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The History of U.S. Cotton in Japan

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Report Highlights:

For more than a century, the United States has provided raw cotton to the Japanese textile industry. The unique partnership between USDA's Foreign Agricultural Service (FAS), U.S. raw cotton exporters represented by Cotton Council International (CCI), and the Japan cotton textile industry has been essential for the success of U.S. raw cotton exports to Japan and the rest of Asia.

General Information:

For more than a century, the United States has provided raw cotton to the Japanese textile industry. Japan was a major exporter of cotton textiles before World War II, but the war devastated the industry. Thanks to U.S. assistance, however, the Japanese cotton textile industry made a miraculous recovery during the post war era, to once again lay claim as the largest exporter of cotton textiles in the world.

Even though the importance of Japan's cotton textile industry began to wane in the late 1980s because of international competition, it still remains a significant market for U.S. raw cotton and an extremely important country for the U.S. cotton industry. For over 50 years, the unique partnership between USDA's Foreign Agricultural Service (FAS), U.S. raw cotton exporters represented by Cotton Council International (CCI), and the Japan cotton textile industry has been essential for the success of U.S. raw cotton exports to Japan and the rest of Asia.

The Early Years: Cotton textiles become the leading export item for Japan

Cotton has played a role in the Japanese economy for centuries. During the Tokugawa era (1600-1868) peasant families started to produce cotton goods on a cottage-industry basis, with the domestic supply of raw cotton adequate for domestic consumption. ^[1] For example, in areas around Osaka and Nagoya, farmers cultivated cotton and families earned extra money by spinning yarn and weaving fabric in their homes. Domestic cotton production, however, rapidly declined during the later half of the 19th century as the variety of cotton and the climate was not suited for cotton for industrial textile production.

The Meiji Restoration of 1868 ranks among one of the most important events in Japanese history. For two and a half centuries Japan had been ruled by the Tokugawa shogunate, which was replaced by an alliance of feudal lords that formed the foundation of the Meiji Restoration. The Restoration was in direct response to the arrival of Commodore Perry and the Black Ships in 1853. The Meiji leaders acted in the name of restoring imperial rule, ended centuries of relative isolation, and began the pursuit of technical knowledge from Western countries to modernize the country.

Cotton was essential for the industrialization of Japan during the Meiji Era (1868-1912). At the very end of the Tokugawa period, the Satsuma domain on the island of Kyushu, one of the most powerful

feudal domains in Japan, built the first mill by importing 6,000 spindles from the Platt Company in England.^[2] The Meiji government provided the infrastructure for the growth of the industry. They introduced a unified currency, new laws to encourage the formation of banks to provide capital for entrepreneurs, constructed the first railroads, and subsidized new shipping firms.^[3] The government also played a small role in directly supporting the industry.^[4] For example, the government purchased a small mill in the city of Sakai near Osaka with the intent of making it into a model factory that would inspire private investment in similar enterprises. Over the next few years the factory modestly expanded production and began to turn a small profit. Such large crowds gathered outside to gawk at the mill that they decided to charge a small fee for a tour. The government sold the mill in 1878. The Meiji government also purchased spindles from abroad to be sold to the private sector on easy terms, with mixed results.

With policies initiated by the Meiji government, the private sector played a pivotal role in making the cotton textile industry a major export industry. In 1882, for example, Shibusawa Eiichi, a legendary entrepreneur during the Meiji era, created the giant Osaka Spinning Company with 10,500 spindles.^[5] The Osaka mill was both sufficiently large-scale and powerful to be able to compete with the mills in England and the United States, and its success set a pattern for mill development in Japan. In addition, the emergence of a powerful merchant-banking class, especially in the Osaka area, was another necessary ingredient for the expansion of the industry.^[6] The Japan Spinners Association was also created in 1882, and represented most cotton spinning firms.^[7] The organization quickly became one of the most powerful trade organizations in Japan, promoting the growth of the spinning sector and representing the interests of its members to the government.

By the end of the 1880s, Japan's cotton textile sector became the first sector in the Japanese economy to achieve a capacity for large-scale mechanized manufacturing. In the 1890s spinning companies began to export their products and by the early 1930s cotton goods replaced silk as Japan's major export. In fact, Japan exported more cotton goods than any other nation during the first half of the 1930s.^[8]

With the absence of local cultivation of raw cotton, Japan had to turn to imports to meet its growing demand. India was the major supplier of raw cotton to Japan from the early 1900s to 1930, while the United

States was the second largest supplier for much of that time.

^[9] Indian cotton was cheaper and had a shorter staple than American cotton, which made it more suitable for manufacturing the thick yarn on which Japanese producers first concentrated. The United States became the top supplier during the early 1930s. As the Japanese industry developed and manufactured increasing amounts of fine yarn, Japanese firms needed more American cotton because it had a longer staple. However, for much of the second half of the 1930s and the first two years of the 1940s, India regained the status as the top supplier of raw cotton to Japan because of trade frictions caused by the war in Asia.

The Japanese government mobilized the economy for war in 1937, and the cotton textile industry gradually came under direct government control. ^[10] During World War II, there was a shortage of raw cotton and a lack of export markets. Eventually many cotton mills were required to deliver most of their spindles and looms to the government as materials for weapons and spinning and weaving mills became factories producing war armaments, many of which were destroyed by Allied bombing. By the end of the war, the industry lay in ruins.

Japan's Postwar Textile Industry Recovers with U.S. Assistance



U.S. Cotton

In 1945, the U.S. cotton industry was at a crossroads. They had a huge stockpile of cotton, an ongoing threat from synthetic fibers, and a reduced export market. ^[11] Formed in 1938, the National Cotton Council (NCC) soon became the major voice of the U.S. cotton industry. Oscar G. Johnston, the founder and first president of the Council, considered research and market promotion the cornerstone for cotton's

future. Expanding cotton exports was also high on the list of priorities for the NCC, and it quickly created its own foreign trade committee. ^[12] Nonetheless, a major export push was postponed until after the war.

In Japan, the initial economic policy of the U.S. Occupation was to contain Japan's heavy industries but to look for other areas of the economy to provide growth. A U.S. textile mission went to Japan in January 1946, submitting their report to the Supreme Commander for

the Allied Powers (SCAP) in March 1946. ^[13] The report recommended that Japan's textile industry be rebuilt as Japan's key export industry. The U.S. government began shipping raw cotton to Japan from U.S. government stocks in June 1946. In addition, between December 1946 and February 1947, the U.S. government permitted the former ten large spinning companies to acquire new spinning and weaving machines. ^[14]

In 1947 another special mission of U.S. government and cotton industry leaders went to Japan to study the needs of the industry there for cotton and the ability of the mills to finance cotton. ^[15] The results of the study was the establishment of a special credit for cotton to Japan from the Export-Import Bank that was instrumental in getting the Japanese industry back in operation. In addition, William P. Jacobs, head of the American Cotton Manufacturers Association, led an important mission to Japan in January, 1948. It recommended a revolving fund of \$150,000,000 for Japan's purchases of raw cotton. Later that year, the U.S. Congress passed legislation to create a revolving fund for the purchase of fibers and hides for processing in occupied countries. While the cotton industry soon recovered from the war, it was not until 1950, after the outbreak of the Korean War, that Japanese cotton spinning firms began enlarging their facilities. ^[16] By 1951, Japan had once again become the world's largest exporter of cotton textiles and it would not relinquish its dominant position until 1967. ^[17]

Mid-1960s: Japanese Cotton Textile Industry Begins to Fade

By the mid-1960s, Japanese cotton textile exports began to decrease because of international competition. However, the domestic cotton textile industry as a whole did not contract as quickly as exports because of Japanese government policies and the strong economy known as "the economic miracle" protected the domestic industry.

The Japanese cotton textile industry, however, began to contract in the late 1980s. In September 1985, major industrialized nations including the United States and Japan agreed to devalue the U.S. dollar in relation to the Japanese yen. The accord, commonly known as the Plaza Agreement, led to the value of the U.S. dollar in relation to Japanese yen to decline by 51 % from 1985 to 1987. ^[18] The appreciation of the yen made cotton textile imports into Japan cheaper.

In the 1990s, the Japanese cotton textile industry began to contract significantly as many of the smaller companies went bankrupt and

mills closed. Several of the larger manufactures shifted their operations overseas, with upper management staying in Japan and buying decisions remaining in the country. Since they couldn't compete on price, the remaining Japanese spinners shifted to products that had more value added and couldn't be produced easily overseas such as complex fibers and wrinkle free fabrics. ^[19] Today, imports of cotton textiles make up more than 80 percent of the market. Moreover, imports of raw cotton have also fallen from almost 4 million bales (480 pounds) in 1973 to 555,574 bales in 2008, a drop of over 85 percent. ^[20]

Cotton Council International (CCI)

After the Korean War, demand for U.S. agricultural products declined and stocks once again began to build up. The U.S. government, which was under pressure to take action to improve agricultural exports, enacted the Agricultural Trade Development and Assistance Act of 1954, commonly known as Public Law (P.L.) 480. The legislation authorized the export sale of surplus commodities to countries in exchange for foreign currency used for market development purposes. In accordance with the legislation, USDA's Foreign Agricultural Service (FAS) would enter into "cooperative agreements" with U.S. agricultural trade associations (cooperators) who would carry out the market development work.



1992 Maid of Cotton

NCC was excited about working with this new program. On May 23, 1955, FAS signed an agreement with the National Cotton Council to explore the problems and possibilities of programs to promote U.S. cotton exports.

^[21] This was the first agreement to be executed under the market development provisions of the newly enacted P.L. 480 program. The Council reported to

FAS at the end of 1955 and concluded that the greatest problem for U.S. cotton exports was the increase in competition from synthetic fibers and that the most important action was to stem this trend. The Council advised FAS that cooperator market development program agreements could be executed with industry organizations in Western Europe and Japan.

For a number of legal and tax reasons, the National Cotton Council decided it was better if a separate company was set up, so Cotton Council International (CCI) was created in October of 1956 as an independent corporation to contract with FAS to carry out cotton market development activities abroad. In late 1956, CCI entered into an agreement with Kojiro Abe, the head of the Japanese Spinners Association and the president of Toyobo, the largest textile company in Japan. According to Read Dunn, who was the executive director of CCI at the time, the Japanese Spinners Association had been impressed with the Cotton Council's philosophy of market expansion rather than restriction to solve the problem of overproduction and they also wanted to know more about American sales promotion techniques and how they could be adopted in Japan.^[22]

To carry out the agreement, the Japanese organized the Japan Cotton Promotion Institute (JCPI), composed of six trade associations of spinners, weavers, finishers, cotton merchants, yarn merchants, and fabric wholesalers. This cooperative agreement stipulated that JCPI would carry out programs of market research, sales promotion, and public relations under the general supervision of CCI.

During the early years in Japan, CCI and JCPI successfully undertook generic cotton promotions. The Council believed that it was pointless to try and persuade consumers to purchase products made with cotton from the United States because the consumer had no way of knowing where the cotton had come from. They undertook a generic program stressing the advantages of cotton in an effort to expand the total market and then separately to take action to keep U.S. cotton competitive in price and quality and increase its share of market expansion. For example, CCI arranged for NCC's "Maid of Cotton" tours to Japan and placed advertisements promoting the advantages of cotton in magazines, newspapers, radio and television.^[23] They also organized fashion shows featuring cotton apparel. All of this advertising was generic and only referred to the general use of cotton products. In a report summarizing the "Maid of Cotton" overseas tours for the House of Representatives budget hearing in 1959, the U.S. Ambassador to Japan Douglas MacArthur II told the press that "he was delighted with the Maid's visit to Japan and added that no groups had worked harder for good United States and Japanese relations than the two nations' cotton industries."^[24]

CCI continued to face growing challenges from synthetic fibers. CCI started U.S. cotton promotions in 1971, emphasizing the quality of U.S. cotton to the trade and the consumer. In 1989, CCI developed the

COTTON USA Mark and advertising strategies based on differentiating the high quality of U.S. cotton from synthetic fibers and cotton from other countries.



U.S. Cotton Logo

The COTTON USA Mark identified superior products made from U.S. cotton and branding those products through all stages of processing and marketing. The use of the COTTON USA Mark is limited to high quality, 100 percent cotton products that contain at least 50 percent U.S. cotton.

CCI also developed a supply-push/demand-pull strategy. The supply-push component of the strategy focuses on establishing a preference for U.S. cotton among Japanese buyers of cotton fiber or manufactured cotton products. Trade servicing with manufacturers along with building relationships with trading companies are a big part of this strategy. Creating a premium image for the COTTON USA brand increases the value of products carrying the COTTON USA Mark at retail. The strong image of the COTTON USA Mark motivates companies to participate in the COTTON USA licensing program.

The demand-pull component is dependant on the consumer market for cotton apparel and home textiles. As retailers see greater demand for products made from U.S. cotton, they will seek to source more U.S. cotton containing products. The major CCI advertising event in Japan is Cotton Day on May 10, which celebrated its 14th anniversary in Japan in 2009. Cotton Day highlights the benefits of U.S cotton, and provides an opportunity to focus on the proactive and positive role the

U.S. cotton industry is taking in terms of cotton's sustainability. The COTTON USA award ceremony is the most popular aspect of Cotton Day, where CCI recognizes A-list celebrities for their commitment to the style and comfort of U.S. cotton products and their support of clothing labeled with the COTTON USA Mark. The celebrities also donate their favorite cotton clothing to charity.



U.S. Cotton Day Event

CCI has also implemented a Supply Chain Marketing (SCM) initiative to foster the use of U.S. cotton throughout the supply chain. This accounts-based program is designed to identify potential partners in the textile supply chain and focus resources on the decision makers and market relationships that offer opportunities to increase sales of U.S. cotton.

Why is the Japanese market so important for U.S. Cotton?

With the drop in U.S. exports of raw cotton to Japan and the severe contraction in the industry, why is Japan so important for U.S. cotton growers? For one, Japan is still the tenth largest market for U.S. raw cotton and the United States is still the largest supplier of cotton to Japan, making up around 40 percent of raw cotton imports. Second, while many Japanese cotton textile companies have relocated to low wage countries such as China and Indonesia, key decision makers are still in Japan. In fact, China has emerged as the leading importer of U.S. raw cotton over the last several years as domestic production has not kept pace with demand. Third, while consumption of raw cotton has been declining, imports of goods made from cotton have been increasing. According to a *Global Lifestyle Monitor* survey of 2004, for example, conducted by CCI and Cotton Incorporated, Japanese consumers overwhelmingly prefer cotton over other fibers, saying that "cotton is best suited for today's fashion."^[25] Japan is also a fashion

trendsetter for much of Asia. Thus, Japanese retailers, which are a key driver in demand for apparel, prefer U.S. cotton rich apparel (products, brands). Moreover, as Japanese apparel makers globalize, they have decision-making powers for raw cotton to be used in their products.

Looking to the Future

The United States has been a major supplier of raw cotton to Japan for more than a century. For over 50 years, CCI has worked closely with the Japanese cotton textile industry to promote U.S. cotton in Japan. Even with Japan's declining cotton market, CCI has been able to adapt to successfully promote U.S. cotton in Japan. The goal of CCI is to continue building upon strong relationships with manufacturers and marketers of cotton brands in Japan and to ensure strong demand for U.S. cotton along each step of the supply chain that increases the value for the product all the way back to the cotton fiber. By being innovative and proactive, CCI will ensure that Japan will continue to remain an extremely important market for U.S. cotton.



U.S. Cotton promotion in Japan

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