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**East Asia between the Two World Wars**  
**– Industrialization of Japan and its Ex-Colonies –**

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**PREFACE**

After the mid-1980s, the world entered a structural transition period. The world structure established after World War II started to crumble in the early 70s, and now it is crumbling with a crash. It means not only the collapse of the socialism but also, and more importantly, that the world political and economic system led by the powerful U.S., has become impossible to maintain. We can find many changes in various areas of the world, among them the formation of an important center of reorganization of the world system in East Asia with its rising economic power. Japan has now grown to be one of the nucleus of the world with its highly developed capitalism as its industrial power has now surpassed even that of the U.S. Furthermore, South Korea and Taiwan, former colonies of Japan, have rapidly achieved economic development and become the first full-scale capitalist nations following the western countries and Japan. China, with the greatest population in the world has moved to an open economy since the late 70s, and is rapidly changing to a market economy; in other words, its virtual transformation to capitalism is under way. The changes in each country have been accelerated by mutual influence. East Asia, which was once viewed as a region of “oriental stagnation” is now being

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noticed internationally for its remarkable productivity.

When a new situation beyond conventional understandings arises, it may be important, at first, to historically recapture its factors. As the postwar system is crumbling today, it is necessary to make clear the process and analyze the factors that established it. The basic issue of this paper is to analyze the conditions of the development of capitalism in East Asia before World War II.

## I East Asia between the Two World Wars

Let us review the different areas of study which are helpful to grasp East Asian history between the two World Wars.

In international economics, during World War II researchers in the League of Nations, led by Folke Hilgerdt, engaged in a study to quantitatively grasp the real condition of the modern world economy. Hilgerdt in his works, analyzing the industrial production and trade relations of the respective countries, clearly described the formation in the 1870s of the multilateral trade network that started in the tropics and ended in the United Kingdom. This was a remarkable achievement to grasp in its macroeconomic level the international economic relations which had largely influenced the research that followed. While the significance of the work is fully recognized, two issues related to the topic of this paper should be pointed out. The first is that he puts Europe as the central power. The multilateral trade model presented was composed of five regions from the viewpoint of how Europe, centering around the United Kingdom, was connected with other countries in the world, while Japan, China and other Asian countries together with the U.S.S.R. were excluded. It is true that modern world trade has expanded through the multilateral trade network centering around the United Kingdom. However, Japan was excluded from this trade network because it was difficult to place it in the network, the trade model was constructed exclusively from the European point of view, and it was based simply on European capitalism<sup>1)</sup>.

This point lead to the second issue which is the difficulty to appropriately locate the capitalist industrialization of non-Western countries in this trade network. Thanks to Hilgerdt's study, it became clear that the germination of capitalist industrialization occurred in clusters in many different countries. This process reached a turning point during World War I, with the sudden rise of the newly industrialized countries which were also quantitatively analyzed. Hilgerdt revealed that the U.S.S.R. aside, Japanese industrial development between the two World Wars had been exceptional. The problem, however, was the way he dealt with it. His interest was confined to some extent to examine the influence of the industrialization of the later developing countries on the existing multilateral trade network. Therefore, the evaluation of Japan was that its pursuit of industrial development by the expan-

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1) The League of Nations. *Europe's Trade*, 1941; *The Network of World Trade*, 1942; *Industrialization and Foreign Trade*, 1945, Geneva: Series of L.N. Publications.

sionist invasions and the widening of the Yen block without itself participating in the multilateral trade network would sooner or later lead Japan onto the path of self-destruction. This prediction of the destructive effect and self-destruction of Japan was correct as we can see from the results. However, since he focused only on the protection and reconstruction of the multilateral trade network, the analysis of how the Japanese military expansion influenced Japan and its surroundings was completely overlooked.

This methodology of describing the world economy prior to World War II as a process of formation and destruction of the multilateral trade network has been widely used to this day in studies on international economics as well as in many studies on the history of the world economy<sup>2)</sup>. However, in this view the history of the world is structured taking into consideration only the Western countries, or more precisely, the developed capitalist countries. This framework might not be useful to effectively analyze the process of capitalist development of East Asia, a region not included fully in it.

In studies of Japanese economic history, great interest has been aroused in how the external economic relations of later developing capitalist countries such as Japan should be considered. Before the war, Nawa Toichi had already made clear that Japanese capitalism might not be able to maintain the balance of its reproductive structure, based on a trading structure subordinated to the advanced capitalist countries as well as aggressive towards the Asian semicolonized countries. He also pointed out that its strong dependence on international trade to support its heavy and military industry would result in a dead-end which finally might lead to a catastrophe<sup>3)</sup>. This prediction of Japanese self-destruction was obtained from Nawa's studies of Japanese trade as well as from Hilgerdt's studies on world trade. After World War II studies on the external relations of Japanese capitalism have made great advances based on the recognition of the structural fragility analyzed by Nawa. First, Hara Akira dealt with external relations connected with finance and trade at the level of the international balance of payments. And analyzing the problems due to the shortage of foreign currency for expansion of the wartime controlled economy, he also noticed the structural fragility of Japanese capitalism from this point of view and predicted the inevitability of its demise<sup>4)</sup>. Hara's work established the basis for later research on the Japanese wartime economy. Further, Ito Masanao introduced industrial development based on Nawa's theory, and located the structural change of Japanese trade and capital accumulation in the dynamic process of the transformation of the world economy during the 20s and 30s. Then, he depicted the process of heavy and chemical industrialization of Japan as its trade

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2) Nagaoka, Shinkichi et al. *A Guide to World Economic History*. Kyoto: Minerve Shobou, 1992. A.G. Kenwood and A.L. Lougheed. *Growth of the International Economy 1820-1990*. Third Edition, London: Routledge, 1992.

3) Nawa, Toichi. *Study on Japanese Spinning Industry and Raw Cotton*. Osaka: Daido-Shoin, 1937.

4) Hara, Akira. "The Economic Structure of 'the Great East Asia Co-Prosperity Sphere.'" *TOCHISEIDOSHIGAKU* No. 71, April 1976.

region was gradually being confined to its own colonies and subordinate regions while multilateral trade was collapsing due to the world-wide crisis<sup>5)</sup>. This way of grasping the phenomenon also enabled him to deal with the economic importance of the colonies for the prewar Japanese economy.

Although these were very important works on Japanese economic history, they were limited to the history of Japanese capitalism, and the structural change of the whole of East Asia was not included. In addition, there are many works on the Japanese colonies Taiwan, Korea and Manchuria (Northeast China), however, they were often discussed basically within the framework of the conflict between the colonial policy and national movements, and not as part of the problems of Japanese society itself. They were, at most, on the level of evaluating the relative importance of the colonies within the Japanese economy.

Now, taking into account the weakness of course of research on international economics and historical science indicated above, in this paper we do not contrast one country's history with world history but analyze East Asia led by Japan as an economic region. Its aim is to analyze the structural change due to the Japanese invasion and the expansion of its colonies, and the social reorganization in East Asia during the colonial government between the two World Wars. It is also aimed at analyzing the social changes and their economic relations with Japan, especially from the point of view of the development of capitalism, and not only from the political standpoint of government and resistance as has been done. In short, we want to analyze whether the structural change due to capitalism can be grasped at the East Asian level. That is why this work is not a history of the formation of Japanese capitalism, nor a history of Japanese imperialism which collapsed in 1945, nor the accumulation of each country's history. Here however, it must be strongly emphasized that this angle of view by no means intended to mitigate the importance of the crimes committed by the Japanese imperialism against Asian countries.

## II International Economic Relations in East Asia

How will East Asia be positioned in the Modern World Economy? Table 1 shows the trend of the amount of trade (the total amount of exports and imports in U.S. Dollars at current prices) over 120 years from the 1870s to the present of each country and of East Asia as a whole.

Looking the period before World War II, the relative change over 70 years was extremely large. There was an increase in trade during World War I, and after some decline during the Crash of 1929, many differences became apparent. First, comparing Japan with China, Japanese trade had been only 1/4 of that of China until the first half of the 1880s. In the 1890s, while China's trade amount was increasing, the growth of Japan's trade amount was faster and the situation had reversed in

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5) Ito, Masanao. "External Economic Relations", (Edited by the Socio-Economic History Society. *Japanese Economy in the 1930s*. Tokyo: Tokyo-Daigaku-Shuppankai, 1982).

Table 1 Trend of the Trade Amount in East Asia

In million U.S. dollars.

	Japan	China	Manchuria	Korea	Taiwan	East Asian region(A)	World(B)	A/B%
1874	43	202			8	253		
1876-80	53	210		1	11	275	13,070	2.1
1881-85	57	201		2	12	272	14,460	1.9
1886-90	91	238		4	13	345	14,850	2.3
1891-95	120	254		5	12	391	15,760	2.5
1896-00	201	281		8	16	507	18,500	2.7
1901-05	314	375		15	21	724	22,850	3.2
1906-10	466	505		26	38	1,035	29,970	3.5
1911-13	669	629		44	59	1,400	38,240	3.7
1914	685	620		49	55	1,408		
1916	1,087	789		66	89	2,031		
1918	2,122	1,311		163	125	3,721		
1920	2,551	1,617		221	193	4,582	65,800	7.0
1922	2,053	1,328		226	133	3,739	45,300	8.3
1924	2,249	1,450		268	162	4,129	56,828	7.3
1926	2,642	1,511		345	204	4,701	62,037	7.6
1928	2,532	1,553		363	204	4,652	67,380	6.9
1930	2,030	1,014		313	202	3,559	55,552	6.4
1932	1,132	524	201	178	114	2,149	26,853	8.0
1934	1,798	529	340	291	154	3,111	23,314	13.3
1936	2,211	490	370	392	197	3,660	25,723	14.2
1938	2,352	347	568	552	235	4,052	27,736	14.6
1940	2,360	242	564	582	246	3,995		
	Japan	China	North Korea	South Korea	Taiwan	East Asian region(A)	World(B)	A/B%
1954	4,028	2,440		268	304	7,040	173,400	4.1
1956	5,731	3,210	140	411	312	9,804	211,000	4.6
1958	5,910	3,870	290	395	382	10,847	219,900	4.9
1960	8,546	3,810	320	376	461	13,513	263,500	5.1
1962	10,553	2,660	353	483	522	14,570	291,200	5.0
1964	14,611	3,470	416	524	861	19,881	354,300	5.6
1966	19,299	4,620	463	967	1,158	26,507	419,900	6.3
1968	25,959	4,050	583	1,918	1,692	34,202	491,000	7.0
1970	38,199	4,590	806	2,819	3,005	49,419	639,500	7.7
1972	52,062	6,300	1,039	4,146	5,502	69,049	842,520	8.2
1974	117,646	14,570	1,980	11,492	12,605	158,294	1,693,106	9.3
1976	132,024	13,430	1,487	15,945	15,765	178,651	2,007,096	8.9
1978	176,886	20,640	1,792	27,683	23,714	250,715	2,656,809	9.4
1980	270,335	38,140	3,431	39,797	39,544	391,246	4,038,786	9.7
1982	270,762	41,610	2,835	46,104	41,092	402,403	3,729,538	10.8
1984	306,617	53,550	2,993	59,876	52,415	475,451	3,885,223	12.2
1986	335,559	73,850	3,371	66,298	64,014	543,092	4,309,379	12.6
1988	452,271	102,790	4,536	112,507	110,241	782,345	5,734,920	13.6
1990	521,747	115,440	4,777	134,859	121,930	893,977	7,156,976	12.5

## Source:

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## Remarks:

- (1) The figures for Japan include those for the colonies and for Manchuria.
- (2) The figures for Taiwan trade amount prior to 1895 were computed also in China and are duplicated.
- (3) Chinese trade amount after June 1932 does not include Manchuria.
- (4) The figures of World Trade prior to 1970 do not include those of Socialist Countries.

1911. In the 1920s, Japan gradually overtook China, and after the depression in the beginning of the 1930s, the difference was evident. Japan rapidly recovered, China stagnated after the marked decline. The situation was partly due to the loss of Manchuria and the resulting trade decrease, although the trade amount of mainland China also decreased. Second, analyzing Korea and Taiwan, at the time Japanese possessions, the rate of increase of their trade amount had been extremely high. During 1896 ~ 1900, the average amount of trade for Taiwan was 5.6%, and for Korea only 2.8% of the Chinese. The trade amounts of Korea and Taiwan had risen afterwards and in 1936, before the outbreak of the Sino-Japanese War the total trade amount of the two regions had surpassed that of China excluding Manchuria. This could be an extremely distinctive feature if we take into account the scale of the population. Trade amount per capita in 1900 was \$5.5 for Japan, \$0.7 for China, \$0.7 for Korea and \$6.5 for Taiwan. It is important to notice that Taiwan was deeply connected with the exterior by trade from early times. In 1939, the above figures had changed to \$34.2 for Japan, \$0.6 for China, \$27.3 for Korea and \$44.1 for

Taiwan. They showed a peculiar contrast between the stagnation in China and the great increase in the colonies. Third, if we examine the position that East Asia including China occupied within overall world trade, until 1900 the amount of trade of the region was around 2 ~ 2.7% of world trade. However, it increased to 7.0% after World War I, and reached 10% in the 1930s<sup>6)</sup>. It is clear that the importance of the region had completely changed from the time multilateral settlement of trade became possible in the 19th Century until the period between the two World Wars, specially in the 1930s. This was not because the ratio of trade of East Asia was nominally pushed up by the contraction of world trade caused by the collapse of the multilateral settlement network. Figure 1 shows the movement of the indexes of the quantity of trade of each country, with 1913 = 100. World trade certainly shrank significantly in the 1930s, and China had also declined very rapidly due to the export slump caused by the U.S.'s silver appreciation policy in the first half of the 1930s and the loss of Manchuria. However, trade in the region of the Japanese Empire had continued to increase, and was less affected by the Great Depression. In 1938 the index of Japan was 301, that of Taiwan had increased to 394 and that of Korea was even higher, a remarkable 710. The meaning of this trade increase in the region should be assessed.

Now, let us turn to the period after World War II. Since North Korea had very few external economic relations, it will not be specifically dealt with here. Recovery from World War II was most rapid in Japan, showing a steady increasing trend after the later half of the 1950s. As is known, the newly industrializing countries (NICs) such as Taiwan and South Korea had begun their explosive expansion after the latter half of the 1960s. Finally, China, which had shown almost no change for many years also began to expand swiftly from the latter half of the 1970s. In the 1990s, the trade amounts of South Korea, Taiwan and China were at approximately the same level. However, taking into consideration the population, the characteristics of each country become clear. Trade amount per capita in 1990 was \$4,221 for Japan, \$101 for China, \$3,099 for South Korea and \$5,991 for Taiwan. Their relative ratios turned out to be very similar to those in 1939. Furthermore, the amount of trade in this region, represented 13% of world trade in the latter half of the 1980s when the economic power of East Asia led by Japan had begun to attract global attention. Taiwan and South Korea were recognized as members of the NICs and the open economic policy of China had been promoted.

To analyze the external relation pattern, we could compare the amount of trade of each country to the respective scale of its economy ("National Economy"). Table 2 shows the ratios of the total trade amount against the gross domestic product (GDP). While the latter differ in their accuracy depending on the country and the year, they are sufficient to make a broad comparison. What we should pay attention to are the data of the period before World War II, although the weight of external trade was extremely low for the Chinese economy in the 1930s, it was on

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6) Since the world trade amount was based on the old U.S. Dollar, about 40% was underestimated.

Table 2 Percentage of trade Amount to GDP (Gross Domestic Product).

	Japan	Korea	Taiwan	China
1904	22.5		37.8	
1906	25.5		38.3	
1908	22.4		41.8	
1910	26.9		49.1	
1912	27.4	16.6	54.8	
1914	28.8	17.8	49.0	
1916	35.0	21.6	61.7	
1918	34.7	25.4	54.0	
1920	32.1	25.5	55.1	
1922	27.4	29.8	52.8	
1924	34.2	34.7	61.4	
1926	35.1	38.4	62.9	
1928	32.8	41.3	56.6	
1930	27.9	41.8	58.3	
1932	29.3	43.9	58.8	9.3
1934	35.7	51.8	66.5	8.7
1936	39.4	54.6	69.0	6.4
1938	31.2	65.1	68.8	
	Japan	South Korea	Taiwan	China
1954		9.1	18.9	
1956	21.9	14.1	22.5	
1958	18.4	10.2	21.1	
1960	19.2	10.4	26.8	
1962	17.3	19.7	27.1	
1964	17.8	20.3	33.9	
1966	18.2	27.7	36.8	
1968	17.6	36.5	39.9	
1970	18.7	37.0	53.1	
1972	17.4	39.3	69.7	
1974	25.5	72.5	87.2	
1976	23.5	54.7	84.6	
1978	18.2	55.1	88.4	9.9
1980	25.6	69.0	95.5	12.8
1982	24.9	63.4	84.2	14.9
1984	24.4	68.2	88.6	17.3
1986	17.2	61.1	84.9	26.6
1988	15.9	60.1	90.1	27.3
1990	17.7	55.9	77.6	31.4

Source: see Table 1. Wu, Bao-San. *National Income in China*. Shanghai: Zhonghua-Shufang, 1947.

The Economic Planning Board, and Statistics Bureau of home affairs dept., Republic of Korea Edit. *Statistical Year-book of the Republic of Korea*. Respective Year Edition, Seoul.

Remark: For the Republic of Korea, data until 1972 are evaluated at factor cost and since 1972 at market price.



the contrary extremely high for Taiwan and Korea. The trade of Taiwan was quite active from early on and it became more vigorous in its colonial period. In the case of Korea, growth during its colonial period was even more remarkable since it was quite low at the beginning. In 1938, the ratio of Taiwan reached 68.8% and that of Korea 65.1%, both of which were significantly higher than the 31.2% of Japan. In short, the dependency on external trade of these colonies was high. Furthermore, when we turn to the period after World War II, we can see again this dependency on external trade as Taiwan and South Korea became members of the NICs in the 1960s.

Even just comparing trade amount indexes, various important points become clear. First, if we want to understand the extremely rapid and great increase of trade amount of Japan and the NICs after the latter half of the 1960s, it might then be required to elucidate the change of external relations and the growth rate of East Asia between the two World Wars, as they maintained the equivalent growth rate and quantitative ratios as well. Second, Korea, Taiwan and China, traditionally discussed collectively as colonies and semicolonies, have shown a rather heterogeneous behavior in terms of external trade. Third, it became clear that the pattern of external relations formed between the two World Wars was similar to the one formed after World War II. Here, an hypothesis could be that some structural characteristics of the society formed between the two World Wars had significantly influenced the recovery and reconstruction of each country after World War II.

Now, let us examine the external economic relations of the Japanese colonies whose trade amount increased steadily between the two World Wars. The economic relations of the colonies with Japan was a subordinated one, their trade was under Japan's exclusive control. In Taiwan this was especially oppressive. In 1897 the ratio of Taiwan's amount of trade with Japan was 14.2% of its exports and it was 22.7% of its imports (trade between mainland Japan and its colonies before the war was handled as "inyuu" and "ishutsu" shipping in and out; in this paper we will treat them all as exports and imports). These figures rapidly increased around 1910, being 83.7% and 65.0% in 1920, 90.6% and 73.2% in 1930, and 86.0% and 88.4% in 1939. In the case of Korea, after the opening of its port, the ratio of the amount of its trade with Japan was quite high from the beginning, due to its geographical conditions and circumstances. The amounts were in 1901 87.3% for its exports and 61.6% for its imports. The figures had further risen afterwards to 86.0% and 57.4% in 1920, 90.3% and 75.8% in 1930, and 73.2% and 88.5% in 1939. The export percentage in the latter half of the 1930s had shown some decline in Korea, because trade with the Yen-controlled region with its center in Manchuria increased. When we include those figures, 98.5% of the exports and 94.2% of the imports in the 1930s were within the region of the Japanese Empire, and those outside of the Yen-controlled region had been almost cut off. In other words, the trade of Taiwan and Korea become almost exclusively trade with the Japanese Empire, and the great expansion of trade seen above meant nothing more than their subsumption within the Japanese economy and the strengthening of their unity with the Japanese

Empire.

What were the contents of this rapidly expanding trade? First, by industry, manufactured goods had consistently occupied 70 ~ 80% in Taiwan and Korea, which showed that these regions were the markets for Japanese manufactured goods during the colonial period<sup>7)</sup>. When we look into the details of the contents, however, we can see that more change had occurred than just a quantitative increase. In Korea, for example, while the consumer goods as a percentage of imported manufactured goods had decreased from 69.4% in 1914 to 43.9% in 1940, capital goods and construction goods had increased gradually from 13.6% in 1914 to 31.4% in 1940 with an abrupt increase in the latter half of the 1930s. The situation was basically the same in Taiwan<sup>8)</sup>. We can infer that industrialization in these societies during this period was high. The change was especially conspicuous for the Korean exports. During this period, a relative decline of the weight of agricultural goods contrasts with an increase in the weight of industrial goods. Agricultural goods, which maintained in the years close to the annexation a level of around 80%, swiftly decreased its ratio in the 1930s. The figures were 32.1% in 1939, 22.6% in 1940 (due to a heavy drought in the previous year), and 34.2% in 1941, representing a 40% decrease over 30 years. Conversely, industrial goods had increased from 10% in the years close to the annexation, to 58.3% in 1939, 63.8% in 1940, and 50.1% in 1941 which meant about a 40% increase in the same period. Such a reversal of the relative ratios of agricultural and industrial goods in exports during the period must have caused a significant structural change in Korean society. In addition, by looking at their quantity trend, we can clearly determine that from the end of the 1910s agriculture had been subsumed within the Japanese economy, and later industry was also subsumed, at first gradually and from the 1930s quite rapidly. In the case of the exports of Taiwan, industrial goods, mainly processed foodstuffs, had constantly maintained a high ratio of 60 ~ 90%. This was because of its historical conditions. When Taiwan opened a port to foreign trade, it was already incorporated into the international trade network with commodities such as tea, sugar, camphor etc.

### III Industrialization during the Colonial Period

Let us take a general view of the industrial production trend in the period between the two World Wars. Figure 2 shows the industrial production trend of each country based on that of 1913. According to this, production within the Japanese Empire was quite different than that of the advanced countries. The growth rate of

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7) Hori, Kazuo and Ahn, Byong-Jick "Characteristics and Historical Conditions of Colonial Korean Industrialization." (Edited by Nakamura, Satoru and Ahn, Byong-Jick. *Study of Modern Korean Industrialization*. Tokyo: Nippon-Hyoron-Sha, 1993) Second paragraph. Yamazawa, Ipppei and Yamamoto, Yuzo. *Trade and the International Balance of Payments*. Tokyo: Toyo-Keizai-Shinposha, 1979, p. 202.

8) In the case of Taiwan, only the composition of the trade with Japan is known, the ratio of the imported industrial products represented by the heavy and chemical industry products had increased from 6.5 % in 1897 to 55.2% in 1939.

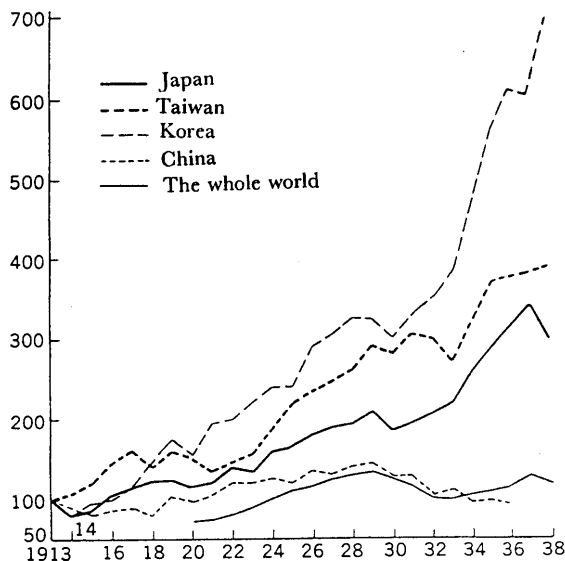


Figure 1 Quantity Indexes of Trade Amount

Source: see Table 1; Mizoguchi, Toshiyuki. *Economic Growth of Taiwan and Korea*. Tokyo: Iwanami-Shoten, 1975.

Remark: The base periods for the quantity indexes of the original data do not correspond, they are 1934 ~ 36 for Japan, Taiwan and Korea, 1913 for China and 1929 for the World, a problem arises if we use them for mutual comparison although we consider that they are sufficient for grasping the tendency.

Japanese production in the 1920s was higher than those of the advanced countries, showing a slight decline during the Great Depression, and a faster recovery afterwards. Overall, the growth of industrial production between the two World Wars in Japan achieved a phenomenal leap of 500% compared with a rate growth of less than 50% in all the other advanced western countries. Korea and Taiwan had shown a production boost in parallel with that of Japan. During this period Japanese capitalism achieved an exceptional development and related to this, industrialization in the colonies was also expanding.

Japanese capitalism started its heavy and chemical industrialization during World War I, however this process was accelerated due to the new conditions imposed by the Great Depression. To overcome the crisis, the government adopted a policy of depreciation of its currency. This policy not only promoted exports of the light industry goods such as cotton and artificial silk fabrics, but also functioned as an import barrier for the goods of the heavy and chemical industry, thus favouring the establishment of such industries in Japan. As a result, Japan recovered faster from the depression than other advanced capitalist countries, boosted its progress, transformed its industrial structure and advanced its heavy and chemical industrialization before World War II. This was the basic factor of the trade expansion seen in Table 1 and Figure 1. However, in the 1930s the multilateral trade

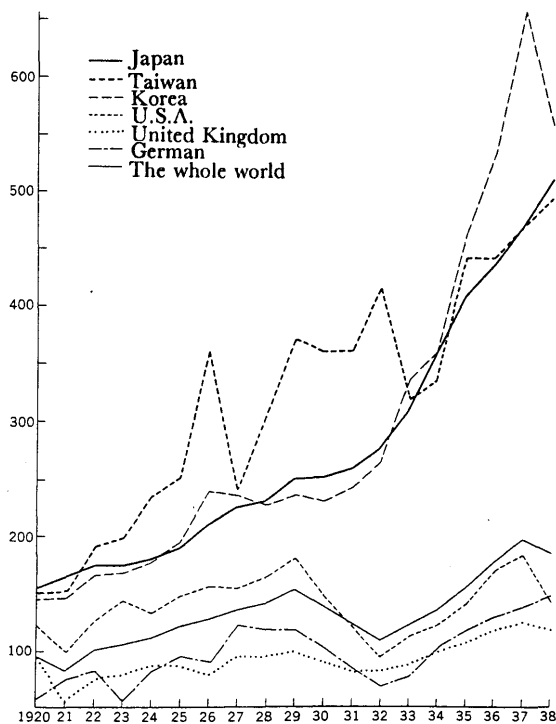


Figure 2 Quantity Indexes of Industrial Product.

Source: see Table 1.

Remark: The base period is 1913. Except for Korea which is 1914.

network, that is, the integrated global market, was completely dismantled, and this further accelerated the transformation of the Japanese economy. The more the countries grouped together in different blocks for the protection of their own industry, the more the Japanese light industry goods were ousted from various countries. Due to this situation, the Japanese export market was gradually reduced to its own colonies and controlled territories. In the 1930s, the Japanese heavy and chemical industry was not able to continue its expansion and development just depending on internal private demand. Furthermore the heavy and chemical industry was not internationally competitive due to the initial productivity differentials, therefore to develop this industry Japan had no choice but to create its own market demand, industrializing its colonies and developing its military industry. Japan tried to break this bottleneck by reconstructing the colonial society through the investment of Japanese capital. In other words, in an international situation in which the traditional multi-lateral trade network was collapsing, the basic strategy for Japan was to build a new international division of industry based on its heavy and chemical industry of Japan, grouping together its colonies and controlled territories. Such Japanese colonial autarchy could not be carried out, not only because of a lack of natural resources and raw material, but also because of the lack of foreign currency to finance it. However, in order to achieve this, the Japanese Empire became more military aggressive

and expansionist with the idea of building "The Great East Asia Co-prosperity Sphere", but was finally defeated, which in turn caused Japan's fall. Let us look at the relation between the switchover to heavy and chemical industry in Japan and the sudden rise of industrialization in the colonies, taking Korea as an example. If we analyze the structure of Korean industrial production, a change is clearly observed. While the total production amount increased 8.1-fold between 1920 and 1940, food and non-food consumer goods had gradually decreased from 88.3% to 50.0%, on the other hand producer goods (raw material and intermediate goods) had increased from 9.5% to 44.6%. It was a more than 35% change in the period in the opposite direction, just as if one replaced the other. As manufacturing increases its productivity through round-about production, to a certain degree it is clear that the productivity of the means of production grows faster than the articles of final consumption. If we look at the composition of such producer goods, in the second half of the 1930s, chemical industry products represented 60%; followed by the products of the spinning and weaving industry and metallurgy and metal industry that represented about 10% ~ 20%. It is important to analyze how the growth of production of these producer goods was related to the industrial production in Korea and Japan. Although the capital and construction goods increased a little within Korean industrial production, they did not occupy any significant position. If we add export and import amounts to the production amount, we obtain the amount of consumption of the sector. While total consumption of industrial productions amount in those 20 years expanded 7.1-fold, due to the change of production composition, the consumer goods sector, decreased 30% from 83.6% and the producer goods sector increased by a similar amount. In brief, although the consumption of the consumer goods expanded several-fold, the increase of consumption of producer goods was higher.

If we compute the self-sufficiency ratio of Korean industrial production, we notice that even though their self-sufficiency rate for foods was about 90%, capital and construction goods were still largely dependent on the Japanese supply. This tendency might be, as indicated above, a result of the reorganization of the colonies as markets for the Japanese products of the producer goods sector and the heavy and chemical industry. Furthermore, about 40% ~ 50% of non-food products had been transported from Japan for the consumer goods sector until the end of the period. From this point of view, self-sufficiency in the region was far from been reached. It is remarkable that the self-sufficiency rate of producer goods, whose consumption rapidly increased, had exceeded 100% in the latter half of the 1930s, in all the important industries of the sector like the chemical, spinning and weaving, metallurgy and metal industry. As we have seen previously, although exports of Korean producer goods had increased, to maintain the demand-supply equilibrium they had to turn to imports. Considering the total amount, while in the latter half of the 1930s, the export ratio of producer goods was 48.2%, almost a similar amount was imported. This means that, although Korean industry had supplied raw material and intermediate goods to Japan, a new inter-industrial relation was emerging in Korea through this production and import flow. Further, it should be noted that the con-

dition that sustained this new relation was the Japanese supply of capital and construction goods which represented more than 70% of consumption.

In other words, Korea was not solely a market for final consumption products of the Japanese industry, nor a “detached territory” from which Japan reaped all the industrial products, and the industrial rise in Korea was not just to increase its self-sufficiency rate of industrial products, but the formation of a new inter-industrial relation and social specialization between Korea and Japan and even between each Korean region. The actual movement was in three directions as follows. The first was an increase in the flow from Japan of consumer goods (especially non-food) and producer goods. The second was an expansion of the consumption market for industrial products related to an expansion of the production of consumer goods and producer goods (especially intermediate goods). The third was an increase of the supply of producer goods to Japan in accordance with the production increase in Korea. Then, together with the heavy and chemical industrialization of the Japanese economy, these three movements combined and progressed in parallel, to finally form a new inter-industrial relation and social specialization<sup>9)</sup>.

In the case of Taiwan, between the two World Wars the food industry occupied an overwhelming 70%, and industrialization progressed gradually centering on this sector. A similar social specialization between Japan and Taiwan, as well as inside Taiwan, had developed.

Now, what was the further evolution of this colonial industrialization which had subsumed within the Japanese heavy and chemical industrialization? When we analyze the development of capitalism in a society, we must study not only the quantitative changes in production and consumption, but also the qualitative and structural aspects of this process. How does capitalism affect the existing modes of production? What are the changes it imposed over the, heretofore dominant, farmer’s self-sufficient system of production and organization? It had been already noted that, based on the commercialization of agricultural products, the degree of dependence of the farmers on the market of consumer goods increased, furthermore the dependence on the market of producer goods, such as fertilizers and other products, rapidly increased, and gradually the supply of industrial products became indispensable for the reproduction of the farmers. Also, it is known that the key labor force had dramatically moved out from agriculture to industry, including industry in Japan. Therefore, as Japanese heavy and chemical industrialization progressed and rapid economic change took place in both regions, Japanese capitalism had subsumed Korean farming villages<sup>10)</sup>. In the case of Taiwan, although the subsumption by Japan had similarly progressed, the change was less conspicuous because the commodity economy in the farming villages had significantly developed in Taiwan even before the annexation.

9) Hori, Kazuo and Ahn, Byong-Jick. The essay, op.cit.

10) Matsumoto, Takenori. “Korean Farmer’s Economy in the 1930s” (Nakamura, Satoru et al. *Economic Structure of Modern Korea*. Tokyo: Nippon-Hyoron-sha, 1990). Hori, Kazuo “Reproduction Conditions of Korean Industrialization in the 1930s”, *ibid*.

It is important to quantitatively analyzed these colonial societies after they were freed from Japanese Capitalism and eventually cut off from the Japanese economy. In other words, to study how extensively capitalist production had been adopted within each colonial region. Let us analyze them using as an indicator the value added amount of each industry. Many estimations for Taiwan and Korea of the amount of net production by industry have been published. We are using the results of Mizoguchi Toshiyuki and Nojima Noriyuki that aggregated them<sup>11)</sup>. Table 3 shows the trend of the ratio of net production of secondary industry to primary industry. It is clear that in Japan mining and industrial production have shown a consistently and increasing trend. In Taiwan from the very beginning this production had relative importance, with a later increase and stabilization around 60%. When data became available for Korea in 1912, this production was almost nonexistent, showing an entirely agricultural society. Mining and industrial production in Korea increased gradually until the 1930s when the increase rate was faster, reaching 37.2% in 1936. According to the estimation made by Suh Sang-Chul it was 48.4% in 1940. Taking the level of Japan as a standard, Taiwan at the end of the 1930s was at the same level as Japan during World War I, and Korea was at the level of Japan after the Russo-Japanese War, in the so called Industrial Revolution

Table 3 Composition Ratio of Secondary Industry in Japan, Taiwan and Korea

	Japan	Taiwan	Korea
1904	30.7	22.8	
1906	41.3	43.6	
1908	43.0	24.7	
1910	50.6	59.8	
1912	52.2	51.3	5.8
1914	53.7	45.8	6.8
1916	66.9	67.8	12.6
1918	78.7	67.0	12.5
1920	67.4	69.3	10.4
1922	86.0	55.2	10.6
1924	85.0	67.2	11.1
1926	95.0	58.4	15.0
1928	105.9	55.7	15.2
1930	114.6	60.4	14.6
1932	123.7	49.6	16.7
1934	161.0	60.1	25.4
1936	165.0	67.2	37.2
1938	212.9	58.9	33.9

Source: see Note 11.

11) Mizoguchi, Toshiyuki and Nojima, Noriyuki "National Accounts Statistics". (Mizoguchi, Toshiyuki and Umemura, Mataji. *Economic Statistics of Former Japanese Colonies 1895-1938*. Tokyo: Toyo-Keizai-Shinposha, 1988). The reason we did not use the component ratio of each industrial sector to the total industry was the very low reliability of the estimates for the third sector due to a lack of data for the colonies.

period. It can be said that capitalism was already established at the end of the 1930s in Taiwan and Korea, and, needless to say, in Japan.

If we consider world history, it was a peculiar phenomenon that before World War II capitalism was already established as a mode of production in the colonies. To analyze the characteristics of this industrialization, let us review past studies that underestimated the historical significance of the industrialization in the colonies. These studies may be divided into three groups.

The first are those that deny or neglect the development of capitalism in the colonies because the landlord system was dominant. This opinion considers that the extensive existence of the landlord system in farming villages is equivalent to the hindrance of modernization, that is the hindrance of the development of capitalism. They based their evaluation on the idea that development of capitalism means exactly the same thing as historical evolution. Such a view of the landlord system had been widely accepted in non-Western Societies, and is also the point of departure and one underlying basis of the research on the Japanese colonial history. However, in the studies of the landlord system during the colonial period, it had been recognized since the beginning that the system exported agricultural goods to Japan. In other words, the landlord system was established closely combined with a deepening of the market economy, and it had since then a relation with Japanese capitalism. Although comprehensive research on the relation between the landlord system and the colonial industrialization in Korea has not made much progress, the commercial and industrial investment made by the landlords was a proven fact of Korean history. For example, Hul Soo-Youl, who did a comparison between the existing registers of personal names of the landlords in the colonial period and that of the corporate executives, found that 523 corporate executives' names appeared among the 1508 Korean landlords which represented a high 34.7%<sup>12)</sup>. Further, according to Chang, See-Won who did an analysis of the upper class of Korean landlords in Kyonggi-Do, Chungchongnam-Do, Chollabuk-Do Chollanam-Do, about two-fifths of them were investors in other sectors as well as in agriculture, and for about 17% of them, their invested amount in the other sectors surpassed their invested amount in agriculture<sup>13)</sup>. In addition, according to the regional study of Miyajima Hiroshi, the decline of the landlord system began in the 1940s, though land accumulation on the whole, including the rise and fall of individual landlords, had been maintained in the 1930s<sup>14)</sup>. Although these data are limited, we can conclude that the landlord system during the colony did not represented an opposition to capitalism. On the contrary the upper class of the Korean landlords had a significantly close relationship with the commercial and industrial spheres of the society, and they had a posi-

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12) Huh, Soo-Youl. "Analysis of Korean Companies and Korean Executives under Japanese Empire" (Nakamura, Satoru et al. op.cit. *Economic Structure of Modern Korea*).

13) Chang, See-Won. "Study on the Existence of Large Landowners under the Japanese Empire" Diss. Seoul University, 1989.

14) Miyajima, Hiroshi. "Development of the Colonial Landlord System in Korea" (Edited by Ooe, Shinobu et al. *Modern Japan and Its Colonies*. 3rd. Vol. Tokyo: Iwanami-Shoten, 1993).



tive attitude towards the development of industrialization.

The second set of studies are the ones that recognize the industrial development of the colonies but limited their analysis to the study of its connection with the Japanese economy, and do not investigate the relation of this development to the society in which it occurs. There are many interpretations of this process. Some consider the colonial industry as “detached territory”; some others analyze it within a framework of antagonism between the Korean national economy and the colonial economy; from the point of view of modern economic development theory the contradiction is between the traditional and modern sector<sup>15)</sup>.

However, all of these studies divide the colonial society in two parts and deny the industrial and economic relation between them. In brief, the industrial sector operated by Japanese or Japanese capital had no relation to the social reproduction in Korea. However, setting aside a particular case in which few factories developed, in the case of an immense industrial advancement such as that of the colonies, an opinion claiming that the advancement had no relation to the way of life of the inhabitants cannot be convincing, still more when the industrialization had caused a complete structural change in production and consumption of the whole society as we discussed above. The way of understanding it as a dual structure was not derived from concrete analysis of the actual conditions but from the preconceived idea that neglects the value of the industrialization carried out by Japan. Further, it was largely influenced by the “Continental Logistic Base Theory” which said that the industrialization of Korea in the 1930s was carried out by the General Government of Chosen (Korea) and the large Japanese capital as a wartime policy. Although this was not based on an analysis of the actual situation but just on the discussion trend of that time, this one-sided interpretation has survived to this day due to the lack of interest in the industrialization during the colonial period.

Also in Taiwan even now the explanation of the industrialization of the colonies as a Japanese policy to construct a munitions industry is deeply rooted<sup>16)</sup>. However, there was almost no industry that could be called a munitions industry in the colonies. While the Japanese munitions industry in 1940 occupied 40% of the whole industrial production, those figures were only 5% in Korea and 4% in Taiwan<sup>17)</sup>. As we have seen before, although there were many industries that supplied raw material, this was not only for the Japanese market but also for the expansion of social reproduction within the colonies.

The third set of studies are the ones that argued that industrialization in the

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- 15) Kim, Cheol. *Population and Economy in Korea*. Tokyo: Iwanami Shoten, 1965, 8th Chap. Park, Hyun-Chae. “Characteristics of the National Economy Before and After Liberation” (*Economic Society Study*. Hangil-Sa, June 1983). Suh, Sang-Chul. *Growth and Structural Changes in Korean Economy, 1910-1940*. Cambridge: Harvard University Press, 1978.
  - 16) Kobayashi, Hideo. “Review of Modern East Asian History” (*REKISHI-HYOURON* No. 482, June 1990).
  - 17) Hori, Kazuo “Characteristics of the Colonial War Economy” (Edited by Shimotani, Masahiro and Nagashima, Osamu. *Study on Wartime Japanese Economy*. Kyoto: Koyo-Shobou, 1992).

colonies had developed, but that the native industry had declined and the Japanese industries were the ones that developed. This had also been said from days past and was a common opinion until recently. Nevertheless, as indigenous national capital studies have prospered after the middle of the 1980s, it became clear that they were one-sided. The national trend was a problem that became impossible to grasp as colonial authorities stopped publishing statistics by nation in the beginning of the 1930s, not only in Korea, but also in Taiwan. Analyzing other materials, it became clear that indigenous national capital had developed even in the 1930s, very different from the idea of an absolute decline and collapse of national capital as was believed until now. For example, the trend of the number of factories owned by indigenous national entrepreneurs was as shown in Table 4. While the factories in Korea in the early period had overwhelmingly been administered by the Japanese, the number of factories of indigenous national capital had rapidly increased with the increase of the total number of factories, and superseded the Japanese in 1927. The trend had further progressed and represented 60% of the total number of factories in 1938. After all, although the relative number of Korean factories was small compared to those of the Japanese, they continued to increase absolutely. The basic trend was similar in Taiwan. There, the number of factories owned by the Taiwanese had consistently occupied an overwhelming percentage. However when large Japanese capital entered Taiwan, based on the distribution ratio of Taiwanese workers we can observe that the relative ratio of Taiwanese factories decreased from 66.9% in 1929 to 51.0% in 1938. When we compare the indigenous national factor-

Table 4 Number of Factories by Nationality in Taiwan and Korea

	Taiwan				Korea		
	Taiwanese	Japanese	total	rate of Japanese(%)	Korean	Japanese	rate of Japanese(%)
1914			1,309		175	471	72.9
1920			2,695		943	1,125	54.4
1925			3,983		2,005	2,085	51.0
1930	5,275	520	5,795	9.0	2,233	2,013	47.4
1932	5,674	593	6,267	9.5	2,492	2,113	45.9
1935	6,352	654	7,006	9.3	3,285	2,345	41.7
1938	7,291	719	8,010	9.0	3,963	2,627	39.9

Source: Kimura, Mitsuhiro. "National Industry of Taiwan and Korea under Colonial Government" (Institute of Industrial Science, Nagoya Gakuin University, Discussion Paper No. 3, October 1981). Huh, Soo-Youl "Movement of Korean Factories under Japanese Empire" (Nakamura, Satoru and Ahn, Byong-Jick Edit. *Study on Modern Korean Industrialization*. Tokyo: Nippon-Hyoron-sha, 1993).

## Remarks:

- (1) The scale of the factories for Korea prior to 1928 was: a) those that had more than 5 employees; b) those which used motive power; c) those whose annual production was 5,000 yen or more. The scale after 1929 was: a) those with more than 5 workmen; b) those equipped with machinery that could employ more than 5 workmen.
- (2) The scale of the factories for Taiwan was: that employ more than 5 regular workmen or those that used motive power.

ies in both regions, we can see that while a significant number of factories had existed in Taiwan since the 1910s, only some of them had existed in Korea, but the rate of increase thereafter was higher in Korea. And, when we compare the the number of factories considering the density of the population, that of Taiwan was 4.7 times that of Korea in 1938, and the number of factories owned by the Taiwanese represented 7.5 times the number of factories owned by the Koreans. This means that Taiwanese medium and small factories had expanded more than those of Korea, and this should be considered when we analyze the period after liberation. However, in quantitative terms, Japanese capital had always kept an overwhelming percentage of the total capital composition, and it was the invested capital from Japan which led the industrialization.

#### IV The Reforms After The Colonial Liberation

It has been widely recognized that various of the postwar reforms conducted in Japan under the leadership of the Allied Forces were progressive and very helpful for the later development of capitalism. In Korea and Taiwan, the major issue was to liquidate the subordinated economic structure built under the colonial government and to reconstruct an independent economy. In the case of Korea, due to the pressure of the U.S. and the U.S.S.R., the social reconstruction process after Liberation produced deeper contradictions and widened the gap between the North and the South. Until now, the situation in North Korea, the Democratic People's Republic of Korea, is not well known, that is why in this paper we discuss only the situation of South Korea, the Republic of Korea.

Studies on the Republic of Korea (here after ROK) in the post-Liberation period have rapidly progressed, and have proven false the traditional, common opinion that claims that the industry and the capitalism of the colonial period completely collapsed after 1945<sup>18)</sup>. According to that argument, a temporary contraction of industrial production should be clearly differentiated from a total collapse, during this period in which the process of adoption of the productive forces transplanted during the colony was progressing. There are two bases for this claim. First, statistically industrial production had shown a gradual increase since the middle of 1946, and in 1947 ~ 1948 many products had recovered the level of the production in the colonial period. This trend had further strengthened until the outbreak of the Korean War, indicating that during the period production increase was conspicuous. Second, a large number of medium and small industries had grown in clusters in a widespread area from Liberation until the Korean War. Although they were petty manufacturers, they were very active and productive compared with the low productivity and stagnation of the large scale factories whose assets were under government control. In other words, the argument grasped the period of 1945 ~ 1950 as a period in which Korea still had the possibility to select its own way, and this is clearly diffe-

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18) Kim, Ky-Won. *Economic Structure under the American Military Administration*. Seoul: Purunsan, 1990.

rent from the period after the Korean War in which its society was firmly incorporated as a component of the U.S. world strategy. By excavating and reevaluating this period as one in which Koreans by their own initiative tried to build their own economic system, rejecting the colonial one, we can overcome the one-sidedness and grasp this period directly without rejecting mechanically the relation between the colonial economic system and the Lee Sung-man system. Before the Korean War, there were still many other options to eliminate the division between the North and the South.

Research on the Taiwanese economy between 1945 and 1950 can scarcely be found, and it is difficult to concretely analyze its reconstruction process. Its difference from the ROK was that the damage due to the wartime air raids was extreme, 75% of the factories were in ruins and Taiwan's industry was paralyzed<sup>19)</sup>. However, according to the industrial production results, in Taiwan the principal industries had almost recovered the production level of the colonial period, sugar 63.4% and cement 97.1% in 1949. And as far as we can see from the tendency of its trade amount, the industrial switchover was on a smaller scale than in Korea. In the case of Taiwan, the industrial structure remained almost the same as that of the colonial period<sup>20)</sup>.

If we want to analyze the transformation during the post-Liberation period of the economic structure that centered on colonial capitalism, disposal of vested property as well as land reform were especially important. Taiwan and Korea were trying to liquidate the colonial system, but due to their different characteristics and historical circumstances the policies were different and determined in a different way the characteristics of their later economic reconstruction. In short, vested property were the assets which the colonial authorities and the Japanese and Japanese corporations possessed. It is difficult to grasp the absolute scale of those assets due to the high inflation during the period. Investigation showed that in October of 1948 the assets owned by former Japanese landlords in South Korea were 20 billion Won, and the assets of the corporations, excluding financial institutions, were 217.1 billion Won, 10.9 times the former. Here, we could again reconfirm the magnitude of the industrialization that Japan led in the latter half of the colonial period. Further, in 1947-48 these assets controlled 1/2 of the employees and produced 1/3 of the production of the whole industry in the ROK<sup>21)</sup>. In the case of Taiwan, in 1947 the production amount produced by these assets represented an overwhelming 70% of the total mining and industrial production<sup>22)</sup>. We could appreciate the important posi-

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19) Sasatomo, Takeharu et al. Edit. *Comprehensive Study of Taiwanese Economy*. Last Vol. Chap. 14. Tokyo: Institute of Developing Economics, 1968.

20) Hori, Kazuo "Colonial Independence and Industrial Reorganization—Case Study of Taiwan and Korea—" (Edited by Nakamura, Satoru. *Formation and Development of Modern East Asia Economy*. Tokyo: Aoki-Shoten, 1994.

21) Kim, Ky-Won. *The Book op.cit.* Chap. 2 1990.

22) Liu, Jin-Qing. *Analysis of Taiwan Postwar Economy*. Chap. 1 Para. 2. Tokyo: Tokyo-Daigaku-Shuppankai, 1975.

tion that such vested property held in the Korean and Taiwanese societies.

However, the policies that both countries adopted against the production facilities left over by the colonial industrialization were significantly different. In fact, while the Lee Sung-man Government basically disposed of all such assets, the Chiang Kai-shek Government mainly held such assets as public corporations and sold to the private companies just a small part of them. Although this discrepancy was usually explained as due to the different economic philosophy of Lee Sung-man and Chiang Kai-shek, it might be due to the ample experience with companies under government management that the Nationalist Government of China acquired in the last period of its rule.

From the research on land reform in both countries, we could notice that the opinion that stressed the incompleteness of the dismantlement of the landlord system had disappeared, and now it is being recognized that the landlord system in the colonial period was, in a way, completely dismantled considering the heavy burden that the land value redemption represented to the farmers. Thanks to this, in agriculture, small trades were established. And, a point that should be stressed was that the land reform in both countries was carried on closely related to and in parallel with the disposition of the vested property. In the case of the ROK, payment with land value securities was approved for the disposition of such property, and 54.6% of those land value securities were appropriated by the vested property organization. Also in the case of Taiwan, 30% of land value indemnization for the landlords was made by granting shares of the 4 major public firms which were former vested property (cement, paper, mining and metal, agriculture and forestry). This, however, did not mean the direct transformation of the landlords into capitalists. In fact, only those who were able to buy an enormous volume of the land value securities or the shares that plummeted due to the exorbitant inflation got the managerial right to the vested property and became the heads of the new capitalists. Eventually, the capital accumulated under the landlord system in the colonial period, had transformed into industrial capital through the land reform and the related disposition of the vested property policy and in parallel with the formation of the securities market<sup>23</sup>). Both countries made headway towards capitalism after abolishing the landlord system.

The conclusions of this paper are as follows. The period between the two World Wars, in which the multilateral trade network established in the 19th Century was quaking and collapsed, was also the period in which East Asia, which had been partially incorporated into the network, started moving towards capitalism in different ways. Japan, which had already completed its industrial revolution, went through its heavy and chemical industrialization, transformed its industrial structure and became more expansionist. In colonies like Korea and Taiwan, the market economy and industrialization had rapidly advanced in a process that further subsumed

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23) Liu, Jin-Qing *ibid*, Chap. 1 Para. 4. Compiled by the Korean Rural Economics Institute. *Study of Farmland Reform History*. Seoul: Chap. 5, 7. 1989.

them within the Japanese economy, and they became societies regulated by the logic of capitalism under the direction of Japanese capital. In brief, the internal structures of the region which were incorporated into the Japanese capitalism had greatly changed around the axis of the heavy and chemical industrialization and external growth of Japan. As a consequence, in East Asia, which was a part of the international economic framework in which mainly western advanced capitalist countries were considered, a drastic structural change in the mutual relations of rule and dependency within the region had occurred, and the base for the establishment of capitalism emerged.

After World War II, a completely new system was established as the ideology of the foregoing political system was completely rejected. However, as a matter of fact, various conditions established earlier either by indigenous national or foreign capitalism had largely prescribed the conditions of the new systems that were being created in each country. Moreover, we have to add the Cold War as an external condition of the postwar world order that produced many transformations in each country. One of the most important conditions that made possible the formation of East Asia as a center of reorganization of the World Economy from the 1970s, was the fact that capitalistic production has already been established in this region between the two World Wars.