

# A New Capitalism for Business

*A case for building a new international economic order; collaboration is necessary*

BY KIYOSHI KOJIMA\*

I shall focus on international collaboration issues in the context of the North-South relations.

The building of a "New International Economic Order" (NIEO) recently was discussed widely and seriously by those interested in developing countries. This term originated in the Declaration and the Program 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 an 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 World War II, especially since UNCTAD I (1964). Their aim has been to break or restructure the existing, old international economic order so as to make it favorable to themselves. This old order itself is not precisely 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 at promoting prosperity among advanced economies, while neglecting the role and interests of a 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.

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 that are in short supply in Southern

countries, even if only marginally. This would enable them to start and promote a national economic development process. I refer to these necessary factor movements as "international complementation." It's a process that calls for a principle going beyond the market mechanism or the free enterprise capitalist system.

Thus, the twin principles called for are: Free trade for goods already produced and offered to the market, and 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.

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. 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 toward the promotion of national economic development processes in developing countries. Such needed emancipation in capitalism is illustrated in relation to aid and direct investment.

Harmonious international complementation may be promoted with greater efficiency within neighboring countries, say, in the Asian-Pacific region, than in a worldwide collective-bargaining between the South and the North. Pacific economic cooperation is an effective complement, rather than an alternative, to a global NIEO. To promote such regional cooperation, a new capitalism is called for.

## BEYOND THE WELFARE STATE

Gunnar Myrdal proposed two decades ago such a challenging idea as "beyond the welfare state" (Myrdal 1960), 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

\*Professor of International Economics, International Christian University; paper presented at LES International Conference, Tokyo, Japan, May 1985.

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 that 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-a-vis advanced Western capitalist countries, according to the philosophies of the South. 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, political reality has resulted in limited concessions in the trade policy area, such as GSP (the General System of Preferences), nonreciprocity, and IPC (Integrated Program for Commodities), 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.

### Economies Suffering

As Myrdal predicted two decades ago, advanced Western capitalist economies today are seriously suffering from unemployment and inflation. This is due mainly to excessive welfare measures, and especially strong union activity, and they 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, adjustments necessary to increase imports conducive to upgrading its industrial structure.

Also, one of the most important instruments of international complementation is official development assistance (ODA), which has been introduced for the first time since World War II 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 20 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 (Hudson 1979) 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 often 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. Examples are, 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 less developed countries), and so forth.

This proliferation of aid avenues may not be an advantageous 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. 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 (Pearson 1969), 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 nonmarket mechanism measure may be called for. An emancipation of capitalism is required on this issue toward an international spread of welfare measures.

6. The nonaligned countries group, supported by the Brandt Report (Brandt 1980), proposed to build a giant world development fund. This seems to be too extreme and quite unrealistic. 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 that we have in mind in this paper.

### Role of Aid

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.

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

1. Since the war, direct foreign investment (DFI) has increased tremendously coming mainly from the U.S.A. and

quite recently from West Germany and Japan. Because of rapid progress in welfare measures, especially in the U.S.A., production costs have risen mainly because 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. The U.S. government supported this trend as a substitute for its relatively declining ODA in order to strengthen its Pax Americana regime (Hudson 1979).

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 minimizing costs and maximizing profits.

### Difficulties

Such American-type TNC activities 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. 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 countries.

Establishment of a subsidiary or joint venture 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. It makes 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.

To receive benefits from a "tutor," it is most important for developing countries to carefully choose the kind of industry and 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 toward 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. It begins in those industries where the technological gap between providing and receiving countries or firms is smallest, so the transfer of technology is easier and its effects larger. A pro-trade oriented DFI or Japanese type DFI meets those criteria.

4. From the viewpoint of the 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 if fair and prompt compensation is provided.

The U.N. Commission on Transnational Corporation (to which I have served 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, nonequity arrangements such as production-sharing contracts, long-term purchasing contracts, etc., instead of wholly-owned subsidiaries, are recommended (U.N. 1978).

### Further Modification

Further modification of capitalism is called for in various other fields. Among them is how to alleviate accumulated debts and debt-services in developing countries. This may be the most serious issue. It 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 prerequisite 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 banks, 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 (Kojima 1977, Chap. 7).

**ECONOMIC DEVELOPMENT IN THE WESTERN PACIFIC REGION**

The importance of international complementation has clearly shown in the economic development process of Western Pacific developing countries (WPDCs). In the 1960s and 1970s we have observed remarkable economic development in the newly industrializing countries (Taiwan, Korea, Hong Kong and Singapore) and in the four ASEAN (Association of Southeast Asian Nations) countries (Malaysia, Thailand, the Philippines and Indonesia). In the 1970s, the NICs succeeded in doubling per capital GNP (or income levels) while the four ASEAN countries almost succeeded in doubling GNP, although income levels grew at a much slower rate due to the rapid increase in population.

The high rate of growth in these WPDCs in the 1970s was primarily a result of the emphasis on export-oriented industrialization. Changes in the export sector have been the forerunner of economy-wide structural changes. This is illustrated by the fact that exports grew more than three times faster than GNP.

In the 1970s, large developed-country markets absorbed most of the growth in WPDC exports. For example, Japan's imports increased 14.7 times. Unfortunately, the prospects for WPDC exports in these markets are not all that bright in the 1980s. Slower growth in Japan and pro-

Furthermore, one wonders whether an export-led development strategy is the best of all possible strategies. An interesting perspective emerges if we consider the following fact. A growth rate of exports three times larger than the growth rate of GNP implies that only one third of the increase in exports results in the growth of GNP. This seems to be an ineffective way of promoting increases in GNP. In addition, the inevitable increase in import dependency, which increased markedly, for example in Taiwan, from 23.8% in 1967 to 53.0% in 1979, makes an economy too vulnerable to economic fluctuations abroad.

Thus, on balance there is an increasing need for the WPDCs to reduce emphasis on excessively export-led development strategies and to increase emphasis on measures that promote the deepening of the domestic economy.

To the successful growth of the WPDCs in the 1970s, the impact of foreign capital inflows, ODA, DFI (including technology transfers), and other (mainly private foreign capital) inflows has been significant and favorable.

The economic growth of a country depends primarily on its ability to increase its productive capacity, i.e. the rate of domestic capital formation. However, in order to promote growth and rapid structural change, many developing countries find it necessary to promote an inflow of foreign capital to supplement inadequate domestic resources. Aid, direct foreign investment (DFI), and other capital transfers have been an effective, even crucial means of promoting economic growth. This is true despite the fact that the amount of such capital transfers has generally been marginal.

**Capital-Output Ratio**

In the WPDCs the capital-output ratio has increased and shortages of foreign exchange appeared because of too rapid export-oriented structural change that sometimes resulted from policy excesses. In view of these problems it is then important to ask whether the WPDCs received sufficient foreign capital.

**FOREIGN CAPITAL FLOWS INTO THE WPDCs**

(Unit: Million U.S.\$)

	ODA		ODA/Total (%)		"Other" (Primarily Private) Flows		(8)	(9)			Total (12)	Ratio of Total Flow to GNP (%)				
	(1)	(2)	(3)	(4)	(5)	(6)		(7)	(10)	(11)		(13)	(14)	(15)		
	1969-71	1979-81	1969-71	1979-81	1969-71	1979-81		1969-71	1979-81	Annual Growth		1969-71	1979-81	Annual Growth	1969-71	1979-81
	Average	Average	(2)/(1)	Average	Average	Average		Average	Average	Rates (%)		Average	Average	(11)/(10)	Rates (%)	Average
Taiwan	13.1	3.8	0.290	7.03	0.73	173.2	513.9	2.967	11.46	186.3	517.7	2.779	10.77	3.28	1.31	
Korea	312.6	201.1	0.643	57.12	15.37	234.7	1,107.7	4.720	16.81	547.3	1,308.8	2.391	9.11	6.69	2.20	
Hong Kong	1.9	10.8	5.667	0.83	0.90	227.3	1,188.5	5.229	17.67	229.2	1,199.1	5.233	18.27	7.13	5.40	
Singapore	25.1	13.8	0.912	30.87	1.64	56.2	840.2	14.950	31.10	81.3	854.0	10.504	27.19	4.19	7.72	
Malaysia	33.2	134.0	4.036	40.49	16.74	48.8	666.7	13.662	29.47	82.0	800.7	9.764	25.28	2.20	3.62	
Thailand	68.4	405.9	5.934	75.16	33.63	91.0	801.1	8.803	24.03	159.4	1,207.0	7.572	22.53	2.43	3.83	
Philippines	66.5	314.6	4.731	29.45	28.08	159.3	805.6	5.057	17.66	225.8	1,120.2	4.961	17.32	2.94	3.32	
Indonesia	461.0	881.9	1.931	88.42	39.17	60.4	1,369.6	22.675	36.31	521.4	2,251.5	4.318	15.77	5.93	3.36	

Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries*, 1969-1975, 1978-1981, 1979-1982.

**Table 1**

tectionist trends in the U.S. and Europe caused by substantial unemployment problems are the major factors that lead one to this conclusion. Consequently, the process of export-led economic development in WPDCs will inevitably be slowed.

Table 1 shows the net capital inflow from the OECD's DAC (Development Assistance Committee) member countries to the WPDCs. Capital inflows are divided into ODA (Official Development Assistance) and "other" (mainly private) inflows.

In Taiwan total inflows grew at a rate of 10.8% annually and "other" inflows grew at a rate of 11.5% annually in the period 1969-71 average and 1979-81 average. These growth rates are larger than the growth rate of real GNP. In Korea these rates were 9.1% (about equal to the growth rate of real GNP) and 16.8% (about equal to the real growth rate of industrial sector), respectively. In ASEAN total inflows grew at rates between 15.8% (Indonesia) and 27.2% (Singapore). These rates are three times higher than the growth rate of real GNP in some of these countries and about equal to the nominal growth rate of exports.

Thus, it can be said that the growth of foreign capital inflows was fast enough to avoid any severe capital shortages. Without these inflows the rapid growth and structural changes in WPDCs would not have occurred at the pace it did. In this sense these inflows were crucial, although the actual amount of capital involved was marginal. However, it is important to note that they also resulted in substantial debt service problems in some cases (e.g. Philippines and Korea).

DFI is different from other capital inflows in that financial capital (foreign exchange) is not the only item involved. DFI is also associated with the transfer of resources such as physical capital, technology, and managerial skill. These unique characteristics allow DFI to be a catalyst to the creation of new industries in the host country, improvements in productivity, and export growth. As a result DFI's impacts on growth and structural change can be significant. This catalytic function is the most important contribution DFI can make to a host country.

OUTSTANDING DIRECT INVESTMENT, 1980		
Investment by	United States (Million U.S. \$)	Japan
Japan	6,274	—
United States	—	8,878
South Korea	587	1,137
Taiwan	510	370
Hong Kong	1,969	1,095
Indonesia	1,334	4,424
Malaysia	618	650
Philippines	1,244	615
Singapore	1,196	936
Thailand	360	396
Subtotal: East Asia	3,066	2,602
ASEAN	4,752	7,021
World Total:	213,460	36,497

Note: These figures are based on investing country sources. Host country figures are often quite different.

Source: *Pacific Economic Community Statistics*, Pacific Basic Economic Council/Japan National Committee, May 1982, pp. 169, 171.

**Table 2**

More than 50% of DFI in the WPDCs is accounted for by the United States and Japan. Though incomplete, Table 2 indicates this fact. By the end of 1980 the U.S.'s total cumulative investment worldwide was \$213.5 billion. The corresponding figure for Japan was \$30.5 billion, about one-sixth of the former figure. However, U.S. investment in East Asia and ASEAN totalled \$7.8 billion, while Japanese investment in the region totalled \$9.6 billion (1.2 times the amount of American investment).

Furthermore, there are many differences between American and Japanese DFI in their motivations, patterns and behaviors. According to my study on Japanese and American DFI in Asia (Kojima 1985), it can be said that the pattern of American DFI is remarkably uniform in different countries, regions, and the world. Furthermore, this pattern is uniform with respect to time as well. What does this uniformity mean?

First, one could conclude that American DFI is undertaken without consideration of the comparative trade advantage positions of the U.S. or the host country. If this statement were not true we would expect the pattern of American DFI to differ between countries and over time, because comparative trade advantage positions differ between countries and change over time.

Second, one might conclude that the pattern of American DFI is determined mainly by the microeconomic interest of the MNCs involved. The most important category of American DFI is "finance" followed by "oil and oil refining," "trade," "chemicals (including pharmaceuticals)," "transportation equipment (mainly automobiles)," "non-electric machinery," "metals," "mining," "electric and electronic equipment," and "food" (mainly companies such as Coca-Cola, MacDonald's, etc.). It is notable that the important categories in this pattern are those dominated by large MNCs. It is further significant that the top categories in this ranking are those industries in which large MNCs find it most profitable to operate by exploiting their worldwide networks. These are oligopolistic industries that specialize in the production of differentiated products and in which the gains from transaction and market internalization are pronounced. Finally, it should be noted that the structure of these industries has not changed much over the years. Thus, the investment patterns of the firms involved has changed little as well.

### Little Change

In short, the uniformity of the American investment pattern seems to reflect the fact that, in general, the same MNCs have dominated American DFI in all regions of the world and that the interests of dominant firms has changed little over time. Thus, American DFI can be classified as the "MNC-type" of DFI.

In contrast to the American case described above, a marked difference in Japanese DFI patterns between countries is observed. Furthermore, significant changes in investment patterns in each Asian country occurred between March 1973 and March 1983. In short, the Japanese DFI pattern varies depending on the host country and over time.

Particularly important in this respect is the Japanese practice of considering the impact of its DFI on the pattern of comparative trade advantage. In order to be consistent with the free operation of the market mechanism Japan makes a noticeable effort to develop an investment strategy that promotes the development of industries that have or are gaining comparative trade advantages in the host country.

It is clear that there is a distinctive difference between the patterns of American and Japanese DFI. American DFI can be classified as the MNC-type, and its pattern is remarkably uniform across host countries or regions and across time. This type of DFI is motivated by the profit-

seeking interests of MNCs and is well explained by the "international business approach" to DFI.

In contrast, the pattern of Japanese DFI varies between countries or regions and over time. Particularly important is the fact that the effect of DFI on the patterns of comparative trade advantage and their evolution over time is taken into account in the investment decision. In this respect it is necessary to develop a macroeconomic theory of DFI to explain Japanese-type DFI as I have been trying it.

DFI contributes to increases in the GNP of host countries in several ways. First, a gross or net contribution to domestic capital formation may result and thus affect growth. In addition, there are many qualitative effects. Examples are the stimulation of new industries, stimulation of structural changes in output, stimulation of productivity increases, technology transfer, and export expansion. These factors all represent potential contributions of DFI which would be nonexistent in a hypothetical case where DFI did not occur. Unfortunately, we cannot evaluate the hypothetical case of no DFI, and this makes evaluation of DFI's contribution somewhat difficult. However, we can compare the contributions of American and Japanese DFI in a certain country.

One can focus on the impact of DFI on changes in output structures to view GNP as a function of DFI in a reduced-form equation. In other words, changes in output levels result from changes in output structure induced by DFI. Thus, the following function is specified and estimated by ordinary least squares for Taiwan, the Philippines, Korea, and Thailand. (The one-year lag is omitted in the Thai case.)

$$\log(e)(GNP) = \text{constant} + (Y_A) \log(e)(I_{A-1}) + (Y_J) \log(e)(I_{J-1})$$

It is anticipated that the per-unit contribution of Japanese DFI (as represented by its estimated DFI-output elasticity,  $Y_J$ ) will be larger than that of American DFI ( $Y_A$ ) because the pattern of Japanese DFI has been more concentrated in areas in which the host countries

have a comparative advantage, and its evolution has been consistent with the pattern of structural changes in the host economies.

1. Results for the Taiwanese case are given in Table 3, part (1). For the 1967-1982 period  $Y_J$  is 0.62 and statistically significant at the 5% level while  $Y_A$  is only 0.28 and not statistically significant at the 5% level. This indicates a greater per-unit contribution of Japanese DFI.

2. For 1969-1981 period in the Philippines estimated coefficients are shown in part (2) of Table 3;  $Y_A$  is only 0.04 and not statistically significant and  $Y_J$  is 0.26 and significant at the 5% level. Here again per-unit contributions are greater in the case of Japanese DFI.

3. Korean results for the 1966-1981 period are given in Table 3, part (3). We see that  $Y_A$  is 0.44 and not quite statistically significant at the 5% level while  $Y_J$  is 0.43 and statistically significant at the 1% level. If one is willing to reject the hypothesis that  $Y_A$  is 0 despite the somewhat lower level of statistical significance, then we can conclude that per-unit contributions were virtually equivalent in Korea. This reflects the fact that Japanese and American DFI was directed into different sectors in a complementary manner.

4. Thai regression results for the 1966-1982 period are shown in Table 3, part (4), and reveal that  $Y_J$  is 0.90 and significant at the 1% level while  $Y_A$  is -0.05 but not at all statistically significant. Thus, here again, the per-unit contribution of Japanese DFI was far greater.

On the whole, it can thus be said that Japanese DFI was more efficient in promoting the growth of host country output than American DFI was. The reason for this is asserted to be the dynamic trade-oriented nature of Japanese DFI that promotes the development of industries in which the host country has a comparative advantage. Indeed, the negative coefficient in Thailand could be an indication of antitrade orientation on the part of American DFI in that country. However, it is clear that, with the possible exception of Korea, the contribution of American DFI to host country GNP has not been statistically significant. This is a likely result of MNC-type DFI, which can lead to disregard of comparative advantage and the macroeconomic impact of DFI.

### DFI-GNP FUNCTIONS

				R <sup>2</sup>	F	WD	
<b>Taiwan: 1967-1982 with one year lag</b>							
(1) log e GNP =	6.50532 + 0.27669	log e I <sub>A-1</sub> +	0.61993	log e I <sub>J-1</sub>	0.5898	11.784**	0.9897
	(8.07582) (0.93350)		(2.69170)				
<b>Philippines: 1969-1981 with one year lag</b>							
(2) log e GNP =	9.06935 + 0.04417	log e I <sub>A-1</sub> +	0.25545	log e I <sub>J-1</sub>	0.5448	8.180**	0.8624
	(11.3140)** (0.15251)		(2.82480)*				
<b>Korea: 1966-1981 with one year lag</b>							
(3) log e GNP =	7.00655 + 0.44253	log e I <sub>A-1</sub> +	0.42818	log e I <sub>J-1</sub>	0.4972	8.416**	0.5369*
	(9.41700) (1.98557)		(3.44554)**				
<b>Thailand: 1966-1982 with no lag</b>							
(4) log e GNP =	6.84968 - 0.05013	log e I <sub>A</sub> +	0.89638	log e I <sub>J-1</sub>	0.5349	10.202**	1.0978
	(9.70748)** (-0.21057)		(3.81506)**				

\*\* Statistically significant at 1% level.

\* Statistically significant at 5% level.

Table 3

## CONCLUSION: BEYOND A PURE BUSINESS CAPITALISM

The above finding that, in most cases the Japanese DFI has contributed to the development of host countries with more efficiency than American DFI has, suggested a need for capitalism to be emancipated. Instead of a sheer search of business profits such as MNC-type DFI, perhaps there should be national economic development-oriented DFI and, consequently, international collaboration-oriented DFI, as Japanese firms pursued.

In the areas of technology transfer, the licensing and patent system, a similar sophistication of pure business capitalism is called for. But, this topic must be a great concern for audiences, experts on these areas.

The formation of a Pacific Economic Community aims to promote economic development, especially rapid industrialization, of Western Pacific developing nations, including China, and to establish harmonious international division of labor and trade in the region. It would be preferable to foster functional, rather than institutional, integration in the region by employing a problem-by-problem approach toward economic development and trade growth among the countries of the area. In the final phase, the present NICs and 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. To realize this, the international complementations, especially DFI and transfer of technology, play crucial and efficient roles, if they are pursued under the direction toward a new capitalism.

Western Pacific developing economies have already well matured to foster economic development more or less in accordance with market (=price) mechanism. Excessive government interventions are to be deregulated in order to utilize more effectively international complementations.

However, what is still lacking for them are various kinds of infrastructures. There are three types of infrastructures that are prerequisite for national development: (a) physical infrastructure, such as irrigation, electricity, transport and communication facilities; (b) social infrastructure, such as urban development, education and health, and (c) business infrastructure such as information services, trading firms, banks and other financial

organizations which not only facilitate promising productions but also the distribution of products and the saving of many transaction costs.

These infrastructures are mostly to be implemented by the help of governments in the region and international organizations such as Asian Development Bank and the World Bank. But, at the same time, it is urgently called for the contribution, directly or indirectly, of private sectors under the guiding thought of a new capitalism.

It is now time to build a sound and reasonable new international economic order that 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 on 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-a-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.

### REFERENCE

Brandt Report, 1980, *North-South: A Programme for Survival*: Report of the Independent Commission on International Development Issues, London.

Corea Report, 1977, *New Directions and New Structures for Trade and Development*, Report by the Secretary-General of the United Nations Conference on Trade and Development to UNCTAD IV, United Nations, New York.

Michael Hudson, 1979, *Global Fracture: The New International Economic Order*, Harper & Row, 1979.

Kiyoshi Kojima, 1977, *Japan and a New World Economic Order*, Croom Helm, London.

Kiyoshi Kojima, 1978, *Direct Foreign Investment*, Croom Helm, London.

Kiyoshi Kojima, 1985, *Japan's Direct Investment Abroad* (in Japanese), Bunshindo, Tokyo.

Gunnar Myrdal, 1960, *Beyond the Welfare State, Economic Planning in the Welfare States and Its International Implications*, Gerald Duckworth, London.

Lester B. Pearson, 1969, *Partners in Development*, Report of the Commission on International Development, Praeger, New York.

United Nations, 1978, *Transnational Corporations in the World Development: A Re-Examination*, New York, 1978.