A NEW CAPITALISM FOR A NEW INTERNATIONAL ECONOMIC ORDER

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I. *Introduction*

The building of a 'New International Economic Order' (NIEO), has recently been discussed widely and seriously by those concerned with the interests of developing countries. This term originated in the Declaration and the Programme of Action on the Establishment of a New International Economic Order on 1 May 1974, and was intensified by the Charter of Economic Rights and Duties of States on 12 December 1974. The idea of NIEO gradually acquired concrete shape through UNCTAD (United Nations Conference on Trade and Development) IV (Nairobi, 1976), the so-called 'global negotiation' since 1980 and elsewhere, but it is still in a emerging, nebulous and flexible stage.

In this paper, I treat the NIEO as the whole philosophy and strategy which developing countries or the 'South' have pursued since the World War II, especially since the UNCTAD I (1964), in order to break or restructure the existing, old international economic order so as to make favorable to themselves. This old order itself is not exactly defined, but it is characterized, for example, by the Bretton Woods Agreement and GATT (General Agreement on Tariffs and Trade) which aimed mainly at keeping capitalism and the free market mechanism and promoting prosperity among advanced economies, while neglecting the role and interests of huge number of developing countries. The old order was therefore challenged by the South and had to be re-examined. Meanwhile, the Bretton Woods system collapsed in 1971, and the old order fell into disorder and chaos: floating exchange rates created uncertainty, OPEC's action aggravated difficulties, and the emergence of newly industrializing countries was seen as a menace, although it should have been welcomed as the successful outcome of their self-reliance efforts and assistance received from developed countries. Therefore, the old order now needs to be reformed from the point of view of developed countries as well.

It is thus a question of how to start fruitful dialogue between the South and the North, and how to build a feasible and realistic new international economic order. In approaching this question, it seems to me there exists an almost unsurmountable gap in philosophy between them—a gap larger than that in income levels. Four representative philosophies are examined in Section II. From the basic philosophy, the South has had to demand from the North effective assistance to promote national economic development processes, but, in reality, it has obtained only a limited concession in discriminatorily favorable trade policies. This was a wrong strategy while achieved little. In trade policy, the principle of free trade (or at least freer trade) should be pursued (Section III).

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What is really needed for developing countries is international factor movements through aid, direct investment, and transfer of technology to complement some factors of production which are in short supply in Southern countries, even if only marginally, thus enabling them to start and promote national economic development process. I refer to these necessary factor movements as 'international complementation,' a process which calls for a further principle going beyond the market mechanism or the free enterprise capitalist system. Thus, the twin principles called for are: (A) free trade for goods already produced and offered to the market, and (B) international complementation for promoting national economic development process. Although the latter has primary importance, it should be undertaken so as to create and expand restructured and upgraded mutual trade (Section IV).

However, to increase this international complementation with more harmonious efficiency, changes in the capitalist or free enterprise system are required. Capitalism in developed countries has already changed internally with the introduction of state welfare measures, and because of that, not only is international complementation hindered, but also business abroad behaves in an extremely capitalistic way. Capitalism must be modified or emancipated externally as well, and welfare policy must spread internationally towards the promotion of national economic development processes in developing countries. Such needed emancipation in capitalism is illustrated in relation to aid and direct investment in Section V.

Harmonious international complementation may be promoted with greater efficiency within neighboring countries, say, in the Asian-Pacific region, than in a world-wide collective bargaining between the South and the North. Pacific economic co-operation is an effective complement, rather than an alternative, to a global NIEO. The merit of such regional co-operation is examined in Section VI.

II. *The Philosophy of the South*

To narrow gap in income level between the North and the South nations and to make them equal partners should be the ultimate aim of a New International Economic Order. It appears, however, that the gap in philosophy between the two groups is wider than the gap in income levels and is almost unsurmountable.

I would like to select four thoughts, among many, from scholarly leaders in the United Nations family organizations as most representative of those which have fostered the concept of the NIEO:

(1) *The Theory of Dependency*

The theory of dependency, though hard even to define precisely, is one of the basic ideas underlying UNCTAD documents since the first Prebisch Report [22]. The theory asserts that the center of the world economy (the North or advanced capitalistic, industrialized countries) made the South (developing countries) subordinate as peripheral economies, dependent on exports of primary commodities. Because of this relationship, the South not only suffered from deteriorating terms of trade but also was deprived of opportunities for industrialization and thus for economic development.

Extremists of the dependency theory [1, 8] came to such a logical conclusion as that a delinking (or a cutoff) of commercial and financial relations between the center and the periphery is a necessary pre-condition for true development based on balanced, equitable, and self-reliant growth. This is a pure delinking thesis. [Cf. 7, p. 87].

The Prebisch Report does not take such an extreme view as this, but calls for the re-linking or strengthening of the sinews of interdependence between the South and the North. It focuses on the external imbalance associated with the development process and stresses that in order to achieve a 5 percent (or 2.6 percent per capita) minimum growth target, the South needs additional exports of primary products, more exports of manufactures to the North, and greater external aid from the North. Thus, the Report calls for structural changes in developing countries and measures of international co-operation.

The main concern of the present paper is to enquire into what kinds of measures of international co-operation are really effective and according to which rules they are to be implemented. On this point, the Prebisch Report raises an important question related to the dependency theory: "it (the old order) seems to be inspired by a conception of policy which implies that the expansion of trade to the mutual advantage of all merely requires the removal of the obstacles which impede the free play of these forces in the world economy. These rules and principles are also based on an abstract notion of economic homogeneity which conceals the great structural differences between industrial centres and peripheral countries with all their important implications." [22, p. 6].

(2) *The Assumption of Asymmetrical Interdependence*

Nurul Islam of FAO (Food and Agriculture Organization) expounded that the "relationship between the advanced and less developed countries in many areas of economic transactions is not symmetrical." [12, p. 1]. The flows of trade, capital and labor between the rich and poor nations exhibit interdependence which is, however, asymmetrical or one-sided. Since the South is in a weaker position, the market mechanism works favorably to the North and unfavorably to the South.

For example, in the primary commodity market, the South's bargaining power is so weak that its terms of trade deteriorate in the long-run and experience wide short-run fluctuations. Therefore, measures for compensating losses in export incomes are required, and even resources cartels like the OPEC (Organization of Petroleum Exporting Countries) are justified. It is difficult for the South's manufactured products to enter into the North's markets which are pre-empted by big enterprises with strong competitive power and marketing networks. Hence, preferential treatment for products of developing countries is called for. The operations of giant multinational corporations widen the asymmetrical interdependence between the North and South. Large-scale immigration is not accepted by the North, and, instead, 'brain-drains' are taken place against the South's interests.

(3) *A Strategy for Collective Self-reliance*

The Corea Report to UNCTAD IV in 1976 proposed formally the idea of collective self-reliance in addition to the integrated program for commodities and other well-discussed development strategies. The report is important since it stresses that "Ultimately, it is the development process within these (developing) countries that lies at the heart of the development issue." [5, p. 17].

"It [collective self-reliance] is the expression of a deeply felt desire by the countries of the third world to reduce their dependence on the developed countries, to strengthen their capacity for joint action and to play a part in the building up of the external framework within which development takes place. Self-reliance, let alone collective self-reliance, does not imply autarchy. It does not seek to build a wall of containment that seals off the developing countries from the outside world, but aims rather at mobilizing the resources of these countries to accelerate the development process and to transform the mechanisms and institutions that have hitherto governed international economic relations." [5, p. 54].

Despite suspicions by the dependency theory, there is no justifiable reason to assume that increased dependence on the developed countries is undesirable or that dependence on other developing countries is desirable to accelerate the development process. Yet both national and collective self-reliance is most desired and hoped for from the point of view of developed countries.

As one of its two basic elements, the concept of collective self-reliance embraces "co-operation among developing countries to establish common positions and to apply a maximum of leverage so as to increase their bargaining power in negotiations and joint action vis-à-vis the industrialized countries." [5, p. 55]. In other words, the strategy aims at enhancing the bargaining strength of the third world and developing new countervailing power in the international economic system. This easily leads, as UNCTAD does, to the idea that collective self-reliance means the strategy of collective bargaining vis-à-vis the North. But, what and how does the Third World want to bargain collectively vis-à-vis advanced capitalistic countries? This is a real issue to be explored.

(4) *UN as a World Government*

Mahbub ul Haq, a high-level staff member of the World Bank, draws almost all the elements of NIEO in his *The Poverty Curtain* [10]. First, he calls for direct attack on mass poverty which developed into a scheme for basic human needs.

Secondly, he proposes a giant World Development Authority which could be managed exclusively by the Third World for its own benefit. The necessary funds would be collected through automatic transfer of resources—through Special Drawing Rights, taxes on military expenditures, raw material imports, sea-bed mineral developments, and tolls on the international transport system.

Such a proposal was recently made (in 1980) in more concrete form in a plan of UNIDO (United Nations Industrial Development Organization) to establish an International Industrial Finance Agency (with an initial capital of $5 billion) and a Global Fund for the Stimulation of Industry (with total capital of $75–100 billion), while a much bigger World Development Fund is recommended by the Brandt Report [4].

Who can administer the World Development Authority (or Fund) with the required efficiency and fairness? Overtly or not, it is supposed to be the United Nations or some of its family organizations. Here many proponents of NIEO presuppose that the UN is a world government, and overrate the ability of the UN to do everything efficiently and favorably to the South. Such a misbelief is also found in various declarations and codes of conduct.

The argument also presupposes that there already exists one world at least among developing countries. This is a sheer illusion. The truth is that they can hardly get consensus among themselves.

III. *Achievements in the Aspect of Trade Policy*

All the philosophies of the South assert that developing countries have weak bargaining positions vis-à-vis advanced capitalist countries. Standing on that unequal footing, they suspect that "a market system, wholly uncorrected by institutions of justice, sharing, and solidarity, makes the strong stronger and the weak weaker. Markets as useful tools in a functioning social order have a positive and decentralizing role to play. Markets as masters of society enrich the rich and pauperize the poor." [10, p. xii].

The South, as the weaker economies, requested too many things from the North through collective bargaining, mainly in the UNCTAD, but what has been achieved is so far limited as compared with the efforts they made. UNCTAD I (Geneva, 1964) and UNCTAD II (New Delhi, 1968) concentrated primarily on (1) defining and underlining aid targets for the developed countries, (2) laying principal stress on such trade policy as preferential access by developing countries to the market of the developed countries, i.e., the Generalized System of Preferences (GSP), and (3) the principle of nonreciprocity which was ratified as a new chapter for developing countries in GATT articles (in 1965). Then, (4) UNCTAD IV (Nairobi, 1976) adopted the Integrated Program for (Primary) Commodities and the Common Fund as large as $750 million, including both buffer stock operation and second window purposes, (which is too small a sum as compared to the originally proposed $12 billion), was agreed to set up by UNCTAD V (Manila, 1979).

Now, it should be well recognized that the problems which NIEO must face and solve have two dimensions:

(A) How to exchange goods already produced, or the strategy in the trade policy dimension. Here, *pros* and *cons* of the free trade principle (or market mechanism in international trade) must be argued:

(B) How to complement internationally the national economic development processes, or the strategy in the international factor movement dimension. There is an urgent need to explore the guiding principle in this dimension which may require measures beyond the market mechanism.

The two dimensions with which NIEO should be concerned are well expressed in the Corea Report: "For the developing countries the compelling need for a new order is not based on the consideration that the prevailing order is no longer working well, but on the more fundamental premise that it did not satisfy their needs even when it was working at its best. The changes called for are not simply those that will rectify the shortcomings which now handicap the economies of the developed countries—changes that will help only towards a better functioning of the present system. The changes must be more far-reaching and bear upon the very mechanisms that weakened, or impeded, the growth and expansion of the developing countries—mechanisms that have contributed to a widening, rather than a narrowing, of global inequality." [5, p. 7].

It does not seem very rewarding for developing countries to demand policies such as GSP which are 'anti-free trade.' Their logic is that while they are in a weaker bargaining position, they want to obtain *tangible* gains from preferences which discriminate in favor of developing countries and against developed countries. Thus, the GSP is a zero-sum game between exports from developing and developed countries. A positive gain should be created by the overall reduction of the MFN (most favored nations) tariffs. But the GSP poses a dilemma for developing countries in that they cannot ask the reduction of MFN tariffs in order to retain preferential margins. The GSP benefits only Newly Industrializing Countries (NICs) which are already strongly competitive and rather suppresses the exports from other least developed countries. It is even abused by the developed countries using it as an excuse to impose quota restrictions on manufactured imports from NICs. The real question is whether or not the GSP (and protective tariffs) can really support infant industries or, in more general terms, promote national economic development. The answer is "No." [Cf. 2].

Although the Integrated Program for Commodities (IPC) involves many elements, even aid, its trade policy aspect is much inspired by the success of the OPEC's resource cartelization and it has an anti-free trade nature. But the results of the IPC seem to have borne little fruit since oil is a very special case with exceedingly low elasticities, considerable macro effects, and is no real parallel for other commodities.

What the developing countries should properly demand in the trade policy dimension is free access to the developed countries' markets, the avoidance of tariff escalation, the reduction and elimination of MFN tariffs and non-tariff measures, the provision of value-added tariffs, and the creation of wider market by positive structural adjustments. Such overall liberalization of trade in the developed countries should be enforced by the strong collective bargaining power of the Group of 77 on a non-reciprocal basis.

Although reciprocity is not requested for developing countries, they would benefit from liberalization in many aspects of their complicated trade and exchange controls, for example, in high tariffs on imported capital goods and over-valued exchange rates.

The free trade principle is based upon the idea that "imports are gains." To exchange or trade goods which are already produced and offered to the market with no artificial barriers is beneficial and contributes to raising welfare of consumers and users. Free trade has, therefore, universal truth. Liberalizing imports is undertaken to benefit of importing countries and should even be done unilaterally whether or not partner countries do the same.

We recognize that there is a big gap in the South's philosophy which is heterogeneous from the old, capitalist order, as explained above. But, we are not able to find any suitable measures to achieve the aims of the NIEO with respect to trade policy. Free trade or freer trade is the only common strategy to be achieved by both sides, since it has universal and neutral truth as far as exchange of goods produced is concerned.

What the South has achieved so far in the aspect of trade policy seems to be unrewarded. The South aimed at expanding manufactured exports through GSP. The results of such export promotion depend entirely upon reactions of importers which are beyond the control of exporters. There is no justifiable reason why import barriers, even discriminatorily favorable ones, are requested for developed countries in order to promote export from developing countries. In an open market, it is impossible to identify whether goods come from developing countries or elsewhere. We cannot buy, except as charity, goods at price higher than the quality is worth for the sake of the fact that it is produced by developing ocuntries. But, the productive capacity which they lack must be complemented internationally. This is the reason why double principles are called for, as will be touched upon presently.

IV. *International Complementation of National Economic Development Processes*

Reactions of modern economists [See 2, 3, 6, and 13] in the advanced capitalistic society are cool towards demands by the NIEO for trade policies such as presented in the previous section. Negotiations on trade policies between the South and the North took so long and its results were, as expected, so limited that the South got frustrated and escalated its demands, directing them to basic reconstruction of the pattern and order of international division of labor and trade between the South and the North.

I do feel that double principles are called for in order to attack the South-North problems: (A) the free (or freer as far as possible) trade principle in the exchanges of goods already produced; and (B) a new principle, which should be explored, in the international factor movement dimension (or in international complementation) in order to facilitate the development of the national economic complex in each nation or group of nations in the South.

Instruments for achieving international complementation of production factors are: 1) various kinds of aid, 2) direct foreign investment and other capital flows, 3) transfer of technology, and 4) the imports of input goods which could not be produced at all or only at much higher costs in developing countries. It is of urgent need for developing countries to complement through those instruments some factors of production which are even marginally in short supply at each stage of economic development, thus causing economic imbalances. If international complementation is undertaken properly, even if it is marginal in volume, it accelerates greatly the national economic development processes in developing countries and contributes efficiently to the reconstruction of the pattern of international division of labor and center—periphery relations.

I would like in the present paper to stress, and persuade the South, the importance of international complementation of national economic development processes, since to do so is the only way to open meaningful dialogue between the South and the North, and to fill the big gap in philosophy. There are a number of difficulties to be overcome, however. A new principle for international complementation is not yet well developed for it belongs to dynamic development issues beyond what the well established *static* trade theory is able to handle. Moreover, there is misunderstanding and even suspicion that international complementation may strengthen, not only the free-trade regime, but also dependence of developing on developed countries. In order to avoid this, capitalism in the advanced economies should be more emancipated, domestically as well as externally.

One of the most important reasons why international complementation needs to go beyond international trade is the fact that there are such big differences in productive factor endowments between the South and the North and that the resultant gap in income levels cannot be rectified through free trade alone.

The so-called Heckscher-Ohlin-Samuelson theorem [23] within a static trade theory context proved with strict conditions that free trade will bring about the international equalization of factor prices and income levels. Furthermore, Robert Mundell [19] showed that free trade and a sufficient amount of international capital movement are complete substitues for each other, bringing about the same result, for example, the international equalization of factor prices.

These theorems hold true, however, only between equally well-industrialized countries in which two goods exported and imported mutually are commonly produced in both countries with the same production technologies. Such pre-requisites are not met in trade between the developing and developed countries, and, therefore, the free trade principle is not only insufficient but also sometimes detrimental to dynamic efforts to narrow the income gap and it is therefore condemned by the philosophy of the South.

Economic development means a dynamic, or 'over-time,' process of creating and expanding the national production complex in order to raise the nation's standard of welfare. It evokes questions such as what kind of goods should be produced and how international competitiveness should be strengthened. These economic development efforts depend upon genuine generative forces rather than upon trade policy measures.

The major generative forces are the self-reliance endeavors of developing countries themselves to accumulate capital, to encourage entrepreneurs and enterprises, to improve technology and to train laborers. Without these efforts and given the population explosion, no developing country is able to achieve economic development such as improvement of productivity in food and other primary products, development of natural resources, growth of processing industries, and creation of import-substitution and export-orientated manufacturing industries. It should be stressed that the self-reliance endeavor is the key element for the economic development of developing countries and the reorganization of international division of labor which is the target of the NIEO.

Other generative forces include international factor movements. It is a sheer illusion to expect either mass immigration into the developed countries sufficient to halve the population of the South or vast capital movements into developing countries sufficient to equalize the capital/labor endowment ratio between the South and North. Even the satisfaction of the basic human needs of huge population of the South calls for an enormous amount of resources, far beyond the capability of international complementation and, therefore, this depends primarily upon the South's self-reliance efforts.

However, the international complementation of self-reliance efforts, though the amount of factor movement is marginal, becomes very effective when the efforts of a developing country reach a stage where it can identify industries with potential comparative advantages. An industry may not grow successfully because it lacks some part, though marginal, of a needed input complex such as capital, technology, managerial know-how and skilled workers. It will not be feasible or at least it may take long time to supply the missing factor through efforts at self-reliance, but this may be achieved very efficiently through international complementation, especially through direct foreign investment.

Thus, whether or not international complementation is necessary and effective is related to the well-known argument for infant industries. Since it deals with dynamic changes in international trade patterns, differing from the static theory of free trade, protective tariffs on the importation of the manufactured goods concerned are justified in order to protect an industry from foreign competition until it grows and develops sufficient competitive power. But, it should be remembered that the protective import tariffs are not genuine generative forces but merely supporting measures. As arguments around the Mill-Bastable-Kemp tests [14] show, if the venture is a promising infant industry and net profits are anticipated over-time, entrepreneurs, domestic and/or foreign, will set up the new industry without any help from protective trade policy measures. In other words, it is most important to have entrepreneurs, hopefully indigenous ones in developing countries but, if not, complemented by foreign ones, who are able to promote promising infant industries, whereas protective trade policies play a secondary and subsidiary role.

Thus, two different principles are needed: (A) free trade or freer trade in the dimension of exchanging goods produced; and (B) international complementation in the dimension of national economic development processes in developing countries. Now, do the two dimensions work harmoniously or contradict with each other? The answer depends upon whether or not an international complementation takes place along the line of (potential or overt) comparative advantages.

Let direct foreign investment (DFI) from developed to developing countries represent the international complementation. DFI, that is the transmission to the host country a package of capital, managerial skill and technical knowledge, is a potent agent of economic transformation and development.

On the one hand, when there is a pro-trade oriented DFI going from an industry with comparative disadvantage in the investing country but with potentially comparative advantage in the host country, it will transfer and spread the superior production process to the host economy. It will strengthen the competitiveness of the industry transferred, making it possible to export its product to the investing country and to third countries as well. The opening of markets in developed countries according to the free trade principle is promoted by the efforts of the investing enterprise. Thus, the trade pattern of the developing country concerned is restructured and upgraded through expanded free trade [16].

On the other hand, there are instances of anti-trade oriented DFI with which monopolistic or oligopolistic enterprises expand global market through substituting for exports. Such American-type DFI is undertaken by giant multinational corporations and faces severe condemnation by the South.

To sum up, one of the logical, though extreme, conclusions of the dependency theory is 'delinking' which is in some degree integrated as a key element into the NIEO strategies. Since 1974, following the OPEC's action, the Group of 77 or the Non-Aligned Group proposed the permanent sovereignty of States over their natural resources, collective self-reliance, a giant world development fund and so forth which implies that the United Nations should become a World Government for the South. These grand designs are unrealistic and self-defeating unless appropriate interdependence with developed economies proceeds hand in hand with the developing countries' own healthy self-reliance efforts.

But these intentions of the new strategy for a NIEO is very important and right for restructuring the international division of labor between the South and the North, making them equal trade partners. The South, however, does not know how that aim can be achieved. It has come to realize that discriminatory trade policies, such as GSP and IPC, are of limited use and, beyond that, dynamic changes in the national production mix are really needed. Thus, self-reliance or collective self-reliance efforts for promoting national economic development processes in developing countries are urgently needed. At the same time, these processes can be efficiently complemented internationally through factor movements. The international complementation of national economic development processes of the South is the most promising instrument to bridge gaps in philosophy as well as in income levels between the South and the North. But, there still remains a number of issues in connection with the international complementation to be explored as in the next section.

V. *Beyond the Welfare State*

Gunnar Myrdal proposed two decades ago such a challenging idea as "beyond the welfare state" [20], calling for the external or international spread of welfare policies from the rich and progressive Western countries, including Japan. A modern capitalism or free enterprise system has tremendously changed since the World War II within each country under the name of welfare state measures. Nowadays, advanced capitalist economies take better care of the weaker groups such as laborers, consumers, disabled and aged persons, etc.

We may buy goods produced by, say, disabled persons once or twice on a charity basis, but an open market cannot distinguish them from goods from other supply sources. It evaluates them on a fair, equitable and non-discriminatory basis and decides prices according to quality. This is the principle of free exchange of goods already produced. However, a modern emancipated society provides disabled persons with suitable jobs, trains them, and equips them with specialized factory and machines. This is the welfare state measure which transcends the market mechanism or free enterprise system. Thus, double principles are necessary.

Now, the South or developing countries are supposed to be in a weak position vis-à-vis advanced Western capitalist countries, according to the philosophies of the South as explained in Section II. Why, then, should the advanced country not extend welfare measures externally beyond its borders to neighboring developing countries? Its main instruments could be the international complementation of national economic development processes in developing countries.

On the contrary, as already explained, political reality has resulted in limited concessions in the trade policy area, such as GSP, non-reciprocity, and IPC which work against the free trade principle in goods already produced. Moreover, it appears that, because of the progress of national welfare measures within each advanced country, its external spread through international complementation is hindered, not promoted.

First, Myrdal mentions that "The Great Awakenning is, of course, from their [the Western world's] point of view, nothing else than the rapid spread over the globe of the old ideals of liberty, equality and brotherhood, which are the cherished tenets of Western civilisation, and which have increasingly become realised in the last two generations within the national Welfare State of the individual countries of the Western world." [20, p. 169].

"With the nationalistic direction of interests in the Welfare State, and particularly with the decentralisation of influence to bargaining organisations on many levels, there will normally be strong attempts to withstand such an adjustment [for increasing imports from developing countries]. I recall that the Welfare State has habitually won internal stability and flexibility at the price of a lower degree of international adjustability." [20. p. 175]. "The Welfare State is narrowly and irrationally nationalistic." [20, p. 186].

As Myrdal predicted two decades ago, advanced Western capitalist economies today are seriously suffering from unemployment and inflation, mainly due to excessive welfare measures and especially strong union activity, and have therefore increased protection against imports. Stagflation is a broad issue and should not be used as an excuse for controlling imports, but it is inevitable that stagflation makes industrial adjustment for increased imports difficult. International complementation should be undertaken in pro-trade fashion so as to increase demands for the exports of the developed country concerned and, at the same time, to make adjustments necessary to increase imports conducive to upgrading its industrial structure.

Secondly, one of the most important instruments of international complementation is official development assistance (ODA), which has been introduced for the first time since the War and requires considerations beyond the market mechanism or free enterprise system. In that sense, modern capitalism has changed its characteristics even externally, although in a very limited degree, in the right direction.

1) The ODA has been quite marginal in amount, and although its absolute value has increased during the last twenty years, it has decreased in terms of each donor country's GNP, mainly due to the policy priority of domestic welfare measures.

2) The ODA has been provided on a quite arbitrary basis, varying in each donor country. There are no uniform criteria. Aid has been decided mainly from the donor's interests, not the urgent needs of the recipient. The ODA has been used as an instrument for strengthening the 'Pax Americana' regime [11], and for maintaining old colonial relations.

3) Methods of implementing ODA have also been in the interests of each donor country, which through bilateral negotiations, have insisted on tied purchase clauses, although recently these have been relaxed somewhat. The ODA should, in essence, be implemented beyond the rule of the market mechanism, but in reality this has not occurred very much except for some limited outright grants and concessional low interest rates.

4) Developing countries have been frustrated because the posted targets of the ODA have not been realized and, it appears to me, they have invented new reasons and explored various new avenues to acquire additional aid, for example, the Common Fund (including its second window) for buffer stock operation of commodities, compensatory financing for commodity export earnings, the so-called SDR (Special Drawing Rights) link with increasing aid, special considerations for MSAC (most seriously affected countries) and LLDC (least developed developing countries), and so forth. This proliferation of aid avenues may not be an advantegeous strategy for the South, for not only does each negotiation take a long time, but it is also used by the donors as an excuse to decrease bilateral ODA and thus the total amount of aid may not increase in line with the South's urgent demands. Both South and North should invent ways and means to increase adequately the total amount of ODA, to multilateralize and untie aid in order to make it more efficient [21], and to make the use of the total ODA more flexible so as to meet the urgent needs of the South.

5) The most serious issue at present is how to deal with the huge accumulated debts and debt-services specially for non-oil producing developing countries (or NOPEC, that is, non-OPEC developing countries). An alleviation of debts or some non-market mechanism measure may be called for. An emancipation of capitalism is required on this issue towards an international spread of welfare measures.

6) The non-aligned countries group, supported by the Brandt Report [4], proposed to build a giant world development fund. This seems to be too extreme and quite unreal-

istic. If it were planning to make the United Nations a world government, it is merely an illusion. The fund is far beyond the international complementation which we have in mind in this paper.

It is most important to clarify the role of aid, or more generally, of international complementation. The new idea should be to extend and spread national welfare policies internationally beyond the territory of each advanced country. The new role should be, through effective international complementation, to start and promote national economic development processes in developing countries. In other words, the international complementation should play a role of 'tutor' for transformation and industrialization of developing countries, as will be touched upon presently.

Thirdly, although direct investment in developing countries or activities of transnational (or multinational) corporations (TNC) if they are properly applied, operate effectively to complement national economic development processes in the South, considerable modification of their capitalistic behavior is called for.

(1) Since the War, direct foreign investment (DFI) has increased tremendously coming mainly from the USA and quite recently from West Germany and Japan. Because of rapid progress in welfare measures especially in the USA, production cost have risen mainly on account of strong pressure by labor unions, while heavy tax burdens and various legal restrictions have been imposed on business activities. As American businesses lost profit opportunities at home, their overseas activities were accelerated, operating internationally in an extremely capitalistic way [See 9]. The US government supported this trend as a substitute for its relatively declining ODA in order to strengthen its Pax Americana regime [11].

(2) A giant American TNC invests abroad usually from the viewpoint of its global strategy to maximize its profits; it invests abroad mainly in monopolistic or oligopolistic industries such as natural resource development, industries with technological advantages and product-differentiated industries—this means that American DFI goes out mainly from industries with comparative advantages. Such industries may insist on setting up wholly owned subsidiaries (i.e., enclaves), justified and supported by the theory of international business administration (which is the prevailing approach to DFI and TNCs), to monopolize foreign markets, to undertake transfer pricing policy and restrictive business practices and other extremely capitalistic measures as far as they contribute to minizing costs and maximizing profits.

Such American-type TNC activities which usually result in an anti-trade oriented DFI, are not directed to step-by-step or balanced economic development of developing countries but rather the opposite. It should also be remembered that hasty American direct investment abroad from most sophisticated industries which ranked at the top of her comparative advantage structure brought about her present difficulties such as the loss of international competitiveness, deterioration in balance of trade, unemployment and inflation.

(3) Therefore, it becomes most important to clarify the role of DFI in foreign aid. DFI in developing countries should play the role of a 'tutor.' In other words, the main role of DFI is to transplant superior production technology through training of labor, management and marketing, from advanced industrial countries to less developed countries, or, in brief, it is the transfer of a superior production function to replace inferior ones in the host country. DFI should be an initiator and a tutor of industrialization in less developed coun-

tries. The fact that a subsidiary or joint venture is established in a host country is only the beginning of national economic effects. DFI gradually has an effect spread over the specific industry in the host country through the training of laborers, engineers and managers and makes the establishment of competitive firms by local capital possible, ultimately improving the production function of the entire industry in question and making the new industries competitive in international markets. When the process is completed, it can be said that the new technology is transferred and established in the host country. Incidentally, I shall not treat the issue of transfer of technology separately for its core is the same as the DFI issues.

In order to receive effect benefits from a 'tutor,' it is most important for developing countries to choose carefully what kind of industry and what type of technology they want to receive. Steady economic development in these countries is fostered through an orderly establishment of industries assisted by DFI and an orderly transfer of technology starting with labor-intensive and relatively simple technology, and gradually moving towards more capital-intensive and sophisticated technology. In other words, developing countries should start receiving DFI in industries in which they have potential comparative advantage in production and comparative advantage in improving productivity. The latter brings about an orderly transfer of technology which begins in those industries where the technological gap between providing and receiving countries or firms is smallest and therefore the transfer of technology is easier and its spread effects larger. A pro-trade oriented DFI meets those criteria but an anti-trade oriented type does not [See 16, pp. 152–3].

(4) From the viewpoint of new role of DFI as above, when the foreign firm successfully completes its job as tutor, it should transfer ownership by stages to the host country. Similarly, nationalization of property of foreign firms should be sanctioned in so far as fair and prompt compensation is provided. Nationalization in the OPEC countries is a great achievement, although its monopolistic price-raising policy is not welcomed. Also, the UN Commission on Transnational Corporation (to which I have been serving as an expert adviser) will officially recognize the right of nationalization in the Code of Conducts of TNCs which is now under discussion. This must constitute an evolution and an important modification of modern capitalism and the free enterprise system. In view of strong nationalism in developing countries, non-equity arrangements such as production-sharing contracts, long-term purchasing contracts, etc., instead of wholly-owned subsidiaries, are recommended [25].

Further modification of capitalism is called for in various other fields. Among them, how to alleviate accumulated debts and debt-services in developing countries may be the most serious issue which requires modern capitalism to be changed, although we are not ready to suggest any concrete solution here.

Finally, it should be repeated that self-reliance or collective self-reliance endeavors provide the major generative force in the economic development of developing countries and the pre-requisite to making international complementation applicable and fruitful. In this sense, the UNCTAD's proposal of 'collective self-reliance,' including economic cooperations among developing countries and the creation of their own multinational corporations, transnational bank, trading firms and shipping companies, is to be supported.

On the other hand, since the annual flow amount of international complementation, though very effective, is limited in view of restricted providing and absorptive capacity, it should be utilized most efficiently. Here, in developed countries, an integrated policy of international complementation, import liberalization and structural adjustment is called for. It is most important to implement the international complementation in a 'pro-trade' oriented direction. Since it aims at importing goods (i.e., offshore sourcing) which are produced at lower cost through aid and direct investment in developing countries, it is beneficial for developed countries to liberalize imports of the goods concerned. Since international complementation goes out from disadvantageous industries in developed countries, while those industries contract, resources can shift to more capital- and knowledge-intensive industries enjoying comparative advantages.

Thus, a restructured and upgraded trade between the South and North will be created and expanded. In this way, international complementation should be closely linked with free or freer trade and structural adjustment. Although far beyond the present paper, it can be conceived that transformation and industrialization will successfully spread through international complementation measures to many countries in the South and ultimately a network of intra-industry specialization will be established between the North and the South where they operate as equal partners [15, Chap. 7].

VI. *Pacific Economic Co-operation: A Complement to NIEO*

It is not easy and sometimes tedious and fruitless to realize NIEO strategies through world-wide collective negotiations between the South and the North. It is also utterly impossible to extend the welfare state measures globally and to establish directly a 'welfare world.' It would be more realistic and effective to implement the proposed plan of international complementation of national economic development processes in developing countries within a wide area of closely interdependent neighboring countries. We have in mind, for example, building a Pacific Economic Community or strengthening Pacific Economic Co-operation. Such co-operation already exists, for example between the European Community and mainly African countries under the terms of the Lomé Treaty of 1975. Such regional approach towards South-North problems does not intend to substitute for a global NIEO strategy but it could complement the latter.

Why a Pacific economic co-operation approach is necessary and useful as complement to a global NIEO strategy is illustrated by:

(1) Only closer neighbors belonging to the related region are able to identify real common issues with intimate knowledge, to feel solidarity, and to find ways and means of appropriate solution. Even the South-North problem varies widely for Asia, Latin America, the Middle East and Africa respectively.

(2) Developing countries (or the South or the Group of 77) consist of quite heterogeneous economies, cultures and political entities, as is well known. In order to cover widely varied interests, demands of the group as a whole tend to be too many in kind and too big in amount. At the same time, the strategy of the entire group is usually led by a country which is thought to be the weakest, and hence can be extreme, unrealistic and unfeasible. Global collective negotiation takes a long time and its results are limited in relation to the efforts made. Even economic co-operation among developing countries and other collective self-reliance efforts cannot be promoted among the entire South but rather are effective

only within each regional group such as ASEAN, Andean Group, LAFTA, etc.

(3) There remain certain issues which the NIEO strategies cannot cover or deal with immediately. For example, the Common Fund for buffer-stock operations is used with priority for a limited number of commodities, while ASEAN countries have urgent interests in their speciality commodities and in requests to Japan and other developed countries concerning the ASEAN-STABEX (Stabilization of Export Earnings) and the rubber agreement. In providing GSP (preferences), each developed country should have special consideration for neighboring developing countries in choosing commodity items, preferential margins and quota limitations. In this way, the broad strategy established by NIEO must be complemented with greater efficiency and promptness throuth regional economic co-operation.

(4) In order to promote, on the one hand, national economic development processes in developing countries through international complementation, and on the other hand, in order to implement integrated international complementation, import liberalization, and structural adjustment policies in developed countries, a regional-multilateral approach, both in groups of a few developed countries and in groups of relatively homogeneous developing countries in the same region is feasible and efficient, whereas bilateral negotiations between one developed country and so many developing countries numbering 117 is inconceivable.

Now, let us illustrate what would be done if an ASEAN-Pacific Forum, that is, a policy consultative forum between five ASEAN countries (Indonesia, Malaysia, the Philippines, Singapore and Thailand) and five advanced Pacific countries (the United States, Canada, Japan, Australia and New Zealand), were established, although it is not the main subject of the present paper to explain details of a Pacific Economic Co-operation agreement [See, 17].

The primary target of such an organization would be to raise the levels of the ASEAN economies rapidly and efficiently through aid and direct investment from the advanced Pacific countries and through the opening of wider markets for their products. In the final phase, the present ASEAN economies should have grown to an industrialized stage equivalent to that of the advanced Pacific countries and thus forged an interdependent and equal relationship with the advanced nations similar to that of present-day Europe.

Thus far all the advanced Pacific countries have insisted upon a bilateral approach with the ASEAN nations in providing official aid, making direct investments and arranging trade preferences. However, if a regional-multilateral approach such as advocated here were to be put into effect, a larger and more efficient contribution to economic development and trade growth for all parties could be anticipated. Equally important, the danger of over-presence and domination by one or another of the advanced nations, ever present under existing bilateral relationships, would be avoided. In addition, as the following suggestions illustrate, a number of more specific benefits might also be realized.

(1) Official development aid to the area could be pooled and used in a multilateral 'no-strings' fashion through the creation of a 'revolving aid fund.' Annual aid commitments from the five advanced Pacific countries could be deposited with the Asian Development Bank to establish the fund. The scheme could be applied to official bilateral aid, including technical assistance, sales in receipt of local currency, and official export credits. Without requiring additional annual aid commitments, the scheme could be made operational immediately. The object would be to work towards the removal of strings from bilateral aid to Southeast Asian countries.

The 'revolving aid fund' shceme involves the acceptance of two important principles.

The first is that aid credited to the fund would have to be completely unfettered so far as procurements are concerned (i.e., procurements could be made in any donor country or any ASEAN country). The second is that any positive imbalance between a country's sales under aid procurements and its aid commitment should be held with the fund. The original deposits and accumulated deposits could not be withdrawn from the fund, but would be utilized by aid receivers in subsequent years. To illustrate, suppose that donor country A provides $500 million worth of aid but only $400 million is spent, while donor country B provides $500 million but exports goods and services to the value of $600 million to the recipient countries. Country B would accumulate a $100 million cerdit with the fund, raising its total to $600 million, while country A's total would decline commensurately. Thus country B would have automatically increased its aid commitments by $100 million in the second year. Had the freeing of this aid taken place outside the fund, country B would have earned foreign exchange at country A's expense. The 'revolving aid fund' obviates this exchange problem, essentially because it requires that country B's aid obligation increases automatically with excess earnings. The end result is that the effectiveness of the total aid program would increase even though the amounts involved remained unchanged.

The 'revolving aid fund' scheme could be used for several other important purposes, since deposits would accumulate over time from the gap between annual aid commitments and disbursements (usually some 20 to 30 percent), and from deposits by 'excess-exporters.' Let me suggest four possibilities:

(a) ASEAN countries could be assisted in their economic development through a stabilization of export earnings (STABEX) scheme for certain primary products. Loans for compensation of export income losses, with very low interest rates, could be provided from the fund.

(b) Sub-regional buffer stocks in rice, timber and other products in which ASEAN countries have intense and common interests could be created in order to stabilize prices and export earnings relative to those products. The 'revolving aid fund' could provide loans to establish buffer stock schemes when appropriate.

(c) It is important to stimulate the development of natural resources in the Pacific region. The 'revolving aid fund' could be used to supply low interest loans for research and the exploration for mineral resources, and also to provide international insurance coverage for private foreign investment.

(d) ASEAN exporters require access to funds for export credit in order to provide terms which are competitive with those of exporters in advanced countries. The ability to provide export credit to buyers, within and outside the region, will become more important as the capacity for industrial exports grows. The 'revolving aid fund' could be used to provide export credit funds for the benefit to Southeast Asian countries.

Perhaps I have dwelt too much upon technicalities relative to the 'revolving aid fund' scheme but the fact is that, if coordinated policy actions are taken, there is room to facilitate massive sub-regional economic development through such a device.

The other major benefits of an ASEAN-Pacific Forum can be cited more briefly:

(2) Official development aid from the Pacific advanced countries to the ASEAN nations could be greatly enlarged. The aid should cover many projects, including ASEAN complementary industries which have already been planned. In addition, new large-scale aid

directed at such ends as doubling rice production and constructing an ocean-transportation network, ought to be considered.

(3) Joint venture investments and non-equity arrangements between advanced countries and ASEAN countries could be encouraged for the development of mineral and other natural resources, for the establishment of light consumer manufacturing, and for the creation of heavy industrial growth points (including ASEAN complementary industries). In all instances, the projects should be economically efficient and competitive.

(4) In order to improve market access for ASEAN products—both primary products and manufactures—advanced countries have provided generalized preferences on more generous terms and have reduced M.F.N. tariffs through GATT negotiations. These efforts have not been sufficient and must be much improved despite the fact that counteractions, such as the strengthening of safeguard clauses, have recently appeared. In addition, structural adjustment in developed countries must be undertaken to nurture and encourage the expansion of ASEAN trade which will come in response to the 'boomerang effects' of past aid and investment. If only one country establishes an open market policy, reduces tariffs, and undertakes preferences and structural adjustment, the export products from the developing economies would be directed at that country, thereby causing a deterioration in its international balance of payments and in its level of employment. It is essential that all advanced countries cooperate in adopting at least vaguely similar open market policies. Common considerations of value-added tariffs and cumulative ASEAN contents should be given attention. A cooperative policy is as essential here as it is in the case of domestic demand management and business recovery policy among advanced countries. It goes without saying that an ASEAN-Pacific Forum would provide the concerned nations with an avenue for dialogue on these matters.

VII. *Conclusion*

It is now time to build a sound and reasonable new international economic order which both the South and the North desire in order to restructure the present unequal interdependence. In order to achieve this, it is most important to narrow the wide gap in philosophy from both sides. It is hoped that developing countries, on the one hand, will not insist too strongly on biased philosophies and will adopt a more realistic strategy for dialogue and negotiation vis-à-vis the North. On the other hand, in the developed countries, capitalism or free-enterprise system, which has already changed domestically into a welfare state regime, should be much more liberal in its international activities. In this way, international complementation of national economic development processes in the South will be efficiently promoted and a new restructured free trade regime will be created and expanded.

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