Verein für kritische Geschichtsschreibung e.V. (Hg.)

WERKSTATT*GESCHICHTE* 88

reden über geld

Jg. 2023/2

[transcript]

Redaktion WERKSTATT*GESCHICHTE*:
Cornelia Aust, Claudia Berger, Maximilian Buschmann, Sarah Frenking, Katja Jana, Jochen Lingelbach, Annika Raapke, Yvonne Robel, Helen Wagner, Georg Wamhof

Anfragen an die Redaktion:
Yvonne Robel: robel@zeitgeschichte-hamburg.de

Herausgeber*innen des Thementeils:
Korinna Schönhärl, Frederike Schotters, Guido Thiemeyer

Rezensionsredaktion:
Andreas Hübner, Sebastian Kühn, Andreas Ludwig, Nina Reusch, Felix Schürmann, Katharina Seibert, Pavla Šimková, Lotte Thaa

Anfragen an die Rezensionsredaktion:
Nina Reusch: nina.reusch@gmx.net
FU Berlin
Koserstraße 20
14195 Berlin

Filmkritik:
Ulrike Weckel: Ulrike.Weckel@journalistik.geschichte.uni-giessen.de

Dingfest:
Marie Luisa Allemeyer: Marie.Luisa.Allemeyer@posteo.de

Homepage: www.werkstattgeschichte.de

Bibliografische Information der Deutschen Nationalbibliothek
Die Deutsche Nationalbibliothek verzeichnet diese Publikation in der Deutschen Nationalbibliografie; detaillierte bibliografische Daten sind im Internet über http://dnb.d-nb.de abrufbar.

Indexiert in EBSCOhost-Datenbanken.

© 2023 transcript Verlag, Bielefeld

Alle Rechte vorbehalten. Die Verwertung der Texte und Bilder ist ohne Zustimmung des Verlages urheberrechtswidrig und strafbar. Das gilt auch für Vervielfältigungen, Übersetzungen, Mikroverfilmungen und für die Verarbeitung mit elektronischen Systemen.

Umschlaggestaltung: Maria Arndt, Bielefeld
Umschlagabbildung: Broker in der New Yorker Börse während des Börsencrashs, der die Weltwirtschaftskrise einleitete (›Schwarzer Freitag‹) am 25. Oktober 1929. Foto: AP Photo/STR, 1929 AP, Public Domain
Druck: Majuskel Medienproduktion GmbH, Wetzlar
Print-ISBN 978-3-8376-6352-5
PDF-ISBN 978-3-8394-6352-9
ISSN 0942-704X
eISSN 2701-1992

Gedruckt auf alterungsbeständigem Papier mit chlorfrei gebleichtem Zellstoff.
Besuchen Sie uns im Internet: *https://www.transcript-verlag.de*
Unsere aktuelle Vorschau finden Sie unter *www.transcript-verlag.de/vorschau-download*

Inhalt

Editorial 9

THEMA

Mitgift, Widerlage, Wittum
Geld in dynastischen Heiraten (ca. 1450-1650)
Charlotte Backerra, Cathleen Sarti 15

Mission und Geld
Wie das Œuvre de la Propagation de la Foi seine Mittel verteilte
Frederike Schotters 29

Als die Diplomatie das Geld entdeckte
Diskurse über Geld in der Lateinischen Münzunion zwischen 1865 und 1885
Guido Thiemeyer 43

Behind the Foreign Money "Screen"
The Balance of Payments Rationale and the Japanese Capital
Liberalization Discourse, 1950–1967
Jonathan Krautter 59

Großbritannien, Deutschland und die Debatte um die britische Teilnahme am Europäischen Währungssystem 1985-1990
Juliane Clegg 73

WERKSTATT

»Wir waren so wütend und hilflos.«
Emotionsgeschichtliche Zugänge zu den Berufsverboten für linke Lehrkräfte
in den 1970er Jahren
Jan-Henrik Friedrichs 89

DEBATTE

Vom Nutzen und Nachtheil der Historie für das Leben
Oder: was könnten HistorikerInnen zum öffentlichen Diskurs über Asyl und Zwangsmigration beitragen?
Klaus Neumann 105

DINGFEST

Die Bibel
Esther Abel 121

EXPOKRITIK

Vielfalt als Nationalgeschichte. Das japanische Rekihaku Museum
Torsten Weber 125

REZENSIONEN

Neu gelesen: Sudhir Venkatesh, The Underground Economy of the Urban Poor
Ole Münch (London) 135

Paola A. Revilla Orías, Entangled Coercion in Charcas
Adrian Masters (Trier) 139

Melina Teubner, Die »zweite Sklaverei« ernähren
Claus und Katja Füllberg-Stolberg (Hannover) 142

Ute Kueppers-Braun, Afrikanische Kindersklaven in europäischen Klöstern
Eva Marie Lehner (Bonn) 145

Arpine A. Maniero, Armenische Studierende in Deutschland
Meliné Pehlivanian (Berlin) 148

Uwe Danker (Hg.), Elitenkontinuitäten in Schleswig-Holstein
Jan Ruhkopf (Stuttgart) 151

Andreas Ludwig (Hg.), Neue Städte
Ulrich Hofmeister (München) 154

Sabine Stach/Juliane Tomann (Hg.), Historisches Reenactment
Jörg van Norden (Bielefeld) 156

Arne Andersen, Die Bergedorfer APO
Udo Grashoff (Leipzig) 159

Harald Barre, Tanzanian Nationalist Debates
Felix Brahm (Bielefeld) 160

Christoph Kühberger (Hg.), Mit Geschichte spielen
Lukas Boch (Münster) 163

Jessica Bock, Frauenbewegung in Ostdeutschland
Pia Marzell (Jena) 166

Behind the Foreign Money "Screen"

The Balance of Payments Rationale and the Japanese Capital Liberalization Discourse, 1950–1967

Jonathan Krautter

Abstract:
How did the Japanese government defend its postwar capital controls against foreign criticism within the wider discourse surrounding the liberalization of cross-border capital flows? This paper argues that it was relying on the so-called "balance of payments rationale," a rhetoric linking the annual in- and outflows of foreign money to current and future states of the national economy, to justify its continued application of foreign capital import controls between 1950 and 1967. It traces how legal, diplomatic, and economic conditions enabled the balance of payments rationale to assume this role. As the control of capital imports was an important element of Japan's postwar industrial policy, maintaining it was deemed essential for the country's economic development. Thus, the initial conditions of the capital liberalization discourse coupled with the effective use of the balance of payments rationale enabled the Japanese government to retain this important industrial policy tool.

Keywords: *Balance of Payments, Capital Controls, Capital Liberalization, Foreign Exchange, Industrial Policy*

The Balance of Payments, Foreign Exchange, and Capital Imports

During its period of high growth between 1955 and 1973, Japan was the first non-Western nation able to catch up with the leading economic powers of the world. Catching up was one of the principal goals the Japanese government pursued in both its foreign and domestic economic policy.[1] Achieving this goal was a challenge because the Japanese economy was depending heavily on food, raw material, capital, and technology imports that had to be paid for in foreign currency, which put the country's balance of payments under constant pressure. Consequently, the government had to economize on its use of foreign exchange and find a workable balance between various import needs.

1 The research leading to this paper was funded by the Deutsche Forschungsgemeinschaft (DFG, German Research Foundation – 400896132). Robert S. Ozaki, Introduction. The Political Economy of Japan's Foreign Relations, in: Idem/Walter Arnold (eds.), Japan's Foreign Relations. A Global Search for Economic Security, Boulder 1985, pp. 1-12, here pp. 3-4.

To regulate capital and technology imports, Japan's government put a validation system into place, screening every import proposal submitted by prospective investors.[2] Initially, the government made its decision primarily based on the so-called balance of payments rationale (B.P. rationale). This term refers to a line of reasoning that justifies the operation of government controls with the need to protect the B.P. and, by extension, foreign exchange reserves. This reasoning was widely employed in the postwar era as the Second World War had depleted the foreign exchange reserves of many countries.[3]

A country's B.P. records all transactions with foreign nations for a specific period, typically a year.[4] If more goods and services are imported than exported, a country pays more in foreign currency than it earns and vice versa. Capital imports, on the other hand, immediately increase reserves, but they also come with future claims on foreign exchange in the form of dividends, interests, and similar payments. If a nation imports more than it exports, less money is available to purchase goods and services from abroad. This is a major threat for countries unable to meet their needs for certain goods domestically. In other words, protecting its B.P. entails maintaining a country's ability to acquire imports from abroad. Hence, references to the B.P. and to foreign exchange reserves in the capital liberalization discourse have served as a shorthand for a complex argument that links these concepts to the availability of foreign money.

In Japan, the main official purpose of capital controls was to prevent excessive foreign exchange commitments in connection with capital imports. The government would ensure that what little foreign exchange was available was used effectively.[5] In practice, the application of capital controls was also informed by the Japanese government's wider industrial strategy. Foreign capital was steered into industries that promised to earn additional foreign exchange in the future or to reduce existing foreign exchange needs through import substitution.[6] Consequently, domestic industrial policy and foreign exchange control were closely linked.[7] While the B.P. rationale was a genuine concern for Japanese policymakers in the early 1950s, in later years industrial

---

2 A Japanese peculiarity was that technology imports whose underlying contracts had a duration of more than one year were treated as capital investments. See: Robert S. Ozaki, The Control of Imports and Foreign Capital, New York 1972, pp. 171–172.

3 GATT members, for example, were allowed to impose quantitative restrictions on their international trade for balance of payments reasons, see: Francine McKenzie, GATT and Global Order in the Postwar Era, Cambridge 2020, p. 189.

4 For an introduction to the balance of payments, see: James Gerber, International Economics, 6th edition, Boston 2014, pp. 180–192.

5 This goal was stipulated in Art. 1 FIL: "The purpose of this Law is to create a sound basis for foreign investments in Japan, by limiting the induction of foreign capital to that which will contribute to the self-support and sound development of the Japanese economy as well as to the improvement of the international balance of payments […]." See: Ozaki, Control of Imports, p. 164.

6 According to a booklet published in 1954 by Japan's Ministry of Finance's Foreign Capital Section, the Japanese government made a determination regarding whether and by how much an investment expanded exports or substituted imports, and whether the corresponding payments such as royalties, dividends, interests, and the like were reasonable. See: Ôkurashô Kawasekyoku Gaishika, Gaishihô no Kaisetsu [Commentary on the Foreign Investment Law], Tokyo 1954, pp. 15, 148.

7 Chalmers Johnson, MITI and the Japanese Miracle. The Growth of Industrial Policy, 1925–1975, Stanford, CA 1982, pp. 194–195.

policy concerns were accorded much more importance in the application of controls.[8] However, Japan's government did not give up the B.P. rationale right away but continued to use it for the next one and a half decades.

Research on postwar capital controls has provided evidence that Japanese worries about technologically advanced and financially well-endowed foreign enterprises were the main reason for maintaining capital controls.[9] Researchers have also documented the diplomatic tensions that arose both from the continual maintenance of capital controls and from the disparities between the official justification and the practical application of the policy.[10] Despite their understandable focus on the question of *why*, researchers have rarely asked *how* the Japanese government was able to defend its capital controls in the face of foreign criticism. However, this is important because capital controls were an integral element of postwar industrial policy. Industrial policy has, in turn, been identified as a major factor in Japan's economic success.[11] Against this background, the defense of capital controls should be viewed as a defense of industrial policy more generally.

The central thesis underlying this paper is that this was in large part accomplished by using the B.P. rationale and that it derived its strength from the initial legal framework governing capital controls as well as the political and diplomatic situation at the time. I argue that the B.P. rationale as a narrative of the government's responsibility to safeguard its foreign exchange reserves played a major role in enabling the Japanese government to defend its maintaining of foreign direct investment (FDI) and technology import controls against foreign demands to dismantle them. Its role played out within an international and domestic discourse on capital liberalization in Japan.

While many actors in a variety of institutions participated in this discourse, I focus on governments as final decision-makers as well as on American enterprises as the main targets of capital controls, and on the bilateral and multilateral diplomatic levels where the most significant debates took place. U.S.-Japanese relations are an intriguing case study because the U.S. was the most important of Japan's international partners during the postwar era, particularly as its military authorities had administered Japan from 1945 to 1952, and U.S. firms provided the bulk of foreign capital and technology to the country. The OECD was chosen as a subject for this research because Japan's accession to the organization in 1964 was a key driver of the multilateralization of the discourse.

What makes the various debates at the diplomatic level part of a common discourse is that they tended to be based on certain rules. In this case, the key rule was to ac-

8 The relative weight of the B.P. rationale in validation decisions was reduced in the late 1950s and early 1960s as a matter of semi-official policy. In fact, MITI and MOF officials discussed giving it up completely around the same time. See the discussion in Richard W. Rabinowitz, Japan's Foreign Investment Law of 1950. A Natural History, Hamburg 2003, pp. 342–350.

9 Ozaki, Control of Imports, pp. 119–133; Mark Mason, American Multinationals and Japan. The Political Economy of Japanese Capital Controls, 1899–1980, Cambridge, MA 1992, pp. 152–153; Simon J. Bytheway, Investing Japan. Foreign Capital, Monetary Standards, and Economic Development, Cambridge, MA 2014, pp. 187–189.

10 See chapter seven in: Aaron Forsberg, America and the Japanese Miracle. The Cold War Context of Japan's Postwar Economic Revival, 1950–1960, Chapel Hill, NC 2000.

11 See Johnson, MITI and the Japanese Miracle.

knowledge the need to liberalize international capital flows, although how precisely this goal was to be achieved in terms of timing and policies was the subject of fierce debate. I argue that, within this discourse, money in the shape of foreign exchange successfully assumed the function of a *defensive* tool from 1950 to the mid-1960s.

The B.P. Rationale and its Legal Basis

Foreign exchange shortages plagued Japan in the first half of the twentieth century.[12] After the Second World War, the collapse of the Japanese economy had massively reduced production – and, with it, exports – despite the ongoing need to finance imports, which increased the pressure on foreign exchange reserves.[13] Until the second half of the 1950s, official messaging that drew a close connection between the availability of foreign exchange and the survival of Japan and its economy was widespread – the most emphatic perhaps being the slogan "export or die".[14] Although survival was no longer at stake as reconstruction was well underway,[15] the discursive link between foreign exchange and the health of the country's economy remained strong in the next one and a half decades.

In 1950, however, the representatives of Japan's political parties were mostly concerned with the dismal situation of the economy. For the conservative government under Prime Minister Shigeru Yoshida, capital and foreign exchange regulations were necessary to attract foreign capital investments as these were deemed indispensable for rebuilding the Japanese economy, while at the same time, policymakers had to make sure that the foreign exchange reserves would not be depleted by doing so. The

12 Kazushi Ohkawa/Henry Rosovsky, Japanese Economic Growth. Trend Acceleration in the Twentieth Century, Stanford 1973, pp. 184–188.

13 Toru Takenaka, Trade and Capital Liberalization Policies in Postwar Japan, in: Juro Teranishi/Yutaka Kosai (eds.), The Japanese Experience of Economic Reforms, Basingstoke 1993, pp. 331–365, here pp. 333–334.

14 The slogan was used, for example, in a document prepared for the talks between Japanese Prime Minister Kishi and U.S. Secretary of State, John F. Dulles, see: "Dai Ni Kai Kishi Daresu Kaidan (Keizai Mondai) Sankô Shiryô" [Second Kishi-Dulles Talks (Economic Problems) Reference Materials], 15.6.1957, in: Kishi Sôri Dai 1 Ji Hôbei Kankei Ikken, Kaidan Kankei [File Related to Prime Minister Kishi's First Visit to the United States, Matters Related to the Talks], Diplomatic Archives of the Ministry of Foreign Affairs of Japan, honkan, A'.1.5.2.4-3, https://www.mofa.go.jp/mofaj/annai/honsho/shiryo/shozo/pdfs/2018/07_12.pdf (last retrieved 27.2.2023), pp. 1–2. The file includes an undated English translation, which states: "In a country with a low level of capital reserves, such as Japan, if the deficit in the international balance-of-payments continues for long, it will become impossible to maintain even the present modest rate of economic expansion. A balanced international payments situation is the prerequisite for all Japanese economic policies, and as such, cannot be disregarded for a moment. 'Export or die' is a slogan which is as pertinent to the Japanese as it is to the British." See: "III. Trade and Economic Problem", in: Ibid, pp. 1–2.

15 Tetsuji Okazaki, Development State Evolving. Japan's Graduation from a Middle-Income Country, in: Yusuke Takagi/Veerayooth Kanchoochat/Tetsushi Sonobe (eds.), Developmental State Building. The Politics of Emerging Economies, Singapore 2019, https://directory.doabooks.org/handle/20.500.12854/27514 (last retrieved 27.2.2023), pp. 19–46, here p. 22.

instrument they devised to achieve this two-pronged objective was the Foreign Investment Law (FIL), passed in 1950.[16]

At the heart of the FIL was the remittance guarantee. Foreign investors could apply for official validation and, once it was obtained, the FIL guaranteed them the necessary foreign exchange to remit the fruits of their investment (royalties, dividends, interest, etc.) abroad. This guarantee was upheld independent of the balance of payments situation.[17] For this reason, applications were subject to a strict and lengthy case-by-case screening process, involving a broad range of government agencies including the Ministry of International Trade and Industry[18] (MITI) and the Ministry of Finance (MOF). Legally, their deliberations were to be based on the validation criteria in Art. 8 of the FIL, the most important of which were that a capital import should contribute to the B.P. and to the development of Japanese industry, and that it should not impede the reconstruction of the Japanese economy. The contribution to the B.P. was given precedence in the provisions of this article.[19] As is apparent at first glance, the validation criteria were imprecise, allowing the relevant officials significant latitude in their validation decisions.[20]

In the committee and plenary sessions of the Japanese diet, which deliberated on the FIL draft in 1950, opposition came almost exclusively from the members of left-wing parties, specifically the socialist and communist parties. In their eyes, the FIL was too lenient and did not take control far enough. They feared foreign capital would come to dominate the Japanese economy. They also thought it was unjust that only foreigners were accorded the privilege of freely transferring foreign currency abroad. During the House of Representatives plenary session on the 29th of April 1950, Narita Tomomi, a member of the Socialist Party of Japan, expressed this sentiment in vivid terms:

---

16 Good examples are the statements by Takayoshi Aoki, state minister and Director-General of the Economic Stabilization Board on the occasion of the 22nd Session of the House of Representatives Committee for Economic Stabilization, see: Dai Nana Kai Kokkai, Shûgiin, Keizai Antei Iinkai, Dai 22 Gô [Seventh Diet Session, House of Representatives, Committee for Economic Stabilization, No. 22], 27.4.1950, https://kokkai.ndl.go.jp/#/detail?minId=100704073X02219500427&spkNum=4¤t=-1 (last retrieved 27.2.2023), pp. 1–2. See also the statement by Masao Kaya, chairman of the Foreign Investment Committee, made during the 23rd Session of the House of Representatives Committee for Economic Stabilization: Dai Nana Kai Kokkai, Shûgiin, Keizai Antei Iinkai, Dai 23 Gô [Seventh Diet Session, House of Representatives, Committee for Economic Stabilization, No. 23], 28.4.1950, https://kokkai.ndl.go.jp/#/detail?minId=100704073X02319500428&spkNum=95¤t=4 (last retrieved 27.2.2023), p. 7.

17 According to Art. 15 FIL such remittances were authorized once validation had been obtained. See: Ozaki, Control of Imports, p. 177.

18 MITI was the Japanese equivalent of a Ministry of the Economy, similar to the U.S. Department of Commerce.

19 According to the first sentence of Art. 8 FIL, “the priority shall be given to those [contracts] which will most effectively contribute to an improvement of the international balance of payments […].” See: Ibid, p. 167.

20 Hermann O. Grimm, Die Grundlagen der japanischen Einfuhr ausländischer Technologie, Köln 1970, pp. 136–143. Grimm calls the first two positive criteria “blanket clauses” (“Generalklausel”), pp. 136–137. Henderson places the validation criteria in the larger context of Japanese legal thinking, and concludes that they are “subjective”, “varying with the ‘length of the chancellor’s foot’”. See: Dan F. Henderson, Foreign Enterprise in Japan. Laws and Policies, Chapel Hill, NC 1973, pp. 227–229.

> "Right now, small and medium enterprises are cutting their own flesh and grinding their own bones to promote exports [...]. The foreign exchange [they] earned under sacrifices will – by this bill – be given to foreign capital in a preferential manner. Whatever else might be said, I have to conclude that this bill will be the ruin of small and medium enterprise".[21]

This glimpse into the parliamentary debates on the FIL shows that the early capital liberalization discourse within Japan left little room for a less regulated handling of foreign investment. If anything, the tendency of politicians was towards more government control. This begs the question of how U.S. diplomats and businesspeople, perhaps the most vocal critics of Japanese capital controls during the lifespan of the FIL, viewed the Japanese foreign exchange situation at the time.

The B.P. Rationale in U.S.-Japanese Relations

As Japanese economic historian Yoshio Asai's research suggests, the American authorities were just as focused on the effective use of scarce foreign exchange as the Japanese, if not more so.[22] For example, Joseph L. Dodge, an American banker who oversaw the largest economic reform during the era of U.S. occupation, summarized the challenge Japan faced as follows:

> "The fundamental problem of the Japanese Nation can be expressed in the simple terms of – too many people, too little land, and too few natural resources. [...] Japan must live by exporting manufactured goods but its industry must be fed by imports of raw materials."[23]

Similar views held by American officials from around this time can be found in the historical record.[24] This attitude extended to capital transactions, as shown by the fact that Douglas MacArthur, Supreme Commander for the Allied Powers in Japan, rejected a more lenient draft of the FIL in 1950 due to foreign exchange considerations.[25]

It is evident from this statement that the discursive link between capital imports and the survival of Japan was also being made by Americans, who were the only significant foreign investors in the country at the time. The country's B.P. situation was

21 Author's translation. The quote was made during the 24th session of the Committee for Economic Stabilization of the House of Representatives, see: "Dai Nana Kai Kokkai, Shûgiin, Keizai Antei Iinkai, Dai 24 Gô [Seventh Diet Session, House of Representatives, Committee for Economic Stabilization, No. 24], 29.4.1950, https://kokkai.ndl.go.jp/#/detail?minId=100704073X02419500429&spkNum=80¤t=-1 (last retrieved 27.2.2023), p. 10.

22 Yoshio Asai, Sengo Kawase Kanri no Seiritsu [The Formation of Postwar Foreign Exchange Controls], in: Seijô Keizai Kenkyû 195 (2012), pp. 93–140, here p. 138.

23 Joseph M. Dodge, Japan. Its Problems, Progress and Possibilities, in: Michigan Business Review 4 (1952) 2, pp. 28–32, here pp. 28–29.

24 See the discussion in Sugita, who cites a CIA report that also used the slogan "export or die": Yoneyuki Sugita, Pitfall or Panacea. The Irony of U.S. Power in Occupied Japan, 1945–1952, New York 2003, pp. 67–68.

25 Asai, Sengo Kawase, pp. 125–126.

of interest to U.S. decision-makers because the occupation was expensive and Japan had been designated as the key ally in East Asia during the Cold War.[26] The link was thus forged under the expectation of a continual threat that imports would deplete Japan's foreign exchange reserves and endanger both the U.S. treasury and its diplomatic strategy. We can therefore say that the Japanese capital liberalization discourse was already being integrated on an international scale – at least bilaterally, between Japan and the U.S. – by the beginning of the 1950s.

We can find support for this observation in the conclusion of the bilateral Treaty of Friendship, Commerce, and Navigation (FCN Treaty) in 1953. According to American historian Aaron Forsberg, it helped to bolster Japan's capital restrictions in the face of foreign criticism. The FCN Treaty's original purpose was to reinstate normal trade and investment relations and to promote their expansion. Yet, in Forsberg's words, once it had gone into effect, the Treaty "ratified Japan's restrictive legal framework affecting foreign investment".[27]

During the negotiations leading up to the eventual signing of the FCN Treaty, the American side sought to establish economic relations on the basis of "national treatment" of the other country's businesses within its own respective borders, whereas the Japanese side sought to maintain capital controls vis-à-vis prospective American investors.[28] The Japanese repeatedly argued, liberalizing foreign investment was out of the question because of the unfavorable B.P. situation. Eventually, U.S. representatives agreed to allow both parties to impose restrictions on capital movements to protect their foreign exchange reserves under two conditions only: (1) if foreign exchange reserves threatened to fall to a very low level, and (2) to contribute to a modest increase in foreign exchange reserves if they were already at a very low level.[29] Just as in the case of the FIL, the operative terms of these stipulations were not defined. The determination of what constituted "a very low level" or a "modest increase" of foreign exchange reserves was left entirely to Japanese government officials.[30]

It is not entirely clear why U.S. negotiators accepted restrictions on capital imports to protect the B.P. despite their demand for national treatment. Whatever the reason, for the purpose of this paper it is enough to point out that "the Americans recognized that Japan's precarious balance-of-payments position did not permit the free flow of capital across national borders."[31]

---

26 For the overall strategy see: Victor D. Cha, Powerplay. The Origins of the American Alliance System in Asia, Princeton, NJ 2016, chapter six. For the cost aspect, see: Galia Press-Barnatham, Organizing the World. The United States and Regional Cooperation in Asia and Europe, New York 2003, pp. 117–121.

27 Forsberg, America, p. 175.

28 Ibid, pp. 175–176.

29 Ibid, p. 176; For the two conditions, see: Henderson, Foreign Enterprise, pp. 272–282.

30 See Rabinowitz, Foreign Investment Law, p. 311, especially footnote V-71.

31 Forsberg, America, p. 176.

The B.P. Rationale and American Foreign Investment in Japan

We now turn to the validation process, where restrictions on specific foreign investment plans were applied. This perspective reveals how Japanese bureaucrats used the B.P. rationale to justify capital controls in individual cases. By the mid-1950s, the behavior of the Japanese government was already raising suspicions among American investors that the B.P. rationale was a front for conducting a protectionist industrial policy. The case of Singer Sewing Machine Co. (Singer) is illustrative: when Singer executives planned to establish a joint venture (JV) with Japan's Pine Sewing Machines in 1954, MITI opposed the investment. Among the reasons advanced was that such a JV would have a negative effect on the Japanese sewing machine industry and that it might lead to problems with the B.P. The American company countered that the goods the new joint venture would produce would only represent 5% of the market and that its planned exports would improve Japan's B.P. MITI, however, did not budge and recommended the withdrawal of Singer's investment proposal.[32]

After local media had picked up on the case and Singer had informed the American embassy, the U.S. Ambassador to Japan, John M. Allison, sent a letter to Japan's Foreign Minister Katsuo Okazaki. In this letter, Allison complained about the Japanese government's refusal to validate the steadily accumulating American investment proposals. Apart from the Singer-Pine case, the Ambassador had listed three other proposals that had been declined, interpreting this as a violation of the FCN Treaty. Gengo Suzuki, a Financial Commissioner at MOF, rejected the accusation that the Treaty had been violated and pointed to Japan's severe lack of U.S. dollar reserves.[33]

Suzuki claimed the B.P. situation did not allow the government to validate certain investments. He proposed to Allison that, in order to accommodate Singer and other prospective investors, Japan could introduce a novel "conditional validation". To introduce such an instrument, however, a revision of the FIL would be necessary, and Suzuki suggested that the U.S. government should make an official request to this effect. The U.S. State Department rejected the idea and asked the U.S. embassy not to press the issue of a potential Treaty violation.[34]

Ambassador Allison then met Foreign Minister Okazaki, with whom he was good friends, in September 1954. Behind closed doors, Okazaki admitted his government was opposing the application not because of the B.P. but due to resistance from Japanese sewing machine manufacturers, who feared they would be unable to hold their own against a competitor equipped with American technology and capital.[35] Nevertheless, the Japanese government maintained its opposition despite continual attempts by Singer and the Embassy to encourage a change of attitude. According to Forsberg, the balance of payments crisis of 1957, which Japan did not fully recover from until 1959,[36]

32 Ibid, pp. 191–192.

33 Ibid, pp. 192–193.

34 Ibid, p. 193.

35 Ibid, pp. 193–194.

36 For data on the status of Japan's foreign exchange reserves at the time, see: Ôkurashô Zaisei Shi Shitsu, Shôwa Zaisei Shi. Shôwa 27–48 Nendo, Dai 19 Kan, Tôkei [Financial History of Showa. 1952–1973, Vol. 19, Statistics], Tokyo 1999, p. 523.

helped the government sustain its opposition. It was not until 1960 that MITI finally approved, at least, a licensing contract between Singer and Pine.[37]

Minister Okazaki had not been exaggerating when he said that Japan had B.P. problems. However, while these difficulties had a severe impact on foreign exchange reserves during 1954–1955 and 1957–1958, they recovered during 1956 and 1959–1960.[38] It should have been difficult to justify the non-validation of Singer's investment by recourse to low reserves in those years. More importantly, foreign payments in connection with technology imports never made up more than 1.8% of total remittances between 1953 and 1960.[39] Thus, restricting direct investments and technology imports to protect the B.P. made little sense in terms of their overall contribution to the outflow of foreign currency.

From 1959 onward, rapid economic growth and an improvement in the B.P. led to a rise in foreign exchange reserves.[40] This made it harder to maintain the B.P. rationale, as the eventual validation of Singer's licensing contract in 1960 might suggest. This development notwithstanding, the Japanese government did not give up on using the B.P. rationale, as the following example shows.

In the late 1950s, Texas Instruments Co. (TI) sought to establish a subsidiary to manufacture electronic components, especially semiconductors. After several years of preparation, the firm applied for the validation of a wholly owned subsidiary in January 1964. In its application, the firm's representatives argued that domestic production in Japan would reduce component purchasing costs for Japanese electronics manufacturers and save a significant amount of foreign exchange due to substituting for imports.[41] MITI did not immediately react to TI's proposal and avoided publicly committing to either validating or rejecting it. It claimed foreign exchange reserves were at a very low level and argued that it was allowed to restrict capital imports for this reason according to the provisions of the FCN Treaty. Yet, informally, MITI made it clear that it would not validate the proposal and recommended withdrawal.[42]

MITI protected the electronics industry in a variety of ways, among which was the refusal to allow any foreign investor to establish a wholly owned subsidiary. Instead, it encouraged foreign electronics firms to license their technologies to Japanese firms, a suggestion that was also made to TI – and rejected outright. Thus, TI managers turned to the American embassy and the U.S. Secretary of Commerce for assistance. The latter tried to put in a good word with his Japanese counterpart, MITI minister Takeo Miki, but failed to obtain any concessions due to the fierce opposition of the Japanese electronics industry.[43]

---

37 Forsberg, America, p. 195; for the exact validation date, see: Keizai Chôsa Kyôkai, Kigyô Betsu Gaishi Dônyû Sôran, Hijôjô Kigyô Hen, Dai 15 Shû [Overview over Foreign Capital Imports by Firm, Unlisted Company Edition, Volume 15], Tokyo 1979, p. 231.

38 Ôkurashô, Tôkei, p. 523.

39 Toyoaki Ikuta, Gijutsu Dônyû to Roiyarutei Shiharai. Gijutsu Dônyû wo Dô Kangaeru bekika, in: Tsûshô Sangyô Kenkyû 9 (1961) 9, pp. 67–79, here p. 74.

40 Ôkurashô, Tôkei, p. 523.

41 Mason, American Multinationals, pp. 176–177.

42 Ibid, p. 178.

43 Ibid, pp. 179–181.

Despite a MITI offer to validate Texas Instruments' entry under restrictive conditions in 1966, the Americans stuck to their plan. This prompted the Secretary of Commerce to raise another objection, arguing that MITI was violating the national treatment clause of the FCN Treaty. The Japanese, however, did not give in, yet again citing the low level of foreign exchange reserves. Some Japanese bureaucrats even threatened that if the U.S. government continued to press the issue, this could jeopardize other American investment proposals and, more generally, worsen diplomatic relations between the two countries.[44]

Yet the growing necessity of obtaining patent licenses to enable them to export to the U.S. eventually prompted Japanese electronics firms to accommodate TI. After a series of negotiations led by Sony Co., the parties involved decided it was reasonable for TI to establish a JV with Sony on a 50:50 basis. After three years, the Japanese firm would sell its shares to TI, which would then enjoy full control of the subsidiary. At the same time, the Americans would license their patents to interested Japanese firms at a uniform royalty. Texas Instruments agreed to this proposal, and MITI validated the investment in April 1968.[45]

Again, the actual B.P. situation paints a similar picture to what was going on in the 1950s, but the difference between the rhetoric of protecting the balance of payments and actual policy was even larger. The B.P. situation was already improving by 1964. Moreover, restricting FDI but encouraging technology imports did not make sense from a B.P. perspective. Foreign remittances in connection with FDI remained low throughout the 1960s, and their share of overall foreign payments remained at around 0.5%. In contrast, payments for technology imports were four to five times as high. Overall though, neither the payments for FDI nor for technology made much of a dent in the foreign exchange reserves.[46]

As this case shows, the U.S. government's failure to demand a more precise definition of the operative terms of the FCN Treaty came back to haunt it. As long as Japanese government officials could point to what they had – unilaterally – determined to be low reserves, the FCN Treaty offered no legal recourse against Japanese capital controls, regardless of whether their use was justified by the current level of reserves or not. Due to the broader Cold War context, the U.S. government refrained from remedying this situation through official diplomatic channels, as other issues in U.S.-Japanese relations took precedence over foreign investment.[47] Despite the less stringent application of the FIL from the early 1960s onward, the Japanese government continued to make use of the B.P. rationale in certain cases.

The B.P. Rationale and Japan's relation to the OECD

The early 1960s saw the capital liberalization discourse start to revolve around Japan's relationship with the OECD. Japan entered into negotiations with the OECD in 1963 and formally acceded in 1964. Afterward, the OECD's Committee for Invisible Transactions,

44 Ibid, pp. 182–183.

45 Ibid, pp. 183–186.

46 Author's calculations based on: Ôkurashô, Tôkei, pp. 543, 546.

47 Rabinowitz, Foreign Investment Law, pp. 606–607.

tasked with evaluating each member state's liberalization efforts, quickly became the main arena for negotiations regarding Japan's capital liberalization. The discourse thus partially shifted away from the policy space of Japan's bilateral relations (primarily with the U.S.) and towards a more integrated domain provided by the OECD.[48]

Joining the OECD was contingent on being willing to adhere to its two liberalization codes, which call for the liberalization of both capital and service trade flows, including direct investment and technology imports.[49] The OECD also gave its members the option to temporarily exclude some of the items within the codes from full or partial liberalization. Upon accession, Japan made extensive use of this option, filing 17 reservations, an unusually high number.[50]

To trace the role of the B.P. rationale, we now turn to the entry negotiations. They were held between Japanese delegations and various OECD organs such as the Council, its Executive Committee,[51] and the Committee for Invisible Transactions.[52] Of particular relevance are the discussions that were held over two rounds between Japanese government representatives and a delegation that the OECD secretariat had sent to Japan in June 1963. Both sides discussed the current state of liberalization of each item, and how many and what kinds of reservations were necessary.

During the negotiations, foreign technology imports were one of the main items on the agenda. A MITI official by the name of Takashima argued that technology imports had to be regulated because of Japanese firms' insatiable hunger for foreign technology. Due to the large number of imports, foreign technology sometimes had a negative impact on the Japanese economy.[53] This argument took Mr. Bertrand, chief of the OECD's Payment Bureau, by surprise. He pointed out that other countries which had restricted technology imports were doing so for B.P.-related reasons and asked whether Japan did so, as well.[54]

Takashima replied by explaining that the introduction of foreign technology by Japanese firms was closely linked to their investment activities. At times, technology imports were leading them to make erroneous or excessive investments, which lowered their international competitiveness. He also argued that excessive investments relating to technology imports were the cause of several balance of payments crises.

48 For an assessment of the significance of the OECD for capital import regulations in Japan, see: Ibid, p. 371.

49 Ibid.

50 See Ibid, p. 379, especially footnote VI-19.

51 In May and June 1963, a series of discussions was held during meetings of the OECD's Council and its Executive Committee. See: Appendix IX, Précis of the Minutes of the OECD Council and Related Materials on Japan's Request for Accession, in: Ibid, pp. 693–702.

52 OECD Bôeki Gai Torihiki Iinkai ni Okeru Wagakuni Kamei Mondai no Shingi Giji Yôroku (Miteikô) [Digest of the Proceedings of the OECD Committee on Invisible Transactions on the Problem of Japan's Accession (Unfinished Manuscript)], 8.1963, in: 14 OECD Kôshô Keii [14 Full Account of the OECD Negotiations], National Archives of Japan, bunkan, hei 23 keiken 03953100. The Committee met in July and August 1963.

53 Adea OECD Jimukyoku Jichô Ikkô to Wagakuni Seifu Daihyô to no Kaidan Giji Yôroku (Mitôkei) [Digest of the Proceedings of the Discussions between the OECD Deputy Secretary-General Adair's Group and the Japanese Representatives (Unfinished Manuscript)], 6.1963, in: 14 OECD Kôshô Keii [14 Full Account of the OECD Negotiations], NAJ, bunkan, hei 23 keiken 03953100, pp. 11–12.

54 Ibid, p. 14.

Furthermore, the introduction of foreign technology by large Japanese firms endangered small and medium enterprises (SMEs).[55] He then mentioned that the Japanese government needed to continue the current validation system because it was responsible for preventing such negative effects.[56]

A MOF official then added that, regardless of whether the Japanese government actually controlled technology imports on the basis of B.P. considerations, Japan was currently paying around $100 million in royalties annually, and according to unofficial calculations, this number was expected to rise to $400million in ten years.[57] However, Bertrand ignored all mentions of the B.P. Instead, he summarized the Japanese position as being primarily concerned with whether each technology import was actually beneficial to the Japanese economy and whether it harmed SMEs. He then said that no other country was blocking – in official parlance, lodging a reservation on – technology imports and recommended trying to achieve these industrial policy goals through instruments other than foreign exchange control. In his view, exchange controls would inevitably be discriminatory.[58]

When the negotiations turned to FDI controls and JVs, they played out in a similar manner: the Japanese side explained that their government was using them to avoid excessive competition and to reduce the risk of excess capacities, as well as giving it the option of delaying investments in order to reduce the B.P. deficit in the event that it worsened.[59] Bertrand asked whether the government would also regulate the financial aspects of direct investments, and a MOF official replied that it already did so under the B.P. rationale. Bertrand reacted by asking whether MOF should not rather welcome FDI instead of restricting it if the B.P. worsened. Another MOF official then said that, in times of foreign exchange shortages, it would suffice to ensure that the financial demands of foreign investors were not unreasonable.[60]

Bertrand's question did not go unnoticed by other observers at the time.[61] Why restrict FDI when foreign exchange was in short supply? Would FDI inflows not immediately increase the foreign exchange reserves? The Japanese negotiators were unable to come up with a satisfactory answer. This fact, coupled with their unwillingness to unequivocally say whether they regulated technology imports based on the B.P. rationale or not, most likely gave OECD officials the impression that it was not an expedient reason and that the Japanese themselves might not have been serious about it.

During the second round of negotiations, the positions of both sides remained firm. However, Mr. Matsumura, chief of MITI's International Trade Bureau, admitted that while the official reason for the regulation of foreign capital imports was the B.P., it had only really been taken into consideration when Japan was still experiencing

55 Ibid, pp. 14–15. The point being that superior foreign technology in the hands of a large company would allow it to outcompete SMEs operating with, presumably, inferior technology.

56 Ibid, p. 15.

57 Ibid, p. 16.

58 Ibid, pp. 17–18.

59 Ibid, pp. 131–132.

60 Ibid, pp. 134–135.

61 See the detailed discussion in Henderson, Foreign Enterprise, pp. 272–278.

foreign currency problems. In recent years, though, the main screening criteria were excessive competition and social concerns, such as the negative impact on SMEs.[62]

In the end, Japan entered a full reservation on technology imports justified entirely in terms of industrial policy, with the B.P. rationale being cast aside.[63] As for FDI, it was not yet an item in the OECD's Liberalization Codes at the time, so lodging a reservation was not necessary. When the Codes were revised in 1964, Japan lodged a full reservation on FDI as well, justifying this measure in terms of industrial, monetary, and financial policy.[64]

But eventually, the pressure within and outside the OECD grew to a level the Japanese government could no longer ignore, and it finally committed to an investment and technology liberalization program beginning in 1967. This development might have been inevitable given that, in the second half of the 1960s, foreign exchange reserves reached new peaks in at least one month of every year before they began to increase dramatically from 1968 onward.[65]

The Role of Foreign Exchange in the Japanese Capital Liberalization Discourse

This analysis illuminates how the B.P. rationale failed to gain traction with the OECD. Nevertheless, the authorities did not stop using it to justify their rejection of individual applications at the bilateral level. We can draw two insights from this assessment. First, the way Japanese representatives used the B.P. rationale to support their stance suggests that they saw it as more of an auxiliary and ad hoc justification to bolster their position in bi- and multilateral negotiations, at least from the mid-1950s onward. Second, the B.P. rationale was unable to withstand closer scrutiny. In bilateral negotiations with the United States, the mere reference to foreign exchange and balance-of-payments problems seemed enough to justify capital controls due to the undefined legal basis and diplomatic considerations that characterized the U.S.-Japanese relationship during the

62 Dai 2 Round Adea OECD Jimukyoku Jichô Ikkô to Wagakuni Seifu Daihyô to no Kaidan Giji Yôroku (Mitôkei) [Digest of the Proceedings of the Second-Round Discussions between the OECD Deputy Secretary-General Adair's Group and the Japanese Representatives (Unfinished Manuscript)], 6.1963, in: 14 OECD Kôshô Keii [14 Full Account of the OECD Negotiations], NAJ, bunkan, hei 23 keiken 03953100, pp. 65–66.

63 Council. Statement by the Government of Japan Concerning the Liberalisation of Current Invisible Operations and of Capital Movements in Japan, CES/63.40, 22.6.1963, in: 12 OECD Kamei Kôshô [12 OECD Accession Negotiations], NAJ, bunkan, hei 23 keiken 03951100, pp. 6–7. The justification for upholding technology import controls was to make adjustment in cases where excessive competition and the "actual situation of" SMEs required it.

64 Annex VIII. Japan, TFD/INV/466, no date, in: 30 OECD konfuronteeshon 1966 Nen [30 OECD Confrontation 1966], NAJ, bunkan, hei 23 keiken 03896100, pp. 1–2. This document was produced on the occasion of the first examination of the Japanese reservations to the liberalization codes. Although it is undated, the contents and context within the dossier strongly suggest that it was written up in 1966. It lists the item and the reason for each reservation to the Capital Liberalization Code lodged by Japan. For FDI, Japan claimed "the co-ordination of industrial development with a special regard to small and medium enterprises, maintenance of full employment, and internal and external financial equilibrium".

65 Ôkurashô, Tôkei, pp. 523–524.

1950s and the first half of the 1960s. As seen in the two cases of Singer and Texas Instruments, the Japanese government used the B.P. rationale regardless of whether foreign currency was in short supply or not. It did not consider the fact that FDI increased foreign exchange reserves in the short term, and neither did it take into account the fact that outflows associated with FDI and technology imports barely contributed to total outflows in the long term. Instead, the evidence corroborates the findings of previous research that the Japanese government's main motivation for maintaining restrictions on FDI and technology imports was to strengthen its own industrial policy and that the restrictions were kept in place to accommodate the interests of domestic producers. In contrast to U.S. diplomats, OECD officials – neither burdened by such legal nor by diplomatic constraints – insisted that the gulf between rhetoric and restrictive practice should not be too wide, and therefore rejected the B.P. rationale.

The results from this paper suggest that the importance of foreign money for Japan's capital controls can be found not in its direct use or in the actual inflows and outflows, but in its application as a rhetorical tool for justifying continued restrictive practices. In this case, the utility derived from indicating that a certain type of money – foreign exchange – was in short supply. This paper thus makes a contribution to the literature on postwar Japanese industrial policy, because it implies that the maintaining of this policy was possible due to the Japanese government's ability to recognize and seize the opportunities the early discourse and the initial legal frameworks accorded to them. In other words, to take up the theme of this special issue, it was talking about not having enough (foreign) money that enabled the Japanese government to influence the bilateral relationship with the U.S. in its favor.

Jonathan Krautter *ist wissenschaftlicher Mitarbeiter und Doktorand am Institut für Geschichtswissenschaften der Humboldt-Universität zu Berlin. Seine Forschung widmet sich der Geschichte von Industriepolitik, multinationaler Unternehmen und der japanischen Außenwirtschaftsbeziehungen.*
E-Mail: krauttej@hu-berlin.de