Conferences. After beginning his Asian tour in New Zealand, he continued on to Australia followed by Indonesia, which was not yet firmly part of the US 'alliance'. The Japanese had allowed Indonesia to proclaim its independence in August 1945 and the country, excluding West Papua (aka Irian Jaya), was 'granted' independence by the Dutch on 27 November 1949, enabling a unification of the archipelago formerly under Dutch rule. At Jakarta, Nixon met Sukarno, who along with Hatta, had been in Tokyo in 1943 and still played a prominent political role – despite the existence of a constitutional Cabinet under Ali Sastroamidjjo and the Parti Nasional Indonesia/Indonesian Nationalist Party (PNI). Eventually in 1957 Sukarno would reemerge as the effective national leader, not just a figurehead. The Army, growing out of PETA, held the country together: the one major difference was the role now played by the PKI – but, as in Japan it was unable to do more than mobilise a political and economic mass movement. Relations with Japan were beginning to revive, with Okazaki's visit in October 1953 to discuss war reparations.

Although the American government saw no danger of a Communist takeover

in Indonesia in 1953 it was concerned about the Sastroamidjoe government's dependence on the support of the PKI and that the PNI might give the Communists increasing influence. Washington was also concerned about the unresolved problem of Western New Guinea, which involved Dutch-Indonesian conflict over claims and Australian security interests in the area.²⁶

Nixon's next stop was Malaya, where he met with the British High Commissioner Sir Gerald Templer.²⁷ The Americans wanted a peaceful, stable and economically viable Malaya and firmly supported British policy in that country. The Malayan emergency had basically come to an end, largely because of Templer's stringent measures. Templer had already called for the relaxation of some of the emergency measures and in early September part of the state of Molacca declared the end of curfews and food searches. By the end of the year 'only' 1,914 Chinese remained in detention.²⁸ However, the British administration remained preoccupied with Malaya's potentially serious economic problems as well as with internal pressure for the granting of independence and federal elections.

Despite earlier opposition from British mining and estate firms, the government sought, throughout 1953, to determine what action was appropriate to ensure the survival of both the Chinese tin companies and Malay smallholder producers of rubber. The Copenhagen meeting of the International Rubber Study Group had acknowledged the very great obstacles to reaching any agreement on international stabilisation as a solution to competition between natural and synthetic rubber, and by early December it was clear that the attempt was dead.

Meanwhile, since early 1953 Tengku Abdul Rahman, leader of the United Malay National Organisation (UMNO) – which had been founded in May 1946 – and Malayan Chinese Association (MCA) founder and President Tan Cheng Lock had been pressing for early elections and for the country to move towards independence; and that same year had established a coalition, involving both organisations, to facilitate the move towards this objective. Independence was just around the corner, but it was necessary to consider what form it might take so that a new government was not completely Malay dominated and would represent the interests of the minority Chinese. In July the government of Malaya had established an election committee to consider problems of eventual federal elections.

After leaving Malaya Nixon began a three day visit to Thailand on 27 October, becoming the first American vice-president to visit that country. Thailand was under the same prime minister in 1953 as in 1943: Phibulsonggram; with Wan Waitayakorn (who attended the November 1943 Conference) as foreign minister. The army – controlled by some of the same leaders – was again in power, with a very restricted form of constitution. The Seri Thai Second World War resistance, in the person of Pridi Banomyong, had been ousted in 1947–48 and had failed to recover power in 1951. (Pridi himself was secretly living in China.) Thai foreign policy was now more oriented towards the US and Britain (and to a lesser extent France), and only marginally towards Japan. But for the Allies a key question was whether Phibul might, given a changing power

balance, once again 'change sides' – this time by coming to terms with a reunified China. A US intelligence report of 10 November stated that Thailand would be the country most directly affected by a Viet-Minh victory and such a turn of events would cause the Thais to reorient their policy towards the Soviet bloc.²⁹

After departing Thailand, Nixon arrived in Saigon on about 29 or 30 October, just as the NSC met in Washington to discuss NSC 162/1 and as Eisenhower approved the same document, which may indicate the significance of these particular stopovers in terms of America's evolving security policy and global perspective. The US already had a massive stake in Vietnam and was worried about aid supplied to the Viet-Minh by the PRC. For their part, the Americans since 1950 had provided arms and equipment on credit terms as well as military advisors to support French efforts in Vietnam. A Franco-American agreement on providing increased aid for Indochina had been reached at the end of September 1953. The US benefited from contributing their assistance as it helped maintain France's support for NATO, which had rejected, on several occasions, French requests for troop support for Vietnam.

Also in July the Lanier government had issued a declaration on Cambodia, Laos and Vietnam relating France's wishes to 'perfect the independence and sovereignty of the Associated States' and Washington continued pressing for the pace of negotiations on this matter to be stepped up.

After spending time in Saigon, Nixon was received by Head of State, Bao Dai, at the mountain resort of Dalat – where the former emperor spent most of his time. Bao Dai had opposed negotiations with the Viet-Minh guerillas while refusing to support the French either, unless Paris guaranteed that it would grant independence for Vietnam.

Next, Nixon travelled to Vientiane where he met the Laotian leader Prince Souvanna Phouma. Internal politics of the country during that period can be understood superficially in terms of a 'Cold War' division between the 'Communist' Pathet Lao and the 'pro-Western' Royal Lao government. Several days earlier (on 22 October), a Franco-Laotian Treaty of Friendship and Association was signed which recognised the full independence of Laos, within the French Union; and outlined a military convention giving the French army freedom of operation in Laos and France responsibility for planning the defence of Laos.

From Laos, Nixon flew to Hanoi where he met the Governor of North Vietnam before visiting with French units in the field around Lai Cac near the Chinese-Vietnamese border; and surprisingly the French northern front stronghold, established under the Navarre Plan, of Son Tay.³⁰

After departing Vietnam Nixon journeyed to Cambodia where he met King Norodom Sihanouk. In June Sihanouk's entourage had expressed disappointment and exasperation at French 'refusal to accord real independence' to Cambodia. On 11 September Cambodia's Prime Minister Samdech Penn Nouth had 'appealed' to the anti-French Cambodian nationalist Khmer Issarak organisation and the Viet-Minh, which took up a position of neutrality on the part of the Cambodian government. As a result the US had threatened to withdraw economic and military aid from Cambodia, although a Franco-Cambodian military

agreement was subsequently reached on 17 October. The accord transferred command of the royal army to Cambodians, although it allowed French forces full freedom to operate east of the Mekong.³¹

From Vietnam, Nixon travelled to Taiwan where he met Chiang Kai-shek who hoped to regain power in Mainland China as soon as possible. America's commitment to the ROC government, backed by the pro-Taiwan China Lobby in Washington, remained firm at the end of the Korean War and continued to strengthen. It was based on the principle that Chiang's leadership was the legitimate government of the whole of China and the defence of ROC occupation of China's UN seat. The US maintained military bases in Taiwan itself and America's 7th Fleet protected the Straits of Formosa, which were a potential point of tension with the PRC. NSC 162/12 document of 30 October also included an emphasis on support for Vietnamese, ROK and ROC indigenous forces.

Next on Nixon's itinerary was South Korea where he met with Syngman Rhee to seek specific reassurances that Seoul would refrain from taking action that might reopen conflict with the North. The Korean War had been brought to a close at the end of July, and with the signing of the US-ROK Mutual Defense Treaty on 1 October America confirmed its commitment to keeping troops stationed in the South over the long-term. However, with the signing of this accord, Rhee, who was very anti-Japanese, was free to ignore Japan which hoped to obtain ROK rehabilitation contracts to help ease continuing industrial over-capacity associated with domestic expansion required to meet the needs of the Korean War. Japanese-ROK economic talks were broken off in November after a fishing incident and would not be resumed until after Rhee's fall in 1960.

Meanwhile, Rhee was attempting to improve relations with other countries in the region. At the end of November, with encouragement from the Americans, he made a joint statement with Chiang Kai-shek, and on 12 December 1953 Seoul suggested to Bangkok that Thailand, and the Philippines join with the ROC, in a regional anti-Communist alliance.

After leaving Korea Nixon visited Tokyo, from 15 to 20 November 1953, where he encouraged Japan to play a more active role, including security matters, in relation to the rest of Asia. Japan had been forcibly deprived of its empire after all of its armies and its navy had surrendered and been repatriated, and its future military capability dismantled – apart from a very restricted 'self defence' force. The islands themselves had experienced nearly six years of Allied occupation (August 1945–late April 1952) and its political institutions had been forcibly democratised. Its elected executive was ruled under an American-designed constitution, with the Emperor no more than a figurehead. Yet behind the political façade, the elements of continuity were the *zaibatsu* who were beginning to reassert their economic power and the 'left' which remained confined to the marginal role of a concerned commentator. By 1953 large Japanese companies such as Mitsui and Mitsubishi were well on the way to completing the process of reassembling their business empires. Behind the scenes, men who had managed the Japanese imperialist economy before 1945 were allowed

to reemerge. One of them, Kishi Nobusuke, despite having been an 'A' class war criminal, was in 1953 only four years away from becoming Prime Minister. Japan was also being actively encouraged to resume its economic relations with South-East Asia.

Next, after arriving in the Philippines on 21 November Nixon met with the strongly pro-American Minister of Defence Ramón Magsaysay. That country had achieved political independence in 1946 and was under an American-designed constitution as well as a pro-US government headed by President Elpidio Quirino. The Americans had reestablished their military presence (at Subic Bay and Clark Field), reinforced by the Mutual Security Treaty of 1951, although the struggle against the Huks continued. While the Huk revolt against US power had made some progress from 1949–51, it had gone on the defensive by the end of 1951, and by 1953 the Americans were on top of the situation.

The US continued to encourage Filipino–Japanese rapprochement and Okazaki had visited the Philippines in October 1953 for talks on war reparations and a peace treaty between the two nations. The Philippine economy was still closely tied to that of the US and American government decisions. It was beginning to industrialise, on the basis of import substitution, with a continuing high-level of participation of both the US and of the leading Philippine business families, who moved from agricultural profits to industrial profits.

On 26 November Nixon reached Burma, another country not firmly part of the US 'alliance'. Western governments were concerned about agitation by Communist elements in Burma since it had achieved independence from Britain in January 1948, this time by virtue of a British 'transfer of power'. Also, the first Asian Socialist Conference had been held in Rangoon at the end of January 1953. Nevertheless, the Burmese sought as much genuine independence as possible and might have been under the pro-Japanese Aung Sang had he not been assassinated in 1947. As it was, the Cabinet was led by U Nu who also had been pro-Japanese in 1943. Burma still maintained diplomatic relations with Japan (Okazaki had also visited Burma in October 1953 to discuss war reparations), India and the West. Its main problem was its relations with China, given a large presence of KMT irregulars who had remained in Northern Burma on the border with China after Chiang Kai-shek fled to Taiwan.

From Burma Nixon continued on to Delhi where he met Prime Minister Jawaharlal Nehru and his daughter Indira Gandhi, who were deeply concerned about how American policy on Pakistan might affect India. On 16 November Dulles had informed the Indian Ambassador in Washington that America wanted to strengthen Pakistan to help with Middle East defense. Although NSC 162/2 had recognised that a strong contemporary regional Middle East grouping of allies was unfeasible, it recommended that America might still try to include Turkey, Pakistan and Iran. After Pakistani General Ayub Khan met Secretary of State Dulles in Washington in late September the US Departments of State and Defense had agreed on a US\$25 million military assistance programme for Pakistan and in mid-November the JCS endorsed the 'Northern Tier' concept of Middle East defence.

After leaving India Nixon visited Pakistan and then Iran, where he met the Shah, who had been restored to power in August by a coup d'état resulting from a clandestine CIA operation devised by British intelligence.³² During the first week of December when Nixon was in Karachi he emphasised to Pakistani leaders the importance of US military assistance. Then, on 16 December Nixon warned the NSC that it would be a 'fatal mistake' in terms of American interests vis-à-vis Pakistan, the Near East and Africa for Washington to bow to Indian and British objections to the US providing such aid to Karachi.³³

As the most powerful country in the 'international system' in 1953 America sought to defend its notion of the 'free world' from that of the perceived 'Communist threat' through such alliances as well as the projection of US military and financial power. But 1963 would mark the beginning of a period in which this strategy would be challenged by the development of: i) the global economy beyond the point where US gold reserves alone were adequate to sustain the Bretton Woods system; and ii) American global commitments beyond the point where all of them could be fulfilled simultaneously, at least, not without a return to 'total war' of 1942–45, for which the US public would be unprepared. East Asia would be a focal point in the changing international situation.

4 The challenge to 'American imperialism'

November–December 1963

Marxist–Leninists must not regard the contradictions in the world as consisting solely and simply of the contradiction between the socialist camp and the imperialist camp. . . .

The various types of contradiction in the contemporary world are concentrated in the vast areas of Asia, Africa and Latin America: these are the most vulnerable areas under imperialist rule, and the sham centres of the world revolution dealing direct blows at imperialism.

From CCP Central Committee 'Proposal Concerning the General Line of the International Communist Movement', 14 June 1963

. . . politically we [the UK] have a substantial interest in preventing [South-East Asia's] absorption by Communism; we need to maintain our effort in that area if we are to keep our position as a world power and the US' principal partner.

. . . It must remain a major British interest to prevent the decisive change in the balance of world power that would result from the absorption of 230 million people into the Communist system – whether it be of the Soviet, 'Titoist' or . . . the Chinese variety.

From paper by Permanent Undersecretary Sir Harold Caccia's Steering Committee, 'British Policy Towards SE Asia', 31 December 1964

. . . The great weakness of US policy in Southeast Asia since the 1950s, which indeed may ultimately prove a fatal defect, is that we have never been quite sure how serious we are about the whole business. Are our interests in Southeast Asia really *vital* national interests? . . . My own view is that we shall ultimately fail to secure the basic objectives of policy in Southeast Asia until our commitment to the region becomes unlimited, as it has not been until now.

Oil expert William Henderson to an Asia Society Conference in New York, 10–11 May 1963

During the 1960s little attention was paid to 20th anniversaries. It is unlikely, for example, that anyone noticed the coincidence that almost exactly 20 years after Pearl Harbour US President John F. Kennedy, in a letter (dated 14 December 1961) to President Ngo Dinh Diem of South Vietnam, formally committed

America to a programme of 'counterinsurgency' in defence of South Vietnam which involved breaking the terms of the Geneva Armistice of 1954. Nor, almost two years later, did it remotely occur to anyone that it was precisely 20 years after the opening of the Cairo Conference of 22 November 1943 that President Kennedy was assassinated in Dallas. Two days later President Lyndon B. Johnson signed National Security Action Memorandum (NSAM) 273 confirming the American commitment to defend an independent South Vietnam.

Honolulu, 20–21 November 1963

About ten years on from the Bermuda Conference, the Singapore ('Mallaig') Meeting and Nixon's Tour of Asia, another meeting took place. This time American officials met to review the growing crisis in Indochina, especially South Vietnam. It was attended by US Secretary of State Dean Rusk, Secretary of Defense Robert McNamara, accompanied by Assistant Secretary of State for Far Eastern Affairs Roger Hilsman; Assistant Secretary of Defense for International Security Affairs William Bundy; and by members of the American 'country team' in Saigon, led by American Ambassador to South Vietnam Henry Cabot Lodge and the Commander of the US Military Assistance Command Vietnam's (MACV) General Paul Harkins. But, by contrast with war conferences of the Second World War, we still do not have a full operational picture of what was discussed at such meetings during the Vietnam War; the Honolulu meeting of 20–21 November 1963¹ may have been especially important.

The Communist Viet-Minh had been given control of North Vietnam, which became known as the Democratic Republic of Vietnam (DRVN), on 21 July 1954 under the Agreements and Declarations – on all three states of Indochina (Cambodia, Laos and Vietnam) – of the Geneva Conference, which had been under way since 8 May. The US proceeded to support the anti-Communist regime of Ngo Dinh Diem in the South from 1954–63. While the Vietnamese Communists do not commemorate an anniversary to mark the resumption of armed struggle against Premier Diem's regime, it began long before they founded the National Front for the Liberation of South Vietnam on 20 December 1960. The political struggle against Diem, which had begun immediately after the Geneva partition, developed imperceptibly into armed struggle, as a result of decisions taken over a period of years. All that is certain is that the period from October 1958 to July 1959 contains the actual origins of what became the Vietnam War. The decision was taken in Hanoi, in 1959, to switch from political to armed struggle and by late in the year the question was not whether there would be an escalation of armed conflict in South Vietnam, but what form it would take.

American policy in South-East Asia entered a new phase with the letter addressed by President Kennedy to President Ngo Dinh Diem on 14 December 1961, promising increased support against the insurgency threatening the stability of Southern Vietnam. A major debate which had been going on in Washington and Saigon for several months finally ended with a series of

presidential decisions in November which amounted to the inauguration of a new doctrine of 'counterinsurgency' – with Vietnam as an important test case. The actual programme approved by National Security Action Memorandum (NSAM) 111, dated 22 November 1961, was based on the principle of counterinsurgency as a form of military assistance. There was to be no deployment of American combat troops to operate as whole divisions on the battlefield, but the US would, however, assist the government and armed forces of Vietnam to defend themselves. This was to be accomplished through expanding training programmes, sending more advisors to work with Vietnamese officers in the field, and, most important of all, supplying a number of logistic support teams of helicopters and armoured vehicles manned by American troops. By the end of the year there were already 2,600 American military personnel operating in South Vietnam; more would arrive during 1962.

Some progress was made during the spring and summer of 1962, which seemed to justify the Kennedy decisions and to encourage the consolidation of counterinsurgency as a general doctrine. One consequence for South Vietnam itself was that the role of the government armed forces (ARVN) was greatly strengthened, since the whole strategy of counterinsurgency required the existence of a Vietnamese military machine capable of receiving and applying whatever kinds of American military support were deemed necessary to counter Communist tactics for the time being. At the same time the Americans were becoming more committed than ever to the existing civilian government of Ngo Dinh Diem.

Until the middle of 1963 the conflict in Vietnam was far from being a central concern of the Kennedy Administration. The crisis, when it came, had very little to do with the course of the Communist-led armed struggle or the American-backed counterinsurgency campaign against it. What changed during that summer, making South Vietnam suddenly the focus of world attention, was the emergence of an essentially political opposition movement in Saigon and other cities led by militant Buddhist monks and their lay supporters.

On 8 May, in the imperial city of Hue, demonstrations against a decree forbidding the flying of Buddhist flags at the annual commemoration of Buddha's Birthday ended in tragedy when troops allegedly opened fire on the crowd and killed eight young people. Two days later Buddhist leaders at Hue issued a statement setting forth demands to the government in Saigon; and by the end of the month the protests had spread to the capital itself. As time went on it became clear that the Buddhist issue had the power to galvanise a broad opposition movement amongst the urban middle class of South Vietnam, bringing to the surface latent grievances in many other spheres of national life. This Buddhist Crisis also forced the Americans to consider how long they could continue to provide military assistance to a regime which no longer commanded the respect of its own people.

The immediate consequence of the first phase of the Buddhist crisis (from 8 May to late June) was to shake the confidence of many American officials in the ability of Diem and his brothers to continue providing effective leadership

for South Vietnam. The Buddhists alone, however, did not have the power to destroy the regime, which still had an effective security force in addition to the regular armed forces. The only political element strong enough to force an actual change of government in Saigon at this time was the army. Ever since the abortive coup of November 1960 Diem had been conscious of that danger and had done his best to place his own men in key positions in order to prevent the emergence of a unified command structure over which he himself had no control. Nevertheless, various conspiracies against the Diem regime developed within the armed forces during July and August.

On 20 August, in response to the continuing coup-plotting and frequent Buddhist demonstrations (involving fire-suicides), Diem imposed martial law and arrested many leading dissidents.

In late August the CIA seemed to have been collaborating closely with ARVN generals to devise a plan to remove the Diem regime. Yet, the projected coup was abandoned by the 31st, the same day that a showdown occurred within the American leadership over the matter. Those who advocated continuing efforts to remove Diem (represented on this occasion by Hilsman and Director Paul Kattenburg, Vietnam Affairs, Department of State) were obliged to accept that the 'principals' (Rusk, McNamara and CIA Director John McCone, together with Vice-President Johnson) were firmly opposed to any further moves against the regime in the foreseeable future.

There is no documentary evidence which proves beyond all doubt that the coup plotting which resurfaced in Saigon at the beginning of October was inspired by a top-level American decision. Whether the US actively instigated, or merely acquiesced in, the coup of 1–2 November that saw the overthrow and death of Ngo Dinh Diem and his brother Nhu, those who favoured action against Diem did so for essentially negative reasons rather than to place any particular general in power. Nevertheless, the removal of Diem opened a Pandora's box of political and military rivalries, which was very soon completely beyond American control.²

However, despite a stepping up of guerilla activity in Vietnam, three weeks after the coup, the mood in Honolulu seems to have been relatively optimistic. Laos had been neutralised, in theory, by the Geneva conference of 1954; but in practice, after 1961 it was divided between a Royal government in Vientiane and a North Vietnamese-backed Pathet Lao regime in the north-east; a ceasefire imposed in 1961 and again in 1962 had broken down in April–May 1963. In southern Laos, the Communist People's Army of Vietnam (PAVN) (North Vietnam) had established a 'secret' route along which men and supplies were regularly infiltrated to support the struggle in South Vietnam. But the US was reluctant to take any action which would overtly contravene a second Geneva agreement on Laotian neutrality, signed in July 1962 by the USSR, the PRC and the US.³

The Honolulu meeting also considered the situation in Cambodia, where Prince Norodom Sihanouk (in speeches of 12 and 16 November 1963) indicated that he wished to end US aid to his country; and on 19 November called for the

reconvening of the Geneva Conference of 1954 (or possibly that of 1962) to reaffirm international guarantees of Cambodian neutrality and respect for its existing borders. This created problems for the Americans, whose SEATO ally Thailand opposed the idea; such a meeting might also destabilise the delicate situation in South Vietnam. On the other hand, if Sihanouk had his proposal rejected it might drive him from his current neutrality into full support for the Chinese, with whom he had developed good relations since 1956.⁴

Given the situation in South Vietnam and Laos, a key question at Honolulu was whether to initiate actions against North Vietnam, which was giving material support and probably overall directives to the National Liberation Front of South Vietnam (NLFSV) as well as violating the neutrality of Laos with apparent impunity. The US military Joint Chiefs of Staff (JCS) were by now more hawkish than the civilians, even in the Pentagon; they had already proposed covert operations against the North, but it is not clear when the idea of bombing North Vietnam was first discussed.

How President Kennedy would have responded to such a recommendation is not known. In July 1962 he had encouraged a plan to limit the US military presence in South Vietnam (SVN) – by late 1963 there were around 12,000 to 15,000 'support' personnel there – and to withdraw completely by the end of 1965, assuming satisfactory progress by then. But he had reacted coolly to French President Charles de Gaulle's proposal of 29 August 1963 for immediate moves towards a US withdrawal and the neutralisation of SVN; and a speech he planned to make on 22 November 1963 included a reaffirmation of US determination to prevent a 'successful Communist breakthrough' at any point along 'the Communist frontier'.⁵

However, while the participants were flying back to Washington on 22 November, they learned of the assassination of the US president in Dallas; and they would now have to report to President Lyndon B. Johnson.

The crisis in Maritime South-East Asia

Shortly before his death, Kennedy was also dealing with another growing crisis in South-East Asia, arising from Indonesia's rejection of British plans to create a Federation of Malaysia, including northern Borneo as well as Malaya and Singapore, as a means of completing 'decolonisation' in the region. The emergence of the Malaysia concept is well documented in British archives for 1962–63; Sukarno's opposition to it was expressed in February 1963, following the Brunei revolt in December 1962; and there were anti-British riots in Jakarta in response to the actual inauguration of Malaysia on 16 September 1963. By late 1963, Indonesia was giving active military support to Sarawak guerillas opposed to the Federation; and Britain was sending reinforcements to Borneo to counter what became known as 'Confrontation' ('Konfrontasi'). The Philippines government under President Diosdado Macapagal also opposed 'Malaysia', having in 1962 laid claim to the Borneo state of Sabah, but was not inclined to go to war over it.

Diplomatic efforts to avert an actual war were made by Asian governments themselves, within the concept of '*Maphilindo*': originally proposed by Macapagal as a much looser confederation (of *Malaya*, the *Philippines* and *Indonesia*). The Japanese were particularly active in promoting conciliation between Sukarno and Malaysian Prime Minister Tengku Abdul Rahman. The '*Maphilindo*' phase lasted from early April to 5 August 1963, when Sukarno, Macapagal and the Tengku met in Manila and issued an optimistic Declaration and Statement; but it was overtaken by the British–Malayan decision to inaugurate the new Federation on 16 September. Even after that, between 23 September and early October, the Japanese Prime Minister Ikeda visited all three countries, hoping to avert a serious conflict. A further attempt at mediation was initiated by Thailand through meetings with foreign ministers attending a Colombo Plan conference in Bangkok (11–18 November); but on 19 November the Indonesian Foreign Minister Subandrio returned to Jakarta and made another hardline speech.

In the meantime Sukarno hosted the 'Games of the New Emerging Forces' (GANEF) in Jakarta, 10–22 November. Participants included Chinese and Japanese teams and the PRC affirmed its support by sending Marshal He Long to Indonesia for the occasion. Over the previous year Sukarno had been gradually aligning Indonesia with Chinese anti-imperialism: his second wife (Hartini) was guest of honour at national day celebrations in Beijing in October 1962; then Subandrio held talks with Premier Zhou Enlai in China in January 1963; and President Liu Shaoqi paid a state visit to Indonesia in April 1963. Closer alignment with the PRC was also encouraged by D.N. Aidit, leader of the PKI which were by now expanding their grass roots support.⁶ This trend was probably more worrying to the Americans than the Malaysia issue.

The US had no strong commitment of its own to the Federation of Malaysia, but had to recognise that its allies in Britain and Australia were both fully committed to defending it.⁷ Although concerned about the deteriorating situation, Kennedy would still prefer a peaceful solution, worked out by the South-East Asians themselves. In 1962 the US had acted as mediator to end an earlier conflict between Indonesia and the Dutch over claims to Western New Guinea (Irian Jaya). The two central concerns of the US were: to maintain the position of the US oil companies and other business interests in Indonesia; and bring to completion an IMF programme of economic stabilisation in Indonesia, followed by an expansion of US aid. In February 1963, Sukarno had demanded a larger share of oil profits from operations by Caltex, Stanvac and Royal Dutch Shell; and new agreements had been signed on 1 June, with further details worked out by 25 September 1963. Meanwhile, an IMF plan had been slowly taking shape from November 1962. Its principal Indonesian advocate was the first minister Djuanda Kartawidjaja, but it was opposed by Subandrio and also by the PKI. A conflict between Djuanda and Subandrio seemed to be coming to a head, when Djuanda suddenly died on 7 November 1963; in a new cabinet announced on 13 November Subandrio succeeded as first minister, with the strongly anti-imperialist Chaerul Saleh as minister in charge of development. The chances of a satisfactory outcome from Washington's point of view were thus receding.

On 19 November, in Washington, Kennedy met with Hilsman and the US Ambassador to Jakarta, Howard Jones, to devise a strategy for maintaining good relations with Sukarno in spite of the crisis. The president was due (had he lived) to meet the Indonesian Defence Minister A.H. Nasution on the 26th; and he was hoping for sufficient diplomatic progress to allow him to pay a visit to Jakarta himself in spring 1964.

The pressures on Washington for a deeper US commitment to the whole region of South-East Asia were growing during 1963, especially from the business community: reflected in the Asian Society speech of oil expert William Henderson in May of that year.⁸ But it is also possible to discern a contrast between two approaches to involvement: one based on regional diplomacy, the other on Cold War thinking. The former was seen as appropriate in the maritime part of South-East Asia, whereas the latter seemed to apply to Indochina. A key question, unresolved at Kennedy's death, was whether the diplomatic approach might also have relevance to easing tension in the Indochinese peninsula, despite the failure of the 1962 agreement on Laos; or whether the US should revert to 'domino theory' thinking of the early 1950s (still championed by the JCS) which focused on a Communist threat to Malaysia and Indonesia, as well as to South Vietnam and Thailand. The Cold War approach implied that US military successes in South Vietnam and Laos were essential to the achievement of non-Communist political and economic stability in the rest of the region.

The Johnson administration's first moves in Asia

Kennedy's funeral on 25 November was the occasion for a gathering of international leaders in Washington, including, from Europe, British Prime Minister Alec Douglas-Home, French President de Gaulle, West German Chancellor Ludwig Erhard, and Soviet Deputy Premier A.I. Mikoyan; leaders from Asia included the Japanese Prime Minister Ikeda Hayato, Korean President-Elect Park Chung Hee, Philippines President Macapagal, Cambodian Premier Norodom Kantol, and Indonesian Defence Minister Nasution who had already arrived expecting to meet Kennedy. (The Thai Prime Minister, General Sarit Thanarat, might also have attended, but he was already seriously ill: hospitalised at the end of the month,⁹ he died on 8 December.) An important economic meeting in Tokyo between senior Japanese and US ministers, scheduled for 25–27 November, had to be postponed until January 1964; instead Johnson met Ikeda in Washington.¹⁰ But other diplomatic moves continued along previously anticipated lines.

On the Indonesian front Johnson held talks with Nasution on 29 November and sent an essentially friendly letter to Sukarno on 18 December, still hoping for improved relations following a peaceful settlement of the Malaysia dispute. In January 1964, US Attorney-General Robert Kennedy undertook a series of visits to Tokyo, Manila, Kuala Lumpur, Jakarta and Bangkok, seeking to bring about a ceasefire and then further diplomatic negotiations; but with very limited success.¹¹ Only gradually, during the spring of 1964, did Johnson move closer to

the British view that Chinese support for Indonesia's 'confrontation' of Malaysia should be seen as a threat to 'the West' as a whole.

Meanwhile, in response to Sihanouk's initiative for a conference on Cambodia, NSC member Michael Forrestal visited Phnom Penh, Vientiane and Bangkok between 27 November and 5 December 1963 – only to conclude that strong Thai opposition to the proposal made it virtually impossible for the Americans to give it immediate support. They did, however, allow the British to pursue the idea in communications with Moscow (the UK and USSR being 'co-chairmen' of the two Geneva Conferences) and a meeting of Rusk, British Foreign Secretary Richard 'Rab' Butler and French Foreign Minister Couve de Murville in Paris on 14 December decided to keep the possibility alive. In early January, a French offer of increased aid to Cambodia partially filled the gap left by Sihanouk's termination of US aid. Meanwhile, efforts to restore the ceasefire in Laos were having little effect.¹²

With regard to Vietnam itself, Johnson's first aim was to demonstrate the continuity of US policy; but in the process he allowed himself to deepen the American commitment by authorising, on 26 November, NSAM no. 273; he also endorsed plans for covert operations against North Vietnam: the notorious OPLAN 34A, for action by South Vietnamese teams with US backup, which was under way by summer 1964. The operation, which was 'completely' secret at the time, involved Commando-style operations in which most of the infiltrators, the majority of whom had been parachuted in, were captured almost immediately. The immediate neutralisation of South Vietnam was rejected as amounting to virtual surrender to Hanoi; in effect, to Beijing.¹³

Would Kennedy have acted differently? Two points can be made in general terms. First, even if there was a conspiracy to kill Kennedy, there is no significant evidence linking its purpose to US policy in South-East Asia or to a possible 'surrender' in Vietnam. Second, one has no means of knowing whether, had he lived, Kennedy would have opted for substantially different decisions from those taken by Johnson, in the face of a rapidly changing situation during the remainder of 1963 and as events unfolded during 1964. It is idle to speculate what Kennedy *might* have done in circumstances which were quite predictable at the time of his death.

What is much more important, for the historian, is to establish a wider framework of reference embracing the East Asian region as a whole; and to seek to understand more fully the perspectives in which the next stage of American presidential decision-making – whether by Kennedy or by Johnson – had to take place.

Sino–Soviet tensions and the issue of peaceful coexistence

How the situation would develop in the next stage depended a great deal on the ambitions and objectives of the Communists themselves, in North Vietnam, China and the USSR. The ending of the Korean and Indochina wars in 1953–54 had been the prelude to the emergence of the Soviet line of 'peaceful co-

existence', first defined publicly in Khrushchev's report to the 20th Congress of the Communist Party of the Soviet Union (CPSU) in February 1956. This had been accepted at the time by Mao and the CCP; and in autumn 1957 the Chinese were impressed by Soviet use of the powerful 'sputnik' rocket to launch a satellite into space. But the Chinese were also chafing at their dependence on the Soviet 'nuclear umbrella' and wanted nuclear weapons of their own. It is possible that Soviet concern about China's longer-term strategy was one reason why Moscow cancelled a large part of its technical aid programme in China in summer 1960. By November 1960, when Liu Shaoqi, Chairman of the PRC since 1959, attended a world conference of Communist and Workers' Parties in Moscow, the CPSU and the CCP were developing different 'lines' on the question of opposing American imperialism through support for Communist-led 'national liberation' movements in Asia and Latin America.¹⁴ Different Soviet and Chinese approaches to the world situation became much more apparent in October–November 1962: the Cuba Missiles Crisis, reflecting Soviet preoccupation with nuclear warfare, ended in a compromise between Moscow and Washington – which Beijing condemned; the Sino–Indian war, reflecting rivalry for leadership in the 'third world' found the Russians almost supporting India's cause against the Chinese.

Sino–Soviet differences on the nature of 'world contradictions' appeared to crystallise in July 1963: on the Soviet side, their leader Nikita Khrushchev was willing, at that point, to sign a treaty with the US and the UK (open to other signatories) banning further atmospheric testing of nuclear weapons. For their part the Chinese wanted a new international Communist conference which would place the main emphasis on anti-imperialist struggles by the oppressed peoples of the 'third world'. The CCP's reaction to the apparent breakthrough on the issue of a nuclear test ban treaty was its 'Proposal Concerning the General Line of the International Communist Movement', addressed to the CPSU on 14 June 1963. Critical of Moscow's ideological positions, the document became the first public document in the Sino–Soviet ideological dispute, although the CPSU refused to publish it or allow it to circulate in the USSR. By the time Deng Xiaopeng arrived in Moscow on 5 July to begin talks with M.A. Suslov (not with Khrushchev himself), the possibility of rapprochement on an ideological plane seemed remote. On 14 July the CPSU produced a direct reply to the Chinese 'Proposal' in the form of an open letter to its own Party membership. The following day Khrushchev opened talks with Averell Harriman and Lord Hailsham which culminated in the initialing of an actual American–Soviet–British treaty on nuclear tests on 25 July. Meanwhile the Deng–Suslov talks reached an impasse on 20 July and the Chinese delegation returned home. By mid-September 1963 the Chinese had refused to sign the test ban treaty (which would interfere with their own development of an atomic bomb, not achieved until October 1964) and had begun a series of anti-Soviet polemics, focusing initially on 'the question of Stalin'.

The ideological attack on Khrushchev's 'revisionism' became sharper with a *Renmin Ribao/Hongqi* article of 19 November 1963, 'Two different lines on the

question of war and peace'; and another denouncing 'peaceful coexistence' as active collaboration with US imperialism, on 12 December.¹⁵

Implications for South-East Asia

It was revealed much later that in September 1963 Zhou Enlai held a meeting with South-East Asian Communist leaders at Conghua, in Guangdong: attended by Politburo members Le Duan (ranked second in the Party) and Nguyen Chi Thanh (a rising star in the army) and probably Ho Chi Minh himself, from Vietnam; Kaysone Phomvihane, Leader of the People's Revolutionary Party in Laos; and D.N. Aidit, on his way home to Indonesia after a longer visit to China.¹⁶ We have, of course, no record of the proceedings; but in 1979 (after a reunified Vietnam had broken with China), Hanoi officials quoted Zhou as saying: 'Our country is a big one, but we have no way out; we hope the Vietnamese Workers' Party will help blaze the trail to South-East Asia'.¹⁷

No mention is made of either Thai or Cambodian Communists participating in the September meeting at Conghua. However, a later internal history revealed that in August 1963 the Thai Communist Party passed a resolution on preparations to create guerrilla bases in remote areas.¹⁸ In Cambodia, the Chinese were more interested in cultivating Sihanouk at this time than in promoting a Communist struggle against him; and in late 1963 the prince was moving to the left in economic policy as well as distancing himself from the US diplomatically. There was, nevertheless, an increasingly active Cambodian Communist movement. Following the death of its 'pro-Vietnamese' leader Tou Samouth in 1962, a new Party secretary emerged at a secret meeting in February 1963: the Phnom Penh schoolteacher Saloth Sar, who disappeared into the jungle later in the year, and became notorious under the name Pol Pot.¹⁹ But he had no immediate place in Chinese strategy, which was concentrated on the war in South Vietnam and Laos, and on supporting the anti-Malaysia drive and greater PKI influence in Indonesia.

However, the Vietnamese Communists did not wish to align their Party with the CCP to the extent of breaking completely with Moscow. In December 1963 they debated the issue of 'peaceful coexistence' at the 9th Plenum of their own Central Committee, and decided to oppose it within their own ranks – but in public to attack only Tito's Yugoslavia, not Khrushchev himself or the CPSU. The debate was won by Le Duan, Nguyen Chi Thanh and Le Duc Tho, also a Politburo member; 'losers' included (remarkably) Politburo member and Senior General Vo Nguyen Giap and Truong Chinh, and possibly Ho Chi Minh himself. But it was an ideological and strategic decision, not a single commitment to support the Chinese in all circumstances. North Vietnam remained suspicious of China, and anxious for the USSR to continue its military and economic aid. The same plenum passed a secret resolution on the war in the South (not fully activated until late 1964), which called for an expansion of the scale of armed struggle there, and greater participation by the North in what would eventually become a nation-wide struggle against US imperialism.²⁰

These decisions probably had firm PRC support; but neither the Chinese nor the Soviets were in a position to force the Vietnamese to abandon the armed struggle, once it began to escalate. The Vietnamese were trying to exploit the rivalry between the Chinese and the Russians, in the hope of obliging both Communist powers to provide greater support for their own struggle.

Evidence of Chinese support for national liberation struggles in South Vietnam, Laos and eventually Thailand, and for the anti-Malaysia campaign in Borneo ('North Kalimantan'), fits in with the 'hawkish' American view of an expansionist China bent on the destruction of 'imperialism' in Asia. A broader analysis of Chinese Communist strategy in 1963, however, might suggest that there was a very long-term objective; and that Beijing did not expect either immediate progress on that front or another major American war.

China's economic relations with the West and Japan

Much of the CCP's activity in 1961–62 had been directed towards achieving the 're-adjustment' that was necessary following recognition that the 'Great Leap Forward' of 1958–59 had been a disastrous failure and that famine had spread throughout the countryside from 1958–62. Economic and ideological issues were dominant, and two themes stand out. Some observers might regard them as mutually incompatible, but in practice what seems to have emerged by the autumn of 1963 was a policy equilibrium embracing both objectives.

On the ideological front, the 'line' for a new revolutionary phase had been set by Mao's call at the CCP Central Committee's 10th Plenum of September 1962: 'never forget class struggle'. This was elaborated on in 1963 to form the basis of a socialist education movement in the countryside, and was seen as the key to motivating the masses in both agriculture and industry: there was to be no return to the tax incentives 'line' associated with Minister of Finance Bo Yibo in 1953.

On the industrial and technological front, however, class struggle need not interfere with 'economic work'. In December 1962 the Party had begun to formulate a ten-year plan for the national economy (1963–72) whose main focus was industrial development. To some extent this might be achieved through self-reliance, in accordance with principles adopted after the cancellation of many Soviet aid projects in 1960. An important example was the creation of an oil industry at Daqing (in North-Eastern China), capable of meeting many of China's own needs; but even in that field, more highly refined petroleum products would still need to be imported. In many spheres, China's capacity to develop its own industries would depend on an expansion of trade with non-Communist countries, and the import of advanced technology.

Trade did not necessarily require diplomatic recognition. The growing trade between China and Japan at this time took place largely within the framework of an 'unofficial' memorandum signed by the PRC's top Japan specialist, Liao Chengzhi and private businessman, LDP Diet member and former MITI Minister Takasaki Tatsunosuke on 9 November 1962. Among the PRC's West

European trading partners (other than Britain) only France decided to couple trade negotiations with diplomatic recognition towards the end of 1963.

Four aspects of China's interest in foreign trade during 1961–63 were crucial to the country's recovery and development plans:

- 1 substantial purchases of grain from Canada, Australia, France and Argentina, were required to help feed industrial workers in the cities, ease the burden on stocks in the rural areas, reverse the famine of 1958–62 and restore demographic equilibrium;
- 2 the importation of chemical fertilisers to allow increased productivity in China's own agriculture; and eventually the purchase of industrial plants to enable China to produce its own fertiliser;
- 3 the import of steel, possibly in direct exchange for China's iron ore and coal (which would have special value for Japan). Purchases of foreign steel production equipment and technology were key to Chinese efforts to expand their steel industry, which in turn would enable them to build more efficient equipment and plants – especially those to produce chemical fertiliser and petroleum products; and
- 4 the import of equipment and technology to produce artificial fibres, for textiles, in conjunction with the development of a petrochemical industry. Increased domestic synthetic textiles production would reduce the burden on agriculture while enabling the Chinese to earn more currency abroad by increasing textile exports.

Moves had been made in all four directions by the latter part of 1963, in some cases taking advantage of Western and Japanese surplus production, especially grain and chemical fertiliser. But sustained expansion along these lines depended on the willingness of governments and banks to provide credit facilities. The six to eighteen month credits required for grain purchases were made available beginning in spring 1961. The purchase of complete industrial plants, however, required five-year credits and government export guarantees from the producing country. By late 1963 it was clear that many of America's allies, while willing to continue a cooperative ban on exports of strategic military technology to China, were opposed to the US objective of a total embargo designed to impede peaceful economic development. The Americans appear to have given up hope of imposing their own point of view on the Europeans, the Canadians, or Australians. Even some American corporations were by now eager to join in the China trade on their own account; but the pro-Taiwan lobby was too strong for the government to authorise the necessary licenses.

Japan was the one country whose expanding trade with the PRC might be held back to some extent through pressure from Taiwan, if not from the US itself. Taiwan's trade with Japan was much greater than that of the PRC, and there were long-standing business ties between Tokyo and Taipei. Sino-Japanese trade would continue to flourish during 1964–65; but the Japanese government was dissuaded from providing its own credit guarantees for the

most ambitious transactions. The Americans were determined to prevent a return to the kind of economic interdependence between China and Japan which had been central to the strategy of the Great East Asia Co-prosperity sphere in the 1940s. They preferred to see Japan focus its attention on economic cooperation with non-Communist South-East Asia.²¹

US policy towards China

Perhaps the most fundamental issue for the US in Asia in late 1963 was that of policy towards the PRC. Kennedy and Johnson alike were subject to the same conflicting pressures which had evolved over the past decade: on the one hand, awareness of the continued strength of the 'China lobby' in Congress, whose aim was to ensure that Chiang Kai-shek's ROC government on Taiwan be regarded as the only legitimate government of China – while the 'mainland' was treated as a rebel area which might one day be recovered; on the other, the need for the US to prevent its commitment to defend Taiwan from escalating into another actual war against the PRC.

Efforts to prevent conflict with China from getting out of hand had led to periodic meetings, since 1958, between the PRC and US ambassadors in the Polish capital, Warsaw. The last two such meetings before Kennedy's death had been held on 11 September and 14 November 1963. One of the subjects discussed was disarmament, but there was no indication that the Chinese contemplated signing the partial test ban treaty. On 29 October, PRC Foreign Minister Chen Yi was reported as reiterating China's determination to produce its own nuclear weapons: their first successful atomic bomb test took place a year later, in October 1964. Another topic was the American proposal for an exchange of journalists, as a small step towards easing tension: the Chinese response was to insist that such moves could only follow a resolution of the Taiwan problem and the US recognition of the PRC. The tone of these exchanges was nevertheless relatively mild, and on 14 November Kennedy remarked at a press conference that he was 'not wedded to a policy of hostility' towards China. A month later (on 13 December 1963) Hilsman defined current US policy towards Beijing in a speech in San Francisco, which again reflected continuity rather than change: Washington would 'keep the door open to the possibility of change' on the Chinese side.²²

What was missing at this juncture was any sign of a deliberate change in American policy on the scale that would eventually occur during the Nixon presidency seven years later. The State Department, especially Assistant Secretary of State for Far Eastern Affairs Averell Harriman, was ready for some measure of detente in US relations with the Soviet Union; but it rejected any parallel moves towards China. It might be argued that the US itself missed an important opportunity at this point; that a deliberate effort to improve relations with Beijing was the one move which might have averted a further escalation of tension in South-East Asia. But there is no evidence that Kennedy had contemplated such a fundamental change; Johnson certainly did not do so. There is, of

course, nothing to indicate that Mao was ready for such an easing of tensions at this stage; nor that it would have been possible without damaging the position of Taiwan.

On the other hand, as we saw earlier, the PRC's relations with other Western countries and with Japan were improving during 1963 – at least in the economic sphere. This was especially striking in the case of France: the visit of a French industrial delegation to Beijing (28 September–3 October 1963) proved to be the first step in a sequence which would culminate in French recognition of the PRC in late January 1964. Rather than seeking to benefit from this 'breakthrough', Washington expressed strong disapproval; and de Gaulle subsequently cancelled a state visit he had been due to pay to the US in February.

The US and Japan

The actual strategy pursued by the US under both Kennedy and Johnson was that of continuing to build up the economic strength and political stability of Japan, as a counterweight to the PRC. A key element in that policy was to ensure as much coordination as possible between the American and Japanese economies. To that end a Joint US–Japan Committee on Trade and Economic Affairs had been created, which had held two previous meetings in November 1961 and December 1962. Its third meeting had had to be postponed in late November 1963, but finally took place in Tokyo on 27–28 January 1964. It was attended on the US side by Secretary of State Rusk and some of his cabinet colleagues, and by their Japanese counterparts.²³

The Japanese economic 'miracle' (a term first used in the early 1960s) had taken place within the bureaucratic and banking framework that had begun to emerge by 1953, and had depended on various special favours and restrictions allowed to Japan within the rules of the IMF and the GATT. In July 1963 it was agreed that Japan would also be admitted to the Organisation for Economic Cooperation and Development (OECD) the following April; again on special terms. For their part the Japanese wanted to preserve existing structures for prioritising investments, based on the roles of the Minister of Finance, of MITI, and of a controlled banking system. Above all, they wanted to avoid Japanese industry becoming dependent on foreign investment in the form of equity holdings, and on the opening up of Japan's own stock market. By now, however, the Americans and Europeans were anxious to see an 'opening up' of the Japanese system: for example, since 1960 Japan had been obligated to accept a steady liberalisation of its trade policies.²⁴

It was a central feature of Japan's economic strategy that growth must be based on industrial exports, on a scale sufficient to overcome the balance of payments difficulties experienced in the mid-1950s, and again in 1961. For that purpose, the bureaucracy had promoted a vigorous expansion of chemical and other heavy industries since the late 1950s. But continued growth required both access to markets and to sources of raw materials outside Japan; as well as the ability to raise foreign capital.²⁵

In 1963 Japan increased (to 15 per cent) the permitted extent of foreign ownership of equity in Japanese companies; but repatriation of profits was still difficult. Some Japanese companies – Honda led the way – were able to seek a listing on foreign stock exchanges; but in July 1963 that approach was adversely affected by US legislation designed to discourage American ownership of foreign shares. Japanese and US companies could establish joint ventures in certain fields: e.g. oil refining. In principle the Japanese still preferred to raise capital through bank-lending. A possible solution to their problem began to emerge in December 1963, when Canon Corporation became the first of many Japanese companies and government bodies to raise capital through the issue of Eurobonds in the London market.²⁶

It was against this background that Japan was determined to expand its trade with other areas of the industrial world and also with other Asian countries, including the PRC as well as Taiwan and South-East Asia. A coherent pattern was beginning to emerge by late 1963, which would enable Japan to establish its place in an American-dominated world system – without having to submit completely to the US desire to reshape Japan in its own image.

Japan and South-East Asia

In a conversation of 25 November 1963 with Prime Minister Ikeda, President Johnson urged Japan to play a greater role in providing aid to South-East Asian countries – adding that it might help to ensure passage of the president's aid bill currently before Congress. Johnson also encouraged both Ikeda and president-elect Park Chung Hee to work for rapid normalisation of Japanese–Korean relations.²⁷ Japan's ability to contemplate a larger regional role was based on its own economic success over the preceding decade. Its diplomatic stature was increasing: Ikeda himself had attempted to resolve the Malaysia conflict two months before.

The reparations programme, which had begun to take shape in 1953, had by now borne fruit. Agreements, involving a total of \$1.9 billion in grants and low interest loans, had been reached with Burma in 1954 (revised in 1963), the Philippines in 1956, Indonesia in 1958 and South Vietnam in 1959. Japan, also in 1962, reached an accord with Thailand on the settlement of claims arising from Second World War financial transactions. Much of the resulting trade and investment related to the production of resources needed by Japanese industry. In addition, the Japanese were able to revive their old interest in importing Indonesian oil, both from the major producers there and also through their own investment in North Sumatra Oil Development Company (from 1960). Also, a Japanese oil refinery was built in Singapore in the early 1960s.²⁸

Many of the individual Japanese involved in reviving this economic relationship were veterans of the Second World War: some had been military or naval officers in South-East Asia; others had experience of economic development in Manchuria and North China. But in view of continuing suspicion of Japan among many Asian nationalists, they were discreet in reviving their network of

relationships. They were 'rightists' in their opposition to Communist mass organisations, especially in Indonesia; but they were not necessarily committed to a pro-American strategy of keeping the PRC itself at arm's length. In 1957–58, some Japanese had supported the Sumatra-based revolt against Sukarno; others had helped Sukarno to survive and were ready to cooperate with him.

At this stage, however, the Japanese economic role in South-East Asia was by no means dominant. American investments, already important in the Philippines, were beginning to expand in the other parts of the region. An indicator of growing US interest in trade and investments was the expansion of American banking in South-East Asia: Chase Manhattan opened branches in Hong Kong, Singapore and Thailand in 1963, and in Kuala Lumpur in 1964.²⁹

Britain, too, still had important business interests in Malaya, Thailand and Indonesia, although the region's dollar-earning contribution to the sterling area balance of payments was less vital than it had been ten years earlier. British banks and insurance companies also continued to operate profitably.³⁰

The place of South-East Asia in the wider global economy was nevertheless still seen in terms of its post-colonial role as a source of primary produce for industrialised economies: industrial crops such as rubber, palm oil and abaca; rice, sugar and other food crops; oil and other minerals. There was no expectation of substantial industrialisation, beyond the processing of primary products and a limited level of import-substitution; and dependence on Western and Japanese aid was often taken for granted. The prevailing tendency among Western scholars was to look for 'cultural' explanations of the region's historical 'failure' to develop economically.

These assumptions were important in relation to America's definition of its own security role. Whereas, in relation to Europe and Japan, there was a recognition of something like equality in the conduct of diplomatic and military affairs, in relation to South-East Asia the Americans saw only a profound inequality. This was a region which – for the foreseeable future – would always need US military assistance; probably extending, in a crisis, to the direct involvement of American armed forces.

Vietnam decisions

It would be a mistake to regard the decisions taken in late 1963 and early 1964, either in Hanoi or in Washington and Saigon, as leading irrevocably to full-scale US military involvement in Vietnam. There was, however, a noticeable change of mood on the American side at that time. Around 7 December 1963 reports reached Washington that the security situation in the Mekong Delta was much less favourable than the previous information had suggested; and on 21 December, after another visit to Saigon, McNamara recognised that the Communists had made considerable gains in the countryside since the coup of 1 November; and that the replacement of many pro-Diem officials at the local level had further disrupted the 'pacification' programme in the villages.³¹ The deteriorat-

ing situation probably gave rise to tensions within the American bureaucracy; between the American CIA, which had been responsible for much of the counterinsurgency programme since 1961, and the US Army, Navy and Air Force who were becoming impatient for more conventional military involvement. A memorandum from the JCS to McNamara on 22 January 1964 called for putting aside 'self-imposed restraints' and giving more authority to MACV. Soon afterwards, on 27 January, US General William Westmoreland took over as deputy Commander of US MACV; eventually succeeding as commander the following June. The conflict was gathering momentum.³²

It was impossible to predict at this stage the actual course of events which would unfold between late 1964 and mid-1965, leading to the deployment of several hundred thousand US ground troops and an American 'big unit' war in South Vietnam; together with a major bombing campaign by the US Navy and Air Force against targets in North Vietnam and along the 'Ho Chi Minh Trail' in Southern Laos.³³ The possibility of such an eventual escalation nevertheless reflected trends in American military thinking which had been taking shape during the years 1960–63; and which marked a significant change from the thinking that had governed Eisenhower's strategy ten years before. Two aspects of that thinking deserve attention at this point – both relevant to the underlying problem of achieving effective projection of US military power in Asia, without resort to nuclear weapons.

- 1 Flexible response: Since 1960 the idea had been growing that 'massive retaliation' was a feasible response only in extreme circumstances, involving direct confrontation between the US and the USSR; and fears of 'mutually assured destruction' would inhibit both superpowers from actually using their massive nuclear arsenals. This trend had been reinforced by the experience of the Cuba Missiles Crisis of October–November 1962. The US therefore needed to develop a wider range of capabilities, appropriate to different levels of engagement – including the capability for 'limited' warfare using conventional firepower and ever more effective conventional weapons; but also including a 'counter-insurgency' capability to meet the threat of 'revolutionary guerrilla warfare' against US allies, especially in Asia and Latin America. (Concern about Africa would grow during 1964.) During 1961–63, Vietnam had become a 'test case' for counterinsurgency doctrine.³⁴
- 2 Escalation: Alongside this trend in the sphere of actual military preparedness, American strategic thinking was influenced by the political science concept of game theory: including the notion of a gradual escalation from one level of engagement to another, punctuated by a sequence of 'signals' exchanged between 'two sides'. US decision-makers were encouraged to think in terms of imaginary 'scenarios' which might be applied to possible and even actual conflicts. Such thinking was far removed from the 'total war' of 1943, where the only aim was to achieve unconditional surrender of the enemy in the shortest possible time using all available military means.

The change was in one sense a response to the greater complexity of the world in 1963; but it also involved a paradox: the US felt itself on the defensive in places like Vietnam, yet at the same time its leaders still felt confident that their own military power would ultimately prevail. That confidence allowed the illusion that US decision-makers could keep control over the escalation of a conflict from one stage to the next, and that each move up the 'ladder' was a matter of American choice.

In mounting that ladder, the 'nuclear threshold' was seen as the moment of truth – to be avoided if at all possible. There was never any question of Indochina being important enough to justify using nuclear weapons. But an escalation from 'special' to 'limited' war involved fewer inhibitions, and the conventional military commanders – always suspicious of special operations – had a natural inclination to move to limited war as soon as possible. What was most significantly absent from US military thinking in response to the Vietnam crisis, during 1963–65, was any attempt to devise an intermediary stage between counterinsurgency (seen as experimental) and the application of existing firepower by existing American units – on the basis of experience drawn from previous wars.³⁵ The one exception, already under consideration by late 1963, was an effort by one group within the US army to develop the concept of 'airmobile' warfare; but it was not given high priority.³⁶

Here too the US military had an underlying sense of confidence that if the war in Vietnam did escalate into a limited war their own firepower would prevail. There was no fear that the commitment to Vietnam might become too great for the system as a whole to bear, or that the president might ultimately face the need to place the whole country on an *un*-limited war footing in order to handle the threat of simultaneously escalating crises in Vietnam, Korea, Berlin and Cuba. But this led to another paradox: on the one hand, the generals were willing, even eager, to concentrate more and more resources on this one conflict in order to demonstrate the credibility of the system as a whole; on the other hand, if that meant drawing down on resources originally allocated to other areas of the world. The latter would also become vulnerable in their turn. The problem would not actually be faced until 1967–68, but the failure to anticipate it was a failure of 1963–64.

The US and the security of the 'free world'

In the pursuit of global security based on a strategy of containment, there was an essential continuity between the situation of 1953 and that existing a decade later. NATO remained the framework of European defence; in the Middle East the commitment to Israel was as strong as ever, and the US also had bilateral treaties with Turkey and Iran. In Asia and the Pacific, the US still had bilateral treaties with Japan (renewed in 1960), South Korea, Taiwan, the Philippines, Australia and New Zealand. SEATO still existed, with an accumulation of contingency planning for action in mainland South-East Asia; but it had failed to

attract new members – even Malaysia declined to join, independently of Britain – while France and Pakistan were no longer very active participants. SEATO had been called on in May 1962 to meet a crisis in northern Thailand arising from continued fighting in Laos; but already in March 1962, in a joint statement by Rusk and the Thai Foreign Minister Thanat Khoman, the US had quietly reaffirmed its commitment to the defence of Thailand.³⁷ The American ability to sustain all these commitments depended on the maintenance of military, naval and air bases in Japan and Okinawa, on the island of Guam, and at Subic Bay and Clark Field in the Philippines.

There was a danger, however, that this vast and increasingly expensive US global security system carried with it a principle of credibility that might one day prove difficult to sustain. It was a strategic assumption that the total system was only as strong as its weakest link, which by late 1963 was turning out to be in South Vietnam, Laos and Thailand. Much of the force of the JCS argument in favour of more vigorous action there derived not just from the 'domino theory' in relation to South-East Asia but from the principle of global 'credibility'.³⁸ It was no doubt unrealistic, in one sense, to regard the strength of the US commitment to NATO or to Israel, or even to Japan, as dependent on the outcome of events in Indochina; but in principle all commitments were equal. The projection of US power depended on all commitments, once entered into, being sustained.

Underlying this principle, however, there was also room for debate within the US itself about the essential purpose of such wide-ranging commitments. It reflected, perhaps, a fundamental contradiction which had not been fully addressed ten years before but which would gain increasing importance by 1967–68. On the one hand, with the onset of the 'Cold War' from around 1947, 'national security' policy had been based on the notion that the most important interest of the US was the maintenance of a global defence system which in turn could protect the US-led 'free world' economy. On the other hand, much of American academic thinking was based on a 'national' perspective – in terms of both the national politics of individual states and their inter-national relations. In that context, the US itself was merely a 'big power', theoretically similar to all other national states. Its policy should be based on pursuit of its own 'national interests', not on playing the role of 'global policeman'; and its interests in other parts of the world should be identified in terms of the value of individual nations to American security. On that basis, it was possible to ask what US national interests were served by its commitment to South Vietnam: only half a nation, locked in civil war, where the US had neither vital military bases nor important economic investments. Once battle was joined between these conflicting points of view, the onus would be on the globalists to demonstrate the importance of Vietnam to the 'free world' as a whole. The issue would be rendered all the more acute by the changing economic relationship between the US and the rest of the world, as it witnessed the decline of the overwhelming financial superiority it had enjoyed in the 1940s.

The US and global financial and monetary problems

The year 1963 was also important in the evolution of US thinking about its own economic problems, and about the changing needs of the global monetary system which had been put in place after 1945. Three themes can be explored in this context.

First, American concern about its own continuing balance of payments deficit, which was probably one factor in the (already noted) reluctance of Congress to approve the level of foreign aid requested by the administration for 1964. More broadly, the problem had been explored by a Brookings Institution publication, the Salant report, published early in 1963. Looking ahead to 1968, that report was optimistic about the longer-term trend; but early measures were necessary to counter the immediate deficit. Unlike Japan, the US did not have a trade deficit: its problems arose from the capital account, the official reserves account, and also from the heavy overseas expenditures by the US military. Nevertheless, by mid-1963 the American Treasury had to contemplate seeking a standby credit of \$500 million from the IMF.

On 18 July 1963 Kennedy outlined a systematic balance of payments programme in a message to Congress, including an exchange equalisation tax designed to discourage US investors from holding foreign bonds and equity. This latter measure was resented by some Europeans, and also by the Japanese, especially when they found it was not being applied to Canada. Indirectly, however, it proved a blessing to the London financial market.³⁹ One way round the new legislation was for foreign borrowers to turn to 'Eurodollars': US dollars deposited in London banks by recipients who did not wish to return them immediately to the US. They could be used for 'Eurobond' lending, arranged and guaranteed by London bank syndicates. This market had originated around 1957-58 but was still on a small scale: an important turning-point in its expansion was the bond issue arranged by S.G. Warburg on behalf of the Italian Autostrada Authority in July 1963. As we have seen, by December 1963 the Japanese themselves began to find this a convenient way of raising foreign capital.

Second, the Bretton Woods structure of international payments was by this time coming under increasing strain, partly as a result of economic growth in other parts of the world, especially in Western Europe and Japan, which it had originally been designed to promote. The problem was fundamentally one of liquidity, in a system that had initially depended on apparently inexhaustible gold reserves in Fort Knox. By the early 1960s, the volume of international trade had expanded to the point where the gold reserves might one day not be equal to the obligation of the US Federal Reserve system to buy dollars held by foreign central banks at the fixed rate of US\$35 per troy ounce of gold. The actual quantity of gold reserves had fallen as a result of meeting those obligations throughout the 1950s; more seriously, the time would eventually come when there were more dollars outside America than the value of the remaining US gold reserves.

Various measures were adopted to meet this problem: the creation, in 1961, of a 'Gold Pool' of leading central banks ready to intervene in the gold market to ensure the price remained stable at US\$35; the establishment, in 1962, of a 'General Agreement to Borrow' among the central banks of the richest countries in the IMF – the 'group of ten'; and the issuing, in 1963, of US bonds – named after the Treasury Assistant Secretary Robert Roosa – designed to make it attractive for foreign banks to hold onto dollars rather than to cash them immediately for gold. But it was clear that eventually a more comprehensive solution to the problem would need to be found on the basis of international negotiations within the IMF.⁴⁰

At the annual IMF meeting of 30 September–3 October 1963, it was agreed that the deputy finance ministers of the 'group of ten' would undertake a systematic review of the way the existing system was working, and of ways to solve the problem of its future liquidity. Compared with the Washington meetings of exactly 20 years before, however, the US – even with UK support – no longer had the same overwhelming power to impose its views on the rest of the non-Communist world. The French, in particular, were critical of the lack of 'reciprocity' in the Bretton Woods system: they proposed the creation of a new 'collective reserve unit' entirely outside the IMF – which proved to be a first step towards de Gaulle's subsequent demand for the price of gold to be revalued, and for the world to return to the gold standard which had been abandoned in the 1930s. The French were not powerful enough to get their own way; but the proposed review would need to take account of their views and those of other members of the European Economic Community (EEC). (Britain's recent application to join the EEC had been vetoed by de Gaulle.) The IMF group reported in June 1964, but it would take time to achieve agreed changes to the system.⁴¹

Third, the Americans were concerned that despite the continuing growth of their economy, there was still an under-utilisation of resources – especially under-employment of labour. This problem too was being addressed by late 1963, when Congress was asked to consider a bill to reduce taxes as a means to increasing consumer demand.⁴² This made sense in an economy which had the highest per capita GNP in the world. But the end result might be eventual 'over-heating' of the US economy, and an expansion of domestic demand which could only be met by higher expenditure on imports. Such measures did not provide the best possible foundation for the additional government expenditure that would be required in the event of a war. As things would turn out, by 1967–68 the Johnson administration – faced with a mounting budget deficit and Congressional refusal to reverse the tax reduction – had to make an agonising choice between defending the dollar through international monetary reform, or going all out to win the war.

Comparing 1963 with 1943, it is clear from the above analysis that the level of coherence which had unified military, financial and all other operations at the height of the Second World War – on both the Allied and Japanese sides – could not be sustained in the context of the 'Cold War'. Both Communist and Western leaders were 'long on rhetoric'. But the operational activities of each 'side' were

diverse, and sometimes mutually contradictory. In particular, the US was pursuing military and financial strategies which – although they seemed mutually supportive at the level of rhetoric – would prove ultimately incompatible in practice. The unfolding events in Vietnam would demonstrate that even the super-powerful US must, sooner or later, accept what Henry Kissinger called 'the necessity for choice'.

Part III

**Asian–Pacific dimensions
of triangular diplomacy
and global finance**

1973–83

5 Nixon's new strategy

The US, China and the future of South-East Asia, November 1973

By the end of the 1960s the world which had been constructed in the postwar period was coming apart . . .

. . . [America had] lost . . . [its] margin of superiority in resources . . . a great deal more now depends on our assessments than in the past . . .

. . . many of the assumptions that Americans have made about the conduct of foreign policy . . . came up for reevaluation in the late 1960s.

US Secretary of State Henry Kissinger to the afternoon session of the East Asia Chiefs of Mission Conference, Tokyo, 15 November 1973

The projected work pace for all of Asian Pacific could . . . be woefully conservative, depending on how long it takes to settle the war against the communists in Vietnam. If and when the US wins its objectives there, oil exploration conceivably could . . . turn that part of the world into another South Louisiana-Texas-type producing area. This would be one of the biggest booms in the industry's history. It all depends on the Vietnam war, how long it takes to get the job done and how well the job is done.

Petroleum Engineer, 7 June 1970 issue

Along with its prolongation of the war of aggression in South Vietnam the US administration has intensively pushed ahead its oil exploration in the South Vietnam sea area. In service of this program, the Saigon puppet administration has surrendered vast areas of South Vietnam territorial waters to US oil corporations.

Recently, the Thieu/Ky/Khiem administration made public the so-called '001/70 Law' defining the regulations for oil exploration and exploitation in South Vietnam and is preparing to 'auction' to US firms the oil exploration and exploitation in South Vietnam. This is nothing but an act to legalise the Nixon administration's criminal policy of plundering oil resources in South Vietnam and to step up the carrying out of US neo-colonialism.

Excerpt from statement issued by the pro-Hanoi Provisional Revolutionary Government of South Vietnam, 24 February 1971

[The US does not] . . . want to commit massive American investments in the Soviet Union. Our strategy up to now has been to do enough to give the promise of future investments, but not so much as to make a strategic difference in their situation.

US Secretary of State Henry Kissinger to Zhou Enlai during talks in Beijing, 10–14 November 1973

Kissinger in Beijing

Between 10 and 14 November 1973, Henry Kissinger was in Beijing for talks with Zhou Enlai and Mao Zedong: his sixth visit there since July 1971; but his first as Secretary of State, after taking up that post in mid-September 1973 (having been Nixon's Special Assistant for National Security Affairs until then). His secret visit of 10 July 1971 – followed by the UN vote to transfer the 'China' seat from the ROC to the PRC, and then by Nixon's state visit to Beijing and the Shanghai Communiqué of 28 February 1972 – had amounted to a 'diplomatic revolution' both in the East Asian region and globally. The purpose of this latest visit was to consolidate a relationship which Nixon regarded as essential to the emerging 'structure of peace'.¹

US–Soviet relations

In the global perspective the 1971 visit had initiated a period of 'triangular' diplomacy, arising from Nixon's strategy of pursuing detente with each of the major Communist powers separately.² The 'rapprochement' with China was thus balanced by improved relations with the USSR, leading to summit meetings between Nixon and the Soviet Leader Leonid Brezhnev in May 1972, in Moscow, and June 1973, in Washington and San Clemente. The Moscow Summit saw the signing of a Strategic Arms Limitation Treaty (SALT-I), which imposed a ceiling on the deployment of new strategic missiles and also restrictions on the development of anti-ballistic missile defence systems. A year later, that was followed by a largely symbolic Agreement on the Prevention of Nuclear War. Also important was progress towards settling financial issues left unresolved at the end of the Second World War; particularly an accounting for the US–Soviet Lend Lease programme, which was agreed upon in principle in October 1972. The Moscow Summit also opened the way to an increase in trade between the two countries, including the purchase of large quantities of American wheat by the USSR in the summer of 1972 – allowing the Russians to cope with the consequences of a disastrous harvest failure that year. There were nevertheless limitations to progress in that sphere: from October 1972, Congressional 'hardliners', led by Democratic Senator Henry Jackson sought to link the granting of Most Favoured Nation (MFN) status for the USSR to the issue of free emigration from the USSR, especially of Jews who wished to move to Israel. By autumn 1973, an impasse had developed on that front.

In some respects it appeared that, by mid-1973, the trend which seemed to be emerging ten years earlier, under Kennedy and Khrushchev, was being resumed. Even so, while emphasis was placed by Nixon and Brezhnev on achieving greater global stability, 'detente' did not bring an end to all Cold War rivalry and tensions between the superpowers. Nor did it prevent the US from embarking on a new stage of modernisation of its strategic weapons, including development of the Trident submarine, the B-1 bomber, and missiles armed with

multiple nuclear warheads – Multiple Independently Targetable Re-entry Vehicles (MIRVs).³

Superpower tension continued in such vital areas as South Asia and the Middle East. In the former region, Sino-US 'rapprochement' had led to closer relations between the USSR and India: a fullscale Treaty of Friendship in August 1971, and Soviet support for India in the Bangladesh War of December of that year. The US had responded by 'tilting' towards Pakistan, which was by then a firm ally of Beijing. In the second half of November 1973, Brezhnev paid another visit to Delhi for talks on further expansion of Indo-Soviet economic and military cooperation.

More recently, tensions had re-surfaced during the fourth Arab-Israeli war (6–26 October 1973). Kissinger's visit to China had originally been planned for 24 October but had been postponed because of the war. The US had had no choice but to support its own ally Israel against Soviet-armed Egyptian and Syrian forces (with consequences for oil supplies which will be explored later). A ceasefire was eventually negotiated, as much by Kissinger in Moscow as by the parties themselves at the UN. But at that point the USSR had attempted to exploit the situation further by sending its own forces to the area and inviting the Americans to help 'supervise' the ceasefire. Washington responded with a fullscale nuclear alert (24–25 October), forcing the Russians to back down.⁴

US–China relations

Nixon and Kissinger were determined to avoid creating a superpower 'global condominium', which might appear to be directed against China. Kissinger's visit to Beijing in November 1973 was designed to reassure the Chinese leaders on that score, while emphasising the 'Soviet threat' to China's own security. A series of military clashes in Xinjiang and Heilongjiang in spring 1969 had been followed by a buildup of Soviet forces along much of their common border. Soon after arriving in China on 10 November, Kissinger proposed to Zhou Enlai and Marshal Ye Jianying the establishment of a communication 'hotline' which would allow Washington to transmit to Beijing 'early warning' information derived from American satellites, in the event of Soviet troop movements that might precede a military attack on China. Even though the Chinese failed to take up the offer, it registered a further stage in the growth of American goodwill towards the PRC.

Kissinger also promised Mao that the tough American stand against Moscow in the Middle East would be sustained. In a separate talk with Zhou, he indicated that US trade and investment relations with the USSR would not be allowed to reach the point of substantially strengthening Soviet strategic capabilities.

Mao and Zhou might have been more impressed, however, by an offer of full diplomatic relations – accompanied by the end of formal US relations with the ROC on Taiwan. That move was still not contemplated in Washington. As if to emphasise the point, while Kissinger was still in Beijing a US Navy cruiser sailed through the Taiwan Straits, close to the mainland coast. Kissinger,

perhaps in genuine ignorance, disclaimed all knowledge of the move and duly apologised to Zhou Enlai.⁵

Sino–Japanese relations

The key to US strategy in non-Communist Asia lay, as always, in its security commitment to Japan. The initial visits of Kissinger and then Nixon to China in 1971–72 had come as a shock to the Japanese government, headed since 1964 by Sato Eisaku who was regarded as ‘pro-Western’ as well as a staunch ally of Taiwan. (His natural brother, adopted into a different family, was Kishi Nobusuke, prime minister from 1957 to 1961, and subsequently a leading figure in the Committee for Cooperation between Japan and the ROC.) For a short period following the expulsion of the Taiwan government from the UN in October 1971, it had seemed as though the Japanese might support a declaration of Taiwanese independence; but Chiang Kai-shek himself had intervened to reaffirm the ‘one China’ principle and had been re-elected president of the ROC for yet another term in March 1972. His son, Chiang Ching-kuo, by now in charge of day-to-day government in Taiwan, followed the same line.⁶

In Japan itself the influence of the pro-Taiwan lobby began to lose ground to a political and business group which had been cultivating the PRC connection since the early 1960s, notably business executive, LDP politician, and former Foreign Minister Fujiyama Aiichiro. By June 1972 a change in Japanese policy towards Beijing had become inevitable. Sato resigned as premier, and his successor, Tanaka Kakuei, visited Beijing from 25–29 September. A joint statement by Tanaka and Zhou Enlai recorded the normalisation of diplomatic relations between Japan and the PRC, and a complete end to Japan’s formal relations with Chiang Kai-shek.

The Japanese reaffirmed their acceptance of the Cairo Declaration of 1943, which had stated that Taiwan was part of China. On the other hand, the Chinese side accepted the continuation of Japan’s obligations under the San Francisco Treaty of 1951; and under the US–Japan Security Treaty, which could now be seen as directed against the expansion of Soviet power.⁷

It was less certain, however, that Tokyo would succeed in following the American example by simultaneously improving relations with Beijing and Moscow. Stalin’s failure to sign the San Francisco treaty meant that the USSR and Japan were still technically at war; and more recent progress towards a peace treaty had been virtually blocked by Japan’s refusal to accept continued Soviet occupation of four northern islands seized in the last days of the Second World War. The first response of Moscow to the Tanaka–Zhou Enlai statement of 29 September 1972 was one of displeasure; when Foreign Minister Ohira Masayoshi visited Moscow a month later Brezhnev refused to meet him. Against this, however, the Soviet leaders had to weigh the possibility of attracting Japanese capital to develop oilfields and other mineral resources in Siberia; which in turn would help to make Japan less dependent on raw materials controlled by America and on US naval protection of Japan’s long distance trade by sea.

Soviet interest in Siberian investments was revived during Tanaka's visit to Moscow in October 1973. But by then the Japanese were seeking to involve US companies in some Siberian projects: an idea which the Chinese welcomed during Kissinger's November visit. Neither Washington nor Beijing wished Japan to move towards greater economic dependence on the USSR.⁸ It was in the Chinese interest, at this point, to see Japan remain in the American orbit.

China's internal politics in 1972–73

It was difficult for the Americans to know how far the new 'opening up' of China might still be vulnerable to possible changes in the internal politics of Beijing, a sphere which continued to be shaped to a large extent by issues of revolutionary ideology that were barely comprehensible to Western political scientists. For 18 months following the ouster of the 'Lin Biao clique' in the autumn of 1971, Zhou Enlai's influence had been especially great; but by mid-1973 he was again losing some ground to the surviving radical group, known as the 'gang of four', which was probably led by Politburo member Kang Sheng and had begun to receive fresh encouragement from Mao Zedong. First, Mao undermined Vice-Premier Zhou's campaign to denounce PLA Leader Marshal Lin Biao for his 'ultra-left' line by declaring that Lin was really 'ultra-right'. Then from July to August 1973, Mao permitted the radicals to launch their own campaign to criticise Confucius and Lin Biao simultaneously. Although Zhou emerged as the most prominent leader, after Mao, at the CCP's Tenth National Congress (24–28 August), he had to share the limelight with the young Shanghai radical Wang Hongwen – whom Mao would later proclaim his 'successor'. By November, when Zhou was meeting with Kissinger, he was already in danger of becoming a target of the anti-Confucian campaign. It seems likely, however, that Mao – rather than intending to purge Zhou altogether – was seeking to play the factions off against one another in order to prevent any one group or individual becoming too powerful.

It may have been in the same spirit that Mao decided early in 1973 to rehabilitate Deng Xiaoping, who had been a victim of the Cultural revolution and had spent the past five or six years in obscurity. Deng became deputy premier in March, and on 12 April reappeared in public at a banquet for Sihanouk. By December he was also given responsibilities in the CCP military commission, and played a key role in moving the PLA generals who commanded the principal military regions around the country. Early in 1974, as Zhou was being subjected to 'criticism', Deng was also put in charge of China's day-to-day foreign relations. In this way, without allowing Deng to become too secure in his new role, Mao kept the balance between modernisers and radicals.⁹ The situation, in this respect at least, was comparable to that of ten years before. But now, given the American rapprochement with Beijing, still well short of full recognition of the PRC, there might be far greater opportunity for modernisation on the basis of trade with the West and Japan.

In that respect, the American mood in 1973 was very different from that of

ten years before: except in the sphere of defence-related technology, the US was no longer seeking to restrain its allies from trading with China. On the contrary, the Americans were now eager to participate in it themselves and were already arranging to sell wheat to China, as well as complete plants for the manufacture of chemical fertiliser. They no longer had any reason to object when the French President Georges Pompidou visited Beijing in September 1973, smoothing the way for a French-led European consortium to negotiate the construction of a \$300 million petrochemical complex in China. Meanwhile the Tanaka visit of September 1972 had opened the way to a fresh expansion of Sino-Japanese trade, unhindered by any obstacles to Japanese government guarantees of finance for the sale of complete industrial plants to the PRC. As a first step Nakasone Yasuhiro, Minister for international trade and industry (MITI), visited Beijing in January 1973. Several major contracts followed during the year, and a three-year trade agreement was initialed in December 1973.¹⁰ Trends which had been interrupted during the period of the Vietnam War and the Cultural Revolution could now be resumed, with positive US approval. It remained to be seen how far and how quickly this would change the wider pattern of economic and commercial relations in the East Asian region as a whole.

The conflict in Vietnam

'Triangular' diplomacy had also provided a framework for the negotiations which led to the Paris Agreement of January 1973 and the end of direct military involvement in Vietnam.

The relatively low-intensity conflict of ten years before had by 1967–68 'escalated' beyond either side's worst expectations. But the deployment of over 500,000 US troops in South Vietnam and a US bombing campaign against North Vietnam had failed to prevent a virtual stalemate. The reasons for this failure of American military might were complex; but in the least part, they were military rather than political. The Pentagon, and particularly the JCS, had been too inclined to sweep aside the 'counterinsurgency' doctrine of the Kennedy years, and to adopt the same kind of conventional 'fire-power' strategy which had worked in previous land wars, from 1941–53. Instead of rising to the challenge of devising a new strategy for a new kind of warfare – for example by giving priority to the 'airmobile' concept – they could only press ahead with more ground troops and more bombing, as if this was merely another war of attrition. (It was as if, in 1940–42, the US Navy had failed to see the value of aircraft carriers and submarines and had simply produced more and more battleships – possibly leading to a disastrous stalemate in the Pacific.) Worse still, the military lessons of failure were never adequately drawn. Opponents of ever greater escalation – which eventually included in their number Secretary of Defence McNamara – drew only the lesson that the commitment as a whole had been a terrible mistake.

Possibly, after the failure of the Communist 'Tet Offensive' of 1968, a further round of escalation by US forces, accompanied by a new strategy, *might*

have been enough to achieve a military-political victory. But by then the war was already demanding more resources than were compatible with the global extent of US military obligations; and a larger budget deficit than was compatible with sustaining the reserve role of the US dollar in the Bretton Woods system. In spring 1968 therefore, faced with the growing unpopularity of the war at home, Johnson had chosen to embark on de-escalation.

Nixon, coming to office in January 1969, had adopted a four-part strategy to wind down the war, and eventually to end it on acceptable terms: i) the gradual, unilateral withdrawal of US forces from SVN; ii) the training of South Vietnamese government forces to take on 'big unit' operations; iii) more effective 'pacification' of the South Vietnamese countryside; and iv) continuation of the Paris negotiations already inaugurated by the Johnson administration.¹¹

The full extent of North Vietnam's dependence on military and economic support from China and the USSR became clear only later, in the late 1980s, when the Russians acknowledged that they had had actual Surface to Air Missile (SAM) units in North Vietnam shooting down US planes; and when the Chinese revealed that between 1965 and 1969 they had deployed an eventual total of 170,000 PLA troops to North Vietnam (NVN) in order to strengthen its defences while PAVN divisions moved into the South. The negotiation of an agreement between Hanoi and Washington therefore depended on at least acquiescence by Moscow and Beijing, if not their active pressure on Hanoi.

The structure of the post-1969 negotiations, however, was different from that of the Geneva Conferences of 1954 and 1962 – in which the 'great powers' were directly involved alongside the Indochinese 'belligerents'. On one level, the Paris conference (January 1969–January 1973) was attended by the representatives of the US, North Vietnam, and the 'two parties' in South Vietnam – the Saigon government and the pro-Hanoi People's Revolutionary Government of South Vietnam (PRGSVN); it provided a context for eventual secret negotiations between Kissinger and Le Duc Tho – the DRV's primary representative at the Paris Peace Talks – starting in spring 1970, but not for talks with the larger Communist powers. Any bilateral US understandings with the USSR and China had to be negotiated outside the framework of a formal conference. In the case of Moscow, the Americans had sought to link progress in other negotiating spheres to Soviet willingness to help facilitate an agreement on Vietnam. In relation to China, the significance of the Shanghai Communiqué of February 1972 was that it had separated the issue of Vietnam from that of Taiwan, implying a Chinese willingness to let the Americans 'off the hook' in Indochina. Nixon and Kissinger took this to mean that the Chinese were no longer interested in the continuation of a war which the Americans themselves had originally fought as a response to China's revolutionary ambitions in South-East Asia a decade before.

Continued Soviet support for Hanoi had nevertheless allowed Vietnamese Communist forces to mount one last major offensive in spring 1972, consisting of a series of conventional attacks across the 17th parallel, in the Central Highlands, and to the north of Saigon. By then the North Vietnamese were using

Soviet-supplied tanks and artillery. Although there were only about 18,000 US troops left in Vietnam, continuing US air support for the Army of the Republic of Vietnam (ARVN) and the mining of North Vietnamese harbours enabled Saigon to defeat the challenge to 'Vietnamisation'. In September–October 1972, Soviet pressure obligated Hanoi to negotiate seriously with Kissinger, on the basis of allowing the Nguyen Van Thieu (president of the second 'republic' of Vietnam since 1967) regime to survive in Saigon. Even so, a draft agreement worked out by Kissinger and Tho in Paris by 22 October 1972 was rejected in Saigon because it did not require any withdrawal of North Vietnamese forces from the South. A further round of negotiations had been needed in Paris, accompanied in December by the most severe bombing of the North so far (using B-52s), before both Hanoi and Saigon were obliged to accept what amounted to a slightly amended version of the October draft agreement.

The result was a ceasefire in Vietnam, from 28 January 1973; the withdrawal of the last US forces during the following two months, and the simultaneous release of US and allied prisoners of war; together with open-ended political discussions between the 'two parties' in South Vietnam. The question that would later be asked was whether the Americans sincerely believed that this strategy could enable the Saigon regime to survive in the long-term, or were reconciled to a mere 'decent interval' before the eventual collapse of South Vietnam and reunification on Hanoi's terms.

The question of a new Communist offensive in Vietnam

By November 1973, a major concern for the Americans was whether Hanoi would accept a period of continued partition, as in 1954–55, or would decide to launch yet another military offensive against the Saigon armed forces. US moves in late 1972, to strengthen the latter in terms of weapons, firepower and training – together with the last round of bombing of the North – had weakened Hanoi's ability to mount an early offensive. On the other hand, the PAVN were defying a stipulation in the Paris agreement against further use of the Ho Chi Minh trail in Laos and Cambodia; and in April Nixon had rejected Kissinger's proposals for a new bombing campaign to hinder it.

By this time, there was probably a growing divergence between the strategic aspirations of Hanoi and Beijing. In June 1973 a Vietnamese delegation to Beijing led by Le Duan – the 'pro-Soviet' figure whose power had been growing in the 1960s and who had emerged as Ho Chi Minh's effective successor as Party leader in 1969 – had been advised by Zhou Enlai to stop fighting in the South for a time, perhaps even as long as five or ten years. That might amount to accepting indefinite continuation of the Geneva partition: something Le Duan was reluctant to do.¹²

The question of Hanoi's intentions was analysed in a CIA 'national intelligence estimate' of 12 October 1973, and was still being debated at a Tokyo meeting of American chiefs of mission in Asia convened by Kissinger on 15 November. The one point on which American officials seem to have agreed

was that by now the government of Nguyen Van Thieu was politically strong enough to resist any form of Communist struggle short of a major offensive. The Party leaders in Hanoi appear to have reached the same conclusion.¹³

It later emerged that in mid-October the VNWP Central Committee held a plenary session to determine the Party's own strategy. Among the alternatives open to them, the two extremes were simple: to plan an early offensive; or to concentrate on economic reconstruction, obligating Nixon to keep a secret promise made in February 1973 about 'healing the wounds of war' and drawing on offers of aid and investment from Japan.¹⁴ They had kept both these options alive so far, and had accepted an agreement with Tokyo (18 September 1973) which allowed the Japanese to open an embassy in Hanoi without having to close the one in Saigon. Following on from that, the veteran Communist, Viet-Minh Front Leader Hoang Quoc Viet visited Tokyo between 30 October and 10 November to discuss Japanese reconstruction aid to North Vietnam and support for the development of offshore oil in the Gulf of Tonkin. Le Duan, on the other hand, was impatient to complete the revolution in the South as rapidly as possible. He may also have believed that accepting US and Japanese aid would give capitalism too great a foothold in North Vietnam.¹⁵

An immediate large-scale offensive in the South was deemed impractical. Nevertheless, the October plenum took a decision to avoid consolidating the ceasefire in the South and instead to maintain an offensive strategy there – pending some opportunity to mount another major offensive. On 20 December, Le Duc Tho held another meeting with Kissinger in Paris at which the mood was fairly conciliatory, suggesting that there was unlikely to be an offensive for at least another year. But Hanoi may have already been focusing on the next US presidential election year of 1976.

Laos

Progress toward an agreement on Vietnam had been followed by the start of talks between the two sides in Laos on 17 October 1972, leading to a ceasefire in that country too on 21 February 1973. The next step was delayed by Communist insistence on negotiating an additional protocol on the modalities for a new coalition, including distribution of government posts and the neutralisation of Vientiane and Luang Prabang. The protocol was finally signed on 14 September 1973; even then the actual formation of the new government took another six months (to April 1974).¹⁶ Despite these delays, several of the US chiefs of mission at Kissinger's Tokyo meeting on 15 November 1973 felt that Laos was the one area where the policy of compromise was 'working'.

A note of realism (borne out by later events) was injected by William Sullivan, former US ambassador in Vientiane, who insisted that Hanoi would never be satisfied until it had completed the revolutionary seizure of power and had brought the whole of Indochina under its own control. He also observed that Hanoi had no incentive to take direct control in Laos until after it had won in South Vietnam and Cambodia: to do so would cut Laos off from supplies

coming through Thailand, in circumstances where North Vietnam itself would be incapable of replacing them. The coalition was an obvious interim solution for Hanoi, but not one which they would accept indefinitely. What happened in Laos would depend on Hanoi's decision regarding a new offensive in South Vietnam. Only if Hanoi decided, for its own reasons, on a longer period of partition would Laos have a real opportunity to sustain its position of international neutrality.¹⁷

Cambodia

In Cambodia, no ceasefire at all could be achieved in 1973. The war had spread to Cambodia in the spring of 1970, mainly as a result of North Vietnamese and Chinese encouragement of a Communist-led armed struggle inside Cambodia following the overthrow of Sihanouk by his pro-American cousin Sirik Matak, supported by General Lon Nol. The Americans had taken advantage of the same situation to order a two-month campaign (May–June 1970) to destroy Vietnamese Communist base areas inside Cambodia, to reduce the possibility of a new offensive against Saigon from that direction. However, the domestic outcry against that campaign led Congress to pass legislation making any further involvement of US forces on the ground in Cambodia illegal after 30 June 1970. Within the very narrow limits still permitted, the Americans had nevertheless provided aid, training and air support to Lon Nol – who in 1971 proclaimed a Khmer Republic. But Lon Nol's forces were unable to prevent the growing power of the 'Khmers Rouges' in the outlying provinces.

By mid-1973, still operating in the name of a loose coalition with the government-in-exile which Sihanouk had formed in Beijing, Pol Pot's forces were pressing hard in Central Cambodia; and it may be that only the intensive US bombing, suspended at the insistence of the US Congress on 15 August, prevented the fall of the city at that time. By then, Sihanouk was losing whatever influence he had inside Cambodia: his secret visit to the 'liberated zone' around Angkor in March 1973 took place on Khmer Rouge terms; and on 9 November 1973 he was obliged to transfer all government functions to the 'ministries' established inside the country. There was also by then a growing rift between the Kampuchean and the Vietnamese Communists.

Unlike the Laotian Communist leader Kaysone Phomvihane, the still mysterious Saloth Sar (Pol Pot) was unwilling to accept ideological or military direction from the Vietnamese Communists, even though in 1970–72 he depended on their material support. Since 1963 he had led the Kampuchean Communist Party towards a more independent line, and had established direct relations with the CCP in Beijing. But whereas Sihanouk had been close to Zhou Enlai since the 1950s, Saloth Sar and his 'clique' probably had ties to one of the radical Chinese factions. They regarded the 'great leap forward' of 1958–59 as their model for self-reliant economic development. In the South-Western 'liberated zone', the notorious Khmer Rouge leader and overlord, Ta Mok, was by late 1973 already implementing an extreme radical 'line'. Little of this was known to outsiders,

however, and the eventual horrors of the 'Pol Pot regime' were beyond prediction.

Wider consequences of the US withdrawal from Vietnam

Even more important was the question of what would happen elsewhere in South-East Asia. What of the 'domino theory' which had been so prominent in the Washington debates of 1963–64? The US had not been defeated in Vietnam; but neither had it forced Hanoi to abandon its goal of dominating Indochina. If all that had been achieved was indeed only a 'decent interval', before the eventual collapse of the non-Communist governments in South Vietnam, Laos and Cambodia, was the rest of the region now 'in danger'?

Indonesia, Malaysia and Singapore

One significant change had taken place in maritime South-East Asia since 1963 which worked to the advantage of the US and Japan. In Indonesia the abortive Jakarta 'coup' of 30 September 1965 had led to the collapse of Sukarno's regime and the massive movements of the PKI; and had thus paved the way for the rise of a military-led regime under Suharto, who emerged as president in 1967 and was re-elected to that position in March 1973.

In the meantime, the new regime in Jakarta had received Western help to rehabilitate the economy and had broken off relations with Beijing. Suharto had also succeeded in reorganising Indonesian politics around the bureaucratically based Golkar party, and had ensured its victory in national elections in 1971. By early 1973 Indonesia was deemed sufficiently stable, and sufficiently pro-Western, to become one of four members of the international commission to supervise the ceasefire in Vietnam under the terms of the Paris Agreement; the others being Canada and Poland, as in 1954, and Hungary.

This transformation of the situation in Indonesia had in turn made it possible to negotiate an end to Sukarno's 'confrontation' of the Federation of Malaysia, which was achieved by August 1966.¹⁸ A year later, in August 1967, the 'Maphilindo' group of countries had joined with Thailand to establish the Association of South-East Asian Nations (ASEAN): a purely Asian body (unlike SEATO) whose main value was to provide a context within which bilateral issues could in future be resolved 'in an Asian way'. Singapore became a member in its own right, having seceded (or been expelled) from the Malaysian federation in August 1965. By 1973 the island-state had achieved stability and was making considerable progress under the leadership of Lee Kuan Yew. Malaysia had faced a crisis when racial riots broke out in May 1969; but the outcome was the emergence in 1970 of a reconstructed 'national front' led by Tun Abdul Razak, committed to a policy of greater economic equality between the Malay and the Chinese communities. Stability had been quickly restored.¹⁹

The changes in Indonesia had also allowed the British to contemplate military and naval withdrawal from the region, including the Singapore base. Plans for

withdrawal from the whole 'East of Suez' area had been speeded up following the devaluation of the British pound in November 1967; and the last British troops left Singapore at the end of 1971. In place of the long-standing British defence commitment, a Five Power Agreement (involving Australia, Britain, Malaysia, New Zealand and Singapore) was inaugurated in November 1971.

It is debatable whether these developments in maritime South-East Asia can be regarded as a direct consequence of Johnson's commitment of US forces to Vietnam in 1965, or should be seen as completely independent of what happened in Indochina. That issue is not important from the perspective of 1973. What mattered by then was that the Americans could feel confident that, even if their withdrawal from Vietnam and Laos was interpreted as a defeat, it would not immediately damage the stability of the Indonesia–Malaysia–Singapore region.

The US commitment to other Asian allies

As of November 1973, the US still had bilateral security treaties with Japan, South Korea, Taiwan and the Philippines, as well as a continuing commitment to Thailand through its membership in SEATO; the ANZUS Pact also remained in force. Deployments of US forces in the Western Pacific included a full army division in South Korea; naval and air force bases in Japan, the Philippines, Taiwan and Thailand; and a major forward base on US territory in Guam. The American ability to counter overt 'aggression' remained formidable; but there could be 'no more Vietnams'.

In July 1969 Nixon had enunciated the 'Guam Doctrine', which reaffirmed US determination to keep its treaty obligations, but which also emphasised that in the future Asian countries which came under external threat must take responsibility for defending themselves with their own military manpower.²⁰ There would be no more deployment of US army divisions, such as had taken place in Vietnam. This focused attention on the need to ensure the political stability and economic strength of those countries directly allied to the US, in particular South Korea, the Philippines and Thailand.

The ROK, still ruled by Park Chung Hee, had given direct and substantial assistance to the US in Vietnam – deploying as many as 50,000 ground troops at the height of the conflict. The next most significant contributors to the allied effort there were Australia and New Zealand. Thailand had also sent a number of ground forces, as well as making bases on Thai territory available for the bombing of Laos and North Vietnam. The Philippines had made a smaller contribution. Thailand would willingly have become involved too, but the Americans regarded that as too provocative a move, likely to complicate relations with the PRC in the longer term. (President Johnson had likewise discouraged a South Korean proposal of 1966 to create a permanent organisation for future military cooperation among the Asian participants in the war.)

South Korea itself, dependent on a continuing US military presence, maintained tight security along the demilitarised zone and over its own population.

But it was still vulnerable to attack or subversion from Kim Il Sung's People's Democratic Republic in the North, as had been demonstrated by the events of January 1968.²¹ The Philippines had since 1969 become the target of a 'Maoist' wing of the Communist movement, whose New People's Army (NPA) was attempting to mount a guerilla struggle against the pro-American government. Thailand had also been affected by a 'people's war' – led by Maoist guerillas of the Thai Communist Party actively encouraged by the PRC – which had begun in 1965, and had gathered strength in the North and North-East of the country by the early 1970s. In all three countries, during the period from late 1971 to autumn 1973, the established rulers made an effort to strengthen their own authority.

In the Philippines, constitutional President Ferdinand Marcos, from 1967, was aware that under the existing constitution his increasingly personalised rule could not last beyond 1973 – when his second term as elected president was to expire. On 21 September 1972 he proclaimed martial law, which allowed him to arrest some of his critics, to purge the constitutional convention that had been sitting for the past year; and also to reverse by decree some recent (anti-American) decisions of the supreme court. He then went on to impose his own constitution, and to rule as a virtual dictator for another 14 years (until the 'people's revolution' of 1986). The US government, which had at least some forewarning of his plans, acquiesced in the change.²²

A month later in October 1972, Park Chung Hee staged his own coup against the existing constitution of South Korea. He too imposed martial law, together with a new constitution which allowed him to continue as president – with a partly appointed assembly – until his assassination in 1979.²³

Meanwhile in Thailand the military regime led by Thanom Kittikachorn and Phrapas Charusathien, which had taken over following the death of Sarit Thannarat in late 1963, had attempted to introduce a supposedly amenable constitution in 1969. But in November 1971, they decided to overthrow their own creation by means of another coup and return to martial law. In Thailand, however, a student movement was gathering support against the military regime during 1973; and in early October the government's attempts to suppress it completely misfired. After several days of mass demonstrations and street fighting in Bangkok, the King intervened on 15 October 1973 to arrange the resignation of the military government and the departure into exile of both Thanom and Phrapas. He appointed a new Prime Minister (Sanya Thammasakti), whose first task was to formulate and implement a new constitution. But despite the leftist credentials of some student leaders, the new regime remained committed to a pro-American policy of counter-insurgency and to membership in SEATO.²⁴

SEATO itself, at its annual meeting in September 1973, decided on a reorganisation which in effect reduced its conventional military role in order to focus mainly on counter-insurgency. But the Americans were cool to a Philippine proposal that it should also become a vehicle for economic assistance to its Asian members – of which only Thailand and the Philippines remained. The

main reason for keeping it in existence at all was as a framework for allied support to Thailand.²⁵ (It was finally wound up in 1977.)

The original commitment of the US to both South Korea and SEATO, 20 years before, had been based on the assessment that the international revolutionary line of the CCP constituted a threat to non-Communist Asia's participation in the 'free world'. By late 1973, despite the continuation of Maoist-oriented revolutionary armed struggles in the Philippines, Thailand and Burma, the Americans were ready to believe that – with the possible exception of Cambodia – support for such conflicts in South-East Asia was no longer a significant part of Chinese strategy. The one 'aggressive' move by China during this period was the PLA navy's seizure of the Paracel Islands from South Vietnamese forces in January 1974.²⁶

The impression of a less militant Chinese line in South-East Asia seemed to be confirmed towards the end of 1973, when a Thai government delegation led by Deputy Foreign Minister Chatichai Choonhavan was officially received by Zhou Enlai in Beijing (26 December). There had been a number of sports contacts over preceding months, but there was no move yet to establish formal diplomatic recognition. The main purpose of its mission was to discuss trade; and in the context of the sudden rise in oil prices the Chinese were able to offer the new Thai government a contract to supply 50,000 tons of diesel oil at a 'friendship price'.²⁷ Over the following two years, the Chinese would seek to establish formal diplomatic relations with several countries of ASEAN.

The future of South Vietnam

From the American point of view, this situation might have been taken as the opening for a new strategy of wide-ranging economic assistance to South Vietnam, aimed at achieving (in spite of everything) the original objective of an independent, non-Communist South Vietnam. But that would have required active support from Congress.

Unfortunately US public opinion was by this time far from rational on the subject of Vietnam, and domestic opposition to Nixon personally was being fuelled by new revelations and evasions in the 'Watergate' affair. Having seen the US withdrawal from Vietnam as a 'victory' for Congress over the President, opponents of the war were determined to prevent any renewal of US military involvement. The mood of Congress was reflected by the passage in October of the War Powers Resolution, severely restricting the President's authority to use American troops abroad without a full declaration of war. Nixon's veto was overridden, and he was obliged to sign it on 7 November 1973.²⁸

Especially serious, from Saigon's perspective, was the determination of Congress to reduce the amount of military and economic aid provided to the Thieu regime. At a time when oil prices – and therefore the costs of military preparedness – were rising, this could prove fatal to South Vietnam's ability to make effective use of its newly acquired weaponry. Perhaps the one hope for the Thieu regime was that the licences for offshore exploration granted to American

and Japanese oil companies during 1971–72 would soon lead to actual discoveries and production.²⁹ If that happened, South Vietnam might just possibly become financially independent of American aid, and even capable of attracting significant foreign investment. That possibly may not have escaped the attention of the Hanoi leaders, as they contemplated new military operations in 1974.

However, the historian must avoid interpreting the situation of late 1973 solely on the basis of the actual denouement of April 1975. That outcome was certainly not predictable at this stage even by Hanoi's most optimistic leaders, and it was by no means inevitable. The key decisions still remained to be taken.

6 Directions of growth

The US, Japan and Asian capitalism, May–December 1973

... we are trying to harmonise [US] national interests with the interests of other countries as we see them ... to bring about a structure that hopefully will remain peaceful ...

Secretary of State Henry Kissinger to the afternoon session of the East Asia Chiefs of Mission Conference, Tokyo, 15 November 1973

Before, America was looking for strategic profits in the region. Now this will be contested into monetary profits. Perhaps this is the way to secure the American commitment.

Remarks from South Vietnam Government Cabinet meeting

[Promulgation of law 001/70] ... in South Vietnam, together with the feverish activity which ... [they] have recently undertaken to seize the oil beds and other mineral resources in the maritime areas of Cambodia, China and Korea, have revealed again the neo-colonialist character of the American imperialists in Asia. The so-called "Nixon Doctrine" aims only to promote the policy of setting Asians against Asians in order to allow the ... [US] to monopolize the natural resources of the people of the region.

From statement by Foreign Minister Nguyen Duy Ninh, Democratic Republic of Vietnam (North Vietnam), February 1971

A new 'world order'?

In the early months of Nixon's second presidential term, Nixon and Kissinger were conscious of having created a new 'structure of peace', based on detente with the USSR and the PRC as well as on a formal agreement which allowed US forces to withdraw from Vietnam in return for the release of its prisoners of war – without having to sacrifice the pro-American regime in Saigon. They were looking forward to establishing a new international order, based on American leadership, which would take account of the changes that had taken place in the world over the preceding quarter-century: notably the end of overwhelming American economic power vis-à-vis its allies, and the recovery of the European and Japanese economies from the destruction of war.

Nixon's agenda for this new global order was outlined in the annual report on

'US Foreign Policy for the 1970s: Shaping a Durable Peace' – which he delivered to Congress on 3 May 1973. Its arrangement of contents defined, in effect, four distinct planes of international activity (and analyses) on which progress must be made:

- 1 the evolution of detente with the USSR and the PRC, the pursuit of arms control, and the ending of old conflicts in Asia; together with the need to handle the possibility of tension in other areas;
- 2 relations between the US and its allies: particularly the Atlantic alliance and Japan; together with its commitments to other allies in Asia;
- 3 negotiations for a new international monetary system, and for the further liberalisation of global trade, conducted within the framework of the IMF and the GATT; and
- 4 the need for greater international cooperation, perhaps within the US framework, in such spheres as revising the Law of the Sea, management of outer space, meeting the world's energy needs, control of drug abuse, measures against terrorism, countering environmental pollution, and limiting global population growth. On this level, the report anticipated many of the concerns that would preoccupy the minds of diplomats and scholars, as well as politicians, bureaucrats and non-governmental organisations for the remainder of the twentieth century.

The report did not, however, anticipate the crucial linkages that would arise, within a mere seven months, between a new round of conflict in the Middle East and a rise in the price of oil leading to a world energy crisis; and between the price of oil and a changing structure of global finance.

One important conclusion to be drawn from the report is that neither Nixon nor Kissinger thought at this stage in terms of the Asia–Pacific region as having a unity of its own. Defence commitments in Asia were still part of a global strategy of containment. Japan was seen as primarily a developed capitalist country, which had more in common with America itself and with Western Europe than with its Asian regional neighbours. It was taken for granted in Washington that Japan shared America's global objectives; whereas China, for all that had changed since 1971, was still ultimately part of a now divided 'Communist world'. Even though the Americans were urging Japan to play a larger role in Asia, US–Japan relations must still be seen in the context of America's strategy for the 'free world'.

But neither were Nixon and Kissinger thinking in terms of a completely 'trilateral' basis for greater cooperation between the US, Europe and Japan, which was beginning to be discussed in some quarters. A parallel development in the private sector during 1972–73 was the creation by the American banker David Rockefeller of the Trilateral Commission, which aimed to bring together business leaders, former officials and leading academics from all three areas.¹ But it was not yet influential enough to affect Nixon's strategy, which assumed the separate pursuit of US policies towards Europe and towards Japan.

The 'year of Europe'

A key element in the attempt to construct a new 'world order' was a desire to reinvigorate the political relationship between the US and Europe. In a speech to Associated Press editors on 23 April 1973, Kissinger proclaimed 1973 as 'the year of Europe'. The centrepiece of the plan, it would seem, was to be a series of negotiations with the principle European leaders to produce the text of a 'new Atlantic Charter' (or 'Declaration of Principles') which would define the 'more mature and viable partnership' that was now needed between America and Europe.² Ideally, the President would then visit Europe towards the end of the year for a ceremonial signing of the Declaration.

Kissinger's approach, however, was too dogmatic to find favour with the Europeans, who were alienated by his lofty distinction between the 'global' responsibilities of the US and the merely 'regional' role of the European powers; and by his assumption that the strategic protection afforded by the US to its NATO allies was of more fundamental importance than the economic issues which seemed to be of primary concern to France, Germany and Britain. There was an ambiguity in Kissinger's approach which probably had its roots in his academic studies of 'international relations'. He was fond of distinguishing between the notion that America had a moral or idealistic responsibility for world order, and the recognition that US policy – like that of any other nation-state – should be governed by the realistic pursuit of 'national interests'. Unfortunately he seemed to find it easier to deal with what Americans believed *ought* to be in the 'national interests' of other countries than with their own formulation of those interests.

Despite prolonged discussions during the spring and summer, it proved impossible to reach agreement on the final text of a Declaration; and by mid-November Kissinger was sharing his sense of frustration at his Tokyo meeting with chiefs of mission in Asia. By then, too, divergence between European and American interests had been reinforced by the impact of the oil crisis and the Middle East conflict.

William Bundy, in *A Tangled Web: the Making of Foreign Policy in the Nixon Presidency*,³ faults Nixon and Kissinger for their failure to make proper use of the vast experience of the State Department in this area, or to consult more fully with Congress. Another factor may have been that by mid-1973 President Nixon himself was increasingly preoccupied with the Watergate scandal and left the issue of Europe to Kissinger and others. It is noticeable that while Kissinger devotes two chapters of his memoirs to a partly self-critical assessment of the 'year of Europe', Nixon's memoirs hardly mention the episode.⁴

One reason for the failure of the exercise may have been that the Americans failed to define their own objectives very clearly. An underlying motive seems to have been fear that the major European powers (especially Germany) would seek their own detente with the USSR rather than allowing the Americans to speak for the whole Atlantic alliance. For their part, the Europeans may have

suspected that Nixon and Kissinger were seeking to prevent the growth of a European identity which, in the nature of things, must exclude American participation. This was in fact a delicate period for European unity, following the admission into the EEC of Britain, Denmark and Ireland in January 1973. The British Prime Minister Edward Heath was especially anxious to demonstrate solidarity with France and Germany rather than to fall back on Britain's 'special relationship' with America.

A distinction was beginning to emerge between what could properly be discussed within the NATO framework, which included the US, and what were seen by the Europeans as more appropriately matters for the Community. It probably did not help that Kissinger's approach emphasised issues of collective security and the strategies of detente, at a time when the Europeans were more worried about the slow pace of international monetary negotiations; and also by the difference between their own and the American approach to oil resources and the emerging energy crisis. On the American side, moreover, these economic questions were the province of Secretary of the Treasury George Shultz: Kissinger, even after he became Secretary of State on 22 September 1973, had neither time nor responsibility for specialist negotiations in that sphere.

Reform of the world monetary system

The Bretton Woods system of international payments and reserves had run into serious problems during the 1960s and had collapsed altogether by 1973. The need for reform, which was already apparent ten years before, had led – after long wrangling between the US and France – to the Stockholm Agreement of March 1968 under which the IMF would create an artificial reserve currency (known as 'special drawing rights') to supplement the role of the dollar and gold. But before the agreement could take effect, the US and its allies were faced with a more immediate crisis involving acute pressure on the dollar price of gold. That was resolved by imposing a two-tier gold market, separating the obligations of the US Federal Reserve system to other central banks from private transactions. Meanwhile, devaluation of the British pound in November 1967 had meant the virtual end of the sterling area as a separate and coherent payments system.

However, the 1968 arrangement proved insufficient to prevent further pressure on the dollar three years later. On 15 August 1971, therefore, Nixon announced the 'closing of the gold window': the end of the US obligation to sell gold for dollars at a fixed price, even to central banks. At that point, several major currencies were allowed to 'float', finding their own rates of exchange in the market.

The need for a new set of international parities was met in principle by the Smithsonian Agreement of 18 December 1971, which amounted to a revaluation of the major European currencies and of the Japanese yen.⁵ But that agreement was too fragile to withstand yet further pressure on the US dollar in the foreign exchange markets in the summer of 1972. In September of that year the IMF,

with strong American support, set up a 'committee of 20' to devise a reformed world monetary system capable of taking the place of the Bretton Woods agreement of 1944. A leading role would be played by the under-secretary of the US Treasury in charge of monetary affairs, Paul Volcker, who in November 1972 put forward a 'plan' embodying American proposals for reform.

This was to be the most thorough overhaul of the international monetary system since the negotiations between Keynes and White which had preceded Bretton Woods. But there were two fundamental differences between the circumstances of 1972–73 and those of 1943–44. First, in the midst of the Second World War, once the US and Britain had reached agreement it was relatively easy for them to impose their own solution on the rest of the world; whereas in 1972–73 the US Treasury had to negotiate not only with Britain but with a host of other countries, among whom France, Germany and Japan were economically too strong to be ignored. Second, the US was now a debtor rather than a creditor nation and no longer had massive gold reserves: its interests in 1972 were ironically much closer to those of Britain in 1943.

There was general agreement on the need for a system that would be more 'symmetrical' than in the past: that is, one which would impose obligations on surplus as well as on deficit countries.⁶

However, the Volker Plan led to a disagreement with the Europeans (especially France) on two main issues: on one hand, the Europeans were much more eager than the Americans to return to fixed parities and full convertibility, in which the dollar's link to gold would be retained; on the other hand, they rejected Volker's argument that the obligation to readjust to surpluses and deficits should be made almost automatic, on the basis of a series of regularly compiled 'reserve indicators'. The Europeans wanted a system that would still include room for consultations on each situation on its own terms, before decisions were taken on such sensitive matters as the devaluation and revaluation of currencies.⁷

Other dimensions of American–European divergence are evident in a report by the Vice-President of the Deutsche Bundesbank Otmarr Emminger, written in June 1973, which blamed American balance of payments deficits, as well as the increasingly free movement of international capital between currencies, for the inflation that was affecting European and other economies. These factors were likely to have still more influence following yet another dollar crisis in February–March 1973, which led to the virtual abandonment of fixed exchange rates.

The IMF debate on these issues became highly complicated and technical, and was still unresolved by September 1973. Although, at that point, the committee of 20 (rather unrealistically) set July the following year as a deadline for agreement on an 'Outline for Reform',⁸ the whole exercise was overtaken by the oil crisis and its consequences during the last quarter of 1973.

The oil shock

The early 1970s saw growing pressure on the part of the governments of oil producing countries, for a greater share in the revenues of the mainly Western

companies which extracted, refined and distributed their oil. The organisation of Petroleum Exporting Countries (OPEC), founded in 1960 at a time of glut in oil production, was sufficiently well-established to take advantage, ten years later, of a situation in which demand for oil was beginning to rise. The first moves against the power of the companies was made by the revolutionary regime of Colonel Muammar Gaddafi, which had come to power in Libya in September 1969 and within a year had achieved the closure of British and US bases there. After putting pressure on Armand Hammer's independent Occidental Petroleum, for cutbacks in production and higher prices, Gaddafi began to take on the majors during 1970–71. His boldness led Algeria, Iraq and then Iran, as well as Saudi Arabia, to adopt a more vigorous line – whose first outcome was the Teheran Agreement of February 1971. It supposedly guaranteed stability for the next five years, on the basis of a gradual price increase (less than \$1 per barrel even by 1976) and payment of higher taxes by the companies.

A second stage began in mid-1972 when Saudi Arabia led the way in demanding 'participation': that is, the recovery by producer states of a proportion of the value of the oilfield concessions previously granted to the companies. An agreement negotiated in New York in October, and finalised in Riyadh at the end of 1972, gave in to the demands of five Gulf producer countries for the surrender of 25 per cent (rising eventually to 51 per cent) of the existing concessions, with an element of 'compensation' still to be worked out. The ramifications of this agreement were still being negotiated in detail during 1973.⁹ The issues were comparable to those that had arisen when Indonesia had secured greater control over its own oil resources in 1963. But the proportion of global oil reserves involved in 1972–73 was vastly greater. Nor was the US government, in the wake of the Vietnam War, in a position to do much to help the oil majors resist the demands of OPEC. Further change seemed inevitable.

In April 1973 the American oil expert James Aikins, in an article in *Foreign Affairs*, predicted a massive growth in oil consumption over the next decade, and envisaged oil prices rising to \$5 per barrel by 1980. The loss of production from any two Middle Eastern countries in that period would be disastrous for the industrialised West. The article coincided with Nixon's first energy message to Congress (18 April 1973), proposing a greater US effort to conserve energy and to expand domestic production.¹⁰

At another meeting of OPEC in June 1973, the producer countries raised a further issue: the effect on their own budgets and development plans on the still falling value of the US dollar in relation to other currencies. (All oil transactions were priced in dollars.) By early August, the Saudi Oil Minister Ahmed Zaki Yamani was insisting that the Teheran agreement of February 1971 was no longer adequate.¹¹ A further OPEC session in Vienna in September virtually summoned representatives of the oil 'majors' to a meeting on 8 October, to negotiate a substantial price increase.¹² By the time that meeting took place, the situation had been transformed yet again.

A secret agreement between the Saudi King Faisal and the Egyptian President

Anwar Sadat, when they met on 23 August 1973, established a direct linkage between use of the oil weapon by Arab oil producers and the long-standing enmity towards Israel of its immediate Arab neighbours; particularly Egypt and Syria, who were in fact already planning a new war.¹³ It began with their surprise attack on Israel on 6 October 1973, a move which provided Nixon and Kissinger with an unavoidable dilemma.

Nixon could not afford to allow America's own protégé, Israel, to be defeated by the Soviet-armed forces of Egypt and Syria: but by 12 October it was clear that Israel's survival depended on an emergency airlift of more American weapons. But once that decision was made, the oil weapon came into play. On 16–17 October, meetings in Kuwait decided on an immediate 70 per cent increase in the price of all OPEC-controlled oil (bringing it to \$5.11 per barrel); and on a 5 per cent cutback in production on the part of Arab members of OPEC, soon afterwards raised to 10 per cent in the case of Saudi Arabia. A further US aid package for Israel, decided on 19 October, was followed one day later by a total embargo on the supply of oil to the US and its allies, by Saudi Arabia and other Arab producers.¹⁴ Those moves affected Europe (and Japan) much more immediately than the Americans, which led to further tension between America and Europe when the EEC decided on 6 November to issue a statement conciliatory to the Arabs.¹⁵

Already by the end of October, therefore, the major industrialised countries were facing a crisis whose dimensions were both economic and diplomatic. The situation for Europe and Japan became even worse at the end of the year, following OPEC's decision of 23 December 1973 to raise the oil price more dramatically still: to \$11.65 per barrel – amounting to an increase of 38 per cent since early October.¹⁶

The converse of the massive and sudden price increases, for a commodity only sold for dollars, was that by the end of 1973 pressure on the US currency had evaporated. The demand for more dollars meant that the US had no incentive to persist in the so far fruitless quest for international monetary reform.

At least two other consequences of the 'oil shock' deserve attention, although their importance only gradually became apparent over the following years. First, the Western banking system found new areas as a result of the sudden transfer of dollars from the oil consuming to the oil producing countries. The latter had initially no way to invest these dollars except by depositing them in an increasingly globalised banking system. The banks, in turn, would invest much of this money in the Eurodollar market – whose size and importance had grown considerably since 1963 and was now poised for even greater expansion. There was virtually no possibility of bringing this new kind of international capital within the kind of discipline that national governments had been able to impose on capital flows at the height of the Bretton Woods system.

Second, the countries outside OPEC which benefited from the price increases, because they too produced oil, included the USSR and the PRC. Oil income in the period 1974 to 1981 would be especially important in shaping Soviet policies in the third world during the later Brezhnev era. On occasion it

might give some advantage in dealing with Asian neighbours, as we saw in the case of the Thai trade delegation to Beijing in late December 1973.

In the shorter term, the oil shortage and price increases, came as a 'shock' which each country in East Asia had to try to absorb in its own way. The problems were especially acute for Japan.

Japanese economic growth

Between 1963 and 1973, Japan's economic miracle was well under way. By 1973 Japan had also developed close economic relations (involving investment as well as trade) with Taiwan and South Korea, and a number of the countries of South-East Asia. In certain respects it appeared to be achieving by peaceful means – and with American encouragement – some of the advantages, and a measure of regional domination, which it had hoped to secure 30 years before through success in war. The comparison, however, was illusory. Japan's economic growth in the 1960s and 1970s did not take place within the confines of a single regional system, governed by the principles of autarky; it depended on the evolution of a global economy, based on rules established since 1945. Three conditions were necessary for the continuation of growth:

- 1 access to raw materials, especially metals – such as iron ore, copper, and tin – from South-East Asia and Australia; and fossil fuels – especially oil – mainly from the Middle East, but also from Indonesia and eventually from China. A 'white paper' of October 1971 had drawn attention to Japan's extreme dependence on American capital in these spheres: 80 per cent of crude import came from American suppliers.¹⁷ This was one factor in Japan's growing interest in the exploitation of Siberian resources; and in the American desire to prevent too close an economic relationship between Japan and the USSR.
Also important in this regard was the availability of shipping. Japanese shipyards were by now building large oil tankers and other vessels at a remarkable rate. One of those who benefited from meeting Japanese shipping needs was Hong Kong shipping tycoon Y.K. Pao who had built up a large fleet of tankers by 1973, on the basis of securing financing for the building of ships in Japan, then chartering them – at a significant profit – to corporations involved in bulk transportation by sea, including several major oil companies.¹⁸
- 2 access to markets for Japanese manufactures: essentially those of the US and Western Europe. Japan's membership of the GATT was integral to its performance over the preceding decade; further liberalisation of trade would work to its advantage. The opening up of Japan's capital market to foreign investors had taken longer to bring about; but that too was achieved, formally at least, by May 1973. The Japanese were not, however, prepared to carry 'liberalisation' to the point of abandoning their established framework of economic decision-making: that was the basis on which they were able to keep down costs of production and to maintain their competitiveness in world markets.¹⁹
- 3 participation in the global monetary system, which determined the value of

the yen in relation to the US dollar and other currencies. This had been a simple matter under the Bretton Woods system, once the Yoshida government had secured a fixed rate of 360 yen to the dollar in 1949. But by 1973 the fixed rate system had broken down. The Japanese had been obligated to revalue the yen by almost 17 per cent in December 1971; and to 'float' it in March 1973. By then it had risen to a rate of 265 yen to the dollar, and the Bank of Japan attempted to keep it roughly at that level until September the same year. In October–November 1973, however, speculation against the yen set in in international markets, and the Bank of Japan had to fight hard to prevent it from *losing* value against the dollar – at a time when increases in the dollar price of oil required as strong a yen as possible. By early 1974, the rate was back to 300 yen to the dollar, and the Bank of Japan had to struggle to prevent further decline.²⁰

Kissinger in Tokyo, 14–16 November 1973

The crisis had already broken when Secretary of State Kissinger, immediately following his visit to Beijing, stopped in Tokyo for talks with Japanese government leaders and for his meeting with American chiefs of mission from across the region. His discussions with Tanaka and Ohira were concerned more with strategic than with economic matters, but the latter were never far away.²¹

Nixon, but probably not Kissinger, may have recalled that it was almost exactly 20 years since his own visit to Tokyo as Vice-President in 1953. Now as president, he was pursuing the same policy he had advocated then: to strengthen Japan both politically and economically, while urging it to take on a larger role in the wider Asian region. In that spirit, the Nixon–Sato meeting of November 1969 had produced an agreement in principle that the US would return the island of Okinawa to Japanese sovereignty; further negotiations had culminated in the actual handover on 15 May 1972. In return, the Americans wanted the Japanese to take a greater interest in the security of their own region. Japan's defence programme of October 1970 had accordingly outlined a significant expansion of its 'self-defence' forces by 1975: a move which inevitably drew criticism from the Japanese press and from opposition politicians, who saw it as conflicting with the spirit of the post-war constitution. Such reactions helped the government to avoid undertaking a much larger defence buildup and to continue devoting the greater part of national resources to economic expansion.²²

By this time, however, the Japanese economic miracle had begun to generate new kinds of tension between Japan and the US, concerning such issues as the level of quotas for Japanese textile imports into the US (during 1970–71); or the need to redress the large bilateral trade surplus that had grown in Japan's favour, which was a central US concern at Nixon's first meeting with Prime Minister Tanaka in September 1972. Japan had also been initially reluctant to revalue the yen against the dollar, which would make its exports more expensive; and in negotiations on monetary reform, its interests were closer to those of Europe than to those of the Americans. Many of these issues had been resolved by

mid-1973: outstanding matters were discussed at the ninth meeting of the Japan–US Joint Committee on Trade and Economic Affairs, held on 16–17 July 1973 and attended by the then Secretary of State William Rogers.²³

Shortly afterwards, on 29 July 1973, Nixon received Tanaka in Washington to discuss – among other things – Japan’s contribution to the reconstruction of Indochina. Tanaka was in fact keen to take a lead in that area, and was already seeking to normalise relations with Hanoi. But it was noticeable that in February, just after the Paris agreements, the Americans had been cool towards a Japanese proposal to hold a specifically Asia–Pacific conference on aid for Indochina. The Americans were anxious to ensure that Japan’s ‘increased regional responsibility’ would evolve along the lines acceptable to themselves.

Kissinger’s November 1973 visit was influenced to some extent by his efforts in Europe earlier in the year. The somewhat vague suggestion that Japan might be associated in some way with the Atlantic ‘Declaration of Principles’ was now of lesser importance; but the Japanese had to be reassured that they were not being ‘left out’. More urgent was the need to prevent the current oil crisis from leading to any adverse consequences for US–Japan relations. While the Japanese convinced Kissinger they could not avoid publicly dissociating themselves from Washington’s pro-Israel stance, Ohira reassured him that there would be no serious rift between the two countries.²⁴

Japan’s own central concerns remained focused on the achievement of further economic growth, based on sufficient access to both resources and markets, which included an expansion of trade and investment in the rest of Asia.²⁵

The ‘Cold War’ perspective versus an ‘Asian–Pacific perspective?’

Despite the lack of American attention to the potential unity of the Asia–Pacific region, that unity was beginning to emerge in the sphere of financial relations and economic development – with Japan, as the most developed economy of the region, playing a pivotal role.

In one sense, it might be argued that a crucial factor in that emergence was the American pursuit of Cold War policies in Asia during the preceding decade. The ‘domino theory’ of the early 1960s had identified a Communist, more particularly a Chinese, threat to the development of capitalist economies in South-East Asia; which in turn would jeopardise the economic growth of Japan. Ten years later, the Americans could claim that their military commitment to South Vietnam and Laos had provided an effective ‘shield’ behind which the rest of the region had been able to achieve political stability and a measure of economic growth. It remains a subject of acute controversy whether the Vietnam War was the price the Americans had to pay in order to ensure the economic progress of the rest of the region. But the economic success of those countries, judged in capitalist terms, was itself beginning to be evident in late 1973.

The US did not, however, ensure the complete triumph of the ‘American model’ of capitalism throughout non-Communist East and South-East Asia. The

patterns of financial and economic development were remarkably diverse, reflecting in most cases the legacy of their pre-1940 experience. On the other hand, it might be argued that the diversity was itself a source of strength rather than weakness. Each national economy was able to develop in its own way, while developing appropriate relations with other parts of the region and with the economies of the rest of the world.

Taiwan

Confidence in Taiwan's ability to survive as a separate entity, despite its partial loss of international recognition in 1971–72, was based on its continued economic growth under the KMT government of Chiang Kai-shek and Chiang Ching-kuo. US economic aid had been phased out in 1965–68, but by then other sources of capital were increasing: on the one hand, domestic savings and the ploughing back of profits by Taiwanese entrepreneurs; on the other, Japanese investment – including an important yen loan negotiated through the Japan–ROC Cooperation Committee in 1964–65, which was used for infrastructure projects (harbours, bridges, electric power, etc).

By the early 1970s the groundwork was laid for an expansion of heavy industry: for example cooperation between Ishikawajima–Harima Heavy Industries and the Taiwan Government Shipbuilding Corporation, which led to the building of ships in Taiwan from 1972–73. Other projects taking shape included steel production, oil refining and petrochemical enterprises.

Private firms were mainly small or medium-sized: there was no scope in Taiwan for the rise of conglomerates of the kind found in Japan, Korea, and some South-East Asian countries. They played the major role in the development of both import-substitution and export-oriented light industries. To encourage the latter, three export-processing zones were created in the late 1960s. By 1973 they were producing items such as textiles, leather and plastic goods, machines, electric components, as well as precision instruments. A substantial part of the capital invested by private companies came from domestic savings.²⁶ But in some cases foreign investment was needed; a notable example being the acquisition of a local company by the Ford Motor Company in autumn 1972, which allowed the expansion of automobile production in Taiwan.²⁷

Since it lacked oil, Taiwan was bound to suffer as a result of the oil shock of late 1973. The boom of the preceding decade was interrupted, and inflation became a serious problem for a time. But the Taiwan currency was pegged to the US dollar, and the government had substantial foreign exchange reserves. Fundamentally the economy was strong enough to withstand the impact of the crisis and to recover fairly quickly.²⁸

South Korea

Until the mid-1960s, the ROK had depended on a great deal of American aid and investment, but had been slow to make its peace with Japan. Park Chung

Hee's decision in August 1965 to send combat troops to fight in Vietnam was a logical development of the US alliance: the numbers sent eventually rose to 50,000. In return, US military procurement and investment in Korea increased; and Korean enterprises secured supply and other contracts in Vietnam. Among the leading *chaebol*, Hyundai had contracts for harbour-dredging in Vietnam, and from 1968 received American loans which allowed it to expand into cement production; Hanjin had contracts for the transport of troops to the war zone, and for management of the port of Qui Nhon, Vietnam; Daewoo supplied uniforms to the US forces, which led to opportunities for the export of textiles to the US. By 1971, US economic aid to South Korea was no longer needed and was phased out.

Also from 1965, the ratification of the ROK–Japan Treaty – to which Johnson had referred in his conversation with Park in November 1963 – opened the way to both Japanese reparations, in the form of grants and soft loans, and Japanese commercial loans. That, in turn, created a favourable environment for other Western investments, notably from Germany, France and Italy. An important project based on Japanese reparations finance was the state-owned Pohang Iron and Steel (POSCO), established in 1968, which built a modern integrated steel plant between 1970 and 1973. The development of heavy industry was assisted by the fact that, although it lacked oil, South Korea had significant deposits of coal, iron ore and copper: it also produced a significant quantity of tungsten.

Meanwhile the development of light industry, oriented mainly towards export markets, continued. The assembling of TV sets, for example, was encouraged under the Electronics Industry Promotion Law of 1969. From 1968, Hyundai was able to expand into the assembly of automobiles – a first step to full-scale production.²⁹

The Korean won was pegged to the US dollar, which was an advantage for much of the time. However, foreign borrowing made the economy highly dependent on export-earnings of foreign exchange. A slowdown in export growth in 1970–71 forced a devaluation of the won and an IMF standby arrangement in 1971; which in turn put pressure on private corporations that had borrowed abroad. In August 1972 the government announced measures to bail out some over-extended firms, as well as to stimulate domestic investment. This economic slowdown may have been a factor in the decision to impose martial law in October 1972.

However, an agreement on more Japanese investment was reached in September that year, and by 1973 economic growth resumed. One new area of major Japanese investment was in shipbuilding: in March 1973, Hyundai Heavy Industries began to build its first tanker. A few months later, the POSCO steel plant came into production.³⁰ Thus by 1973 the Korean economic miracle was well under way, and was only temporarily interrupted by the oil crisis. The South was able to develop on a scale undreamed of in the Communist North; but the effect was to render the country as a whole more completely divided than ever.

The year 1973 also saw growing political unrest in South Korea, with the re-emergence of militant student protests, which continued into 1974. The

kidnapping of the opposition leader Kim Daejung by the Korean CIA in August 1973 was an indication of the government's determination to suppress opposition rather than to allow a new stage of constitutional development.³¹ Democracy was not deemed necessary for continued economic success.

The Philippines

At first sight, there were a number of similarities between the Philippines and both Taiwan and South Korea: the emergence of strong personal leadership under Ferdinand Marcos, virtual dictator under the martial law regime of 1972–86; encouragement of Japanese investment from the late 1960s, especially after the clamp-down on economic nationalism in 1972; and a desire to imitate the Japanese, ROC and Korean models of industrial growth.

These similarities, however, were largely superficial. Three important differences were to prove more consequential. First, the Philippines economy was still shaped to a large extent by the structure of capitalism that had been inherited from the American colonial period. This was dominated by the role of US-owned firms, enjoying special privileges under the economic and legal arrangements imposed at the time of independence: although the latter were due to expire in 1974, Marcos confirmed them in order to secure US acquiescence to the imposition of martial law. Also prominent were the enterprises – initially plantations, but by now some industrial enterprises – owned by the elite Filipino families which had collaborated with American rule in the first half of the twentieth century. By the early 1970s, privately-owned banks were also vital to the functioning of the economy.

Second, the structures of law and government inherited from American rule included regulatory powers in relation to money, banking, and the equity market; but no tradition of government economic planning and investment. The Philippine bureaucracy, although by this time it included a number of Western-trained 'technocrats', was relatively weak compared with those of Japan and Korea. This made it all but impossible for Marcos to take either of those countries as a model for economic growth. Instead, Philippine economic strategy was influenced much more by the American-oriented thinking of the World Bank. One element of that thinking by the early 1970s was that an economy the size of the Philippines should concentrate on developing export-oriented industry rather than concentrating on import substitution.

In that spirit, Marcos was keen to develop an export processing zone at Bataan, which had been planned in the late 1960s but finally came into existence in 1972. Its aim was to use tax incentives to encourage foreign investment in private enterprises. There was little scope for the kind of state investment or bureaucratic direction which had been central to the more ambitious industrialisation of Korea or Taiwan.

Third, although some industrial growth had taken place in the Philippines during the 1960s on the basis of import-substitution, its economy remained principally dependent on agricultural exports (notably sugar, coconut products,

and abaca); on timber production; and on minerals, especially copper mining. The Japanese, starting with reparations aid in the late 1950s, had so far shown much more interest in the exploitation of natural resources than in promoting industrialisation. Although their investments in light industries would increase during the period of the five-year plan for 1972–76, eventually surpassing those of American business, the Japanese had no reason at this stage to invest in heavy industry in the Philippines.³²

Indonesia

The economy of Indonesia had certain things in common with that of the Philippines. Another former colonial possession, it too remained dependent on the export of primary produce – including tin, rubber, palm oil and timber. It differed, however, in that its most important export was crude oil, for which demand was growing in the early 1970s – particularly in Japan. By 1973, at least one third of Indonesian government revenue was derived from oil exports; and 70 per cent of Indonesian oil was exported to Japan. The low sulphur content of Minas crude made it especially suitable for blending with Middle Eastern oil as a means to reduce pollution. To put this in perspective, however, Indonesia's total output of oil at this time was estimated at no more than around 2 per cent of total world production. Japan's need for oil was by now vastly greater than in the early 1940s: it could only be met by importing large quantities of oil from the Middle East.³³

Another difference between Indonesia and the Philippines was that the former Netherlands East Indies had passed through a period of extreme anti-imperialism under Sukarno, one consequence of which had been the nationalisation of former Dutch enterprises. They included the country's four largest banks, as well as mining and plantation enterprises, most of which remained under state ownership in the early 1970s.

Sukarno's insistence on greater Indonesian participation in oil profits, negotiated during 1963, had also been followed by a period of virtual nationalisation of the oil companies at the height of the anti-Malaysian 'confrontation'. Although that process was reversed in 1966, the state oil companies had gained valuable experience which they were able to use to their advantage during the Sukarno era. Pertamina (later re-organised as Pertamina) not only bought out Shell's operations in 1966 but also took charge of awarding new concessions for offshore exploration to private oil companies. In doing so the director of Pertamina/Pertamina (former general Ibnu Sutowo) pioneered a new type of production-sharing contract which gave the Indonesians much greater access to profits than the earlier type of work contract awarded to Caltex and Stanvac. Even though Caltex was still the principal producer of Indonesian oil, by 1973 a great deal of revenue was in the hands of Sutowo, who worked closely with President Suharto himself to invest the oil profits in new development projects. For a time, Suharto also allowed Pertamina, despite US protests at the end of 1972, to flout IMF-imposed regulations against medium-term foreign borrowing

by state corporations. Subsequently Ibnu Sutowo's career came to an abrupt end, following several scandals in 1975–76.³⁴

In addition to state corporations, the Indonesian economy included a number of private enterprises under Chinese ownership, which had in some cases begun to grow into conglomerates. Here too, however, the pattern of ownership and interests was more complex than in the Philippines.

Since the late 1950s, ethnic Chinese entrepreneurs had frequently sought partnerships with military officers, who exercised considerable authority over government expenditure and procurement decisions – especially at the local level. An important example was the business connection between Suharto himself, first formed when he commanded the Diponegoro division in Central Java in the late 1950s, and the Chinese businessman Liem Sioe Liong who initially supplied food, clothing and other essentials to the Indonesian army. That same network of connections also involved the financial advisor to the division at that time, General Saedjano Hoemardani, and another Chinese trader The Kian Seng (aka 'Bob' Hassan). These connections became even more profitable when Suharto became commander of KOSTRAD in 1964–66. Along with other Chinese suppliers, Liem Sioe Liong had by 1973 built up a business empire that included Bank Central Asia (eventually the largest private bank in the country) along with extensive interests in textiles, flour milling and a share of the profitable clove monopoly, linked to the manufacture of Javanese *kretek* cigarettes.

After 1966, many military units increased their involvement in business operations – in some cases through control of their own trust funds (*yayasan*) which were able to exploit such opportunities as forestry concessions and participation in state plantations. Suharto's own interests, and those of his family – including an important *yayasan* controlled by his wife – expanded rapidly in this period. He was anxious, at the same time, to prevent other military figures from becoming rich enough to challenge his authority.

Other Chinese companies used their political and military connections to form links with foreign companies interested in selling manufactured goods in Indonesia. An especially prominent example was the Astra group founded in the 1950s by Tjia Kian Liong (better known as William Soeryadjaya), who first began to secure contracts to import road building materials and later became Indonesian agent for foreign corporations selling items such as automobiles, machinery, and photographic equipment. From there he was able in due course to move into the assembly of automobiles, and other fields of actual production.³⁵

On another level, post-Sukarno Indonesia had faced major problems of macro-economic stabilisation. The 1962–63 negotiations with the IMF had been abandoned: in August 1965 Sukarno, having already left the UN, announced Indonesia's complete withdrawal from the IMF. By the time Suharto took power the economy was in a shambles, with massive foreign debts and inflation running at several hundred per cent per annum. It was a matter of urgency to begin new negotiations with both the IMF and the country's major Western and

Soviet creditors. An important step was the creation of the Inter-Governmental Group on Indonesia (IGGI), including Japan as well as the US and major European governments and bankers, to establish a framework for international aid to Indonesia.

On the Indonesian side, a key role in that process was played by a group of Western-trained economists (led by Widjono Nitisastro and Ali Wardhana), sometimes known as the 'Berkley mafia' – and less colourfully as the 'technocrats'. Associated particularly with the National Development Planning Council (BAPPENAS), they also held important positions in the ministries of finance, mining, and development coordination; and at the central bank. In addition to handling negotiations with the IMF and the IGGI, the 'technocrats' were responsible for formulating foreign and domestic capital investment laws in 1967–68, and for devising the First Five Year Plan (Repelita-I), covering the years 1969–74. The latter, relying heavily on foreign aid, was first directed towards the rehabilitation of agriculture and mining, and other basic investments in communications, electrical power and light industry.

The technocrats were not, however, able to exert much influence over the oil industry: Ibnu Sutowo was responsible directly to the president. Nor were they able to pursue all of the policies that might have fitted in with their liberal training, such as the privatisation of state-owned companies.

There was in fact a persistent tension between the American-trained economists and bureaucrats, who wanted Indonesia ultimately to pursue a liberal pattern of development, and the businessmen and generals in control of actual enterprises – whether state-owned, military-owned, or Chinese-owned. Such tension probably worked to the advantage of Suharto.³⁶

A notable critic of the existing situation in the early 1970s was the Chinese economist businessman Jusuf Panglaykim. He accused the technocrats of cooperating *too* closely with multinational foreign investors, whose first concern was bound to be their own profits and the interests of their own country. It was not enough for Indonesians merely to participate in profits generated by a system whose essential structure was shaped by foreign capital. Indonesian interests, and the larger pattern of development, must be more effectively coordinated by the state. He looked for inspiration to the Japanese model, as it had existed in the early stages of Japan's modernisation under the Meiji bureaucracy. Such ideas found favour with some of Suharto's military advisors, notably Ali Murtopo and with Ibnu Sutowo. But it was impossible for Indonesia to implement them at this stage – given that the country was already massively dependent on foreign aid, and that the most experienced bureaucrats were cooperating closely with the American-oriented aid institutions.³⁷

In effect, Indonesia was unable to conform either to the Japanese model, in which the vital investment decisions were taken at the bureaucratic level; or to the American model, in which decision-making was concentrated at the level of individual, equity-oriented corporations, operating freely within a system where government was responsible only for laws and regulations and for macro-economic fiscal and monetary policy. The existing Indonesian system nevertheless

had its own dynamic, based on institutional diversity which made it the most complex economy of the whole region. Moreover, despite its ability to pursue the Japanese model, Indonesia's relationship with Japan was becoming crucial to its continued economic development.

Thailand

The institutional structure of the Thai economy was different yet again. During the period when the rest of South-East Asia came under Western colonial rule, the economy and politics of Siam had been shaped by a series of commercial treaties with Britain, France, the US and other countries which made Bangkok a 'treaty port' comparable to those along the China coast. The Thai monarchy survived, continuing through the twentieth century, but the country's legal institutions and bureaucracy had been modernised under the influence of Western advisors. Finally the 'revolution' of 1932–33 had established the role of the armed forces in government; and the military domination of Thai politics had continued through the 1950s and 1960s. Nor was it completely ended even by the overthrow of the Thanom–Praphas regime in October 1973.

Like neighbouring countries, Thailand had become an exporter of primary produce: especially rice, and later on tapioca, maize and other food crops; also timber products, rubber and tin. Industry, before the 1960s, had been on a very small scale. A key role in commerce and banking had been played by Chinese companies, but their business opportunities had become increasingly dependent on their cooperation with the dominant military groups – whose protection was given in return for representation on boards of directors and a share in profits. This relationship had been strengthened during the Phibul period (1939–57), as the only way to counter the effects of discriminatory anti-Chinese legislation. Also during that period, the military had established a number of state-owned companies; but after 1957 their role was rapidly overtaken by the growth of the private sector.

The Sarit period (1957–63) was a turning point, coinciding with an expansion of US military and economic aid and also the growing influence of American and British trained economists whose concept of development embraced a central role for private enterprise. By contrast with Indonesia after 1965, however, the Thai 'technocrats' did not have to grapple with large and well established state corporations. American influence came sufficiently early (starting in the late 1950s) to ensure the growth of private investment in new areas of development – within a framework of macro-economic regulation by government. The World Bank also played a major role, starting with its survey mission of 1957–59. The technocrats exercised their influence through the Bank of Thailand and Ministry of Finance, along with a National Economic Development Board, a Board of Investments and the Industrial Finance Corporation of Thailand, all created in 1959. The first Thai Development Plan (1961–66) explicitly favoured private enterprise, supported by public investment in infrastructure projects. (The latter was reinforced by projects undertaken by the US military in

Thailand during the course of the Vietnam War.) Until the early 1970s, most industrial development was oriented towards import-substitution; although the World Bank began to favour export-oriented industries from 1970, movement in that direction came only gradually.

This policy gave new opportunities to the Chinese business community. But they had little experience in imitating the American model with regard to the role of equity. Although a stock exchange was first established in 1962, it remained insignificant as a source of capital until the late 1970s. The main form of capital accumulation and lending was centred on the banking system, which had expanded during the 1940s and early 1950s, and was brought under closer regulation by the Commercial Banking Act of 1962. Although there was one state-owned bank and one owned by the military – and another, the Siam Commercial Bank, which belonged to the Crown Estate – most Thai banks were Chinese owned. They often formed one element in a wider framework of Chinese family business enterprise, and usually included an element of military participation. Among the most important were the Bangkok Bank, founded and dominated by Chin Sophonpanich, with links to the family of General Phin Chunhavan; the Bank of Ayuthya, which had also been close to the Phin Rajakru military clique before 1957 but had subsequently been taken over by that of Praphas Charusathien and his principal Chinese collaborator Chuan Ratanarak; the Thai Farmers Bank, dominated by the Lamsam family (which had also established Thailand's first life insurance company); and the Bangkok Metropolitan Bank, owned by the Techaphaibun family, which also had interests in sugar and distilleries and by 1972 had taken over two other private banks.

Japanese investment in Thailand had increased during the later 1960s, including a major government loan for seven projects under the second plan (1967–71) and also private investment in textile manufacturing, the assembly of automobiles, etc. One result was Thailand's first industrial investment boom; another was a marked increase in the foreign debt burden, after many years (to 1968) when the Thai balance of payments had been in surplus. By 1972 there was a significant public opinion backlash against what seemed like too great a dependence on Japanese capital: the government passed laws placing restrictions on 'aliens' in relation to both occupational work permits and ownership of businesses; while an increasingly active student movement launched an anti-Japanese week in November 1972. But Japanese investment continued to grow.³⁸

Malaysia

British rule had produced yet another variation of colonial development in Malaysia, whose legacy continued to shape the economy of the early 1970s. The exploitation for export of the major resources of the country – tin, rubber, palm oil and timber – was still to a large extent in the hands of substantial British companies owned by Chinese. Traditionally, the rural Malay population had been involved mainly in agriculture, while the Malay elite participated in

government and politics. By the late 1960s Malay (*bumiputera*) business was being encouraged to some extent, notably through the establishment of the Bank Bumiputra in 1966; but progress was slow.

The longstanding inequality of income distribution between Chinese and Malays had been an underlying factor in the racial riots of May 1969. The outcome of the 1969–70 crisis was a new government, led by Tun Abdul Razak, dedicated to resolving the problem of Malay poverty by promoting further economic growth. Government-led planning would ensure that a significant part of new wealth would go to the *bumiputera* population. This policy involved limiting the political and educational roles of the Chinese, including new emphasis on Malay as the national language, without diminishing the value of their contribution to the economy. Whilst there might be room for political manipulation in the awarding of public contracts, there was no intention to confiscate the existing wealth of either Chinese or British owners. More extreme critics of the existing economic system included Mahathir Mohammad, whose *Malay Dilemma* had appeared in 1970; but in 1973 he was still in the political wilderness, after a period in detention.

The broad outlines of the new economic policy were laid down in the Outline Prospective Plan of 1970, which looked forward as far as 1990. More immediate and specific objectives were worked out in the Second Malaysia Plan (1971–75), which more than doubled the amount allocated in the first plan for public development expenditure. An important role was assigned to the state-owned Urban Development Authority, established in 1971. Another feature of government policy at this stage was encouragement of export-oriented industrialisation, under the Free Trade Zones Act of 1971.

Meanwhile, a state-controlled National Corporation (PERNAS) was established in 1969, with capital supplied by the finance ministry, to acquire ownership of foreign companies listed on the stock exchange: a strategy whose results would become apparent from the mid-1970s. The existence of an active equity market, modelled on the London stock exchange, was another feature of the British colonial legacy. Equity as a form of capital accumulation and investment was much more important in Malaysia and Singapore, and also in Hong Kong, than in other economies of the Asia-Pacific region outside Japan. It was a measure of the rapid recovery of confidence in the situation after the upheaval of 1969 that the Malaysian stock market still flourished in the years 1970–73, with a growing number of new listings of Chinese-owned companies. A bull market developed during 1972 and early 1973.

Until May–June 1973 a single exchange had had branches in Kuala Lumpur and Singapore, but at that point – with the separate floating of the Malaysian ringgit – the two exchanges were also separated. The Kuala Lumpur Stock Exchange (KLSE) continued to play a major role in the economy, even though its first year saw the end of the bull market and a sharp decline in prices from mid-1973 into 1974. Following the oil crisis of late 1973, the Malaysian economy was adversely affected by declining international demand for its commodity exports. However, Malaysia itself had offshore oilfields, whose exploita-

tion became more feasible as oil prices rose. The creation of the new government-owned PETRONAS in 1974 ensured that, from the outset, control over oil and natural gas revenues would belong to the state.³⁹

Singapore

The separation of Singapore from Malaysia in 1965 had created major economic problems for the island republic, which were further exacerbated by the British decision, announced in early 1968, to close the naval base by the end of 1971. The government of Lee Kuan Yew responded to this challenge by developing the economy along new lines; and also by promoting public welfare programmes, especially in housing, health and education, to undercut the possibility of renewed political unrest. A strong element of government planning was essential, with a role for state-owned enterprise and foreign private investment. The role of the port in international trade was one essential element in that growth. Another was export-oriented industrialisation: new enterprises included oil, refining, and the manufacture of electrical goods.

Singapore was also seeking to become a regional financial centre. In addition to its equity market (noted above) it had a number of major Chinese-owned banks such as the Overseas Chinese Banking Corporation (OCBC), the United Overseas Bank (UOB), the Overseas Union Bank (OUB) – joined in 1968 by the Development Bank of Singapore (DBS); as well as a growing number of foreign bank branches. In 1968, Singapore established an offshore Asian Currency Market to take advantage of the same opportunities which had allowed the growth of the Eurodollar market in London. In both cases, an inter-bank market was at the core, but with a steady expansion of lending to governments and to commercial and industrial enterprises. The volume of such lending in Asia was still comparatively small; but the trend paralleled that of London. The gross size of the Eurodollar market grew almost fivefold between 1968 and 1973: from \$38 billion to \$188 billion. In Singapore, as the number of banking units participating in the market grew from nine to forty-six between 1969 and 1973, the total assets of the Asian Currency market rose from US\$0.1 billion to US\$6.3 billion. In 1972, an Asia Bond Market was launched, with bond issues by the government of Singapore and by the Development Bank of Singapore; but its expansion was delayed until the mid-1970s.⁴⁰

Hong Kong

Benefiting again from its proximity to China, and still 24 years away from the critical date of 1997 when the British lease on the New Territories would expire, the Hong Kong of 1973 was prospering more vigorously than ever. The three main pillars of its economy were the port, as a centre of regional trade; the continued growth of export-oriented industry; and its role as a financial centre. As in Singapore and Malaysia, the equity market was important; so too were the banks. The British presence remained dominant, through the currency-issuing

banks – the Hong Kong Shanghai and the Chartered – and through the large trading houses (known as *hongs*) led by Jardine Matheson and Butterfield-Swire. But increasingly by this time the branches of American and other foreign banks were playing a significant role. Also important, in the expansion of China's trade with the capitalist world, was the Hong Kong branch of the Bank of China. The colony's vulnerability to sudden change in the PRC had been demonstrated by a major outbreak of rioting in 1967, linked to the current phase of the Cultural Revolution in Beijing; but stability had quickly been restored.

Another development of the 1950s and 1960s had been the expansion of Chinese businesses in Hong Kong. Among the most successful figures was Pao Yue-kong, who had begun to specialise in shipping in the early 1960s and had cultivated close connections with Japanese financiers and shipbuilders; by the end of 1973 he had a fleet of 93 vessels, including 18 large tankers.⁴¹ Another ambitious tycoon was Li Ka-sheng, who had made substantial profits from manufacturing plastic goods since the late 1950s and had by this time moved into property development.⁴²

The regional role of Japan

One of the common features shared by most of these economies of the Asia-Pacific region was that Japan was their largest trading partner both for imports and exports. Exceptions included Hong Kong and Singapore, which imported more from Japan than from elsewhere but had other leading export partners; and Taiwan, which exported much more to the US than to Japan. Japan itself, in 1973, drew 20 per cent of its imports from other parts of Asia – including, in this case, the PRC – and sold 25 per cent of its exports there.⁴³

It is also clear that during the period 1967–73, Japanese investment in many of these countries was expanding rapidly. Japanese capital played a vital role in enabling South Korea and Taiwan to develop their own heavy industry on the basis of that investment. In South-East Asia, it was oriented more to the development of primary resources; in Indonesia, where Japanese investments were especially large, the oil sector was vital. Japan was also interested in exploring for oil off the coast of Vietnam, as well as playing its part in the material reconstruction of all the countries of Indochina. Some Japanese government investment was directed to infrastructure projects, whether bilaterally or through multilateral institutions. Japan's role in the Asia Development Bank (ADB), founded in 1966, was particularly important in that regard.

But while Japanese companies had begun to invest in light industry in some South-East Asian countries by the early 1970s, especially to promote export-oriented manufacturing, there was little likelihood at this stage that those countries would find Japanese financial support to develop heavy industries; nor that there would be any significant transfer of technology. As far as most industries were concerned, the main comparative advantage enjoyed by the region was the abundance and cheapness of labour. (The one exception was that of oil refining, notably in Singapore.)

The growing importance which Japan attached to South-East Asia was reflected in the eleven-day tour made by Prime Minister Tanaka between 7 and 17 January 1974, which took him to Manila, Bangkok, Kuala Lumpur, Singapore and Jakarta. In several places, notably Bangkok and Jakarta, he was greeted by anti-Japanese student protests. While left-wing elements may have been involved, the protests probably reflected an element of discontent among small and middle business people, whose opportunities were being damaged by the burgeoning alliance between Japanese capital and large South-East Asian corporations – whether state-owned or Chinese-owned.

In Indonesia the protests were especially violent, and were directed partly at rich Chinese as well as against Tanaka. They produced a political crisis (the Malari affair), which Suharto then used as an opportunity to remove General Sumitro from his command of KOPKAMTIB – and thereby settle a conflict which had been developing between the latter and two of the president's other military advisors, Ali Murtopo and Soedjono Hoemardani. (Established in 1965, KOPKAMTIB was a command unit of internal security operations of the Indonesian Armed forces.) The result was to confirm the policy of close economic relations with Japan.

We should be wary, however, of attempting to compare the situation of 1973 too closely with that of 1943. For one thing Japan was sensitive to fears among South-East Asians that this expanding economic role might imply a revival of its military ambitions of the 1930s and 1940s. Such fears were noticeable, for example, in November 1971 when a Japanese proposal for international supervision of safety of navigation through the vital Melaku and Sunda Straits provoked a joint declaration by Indonesia, Malaysia and Singapore that they themselves, as sovereign states, had exclusive responsibility in that sphere. Later that same month (27 November 1971), the ASEAN governments had issued a declaration calling for outside powers to recognise South-East Asia as a 'Zone of Peace, Freedom and Neutrality'.⁴⁴

Above all, Japan's own survival was by now completely dependent on its place in the wider global economy. In one direction it needed energy resources from the Middle East, and on the security of shipping routes along which its oil tankers travelled – which only the US Navy could guarantee. In the opposite direction its whole industrial strategy depended on continued access to American markets (as well as to those of Western Europe). In short, Japan's subservience to the US was still very real. Its expanding regional role did not mean a return to the thinking that had inspired the Great East Asia Co-prosperity Sphere, based on the principle of autarky, or to some notion that the same objectives might now be attainable by peaceful means.

Part IV

**Global transformation
and the ‘Asian miracle’**

1983–84 and 1993

7 A 'new Cold War', autumn 1983

[Our navy has] acquired qualitatively new features ... [and its] well-balanced fleet[']s technical equipment meets all the requirements of the modern nuclear age.

From Commander-in-Chief of the Soviet Navy Admiral Sergey Gorshkov's Navy Day speech, 1982

The security of our countries is indivisible and must be approached on a global basis. Attempts [by the Soviet Union] to avoid serious negotiations by seeking to influence public opinion in our countries will fail.

Japanese Prime Minister Nakasone Yasuhiro at the G-7 meeting at Williamsburg, Virginia, May 1983

...[The PRC] will never seek hegemony ... [or] yield to pressure from any hegemonist power.

From summary of CCP Party Secretary Hu Yaobang's speech to a State banquet outlining China's foreign policy, *Beijing Review*, 5 December 1983

President Reagan in Tokyo and Seoul

Between 9 and 14 November 1983 Ronald Reagan's first trip to Asia as president took him to Japan and South Korea. A very different kind of president from both Richard Nixon and Jimmy Carter (his immediate predecessor) Reagan concentrated on establishing a personal rapport with Prime Minister Nakasone Yasuhiro, leaving substantive issues to members of his cabinet. The two leaders had already met twice in the US, when Nakasone had visited Washington DC in January 1983 and when he attended the G-7 summit meeting at Williamsburg in May. One continuing American concern in November was how to handle the changing economic relationship between the world's two largest economies. Another was to persuade Japan to expand still further its role in regional defence¹: a theme which Nakasone probably found less uncongenial than some of his predecessors, but which remained controversial with the Japanese press and public. While the archival version is not yet available, the visit was generally regarded at the time as a success from the American point of view.

In Seoul, Reagan reaffirmed American support for the government of Chun Doo Hwan² – a gesture rendered more significant by two recent South Korean setbacks: on 1 September 1983, the shooting down by Soviet fighters of a Korean civilian airliner flying off course over Sakhalin, USSR; on 9 October, the assassination in Rangoon of four South Korean cabinet members in what appeared to have been a North Korean plot to kill President Chun himself. Around 33,000 US troops still remained in the ROK and during his trip Reagan visited the Demilitarised Zone (DMZ) between North and South. For its part North Korea maintained relations with both the Soviet Union and the PRC, although they were closer with the latter. Semi-official contact between Beijing and Seoul occurred after hijackers commandeered a Chinese civilian aircraft to the ROK capital in the spring of 1983.³

Reagan's itinerary on this occasion did not include Beijing, but he was due to go there the following April – after receiving the Chinese Prime Minister Zhao Ziyang in Washington in January 1984. Despite President Carter's full normalisation of diplomatic relations with the PRC in January 1979, the situation remained complicated by continued support for Taiwan in the US Congress. However, after a period of coolness, a visit to China by Secretary of Defense Caspar Weinberger in September 1983 appeared to have brought about some improvement in Sino-American relations; so too did Reagan's approval on 21 November of a further relaxation of restrictions on the sale to China of American computer technology. Beijing's own relations with Tokyo appeared to enter a new stage of understanding and cooperation with the visit to Japan from 23 to 30 November of Hu Yaobang, CCP Secretary and the most important among the new generation of Chinese leaders and the likely successor to Deng Xiaoping.⁴ The Chinese, now under the paramount leadership of Deng Xiaoping, were still willing to accept that Japan's defence alliance with the US was directed against the Soviet Union rather than against themselves.

If we compare the situation of late 1983 with that of ten years before, we find considerable continuity – even progress – in American relations with Japan and China; what Nixon had begun had been taken further by Carter in 1978–79. On the other hand the detente which Nixon had achieved with the USSR had almost broken down by 1980. The Reagan administration would later be blamed for the 'revival of the Cold War' in the early 1980s; but in fact the decline of detente had come earlier. The momentum of regular summit meetings had been maintained during the Ford administration; and Carter had held one meeting with Brezhnev in June 1979, at which the second Strategic Arms Limitation Treaty (SALT II) had been signed. But the Soviet invasion of Afghanistan at the end of 1979 had produced a sharp US reaction. Carter re-imposed some restrictions on trade with the Soviet Union, and the US Congress virtually abandoned ratification of SALT II. Consequently, no further Soviet-American summit meetings took place until Reagan met Soviet Leader Mikhail Gorbachev in 1985.

The Soviet military build-up in Asia

The shooting down of the Korean airliner on 1 September 1983 (flight KAL-007, from the US to Seoul⁵) was symptomatic of a heightened tension between the superpowers that had been developing since the late 1970s. A Soviet accusation that the airliner had flown deliberately off course in order to activate early warning systems was not wholly farfetched, even though it was rejected as unlikely by most Western observers.⁶ Given the deployment in Eastern Siberia of missiles with a range that took in a number of Asian countries beyond China, and also of around 50 'Backfire' long-range bombers, US forces in the region had a genuine need for more information about Soviet defence systems. American and Japanese reactions to the incident reflected growing fears about a steady buildup of Soviet forces in North-East Asia and the Pacific that had been going on since 1979–80.

The Soviet Pacific Fleet now had an aircraft carrier (the *Minsk*, equipped with anti-submarine aircraft) and around 80 cruisers, destroyers and frigates. Its hundred or more submarines included at least 20 armed with ballistic missiles, some of them capable of reaching the US mainland from the Sea of Okhotsk. The Soviet fleet was not yet strong enough to mount an effective challenge to the American Seventh fleet, which covered both the Western Pacific and the Indian Ocean with its three aircraft carriers, four missile cruisers and around 70 other major warships.⁷ But further planned deployments by the Russians might eventually close the gap unless the Americans took steps to continue modernising their own forces. It was in this context that President Reagan sought to encourage a larger Japanese defence effort.

Japan's decision to steadily increase and modernise its own capabilities after 1980 was probably governed by fear of a Soviet strategy that was deliberately designed in the event of a major war, to neutralise or isolate Japan as a potential American ally. The Japanese were particularly concerned about the need to defend the sea lanes on which they depended for essential raw materials. They were also anxious about the deployment since 1979 of almost a division of Soviet troops to four islands in the southern Kuriles, which had been captured by the Russians at the end of the Second World War but were still claimed by the Japanese as their own 'northern territory'.⁸

Farther south, it appeared that steps were being taken to establish a regular Soviet naval and air force presence at the former American base of Cam Ranh Bay on the central Vietnamese coast. That possibility had been opened up by the Treaty of Friendship signed in Moscow by Le Duan and Brezhnev on 3 November 1978, on the eve of the Vietnamese invasion of Cambodia and then the Sino-Vietnamese War of February–March 1979. Soviet support for Vietnamese ambitions in Indochina was accompanied by ever closer economic cooperation, following Vietnam's admission to membership of the Council of Mutual Economic Affairs (or COMECON) in mid-1978.

The fifth anniversary of the 1978 Treaty was made the occasion for a visit to Hanoi by the Soviet Politburo member Geydar Aliyev – a close ally of Soviet

Leader Yuri Andropov – between 29 October and 3 November 1983. It is possible that the ceremony was intended to counterbalance an expected visit by Reagan to the Philippines and Thailand at about the same time (see below). Or it may have been necessary in order to reassure the Vietnamese of continuing Soviet support after the holding of further Sino–Soviet talks in Beijing in October. Aliyev may also have been seeking more naval and air force facilities at Cam Ranh Bay, where a number of TU-95 ‘Badger’ bombers are believed to have been deployed later in November.⁹

However, the main focal points of Soviet–American confrontation and tension lay elsewhere in the world: the Middle East, Africa and above all Europe.

The ‘Soviet threat’ in the ‘Third World’

In several areas of the world the US had been on the defensive since the mid-1970s, following the first ‘oil shock’ in late 1973 and then the collapse of South Vietnam and Cambodia in April 1975. In the Middle East, for example, they had been unable to exert much influence on the course of the civil war that broke out in Lebanon in 1975, nor could they prevent the overthrow of their ally the Shah of Iran by an Islamic revolution in 1978–79. The nadir of American humiliation came in 1979 when the staff of the US embassy in Teheran were taken hostage and held captive for over a year. These were not specifically Communist advances, but Moscow gained from such setbacks to US global strategy.

The deterioration of relations between the US and USSR had already begun in the mid-1970s. The USSR had actually benefited from the rise in oil prices, which had increased its foreign exchange revenues, thereby allowing it to remedy its food shortages by importing more Western grain and at the same time to adopt a more adventurous strategy in support of ‘third world’ revolution. Despite the inevitable controversies over how far Moscow actively sponsored particular foreign revolutionary movements, the conflicts of the 1970s had certainly created new pro-Soviet left-wing regimes in Central America and in Africa. In some cases these depended directly on military assistance from Fidel Castro’s Cuba.

Thus in Nicaragua the pro-American Anastasio Somoza regime had been overthrown by the Sandinista revolution – orchestrated by the guerilla organisation, Sandinista National Liberation Front (FSLN) – in early 1979; and the government in El Salvador faced a similar prospect by the early 1980s. In Africa the collapse of the Portuguese empire in 1974–75 had opened the way to pro-Soviet regimes in Angola and Mozambique; while the revolution that had begun with the overthrow of Haile Selassie in 1973 had culminated in the emergence four years later of a Communist regime under Mengistu Haile Mariam. Soviet sympathy with Libyan leader Gaddafi, although not ideologically based, was reflected in his use of oil revenues to purchase substantial quantities of Soviet weapons, allowing him to conduct his own adventures in northern Africa and elsewhere. In August 1981 there were reports of an alliance between the USSR,

Libya, Ethiopia and South Yemen, established at a summit meeting in Aden where the Soviet navy by then had its own Indian Ocean base.

Moscow's decision to send troops into Afghanistan at the end of 1979 was directed towards establishing firmer control over a faction-ridden Communist regime which it had supported in general terms since the April revolution of 1978. Although the Russians themselves regarded it as a defensive move, it was seen by Washington as part of a wider strategy of expanding Soviet influence in areas where the American ability to retaliate was very limited.

A more vigorous US response

The Reagan administration, coming into office in January 1981, had begun to respond more actively to these Soviet-led challenges to American global power. By 1983, despite opposition from Congress, it was using CIA resources to give semi-clandestine support to anti-Sandinista rebels in Nicaragua and to support the anti-Communist government in El Salvador. In October 1983, when a crisis on the Caribbean island of Grenada seemed to be creating the opportunity for a new Cuban base, US ground troops were sent in to take control.

In Lebanon, too, Reagan took a more vigorous stand. Following an invasion by Israeli troops in June 1982, Washington saw a danger that the pro-Soviet government of Syria and its Lebanese allies might become strong enough to take over much of the country. In September 1983, having earlier deployed a battalion of US Marines to Beirut as part of a peace-keeping operation, Reagan ordered warships of the US Navy to shell pro-Syrian targets there. Anti-American forces retaliated on 23 October 1983 with a suicide attack on a barracks in Beirut which killed around 200 American troops at one go. Remarkably, this did not lead to any sharp reaction in Congress, and American actions became stronger. By December the battleship *New Jersey* was to be deployed for even heavier ship-to-shore bombardments. Meanwhile an even more serious Soviet-American confrontation was taking place in Europe.

The missiles confrontation of 1983

The structure of superpower rivalry which had evolved over the previous 30 years had had two principal elements: the quest for global superiority in 'strategic' nuclear weapons and inter-continental missiles; and the maintenance of a high-level of preparedness of opposing conventional forces by the NATO powers and the Warsaw Pact in Europe. In the latter sphere, it was generally accepted that the Warsaw Pact had clear superiority in numbers of troops, tanks and other weapons. But that imbalance forced both sides to consider the possibility that an outbreak of conventional war in that theatre would sooner or later escalate into a nuclear exchange. On both levels, however, the conflict was hypothetical: neither side intended to start a war, but each assumed that adequate 'security' depended on having an absolute advantage over the other.

The SALT agreements of the 1970s had been based on the principle of

equality of terror, or 'mutually assured destruction', in the event of an actual nuclear war. But by the early 1980s this assumption was called into question by two new developments: the multiplicity of warheads and individual missiles, which complicated calculations of both capability and parity; and the attempt to increase the effectiveness of intermediate range missiles in order to redress the balance of conventional forces. The time might come when American intermediate range missiles based in Europe would have the capability to destroy command posts around Moscow even before Soviet strategic missiles were launched.

In December 1979 – almost simultaneously with the Soviet decision to move into Afghanistan – NATO leaders had decided to counter the planned Soviet deployment of a new intermediate range missile, the SS-20, by introducing American 'Pershing 2' and cruise missiles into Western Europe: a move for which they expected to be ready by mid-1983.¹⁰ In the meantime a mass movement against the American deployments developed in Britain and West Germany – the two countries directly affected; while talks at official level began in Geneva at the end of November 1981, in the hope of averting an actual deployment. By late September 1983 the talks had reached a virtual impasse, and on 24 October the Russians announced the deployment of SS-20 missiles in East Germany and Czechoslovakia. One month later, the first 'Pershing 2' missiles – which may, despite NATO denials, have had a sufficient range to take in Moscow – were deployed in West Germany; and cruise missiles appeared at a US air force base in Britain.¹¹ The Intermediate-Range Nuclear Force Talks (INF) were broken off by the Soviet side on 24 November; and shortly afterwards other talks on the reduction of strategic arms and on mutual conventional force reductions in Europe also became stalled.

Reagan's visit to Tokyo thus coincided with a major Soviet–American crisis. While there, on 11 November he issued a warning to Moscow that if agreement could not be reached on the further limitation and eventual reduction of nuclear armaments, the US would devote all of its industrial power to a massive new build-up of its own military strength.¹² Some hint of what that might mean had been given in March 1983, when Reagan first spoke publicly about the Strategic Defense Initiative (or 'Star Wars') programme for anti-missile defence.¹³ More immediate evidence of American technological power was the success of the space shuttle programme, which had been tested from April 1981 and had become operational in November 1982. Five flights were made during 1983, using the spacecraft *Columbia* and *Challenger*, and ten more were planned for 1984.¹⁴ Also important, though still secret at the time, was the increasing effectiveness of the CIA's KH-11 reconnaissance satellites, of which two were regularly in orbit during 1983. Equally impressive developments were taking place in the spheres of submarine warfare and anti-tank warfare, using a new generation of computer-controlled missiles. The Pentagon, under Caspar Weinberger, was devoting more and more resources to what would later be dubbed the 'revolution in military affairs'. Its aim was to establish absolute and global American superiority over Soviet forces.¹⁵

A more dynamic Soviet Union under Andropov?

By 1983, however, a new phase of Soviet policy had begun under what might become the more vigorous leadership of Yuri Andropov. Long-time head of the KGB and a close ally of Defence Minister Dimitri Ustinov, he had played a large part in the decision to invade Afghanistan. (This was probably demonstrated by documents released after the collapse of the USSR in 1991.¹⁶) His succession had probably been established as early as the spring of 1982, after the death of veteran 'ideologist' Mikhail Suslov in January. In November, following the death of Brezhnev himself, Andropov very quickly took over the posts of general secretary of the Party and president of the USSR.

Brezhnev and Suslov between them had been responsible for years of stagnation: Andropov recognised the economic weakness of the USSR, and was committed to change. The need for a new approach was made more acute by the decline in world oil prices which was already evident in 1982. Without economic reform, the technological momentum would be lost.¹⁷ The need to match American advances in military technology was emphasised by the chief of staff Nikolai Ogarkov in an *Izvestiya* article for VE-day of 9 May 1983.¹⁸ In these circumstances Andropov probably saw no purpose in reaching new arms agreements which would simply consolidate a growing American advantage.

Industrial reform was especially urgent. By April 1983 the new leadership was encouraging ideas coming up from the Novosibirsk Economic Institute¹⁹ in Siberia, which focused on the need to end the administrative fragmentation of industrial decision-making and to give more responsibility to individual enterprises. But reform was only possible within the existing framework of party domination and Leninist ideology; and changing the agricultural system would be especially difficult.

During his first months in power, Andropov promoted a number of younger leaders whose positions of potential influence: notable among them were Gorbachev, already a member of the Politburo and its specialist on agriculture, Nikolai Ryzhkov – now promoted to the Secretariat – and Yegor Ligachev,²⁰ brought to the centre from Western Siberia to take charge of Party organisation. But the 'old guard', including the Propaganda Chief Konstantin Chernenko and the Prime Minister Nikolay Tikhonov, still had considerable influence. Transforming the leadership completely would take time.

However, it was not given to Andropov to become a Soviet Deng Xiaoping. Unfortunately the new leader's time was limited. From August 1983 he was confined to hospital for treatment of a kidney disease that would prove terminal; on 7 November he failed to appear at the annual parade for the anniversary of the Russian Revolution. Although a Central Committee plenum at the end of the year fully endorsed his policies, their momentum would soon be lost.²¹ On 9 February 1984 Andropov died, leaving Chernenko to succeed him and Gorbachev to continue the fight for reform. The question whether the history of the following decade would have been different if Andropov had lived longer is as tantalisingly unanswerable as that often asked about Kennedy in 1963.

Andropov's objectives also included a tightening of the unity of the Soviet republics, with the promotion of Russian as the main language of communication and instruction²²; and – now that Suslov was out of the way – new efforts to bring about a Sino–Soviet rapprochement. To that end, from October 1982 talks were held in Moscow and Beijing at deputy foreign minister level, leading to a new trade and cooperation agreement between the two sides in late October 1983. Deng Xiaoping insisted that normalisation of their diplomatic relations depended on the removal of 'three obstacles': the presence of several hundred thousand Soviet troops along the borders with China; the Soviet occupation of Afghanistan; and Soviet support for the Vietnamese occupation of Cambodia.²³ Nevertheless, progress might have been faster if Andropov had lived.

The US and South-East Asia

During the same Asian tour which took him to Japan and Korea, Reagan had originally planned also to visit Indonesia: both to return a visit by Suharto to Washington in October 1982 and to meet the five foreign ministers of ASEAN, whose headquarters was now in Jakarta. American hopes that Suharto would arrange a summit meeting of top ASEAN leaders for the occasion were disappointed. As plans for the tour evolved, it was decided that Reagan would also visit Bangkok for talks with Prime Minister Prem Tinsulanonda, and would make an informal stopover in Manila to meet President Marcos.²⁴ These were the two countries to whose defence the US was committed under the Manila Pact of 1954, which remained in force despite the formal dissolution of SEATO in 1977.

Following the collapse of pro-American regimes in South Vietnam, Cambodia and Laos, the role of ASEAN had become increasingly important for the US. Despite the defeat of US objectives in Indochina, there had been no 'dominoes' in 1975. As was demonstrated by the first summit meeting of ASEAN leaders in Bali at the end of 1976, all five of its members were friendly to the West. The organisation as a whole had contributed to regional stability by combining a sense of unity with a recognition of diversity of interests and different roles among its members. Indonesia and Malaysia emphasised their non-alignment in world affairs, while Singapore, Thailand and the Philippines maintained closer ties with Washington.

The broad pattern of relations which had emerged in South-East Asia by the autumn of 1983 therefore had the appearance of a region divided into two camps: on one side the five members of ASEAN (shortly to be joined by Brunei); on the other, the 'three Indochinese peoples' of Vietnam, Laos and Cambodia, whose unity had been affirmed in February 1983 at a summit meeting in the Laotian capital Vientiane convened by the Vietnamese Communist Party chief Le Duan.

Since the Vietnamese invasion of Cambodia at the end of 1978, which overthrew the Pol Pot regime, ASEAN had collectively opposed any continuing Vietnamese occupation of that country; and from mid-1982 had given its support to

an anti-Vietnamese coalition headed by Prince Sihanouk. The longer term ASEAN objective was a diplomatic settlement which would force the Vietnamese to withdraw and possibly even open the way for improved relations between the two 'halves' of the South-East Asian region. But this would not be obtained through vacillation, and in July 1983 ASEAN ministers expressed impatience with the Australian government for wanting to make too many concessions to Hanoi. In an attempt to restore harmony in that quarter, the Australian Prime Minister Bob Hawke visited Bangkok between 19 and 22 November. Meanwhile, the Cambodian issue was discussed further at the meeting of ASEAN foreign ministers which Reagan had originally planned to attend on 7–8 November 1983. The American president, however, was not there.²⁵

Already in early October it had been decided in Washington that Reagan would abandon the South-East Asian part of his tour. The main reason for doing so, although it was not officially stated, was the growing disorder in Manila following the murder of opposition leader Benigno S. Aquino Jr. – son of the former Secretary of Agriculture and Commerce (1938–41) and prominent official in the Japanese-organised Laurel government during the Second World War – on his return to the Philippines on 21 August 1983. Anti-Marcos demonstrations had become increasingly serious since mid-September and could very easily turn into anti-American rioting; there may even have been doubts about ensuring the American president's safety. Much to the disappointment of the Thai and Indonesian leaders, Washington decided to minimise the embarrassment to Marcos by also calling off the planned visits to Bangkok and Jakarta – using as a rather lame excuse the unexpected lengthening of the current session of the US Congress.²⁶

This decision to give priority, in effect, to North-East Asia rather than to South-East Asia was significant in itself. It reflected the change that had occurred since the 1960s in Washington's perception of the threat to its own power in the East Asian region.

Twenty years earlier both the Kennedy and the Johnson administrations had been preoccupied with a 'Chinese threat' to South-East Asia. They saw the Soviet policy of 'peaceful coexistence' as potentially beneficial to US interests. Now, it was relations between Washington and Beijing that were based on something like detente, including some areas of active collaboration, while the 'Soviet threat' to North-East Asia seemed ever more ominous.

Cambodia was now the focal point of rivalry between a pro-Soviet Vietnam and anti-Vietnam forces backed by China. But Beijing's continuing assistance to the forces of Khieu Samphan and Pol Pot,²⁷ although controversial from a human rights point of view, presented no security threat to the US; nor to ASEAN, which as we have seen also supported the Democratic Kampuchean coalition.

China and South-East Asia

In two countries, Thailand and the Philippines, 'Maoist' guerillas were continuing anti-government struggles which had begun in the later 1960s and had

intensified in the mid-1970s. But in the case of Thailand, that phase was rapidly coming to an end, as several groups of Communist guerillas in both the northern and southern provinces surrendered to the government in late 1983.²⁸ A new warmth of diplomatic and economic relations between Beijing and Bangkok had been inaugurated by Deng Xiaoping's visit to the Thai capital in late 1978. Since then, Zhao Ziyang had been received in Bangkok in January 1981; and in November 1982 Prem Tisulanonda had visited China.

Beijing's diplomatic relations with Manila were less close at that time; but China was not providing the kind of assistance to the 'Maoist' New People's Army that might have allowed it to seize power, even in a single major region or major island of the Philippines. A much more serious guerilla problem for the Marcos regime in late 1983 was posed by the Moro National Liberation Front (MNLF) in Mindanao, which had support from Islamic governments in the Middle East. Neither problem amounted to a reason for serious American concern about Chinese ambitions.

Among other ASEAN countries, China had also begun to cultivate better relations with Malaysia and Singapore, notably through visits to both countries by Zhao Ziyang in August 1981.²⁹ At the other extreme Indonesia was still unwilling to restore normal relations with China, which had been frozen since 1967; but there was no longer any serious Communist threat to the Suharto regime. China, in effect, shared ASEAN's common interest in regional stability, which seemed threatened mostly by Vietnam in alliance with the USSR.

Defence policies of individual ASEAN countries

In practice, the defence of the ASEAN region still depended on the US. It had been emphasised when the organisation was first established in 1967 that it was not a collective defence organisation. Nor, on its own, could it have mustered forces on the scale that would have been required to defend the whole region. But in the aftermath of the war in Indochina, neither the US nor any of its allies outside the region was ready to participate in a new security organisation on that scale. Existing commitments were deemed to be adequate.

The Philippines was the only South-East Asian country in which the Americans still maintained naval and air force bases. Their presence had been extended to 1989 by an agreement negotiated in May 1983.³⁰ The US also had a military aid agreement with Thailand. In addition, US warships paid regular visits to Thai ports; and US planes flying between the Philippines and the Diego Garcia base in the Indian Ocean made frequent use of U-Tapao and Don Muang. The American assumption was that this level of military and naval activity would be sufficient to deter any outside aggression against ASEAN as a whole.

Beyond that, it was up to each country in ASEAN to make arrangements for some kind of defence capability to meet its own immediate needs. This usually involved the purchase of new weapons systems, often with financial assistance from the US or Britain. From around 1979, as Vietnamese forces established themselves on the borders of Cambodia and Laos, and also became increasingly

active in the South China Sea, the defence expenditures of all five ASEAN governments increased dramatically.

As of 1983, there was considerable diversity among the armed forces of the region, both in total numbers and in the proportion of the population under arms. The size of national forces ranged from 55,000 in Singapore to 280,000 in Indonesia; but that concealed a rather different pattern in proportion to total population. In Indonesia and in the Philippines, the proportion was only 0.2 per cent; in Thailand, 0.5 per cent. But in Malaysia, still expanding its armed forces in 1983–84, it was 0.7 per cent; and in Singapore as much as 2.2 per cent. The two latter countries had probably advanced farthest towards establishing the forces and weaponry appropriate to a coherent national strategy. Interestingly too, their armed forces had no role in politics, unlike those of Thailand, Indonesia, and potentially the Philippines.

In all countries the largest component was the army, with a strong emphasis on the maintenance of internal security. Counterinsurgency was especially important in Thailand and the Philippines. But all forces of the region were interested in developing more conventional firepower through the acquisition of tanks, other armoured vehicles, and anti-tank weapons. Thailand, being on the 'front line' in any confrontation with Indochina, placed greatest priority on strengthening its land forces and their effective mobility.

In the acquisition of new weapons there was perhaps most interest in improving air force capability, especially jet fighters. By 1983 all ASEAN air forces had F-5 fighters, of various vintages: together their numbers came to 134, and in addition the Philippines had 24 F-8s. Also popular were versions of the A4 naval fighter: Singapore already had 47 of these, Indonesia had 31 while Malaysia had ordered 34.

None of these developments, however, put individual South-East Asian countries on a par with Vietnam – or with Taiwan and the two Koreas – let alone with the more powerful armed forces of the Middle East and South Asia. Nor did any of the ASEAN navies have significant capabilities beyond their own coastal waters. Only Indonesia had submarines (three, kept on from the Sukarno years) and 24 frigates. Most emphasis was placed on the acquisition of fast attack craft, some armed with Exocet missiles which in 1982 had proved their worth in the Falklands War.³¹

Such forces were likely to be capable of only localised operations, of which an example occurred in 1983. By then a new area of tension was beginning to emerge between Vietnam and its South-East Asian neighbours: that of the Spratly Islands in the South China Sea. They were already an area of direct confrontation between Vietnam and China, both of whom claimed sovereignty over the whole group. But China, having seized control of the more northerly Paracels in January 1974, did not begin to establish a major presence in the Spratlys until 1998. Of more immediate importance was rivalry at the southern edge of the group, between Vietnam, the Philippines and Malaysia. The increased interest of the later two countries in the Spratlys was related to the implications of the UN Law of the Sea conference for offshore economic zones;

and to the likely presence of natural gas fields in the area. As early as 1978 the Philippines had laid claim to a small number of islands close to Palawan, and had subsequently occupied some of them. Malaysia had laid claim to the Vietnamese-occupied Amboyna Cay in 1980. In September 1983, it was reported that the Malaysians had recently sent a small commando force to take over the nearby atoll of Terumbu Layang Layang: in fact, it had done so immediately following a joint exercise conducted in June 1983 by forces of the Five Power Defence group of Malaysia, Singapore, Australia, New Zealand and Britain. The capability for such action was linked also to Malaysia's need to defend the sea routes between the Malay Peninsula and east Malaysia.³²

Contrasts with earlier periods

One thing that may have worried South-East Asian leaders in the autumn of 1983 was the wider 'regional role' being proposed by the Americans for Japan; and the possibility that it might one day lead to the return of Japanese forces to their own region. Prime Minister Nakasone, who in May 1983 had made the tour of ASEAN countries which was now obligatory for every new Japanese leader, had been at pains to reassure his hosts that Japan's willingness to enlarge its defense role did not imply any ambition to become a major military power – still less, any desire to return to the 'imperial' militarism of the 1940s.³³

In reality, of course, the situation was totally different from that of 40 years before. There was no longer any likelihood that the whole economic future of the East Asian region would, in practice, depend on the actual use of military force; let alone that it would depend on the outcome of a war fought principally in Asia and the Pacific. Nor, indeed, did the framework of international reference prevailing in 1983 correspond very closely to that of 1953 or 1963. Despite tensions arising from the Soviet naval and missile buildup in the Pacific, there was no longer any serious possibility that either the USSR or China would attempt to use military operations, or politico-military subversion, to change the fundamental economic structures of those Asian countries not already under Communist rule.

The economic future of the region depended primarily, not on military power but on the policies adopted by individual governments to deal with their own immediate problems; and on the economic and financial environment in which those decisions would have to be made – an environment that was regional in some respects, but ultimately and essentially global.

China and Japan

The visit of Hu Yaobang to Japan from 23 to 30 November 1983 was in some respects a more significant event than Reagan's visit earlier in the month. As secretary of the Party, Hu was the most important among the new generation of Chinese leaders and the likely successor to Deng Xiaoping. During his stay in Tokyo he emphasised the need for long-term stability in what was by now being

called the 'Asia Pacific region', as well as the contrition that would be made to that objective by Japan's investment in Chinese economic development. Without dwelling specifically on the Soviet threat, he also reaffirmed China's opposition to 'hegemonism' in Asia. It was an indication of the high profile of his reception that, in addition to his talks with Nakasone, Hu was invited to address the Japanese Diet and had an audience with the Emperor Hirohito.³⁴

On the other hand, the burden of the past was never completely forgotten on the Chinese side. Careful readers of the Beijing press that week would also find reports of a speech made by the veteran PLA general Wang Zhen on 26 November, at a ceremony in the Great Hall of the People to mark the 90th anniversary of the birth of Yang Hucheng. Yang was the KMT general responsible for the Xi'an mutiny of December 1936, which had forced Chiang Kai-shek to join a united front with the Communists against the Japanese presence in north China, leading to the bitter war fought on Chinese soil between 1937 and 1945.³⁵ The occasion was symptomatic of continuing Chinese distrust of Japan, which would complicate relations between the two principal Asian powers for decades to come.

China's economic reforms

In the more immediate perspective, Hu's presence in Tokyo represented a further stage in the 'opening up' of China which had begun with Deng Xiaoping's final emergence as the dominant Party and State leader at the CCP Central Committee plenum of December 1978; followed by his visit to the US and briefly to Japan in early 1979. Deng's earlier rehabilitation, in 1973, had been reversed during the final phase of Maoist radicalism in early 1976, with the result that he had not immediately succeeded the 'great helmsman' when Mao finally died on 9 September 1976. The initial post-Mao phase had been dominated by the group which arrested the radical 'gang of four' on 6 October that year: notably Wang Dongxing, long-time chief of Mao's bodyguards; Wu De, the mayor of Beijing; and Hua Guofeng, who had been security minister since 1972 and who in 1976 had succeeded Zhou Enlai as prime minister and then Mao himself as chairman of the Party. It had taken Deng from mid-1977 (his second rehabilitation) to late 1978 to eliminate that group and establish his own paramount position. As if to emphasise the unchallengeable nature of his own power, Deng never became either prime minister or Party chairman; but he did assume the vital position of chairman of the Central Military Commission.

The immediate post-Mao period (1976–78) was characterised by an attempt to return to the economic strategy of 20 years earlier, which had placed emphasis on heavy industry at the expense of agriculture and had culminated in the ambitious growth targets of the GLF. The formal plan which emerged in 1977 differed from the Great Leap strategy in that it did not assume complete 'self-reliance'. Instead its lynchpin was to be the export of oil, whose discovery and exploitation at Daqing in the 1960s had been the one economic success story of the Cultural Revolution years. However, the hoped for discoveries of

new oilfields failed to materialise, and by late 1978 it was clear that the plan was in trouble.³⁶ It was probably the resulting economic crisis, rather than a desire to reform for its own sake, that had given Deng his opportunity to remove Wang Dongxing and to sideline Hua Guofeng.

Deng's response to the crisis, in early 1979, was remarkably similar to that of the Central Committee in the early 1960s: once again Chen Yun was entrusted with the task of charting a new course. As in the post-GLF period, he insisted on a shift away from over-emphasis on heavy industries, including the abandonment of some projects for the supply of complete plants by Japan, and a new focus on agriculture and light industry.

In the absence of radical opposition, however, it was possible now to permit greater freedom for individual household production in agriculture, and to allow a limited role to the market, as well as to encourage the growth of small-scale local enterprises to meet consumer demand. The success of these measures was probably even greater than Chen himself had anticipated. Not only did they help to overcome the threat of rising unemployment; an additional consequence was a rise in the rate of household and small enterprise savings which could be exploited by the state banking sector to make loans for further expansion.

Another strand in these early economic reforms, evident during 1980, was a renewed emphasis on the manufacture and processing of goods for export even where that involved the import of producer materials. Incentives included new foreign exchange regulations in 1980, and some easing of the monopoly of the vast state trading organisations – allowing more freedom to other state enterprises. The foreign exchange role of the Bank of China was expanded; and in April 1980 China was admitted to membership of the IMF. In this context a privileged status was allowed for the provinces of Guangdong and Fujian, where four Special Economic Zones were inaugurated during the same year, including Shenzhen, opposite Hong Kong. Chinese capitalists in Hong Kong itself were encouraged to take a new interest in the development of Guangzhou, in which a leading role was played by the rising star Li Kashing. It was in 1979, too, that Li became the first Hong Kong Chinese businessman to secure a controlling interest in one of the colony's British dominated *hong* groups, Hutchison Whampao.

In the meantime there was also a revival of the policy of large inter-governmental trade agreements of the kind that had begun to develop in the 1960s. Those with Britain (4 March 1979), Italy (6 November 1979) and France (17 October 1980) were especially significant. Even more ambitious was the comprehensive Sino-US trade agreement signed in Beijing on 7 July 1979; but the US Congress was reluctant to ratify it and therefore grant China 'most favoured nation status'. On the Chinese side, a series of measures towards smoother administration culminated in the establishment of a single Ministry of Foreign Economic Relations and Trade in March 1982.

However, none of these developments meant that Chen Yun was ready to apply liberal market reforms to the main core of the economy, the state enterprises which continued to dominate Chinese industry and trade. The emphasis there was on improved planning arrangements, including a major reform of the

statistical system which had virtually collapsed after 1966. By 1982–83, a new body of 'technocrats' led by economist Xue Muqiao was also devoting considerable effort, without any final solutions, to the complex issue of price reform. Meanwhile, from 1981 Chen Yun insisted on a period of 'retrenchment'. One result was the abandonment for the time being of a new 'retention of profits' policy for state enterprises, despite the apparent success of an experimental phase.³⁷

The reform of China's party and state leadership

An important reason for the retrenchment was the need to consolidate power to the new leadership, and to carry out reform of Party and State institutions at lower levels. Both at the centre and in the provinces it was necessary to combine a restoration of the 'old guard' of Deng Xiaoping's own generation, men whose revolutionary credentials went back to the 1930s, with the promotion of a new generation of leaders who had grown up since 1949. In that spirit Zhao Ziyang, who had proved his managerial abilities in Inner Mongolia and then in Sichuan in the late 1970s, was made prime minister in 1980; while Hu Yaobang was given effective charge of Party affairs in the same year, well before his formal appointment as secretary-general at the 12th Party Congress in September 1982.³⁸

But the vast size of China's population and territory made it impossible to take for granted the actual implementation of changes decreed at the Centre; especially in circumstances where many local Party officials had owed their promotion to the acceptance of radical Maoism before 1976. Having ensured the final disgrace of the 'gang of four' and the 'Lin Biao clique' by means of a public trial at the end of 1980, Deng set about the complex task of both rejuvenating and disciplining the party and State bureaucracy. During 1982 there was a campaign to oblige older cadres to retire, while streamlining the structures of government. Equally important was the need to fight corruption and economic crime, which were a potential consequence of greater institutional diversity and of opening up foreign trade. Chen Yun's task included the enforcement of better discipline over the individual cadres. Responsibility for developing a more effective legal system, within the framework of a new constitution, was given to another pre-Cultural Revolution leader, Peng Zhen.

The new constitution was approved by the National People's Congress at its meeting in November–December 1982. Subsequently the first session of the Sixth National People's Congress, in mid-1983, appointed Peng Zhen its chairman and Li Xiannian to the revived position of president of the PRC. But there was to be no question of allowing economic reform to be accompanied by political liberalisation.

By the autumn of 1983 Chen Yun's group in the CCP propaganda department were embarking on a campaign against 'spiritual pollution'.³⁹ Many Western observers saw a contradiction between the policy of economic reform, apparently tending towards 'liberalisation', and the renewed emphasis on Party

discipline. For the Chinese themselves, with the upheavals of the Cultural Revolution fresh in their collective memory, the combination was more logical.

The People's Liberation Army

Deng Xiaoping was also determined to bring about a new phase of disciplined modernisation of the armed forces. The task of imposing discipline and reorganisation was given in mid-1981 to another veteran leader, Yang Shangkun. But at lower levels, progress was slow. The first volume of Deng's *Selected Works*, published in July 1983 and covering speeches and writings of 1975–82, included some sharp criticism of the attitude and performance of PLA cadres.

The need for military modernisation had become evident from the less than perfect performance of the PLA in the war against Vietnam in February–March 1979; it was reinforced by the presence of several hundred thousand Soviet troops along China's northern border. During 1979–80, China had benefited militarily from the Carter administration's enthusiasm for collaboration against the Soviet threat; but US relations had then cooled somewhat, in the early Reagan years, as the issue of American support for Taiwan resurfaced.

With the advent of Andropov in 1982 and Moscow's first moves towards rapprochement with Beijing, the Chinese began to take a more 'neutral' position towards the two superpowers. But the possibility of that more 'independent' line was itself dependent on greater military strength, which meant securing access to modern technology. In that respect further improvement in relations with the US, on both the military and economic fronts, seemed to offer better opportunities for military modernisation than a full-scale Sino–Soviet rapprochement. In July 1983 it was decided to invite the US Defense Secretary Weinberger to visit Beijing: a visit which, we have already seen, took place in late September and led to a further relaxation of US restrictions on the sale of hi-tech items to China.⁴⁰ It only became known 16 years later that, in that same month of July 1983, the PLA set up a Defence Science and Technology Information Centre dedicated to gathering secret intelligence on the most advanced foreign military technology.⁴¹

The Hong Kong problem

July 1983 also marked a new stage in China's handling of the problem of sovereignty over Hong Kong, where Britain's lease on Kowloon and the new territories was due to expire in 1997 – making its control over Hong Kong island also untenable after that date. The future of the colony had already come to the fore during 1982, when it was recognised that any new leases of land for more than 15 years would depend on the situation prevailing after 1997. Following a somewhat abrasive exchange between Deng Xiaoping and British Prime Minister Margaret Thatcher, when she visited Beijing in September 1982, the Chinese had reaffirmed their intention to recover full sovereignty over the whole territory as soon as the New Territories lease expired. This, together with the hard line which Thatcher continued to assert while visiting Hong Kong on her way home,

led to a sharp fall in both stock prices and the value of the Hong Kong dollar. There could be no more potent demonstration that Hong Kong's own economic stability might be damaged well before 1997 if the dispute was not resolved, to Beijing's satisfaction, at an early date.

By mid-1983 both sides were ready for more negotiations. Another visit to Beijing by Hong Kong governor Edward Youde on 11–13 July was followed two weeks later by the start of a new series of meetings between Chinese and British officials. After several further rounds of talks, and a visit to Beijing by Thatcher's predecessor Edward Heath in September, the atmosphere began to improve. On 15 November the Chinese official responsible for Hong Kong and Macau affairs, Ji Pengfei, gave a pledge that Hong Kong's administrative system would remain unchanged for 50 years after 1997. Meanwhile on 15 October the economy was to some extent stabilised by a decision to peg the Hong Kong dollar to the US dollar at a rate of 7.80:1.00 (compared with 5.70 in early 1982). By the end of the year negotiations were well on course towards the eventual Sino–British agreement that would be signed in Beijing on 26 September 1984.⁴²

A new phase of foreign investment in China

When interest in heavy industry began to revive during 1982, priority was given to energy projects, which were recognised as vital to further industrial expansion. It was also realised that progress in this sphere, especially in the discovery and exploitation of offshore oil, would depend on attracting foreign investment by Western and Japanese oil companies. Starting in May 1983 the new China Offshore Oil Company signed contracts with British Petroleum, then with Occidental, Exxon and Shell (in August), for drilling in areas off the coast of Guangdong. On 23 September a similar deal was made with Mitsubishi in relation to an area in the Bohai Gulf. These arrangements heralded a new and more open approach to Foreign Direct Investment (FDI) in China, which was in sharp contrast to the earlier strategy of obtaining transfers of technology through the purchase of complete industrial plants from Western and Japanese corporations on the basis of medium-term and long-term financial credits. Another indication of the new policy was approval by the State Council on 20 September 1983 of detailed regulations for the implementation of a law on joint ventures with foreign participants, which had originally been passed in general terms in 1979. The new policy was designed to attract capital to Guangdong and Fujian: from Hong Kong, from Japan, and from overseas Chinese business networks in South-East Asia.⁴³

This encouragement of FDI in China was an important dimension of Hu Yaobang's visit to Japan in November 1983. The ground had probably been prepared during an earlier visit, in April, by the head of Chinese state planning Yao Yilin; and by China–Japan ministerial talks held in Beijing in early September. Hu demonstrated his own interest in Japanese industrial progress during the tour of the country which took in the Sakai plant of Nippon Steel, the electronics pavilion at the Osaka Fair, and visits to Kobe and Nagasaki. Meanwhile, at the

end of October, it was reported that a number of joint ventures with Japanese companies, as well as a wholly owned subsidiary of the Sanyo Electric company, had begun manufacturing operations in the Shenzhen special zone. By the end of 1983, too, the special economic zone of Xiamen in Fujian province had begun to attract a small amount of direct investment from Thailand and Singapore.⁴⁴ The policy of opening up China's economy to foreign investment in this unprecedented way would make increasing headway as Japan's own economy began to grow again in the wake of recovery in the US.

Japanese–American economic relations

The Japanese economy was once again growing steadily by the end of 1983, after another recession which had failed to damage its long-term momentum. A decade earlier Japan had withstood the impact of the first 'oil shock' of 1973–74: against the disadvantage of the rising costs of oil imports, it had been able to weigh the opportunity to export – especially to the US – automobiles which were both cheaper and more economical than the typical American 'gas guzzler'. One result however, by the early 1980s, was discontent among American auto workers and political pressure on the US government to limit Japanese imports. In May 1981 the Japanese had responded to American demands by announcing 'voluntary export restraint' in the automobile sector.

By then, both Japan and other industrial economies were feeling the effect of the second 'oil shock' of 1979–80, arising from events in Iran and then the Iran–Iraq war. An overall reduction in exports during 1981–82 and into 1983 led to a Japanese recession, reflected in falling company profits and a falling Tokyo stock market. But the recession was uneven in its impact on different sectors of the economy, some of which emerged stronger and more competitive: notably robot technology, where Japan had a commanding lead, consumer electrical goods, precision instruments, and certain types of computer software.⁴⁵

From the spring of 1983, Japan's recession gave way to economic recovery, based partly on a revival of domestic consumption and partly on a recovery of exports – as the US economy recovered from its own 1981–82 recession. However, this created new tensions when Japan's trade surplus again began to grow: it was expected to be around US\$18–20 billion for the year ending in March 1984. Conversely, in 1983 the US suffered an adverse balance of trade – for the first year, apart from periods of war, since 1895.

In April 1983 the Foreign Relations Committee of the US Senate held hearings at which American business interests accused the Japanese government of pursuing a deliberate policy designed to keep the value of the *yen* artificially low against the US dollar, thereby holding down the cost of Japanese exports. The US Caterpillar Corporation was especially vocal about 'unfair' worldwide competition from Komatsu Corporation in the field of heavy construction and earth-moving equipment. The Congressional critics called for their own government to pressure the Japanese into taking measures that would 'internationalise' the *yen*: by eliminating domestic interest rate ceilings on bank loans and deposits

in Tokyo, seen as an important element in the ministry of finance's control of the financial system; by removing restrictions on the issue of *yen* bonds; and by creating a market in Japanese treasury bills, open to foreign investors.

Not surprisingly the ministry of finance was opposed to such measures, which would go far beyond the very limited opening up of Japanese foreign exchange activity that had occurred in 1980–81. The issue was taken up by President Reagan during his November 1983 visit to Tokyo, and on 10 November Finance Minister Noboru Takeshita and Secretary of the Treasury Donald Regan agreed to set up a 'Yen–Dollar Working Committee' to devise means of inducing greater international use of the *yen*. Its report in March 1984, however, led only to further piecemeal changes which did not threaten the effective power of the Japanese finance ministry.

The main concern of the Japanese themselves was merely to ensure that foreigners had sufficient *yen* to sustain Japan's own trade. That could be achieved by allowing Japanese banks to issue *yen* bonds through their branches in London: a practice which was growing by 1983. During 1981–82, some Japanese business groups had developed a proposal to establish offshore banking facilities in Tokyo; but in 1983 it was decided that it too might be the 'thin end of the wedge' of another threat to government financial control over the banking system. The proposal was abandoned, to be revived in the rather different circumstances of 1986.⁴⁶

The US budget deficit and the role of Japanese investment

The apparent success of Reagan's policies, in promoting the American economic recovery that was taking hold by 1983, was associated with a 'revolution' in monetary and fiscal policy. On one level this involved abandoning the kind of international monetary cooperation and government intervention in foreign exchange markets that had been pursued during the 1960s and 1970s, in favour of a policy of unilaterally limiting the US money supply by unilaterally manipulating US interest rates and curbing budget deficits, with the principal aim of controlling inflation. On another level it involved reducing taxes; a measure which Reagan persuaded Congress to enact in mid-1981, ensuring a progressive reduction over the following three years. But by 1982 it was becoming clear that these two changes were incompatible, at least in domestic terms. The policy of limiting money supply required high interest rates, which threatened further business expansion. The tax reduction, on the other hand, could not be matched by cuts in government expenditure: Reagan's emphasis on gaining military superiority over the Soviet Union meant a larger defence budget, while the attempt to reduce domestic expenditure on welfare programmes proved politically unrealistic. By 1983 the budget deficit, which sooner or later would become inflationary, was getting out of control. The potentially disastrous consequences were avoided largely through the ability of high US interest rates to attract investment by foreigners in Treasury bonds.⁴⁷

An alternative interpretation of what was happening is possible, however, by

focusing not only on the purely domestic parameters of economic analysis but on a wider perspective which takes in what might be called the Pacific–American economy. In those terms, the US recovery after 1983 might be attributed to the unintentionally Keynesian consequences of the US budget deficit in promoting higher levels of productive activity and income throughout that region. The additional income received by American producers and consumers did not all go directly into domestic savings.

Some of it went into equity investments, especially through trusts and pension funds; but not enough to alleviate the budget deficit. Much of the extra income went into increased consumption, including the purchase of imports from Japan and elsewhere in Asia. It was in Asia, especially in Japan, that the increased income generated in this way became transformed into savings which were then invested in the US.

A key role was played by Japanese life insurance companies and other institutional savers, whose own dynamic was to attract more and more savings from Japanese families. Until 1980 they had invested the proceeds mainly in Japanese government bonds. But from 1981 the rise in US interest rates, and in the *yen* value of the American dollar, led these companies to invest in the US Treasuries: a trend that by 1983 was well established. The effect was to finance America's deficit, in such a way as to avoid renewed US inflation and therefore to permit continuing economic growth in both the US and Japan.

The irony of this situation was probably better appreciated in Tokyo than in Washington. In mid-October 1983 an article in the Japanese financial newspaper *Nihon Keizai Shimbun* suggested that US policy towards the Japanese economy was rather like trying to use a heater and an air conditioner simultaneously in the same room. The persistent American demand for internationalising the *yen* and deepening Tokyo's financial markets, if successful, would have made it unnecessary for Japanese savings institutions to invest in the US; in practice, the Americans were taking for granted a flow of Japanese investment into US securities which depended on no fundamental change being made in Japan's financial structures.

This deployment of Japanese savings in a role essential to the US economy was only one example of increasing international mobility of capital by the early 1980s. A comparable interest in US Treasuries was noticeable among Middle East recipients of higher oil revenues. This tendency was balanced, moreover, by a new readiness of American pension and trust funds, from about 1982, to ensure against the new volatility of the dollar's exchange rate by investing a proportion of their own funds abroad – including stock markets in Asia. As of 1983, the Asian–Pacific stock markets which benefited most from this were those of Tokyo, Singapore, and especially Hong Kong where fund management was becoming a specialised branch of the financial sector. The full implications of this trend would be clearly evident a decade later. In the meantime the growing mobility of capital was more apparent in the international banking system, whose structure had changed considerably during the years since 1973.⁴⁸

8 The reaffirmation of American centrality (autumn 1983) and technology in 'the real 1984'

Trade is one of the major driving forces of economic growth in the developing countries and a source of funds far more important than foreign aid.

US President Ronald Reagan in address to World Affairs Council, Philadelphia, 15 October 1981

[The] ... only US priority for world economic development is to revitalise the US economy and restore strong and sustained non-inflationary growth at home.

Assistant research fellow Zhang Ruizhuang of the Shanghai Institute of International Studies on 'Ronald Reagan's North South Policy', *Beijing Review*, 22 August 1983

When the debt burden of third world countries becomes heavier, external debt will gradually be transformed from the 'engine' for economic growth into its 'shackles' ...

... for every dollar loaned to the third world countries, about \$1.50 will come back in increased demand for exports from the industrialised countries.

From US Congressional document cited by You Zhongwen and Zhen Bingxi in 'Third World Debt', *Beijing Review*, 14 November 1983, (abridged translated in the *Journal of International Studies*, no. 3, 1983)

China's critique of the global economy in 1983

The contrast between the economies of China and Japan was vast: one slowly emerging from Stalinism, the other well established as a major player in the capitalist world. The Chinese leaders were seeking to establish their own relationship with that world, but on their own terms. They remained conscious of the disadvantages suffered by many 'third world' countries; and highly critical of the apparently relentless pursuit of profit by American and European business and government. Articles published in the Chinese media in the summer and autumn of 1983 suggest that the decision to encourage FDI in China was taken against the background of serious debate and a critical analysis of current trends in the global economy.

In the past China had seen itself in the role of revolutionary leader of the 'third world' against 'imperialist' oppression. Now it focused on the rising debt

burden of the third world as a consequence of the growing economic 'hegemony' of the US. As an oil producer, China itself might hope to escape the disaster which had befallen many non-oil producing countries following the 'oil shocks' of 1973–74 and 1979–80. But its leaders had no wish to fall into the kind of debt trap which appeared, from the autumn of 1982, to be engulfing the economies of Mexico, Brazil and several other countries: a situation in which it was necessary to borrow more and more simply in order to service the interest on previous borrowing. China therefore showed little inclination to finance its own development through massive borrowing from international banks, as against direct investment in specific projects where risks would be shared with foreign partners. Nevertheless, the new spirit of pragmatism required an acceptance that by late 1983 'Reaganism' was working: the US economy was recovering from recession, and at least some Asian economies were benefiting indirectly from that process.

An article in the *Beijing Review* of 22 August 1983 (by a fellow of the Shanghai Institute of International Studies) was highly critical of the Reagan administration's persistent rejection of efforts, begun in the late 1970s, towards achieving a new world economic order through negotiations between representatives of the industrialised 'North' and of the developing 'South'.¹ Such efforts had received some encouragement from the Carter administration, and had also been advocated by the Brandt Commission on International Development Issues in two famous studies published in 1980 and in early 1983.² Already by the time of the 'North–South' summit at Cancun, in October 1981, the new American administration was moving away from that concept. Reagan's own solution for the global economic recession, outlined in a speech in Philadelphia³ on 15 October 1981, lay in 'revitalising' the economy of the US itself: 'By getting our house in order, we win, they win, we all win'.

This notion of 'American centrality' embraced the principle of 'free trade': in particular the idea of a North–South round of trade talks on market access, as proposed by the US delegation at the GATT ministerial meeting of November 1982. (The Chinese pointed out that this would benefit principally the exports of large American corporations at a time when the US was becoming concerned about its own trade balance.) It also emphasised the principle of increasing the role of private, again largely American, capital in international development; as opposed to that of economic aid, which both Reagan and the US Congress wanted to reduce – and even then to relate more specifically to America's own political and strategic objectives.⁴

A further article, published in the *Beijing Review* of 14 November 1983, analysed the problem of third world debt in terms of the role of American and other Western commercial banks, which had become increasingly dependent for their profits on lending to third world governments – and which blamed 'poor management by debtor nations' if anything went wrong.⁵ The international handling of the Latin American debt crisis of 1982 suggested that Western governments, particularly the US, were willing to intervene only to help banks to protect their short-term profits in specific crises; not to negotiate an overall

solution to the problem. Much of the Chinese analysis anticipated, by many years, the supposedly new argument that would be put forward by radical Western critics of 'globalisation' in the late 1990s.

The new mobility of capital and the international banking system

The concept of 'American centrality' expressed itself to a great extent through the expansion of an international banking system in which New York and London played the dominant role. Many of the 'petro-dollars' generated by the first major oil price increase had found their way into American and offshore banks, and so into the Eurodollar market in London. The latter had risen in size (gross volume) from US\$215 billion in 1974 to US\$502 billion in 1978, and to US\$847 billion in 1981. An important element in this expansion was inter-bank lending, which had tended to increase the ability of individual banks to lend to non-banking customers; and to participate in syndicated loans, where one or two lead banks would underwrite a larger share of the risk. The result was competition among international banks, both to attract deposits and to maximise profits on a global scale.⁶

As the global banking system evolved, its procedures offered new opportunities for businessmen and companies to move capital from one country (or currency) to another, whenever a particular domestic environment became financially uncongenial: that is, for flight capital. An increasing amount of this mobile capital also came, via the complexities of money-laundering, from criminal activities – especially the illegal trade in heroin and cocaine: the former still produced mainly in South-East Asia, the latter in certain parts of South America. But whether the actual origins of mobile capital were legitimate or otherwise did not affect its impact on a changing system.

A growing network of banks in the Asia-Pacific region, both Asian-owned banks and branches of foreign banks, participated in this global expansion, and a small but increasing proportion of offshore Euro-lending was taking place in Singapore's Asia-dollar market and also in Hong Kong. But the centre of gravity of the international system lay in the US and Europe, while the Japanese, as we have seen, were anxious to avoid letting their own financial system move outside the control of their own ministry of finance.⁷

Problems of international regulation

By the early 1980s the volume of international capital movements was making it increasingly difficult for national and international monetary authorities that had evolved since 1945 to maintain regulatory control over the global banking system itself. Cooperation among the world's leading central banks, through their membership of the Bank of International Settlements (BIS), had taken on greater coherence under the terms of the Basel Concordat of 1975: an agreement designed to enable national monetary authorities to identify at an early stage

problems arising from imprudent lending, and so to forestall the collapse of individual commercial banks.⁸ However, the limitations of that agreement were revealed by the collapse of the Banco Ambrosiano of Milan in June 1982. From the international monetary point of view, the melodramatic features of the event – it was preceded by the ‘suicide’ of the bank’s president and the discovery of his corpse under a London bridge – mattered less than its implications for the responsibilities of central banks. The previous transfer of funds from Milan to a holding company in Luxembourg, and links with other subsidiary operations in Latin America, meant that many of the liabilities arising from the collapse of the bank in Milan belonged to institutions located outside the jurisdiction of the central bank of Italy; and therefore beyond its responsibilities as a national lender of last resort. In autumn 1983, the central bankers were still considering what further elaboration of the Basel Concordat such situations would require.⁹

In the meantime even more serious problems arose concerning the ability of the IMF itself to supervise the balance of payments implications of the rapid expansion of bank lending, much of it across international boundaries. Since the mid-1970s the IMF had been virtually superseded by the Euromarket as the principal supplier of current account financing for international trade. But even operating only at the margin, whenever it was necessary to handle a specific crisis in the balance of payments of a particular country, its own reserves were becoming inadequate to cope with all of the problems that might arise.¹⁰

The debt crisis of 1982

A new phase in international monetary history began with the crisis which hit the government of Mexico in August 1982 and soon afterwards spread to Argentina and Brazil. Although these countries are not located within the East Asian region, their experience in 1982–83 had a global significance which cannot be ignored. In due course, moreover, it will be useful to consider the contrast between the Latin American experience and that of several East Asian economies at this critical period.

Mexico had become a major oil producer after 1977 and had benefited from the second oil shock, which increased the price of Mexican oil from US\$13.30 in 1978 to \$33.20 in 1981 as well as stimulating higher output. On the assumption that this level of demand would be sustained indefinitely, the government had used not only oil profits but also foreign borrowing to embark on a major oil development programme. As a result, when oil prices began to fall in late 1981, on top of a decline in demand for non-oil exports due to the global recession, Mexico was left with a larger foreign debt than it could comfortably finance from its export income. At that point, according to commentators after the event, Mexico should probably have devalued the *peso* and perhaps imposed controls to prevent the flight of further private capital abroad. It failed to do either, and as late as June 1982 hoped to stave off a crisis by securing a further loan of US\$2.5 billion from a consortium led by Bank of America. Then suddenly, on 12 August, the finance minister had to confess that the country no longer had

sufficient foreign exchange reserves to service any of its foreign debt. There followed a week of negotiations in Washington and New York, in which the Mexicans had to agree in principle to an IMF adjustment programme as the basis for an eventual rescheduling of its debts to foreign, largely American, commercial banks. It was at this stage that the US offered US\$2 billion in emergency support, as advance payment for the purchase of Mexican oil for America's strategic reserve – at a 20 per cent discount. This was one of the incidents highlighted by the Chinese in their 1983 critique of US policy towards third world debt.¹¹

The eventual outcome of the crisis, in November 1982, was agreement on a three-year IMF loan of US\$3.7 billion; and the provision of a total of US\$8.7 billion in financial support for the year 1983. The latter included \$1.3 billion from the IMF itself, and the \$2 billion already committed by the US government; but the rest would have to be contributed by the commercial banks, which IMF managing director Jacques de la Rosière proceeded to arrange, with support from the chairman of the US Federal Reserve Board, Paul Volcker. Similar arrangements were later worked out to meet the parallel debt problems of Argentina and Brazil.¹²

One effect of the crisis was to discourage the large commercial banks from further expansion of long-term lending to third world countries. This was reflected by a slowdown, during 1982–84, in the growth of the Eurodollar market. It also played some part in encouraging institutional investors to seek alternative opportunities for their funds, with the result that capital which might previously have gone into bank deposits moved into equities, financial futures, or currency speculation.

But the most important consequences arose from the way in which the debt crisis was handled, and the precedent that was created for a new kind of relationship between the IMF and the large commercial banks. The 'solution' was one which allowed the IMF to go beyond the powers of individual central banks in the interests of international monetary stability. The potentially revolutionary implications for the future role of the IMF were acknowledged by Volcker in a speech in Boston on 16 November 1982.¹³ A more immediate concern, however, was to ensure that the Fund had sufficient resources of its own to meet the needs of an increasingly volatile world.

The resources of the IMF

Already by early 1983 it was clear that the IMF faced increasing difficulties in meeting its own obligations, actual and potential. The problem was highlighted by the Brandt Commission, whose report of December 1982 called for a new international agreement to expand both the resources and the role of the IMF and the World Bank; and also to change the criteria they applied to LDCs in need of credit.¹⁴ But such idealism was no longer compatible with American monetary thinking under the Reagan administration, and was likely to meet even more resistance in Congress.¹⁵

One suggestion canvassed in some quarters during 1983 was that the IMF

might become less completely dependent on its member governments by borrowing in international capital markets, on the strength of its existing resources and on terms which would allow it to service its own debt.¹⁶ That idea was quite unacceptable to the US government, which counted on always being able to influence IMF decision-making in order to ensure an international monetary environment favourable to its own objectives. But it would lose that influence if it failed to pay its own dues.

At a meeting in February 1983 the members of the IMF agreed in principle to increase their quota contributions, to provide the Fund with an additional US\$33 billion; there would also be an increase in contributions to its 'general agreement to borrow'. But implementation of those decisions would take time, especially in view of Congressional opposition to any increase in the American contribution. Given the likely delay, the Fund's management decided to raise an interim emergency reserve of \$6 billion, half to be obtained from Saudi Arabia and half from the European Community. The Europeans, however, were reluctant to move until the Reagan administration had secured Congressional authorisation for the payments agreed on in February.¹⁷ The president's request for the necessary authorisation had quickly run into trouble, as a conflict developed in Congress between the long-established American banking lobby and a group of critics who saw the IMF as bent on securing more American tax-payers' money in order to sustain the profits of the international banks.¹⁸

Finally on 17 November 1983, shortly after President Reagan's return from Japan and Korea, the US House of Representatives approved the Treasury's request for authorisation to pay an additional US\$8.4 billion into IMF funds. Only then was the IMF able to obtain the \$6 billion it needed to meet its most urgent obligations. By that time, moreover, one of those obligations had arisen from a new government debt crisis: this time in the Philippines.¹⁹

The Philippines crisis

We have already seen that in the autumn of 1983 President Reagan changed his mind about visiting Manila in view of the increasingly virulent anti-government demonstrations there. Seen from a financial and economic point of view, the crisis facing the Marcos regime by that time ran considerably deeper than mere street protests. The Philippines was about to become the first, and at this period the only, Asian-Pacific country to suffer a debt crisis comparable to that of Mexico, Argentina and Brazil in 1982.

Although the Marcos regime had made some progress during the 1970s toward developing export-oriented industries – including textiles, semi-conductors and automobile assembly – its economy still depended to a large extent on the export of raw materials other than petroleum – notably coconut oil, copra and sugar. On that basis it had raised foreign loans and direct investments to carry out a major expansion of the country's infrastructure.²⁰ It was therefore bound to suffer a setback as the global recession of 1980–82 reduced the level of its export income.

The first catalyst in the emerging crisis was the bankruptcy and flight, in January 1981, of one of the country's leading businessmen, the textile magnate Dewey Dee. The impact of his unpaid debts led other businessmen to sell commercial paper and to withdraw bank deposits, with the result that several financial institutions ran into difficulties. Those who attribute all financial problems in Asia to corruption and 'cronyism' can find support for that view in what happened next: the government used its own funds to rescue companies belonging to Marcos cronies, and thereby increased the budget deficit.²¹ But the underlying nature of the crisis was deeper.

By 1982 the Philippines faced, on a smaller scale, the same kind of problem as that which had struck Mexico: how to service growing foreign debt in a time of falling export income and rising international interest rates. At the end of 1981 the Philippines debt service ratio stood at 19 per cent higher than that of any other East Asian economy except the already industrialised South Korea. The IMF and the World Bank therefore devised a structural adjustment programme for 1982–83 which aimed to reduce both the budget deficit and the balance of payments current account deficit. In mid-1983 there was still hope that that programme, in combination with a 7 per cent devaluation of the Philippine *peso*, might be sufficient to solve the problem.²²

However, that was reckoning without the possibility of a political crisis: an assumption that could not be made with complete confidence, given the pivotal role of Marcos himself and the absence of a clear succession. In August 1983, amid rumours that Marcos was ill, the principal opposition leader Benigno S. Aquino Jr. decided to return home – only to be assassinated as soon as his plane landed in Manila on 21 August.²³ Growing suspicion that Marcos himself or those close to him may have been responsible led to a widespread protest movement from mid-September, which in turn led to a spate of capital flight, placing additional strain on the country's foreign exchange reserves. A further devaluation of the *peso* on 5 October, this time by 21.4 per cent, failed to stem the outward flow of reserves, which ten days later had fallen to US\$600 million – compared with over \$2 billion at the start of the year. At that point, Prime Minister Cesar Virata flew to New York to secure the agreement of the principle creditor banks to a 90-day moratorium on repayments of principle on foreign debts.

In mid-November, Virata had no choice but to sign a standby agreement with the IMF, with the normal 'conditionality' of a deflationary government expenditure package, and the postponement or abandonment of a number of specific investment projects. Once again, the IMF had to call on the commercial banks to contribute between US\$1.5 and US\$2 billion, on top of the Fund's own provision of credits.²⁴

In the wider East Asian perspective, however, the principle significance of the Philippines crisis was that it was untypical: the rest of the East Asian economies escaped the imposition of such draconian measures. Where the Philippines was able to record a growth in its GNP of only 1.4 per cent for 1983, the other economies of the region grew at rates of between 3.8 and 9.5 per cent.²⁵

Indonesia's economy in 1983

The country which in 1983 came closest to suffering a fate similar to that of the Philippines was Indonesia, and the contrast between them is instructive. Ten years after the first oil shock, Indonesia's economy was still heavily dependent on petroleum exports; but, despite a scandal over Pertamina's finances in 1975–76, it had made effective use of at least some of the bonanza profits of the 1970s to invest in infrastructure and mineral development projects, and had also benefited from increased private investment in automobile assembly plants and other industrial activity. The state-led pattern of development, which sometimes reflected nationalist aspirations rather than the supposed logic of the free market, had been heavily criticised in a World Bank report of 1980; but Suharto was in a strong enough position to reject its views out of hand. By that time he had achieved his own combination of a trained bureaucracy, capable of operating internationally, and a system of political and military patronage which buttressed his own power and that of the ruling party, Golkar.

A key element in that combination was the unit known as 'Team 10': a body created in early 1980 which was given control over Indonesian government procurements, and over the investment of a large surplus of government revenue that had accrued during the previous year. Being under the state secretariat rather than under the ministry of finance or BAPPENAS, and therefore responsible to General Sudharmono, it was able to strike a balance between the demands of economic development and those of political patronage.²⁶ Sudharmono's responsibilities in the latter sphere became more obvious when he was appointed to head Golkar in October 1983.

In practice the prioritisation of objectives developed within the overall framework of the Third Plan (Repelita III, 1979–84) reflected a coherent strategy which had two main prongs. First, Indonesia itself should seek a greater share in the processing of its own primary produce by building more oil refineries, metal smelters, sawmills for timber, and petrochemical plants to produce fertiliser. Second, the manufacturing industry should be deepened by going beyond the mere assembly of imported components to develop an Indonesian engineering industry. On the latter front a great deal of progress had been made by the Chinese-owned Astra conglomerate; and by the Liem group (still close to Suharto) had plans to construct a steel rolling mill, with French and Spanish participation.²⁷ A paper circulated in June 1983 by B.J. Habibie, himself an engineer trained in West Germany, argued that reliance solely on the operations of the international free market would lead, at best, to only superficial industrialisation in a country like Indonesia. His own pet project at the time was to produce a wholly Indonesian-made aircraft, the CN-235, due to be completed in September 1983.²⁸

This policy depended on increased foreign borrowing, however, with the associated problems of debt servicing. These were becoming more serious by 1982 as oil prices fell and interest rates rose. Indonesia's foreign exchange reserves were reduced from over US\$6 billion at the end of 1981 to US\$4.15

billion one year later, and its trade deficit was continuing to rise. But Suharto resisted the temptation to devalue at that stage. He felt able to wait until the end of March 1983, by which time he had been reappointed president for a third term by the People's Consultative Assembly. But at that point he was also obliged to take account of OPEC's decision in early March to reduce the posted price of its oil to \$29 per barrel and to impose production quotas on its members, including Indonesia. Only then, on 30 March 1983, was the *rupiah* devalued by 27.6 per cent. Since foreign exchange reserves, although depleted, still stood at over \$3 billion, there was no need to seek assistance from the IMF. Suharto did, however, secure a soft loan from Japan during Nakasone's visit to Jakarta early in May, particularly to pay for rice imports. The government then embarked on its own measures for readjustment, including the rescheduling or cancellation of 48 public sector investment projects worth \$20 billion in order to reduce the budget deficit.

Another important development occurred in June 1983, when measures were taken to end most restrictions on interest rates charged by the principal state banks for both deposits and non-priority lending; and also to restrict the availability of cheap central bank credit. The initial object of this banking reform was to mobilise domestic savings for bank lending, and to channel them into non-priority areas of investment. Nevertheless, the larger areas of development were still controlled by Team 10, whose powers were extended rather than reduced following the devaluation.²⁹

The recovery of the American and East Asian economies which was clearly under way by late 1983 meant that these measures were enough to save Indonesia from international economic intervention. It could now look forward to further growth. Among the new opportunities which seemed to be opening up was the development of natural gas resources: in August 1983 a contract was signed with South Korea for the supply of liquefied natural gas (LNG) over 20 years from 1986.

Thailand

Under the government of Prem Tinsulanonda since 1980, Thailand was also seeking to use state initiatives to develop its resources more effectively. While continuing dependence on the export of primary products meant that the economy had been vulnerable to falling international prices during the 'bad years' of 1981 and 1982, there was optimism that the exploitation of natural gas deposits in the Gulf of Thailand would bring opportunities for growth in new directions. Although actual production, starting in late 1981, was initially disappointing there were plans to develop a second gas field by the mid-1980s in collaboration with Union Oil of California. In the meantime the government's Eastern Seaboard Development project, along the coast south-east of Bangkok, had begun to take shape. By late 1982 work had begun on a gas separation plant at Ma Ta Pud; and in July 1983 a decision was taken in principle to build two deep-sea ports, at Ma Ta Pud and at Laem Chabang. Further plans included a

petrochemical and fertiliser complex. Over the next decade, it was hoped that the whole area would become a major export-zone attracting investment by Japanese and Western companies.³⁰

In the immediate circumstances of 1983, however, there was continuing debate within the Thai bureaucracy over whether export-oriented industrialisation should take over from traditional export sectors as the main focus of development. Apart from the Eastern Seaboard project, the policies actually pursued during 1983 were more hesitant. Following the recession of 1981–82, the Bank of Thailand began to encourage a high level of bank-lending, notably by the Bangkok Bank, in the hope of stimulating renewed growth. But the result was a rise in imports, which could not yet be paid for by any marked increase in export revenues, and by early 1984 the government had no choice but to impose a credit squeeze.³¹

Thailand's existing foreign debt, although it had grown over the preceding five years, was not large by comparison with that of Indonesia or the Philippines; and an 8.7 per cent devaluation of the *baht* in 1981 had been sufficient to deal with the pressure on the balance of payments at that stage, with no question of needing help from the IMF. On the other hand, the Thai government had long worked closely with the World Bank, whose officials were continuing to press for the further devaluation that would be required by a shift to export-oriented industrialisation. That step was increasingly favoured by the ministry of finance, but was opposed by the Bank of Thailand.³² Among other opponents were the armed forces, which hoped to purchase advanced fighter planes from the US and saw no advantage in a move that would make them more expensive.³³ The decision to devalue would finally be taken in late 1984; but even then, more time was needed for the export-oriented industrial strategy to become the basis of a new consensus.

Malaysia

No such hesitancy arose in Malaysia, where the desire to move beyond traditional dependence on the export of primary products and to pursue an ever more ambitious industrialisation programme was already well established. The Malay nationalism which had inspired the new economic policy of the 1970s was represented even more strongly by Mahathir Mohamad, the 'enfant terrible' of 1969–70, who had become a member of the government of Hussein Onn in 1974 and had succeeded him as prime minister in 1981. By then, after a decade of the new policy of promoting the economic interests of the Malay *bumiputeras* without destroying those of the Chinese community, the Malaysian economy had been transformed.

The aim of achieving greater economic independence from Britain had been implemented, to begin with, by acquiring equity control over the leading British-owned enterprises. For that purpose, and to bring other forms of capital under Malay control, the government had established the state-owned National Corporation/Perbadanan Nasional Berhad (PERNAS) in 1969.

A significant role in the growth of Malay ownership was also played by the Fleet holding company, established in 1972 by UMNO, the ruling political party. In 1978–79 the creation of the Yayasan Pelaburam Bumiputera (Bumputera Investment Foundation), chaired by the prime minister, led to the establishment of the National Equity Corporation/Permodalan Nasional Berhad and its subsidiary, the National Unit Trust (ANS).

In 1975–76 Pernas had secured control over London Tin, which became the Malaysian Mining Corporation Berhad, and over the plantation company Sime Darby. In September 1981 that phase reached a climax with the ‘dawn raid’ on the London Stock Exchange which allowed Permodalan Nasional Bank to take over the largest plantation company, Guthrie Corporation.³⁴ In the meantime the country’s oil and gas resources had begun to be developed by the state-owned Petroliam Nasional Bhd. (PETRONAS Corporation); and in 1979 the Urban Development Authority established its own construction company, PEREMBA. Steps had also been taken to promote Malay-controlled banks, and to increase the proportion of equity capital owned by Malays.

Malaysia had retained and developed one feature of its colonial legacy: the Kuala Lumpur Stock Exchange (KLSE), which had a growing number of listed companies and a relatively ‘mature’ secondary market. Unlike many stock exchanges of the region, the performance of the KLSE reflected genuine movements of the economy as a whole. The strong development of private equity capital, moreover, provided a basis on which it was possible for Mahathir to announce in February 1983 a programme for the gradual privatisation of some state enterprises.³⁵

Inevitably this expansion of Malay control over capital took place partly at the expense of the Chinese business community, who especially resented the Industrial Coordination Act of 1975 under which most private companies were obliged to have 30 per cent Malay participation in their equity. Some Chinese companies had diversified their activities by establishing their own subsidiaries elsewhere in the region. But the Chinese continued to make profits, while adjusting to the new pattern of business relations. Among the most important individual Malay businessmen to emerge by the early 1980s was Mahathir’s close associate Daim Zainuddin, who combined the pursuit of his family business interests with leading roles in both Peremba and (from 1982) Fleet holdings. In 1984 Mahathir would appoint him minister of finance.

The pattern of ownership of capital that had emerged by 1983 was thus extremely complex. In such a system political patronage inevitably played a part in the allocation of investment opportunities. But what was remarkable in this new mix of politics and capitalism was the absence of direct economic or political participation by the military, in sharp contrast with the role of the armed forces of Thailand or Indonesia. Despite the fact that Malaysia had one of the best trained armed forces in the ASEAN region, which was still expanding in the 1980s, its officers remained professional servants of the state rather than its manipulators.

National leader Mahathir recognised that economic independence could be

sustained only through further expansion, which must ultimately focus on industrialisation. For that he turned to the Japanese model, and in early 1983 he inaugurated his own conception of 'Malaysia, Inc.' One of his first actions as prime minister had been to implement a 'look east' policy which would break the habit of always relying first on the British. Although he subsequently modified an early injunction to 'buy British last', the new orientation towards Japan was a fundamental and lasting change. Only with Japanese capital and technology transfer could he hope to make heavy industry a central feature of Malaysia's Fourth Plan (1981–85). Some indication of what he had in mind was seen in the announcement, also in February 1983, of a joint venture between Mitsubishi and the Heavy Industries Corporation of Malaysia (HICOM) whose objective was to create a Malaysian designed and produced automobile: the Proton Saga.³⁶

Despite the inevitable recourse to foreign borrowing, and despite the fall in demand for many of its primary products in the 1981–82 recession, Malaysia was able to draw on previous substantial reserves to handle its loss of export income; and the Malaysian dollar or *ringgit*, not at this stage traded in international markets, held its own in relation to other currencies. While its debt service ratio rose from 2.6 per cent in 1981 to 6 per cent in 1983, Malaysia was in no danger of having to turn to the IMF.³⁷

Among the four larger ASEAN countries, therefore, only the Philippines was suffering from the trials and tribulations that were besetting the 'third world' and undermining the economic independence of national governments. The other three would soon begin to grow beyond the 'third world' designation altogether.

South Korea

As we have already seen, one of the most successful East Asian countries in this quest for industrial growth was South Korea. By 1983, along with Taiwan, Hong Kong and Singapore, it could claim the status of 'newly industrialised country' (NIC), a status which would later be characterised using the more colourful phrase, 'the four Asian tigers'.

The Pohang Iron and Steel Company had steadily increased its output since 1973; while Hyundai corporation had emerged as the world's largest ship-builder, on the basis of technology provided by the Japanese Kawasaki corporation. But South Korea had experienced a major economic crisis in 1979–80, which had demonstrated its longer term vulnerability. Industrial success had entailed a high level of foreign debt, which could only be serviced by a continuing high level of exports. In 1979 the effects of wage-led inflation and higher industrial costs, in combination with a currency (*the won*) pegged to the US dollar, had produced a sudden fall in export income at a time when international interest rates were rising. The government's response, in January 1980, had been a 16.5 per cent devaluation of the *won*, which was then floated against a wider basket of currencies to produce a further slow devaluation for the rest of the year. At the same time, the IMF agreed to a standby credit arrangement over two years, which proved sufficient time to allow the situation to stabilise.

The economic crisis had coincided, moreover, with a period of political turmoil stemming from a threatened student uprising in October 1979 and from the assassination of Park Chung Hee, by the head of the Korean CIA, towards the end of that month. There had followed several months of rivalry and unrest, culminating in the dramatic suppression of the student-worker uprising at Kwangju in May 1980. Eventually power fell into the hands of another leading general, Chun Doo Hwan, who had emerged as president in August.³⁸

In September 1980 the new government had sought to counter the growing recession by lowering interest rates, and had introduced corporate tax changes designed to force the *chaebol* to reorganise their own finances. Meanwhile, a state-initiated rationalisation had consolidated the heavy industry roles of the principal *chaebol*: for example, giving Hyundai the main responsibility for automobile production and Daewoo primacy in electric power generation. Those measures proved to be the first steps towards abandoning the earlier emphasis on expanding heavy and chemical industries, in order to concentrate on areas of production that required a more advanced technological input and the development of a more skilled labour force. In short, South Korea was obliged to accept the impossibility of basing further export growth on the endless expansion of industries that were wholly dependent on imports of oil, iron ore, and other raw materials. By late 1983, as these changes took effect, the economy was recovering from the recession. Despite a foreign debt totalling about US\$40 billion at the end of that year, and a debt service ratio of 16 per cent, there was no longer any danger that its indebtedness would get out of control or require further recourse to the IMF.

South Korea was beginning to follow Japan's example in seeking trade and investment relations with countries in South-East Asia. In mid-1981 President Chun Doo Hwan had made the same kind of tour of ASEAN countries which was customary for Japanese prime ministers at some stage during their period in office. Among the results of increasing contracts with that region was a contract signed in August 1983 for the long-term supply of LNG from Indonesia to South Korea. On the other hand, by 1983 there was a marked decline in overseas demand for Korean heavy engineering projects which had been an important source of foreign exchange in the 1970s.³⁹

There was, of course, no prospect of easing any tension that might have allowed cooperation with North Korea, whose mineral resources were very much greater than those of the South. Since the 1950s the North had achieved a significant degree of industrialisation on the basis of extensive material and technical assistance from the USSR and China; and with the inevitable Stalinist emphasis on heavy industry and military development, rather than on agriculture and consumer industries. But by 1980 it was persistently failing to meet planned targets for further expansion.

Any attempt by Pyongyang to open up foreign trade relations in the mid-1970s, looking especially towards Japan, had ended in failure and a still outstanding foreign debt of US\$2 billion. Nevertheless, a meeting of the Central Committee of the Korean Workers' Party at the end of November 1983 took a

series of planning decisions for the 1985–90 period, which included greater emphasis on light industry and foreign trade. Such aspirations remained largely unfulfilled; but they suggest that even North Korea was becoming aware of the attractions of trying to orientate its industrial exports towards the capitalist world.

Taiwan

Beijing's continuing insistence on the principle of 'one China', and of ultimate reunification, did not affect either the separateness or the success of Taiwan's further economic advance. Nor, unlike Hong Kong, did the island's prosperity depend to any great extent on equity capital: its relatively small stock exchange, still limited mainly to domestic investors, was unaffected by the fluctuations of business 'confidence' in response to statements by Deng Xiaoping or Zhao Ziyang. The economy also remained unaffected by reports during 1983 that President Chiang Ching-kuo was ill, leading to speculation about his eventual successor.⁴⁰ In fact, Chiang lived on until 1988, and the succession then would be remarkably smooth. By contrast with the Philippines, Taiwan's well established structure of political institutions ensured a strong sense of internal stability.

Given a heavy dependence on exports to the US, the economy had inevitably suffered a recession during the years 1980–82, from which, for the same reason, it began to recover during 1983. But there had been no danger of Taiwan experiencing the kind of debt crisis that would have required support from the IMF had the ROC not been expelled from the IMF and the World Bank in April and simultaneously replaced by the PRC. Although Taiwan had begun to seek foreign loans in 1979, resulting in a foreign debt of US\$7 billion by 1983, its already large foreign exchange reserves were still rising to a level of US\$12.5 billion by the end of that year.⁴¹

The underlying trend of development was one of continuing expansion. Ten major state-sponsored projects in the years 1974–79 had included new railways and highways, an integrated steel mill, a large shipyard, a nuclear power plant, as well as the expansion of refineries and petrochemical plants. More of the same was promised for the 1980s. Alongside these state-sector developments, a number of relatively large private firms such as Formosa Plastics continued to prosper; but a large part of production and trade remained in the hands of medium and small enterprises. A new departure was the 'science park', established within the Hsinchu export zone in 1980, which sought to imitate the success of the Stanford Industrial Park in California and become a 'second Silicon Valley'. By 1983 incentives designed to attract both foreign and domestic private investors had drawn in 34 firms out of the 200 eventually expected, producing integrated circuit chips, computer disk drives, and computer monitors, terminals and printers. These hi-tech areas accounted for only a small portion of total exports at this stage, but they were also the fastest growing sector.⁴²

Hong Kong

We have already noted the political vicissitudes of Hong Kong during a period of complex, for a time even stormy, relations between London and Beijing regarding its status after 1997. But there were also non-political reasons why its economy was experiencing a crisis during 1982–83. One factor was the decline in the demand for both its own exports and its re-exports during the recession which was affecting the whole region by 1982. Equally significant were the effects of the property and construction boom which had gathered momentum during 1978–81 – attracting speculative capital from various sources – but which had begun to collapse around the beginning of 1982. These two factors together produced a fall in the stock market; and as it became clear that the property boom was over, speculative capital began to move out of the Hong Kong dollar either into US dollars or into other investments elsewhere, leading to a sharp fall in the value of the Hong Kong dollar. Both trends were under way well before Thatcher's notorious visit to the colony in September 1982.⁴³

Among the financial institutions worst affected by the 1982 recession were the Deposit Taking Companies which existed separately from the banking sector and were less well protected than banks. Several of these went under, the most serious failure being that of a firm called Dollar Credit whose chairman fled to Taiwan leaving it to collapse in November 1982. The repercussions were felt especially by the Hang Lung Bank, which itself had to be taken over by the Hong Kong government in September 1983. Hang Lung was in turn closely linked to a bank, Banco do Pacifico, in Macau which was forced to close on 25 November 1983.⁴⁴

Another scandal arising from the collapse of the property market was the affair of Carrian Holdings, also forced into liquidation in November 1983 after its offices had been raided by the police on 10 September. Its earlier apparent success had been founded on some dubious transactions involving Bumiputra Malaysia Finance, a Hong Kong subsidiary of the Bank Bumiputra Malaysi, whose assistant manager had been murdered on 20 July. The affair took many months to clear up, and the details need not concern us. But the whole episode illustrates very well the ability of Hong Kong, through often impenetrable overseas Chinese networks, to attract capital from other parts of the region. Hong Kong was also a haven for flight capital from Manila as the Philippines crisis worsened during the same summer and autumn.⁴⁵

Following the decision of mid-October 1983 to peg Hong Kong's currency to the US dollar, it was hoped that the financial situation would become more stable. The hope was no doubt strengthened by the economic recovery affecting the region as a whole, which would lead to a resurgence of the colony's own trade. Hong Kong was also likely to benefit from China's increasing interests in foreign direct investment (FDI): as 1997 approached, its economy would become increasingly tied to that of Guangdong and Fujian. The importance of Hong Kong Chinese business magnates like Li Kashing, Y.K. Pao and C.H. Tung would also grow in that context.⁴⁶

Hong Kong's expanding role as an international financial centre was further strengthened by its special relationship with Tokyo. The Japanese authorities' reluctance to internationalise the *yen* made it all but impossible for Tokyo itself to become the dominant financial centre of the whole Asia-Pacific region. Instead, the Japanese found it convenient to carry on certain types of transactions in Hong Kong and also in London. One example was the maintenance in the colony of a market in soybean and sugar futures, which served mainly Japanese clients.

Another significant element in a continuously changing situation was the rise of fund management as one of Hong Kong's specialist financial activities. This reflected the growing interests of American as well as European pension and trust funds in investing some of their assets in currencies other than the US dollar. In Asia, the main attraction lay in the stock markets of Tokyo, Singapore and Hong Kong; but for various reasons it was Hong Kong which became the main centre of expertise in that field. The trend was only just beginning in 1983, but over the following decade Hong Kong would attract an increasing volume of portfolio investment from such sources.⁴⁷

Singapore

By August 1982 the effects of the global recession on Singapore were leading to highly pessimistic forecasts regarding the likely performance of the economy in the following years. One element in that pessimism was the falling demand for Singapore's oil refining facilities, in the face of growing surplus of world oil production and also the expansion of refining capacity in other parts of the region. (A notable example was the large refinery under construction at Cilacap in Indonesia, which was completed in August 1983.) On the other hand, there was every possibility that Singapore would maintain its role as a regional oil storage centre, and also as the principal Asian spot market for oil.

However, even during 1982 the rate of economic growth declined less steeply than had been feared, and the economy began to recover momentum the following year. As in the cases of Taiwan and South Korea, the best hope for Singapore's industrial future seemed to lie in the promotion of increasingly 'hi-tech' manufactures – which in turn meant an even greater emphasis on education and skills.

Singapore was also seeking to develop its role as a regional financial centre by the early 1980s, but on the basis of a more regulated structure than that of Hong Kong. While restrictions on the flow of capital had been lifted with the ending of foreign exchange controls in 1978, financial institutions were rigorously supervised by the Monetary Authority of Singapore (MAS); and the off-shore Asia Dollar Market was kept separate from Singapore's domestic banking system. In 1981 the prime minister himself had become chairman of a Government of Singapore Investment Corporation, to oversee the handling of foreign exchange reserves. From November 1983, moreover, non-resident institutions seeking credit facilities in Singapore dollars over a certain limit had to secure

MAS authorisation, a measure designed to restrict the use of the local currency to trade and development purposes, and to prevent its exposure to speculative currency trading.⁴⁸

On the other hand, trading in commodity and financial futures was encouraged. Although Hong Kong remained the principal gold market in Asia, it was Singapore that had inaugurated a gold futures market, also in 1978. During 1983 negotiations were under way between Singapore and Chicago to establish a Singapore Mercantile Exchange (SIMEX) which would trade in gold futures, financial futures and currencies, on the basis of a direct link-up between the two markets.⁴⁹ SIMEX was duly inaugurated in 1984.

That innovation was symptomatic of Singapore's desire to exploit the global as well as the regional dimensions of a rapidly changing world economy. It also reflected recognition of the need for up-to-date communications technology, both internationally and within Singapore itself. In 1983 a five-year plan was announced for the upgrading of internal telecommunications, using fibre optic cables. The same year also saw the completion of the new submarine cables linking Singapore and Malaysia with Thailand.⁵⁰

The global technological revolution and 'the real 1984'

The world from 1973–84 was undergoing a technological revolution whose foreseeable consequences would transform East Asia at the same time as they transformed the rest of the world.

On one level Orwell's *Nineteen Eighty-Four* had succeeded so well in frightening contemporaries into greater awareness of the potential contradiction between their professed ideals and the bureaucratic and technological realities of a changing world that the word 'Orwellian' was accepted into the English language of the 1950s and 1960s, to refer to totalitarian extremes of political surveillance wherever they might occur. Ironically, the novel itself became a source of comfort to liberal intellectuals in the West, who felt that in their own societies such terrible things had not come to pass; and who continued to hope that even in other countries the situation was slowly changing for the better.

We can now look back on the actual year 1984 as history. It was, as things turned out, an important year in the evolution of both global politics and of applied technology: a year which future historians may even come to regard as a significant turning point in its own right. What, one wonders, would Orwell himself have made of the 'real 1984' had he been alive at 82 instead of dying at the tragically young age of 46?

Certain of the essential features of Orwell's imagined world were absent from the 'real 1984'. For example, where he had imagined a world in which Party control over the economy would be absolute in all major countries, the reality was that international capitalism had flourished and was still expanding its domain. Where he had assumed that all the major countries would be hermetically sealed from one another – except, presumably, at the highest diplomatic level – the reality was a world in which long distance communication was

becoming technologically easier and ever more difficult for governments to control. It was true that some societies were still ruled by authoritarian 'managerial', regimes and were able to restrict the lives of their own citizens to a very large extent. But that was far from being the universal norm, and already such societies were on the defensive against the growing power of the 'free world' media and communications systems.

A major error in Orwell's assessment of future possibilities was his belief that scientific progress might be stunted by political conditions. His technological perceptions were governed by the notion that if there was a political need for highly sophisticated surveillance techniques, such as two-way 'telescreen', then the 'Party' would prove capable of solving the problems involved. But otherwise, Orwell's world of 1984 was one of virtual technological stagnation.

In reality, during the interval between 1948 and 1984, science and technology went from strength to strength, especially in the fields of information and communications. In the military sphere, applications of new knowledge continued to be governed by a level of official secrecy and discipline which might be dubbed 'Orwellian'. But the effects very soon spilled over into the world of private business and educational organisations.

Four main strands of technological change had been under way since the 1970s and were converging. First came the ability to place satellites into orbit around the world, for purposes ranging from meteorological observation to military surveillance to the improvement of communications and broadcasting. The first commercial satellite had been launched as early as 1965; but those of the 1970s and early 1980s were increasingly powerful and sophisticated. In October 1983 the inter-governmental organisation The International Telecommunications Satellite Organisation (INTELSAT), which had had a monopoly over the launching and control of communication satellites since its inception nearly 20 years earlier, introduced a business service designed to carry, within a single system, voice transmissions, telex and fax facilities, data applications and video-conferencing.⁵¹

The ability to combine a wide range of different types of transmission depended, in turn, on a second major development: the use of optic fibre cables and digital transmission, which allowed a vast expansion of the capacity available to international and national telephone systems. These innovations were being developed in the late 1970s, and by 1983 the more advanced countries throughout the world were beginning longer or shorter term programmes to modernise their national telephone systems.

Third, by 1984 more and more people were becoming familiar with the micro-computer. The development of the micro-processor and of integrated circuits during the 1970s had made possible a quantum leap in the power and range of electronic computers. IBM launched its first personal computer in 1981, to be quickly followed by clones and competitors during the next three years. With this innovation, too, came the possibility of new kinds of software – for word-processing, accounting (using spreadsheets) and data processing – and also for linking computers to telephone lines through the device of the modem. The con-

vergence between the introduction of this new generation of computers and the capacity of telephonic cables to transmit vast quantities of data at speed lay at the heart of the technological revolution. Communication of data between computers would be the key to what was just beginning to be called the 'information age'.⁵² Among the innovations of 1983–84 was an 'Integrated Services Digital Network', devised by satellite Business Systems, which would enable different types of communication to use the same channel: television, telephone and data-base signals all sharing one system.

Lastly, the speed of news reporting was being transformed by the development of the electronic studio and the video-recorder, which was about to lead, in 1984–85, to the introduction of the Sony 'video-camcorder'. Again the combination of technology designed specifically for broadcasting with the expanding capabilities of satellites and optic fibre communications opened the way for cable television. Cable News Network (CNN), based in Atlanta, was founded by Ted Turner in 1980.

The relevance of these developments to the practical conduct of global business can be illustrated by two examples. The year 1984 saw the globalisation of financial markets, not only in foreign exchange but in corporate stocks and shares as well as in a growing of 'futures' contracts. It became possible to use the new type of telephone cables to gather and disseminate at speed the latest market information on exchange rates and prices of stocks, bonds, and futures contracts. The pioneer in that field was the London news agency Reuters whose 'monitor dealing service', inaugurated in Western Europe in 1981, allowed dealers in foreign currency to actually make trades using video terminals. Second, within individual corporations and other large organisations, the automation and coordination of offices was made possible through networks that could link many computer terminals to a single mainframe computer and to one another.⁵³

The technological revolution in Asia

These various innovations depended on Western technology and were first applied in the US and some European countries, but their application soon began to spread to the East Asian region.

One remarkable illustration of this was the decision by Indonesia, flush with oil revenues in the mid-1970s, to develop its own communications satellite. Known as 'Palapa', it was the first in what would become a series of such satellites launched from Cape Canaveral in 1976. Its 12 transponders, linked to 40 ground stations across the republic, could be used for either telephonic communications or for radio and television broadcasting. The technology, of course, was entirely Western.

Indonesia's early interest in using a satellite system to improve communications was logical in a country whose territory stretches 4,800 km from East to West and 2,000 km from North to South. By the early 1980s, moreover, transponders on subsequent Palapa satellites were being leased out to Thailand,

Malaysia and the Philippines, all of which fell within the limits of Palapa's 'footprint'.⁵⁴

The other country of the region whose vastness might be overcome by this means was the PRC, but when the Chinese finally launched their first communications satellite in April 1984 it would be entirely their own operation, using a Chinese-made rocket launcher. (Japan's first non-experimental communications satellites, the Sakura-2s, were successfully launched into orbit in February and August 1983 respectively.⁵⁵)

At the other extreme, the Island of Singapore was small enough for the government, in 1983, to formulate a five-year plan to equip all of its 25 telephone exchanges with fibre-optics cables, capable of carrying voice communication, data and graphics into offices and even private homes. Singapore aimed to become a 'wired city'. The plan also included linking Singapore with Malaysia and Thailand via submarine cables of the same quality.⁵⁶

In Japan, at around the same time, the Nippon Telegraph and Telephone Corporation (NTT) produced plans for the replacement of all existing telephone cables and terminals, and the digitalisation of all networks, by the end of the century. Six Japanese companies were involved in the manufacture of optic fibres, in some cases using technology purchased from the US but in other cases applying techniques developed in Japan.⁵⁷ NTT also developed rigorous standards for the so-called Den Den group of around 30 companies which supplied telecommunications equipment, and which were able eventually to add such equipment to the list of successful Japanese exports.

The Japanese had by then also become pioneers in the field of high definition television equipment. Another area where they were making rapid advances was that of facsimile machines, which they found especially appropriate for transmission of the characters used in writing Japanese. On the other hand, for a similar reason, Japan lagged behind in the development of office automation. It assumed a keyboard tradition which had not developed there: at an earlier stage of office technology, the larger number of characters had impeded widespread adoption of the typewriter.

In the adoption of the computer, the larger Japanese organisations had been using imported mainframes since the 1960s. But already MITI was promoting Japanese research in that field, and by the mid-1970s a number of companies were seeking to develop Japanese manufacture of computer disks and integrated circuits. To that end, the import of cheaper American-made chips into Japan was restricted from the mid-1970s. By the early 1980s they were able to challenge the US for a growing share of the world market in computer chips and integrated circuits. By then, too, some stages in the manufacture of computers and chips had begun to spread to South Korea, Taiwan and Malaysia. As we have seen, in 1983 Taiwan had visions of making its own Hsinchu science park into another 'Silicon Valley'.

In the early 1980s the Americans still predominated in the area of supercomputers, which were developed and manufactured by Cray Research and Control Data corporations. However, by autumn 1983 the Japanese firms Hitachi

and Fujitsu had entered that field too and were seeking to compete; and the government was sponsoring research aimed at producing computers a hundred times faster than those currently sold by the Americans.⁵⁸

Thus a great deal of research in the new technologies was under way in Japan, and their commercial exploitation was well advanced.

Growing coherence of the Asia-Pacific region

The experience of Hong Kong and Singapore reflected the continuing growth of financial, commercial and technological linkages extending across the Asia-Pacific region. It could be argued that each individual non-Communist economy, with the possible exception of the Philippines, was made stronger by a variety of relationships with its regional neighbours.

This economic and financial coherence was, of course, much greater in relation to the capitalist countries of the region; it excluded completely Vietnam, Laos, Cambodia and North Korea. China on the other hand, although still predominantly a socialist planned economy, was seeking to develop a new relationship with Japan and other neighbouring countries – even though it was not yet fully a part of ‘the region’. Militarily, Beijing still lacked the capability to offer a serious challenge to the US or Japan. It did, however, see itself as potentially a global power insofar as it was still the only Asian member of the UN Security Council. That, after all, was the one lasting consequence of the Roosevelt-Chiang relationship of 1943–45.

An increasingly important regional role was being played by Chinese business communities outside China and Taiwan – in Hong Kong and Singapore (where Chinese were the majority) and in Malaysia, Indonesia, Thailand and the Philippines. Some of the larger conglomerates were by now genuinely transnational in scale, extending their activities even to Australia, New Zealand, North America and Europe. Their growth would be even more spectacular over the coming decade.

Above all, the role of Japan was fundamental to the development of the region, both as a ‘locomotive’ helping other economies to overcome bouts of recession and as a major source of capital, derived from its regular trade surpluses. There was also increasing talk of Japan’s economic success offering a ‘model’ for other Asian-Pacific countries in their pursuit of national development. What was particularly significant about the Japanese model was its emphasis on the government’s financial bureaucracy as the level on which the most important investment decisions were taken, rather than the level of the individual corporation (as in the US model).

In South-East Asia, particularly, governments could insist that they themselves were devoted to national development, whereas the larger corporations investing in their territories were mainly foreign, often American multinationals, and interested solely in their own profits. Habibie’s paper of June 1983 reflected the paradox that it was possible for a country like Indonesia to be politically ‘pro-Western’ and at the same time to reject Reagan’s faith in the ‘magic of the market place’.

What was much more problematic was the notion that economic decision-making might be coordinated at the regional level, within a framework comparable to the one the Japanese themselves had been trying to create for the Greater East Asia Co-Prosperty Sphere 40 years previously. In October 1983, the Thai president of the ASEAN chambers of commerce, Anand Panyarachun, spoke of the need for greater economic cooperation within that organisation; but to little effect. In reality ASEAN did not constitute the operative framework for the decision-making of its individual members, each of which had to gear its own development to a wider global context. In particular Japan and the other principal Asian-Pacific countries were well aware of their absolute dependence on access to North American and European markets and to resources from outside the region. There was thus no question of a regional economy acquiring a separate coherence which would allow it to break away from the global economy. Conversely, the Americans' increasing 'centrality' in the world economy enabled them to exercise so much influence in the Asia-Pacific region – even though they did not invariably get their way on specific issues.

Both economically and militarily, the US defined its own interests globally rather than regionally. The perspective of the 'cold war' was always ultimately global: the essential aim of US strategy remained that of protecting the 'free world' against any significant expansion of Communist power, which by this time meant essentially Soviet power. Nor were the Soviet Union's own ambitions in Asia essentially regional: no one imagined that Moscow was planning to use its growing capabilities in the Pacific to create the kind of regional hegemony that Japan had pursued in the early 1940s. Soviet objectives were essentially to promote socialist revolutions wherever the opportunity might arise, thereby expanding the world socialist system; and to achieve greater military and naval preparedness for the contingency that some day it might become necessary to confront the US and its allies on a global scale.

Nor was there any real danger that Japan's increased military spending in the early 1980s, and the growing effectiveness of its defence forces, would enable it to play the kind of role to which the Japan of 1943 had aspired. The Japanese themselves were probably more aware than other Asian countries that in reality they were being used by the US as a surrogate for Washington's own pursuit of power in the region. From 1983–93 East Asia would become of growing importance to the dominant US global strategy, based on a combination of revolutionary developments in technology, trade and finance.

9 Capitalism moves ahead

Revolutions in communications, finance and military affairs, 1993

A Revolution in Military Affairs (RMA) is a major change in the nature of warfare brought about by innovative application of the new technologies which, combined with dramatic changes in military doctrine and operational and organisational concepts, fundamentally alters the character and conduct of military operations.

Andrew Marshall, Director, Office of Net Assessments, Office of the US Secretary of Defense in memorandum of 27 July 1993 entitled 'Some Thoughts on Military Revolutions'

...The revolution in military affairs is driven by the same technological advances that are making startling changes in the civilian world.

Seymour Deitchman in 'Weapons Platforms and the New Armed Services', *Issues in Science and Technology*, vol. 1, no. 3, spring 1985

On the edge of the new century, economic growth depends as never before on opening up new markets overseas. And so we will insist on fair trade rules in international markets.

US President Bill Clinton in his State of the Union Address, 17 February 1993

We have to develop new institutional arrangements that support our national economic and security interests internationally ... We're working to build a prosperous and peaceful Asia-Pacific region through our work here in APEC.

President Clinton in talk, 'The APEC Role in Creating Jobs, Opportunities and Security', at the Seattle summit, November 1993

A great deal of international diplomatic effort in the early 1990s was devoted to the creation and expansion of institutions and agreements designed to regulate the activities of governments and business organisations. After the 'end of the Cold War', there seemed to have been a general notion that one of the major 'distorting' factors in world affairs had been eliminated; and that international institutions and agreements could operate on the basis of a 'universality' or 'normality' which reflected the victory of 'Western' values over 'Communism'. But, even if this assumption was generally accepted, in 1993 the question was how to translate principles into regulatory practice in three key 'areas': i) security,

military affairs and arms control; ii) trade and finance; and iii) communications. This needs to be done first on a global scale before looking specifically at the East Asian region.

Security

One expectation was that the UN could play a more active and constructive role, now that its Security Council was not just an arena of confrontation between 'the West' and the Communist powers, within its permanent inner circle. A new relationship between the US and Russia, as well as the change in Sino-American relations that had evolved since 1979, might allow a new level of coherence in UN decision-making.

The UN provided the framework for US and 'coalition' operations in Kuwait and Iraq in 1990–91; as it had for the US-led operations in Korea in 1950–53. But that was the exception because many situations were too complex for such simple 'solutions': either because the issues were not clear enough to warrant the invasion of a sovereign state; or because the level of international agreement was still not high enough to ensure positive support for clear-cut action.

The UN did, however, combine the roles of enforcing international law and of military or semi-military action, in a number of peace-keeping operations in Africa, Latin America, Europe and Asia. In East Asia, the UN played a major role in Korea and Cambodia, where operations were designed to provide a transnational framework in the aftermath of a civil war which had a 'Cold War' context. UNTAC provided a framework for elections and constitutional progress in Cambodia, even though the organisation could not discuss the conflicting factions, or prevent continuing fighting between government and Khmer Rouge forces. US forces in South Korea were also still under UN command and arms control in relation to NVN was also to some extent a UN matter.

In late January 1993 the new Clinton administration in the US called for Germany and Japan to be permanent UN security council members, but Britain objected and by the time the UN General Assembly met in late September the issue was less prominent. A speech by Japanese Prime Minister Morihiro Hosokawa at that time favoured enlargement of the UN Security Council, but did not push for permanent seating for Japan within the organisation.

Arms control, the non-proliferation treaty

The Strategic Arms Reduction Treaty (START I) signed by US President George H. W. Bush and Mikhail Gorbachev in Moscow on 31 July 1991, was the culmination of the new pattern of peaceful relations that had emerged since the fall of the Berlin Wall in November 1989. It involved actual destruction of nuclear weapons on both sides, but it still had to be ratified, then implemented – processes complicated by the dissolution of the USSR in December 1991 following the 'abortive coup' of the previous August; and the emergence of four independent states on whose territory the 'formerly Soviet' nuclear weapons

were deployed: Belarus, Kazakhstan, Russia and the Ukraine. For its part Russia signed the START I Treaty (ratifying it in November 1992) as successor to the USSR, while the other three states accepted its terms in writing and agreed to comply.¹ In the meantime, the US offered substantial sums to help these countries meet the cost of dismantling weapons. Then, although still not fully ratified by the end of 1993, START II was signed in Moscow on 3 January 1993 by Russian President Boris Yeltsin and outgoing President Bush.

Meanwhile, in March 1992 the Chinese had announced their intention to sign the Nuclear Non-Proliferation Treaty, although they conducted two more nuclear weapons tests in May and September. The May test was followed just over a month later by an American one in Nevada, but in early August the US Senate agreed to a nine-month prohibition on American tests beginning in October and to ban all such tests by 1996.

Yeltsin and Clinton discussed the concept of a Comprehensive Nuclear Test Ban at Vancouver in April 1993, and the latter endorsed the concept in early July while also extending the US moratorium on nuclear weapons testing. Although it was agreed at the Geneva Conference on Disarmament in August that talks on a Comprehensive Test Ban Treaty would begin early in the new year, in October 1993 the Chinese conducted another underground test.

In 1993 the question of Non-Proliferation was an issue of growing importance, involving both the testing and production of nuclear weapons by states not already possessing them; and also the prevention of the spread of missile delivery systems and the testing of missiles. Some states, such as Israel and possibly even Japan, were known to have nuclear technology, if not weapons, but had not acknowledged this publicly.

The prevention of development of both nuclear and chemical weapons by Iraq was a key concern of the US during and after the 1991 Gulf War; and in April of that year the UN Special Commission (UNSCOM) was appointed to conduct weapons inspections in Iraq – creating periods of tension throughout the 1990s.

Under a bilateral agreement of July 1992 the Americans agreed to provide US\$25 million to enable the Russians to destroy their chemical weapons. A Chemical Weapons Convention (CWC), which was to enter into force at the end of April 1997, was signed by 130 states in January 1993. Nations party to the accord were expected to permit inspection of their chemical industries and destroy existing chemical weapons and related production facilities.

The US was also concerned about Chinese assistance to Pakistan and Iran which might increase the ability of those countries to develop nuclear weapons or delivery systems. Iranian President Ali Akbar Hashemi-Rafsanjani had visited China in early September 1992 and in July of the following year the Chinese sold a nuclear power station to Iran. Then, after voicing concern, in August 1993, about China selling M-11 missiles to Pakistan, the US government banned sales of American hi-tech equipment to the PRC. About that time the Americans were worried that a Chinese ship, the *Yin He*, might be delivering chemical weapons materials to Iran.

Meanwhile, at the end of January 1992, less than three weeks before Pyongyang and Seoul agreed to end their confrontation, the North Korean government agreed to allow the International Atomic Energy Authority (IAEA) to inspect its nuclear sites. A further North and South Korean accord on possible nuclear weapons sites inspections was reached in mid-March and in early May Pyongyang provided IAEA with a further list of its nuclear assets. Relations between the North and South Korean governments improved over the summer and early autumn.

However, this period of diplomatic 'progress' ended in late February 1993 when Pyongyang rejected the IAEA's request to inspect two sites suspected of producing weapons grade plutonium, announcing, the following month, its intention to withdraw from the Non-Proliferation Treaty. At the beginning of April 1993, the IAEA found North Korea in violation of the Non-Proliferation Treaty and six weeks later the UN Security Council called on Pyongyang to allow inspections of the two disputed sites. Also in May, North Korea tested the Nodong I missile, which was capable of carrying a nuclear warhead. It may be that the increasing influence of Kim Il Sung's son, Kim Jong Il, who was appointed chairman of the National Defence Committee in early April, had considerable bearing on the change in North Korean policy at that juncture.

Nevertheless, US-North Korean talks in early June led to Pyongyang withdrawing its threat to withdraw from the Non-Proliferation Treaty and in mid-July President Clinton visited South Korea, including the Demilitarised Zone (DMZ). The North Koreans also agreed to resume talks with the IAEA, allowing the Authority to make further inspections in August, although not at the two 'contested' sites.

At the beginning of October, however, North Korea was declared to be in violation of the Non-Proliferation Treaty. When Pyongyang responded at the beginning of November by cancelling its scheduled talks with Seoul, Clinton warned that an attack on the ROK would be equivalent to an attack on the US. The US President also received his South Korean counterpart, Kim Young San, after the Asia-Pacific Economic Cooperation (APEC) 'summit' held in Seattle that same month.

Emergence and character of 'ASEAN regional forum' (ARF)

An agreement was reached at the fourth ASEAN summit, held in Singapore on 28-29 January 1992, on the creation of a free trade area over the following 15 years. Members pledged to move the association to a 'higher plane', intensifying discussion with external 'dialogue partners' on political and security issues.

Those attending the Manila Meeting of ASEAN foreign ministers in July 1992 expressed concern about Chinese claims in the South China Sea – especially the Spratlys. The post-ministerial conference involving seven 'dialogue partners' of ASEAN (Australia, Canada, the European Community (EC), Japan, New Zealand, South Korea and the US), with Vietnam and Laos attending as

observers, considered the possibility of extending the range of discussion beyond that of ASEAN itself.

Japanese Prime Minister Kiichi Miyazawa's speech at Bangkok on 16 January 1993 called for the Asia-Pacific countries to 'develop a long-term vision regarding the future order of peace and security for their region' and urged a new level of political and security dialogue. There remained at least five areas of tension and conflict in the East Asian region:

- 1 the PRC government saw the Taiwan issue as an 'internal' problem, but the US remained committed to preventing any attempt to take Taiwan by force;
- 2 Beijing's claim to the Spratly Islands might also bring it into conflict with several ASEAN member countries;
- 3 ASEAN members countries remained concerned about PRC influence in Burma;
- 4 in Korea there was the issue of nuclear weapons and in the context of 'reunification' America's commitment was vital; and
- 5 Cambodia, a critical area during 1975–91, was now on its way to solving its problems politically with the interim help of the UN.

At a meeting in May 1993 in Singapore senior officials of ASEAN and its seven 'dialogue partners', as well as Korea and Laos, considered an agenda for the cooperation forum's upcoming July 1993 meeting and discussed the need for 'preventative diplomacy and conflict management'; a Zone of Peace, Freedom and Neutrality (ZOPFAN) and a nuclear weapons-free zone in South-East Asia. Then at ASEAN's post-Ministerial conference dinner, in July, involving 18 foreign ministers – representing the six ASEAN countries; PNG, an observer of ASEAN since 1976; the seven 'dialogue partners'; as well as Vietnam, Laos, China and the Russian Federation (aka Commonwealth of Independent States (CIS) since the signing of its founding charter by Armenia, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan in January 1993) – it was agreed that the ASEAN Regional Forum (ARF) should be developed and formally inaugurated at the meeting scheduled for Bangkok in July 1994.

ARF was not a collective security group in the full sense as it did not have any military aim, while each country involved had its own armed forces and strategic thinking. Like ASEAN itself it could only be a diplomatic group focusing on 'prevention of conflict' and 'confidence building'.

US power on a global scale

During the Gulf War in 1991 the US proved its battlefield superiority, in terms which seemed to demonstrate the validity of the 'revolution in military affairs', based on hi-tech equipment both at sea and on land and in combined use of air and land power. By 1993, it was clear that neither Russia's land forces nor its naval and air power could hope to match the US in any confrontation for the foreseeable future. The large American budget deficit built up during the Reagan

period could not be sustained for ever and the end of the Cold War had to be balanced by reductions in US military expenditure and therefore its military presence around the world.

President Clinton promised even greater reductions in both the total number of American military personnel and US troop numbers in Europe than had his predecessor, President Bush. Clinton sought to keep the larger portion of the troops in the continental US, envisioning a more mobile and flexible American force prepared for rapid deployment abroad,² while acknowledging the continuing long-term need to develop sophisticated hi-tech weaponry and 'associated systems'. Clinton accepted, perhaps more fully than Bush, that the key to strengthening the American position, even in defence, was to end the decline of US economic competitiveness.³ The 'end of the Cold War' opened the possibility of reduced armed forces and defence spending which in turn, if realised, might provide the opportunity to give greater priority to the civilian economy and lead to greater economic growth.

However, in 1993, it was becoming clear that the world was still a 'dangerous place' and threats to national security might arise in a more random fashion than during the Cold War. Less than three months after the bombing of the World Trade Centre in New York in February 1993, was the publication of *Target the West: Terrorism Today* (1993) by Yossef Bodansky,⁴ the director of the US House of Representatives' Republican Task Force on Terrorism and Unconventional Warfare. Bodansky's timely book warned that the Western way of life would soon be threatened by 'militant fundamentalist Islamist' terrorists waging *jihād* (holy war), even within the US itself.

Nevertheless, it was also becoming clear that the US could not be the 'world policeman' as it lacked the resources to intervene militarily in areas where disorder itself might be a threat. Nor was military strength linked to the notion that the US could protect its own economic interests through military means. The assumption was that it did not need to do so. The means to that end lay through more effective economic diplomacy.

Trade and finance: America's global trade policy

There was increasing American concern by 1988 about Japanese competition in global and regional trade. During Congressional Hearings on the American-Japanese FS-X fighter jet agreement in early 1989, questions were raised, in the interest of 'national security' about the Pentagon's decision to transfer technology that would enable Japan to develop an advanced civilian aircraft industry.⁵ Meanwhile, in response to growing displeasure about the slow pace of trade dispute resolution under section 301 of *The Trade Act (1974)*, Congress responded by passing *The Omnibus Trade and Competitiveness Act (1988)*, which included 'special 301' (or 'super 301') making the protection of intellectual property a priority in US trade policy and granting the President the authority to initiate negotiations or expedite retaliation to discourage foreign countries from engaging in trade practices deemed unfair.

America remained committed to expanding its economic influence elsewhere. In 1989 the US–Canada Free Trade Agreement (CFTA) went into effect, and the PRC had become America's tenth most important trading partner. Beginning in 1988, with China experiencing unprecedented economic growth and under growing foreign as well as domestic pressure to implement further reforms, Western news sources made more frequent use of the phrase 'Greater China' – defined in the 10 October 1988 edition of *Business Week* as 'the prospective result of "three-way economic integration" of Hong Kong, Taiwan and the Mainland'.⁶ References to the concept first appeared in Chinese language sources in the late 1970s.⁷

China's foreign trade and diplomatic relations were badly damaged, however, with the PLA crackdown on pro-democracy elements during and following the 'Tiananmen Square Massacre' of June 1989. Nevertheless, America and Japan resumed economic aid to the PRC after international pressure resulted, in June 1990, in the Beijing government ending martial law and freeing some political prisoners from detention. A Chinese offer to purchase a large volume of US goods had helped quell American opposition to doing business with the PRC.

But in the spring of 1991 the US government designated China, India and Thailand as countries of 'priority concern' under the 'special 301' provision of *The Trade Act*. Then, in the autumn, the Bush administration initiated the most thorough examination, in terms of 'special 301', of PRC trade practices ever conducted, while considering four general areas of market access for US goods in that country. One aim was to encourage China's economic reform over the long-term, an issue which the US linked to the PRC's application, in 1986, for GATT membership – having already secured 'observer status' in the organisation in 1983. Although the Americans maintained that there had been 'insufficient progress' on the PRC's approach to the issue of US intellectual property rights, the Chinese side signed a 'memorandum of understanding' in mid-January 1992 aimed at assuaging US concerns. Negotiations continued on 'section 301' investigations into 'market access' for US exports to China,⁸ but by late 1992 the US was also becoming more concerned about various bilateral agreements it had reached with the Japanese, since 1988, on matters of trade where disputes had arisen.

The Americans, however, had reasons for optimism on other fronts, having reached a consensus with the Canadians and Mexicans, in mid-August 1992, on terms of the North American Free Trade Agreement (NAFTA); and after signing a further Sino–American 'Memorandum of Understanding', in mid-October, this time supporting China's reentry into the GATT, with the Chinese promising to 'reduce or eliminate a wide variety of non-tariff barriers such as licensing requirements'. The US Senate had failed to overturn President Bush's veto of their recent vote to link China's MFN status to progress on human rights conduct, and two days before Christmas the US government announced the lifting of the US–EC embargo, imposed in 1989, on weapons shipments to China.

Despite President Bush's defeat by Bill Clinton in the US Presidential election in November, Western expectations for the China trade were again on the

rise. The term 'Greater China', although not generated by the PRC's own usage, but rather by Western (especially American) journalists and academics, was very much in vogue during 1993.⁹ However, unlike the EC, or even the ASEAN, which formally inaugurated its Free Trade Area (AFTA) on 1 January 1992, the concept had no institutional unity, but was rather a pattern of economic and financial unity.

In November America also took over the chair of APEC for the year 1993 and managed to reach a deal with the EC, which was also preparing to inaugurate its Single European Market (SEM) on 1 January 1993, on trade in agricultural goods. Then, in mid-December, President Bush, Canadian Prime Minister Brian Mulroney and Mexican President Carlos Salinas signed the NAFTA to create a continental free trade zone in goods and services similar to that of the EC. There remained, however, considerable opposition to the unratified deal. American and Canadian labour unions worried about potential job losses, particularly in the manufacturing sector, from 'outsourcing' to more southern regions of the trading bloc, where labour as well as production costs were lower, and in the case of Mexico, environmental controls less stringent.

Then, in late May 1993, just two days after the Chinese government released dissident Xu Wenli to calm critics of its human rights record, Clinton decided to renew the PRC's MFN status for another year – although subsequent renewal was conditional on further improvements in that country's approach to human rights. High-level Sino-American government exchanges were resumed in October.

Meanwhile, during US-Japan economic talks in Washington, in mid-June, the Americans asked the Japanese to cut their huge current account and balance of payments surplus by 1-2 per cent of GNP within three years, while improving market access for US exports. A US-Japan 'Framework Agreement' was concluded in July, setting a timetable for trade negotiations on: market access; Japanese government control over the economy; quantitative targets; and the enforceability of commitments.

However, US-EC tensions continued over trade issues in early September when the French threatened to veto the agreement, reached with the US the previous November, on agricultural trade; and the Americans responded by refusing to renegotiate the accord.

Also, NAFTA 'side agreements' on workers rights and environmental protection, reached in September 1993 failed to assuage concerns raised by some critics of the Treaty. In Mexico the rebel Zapatista National Liberation Army (ZNLA) was preparing to take up arms to preserve what remained of the indigenous people's 'traditional' agrarian economy and culture from the threat, that they believed was posed, by potentially inexpensive and highly-subsidised American imports, such as genetically modified corn, under the NAFTA.

In Europe the EU succeeded the EC when the Maastricht Treaty came into effect on 1 November, while the European Economic Area (EEA) – embracing the EU and the European Free Trade Association (EFTA) – was to be inaugurated on 1 January 1994. That day would also mark the start of the second stage

of the European Monetary Union (EMU), and the establishment of the European Monetary Institute (EMI) at Frankfurt-am-Main. In light of these developments, it was beneficial for both American prestige and the Clinton administration's overall global strategy that House of Representatives and Senate approval (17–21 November 1993) of the NAFTA coincided with the APEC summit meeting in Seattle. Although, on 1 January 1994, less than two hours after the NAFTA went into effect, the 'Zapatista revolt' began with the ZNLA declaring war on the Mexican government and seizing control of several towns in the southern Mexican province of Chiapas.¹⁰

The Seattle meeting of November 1993

The APEC summit meeting which took place at Seattle from 18 to 20 November 1993 was, of course, a very different kind of occasion from the Tokyo Conference of November 1943. Yet despite the profound contrasts, it too offers the historian an opportunity to reflect both on the changing regional context and on the diversity of points of view among the leaders who attended, as they contemplated both the short-term and the longer-term future.

The APEC Forum had been created in 1989 on the initiative of the Australian Prime Minister Bob Hawke. His original proposal had been limited to countries on the Western side of the Pacific Ocean, including China, Japan, South Korea, and the six members of ASEAN, as well as Australia and New Zealand. But even before the Forum held its first meeting at Canberra in November 1989, the Americans had invoked Japanese support to ensure the inclusion of the US and Canada.

Thus constituted, what began as a loosely organised forum of governments, or rather 'economies', had no formal powers or responsibilities. Nevertheless, by November 1992, when the US took over the chair for the following year, the forum was becoming an important vehicle for American, as well as Australian, officials to exert influence on Asian governments in the direction of greater freedom of trade, more privatisation of state enterprises, and greater openness towards international investment. By 1993 the group had 15 members: Australia, Brunei, Canada, China, Hong Kong, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Taiwan, Thailand, and the US.¹¹

It was logical for Clinton to choose Seattle as the site for the first summit-level meeting of the APEC Forum as the city played an important role in terms of America's trade in the Asia-Pacific region. Situated on the American West Coast, it had originally been a hub of the timber and agricultural products trade. By 1993 it was a centre of computer software and aircraft manufacturing – two spheres which symbolised the technological superiority of the US on a global scale. Seattle was home to Microsoft Corporation, established in 1975, and The Boeing Company, which had become central to the American aerospace industry since its founding in 1916, and as of 1990, employed over half the workforce in the city.

Against that background, President Clinton proposed that the APEC ministerial meeting, due to be held in Seattle in mid-November 1993, should be

followed by an informal summit meeting of heads of government. The resulting conference, was in one sense, truly 'historic'. For the first time ever it was possible for an American president to invite, on the same occasion, almost all the heads of government of East and South-East Asia and of North America.¹² Such a meeting made it possible, among other things, for President Clinton of the US, President Jiang Zemin of China, and Prime Minister Morihiro Hosokawa of Japan to sit down at the same table, together with leaders of many of the South-East Asian countries which, 50 years before, Japan had drawn into its 'co-prosperity sphere'.

The main focus of the meeting was on economic relations. In a statement shortly before the summit, US Assistant Secretary of State for East Asian and Pacific Affairs Winston Lord, had indicated the three principles underlying American policy in Asia: 'shared strength, shared prosperity and shared commitment to democratic values'.¹³ Nevertheless, the linkage between the three themes of regional security, economic growth and human rights was largely rhetorical: in practice they were pursued in separate organisational contexts. The APEC meeting itself was not intended to contribute directly to handling the flare-up of American concern about the intentions of North Korea which had occurred earlier in November. Nor was 'democracy' an explicit issue for the conference, although it was reported later that in a bilateral meeting Jiang Zemin warned Bill Clinton that American concerns about human rights in Asian countries amounted to interference in their internal affairs.

For Clinton the occasion probably had two main purposes, in addition to that of presenting himself to the American media and public as a great international statesman. On the one hand, he wanted to create a climate among Asian leaders which would prove favourable to a further opening up of their economies to international capital, and eventually to an easing of America's bilateral trade deficits with Japan and China. It was also necessary to reassure Asian leaders that the establishment of the NAFTA, finally ratified by the US Congress on the very eve of the summit, was not itself a step towards regional protectionism. At the same time it was important not to allow the East Asian region itself to become too closely integrated – in ways that might ultimately create new barriers to greater freedom of global trade.¹⁴

Clinton's second objective was not just to achieve an Asian-Pacific free trade area. If necessary, the Americans could have used the APEC framework to move in that direction. It was also to demonstrate the growing significance of the Asia-Pacific region for the United States' own economy, in order to impress those members of the European Community (especially France and Germany) who were currently resisting pressures towards greater liberalisation in various sectors of global trade. 'The Uruguay Round' of negotiations, taking place within the framework of the GATT, was due to be completed by the middle of December. In many respects the GATT, to be succeeded in due course by the World Trade Organisation (WTO), was the Americans' preferred context for global imposition of a single system of trade regulations based on open markets. Since 1949, however, the GATT had excluded China; and its application to

rejoin, made in 1986, had not yet been accepted. That organisation did not, therefore, embrace the whole of the Asia-Pacific region, making it necessary for the US to pursue some of its objectives there by way of the APEC forum or through bilateral discussions.

A few Asian voices were highly critical of the Clinton administration's desire for a larger economic role in East Asia – notably that of the Malaysian Prime Minister Mahathir Mohammad, who was the one leader to decline an invitation to Seattle. Three years earlier, during a visit by the Chinese Premier Li Peng to Kuala Lumpur in December 1990, Dr Mahathir had proposed the creation of an East Asian Economic Caucus to protect the interests of the region against the threat of protectionism in the US and Europe. It would have included all the Asian members of APEC, but not the North Americans. But again the idea of excluding the US was vetoed, in effect, by Japan and by the other members of ASEAN; as a result, the proposal languished. But Mahathir persisted in his opposition to any bid for American dominance over the economic affairs of East Asia. That he was not alone in having reservations on that score seemed to be confirmed when the Seattle meeting itself firmly rejected any idea of turning APEC into an 'Asia-Pacific Community', within which formally negotiated agreements might become binding on every member. The emphasis was to remain on 'consultation' rather than 'negotiation'.

Seen in the wider perspective, there seems little reason to doubt that American policy within APEC was driven as much by selfish as by altruistic motives. During the preceding decade the US had come face to face with two fundamental economic dilemmas. First was the fact that a continuing rise in American personal incomes had led to an expansion of imports of manufactured goods – especially from East and South-East Asia – which by the 1980s led to an actual trade deficit within the US balance of payments. Second, President Reagan's policy of increased Cold War military spending – at the same time as reducing taxes but failing to make any significant reduction in welfare payments – had led to a spectacular rise in the budget deficit which had to be met by attracting more foreign investment to US government bonds and so incurring larger foreign exchange expenditure in interest payments. The dangers inherent in this situation were already apparent by 1988: one prediction made then was that by the 1990s the US would need a trade surplus large enough to pay out \$50 billion a year merely to service the interest on debts to foreigners. By 1993, even though a measure of progress had been made towards balancing the federal budget, it was still a matter of urgency to increase the level of American exports.¹⁵ Clinton was determined to pursue this objective through the opening up of markets, but he did so against a background of growing Congressional demands for a more protectionist response to the rising trade surpluses of Japan, China and other East Asian countries.

Impact of changes in international finance on East Asian economies

With the exception of Japan, which was still an exporter of capital much of the time, during the 1990s East Asian economies still required capital which could no longer be met through:

- 1 foreign aid for investment projects, owing to the shortage of World Bank and Asian Development Bank (ADB) capital as well as increased resistance to aiding countries which looked less and less like LDCs;
- 2 FDI in the form of joint ventures, wholly owned ventures in special zones, and export-oriented enterprise; and
- 3 profits of successful exporters, including those of oil exporters who had seen their profits fall after 1986.

The scarcity of capital derived from these sources was especially apparent after 1993, with China's increasing openness to FDI. In 1990 the ASEAN 'big three' – Indonesia, Malaysia and Thailand – had obtained 80 per cent of the total contracted FDI in South-East Asia and China, but over the next two years procured only 59 and 40 per cent respectively. By 1992, China's share had risen to 58 per cent. In May 1990 the PRC State Council announced plans to open up and develop the Pudong New Area next to Shanghai over the following 30 to 40 years, while issuing 'general regulations for the sale and transfer of land-use rights' (under leases of 40 to 70 years) in China's urban areas. Then, in a speech during his tour of Southern China, in January 1992, Deng Xiaoping called for 'deeper' reforms and faster economic growth. Many PRC restrictions on foreign investors were quickly being relaxed. Foreign banks and law firms were also permitted greater freedom while local authorities were invested with the power to accept FDI.¹⁶

Westerners were looking for new places to invest, especially fund managers working with pension, trust or insurance funds. One factor in this, already evident in the 1980s, was the need to diversify across currency lines, to ensure against the changing value of the US dollar and other currencies in an increasingly volatile foreign exchange market. Some of this capital – especially that in the hands of hedge funds, investment banks and securities houses, coming from both chit accounts and property trading – was looking for profit through speculation or arbitrage; tending to flow into Asian stock, bond and derivatives markets which were 'opening up'. Western governments and financial institutions, especially those of the US, were pressuring Asian governments to 'liberalise' their financial systems. Claims that such measures would contribute positively to Asian economic growth often evolved from 'ideological' and 'interest' arguments, rather than being grounded in firm knowledge of the actual economies and practices of that region.

Western 'investment' in 'emerging markets' actually tended to move away from long-term commitments, such as FDI, and to be less discriminatory in

favour of production of 'tradable' outputs such as manufactures, as opposed to non-tradable items such as real estate; or to focus on opportunities for short-term profit such as arbitrage. Such investment contributed to an 'asset bubble' rather than to actual development of the real economy and tended to leave Asian financial institutions lending in the longer-term, even in property development, on the basis of shorter-term commitment for foreign investors. There was thus a mismatch between the forms in which capital would be borrowed, and the forms in which it needed to be invested to achieve genuine growth and development. During 'good' times, foreign investors, eager to invest for profit, tended to be all too ready to accept the 'corrupt practices' or inadequate 'structures' of Asian finance and governments.

Western foreign investment in Asia also involved a currency market dimension. Capital was frequently borrowed in dollars, or yen etc, to be lent out in 'local' emergencies. Hence the process incurred, for Asian financial institutions, obligations in foreign currency, to be met out of income in local currency. This was not problematic as long as international interest rates remained stable, or so long as exchange rates remained virtually 'pegged'.

Japan

Japan's financial system was in flux from 1985–95, and perhaps the most important change in terms of its psychological impact on the country was the 'Plaza Accord' of 22 September 1985. This agreement was seen by many Japanese as the result of deliberate US action to make American imports more expensive and force a change in Japan's successful business strategy. The resultant rise of the value of the yen against the dollar – from ¥239 on 20 September, to ¥200 by the end of 1985, and to ¥149 by the end of 1986 – led to what the Japanese called the *endaka fukyo* ('high yen recession'). US thinking proved incorrect, however, as these changes in the yen-dollar exchange rate had little effect on Japanese trade surpluses and did not diminish their eagerness to buy US Treasury bonds.

During the early 1990s the stock market became permanently, despite the 'end of the bubble', an increasingly important element in Japan's financial system, with greater participation by foreign, especially American and some British, securities firms and investment banks. Japan's equity and real estate 'bubble' was deliberately 'punctured' by the Bank of Japan in a series of rate rises from December 1989 to August 1990. The result was to bring down the stock market index from 39,000 before December 1989 to below 14,309 in mid-August 1992; when the Minister of Finance implemented measures which lifted it back up above 18,000 by the end of the month. However, even in Japan, the stock market remained a much less vital source of capital for big corporations than in the US.

In 1990–91 Japan continued to dole out foreign aid linked to opportunities for Japanese firms. They had major interests in Thailand, in Indonesia and in the Philippines. From 1990–92 the Japanese became increasingly interested in

investing directly in China. A loan agreement of November 1990 provided financing for seven projects over five years and several syndicated bank loans were extended about that time. The Dalian industrial park agreement was signed in September 1991 about a month after Prime Minister Toshiki Kaifu met Premier Li Peng in Beijing, becoming the first head of a 'Western' government to visit the PRC since the 'Tiananmen Square massacre'.

To enable banks in Japan to survive pressures of the new domestic situation, from 1991–93, the Japanese needed to withdraw some capital from the US and grew more reluctant to invest in 30-year Treasury Bonds. A result of the Japanese selling dollar assets and moving assets into yen was the falling value of the dollar and the rising value of the yen, although this did not result in increased yen income for ordinary Japanese, and therefore had no effect on Japan's demand for US exports. There was also even greater participation of Japanese banks and finance companies in Asian markets, during this period, obliging them to come to terms with international financial change.

Indonesia

The 'New Order' in Indonesia was remarkably successful until around 1989 when Suharto probably began facing difficult new problems. During the early 1990s Indonesians tended to find similarities between their country and the USSR; and perhaps to see what happened in Russia as an 'awful warning' of what could occur in Indonesia. It may be that concern about the dangers of opening up politically led Suharto to crack down on opposition within Indonesia. Restrictions on press freedom were a result of mounting concern about the growth of an Indonesian 'middle class', drawn increasingly towards Islam and its potential restlessness. The army was given the task of keeping the restless outlying areas, especially Aceh and East Timor, under firmer control. Suharto may have deliberately involved individuals gaining influence, at that time, in corruption or cronyism in order to keep them under better control.

Following the 'Pakdes 88' decree of December 1988, aimed at developing the Jakarta Stock Exchange (JSE), the number of countries on the Exchange rose to 121 by October 1990, leading to a rising share index until it peaked in April of that year. This burst of activity was seen as primarily driven by foreign investors because of the growing interest shown by major securities firms, often through joint ventures.

In November 1991 the government imposed ceilings on offshore borrowing by public-sector enterprises and, for banks, improvements were made to foreign exchange 'swap' mechanism. The following year there were further bank reforms, involving the separation of banking and securities firms, while new regulations were enacted for pension funds and life insurance.¹⁷ Further 'deregulation' of Indonesian banking also occurred during this period, increasing competition through the authorisation of private banks and easing restrictions on foreign and domestic banks. The changes sought to encourage foreign and joint venture banks to invest in export-oriented industry. The government also

became interested in privatising state corporations and decided at the end of 1990 to prepare for the eventual privatisation of the JSE in July 1992. In 1990–91 the government emphasised ‘prudential regulations’ for banking and the stock market, although the JSE stock index fell throughout most of 1991. The increasing flow of investment into Indonesia resulted in overvaluation of assets and overinvestment, from 1991–94, especially in non-traded sectors.

Without a number of large investments in petroleum-related mining projects in 1992, Indonesia would have experienced a sharp fall in FDI. In response to growing competition for FDI, from 1992–94, the Indonesian government opened more sectors to such investment. A reform deregulation package of October 1993 addressed the problems – involving infrastructure facilities, licensing procedures, land titles, and lack of ‘transparency’ – that foreign investors experienced in Indonesia. It also extended by five years the length of time that investors were allowed to fully own industries in Indonesia. Partly as a result of these measures, FDI rose to a record level of \$23.7 billion in 1994, encompassing some major infrastructure projects involving electric power plants and oil refineries.¹⁸

Singapore

From the point of view of the smaller countries in East Asia, the question arose by the 1990s about how to respond to new pressures and opportunities arising from US policy.

A key issue for such countries was how to invest their own resources. This meant deciding whether to compete with or resist the entry of US multinationals by investing in domestic industrial production, or to allow the multinationals to ‘come in’ and establish their own subsidiaries. Singapore, and to a large extent Malaysia, chose the latter course, benefiting from the side-opportunities generated by such multinational investments. Firms from these countries wanted easier and quicker profits from trade which could be obtained from longer-term investment in production enterprises of their own.

Between 1986–88 there were falls in the real exchange rate of the Singapore and US dollar. Exchange rates were the ‘armchair’ of MAS policy, enabling the country to avoid importing inflation. The banking system had, since the 1970s rigorously separated operations of Asia currency units (offshore licensees) and domestic currency units. Private banks were not permitted to sell the Singapore dollar short in currency trading.

The bond market was reformed in May 1987, when the primary dealer system was introduced into the Singapore Government Securities Market. The seven primary dealers by 1991 included the ‘big four’ Singapore banks as well as Citibank and First Boston. By the end of 1990, 88 banks had received licenses to operate offshore and from 1992 banks operating internationally had to meet the BIS capital adequacy standard of 8 per cent of risk weighted assets.

Singapore’s non-oil exports composed about 75 per cent of GDP from 1993–97, while total merchandise trade (including entrepot trade) exceeded 200

per cent of GDP – compared with 52 per cent in Hong Kong; 75 per cent in Taiwan, and 50 per cent in South Korea.¹⁹ Singapore's stock market remained active, but it was looking to expand its role.

Malaysia

Malaysian banking, which had been previously dominated by Chinese, came progressively under Malaysian control in the mid-to-late 1980s. It was in effect controlled by government-owned or UMNO-controlled holding companies and their affiliates. The political dimension of the change lies in the extent to which the UMNO leadership, increasingly factionalised in the late 1980s and early 1990s, used its economic power, both as owner of equity and as the power in government, to maintain its own political strength.

In 1993 Mahathir remained Prime Minister despite a challenge to his leadership by Tengku Razaleigh in 1987. Nevertheless, in the autumn of 1993, Anwar Ibrahim was pushed into, and felt strong enough in challenging the incumbent deputy leader and to secure his own election to that position. It is possible that Anwar could have even ousted Mahathir at that stage, but he chose not to make an attempt to do so.

As far as the economy was concerned, by 1993 Mahathir was pursuing even more ambitious strategies for growth than he had done before. When the New Economic Policy that was initiated in 1971 came to an end in 1990, Mahathir launched his 30-year 'Vision 2020' programme.²⁰ By the 1990s, when there was a new expansion of foreign capital investment in Malaysia, there was no longer any danger of that investment leading to foreign political domination of the kind that had existed before 1963. This was partly because Japanese capital was being used by Mahathir to balance British capital of the 1980s. The growing role of American enterprises, and the US as a market for Malaysia's export industries, however, raises questions about the extent of Malaysia's economic independence. Mahathir's criticism of US domination of the Asian economic environment is within the bounds set by a recognition of this American domination. In this respect Mahathir was in 1993 a very different kind of 'anti-American' than Sukarno was in 1963.

Despite the 'privatisation' programme under way in the early 1990s, state holding companies still held a dominant position in the economy. At the end of 1992 the two largest owners of equity of all the listed companies on the KLSE were PNB and the Ministry of Finance Inc (MFI) – which had acquired Bank Bumiputra from PETRONAS in 1991.

The recovery from the 1985–87 recession was clear by 1988, and from then until 1996 the Malaysian economy grew by 8 per cent per annum. This recovery was based to a large extent on attracting FDI and other forms of borrowing from abroad, which in turn led the government to seek to strengthen its own financial institutions, and to open up to new forms of financial activity.

The banking system was strengthened by *The Banking and Financial Institutions Act (1989)*, which gave greater powers to Bank Negara to regulate all

banking and licensed financial institutions. The 16 foreign banks operating in Malaysia were required to establish locally incorporated subsidiaries, although these could still be 100 per cent foreign owned. On this basis, the government moved in 1990 to promote offshore banking facilities at Labuan Island for both offshore banks and trust funds. In 1991, it was deemed safe to abandon most central bank restrictions over interest rates charged on bank lending, although some alternative credit controls were retained to allow funds to be available for 'priority' areas such as low-cost housing.

In the early 1990s there were moves to 'modernise' the KLSE and expand its role; and at the end of 1991 there were 321 companies listed on the Exchange compared with 182 in 1980. Reflecting a deepening of the capital market, in 1990, the government established Rating Agency Malaysia to rate all issues of bonds and commercial paper. While it was made more 'open' to international investors in Malaysian companies, in equity, in 1993 a securities Commission was established as a single monitoring agency for the capital market.²¹ There was, however, an especially sharp decline in FDI in Malaysia between 1992–93.

Thailand

Thailand experienced rapid economic growth in the late 1980s and early 1990s, although as of 1985 Thailand had not established itself as a NIC with its own heavy industry base. At that point it was far behind South Korea, Taiwan and Indonesia which achieved remarkable growth through state planning; controlling and prioritising investment projects; and, as with the essential feature of the 'Japanese model' working with conglomerates willing to fit into such planning to allow concentration of available capital in the hands of a few large firms.

Nevertheless, Thailand, had begun to develop along similar lines, in the early 1980s, to the extent that Prem Tinsulanonda's government and its 'Fifth Plan' (1981–86) focused on specific objectives and was willing to allow some key conglomerates, associated with major banks, to take the lead. The core element of a new phase of planned growth was to have been the Eastern Seaboard Project, but Thai technocrats trained in the US and Britain opposed this kind of model. Prem lacked the support, in the post-1986 period, to dominate the government and domestic politics, and thus was unable to play a role similar to Suharto in Indonesia or Mahathir in Malaysia. Thailand's natural gas and petrochemical scheme lost its momentum during the years of domestic economic difficulty in 1984–85 and was unable to recover it after 1987–88.

By the late 1980s Thailand's industrial development favoured a different 'model'. Beginning in 1989–90 various financial structure regulations were removed, for foreign exchange and interest rates, allowing banks and finance companies greater freedom to engage in a wider range of activities. Stock Exchange of Thailand (SET) growth began in 1987–88 and continued after the sharp fall, between August and December 1990, after the 'bull market' peak, before really taking off in 1992–93. This was aided by the ability to trade in a wider range of securities and the freedom for foreign institutions to participate.

But although there was a greater emphasis on real estate, private enterprise and competition, in relation to heavy industry and to developing individual Eastern Seaboard projects, this was no longer with any coherent plan.

The result was that technocrats were unable to cope with this new and rapidly changing situation and there was a tendency for many to be 'bought up' by private business. In short, there was an increasingly close relationship between business and politics, which involved considerable corruption – especially under Prime Minister Chatichai Choonhavan, who was elected in July 1988.²² When compared with 1991, during the first ten months of 1992 there had been a 31 per cent drop in FDI applications to the Board of Investments, with a noticeable decline in applications from Japan, Taiwan and Hong Kong. Thus, the Board held a meeting in Bangkok in January 1993 to consider 'offensive' strategies to attract FDI.²³

Taiwan

As had occurred in Japan, Taiwan's stock market expanded rapidly from 1987–89, although it remained smaller than the Japanese or Korean stock exchanges. In 1987 foreign banks in Taiwan had been permitted to open one additional branch, while the total volume of Taiwan's capital market increased from NT\$0.69 billion in 1986 to NT\$6.45 billion in 1989.

Beginning in March 1989 foreign owned insurance companies with branches in Taiwan were allowed to invest in securities and that same year an interbank call-market for foreign reserves was opened. A new banking law was also passed, permitting the privatisation of the banking sector. The regulation of bank interest rates, previously controlled by the Central Bank of China, was phased out and subsequently left to be determined by the market. In January 1990 the Taiwan Securities Central Depository Corporation came into operation, as a depository and clearing service and that same year foreign institutional investors were allowed to invest directly in the Taiwan stock market. Nevertheless, the volume of the capital market fell back to NT\$2.92 billion from NT\$6.45 billion the previous year.

As with Japan, Taiwan experienced a slowdown in growth and a 'bear market' in 1990–91 and, like Korea, began permitting increased foreign participation in banking and capital markets. Government domestic borrowing increased from 1991, in relation to a Six Year Development Plan (1991–96) for infrastructure projects, and in March of that year the Taiwanese government changed its regulatory system for foreign capital flows. Although the government had not yet granted approval for Taiwanese securities companies to raise capital in foreign markets, foreign banks operating in the country were allowed to open a third branch. In June, 15 new banks were permitted to start operating in Taiwan and in 1994 restrictions on the number of foreign bank branches operating in Taiwan were lifted completely. Meanwhile, in 1991 there were 221 companies listed on the Taiwan stock market, up from 130 in 1986, while 53 per cent of all stocks were owned by individual resident shareholders.

From 1991–93 Taiwan experienced a sharp decline in FDI, followed by some recovery in 1994. Financial reforms in Taiwan in 1992 were designed to promote Taipei as a regional financial centre²⁴ and in 1993 the volume of the capital market rose back up to NT\$ 5.93 billion, increasing further in 1994 and 1995.²⁵

South Korea

After several years of annual economic growth of about 12 per cent, the South Korean economy grew by only 6.8 per cent in 1989. As in Japan, in 1990–91 there was a slowdown in growth and a ‘bear market’ on the Korean Stock Exchange (KSE), which lost 20 per cent of its value during 1990. The government responded that same year by establishing the Stock Market Stabilisation Fund under which securities companies, listed firms and institutional investors were required to make contributions to stabilise the capital market. Korea, like Taiwan, began permitting increased foreign participation in banking and capital markets, while greater emphasis was placed on developing the Korean bond market.

With the ‘bear market’ continuing on the KSE in 1991–92, 50 per cent of shares issued, by the end of 1991, were owned by individuals; only 8.5 per cent by trusts; 8.6 per cent by financial institutions and 6.3 per cent by insurance companies. The Ministry of Finance responded in 1991 by granting approval for four foreign securities firms to open branches in Korea, while in June KSE membership rules were amended to permit foreign membership. The Exchange was by then the second largest in Asia and the fifteenth largest in the world, but Korean markets remained ‘highly regulated’. Although the bond market was still not expected to open to foreigners until 1997, the securities market was opened to foreigners in January 1992, with a 10 per cent ceiling imposed for foreign ownership of any one company.

Two months later the government of newly inaugurated President Kim Young Sam launched a ‘100 Day Economic Plan’ involving cuts in government controlled interest rates; the end of centralised coordination of economic investments; the merging of the Economic Planning Board with the Ministry of Finance and the abandonment of the industrial nationalisation policy of 1986. Nevertheless, while there was also a balance of payments current account surplus the following year, beginning in 1994 the country ran deficits.²⁶

Communications revolution

Revolutionary developments in communications technology over the previous decade helped to reinforce American global dominance in the four major spheres by 1993. Such innovation had, in some ways, led the world even further away from the one envisaged in Orwell’s *Nineteen Eighty-Four*. Failing to appreciate the vitality of American capitalism in the global context, Orwell underestimated the possibilities of scientific and technological progress, except in the fields of

political surveillance and thought control. Consequentially, he imagined an international situation in which the three superstates of Oceania, Eurasia and Eastasia were hermetically sealed from one another; whereas the actual world from 1984–93 was one in which communications and information technology were steadily breaking down national barriers to create a 'global village'.

Electronic news gathering improved further from the mid-1980s with the use of the 'Cam-corder' in combination with direct satellite links to an 'electronic newsroom'. The introduction of direct satellite broadcasting and powerful geostationary satellites linked to cable networks allowed access through individual 'dish' aerials or through payment for cable reception. By the late 1980s a single satellite could carry many 'transponders' with multiple television channels, to serve a large area 'footprint' extending across national boundaries. For example, there was the 'Astra' satellite launched over Europe in 1988, while the 'AsiaSat I', sent up by a Hong Kong consortium using a Chinese launcher, was capable of covering large areas of Asia.

Created and owned by private corporations, such satellite and cable stations posed major new problems for international regulations, leading to new debates at ITU administrative conferences of the 1980s and 1990s.

These developments opened the way to 'real time' transmission of television news, allowing television to finally catch up with live radio reporting and permitting a genuinely global approach to television broadcasting. The title of a 1984 paper published by the European Commission, 'Television Without Frontiers', was becoming ever more appropriate. CNN's 'Breaking News' enabled viewers to watch key events occurring throughout the world, 'live' on their television screens. Among the more popular topics of these broadcasts were those related to conflict, disaster, political movements and terrorism.

As the possibilities for global television coverage of 'live' news expanded, the motivation for broadcasting news of just any kind seemed to be diminished. While this situation created opportunities for specialist cable operations like CNN, it produced a crisis for the older television networks which could no longer afford a worldwide chain of reporters, camera teams and all of the expensive equipment involved.

In the period 1983–93 there were also further improvements of international telephone links, with the introduction of optical fibre cables, notably the first transatlantic fibre optic cables (TAT-8) in 1988. This created a massive capability for the transmission of computerised data. The Internet and the World Wide Web (WWW) had emerged as growing factors in global communications by 1993 and in 1994–95 they were supplemented by the invention of 'browsers'. This represented a new kind of 'medium', which could be used for various kinds of communication – including banking and financial transactions, equity deals, as well as e-commerce. It was based on a technology which had developed in the West, evolving from the US Department of Defence's Advanced Research Projects Agency Network (ARPANET)²⁷ in 1969 to the WWW in 1989. Also, as of the 1990s, the WWW was dominated by computer (or 'IT') languages that were geared to software programmes and instructions written in English.

While this technology had become crucial in national and international security, intelligence and policing, during the 1990s it also became increasingly clear that 'traditional' national legal systems were inadequate for regulating this particular medium. Although the Internet and WWW had become a necessary tool of participating in a 'global world', national regulation of its use might threaten a country's basic freedoms and competitiveness. Yet, continued lack of regulation might further undermine legal and government authority, leaving the door open to organised crime, subversion and terrorism.

In the sphere of defense, 'information warfare' had emerged, in 1992, as a distinct operational category within the Pentagon as its 'information operations' needed to interact with the 'global information environment' to 'deny' or 'exploit' an adversary's information and decision-making capabilities. Yet, the Pentagon also recognised that military use of the information environment left it vulnerable to attacks in this arena by potential or actual enemies.²⁸

This raised questions about whether the West would continue to control the evolving technology sector, which was key to America's dominance in the world of 1993. East Asia remained a key market for US technology, and regional demand for such items were increasingly important to efforts aimed at balancing America's trade and balance of payments deficits.

Epilogue

Visions of the future – continuity and change

The overall objective of a US trade strategy over the coming years should be what it has been over the past 50 years – namely to remove barriers to international trade and investment and to establish rules for a level playing field.

... The range of issues to be addressed by trade negotiations has expanded. Reductions in trade barriers at the border have exposed less visible barriers embedded in domestic regulations. Globalisation of production and markets has eroded the boundary between trade and investment, and between trade policy and domestic policy.

G. Feketekuty, 'An American Trade Strategy for the 21st Century' in
G. Feketekuty and B. Stokes, op. cit.

During the Cold War it was Washington's goal to avoid the rise of a hegemonic strategic power that could threaten ... [US] security. Today the nation has a similar interest in blunting the emergence of economic powers that can challenge its commercial interests.

B. Stokes 'A Geoeconomic Strategy for the 21st Century' in
Feketekuty and Stokes, op. cit.

Financial liberalisation has undermined previously existing governance institutions and mechanisms, without creating adequate alternatives in their place.

J.S. Jomo in editor's introduction to *Tigers in Trouble: Financial Governance, Liberalisation and Crises in East Asia* (1998)

Military and strategic perspectives, 1943–93

When comparing the more obvious features of the East Asian region at the time of the Seattle meeting of 1993 with the situation of 1943 one is struck by two prominent features. First, with the exception of Hong Kong and Macau whose eventual return to Chinese sovereignty had already been agreed upon, the region no longer included any territories formally designated as colonies. There were, it is true, protest campaigns regarding the status of Tibet and East Timor; while the island of Taiwan enjoyed a unique status arising from a *de facto* partition of China in 1949, which left other governments free to choose whether to acknowledge its claim to sovereignty. Also, from time to time, a number of 'secession-

ist' movements were active in the region. But for the most part East Asia by the 1990s was a region of sovereign states, each represented in the UN – and in the IMF. There was no longer any place for direct foreign economic domination by either European or Japanese colonial rule.

A second, more obvious difference was that in 1993 neither the world as a whole nor the East Asian region was at war. In 1943, the future of finance, trade and money in East Asia and the Pacific, as well as who would control that sphere, was being decided by a war between the US and its allies and Japan and its allies.

In the period 1953–63, and even until 1973, the tension and conflict was between the US and its allies on one side and on the other China – as part of the Soviet-led Communist world, extending into North Korea and North Vietnam. The geographical areas of tension were along the line of containment: in the Korean Peninsula; in the Taiwan Strait; and in Indochina. By 1963, a secondary area of tension was Indonesia–Malaysia.

In 1983, a further transformation had occurred, in that a Sino–American rapprochement left the main confrontation one of rivalry between a Soviet-led economic bloc, including Vietnam and perhaps North Korea, and a US-led 'world economy'. In Asia this meant a predominantly naval-maritime area of conflict, for 'domination' of the Pacific and Indian Oceans, but the main area of tension was actually outside of East Asia, in Europe and the Mediterranean.

The most fundamental change in the military sphere in 1993 was that the Soviet–American confrontation had ended. The US had prevailed over a Soviet Union which had collapsed by 1991, and American forces in the Pacific were vastly superior to those of any one country or potential alliance in the Asian–Pacific region. Yet, the US, after Vietnam, had a significant Asian land presence only in Korea.

In 1993 the 'triangular' pattern of ideological and frequently military tension, which had existed between the US, USSR and the PRC from the 1950s to the 1980s, was no longer a determining factor in international affairs. In a world where no other power, not even China or the Russian Federation, could directly challenge the US militarily, there was no foreseeable prospect of an Asian power attempting to bring about a dramatic transformation of the regional situation by military means, as Japan sought to do in 1941–42.

However, in the aftermath of the collapse of the Soviet Union and of Russian military power two years before, the year 1993 saw the continuation of a trend towards resolving many of the localised tensions left over from earlier conflicts. The days when 'Maoist' guerrillas conducted revolutionary activities in South-East Asia with the active support of the CCP were long since over. Insofar as there were military-strategic tensions in the region, they existed between: i) China and ASEAN, as well as between China and Vietnam in relation to the South China Sea; ii) North and South Korea; iii) China and Taiwan; and iv) potentially, China and Japan. But none of these areas seemed likely to generate an actual war. In the longer term it seemed probable that China would eventually establish military superiority over other countries within the region. But if

there was immediate tension between China and the countries of the ASEAN region, it centred on their concern about Chinese naval and air power, which might one day be used to back up claims to islands in the South China Sea, some of which were also claimed by Vietnam, the Philippines and Malaysia, as well as by Taiwan.

Vietnam, having abandoned its efforts to coordinate the political institutions and economies of the 'three Indochinese peoples', had begun to restore normal relations with China in 1991: a process sealed by the state visit of President Le Duc Anh to Beijing in November 1993. One result was that Laos was able to resume its more traditional pattern of friendly relations with China and Thailand, and to allow the construction of the first road bridge across the Mekong near Vientiane. The problems of Cambodia were more complex. Nevertheless, the Sino-Soviet tension which had made Cambodia an area of conflict also ceased to matter by 1993, with the demise of the USSR and the Soviet-Vietnam alliance. In May 1993 the UN Transitional Authority was able to supervise national elections, out of which a coalition government emerged. Despite continuing political disputes, it was possible to inaugurate a new constitution by the end of the year, under which Norodom Sihanouk returned to the country as king; and also to begin a delicate process of rapprochement between the new regime and the Khmer Rouge. The US was sufficiently satisfied with the progress on these fronts, and with Vietnamese efforts to resolve the question of American MIAs, to make the first moves towards lifting the trade embargo it had maintained against Vietnam since the 1970s. (It was finally abandoned in February 1994.)

In Burma, despite a continuing international campaign against the military regime's treatment of opposition leader Aung San Suu Kyi, the government was continuing to pursue a policy of resolving the various conflicts with minority communities that had bedevilled the country since independence. Another major element of Burma's new strategy was to strengthen its alliance with China, which by this time was providing arms, supplies and naval equipment and thus securing for itself a longer term possibility of direct military access to the Indian Ocean.¹ These developments were perhaps not totally without affinity to the situation that had existed 50 years before, when Chiang Kai-shek preferred to regard Burma as a traditional dependency of China rather than as a part of British India. For its own part, however, Burma was also seeking closer relations with Thailand and had already aspired to membership of ASEAN.

At the opposite end of South-East Asia, President Fidel Ramos of the Philippines was engaged in trying to bring a final end to earlier conflicts, some of which had received low level external support. Successful negotiations with dissident elements in the armed forces, in March 1993, were followed by talks with Nur Misuari of the Moro National Liberation Front, leading to a ceasefire in the autumn. In the meantime, during a visit to Malaysia, Ramos tacitly acknowledged the demise of any Philippine claim to sovereignty over Sabah. He also allowed the supporters of the late Ferdinand Marcos to bring the former president's body home for burial in his native province.

Problems in other parts of the region were less amenable to negotiated solutions, although the emphasis during 1993 was more often on diplomacy than on military confrontation. China remained virtually partitioned, as it had been since 1950, but with most governments in the world now recognising the legitimacy of the People's Republic. Without abandoning long-standing claims and counter-claims, representatives of the PRC and ROC governments held informal talks in Singapore in April 1993 and in Xiamen later in the year; and Taipei was able to send a delegation to Seattle, even though Beijing vetoed the attendance of President Lee Teng-hui. China's principal objective for the time being was to head off any attempt on the part of Taiwan to seek international recognition as an independent state – while at the same time welcoming the investment of Taiwanese capital on the mainland.

The partition of Korea presented more immediate dangers, since the war of 1950–53 had never formally ended and 30,000 US troops remained in South Korea under the UN flag. Following the reunification of Vietnam in 1975 and of Germany in 1990, Korea remained the only country in the world where a *de facto* partition, internationally agreed upon under Cold War conditions, remained in place. But the sharp contrast between the regimes and economies of the two halves of the country made reunification a delicate matter. South Korea had an industrialised capitalist economy and a democratic constitution, both of which entitled it to full membership of the APEC 'club' and ensured that its investments were welcome in China as well as throughout South-East Asia. In North Korea, Kim Il Sung not only continued to impose his own version of Marxist ideology but also appeared to be attempting to develop his own nuclear weapons, an ambition which, if proved to be real, the Americans were determined to thwart. Yet even in this situation, despite the belligerence of the rhetoric from time to time and despite occasional armed intrusions, the brinkmanship of Pyongyang did not develop into an immediate threat of actual military conflict.

The US itself remained committed to sustaining the naval and military presence it had established in Asia and the Pacific during the Second World War, despite the need for cutbacks in defence expenditure and the loss of its former bases in the Philippines. The experience of Vietnam had left Washington extremely reluctant to become actively involved in conflicts where its own vital interests were not directly threatened. On the other hand, the effectiveness of its armed forces had been amply demonstrated in the Gulf War of 1990–91, and there was unlikely to be any immediate challenge to its awesome firepower.

In 1943, the military had been of the 'essence' of a global situation dominated by war. What mattered was operational success: a combination of capability, strategy, tactics and the course of battles. In the Pacific War, 1943 was the year when the Americans began to demonstrate their power on all four levels at once, although the precise eventual outcome remained unpredictable.

Yet in 1993, although no major war was in progress, one result of the 'Cold War' was still important: military thinking was now governed not by actual operations in actual conflict, but by the notion of capability alone. For a

generation or more, American and Soviet military leaders had thought in terms of theoretical capabilities – in a potential conflict, involving a combination of: i) technology and weapons systems – in relation to those of the other side; ii) possible strategies and tactical manoeuvres which might arise in a conflict starting in any number of flashpoints.

In 1943, the world was in the grip of a conflict whose outcome would be decisive, on a global scale. No one was in any doubt about this and thinking about the future influenced military decisions in the present. An example of this was the American desire to win the war against Japan in the Pacific, not on the Asian mainland – using US forces, without too great a dependence on its allies. In 1993, it was recognised that if there had been a major war between the US and the USSR, involving their respective allies, it too would have been decisive on a global scale. But such a conflict had not materialised and by 1993 it was no longer possible that it could happen.

As far as actual military operations were concerned, those occurring in the 1980s and early 1990s which involved American forces, especially in Libya in 1986 and Iraq in 1991, had not been centrally important for the US. One might even suggest that, at least in one of those two cases and perhaps in the Gulf in 1987–88, the 'local issues' of the war, the content of its outcome, was very much less important than the practical opportunities to test specific capabilities in action.

Trade, economic and financial perspectives, 1943–93

What was remarkable about the 1990s, and already by 1993, was that the principle area of tension was not, for the time being or the foreseeable future, in the military-strategic domain at all. It was in the sphere of commercial, financial and monetary relations. During each of the stages from 1953–83, the US had seen the economic and financial strength of its own allies in East Asia as a vital aspect of their resistance to the ambitions of China and the USSR. It had therefore had a benevolent concern for their economic prosperity, based on the success of their investments and trade, including their exports to America itself. The US government had no reason to challenge the precise legal, bureaucratic, fiscal and market arrangements underlying that Asian success – especially in the case of Japan and even China, whose system itself was still fundamentally socialist.

But in 1993, the US had less reason for such benevolence and was conscious of struggle and rivalry in the spheres of commerce and finance in at least three respects. First, the US had substantial trade deficits with Japan, China, and potentially with East Asia as a whole; at a time when it was worried about its own payments problems. The sense that Japan's ability to grow economically, in the 1990s, had depended on US benevolence in the trade sphere, to a point where Japan seemed rich enough to challenge American power by 'buying up' US companies and real estate, was, at least emotively, a matter of concern for the Americans.

Second, and more serious, certain major American corporations were concerned about their ability to expand their own global profits on the basis of 'access to markets'. This was not just a matter of trade balances: it involved the ability of American corporations to export their own products, regardless of the volume of any given country's exports to the US. This desire for 'free trade' extended to arguments in favour of removing tariff barriers and other obstacles to the expansion of American exports in these fields of production.

Third, partly because of the pressure mentioned above, the US was determined to impose an ever tighter regime of global trade and financial relations on the rest of the world – one that was based on US norms enforced through the power of international institutions, including the IMF and the WTO, in which America had sufficient political power to ensure decisions that conformed with its own interests and objectives.

Taken together, these areas of tension might lead to a major US-led effort to 'force' Asian governments to comply with US inspired rules for trade, commercial and banking law, financial 'transparency' and orientation towards the 'interests of shareholders' (i.e. the US and other institutional investors).

The East Asian economic 'miracle'

Perhaps the most remarkable feature of the East Asian region in 1993 by comparison with the situation of 50 years before – and one which contributed a good deal to the region's newfound political stability – was the rapid pace of industrialisation and economic growth. The Japanese economic 'miracle', which to a considerable extent had been the product of the American decision to encourage Japanese economic recovery after 1947, was already a familiar feature of the world economy by the 1970s. During the 1980s, until the 'bubble' burst in the 1990s, the world became used to the idea that Japan might one day overtake the US as the 'Number One' economy in the world as a whole. Close behind Japan in the development of an export-oriented industrial economy was Taiwan, which by the late 1980s had built up substantial foreign exchange reserves and was able to invest in the growth of neighbouring economies. South Korea, too, had succeeded in industrialising its economy in the wake of the investment it received, on advantageous terms, as a consequence of giving military assistance to the US in Vietnam in the years 1965–72. Two other 'new industrial economies' – Hong Kong and Singapore – completed a list of four 'Asian tigers' whose growth was among the most spectacular developments of the 1980s.

In the early 1990s it seemed to be the turn of the major ASEAN economies of Thailand, Malaysia, Indonesia and the Philippines; and above all, that of China. These were the 'emerging markets' whose progress grabbed the attention of the world business community by 1993. In the late 1960s and early 1970s the ASEAN economies had benefited from their ability to attract Japanese investment; but they had remained peripheral to and largely dependent upon the 'developed' world. After 1974, Indonesia, Brunei, Malaysia and Thailand, in particular, had been able to export oil and natural gas at the vastly increased

prices made possible by the rise of OPEC. And just as the bonanza seemed to be fading, after 1982 the Chinese economy began to grow by leaps and bounds in the aftermath of its normalisation of relations with the US, Japan and the ASEAN countries in 1978–79. Hong Kong, having resolved its future relations with China under an agreement signed with Britain in 1984, was a major beneficiary of that process – particularly in relation to the economic growth of Guangdong. The impact was soon felt in Singapore and in the rest of South-East Asia.

In 1993 it seemed as if the whole of the East Asian region was well on the way to achieving its own 'takeoff' towards sustained growth, on the American model. But how far was that model truly attainable? Was there perhaps a danger that the Asian countries, other than Japan, would succeed only to the extent: i) that their industries continued to develop on the basis of exporting goods to the US which many of their own people could not yet afford to buy; and ii) that their own appetite for American and other externally produced consumer goods and fine office buildings could be sustained on the basis of a rising income limited to a small minority of their own population?

A further important difference between the East Asia of 1943 and of 1993 was that in 50 years the population had more than doubled. Allowing for the difficulty of collecting accurate statistics at that period, it seems reasonable to estimate that in the early 1940s the countries of East and South-East Asia had a combined population of around 800 million. By the early 1990s the total was probably about 1,860 million. The fact that there was, even so, less hunger in the region in 1993 than in 1943 represented in itself a remarkable achievement. There was, however, still a great deal of poverty in many of these countries, as well as wide differences between rich and poor – both within and between individual countries.

In the world as a whole it was estimated in 1996 that 'the net worth of the world's 358 richest people is equal to the combined income of the poorest 45 per cent of the world's population: 2.3 billion people'.² Whilst that comparison suffered from the methodological 'error' of measuring the assets of the rich against the incomes of the poor, it reflected a pattern whose implications could not be ignored. The difference, moreover, was not just one between rich and poor countries but also between different people within the same society: and the contrast was especially sharp in many countries of East Asia. In some respects it was being exacerbated rather than reduced by the rapidity of economic growth.

It was true that in the countries where economic growth had begun earliest and had made most progress – Japan, Hong Kong, Singapore and also Taiwan and South Korea – the incidence of poverty was comparable with, if not less than, that of developed Western countries. Malaysia, too, could claim to have done more than many other Asian countries to reduce inequality – partly because it had a smaller total population than its neighbours. Between 1970 and 1993, it was reported to have 'reduced its incidence of poverty from 49 per cent of the population to 14 per cent' and to have made significant investments both in health programmes and primary education.³ But it was impossible to ensure 'even' development in countries with much larger populations such as Indo-

nesia, with nearly 200 million people, or China with more than one billion. These were the countries where the contrast between wealth and poverty was most extreme, and where rapid growth was likely to increase the disparity both between richer and poorer classes and also between richer and poorer 'regional' economies within each country.⁴ The longer term economic success, as well as the political stability, of East Asia might depend most of all on finding ways to resolve this problem of inequality of incomes and wealth-accumulation.

Such considerations probably weighed more heavily on the minds of Asian leaders, as they came together to meet their North American and Australasian counterparts in Seattle, than on those of foreign investors in the global market – on whose assessments the continuing inflow of capital to finance further economic growth would largely depend. In the autumn of 1993, the markets were full of optimism.

'Asian culture' and 'Western culture'

By 1993 many Asians felt that their own diverse cultures were being pressured by the dominance of the increasingly globalised media and English language products, mainly from the US. They had become eager to counter American-centred 'Western' culture by asserting 'Asian values' as equal to those of the West. The Japanese and the Chinese also felt this, the latter from a cultural and political, rather than, by this stage, a specifically Marxist ideological point of view. Islam was a special case involving a religious as well as a cultural interaction.

Some Westerners, especially lawyers, felt that their own concept of 'human rights' ought to prevail over the 'traditional', potentially fascist or totalitarian, attitudes of Asian governments. China was especially criticised from this perspective, because of how it treated its dissidents during and after the 'Tiananmen Square massacre' in 1989, and because of the PRC presence in Tibet as well as how this affected Tibetan culture.

A topic of debate in the financial and business sphere was whether it was proper for political, government-related cliques to insist on various forms of 'kickbacks' for helping to secure lucrative financial investment contracts for which several enterprises were competing. Another moot point was whether the promotion of 'Asian culture' was justification enough for restricting 'Western' or even 'foreign' access to specific (especially financial) Asian markets. Pressure from the Clinton-shaped WTO, and US views expressed in the APEC context, was likely to make this an increasingly important issue. Indeed, after the 1997–98 'crash' there was also pressure to force Asian banks to conform to Western rules.

All three of these themes might be seen as a logical culmination of two historical developments. The first was the triumph of Western law, especially in trade and business accounting, over Chinese and other Asian laws, since the 1840s – especially the erosion and disappearance of China's 'tribute' system, and of Japan's 'closure', in the face of Western imposed 'treaties'. The second

was the triumph of America over the Japanese from 1943–45 and the US insistence that opponents of its 'cultural freedom' were totalitarians or communists – and there was indeed such a challenge from the Chinese and other Marxists from the 1950s–80s.

American versus Asian notions of risk

The American 'financial culture' and before that, the British 'financial culture' of the nineteenth century has been based on the principle of risk, in the sense that investors decided where to invest and at what prices in a volatile market. Risk also generated the principle of insurance, and assessments of risk led to the statistical study of 'probability'.

Risk is also involved in borrowing capital, and corporations which cannot balance their books end up going bankrupt. Here again, insurance is a possible response; but in relation to the market, it has to take the form of risk management or hedging. Decision-making on both sides of this divide takes risk for granted; but seeks, through innovation, to transcend it in order either to make a profit as speculator or avoid loss as enterprise. In the 1980s and 1990s Asian finance was being drawn increasingly into a global 'system' dominated by these American or Anglo-Saxon notions of risk; indeed, at a time when the volatility of markets in stocks, bonds, currencies and derivatives was increasing the scale of risk for both corporations and investors.

One question is how far this amounted to the imposition on Asian finance ('capitalism') of an alien financial culture? Also how do Asians, especially those in East and South-East Asia, handle the question of risk? To gain insights into their perspective it is useful to consider several points.

Gambling is a long-established tradition, but it is linked to a framework in which success may reflect the 'will of heaven' which is related to ethical sincerity of karma. The Yijing is a case of divination based on a combination of 'chance' and ethical interpretation. What does not develop in China or Japan, or elsewhere in the region, is the notion that gambling can be approached 'scientifically' by studying the mathematics of chance and probability: a key theme in Europe from the seventeenth century. If one gambles, therefore one accepts the ultimate power of 'chance' – limited only by a framework of ethics. That applies equally to fund management and the stock exchanges.

Avoidance of risk is a logical practice in the conduct of business. It is achievable, perhaps, through various kinds of social relationships – at least among allies. One example is that the Chinese especially distrust equity as a source of capital and in a moment of need would rather fall back on networks of *guanxi* relationships, including family or secret associations. These relationships also link banking to other areas of enterprise, within a family-led conglomerate.

Another example is for individuals to negotiate with the established people of influence, where one is trading as a foreigner in another country. This is exemplified by Chinese cultivation of 'indigenous' rulers and bureaucrats in nineteenth century Siam, Malaya, Sumatra and Java. The equivalent in the colonial

period involved accepting European rules which seemed also to offer security so long as they lasted. But 'Asian' practice prevailed again by the 1960s or 1970s.

Establishing a 'planned' framework, in which individuals, firms or corporations did not need to take risks, operating in isolation, finding security in accepting guidance from their own bureaucracy was characteristic of the way that MITI, and the Ministry of Finance, behind it, operated from the 1950s to the 1970s. Its role was to reduce risk for producers, on the basis of allocation of resources. The idea appealed to other Asians, following the 'Japanese model' in the 1970s and early 1980s.

When looking at the history of Western financial and commercial domination in Asia we see a confrontation of financial cultures. The first stage of Western domination came in the middle of the nineteenth century, when Western use of armed force obligated the Chinese, Japanese and Thais to trade with Western firms on Western terms. For example this resulted in the Chinese 'tribute' system being replaced with a 'treaty port' system from 1840–60. This also led to the introduction of Western banks into those countries. In other areas of South-East Asia the Westerners used force to seize actual territorial control and to establish colonial rule.

This phase culminated in a more equal conflict between Western and Asian (especially Japanese) armed forces, during the war of 1939–45 (especially from 1941–45); in which the Japanese sought to impose their terms for commercial and financial relations on the basis of a modernised Japanese system created between c.1878 and the 1930s. But after 1945, the West was again dominant, even though colonial rule was 'phased out' from 1945–63.

The second phase of Western domination came with the imposition in 1945–46 of the Bretton Woods system of international payments and fixed exchange rates, based on the dollar, gold and to a secondary degree, sterling; together with the rules of the GATT. Japan and other non-Communist countries had to accept this global trading system, which gave special responsibilities to central banks or monetary authorities. Where balance of payments and/or foreign exchange problems arose, the IMF imposed its own conditions for providing credit/liquidity.

It could be argued that this stage of domination was also challenged, from 1950, by the world Communist movement and by Communist governments in China, North Korea and North Vietnam. That challenge came to a head in the struggles for Indochina and Indonesia in the 1960s when, except in Indochina, the Communists failed to expand their own system beyond its 1960 boundaries. A Soviet-led challenge continued until 1990, but was never a serious regional threat.

However, from 1971 the end of fixed exchange rates meant a more volatile global system. At first it seemed possible that the oil crisis might lead to a general redistribution of global wealth, as opposed to giving some countries a bonanza, but by the 1980s it was clear that the system remained centred on America and to a lesser extent Europe, in terms of both financial markets or the power of large banks.

Thus the third phase developed, in which Asian countries (including the PRC) were forced gradually to come to terms with a more complex global system, run increasingly according to American financial rules and practices. The climax of this phase, in a sense, came in 1997–98. But so far, no major challenge has emerged comparable to those of the 1940–45 and 1960–65 periods. The question remains, even so: can Asian financial structures, as they had evolved from the early twentieth century to the 1980s, come to terms with the 'American way of finance' or are they too different, meaning that they collapse before they 'come to terms'? Alternatively, is the Western-led system itself strong enough to actually force Asian institutions and economies into this kind of compliance?

The other side of this argument is suggested by the question: why do American and Western financial institutions and governments insist that 'Asia must change its ways'? The essential reason seems too simple: that they regard the risks of investing in 'Asia', as its finance is now structured, as too great. Having worked out, supposedly, a system of 'risk management' that works, for now, in Western financial relationships, they need to impose on Asian financial institutions the same rules and norms as those which have emerged in 'the West' during the 1980s and 1990s.

This had led, by 1998–2000, to an emphasis, in the West, on the need to 'regulate' the banking systems of Asia,⁵ in terms designed to achieve:

- 1 so-called 'transparency' in their accounting systems, eliminating hidden losses, undervaluations, continuing non-performance of debt, and making 'risk' easier to quantify;
- 2 separation between financial and non-financial institutions such as exists in the US itself – making the relationship between the two types of corporations a matter of formal rules and obligations, rather than collusion;
- 3 acceptance of a trend towards 'disintermediation', in which all institutions became more directly oriented towards 'markets' and securities of debt than to one another. This might seem a problem in 'the West', but is much more so if it occurs in Asian contexts, where the strong tradition is one of relationships between people, firms and banks etc.; and where there had been reluctance to allow 'the markets', considered an area of 'gambling' and 'luck', to shape the fate of each enterprise in the most fundamental ways.

East Asian economies and global markets in the 1990s

There was, nevertheless, an ideological commitment underlying the Clinton strategy: a genuine belief that the opening up of markets would ultimately benefit all regions of the global economy. Likewise, those who held power in most Asian countries of the region at this time accepted – to a greater or lesser extent – the need to maintain trading rules which would allow them to continue exporting manufactured goods to North America and Europe; and to attract foreign investment, in whatever forms were available, in order to finance their

own economic growth. Their priorities, however, lay in finding the best means to increase their own wealth, not in appeasement of the American ideal for its own sake.

The continuing external indebtedness of many of the East Asian economies and their ultimate dependence on foreign banks and global markets – and on an international trade dominated by the ‘Western’ styles and tastes of urban middle class consumption – might at some stage begin to be interpreted as an attempt by ‘the West’ to create a new version of the dependency which prevailed before the 1980s. Much would depend on whether ‘globalisation’ could indeed deliver genuine economic development, as opposed to market enthusiasm of a kind which might evaporate as quickly as it began.

The dependence of economic growth on external debt has been a normal feature of capitalist expansion since at least the eighteenth century, and most economists regarded it as an inevitable feature of the economic modernisation of East Asia. During the 1980s, however, a significant change had overtaken the pattern of indebtedness in this and many other parts of what had once been the ‘third world’. A survey by the Institute of International Finance, focusing on the principal ‘emerging economies’ of Asia-Pacific, Latin America and Eastern Europe, showed that from 1981–93 their combined external debt had risen from US\$103 billion to over US\$180 billion. But whereas debt to international institutions and foreign governments had remained largely unchanged, and that to commercial banks had been steadily reduced from \$60 billion to \$24 billion, their combined indebtedness in the form of equity investments had risen from under \$9 billion in 1981 to \$68.5 billion in 1993; and debts to non-bank private creditors in roughly the same proportion.⁶ This growing dependence on equity markets was especially evident in the Asia-Pacific region, whose total external debts had risen to \$69 billion by 1993.

Unfortunately much of this equity investment was dependent on the behaviour of stock markets ruled by their own logic; that of seeking maximum profitability for funds which were free to move around from one country to another, without any commitment to the long-term development of particular economies. In the early 1990s, when the economy of Japan seemed to be running into serious trouble, the fund holders, investment managers, and analysts whose thinking dominated the world’s bond and stock markets began to shift their attention to China and South-East Asia. These became the most promising of the ‘emerging markets’ into which the savings of the international investment community were now channelled by fund holders obsessed with achieving the largest profits in the shortest possible time. The result was that during the summer and autumn of 1993 – precisely as the Seattle meeting was taking shape – ‘China fever’ spread from Hong Kong to Singapore, to Kuala Lumpur, to Bangkok, to Jakarta and to Manila. The ensuing expansion – involving a great deal of genuine growth, but also many badly conceived investments in banking and property across a region whose own financial institutions could barely keep pace with such rapid development – would end in the ‘crash’ of 1997, with consequences that are still unfolding.

It would be an oversimplification, however, to regard globalisation as a purely 'external' factor in the East Asian economy. Some major players in the global market were by this time Asian entrepreneurs, investing capital generated by the region's own prosperity. Especially important were leaders of the overseas Chinese community, stretching across the region from Thailand and Indonesia to the Philippines, and extending also into North America. Their role was much commented upon during the 1980s and early 1990s.⁷ In the circumstances of 1993 the ability of Chinese entrepreneurs to operate in a number of different settings, and to bridge the gulf between the Chinese economy and those of neighbouring countries, was widely appreciated by Western financiers. Only in 1997 did the latter begin to place greater emphasis on 'transparency' and to become suspicious of 'Asian' business connections. At that point, the question of indebtedness to banks and funds outside the region began to matter a great deal.

In the global market place, both equity investment and international lending by banks depended on the existence of relatively stable foreign exchange arrangements. Since 1971 the international monetary system had ceased to be governed by the Bretton Woods arrangements: it depended instead on floating currency rates, maintained or demolished by ever more complex foreign exchange markets and a forbidding diversity of financial instruments and modes of speculation. Despite increasing integration of its international trade and investment patterns and of its financial markets, the East Asian region in the 1990s had no specifically regional 'lender of last resort'. Each country had its own currency and its own central bank, or equivalent authority. But the free convertibility of currencies meant that banks and other institutions within each country were free to raise loans or issue stock across the foreign exchange boundaries.

Nothing could be farther removed from the pattern of controlled regional development which the Japanese had envisaged for their co-prosperity sphere 50 years before. In the war situation of 1943, the monetary system of the 'sphere' was still only half-formed and subject to serious dislocations. If the Japanese had ever been able to develop their own system in conditions of peace, they would have had many difficult problems to resolve before achieving their objective of a distinct 'yen bloc' controlled by the Bank of Japan and the Yokohama Specie Bank. Had they succeeded, however, the result would have been a regional foreign exchange structure, coherent in its own terms, which would allow banks to operate effectively in relation to productive enterprises. It is, of course, part of the current business ideology that such a system would never have actually worked.

In the East Asia of 1993, the absence of any such monetary coherence was very evident. Ultimately, the only guarantee of exchange rates was 'the market', dominated by the triangular relationship between the dollar, the yen and the mark. For several years – following the efforts in 1985–87 on the part of the US and the 'group of seven' leading industrial countries to stabilise the relationship between the US dollar, the German mark and the Japanese yen – the monetary

authorities of Hong Kong, Singapore and a number of South-East Asian countries had 'pegged' their currencies to the US dollar. But there was no regional authority capable of guaranteeing the 'peg'. Although it worked in practice until mid-1997, allowing rapid economic expansion for about a decade, the markets eventually reasserted their primacy and the system began to collapse. It then became apparent that the economies of the region could not withstand the pressures of a global market which included *both* free movement of equity capital *and* active speculation in a volatile foreign exchange market. The only recourse for countries whose banking systems got into foreign exchange difficulties was to borrow from the IMF, accepting the stringent conditions attached to its loans.

Communication revolution, 1943–93

Compared with 1943 and even 1953, the media of the 1980s and 1990s were freer from political control; but more dependent on the capital and technology at the disposal of large private corporations. This was a consequence of the 'communications revolution', which by the early 1980s combined the interrelated development of satellites, computers and optical fibres – allowing the faster communication of vastly more complex types and amounts of 'information'. This came on top of the evolution of television itself, as a major news medium, since the 'early days' of 1963.

The 'communications revolution' had two implications. First, news and entertainment could be transmitted around the world at vast speed, creating the illusion of the 'global village'. As a result, 'everyone' across five continents could see, hear and read 'the news', from any part of the world, very soon after it happened.

Second, the technology involved in this revolution was, however, vastly and increasingly expensive. In the long run, private corporations, especially American and European, would be the only bodies able to afford the investment required, which, in turn, meant that the media would have to be profitable; and profit would come from advertising. Thus the 'American model' of the news media, which had developed in the 1920s and 1930s, and was originally typified by NBC and CBS, would become the dominant global model. New players such as CNN and Rupert Murdoch's News Corporation were also playing a dominant role by 1993.

One feature of the broadcasting media, however, remained fundamental: that any broadcasting 'system' can focus on only one thing at a time – or only a handful of 'items' in one bulletin. The more complex the technology, the more expensive each 'item' becomes. The communications revolution therefore had two effects: i) it reinforced the technology of the broadcasting media to focus on only a few 'stories' at a time; and ii) it ensured that these stories became the focus of worldwide attention.

The media tended to have greater influence in shaping the 'framework of reference' of a 'global public'. Three kinds of 'focal events' figured especially

prominently in 'media attention' by the 1990s. First was the spectacular scheduled event, above all in the sporting context.

Second was the dramatic physical event: above all – the natural disaster such as an earthquake or famine as well as the political or military upheaval in war or revolution.

Third was the controversial, often 'legal', contest: an election campaign; but also a particular court trial – or even the possibility of one. The tendency here was, and is for the 'global public' to focus on some atrocity, or other action, which ought to be a matter of blame and accusation, of trial and punishment. But in relation to whose law? The tendency of the 1990s was for the media to shape 'law', to the extent that case law derives from the implications of specific cases. And if the Anglo-Saxons dominated the media or corporations, their law would aspire to become the cultural news of 'the international community'. But only those events and cases which received such concentrated media attention would appear to matter.

Such a trend is, in fact, inimical to the principle of 'perspective', which depends on taking into account all consequential elements of a widely defined entity – not just the few cases that 'stick in the mind'.

The media themselves constitute a highly complex operational structure; but their content is largely rhetorical rather than operationally consequential. News reports affect and often seek to affect or manipulate opinion. But that merely brings on the possibility of operational consequences arising in other spheres such as government decision-making, business decisions and legislative change.

The news media already mattered in 1943, in the midst of war, particularly broadcasting and cinema. In both spheres, the focus was on propaganda: the urge to influence morale, 'performances' designed to encourage 'own side', mobilise emotive support, and to damage the 'enemy side'. Cinema and its capacity for fabrication, and for linking images and simple ideas was useful in mobilising and shaping opinion. Radio news might spread false news for its propaganda effect.

Out of this grew the Anglo-Saxon 'myth' that 'the truth' makes the best propaganda and that the BBC and the American media could be relied on for 'honest' reporting – as opposed to the lies and propaganda' of Goebbels and of the Soviet media. News, therefore, was more important than ever in the 1990s. Freedom to report it fully and accurately on a global scale may prove easier than at any time in the past 150 years. But freedom alone is not enough. Despite the revolution in communications by the 1990s the criteria for news broadcasting had less and less to do with judgements about consequential importance; they related increasingly to audience demand and cost effectiveness. For the mass media, news was increasingly a matter of focusing attention on 'stories' that would attract the maximum number of viewers or readers. But what constitutes mass interest? To what extent do the decision-makers in media news rooms and editorial suites create 'interest'? To what extent do they merely follow where others lead? If the latter, how can the media avoid becoming vulnerable to exploitation by outside political forces: to the use of power by their own govern-

ments, perhaps; or to manipulation by terrorists; or to the wiles of public relation 'experts' lobbying for particular causes? It will be argued that this was always the case; but in circumstances where large corporations concentrate only on audience research and their reaping of profit such tendencies have become increasingly pronounced and dangerous.

The historical perspective may have special importance in coming to terms with the problems of reporting and interpreting news in the 1990s, when it may no longer be possible to avoid the challenge of developing a genuinely global perspective in order to understand not only what is happening in the world now, but also many things that happened – but were misunderstood or ignored – in the preceding three decades. Ironically, the historian may be better placed than the journalist – or even the political scientist – to come to terms with the impact of the changes that have swept Europe, the former Soviet Union and various parts of Asia and Africa since the autumn of 1989.

It was the key engineering and mathematical developments, in the context of the Second World War, which made computers possible after 1945. This in turn prepared the way for the steady advance from 1963–83 towards the new generations of computers and the possibility for their use on a mass scale, especially the PC beginning in 1982. Based on technology developed in the West, the Internet and WWW, as of the 1990s, were dominated by computer languages geared to software written in English, but in this case, technology *per se* does not give the West as mere inventor a lasting advantage.

After all, the ultimate 'language' of the computer was, and is, mathematics, not any one 'literal' language. The dominance of English might therefore prove to be only a temporary phase. In a report from Beijing in 2000, BBC News' China analyst James Miles raised the possibility that the 'online market' in the PRC and other Chinese speaking communities abroad might eventually become so great that it will develop its own dynamism, using Chinese as its software 'language' rather than English. The Chinese 'market' might in that event become so dominant that even enterprises formerly using only English-language software would be obliged to come to terms with Chinese.

Moreover, without a predominance of English in the sphere of IT, there might well be a much weaker basis for its dominant role as a vehicle of American 'media', advertising and 'Western' culture.

We should be ignoring the 'lessons' of our analysis of East Asia at ten-year intervals from 1943–93 if we were to embark at this point on a speculative guessing game about the next stage in the region, or to join in the once fashionable pursuit of trying to predict what the region might look like in the year 2010 or 2020. If there is one obvious conclusion to be drawn from the history of the past half century it is that predictions are futile. We might appropriately recall the celebrated observation of Lord Robert Cecil barely a week before the 'Mukden Incident' broke out on 18 September 1931: 'There has scarcely ever been a period in the world's history when war seems less likely than it does at present.'⁸ In 1993, general confidence about the future seemed similarly unshakeable.

On the other hand, there can surely be little advantage in confining our perspective to that of the global marketeers, whose profits depend on the analysis of expectations in the short-term and whose own concept of 'globalisation' is very often very limited. It is easy to denounce the effectiveness of economic planning and to lament the fact that the 'great leaders' of the 1940s were over-inclined to make sweeping decisions, designed to reshape the world on the basis of grandiose visions of the future, often with disastrous consequences. But an equally important 'lesson' to be drawn from the events of both 1943 and 1993 is surely the need for more systematic analysis of the way the world actually works at any given period, and the way in which many different operational spheres become intertwined in the complex unfolding of events. In relation to East Asia in particular it is important for such an analysis to take account both of the broad regional perspective and of the aspirations of many different 'players' across the globe. If 'visions of the future' are – in the nature of things – impossible to realise, at least let us attempt a better understanding of each 'present' while it lasts.

Notes

Preface

- 1 Fukuyama, a senior US State Department official, expressed this view in 'The End of History' *National Interest*, 16, summer 1989, pp. 3–8; a position which he subsequently developed further in *The End of History and the Last Man*, New York: Free Press, 1992.

Introduction: global perspective and historical analysis

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1 The Tokyo Conference and the 'Greater East Asia' perspective, 1943

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- 7 D. Bergamini, *Japan's Imperial Conspiracy*, New York: Morrow, 1971, pp. 1046–7.
- 8 Kirby, S.W. *et al.*, *The War Against Japan: Vol. III: The Decisive Battles*, London: HMSO, 1961, pp. 72–3.
- 9 Parrish, op. cit.
- 10 R.J.C. Butow, *Japan's Decision to Surrender*, Stanford: Stanford University Press, 1954, pp. 20–2.
- 11 Bergamini, op. cit., pp. 1052–4.
- 12 For details of the conference, and the background of official Japanese thinking on the development of the region, I have relied on *The Japan Yearbook 1943–44*, Tokyo: Foreign Affairs Association of Japan, 1944.
- 13 For this decision and its background, see F.C. Jones, *Japan's New Order in East Asia*, Oxford: Oxford University Press, 1954; also W.G. Beasley, *Japanese Imperialism 1894–1945*, Oxford: Oxford University Press, 1987, chapter 14.
- 14 Tsuji Masanobu's China mission in 1943 is referred to in passing in his own memoir, *Underground Escape*, English edition, Tokyo, 1952, pp. 170–2; but it does not appear to have been studied in detail.
- 15 See the discussion of his early career and of his role in 1943–44, in J.H. Boyle, *China and Japan at War 1937–1945: the Politics of Collaboration*, Stanford: Stanford University Press, 1972, especially chapter 15.
- 16 For a brief account, based mainly on State Department telegrams, see Hsi-sheng Ch'i, *Nationalist China at War: Military Defeats and Political Collapse 1937–45*, Ann Arbor: University of Michigan Press, 1982, pp. 113ff.
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- 22 Jones, op. cit., p. 369.
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- 28 Le Manh Hung, op. cit. (2000). (editor's note: see also Le Manh Hung, op. cit. 2004.)

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- 30 McCoy, *op. cit.*; Stowe, *op. cit.*, pp. 234–5, 240, 264, 267.
- 31 Based on October report attributed to a US intelligence officer quoted in: US Congress: Senate Committee on the Judiciary in *The Amerasia Papers* (Hearings: 91st Congress, 1st Session, 1970); in McCoy, *op. cit.*, pp. 272–3.
- 32 McCoy, *op. cit.* *passim*; Stowe, *op. cit.*, pp. 234–5, 240, 264, 267.

2 US, British and Communist perspectives on East Asia, 1943: towards a post-war global economy

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- 2 Department of State, *United States Relations with China*, Washington, August 1949, pp. 36, 514–19.
- 3 For Chennault's own version of the success of the 14th Air Force, see in his memoir: *The Way of a Fighter: the Memoirs of Claire Lee Chennault*, New York: G.P. Putnam's Sons, 1949; on the broader context of Roosevelt's decisions in this period, see Tang Tsou, *America's Failure in China 1941–50*, vol. i, Chicago: University of Chicago Press, 1963.
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- 8 P.A. Crowl and E.G. Love, *The War in the Pacific: Seizure of the Gilberts and Marshalls*, Washington, DC: Department of the Army, 1955.
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- 10 Published on 1 December 1943, the Cairo Declaration amounted to recognition that China was one of the 'Big Four' allies and one of three allies fighting Japan. This issue was more important to the US than to Britain as the Americans remained worried that Chiang might strike a deal with the Japanese – which was Tokyo's aim. From this point on, no such deal was possible. The Declaration also promised to return Formosa, Manchuria and other territories seized by Japan to Chiang's government; while insisting that Korea and Japan would eventually receive independence.
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- 26 Vladimirov, op. cit., pp. 98–101.
- 27 CCP, op. cit., p. 153.
- 28 Vladimirov, op. cit., pp. 99–102.
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- 38 See chapter 8.
- 39 The transmission was interrupted by a power outage.
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3 A 'world divided into two camps': November–December 1953

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