

International Circumstances surrounding the Postwar Japanese Cotton Textile Industry¹

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1 Introduction

With the end of the war in 1945 both the British and Japanese cotton industries, which had dominated the prewar market in cotton textiles, lost no time in beginning the task of rehabilitation. Most of the spinning and weaving factories had been converted to military production, but as governmental control was gradually relaxed, textile production started up again and the workers returned to the factories. Demand for textiles, which had been suppressed during the War, re-emerged almost instantaneously, making both the domestic and foreign markets very buoyant. In addition, securing the supply of raw cotton was relatively easy as the United States and other countries held vast surplus stocks. Under such conditions the cotton industries of both countries bought new machinery and equipment and embarked on a drastic reorganisation.

The outcome of this reorganisation in the two countries turned out to be very different, as had become apparent by 1960. In Britain it was recognized that the industry had lost its competitive edge, and the Cotton Industry Act of 1959, which encouraged a great reduction in the number of spindles, represented a decision to reduce the size of the industry considerably.² In Japan, meanwhile, the cotton industry recovered its international competitiveness very rapidly after the war; by 1951 it had become once again the world's largest exporter of cotton textiles, and continued to dominate the world market throughout the 1950s. Thereafter its share fell as other Asian countries caught up, and it yielded its first place in volume of exports to China in 1967. Also, with the rise of heavy and chemical industry in Japan the cotton industry gradually lost its position as an industry at the cutting edge of technological innovation. However, there is no doubt that its development as the principal export industry from 1946 to 1960 was an important factor in the revival and rapid growth of Japan's economy.

What then were the international conditions which made possible this recovery of the cotton industry of a defeated Japan? In previous research the following three main factors have been noted. First, from an international relations viewpoint, it was the result, directly and indirectly, of America's consolidation of her hegemony in the world order against the background of the emergence of the Cold War. Despite opposition from Britain, mainly stemming from consideration of Lancashire's interests, America aided the revival of Japan's cotton piece goods exports to South and Southeast Asia by giving priority to a policy of containing China and therefore not permitting trade between Japan and China, and in compensation linking Japan's exports to America's aid to Asia, and promoting Japan's membership of the GATT.³ The influence of the Cold War is visible here in various ways. The cotton industry, with the favourable disposition of the Occupation and the American government which were trying to revive Japan's economy without militarizing it, enjoyed a generally advantageous international environment.

¹ This is an English translation, with slight modification, of "Sengo Nihon Mengyo o meguru Kokusai Kankyo", published in *Kindai Nihon Kenkyu*, Yamakawa Shuppansha, Tokyo, 1997.

² R. Robson, *The Cotton Industry in Britain*, Macmillan, London, 1957. John Singleton, *Lancashire on the Scrapheap: The Cotton Industry 1945-1970*, Oxford University Press, Oxford, 1991. But Singleton also argues that insufficient investment in new equipment during the postwar boom contributed to Lancashire's decline.

³ Takafusa Nakamura, "Nichibei Keizai Kyoryoku Kankei no Keisei (The Formation of U.S.-Japan Economic Cooperation)", *Nenpo Kindai Nihon Kenkyu 4: Taiheiyō Senso*, Yamakawa Shuppansha, 1982, pp.279-302. William Borden, *The Pacific Alliance: The United States and Japanese Trade Recovery, 1947-1955*, University of Wisconsin Press, Wisconsin, 1984. Michael Schaller, *The American Occupation of Japan: The Origins of the Cold War in Asia*, Oxford University Press, Oxford, 1985. Tatsuo Akaneya, *Nihon no Gatto Kanyu Mondai* (The Issue of Japan's Entry to the GATT), Tokyo Daigaku Shuppankai, Tokyo, 1992.

A second factor, related to the first, and well known to students of the history of the cotton industry and of trade,⁴ is that economically, America, with her need to export her raw cotton, and Japan with her cotton industry, presented the prospect of a perfect partnership. Initially, America's aim was to dispose of huge surplus stocks of raw cotton, but gradually it became evident that the cotton industries of America and Western Europe were no longer competitive, and the cotton growers of America wanted an increase in the number of spindles in the Japanese cotton spinning industry. America continued to offer credit to Japan for the purchase of its raw cotton. Thus, if we take Japan as an industrial country which was relatively competitive in labour-intensive industries, and America not just as an industrial country which specialized in capital-intensive industries but also a country at the same time supplying primary products to Asia, we have here the basis for developing an international division of labour. A similar phenomenon was seen to some degree in the prewar period, but with the development of a network of marine transport and communications in the Pacific after the war, this became a powerful driving force behind the development of an Asia-Pacific international division of labour and one which included also Japan's relationship with Australia and other resource-rich countries.

Third, however, there were circumstances which forbade a repetition of the prewar success story. One was the independence and the emerging import-substitution industrialization of the Asian countries, which severely restricted the scale of Asia's foreign cotton piece goods market.⁵ This was a situation which did not exist before the war when most countries in Asia were either in a colonial or a quasi-colonial state. Also, the market in the advanced countries of the West expanded after the war, but here strong moves began to be made to limit the inflow of cheap Asian cotton piece goods by voluntary restrictions on the part of the exporting countries and quotas set by importing countries.⁶ 1946-1960 was a period of rapid recovery in the world's industrial production and trade. In the cotton industry too the volume of world's production and consumption increased, but the factors above to a large extent balanced each other out, allowing trade to experience no more than a gentle recovery.⁷

Why was it that despite this the Japanese cotton industry, and it alone, was able to open up one after another of the world's markets? This paper aims to deepen understanding of this point, by focusing on the fourth factor that the Japanese cotton industry confronted, that is, the competition in the world market with other Asian countries such as India, China and Hong Kong. In the 1946-60 period most of the countries of Asia and Africa, which were primary product producing countries before the war, were in the initial stages of import-substitution, and frequently lacked the capacity to satisfy their own domestic demand for cotton piece goods. Also there were some primary product producing countries, such as Australia and New Zealand, where incomes were high, but which had no domestic cotton piece goods supply capacity. As rehabilitation progressed after the war, exports of primary products to the advanced countries recovered, and when the purchasing power of the supplying countries increased, Britain, the former leading supplier, was unable to satisfy adequately even the demand within the Commonwealth. The opportunity thus created was seized by three Asian countries - Japan, China, and India - and by Hong Kong, whose strength had grown out of the manpower and know-how accumulated in China's cotton industry. Their efforts in these markets resulted in very vigorous inter-Asian competition.

⁴ Yasuo Tawa ed., *Sengo Bosekishi* (A History of the [Japanese] Cotton Spinning Industry in the Postwar Period), Nihon Boseki Kyokai, Osaka, 1962. *Ajia no Sen-i Sangyo* (Textile Industries in Asia), Ajia Keizai Kenkyusho, Tokyo, 1962. Hiroshi Nishikawa, "Boeki no Jittai to Tsusho Seisaku (Foreign Trade and Trade Policy)", in *Tsusho Sangyo Seisakushi*, 4-1-3, Tsusho Sangyosho, Tokyo, 1990. Takeshi Abe, "Keikogyo no Saiken (The Rehabilitation of Light Industries)", in *Tsusho Sangyo Seisakushi*, 3-1-2, Tsusho Sangyosho, Tokyo, 1992. Shinkichi Nagaoka and Hiroshi Nishikawa eds, *Nihon Keizai to Higashi Ajia—Senji to Sengo no Keizaishi—* (The Japanese Economy and East Asia: An Economic History of the Wartime and Postwar Periods), Mineruva Shobo, Kyoto, 1995.

⁵ *Sengo Bosekishi*, pp.835-42.

⁶ Vinod K. Aggarwal, *Liberal Protectionism: The International Politics of Organized Textile Trade*, University of California Press, Berkeley, 1985, Chapter 3.

⁷ The proportion of cotton cloth entered into foreign trade in world production was relatively small. According to GATT, the share of exports in total world cotton cloth production in 1910-13 was 29 per cent, but declined to 10 per cent in 1936-38. It recovered to 15 per cent in 1950, but declined again to 12 per cent in 1960. GATT, *A Study on Cotton Textiles*, Geneva, 1966, p.10. See also OEEC, *The Future of the European Cotton Industry*, Paris, 1957, pp.16-17, for slightly different figures.

What were the factors which determined the end result of inter-Asian competition? How did this competition influence the pattern of industrialization of Japan, India and China? And what connection did it have with the dissolution of the British Commonwealth market and the trend towards formation of a free trade system with America as its leader? This paper integrates the materials collected by the British Cotton Board⁸, with descriptive, analytical accounts in relevant periodicals from each country, to investigate these questions, and discusses the causes of the recovery and growth of Japan's cotton industry. It should be made clear that the scope of this paper is limited to information about trade volumes, market shares and prices, and investigating the perception of the people involved or those in close contact with them. Also, it deals mainly with the cotton piece goods market, touching occasionally on the related markets for raw cotton, cotton yarn, rayon, cotton processed goods etc as they relate to the cotton piece goods market.

2 Patterns of Inter-Asian Competition

It is in fact not so easy to grasp the scale and trends of the world market in cotton piece goods. Table 1 was compiled by the Japan Cotton Spinners' Association based on statistics gathered by the Cotton Board. As can be seen, the statistics of each country are shown in three completely different kinds of units - square yards, yards and quintals (a unit of weight), and to simply add them up as in this table is clearly wrong. However the Cotton Board's statistics, on which these are based, although not added to produce totals, do suggest such a manner of reading, and since this kind of rough and ready conversion was carried out both in Britain and elsewhere, such calculations must have served a certain function in the perception of the world market at the time. Also, it is thought that if one converts yards and quintals to square yards using available conversion rates, the results of the calculations in the table turn out by good fortune to involve a maximum error of only about 10 per cent.⁹ Therefore, taking the tables below as usable for the purpose of pursuing broad trends, let us take a brief look at the structure of exports in the world cotton piece goods market country by country.

First, the absolute volume of the world market in exported cotton piece goods in 1946 was no more than a third of what it had been in 1937, but it had recovered more or less to the prewar level by 1960. Asia's share, which in 1937 had been 41 per cent, had fallen to 14 per cent in 1946, but thereafter recovered rapidly and by 1960 had risen to 46 per cent. By contrast, the British share, which in 1937 had accounted for 27 per cent,

⁸ The Cotton Board had its headquarters in Manchester, and represented the interests of not only raw cotton dealers but the whole British cotton industry, and was active in the collection of information and political lobbying. For details, see Marguerite W. Dupree, "Struggling with Destiny: The Cotton Industry, Overseas Trade Policy and the Cotton Board, 1940-1959", *Business History*, 32-4, October 1990, pp.106-27, and M.W.Dupree ed., *Lancashire and Whitehall: The Diary of Sir Raymond Streat, 1931-1957*, 2 volumes, Manchester University Press, Manchester, 1987.

⁹ The statistics published by the Cotton Board did present figures in three different measurements in one table, though in such tables these figures were not summed. The *Cotton Board Trade Letter* began to include a note, starting in the ninth issue of its "Statistical Supplement" section, November 1947, "1 quintal = 220.5 lb. On the basis of 4.5 sq. yds. per lb., 1,000 Quintals are equivalent to approx. 1 million sq. yds.". (The "Statistical Supplement" became the "Quarterly Statistical Review", and after June 1952 became a separate publication titled *Cotton Board Quarterly Statistical Review*.) From the 65th issue (published in June 1952), however, an additional sentence "But in practice the average weight of many cloths is heavier than this amount" was added. Further, from the 67th issue (published in winter 1962-63), "The Cotton Board cannot guarantee the accuracy or completeness of all the figures". There is no direct reference to the conversion rate from yard to square yard in this publication. However, other official statistics did assume "1 yard = 1 square yard", and converted the former into square yards. See Colonial Office, *Digest of Colonial Statistics*.

Looking more broadly at the historiography, there is a reference to an estimate of "1 yard = 1.10272 square yard", based on the information from the Chinese trade statistics. see Albert Feuerwerker, "Handicraft and Manufactured Cotton Textiles in China, 1871-1910", *Journal of Economic History*, 30-2, June 1970, p.360. As for the weight to yard conversion, "1 pound = 5.5 yards" is mentioned in Robson, *The Cotton Industry in Britain*, p.333. This is based on the British statistics. Using these rates, the rate of 1 quintal = 1099.59 square yards could be obtained, which implies that in the Cotton Board tables the amount of trade expressed in yards or quintals is underestimated by about 10 per cent.

I am grateful to Professors Douglas Farnie and Takeshi Abe for informing me of some of the above references.

fell from 21 per cent in 1946 to 5 per cent in 1960. Changes in the shares of the other main countries/areas at these three dates (1937, 1946 and 1960) were as follows: Western Continental Europe - 23 per cent -> 19 per cent -> 28 per cent, Eastern Europe and the Soviet Union - 4 per cent -> 0 per cent -> 10 per cent, America - 3 per cent -> 33 per cent -> 6 per cent. From the above it can be seen that the shares of Japan and other industrialising Asian countries and Eastern Europe and the Soviet Union increased their share greatly while conversely the international competitiveness of America and Britain, which accounted for an extremely large share immediately after the war, was reduced.

Looking at Asia's share in slightly more detail, it is important to see that Japan, which was the largest exporter in the world with 37 per cent in 1937, recovered from 0 per cent in 1946 to 20 per cent by 1960, and was once again the world's largest exporting country from 1951. However, equally worthy of notice is the rapid rise in the total share of other Asian countries - 4 per cent -> 13 per cent -> 26 per cent. India was initially by far the most important of these, and China (from 1949 on, the People's Republic of China, but hereafter simply referred as China), despite a longish gap in the period immediately after the Communist takeover, gradually grew in importance. In the second half of the 1950s Hong Kong, Taiwan, Pakistan, and South Korea were added to the list of exporting countries. If one considers the bewildering changes in international relations at the time, conditions were such that Japan would have seemed at the time not to have had the race all to herself.

Turning to the structure of the importing countries in Table 2, an interesting reversal of the historical trend can be seen in the world market at this period: the centre of gravity of the world market in foreign-made cotton piece goods was showing a tendency to shift from Asia back to the West. Reflecting the progress of import-substitution in many Asian and African countries, imports of cotton piece goods began to stagnate or fall. Among those where there was a conspicuous decline were Indonesia, Malaya (the Federated Malay States, from 1948 the Malayan Federation - including Singapore throughout), the Philippines, and countries of former French Indochina (North and South Vietnam, Laos, and Cambodia). There were nevertheless a few countries such as Nigeria where the tendency was rather for imports to increase. Meanwhile in the advanced countries, imports increased in Britain, Australia, America, West Germany etc, reflecting the increased competitiveness of Asian cotton industry countries. In the 1950s America and Britain's imports from Japan, India, Pakistan and Hong Kong started to become a political issue and were repeatedly restricted by agreements. France, West Germany and other countries in continental Europe used quotas to severely limit imports from Asia.¹⁰ Had the advanced countries of the West not resorted to restrictions on imports, there is little doubt that Asian exports to the West would have increased more.

Thus in the world market of this period there appeared a situation which could be called a new type of inter-Asian competition. The cotton industry of the internationally competitive Asian countries such as Japan, India, China and Hong Kong, caught between the hammer of the trend to import-substitution of the developing countries and the anvil of protectionism in the advanced nations, transcended the traditional regional boundaries between Asia and the West to engage in intense competition for share on a global scale.

Let us now outline the export patterns of the four main Asian exporting countries. Taking Japan first, Asia and Africa accounted for 70-84 per cent of her exports at this period until 1954, after which the proportion fell somewhat, but even so it fluctuated between 59 per cent and 68 per cent until 1960. Also, it should be noted that cotton piece goods exported to Britain were almost all "re-exported" (the contemporary expression - as they were processed in Britain before being exported again, they were not re-exports in the usual sense of the word) to West Africa and other British possessions, of which more later. According to Table 3, first looking at the trend of Asia and Africa, the principal markets, it can be seen that exports to every country rose rapidly until 1951, after which, because there was repeated production control under administrative guidance (*kankoku sotan*) in the 1950s, they achieved no more than a rather gentle expansion overall, despite the two peaks in 1954 and 1957. The distinctive feature about this period is that Japan was unable to ensure stable export volumes in almost all the countries, repeating a pattern in which a very brief boom was followed by a falling trend and then was compensated by expansion into new markets. That said, if one includes re-exports via Hong Kong, Indonesia was comparatively steady, and the largest market almost throughout. Next came South and Southeast Asian countries such as Thailand, Malaya, Burma, the Philippines, former French Indochina, Pakistan and Ceylon, and from the second half of the 1950s African markets such as the countries in former British West Africa increased in importance. Exports to Britain on

¹⁰ GATT, *A Study on Cotton Textiles*, p.82. Aggarwal, *Liberal Protectionism*, pp.73-74.

the other hand were reduced by restriction agreements, and in America too, after a temporary sharp rise in share, Japan agreed in 1955 to voluntary exports restrictions, and reduced her export volumes thereafter. As a result, although Japan did increase her exports to Western markets, its growth was not as fast as the rate of increase of the share of Western markets in world trade. Rather it became the rule that in the Asian and African markets there was an opening-up of individual markets wherever and whenever the political conditions permitted, with a powerful sales offensive on the basis of international competitiveness. The majority of exports in the initial period after the war were unbleached cotton cloth, even though the share of processed goods rose in the 1950s, and there was progress in product diversification and a shift to higher quality products. There was no clear move towards a differentiation to the goods in demand in the market of low-wage countries. This explains why Japanese goods were exposed to intense inter-Asian competition.¹¹

While the low level of wages compared with the advanced countries can be pointed out as factors underpinning Japan's competitiveness, compared with the Asian countries, which were her chief competitors, it was important that Japan had new advanced machinery and equipment and good-quality labour. In the initial period, however, in order to ensure effective allocation of raw cotton given the shortage of dollars, and again in the 1950s in order to avoid violent inventory and price fluctuations and the resulting "dumping exports", the industry and the government united to regulate production, so that the rate of capacity utilization of machinery was low. It is noted that the foreign currency allocation system for the purchase of raw cotton worked as an effective policy tool. The system was put in place in 1950 when private imports restarted, although it was not fully applied until 1953. Since the industrialists feared that their raw cotton allocation would be cut if they did not respond when the government suggested short-time working, there was considerable power in the government's "guidance". Also, not only was the allocation of raw cotton proportioned to the machinery, but also, with the aim of encouraging exports, the system was partially linked to export performance. At the same time, in order to avoid cut-throat competition and dumping, a system of export license was put in place and an export inspection system to check the quality of products was also gradually introduced.¹² This is a framework under which the "compartmentarised competition" took place, giving direct impetus to technological innovation. A conspicuous improvement in productivity resulting from efforts to streamline, automate, make continuous and speed up the production process and to eliminate defects,¹³ was mainly due to the self-generating competition of the industry, but the role of the government, which encouraged export competitiveness in both prices and product quality, cannot be ignored. Thus the prewar context of inter-Asian competition by adapting to the demands of Asian and African markets was maintained, and Japan continuously refined her ability to manufacture the product characterised by a greater variety, a relatively high level of processing, and good quality.

Furthermore, in the second half of the 1950s, Japan's rayon piece goods succeeded in replacing cotton piece goods in a number of markets (in the Cotton Board's statistics for rayon piece goods, these and a very small quantity of synthetic fibre piece goods are lumped together as man-made fibre piece goods), and achieved a more rapid export expansion than any other country through the low price. In 1957 and 1958 the volume of rayon piece goods exported temporarily surpassed that of cotton piece goods.

Next let us look at the export destinations of Indian cotton piece goods in Table 4. Before the war India imported large quantities from Britain, Japan etc, but from 1941 exports exceeded imports, and after the war exports expanded very rapidly. In 1950 India became the world's largest exporting country. The export destinations at this point were the Commonwealth market, such as Singapore (Malaya was separately recorded), Burma, Aden, Ceylon, British East Africa, Sudan and Pakistan. However, the increase in exports in that year, achieved despite a fall in production, was a temporary effect produced by the government's imposition of domestic price ceilings, and thereafter the government gave priority to domestic consumption and limited the export volume through the control of the issue of export licences.¹⁴

¹¹ *Sengo Boekishi*, pp.307-15.

¹² *Ibid.*, pp.226-58. Shin Hasegawa, "Gaika Wariate Seido no Unyo to sono Sagyo Seisakuteki Igi (The Working of the Foreign Exchange Allocation System and its Significance as a Tool of Industrial Policy)", in *Tsusho Sangyo Seisakushi*, 6-2-2, Tsusho Sangyosho, Tokyo, 1990, pp.153-85.

¹³ *Sengo Boekishi*, pp.109-118.

¹⁴ *Cotton Board Trade Letter*, Quarterly Statistical Review (hereafter QSR), No.20, December 1950, p.1. *Ibid.*, No.21, March 1951, p.2.

Post-independence India's cotton industry was successful overall in supplying mass clothing to the enormous domestic market, using cheap raw cotton produced within the country. However, despite trying an export promotion policy to obtain foreign exchange, India was not a strong competitor in product quality, and there were also problems with foreign marketing and packaging.¹⁵ On the other hand, Indian textiles, taking advantage of the framework of the Ottawa Agreement (so-called "preferential tariffs") originally set with a view to the interests of Lancashire, and the various Commonwealth countries' import restrictions on Japanese goods, were able to be exported more freely than Japanese or Chinese and at low tariff rates.¹⁶ Ironically, preferential tariffs acted as an institutional arrangement to promote India's exports of manufactured goods rather than those of the former mother country. While Japanese cotton goods' access to the British market was restricted, Indian ones had the privilege of totally tariff-free status, and despite quotas by agreement in 1958-59, India continued to be the biggest exporter throughout the 1950s. Thus inter-Asian competition was played out, not in a single world market, but in two interconnected markets, the British Commonwealth and the rest of the world. Then in the 1950s the barrier between the two markets was gradually reduced by a de facto lowering of tariff rates and a relaxation of the import restrictions on Japanese goods. In the second half of the 1950s the well-established Indian trading network had to face competition from Japan and China.

Let us now turn to the third country, China. The Cotton Board's statistics carry China's cotton piece goods export volumes up to 1948 (but these volumes are far below the statistics of the importing countries), but from the time of Communist takeover they vanish. Table 5 gives figures obtained by extracting the figures for China from each country's import statistics. Since Hong Kong's share is large, this method cannot give us a full picture of the export destinations, but there is no doubt that most went to the Asian and African markets.¹⁷ In the second half of the 1950s Japan's greatest rival in these markets were China and Hong Kong, especially, if measured purely in quantitative terms, China. Indonesia was the main battleground, but Chinese goods also went to Malaya and other Southeast Asian countries, to Holland and Britain (though in the case of Britain they were mostly re-exported after processing) and to Nigeria and Australia.

Until very shortly after the Communist takeover, China imported American cotton, and processed it into cotton piece goods, which were then exported to Hong Kong, Malaya, etc. The state-run corporations, which inherited Japanese-owned mills in relatively good condition, even planned to replace Japan in the Southeast Asian market in order to avoid competition with private capital in the domestic market. Certainly the exports in Table 5 for 1947-48 are not negligible.¹⁸ After the takeover of 1949, with the danger of a blockade of Shanghai and the dire shortage of foreign exchange, plans were made for self-sufficiency in raw cotton, and also from 1951 large spinning factories were set up one after another, mainly in the interior. However, the cost of domestic raw cotton production was comparatively high, and the old existing machines were utilized to the maximum, so the production cost of cotton piece goods remained higher than the international level. Thus competitiveness in the Southeast Asian market was not achieved. The sharp increase in the second half of the 1950s was achieved by setting prices artificially 10 per cent below international prices. In 1960 the domestic price of cotton goods was about double the export price, which implied that the profit from domestic sales were making up the losses on exports.¹⁹

Finally, let us touch on the development of Hong Kong's modern cotton industry (see Table 6). Hong Kong's modern cotton industry (spinning mills and integrated spinning and weaving mills) started out based on entrepreneurs who moved from Shanghai from 1946, and went through explosive growth from 1947 to 1951,

¹⁵ For example, see B.N.Ganguli, *India's Economic Relations with the Far Eastern and Pacific Countries in the Present Century*, Orient Longmans, Bombay, 1956, p.84.

¹⁶ In 1948 members of the British Commonwealth enjoyed tariff rates about 12 per cent lower than other countries on the import items specified (which accounted for about a half of total imports). Donald MacDougall and Rosemary Hutt, "Imperial Preference: A Quantitative Analysis", *Economic Journal*, 64, 1954, p.257.

¹⁷ *Hong Kong Textile Annual* (hereafter HTA), 1956, pp.5-6. Ibid., 1959-1960, pp.9, 12.

¹⁸ Mitsuru Hagiwara, "Sengo Chugoku no Boeki: Menkogyo (Foreign Trade of Postwar China: The Cotton Industry)", in Nagaoka and Nishikawa eds, *Nihon Keizai to Higashi Ajia*, pp.415-17. HTA, 1961, pp.17-19.

¹⁹ Hagiwara, "Sengo Chugoku no Boeki", pp.410-24.

but with the outbreak of the Korean War the American government prohibited the export of American cotton to Hong Kong, fearing the possibility of exports of Hong Kong cotton piece goods to China. Dealt this severe blow, the Hong Kong cotton industry barely maintained its production level by importing raw cotton from Pakistan, Brazil and British East Africa and advancing into the market in Indonesia by allowing her to settle in sterling, where Japanese goods were shunned because of a shortage of dollars. In the second half of the 1950s Hong Kong became able to use American cotton again as its main raw material, and by introducing state-of-the-art machinery on a par with that used in Japan, and operating at a far higher rate of capacity utilization, managed to maintain its competitiveness. In addition, through joint ventures with Japanese companies such as Toyobo, spinning factories entering the fine count market also appeared.²⁰

In Hong Kong there was no regulation of production by cooperation of the industry and government as in Japan, and business went through violent ups and downs. From a quality point of view, Hong Kong was competing in almost the same markets as Japan and China, but since it was able to enjoy preferential treatment in the Commonwealth, it advanced into that market, where there was no competition from Japan and China, and, in spite of the competition with India and Pakistan, in 1958-59 it increased its share so fast that the British government had to demand "voluntary" restrictions. From the second half of the 1950s it also advanced into the American market where a gap had appeared due to the voluntary restrictions of Japan.

Let us summarize. The three main cotton producers of the prewar period, Japan, China and India, despite the political changes of the independence of the Asian countries and the establishment of the Cold War world order, re-emerged as the principal exporting countries in the postwar world market. However, in China's case the prewar accumulation of manufacturing experience manifested in two separate regions, China proper and Hong Kong. While India and Hong Kong, under the protection of preferential status, expanded their share in the Commonwealth, which accounted for more than half the world market, Japan and China were relatively late in their advance into there, and their share was larger in the South and Southeast Asian market, especially Indonesia. However even in the British Commonwealth market the inter-Asian competition gradually became more intense, and the structure of a new world market took shape. In the next section we will pursue the process of these changes in more detail.

3 The Disintegration of the Commonwealth Market

Inter-Asian competition was not just a matter of filling gaps in the postwar world market: it emerged amid the reorganization of the prewar world market through the retreat of Britain and the advance of Asian countries. In this sense, the protagonists in this section are Britain and Japan. Both countries were similar in some respects. They imported raw cotton, and exported a very large proportion of their cotton piece goods to the world market. Also, compared with countries like America, India or China which, while they had enormous domestic production for home consumption, were engaged marginally in the world market, or with the countries of continental Europe, where intra-regional trade totals were large but direct involvement in the world market was relatively small, both Britain and Japan had a disproportionately strong degree of influence on the world market. Let us now consider the process of structural change, dividing it into three stages: (1) the period up to 1950, in which both countries' exports expanded very fast; (2) the period to 1955 in which Britain's exports fell and Japan's exports to the Commonwealth began to increase; and (3) the period to 1960, which saw a sharp expansion in imports by Britain as the Commonwealth market slowly disintegrated.

The first period

As can be seen from Table 7, Britain's exports of cotton piece goods rose very rapidly until 1949 reflecting postwar demand. As can be inferred from Table 2 the share of the British Commonwealth in the world market at this period was extremely large. However in Britain the production of cotton cloth could not keep up with the production capacity of processing companies, so Japanese cotton piece goods were imported, processed in Britain, and then exported to West Africa and other areas. In 1949 such cloth made up about 20 per cent of Britain's exports of cotton piece goods. There was a fear that the colonies might import cotton

²⁰ *HTA*, 1956, p.3. *Ibid.*, 1961, pp.24-34. Independent weavers formed separate associations, including one for those who came from Shanghai and another for Cantonese. However, there were many who did not belong to any association. As a result, the organisational capability of independent weavers was generally weaker. *Ibid.*, pp.44-45.

piece goods from the dollar area if "British goods" were not supplied by this means. It was expected that if the price of its primary products rose, the purchasing power of a colony would rise, and its cotton piece goods market would expand more than that of markets for other goods. Alec Cairncross, Economic Adviser to the Board of Trade, had already pointed out in 1950 that the benefit to Britain of the preferential tariff system would become questionable if Lancashire had insufficient capacity to take full advantage of such tariffs.²¹

Nevertheless, a shortage of dollars made it difficult for Commonwealth countries to import cotton piece goods from America, and this shortage was aggravated when Britain withdrew from the convertibility provision between dollar and sterling in 1947. Japan began exporting to the sterling area in April 1948, and in the same year concluded payment and trade agreements with the area, as well as reaching separate trade agreements with Burma and Pakistan in 1949, and set about making good use of them. The idea was that if the trade with the whole sterling area was in balance, there would be no objection to receiving payment in sterling.²² Japan was rapidly successful in shipping great quantities of exports to Britain in 1949 and Pakistan in 1950-51.

However, the country which captured most of the postwar demand in the Commonwealth was not Japan but India. In Australia for example, Britain had an overwhelming share of the market, but in 1949-51 India took advantage of the devaluation of the pound to gain entry to what before the war had been a Japanese market.²³ In Malaya, which in 1950 was second only to Indonesia in volume of cotton piece goods imported, India held most of this market despite competition from Japan and China. Part of this was re-exported to Indonesia from Singapore.²⁴ The increase in imports to Malaya was the result of an increase in purchasing power due to the recovery in price and export volume of tin and rubber, but the 30 per cent devaluation of sterling of 1949 was also an important factor, as it improved India's price competitiveness. Traditionally, Malaya tended to export her primary produce to the dollar area and import consumer goods from the sterling area, so that she acted as a focal point of Asia's multilateral trade settlement mechanism. It is thought that the re-emergence of this pattern at this period helped to alleviate the dollar shortage of the British Commonwealth.²⁵

Finally, let us briefly touch on the world's largest importer of cotton piece goods, Indonesia. From before the war Indonesia had a large population, and a purchasing power deriving from exports of primary products, but was nevertheless relatively slow to develop a modern cotton industry, with the result that it was one of the world's largest markets for foreign-made cotton piece goods. During the Japanese occupation and the postwar period of civil war, there was stagnation not only because poor internal communications and other factors created an unfavourable market environment, but also because the import of raw cotton and yarn was severely restricted. Latent domestic demand had therefore been building up. In 1948 quotas were imposed on the quantity of processed cotton cloth and cotton garments, as a result of which the volume of cotton imports did not reach prewar levels. On the other hand, imports of cotton yarn and unbleached cotton cloth increased to surpass their prewar levels.²⁶ Even so, the total quantity of cotton piece goods imported was very large, as can be seen from Table 8. Japan concluded a trade agreement with Indonesia in late 1948, and set about exporting with settlement in dollars. In 1949 funds for the Marshall Plan for reconstruction in Europe were

²¹ "Imported Cloth", Cotton Spinners' and Manufacturers' Association, Minute Books, 11th January 1952. A.K.Cairncross, "International Trade, Trends and Prospects", *Cotton Board Trade Letter*, No.64, November 1949, pp.5-6. *QSR*, No.18, April 1950, p.1.

²² *QSR*, No.14, March 1949, p.1. Gaimusho Tsusansho Kanri Boeki Kenkyukai, *Sengo Nihon no Boeki-Kinyu Kyotei* (Trade and Financial Agreements of Postwar Japan), Jitsugyo no Nihonsha, Tokyo, 1949, pp.15-42. *Pakistan Trade*, 1-1, April 1950, pp.20-21.

²³ *Cotton Board Trade Letter*, No.59, April 1949, p.7. *QSR*, No.23, September 1951, p.2.

²⁴ *QSR*, No.22, June 1951, p.2. *Ibid.*, No.23, September 1951, p.2.

²⁵ Ganguli, *India's Economic Relations*, pp.80-85.

²⁶ Ingrid Balmer, *Textiles in Indonesia: Problems of Import Substitution*, Praeger, New York, 1972, pp.48-56.

used to import Japanese-made goods.²⁷ It was perhaps not surprising that exports of Japanese goods were concentrated in the only large market not belonging to the British Commonwealth.

The second period

From 1949 onwards the British cotton industry met competition first from India and then from Japan and China, and was forced to retreat in almost every market. Britain's share declined in India and Pakistan, which had been her principal prewar markets, and in 1949 was faced with Japanese and Chinese competition in British East Africa and Malaya.²⁸ In British East Africa competition with India was fierce, and the latter country was able to seize the lead helped by the restrictions on Japanese goods.²⁹ Britain's three largest markets at this time were West Africa, South Africa and Australia, but in West Africa, whose purchasing power depended on exports of primary products, she came up against Indian and Japanese competition, suffering serious losses despite import restrictions on Japanese goods, while British exports to the other two markets stagnated, affected by import substitution in South Africa, and in Australia by a shortage of foreign exchange.³⁰

The proportion of Japan's exports accounted for by the Commonwealth was high from the first, but it is important to note that this proportion had been maintained in the overall expansion of exports.³¹ The devaluation of the pound in 1949 reduced Japan's competitiveness in the Commonwealth market in price terms, but since most of the preferential tariffs were specific duties, rather than ad valorem, there was a tendency for their real effect to be weakened by inflation. Also, in view of the pressure from GATT, Britain could not raise tariffs or widen the scope of preferential tariffs.³² Japan voluntarily restricted exports to the sterling area in 1952 in response to import restrictions, which led to a relaxation of the restrictions across the area the following year.³³

At the same time, a certain market segmentation was becoming discernible. Great quantities of Indian cotton piece goods were exported to Britain between 1951 and 1954. The Cotton Board pointed out that India's raw cotton export restrictions and low wages enabled her to supply raw cotton at a price far below world prices, and that because of Japanese competition a great concentration of Indian goods were being exported to Britain and the Commonwealth. The CIF price of Indian unbleached cotton cloth imported into Britain was 42s 6d per pound, which was not only cheaper than British cotton cloth but cheaper even than Britain's typical 20-count cotton yarn (51s 8d per pound) and prompted the Board to issue a warning to the low-wage countries conducting this sales offensive.³⁴ In point of production cost, by about 1955 Hong Kong had become Japan's closest competitor. However, in the local Hong Kong market and in Southeast Asia competition from Japan and China was severe, and a considerable portion of exports went in the direction of Britain, taking advantage of preferential tariffs.³⁵

What progress was made in import substitution in developing countries? Here let us examine briefly two cases, Pakistan and Indonesia. Taking Pakistan first (see Table 9), at independence in 1947 there was hardly any modern cotton industry, and the country was dependent initially on imports from India and then from

²⁷ *Sengo Nihon no Boeki-Kinyu Kyotei*, pp.49-60. "Indonesia and the European Recovery Program", *Indonesia Information*, 4-2, April-June 1950, pp.71-72.

²⁸ *Cotton Board Trade Letter*, No.71, January 1951, p.4. *QSR*, No.15, July 1949, p.1.

²⁹ *QSR*, No.21, March 1951, pp.1-2. *Ibid.*, No.29, March 1953, p.2.

³⁰ "Australia's Import Cuts", *Textile Recorder*, April 1952, p.75. "Export Development: Possibilities of the East and West African Markets", *Textile Recorder*, April 1953, p.63. *QSR*, No.38, June 1955, p.1.

³¹ For example, 64 per cent of Japanese cotton textiles exports went to the sterling area in 1952. Abe, *Keikogyo no Saiken*, p.592.

³² Singleton, *Lancashire on the Scrapheap*, p.119. MacDougall and Hutt, "Imperial Preference", pp.251-56. *Cotton Board Trade Letter*, No.82, November 1952, pp.1-2.

³³ *QSR*, No.26, June 1952, p.2. *Ibid.*, No.29, March 1953, p.2. *Ibid.*, No.32, December 1953, p.2.

³⁴ Cotton Board, *The Cotton Industry and the Consequence of Unlimited Imports*, Manchester, 1956, pp.10-12. The price of imported goods at that point was 43 shillings 3 pence for Chinese cloth, and 50 shillings 5 pence for Hong Kong cloth.

³⁵ *Ajia no Sen-i Sangyo*, pp.280-82, 286-87. *HTA*, 1955, p.57. *Ibid.*, 1956, p.15. *Ibid.*, 1961, p.47.

Japan, but a spinning industry using the country's own raw cotton suddenly sprang up, achieving a very rapid growth in which the number of spindles more than quadrupled between 1948 and 1953. In 1952, in response to the demand of spinning companies, the government raised the import duty on British cloth from 24 to 54 per cent, and on other countries' from 30 to 60 per cent, a typical example of infant industry protection. This and a shortage of foreign exchange combined to raise the domestic price temporarily, but production expanded steadily thereafter and from about 1953 imports started to fall markedly. In 1957 exports exceeded imports for the first time, and in 1960 Pakistan disappeared from the Cotton Board's list of principal importing countries. This could be called a successful example of rapid import substitution.³⁶ In addition, Pakistan advanced actively into the international cotton yarn market from which the principal exporters of textiles such as Japan had more or less disappeared. At the beginning of the 1950s Pakistan was importing considerable amounts of cotton yarn from Hong Kong, but by 1955 she had transformed herself into an exporter and by 1956 was so successful as to threaten Hong Kong yarn in its home market.³⁷

Indonesia's import substitution industrialization policy was initiated in earnest at about the time a cease-fire was agreed between the Netherlands and the Indonesian government in December 1949. However, the latter's policy had great limitations in a number of respects. At this period there was roaring inflation and the falling exchange rate tended to be unable to keep up with the resulting price rises, and therefore the actual price of imports declined and made foreign cloth competitive. The interests of merchants, especially those of import traders bent on achieving their own ends, probably also played a part. In addition, the setting of the tariff wall was arbitrary and lacked consistency. For example, the domestic cotton yarn production was as yet insufficient to satisfy demand, but imports of cotton yarn were not allowed to increase even though the plant capacity utilization rate in the cotton piece goods industry was low. Meanwhile in the spinning industry the rate of capacity utilization tended to fall because of difficulties in importing raw cotton. In these conditions, import substitution took considerably longer in Indonesia than in Pakistan, and throughout the years 1950-56 the quantity of cotton piece goods imports continued to exceed domestic production.³⁸ In 1952-53 imports from Hong Kong increased but from around the time in 1954 when restrictions were temporarily placed on imports due to a lack of foreign exchange, Japanese cloth became the main imports.³⁹

To sum up, in this period there was considerable variation in the import substitution industrialization of developing countries. The intensity of inter-Asian competition in the world market also remained uneven.

The third period

The most conspicuous characteristics of the second half of the 1950s were the appearance of a new tide of protectionism in the advanced countries, which wanted to keep imports from Asian countries within limits, and an intensification of inter-Asian competition in other markets. The protectionist trend of the West was already evident in continental Western Europe, but it was Britain and America that, while avoiding as far as possible any measures which would conflict with the framework of the GATT, established a pattern of introducing quotas through agreements reached in bilateral negotiations with individual countries. These agreements became the precursors to a series of international fibre agreements in the 1960s and later.⁴⁰ In Britain from 1955-56 there was a campaign which attempted to restrict imports of Asian goods. Britain had imposed restrictions on imports from Japan in 1952-53, and imposed quotas on China in 1957, but now demanded quotas of Commonwealth countries such as India, Pakistan and Hong Kong. A reduction in tariffs on British goods entering India was obtained, and in negotiations spanning 1958-59 agreement was reached on import quotas for India, Pakistan and Hong Kong. Import restrictions were also an essential precondition

³⁶ "Foreign Trade and Textile Industry", in *Fifteen Years of Textile Industry in Pakistan*, Commercial Press of Pakistan, Karachi, 1965?, pp.163-75. Fakhruddin Valibhai, "Textile Industry in Pakistan," *HTA*, 1956, pp.29-31.

³⁷ *HTA*, 1961, p.30.

³⁸ Palmer, *Textiles in Indonesia*, pp.57-60, 116-18. Ingrid Palmer and Lance Castles, "Textiles", in Bruce Glassbarger ed., *The Economy of Indonesia*, Cornell University Press, Ithaca, 1971, pp.322-25, 331-33.

³⁹ *HTA*, 1955, p.58. *Ibid.*, 1961, p.43. Palmer, *Textiles in Indonesia*, p.201.

⁴⁰ Aggarwal, *Liberal Protectionism*, Chapter 4. Aggarwal calls this trend liberal protectionism, and offers a narrative of the emergence of protectionism within the framework of the GATT from the international relations perspective.

of the rationalization of the domestic cotton industry envisaged in the Cotton Industry Act of 1959.⁴¹ However, as the level of import quota was raised in negotiations, the influx of cotton cloth made in India, Pakistan and Hong Kong continued and took approximately 10 per cent of the British market. In 1958 imports from India exceeded exports to that country, reversing the trend of the previous hundred and fifty years.⁴² Meanwhile, in the American market there had already been demands from the cotton industry for restrictions on imports of Japanese cotton cloth in the first half of the 1950s. Japan's voluntary restraint of 1955 and the intergovernmentally agreed quotas of 1957 were the response to this. However, although as a result Japan's share fell from 72 per cent in 1957 to 20 per cent in 1960, little was achieved since other Asian countries made great inroads in the American market, with Hong Kong taking 18 per cent, India 11 per cent, and Pakistan 3 per cent, to mention only the most important countries.⁴³ In this way inter-Asian competition spread across the markets in advanced Western countries.

Mirroring these trends in the advanced countries' markets, inter-Asian competition intensified in the other main markets too. In Ceylon, Tanganyika, Kenya, Uganda and Nigeria, Japan stole India's share of the market, and in Australia and New Zealand, Britain's share. While in the Sudan India was dominant, and in Ghana Japan, in Malaya there was a three-cornered fight between Japan, India and China, with Japan the dominant contestant. In Thailand China came out ahead of Japan, Hong Kong and India, and in Hong Kong outdid Japan in market share.⁴⁴ Japan and India also penetrated the Canadian market where America had been dominant. In addition, Japan and China began to take an interest in the Dutch market. Thus at the end of the 1950s the competition became truly global, and the British Commonwealth market ceased to have much real importance as a distinct unit in terms of tariffs or currency.

In Indonesia, as a result of the quantitative restrictions of 1954 and the tariff increases of 1955, the domestic production of cotton piece goods overtook imports in 1956. Thereafter import substitution progressed so rapidly that in 1960 domestic production was 2.6 times as great as imports.⁴⁵ One thing that had an influence in maintaining Japan's share in imports was the conclusion of an agreement that, as a part of American economic aid to Indonesia, Japan would import American raw cotton, make cotton cloth and then export it to Indonesia. In 1956 cotton yarn and cotton cloth, and in 1959 and 1960 (at Indonesia's request) only cotton yarn, were imported from Japan under this agreement.⁴⁶ The other chief competitor in the Indonesian market was China, which in 1954 and 1956 concluded payment and trade agreements with Indonesia. As a result of these and the Chinese government's Southeast Asian diplomatic offensive, imports of Chinese goods also expanded sharply.⁴⁷ In this period, China and Japan were dominant in unbleached and bleached cotton cloth respectively. That is not to say, however, that there was a definitive division in degree of processing or in product quality: the fact that the main source of imports of coloured cotton fabrics shifted from Japan to China is evidence to the contrary.⁴⁸ Rather, generally speaking, the goods of both countries of the same quality came into the market at similar prices by the same sales routes in Southeast Asia. Hong Kong tended to be forced to retreat under the intense price competition from Japan and China.⁴⁹

Lastly let us look at Hong Kong's role in this period and how it changed, starting with its development as a base for entrepot and processing in cotton textiles. In 1954 Hong Kong was producing about 200 million square yards of cotton piece goods, of which 160 million were being exported. At the same time 110 million square yards were imported from Japan, India, Britain and China, and 20 million were re-exported to Indonesia and Thailand (see Table 6). However, part of what was counted as Hong Kong-made export cotton

⁴¹ For details of the process of negotiation, see "U.K. Quota and U.S. Problems", *HTA*, 1961, pp.77-95, and Aggarwal, *Liberal Protectionism*, pp.54-73.

⁴² *QSR*, No.53, March 1959, p.1.

⁴³ See *Ajia no Sen-i Sangyo*, pp.267-42.

⁴⁴ See *Ajia no Sen-i Sangyo*, pp.218-37.

⁴⁵ Palmer and Castles, "Textiles", pp.324, 332.

⁴⁶ *Sengo Boekishi*, pp.265-70. Japan also concluded similar agreements with Pakistan and Burma.

⁴⁷ Shigeichi Matsumoto, *Chugoku no Tai Ajia Keizai Seisaku: 1949-1972* (China's Economic Policy with other Asian Countries, 1949-1972), *Ajia Keizai Kenkyusho*, Tokyo, 1975, pp.249-50.

⁴⁸ *Statistical Pocket Book of Indonesia*, passim.

⁴⁹ *HTA*, 1957, p.17. *Ibid.*, 1961, p.47.

piece goods was imported cotton piece goods which had been processed by dyers in Hong Kong, so that even at this date the entrepot-cum-processing base character of the colony was fairly strong.⁵⁰ In 1956-58 imports from Japan and China increased suddenly. The majority were re-exported, although an increase in demand from the dyeing and apparel sectors was also important. However, as soon as re-exports increased, direct exports from Japan and China to the country of final consumption increased the following year. When we come to 1959 re-exports suddenly dropped, and the great majority of exports from Japan and China underwent secondary processing such as machine-sewing in Hong Kong before being exported elsewhere. Hong Kong's apparel sector introduced Western and Japanese technology and capital from around 1953 and achieved rapid growth: by 1958 the value of exports of secondary processed cotton goods was already so great as to surpass that of cotton piece goods. The material used was mainly Japanese cotton piece goods, and by entering the America market where there was a gap created by Japan's voluntary restrictions, the apparel industry orientation of Hong Kong's cotton industry made great strides. From 1959 on Hong Kong's exports of cotton goods were about the same value as Japan's, and by advancing into Britain, West Germany etc. Hong Kong, together with Japan, initiated Asia's shift towards higher quality cotton goods exports.⁵¹

The strategic role fulfilled by Hong Kong did not stop there. In the above-mentioned negotiations with the advanced countries too, Hong Kong had a position which was extremely important for other Asian countries. First, in negotiations with Britain, Hong Kong took a stronger stance than India and Pakistan, and as a result got an advantageous import quota for the three countries. In the negotiations with America, Hong Kong displayed a more uncompromising stance than Japan, which was in a weak position vis-a-vis America.⁵² The colony of course took advantage of Britain's international standing, but it is undeniable that what strengthened its position more than anything else was the fact that as a free port it was putting the principles of the GATT into practice more fully than the advanced countries.

To summarize, the postwar world market was initially divided into two, the British Commonwealth market and the non-Commonwealth free market. However in the Commonwealth market, with the retreat of the British cotton industry, supply was unable to keep up with the increased demand stemming from the rise in purchasing power due to the recovery in exports of primary products, while in Asian countries, particularly in Southeast Asia, the development of import substitution reduced imports from Japan, China and Hong Kong. Thus in the 1950s, with the entry of both Japan and China into the Commonwealth market, inter-Asian competition became global, and the Commonwealth market gradually became part of a competitive world market. If the idea behind preferential tariffs was a division of labour with Britain as the industrial country and the rest as primary producers, one could say that the revised cotton piece goods world market changed it into one which assumed an international division of labour in which Asia specialised in cotton and other labour-intensive industries, and other countries were suppliers of heavy and chemical industry goods and primary products.

4 The Impact of Asia's Industrialization

Finally, I would like to develop the points presented above into a more general argument. First, the revival of inter-Asian competition did not necessarily mean a smooth industrialization of India and China, but it may be considered that the strong competitive pressure from these two countries was a decisive international factor which pushed the Japanese cotton industry towards an increase in productivity and diversification, including a shift to man-made fibres. Indian cotton piece goods replaced British cloth in the Commonwealth market and initially competed with Japanese cloth. As inter-Asian competition in the Commonwealth market intensified, gradually India specialized in those markets, notably Britain, where it was easy to gain entry, and maintained her position as the world's second largest exporter throughout the 1950s. However, India possessed a huge domestic market in which low-quality fabric was dominant and Indian industrial policy put priority on supplying this market with cheap cotton piece goods, with the result that product diversification and improvements in productivity were limited. China, except for a short period immediately after the Communist takeover, was also a powerful competitor for Japan in the world cotton piece goods market. It cannot be denied that post-revolution China, handicapped by relatively expensive Chinese raw cotton and a

⁵⁰ HTA, 1956, pp.5-8. Ibid., 1961, p.44.

⁵¹ HTA, 1957, pp.8-11, 27-37. Ibid, 1958, p.10-15, 38-41. Ibid., 1959-1960, pp.4-5, 45-50. Ibid., 1961, pp.57-67.

⁵² See references for footnote 41.

lack of updated machinery and equipment, gradually lost her international competitiveness and competed with Japan by artificially lowering prices. However, the fact that intense competition between Japan and China developed in Asia and Africa under the Cold War regime should be borne in mind. To put it another way, although Japan did not have any country yet to follow her, as the theory of the flying geese pattern of development hypothesises, at this period she was actually under strong competitive pressure from India and China of the kind that the theory assumes.⁵³ Japan's originally labour-intensive cotton industry survived in competition with Asian and African countries in their relatively low-income markets by introducing wave after wave of labour-saving machinery. This was a strategy frequently employed by Japanese industry in fields where no rapid development of the market for higher quality products could be expected. And, it may be considered that this strategy was later followed by Hong Kong, Taiwan, Korea etc and became the driving force behind the later flying geese pattern of development.

Second, inter-Asian competition also had a great influence on Japanese industrial policy. Discussion of industrial policy has tended to focus on the "catching-up" aspect of leading sectors. However, the question of whether to protect, abandon or in some way restructure an industry once it has started to face competition from developing countries is now becoming one of the most important points of debate in industrial policy. The restructuring of the 1970s and 1980s has been praised and there is a school of thought that considers this to be the aspect of Japanese industrial policy most worthy of imitation by other countries.⁵⁴ But it deserves pointing out that this policy was in fact being practised throughout the postwar period. That is to say, the Japanese cotton industry and government after the war did not adopt a defensive attitude towards inter-Asian competition, and very rapidly worked out that the solution was to raise productivity and to convert to man-made fibres. The view taken was that the industrialization of Asia was something inevitable, and the strategy conceived to meet the challenge was to make the old key industries labour-saving and technology-intensive and carry out a thorough remodelling of the industrial structure through a shift to higher-value added goods, an approach diametrically opposed to that of Western countries, which tended towards protectionism. The realistic recognition that if they continued as they were, sooner or later the labour-intensive industries would be faced with competition from lower-wage countries and lose the battle was something that was already clear given the background of competition with India and China. Certainly Japan was the country where the idea of upgrading the industrial structure was put into practice most systematically, and this was a way of thinking which for a long time was hard for neoclassical economics to accommodate. However, it was not an expression applying only to the special circumstance Japan was in. It should be seen rather as a concept which tried to grasp a positive response any high-wage country should consider when she faced a competition from low-wage countries within the framework of a free trade system such as the GATT.

Thirdly, behind the revival of inter-Asian competition, there was the fact that many Asian countries responded to the new free trade system championed by America by proceeding with industrialization. It was not only Japan, India, China and Hong Kong that did this. Most of the countries of Southeast Asia obtained foreign currency as a result of the recovery of exports of primary products to the West, and with this as capital set out to promote import substitution industrialization. In the process, when supply failed to keep up with demand there was an influx of cotton piece goods from the four main exporting countries, but as soon as domestic supply capacity caught up, imports were reduced. In this sense, the inter-Asian competition described in this paper was nothing but a surface adjustment process of demand and supply for Asia's industrialization. Naturally, from the exporting countries' point of view, this could only mean shrinking markets. Thus, with the progress of industrialization in the Asian countries, advanced cotton industries gradually ventured out into the world market. The country which led the world market as a whole was of course America, but trade between Asian countries and America remained small.⁵⁵ If Asia was to increase trade with the advanced countries, it had to capture the worldwide increase in demand accompanying the revival of Britain and other West European countries (a revival which was indirectly dependent on American

⁵³ See Kaoru Sugihara, *Ajia Kan Boeki no Keisei to Kozo* (Patterns and Development of Intra-Asian Trade), Mineruva Shobo, Kyoto, 1996, pp.5-6, 118.

⁵⁴ Hugh Patrick, "Japanese High Technology Industrial Policy in Comparative Context", in Patrick ed., *Japan's High Technology Industries: Lessons and Limitations of Industrial Policy*, University of Washington Press, Seattle, 1986, p.30.

⁵⁵ In 1958-60 Asia traded far more with the U.K. and Continental Europe than with the United States. See IMF, *Direction of Trade*, passim.

aid), and the recovery in purchasing power of the peripheral countries of Oceania etc. Hong Kong, as a entrepot and processing base, created a competitive market structure in Asia, and became the axis which gradually linked it to the world market. The commercial and financial networks and transport and communication networks to support trade were established. The whole of this linkage gradually changed the manner of involvement of the Asian economy in the world market into a more active one. The most important international factor which determined the pattern of export of Japanese cotton piece goods may be considered to have been this kind of structural change in the world market against the background of the industrialization of Asia.

Table 1 Geographical Composition World Exports of Cotton Cloth, 1937-1960

(base unit: million square yards)

	1937	1946	1948	1951	1954	1957	1960
Japan	2,643	1	408	1,092	1,278	1,468	1,424
India (a)	221	318	308	776	861	881	724
China	50	3	260	3	15	299	562
Hong Kong	--	--	--	--	163	196	312
Taiwan (b)	--	--	--	--	1	20	98
Pakistan (a)	--	--	--	--	--	10	76
South Korea (b)	--	--	--	--	--	--	39
Asia Total (c)	2,948	344	1,016	1,871	2,336	2,894	3,254
Continental Western							
Europe (b)	1,613	450	1,029	1,871	1,570	1,378	2,033
Eastern Europe							
(incl Soviet Union) (c)	308	6	155	254	359	594	743
U.S.A.	227	789	940	781	591	548	437
U.K.	1,921	514	761	864	637	456	327
World Total (c)	7,159	2,416	4,144	6,220	5,670	6,205	7,147

Source: *Sengo Bosekishi*, Appendix Table B-5.

Notes: Figures for Hong Kong do not include re-exports (these re-exports are however included in Asia and world totals). Asia and world totals include countries other than those in this table. (a) indicates that figures are recorded in million yards; (b) in thousand quintals. (c) were calculated simply as the sum of all figures in different units. For details, see the main text and footnote 9. Figures in this table have been compiled not only from the Cotton Board, *Quarterly Statistical Review*, but from trade statistics of various countries and do not necessarily agree with those in the tables below.

Table 2 Geographical Composition of World Imports of Cotton Cloth, 1937-1960

(base unit: million square yards)

	1937	1951	1954	1957	1960
U.K.	50	377	267	416	728
U.S.A.	147	48	74	127	464
West Germany (b)	50	31	78	154	287
Hong Kong	107	97	106	281	321
Indonesia (a)	779	587	506	505	295
Burma (a)	170	91	128	163	170
Malaya	142	345	134	169	168
Thailand (b)	145	100	178	144	151
Former French Indochina (b)	76	129	126	148	80
The Philippines (b)	120	307	223	223	50
South Africa (a)	220	306	252	234	222
Nigeria	164	121	172	149	211
Australia	171	326	304	275	355
World Total (c)	6,405	6,080	5,368	5,884	6,594

Source: *Sengo Bosekishi*, Appendix Table B-7.

Note: See Table 1.

Table 3 Geographical Composition of Japanese Exports of Cotton Cloth, 1946-1960

(in million square yards)

	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
U.K.	-	64	67	172	111	84	64	33	66	51	36	51	39	44	57
U.S.A.	-	7	9	3	22	2	6	33	49	140	123	82	97	97	87
Australia	-	12	-	10	10	48	10	22	58	71	48	86	107	120	146
Hong Kong	-	3	-	12	30	49	57	48	54	61	138	151	111	124	112
Pakistan	n.a.	n.a.	n.a.	49	225	254	180	-	85	32	-	-	-	-	-
Indonesia	-	116	229	91	198	234	126	304	283	108	139	96	46	42	80
Burma	-	9	1	-	39	7	10	41	68	43	47	52	10	52	57
Malaya	-	7	22	48	23	55	35	36	53	80	86	80	63	57	70
The Philippines	-	7	4	11	10	5	4	21	25	23	60	104	71	45	27
Former French															
Indochina	-	-	-	-	-	-	-	1	-	22	72	81	52	52	53
Ceylon	-	6	1	15	17	14	17	21	26	35	55	48	73	39	43
Thailand	-	25	12	48	83	49	41	83	109	97	79	91	96	118	104
British West Africa	-	6	19	51	32	36	41	29	61	58	42	47	57	64	123
World Total	1	399	448	744	1,087	1,082	752	914	1,278	1,139	1,262	1,46	1,245	1,263	1,425

Source: Cotton Board, *Quarterly Statistical Review*, passim.

Notes: There are marginal differences between the above figures and original Japanese statistics for the period from 1947 to 1952. The table includes those countries or regions whose annual volume of exports exceeded 50 million square yards during this period. "-" refers to no exports or less than 0.5 million square yards. The total includes exports to countries other than those listed.

Table 4 Geographical Composition of India's Exports of Cotton Cloth, 1946-1960

(in million yards)

	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Australia	32	24	20	34	45	38	9	31	45	42	41	50	47	49	49
U.K.	-	-	-	2	47	89	6	20	112	86	92	151	102	167	199
Singapore	-	-	-	37	205	171	88	50	34	29	34	28	22	29	23
Burma	-	n.a.	n.a.	15	133	28	70	78	38	11	17	40	5	38	22
Iran	16	12	6	31	88	61	62	78	69	48	41	42	37	38	31
Ceylon	24	28	28	37	64	40	43	44	47	42	46	29	31	25	24
Pakistan	n.a.	n.a.	142	38	50	4	56	1	26	6	3	2	-	-	-
British East															
Africa	33	31	32	63	56	23	52	53	73	64	66	71	53	65	49
British West															
Africa	20	n.a.	n.a.	26	28	20	20	60	73	72	68	76	58	27	32
Indonesia	n.a.	-	-	-	-	-	-	32	31	n.a.	45	51	13	10	9
Sudan	22	16	9	37	54	29	54	44	83	65	87	97	55	152	64
World Total	318	236	308	466	1,109	776	597	655	861	749	747	881	622	850	724

Source: Cotton Board, *Quarterly Statistical Review*, passim.

Notes: See Table 3.

Table 5 Imports of Cotton Cloth from China, 1946-1960

(base unit: million square yards)

	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
U.K.	-	-	-	-	-	-	-	-	-	5	9	28	39	28	25
U.K. (a)	-	-	-	-	--	-	-	-	-	4	8	15	14	24	23
The Netherlands (b)-	-	-	-	-	-	-	-	-	-	-	1	6	26	52	43
<u>Australia</u>	-	-	12	1	-	-	-	-	-	-	3	8	12	15	10
<u>Hong Kong</u>	2	40	55	34	20	-	-	2	8	62	101	100	127	126	156
Malaya	13	70	45	15	9	2	-	-	2	11	16	23	37	32	24
Pakistan (c)	n.a.	n.a.	20	18	9	1	-	5	2	-	-	-	-	-	-
Iraq	n.a.	n.a.	12	5	-	-	-	-	-	-	-	-	-	6	7
Nigeria	-	-	-	-	-	-	-	-	-	-	4	6	22	19	16
Sudan (b)	-	-	-	-	-	-	-	-	-	-	2	6	13	6	6
Indonesia (c)	-	16	14	26	5	-	-	-	4	38	114	114	86	66	120
<u>Ghana</u>	-	-	-	-	-	-	-	-	-	-	-	5	3	8	11
World Total (d)	16	129	168	102	43	4	1	7	17	121	258	312	388	406	462
	(3)	(92)	(260)	-	-	(3)	(1)	(2)	(15)	(115)	(245)	(299)	(361)	(556)	(562)

Source: Cotton Board, *Quarterly Statistical Review*, passim.

Notes: This table includes those countries or regions whose annual volume of imports exceeded 10 million square yards. Figures in brackets are from *Sengo Bosekishi* Appendix Table B-5. (a) refers to the portion re-exported from the U.K. after processing. (b) indicates one thousand quintals; (c) million yards; (d) total of figures in three different units.

Table 6 Hong Kong's Trade of Cotton Cloth, 1946-1960

(million square yards)

	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
(imports)															
<u>U.K.</u>	1	8	6	6	6	5	3	6	3	2	2	2	2	2	1
Japan	-	-	1	7	25	43	62	49	61	55	145	151	118	123	120
<u>China</u>	2	41	55	34	20	-	-	2	8	62	101	100	127	126	156
Total	7	59	79	76	114	97	91	101	106	138	274	281	257	281	321
(exports)															
U.K.	-	-	-	-	-	-	1	2	23	54	59	76	123	128	125
<u>U.S.A.</u>	-	-	-	-	-	-	-	-	-	-	-	3	4	41	86
<u>Indonesia</u>	-	11	8	1	11	26	98	96	74	27	24	29	6	3	14
Total	22	87	132	111	142	160	165	134	163	165	141	196	220	235	312
(re-exports)															
Thailand n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	12	1	9	52	18	28	7	5
<u>Indonesia n.a.</u>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	22	9	29	102	105	100	21	72
Total	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	47	20	59	182	148	147	46	92

Source: Cotton Board, *Quarterly Statistical Review*, passim.

Note: This table includes those countries whose annual volume of trade exceeded 50 million square yards, except for imports from the U.K.

Table 7 Geographical Composition of U.K. Imports of Cotton Cloth, 1948-1960

(million square yards)

	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Japan	55	178	91	85	71	38	52	64	32	57	42	44	52
China	-	-	-	-	-	-	-	5	9	28	39	28	25
Hong Kong	-	-	-	-	-	2	20	51	58	75	119	137	123
India	-	3	76	109	11	16	133	137	133	186	128	193	231
Spain	5	7	21	27	7	2	-	-	3	2	1	10	64
Pakistan	-	-	-	-	-	-	-	-	8	7	2	32	40
Total	226	348	287	377	180	99	267	300	306	416	387	537	728
(a)													
Japan	54	165	89	82	54	38	52	64	31	57	40	43	50
China	-	-	-	-	-	-	-	4	8	15	14	24	23
Total (Exports)	761	904	822	864	711	709	637	555	474	456	384	347	327

Source: Cotton Board, *Quarterly Statistical Review*, passim.

Notes: This table includes those countries whose annual volume of imports exceeded 40 million square yards, except for Germany who imported 62 million yards in 1948 and 47 million square yards in 1949. Figures after (a) represent the portion of imports from Japan and China to be re-exported from the U.K. after processing.

Table 8 Geographical Composition of Indonesia's imports of Cotton Cloth, 1948-1960

(in million yards)

	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
U.S.A.	13	51	58	106	64	87	25	46	13	3	1	-	2
Singapore	3	4	25	37	4	-	-	-	-	-	-	-	-
Hong Kong	3	2	11	24	106	119	86	66	78	104	82	24	57
U.K.	7	13	9	14	10	15	4	7	4	2	-	-	-
Japan	243	156	191	287	182	294	300	123	186	173	79	44	57
India	1	4	62	54	29	49	42	89	54	63	18	18	9
Hungary	-	-	-	-	-	6	8	17	11	-	-	-	2
The Netherlands	38	59	48	51	36	43	27	38	42	31	12	9	6
China	9	26	5	1	1	-	4	38	114	114	86	66	120
World Total	340	340	412	587	436	626	506	451	532	505	287	171	295

Source: Cotton Board, *Quarterly Statistical Review*, passim.

Note: This table includes those countries whose annual volume of imports exceeded 15 million square yards.

Table 9 Geographical Composition of Pakistan's imports of Cotton Cloth, 1948-1960

(in million yards)

	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
India	156	53	74	26	51	4	10	5	-	-	-	-	-
China	20	18	9	1	-	-	-	-	-	-	-	-	-
U.K.	29	69	66	40	34	3	1	5	5	1	-	-	-
Italy 2	6	9	4	1	-	-	-	-	-	-	-	-	-
Japan	7	106	200	262	138	8	28	19	33	1	1	2	-
Hong Kong	2	2	2	-	-	-	-	-	-	-	-	-	-
Total	240	286	409	392	242	16	41	30	45	3	1	2	-
Exports	-	-	-	-	-	-	-	-	17	10	4	42	76

Source: Cotton Board, *Quarterly Statistical Review*, passim.

Note: Imports from some countries or regions are not listed in the above table.

Notes