

# Trade and Security



Trade and Security:  
The United States and East Asia, 1961-1969

By

Charles M. Dobbs

**CAMBRIDGE  
SCHOLARS**

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P U B L I S H I N G

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*Dedicated to my family, past and present*



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## FOREWORD

Every scholarly researcher incurs the usual debts that deserve a greater expression of appreciation than several lines in the “foreword.” I benefitted from outstanding archivists at the John F. Kennedy Library, the Lyndon Baines Johnson Library, and the National Archives II. They all have this wonderful ability to bring together one’s not entirely formed ideas [and thus requests for materials] and their respective archive’s holdings into a productive research trip. I also want to thank Ed Goedeken, the History Subject Librarian at Iowa State University and the Interlibrary Loan Office at ISU for helping me secure needed materials. Colleagues at Iowa State University and other institutions were kind enough to offer advice, not always appreciated at the time they gave it, and necessary suggestions for improvement.

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My dissertation supervisor was a towering figure in the field of American diplomatic history. Robert H. Ferrell was the scholarly equivalent of a US Marine Corps drill instructor. First, he broke us down to rid us of our bad habits and then he built us up in the image he wanted. We all were so stamped that for decades the “Ferrell treatment” meant high praise. Others at Indiana at that time strongly seconded Mr. Ferrell’s efforts. John Edward Wilz, David Pletcher and Richard Kirkendall combined to make a tremendous, unofficial research group in U.S. diplomatic history.

I have to thank Amanda Millar and Carol Koulikourdi at Cambridge Scholars Publishing. I was not always the most responsive of authors, and they showed kindness and support when it was most needed.

Finally, I want to thank my family. My mother, Lily Dobbs Lane, proudly shows off my publications to her friends; my sister, Debra Dobbs Satter, smiles at me with that knowing look. My brother-in-law, N. Douglas Raber, reads what I write and generally approves, which is kind of him. My in-laws, Nevin and Dorothy Raber, never seem satisfied, and always ask about the “next” book before I have time to enjoy recent publication of the current one. Our children, Hannah and Jonathan, each of whom is an adult, try to decide which is worse, my love of history or

my love of chess. And, of course, I owe the greatest debt to my wife, Ann, who has always been supportive, encouraging, and helpful – my best friend for the ages.

## CHAPTER ONE

### THE SITUATION IN 1960-61

On January 20, 1961, John F. Kennedy became the nation's 35<sup>th</sup> president, and he intended to act firmly in foreign affairs, particularly in the Cold War confrontation with the Soviet Union and the People's Republic of China. As Robert Schulzinger has written, "Harry Truman's containment policy seemed too defensive, Secretary of State John Foster Dulles's 'brinkmanship' too blustery, and Ike's appeals to end the arms race too defeatist for the Democrats who took over in January 1961." Richard Walton three decades ago characterized John Kennedy's foreign policy as "Cold War and Counterrevolution." Thomas Paterson has called it "Kennedy's Quest for Victory."<sup>1</sup>

Kennedy and his advisors perceived a dangerous world in which America had to resist Soviet and Soviet-sponsored aggression. As Kennedy proclaimed in his inaugural address, "Let every nation know, whether it wishes us well or ill, that we shall pay any price, bear any burden, meet any hardship, support any friend, oppose any foe, in order to assure the survival and the success of liberty." The Soviet Union seemingly sought nuclear parity or even supremacy to complement its presumed conventional warfare superiority. The People's Republic of China seemed a threatening, revolutionary state, committed to destroying the existing order in Southeast and East Asia. There were challenges occupying the attention of the new administration: Berlin, Cuba, Laos, tension in the Middle East, on the Indo-Pakistani border, and elsewhere. The stronger rhetoric reflected a more apocalyptic view, and a simplification of complex situations to fit into the world construct of the new administration.

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<sup>1</sup> Robert D. Schulzinger, *American Diplomacy in the Twentieth Century, Third Edition*, New York, Oxford University Press, 1994, p. 259; Richard J. Walton, *Cold War and Counter Revolution: The Foreign Policy of John F. Kennedy*, New York, Viking Press, 1972; Thomas G. Paterson, Editor, *Kennedy's Quest for Victory: American Foreign Policy, 1961-1963*, New York, Oxford University Press, 1989.

These confrontations overwhelmed other foreign policy matters at the highest levels of the United States government. More importantly, foreign policy considerations had precedence over foreign economic policy considerations, as the Cold War and the Soviet-American and Sino-American rivalries dominated foreign policy formulation and execution. That is, issues from specific areas across the globe and such matters as economic development, trade legislation, and alliances all passed through the prisms of these rivalries and became distorted after such passage.

The Cold War in East Asia still dominated U.S. foreign relations towards the region. The Council on Foreign Relations' annual publication, *The United States in World Affairs, 1961*, reported that "where direct Communist pressure or infiltration was not a major problem, the United States was free to concentrate on its basic policy of assisting the Asian countries in developing their own potentialities and increasing others' long-term ability to resist totalitarian aggression or seduction." As the CFR report noted, the government in Washington applied this policy to non-aligned countries as well as U.S. allies.<sup>2</sup>

Along with the general confrontation with the Soviet Union, the government in Washington viewed the looming presence of the People's Republic of China. The CFR report further noted that "Communist China overshadowed the Soviet Union as a long-term threat to security in Southeast and East Asia." In fact, "there were few countries in this part of the world that had not already felt the diplomatic and military weight of Communist China" and "the Chinese People's Republic would represent an even more potent international force in years to come." National Intelligence Estimate 1-61, "Estimate of the World Situation," found that "during the past two or three years the Chinese Communist regime has been exhibiting a growing self-confidence." Interestingly, "the most striking characteristic of Communist China is not its economic progress but its great revolutionary élan." Thus, the "Chinese Communist drive and sense of mission" appears in its foreign policy outlook. "The Chinese Communists' view of the world situation is extremely doctrinaire" and that "the emerging peoples in Asia, Africa, and Latin America are ripe for Communist revolution, if only they are actively supported to this end." Analyses within and without government largely agreed on the menace that Beijing represented, and whether that view was accurate, it influenced the view of American policymakers towards issues in East Asia.<sup>3</sup>

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<sup>2</sup> Richard Stebbins, *The United States in World Affairs, 1961*, New York, Council on Foreign Relations, 1962, pp. 207-208.

<sup>3</sup> Stebbins, *Ibid.*, p. 219; DCI, NIE 1-61, Estimate of World Situation, 17 January 1961, [www.foia.cia.gov/browse](http://www.foia.cia.gov/browse), paragraphs 20, 23, 24.

The regimes in Beijing and Taipei were mutually hostile. The People's Republic remained committed to "ousting the rival Chinese Nationalist government from its American-protected home on the island of Formosa." Taipei, still dominated by Guomindang refugees from mainland China rather than native Taiwanese elites, in turn, criticized "Communist mismanagement, unworkable agricultural policies, and the commune system [which] have brought serious food shortage to the Chinese people." "The Communist regime cannot meet the genuine needs and desires of the Chinese people for economic and social progress."<sup>4</sup>

At times, it seemed the People's Republic of China might attack Nationalist-held islands near the mainland. "Quemoy and the other Nationalist island outposts between Formosa and the mainland were still being subjected to an intermittent Communist bombardment which had been going on ever since 1958." These Nationalist-held islands only eight miles from the Chinese mainland potentially threatened nearby Chinese ports and coastal shipping, and thus remained a constant irritant to the government in Beijing. In 1954-5 and again in 1957-8, mainland artillery shelled the islands bringing a predictable announcement of U.S. support, which may have been Jiang Jieshi's purpose each time in provoking the crises.<sup>5</sup>

Similarly, Jiang Jieshi sought U.S. military support to "liberate" the mainland. *Newsweek* reported "President Chiang still dreams of a return to the mainland" but he realized that "the U.S. represents both their defense against Communist invasion and their only hope of someday regaining the mainland." He and his government regularly informed Washington of problems on the mainland, and sought assurances of American support for a return without which a return was impossible.<sup>6</sup>

Conditions on the mainland were – admittedly – difficult to understand. Since gaining power in 1949 Mao and his leadership group provided little respite and recovery for the Chinese people. War with the United States in Korea, the regaining of Tibet and China's non-Han ethnic border areas cost lives and scarce resources. Then Mao turned to remaking the Chinese people after the "One Hundred Flowers" campaign in 1951-52. Later in the 1950s, Communist cadres reorganized traditional village structures into a series of production teams, brigades, and communes – the collectivization of agriculture; communes had communal kitchens, mess

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<sup>4</sup> Stebbins, *Documents*, 1961, p. 221; Richard P. Stebbins, Editor, *Documents on American Foreign Relations*, 1961, New York, Harper & Brothers, 1962, pp. 325-6.

<sup>5</sup> Stebbins, *Ibid.*, p. 221.

<sup>6</sup> *Newsweek*, June 20, 1960, pp. 45-6.

halls, and nurseries. Mao sought to destroy traditional family ties and create the new Chinese man and woman. Widespread famine and the deal of untold millions soon followed. Beijing was unwilling to admit the disaster it caused and thus to accept foreign food assistance. Similarly, in “The Great Leap Forward” campaign, Mao promised to catch Great Britain in industrial production by 1962, but “backyard” steel furnaces produced inferior product, which was symptomatic of the entire campaign. The result was overproduction of inferior goods, deterioration of industrial plants, and exhaustion of factory workers and farm laborers. Meanwhile, foreign leaders could not understand why Beijing continued to cause such widespread suffering for its own people.

Nationalist raids only added to the tension and confusion, while doing little to weaken Communist control of China. Jiang Jieshi was utterly committed to the belief that Chinese on the mainland were waiting for him to return so they could overthrow the yoke of communist oppression. He believed that Mao’s heavily flawed policies provided conditions for such a successful return, and he regularly sought reassurances of U.S. support. He threatened and sometimes launched small raids against coastal provinces but they achieved little save for the capture and deaths of the intelligence agents dropped into China. In April 1960 the CIA wrote the Defense Department that “the government of the Republic of China plans for paramilitary action;” it proposed to “drop 200 man teams into mainland” and “smaller 20 man teams.” Taipei wanted U.S. government support, which Washington carefully avoided any hint of providing. Communist control and perhaps memories of Nationalist corruption combined to frustrate Jiang’s hopes to create unrest from within.<sup>7</sup>

Meanwhile, Beijing continued its anti-American rhetoric and showed little interest in improving relations. The Sino-American ambassadorial talks in Warsaw, Poland, one of the few regular exchanges between Beijing and Washington, soon deteriorated into a forum for political attack once the original purpose of facilitating exchanges of prisoners from the Korean conflict was resolved. One observer commented that “the special hostility of Peking toward the United States is primarily a consequence of American support for the large and well-equipped military forces of the Republic of China.”<sup>8</sup>

The Korean peninsula remained an armed camp long after the armistice agreement in summer 1953. The peninsula had always fit

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<sup>7</sup> Department of State, *Foreign Relations of the United States, Volume XIX, China*, Washington, DC, GPO, 1996, Document 330, April 18, 1960, p. 657.

<sup>8</sup> Wayne Ayres Wilcox, *Asia and United States Policy*, Englewood Cliffs, NJ, Prentice-Hall, Inc., 1967, p. 50.

together as an economic whole, and the division near the 38<sup>th</sup> parallel posted difficult economic challenges as well as the continuing threat of renewed fighting. As Richard Stebbins summarized, “the really critical problem for the United States” was “encouraging development in South Korea of a national life sufficiently vigorous to overcome the country’s natural handicaps and enable it to resist either domination from without or subversion from within.” Military spending to protect against North Korea distorted economic, social, and political priorities.<sup>9</sup>

Kim Il-song in Pyongyang seemed unpredictable, and perhaps was preparing for another effort to conquer the south. Kim likely was a Korean expatriate from Siberia, a Soviet World War II Red Army veteran who may have fought at Stalingrad, who needed to ensure his nationalist credentials by unifying the peninsula. He had tried once in June 1950, and very nearly had succeeded. Infiltrating guerrilla units into the south and maintaining an army far larger than needed for defense kept the government in Seoul focused on defense matters and not political maturation, economic development, and social cohesion.

At the same time, South Korea lacked effective political and economic systems. By 1960, Syngman Rhee’s regime, which had come to power during the American occupation in the late 1940s, was nearing collapse. While he served as a symbol of Korean nationalism in the 1920s and 1930s, Rhee selected his advisors poorly and cronyism and corruption characterized his government. The result was a new government led by Dr. John M. Chang, who campaigned against the corruption and mismanagement in Korean politics and economy. However, senior military officers, while appreciating his commitment to honesty and efficiency, found him insufficiently patriotic and not sufficiently committed to increasing military spending. In September 1961, General Park Chung Hee led a coup that replaced Korea’s elected government with a military junta. It seemed a step backward to many outside analysts. During this period, American experts – diplomatic and military – worried about a new outbreak of hostilities perhaps preceded by a guerrilla campaign of destruction and intimidation.

The deteriorating situation in Southeast Asia occupied the new Kennedy Administration. What appeared to be a Hanoi-organized and -led guerrilla campaign threatened the regime of Ngo Dinh Diem in South Vietnam; other guerrillas took advantage of instability in neighboring Laos. The government in Washington believed that Beijing was behind these threats to stability and might topple the remaining mostly weak and

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<sup>9</sup> Stebbins, *op. cit.*, pp. 230-1.

developing governments in the region. Perhaps this “red tide” might spill over into Cambodia and Thailand eventually to Malaya [as it was then named] and Indonesia, controlling the shipping bottleneck through the Molucca Straits in that region.

Beginning in 1959, a guerrilla movement increased the tempo of its operations in South Vietnam. For three years after Saigon refused to participate in the nationwide elections which the Geneva Conference established to end the French-Viet Minh conflict, Hanoi appeared to concentrate on securing absolute control over North Vietnam. In 1959, the Politburo created three groups to aid the infiltration of men and materiel by land into neighboring Laos, then, with the infiltration route secure, down to Vinh in North Vietnam and along the Laotian and Cambodian borders, the famed Ho Chi Minh Trail into South Vietnam, and finally by sea to the Cambodian port of Sihanoukville to contest Saigon’s control of the Mekong Delta. In the next several months, Communist guerrillas engaged in a campaign of assassination in the South Vietnamese countryside.

By the time of the Kennedy inauguration, the insurrection had upset the tempo of life in South Vietnam. *Time* reported “For the first time since 1954, the Reds are operating in bands of more than 50 men. Some are old Red cadres left behind at the time of partition; others are newly infiltrated guerrillas sent down from North Viet Nam through neighboring Laos or Cambodia, or put ashore from small fishing boats in the Gulf of Thailand. Their total strength is now estimated at 3,000 to 5,000 men, concentrated in the swampy Mekong Delta—“a diseased part of the body,” one U.S. observer calls it. It is a secret, hushed war of stealth and secrecy.” *Time* noted that the guerrillas’ “special targets have been civil officials, and in recent months they have managed to murder an average of ten a day.”<sup>10</sup>

A Chinese Communist-inspired insurgency appeared about to take over Laos, and the options for American policymakers were equally unattractive. The situation deteriorated seemingly so quickly that Admiral Harry D. Felt, U.S. commander in chief in the Pacific, warned “the Southeast Asian peninsula is a target for Communist China, and Laos is the first point of entry.” By summer 1960, news magazines were reporting regularly on the expanding civil war. In late December, *Time* reported that “the fight for Vientiane was the long-postponed showdown between armies of the left and right in Laos. Ever since his coup in August, the city had been controlled by pro-Communist Captain Kong Le with a battalion of paratroops. Much of the rest of the country has remained in the hands of

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<sup>10</sup> *Time*, May 2, 1960, “The Sunset War,” *Time* on line archive.



pro-U.S. General Phoumi Nosavan, the closest thing Laos has to a strongman." *Time* concluded "the stage was set for trouble." "The spectacle of one pro-Communist captain with a nucleus of only 300 paratroopers standing off a 29,000-man army nurtured and trained by the U.S. was bad enough." "The government of Premier Boun Oum was even talking of moving south out of Vientiane, which was won from Kong Le just last month." *Time* concluded that "about all that the new U.S. administration could initially offer on Laos was a new look by new men" and that "Laos offered the unattractive choice between a difficult peace and an impossible war."<sup>11</sup>

The hostilities in Laos and South Vietnam affected America's ally, Thailand. The Thai leader, [former field marshal turned premier] Sarit Thanarat, regularly expressed his concern. During the Second World War, Thailand had warred briefly with Cambodia, and was interested in reversing the centuries-long expansion of the Vietnamese state from the Red River delta, down the coastline into the Mekong delta and then westwards into Cambodia. Fear of communist subversion combined with a long-standing Vietnamese-Thai rivalry to define Bangkok's foreign policy and its need for reassurances of U.S. support. As Sarit told reporters, "Thailand is the pivot of the free-world alliance in Asia. If one of our neighbors becomes dominated by Communists, rocket bases will be an absolute necessity." He later noted "We are prepared to meet steel with steel anytime."<sup>12</sup>

Kennedy made this region the test case for new theories of nation-building and warfare. Kennedy had decried the policies of the Eisenhower years, especially the reliance on massive retaliation which appeared to concede the military initiative to the Soviet bloc. There was an implicit criticism of the longstanding containment policy since it was both passive and defensive. Kennedy was enthralled with the U.S. Army's Special Forces and the tactical opportunities presented by combat helicopters and other new technologies. He favored meeting insurgencies more directly, and was more willing to expend America's military strength – and Vietnam became [perhaps] the [unintended] test case.

Meanwhile, there were communist guerrilla operations of varying effectiveness in the Philippines, Malaya, and Indonesia. While not in any direct line of fire, other governments in Southeast Asia had their respective insurgencies and threats to confront. Waves of imperialism over the centuries had divided the Philippines into primarily Catholic [and Spanish-

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<sup>11</sup> *Time*, June 6, 1960, "Red Alert;" December 26, 1960, "Battle for Vientiane;" and January 27, 1961, "Unattractive Choice," all *Time* on line archive.

<sup>12</sup> *Time*, August 1, 1960, "Pivot—with Rockets," *Time* on line archive.

speaking] northern islands and mostly Moslem peoples in the south. That helped define the challenge the government in Manila in northernmost Luzon faced in asserting control over distant southern islands. Malaya had been the site of *the* great anti-guerrilla success – Sir Robert Thompson’s effort beginning in the late 1940s – but that reflected tension between majority Malays and minority ethnic Chinese, a tension that would be both eased and exacerbated as Singapore joined and broke with the larger Malay state. Indonesia, in some ways, consisted of Java dominating other islands in a Republic stretching across 3,000 miles of water, while the government in Jakarta argued with The Netherlands about West Irian, the Portuguese about Timor, and its neighbors over Sabah on the island of Borneo.

It was easy though largely mistaken to see the People’s Republic behind each of these challenges to the existing order. Beijing called for revolution to overthrow what it viewed as a U.S.-inspired, capitalist encirclement that continued colonialism and imperialism in new guises. In the same way the Beijing likely viewed the world through the prism of its rather rigid ideology, the new administration in Washington also understood a complicated and complex region of the world through the prism of the Chinese threat to regional stability rather than the stresses and tensions that reflected centuries of history, development, war, and other factors.

As the Cold War in Asia seemingly moved from conventional to guerrilla – i.e., asymmetrical – conflict, there was the continuing challenge of constructing a stable world economy, ensuring a prosperous American economy, and strengthening the economies and polities of nations in eastern Asia. When the Second World War ended in 1945, the United States held 45% of the world’s diminished productive capacity. The Marshall Plan helped revive Western Europe and Japan and helped Canada to adjust to Britain’s decline as the central point for the Commonwealth’s economy. But the revival and growth of what had been pre-Second World War industrial states posed new challenges. U.S. trade policies had given preferences of various sorts to trading partners to assist their recovery; that is, while trading partners erected barriers – both formal and informal – to American exports, the government in Washington largely allowed imports to enter unhindered. By 1961, American producers were complaining about these unfair advantages at home and abroad, and calling for action to equalize tariff and trade barriers. Meanwhile there were regions with weak economies and large numbers of impoverished citizens in Latin America, newly independent sub-Saharan Africa, and Southeast Asia seemingly ripe

for Communist subversion. There was great need for a complex balancing act between foreign policy and foreign economic policy and the needs of the domestic U.S. economy and needs of developing regimes in East and Southeast Asia.

American policymakers concentrated on GATT [General Agreement on Tariffs and Trade], the World Bank, and the International Monetary Fund, with a view towards trade with Europe and foreign aid for Third World nations, including some in southeastern and eastern Asia. NIE 1-61, "Estimate of the World Situation," concluded that "the harmonization of economic policies among the industrial nations of Western Europe, and of these policies with those of the US, will be a major problem of the forthcoming decade." However, "Western European economies are booming" and "Japan enjoys a flourishing economy, but is passing through profound political and social changes."<sup>13</sup>

The United States faced a troubling balance of payments deficit, a narrowing balance of trade surplus, and foreign tariff and trade barriers that constrained growth in the U.S. economy. The balance of payments deficit reflected the narrow trade surplus and transfers of U.S. funds abroad. The trade surplus narrowed as other nations produced goods including textiles, electronic gadgets, and automobiles that Americans wanted while their foreign counterparts either did not want American goods or trade barriers made such goods uneconomic.

America's balance of trade surplus continued to narrow. In April 1960, *Time* quoted James Chapman, president of the American Cotton Manufacturers Institute, that "no industry in America is safe from damage by foreign goods." An increasing number of companies were "asking the government to check foreign competition." "Many US industries complain that foreign nations are moving far too slowly to ease trade barriers." One of the real challenges was imports produced in US-owned overseas plants competing with production at home. *Time*, in late June 1960, reported that "Chambers of Commerce often consider it downright 'disloyal'; unions complain that it 'exports' US jobs." *Newsweek* in October 1960 focused on the US international trade position and reported that "with Western Europe and Japan booming, American industry is finding itself matched in many of its time-tested skills and outmatched in more and more markets by aggressive, talented foreign competitors."<sup>14</sup>

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<sup>13</sup> DCI, NIE 1-61, Estimate of World Situation, 17 January 1961, [www.foia.cia.gov/browse](http://www.foia.cia.gov/browse), paragraphs 13, 11.

<sup>14</sup> *Time*, April 18, 1960, "A Rise in Imports," and June 27, 1960, "Business Goes Abroad to Sell in the U.S.," *Time* on-line archive; *Newsweek*, October 17, 1960,

The automobile industry seemed symptomatic of the challenges. In mid-April 1960, “for the first time in history, the US auto industry went to the government to complain about foreign tariffs.” Earlier, in February 1960, *Newsweek* noted the rise of compact cars, calling them “a revolution in the auto business.” Two months later, the news weekly noted the Fourth International Auto Show and that “six spanking-new American-made compact cars will be lined up grille to grille against entries from nine countries around the world.” Two months later, *Newsweek* reported that “foreign automakers pranced off with 12.7 per cent of the U.S. new-car market last December . . . a whopping 61 per cent increase over 1958.” *Newsweek* believed that US automakers were responding with competitive compact cars that would sell at home and abroad and in October it noted the Detroit annual auto show and that “all the new entries are carefully tuned for the hot sales battle among themselves and against the imports.” The fear was European automobile exports, for the beginning of the great wave of Japanese car exports was just over the horizon.<sup>15</sup>

A balance of payments deficit was equally difficult to reverse. There were a series of factors. As *Time* magazine reported in early November 1960, the chief reason for the increase in the deficit was “a flood of uneasy dollars that are always seeking the highest interest rates around the world.” Add to the outflow of investment dollars were expenditures on troops and dependents overseas, foreign economic assistance, foreign military assistance, and more American tourists traveling abroad than foreign tourists visiting America. The Eisenhower administration had tried various measures, including limiting financial support for overseas dependents, encouraging tourism to America, and urging that U.S. companies invest their surplus funds at home – but to little avail.<sup>16</sup>

The result was real and continuing pressure on the U.S. dollar and U.S. gold reserves. *Time* in late November reported that Treasury Secretary Robert Anderson and Defense Secretary Thomas Gates interrupted President Eisenhower’s vacation to discuss “the U.S.’s nagging deficit in international payments and the resulting drain on U.S. gold reserves, eroding international confidence in the soundness of the dollar.” The issue was “the dollar’s ability to go on serving as the free world’s basic

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“The U.S. in the World Market,” pp. 92-94 and November 28, 1960, “Our Salesmen Overseas,” pp. 72-73.

<sup>15</sup> *Time*, April 18, 1960, “A Rise in Imports,” *Time* on-line archive; *Newsweek*, February 8, 1960, pp. 81-82; April 18, 1960, pp. 99-101; June 27, 1960, p. 78; October 10, 1960, p. 86.

<sup>16</sup> *Time*, November 7, 1960, “U.S. Allies Must Help Solve It,” *Time* on-line archive.

currency, a state of affairs on which, as the allies well knew, the health of their own booming economies depended.” Even Soviet leaders worried about the dollar, and changed the valuation of the ruble to gold to help stabilize the U.S. currency. *Time* worried about the flight of gold, and quoted David Rockefeller of Chase Manhattan Bank who said it was “perhaps the most serious international economic problem this country faces.” *Newsweek* quoted Raymond Cartier writing in *Paris-Match* after the U.S. presidential election that “please, Mr. Kennedy, save the dollar.”<sup>17</sup>

Some of the most reasonable prescriptions to meet America’s economic woes would have spelled disaster to developing world economies. The government in Washington faced a dilemma: was it more important to support Free World and developing world economies to help them resist the lure of communism or to maintain the strength of the American economy and the soundness of the U.S. dollar. As the 1960s wore on, the dilemma would become increasingly stark.

Castro had seized power in Cuba and soon thereafter aligned his regime with the Soviet bloc. In early January 1960, *Time* reported that “only seven months after its creation,” Castro’s dictatorship had taken control of the economy, authorized expropriation of large land holdings, and had begun to focus on private business. Two months later *Time* worried about “Russia’s deepest penetration of the Hemisphere” – a broad trade-and-aid agreement with Cuba. In June, *Time* reported on “The Marxist Neighbor,” and noted that “the jargon in Castro’s speeches and in his captive press these days is increasingly Marxist.” It also drew attention to the “herding of Cubans” into mass institutions – militias, cooperatives, government youth groups, and labor unions. By mid-October, *Time* noted that “Fidel Castro last week placed his country on the Soviet side.”<sup>18</sup>

Besides direct [and sometimes comical] anti-Castro measures, the U.S. government worried over Latin America economic growth, eventually announcing the Alliance for Progress. As John Kennedy became President, senior aide Walt Rostow was gathering information about Third World

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<sup>17</sup> *Time*, November 28, 1960, “End of an Easygoing Era,” and November 28, 1960, “Redressing the Balance,” September 26, 1960, “The Flight of Gold,” *Time* on-line archive and *Newsweek*, December 5, 1960, pp. 48-49. See also, Francis J. Gavin, “The Gold Battles within the Cold War: American Monetary Policy and the Defense of Europe, 1960-1963,” *Diplomatic History*, Vol. 26, No. 1, Winter 2002, pp. 61-94.

<sup>18</sup> *Time*, January 4, 1960, “Animal Farm;” February 29, 1960, “What Should the U.S. Do;” June 20, 1960, “The Marxist Neighbor;” October 10, 1960, “Red All the Way;” *Time* on-line archive.

economies, and making plans to help improve economic performance. Kennedy made clear the American commitment in his inaugural address: “to our sister republics south of our border, we offer a special pledge to convert our good words into good deeds in a new alliance for progress to assist free men and free governments in casting off the chains of poverty.” Making clear the relationship between this commitment and Castro’s communist regime in Cuba, Kennedy continued “but this peaceful revolution of hope cannot become the prey of hostile powers.” A month later, Kennedy formally announced the Alliance for Progress in an article he authored for *Life en Español*. Sadly the flawed and failed Bay of Pigs invasion in April undid whatever good will the mere announcement of an economic assistance plan generated.<sup>19</sup>

Washington also worried about the future of Africa. The high tide of European colonialism on the continent was rapidly retreating, and Africa’s crushing poverty and economic inequities made the continent ripe for Communist penetration. Time magazine reported on efforts in Mauritania, with World Bank financial support, to develop its iron ore reserves to finance economic development. But there were concerns elsewhere. Again, *Time* reported that, in the aftermath of the French withdrawal from Guinea, the capital, Conraky, “was rife with tension.” *Time* claimed the Guinean leader was communist leaning, charging that Sékou Touré was fast becoming the captive of those who tilted toward Moscow. Meanwhile, the Republic of Congo, Mali, Senegal, Sudan, Somalia, and Malagasy Republic all gained their independence. United Nations officials pointed out that, “in the next [UN] General Assembly, the African-Asian group will be the U.N.’s largest single voting bloc.”<sup>20</sup>

And, not unnaturally, official Washington looked eastward across the Indian Ocean to Asia, where the prospects were less sanguine. *The New York Times* reported in November 1960 that the annual report of the Colombo Plan contained “numerous continuing economic problems of the under-developed countries of Asia.” In Indonesia, for example, in 1959 a National Intelligence Estimate concluded that “the situation holds little prospect for stability and progress.” The intelligence analysis also noted that “the economic deterioration of Indonesia continues,” relations with the Dutch will remain near the breaking point,” but “relations with most of

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<sup>19</sup> *Time*, January 27, 1961, “Excerpts from President Kennedy’s inaugural address,” February 24, 1961, “Alliance for Progress,” March 17, 1961, “Two Views South,” and May 5, 1961, “The Shock Wears On,” *Time* on-line archive.

<sup>20</sup> *Time*, April 18, 1960, “Hope in the Desert,” June 6, 1960, “Coffins & Broken Backs,” July 11, 1960, “For History and Pride,” and July 18, 1960, “First Among Equals,” *Time*, on-line archive.

the Communist bloc will probably remain cordial.” Several months later, a report from the Embassy in Jakarta noted “the political atmosphere is probably more tense than at any time since early 1958.”<sup>21</sup>

Matters improved little as Eisenhower’s presidency drew to a close. A Special National Intelligence Estimate concluded that “political power in Indonesia has become increasingly polarized between the Army and the Indonesian Communist Party. The economy is in a sad state and popular discontent, particularly in urban areas, is increasing.” By October, the State Department informed President Eisenhower that it had a “number of disquieting reports which suggest that the Indonesian government believes that the United States does not wish true independence for Indonesia since the United States fears that Indonesia would then adversely influence our SEATO allies and since a strong Indonesia might stifle United States economic interests in that country.” Thus, in mid-December, a National Security Council Report concluded that “the chief danger confronting US policy with regard to Indonesia is that a combination of domestic instability, burgeoning Sino-Soviet bloc economic and military aid, and substantial local Communist strength may lead to a Communist takeover or to a policy increasingly friendly toward the Sino-Soviet bloc.”<sup>22</sup>

America’s former colony, the Philippines, also suffered from a weak economy, government inefficiency and corruption, and political instability. As an embassy report, “Comprehensive Economic Assessment of the Philippines,” commented, “no progress has been made toward eliminating the graft ridden and uneconomic system of imports and exchange controls.” Another report warned that “with the Philippine economy undergoing steady diversification, the United States remains a major trading partner ... therefore any major change in the U.S. economic situation or policy would affect the Philippines.”<sup>23</sup>

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<sup>21</sup> *The New York Times*, November 18, 1960, p. 3; Department of State, *Foreign Relations of the United States, 1958-1960, Volume XVII, Indonesia*, Washington, DC, GPO, 1994, Document 234, NIE 65-2-59, December 8, 1959, pp. 456-457; Document 246, March 29, 1960, p. 474.

<sup>22</sup> *FRUS, 1958-1960, Volume XVII*, Document 252, SNIE 65-60, May 3, 1960, p. 482; Document 285, Acting Secretary of State C. Douglas Dillon to President Eisenhower, October 5, 1960, p. 553; Document 293, NSC 6023, December 19, 1960, p. 571.

<sup>23</sup> Department of State, *Foreign Relations of the United States, 1958-1960, Volume XV, South and Southeast Asia*, Washington, DC, GPO, 1992, Document 449, Embassy to State Department, March 11, 1960, p. 958; Document 456, Embassy to State Department, December 24, 1960, p. 975.

Thailand was a more interesting situation. The Operations Coordinating Board in Washington concluded that “Thailand is the hub of U.S. security efforts in Southeast Asia;” it recommended that U.S. policy should seek to establish a stable, representative government, a strong and healthy economy, and a society all ready to resist communist subversion. But, a month later, the Bureau of Intelligence and Research informed Secretary Christian Herter that the Thai government leaders were generally “resentful over what they have considered shabby treatment of Thailand in apportionment of U.S. economic aid.” They were particularly upset with “the commitment by the United States to supply very large quantities of wheat and rice to India which will cut into Thailand’s own market for its predominant export earner, rice.” This small crisis illustrated a larger challenge for the U.S. government, for actions to assist economic development in one country might very well negatively affect the economy in another. Nonetheless, Thai leaders were committed to economic development. *The New York Times* gushed in January 1960 that “the year 1959 may be remembered as the year the dam broke and Thailand started on her long-delayed march to becoming a modern economic state.” By May 1960, World Bank officials evaluated Thailand’s finances and currency as “in a strong and sound condition” and found “the economy of the country is active and growing.”<sup>24</sup>

Governments in Taiwan and Korea focused on military preparedness, and assumed the government in Washington would provide economic assistance as needed. The American embassy in Taipei wrote the State Department in late December 1959 that it had spoken with Republic of China officials “of the U.S. interest of embarking on an accelerated development program in Taiwan.” Embassy officials invited the Republic of China “to submit proposals.” They wanted to “encourage the GRC [Government of the Republic of China] to take positive action for constructive economic, fiscal policy and provide foreign exchange necessary to support growth.” The next year Taipei accepted the need to focus on economic self-strengthening, and committed itself “to live without United States economic aid by the end of 1964.”<sup>25</sup>

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<sup>24</sup> *FRUS, 1958-1960, Volume XV*, Document 548, Report Prepared by the Operations Coordinating Board, Undated, pp. 1118-1119; Document 549, Deputy Director of the Bureau of Intelligence and Research to the Acting Secretary of State, May 13, 1960, p. 1130; *The New York Times*, January 12, 1960, p. 57; May 24, 1960, p. 53.

<sup>25</sup> *FRUS, 1958-1960, Volume XIX*, Document 323, Embassy Taipei to State Department, December 31, 1959, pp. 643-644; *The New York Times*, June 19, 1960, p. 21.



American pressure bore fruit. Taipei produced a plan in 1960 that if successful would “enable Taiwan to live without United States economic aid by the end of 1964.” Since the economy had been expanding for some years, the key, “though not openly admitted, is a de-emphasis of the armed forces.” Jiang was changing his thinking to hope that a prosperous Taiwan would contrast with the hardships on the mainland and thus create popular hope for a Nationalist return.<sup>26</sup>

South Korea faced even greater challenges than Nationalist China. A National Intelligence Estimate concluded that “the major, long-term problem confronting the ROK [Republic of Korea] is and will remain the poverty of its economy. In fact, because of the paucity of basic resources in its territory, the military burden, and the division of the country, the ROK is not able to achieve a self-supporting economy in the foreseeable future.” The report concluded that the ROK “will almost certainly continue to require large-scale foreign aid.” The South Korean government agreed, and indicated it would “seek President Eisenhower’s support in solving its critical problems – including questions of unification and economic and military aid – during his twenty-eight hour visit.”<sup>27</sup>

The government in Seoul was not entirely blameless. A Congressional staff report criticized South Korea’s monetary and trade policies, claiming they “are blocking economic recovery.” The report further noted that “South Korea’s monetary exchange rate and its refusal to trade with Japan were offsetting the economic aid being given by the United States.” At about the same time, *The New York Times* reported the Korean cabinet rejected a US proposal for a joint budget study plan. Cabinet members claimed the proposal “constituted intervention by the United States in Korea’s domestic affairs.” Still, by summer 1960, the Seoul government announced a program to stabilize the national economy.<sup>28</sup>

Another challenge was economies largely based on natural resources, resource extraction, and changing trading relationships as the former colonial powers continued to recede. European colonial empires treated colonies as sources of raw materials and consumers of the finished goods of the mother country. Even though the high tide of colonialism had largely receded in Southeast and East Asia, the nature of the economies of

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<sup>26</sup> *The New York Times*, April 3, 1960, p. 19.

<sup>27</sup> *FRUS, 1958-1960, Volume XIX*, Document 333, NIE 42.1-2-60, November 22, 1960, “Prospects for ROK,” p. 697.

<sup>28</sup> Department of State, *Foreign Relations of the United States, Volume XVIII, Japan; Korea*, Washington, DC, GPO, 1994, Document 333, NIE 42.1-2-60, November 22, 1960, “Prospects for ROK,” p. 697; *The New York Times*, July 9, 1960, p. 4; July 7, 1960, p. 6; May 6, 1960, p. 5.

these former colonies and dependencies had not yet changed to greater self-sufficiency and to interregional trade and cooperation.

Japan was the linchpin. As the European colonial empires retreated around the world, many newly independent and developing nations needed new trading partners and trade patterns, access to manufactured goods, economic assistance, and manufacturing and other advice. Japan's effort during the Second World War – the Greater East Asia Co-Prosperity Sphere – remained a hot button issue to many nations in the region, but Japan was a key to any U.S.-led effort to strengthen regional economies and thereby politics and societies to resist pressure from or the lure of the People's Republic of China. Moreover, Japan was setting a rather remarkable example – truly a phoenix risen from the ashes of the utter destruction symbolized by the aftermath of the fire bombings of most major Japanese cities and the atomic bombings of Hiroshima and Nagasaki.

By 1960, Japan was astounding its neighbors and the industrialized nations elsewhere. In June 1960, *Newsweek* reported on “Japan Today – the Paradox.” Reporter Rafael Steinberg found a country somewhat free “of the old restraints, disciplines, and rituals” and thus with “a gaping void.” “The struggle between old and new, western and Oriental,” Steinberg noted, “permeates the daily life of almost every Japanese.”<sup>29</sup>

A dramatically expanding economy seemed to provide the bedrock for a stable political and social system. A dramatic strike against Nissan in the early 1950s led to the rise of company unions, lifetime employment in large firms, and adoption of manufacturing theories of such individuals as W. Edward Deming, including “just-in-time” manufacturing, an emphasis on quality and eliminating defects, and lean production techniques. This led to near double digit increases annually in the Gross National Product and a “growing export stream.” *Newsweek* reported in January 1960 that “Japan was booming as never before.” Steel manufacturing had increased, exports had jumped, and “for the first time in its history, Japan had become a creditor instead of a debtor nation.” To continue to expand, Japan needed access to the US economy, and this of course resulted in a dilemma for US officials. In 1960, Japan exported textiles, electronics, cameras, large cargo ships, and toys and its success threatened competing American industries. Japan faced increasing calls in the United States for

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<sup>29</sup> *Newsweek*, June 20, 1960, pp. 51-56.

higher tariff barriers and import restrictions; in Southeast Asia, it faced demands for foreign aid based on war reparations and war guilt.<sup>30</sup>

The riots accompanying the forced renewal of the U.S.-Japan mutual security treaty surprised many foreign observers. The 1951 treaty had a ten year term, and negotiators had seemingly completed a new treaty for ratification in 1960 to begin the next year. While the treaty reduced U.S. rights in Japan, it also kept Japan firmly within the U.S. security system in East Asia. For many Japanese, the treaty forced Japan between the two superpowers, and perhaps could “drag Japan into someone else’s war.” For more than a week there was rioting in Tokyo and as the time for the Japanese Parliament – the Diet – to ratify the treaty neared, some 300,000 demonstrators gathered in Tokyo. Japanese Prime Minister Nobusuke Kishi forced the treaty through the Diet dominated by members of his Liberal-Democratic Party and the riots became more violent. As *Newsweek* commented, “On June 19 President Eisenhower arrives in Tokyo. If the treaty is still not ratified by that date, Kishi would lose a lot of face.” Foreign commentators realized the treaty opposition more reflected internal politics than latent anti-Americanism. *Newsweek* called it “a domestic row between Prime Minister Nobusuke Kishi’s conservative-minded Liberal-Democrats and the Opposition Socialists.” The power play upset many in Japan who complained of “Kishi’s ramming tactics.” *Time* stated “Japan was facing its biggest political crisis since the war.”<sup>31</sup>

It also led to cancellation of President Dwight Eisenhower’s cherished plans for a state visit to Japan. In the end, an embarrassed Kishi had to ask Eisenhower to cancel the visit owing to “security concerns.” *Newsweek* had called Eisenhower’s trip a “risky journey to the east,” and once the visit to Japan [part of a five nation state visit] was cancelled, *Newsweek* titled its report “The debris of a mission.” Student rioters chanted “We won! We won!” Editorialist Ernest Lindly called it “the lessons of Japan” and noted “Japan’s prestige has suffered a blow,” and the “United States cannot let Japan retreat to pacifism or let less advanced nations of Asia not trade with Japan.”<sup>32</sup>

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<sup>30</sup> *Newsweek*, January 25, 1960, “Growing Export Steam,” pp. 72-73; January 25, 1960, “Friendly, Savvy Salesman from Japan,” pp. 39-40.

<sup>31</sup> *Newsweek*, June 27, 1960, p. 25; May 9, 1960, pp. 43-44; *Time*, “Delaying Tactics,” May 9, 1960, *Time* online archive *Newsweek*, May 30, 1960, p. 44; *Time*, June 6, 1960, “The Anti-Kishi Riots,” *Time* online archive.

<sup>32</sup> *Newsweek*, June 13, 1960, pp. 27-29; June 23, 1960, pp. 23-30; *Time*, “The Expendable Premier,” June 27, 1960, and June 6, 1960, “The Anti-Kishi Riots,” *Time* online archive; *Newsweek*, June 23, 1960, p. 36.

But growth was not without tension. During an official visit to Washington, Japanese Prime Minister Nobusuke Kishi told President Dwight Eisenhower, commenting on “the rapid improvement in Japan’s balance of payments with the United States,” that “Japan is doing everything possible to assure orderly marketing and to exercise self-restraint and control in its exports to the United States.” In turn, Kishi hoped the United States would appreciate Japan’s efforts to “contribute to a healthy growth of bilateral trade with the United States.” In October, the Commerce Department asked Japan “to move speedily toward a general lifting of restrictions on United States products.”<sup>33</sup>

Yet the United States could not press Japan too hard to change. National Intelligence Estimate 41-60 concluded “Japan’s continued dependence upon US for defense and on non-Communist world for trade will continue to be a powerful deterrent to any significant shift in Japanese foreign policy.” A subsequent National Security Council Report stated that “Japan’s dramatic recovery emphasizes its importance to US and Free World” and that “Japan has one of the fastest rates of economic growth in the world, enjoying unprecedented prosperity with new highs in nearly all sectors of the economy.”<sup>34</sup>

As John Kennedy and his foreign policy and foreign economic policy teams assumed office in January 1961, they faced challenges in East Asia. The Soviet Union and Cold War issues that dominated discussions about Europe appeared distant and generally irrelevant. The People’s Republic of China was a looming presence, though, to be sure, momentarily a stumbling rather than a sleeping giant. The economies of Southeast Asia were weak, and perhaps susceptible to communist subversion. Japan had enjoyed a spectacular decade of development, spurned initially by U.S. spending there during the Korean War and afterwards by the reorganization of the Japanese economy and enforcement of labor peace after the Nissan strike early in the decade. Still, Japan needed exports to expand its economy and either the United States had to grant its ally preferential access or it had to strengthen regional economies to absorb surplus Japanese production.

It was reasonable for the new Kennedy teams to conclude the challenges were great. In January 1961, the futures of the Republic of

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<sup>33</sup> *FRUS, Volume XVIII*, Document 139, Memorandum of Conversation, January 19, 1960, pp. 268-9; *The New York Times*, October 7, 1960, p. 49.

<sup>34</sup> *FRUS, Volume XVIII*, Document 150, NIE 41-60, “Probable Development in Japan,” February 9, 1960, pp. 286-287; Document 175, NSC Report 6008/1, “US Policy Toward Japan,” June 11, 1960.

Korea and the Republic of China were not clear. Insurgencies in Laos and South Vietnam threatened Southeast Asian stability. Governments in Kuala Lumpur, Manila, and Jakarta still had to secure the allegiance of far flung populations while learning to co-exist with one another amidst all the island chains in the Southwest Pacific. Sadly, Beijing had no more knowledge of what motivated the government in Washington than Washington had of the government in Beijing.

The issues were remarkably complex, and the Kennedy foreign policy teams had little prior knowledge of the area or of its complexities. Regional leaders in time would learn how to manipulate symbols and values to produce desired American decisions. For men in senior policy positions in 1961, they had attended college and matured in an era of declining European colonialism and they still used that prism to understand many issues. For example, they regularly – and likely more comfortably – consulted with foreign European colonial powers [and current U.S. allies] than the new and somewhat impatient leaders in Asia. But European colonialism was a shell superimposed onto the continuing realities of the region – neither relevant nor irrelevant, just a shell.

Walt Rostow, a Kennedy advisor, had great influence over economic development issues. Years earlier, Rostow, an economic historian, had authored *The Process of Economic Growth* [1952] and during the remainder of the 1950s had written about Free World, Communist, and Third World economic development. He exported his theories and his understanding of economic development to Kennedy Administration policy planning around the world. Differences in topography, natural resources, populations and other variables made such exporting difficult. But Rostow was influential, along with diplomats of the former colonial powers, and corporate executives active in the region.<sup>35</sup>

One other basic tenet was the so-called domino theory. In many ways it was a poor choice of words, because it implied a more immediate action than theory proponents meant. That is, we all have seen someone take hours and hours to line up hundreds and thousands of dominoes and then topple the first one and within minutes all of the dominoes have fallen. Theory proponents, and this included most governments in the region, believed that absent a strong U.S. presence, one by one the countries of the region would over time succumb to the pressure, lure, and presence of the People's Republic of China – a slow acting series of dominoes. But the outcome, if one accepted the theory and most Southeast and East Asian

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<sup>35</sup> Rostow, Walt W. *The Process of Economic Growth*, New York, W.W. Norton & Co., 1952.

leaders did, would be the same – a Communist leaning, critical region of the world.

China was the eight hundred pound gorilla on the sidelines of virtually every conversation about East Asia. Complicating such conversations was the continuing retreat of European colonial empires. In 1961, emerging polities and weak economies susceptible to internal unrest and external pressures characterized most countries in Southeast and East Asia. Isolation of China seemed to be a tenet of U.S. foreign policy.

Most governments in the region perceived the government in Beijing as the common factor behind most of the challenges in the region. South Korea not unnaturally worried about a re-starting of fighting on the peninsula as well as continuing guerrilla subversion; the government in Seoul believed that Kim Il-song in North Korea would not attack or ramp up the guerrilla effort without support from Beijing and Moscow. Jiang Jieshi on Taiwan worried that the United Nations would choose either to recognize the government in Beijing as part of a “two Chinas” arrangement or, worse, to substitute that government for his in China’s UN “seat.” Japan was concerned about Chinese aggression but also wanted some level of government contact to increase Sino-Japanese trade. Governments in Southeast Asia confronted internal security threats of varying severity and believed that Beijing offered leaders of those movements financial and military support as well as advice and guidance. And there was always concern, likely unfounded, about the loyalty of the substantial Chinese ethnic minority populations in these countries.

This view particularly affected the common wisdom concerning the worsening conflict in South Vietnam. Although the government in Hanoi made the decision in 1959 to recommence the effort to conquer the south, and it sent men and material southward by land and sea, governments in the region and the government in Washington believed that Hanoi looked to Beijing for support and advice, and that Beijing was a key to containing North Vietnam’s expanding aggression. If Beijing was the driving force behind Hanoi’s aggression, where would the Chinese agree to a halt? Along with the situation in South Vietnam, there was the conflict in Laos, where a Communist insurgency clearly received support from Hanoi and likely from Beijing.

Most nearby governments accepted a modified domino theory, seeing themselves, in the worst case, in the long term grip of the People’s Republic of China. Again, as noted in the previous chapter, they did not believe that they would topple immediately, the standard image of a line of dominoes, but over time, the pressure from China would overwhelm their capacity to resist falling into the Chinese sphere of control unless the