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The Development of Small Business Finance in East Asian Countries:
Experiences of Korea and Japan after World War II

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The objective of this study is to examine the development of small business financing in South Korea (hereafter Korea) and Japan which achieved even faster manufacturing industry-centered growth among another east asian countries after the World War II. In so doing, this study will shed light on the difference of these countries' small business finance, and examine how the development of small businesses in these countries was impacted by it.

In terms of comparing to developments of small business finance in every country, Carnevali (2005) gives us an useful viewpoint. She conducted a comparative review of the development of small business financing in Britain, France, Germany, and Italy, from the beginning of the 20th century to the 1970s. Her principal aim was to illuminate the cause of decline in the British manufacturing industry, particularly from World War II to the 1970s. This was then compared to the economies of France, Germany, and Italy, which had achieved manufacturing industry-centered growth throughout the same

period. Through this review, Carnevali found that in Britain, the continued passivity of the government and banks towards fostering small businesses from the early 20th century to the mid-1970s led to the postwar decline of their manufacturing industry. On the other hand, the governments of France, Germany, and Italy developed measures to foster small businesses, with the aim of developing a financially and politically stable middle class. Moreover, the financial institutions' continuous funding of small businesses within such a political environment led to economic growth that contrasted favorably with the stagnation in Britain.

Carnevali focuses on the stance taken by the governments and financial institutions of each country towards small businesses, as well as the financial institutions that provide funding to small businesses under various conditions. In so doing, Carnevali succeeds in analyzing the financial development or decline of small business financing in each country, all from the same perspective.

In line with the work of Carnevali, this study presents an outline of Korea's and Japan's policies with respect to small businesses and small business financing after World War II. Specifically, this study examines in terms of these government's stance on small businesses, the degree to which small business policies and small business financing were connected, and the

ways in which financial and nonfinancial institutions were involved in small business financing. This historical analysis of small business financing in Korea and Japan will make a considerable contribution to international comparative research done within the context of the history of small business financing.

About the case of Korea, first I plan to outline the development of small business finance from 1950s to 1970s, and then focus on the Fifth and Sixth Five-Year Plan (1982-1991) that some researchers, for instance, Hun Joo Park (2007), evaluate as substantially promoting small businesses.

To understand the structure and function of small business finance after World War II in Japan, studies of the country's experiences during the wartime and postwar reconstruction periods are just as important as those of the prewar period.

The stance of the Japanese government vis-à-vis small businesses was to strengthen product competitiveness and credit by duly organizing them in the prewar period. However, because the connection between policies and finance was weak, government assistance in utilizing credit cooperatives had a limited effect.

The government administrations of the prewar period did not set up governmental financial institutions to help small businesses, nor did they

provide any particular support for small business loans through private sector financial institutions. However, many small businesses actively made use of informal transactions, such as loans made by traders, family members, or private financial institutions that serve small businesses. In particular, these included savings banks, mutual-aid credit companies, and credit unions. Although these methods were by no means sufficient, they did offer support to Japanese small businesses.

During the wartime period, the government forced small businesses either to convert to the munitions industry or close down. As the situation in World War II worsened and the government's control of the economy became more severe, the authorities aggressively encouraged firms to abandon their businesses and shift to war-related industries as laborers. To facilitate the conversion or closure of small businesses, the National Transformation Fund was established as a government-affiliated financial institution in December 1940. The Central Bank for Commerce and Industry also quickly became the lender for industrial and merchant associations, to support wartime economic control. On the other hand, all private financial institutions invested in government bonds and financial debentures under the government's policy, excluding big banks. As a result, lending by savings banks, mutual loan companies, and credit cooperatives for small businesses diminished

dramatically.

The Japanese government established the Small Business Agency in August 1948 and resumed policies by which to rationalize and modernize small businesses by reworking how they were organized. From 1949, the government also created new public and private financial institutions that served small businesses—besides the fact that the authority continuously launched financial assistance for small and medium-sized firms through the provision of governmental funds, beginning in 1948. We can conclude that essential Japanese institutions and policies that supported small businesses during the country's period of high economic growth had emerged during the postwar reconstruction era.

● Reference

- Carnevali, Francesca (2005) *Europe's advantage: banks and small firms in Britain, France, Germany, and Italy since 1918*. Oxford University Press. Oxford.
- Park, Hun Joo (2007) ' Small Businesses' Place in the South Korean State – Society Relations ', *Asian Journal of Political Science*, vol. 15, No.2.