

Geopolitical Tensions and Economic Opportunity: Evidence from Japan

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Abstract

Geopolitical tensions may reallocate economic opportunities across countries. We study the economic and political impacts of such shifts, drawing upon the Korean War (1950–1953), one of the most intense geopolitical conflicts in recent history. Using newly digitized data, we show that US military procurement in Japan during the Korean War led to employment growth, labor relocation, and increases in labor productivity in Japan. Meanwhile, we present suggestive evidence that military procurement reduced support for parties opposed to Japan’s rearmament (and military alliance). Our findings suggest that geopolitical tensions may generate economic opportunities for some countries and influence their domestic political discourse.

Keywords: Geopolitics; Korean War; War Procurement; Economic Growth; Voting.

JEL Classification: D72; J23; N45; O12; O53.

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1 Introduction

Geopolitics has played an increasingly important role in shaping global economic activity, such as trade, aid, and FDI (e.g., [Gopinath et al., 2025](#); [Kuziemko and Werker, 2006](#); [Alesina and Dollar, 2000](#)). Rivalry between countries may create economic opportunities for a third country, for relation buildups or strategic considerations. For instance, the US-China rapprochement in the early 1970s amid the Cold War gave China access to US technologies even before China’s economic reforms ([Millwood, 2025](#)). More recent examples include the emergence of “connector countries” that bridge geopolitical blocs and the rising notion of “friend-shoring” supply chains ([Aiyar and Ohnsorge, 2024](#); [Yellen, 2022](#)). How do geopolitical shifts affect a third country’s economy? Can the geopolitics-driven windfall influence citizens’ attitudes toward foreign relations? These questions help us understand a central issue in international political economy: how growing geopolitics may shape a country’s economic development and political outcomes ([Hirschman, 1945](#); [Baldwin, 1985](#); [Mohr and Trebesch, 2025](#)).

In this paper, we shed light on these questions by studying how the Korean War (1950–1953), one of the most intense geopolitical conflicts of the 20th century, affected noncombatant Japan. After the Korean War began in June 1950, the US extensively procured goods and services in Japan to support warfare in Korea, which was known as “special procurement.” Procurement contracts from 1950–1953 totaled about 1.1 billion US dollars (15.3 billion in 2026 US dollars), equivalent to 4.2 percent of Japan’s 1950 GDP. As such, some scholars even call this windfall “Japan’s Marshall Plan” ([Miller, 2011](#)). We trace the economic and political effects of this demand shock in Japan.

Using newly digitized archival data, our empirical investigation begins by constructing a shift-share measure of each Japanese prefecture’s exposure to special procurement. The measure combines variation in pre-Korean industrial specialization with procurement intensities across industries. Then, using an event-study approach, we find that after the Korean War began, employment rose sharply in prefectures specializing in procurement-intensive industries. Importantly, there was no differential employment growth during *peacetime* before WWII and the Korean War. By 1955, shortly after the Korean War ended, employment in the average prefecture had increased by 50 workers per 1,000 working-age population in 1947. This short-run effect is comparable to the employment growth observed during WWII, when Japan itself made substantial military procurement with domestic producers. The employment effect persisted: by 1980, special procurement had increased employment in the average prefecture by 331 workers per 1,000 working-age population in 1947. Zooming in on the employment growth, we detect significant spillover effects. Employment grew not only in industries directly targeted by special procurement, such as manufacturing, construction, and transport, but also in less directly exposed industries, such as commerce and services. We also find that special procurement increased migration, especially young workers, to areas of military production. In addition, special procurement increased labor productivity. In an average prefecture, special procurement led to 8–16 percent

higher annual output per worker. These results suggest that special procurement during the Korean War, though transitory, brought remarkable benefits to Japan's postwar economy.

Having documented special procurement's economic effects, we go on to investigate the political effects. The Korean War revived Japan's military capacities, which had been dismantled by the US Occupation after WWII; it also affirmed US policymakers' belief in rearming Japan as an anti-communist ally in Asia, accelerating the formation of the US-Japan military alliance (Dingman, 1993; Miller, 2011). Consequently, the Korean War opened up debate over rearmament and military alliance in postwar Japanese politics, which became a central political cleavage (Inoue et al., 2025). The right-wing conservatives (represented by the Liberal Democratic Party and its predecessors) supported rearmament. On the left of the political spectrum, the Japanese Communist Party strongly opposed rearmament. However, the major left-wing opposition party, the Japanese Socialist Party, was divided over this issue: Right Socialists accepted some form of safety forces, while Left Socialists strongly opposed all rearmament on both ideological and economic grounds, concerned that rearmament would involve Japan in the danger of great power rivalries and undermine Japan's civilian economy (Miller, 2011; Schmidt, 2003; Hein, 2004).

Against this backdrop, we study electoral support for the three major parties: the Japanese Communist Party (JCP), the Japan Socialist Party (JSP), and the Liberal Democratic Party (LDP).¹ We find that special procurement reduced support for the JCP and Left Socialists, two parties opposed to rearmament; it increased the vote share for Right Socialists but had no significant effect on the LDP vote share. These results are consistent with the idea that the economic benefits from special procurement may have made rearmament and the US-Japan military alliance more acceptable to Japanese voters, though such realignment was limited within the left. It is a limitation of the paper that there are no appropriate data for us to test the effects of special procurement on voters' attitudes. Nevertheless, we consider several alternative explanations. First, there is no evidence that special procurement weakened labor movements and thus reduced electoral support for left-wing parties. Second, economic voting cannot explain our findings, since special procurement had no effect on the incumbent LDP's vote share. Finally, we show that the results hold when controlling for time-varying demographic variables, suggesting that our results are not driven by compositional changes in the electorate. Taken together, our results suggest that a third country may benefit from economic opportunities created by geopolitical tensions, and these benefits can shape domestic political discourse on foreign policy.

This paper contributes to several strands of literature. First, we contribute to the burgeoning literature on geoeconomics (see a survey by Mohr and Trebesch (2025)). A body of work has documented the interplay between geopolitical factors and international economic flows (Gopinath et al., 2025; Kuziemko and Werker, 2006; Alesina and Dollar, 2000; Fuchs and Klann, 2013; Kleinman et al., 2024; Broner et al., 2025; Liu and Yang, 2025; Clayton et al., 2026). This paper

¹Following prior literature (e.g., Gethin, 2021), these three party groupings take into account the frequent changes of Japan's party system from the late 1940s to the mid-1950s. The LDP grouping includes the Liberal and Democratic Parties before 1955. The JSP grouping includes both Left and Right Socialists.

examines the economic effects of geopolitically motivated programs. In doing so, we join several recent papers. For instance, [Bianchi and Giorcelli \(2023\)](#) show that the Marshall Plan helped Italy modernize its infrastructure, thereby raising agricultural production and facilitating structural transformation. [Barteska et al. \(2025\)](#) find that US military procurement in South Korea during the Vietnam War improved South Korean firms' export performance. [Dreher et al. \(2021\)](#) find that China's development finance to developing countries boosts short-term economic growth. Beyond the economic effects, our paper further investigates the political impacts relevant to foreign policy. This is a crucial issue as geopolitically motivated programs ultimately intend to shape recipient countries' public opinion and garner their goodwill ([Nye, 1990](#); [Goldsmith et al., 2014](#); [Wellner et al., 2025](#)).

Second, we add to the literature on the impacts of war. Most existing studies focus on countries directly involved in conflict. The well-known "war makes states" thesis argues that war mobilization promotes the development of state capacity ([Tilly et al., 1992](#); [Besley and Persson, 2009](#); [Cantoni et al., 2024](#)). Indeed, military demand can spur industrial development ([Garin and Rothbaum, 2025](#); [Fan and Zou, 2021](#)). Related to our work, [Parvathaneni and Yang \(2024\)](#) find that Britain's military procurement in India during WWII facilitated structural transformation. [Kuziemko et al. \(2026\)](#) find that US military procurement during the Cold War created manufacturing jobs and increased Americans' support for hawkish foreign policy. We document both the economic and political effects of a war abroad, which is particularly relevant to an environment of growing geopolitical tensions.

Finally, our paper relates to the literature on place-based industrial policy and regional development ([Mitrunen, 2025](#); [Levy and Muñoz, 2026](#); [Autor et al., 2013](#); [Acemoglu et al., 2016](#)). An important takeaway from this literature is that promoting a few industries can generate spillovers that stimulate overall local development, as the "big push" theory suggests ([Murphy et al., 1989](#)). Our results echo this point: we observe the expansion of both procurement-targeted and non-procurement-targeted industries. We also add to a literature drawing upon East Asia's rapid economic growth, which often emphasizes the role of industrial policy ([Cherif and Hasanov, 2025](#); [Lane, 2025](#); [Barteska and Lee, 2026](#); [Jaramillo and Kim, 2025](#); [Choi and Levchenko, 2025](#); [Choi and Shim, 2026](#)). We provide evidence for the role of geopolitical shifts. Relatedly, [Fan \(2025\)](#) provides cross-country evidence that improved relations with major powers promote economic growth. We provide within-country evidence that the Korean War, a watershed in postwar East Asian geopolitics, contributed to Japan's postwar growth.

The rest of this paper is organized as follows. Section 2 introduces the historical background. Section 3 describes the data. Section 4 discusses our research design. Section 5 presents results. Section 6 discusses robustness checks. Section 7 concludes. Supplementary results and materials are available in [Online Appendices](#).

2 Historical Context

The Korean War broke out on June 25, 1950, when North Korea invaded South Korea. The UN Security Council called on member states to help repel North Korean forces. The US provided approximately 90 percent of the personnel of the UN forces (Pembroke, 2018, p. 141). The Korean War ended on July 27, 1953, with the signing of the Korean Armistice Agreement.

During the war, to support its military operations in Korea, the US made substantial purchases of goods and services in Japan, known as “special procurement” (*tokuju* in Japanese). Goods included munitions, automobiles, construction materials, food, etc. Services included automotive repair, machinery repair, transportation, communication, utilities, etc. US procurement orders arrived quickly after the Korean War broke out. Asai (2002) shows that there was already procurement contracted in July 1950 (see Figure D1 for the monthly time series). Sumiya (2000) estimates that “between June and December 1950, special procurement contracts totaled \$191.36 million, of which \$127.33 million were for goods and \$64.03 million for services.” According to our calculation using archival data, special procurement from 1950–1953 totaled 1.1 billion US dollars (about 15.3 billion in 2026 dollars), which amounted 4.2 percent of Japan’s 1950 GDP.

Several historical accounts argue that the Korean War facilitated Japan’s post-WWII economic growth. The demand brought by special procurement ended the recession resulting from deflationary policies since 1949 (Uchino, 1983; Sumiya, 2000; Chung, 2020; Yonezawa, 1994).² For instance, Toyota, Japan’s leading automotive manufacturer, was on the verge of bankruptcy by 1950. However, when the Korean War broke out, Toyota received orders for 4,679 trucks from the US military, which improved its profitability and rescued it from bankruptcy (Toyota Motor Corporation, 2012). The special procurement also revived military capacities dismantled after WWII. For instance, the US Occupation prohibited Japan’s aircraft industry after WWII, but the industry revived and expanded during the Korean War because of US military contracts for maintenance and repair (National Research Council, 1994, p. 14–15). In addition, as support for the completion of special procurement, Japan was allowed to import strategic raw materials, provided credits from international organizations and the US government, and given technological assistance from the US (Sumiya, 2000). The economic effects of special procurement are likely substantial. The annual GNP growth rates were 7.4 percent in 1948 and 3.9 percent in 1949 (Tsuru, 1961). However, during the Korean War, annual GNP growth was about 10 percent (Dingman, 1993; Sumiya, 2000), and such high growth persisted until the early 1970s (Ohno, 2017, p. 131). Therefore, it is not surprising that some scholars called the special procurement shock “Japan’s Marshall Plan,” and Prime Minister Yoshida Shigeru (1946–1947 and 1948–1954) even described the special procurement as “a gift from the gods” (Miller, 2011).

²The deflationary policies were known as the “Dodge Line” because they were proposed by American banker Joseph Dodge.

The Korean War also influenced Japanese politics. After WWII, the US Occupation initially promoted demilitarization policies in Japan. These policies dismantled Japan's war-making capabilities: Japan's military was dissolved, and Article 9 of the 1947 constitution famously renounced war as a sovereign right. However, as the Cold War intensified, the US shifted its position toward Japan's reconstruction and rearmament, known as "Reverse Course." The outbreak of the Korean War reaffirmed US policymakers' belief in rearming Japan as an anti-communist ally in Asia. After the outbreak of the Korean War, General MacArthur ordered the creation of a Japanese National Police Reserve and the expansion of the existing Maritime Safety Force, which were the predecessors of the Japan Self-Defense Forces. The Korean War accelerated the consolidation of the US-Japan military alliance, with the signing of the US-Japan Security Treaty in 1951 (Dingman, 1993; Miller, 2011).

These developments opened discussion of rearmament in Japanese politics, which became a central political cleavage (Inoue et al., 2025). The right-wing conservatives, represented by the Liberal Democratic Party (LDP) and its predecessors, generally supported rearmament and the US-Japan alliance.³ In contrast, the major left-wing opposition party, the Japanese Socialist Party (JSP), was divided over the rearmament issue. Right Socialists accepted some form of safety forces and a temporary alliance. Left Socialists strongly opposed all rearmament, US bases, and the security treaty, advocating neutrality instead (Cole et al., 1966; Miller, 2011). They argued that rearmament would draw Japan into great-power rivalries and divert scarce resources from civilian development (Miller, 2011; Hein, 2004). Another major party, the Japanese Communist Party (JCP), was a vocal and consistent opponent of rearmament. Consistent with these narratives, using survey data in 1965, Table E1 shows that compared to non-partisans, supporters of the JCP and Left Socialists were more likely to regard Japan's military spending as "too high," supporters of Right Socialists did not exhibit a significantly different opinion, and LDP supporters tended to disagree that military spending is too high. There is similar heterogeneity by party identification in negativity toward the US-Japan Security Treaty.

In sum, historical narratives suggest that special procurement likely boosted the Japanese economy. In our empirical investigation, we seek to quantitatively examine the economic effects of special procurement. Inspired by the association between the Korean War and Japan's rearmament, we estimate the political effects of special procurement. There are multiple possibilities for how special procurement may impact voting. First, upon observing the economic effects of special procurement, voters may update beliefs about the economic consequences of rearmament, which in turn influences support for parties with different positions on rearmament. Second, by an economic voting logic, the economic effects of special procurement, if any, may benefit the ruling party (de Benedictis-Kessner and Warshaw, 2020; Slater and Wong, 2022, p. 81). Although it can

³Yoshida's Liberal Party favored gradual rearmament and continued reliance on US protection, while other conservative factions advocated a faster and more autonomous military buildup (Miller, 2011; Lee, 2004). The establishment of the LDP in 1955 brought these conservative factions together around support for the US alliance and the gradual development of the Self-Defense Forces, although disagreements over the pace of rearmament and Japan's position in the alliance continued (Kim, 1995; Miller, 2011; Lee, 2004).

be challenging to disentangle different channels, we estimate the effects of special procurement on voting outcomes and probe into potential explanations.

3 Data

We collect data at the Japanese prefecture level. Japan has 47 prefectures. Our sample includes 46 prefectures; it excludes only Okinawa, which was under US Occupation until 1972. We combine archival records, population censuses, industrial surveys, and election data. Appendix A describes data sources in detail, and Table E2 presents the summary statistics. Below, we introduce the main variables used in the empirical analysis.

Exposure to Special Procurement. We obtain and digitize item-level procurement data from *Statistics on Special Procurement* (Economic Planning Agency, 1956). The data include 82 items. Goods accounted for about two thirds of total procurement, while services accounted for one third. We then manually match procurement items with industries defined in the Japanese censuses.⁴ With pre-Korean employment data by industry at the prefecture level, we are able to construct a shift-share variable to measure a prefecture’s exposure to special procurement:

$$Procurement_i = \sum_k \underbrace{\frac{L_{ik}}{L_i}}_{\text{“share”}} \underbrace{\frac{P_k}{L_k}}_{\text{“shift”}} . \quad (1)$$

In this expression, i indexes 46 prefectures and k indexes 102 industries. L_{ik} is employment in industry k and prefecture i , $L_i = \sum_k L_{ik}$ is total employment in prefecture i , and $L_k = \sum_i L_{ik}$ is national employment in industry k . These employment variables are measured *before* the outbreak of the Korean War, using the 1947 Population Census and the 1949 Census of Manufactures. P_k is the amount of procurement placed to industry k during the Korean War (1950–1953), measured in thousands of 2026 US dollars.

The “share” component, $\frac{L_{ik}}{L_i}$, captures the local employment mix, while the “shift” component, $\frac{P_k}{L_k}$, measures procurement per worker in industry k . Therefore, $Procurement_i$ can be interpreted as the procurement exposure of the average worker in prefecture i . It has a higher value if prefecture i specializes in industries strongly affected by special procurement given its scale (i.e., when $\frac{P_k}{L_k}$ is high). The five most procurement-intensive industries are: (i) automobile and parts manufacturing, (ii) electrical equipment for automobiles and railway vehicles manufacturing, (iii) cement manufacturing, (iv) fabricated metal products manufacturing, and (v) building materials manufacturing. This reflects high demand for vehicles, construction materials, and munitions, consistent with the nature of war procurement.

⁴If an item can be linked to multiple industries, we apportion its procurement value in proportion to each corresponding industry’s national employment.

Economic Outcomes. The primary economic outcome of interest is employment, both aggregate and by industry. Japanese population censuses offer consistent employment measures, allowing us to examine how special procurement affected the evolution of the Japanese economy over a long period. Our sample covers 11 censuses between 1930 and 1980. A census is conducted around October and thus reflects end-of-year population characteristics. In addition to employment, we examine production outcomes, obtained from the Census of Manufactures (industrial surveys).

Political Outcomes. To study the political impacts, we obtain general election data from [Smith and Reed \(2018\)](#). Because Japan’s party system changed frequently from the late 1940s through the mid-1950s, we follow the literature in constructing vote shares for three major party groupings ([Gethin, 2021](#)). The first is the Japanese Communist Party (JCP). The second is the Japan Socialist Party (JSP). The JSP split into left and right wings between 1951 and 1955; the right-wing socialists later left the JSP and established the Democratic Socialist Party (DSP) in 1960. We examine the combined JSP vote share as well as the vote shares of the two wings. As mentioned earlier, a key distinction between the two wings is that the right wing was more supportive of Japan’s rearmament and the US-Japan security alliance than the left wing. The third grouping is the Liberal Democratic Party (LDP), formed in 1955 through the merger of the Liberal and Democratic Parties.

4 Empirical Strategy

4.1 Estimating Equation

In most of our subsequent analysis, we estimate the following event-study regression:

$$Y_{it} = \sum_{\tau \neq \text{reference year}} \beta_{\tau} (\text{Procurement}_i \times \mathbb{1}\{t = \tau\}) + \mathbf{X}_i \cdot \Gamma_t + \lambda_i + \mu_t + \varepsilon_{it}. \quad (2)$$

Y_{it} is an economic or political outcome for prefecture i in year t , while λ_i and μ_t are prefecture and year fixed effects. The vector $\mathbf{X}_i$ contains baseline prefectural covariates, each interacted with year fixed effects. We describe these controls below. Standard errors are clustered at the prefecture level to account for serial correlation. We also perform randomization inference, where the exposure to special procurement is permuted.⁵

We allow the effect of Procurement_i to vary over time, as captured by coefficients β_{τ} . We omit the year closest to the outbreak of the Korean War as the reference year: for employment outcomes, the reference year is 1947, the latest census year before the Korean War. It is worth noting that

⁵Permuting exposure to special procurement is equivalent to permuting employment mix (i.e., “shares”). This is in line with the source of identifying variation, which we discuss below.

for years prior to the reference year, we distinguish peacetime and wartime, with the latter being 1937–1945 when Japan was in WWII.⁶

4.2 Identification

We implement a shift-share design in a panel setting. Recent econometric advances offer two approaches to causal identification in shift-share designs, each based on a distinct assumption. Under the first approach, Goldsmith-Pinkham et al. (2020) show that exogenous “shares” allow coefficients β_τ to identify causal effects. Intuitively, this approach resembles a difference-in-differences (DiD) design: each share serves as the exposure in a DiD to distinguish treatment and control groups, and the shift-share design aggregates multiple DiD estimators (with the estimated effect scaled by the size of a “shift”). In our setting, this means comparing trends in prefectures with larger shares of employment in procurement-intensive industries with trends in prefectures with smaller shares. Therefore, the identifying assumption is a parallel trends assumption: in the absence of special procurement, prefectures with different shares of employment in procurement-intensive industries would have followed similar trends in the outcome. The second approach, proposed by Borusyak et al. (2022), instead relies on the exogeneity of “shifts” and permits the shares to be endogenous. Applied here, it would require the cross-industry variation in procurement per worker, P_k/L_k , to be as good as randomly assigned.

Which approach is more suitable in our setting? The “exogenous shift” approach is unlikely to be plausible. This is because special procurement was driven by war needs. Industries such as automobiles and metal products necessarily received large procurement, whereas industries such as watches, clocks, and parts received little or none. Therefore, the “shift,” procurement per worker (P_k/L_k), cannot plausibly be thought of as assigned quasi-randomly across industries.

Now we consider the “exogenous share” approach. It requires the prefectures specializing in procurement-intensive industries to have followed similar economic trajectories as other prefectures in the absence of special procurement. This parallel trends assumption would be violated if specialization in procurement-intensive industries were correlated with other local characteristics conducive to economic growth. For example, prefectures more exposed to special procurement may likely be more industrialized and better endowed with infrastructure, resources, or human capital. As a result, they might have recovered more rapidly after WWII even without special procurement, leading to overestimation of the effects of special procurement. Prefectures specializing in procurement-intensive industries related to war supplies might have suffered more severe destruction during WWII, thus exhibiting differential economic dynamics.

To address these concerns, we leverage comparisons among broadly similar prefectures. We include in $\mathbf{X}_i$ fixed effects for quintiles of the non-agricultural employment share in 1947. By doing so, we effectively compare prefectures with similar levels of industrialization but with different

⁶Japan entered the war when the Sino-Japanese War began in 1937 and then the Pacific War in 1941.

industrial specializations and, hence, different exposure to special procurement. This allows us to make apple-to-apple comparisons: by way of example, prefectures i and j may have similar non-agricultural employment shares, but i can be more exposed to procurement because it has a larger metal products industry. This reduces the concern that greater exposure merely reflects a higher initial level of industrialization.

We also include controls for WWII influences, including (i) an index of losses of young men during the war (Asai and Kambayashi, 2023), (ii) civilian casualties in Allied bombing, and (iii) the size of returning civilians and soldiers. In addition, we control for the influence of US-sponsored land reform using the change in the share of owner-farmers between 1938 and 1950. Previous work argues that land reform facilitated structural change and had the intention and potential to affect politics (İşcan, 2018; Kapstein, 2017; Chiang et al., 2025). Finally, for the preferred estimation sample, we exclude Tokyo and Osaka, two major industrial hubs and among the most exposed to special procurement. Throughout our analysis and robustness checks (see Section 6), we show that the results are not driven by these specification decisions.

4.3 Interpretation and Validity of the Research Design

Following Goldsmith-Pinkham et al. (2020), to better interpret and validate our research design, we implement a decomposition exercise for the estimator of Equation 2 (see Appendix B for details). We find that the estimator places a weight of 42.3 percent on the automobile and parts manufacturing industry. The second- and third-largest contributors are fabricated metal products manufacturing and primary metal manufacturing, which receive weights of 10.2 percent and 7.2 percent, respectively. Therefore, our design can be understood as comparing prefectures with and without significant presence of automobile and metal industries before the Korean War.

This helps us test the validity of our research design. Table 1 assesses the key identifying assumption that prefectures with high shares of employment in procurement-intensive industries are not on differential economic trajectories. In columns (1)–(3), we regress $Procurement_i$ on employment growth from 1930 to 1935 and the covariates capturing the effects of WWII and postwar policies. Column (1) reports correlations among all 46 prefectures. Exposure to special procurement is not strongly correlated with wartime destruction or postwar land redistribution, but it is positively correlated with prewar employment growth. This suggests that Equation 2 may overestimate the effect of procurement without additional controls. Column (2) excludes Tokyo and Osaka. The correlation with the pretrend becomes smaller but remains statistically significant. Column (3) adds fixed effects for quintiles of the 1947 non-agricultural employment share. This restricts comparisons to be within prefectures with similar levels of industrialization. The correlation between exposure to special procurement and the pretrend is now small and statistically insignificant, as are the correlations with the other covariates. Columns (4)–(12) show that the initial automobile and metal manufacturing employment shares are also generally weakly correlated with the potential confounders, in particular the pretrend in employment. Taken

together, these results support the identifying assumption conditional on the 1947 non-agricultural employment share.

Table 1. Balance Tests

	<i>Procurement_i</i>			Share of automobile			Share of fabricated metal mfg.			Share of primary metal mfg.		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
ΔEmployment/Pop ¹⁵ ₁₉₄₇ , 1930–1935	6.313*** (1.503)	4.281** (1.638)	1.648 (1.305)	0.036 (0.021)	0.051* (0.027)	0.022 (0.023)	0.125** (0.057)	0.032** (0.013)	0.016 (0.013)	0.185*** (0.050)	0.166** (0.075)	0.037 (0.068)
Land reform index	0.036 (0.357)	-0.120 (0.314)	0.216 (0.269)	-0.004 (0.004)	-0.002 (0.003)	0.000 (0.004)	0.014* (0.008)	0.007* (0.004)	0.009** (0.003)	0.020 (0.015)	0.019 (0.016)	0.031* (0.016)
Young men losses during war	0.067 (0.717)	0.288 (0.644)	0.432 (0.423)	0.007 (0.010)	0.010 (0.009)	0.009 (0.009)	-0.004 (0.015)	0.002 (0.009)	0.002 (0.008)	0.016 (0.026)	0.018 (0.027)	0.017 (0.021)
Civilian casualties in Allied bombing	3.166 (2.893)	1.727 (1.596)	1.196 (1.468)	0.008 (0.024)	-0.005 (0.019)	0.003 (0.027)	0.087 (0.072)	0.041*** (0.015)	0.042*** (0.014)	-0.005 (0.067)	-0.016 (0.069)	0.013 (0.069)
Size of repatriates	-0.410 (1.149)	-0.695 (1.111)	-0.399 (0.856)	-0.024* (0.014)	-0.022 (0.014)	-0.024 (0.016)	-0.000 (0.016)	-0.013* (0.007)	-0.011 (0.007)	0.031 (0.056)	0.028 (0.058)	0.022 (0.051)
Excl. Tokyo/Osaka		Yes	Yes		Yes	Yes		Yes	Yes		Yes	Yes
1947 non-agr sector quintile bins			Yes			Yes			Yes			Yes
Observations	46	44	44	46	44	44	46	44	44	46	44	44
R-squared	0.508	0.283	0.644	0.218	0.238	0.357	0.519	0.344	0.578	0.307	0.190	0.495

Notes: Each column reports a prefecture-level cross-sectional regression. The dependent variable is the shift-share procurement measure in columns (1)–(3), the pre-Korean automobile employment share in columns (4)–(6), the pre-Korean fabricated metal manufacturing employment share in columns (7)–(9), and the pre-Korean primary metal manufacturing employment share in columns (10)–(12). All listed covariates enter each regression jointly. Columns (1), (4), (7), and (10) include all 46 prefectures; the remaining columns exclude Tokyo and Osaka. Columns (3), (6), (9), and (12) additionally include fixed effects for quintiles of the 1947 non-agricultural employment share. Robust standard errors are in parentheses.

* $p < 0.10$, ** $p < 0.05$, and *** $p < 0.01$.

5 Results

5.1 Economic Effects of Special Procurement

Employment. We begin by examining the employment effects of special procurement. Figure 1 reports estimates from Equation 2, with employment scaled by a prefecture’s working-age population (aged 15 or older) in 1947.⁷ The omitted reference year is 1947, the latest census year before the Korean War. Column (1) of Table E3 reports the estimates.

Figure 1 shows no differential employment growth by procurement exposure during the pre-Korean *peacetime* years. We treat the 1940 observation separately because it falls during Japan’s own wartime mobilization. After the Korean War began in June 1950, employment rose immediately in more exposed prefectures: the population census in October already recorded a positive effect. The coefficient for 1950 is 0.072, which implies that an average prefecture ($Procurement_i = 0.368$) had 26 ($= 0.368 \times 0.072 \times 1000$) more employed people per 1,000 working-age population in 1947. The coefficient rises to 0.135 in 1955, shortly after the Korean War ended, which translates to an increase of 50 ($= 0.368 \times 0.135 \times 1000$) employees per 1,000 working-age population. This short-run effect of special procurement is similar in sign and magnitude to the positive coefficient for 1940, when Japan made its own wartime procurement during the WWII (Fukumoto, 2026), which likely had a similar profile to US procurement. These two waves of sharp wartime employment growth, albeit from different sources, reassure the validity of our results.

⁷We use the population aged 15 or older as the denominator because the employment data count people in this age range. Fixing the denominator at the 1947 value also ensures that population changes do not mechanically alter the outcome.

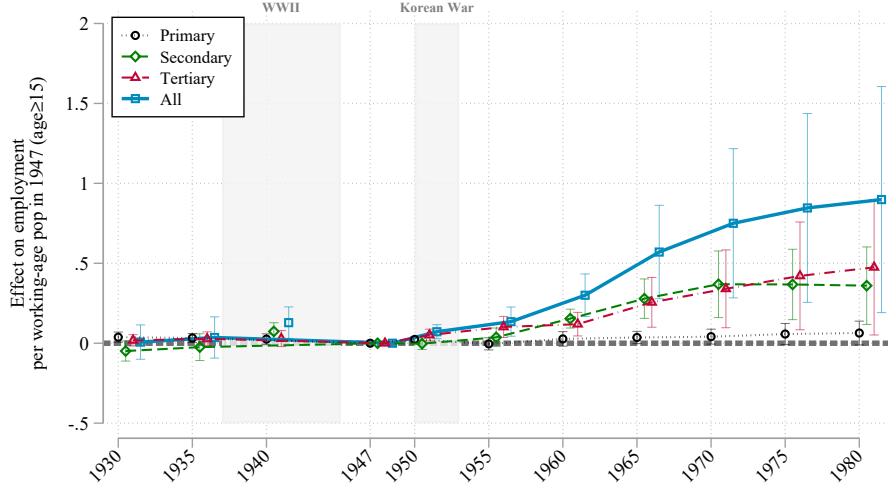


Figure 1. Effects of Special Procurement on Employment

Notes: The dependent variable is total employment divided by the prefecture's working-age population (15 or older) in 1947. The regression specification follows Equation 2. The omitted reference year is 1947. Whiskers are 95 percent confidence intervals based on standard errors clustered at the prefecture level. Shaded areas mark the WWII and the Korean War.

We note that the employment effect of procurement continued to grow before leveling off after 1970. In 1980, the coefficient reached 0.899, implying that in an average prefecture, special procurement led to 331 ($= 0.368 \times 0.899 \times 1000$) more employees per 1,000 working-age population in 1947, *ceteris paribus*.

How does the employment growth distribute across sectors? Figure 1 shows that the increase in total employment is driven by both the secondary and tertiary sectors, with little contribution from the primary sector (see columns (2)–(4) of Table E3 for estimates).⁸ Figure D2 further shows that manufacturing, which is directly affected by special procurement, accounts for most (between 77 percent and all) of employment growth in the secondary sector. The other directly affected industry, construction, also saw significant, albeit smaller, employment growth. When it comes to the tertiary sector, the directly affected transport industry experienced significant employment growth; meanwhile, interestingly, commerce and services, industries not directly targeted by special procurement, experienced larger employment growth. If we treat manufacturing, construction, and transport as industries directly affected by special procurement, we estimate the local employment multiplier to be 1.7–2.7.⁹

Population. Having documented substantial employment growth, we now examine whether special procurement also affects population mobility. Figure 2A reports estimates of Equation 2

⁸In the Japanese censuses, the primary sector refers to agriculture. The secondary sector includes mining, manufacturing, construction, and utilities. The tertiary sector includes commerce, transport, and services.

⁹This figure is compatible with multipliers in other studies. For instance, Moretti (2010) estimates the local multiplier of 2.6 in the US (with 1 tradable job leading to 1.6 additional nontradable jobs). For European countries, the local multiplier is estimated to be 1.48 in Sweden (Moretti and Thulin, 2013), 1.4 in Germany (Gathmann et al., 2020), and 2.3 in Italy (Cerqua and Pellegrini, 2020).

with log population as the dependent variable. We present estimates using both the main sample and the sample excluding Hiroshima and Nagasaki, two prefectures subject to atomic bombing. The results are similar; thus, we focus on the main sample estimates. We find that in the *peacetime* years before the Korean War, there was no differential population growth between prefectures from 1930–1935. During the WWII (1937–1945), the average prefecture witnessed 6–10 percent population growth in 1940 and 1944. Along with the employment growth during this period (cf. Figure 1), this suggests that labor demand from Japan’s own war procurement attracted migration to areas of military production. Population fell when the war ended in 1945.¹⁰ There was little differential population growth leading up to the Korean War. After the Korean War broke out, however, special procurement led to significant population growth: an average prefecture had 3 percent more population in 1950 and 6 percent in 1955. The effect on population persisted after the Korean War ended, but population growth in procurement-exposed prefectures halted after 1970, in line with the timing of employment leveling off (cf. Figure 1).

The results and timing of population growth suggest that workers migrated to procurement-intensive prefectures in response to new job opportunities. Figure 2B supports this interpretation: special procurement increased the share of the population aged 15–64, particularly the share of young population aged 15–34. Population growth can also explain special procurement’s spillover effects on industries not directly targeted (services and commerce; cf. Figure D2): a larger population relates to higher overall income, which brought demand for non-targeted industries and facilitated their growth. Notwithstanding significant migration, in Figure D3, we show that per thousand special procurement increased the employment rate by around 4 percentage points in the long term.

Production. Using industrial censuses, we study how special procurement affected production in the manufacturing industry.¹¹ Figure 3 shows that special procurement raised labor productivity, as reflected by increases in output per worker. For the average prefecture, output per worker increased by 8–16 percent. However, we fail to detect noticeable effects on the wage rate. This indicates that the increase in local purchasing power was mainly due to increased population and employment (à la Siegloch et al. (2025) and others).

In sum, the results above collectively show that special procurement during the Korean War stimulated the Japanese economy: in prefectures specializing in procurement-intensive industries, it increased employment, attracted young workers, and enhanced labor productivity. These impacts occurred when Japan was experiencing post-WWII recessions and thus contributed to Japan’s economic recovery.

¹⁰Japan surrendered in September 1945. A special population census was conducted in November 1945.

¹¹The industrial censuses only surveyed production outcomes of establishments with an employment size higher than a certain cutoff. We gather data from 1946 to 1962, which consistently report prefecture-level aggregate production outcomes for establishments with five or more employees. After this period, production outcomes are for establishments with nine or more employees. Our analysis focuses on per-worker outcomes, such as output per worker and wage rate. However, interpret the results with caution, because establishments included in industrial censuses could vary over time, given the employment effects of special procurement.



Figure 2. Effects of Special Procurement on Population

Notes: In Panel A, the dependent variable is log population. The main-sample series uses 44 prefectures (excluding Tokyo and Osaka). The second series additionally excludes Hiroshima and Nagasaki, two prefectures affected by atomic bombing. In Panel B, the dependent variables are the shares of the prefecture's population aged 15–64, 15–34, 35–54, and 55–64. Points are estimated coefficients β_τ from Equation 2. The omitted reference year is 1947. Whiskers are 95 percent confidence intervals based on standard errors clustered at the prefecture level. Shaded areas mark the WWII and the Korean War.

5.2 Political Effects of Special Procurement

We now turn to examine the political effects of special procurement. Figure 4A examines the effects on three major party groupings: the Japanese Communist Party (JCP), the Japanese Socialist Party (JSP), and the Liberal Democratic Party (LDP). Estimates are reported in columns (1)–(3) of Table E4. We find that special procurement reduced the JCP's vote share, and there was no pretrend leading up to the Korean War, favoring a causal interpretation. For an average prefecture, the

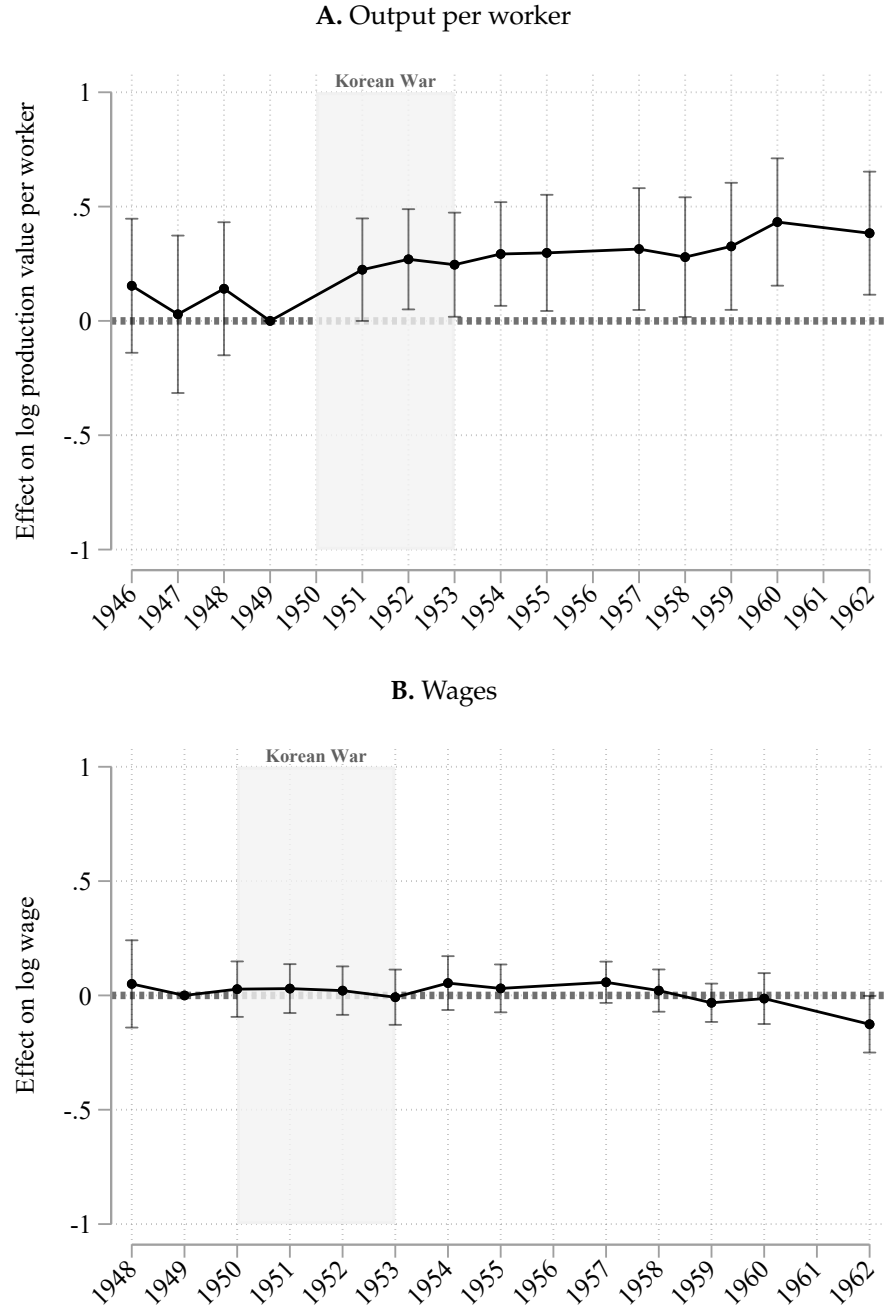


Figure 3. Effects of Special Procurement on Production Outcomes

Notes: Panel A reports effects on log production value per worker, and Panel B reports effects on log wages. Points are estimated coefficients β_τ from Equation 2. The omitted reference year is 1949. Whiskers are 95 percent confidence intervals based on standard errors clustered at the prefecture level. The shaded areas mark the Korean War.

special procurement lowered the Communist vote share by about 1.8 percentage points. However, there is no evidence that special procurement had significant effects on the JSP and LDP vote shares.

Given Left and Right Socialists' distinct platforms on rearmament, we further investigate the effects of special procurement on support for Left and Right Socialists. To do so, we estimate the following cross-sectional regression separately for each election year t after 1951, i.e., after the JSP split, and for each wing w :

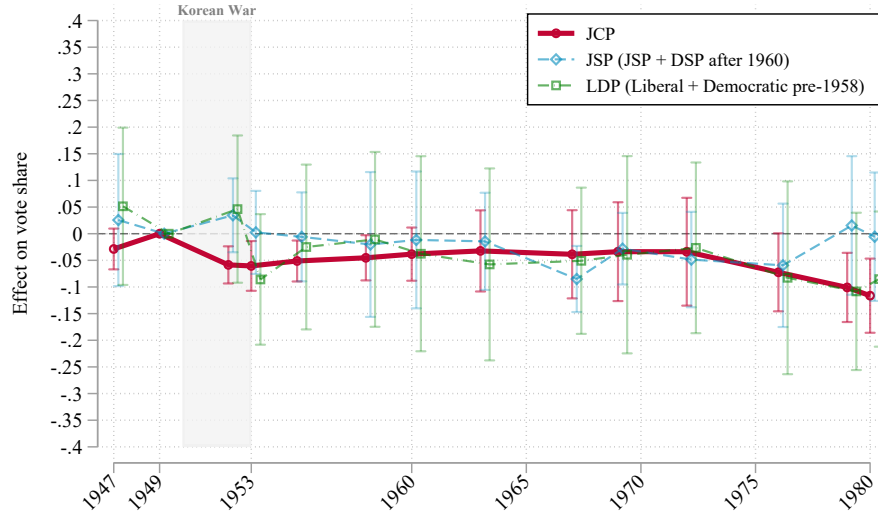
$$JSP_{it}^w = \alpha_t^w + \beta_t^w Procurement_i + \mathbf{X}_i \cdot \Gamma_t^w + \rho_t^w JSP_{i,1949} + \varepsilon_{it}^w. \quad (3)$$

The dependent variable JSP_{it}^w is the vote share for wing w in prefecture i and election year t . Because Socialists split after the outbreak of the Korean War, we are unable to perform a panel estimation that controls for prefecture fixed effects. Instead, in Equation 3, we control for the JSP's vote share in the 1949 election ($JSP_{i,1949}$) to capture the size of the Socialist base. Other control variables in $\mathbf{X}_i$ are the same as in Equation 2. Figure 4B displays estimated β_t^w . Interestingly, the results suggest that special procurement reduced votes for Left Socialists while increasing votes for Right Socialists.

These results show that special procurement decreased the vote shares for anti-armament Communists and Left Socialists but increased the vote share for Right Socialists who were open to rearmament. Given this shift in association with rearmament policy, one interpretation is that the economic boom induced by war procurement reduced some Communist and Left Socialist voters' distaste against rearmament, and these voters subsequently shifted toward Right Socialists, who offered a good alternative: they were more open to rearmament while remaining relatively close to the left side of the political spectrum. Indeed, as mentioned in Section 2, Left Socialists argued that rearmament could undermine economic development. Such an argument could become less persuasive in the face of the economic effects of special procurement. Voters who were uncertain about the consequences of rearmament could use observed economic outcomes to update their beliefs about the desirability of rearmament. This is consistent with models in which voters learn about optimal policy from observed outcomes (Piketty, 1995; Harrington, 1993).

We acknowledge the caveat that there can be multiple alternative explanations for the voting pattern. First, one possibility is that employment growth may weaken labor movements. However, this cannot explain the heterogeneous effects on votes for Left and Right Socialists, both of which held pro-labor platforms. In addition, we find no evidence that special procurement weakened unions (see Figure D4). Second, economic voting does not provide a sound explanation, as special procurement was more an external decision by the US than something Japanese politicians advocated. Importantly, we do not observe a significant boost in support for the incumbent LDP during the Korean War. Finally, the compositional change in the electorate accompanying migration may affect voting patterns. We cannot fully rule out this possibility. However, when we include time-varying demographic controls (share of female voters and share of young voters), the results barely change (see Figure D5). Taken together, the political effects of special procurement likely operate, at least in part, by reducing dislike of rearmament policy.

A. Major Parties



B. Effects on Left and Right Socialists

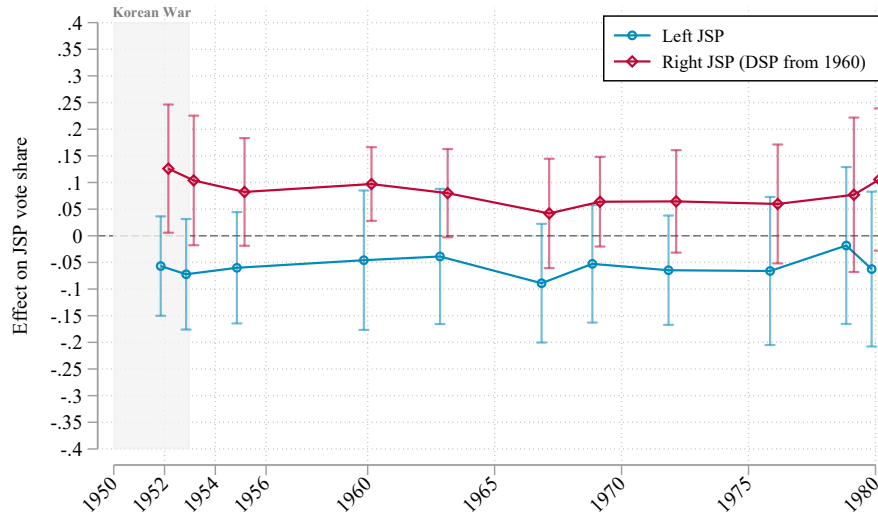


Figure 4. Effects of Special Procurement on Voting

Notes: In Panel A, the dependent variables are vote shares for the Japanese Communist Party (JCP), the Japan Socialist Party (JSP), and the Liberal Democratic Party (LDP). Before the LDP's formation in 1955, its series combines the Liberal and Democratic parties; after the Democratic Socialist Party (DSP)'s formation in 1960, the JSP series combines the JSP and DSP. Points are estimated β_τ from Equation 2. The omitted reference year is 1949. In Panel B, the dependent variables are vote shares of Left Socialists and Right Socialists (later DSP). Points are estimated β_τ from Equation 3. Whiskers are 95 percent confidence intervals based on standard errors clustered at the prefecture level. The shaded area marks the Korean War.

6 Robustness Checks

We perform several robustness checks for the key results. We summarize them here and refer interested readers to Appendices B and C for details. First, in Appendix B, we conduct diagnosis

for our shift-share design, following [Goldsmith et al. \(2014\)](#). Importantly, we show that each component that makes up the shift-share measure for exposure to special procurement has similar effects. This consistency in results based on different sources of variation supports validity of our identification strategy. Second, in Figure [C1](#), we show that the results are robust to alternative specification choices, including: (i) leaving out the automobile industry, the largest contributor to estimation variation, when measuring exposure to special procurement ($Procurement_i$); (ii) estimating a spatial autoregressive (SAR) model to account for spatial spillovers; (iii) not controlling for covariates at all; (iv) weighting observations by working-age population; and (v) including Tokyo and Osaka in the estimation sample. Third, one concern is that our results may pick up secular trends in post-WWII recovery correlated with exposure to special procurement. We perform a placebo test to isolate the role of special procurement in Japan. Specifically, we estimate the employment “effects” of special procurement in Taiwan, where special procurement did not take place. Reassuringly, Figure [C2](#) shows that unlike Japan, exposure to special procurement had no effect on employment in Taiwan. Finally, our results are robust to Conley standard errors that account for spatial correlations.

7 Conclusions

This paper studies how geopolitical tensions affect a third country economically and politically. We document that US procurement in Japan during the Korean War boosted Japan’s economy, as reflected by employment growth, labor mobility, and increases in labor productivity. We also offer suggestive evidence that these positive economic effects likely contributed to voters’ acceptance of Japan’s rearmament, a move in favor of US foreign policy.

Our results suggest that geopolitical rivalries may create economic opportunities for other countries. [Gopinath et al. \(2025\)](#) find that in recent years, as geopolitical tensions intensified, trade and FDI between geopolitical blocs decreased but did not change for unaligned countries; this was not the case during the Cold War, when most international economic activity happened within blocs, thus hurting unaligned countries. As major powers double down on their investments in both relation and power buildups ([Goldsmith et al., 2014](#); [Stone et al., 2022](#); [Wang et al., 2026](#); [Liu and Yang, 2025](#)), drawing upon Japan’s experience during the Korean War, we argue that some countries, especially those traditionally not strongly integrated into the global economic system, can gain from these geopolitics-induced opportunities.

However, can these economic opportunities eventually foster goodwill? This remains an open question ([Wellner et al., 2025](#); [McCauley et al., 2022](#); [Blair et al., 2022](#)). Our results suggest that a positive possibility exists. However, two conditions may matter: positive economic effects and the political salience of relations with a foreign power. In our case, rearmament was a central issue in Japanese politics at the time. Thus, there was scope for the procurement-induced economic benefits to influence political attitudes. But this may not be universally the case. The economic

effects of foreign investments can be contentious, and people's own perceptions can matter. Foreign policy is not yet central to many countries' politics, although it can possibly become more salient if power rivalries intensify. Understanding these dynamics and the underlying mechanisms is an important avenue for future research, which can address the external validity of our results and help understand the role of foreign relations in domestic politics.

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Online Appendices

Contents

A	Data Sources	OA.2
B	Shift-Share Diagnosis	OA.3
C	Robustness Checks	OA.6
D	Additional Figures	OA.9
E	Additional Tables	OA.14

A Data Sources

This appendix describes the data sources and the construction of the analysis dataset. Table A1 summarizes the data sources.

Table A1. Data Sources

Variable	Level	Period	Source(s)
Procurement	Industry	1950–1953	<i>Statistics on Special Procurement</i> (Economic Planning Agency, 1956, URL)
Employment (total and by industry)	Prefecture	1930–1980 (every five years, with 1947 replacing 1945)	Population Censuses (e-Stat URL ; Statistical Yearbooks URL) Long-Term Economic Statistics Database (URL)
Population (total, by age, and by sex)	Prefecture	1930–1980	Population Censuses (e-Stat URL) Annual Population Estimates (e-Stat URL 1 ; e-Stat URL 2) Demographic Data Collection (URL) 1947 Census Reports – Population by Age (URL)
Vote shares	Prefecture	1947–1980	Smith and Reed (2018, URL)
Industrial production (for establishments with more than 5 workers): output, wage bill, and employment	Prefecture	1948–1962	Censuses of Manufactures (URL)
Loss of young men in war: $\left(\frac{\text{men aged 20–34 in 1945}}{\text{women aged 20–34 in 1945}} \right)_{t=1940} - \left(\frac{\text{men aged 20–34 in 1945}}{\text{women aged 20–34 in 1945}} \right)_{t=1947}$	Prefecture	1940 & 1947	Constructed following Asai and Kambayashi (2023)
Land reform index: $\text{share of landed farmers}_{t=1950} - \text{share of landed farmers}_{t=1938}$	Prefecture	1938 & 1950	Statistical Yearbooks: 1940 Table 21 (URL); 1951 Table 29B (URL)
Civilian casualties due to Allied bombing, scaled by 1947 population	Prefecture	1947	Statistical Yearbook 1949 Table 607 (URL)
Postwar repatriates (both civilians and soldiers), scaled by 1947 population	Prefecture	1947	Nishizaki (2025)
Taiwan data: employment	County	1946–1958	Taiwan Provincial Government (1959)

B Shift-Share Diagnosis

β_τ 's in Equation 2 can be equivalently estimated by multiple first-difference regressions specified as follows:

$$Y_{i\tau} - Y_{i,1947} = \mu_\tau + \beta_\tau \text{Procurement}_i + \mathbf{X}'_i \gamma_\tau + \varepsilon_{i\tau}. \quad (\text{B1})$$

Recall that

$$\text{Procurement}_i = \sum_k \underbrace{\frac{L_{ik}}{L_i}}_{\text{"share"}} \underbrace{\frac{P_k}{L_k}}_{\text{"shift"}} \equiv \sum_k s_{ik} g_k. \quad (\text{B2})$$

In the second equality, to simplify notations, we let s_{ik} denote the share and g_k denote the shift.

By Goldsmith-Pinkham et al. (2020), the OLS estimator of β_τ can be written as

$$\hat{\beta}_\tau = \sum_k \hat{\alpha}_k \hat{\beta}_{\tau k}. \quad (\text{B3})$$

In this decomposition, $\hat{\alpha}_k$ is the Rotemberg weight, expressed as

$$\hat{\alpha}_k = \frac{g_k \sum_i s_{ik} \text{Procurement}_i^\perp}{\sum_{k'} (g_{k'} \sum_i s_{ik'} \text{Procurement}_i^\perp)}, \quad (\text{B4})$$

where $\text{Procurement}_i^\perp$ is the residual of the regression of Procurement_i on a constant 1 and $\mathbf{X}_i$. $\hat{\beta}_{\tau k}$ is the IV estimator of β_τ in Equation B1, using s_k as an IV for Procurement_i . The first-stage and reduced-form regressions for this IV estimation are effectively DiD regressions that use s_k as the exposure.

Therefore, the decomposition shows that the shift-share design aggregates multiple DiD analyses that leverage variation in employment shares, with Rotemberg weights capturing the contributions of these DiD analyses. Based on this idea, we address the following issues or concerns in our shift-share design. To do so, we examine total employment and set $\tau = 1965$. The shift-share estimate is $\hat{\beta}_{1965} = 0.570$.

- **Which industries contribute most to estimation?** Note that Rotemberg weights add up to 1. We compute Rotemberg weights and find that automobile and parts manufacturing is the largest contributor to estimation: the estimator assigns this industry a weight of 42.3 percent. The second- and third-largest contributors are fabricated metal products manufacturing and primary metal manufacturing, which receive weights of 10.2 percent and 7.2 percent, respectively. Therefore, our design can be understood, to a first approximation, as comparing prefectures with and without significant presence of automobile and metal industries prior to the Korean War.
- **Do employment shares satisfy a parallel trends assumption?** Because the research design is conceptually a collection of multiple DiDs using employment shares as exposure to treatment,

identification follows if a parallel trends assumption is satisfied, that is, conditional on control variables, employment shares of procurement-intensive industries should not relate to differential trends in economic growth had special procurement not happened. As discussed in Section 4.2, this is certainly a restrictive assumption, primarily because the size of procurement-intensive industries (e.g., automobile industry) is likely associated with the level of industrialization. To address this concern, we control for fixed effects of quintiles of the pre-Korean non-agricultural share. That is to say, we are using variation between prefectures having close levels of industrialization but specializing in different particular industries. We also exclude two industrial hubs, Osaka and Tokyo. As Table 1 shows, when we do such apple-to-apple comparisons, the procurement measure has a weak correlation with the pretrend in employment growth, so are the employment shares of industries that are central to our estimation (i.e., automobiles, fabricated metal manufacturing, and primary metal manufacturing).

- **Can negative Rotemberg weights bias the shift-share estimate?** A Rotemberg weight $\hat{\alpha}_k$ can be negative. If some weights are very negative and the effects are heterogeneous, then the shift-share estimate $\hat{\beta}_\tau$ can be biased and less interpretable: $\hat{\beta}_\tau$ can substantially differ from the average of $\hat{\beta}_{\tau k}$'s. In our case, however, this is not a big concern. First, the total of Rotemberg weights is small, only -0.038. Second, as we show below, $\hat{\beta}_{\tau k}$'s are not divergent, ensuring that $\hat{\beta}_\tau$ produces a sensible average of $\hat{\beta}_{\tau k}$.
- **Are industry-share estimates internally consistent?** In Figure B1, we plot the industry-share estimate $\hat{\beta}_{\tau k}$ against the Rotemberg weight $\hat{\alpha}_k$. We find that the industry-share estimates, $\hat{\beta}_{\tau k}$'s, are very similar. This suggests an internal consistency of our research design: no matter which employment share is used to vary the exposure to procurement, we see a similar effect of procurement on employment growth. Related to the last discussion, the similarity of $\hat{\beta}_\tau$ ensures a reasonable aggregation by the shift-share estimate $\hat{\beta}_\tau$.

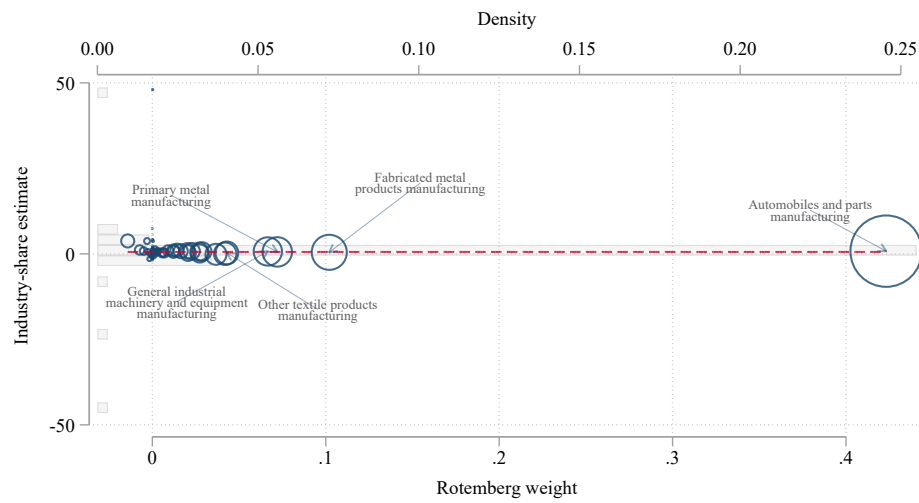


Figure B1. Rotemberg Weights and Industry-Share Estimates

Notes: The figure plots each industry's Rotemberg weight against its industry-share reduced-form estimate for the change in log employment from 1947 to 1965. Marker size is proportional to the absolute Rotemberg weight. Labels identify the five industries with the largest positive weights. The dashed horizontal line is the corresponding shift-share reduced-form estimate; the marginal distribution of weights is shown along the top axis.

C Robustness Checks

In this Appendix, we present several robustness checks for our key results:

- Special procurement increased total employment.
- Special procurement decreased JCP and Left JSP vote shares but increased the Right JSP vote share.

C.1 Specifications

In Figure C1, we show that our results are robust to alternative specifications:

- Leaving out the automobile industry, the largest contributor to estimation variation, when measuring exposure to special procurement ($Procurement_i$);
- Estimating a spatial autoregressive (SAR) model to account for spatial spillovers;
- Not controlling for covariates at all;
- Weighting observations by working-age population; and
- Including Tokyo and Osaka in the estimation sample.

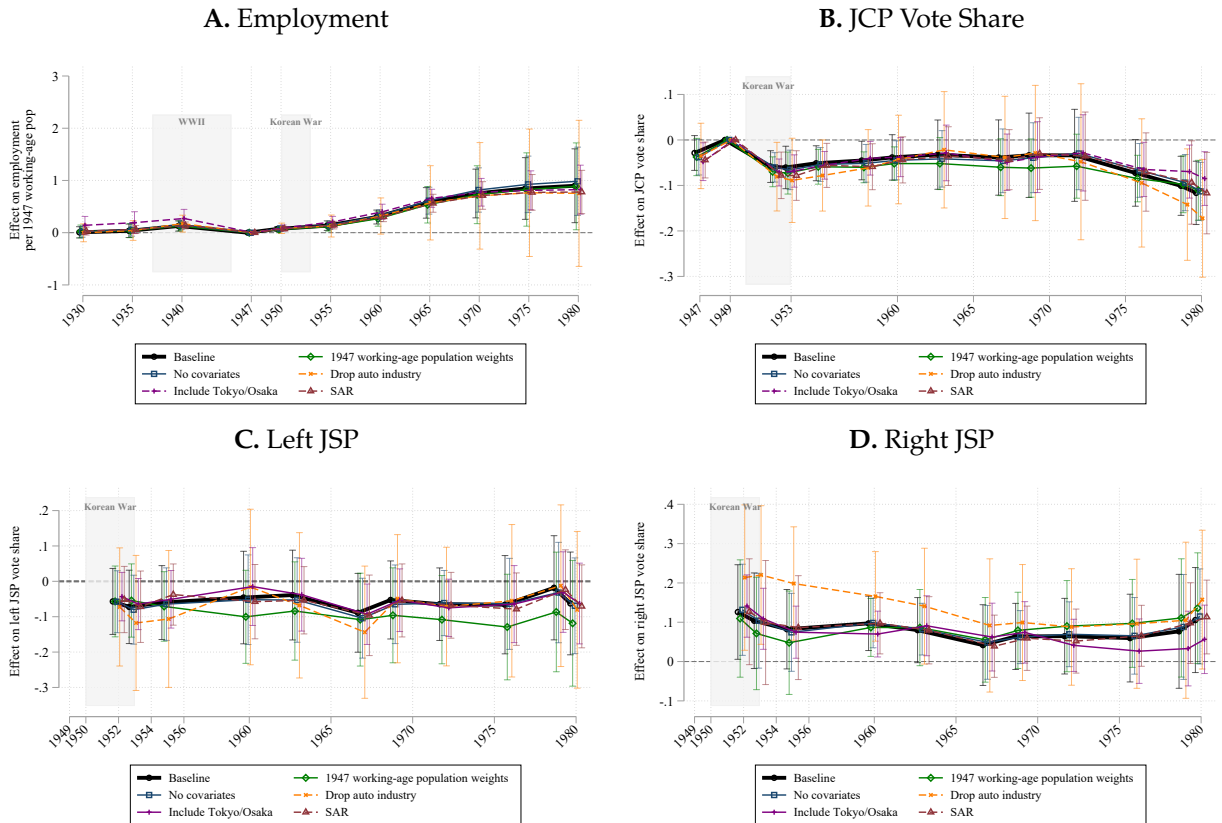


Figure C1. Robustness to Alternative Specifications

C.2 Placebo

One concern is that our results may pick up secular trends in post-WWII recovery correlated with exposure to special procurement. To isolate the role of special procurement in Japan, we perform a placebo test by estimating the “effects” of special procurement in Taiwan, where special procurement did not take place. To do so, we collect employment data in Taiwan from 1946–1958 (13 Taiwanese counties in total, covering the entire Taiwan).¹ Figure C2 compares the employment growth between Japan and Taiwan. Unlike Japan, where prefectures more exposed to special procurement experienced significant employment growth after the Korean War broke out, Taiwan did not experience such a boom. This suggests that our results are not driven by mechanical secular trends in Japanese prefectures with high exposure to special procurement.

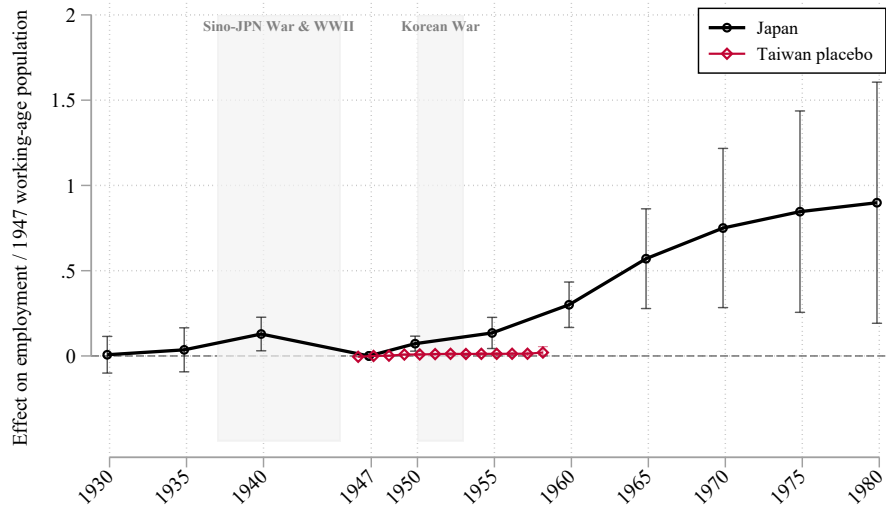


Figure C2. Placebo: Effects of Special Procurement in Taiwan

Notes: This figure presents the “effects” of special procurement on employment in Taiwan. For comparison, we also present the true effects in Japan. The regression specification follows Equation 2. The omitted reference year is 1947. Points are estimated coefficients β_τ . Whiskers are 95 percent confidence intervals. Shaded areas mark the WWII and the Korean War.

¹We cluster standard errors at the Taiwanese county level. Because of the small number of clusters, we use a wild bootstrap to compute p -values and 95 percent confidence intervals (Cameron et al., 2008).

C.3 Conley Standard Errors

In Table C1, we report Conley standard errors in curly braces.

Table C1. Robustness Check: Conley Standard Errors

Employment		Voting outcomes			
Year	Baseline	Year	JCP	Left JSP	Right JSP
1930	0.007 (0.053) {0.117}	1947	-0.029 (0.019) {0.021}		
1935	0.036 (0.064) {0.125}	1952	-0.059 (0.017)*** {0.018}***	-0.057 (0.046) {0.032}*	0.126 (0.060)** {0.055}**
1940	0.129 (0.049)** {0.116}	1953	-0.061 (0.023)** {0.020}***	-0.072 (0.051) {0.035}**	0.104 (0.060)* {0.052}**
1950	0.072 (0.022)*** {0.094}	1955	-0.051 (0.019)** {0.019}***	-0.060 (0.052) {0.036}*	0.082 (0.050) {0.040}**
1955	0.135 (0.045)*** {0.088}	1958	-0.045 (0.021)** {0.018}**		
1960	0.300 (0.066)*** {0.087}***	1960	-0.038 (0.025) {0.017}**	-0.046 (0.065) {0.057}	0.097 (0.034)*** {0.032}***
1965	0.570 (0.145)*** {0.084}***	1963	-0.032 (0.038) {0.024}	-0.039 (0.063) {0.050}	0.080 (0.041)* {0.036}**
1970	0.750 (0.231)*** {0.131}***	1967	-0.039 (0.041) {0.025}	-0.089 (0.055) {0.047}*	0.042 (0.051) {0.046}
1975	0.846 (0.293)*** {0.170}***	1969	-0.034 (0.046) {0.026}	-0.053 (0.055) {0.047}	0.064 (0.042) {0.040}
1980	0.899 (0.351)** {0.209}***	1972	-0.034 (0.050) {0.024}	-0.065 (0.051) {0.046}	0.065 (0.048) {0.038}*
		1976	-0.072 (0.036)* {0.019}***	-0.066 (0.069) {0.064}	0.060 (0.055) {0.042}
		1979	-0.101 (0.032)*** {0.033}***	-0.018 (0.073) {0.069}	0.077 (0.072) {0.053}
		1980	-0.116 (0.035)*** {0.031}***	-0.062 (0.072) {0.066}	0.106 (0.066) {0.051}**
Observations	484		616	484	484
R-squared	0.854		0.820	0.666	0.471

Notes: The table reports estimated effects on employment and voting, as reported in Tables E3 and E4. Standard errors, clustered by prefecture, are in parentheses. p -values of randomization inference, calculated based on 1,000 permutations of *Procurement*, are reported in brackets. Conley standard errors, which allow flexible spatial correlations between prefectures within 200km, are reported in curly braces.

* $p < 0.10$, ** $p < 0.05$, and *** $p < 0.01$.

D Additional Figures

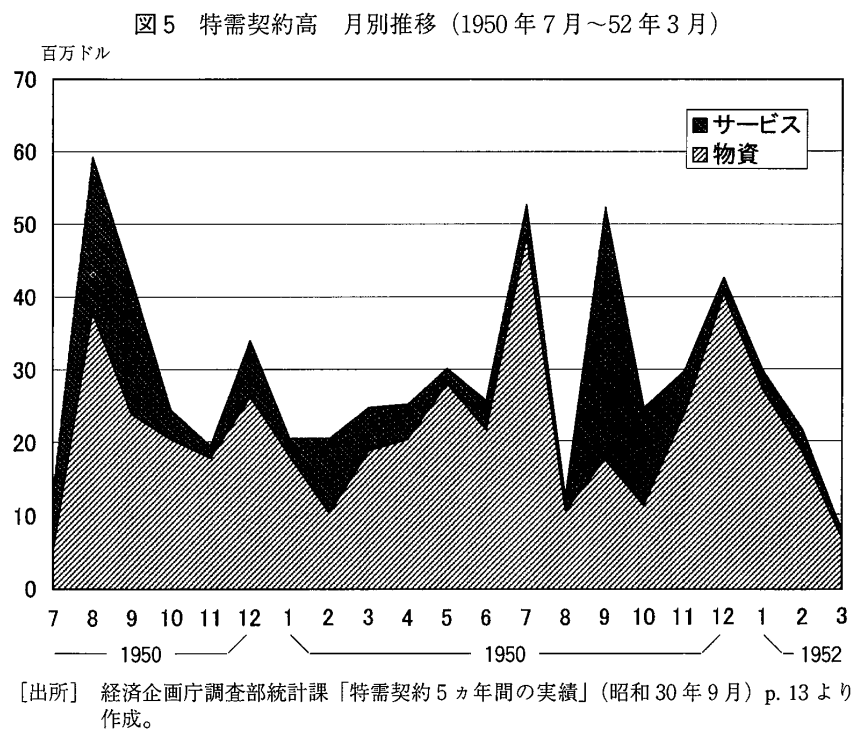


Figure D1. Monthly Special Procurement

Notes: The figure reports monthly special procurement during the Korean War. Source: Figure 5 of Asai (2002).

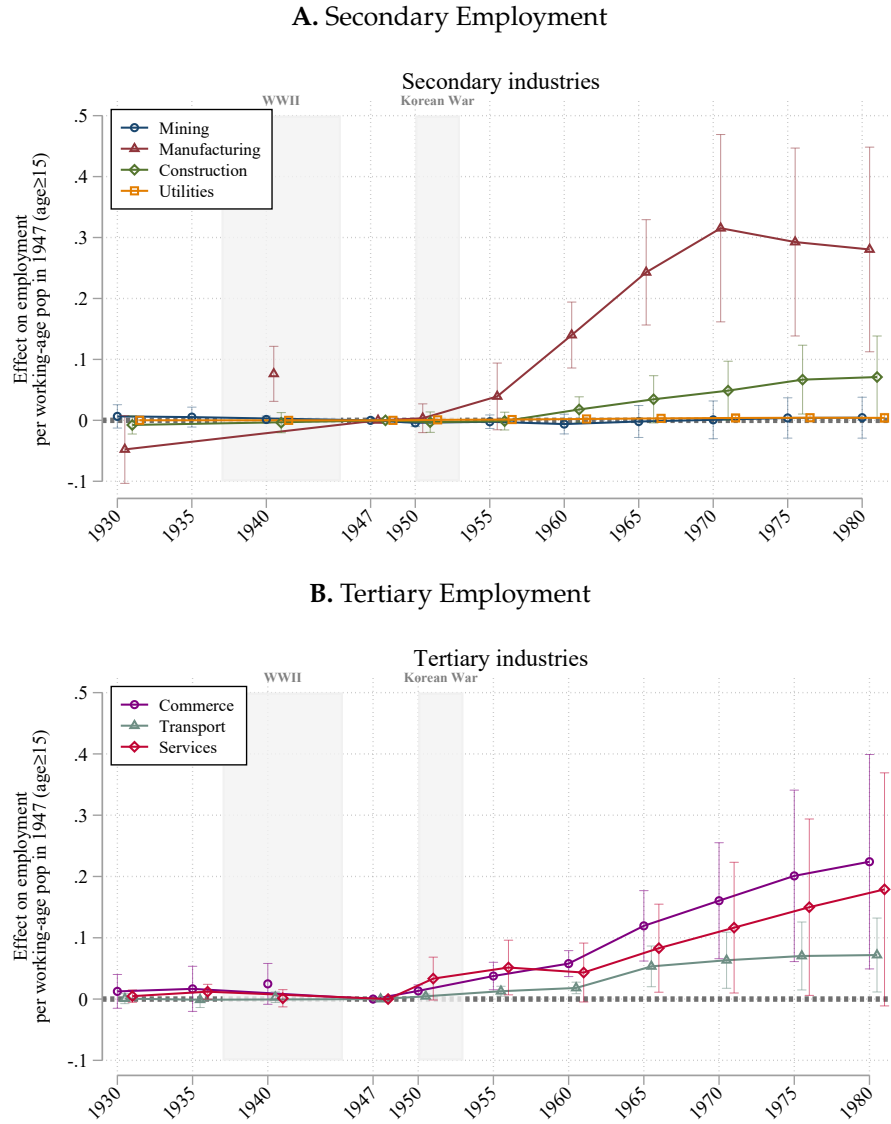


Figure D2. Effects of Special Procurement on Employment by Industry

Notes: Panel A decomposes secondary-sector employment into mining, manufacturing, construction, and utilities; Panel B decomposes tertiary-sector employment into commerce, transport, and services. Each outcome is divided by the prefecture's population aged 15 or older in 1947. The regression specification follows Equation 2. The omitted reference year is 1947. Points are estimated coefficients β_{τ} . Whiskers are 95 percent confidence intervals. Shaded regions mark the WWII and the Korean War.

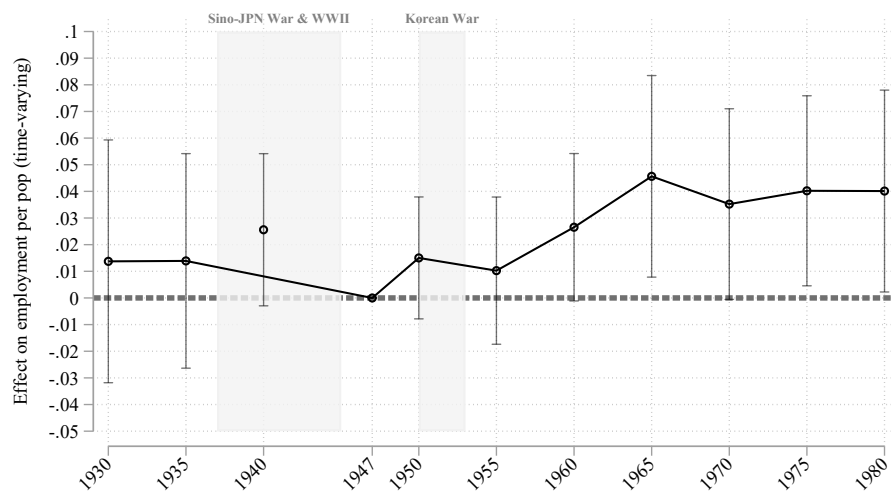


Figure D3. Effects of Special Procurement on Employment Rate

Notes: This figure presents the effects of special procurement on the employment rate. The regression specification follows Equation 2. The omitted reference year is 1947. Points are estimated coefficients β_{τ} . Whiskers are 95 percent confidence intervals. Shaded regions mark the WWII and the Korean War.

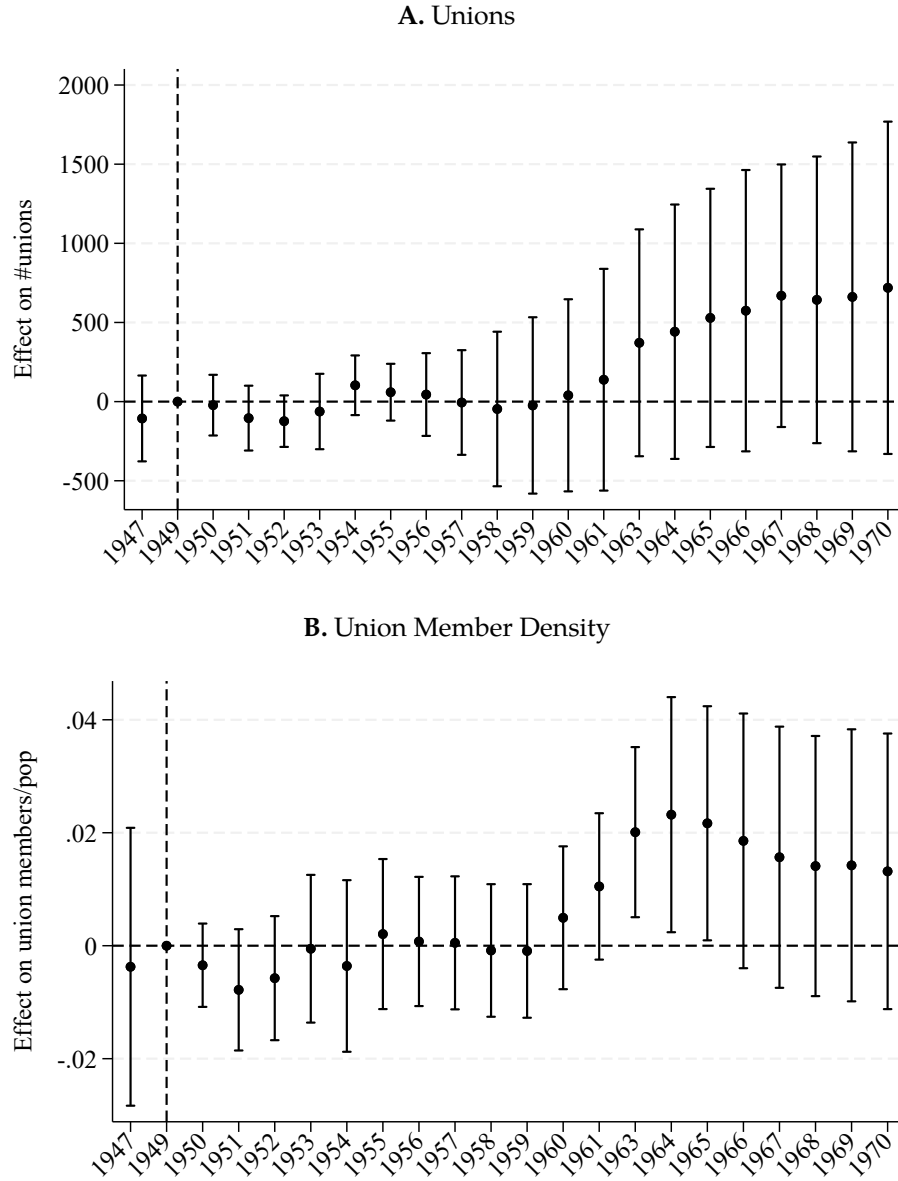


Figure D4. Effects of Special Procurement on Unions

Notes: Panel A reports effects on the number of unions, and Panel B reports effects on union membership. The regression specification follows Equation 2. The omitted reference year is 1949. Points are estimated coefficients β_{τ} . Whiskers are 95 percent confidence intervals. Whiskers are 95 percent confidence intervals based on standard errors clustered at the prefecture level.

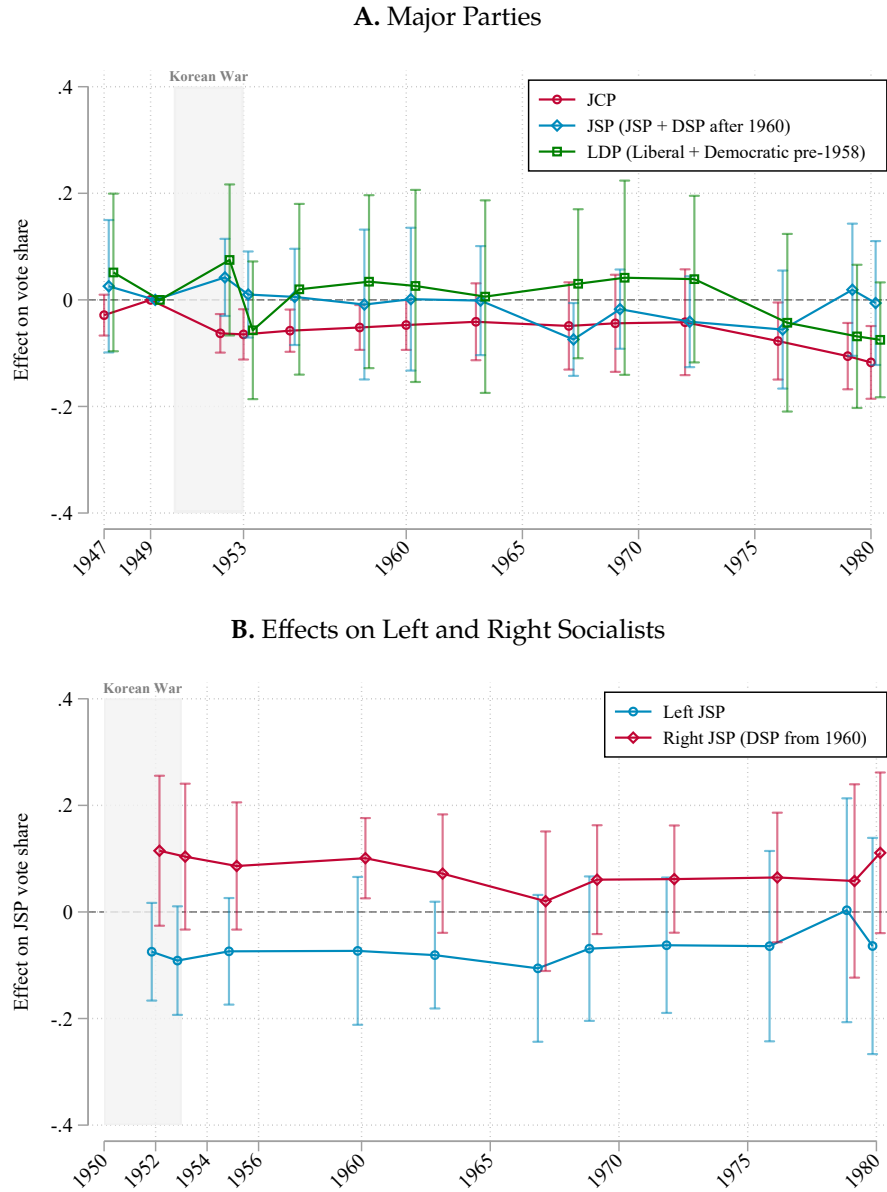


Figure D5. Effects of Special Procurement on Voting: Controlling for Demographic Changes

Notes: In Panel A, the dependent variables are vote shares for the Japanese Communist Party (JCP), the Japan Socialist Party (JSP), and the Liberal Democratic Party (LDP). Before the LDP's formation in 1955, its series combines the Liberal and Democratic parties; after the Democratic Socialist Party (DSP)'s formation in 1960, the JSP series combines the JSP and DSP. The regression specification follows Equation 2. The omitted reference year is 1949. In Panel B, the dependent variables are vote shares of Left Socialists and Right Socialists (later DSP). The regression specification follows Equation 3. All regressions control for time-varying shares of young voters (age 20–39) and female voters. Points are estimated coefficients β_τ 's. Whiskers are 95 percent confidence intervals. The shaded area marks the Korean War.

E Additional Tables

Table E1. Party Identification and Attitudes Toward Military Spending and the US-Japan Security Treaty

	Dependent: = 1 if thinking military budget is too high Omitted group: Non-partisans		Dependent: = 1 if thinking US-Japan Security Treaty is not useful Omitted group: Non-partisans	
	(1)	(2)	(3)	(4)
JCP	0.613*** (0.085)	0.592*** (0.085)	0.318** (0.149)	0.311** (0.148)
JSP (Left Socialists)	0.152*** (0.043)	0.127*** (0.042)	0.143*** (0.044)	0.133*** (0.044)
DSP (Right Socialists)	0.079 (0.089)	0.038 (0.089)	-0.029 (0.080)	-0.049 (0.081)
LDP	-0.156*** (0.034)	-0.132*** (0.033)	-0.163*** (0.035)	-0.153*** (0.036)
Controls		Y		Y
Observations	985	985	1,029	1,029
R-squared	0.104	0.146	0.088	0.099

Notes: This table presents the relationship between party identification and attitudes toward military spending and the US-Japan Security Treaty, using survey data in 1965 (Miyake, 1965). The survey asked (i) “Do you think the current budget for the Self-Defense Forces is too much or too little in relation to the standard of living of the people?” and (ii) “Do you think the Security Treaty is useful for protecting Japan’s peace and security, or not?” We create indicators for whether a respondent thinks the military budget is “too high” and whether one thinks the security treaty is not useful. In columns (1) and (3), we regress these indicators on dummies for party identification, with non-partisans as the omitted reference group. In columns (2) and (4), we further control for individual characteristics, including dummies for gender, educational attainment, and age. Robust standard errors are reported in parentheses.

* $p < 0.10$, ** $p < 0.05$, and *** $p < 0.01$.

Table E2. Summary Statistics

Variable	N	Mean	SD	Min	Max
<i>Panel A: Full sample</i>					
Procurement	46	0.407	0.288	0.121	1.411
Land reform index	46	0.576	0.074	0.429	0.742
Young men losses in war	46	0.160	0.043	0.081	0.307
Civilian casualties in Allied bombing	46	0.006	0.014	0.000	0.073
Size of repatriates	46	0.091	0.031	0.046	0.189
Total employment / 1947 working-age population	506	0.769	0.224	0.441	2.181
Primary-sector employment / 1947 working-age population	506	0.289	0.124	0.011	0.619
Secondary-sector employment / 1947 working-age population	506	0.204	0.132	0.055	0.855
Tertiary-sector employment / 1947 working-age population	506	0.276	0.176	0.096	1.278
<i>Panel B: Excluding Tokyo and Osaka</i>					
Procurement	44	0.368	0.223	0.121	1.325
Land reform index	44	0.577	0.074	0.429	0.742
Young men losses in war	44	0.160	0.043	0.081	0.307
Civilian casualties in Allied bombing	44	0.005	0.013	0.000	0.073
Size of repatriates	44	0.092	0.031	0.046	0.189
Total employment / 1947 working-age population	484	0.755	0.199	0.451	2.181
Primary-sector employment / 1947 working-age population	484	0.300	0.115	0.047	0.619
Secondary-sector employment / 1947 working-age population	484	0.193	0.118	0.055	0.855
Tertiary-sector employment / 1947 working-age population	484	0.262	0.155	0.096	1.278

Table E3. Effects of Special Procurement on Employment

	(1) All	(2) Primary	(3) Secondary	(4) Tertiary
Procurement × Year 1930	0.007 (0.053) [0.843]	0.038 (0.016)** [0.039]**	-0.049 (0.031) [0.008]***	0.018 (0.018) [0.087]*
Procurement × Year 1935	0.036 (0.064) [0.232]	0.033 (0.014)** [0.049]**	-0.024 (0.042) [0.176]	0.028 (0.022) [0.023]**
Procurement × Year 1940	0.129 (0.049)** [0.000]***	0.026 (0.016) [0.081]*	0.074 (0.027)*** [0.000]***	0.029 (0.025) [0.005]***
Procurement × Year 1950	0.072 (0.022)*** [0.000]***	0.024 (0.008)*** [0.038]**	-0.003 (0.018) [0.747]	0.051 (0.018)*** [0.000]***
Procurement × Year 1955	0.135 (0.045)*** [0.000]***	-0.004 (0.019) [0.832]	0.037 (0.029) [0.017]**	0.102 (0.033)*** [0.000]***
Procurement × Year 1960	0.300 (0.066)*** [0.000]***	0.027 (0.023) [0.150]	0.154 (0.029)*** [0.000]***	0.119 (0.037)*** [0.000]***
Procurement × Year 1965	0.570 (0.145)*** [0.000]***	0.036 (0.019)* [0.071]*	0.279 (0.061)*** [0.000]***	0.256 (0.077)*** [0.000]***
Procurement × Year 1970	0.750 (0.231)*** [0.000]***	0.041 (0.023)* [0.078]*	0.369 (0.103)*** [0.000]***	0.340 (0.121)*** [0.000]***
Procurement × Year 1975	0.846 (0.293)*** [0.000]***	0.057 (0.033)* [0.038]**	0.368 (0.109)*** [0.000]***	0.421 (0.167)** [0.000]***
Procurement × Year 1980	0.899 (0.351)** [0.000]***	0.064 (0.037)* [0.014]**	0.360 (0.120)*** [0.000]***	0.475 (0.210)** [0.001]***
Observations	484	484	484	484
R-squared	0.854	0.979	0.919	0.923

Notes: The table reports estimated coefficients of Equation 2. The dependent variable is employment (total or by sector) divided by the prefecture's working-age population (15 or older) in 1947. The sample includes 44 Japanese prefectures, excluding Tokyo and Osaka. All specifications include prefecture and year fixed effects, and the full controls described in Section 4. The omitted reference year is 1947. Standard errors, clustered by prefecture, are in parentheses. *p*-values of randomization inference, calculated based on 1,000 permutations of *Procurement*, are reported in brackets.

p* < 0.10, *p* < 0.05, and ****p* < 0.01.

Table E4. Effects of Special Procurement on Voting

	(1) JCP	(2) JSP	(3) LDP	(4) Left JSP	(5) Right JSP
Procurement × Year 1947	-0.029 (0.019) [0.085]*	0.026 (0.061) [0.514]	0.051 (0.073) [0.449]		
Procurement × Year 1952	-0.059 (0.017)*** [0.004]***	0.035 (0.034) [0.433]	0.046 (0.069) [0.484]	-0.057 (0.046) [0.138]	0.126 (0.060)** [0.016]**
Procurement × Year 1953	-0.061 (0.023)** [0.009]***	0.002 (0.039) [0.949]	-0.086 (0.061) [0.297]	-0.072 (0.051) [0.146]	0.104 (0.060)* [0.069]*
Procurement × Year 1955	-0.051 (0.019)** [0.010]**	-0.006 (0.041) [0.889]	-0.025 (0.077) [0.685]	-0.060 (0.052) [0.131]	0.082 (0.050) [0.090]*
Procurement × Year 1958	-0.045 (0.021)** [0.032]**	-0.020 (0.067) [0.679]	-0.011 (0.081) [0.868]		
Procurement × Year 1960	-0.038 (0.025) [0.073]*	-0.012 (0.064) [0.807]	-0.038 (0.091) [0.597]	-0.046 (0.065) [0.251]	0.097 (0.034)*** [0.001]***
Procurement × Year 1963	-0.032 (0.038) [0.189]	-0.014 (0.045) [0.770]	-0.058 (0.089) [0.466]	-0.039 (0.063) [0.312]	0.080 (0.041)* [0.023]**
Procurement × Year 1967	-0.039 (0.041) [0.114]	-0.085 (0.031)*** [0.067]*	-0.051 (0.068) [0.447]	-0.089 (0.055) [0.050]*	0.042 (0.051) [0.252]
Procurement × Year 1969	-0.034 (0.046) [0.226]	-0.028 (0.033) [0.585]	-0.039 (0.092) [0.602]	-0.053 (0.055) [0.192]	0.064 (0.042) [0.051]*
Procurement × Year 1972	-0.034 (0.050) [0.337]	-0.049 (0.044) [0.337]	-0.027 (0.079) [0.734]	-0.065 (0.051) [0.059]*	0.065 (0.048) [0.069]*
Procurement × Year 1976	-0.072 (0.036)* [0.024]**	-0.059 (0.057) [0.255]	-0.083 (0.090) [0.312]	-0.066 (0.069) [0.106]	0.060 (0.055) [0.053]*
Procurement × Year 1979	-0.101 (0.032)*** [0.003]***	0.015 (0.064) [0.768]	-0.108 (0.073) [0.166]	-0.018 (0.073) [0.646]	0.077 (0.072) [0.049]**
Procurement × Year 1980	-0.116 (0.035)*** [0.000]***	-0.006 (0.060) [0.903]	-0.085 (0.063) [0.244]	-0.062 (0.072) [0.162]	0.106 (0.066) [0.009]***
Observations	616	616	616	484	484
R-squared	0.820	0.821	0.770	0.666	0.471

Notes: The table reports estimated coefficients of Equation 2 and Equation 3. The dependent variable is the vote share of the respective political party. The sample includes 44 Japanese prefectures, excluding Tokyo and Osaka. All specifications include prefecture fixed effects (replaced by the 1949 JSP vote share in columns (4) and (5)), year fixed effects, and the full controls described in Section 4. The omitted reference year is 1949. Standard errors, clustered by prefecture, are in parentheses. p -values of randomization inference, calculated based on 1,000 permutations of *Procurement*, are reported in brackets.

* $p < 0.10$, ** $p < 0.05$, and *** $p < 0.01$.

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