THE NORTH-SOUTH PROBLEM AND JAPAN

——The Objectives of Economic Nationalism——

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The author intends to clarify the poverty of the prevailing economic theories for the fundamental solution of the new "World Dispute." The so-called "Theory of Modern Capitalism" was characterized as *backward* nationalism expressing the interests of the industrialized countries, in contrast to the *forward* nationalism of growing countries who are demanding the renovation of the present international economic system.

This paper contains some proposals in order to take a step further towards solving the problem of integrating both the backward and forward aspects of nationalism, which by nature is dual.

I. DEFINITION OF THE PROBLEM

THE purpose of this article is to make clear the importance of the "North-South Problem" by proving that it is completely impossible to find a theoretical solution to it so long as one adheres to the traditional view of the relationship between nationalism and internationalism.

But I am not prepared in this paper to take up as a whole a subject of this importance in world history. I am limiting the scope of the discussion to the following: the status given to this subject in economic theory and in reality, and whether or not the economic theories of the past can survive the impact of the "North-South Problem." I will examine these questions and grope for a beginning to the solution of the "North-South Problem."

II. NATIONALISM IN THE "THEORY OF MODERN CAPITALISM"

It is already ten years since the myth that modern capitalism has solved the problems of "poverty" and "depression" has come to prevail. This myth is the so-called "Theory of Modern Capitalism." This means, then, that the "North-South Problem" is directly challenging this "Theory of Modern Capitalism." I will begin with an examination of the "Theory of Modern Capitalism" from the angle of the "North-South Problem."

The so-called "theory of modern capitalism" is usually given the following theoretical structure.

1. *The "Mythology of Investment"*[1]

There is a hypothesis in the "theory of modern capitalism" that if military production or even useless production of an appropriate proportion is permitted, capitalism can maintain prosperity by a spending policy of money to provide for this. In contrast to this view, there is a valid counter-question of why prosperity cannot be maintained in capitalism through the production of the implements of "life" instead of the production of the instruments of "death."[2] Certainly, this counter-question, as a criticism of capitalism, strikes at an important point. But on the other hand, these criticisms are nothing more than a position which affirms from the "rear" the validity of a spending policy—"Keynesianism." (Colin Clark designates this the "mythology of investment.")

2. *The Protectionism*

The most concise expression of the point that the theory of protectionism lies at the base of the "theory of modern capitalism" is probably the following statement of R. F. Harrod's. Keynes' essential difference with the older theorists is intimately connected with the point that the unimpeded flow of capital among the nations will not necessarily secure the best distribution of it for each and all and full employment everywhere. [R. F. Harrod, *The Dollar*, (London, 1953), p. 90.]

When Keynesian policy is spoken of, it is usually thought of as a policy with public investment as its axis which realizes full employment by creating effective demand. But however much public investment is made, full employment will never be realized if the overseas export of private capital or the private investment abroad is carried out, an act which can be likened to pouring water into a leaky bucket. This is especially likely to be the case in an advanced industrial country whose wage costs are high on an international comparison and whose domestic rate of profit is low. Thus the full employment policy of the "theory of modern capitalism" runs counter to the free international movements of capital.

Even if the amount of employment depends on the total amount of effective demand as the "theory of modern capitalism" emphasizes, in the case where effective demand within a country is insufficient to achieve full employment, it is necessary for this country to adopt a policy to switch the effective demand which went for imported goods to domestic industry by adopting a protective tariff system, and by doing this to increase the employment opportunities of domestic labour at the expense of foreign labour. Only when the conditions of full employment have already been achieved is the following theory correct: the economic welfare of a country is heightened if it imports all goods which are cheaper than it would be to produce them

1 Colin Clark, *Growthmanship*, London, Barrie and Rockcliff, 1962.

2 Shigetô Tsuru ed., Has Capitalism Changed?—An International Symposium—, Tokyo, 1961.

at home.

As is seen in the advanced industrial countries at present, such a theory implies that agricultural price supports and import restriction policies have been adopted.

3. Economic Nationalism

Thus at the bottom of the " theory of modern capitalism " lies economic nationalism. If full employment cannot be maintained by *Laissez-Faire*, then it has to be adjusted in order to bring about full employment. Needless to say, in order to make adjustments, there has to be an adjuster. What kind of authority can be thought capable of carrying out such a function? It is clear that only a government can do this. By " government " we mean the central government of a modern national state. Therefore, the " theory of modern capitalism " has made it imperative to achieve full employment in the limited area of an already industrialized national state. The economic system which plans full employment through the "hands" of such an already industrialized national state must include the possibility of regulating the nation's free imports of foreign goods, overseas investments, and overseas transfers of money through a centralized administrative and legal system. Otherwise, as has already been pointed out, the leaky bucket will never become filled however much capital is poured in. For this reason, Keynes recommended the adoption of a managed currency system by ousting the classic gold standard.

Thus, in considering this from the standpoint of capital movements, the "theory of modern capitalism" is, at its core, nothing more than the "welfare state." The " theory of modern capitalism " in choosing between the solution of the " North-South problem " and the " welfare state " will always take the latter. It is in this sense that the " North-South problem " is a challenge to the " theory of modern capitalism."

The nationalism of the advanced industrial countries looks like a huge obstacle standing in the way of the prospects of the scholars, including Myrdal,[3] solving the North-South problem and at the same time, the developing countries themselves are waking up to these facts. Recently, the people in underdeveloped countries have come to be conscious that the existence of these large economic inequalities between " North " and " South " are in the long run nothing more than the result of the advanced industrial nations pursuing their national interests. The people of the underdeveloped countries and the representatives of these governments have come openly to state that the rest of the world, especially the affluent countries, should bear the burden of at least part of the responsibility for the poverty of these underdeveloped countries. They make the extremely radical claim that the cause of these inequalities is the world economic system which puts them into these poverty-stricken conditions in spite of the fact that other countries are rich and

3 Refer to G. Myrdal, *Beyond the Welfare State*, London, E. Duckworth, 1960, Chap. 10.

becoming increasingly richer. For example, according to Joan Robinson,[4] American farmers live peaceably in a system in which they can sell any amount of agricultural produce at a supported price. For this reason, they become wealthier to the extent they increase production. We do not have to enter into much consideration of the influence of fall in the price of agricultural produce as in the underdeveloped countries. Protected by this kind of agricultural price support system, the income of farmers in advanced countries cannot be thought of by themselves as poor, even though income growth has been relatively slower in this sector than in the secondary sector. The "theory of modern capitalism" consciously regards this as important, calling it a *built-in-stabilizer*. If we look at the other side of this, the reason that the advanced countries have passed through about twenty years without suffering from a depression is due to the fact that through the functioning of built-in-stabilizers such as an agricultural price support system they have made the underdeveloped countries play the role of a cushion for their economic fluctuations. The underdeveloped countries have come to think that they are impoverished to the extent that the losses are shifted to them. They are not only thinking in this simple way, but by pleading these statements in international organs to try to bring this before public opinion, they have begun to take concrete actions to try to realize their demands through favourable public opinion. UNCTAD (United Nations Conference on Trade and Development) which opened in Geneva, in March, 1964 was the first example of this. The Havana Conference in 1948 was one of the international trade conferences which the UN sponsored prior to this, but the General Agreement on Tariffs and Trade (GATT) which was established, inheriting the spirit of the Havana Charter, represented only a group of the advanced countries, and because the demands of the underdeveloped countries cannot possibly be complied with sufficiently in this agreement, UNCTAD, composed of the 111 United Nations' members, was held.

In this way, the theory and facts of the "North-South problem" exposed the frank economic nationalism of the "theory of modern capitalism."

What then were the demands of the new developing countries which were raised in the UNCTAD? A summary of the concrete demands from the United Nations' *World Economic Survey* and the so-called *Prebisch Report*[5] is as follows:

(1) Removal of the trade agreements (tariffs, domestic taxes, import quantity restrictions) which the advanced industrial nations have set up on the import of primary goods.
(2) Provision of a commodity agreement and a market organization for the stabilization or reform of the price of primary goods.
(3) Enforcement of compensation financing to make up for losses due to the

4 Joan Robinson, "The Latter-day Capitalism," *New Left Review*, No. 16, 1962, p. 44.

5 UNCTAD, Geneva, *Towards a New Trade Policy for Development*, reported by Raulo Prébisch, U. N., New York, 1964.

worsening of trade conditions.

(4) Approval of preferential treatment in order to expand imports of manufactured and semi-manufactured goods of underdeveloped countries.

At present only the demand for "liberalization" is progressively being carried out on a world-wide scale. Next we will examine the mechanism of this "liberalization" system from the viewpoint of the "North-South problem."

III. THE MECHANISM OF THE LIBERALIZATION SYSTEM

In 1958, when fifteen European countries (Great Britain, Eire, West Germany, France, The Netherlands, Belgium, Luxembourg, Italy, Sweden, Denmark, Norway, Finland, Switzerland, Portugal, and Austria) stepped off into the free exchange of the dollar with the currency of each country, namely a restoration of convertibility, the world plunged into an era of liberalization. Ordinarily, serious consideration is given to the liberalization of commodity trade which is called liberalization, but let us here plunge the scalpel of analysis into the mechanism of a liberalization system for both trade and capital and from the angle of the "North-South problem."

1. The Liberalization of Trade

The principle of free trade, as is well known, was established by the post-Ricardo principle of comparative costs and is characterized by a seemingly international theoretical structure which tries to pursue profit from international specialization. According to the illustration used by Ricardo, England specializes in the production of cloth and Portugal in the production of wine. When the two countries carry on trade, Portugal can obtain more cloth and England more wine and this is mutually more profitable than when both countries produce both cloth and wine. This was an important point in the principle of comparative costs.

When we examine such an abstract "made-up" example from the standpoint of the "North-South problem," we see that cloth was at the vanguard of manufactured goods at that time, while wine was a commodity which depended primarily upon the primary sector. And the theory of international specialization according to the viewpoint of comparative costs encouraged England which was an advanced industrial nation to specialize in the production of cloth and encouraged Portugal which was a relatively backward country industrially to specialize in the production of wine. Due to this, the cloth industry can never be established in Portugal. This is not merely an abstract problem from a made-up example. Friedrich List (1789–1846) of the German school of history points out the following as an actual historical case.

Up until about the seventeenth century, it is said that Portugal and Spain "each possessed the structure of individual 'national economies,' but shaken in the tentacles of England's mercantile system, their 'national economies' were warped by being subjected to this system, and they ultimately lost their national power. The tendency of both [Spain and Portugal] to depend on the 'national economy' of England had already begun by the seventeenth century, but even though there was formal or equal trade with Portugal through the *Methuen Treaty* of 1703 which is said to be 'the masterpiece of English trade policies' and with Spain through a series of trade treaties which let to the 1713 Treaty of *Asiento*, these countries were led into complete subjection within the British mercantile system. Through open trade, or half-open secret trade, England's woollen goods flooded both of these countries and their colonies in the New World, and the woollen industries in these countries collapsed. And the basic industrial structure which supported the 'national economy' of both countries dissolved due to the destruction of this 'national industry' and both the home countries and their colonies were put into the mercantile system of the British 'national economy' and its structure of specialization—this was the result of the so-called international specialization." [Hisao Ōtsuka, *Kokumin Keizai* (National Economy) (Tokyo, 1960), p. 142.]

As is clear from these historical facts, the comparative costs' theory as the principle of international specialization was nothing more than a theory which ultimately justified the underdeveloped countries specializing perpetually in primary goods and providing the way to industrialization only for the advanced countries.

It may be thought that Marshall, without looking at free trade with the "general principles" of international specialization, showed an understanding of the standpoint of nationalism which was an advantageous policy for the England of that period, namely, at the position of England's "industrial leadership." His viewpoint on the free trade doctrine, moreover, forms a phrase that lasted from the first edition of his *Principles of Economics* (1890) down to the eighth and final edition in 1924.

And J. E. Meade, a professor of Cambridge University and a representative scholar of the neo-classical school, which is "universalist," before setting out the merits of the function of a free competitive market, is careful to say "In order that the monetary and pricing system should work with equity it is necessary to achieve a fair distribution of income and property." [J. E. Meade, *Planning and the Price Mechanism* (London, 1948), p. 35.]

"But he does not for a moment consider any other distribution than that between the citizens of Great Britain" [J. Robinson, *Economic Philosophy* (London, 1962), p. 125], and his consideration does not extend as far as the inhabitants of its colonies.

Thus, as is clear, the universalism of the neo-classic school which centres on free trade and the principle of free competition in essence is nothing more than a variation of the nationalism of the advanced industrial countries.

"They did not argue that it is the duty of richer nations to increase the some of *utility* in the world by subsidizing imports from the poorer ones."

(J. Robinson, *Economic Philosophy*, p. 126). At the same time they have set price supports for farmers in their own countries and have affirmed the payment of price control subsidies.

In short, in so far as we consider the "North-South problem" through the free trade doctrine, we can only draw the conclusion that the developing nations cannot possibly tolerate the idea that the "South" perpetually specialize in the production of primary goods and that it is profitable not to plan the modernization of the industrial structure because they find a comparative advantage in primary goods. It is hardly likely that we should be able to solve the recent "North-South problem" on these assumptions. It is safe to say that it has become clear to all at the present stage that the free trade doctrine is nothing more than a variation of the nationalism of the advanced industrial countries which is hidden under the cloak of the internationalism of profiting by international specialization.

However, the system of liberalization which is at present being developed does not necessarily mean a revival of the free trade doctrine as stated simply above. A recent question of contention which is attracting sharp controversy and which it is necessary to take into consideration is the so-called "Kennedy Round" which advocated lowering by up to 50% in the next five years the tariff rates of July 1, 1962 of each country in relation to all other countries through the "Trade Expansion Law" which the late President Kennedy enacted. The EEC's "revision of unequal tariffs system and reduction method" has been set up in opposition to the "Kennedy Round" or "all-round reduction method."

It is probably fresh in our memories that the confrontation of the destruction of the status quo with the preservation of the status quo which can be seen in these methods of reducing tariffs was brought to the surface in the May 1963 cabinet meeting of GATT. Thus there is a tendency for the mechanism of liberalizing trade even between the advanced industrial countries deeply to colour the open pursuit of national interests more than do international "adjustment." Of course, when we broaden this tariff problem from the scope of GATT and put it into the field of the "North-South problem," the violent collision of the national interests of the advanced countries with national interests of the underdeveloped countries is thoroughly to be expected. The nationalism of the systems of liberalization is here exposed.

2. *The Liberalization of Capital Transactions*

Liberalization includes not only the liberalization of trade but also that of exchange transactions and capital transactions. If the liberalization of trade is the liberalization of the export of goods, then the liberalization of capital means the liberalization of capital exports or that of the extension of enterprises overseas.

When we try to make clear the mechanism of the liberalization of capital transactions, there arises the problem of the movements of "world enterprises" or " multi-national companies " which should be called the " new mode " in the post-war overseas extension of enterprises.

A concise definition of a " world enterprise " is one which at all times is carrying on decision-making on the development of scientific technology, production activity, and sales activity from a world-wide standpoint.

Now let us make clear some of the fundamental differences between world enterprise under the post-war liberalized structure and that of pre-war days. The most basic difference between the two is that the main object of overseas extension has switched from the monopoly of raw materials to the monopoly of scientific technology. The capital export or overseas extension of enterprises of the old type was mainly intended to monopolize raw materials.

In contrast, the overseas invasion of big business in the form of the export of technology by developing the technology which can create the basic synthetic materials or the technology of electronic engineering and aeronautical and space engineering has become predominant. Especially because the recent technological revolution is closely connected with development of military technology, countries which have good possibilities of succeeding in technological development are restricted to those which are guaranteed huge military expenditures, and concretely speaking, this means among the advanced capitalist countries only the U. S.

In short, the outstanding characteristic of the overseas invasion of the post-war form of " world enterprises " is that its objective is the monopoly of technology for the U. S., and in this respect it is very different in nature from the old type of overseas expansion.

While in the pre-war period only the source of a supply of raw materials was searched for, at present overseas expansion is made in search for the suppliers of comparatively cheap labour with the capacity to absorb the newest technology and the demanders for finished precision goods produced by this technology such as durable consumer goods. Sixty-five per cent of American private investment in Western Europe is overseas invasion in the form of world enterprise, and among the foreign capital which Italy has imported, direct investment of the form of world enterprise is said to exceed 60% of the total.

Thus, post-war investment has been mainly directed towards the advanced countries. As a result, long-term investment in the underdeveloped countries has, on the contrary, shown a tendency to decrease.[6]

Let us look at the merits and demerits of the capital invasion of world enterprise from the angle of the " North-South problem." First, speaking of the merits (positive effects), the underdeveloped countries with little development of their own technology cannot strongly refuse the demand of the advanced countries for the acquisition of stock and participation in the company management. Of course, in a capitalist society it is a principle that newly developed technology be privately monopolized and become a means

6 See OECD, *The Flow of Financial Resources to Less-developed Countries, 1956–1963.*

of acquiring profit. Under such circumstances, in order to be armed so that they are not left behind the age of technological revolution, the underdeveloped countries must accept the advanced countries' demands for participation in the company management and must import technology in order to promote their development. In this sense, the introduction of technology or capital equipment by world enterprises can be said to have the "effect of nurturing productivity or promoting development."

Second, capital invasion in the form of direct investment in underdeveloped countries will bring about an "employment effect" in that country which suffers from a shortage of capital accumulation and therefore has technological unemployment. Needless to say, however, the employment effect will be reduced to the extent that rival enterprises invade the country—a subject we will discuss later.

The third effect is the possibility of interest rates becoming lower while wage rates rise due to the expansion of enterprises into an underdeveloped country, as compared with cases in which this expansion does not occur. Generally speaking, because there is an inflow only of capital and not of labour, the domestic price of capital is lowered and a comparative shortage of labour combined with that capital will raise the price of labour. Such a "distribution effect" caused by such a capital invasion does not, however, automatically come about as the result of the expansion of world enterprises. It only creates advantageous conditions for this, and it is difficult to realize a rise in the cost of labour unless such countermeasures are consciously taken within the country as interest rate reform by the central authorities or the demand for wage hikes by trade unions.

Now let us examine the demerits (negative effects). First, through the invasion of world enterprises, the national capital of a country loses market shares, and depending on the case, there arise management difficulties and the national capital is eliminated. We will call this the "rival effect." There have been many striking examples of this recently in Europe, such as Machine-bull Co. of France, the biggest electronic computer maker in Europe which lost out in competition with IBM, and Fiat of Italy which suffered greatly from the competition of lower prices from British Ford. And there is the famous West German automobile manufacturer, Borgwald Co., which was forced to close down by sharp competition from Ford and General Motors. We cannot make light of this rival effect.

Not only this but when world-wide big businesses such as GM, Ford, and IBM invade a country and freely use the above "rival effect," no new participants can enter the field and the tendency towards monopolization will be strengthened. We can find the second important negative effect in this "strengthening of monopoly power."

In addition, there exists the problem of "the principle of carrying on research and development in the home country by world enterprises." The president of a world enterprise has to answer the following question: in which part of the world can they pursue the work of research and development in order to utilize at minimum costs the technological capacity which is scattered all over the world? The answer to this question at present is: in U. S. A. The chances are good that the scientific research and technological development of a world enterprise are carried on in concentrated form in its head office in the U. S. or in its central research centre in the U. S., and that even if this research and development are carried on in an underdeveloped country, it is limited to the application of the basic research which is expensive and is carried out in the U. S. As a result, in this age of rapid technological revolution, there is a great fear that most of the industries of countries other than the U. S. which are comparatively less developed will come to be highly dependent on U. S. A. through technology.

There is also another important negative effect. This is "the difficult question of the economic planning of a country being in conflict with the management policies of a world enterprise." A factory set up under the umbrella of a world enterprise will push through the international specialization of production in accordance with the decisions of the enterprise itself. For example, the Remington Company has set up factories which specialize only in the production of agricultural machinery in France and only in typewriters in the Netherlands, and in office machinery and equipment in Italy. IBM is noted for its policy of one type of product per factory, and its production is specialized in typewriters in the Netherlands, large computers in France, and small electronic computers in West Germany. When a country's industrial structure is formed by the private and independent policies of a world enterprise, national policies for strengthening and advancing the industrial structure or for creating a balanced industrial structure are disturbed. From the private viewpoint of a world enterprise, the international specialization system may be essential to the world enterprise which makes decisions on production activities, technological developments, and sales activities from the world standpoint, but there is a danger that the industrial structure of the world, i. e., the international specialization system, becomes dependent upon the decisions of private enterprises in the U. S., and that these become the source of the creation of imperialistic evils.

There is another negative effect when a country introduces a huge amount of foreign capital, in the future, the repayment of that original capital and the overseas transfers of dividends and interest will increase and this becomes a factor in putting pressure on the international balance of payments.

As has become clear in the above discussion, we can find the nationalism of a new imperialistic nature in the liberalization of capital transactions, i. e., the "liberalization system" which allows the freedom of overseas extension of world enterprises. The liberalization system which is primarily supposed to make for the enjoyment of the advantage of international specialization and to create the optimum distribution of world resources was based on one important presupposition. This was the presupposition that "technological knowledge remains at the same level and there are no movements of capital and labour." However, in the recent period of rapid technological revolution, new techniques have been developed one after another, and the truth is that it occurs in a concentrated form in the U. S. Thus the mechanism of a liberalization system which includes capital transactions will inevitably result in the establishment of an American imperialist system which uses a monopoly on technology as its lever. The true character of the nationalism of the liberalization system is clearly pointed out here.

IV. THE NEW ECONOMIC NATIONALISM AND JAPAN

What the above analysis has made clear is that nationalism lurks behind both the "theory of modern capitalism" and the liberalization system, and that it is a nationalism advantageous to the advanced countries.

The nucleus of the "North-South problem" must be thought to be naturally destined to challenge both the nationalism of the "theory of modern capitalism" and the nationalism of the liberalization system.

When we mention nationalism (it would be more accurate to restrict the word to economic nationalism), is it not necessary to make clear the differences between the two aspects which are included in it? One is the strong nationalism of an underdeveloped country in the social stratum which has in the post-war period gained political independence from its colonial status. As seen in the *Prebisch Report,* this country, in its attempt to catch up with the advanced industrial countries as soon as possible, demands the abolition of trade barriers against primary products which are the main products of underdeveloped countries, the stabilization of the prices of primary products, compensation financing for losses caused by the worsening terms of trade, and preferential treatment for finished and partly finished goods which are produced as a result of raising the industrial structure to a higher level. This problem is not necessarily limited to the "South" alone. It would constitute this type of economic nationalism for the automobile industry in Japan to take various kinds of self-defensive measures in order to cope with competition from the American automobile industry under the liberalization system. France's regarding the Simca's case as economic aggression and taking measures to restrict the advance of American capital demonstrates this type of nationalism also.

But there is another kind of nationalism. For example, it is the nationalism in which American textile manufacturers regard as unfair, just as they do dumping, the exports of the economically weak, such as Japanese one-dollar shirts, and take measures to protect their own domestic industry. It is also the nationalism in which the U.S. is trying to maintain its agricultural price support system by ignoring the demands of underdeveloped countries. Indeed, nationalism has two faces. Unless we divide and evaluate these two nationalisms, only the pessimistic view will be taken that the "North-South problem" is in the last analysis nothing but the conflict between the nationalism of the advanced and the nationalism of the underdeveloped countries, and that only compromise is possible, that we cannot find a fundamental solution.

Both the " nationalism " in the " theory of modern capitalism " and the "nationalism" in the "liberalization system" are without exception the nationalism which the economically strong force upon the economically weak. The nationalism in this case was the international " dual structure " of economic system with the economically strongest at its apex and the underdeveloped countries at its bottom. The best example is the international system of specialization based on the theory of comparative costs, but the " theory of modern capitalism " is no exception to this. Let us call this kind of nationalism, in which the economically strong make demands on the economically weak, " backward nationalism." It is not an exaggeration to say that the entire international economic order of the past was nothing but the system of backward nationalism. The " North-South problem " came to the fore to try to challenge this backward nationalism. The fundamental solution of the "North-South problem" is impossible as long as the world system is based on backward nationalism.

What remains then is the second aspect of nationalism. (Let us for convenience call this "forward nationalism.") As we saw earlier, the Keynesian theory which predominates in the advanced countries at present is in the end, however favourably it is understood, nothing but a full employment policy for the advanced countries. This is clearly recognized by Mrs. Joan Robinson, who is a Keynesian.[7] Therefore what we are faced with for a solution in the context of the " Problem " is a new international economic order which, while fully satisfying the demands of rapidly developing the industrial structure in the underdeveloped countries, will at the same time contain a positive countermeasure to continue the prosperity of the advanced nations. Professor Tsuru's proposal is a concrete policy for a solution attempted from Japan's position and based on the above fundamental position.[8] It states in effect that the Japanese government should propose that the advanced countries take positive measures to increase the import of primary products and industrial goods from the underdeveloped countries, and that they should make deliberate adjustments of their own domestic industries which become necessary because of these measures. His article is especially noteworthy for its statement that "To propose deliberate structural adjustments is an advanced proposal which can be made only by Japan, for whom there is the strong possibility of being caught between two lines of fire by both the advanced and the underdeveloped countries." In *the system of forward nationalism* which I will here

7 See Joan Robinson, *Economic Philosophy,* London, C. A. Watts, 1962, Chap. 5.

8 Shigeto Tsuru, "Teikaihatsukoku Hatten no tameni (For the Development of Underdeveloped Countries)," *Ekonomisto,* November 12, 1963. This thesis was prepared in anticipation of the holding of the United Nations Conference on Trade and Development in March, 1964.

propose, I am strongly conscious of Japan's position in the valley between the advanced and the underdeveloped countries. Generally speaking, this system is based on the "principle of resisting power," an attempt to affirm as just the resisting power of the economically weak against the economically strong as mentioned earlier. Therefore, Japan is justified in her action of defending her automobile industry as a newly emerging industry against the U. S., which is more advanced in this field. But Japan is to accept the demands of the textile industries of India and China, even if it is not advantageous to the Japanese textile industry to do so, and to adjust her industry accordingly. This idea forms not only an international principle but applies also to domestic problems.

The dominant economic theories of the past often criticized even labour unions, which are a concentration of labour's bargaining power, as strengthening monopoly power. But the concentration of the power of the individual labourer, one of the economically weak controlled by management, should be called resisting power rather than monopoly power. Consequently, it should be clearly distinguished in its nature from the concentration of economic power, literally the strengthening of monopoly power, among big business, the economically strong.

The view that I have tried to present here as a remedy for the "North-South problem" is likewise based on the position of restricting as unjust the aspect of the weak being eaten by the strong, an aspect of backward nationalism which inevitably accompanies nationalism. At the same time, this view affirms the justness of forward nationalism as a resisting power. I want to make this the objective of a new economic nationalism. Let us call this *the principle of resisting power.* This seemingly resembles Galbraith's "theory of countervailing power"[9] but it differs in nature. The important difference is as follows: Galbraith regards the countervailing power as a power to restrict big business and thinks that a power is spontaneously created together with the establishment of big business, the power to offset such monopoly power. But I recognize that a concentration of economic power contains aspects both of monopoly power (the weak being eaten by the strong) and resisting power, and I consciously separate these two aspects and add an artificial restricting force which restricts the monopoly power while promoting the aspect of the resisting power. Galbraith affirms only the present state of affairs and *theorizes* from it, but I insist on a new *principle.*

Aid plays a large role in encouraging the development of the industrial structure in underdeveloped countries. What are called "trade and aid" should both be motivating desires for underdeveloped countries. And direct private investment especially, differing from various kinds of loans, holds the possibility of reinvestment of profits, namely, "plough-back," besides taking a long time for the recovery of the principal. And the effect it has on the

9 See John Kenneth Galbraith, *American Capitalism,* London, Hamish Hamilton, 1952, Chap. IX.

international balance of payments of an underdeveloped country is at present more advantageous than loans. Moreover, as we analysed in the section on world enterprises, newly developed technology, due to the fact that it cannot be openly released to the public—in so far as we presuppose a capitalistic society—becomes paired with capital and has a tendency to flow out. When the nationalism of an underdeveloped country completely rejects the introduction of foreign private capital, the result is easily the simultaneous rejection of the introduction of new technology. Of course there may also be technical aid from the socialist countries, but at present there is various evidence which makes us think that the same difficult question of the "North-South problem" of the capitalistic world has not necessarily been solved in the international specialization system (COMECON) between the various socialist countries.[10] Consequently, underdeveloped countries cannot depend on aid only from the socialist bloc and there is a fairly large degree of dependence on the capitalistic bloc.

However, as was made clear in the analysis of world enterprises, recent trends in direct private investment centring in the advanced countries are not reaching the underdeveloped countries. It is because there are obstacles existing which are peculiar to the underdeveloped countries. The first obstacle is that principal is imperfectly guaranteed in an unstable political system. This is because capital is basically sensitive. The second obstacle is that the economic nationalism of underdeveloped countries rejects control by foreign capital.

I want to file here, along with the Tsuru plan on deliberate readjustments of the industrial structure, the following tentative plan with regard to investments in underdeveloped countries from the standpoint of forward nationalism. But before this, in order to avoid creating misunderstandings, I will say two or three things. That is, even if the nationalism of the "South" is affirmed forward nationalism, at the very least, the following two conditions are necessary:

(1) It is necessary for each newly independent rising nation constituting the "South," in coming out of the limitations of the monoculture system, "to produce on a national scale almost a sufficient amount of the indispensable commodities and as a result to establish a certain tendency towards self-sufficiency, and to create on a national scale a balanced condition of many specializations."[11] Therefore the liberation from such artificial North-South partitions such as exist in Viet-Nam and Korea and the establishment of a unified state are preconditions for establishing the above. Depending on the circumstances, the realization of a kind of economic integration among the underdeveloped countries transcending national differences in order to satisfy the above conditions for multiple specializations will also be a precondition.

10 For example, this is indicated in M. Kalecki, *Zarys teorii azrostu gospodarki socjalistycznej* (Ōutline of Theory of Growth of a Socialist Economy), Warszawa, 1963.

11 Hisao Otsuka, *Kokumin Keizai* (National Economy), Tokyo, Kōbundō, 1960.

(2) There are various social classes constituting what we call underdeveloped countries. So there is a question as to who really represents the underdeveloped nations.

Up to the present "there have been five kinds of *élites* leading the underdeveloped areas: royal families, old colonial bureaucrats, middle-class producers equalling bourgeoisie, national political leaders, and revolutionary intellectuals. It can be said that there is an unavoidable tendency for the royal families and old colonial bureaucrats among these to lose their ruling power, and at present there is competition for leadership among the other three."[12]

Even the *Prebisch Report* which shook the advanced countries is said to speak only for the bourgeoisie. Consequently, the democratic revolution within an underdeveloped country, especially a thorough land reform, is a precondition.

On the premises of the above-mentioned precondition, I wish to propose the adoption of a world investment treaty at a conference of all the member states of the United Nations, as was the case with the UNCTAD, in order to promote the advancement of the industrial structure of the underdeveloped countries. This is meant to be a countermeasure to the regulation of the liberalization of capital transactions among only the OECD members. It also differs in nature from "The Treaty on the Settlement of Disputes Arising from International Investment" which was proposed by the World Bank dated March 18, 1965. It differs because my proposal sets out a fundamental principle which precedes the "Convention on the Settlement of Investment Disputes between States and Nationals of Other States." This "treaty of world investment" is based on the principle of give and take, and for the present the scope of its application is limited only to secondary industry, i.e., the mining and manufacturing sector. Its contents state that the country which receives the capital takes responsibility for the security of the principal and its fruits, and at the same time the investing country co-operates with the recipient country in advancing the industrial structure and protecting and nurturing the national capital which initiated the newly developing industry. In other words, its principle is to limit as far as possible the above-mentioned demerits of the invasion of world enterprises and to utilize in a positive way the merits which work advantageously for the technological development and for the advancement of the industrial structure in the underdeveloped countries.

The above principle is explained in more concrete terms as follows: The ratio of the amount of production shown in dollars for each industrial sector (e.g., automobiles, synthetic fibres) is calculated between the investor country (A) and the recipient country (B), and if this ratio does not reach the GNP ratio between the two countries, then the central authority will regulate the

12 Tadao Tsuji, "Prebisch-Hōkoku wa 'Minami' no Daiben ka (Does the Prebisch Report Speak for the South?)," *Ekonomisto*, Special Edition (April, 1965), p. 150.

private direct investment from country A into that sector of country B. There are two standards for such cases. (1) Only a company less than 50% of whose stock is owned by foreign capital is permitted in order not to harm the independence of the industry of recipient country B. (2) If the investing country demands at any cost the holding of more than 50% of the stock, then it will agree to hand over its invested capital and equipment to the government of the recipient country without compensation ten years after operations have begun. Of course technical co-operation in which participation in management is not demanded or the introduction of indirect foreign capital are exceptions to the above. It is also natural that basic industries which have a strong connexion with public welfare, such as railways, road transport, sea transport, bay and port transport, air transport, shipbuilding, banking and trusts, broadcasting, fishing, mining and refining, etc., be strictly controlled by special regulations in each country.

When the amount of accumulated capital of the recipient country is insufficient and it has difficulty in allocating necessary capital to meet the foreign capital of 50% of the company, it will be necessary for the investor country to make efforts to help get the necessary loans from the World Bank, the Second World Bank, or its own Import-Export Bank. It is necessary to clearly state here the reason why I put up standards for the regulation of capital transactions of whether the ratio of each sector between countries A and B exceeds the GNP ratio of the two countries. As I have repeatedly explained utilizing Professor Ōtsuka's view, a balanced condition among all the sectors of industry constituting GNP is necessary if the economy of a country is to be provided with the conditions of a national economy, that is "an independent national system which is based on commodity exchange and has social specialization." Consequently, it is thought that an underdeveloped country whose ratio of the amount of production between each sector does not reach the international ratio of GNP must be allowed to be able to regulate from the standpoint of forward nationalism its capital transactions during the period of adjusting its "national system" of industry. This principle is only in connexion with the advancements of direct capital in the form of enterprises and differs from that of the protection and regulation of exports and imports of commodities. This proposal is an attempt to overtly regulate the method which the Japanese Council for Foreign Investment invented in order to positively promote the introduction of technology while maintaining the autonomy of its own industries and which is now being carried on in the form of administrative guidance. It is also an attempt to give it recognition as a world-wide principle. The proposal for the nationalization of a company ten years after its foundation, a company in which more than 50% of the stock is foreign capital, is in line with the method which at present developing states such as the North Africa countries, Algeria and Libya are carrying out in regard to oil exploitation rights. I myself know more than anyone else that concrete details for this proposal have to be worked out, but I have decided to present here only the basic ideas.

What I wish to repeatedly emphasize is that the Japanese government should develop in concrete terms the idea of a "Treaty of World Investment" and submit this to discussions in the United Nations. Japan's capitalism is at present being pushed by the backward nationalism of the advanced countries such as the United States, and at the same time is suffering from the forward nationalism of the underdeveloped countries. When we look at the movement centring around the Japan-Korea treaty, we see the Japanese government seems to be confronting the underdeveloped countries with backward nationalism as an advanced industrial country as a way out for herself. My proposal, on the contrary, demands that Japan's position be put in the system of forward nationalism. By doing so, Japan can escape from the tragedy which Europe experienced after the liberalization of capital transactions (Simca's case) and at the same time she can avoid the conflict with the forward nationalism of the underdeveloped countries which are economically weak compared to Japan by being satisfied with capital investments of less than 50% of company stock and by promising to strictly protect the autonomy of the industry of recipient countries. Can we not find a way out for the Japanese economy through this proposal?

It is well anticipated that the United States, which is the most advanced country in every respect, will voice strong dissatisfaction with this proposal. However, I wish to add only the point that because there is available in the United States an enormous amount of capital for research and development, the way should be wide open for the progress of mankind, that is, pushing forth the technological revolution at an even faster tempo than has been seen up to now, provided that a world-wide disarmanent agreement is concluded and the path to militarization closed. I am firmly convinced that the American frontier spirit which is still alive will conquer the difficulties in this and will show big-hearted generosity in being content with less than 50% investment. With these restrictions American capitalism too can be given a place for itself in the system of *forward nationalism.*