The United States’ Economic Disengagement Policy and Korea’s Industrial Transformation: Implications of the Textile Disputes (1969–1971) for the Quasi Alliance in East Asia*

Kim Chong Min

The textile disputes (1969–1971), characterized by the simultaneous negotiations and conclusion of bilateral voluntary export restraints (VERs), marked the first major trade conflict between the United States and its East Asian Allies during the Cold War. The U.S. initiated the negotiations aimed at restricting the import of textiles produced by major East Asian newly industrialized economies (NIE), including Korea and Japan. I argue that the textile disputes played a crucial role in changing the development strategy of Korea in two ways: on the one hand, it established a direct trade barrier that drastically reduced the viability of light industry, creating an urgent need for the Korean government to turn to look for another way to continue the economic development. On the other hand, it was perceived by both Korea and Japan as symbolizing the U.S.’s economic disengagement policy in East Asia, leading to closer economic cooperation between the two quasi allies, especially in the heavy and chemical industry (HCI) sector. As a consequence, the textile disputes provided Korea with both the incentive and resources to pursue industrial transformation promoting the HCI.

Keywords: Textile disputes (1969–1971), voluntary export restraint (VER), U.S. disengagement policy, quasi alliance, Korea’s industrial transformation

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Introduction

On January 12, 1973, President Park Chung Hee announced Korea’s heavy and chemical industrialization plan. Thereafter, the Korean government promoted the heavy and chemical industry (HCl) sectors by enacting the Industry-Specific Promotion Act (Sanöppyönl yuksöngbop), which served as the legal basis for providing subsidies and tax exemptions for such things as machinery, electronics, petrochemical, shipbuilding, and steel manufacturing. Although it had already been contemplated in the first Five-Year Economic Plan (1962–66), initial attempts to foster heavy and chemical industry failed to materialize in any significant way, lacking both the financial resources and infrastructure. It was only during the Third Five-Year Economic Plan period (1972–76), a decade after the first one, that the industrial restructuring necessary for HCl could finally be successfully implemented.

This was a major shift away from the economic development strategy emphasizing labor-intensive light industries that had been pursued since the 1960s. During the colonial period, Korea’s light industries and machinery production tended to be located in the country’s south, while electric power, metals and chemical industries, developed to provide logistical support to Japanese war efforts, were located mainly in northern Korea. Given initial conditions after liberation, it is natural that South Korea pursued industrial development based on light industry. And such a strategy was quite successful: between 1966 and 1970 the South Korean economy grew at an annual average rate of over forty percent, and 36.9 percent of total exports were textile exports. Less than a decade after the growth of Korea’s light industries began to take off under the slogan of “National Growth based on Exports” (such’ul ipkuk 輸出立國), the Korean government chose to reconsider its path of economic development. What prompted the Park administration to change its industrial development strategy in the early 1970s? And how could the Korean

2. Ibid., 157.
government’s efforts to promote the HCI actually bring about significant industrial transformation this time?

There have been many attempts to discern the underlying causes of this policy change, studies which broadly conform to one of two common themes. On the one hand, there is the economic approach, which suggests that the policy shift reflected the Korean government’s rational response to external economic conditions. Former South Korean bureaucrats, such as Hong Sŏngchwa, the former Vice-Minister of Commerce and Industry, hold the view that Korea’s shift to a HCI-centered development strategy was based on the assessment that light industry alone could not form the basis for long-term export and economic growth.⁵ O Wŏnch’ŏl, the former Senior Economic Secretary, recalled that Korea’s successful achievement of HCI industrialization was possible because it had clear goals and approaches—the so-called “engineering approach.”⁶ Kim Hyung-A argues that technocrats, who had been ardent economic nationalists and key economic reform planners, led heavy and chemical industrialization in the 1970s.⁷ Other scholars point out the changing comparative advantage of the South Korean economy due to rising labor costs as the catalysts for the policy shift.⁸ Still others suggest that South Korea’s industrial transformation was possible because it coincided with the desire of industrialized countries to transfer HCI facilities and technologies to newly industrializing economies (NIEs).⁹

On the other hand, there are studies that attempt to explain this phenomenon as stemming from the realm of domestic and international politics. Lim Haeran emphasizes the changing pattern of state-industry collaboration as the domestic source of the policy shift.¹⁰ Yi Chaehŭi argues that overcoming the crisis of

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⁵. K’orean mirŏk’id, 435.
⁶. According to O, the engineering approach represented a “science whose basic principle is finding the most reasonable, profitable and least risky method for the construction of factories using various data” (quoted in Hyung-A Kim, Korea’s Development under Park Chung Hee [New York: RoutledgeCurzon, 2004], 175).
⁷. Hyung-A Kim, Korea’s Development under Park Chung Hee, 4.
political legitimacy facing the Park Chung Hee government in the early 1970s motivated the policy shift, which provided a new blueprint for high growth.\(^\text{11}\) Kim Chŏngju argues that Park Chung Hee’s vision regarding economic growth, and the “engineering approach” that the technocrats in the Park regime pursued, were thought to be most effectively implemented through the mechanism of economic mobilization, and the emergency political system of Yusin was put in place under such a pretext.\(^\text{12}\) Others point out changes in the security environment of East Asia, brought about by the likes of the Nixon Doctrine and the proposed reduction of U.S. military forces in Korea,\(^\text{13}\) as the major factors affecting the industrial transformation.

However, thus far, the effect changes in United States trade policy toward the NIEs of East Asia had on South Korea’s industrial transformation has received little attention.\(^\text{14}\) In the 1960s, the United States was absorbing the majority of light-industrial products from Korea, and changes in the bilateral trade relations significantly affected South Korea’s exports and its overall economic development strategy during this period.

In this regard, the textile disputes between the United States and four East Asian NIEs, which lasted from 1969 to 1971, calls for closer examination. The disputes, characterized by simultaneous negotiations and the conclusion of bilateral voluntary export restraints (VERs), marked the first major trade conflict between the U.S. and its East Asian allies during the Cold War. It was part of the larger U.S. effort to protect its domestic textile industry from foreign competition, especially in the form of imports from major East Asian NIEs, including South Korea and Japan.

\(\text{11. Yi Chaehŭi, “1970 nyŏndae Han’guk chungwhahak kongŏphwa ŭii sŏnggyŏk” [Character of Korea’s heavy and chemical industry drive of the 1970s], } Chiyŏk sahoe yŏn’gu 7, no. 1 (1999), 120.\)


\(\text{13. Victor D. Cha, } \text{Alignment despite antagonism: the United States-Korea-Japan security triangle (Stanford: Stanford University Press, 1999); Hyung-A Kim, } \text{Korea’s Development under Park Chung Hee.}\)

\(\text{14. Fukuoka Masaaki examined the impact of the U.S.-Japan bilateral textile agreement on the rapid fall in the competitiveness of Japanese textiles and the peaking of the outward foreign direct investment (FDI) of Japanese textile industries. See Fukuoka Masaaki, “Kŏp ŭi haecoe chinch’ul kwa myŏk kujo ŭi pyŏnhwaw - Han-Il sŏmyu san’ŏp ēl chungsim ŭro” [Overseas expansion of business and the change of trade structure – focusing on the Korea-Japan textile industries] (paper presented at the Seoul National University Graduate School of International Studies 162nd “Expert on Japan” seminar, Seoul, Korea, December 8, 2013).}\)
This paper argues that the textile disputes played a crucial role in bringing about South Korea’s industrial transformation. It had at least two major consequences: on the one hand, it established a direct trade barrier that drastically reduced the viability of light industry, creating an urgent need for the South Korean government to seek out alternative ways to continue its economic development. On the other hand, it was perceived by South Korea and Japan as symbolizing the United States’ economic disengagement policy in East Asia. This created a symmetrical increase in the fear of abandonment and led to closer economic cooperation between the two quasi allies.\textsuperscript{15} Japanese investment increased, especially in the HCI sector, allowing Korea to pursue the capital and technology intensive heavy and chemical industrialization.

Although the textile disputes were a significant external shock to the Korean economy, one of the unintended consequences, through the workings of the quasi-alliance mechanism, was that it resulted in providing South Korea with both the incentive and resources to pursue industrial transformation by promoting HCI. In what follows I will examine the background of and the negotiation process in the textile disputes, and how these affected perceptions and strategies of the major players involved.

### Background: Trade Environment and Korea’s Development

#### 1. Textile Trade and Economic Development

During the Cold War, the trade policy of the United States was directed at promoting free trade, i.e. to increase trade and prosperity by reducing barriers and obstacles to trade. According to Evans, it was this rationale that provided the foundation for a U.S.-led international trade regime in the early postwar period, leading to the establishment of the International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD), and the General Agreement on Tariffs and Trade (GATT), which sought to restore multilateralism and nondiscrimination in international economic relations. The United States’ trade liberalization initiatives culminated in the enactment of the Trade Expansion Act of 1962, which gave the U.S. President unprecedented authority to reduce tariffs and conduct mutual tariff negotiations. This ultimately

\textsuperscript{15} A quasi alliance is defined as the relationship between two states that remain unallied but share a third party as a common ally. Victor Cha’s quasi alliance model identifies the United States as a key causal determinant of changes in ROK-Japan bilateral behavior. Victor D. Cha, \textit{Alignment despite antagonism}, 3–36.
led to the conclusion of the Kennedy Round of GATT in 1967, which reduced the tariff for developing countries by half.\(^\text{16}\)

Meanwhile, the United States encouraged its Cold War allies, especially the Asian NIEs, to pursue economic development based on an export-oriented strategy with the United States providing the market for their products. Such a policy coincided with impressive U.S. economic prosperity. From 1960–1968, U.S. GDP increased 45 percent, while its average disposable personal income (DPI) grew 31 percent in real terms. Further, in that same period the ranks of the U.S. employed increased by over 10 million people with the unemployment rate hitting 3.3 percent, its lowest level since October 1953.\(^\text{17}\) Such a phenomenal economic condition supported the shift of international cooperation between the United States and the developing countries, including Korea, from aid to trade.\(^\text{18}\)

The textile industry especially played a crucial role in the economic growth of the developing countries. The textile sector led South Korean economic growth during the first (1962–1966) and second Five-Year Plan periods (1967-1971). The textile sector was one of the first industries to introduce modern technology to South Korea,\(^\text{19}\) but 60 percent of the facilities for textile production were damaged during the Korean War. Beginning in 1953, the South Korean government established a ten-year emergency plan to restore its textile facilities. In the 1960s the government began to promote the textile sector as an export-oriented industry, allowing for large facility expansion.\(^\text{20}\) As a result, the ratio of textile exports to total South Korean exports amounted to almost 50 percent by the late 1960s.

During this period, textile exports from South Korea and other Asian NIEs

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...to the United States increased drastically as a consequence of the U.S. policy promoting such exports. President Kennedy’s “Seven-point Program of Assistance to the Textile Industry,” announced in May 1961, aimed to expand

Table 1. Korea’s Textile Exports (unit: $ million)

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<tr>
<td>Total exports (A)</td>
<td>40.9</td>
<td>255.8</td>
<td>358.6</td>
<td>500.4</td>
<td>702.8</td>
<td>1,003.80</td>
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<td>Textile exports (B)</td>
<td>49.3</td>
<td>78.1</td>
<td>134</td>
<td>208.1</td>
<td>259.6</td>
<td>384.4</td>
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<td>Total exports to US (C)</td>
<td>50.6</td>
<td>102.6</td>
<td>150.4</td>
<td>251.5</td>
<td>341.3</td>
<td>475.2</td>
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<td>Textile exports to US (D)</td>
<td>48.8</td>
<td>34.6</td>
<td>66.2</td>
<td>109.7</td>
<td>123.8</td>
<td>172</td>
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<tr>
<td>B/A</td>
<td>36.9</td>
<td>30.5</td>
<td>37.4</td>
<td>41.6</td>
<td>36.9</td>
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<tr>
<td>C/A</td>
<td>45.6</td>
<td>40.1</td>
<td>41.9</td>
<td>50.3</td>
<td>48.6</td>
<td>47.3</td>
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<tr>
<td>D/A</td>
<td>7.7</td>
<td>13.5</td>
<td>18.4</td>
<td>21.9</td>
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<td>D/B</td>
<td>47.8</td>
<td>44.3</td>
<td>49.4</td>
<td>52.7</td>
<td>42.7</td>
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Table 2. Foreign Exports of Man-made Fiber and Wool Products to the U. S.
(Unit: million square yards)

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<td>ROK</td>
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<td></td>
<td>66.9</td>
<td>140.1</td>
<td>216.3</td>
<td>300</td>
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<td></td>
<td>(6.2%)</td>
<td>(8.5%)</td>
<td>(11%)</td>
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<td>Japan</td>
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<td>406.3</td>
<td>516</td>
<td>646.8</td>
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<td>(37.5%)</td>
<td>(31.4%)</td>
<td>(32.8%)</td>
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<td>Taiwan</td>
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<td>61.5</td>
<td>126.2</td>
<td>241</td>
<td>419</td>
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<td></td>
<td>(5.7%)</td>
<td>(7.7%)</td>
<td>(12.2%)</td>
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<td>Hong Kong</td>
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<td></td>
<td>95.5</td>
<td>129.1</td>
<td>177.6</td>
<td>592</td>
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<td></td>
<td>(8.8%)</td>
<td>(7.9%)</td>
<td>(9%)</td>
<td>(13.2%)</td>
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<tr>
<td>Others</td>
<td></td>
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<td></td>
<td>454.1</td>
<td>773</td>
<td>688.8</td>
<td>2,002.10</td>
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<tr>
<td></td>
<td>(41.8%)</td>
<td>(44.5%)</td>
<td>(35%)</td>
<td>(45.10%)</td>
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<tr>
<td>Total</td>
<td>1,083.10</td>
<td>1,684.70</td>
<td>1,970.50</td>
<td>4,465.10</td>
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<td>(100%)</td>
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* Percentage (%) in parentheses refers to its share of total textile imports by the U.S.

the textile exports of developing countries to the United States.\textsuperscript{21} Such a policy was justified by Rostow’s modernization theory, which had greatly influenced U.S. basic policy toward developing countries in the 1950s. Primarily, Rostow had emphasized an imbalanced industrial structure and deep incorporation into the world trade system.\textsuperscript{22}

As seen in Table 2, the share of the four Asian NIEs, namely, South Korea, Taiwan, Japan, and Hong Kong, in the total textile products imported to the United States amounted to 55 percent in 1970. Among them, Japan’s share was the biggest, at 25.8 percent, followed by Hong Kong’s 13.2 percent, Taiwan’s 9.2 percent, and Korea’s 6.7 percent.

2. Textile Protectionism

On the other hand, until quite recently the textile industry was an important sector in the economies of industrialized countries. While the textile industry was generally considered a declining industry in the 1960s and 1970s, as late as the 1980s its share in the exports of developing countries hovered well above 70 percent.\textsuperscript{23}

There are two major reasons for the persisting political and economic influence of this industry. First, the textile sector still employed a large number of people representing considerable voting power. Second, the industry included the synthetic fiber industry, which was a rapidly expanding sector, replacing the stagnating conventional textile industry that was still reliant on natural materials.\textsuperscript{24}

Reflecting this considerable influence in domestic politics, the textile industry was one of the prime targets for protectionism, and the industry’s


\textsuperscript{24} “Hwahak sómyue taehan suyo núŋ segye chŏgũro 1958–68 yŏn tongan 28.6 p’ŏsent’ŭ chūngga hayŏkk'o kadûn kigan myŏnsŏmyu e taehan suyo núŋ 18 p’ŏsent’ŭ chūngga haetta” [Worldwide consumption for synthetic fiber increased 28.6 percent from 1958 to 1968, and that for cotton fiber increased 18 percent during the same period], Maeil kyŏngje sinmun, April 1, 1970.
concern over the sudden increase of foreign textile products became a major political issue in the United States. The American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) argued that a majority of American workers were facing the threat of lost jobs due to foreign competition, and called for strong restrictions on textile imports. Similarly, the American Textile Industry (ATI) listed a significant increase in the trade deficit in textiles, which jumped from US$30 million in 1958 to US$1.4 billion in 1969, the bankruptcy of textile companies, and the deterioration of profit, as damages incurred from textile imports from foreign countries, especially from the four Far Eastern countries, and demanded Congress enact legislation on the comprehensive restriction of textile imports.

Such protectionist demands had largely been dismissed during the Kennedy and Johnson administrations, which strongly pursued trade liberalization internationally. However, in the Nixon administration, protectionist voices gained prominence, a fact that can be attributed to three factors.

First, after a decade of enormous economic prosperity the U.S. economy began to stumble in the late 1960s. Following the conclusion of the Kennedy Round in the summer of 1967, a crisis in the international monetary system threatened the movement toward trade liberalization. On January 1, 1968, President Johnson publicly announced the crisis of the U.S. dollar owing to inflation. In 1969, inflation and interest rates were rising rapidly, according to the budget message for the fiscal year 1970, submitted by the Johnson administration. Moreover, the price competitiveness of American products was eroding due to inflation, leading to trade imbalances.

25. Contrary to the contentions of protectionism, however, McKenzie and Smith argue that textile imports did not adversely affect U.S. textile employment between 1960 and 1985 to any statistically significant extent. Rather, textile employment losses can, to a significant degree, be attributed to productivity improvements. Richard B. McKenzie and Stephen D. Smith, “Loss of Textile and Apparel Jobs: Is Protectionism Warranted?” Cato Journal 6, no. 3 (1987), 732. In a similar vein, the U.S. Department of Labor has shown that employment numbers in the U.S. textile and apparel sector rose from a little over 900,000 in 1939 to more than 1.4 million by the late 1960s, peaking at over 1.4 million in 1973, not 1969, and then entered into a long-term downward trend in the overall number of workers. These studies suggest that unemployment data supporting the protectionist argument may have been exaggerated. U.S. Department of Labor, “The Past, Present and Future of Employment in the Textile and Apparel Industries: An Overview,” Report to Congress (May 2004). http://www.dol.gov/opa/media/reports/textile_apparel_report.pdf (Accessed June 28, 2014)


Second, forces against trade liberalization were growing in the U.S. Congress during 1967 and 1968. Dozens of bills had been introduced providing for the imposition of quotas on foreign imports, including textile products. In July 1967, Congressman Wilbur Mills proposed the Mills bill, which sought to restrict imports of textile products by imposing a quota.\textsuperscript{28} Within the Congress, the “Textile Caucus,” an informal Congressional group, in cooperation with various lobby groups had been raising alarm over the looming “disaster” due to the “inundation” of imported textiles.\textsuperscript{29}

Third, the textile industry was an important political base for President Nixon. The voting power of textile-related employers and industry representatives amounted to about one-fourth of the total electorate of the United States.\textsuperscript{30} In the northeastern states, the wool-growing states of the west, and especially in the southeast (Virginia, Tennessee, North Carolina, South Carolina, Georgia, and Alabama), the regulation of imported textiles became an important political issue. During the 1968 presidential campaign, the textile industry leaders provided Nixon, the Republican Party nominee, a considerable sum of campaign contributions. During the campaign, Nixon publicly promised to limit the import of certain textiles.\textsuperscript{31}

After Nixon was elected in 1968, he reaffirmed his commitment to the textile industry in a February 1969 press conference. He pointed out that, although America would continue to pursue “freer trade,” textiles should be treated as a “special problem,” and that restriction in the form of voluntary export restraints (VER) by the exporting countries, rather than by domestic legislation, was being considered.\textsuperscript{32} President Nixon needed to secure the textile votes in order to run for a second term in office and the protection of textiles was one of the top priorities of his first administration.

The problem was that textile quotas could cause “serious foreign policy problems, and may lead to retaliation.” National Security Advisor Henry Kissinger told President Nixon that, if broad-scale protectionist legislation were


\textsuperscript{29} I.M. Destler et al., Nichibei sen’i funshô: mitsuyaku wa attanoka? [U.S.-Japan textile conflicts: was there a secret agreement?] (Tokyo: Nihon keizai shinbunsha, 1980), 35.

\textsuperscript{30} Tonga ilbo, June 8, 1970, 1.

\textsuperscript{31} “Memorandum from Timmons, President’s Assistant for Congressional Relations, and Dent, Special Counsel, to President Nixon, June 4, 1970,” FRUS, 1969–1976, Volume IV, no. 233.

\textsuperscript{32} I.M. Destler et al., Nichibei sen’i funshô, 46–47.
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to be passed, it would also contradict the free trade presumption of both United States policy and the international trading system, with a devastating impact on U.S. foreign policy in general. Therefore, the United States had to restrict the textile imports in a way that minimized diplomatic friction, maintained the framework of the trade policies of current and previous administrations, all while satisfying domestic political demands. Considering these factors, several policy alternatives were proposed.

The first option was to seek the conclusion of a comprehensive multilateral agreement that regulated the textile trade, preferably under the GATT system. The advantage of the multilateral approach was that the United States would not have to negotiate the terms and compensations on a bilateral basis. Since the United States needed support from European countries for this, the United States Secretary of Commerce Maurice Stans went to Europe in April 1969 to propose a GATT meeting to consider a multilateral agreement on textiles. However, the response from European countries could be described as cautious at best. They were reluctant to “see the GATT used as a purely trade restrictive vehicle,” identifying the problem as between the United States and East Asia, thus seeing no reason to become entangled.

Secondly, there was the option of negotiating bilateral voluntary export restraints (VERs) with each of the exporting countries. From the U.S.’s standpoint, this option allowed for more flexibility of negotiation, since it allowed for the linkage of textile restrictions to other non-trade matters. Furthermore, the conclusion of VERs would ostensibly enable the U.S. to protect an important domestic industry without reversing its traditional commitment to the ideals of free trade, while also avoiding issues related to GATT prohibitions on both quantitative restrictions and discrimination.

A final option for the U.S. would be domestic legislation establishing textile


36. In his report on the European tour of Stans, Kissinger opined that success could be achieved only by connecting the trade and non-trade issues through the negotiation of the autonomous regulation of exports. FRUS, 1969–1976, Vol. IV, no. 201.

quotas. For the U.S. government, however, the conclusion of textile VERs was much preferable to the congressional passage of a quota bill, which might cause conflict and lead to retaliation. It could also lead to requests for protectionism from other industries, which would be politically difficult for the U.S. government to oppose. However, the threat of quota impositions can be effective in motivating exporting countries to adopt VERs, and in any case the quota could be overruled by any voluntary agreements that might subsequently be negotiated.

The Political Economy of the Textile Disputes

In May 1969, U.S. Secretary of Commerce Stans visited Japan, followed by brief stopovers in South Korea, Taiwan and Hong Kong, to discuss the issue of textile restrictions. The United States wanted to conclude bilateral agreements that “voluntarily” restricted the export of textile products to the U.S. with each of these textile exporters. The U.S. request for VERs caused considerable public alarm in these Asian countries, whose governments unanimously refused even to discuss the issue. Indeed, the request was perceived as a threat that was unjustified as it ran counter to the ideas of free trade. The ensuing textile wrangle continued for two and a half years.

At the initial stage, the United States concentrated its negotiating efforts on Japan, so as to lay the groundwork for agreements with the remaining countries. From October 1969 to May 1971, the textile talks hinged on Japan, while the other three Asian actors involved closely monitored the progress of the U.S.-Japan negotiations.

The U.S. request provoked a passionate public outcry in Japan. For the Japanese public, Japanese unwillingness to bow to the American request came to stand as the first instance of autonomous diplomacy in the postwar era. The appeal to the importance of the U.S.-Japan alliance was no longer effective in justifying compromise on the issue, either in Japan or the United States. This popular sentiment was related to an emergent Japanese confidence following its 1964 admission to the OECD and its successful hosting of Tokyo Olympics that same year.

On the other hand, South Korea strongly requested special consideration for exemption from the proposed textile restrictions. The South Korean ambassador

38. “Memorandum from Kissinger, President’s Assistant for National Security Affairs, to President Nixon,” FRUS, 1969–1976, Volume IV, no. 231
to the United States and prime minister, among other high officials, stressed that any sort of restriction on textiles would create a serious threat to Korea, which already carried a very heavy military burden due to the communist threat. Koreans argued that textile exports to the U.S. were “vital” for the growth of Korean economy, while its effect on the U.S. economy was negligible, since the share of Korean textiles in the U.S. market was a mere 0.1 percent in the late 1960s.40

During the San Francisco Summit of August 1969, President Park and President Nixon discussed the textile issue along with other salient issues, such as the Pueblo Incident, Nixon Doctrine, Vietnam War, and withdrawal of U.S. troops from South Korea. President Park directly asked President Nixon whether South Korea could be made an exception so as to help it achieve economic independence. President Nixon responded rather ambiguously, promising to “deal with the ROK problem discreetly.” He went on to assert that this was “a difficult problem” because it “mainly concerned Japan” and that the U.S. wished to find a solution that would “satisfy both Japan and Korea.”41

Since this came up immediately following the announcement of the Nixon Doctrine, which was perceived as signifying a weakened defense commitment to Asia, much attention was paid to whether South Korea and other Asian countries would be the targets of these restrictions. This was especially the case in Japan, where the textile industry was keen to know whether or not the restrictions would apply to other Asian exporters as well.

However, the U.S. outlined a negotiation strategy binding the four separate bilateral agreements with Asian exporters together so that the effectiveness of each agreement would be conditional to the execution of similar agreements with the other three. By October 4, 1969, it was decided that, along with Japan, Hong Kong, and Taiwan, South Korea would also face restrictions, though the plan was not announced right away so as to keep diplomatic friction to a minimum. In consideration of the restrictions political ramifications, the U.S. decided to postpone their announcement for three weeks until after the Korean referendum on a constitutional change allowing President Park a third term in office, which was scheduled for October 27, 1969.42

40. “Miguk ŏn chayu t’ongsangju’i e ch’öllhara” [United States should be consistent in free-trade!], Tonga ilbo, May 13, 1969.
42. “Memorandum from John H. Holdridge, National Security Council Staff, to Kissinger,
On October 28, the day after the referendum, the U.S. ambassador to South Korea William J. Porter visited South Korea’s minister of foreign affairs, Choi Kyu-hah, officially proposing a bilateral agreement for restrictions on Korean textiles, shortly after proposals had been made to Japan and Hong Kong. The proposition presented to Korea would impose restrictions on woolen and man-made fiber.43

While official talks between the United States and South Korea were far less frequent than those between the U.S. and Japan, the two discussed the textile issue at every available opportunity. For instance, in November 1969, Minister of Foreign Affairs Choi Kyu-hah met with the U.S. Secretary of Commerce Stans to discuss the textile issue. Choi once again emphasized that any sort of restriction on textiles would pose a serious threat to Korea, which was carrying a very heavy security burden in the face of the communist threat.

The first official textile negotiations between the United States and Korea were held in Geneva from December 8–10, 1969 where, eight Korean delegates, led by Kim Woo-geun, were dispatched to hold a preliminary meeting towards negotiating an agreement with American delegates. Initially, the Americans proposed a bilateral agreement recommending the annual increases in imports of Korean woolen and man-made textiles be capped at five percent, employing the actual import record of 1968 as the baseline.44 This level of restriction was quite high, considering that the annual increase in the textile exports was 57.2 percent in 1968, according to the Korea Chamber of Commerce.45 Thus, Korea turned down the proposal and the meeting adjourned without further progress.

While the second round of bilateral negotiation held from April 14–17, 1970, also ended without agreement, a number of quota legislations restricting textile imports were submitted to the U.S. Congress. The Mills’ Bill, proposed on March 16, 1970, did not provide special consideration for Korea, stipulating a quota equal to the average of imports in 1967–68,46 thereby reducing Korea’s

43. “Mi ssangmu hyŏpchŏng chŏngsik cheŭ” [US officially proposed bilateral agreement], Maeil kyŏngje sinmun, October 29, 1969.
45. “Sowi soŭmyu such’ul chaju gyuje ŭi munjejŏm” [The problem of so-called voluntary control of textile export], Kyŏngbyyang sinmun, December 26, 1969.
46. “Memorandum From the President’s Assistant for National Security Affairs (Kissinger) to President Nixon,” FRUS, 1969–1976, Vol. IV, no. 231.
planned exports to the U.S. by some US$100 million.\textsuperscript{47}

In June 1970, after fifteen months, negotiations between the U.S. and Japan
broke down, and the White house expressed concern the situation might
escalate to an international trade war.\textsuperscript{48} The U.S. decided to put negotiations
with Japan on hold and focus on negotiations with Korea, Hong Kong and
Taiwan. It was thought that if effective agreements were reached with these
countries, it would put pressure on Japan, which would have to consider
accepting similar terms.\textsuperscript{49}

In May 1971, U.S. Ambassador David Kennedy was dispatched as a special
envoy of President Nixon to the Asian countries to negotiate bilateral textile
agreements. Kennedy and his team held eight intensive negotiation rounds in
the ensuing months, visiting Taiwan, Hong Kong and South Korea several times
successively. There were negotiations at working-level conferences, as well as at
unofficial high-level talks, which sought to reach a political settlement of the
issue. Over the seven days that the U.S. delegates stayed in Korea, eight rounds
of official negotiations and behind-the-scenes meetings proceeded.

A committee organized to block the U.S. restriction of Korean textile
exports, with membership made up of the Korean Chamber of Commerce, the
National Economic Association, the Korea International Trade Association and
major business associations and exporters, collectively submitted a petition to
Ambassadors Kennedy and Porter. The chairman of the committee, Yi Hwal,
declared that South Korea’s export growth should not be deterred to ensure
economic stability, which was essential to stand against the “hostile North
Korean puppet regime.” He further emphasized the importance of the textile
industry for Korea’s economy amidst its transition to a self-independent
economy; the proportion of the textile industry in annual manufacturing
production was thirty percent, while it also made up more than forty percent of
total export value and employed thirty percent of the population.\textsuperscript{50}

However, the difference of positions as to the acceptable level of restrictions
was too great. On the one hand, Korean delegates demanded permissible

\begin{itemize}
\item \textsuperscript{47} “100 million dollar textile export inevitable,” \textit{Maeil kyôngje sinmun}, April 21, 1970.
\item \textsuperscript{48} “Paegakkwan muyôk chônjaeng yubal uryô” [Concerns that the White House may cause
trade war], \textit{Tonga ilbo}, July 18, 1970.
\item \textsuperscript{49} “Han’guk tung sae amnyôk yesang: iksûn, sömyugyuje köbu taean mosaek” [Expecting new
pressures from Korea and others: Nixon searches for the alternatives in case of textile regulation
rejected], \textit{Tonga ilbo}, March 13, 1971.
\item \textsuperscript{50} “Taech’aegwi sömyuryu suip kyuje chônmyôn pandae: Mi K’eneji t’ûksa mada kanggyông
pangch’im kosu” [Operation headquarters fully protests the regulations on textile imports: strong
policy line will be kept, meeting with the President’s Special Envoy Kennedy], \textit{Tonga ilbo}, June 14,
1971.
\end{itemize}
annual increases well above 40 percent, which was close to the average export growth rate for the past five years, while on the other hand, the U.S. desired the gradual reduction of the figure starting from 11 percent in the first year.

On June 16, 1971, President Nixon wrote to President Park expressing his regret at the delayed progress of textile negotiations with Korea. The U.S. President proposed what he saw as an attempt to maintain the special relationship between the two countries in the form of supplemental economic assistance that would “fully cushion” the impact of the U.S. textile proposal on Korea’s Third Five-Year Plan.\(^{51}\)

Amid nationwide interest in the textile talks, the negotiation round was adjourned, leaving the specific terms of regulation to be discussed two weeks later.\(^{52}\) After Kennedy returned to the U.S., it was reported that President Nixon strongly demanded that a bilateral textile agreement with a satisfactory level of restrictions be concluded in the very near future.\(^{53}\) Another round of negotiations to be held in July was postponed to August, and then to late September, at the U.S. request. In fact, there were no more negotiations, except behind the scenes, until September 1971, when the United States issued a final notification.

On September 23, 1971, the United States notified Korea that it would unilaterally impose restrictions on South Korean textile products from October 15, if Korea did not agree to a bilateral treaty by October 1. The U.S. explained that, since textile negotiations with the four Asian countries had ended in failure, there were voices within the American legislature and administration expressing the need for emergency measures to protect national security. Unilateral impositions of restrictions on Korean textile products would be one such measure, together with the temporary imposition of a ten percent surcharge on all imports, announced on August 15 by President Nixon.\(^{54}\)

In July and August 1971, President Nixon took a number of measures that together signified a drastic change in international political and economic relations. In July 1971, Nixon announced his plan to visit China, marking the beginning of U.S.-China détente. On August 15, 1971, during the New

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\(^{52}\) “Sŏmyu hyŏpsang kyuuje pangbŏp ssago kyŏllyŏl, Han-Mi chayul kyuuje wŏnch’ingman chŏpkŭn” [Breakdown in regulatory process of the textile agreement, Korea-US come close only on the voluntary control principle], \textit{Kyŏnghyang sinmun}, June 21, 1971.

\(^{53}\) “Sŏmyuhyŏpsang che 2 raundu 7-wŏl 28-il put’ŏ chaegae p’yŏngaengsŏnŭn chophyŏjilkka” [Second round of textile meetings begins July 28; will the differences narrow?], \textit{Kyŏnghyang sinmun}, July 27, 1971.

Economic Policy discussions taking place at Camp David, President Nixon suspended the dollar to gold convertibility, effectively putting an end to the Bretton Woods system. He also decided that if a voluntary textile agreement was not reached by October 15, he would impose a settlement under the Emergency Banking Act Amendment of the Trading with the Enemy Act, F249.55

These restrictions were much stricter than those originally proposed at the negotiating table. While the Korean government protested that such an ultimatum was unreasonable, U.S. officials reiterated that this was a grave political issue for Nixon, who was standing for a second term in office in the following year’s presidential election. Also, the U.S. trade deficit was the worst since 1893 and inflation was rampant. Therefore, given the pressing circumstances the U.S. then faced, these were inevitable measures.56

Concluding negotiations of the bilateral treaty progressed, while proposals and counterproposals went back and forth between the two governments. After last moment negotiations, the treaty was finally concluded on October 16, 1971 in Seoul.57 Meanwhile, Taiwan and Hong Kong had each signed on October 7,58 and Japan on October 15. Major contents of the ROK-U.S. Agreement on

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<th>Table 3. ROK-U.S. Agreement on Trade in Man-made Fiber and Woolen Textiles, 1971</th>
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<td><strong>Restricted items</strong></td>
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<td>South Korean exports to the U.S. of man-made fiber and woolen textile products (including blended fabrics)</td>
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<td>Cotton textile products to be regulated by a separate LTA (long-term arrangement)</td>
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<td><strong>Period of application</strong></td>
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<td>Five years (Oct. 1, 1971–Sept. 30 1976)</td>
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<td><strong>Baseline quota value</strong></td>
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<td>Actual exports during the baseline period of April 1, 1970–March 31, 1971 plus bonus quota</td>
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<td><strong>Growth Rate</strong></td>
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<td>Man-made fiber</td>
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<td>7.5% annually</td>
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<tr>
<td>Woolen</td>
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<td>1.0% annually</td>
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Trade in Man-made Fiber and Woolen Textiles 1971 (Treaty no. 414) are summarized in the following table.

**Economic Disengagement, Quasi Alliance, and South Korea’s Industrial Transformation**

The conclusion of the Textile Agreement was a “heavy shock” to Korean industry, as it was regarded as an insurmountable barrier to the country’s prospects for exports and industrialization. According to the South Korean government, the estimated losses due to restrictions on textile exports to the United States would be some US$880 million over five years. The Bank of Korea predicted some 30,000–35,000 job losses in the textile sector alone, and 60,000 job losses across all industries. In addition, the textile industry was contributing significantly to the growth of the manufacturing sector. It created about twenty-six percent of added-value of the total manufacturing industry in Korea from 1962–1970, and grew at an average of 19.5 percent annually during the same period. Of particular note, South Korea’s production of man-made fiber increased 1900-fold between 1960 and 1970. Closely connected with the petrochemical industry, the growth of the man-made fiber industry was especially outstanding during the first and second Five-Year Plans. Its rapid expansion was funded mainly by foreign capital. Textile products exported to the U.S. formed about half of Korea’s total exports, with this amount growing approximately 60 percent annually in the late 1960s, among which the share of newly restricted items due to the Textile Agreement was 89.5 percent.

Since textile’s contributions to South Korea’s employment, economic growth, and exports was significant, the U.S. restrictions on Korean textiles was expected to have a serious impact on the Korean economy. Korea could no longer maintain its economic growth based solely on its textile industry. However, in the absence of an alternative to keep its economy growing, the

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59. *Chosŏn ilbo*, July 17, 1971

60. Han’guk ūnaeng [Bank of Korea], *Toū charyo: Han-Mi sŏmyu byŏpchŏng cb’egyŏl ü naeyong kwa yŏngyang* [Discussion material: the contents and the impact of the US-ROK textile agreement] (Seoul: Bank of Korea Press, October 1971), 21.


establishment of a trade barrier alone cannot explain the direction of Korea's policy shift. Therefore, we need to consider another mechanism triggered by the textile disputes between the United States and its Asian allies, explained by the quasi alliance model.

The manner in which the negotiation and conclusion of the bilateral textile agreements was conducted symbolized the changing relationship between the U.S. and its East Asian allies. More specifically, the bilateral textile agreements signified the reduction in the U.S.'s commitment to support the Asian NIEs, in addition to its weakened security commitment as embodied in the Nixon Doctrine. As the quasi alliance model predicts, such symmetrical intensification of the fear of abandonment perceived by the policymakers in South Korea and Japan would lead to increased cooperation between the “quasi allies.”

In Korea, this shift in global political, military and economic landscapes aroused considerable concern in the South Korean leadership regarding its relative position in this new world order, as it became clear that Korea could not be the exception to the Nixon administration's policy of disengagement. Various documents suggest that Korea was constantly aware of the security threat from North Korea. For instance, President Park told President Nixon at the San Francisco Summit that “Kim Il-Song [Kim Il Sung] during the past 10 years or so has almost completed war preparations to unify the country by force...looking for an opportunity to invade the South.” He translated the U.S. restriction of Korean textiles as reduced American support for the Korean economy, which could lead directly to social disorder and threats to national security.

In Japan as well, the 1970 textile agreement resulted from 1971 in a drastic reduction in the export competitiveness of Japanese textiles. Japan also lost the biggest market for its textile products. In the face of a long-term barrier established against its major export market, Japanese textile companies sought ways out by rapidly increasing external foreign direct investment (FDI), first to South Korea and Taiwan, and later to Southeast Asia. Overall, U.S.-Japan

63. “Quasi-allies” is defined as the relationship between two states that remain non-allied but share a third party as a common ally. See Victor Cha, Alignment despite antagonism, 36.
64. In April 1971, the U.S. announced a reduction in American armed forces in South Korea without having consulted with the Korean government. As early as November 24, 1969, a document from Nixon to Kissinger stated, “the time has come to reduce the US army in Korea.” FRUS, Vol. XIX, Part 1, 117.
relations were shifting, and thus vulnerable, as the textile issue made clear. While in the 1950s and 1960s Japan’s national security and economy were critically dependent on the U.S., from the mid-1960s, economic rivalries began to materialize, as Japan ascended to the heights as a global economic power, becoming the third largest economy in 1964, behind only the United States and the Soviet Union. Consequently, pressure on Japan to provide economic aid to developing countries grew, as suggested by the Pearson and Patterson Reports of the Nixon administration in the early 1970s.

Since the Bilateral Textile Agreements were concluded in Korea and Japan alike, the degree of disengagement would have been symmetric in both countries, at least conceptually. In line with this shared concern over America’s economic disengagement, Korea-Japan relations changed, and bilateral economic cooperation was actively promoted. As the textile negotiations proceeded, economic cooperation between South Korea and Japan accelerated, especially in the production and investment of the HCI sector.

On April 22, 1970, just a week after the submission of the Mills Bill to the U.S. Congress, Japanese industry representatives proposed a comprehensive plan to increase economic cooperation between South Korea and Japan. The so-called “Yatsugi Kazuo Proposal” outlined a plan to create an integrated industrial region connecting the southern coast of Korea with the Kansai area of Western Japan.

The Proposal consisted of several points expressing the desire of Japanese businesses to increase economic cooperation with Korea. First, it aimed to form a Korea-Japan “economic cooperation area” in the ten years beginning in 1970, benchmarking the European Economic Community (EEC). Secondly, the proposed “economic cooperation area” would connect the southern Korean industrial regions with the Japanese Kansai region, including Tottori, Yamaguchi, and Kita Kyushu. Thirdly, Japan wished to transfer to Korea the industries of steel, aluminum, petroleum, petrochemicals, shipbuilding, electronics and plastics, the sectors which had composed the core of Japanese industry, but whose growth had met with limitations over issues of land use and pollution in Japan. Fourth, Japan, facing labor shortages domestically, wished to transfer labor intensive industries to Korea.68

67. As manifest in the conclusion of the Treaty of Mutual Cooperation and Security between the United States and Japan of 1951 and its revision in 1960, U.S. support for Japanese reconstruction and economic growth via the imports of Japanese goods, as well as the encouragement of Japan’s incorporation into international economic regimes. See I.M. Destler et al., Nichibei sen’i funshō.
68. Yōksha hak yōn’guso, Hamkke pon’īn Han’guk kūnhyōndaesa (Seoul: Sōhae munjip, 2004), 379.
The proposal envisaged an EEC-type arrangement linking the southern part of Korea (Namhae region) and the Western part of Japan (Chugoku region), thus establishing a vertical division of labor. Korea would provide land and cheap labor, with its wage rates only fifteen percent of those in Japan, while Japan would provide capital and machine parts.\(^69\)

Among Koreans, there were conflicting interpretations of the proposal. On the one hand, some argued the Japanese proposal had dubious motivations, stemming from intentions to dominate Asia economically. This would precede vertical integration of Asian economies, in which South Korean industry would be a subservient subcontractor.\(^70\)

On the other hand, others emphasized Korea’s urgent need to introduce foreign capital to spur on its industrialization. With decreasing economic engagement with the United States, compounded by reparation claims terminating in 1975, regional cooperation with Japan was deemed inevitable. Furthermore, it presented an opportunity to improve the imbalance in the industrial structure with the disproportionate emphasis on light industry that resulted from the unbalanced growth strategy of the 1960s. Within Korean business circles, including the Economics and Science Council (Kyŏngje kwahak simŭihoe), the National Economic Association, and the Korean Chamber of Commerce, some called for the establishment of a New Economic Cooperation System with Japan.

In reality, Korea and Japan rigorously promoted bilateral trade and investment during the period 1969–1971, a time which saw a dramatic increase in bilateral trade and Japanese investment in South Korea. The efforts culminated in the establishment of the Masan Free Export Zone (MAFEZ), which was originally part of Yatsugi Kazuo proposal. The MAFEZ was the first export processing zone in Korea, and foreign firms investing in MAFEZ received various government subsidies in the form of tax breaks, exemptions from import tariffs, free land, and infrastructure.\(^71\)

Cha argues that many of the projects, including the building of Pohang Steel Corporation (POSCO), which Japan undertook during this period, were deemed unprofitable by other industrialized nations and international organizations, but were justified as part of Japan’s positive economic cooperation policies to

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bolster South Korea’s political stability.\textsuperscript{72} According to his model of quasi alliance theory, the United States’ economic disengagement policy, which increased the abandonment fears between Korea and Japan, led to a convergence of interests on the part of the two quasi allies resulting in increased economic cooperation. Such a convergence of interests, in addition to the trade barrier in the light industry market, proved to be conducive to Korea’s pursuit of a long-term development strategy based on HCI development. As a result, promotion of the HCI sector was proclaimed as an important national policy goal in the early 1970s.

\textbf{Conclusion}

This study has examined the background, negotiation and conclusion of the ROK-U.S. Textile Agreement (1971), with an emphasis on its historical significance in the context of the changing structure of international relations and South Korea’s strategic response therein.

The textile disputes played a crucial role in changing South Korea’s development strategy in two ways: on the one hand, it established a direct trade barrier that drastically reduced the viability of light industry, creating an urgent need for the Korean government to search out an alternative strategy for continuing its economic development. On the other hand, it was symmetrically perceived by South Korea and Japan as symbolizing the United States’ economic disengagement policy towards East Asia, leading to closer economic cooperation between the two quasi allies, especially in the HCI sector. As a consequence, the textile disputes provided South Korea with both the incentive and resources to pursue industrial transformation promoting the heavy and chemical industries.

\textsuperscript{72} Victor D. Cha, \textit{Alignment despite antagonism}, 12–13, 93.