Coordination between Government and Business in Prewar and Postwar Japan: The Case of the Textile Industry

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Introduction

This paper investigates the coordinated behavior between government and business in the Japanese textile industry, taking into account the comparison with the Korean textile industry.

Prewar Japan had started her industrialization as a latecomer in comparison to the Western countries, but she had rapidly caught up with them, expanding various industries. In particular, Japanese cotton textiles, having acquired the greatest international competitiveness, had achieved the world’s largest amount of exports overtaking British cotton textiles in the 1930s. Also in Korea which Japan had ruled since the 1910s, cotton textiles had developed to some extent with Japanese direct investments and Korean indigenous capitalists even in the prewar era.

During the wartime period (1937-45), the growing inflow of Japanese capital to Korea had further promoted some consolidations in the imperial economy, although Japanese capital located in Korea had been partly confiscated by Korea after Japan’s defeat in the war.

In the postwar era, the two countries proceeded along separate paths toward economic recovery for some time. Despite the cutback during the wartime era, the Japanese textile industry had developed again as an exporting industry in the reconstruction period of the latter half of the 1940s through to the early 1950s, while
Korea had rehabilitated the textile industry by her own efforts, as well as through the use of its prewar heritage. After the 1960s-70s, Korea achieved export-oriented growth through mainly depending on such light industries as textiles under its strong government.¹

By that time, Japanese textile industry, especially cotton textiles, had already suffered from excessive productive capacity since the mid-1950s and her growth had reached a plateau in the 1960s. From that time on, it moved into decline and faced such challenges as the disposition of excessive plant and equipment and the transition towards high value added production including synthetic fibers (the so called ‘modernization of the textile industry’). Moreover, the industrial adjustment to various growing sectors other than textiles became an important concern to the Japanese textile companies.² Korea had come to the forefront of the world textile market, replacing Japan in the 1960s-70s, but the former followed the same path as the later, lagging one or two decades behind.

These processes might be interpreted as a schema of the succession of the countries’ industrial developments with a time lag, the so called ‘flying goose theory,’³ or in the same light, as Vernon’s ‘product cycle theory.’⁴ Nevertheless, it should be further explained that the various relations existed between the two countries including competition, ‘intra-firm and/or intra-industry’ trade, which is a sort of international division of labor, and the learning process of the two countries’

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¹ Concerning the point that the Korean economic development was achieved through the coordination of the strong government which complemented the market failure and that this nature was similar as in Japan, see Sun (2013; forthcoming).
² See, Watanabe (2010), for details.
³ See, for example, Akamatsu (1962), Kojima (2000) and Yamazawa (1990).
⁴ Vernon (1966).
government industrial policies. These are complex relationships formed from historical and institutional factors, rather than an applied simple rule of thumb to indicate that the two countries’ industries follow the same path.

Of these factors, the postwar industrial policy by MITI (the coordination in behavior between government and business) in the Japanese textile industry, especially during the period of the 1950s-60s, will in large part be the main focus of this paper.

Section 1 shows a brief overview of the development of the Japanese textile industry. Subsequently in section 2, the industrial policy by MITI in the Japanese textile industry during the 1950s-60s will be analyzed. At the beginning these policies were implemented as export-promoting policies, but later they were converted to a sort of industrial adjustment policy, which aimed to revitalize the declining industry and/or to promote resource allocations from declining sectors to growing ones. Not exactly the same, but analogous policies were implemented in Korea in the later years. Finally, in section 3, the case in Korea is described briefly.

1. Overview: The Japanese Textile industry

Figure 1 shows the trends of the prewar and postwar Japanese textile industry (mainly cotton textiles). The establishment period of the cotton textile industry was during the 1880s-90s and it had developed further from the 1900s to the 1950s. The

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5 See, Watanabe (2010), Chapter 5, for details.
amount of both production and exports reached a peak in the early 1930s. During the wartime period (1937-45), the production of cotton textiles sharply diminished due to the loss of foreign demand and the conversion to military demand, but it rapidly recovered after the war. Thereafter, it entered a phase of maturation or stagnation from the mid-1960s and had moderately diminished during the 1970s-80s, and then the decreasing pace accelerated since the 1990s. In recent years, the domestic production of cotton textile mostly eradicated.

Figure 1  The production and exportation of cotton yarn


Regarding the trend of trade (Figure 2), the amount of exports peaked in the mid-1930s. After trade disruption during wartime, cotton textiles occupied a high percentage of the Japanese total export earnings until around the 1960s. Thereafter,
this percentage fell, and the demand for Japanese cotton textiles shifted from foreign to domestic demand, and from the 1980s onwards, in reverse, the imports increased.

As referred to hereinafter, the competition in the world textiles market had become increasingly intensive in the 1960s, and trade frictions occurred frequently on an international basis. Nevertheless, the Japanese cotton textiles industry withstood the force of the international competition and maintained its competence in response to the change of economic environment both domestic and international. Retaining its size as an industry until around the 1980s, Japanese cotton textile had been gradually downscaling; the downward phase from maturation and/or stagnation to decline was relatively prolonged, that means the Japanese cotton textiles industry was coming to an end and finishing industrial adjustment through a comparatively long process.

Figure 2  Production of textile goods

Source: MITI (various years), Yearbook of Statistics of the Textile Industry.
2. Industrial policy by MITI

2.1 Inauguration of MITI’s policies

In postwar Japan, from the latter half of the 1940s to around the 1960s, the distinctive industrial policies by MITI (Ministry of International Trade and Industry) were developed in various industries, especially in the textile industry.

The predecessor of MITI was Shoko-sho (the Ministry of Commerce and Industry) in the prewar era, which had administrated matters mainly related to the industries, and it was reorganized to MITI in the reform of the administrative agencies in 1949. The jurisdiction of the newly-reorganized MITI was enlarged to incorporate international trade affairs.

In 1950, the economic controls installed during- and just after the war were almost dissolved, and Japan attained independence from the United States in 1952. Even so, the Japanese economy was not necessarily based on a purely market mechanism. At least up until the beginning of the 1960s, while the Japanese economy was operated fundamentally based on the principal of the market mechanism, various regulations, laws and administrative guidance were substantially present.

In this institutional context, MITI presided over affairs relevant to production and trade of various industries and became one of economic agents who formed a policy system which was called later ‘industrial policy’.
2.2 Policy objectives

Figure 3 shows as a conceptual schema of the structure of MITI’s policy objectives at the time. These objectives were multi-layered from such macro and national level goals as the ‘Reconstruction and growth of Japanese economy’ and ‘Proportionate international trade balance’ to MITI exerting control on the industry-level though using concrete measures and policies.

Figure 3  Conceptual scheme of the structure of MITI’s policy purposes focusing on the textile industry

Reconstruction and growth of Japanese economy

Proportionate of international balance of payment (trade balance)

Various policies for the textile industry

- Export-promoting policy for the cotton textile
- Countermeasure policy against the structural recession of the textile industry
- Incentive policy targeting the synthetic fiber industry

From the reconstruction period to the high growth era, the slogans setup as goals for the Japanese economy had shifted from ‘Reconstruction’ to ‘Economic Independence’, and finally to ‘Economic growth’. In each case, the most important
precondition to achieving these goals was having a ‘Proportionate International Trade Balance’. In order to reconstruct the Japanese economy after its collapse, re-entry into the international trade system was indispensable; the Japanese Economy was dependent on the exports of such light industries’ goods as textiles and miscellaneous goods in order to import dietaries, raw materials and fuel and so on. The trade balance was in deficit in most years, but U.S. assistance reaching hundreds millions of dollars every year had compensated it until 1951. And from 1951 to 1952, the special procurements raised by the Korean War had filled the gap in the Japanese international balance of payments. (Figure 4)

![Figure 4 International balance of payment: 1946-65](image)


However, in 1953 when Japan was obliged to develop a solid base of ‘economic independence’ without dependence on U.S. assistance and special
procurements, the disparity of the international balance of payments had already surfaced. And up until the 1960s this imbalance became a factor which constrained more than once the growth of the Japanese economy, because the Japanese government and Bank of Japan had to adopt cooling-off policies, enacting restrictive monetary policies each time a foreign currency crisis occurred due to the increase of imports with economic expansion. In order to realize a ‘Proportionate international balance of payment’ expressing ‘the ceiling of the international balance of payment’ at that time, the Japanese government enacted export promoting policies with import controls (in other words foreign currency controls) to reduce the trade deficit.

The structure of the Japanese international trade (Figure 5) shows that textile goods were a major component of exports (especially cotton textiles) until around the 1960s. From 1947 when Japan was permitted to engage in international trade until 1951, cotton textiles composed the largest amount of exports from Japan. After that, although the proportion of the cotton textiles in total exports had been gradually start to fall off, even in the 1950s, it still occupied a large share of export.

Nevertheless, Japan was burdened with the problem that the acquisition rate of foreign currency brought by cotton textile goods was very low compared with other exports goods because the degree of dependence on imports of raw cotton was almost 100%. The trade structure of Japanese cotton textiles traditionally consisted of typical ‘processing trade pattern’ (that is, the import of raw materials and export of products) since the prewar period. But particularly in the postwar period, the

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6 According to the Economic Survey of Japan (various years), the acquisition rate of foreign currency of the cotton textile was less than 60%, which was significantly low compared with other principle items.
acquisition rate of foreign currency brought by cotton textiles was gradually

\[\text{Figure 5} \quad \text{The structure of international trade in Japan:} \quad 1950-1965\]

\[\begin{array}{c}
\text{Source: MITI (1992 : vol.16), pp.238-41.}
\end{array}\]

lessening because domestic demand for cotton textiles, which consumed also the raw cotton, was developing in Japan. A massive amount of imports of raw cotton was a tremendous burden on trade balance in Japan.

For this reason, MITI thought that industrial conversion within the textile industry toward the man-made(chemical)/synthetic fibers, for which almost all materials were domestically self-sufficient, would be favorable in the view of easing up the trade balance problem due to material imports.\(^7\) The synthetic fiber industry especially, as a new, growing industry, was expected to be one in which Japan would

\(^7\) MITI expected to provide 100% self-sufficient supply system of naphtha, which is a basic ingredient of synthetic fibers such as nylon and polyester etc. Naturally, naphtha was made of crude oil of which Japan depended on the import, but the policymakers of the time recognized that the oil was not so scarce resource, and this conversion of raw would mitigate the burden of material import on the level of trade balance. (The Second Hearing Record of Syoichiro Sugimura, who was a bureaucrat of MITI and belonged to the Textile Division during 1945-55. See, Research Institute of Trade and Industry (1982b)).
attain competitiveness in international markets in the near future.

In addition, regarding the industry-trade structure of Japan as a whole, MITI intended to shift towards a more heavy industry oriented structure, a so-called ‘upgrading in industrial structure’, which would be composed of high value-added industries. Accordingly even inside the textile industry, MITI intended to move the industry towards synthetic fibers industry, which would raise the Japanese economy to a higher value-added structure.

However, synthetic fibers and heavy-chemical industries’ goods had not yet reached a sufficient international competitiveness in the world market in the 1950s (see figure 6). Because of this constrained condition, MITI adopted in the middle and long term perspective, industrial rationalization policies and industrial structure policies which aimed to change the structure of comparative advantage, while in the short term, focused on promoting exports of such light industries as cotton textiles which still had a comparative advantage for the time being.

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8 Also MITI thought that these changes of industry-trade structure would be desirable ‘because it would coincide with directions of industrial development in East Asian countries where Japan should develop the closest links in the near future. See, Economic Stabilization Agency ed.(1952), pp. 40-41, 45-46, 49, 81-82.

Figure 6  Coefficient of specialization in trade structure in the 1950s


Note: The coefficient value was calculated as following calculating formula and simple average of the years of 1953 and 1958.
Coefficient of specialization of \( X = \frac{X_w}{X_i} \) (percentage of total Japanese export) / (percentage of total world trade).

2.3 The policy objectives concerning the textile industry

Corresponding to the above-mentioned goals of the Japanese economy as a whole, there were mainly three policy objectives in relation to the textile industry (see Figure 3 above): (1) export-promoting policy for the cotton textiles, (2) incentive policy targeting the synthetic fibers industry, and (3) a countermeasure policy against the structural recession, as explained in detail below.
(1) Export-promoting policy for the cotton textiles

From the period immediately after the war to the beginning of the 1960s, export promotion had consistently been an important policy of MITI.\(^{10}\)

As export-promoting policies, enormous efforts were spent in ‘quality controls’ as countermeasures against goods of inferior quality, and in shifting towards high quality and/or high value-added products, but the most important strategy was ‘price controls’. MITI intervened in the market mechanism to stabilize market conditions, that is, the relationship between demand and supply.

More concretely, countermeasures against excessive competition and excessive plant-and-equipment were adopted. During the boom brought about by the Korean War, the entry of a number of new firms and facility expansion by existing enterprises occurred. But after the end of the boom, not a few parts of these plant and equipment became excessive and this raised costs and put pressure on the management of the cotton textile companies.

This overcapacity became a obstacle to trade, through such factors as excessive investment in equipments by individual companies under the condition of ‘excessive competition’, which tended to lead overproduction, so that the value of products tended to fall or to be destabilized : this caused a reluctance to purchase Japanese goods in the overseas market. Since these problems had risen unexpectedly the accusation of ‘overseas dumping’, MITI pursued measures to counter excessive

competition and over-investment in equipment which were indicated as be the primary causes of these problems. In fact, the dumping problem of Japanese manufactured exports had infected the debate concerning the pros and cons of Japanese accession to GATT, generating trade conflicts with the developed countries, especially the United Kingdom, whose textile industry competed against the Japanese textile industry in the prewar era.\textsuperscript{11} Coping with these issues became a national agenda. The details of these policies will be thereinafter described.

\textbf{(2) Incentive policy targeting the synthetic fibers industry}

The synthetic fibers industry from nylon to various others which Dupon developed in the U.S. before the Second World War expanded rapidly as a new industry in many countries including Japan after the war. The Japanese government decided to adopt a policy of promoting synthetic fibers in 1949 for the reason that it had the advantage of saving foreign currency. Specifically, such incentive measures for ‘infant industries’ in general included measures such as preferential treatments to promote investment (for example, tax incentives, subsidies, concentration in funding), protective custom duties and so on. Moreover, especially in the case of the synthetic fibers industry which faced difficulties to cultivating a market for consumer goods (end demand), the government procurement and public sector demand (e.g. uniform of state owned railway, Self-Defense Forces, and various

\textsuperscript{11} MITI (1990 : vol.6), pp.231-37.
public schools) helped fill the gap. 12

Thanks to these policies, the usage of man-made (chemical)/synthetic fibers as an intermediate product was developing at the level of filaments as intermediate goods through blending with natural fibers in the spinning and/or weaving process (so-called ‘compound’ fiber and/or textile) in the latter half of the 1950s, although its usage as finished consumer goods was still limited. Naturally, because synthetic fibers were substituted for natural fibers in more or less the same market, it became one of the causes which reduced the demand for natural fibers to the extent that the textile goods market as a whole could not expand. Thus, as the production of synthetic fibers increased, it caused a structural recession of the cotton textile industry.

Taking into account this situation, MITI set up the Council on Measures to the Textile Industry based on the cabinet decision in 1955, which was constituted of the authorities concerned, industry leaders, academic experts and the representatives of organized labor, and the Council inaugurated a deliberation of various issues including an adjustment/harmonization of natural fibers and synthetic fibers.13 In the Council’s report of 1956, the government policy of promoting synthetic fiber industry was reaffirmed and the long-range prospect regarding demand and supply of textile goods (the annual plans targeting 5 years until 1960) was established. Based on these plans, the policy of the disposal of excessive equipment was

established. Upon receiving this council report, the government started to draft an administrative bill to dispose of the excessive equipment. The Council intended to ‘cut out the cancer of excessive completion and overinvestment in equipment (in other words, the crowded tiny, small- and medium sized enterprises which had behaved like ‘cancers’ of the industry). That is, restricting the overcapacity by law, it would induce the re-organization of the industry and indicate the direction to switch to composite fibers and textiles’.

The Council tried to make an adjustment between the natural fibers industry and man-made (chemical)/synthetic fibers industry. However in practice, it was not so easy for the government to accommodate the interests of the two business worlds.

The demands of the industrial association of natural fibers, mainly of cotton textiles, were as follows. The first was that reductions on natural fiber demand should be loosened up as much as possible. The second was that the new entry to the chemical/synthetic fibers industry (into which cotton textile companies could convert some of their overproduction) should be admitted and rather encouraged. The third was that the synthetic fibers industry should be also regulated in a similar way as in the cotton textile industry, because the synthetic fibers’ equipments would become a disturbance against the cotton textile companies’ adjustment: even if they reduce their equipment levels and production, if the synthetic fiber equipment were to greatly increase, the problem of overcapacity of the textile industry as a whole

16 The following description, including the quotation, is based on Japan Chemical Fiber Association (ed.) (1974), pp.559-60.
would not be resolved.

The industrial association of the cotton textile industry had traditionally great influence in the business world, so its intervention became decisive in deciding the government’s policies in the end.

To summarize, the demand and supply adjustment policy (especially the countermeasures to dispose of overcapacity) in the cotton textile industry became a part of the ‘industrial adjustment’ strategy which aimed to shift the sector partially to the synthetic fibers industry, but the method through which this was to take place was, reflecting the voice of the industrial association of cotton textiles, not drastic but incremental.

(3) The countermeasure policy against the structural recession of the textile industry

Subsequent to the depression which occurred just after the economic boom induced by the Korean War, and the following adjustment process, the Japanese economy realized high growth at the level of more than 10 % annual growth rate after 1955, while experiencing oscillating business cycles of booms and recessions.

The textile industry, which was consisted mainly of cotton textiles, followed mostly the same trend, but its growth rate (production index) was gradually slowing down (Figure 7 and Figure 8). Due to predominantly to the lowering of production volume and operational rate, the increasing rate of labor productivity had also been
diminishing. 17

Figure 7 Production index
(all are growth rates compared with the previous year)


Figure 8 Production index


17 Ministry of Labor (1961), pp.7-16, 33-34.
Thus, the structural recession of the cotton textile industry was becoming chronic, diverging from the wider business cycle of the Japanese economy as a whole. The cut-down of domestic demand, the buildup of inventory, the downturn of market conditions (falling in price), the sales below cost, and business bankruptcies had occurred in the cotton textile industry partly as a result of the deflationary policy which was adopted by the government in order to cool down the overheating economy in 1954, controlling imports (foreign currency) in view of the international balance of payments. As seen in Figure 7, the contraction of production of the textile industry in 1958 was remarkably deep. In this situation, MITI began to incorporate the countermeasure policies against the structural recession in the textile industry, in their policy system from the latter half of the 1950s.18

Meanwhile, despite the fact that the cotton textile companies suffered from chronic overcapacity during recessionary periods, in more benign market conditions they carried out capacity investments. For example in 1956 when Japanese economy was enjoying a boom and also there was a general economic upswing worldwide, Japanese exports of cotton textiles achieved the largest-ever increase since the war, and domestic demand was also enlarged by virtue of an increase in household consumption expenditure. Also in 1960, the Japanese cotton textile industry enjoyed the benefits of a favorable market. Seen from this perspective, even if the cotton textile companies enforced facility expansion in prosperous conditions, the operating rate was not worsening and the problem of overcapacity was at least temporarily mitigated.

18 MITI, Consumer Goods Industries Division (1973b).
However, these facility expansions during the boom period aggravated the problem of overcapacity during the subsequent recessionary period. In addition, during recession, in line with the entire character of the industry and corporate behavior which tended to overcome a domestic recession through driving up exports, they caused serious international trade friction through such as problems as the ‘dumping of cheap products on the world market’.

Due to this particular situation, MITI’s counter-measure policies against the structural recession of the textile industry became very complicated. MITI intervened in the market mechanism (demand and supply adjustment) especially during the recessionary periods to stabilize export prices. In this context, the two policy objectives of ‘export promotion’ and ‘counter-measures against the structural recession of the textile industry’, which seemed apparently to have no relation with each other, were closely intertwined in this regard.

Finally, to summarize these points, we can see as follows.

The main policy purposes of MITI for the textile industry were ‘(1) export promoting policy’, ‘(2) incentive policy targeting the synthetic fibers industry’. These two goals seem to be contradictory in some sense, since inducing growth of the synthetic fibers industry, would lead to a reduction in demand for natural fibers (cotton textiles) was decreasing. And through the excessive competition among the textile companies, excessive plant and equipment capacity had accumulated. As a result, this resulted in the disequilibrium of demand and supply, the destabilization of market conditions, and a consequent decline in prices. In addition, these factors became an obstacle for exports, given the problem of dumping and resulting
international trade friction in the overseas markets.

Because those problems became worse, especially during the recession periods, MITI attempted to finally add ‘(3) countermeasure policies against the structural recession of the textile industry in their policy systems. Also as a medium- to long-term industrial policy, MITI institutionalized the system to promote industrial adjustment (conversion from natural fibers to chemical/synthetic fibers, and later other diversification to various industries other than textiles), coordinating the interests among various related companies and industry groups.

2.4 Policy means

The policy means to accomplish the above-mentioned objectives were relevant mainly to the intervention of demand and supply adjustment. During the period of economic controls after the war (1945-50), there was an extreme shortage of supply and inflationary pressures which were difficult to be adjusted by market mechanism, so that the government enacted an adjustment of demand and supply by the means of direct economic controls.

Around the boom period led by the Korean War (1950-52), these economic controls were dissolved slowly, and the Japanese economy shifted towards a market economy. But because the repercussions just after the boom led by the Korean War were enormous, it could not be expected that demand and supply would adjust smoothly through the market mechanism. Also at that time, because
Japan was burdened with a disparity in its international balance of payments, MITI decided to institutionalize a policy of intervention in the market mechanism as a substitute for direct controls.

In the textile industry, various cartels that regulated price, production volume, supply restriction, and the operating rate of equipment were organized. This enabled adjustments, in the level of production, inventory, and equipment (investment). These cartels were formed under the ‘recommendation’, ‘advice’ and/or ‘permission’ by MITI.

Needless to say, these policies became a controversial problem which might have been incompatible with the Anti-Monopoly Act (Act on Prohibition of Private Monopolization and Maintenance of Fair Trade which was enforced under the U.S. occupation in 1947). The Anti-Monopoly Act prohibited in principle monopolistic behavior on the part of companies that were associated with demand and supply adjustment. However, MITI attempted to authorize these policies through amendments to the Anti-Monopoly Act and/or legislative process of exclusion from the Anti-Monopoly Act as described hereinafter.

In addition, it should be noted that the foreign exchange allocation (FA) system played a specific role around this time. Because the international balance of payments constraint was severe in Japan in the 1950s, there existed a ‘budget system of foreign currency’ (i.e. FA system) which aimed to control imports and exports from the 1950s to the beginning of the 1960s.\(^\text{19}\)

MITI held jurisdiction over this system, through a negotiation with the MOF.

\(^{19}\) MITI ed. (1990 : vol.6), Chapter 4, Section 4 and Japan Spinners Association (1962).
(Ministry of Finance). Under this system, foreign currencies (dollars) were allocated (assigned) to import the raw materials within a certain limit. It substantially worked as a method of direct control and became a high powered policy means of MITI.\textsuperscript{20}

The raw cotton, which was the largest import item during that period, was also listed under coverage of the system. Thus, MITI’s policy means regarding the adjustment of production volume and capacity was effective, because the assignment of foreign currency was conducted to each cotton textile company and this led to an ‘incentive and penalty’ scheme for each company.\textsuperscript{21} However, because this system brought in a sort of ‘rent’ to the economic agents (companies) who received the assignment of foreign currency, it negatively affected corporate behavior and policy effect occasionally.

\subsection{2.5 The policy implementation}

The policies towards adjusting demand and supply in the textile industry can be summarized as in Figure 9.

\textit{Reduced (cartelized) operation led by MITI’s administrative guidance}

The imbalance of demand and supply was not remedied in the period of recession

\begin{footnotesize}
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\item \textsuperscript{21} MITI, Consumer Goods Industries Division (1973b), pp.141-42.
\end{itemize}
\end{footnotesize}
after the Korean War economic boom, and the cotton yarn price dropped due to overproduction. Taking into consideration this situation, MITI directed a reduction of operation in the spinning sector. This measure was envisaged as temporary, but in the event, it was continued intermittently from the 1950s to the beginning of the 1960s.

Figure 9 Policies to adjustment policies regarding demand and supply in the textile industry

<table>
<thead>
<tr>
<th>Production</th>
<th>Spinning sector (including concurrent operation of spinning and weaving), consisting of big companies.</th>
<th>Weaving sector, consisting of small and medium sized companies.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>● Reduced (cartelized) operation led by MITI’s administrative guidance</td>
<td>● Small- and Medium-sized Enterprise Security Act *</td>
</tr>
<tr>
<td></td>
<td>● Anti recession cartel and rationalization cartel approved in Anti Trust Law.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● Act on Temporary Measures for Plant and Equipment in the Textile Industry *</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>● Foundation of an organization to buy and sell accumulated stokpiles</td>
<td>●</td>
</tr>
<tr>
<td>Export</td>
<td>Export sector, consisting of trading companies and concurrent operation of production.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● Import-Export Trading Act (export cartel concerning price, volume and others).</td>
<td></td>
</tr>
</tbody>
</table>

* Exemption from Anti Trust Law

The method of reduction of operation was as follows. 22

1) MITI drew up the forecast of demand and supply, and indicated the reduction of operation taking into account the demand-supply gap (which was

22 For reference, MITI (1953), p.96 and so on.
considered as a part exceeded the reasonable production volume).

2) MITI provided a guideline regarding the reduction of operation to the industrial association. Specifically, the limit production of each month was decided. Each company reduced its production volume by means of storage of their equipments.

3) At the same time, MITI implemented a policy of registering equipment (spinning machinery) and assigning foreign currency (to buy raw cotton) exclusively to the registered equipment.

Against the violator of this cartel, the penalty of cutting back the assignment of foreign currency to that firm was enforced, so that the system functioned effectively. New registration of equipment (and new entry to the industry) was not permitted until MITI recognized it necessary.

As seen above, the production adjustment in the spinning sector was enacted by the means of reducing production operations and the FA system complemented it.

23

Small- and Medium-sized Enterprise Security Act and Import-Export Trading Act

In the downstream at the lower part on the industry such as the weaving sector, the proportion of tiny, small-and medium sized companies was very high. In this sector, the production below cost and/or crushing labor due to chronic excessive

competition and excessive plant and equipment had been continuous and had been a problem for a long time. This sector could not be ignored because this cheap labor weaving sector played an important part in exports. Therefore, MITI needed some particular policy measures to tackle it.

In fact, the adjustment policy regarding the production and equipment was enacted on the grounds of the Small- and Medium-sized Enterprise Security Act and Import-Export Trading Act which were exemption from the Anti Trust Law.

Eventually, the Small- and Medium-sized Enterprise Security Act altered its goals from the anti-recession cartel against temporal disequilibrium to more structural problems which aimed to remove the instability of tiny and small companies caused from the excessive competition among them (because this excessive competition was taken as a principal cause of structural recession of the industry) from the latter half of the 1950s to the beginning of the 1960.24

In addition to this act, especially for the export related sectors, the Export-Import Trading Act was used as a basis. This law aimed to establish ‘orderly exportation’ and promote Japanese exports through the shift to high value-added export goods, and to stabilize the small and medium sized enterprises. Based on this law, the formation of cartels were permitted with the aim of stabilizing market conditions. Exporters’ associations and /or trading companies concluded export cartel agreements regarding price, production volume and other matters.

The organization to buy and sell stockpiles

To adjustment of inventory, MITI organized to found the organization which would buy accumulated stockpiles (inventory) of the textile goods during a time of recession and sell a part of it when market conditions became relatively favorable.

The structural recession of the textile industry was due not only to problem at the production level or the accumulation of manufacturer’s inventory, but also excessive inventory at the distribution level. For that reason, especially during the recessionary period, MITI intervened to adjust inventory levels in addition to the production adjustment.

Extraordinary (Temporary) Measures Law to the Textile Industry Facilities

As a countermeasure policy against the structural recession of the textile industry, MITI was not satisfied and resolved only by the adjustments at the level of the production and inventory as above-mentioned, which were a sort of supportive treatment. It was then needed to adjust the excessive equipment (both retention and new investment) which was considered as a root cause of the structural recession. If companies held excessive capacity, they would have to chronically cut in some production operations. This would lead to an increase in costs and would squeeze business administration, and furthermore become an obstructive factor against internal reform of the textile industry to overcome the structural recession and its decline as an industry.
Thus the Extraordinary (Temporary) Measures Law to the Textile Industry Facilities was enacted in 1956 as a temporary legislation with a 5-year term limit, but later it was revised and prolonged several times.

3. The case in Korea

Last of all, the case in Korea will be described briefly.

The Korean textile industry had developed on some level in the prewar period. Under the colonial occupation by Japan, Japanese direct investment had increased and Korean indigenous capitalists became established. During the wartime period, Japanese capital had expanded into Korea in order to secure raw cotton and to send out military supplies of apparels and so on. But the Japanese capital located in Korea had partly been confiscated by Korea after Japan’s defeat in the war.

The Korean textile industry, especially cotton textiles, was thus regarded as a ‘heritage’ of the prewar era in certain way, but it was also important that the Korean entrepreneurs, engineers and workers did everything they could to reconstruct the industry, making efforts to overcome the various difficulties.\(^{25}\)

In the 1950s, the Korean natural fibers industry, especially the cotton textiles industry, had attained self-sufficiency and import substitution within the country. From the 1960s to the 1970s, under the strong government’s economic development

\(^{25}\) Regarding the reconstruction after the liberation from the Japanese colonial occupation and also after the destruction brought by Korean War, see Seo (2013, forthcoming).
program, Korea achieved export-oriented growth through mainly depending on textile goods. The proportion of textile goods in total exports had been more than 30%. After the latter half of the 1960s, the production of the textile goods manufactured by chemical/synthetic fibers shifted into full swing in Korea.

The Korean textile goods had a great international competitiveness in the world market in the 1960s-70s, surpassing the Japanese textile goods especially in the U.S. market.

However, the Korean textile industry began to face the limits of growth since the end of the 1970s. The environment of the international textile trade had become more restrictive: protectionist legislation such as the MFA (Multi Fiber Agreement), which was an exemption from the GATT, was adopted, reflecting the concerns of the developed countries. On the other hand, the developing countries put effort in fostering their textile industries. Also as a domestic factor, the cost competitiveness had been eroded due to a rise in wages, raw materials and fuels.

In the 1960s-70s, during the era in which Korea had achieved the export-oriented growth, legislation which bore almost the same name as that enacted in Japan, that is the ‘Extraordinary (Temporary) Measures Law to the Textile Industry Facilities’ was enacted in 1967, which aimed to eliminate excessive capacity and to adjust production, plant and equipment.

In this way, between Korea and Japan, both a competitive relationship and conformity might be found. In some ways, the Korean textile industry followed the same path as the Japanese textile industry, lagging one or two decades behind. The

26 JETRO (2012).
comparison of the nature of the coordination between government and business will be an issue in the future.

**Conclusion**

Korea was colonized and exploited by Japan in the prewar era, so that it is only natural that the former has a grudge against the latter especially at the social and political level. On the other hand, as seen in some resent researches in both countries, the prewar Korean experience of industrialization under Japanese colonization became a preparatory period for the ‘take-off’ of the postwar Korean economy.

In addition, both countries had been in a competitive relationship in the postwar era, regarding that Korea had caught up with and then surpassed Japan in such light industries as textiles which were strategic and main exporting industries for both around the 1950s-70s. But it seemed that Korea referred to Japan not only on the industrial developments but also in industrial policies, that is, the coordination between government and business.

In any case, Korea and Japan are neighbors, having thus previous ties and ambivalent relations, but the two countries had been brought closer together.

Japan and Korea have some similarities regarding the relationship between government and firms. This comes from the presumably prewar experience when Japan had brought over to Korea her administrative systems through its colonial government. In the prewar and postwar era, the Japanese industrial policies might be
referred to by Korean policymakers in various fields of industries.

This paper focused on such light industries as textiles which were important export products both for Japan and Korea. The two countries had overcome many difficulties and were set on the road to stable production and exports in the reconstruction period.

Particularly in Japan, complicated industrial policies (coordination between government and business) were invented as an export-promoting system. In the 1960s, the Japanese textile industry had faced competition from the Korean textile industry in the world market.

There existed a competitive relationship between the textile industries of the two countries, but interestingly, there existed also similarities and conformities between both. Analogous legislations were found and it might be that the role of government policymakers and their intervention into the market were relatively strong in both countries compared with other countries.
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