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Colonial Finance:

Daiichi Bank and the Bank of Chōsen in

Late Nineteenth and Early Twentieth Century Korea, Japan, and Manchuria

A dissertation submitted in partial satisfaction of the
requirements for the degree Doctor of Philosophy
in Asian Languages and Cultures

by

Howard Hae Kahm

2012

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ABSTRACT OF THE DISSERTATION

Colonial Finance:

Daiichi Bank and the Bank of Chōsen in

Late Nineteenth and Early Twentieth Century Korea, Japan, and Manchuria

by

Howard Hae Kahm

Doctor of Philosophy in Asian Languages and Cultures

University of California, Los Angeles 2012

Professor John B. Duncan, Chair

After Chosŏn Korea was forced to open its ports in 1876 by Japan, Korea was incorporated into a regional East Asian economy based on the unequal treaty system and predicated on a structure of core and periphery relationships between the industrialized and industrializing nations. As the first modern bank in Japan, Daiichi Bank was the first Japanese bank to establish operations in the Korean open ports. Daiichi was heavily dependent on its business in Korea for survival, but it ultimately thrived within the fierce competition of the time. Daiichi also demonstrated the inherent contradiction of functioning as the erstwhile Korean central bank as well as a private commercial bank.

After annexation in 1910, Daiichi Bank transferred nearly all of its operations into the Bank of Chōsen. The internal Japanese debate over the establishment of a stand-alone central

bank between the Bank of Japan, Ministry of Finance, and colonial government established the Bank of Chōsen with a separate-but-equal yen currency which placed colonial Korea on the periphery and insulated Japan from the Korean economy. Also, the Bank of Chōsen aggressively expanded into Manchuria to remedy the colonial contradictions of a perpetual trade imbalance, but it also reinforced a new core-periphery relationship between colonial Korea and the Manchuria. The post-WWI economic crash, the 1923 Kantō Earthquake, and the 1927 Shōwa Financial Crisis presented new challenges for the Bank of Chōsen which was forced to rely on a government-sponsored rescue.

After 1945, the Bank of Chōsen continued to play a pivotal role in the southern economy under American occupation authority. Despite the internal power struggle between the Bank of Chōsen and the Ministry of Finance over the creation and independence of the South Korean central bank, the prominence and authority of the Bank of Chōsen ensured continuity in the institution and personnel in the new Bank of Korea. The histories of Daiichi Bank, the Bank of Chōsen, and the Bank of Korea thus demonstrate the continuity and contingent adaptations of these institutions with the demands of the state as they traversed late nineteenth and early twentieth century Korea, Japan, and Manchuria.

The dissertation of Howard Hae Kahm is approved.

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2012

This dissertation is dedicated

to

Paul H. Kahm

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Chapter 1: Introduction

“Our country is located off in one corner of the seas and has not had relations with foreign countries. Thus Our people have had little opportunity to observe the world and have maintained their own principles for the past 500 years. In recent years, the world has changed greatly. The countries of Europe and American as such England, France, the United States, and Russia have devoted themselves to producing sophisticated machines and have made themselves wealthy and strong...In the spring of 1876, Our country also signed a treaty with Japan and opened three ports to the Japanese. This year We have also entered into treaties of amity with such Western countries as the United States, England, and Germany. As these were Our first treaties with Westerners, We are not surprised that you, Our literati and people, feel suspicions and express criticisms. However, since the rituals of exchanged with them are conducted as equals, there is nothing that violates the principles of morality.”¹

Introduction

In his 1882 edict ordering the destruction of steles that excluded the West, King Kojong recognized that the world had changed greatly. While Chosŏn Korea had pursued a policy of tight border controls throughout most of its 500 years, the Western powers had grown strong enough to defeat China in the Opium Wars and open Japan, thus forcing them into foreign relations under the unequal treaty system. After the 1868 Meiji Restoration, Japan dismantled the feudal Tokugawa political system to create an industrialized nation-state with the military muscle to force Korea open in 1876.² King Kojong justified the establishment of treaty relations with the United States in 1882 under Confucian principles of peaceful intercourse between countries. However, he stated his continued opposition to Western teachings which “are impure and must be avoided like one shuns licentious music or whore mongering.”³

Although King Kojong was intent on protecting Korean sovereignty from continued foreign encroachment, Chosŏn Korea lost the protection of its isolation from the capitalist world

¹ King Kojong, “An Edict Ordering the Destruction of Steles Excluding the West” (1882), unpublished translation by John B. Duncan.

² Martina Deuchler, *Confucian Gentlemen and Barbarian Envoys: The Opening of Korea, 1875-1885* (Seattle: University of Washington Press, 1977); Key-hiuk Kim, *The Last Phase of the East Asian World Order: Korea, Japan, and the Chinese Empire, 1860-1882* (Berkeley: University of California Press, 1980); James Palais, *Politics and Policy in Traditional Korea* (Cambridge: Harvard University Press, 1975).

³ King Kojong 1882, 2.

economy. Once Japan forced Korea to open its treaty ports, Chosŏn Korea was connected to the transportation, trade, and communication networks of Japan and thus to the rest of the world. The establishment of treaty relations with the Western powers in 1882 further cemented and expanded those connections. Although everyday life for the average Korean, as well as the traditional domestic economy, was unaffected by these changes in the beginning, the treaty arrangements initiated an incremental process of economic transformation that began in the treaty ports and began spreading to the surrounding countryside. The Chosŏn government sometimes fought against and occasionally cooperated with the increasingly strident demand of foreigners for economic and political concessions, but the increase in trade ultimately bound Korea to the capitalist world economy.

Theoretical Framework and Historiography

From the moment that the Chosŏn state was forced to open its ports in 1876, Korea entered a regional East Asian economy that transcended the heretofore regimented, formal exchanges that had characterized interstate commercial relations. The unequal treaty system that established a new basis for diplomatic relations among the East Asian nations and the West clearly enunciated the principles of free trade that justified the new transportation, communication, and financial connections between the open ports of Korea and the major trading centers of Japan and later, China and the West. The incorporation of Korea into the newly developing East Asian economy mimicked the structure of the capitalist world economy, which was predicated on a structure of core and periphery relationships between the industrialized and industrializing nations.⁴

⁴ Immanuel Wallerstein, *The Modern World-System I: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century* (New York: Academic Press, 1974). As for the reduction of world-system

Chosŏn Korea was a relatively isolated entity that nonetheless conducted trade with a few select trading partners, such as the island of Tsushima and Qing China. In this respect, Chosŏn Korea resembled the “mini-system” described by Wallerstein as having a complete division of labor and a single cultural framework.⁵ Despite the qualification that tributary relations precluded the possibility of maintaining a self-contained division of labor, Chosŏn Korea provided for its domestic needs through internal production and trade. The end of relative isolation and the mini-system can be attributed not to the payment of tribute as Polanyi asserts, but rather through the forced opening of Korea by Japan in 1876.⁶

The incorporation of Chosŏn Korea into the capitalist world economy was mediated through an overlapping structure of cores and peripheries. The development of the overlapping structure was not a neat process with a definite beginning and end but rather a disjointed and contingent process by which political and economic processes, specifically the division of labor, were formulated and implemented on an *ad hoc* basis. In an analytical sense, the overlapping core-periphery structure serves temporally as a transition period that explains the historical trajectory of Korea from the late Chosŏn dynasty through the Open Ports and colonial periods to the postwar bipolar Cold War structure. Its transitional nature highlights the uneven process by which Korea was incorporated into the global capitalist economy and how capitalist relations

theory to the level of regional trade relationships, Wallerstein himself affirms the “macro-micro” applicability of world-system theory to varying levels of analysis. Immanuel Wallerstein, “World-Systems Analysis: The Second Phase,” *Review (Fernand Braudel Center)* 13-2 (1990), 288.

⁵ Immanuel Wallerstein, “The Rise and Future Demise of the World Capitalist System: Concepts for Comparative Analysis,” *Comparative Studies in Society and History* 16-4 (September 1974), 390.

⁶ Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, 2nd ed. (Boston: Beacon Press, 2001).

penetrated into the Korean economy.⁷ However, Liberation in 1945 did not abolish the multiple overlapping structures but transformed them as the United States and Soviet Union reorganized the world into a realm of bipolar competition. Back in the late nineteenth century however, the multiple core-periphery structure extends and further develops arguments of informal empire advanced by Jurgen Osterhammel. The overlapping structures provides an additional dimension of complexity to explain the period of multilateral imperialism pursued within multiple agendas by imperialist powers but also serves as a historically contingent structure of nested relations within each individual imperialist agenda, particularly in regards to Japanese designs on Chosŏn Korea.⁸

This study argues that the entry of the Japanese in open ports period interacted with the domestic economic changes already occurring in the late Chosŏn dynasty and initiated the creation of an international and overlapping structure of cores and peripheries that linked Japan, Korea, China, and the global economy into the early twentieth century. With the establishment of foreign settlements in the treaty ports of Pusan, Wŏnsan, and Inch'ŏn, these cities became the periphery to the core Japanese port cities of Osaka and Nagasaki, linked by the relatively higher prices for agricultural goods that Japanese merchants were willing to pay for Korean products. At the same time, the Korean open ports became the core to the periphery of the surrounding countryside as Japanese merchants and Korean compradors like brokers [K. *yŏgak*] and innkeepers [K. *kaekchu*] deployed their capital to acquire Korean products for export. Japanese and Korean capital flowed outward from the open ports in exchange for agricultural products that were transferred first to the Korean ports and then to the Japanese port cities.

⁷ Bruce Cumings, "The Legacy of Japanese Colonialism in Korea" in *The Japanese Colonial Empire, 1895-1945*, edited by Ramon H. Myers and Mark R. Peattie (Princeton: Princeton University Press, 1984), 478-496.

⁸ Jürgen Osterhammel, *Colonialism: A Theoretical Overview*, translated by Shelley L. Frisch (Princeton: Markus Wiener Publishers, 2005).

Within the core-periphery relationships being established in the Korean open ports period, one of the most important institutions was Daiichi Bank [J. *Daiichi ginkō*], which was the first modern bank established in Japan as the First National Bank of Tokyo [J. *Tōkyō Daiichi kokuritsu ginkō*] and the first Japanese bank to establish operations in the Korean open ports. Despite its impressive pedigree and the leadership of Shibusawa Eiichi, Daiichi was perilously close to insolvency and survived largely due to its expansion into the Korean peninsula, where it thrived as the official depository for customs receipts and the unofficial Korean central bank. At the same time, Daiichi engaged in fierce competition with other Japanese banks, even delaying or denying repayment of funds, regardless of their contractual obligations. The internal conflicts among the Japanese banks illustrate the overriding aspect of self-interest that permeated their dealings with each other, the Meiji government, and the Chosŏn state. The profit motivation also partially explains the inherent contradiction within the dual roles of Daiichi as the erstwhile Korean central bank as well as a private commercial bank.

After the annexation of Korea in 1910, Daiichi Bank transferred nearly all of its operations into the Bank of Korea [J. *Kankoku ginkō*], the newly established central bank of colonial Korea which was later renamed the Bank of Chōsen [J. *Chōsen ginkō*]. The internal Japanese debate over the establishment of a stand-alone central bank instead of a branch of the Bank of Japan [J. *Nihon ginkō*] illustrates the differing priorities between the Ministry of Finance [J. *Ōkurashō*], the Bank of Japan, and the new Government-General of Chōsen [J. *Chōsen sōtokufu*]. Rather than incorporating colonial Korea into the core Japanese economy through the Bank of Japan, the final decision to establish the Bank of Korea with a separate, but ostensibly equal, yen currency firmly placed colonial Korea on the periphery while insulating Japan from the instability of the colonial economy. While Japan adopted the gold standard to establish its

international credibility as an advanced and stable member of the world economy, the Bank of Chōsen implemented a proportional reserve system that multiplied the credit available for colonial investment but exported Korean gold to Japan to support the core economy. In times of financial crises, the inherent instability of paper reserves based on Bank of Japan yen and government and commercial debt placed the bank on a weak foundation that rendered it vulnerable to bankruptcy.

The Bank of Chōsen continued to follow the example established by Daiichi Bank and maintained the dual but contradictory roles of a central bank and commercial bank. In personnel matters, the Bank of Chōsen recruited elite-track students from the best universities of Korea and Japan, in addition to poaching experienced talent from various financial institutions in Korea and Japan. However, the Bank of Chōsen maintained a Japanese-first bias in its hiring and promotion as it enforced discriminatory practices against Koreans. Furthermore, the Bank of Chōsen implemented a strict policy of surveillance and control over Korean-owned banks in its role as the colonial central bank. As the primary regulatory authority of the banking sector, the Bank of Chōsen ensured the continued dependency of Korean banks on Japanese capital as well as their eventual takeover by Japanese management, as in the case of the Min family-owned Hanil Bank.

From its inception in colonial Korea, the Bank of Chōsen pursued an aggressive strategy of expansion into Manchuria, which addressed its perpetual trade imbalance but also replicated a new core-periphery relationship between colonial Korea and the Manchuria. Consequently, the Bank of Chōsen benefited greatly from the outbreak of the First World War as a wartime export boom simultaneously reversed the Korean trade imbalance while providing rich profits from financing Manchurian agricultural exports, particularly in soybeans. However, the postwar economic crash was exacerbated by a misplaced sense of optimism among leading Japanese

political and economic figures and led to a series of economic crises and bank failures. Even as the imperial Japanese economy began addressing the consequences of the postwar economic crash, the 1923 Kantō Earthquake and its aftermath ultimately led to the 1927 Shōwa Financial Crisis, the failure of the Bank of Taiwan, and the government-sponsored rescue of the Bank of Chōsen.

The Shōwa crisis underlined the core-periphery relationship of dependency between the colony and the metropole as well as the accelerating process of political and economic centralization within the empire. The colonial Korean government demonstrated its weakness through its inability to rescue the Bank of Chōsen, which was forced to turn to the Ministry of Finance and the Bank of Japan. More importantly, the Ministry of Finance demanded greater regulatory and surveillance powers over the Bank of Chōsen, in addition to forcing the bank headquarters to relocate from Keijō to Tokyo in May 1924. Consequently, the Bank of Chōsen suffered a severe loss in reputation and status in relation to the larger, and arguably more important, Chōsen Industrial Bank. Although the Bank of Chōsen headquarters was allowed to relocate once again to Keijō, the outbreak of the worldwide depression in the early 1930's and the implementation of central planning in the mid-1930's across the imperial economy forced banks to surrender all autonomous decision-making in their loan and credit portfolios.

By the end of the Pacific War, the overlapping series of cores and peripheries had begun to flatten to become one of a single imperial core in Tokyo directing multiple peripheries to supply the necessary implements for war. However, wartime mobilization of young Japanese men opened new opportunities for Korean employees at the Bank of Chōsen for upward promotion as increasing numbers of the Japanese male employees departed the bank for the war effort. With the end of the Pacific War in 1945, Koreans formerly employed by the Bank of

Chōsen played particularly important roles in both the economic and political realms of liberated Korea, but especially in South Korea. The combination of their elite educational background and their status as employees of the colonial central bank were parlayed into influence and top positions in the government of the newly established Republic of Korea, thus demonstrating an element of continuity from the colonial period into post-Liberation Korea.

As Andre Schmid states, Japanese history has a “Korean problem” that remains unaddressed.⁹ While Korean scholars have by necessity taken the role of imperial Japan [K. *Ilche*] as a critical variable in the unfolding of late nineteenth and early twentieth century events in Korea, Japanese scholars have relegated colonial Korea to the status of foreign history or external history. Consequently, many of the major works on late nineteenth and early twentieth century Japanese history have pursued a top-down, metrocentric approach that has relegated the Korean open ports and colonial periods to being subordinate and nearly inconsequential footnotes to modern Japanese history. Consequently, the effects on Japan of Korea’s forced incorporation in 1910 and its sudden disassociation in 1945 have been dismissed or ignored by scholars of Japan within the historical development of modern Japan. According to Andre Schmid, “such an organization of history precludes the possibility of exploring how these two story lines were part of the same historical processes and how Japanese modernity (as well as narratives of that modernity) emerged from these engagements.”¹⁰

⁹ Andre Schmid, “Colonialism and the ‘Korea Problem’ in the Historiography of Modern Japan: A Review Article,” *Journal of Asian Studies* 59-4 (2000), 951.

¹⁰ Schmid, 954. The few exceptions include Hilary Conroy, *The Japanese Seizure of Korea: 1868-1910, A study of realism and idealism in international relations* (Philadelphia: University of Philadelphia Press, 1960); Peter Duus, *The Abacus and the Sword: The Japanese penetration of Korea, 1895-1910* (Berkeley: University of California Press, 1995); and Murakami Kazuhiko, “Shokuminchi” [Colony] in Ōishi Kaichirō, ed., *Nihon sangyō kakumei no kenkyū: Kakuritsuki Nihon shihonshugi no saiesian kōzō* [A study of the Japanese industrial revolution: The reproductive structure of Japanese capitalism in its period of establishment] (Tōkyō: Tōkyō daigaku shuppankai, 1975).

In this respect, postwar scholarship in Japanese history has been complicit with the efforts of the postwar Japanese government to rewrite their history to disassociate Japan from its imperial past. Thus, the origins of the “Korean problem” can be traced to the postwar conversion of modern Japanese history from a multi-ethnic, expansionist empire to a homogenous and pacifist island nation.¹¹ Many works on Japanese history continue to discount the impact of Japan’s empire, both on the periphery as well as on the metropole, particularly in the field of economic history. As a result, modern Japanese economic development can be traced in a unilinear line of development from the Meiji Restoration to the present day in a manner that elides the inconsistencies of its colonial empire or buries them under a fixation on the postwar American occupation.¹²

At the same time, Korean historiography has viewed late nineteenth and early twentieth century Japan as a monolithic political and economic entity bent on economic and territorial expansion from the inception of the Meiji Restoration.¹³ However, fierce rivalry among Japanese banks and the internal debate over the establishment of a Korean central bank highlights the critical fissures and competitive pressures among the various Japanese individuals, institutions,

¹¹ Oguma Eiji, *Tanitsu minzoku shinwa no kigen: “Nihonjin” no jigazō no keifu* [The origins of the myth of a homogenous nation: The genealogy of the “Japanese” self-image] (Tokyo: Shinyōsha, 1995). This perspective was also espoused by Kawasaki Jiro, former minister of health and senior lawmaker of the ruling Liberal Democratic Party. In reference to the immigration problem in contemporary Japan, Kawasaki said “we should stop letting unskilled workers into Japan... I do not think that Japan should ever become a multi-ethnic society.” “Japan Pays Foreign Workers to Go Home,” *New York Times* (April 22, 2009).

¹² Masahiko Aoki and Hugh Patrick, *The Japanese Main Bank System: Its Relevance for Developing and Transforming Economies* (Oxford: Oxford University Press, 1994); Randall Mork and Masao Nakamura, “A Frog in a Well Knows Nothing of the Ocean: A History of Corporate Ownership in Japan,” in Randall Morck, ed., *A History of Corporate Governance Around the World: Family Business Groups to Professional Managers* (Chicago: University of Chicago Press, 2005); Takeo Hoshi and Anil Kashyap, *Corporate Financing and Governance in Japan: The Road to the Future* (Cambridge: MIT Press, 2001); Bank of Japan Economic Research Department, *Money and Banking in Japan* (Tokyo: Bank of Japan, 1964).

¹³ Kim Yong-sōp, “The Landlord System and the Agricultural Economy during the Japanese Occupation Period,” and Hong Sōng-ch’an, “The Emergence of New Types of Landlords in the Occupation Period,” in Pang Kie-chung and Michael D. Shin, *Landlords, Peasants and Intellectuals in Modern Korea* (Ithaca: Cornell East Asia Program, 2005); Kang Man-gil 2005.

and companies that strongly affected the decision-making and policy-making process leading up to and through colonization. Korean historiography has largely ignored the implications of Japan's own transformative process from the early Meiji period into the Taishō and Shōwa periods and perceived Japanese policy in Korea through an ahistorical fixation on imperialist expansion, in order to support distinct theoretical frameworks of colonization and imperialism. Illuminating the critical internal conflicts and dynamics occurring among and between Japanese politicians, policymakers, businessmen, and settlers is the “Japan problem” that modern Korean history needs to address. This study uses Japanese financial institutions as the analytical context to explore the mechanisms by which the metropole and periphery were linked, but also the conflicts and internal struggles through which key decisions and policies were formed and pursued.

Despite its importance, the open ports period has occupied an ambivalent space in Korean history as Korean scholars have struggled to define the inception of the modern era by delineating several points of origin, including the anti-foreign, anti-feudal struggles of the 1860's, the opening of the ports in 1876, and the Kabo reforms in 1894.¹⁴ Consequently, the conceptual framework by which many scholars have examined the open ports period see it as a precursor to full colonization in 1910 by highlighting either Japanese exploitation or Korean incompetence. While these scholars have incorporated elements of economic and political change, including the evolution of a “feudal” society to a semi-feudal or semi-capitalist society, an overriding consideration of Korean nationalist historiography has been to refute the stagnation theory of Japanese colonial historiography.¹⁵ More recently, however, Soyoung Kim argues that visual

¹⁴ Han'guk yōksa yōnguhoe, *1894 nyōn nongmin chōnjaeng yōn'gu* [A study of the 1894 Peasant War], vol. 1 (Seoul: Yōksa pipyōngsa, 1991).

representations from the period of 1876 to 1920 show a prehistory of globalization and problematize the issue of how people in this period were seeing and being seen, which also presents the open ports period as a historically important period rather than a time of national catastrophes.¹⁶

Although the colonial period has been studied to a relatively greater degree than the open ports period, it is necessary to view the two periods as distinct but linked to understand both the initial Korean encounter with modernity and the unique historical context of the open ports period. The 1910 annexation is usually considered one of the major historical events of twentieth-century Korea, which is reflected in a similar epistemological break in the scholarship of the period. Evidence for the emphasis on 1910 is apparent from the flurry of conferences and journals commemorating the 100th anniversary of annexation in Korea and abroad.¹⁷ Despite the convenience of using the year of annexation as the starting point for much of the research in the colonial period, significant elements of both continuity and transition bridge the open ports period with the colonial period that provides a different framework for understanding twentieth-century Korean history.

One example is the continuity of the banking structure and practices established by Daiichi Bank, which were transferred wholesale in the establishment of the Bank of Korea, and

¹⁵ Palais 1975; Dennis L. McNamara, *Trade and Transformation, 1876-1945* (Boulder: Westview Press, 1996); Kang Man-gil, *A History of Contemporary Korea* (Folkstone: Global Oriental, 2005); Henry Em, "Minjok as Modern and Democratic Construct: Sin Ch'aeho's Historiography," in Gi-Wook Shin and Michael Robinson, eds., *Colonial Modernity in Korea* (Cambridge: Harvard University Asia Center, 1999), 346; Kim Yong-söp, *Han'guk kũnhyöndaie nongöpsa yön'gu* [A study of modern and contemporary Korean agricultural history] (Seoul: Ilchogak, 1992). The incorporation of a "feudal" [K. *bonggön*] period in Korean history reflects the Marxist influence of scholars like Paek Nam-un who were combating Japanese colonial historiography. For more on Paek Nam-un, see Pang Kie-chung, "Paek Nam'un and Marxist Scholarship during the Colonial Period," in Pang and Shin, 245.

¹⁶ Soyoung Kim, "Cartography of Catastrophe: Pre-Colonial Surveys, Post-Colonial Vampires, and the Plight of Korean Modernity," *Journal of Korean Studies* 16-2 (2011), 288.

¹⁷ Park Chan Seung, "The Centennial of Japan's Annexation of Korea: Rethinking Annexation and Postcolonial Legacy," *Korea Journal* 50-4 (2010); "T'ũkkip: Ilche kangjöm 100 nyön" [Special edition: 100 years after Japanese colonization] *Yöksa bip'yöng* 90 (2010).

later the Bank of Chōsen. Although the context of formal colonialism may have changed around the bank, many of the same personnel and practices continued into the colonial banking system and provided important linkages between the two periods. In the post-Liberation period, the Bank of Chōsen continued functioning with the same institutional structure, Korean personnel, and business practices that it had used during the colonial period through the American occupation period and the first years of the Syngman Rhee administration. The bank itself did not undergo significant change until the passage of the Bank of Korea Law [K. *Han'guk ūnhaengbōp*] in 1950, but there was still significant continuity with colonial-era personnel making the transition into the new Bank of Korea.

Historical Background

Since the establishment of the dynasty in 1392, Chosŏn Korea had a long history of trade with China and Japan, including products as diverse as silver, ginseng, cotton cloth, and copper, but the absolute volume of trade was never large.¹⁸ However, the establishment of the unequal treaty system with the 1876 Kanghwa Treaty pulled Korea into a trading relationship with Japan and other nations that was based on Western concepts of free trade and international law. King Kojong and his advisors accepted the treaty with the Japanese because they feared military conflict, but their fundamental attitude toward trade was that the Japanese offered nothing that the Koreans wanted. Ch'oe Ik-hyŏn, voicing conventional Confucian views on economic matters, characterized Japanese products as “luxurious playthings,” which would be traded for Korean products that were essential for daily life.¹⁹

¹⁸ John B. Duncan, *The Origins of the Chosŏn Dynasty* (Seattle: University of Washington Press, 2000), 150. As John Duncan indicates, the new Chosŏn dynasty discouraged trade with China by beheading merchants.

The attitude of the Korean government toward economic policy-making at the beginning of the open ports period reflected a traditional Confucian approach toward the ruler, the state, and the economy. Ideally, the king personified the state and thus all government income was his income that he could distribute as he wished.²⁰ In reality, the king was constrained on multiple fronts; institutionally by his censorate, economically by insufficient income to meet expenditures, and ideologically by the principles of ethical conduct and benevolence. As the king operated within the confines of these restrictions, his decisions could have unforeseen consequences like those following his order to abolish the use of Qing copper cash in 1874.²¹

The economic policy recommendations of leading government advisors such as Yi Yu-wŏn and Pak Kyu-su were also bound by Confucian beliefs and were based on two premises. First, a balance between the volume of cash in circulation and available commodities was essential to maintaining equilibrium prices. Second, the state should pursue a strict policy of non-interference in the economy because prices would reach equilibrium levels of their own accord and price-fixing or any type of excessive government intervention would not be necessary. These principles were similar to those of contemporary Western economic theory, but Pak and Yi were focused on a different goal than Western economists. They believed that when the quantity of goods and money reached equilibrium, then the natural order of things would be achieved in a “kind of laissez-faire economics sans profit motive, stressing harmony rather than

¹⁹ McNamara, 22-27; Palais 1975, 259; Ch’oe Ik-hyŏn, “Memorial Opposing Treaty with Japan” (1876), abridged translation by John B. Duncan, from Ch’oe Ik-hyŏn, *Myŏnam chip*, 1:33b-38a. In his memorial, Ch’oe also correctly predicted that the amount of trade each year would be huge.

²⁰ Gari Ledyard, “Confucianism and War: The Korean Security Crisis of 1598” *The Journal of Korean Studies* 6 (1988-1989).

²¹ Palais 1975, 202. The abolition of Qing cash was a benevolent gesture at alleviating the hardship of the common people caused by spiraling inflation. The main result was the depletion of the government monetary reserves.

competition.”²² In their view, the ideal government was a relatively passive state that collected taxes on agricultural production rather than a state that interfered in either prices or production. Consequently, Pak Kyu-su cautioned King Kojong to not disturb the market even as the traditional economy understood by the king and his advisors was being buffeted by new pressures as the Japanese took advantage of the open ports.²³

With the conclusion of the Kanghwa Treaty, Japan enjoyed a virtual monopoly on overseas trade from 1876 to 1882. After the opening in 1876, total Korean foreign trade increased dramatically and Japan accounted for much of the increase since it alone had a treaty relationship with Chosŏn Korea until 1882. While Korea and China had long conducted trade before the opening of ports, most of these activities were limited to overland transactions across the northern border and totaled three to four million wŏn a year. After 1876, Korean-Chinese trade decreased by more than half to 1.2 million wŏn by 1883. In contrast, Korean-Japanese trade increased from less than 400,000 wŏn to over three million wŏn by the 1880’s, primarily in the rice and cotton trade.²⁴

The dramatic increase in Korean-Japanese trade was partly due to the 1876 Treaty of Kanghwa, but is also attributable to the supplementary agreements that stipulated additional details on trading arrangements. For example, the Kanghwa treaty provided for the opening of two additional ports besides Pusan and the exchange of diplomatic representatives, but it did not address the tariff issue or other trade regulations. Those matters were negotiated in the summer of 1876 and codified in the supplementary treaty and other regulations, but resulted in greater

²² Palais 1975, 214.

²³ Palais 1975, 213-214.

²⁴ Na Ae-ja, “Kaehang hu oeguk sangin ūi ch’imt’u wa Chosŏn sangin ūi taeŭng” [The invasion of foreign merchants and the reaction of Korean merchants after the opening of ports] in Han’guk yŏksa yŏn’guhoe, *1894 nyŏn nongmin chŏnjaeng yŏn’gu* [A study of the 1894 Peasant War], vol. 1 (Seoul: Yŏksa pip’yŏngsa, 1991), 175-176.

inequity against the Koreans in trade. The regulations stated the Japanese could purchase Korean goods with Japanese currency and trade between Korea and Japan was essentially exempt from tariffs.²⁵

With the forced opening of trade between Korea and Japan as well as the establishment of foreign settlements in the open ports, Japanese settlers flocked to Korea and created their own community of entrepreneurs, profiteers, and carpetbaggers. They were mostly small-scale capitalists looking to make a quick profit as opportunities arose, whose fortunes were highly dependent on the Japanese extraction of extraterritoriality, concessions and special privileges from the Korean government. While Japanese settlers in Korea were similar to Western settler communities that had long populated Chinese and Japanese treaty ports, the historical subjectivity of Japanese settler communities in Korea as being part of the Japanese imperial project while also a separate interest group has only recently been addressed in scholarship.²⁶

The Japanese monopoly on overseas trade ended with the signing of the Korean-American treaty of amity and commerce on May 22, 1882, soon followed by additional treaties with Great Britain (1883), Germany (1883), Russia (1884), Italy (1884), France (1886), and Austria-Hungary (1889).²⁷ However, the political situation in Korea had begun to shift even before the treaties with the Western powers with greater Chinese involvement in domestic Korean affairs. Until the 1876 Kanghwa treaty, Qing China had pursued a fundamental policy of

²⁵ Peter Duus, *The Abacus and the Sword: The Japanese Penetration of Korea, 1895-1910* (Berkeley: University of California Press, 1995), 48-49.

²⁶ Harold Noble, "The Former Foreign Settlements in Korea," *The American Journal of International Law* 23-4 (1929); Duus 1995, 289; Kenji Kimura, Jun Uchida, and Jae-won Sun, *Japanese Settler Colonialism and Capitalism in Korea: Advancing into Korea, Settling Down, and Returning to Japan, 1905-1950* (Cambridge: Harvard University Edwin O. Reischauer Institute of Japanese Studies, 2002); Robert Bickers, "Shanghaiers: The Formation and Identity of the British Settler Community in Shanghai, 1843-1939," *Past and Present* 159 (1998); Jun Uchida, "A Sentimental Journey: Mapping the Interior Frontier of Japanese Settlers in Colonial Korea," *Journal of Asian Studies* 70-3 (2011).

²⁷ Carter J. Eckert, et al., *Korea Old and New: A History* (Seoul: Ilchokak, 1990), 204.

non-interference while recognizing the tributary status of Korea within the traditional, Sino-centric East Asian world order. The foreign policy of the Qing government was not directed toward the development of the eastern coastal region, but rather towards recovery of the continental western lands overrun by Chinese and Turkic-speaking Muslims from Shenxi to Xinjiang. Despite the Japanese incursion into Taiwan in 1874, the Qing government decided in a major policy debate in 1875 that the danger of a Muslim rebellion was greater than a potential future invasion by the Japanese. Consequently, foreign policy regarding Japan and Korea was entrusted to Li Hong-zhang [Li Hung-chang], without a major diversion of funds from the frontier campaign to naval defense.²⁸

Under the guidance of Li Hong-zhang, Qing policy towards Korea evolved into a more activist but still limited stance as Qing officials began pressuring the Korean government to sign treaties with various Western powers to counteract Japanese and particularly Russian adventurism. The Japanese were also wary of Russian designs on the Korean peninsula and sought to detach Korea from its traditional reliance on China, while expanding its own influence in Chosŏn Korea. In this respect, the policy positions of the East Asian states reflected both the hegemonic and balance-of-power logic that had historically dominated interstate relations in East Asia.²⁹ For example, Japan was willing to forego its trade monopoly in Korea and encourage Korean relations with the Western powers to forestall Russian aggression. Also, Li Hong-zhang

²⁸ Emmanuel Hsu, "The Great Policy Debate in China, 1874: Maritime Defense vs. Frontier Defense," *Harvard Journal of Asiatic Studies* 25 (1964), 224; Key-hiuk Kim, 240-241. Li Hung-chang was governor-general of Chihili and commissioner of the northern ports. Hsu argued that the historical Chinese orientation to the West reflected a deep-seated uneasiness about barbarian invasions from the north. For more on Chinese anxiety on the northern threat, see Thomas Barfield, *The Perilous Frontier: Nomadic Empires and China* (New York: Basic Blackwell, 1989).

²⁹ David C. Kang, *East Asia Before the West: Five Centuries of Trade and Tribute* (New York: Columbia University Press, 2010).

personally negotiated with Commodore Robert W. Shufeldt, commander of the American naval force, at Tientsin in March and April 1882 to produce the draft Korean-American treaty.³⁰

Direct Chinese interference in Korean affairs expanded dramatically with the 1882 Soldier's Riot [K. *Imo kullan*] and the 1884 *Kapsin* coup attempt. When Korean soldiers rioted in 1882 over their pay and demanded the reinstatement of the Taewŏngun, Chinese military forces led by Ma Jian-chang [Ma Chien-ch'ang] and General Wu Chang-qing [Wu Ch'ang-ch'ing] (1834-1884) were brought in by the Chosŏn court and they arrested the Taewŏngun and forcibly removed him to Tientsin.³¹ Reflecting the greater Chinese role in Korea, Qing officials negotiated the "Maritime and Overland Trade Regulations for Korean and Chinese Merchants" [K. *Cho-Chung sangmin suyuk muyŏk changjŏng*], which were the first modern trade regulations between Korea and China but also gave Qing merchants significant advantages over other foreign merchants. The implementation of the Korean-Chinese trade regulations represented a further departure of foreign trade from the tightly regulated formal exchanges constrained by time and location as well as the formation of new connections between Korea and its East Asian trading partners. As Kim Chong-wŏn states, Korean ministers had seen little need to expand Korean-Chinese trading before 1882, but the establishment of treaty relations with the Western powers eliminated the basis of the traditional Korean-Chinese trading system as well as the need for the ban on maritime trade.³² In addition to asserting Chosŏn's traditional dependency on the Qing, the trade regulations granted the Chinese unilateral extraterritoriality privileges in civil and

³⁰ Key-hiuk Kim, 292-295.

³¹ Howard L. Boorman, *Biographical Dictionary of Republican China*, vol. 1 (New York: Columbia University Press, 1967), 35.

³² Kim Chong-wŏn, "Cho-Chung sangmin suyuk muyŏk changjŏng e taehayŏ" [A study of the Korean-Chinese Maritime and Overland Trade Regulations for Korean and Chinese merchants] *Yŏksa hakbo* 32 (1966), 122. Kim details how traditional trade regulations tightly governed the timing, frequency, and location of overland trade in a few border towns.

criminal cases, established Ma Jian-chang as advisor to the Korean government, entrusted General Wu Chang-qing with training the Korean army, and installed P.G. von Möllendorff as head of the newly organized Korean Maritime Customs Service.³³

During the abortive 1884 *Kapsin* coup attempt, pro-Japanese Korean conspirators attempted to seize control of King Kojong and the royal palace but were thwarted by the Chinese military forces led by Yuan Shih-kai. The failed plot and the subsequent ascendancy of the Qing in the Korean government initiated nearly ten years of Chinese dominance in the Korean peninsula.³⁴ Both Chinese domination and the unequal treaty system reflected the cultural, military, and legal sense of superiority that the Western powers, Japan, and China held towards to Korea. In addition, the unequal treaties were embedded with contemporary notions of international trade, namely mercantilist conceptions of national wealth and the rule of international law.

The West, Japan, and China all pursued “concession imperialism” in Korea, seeking exclusive economic privileges to raw materials, which impinged on the sovereignty of the Chosŏn and fell between free-trade imperialism and outright colonization. The most valuable concessions sought by the foreign merchants and syndicates were railroads, mining, and public works projects, such as electricity, gas-lighting, and streetcars.³⁵ In some respects, the open ports

³³ Ming-te Lin, “Li Hung-chang’s Suzerain Policy toward Korea, 1882-1894,” in Samuel C. Chu and Kwang-Ching Liu, eds., *Li Hung-chang and China’s Early Modernization* (Armonk: M.E. Sharpe, 1994), 182; Yur-Bok Lee, *West Goes East: Paul Georg von Möllendorff and Great Power Imperialism in Late Yi Korea* (Honolulu: University of Hawaii Press, 1988).

³⁴ Young-ick Lew, “Yüan Shih-k’ai’s Residency and the Korean Enlightenment Movement (1885-94),” *Journal of Korean Studies* 5 (1984); Kirk W. Larsen, *Tradition, Treaties, and Trade: Qing Imperialism and Chosŏn Korea, 1850-1910* (Cambridge: Harvard University Asia Center, 2008).

³⁵ Oh Jin Seok, “*Han’guk kŭndae chŏllyŏk sangŏp ūi paljŏn kwa Kyŏngsŏng chŏn’gi*” [The Development of the Electric Industry and the Kyŏngsŏng Electric Company in Modern Korea] (Unpublished PhD Dissertation, Yonsei University, 2006); Min Suh Son, “Enlightenment and Electrification: The Introduction of Electric Light, Telegraph and Streetcars in Late Nineteenth Century Korea” in Dong-no Kim, John B. Duncan, and Do-hyung Kim, eds.,

period resembles the model of “informal” empire argued by Peter Duus and Jürgen Osterhammel, particularly in terms of the multilateral coercion of the Koreans that was alternatively competitive and collaborative in its pursuit of economic gain.³⁶

At the same time, however, Korean merchants, landlords, and ruling elite were also taking advantage of available opportunities to enrich themselves through the activities of the foreigners. For example, King Kojong became a partner in the Korean Development Company (later known successively as the Korean Mining and Development Company and the Oriental Consolidated Mining Company) with James Morse of the American Trading Company. The company received exclusive mining rights in the Ŭnsan district for twenty-five years and the king received a twenty-five percent share of the company, which was bought out in 1899 for \$100,000 and an annual royalty of \$12,500.³⁷ In this respect, the king was maintaining the traditional rent-seeking posture within the Confucian role of the ruler by awarding special rights and privileges and collecting fees and taxes in return, rather than ordering the direct participation of the government in economic activities.

As the unequal treaties broke down the barriers to free trade that had protected the Chosŏn Korean economy, the importation of foreign capital and commodities and the exportation of Korean agricultural products began to distort the traditional economic relationships that had formed the basis of the Chosŏn economy. As Kirk Larsen argues, rice was a commodity that was only attractive to the Japanese because neither the Westerners nor the

Reform and Modernity in the Taehan Empire (Seoul: Jimoondang, 2006); Lee Bae-yong, “A Study on British Mining Concessions in the Late Chosŏn Dynasty,” *Korea Journal* 24 (1984); Laurence B. Rand, *High Stakes: The Life and Times of Leigh S. J. Hunt* (New York: Peter Lang, 1989); Dean Alexander Arnold, *American Economic Enterprises in Korea: 1895-1939* (New York: Arno Press, 1976).

³⁶ Peter Duus, “Japan’s Informal Empire in China, 1895-1937: An Overview,” in Peter Duus, Ramon H. Myers, and Mark Peattie, eds., *The Japanese Informal Empire in China: 1895-1937* (Princeton: Princeton University Press, 1989); Jürgen Osterhammel, *Colonialism: A Theoretical Overview* (Princeton: Markus Wiener Publishers, 2005).

³⁷ Lee Bae-yong, 27-28.

Chinese needed or wanted this product.³⁸ The Japanese were willing to pay high prices for rice because the rice could be sold for an even higher price within the Japanese market. On the other hand, Japanese demand for Korean supply drove up Korean prices and the inflationary pressure affected the Korean economy by decreasing the available food supply and increasing social and class stratification, particularly as certain merchants and brokers grew wealthy from this trade.³⁹

As Japanese traders purchased the rice, Korean brokers and innkeepers found a profitable niche as middlemen between Korean landlords and foreign merchants. The brokers and innkeepers situated themselves within the treaty ports or other local ports and operated as the middlemen between landlords and small producers, as well as taking product for transport, consignment, or storage. Their relative importance to the rice trade was underlined during the Tonghak uprising as they were specifically criticized by the peasant forces for their role in rice exports. Once the brokers began conducting business in the ports, they initiated a comprador-style purchase and shipping system for Japanese merchants that initially existed alongside but later began transforming and overtaking the existing grain trading system. The brokers operated within two major patterns of purchase and trade and the major difference between the two patterns was whether the Japanese utilized the open ports brokers or the local ports brokers. In the first pattern, rice was purchased by local port brokers from local producers, passed first to middlemen grain merchants and then to open port brokers before finally being sold to the Japanese merchants in the foreign settlements. In the second pattern, the Japanese merchants cut out the open port brokers entirely and used Korean peddlers to reach the local port brokers since

³⁸ Larsen, 68.

³⁹ Im Kyōng-t'ae, "Tae Il pulp'yōngdūng choyak kaechōng munje palsang ūi il chōnje" [An argument on the origin of the revision problem of the unequal treaty with Japan] *Idea sawōn* 10 (1972), 31. Kim Kyōng-t'ae argues that the original working of article 6 of the Chosōn-Japan treaty was intended to allow Japanese settlers to purchase rice only for personal consumption rather than for export.

they were legally restricted to the foreign settlements. In both cases, the new trade patterns established an internal core-periphery relationship between Japanese capital in the open ports and Korean agricultural products from the interior or local ports.⁴⁰

Murakami Kazuhiko argues that as rice was increasingly exported out of the Korean peninsula, the rice price continued to increase but the average Korean farmer did not benefit. Instead, most of the profits accrued to Japanese rice merchants in the major ports of Osaka and Kobe in the Hanshin region. Since the amount of Korean rice available for import into Japan depended on the harvest, Japanese merchants offered high-interest loans to Korean peasants to ensure consistent availability. If the peasants were unable to repay their loans, the Japanese merchants seized their land as collateral and operated the farms as absentee landlords.⁴¹

One of the key mechanisms by which the core-periphery relationship functioned was through the convergence of prices in the Japanese port cities and the Korean open ports as well as the prices in the Korean open ports and the surrounding countryside and local ports. Before the opening of the ports, the traditional agricultural production and transportation system was centered on Seoul as tax rice and tribute products were transported overland and by coastal shipping to the government treasury. Before the open ports period, prices were determined by internal conditions of supply and demand, such as an increase in supplies and a decline in prices during the harvest season. However, the opening of the ports created an ancillary trading system

⁴⁰ Han U-gün, “Tonghak nan kiin e kwanhan yŏn’gu – t’ŭkhi Ilbon ūi kyŏnggejŏk ch’imt’u wa kwallyŏn hayŏ” [A study of the origins of the Tonghak rebellion: Focusing on Japanese economic penetration] *Asea yŏngu* 7-4 (1964), 1-2; Carter J. Eckert, *Offspring of Empire: The Koch’ang Kims and the Colonial Origins of Korean Capitalism, 1876-1945* (Seattle: University of Washington Press, 1991), 12-13; Duus 1995, 274. Han U-gün argues it is difficult to distinguish between *kaekchu* and *yŏgak* because of the significant overlap in their functions. Carter Eckert references both *kaekchu* and *yŏgak* in his discussion of Korean merchants but after one mention of *yŏgak*, he speaks only of *kaekchu*, indicating the interchangeability of the terms. Peter Duus describes *kaekchu* as “commercial jack-of-all-trades,” while *yŏgak* were specialized dealers in agricultural products.

⁴¹ Murakami Kazuhiko, “Shokuminchi” [Colony] in Ōishi Kaichirō, ed., *Nihon sangyō kakumei no kenkyū: Kakuritsuki Nihon shihonshugi no saiesian kōzō* [A study of the Japanese industrial revolution: The reproductive structure of Japanese capitalism in its period of establishment] (Tōkyō: Tōkyō daigaku shuppankai, 1975).

with its own pricing mechanism for rice and soybeans that was exported to Japan. Yoshino Makoto argues that the secondary system was controlled by Japanese merchants and resulted in a colonial [J. *shokuminchiteki*] circulation structure linking the Korean rice market and the Japanese rice market.⁴² With the integration of Korean agricultural products into the export stream to Japan and increasing Japanese demand, Korean rice and soybean prices were quoted in the Osaka commodity markets. Rice was the largest Korean export to Japan until 1882 when the Matsukata deflation, a series of sharp cuts in government expenditures overseen by Finance Minister Matsukata Masayoshi, caused Japanese rice prices to crash with a concomitant decrease in demand for cheap Korean rice. However, Korean soybeans soon overtook rice as the largest export item to Japan, at least until the Japanese turned to Manchurian soybeans to meet growing domestic demand.⁴³

As Chosŏn Korea was incorporated into the new East Asian regional economy through the unequal treaty system and increased foreign trade, the domestic Korean economy was connected to a transportation, communication, and financial network that linked the Korean open ports with the major trading ports in Japan, and China. Once the foreign settlements were established, the inauguration of regular steamship service between these port cities provided the link for commodities, people, and information to continually circulate around the region. Within Korea, the development of the domestic transportation network was equally important in expanding the core-periphery relationship between the open ports and the surrounding countryside and local ports. The extent of the region affected by foreign trade was dictated by the

⁴² Yoshino Makoto, “Chōsen kaikokugo no kokumotsu yūshutsu ni tsuite” [Regarding grain exports during the Korean open ports period] *Chōsenshi kenkyūkai ronbunshū* 12 (1975).

⁴³ Duus 1995, 255.

relative balance between the transportation costs and the price the goods would fetch in the open ports.

When the Korean ports were first opened, demand was low enough that the new international trade flows could exist alongside the traditional internal market structures. However, the continual increase in demand gradually forced the reconfiguration of the commodity markets in linked regions such as Seoul-Inch'ŏn and Masan-Pusan, while fostering the growth of new satellite markets to both feed the open ports and distribute foreign goods into the interior in ports like Kanggyŏng-Kunsan and Yŏngsanp'o-Mokp'o. Since the eighteenth century, the commodity circulation system of the peninsula had generally been divided into two systems centered respectively on the east and west coasts because the internal transportation network was still relatively primitive. Long-distance transportation of goods, particularly tax rice, was accomplished mainly through coastal shipping. However, the introduction of the steamship and the implementation of regular routes began integrating both coasts into a single transportation and trading network.⁴⁴

Throughout the late Chosŏn dynasty and the early open ports period, the transportation and shipping networks on the Korean peninsula depended mostly on the traditional means of humans, horses, and waterways. Although these premodern forms of transportation slowed the circulation of goods and the formation of large-scale markets for Korean consumers and producers, they also blunted the advance of foreign merchants into the Korean interior. The development of railroads throughout the open ports period and after the turn of the century began

⁴⁴ Yi Hŏn-ch'ang, "Han'guk kaehangjang ūi sangp'um yut'ong kwa sijangkwŏn – Han'guk kaehanggi esŏ ūi sijang kujo ūi pyŏndong ūl ch'orae han ilch'ajŏk yoin" [Commodity circulation and market rights in the Korean open ports: The primary cause of change in the market structure during the Korean open ports period] *Kyŏngje sahak* (1985); Na Aeja, *Han'guk kŭndae haemunŏpsa yŏn'gu* [A study of the history of the shipping industry in modern Korea] (Seoul: Kukhak charyowŏn, 1998).

to open up the Korean interior and local markets to foreign merchants, but again, the foreign advance was limited to the specific areas accessed by the railroads.⁴⁵

In his analysis of colonial land ownership, Edwin Gragert argued that the new transportation system of improved roads and the newly established railroad lines incorporated previously self-sufficient villages into a new national and international economic order. The village of Kongsu-ri in South Ch'ungch'öng province grew dramatically due to its location between the Seoul-Pusan railroad line, completed in January 1905, and the Onyang hot springs. However, the village of Paeksöng-ni was extremely isolated, despite being only seven kilometers from the town of Yönsan and the Honam railroad line, and remained practically unchanged throughout the colonial period. These two villages show opposite examples of how the newly developing transportation networks were overlaid upon the existing economic order of Chosön Korea to create new patterns of trade and commerce while leaving other areas relatively untouched.⁴⁶

Lee Hön-ch'ang examined the market structure in North Ch'ungch'öng province to understand the division of labor, class structure, and market characteristics in that area. Lee used the macroregional structure of G. William Skinner, specifically examining how the low-order cores of local markets and the high-order cores of large markets formed a structure linked by commodity circulation, to examine how foreign trade changed the existing pattern. He concluded that large markets initially ameliorated the effects of foreign goods on the interior markets but the underdevelopment of permanent stores in the major cities tempered this effect. Consequently,

⁴⁵ Na Aeja, "Kaehanggi yut'ong kujo yön'gu üi hyönhwang" [The present state of research on the circulation structure in the open ports period] *Yöksa wa hyönsil* 3 (1990), 297; Bruce Cumings, *The Origins of the Korean War: Liberation and the Emergence of Separate Regimes, 1945-1947* (Princeton: Princeton University Press, 1981), 13-14.

⁴⁶ Edwin Gragert, *Landownership under Colonial Rule: Korea's Japanese Experience, 1900-1935* (Honolulu: University of Hawaii Press, 1994), 12-13.

the absence of a permanent market presence for Korean merchants created a space for foreign products to enter the daily purchasing patterns of Korean consumers. The continual increase of foreign trade, coupled with the establishment of railroads and permanent stores by foreigners, fostered greater circulation of foreign commodities throughout the interior of the country. As a result, the introduction of foreign cotton goods caused the collapse of the rural cotton industry and the establishment of Japanese stores eliminated traditional Korean markets. He concludes that foreign trade fostered the development of internal markets, but blocked the development of a modern market structure and suppressed an indigenous Korean path of development.⁴⁷

As the effects of increased foreign trade spread through open ports in Korea, the establishment of the first Korean branch of Daiichi Bank in Pusan in 1878 marked the beginning not only of modern banking on the Korean peninsula, but the formation of a financial connection between Japan and Korea. The development of a financial core-periphery relationship between the Daiichi branches in Korea and the Japanese financial system did not follow a smooth imperialist trajectory but was historically contingent on the rapidly evolving economic conditions within Japan and Korea. Indeed, the expansion of Daiichi into Korea was more indicative of financial weakness in both the bank itself and the Japanese banking sector than deliberate government policy, but the bank and its founder, Shibusawa Eiichi, was able to parlay their opportunities into continued growth. The establishment of a Japanese financial network within open ports Korea, however, had dramatic implications for the course of Chosŏn Korea, and later the Taehan Empire, as control over tariffs and investment became an important battleground for Korean sovereignty in the face of the continued foreign onslaught.

⁴⁷ Yi Hŏn-ch'ang, "Ku Hanmal Ch'ungch'ŏng pukdo ūi sijang kujo" [The market structure in North Ch'ungch'ŏng province at the end of the Hanmal period] in An Pyŏng-jik, et al., eds., *Kundae Chosŏn ūi kyŏngje kujo* [The economic structure of modern Korea] (Seoul: Pibiyong ch'ulp'ansa, 1989); Na Aeja 1990, 293.

Chapter 2: Daiichi Bank in Late Nineteenth Century Korea

“To use an anatomical figure, the open ports are the breathing holes of the nation’s commerce. Keep them shut and commerce will be like a polar bear in winter in his nest under the snow, dormant, hibernating. Open them up and the blood begins to circulate, the pulse becomes vigorous and strong and achievement of any kind is possible.”

- *The Independent*, May 19th, 1896 -

Introduction

After the signing of the Treaty of Kanghwa in 1876, Japanese merchants enjoyed a near-complete monopoly on maritime trade with Korea until the Chosŏn government signed additional treaties with the Western powers from 1882. The Japanese government dispatched a superintendent of trade to Pusan in October 1876 and ordered the Mitsubishi Steamship Company to establish a regular route between Nagasaki and Pusan with an additional route added between Nagasaki and Wŏnsan in 1880. The Mitsubishi shipping services were subsidized by the government until 1887 with 5,000 yen annually for the Nagasaki-Pusan route and 10,000 yen annually for the Nagasaki-Wŏnsan route.¹

Taking advantage of the burgeoning Japanese trade presence in Pusan, Shibusawa Eiichi, president of Daiichi National Bank [J. *Daiichi kokuritsu ginkō*, a.k.a. First National Bank, hereafter Daiichi Bank], decided to establish a branch in Pusan. In June 1878, the Ministry of Finance granted Daiichi permission to establish its Pusan branch and provided 50,000 yen, or half of the bank’s initial start-up capital. As part of its business, Daiichi provided foreign exchange services, accepted deposits, and offered loans to the Japanese merchants in Pusan. The overseas expansion of Daiichi into Pusan, and later Wŏnsan and Inch’ŏn in 1880 and 1883, essentially saved the bank from bankruptcy during a tumultuous period in the bank’s early

¹ Peter Duus, *The Abacus and the Sword: The Japanese penetration of Korea, 1895-1910* (Berkeley: University of California Press, 1995), 250.

history and marked the beginning of a regional East Asian financial network built around Japanese financial institutions.²

Daiichi was initially established in 1872 as the Mitsui-Ōno Joint Bank [J. *Mitsui-Ōno kumiai ginkō*] as a joint venture between the Mitsui and Ōno merchant families and was later reorganized into the First National Bank of Tokyo [J. *Tokyo Daiichi kokuritsu ginkō*]. Although Daiichi was the first “modern” banking institution in Japan, there was a long tradition of rural and urban credit institutions that provided bank-like functions.³ Although Daiichi was jointly established by the Mitsui and Ōno families, it was overseen by Shibusawa Eiichi, the former Ministry of Finance official who drafted the National Banking Decree.⁴

In 1875, the Ōno family was bankrupted through a government measure designed to ensure the financial stability of the merchant families holding large deposits of government funds. The elimination of the Ōno family from shareholder rolls of Daiichi resulted in drastic changes

² Norio Tamaki, *Japanese Banking: A history, 1859-1959* (Cambridge: Cambridge University Press, 1995), 30. In 1872, the Japanese government authorized the establishment of a system of national banks that was based on the American banking system. The Ministry of Finance was headed at the time by Okubo Toshimichi, one of the leading figures of the Meiji Restoration, who entrusted the drafting of the banking decree to Shibusawa Eiichi, a ministry official. The National Banking Decree, issued in December 1872, stipulated the regulations under which banks would be allowed to organize in 28 articles and 161 clauses. In addition to unusually specific regulations regarding minimum capital stock and even the format of the annual report, the most important regulation detailed the procedures for issuing banknotes.

³ See Ronald P. Toby, “Country Bankers in Proto-industrial Japan: The Transformation of Credit,” in Akira Hayami, et al., eds., *The Economic History of Japan: 1600-1990, Vol. 1: Emergence of Economic Society in Japan, 1600-1859* (Oxford: Oxford University Press, 1999) ; Ronald Toby, “Both Borrower and Lender Be: From Village Moneylender to Rural Banker in the Tempō era,” *Monumenta Nipponica*, vol. 46-4 (Winter 1991); and William J. Chambliss, *Chiarajima Village: Land Tenure, Taxation, and Local Trade, 1818-1884* (Tucson: Association for Asian Studies, 1965).

⁴ Toshihiko Katō and Tsutomu Ōuchi, *Kokuritsu ginkō no kenkyū* [A study of national banks], (Tokyo: Keisō shobō, 1963), 23-24. Mitsui was highly dissatisfied with the original joint venture arrangement and according to the official history of Mitsui Bank, considered the Mitsui-Ono Joint Bank to be nothing more than a sacrificial lamb (literally, *suteishi* or “throwaway stone”). Even after the reorganization of the joint bank into Daiichi kokuritsu ginkō and the failure of the Ono family, Mitsui Hachiroemon continued to be critical of the bank even though he was the largest shareholder. Consequently, Daiichi kokuritsu ginkō was never considered to be “Mitsui’s bank” or an integral part of Mitsui’s growing business group. It further galled the Mitsui family that the Japanese government forced them to hand over the Western-style building they had constructed at Kaiunbashi to be the headquarters of the bank. For more on Shibusawa Eiichi, see Johannes Hirschmeier, “Shibusawa Eiichi: Industrial Pioneer,” in William W. Lockwood, ed., *The State and Economic Enterprise in Japan: Essays in the Political Economy of Growth* (Princeton: Princeton University Press, 1965).

both to the bank's capital as well as its ownership (Table 1).⁵ As indicated in the table, there are several striking facts about the composition of the fifteen largest shareholders of the bank from 1872 to 1876, immediately before Daiichi entered into the Korean peninsula. First, the bankruptcy of the Ōno family in August 1875 removed them and their 10,000 shares from the bank resulting in a loss of 1 million yen of capitalization or a full one-third of total bank capital. The elimination of the Ōno family left nine Mitsui family members among the top fifteen shareholders of the bank by 1875, controlling 10,857 shares. By the following year however, only four Mitsui family members remained among the top fifteen and controlled 8,800 shares, signifying that the Mitsui family had shifted their focus to other endeavors as well as their displeasure at being forced by the government to participate at all in this enterprise.⁶

Table 1. Fifteen Largest Shareholders of *Daiichi kokuritsu ginkō*, 1872-1876

Establishment in 1872			End of 1875 (Meiji 8)			End of 1876 (Meiji 9)		
Name	Shares	%	Name	Shares	%	Name	Shares	%
Mitsui Hachirōemon	7,000	28.7	Mitsui Hachirōemon	7,000	28.0	Mitsui Hachirōemon	7,000	46.7
Ōno Zensuke	7,000	28.7	Mitsui Saburōsuke	1,000	4.0	Shibusawa Eiichi	2,347	15.6
Nishikawa Hajime	1,500	6.1	Shibusawa Eiichi	972	3.9	Mitsui Saburōsuke	1,000	6.7
Mitsui Saburōsuke	1,000	4.1	Godai Tomoatsu	750	3.0	Minomura Rizaemon	500	3.3
Ōno Sukejirō	1,000	4.1	Minomura Rizaemon	500	2.0	Mitsui Gennosuke	500	3.3
Furukawa Ichibei	1,000	3.3	Mitsukoshi Kizaemon	500	2.0	Godai Tomoatsu	487	3.2
Mitsui Genemon	800	2.0	Mitsui Jirōemon	500	2.0	Nishimura Torashirō	310	2.1
Minomura Rizaemon	500	2.0	Mitsui Gennosuke	500	2.0	Mitsui Genemon	300	2.0
Ōno Zenemon	500	2.0	Mitsui Hachirōjirō	500	2.0	Imai Tomogorō	300	2.0
Ōno Zentarō	500	2.0	Mitsui Shinnosuke	500	2.0	Saionji Kiminari	230	1.5
Shimada Hachirōemon	500	2.0	Nishimura Torashirō	450	1.8	Nagami Denzaburō	130	0.9
Shibusawa Eiichi	400	1.6	Mitsui Genemon	300	1.2	Nagata Jinshichi	103	0.7
Soeda Kinichi	200	0.8	Mitsui Tokujirō	300	1.2	Shimada Hachirōemon	100	0.7
Nagami Denzaburō	200	0.8	Mitsui Noriemon	257	1.0	Okada Heitarō	100	0.7
Nagami Kanji	150	0.6	Nagami Denzaburō	200	0.8	Toda Ujitaka	100	0.7
Subtotal	22,250	91.2	Subtotal	14,229	56.9	Subtotal	13,507	90.0
Total shares	24,408		Total shares	25,000		Total shares	15,000	

Source: Katō and Ōuchi 1963, 27.

⁵ Tamaki, 33.

⁶ Katō and Ōuchi, 24. When Daiichi was established, it was capitalized at 3 million yen with 30,000 shares outstanding, with each share worth 100 yen each. Of the 3 million yen in capital, the Mitsui and Ōno families subscribed for 1 million yen in shares apiece while the remaining shares were offered to the public. During the original subscription period, only 4,408 shares were purchased which gave the bank a capitalization of 2,440,800 million yen and 71 total shareholders. Although the Ōno family had already gone bankrupt by the end of 1875 and no longer appeared on the shareholder rolls of Daiichi, the bank did not officially reduce its capital until the following year.

Second, Shibusawa Eiichi increased his share ownership from 500 shares at the establishment of the bank to 2,347, or the second-most number of shares, by 1876 just under Mitsui Hachirōemon, thus signifying his increased ownership and management role in the bank. The total number of shares held by the top fifteen shareholders after establishment was 22,250 or 91% of the 24,408 shares outstanding. By 1876, the top fifteen shareholders still held 13,507 shares or 90% of the 15,000 shares outstanding. Although the idea of a joint-stock structure was to access capital from all parts of society, the government's emphasis on gaining the participation of the Mitsui and Ōno merchant families resulted in an unbalanced stock ownership structure that had first concentrated stock ownership first in the hands of the Mitsui and Ōno and thereafter, in a few select individuals.⁷

Third, the Nagami family of Nagasaki remained shareholders throughout the early period of the bank through the shares held by Nagami Denzaburō and Nagami Kanji. As will be explored later, the Nagami family of Nagasaki were prominent merchants engaged in selling medicine, sugar, and cotton and were instrumental in the establishment of 18th National Bank [J. *Daijūhachi kokuritsu ginkō*], another bank with significant operations in the Korean peninsula.⁸

Lastly, the rolls of shareholders indicated that there were very few former samurai that had invested in Daiichi, making it an interesting case study for examining the former social status of Meiji entrepreneurs and businessmen. At the time of establishment, Nishikawa Hajime was the only samurai, although Godai Tomoatsu later appears in the 1875-1876 records. The addresses for the shareholders indicate that they lived throughout the Japanese archipelago. In

⁷ The decline in the percentage of total stock held by the top fifteen shareholders in 1875 reflected the loss of the shares held by the Ōno family and the withdrawal of their capital, rather than any trend toward wider public participation in the ownership structure of the bank.

⁸ Katō and Ōuchi, 28.

contrast to the other national banks where share ownership was usually concentrated in a particular prefecture, share ownership in Daiichi bank was much more widely dispersed geographically.⁹

After the crisis caused by the bankruptcy of the Ōno family in 1875, Shibusawa was soon faced with another crisis when the Japanese government announced in the same year that it would withdraw its deposits from Daiichi. From its initial establishment, Daiichi was heavily reliant on government deposits, from which it could extend loans to its clients. While records from the first few years of the bank's history do not distinguish between public and private monies, general estimates indicate that public funds accounted for 6.26 million yen, or almost 70% of all deposits, in the latter half of 1873. Public monies peaked at almost 7.7 million yen, or 77% of all deposits, in the first half of 1874. After the second half of 1875, bank records began to clearly distinguish between public and private funds and the percentage of public funds among all deposits continued to decrease from 70% in late 1875 to 20% by late 1876. As a result, total deposits decreased from over 9 million yen in late 1873 to a little over 2 million yen by late 1876, a decline of almost 78%. Despite the withdrawal of government funds, Shibusawa was able to ensure the immediate survival of the bank through retrenchment measures, such as reducing

⁹ Katō and Ōuchi, 28; Hirschmeier, 219; Kozo Yamamura, "The Role of the Samurai in the Development of Modern Banking in Japan," *The Journal of Economic History* 27 (1967). Shibusawa Eiichi can also be considered a former samurai but the semi-annual report [*J. Hanki jissai kōkajō*] from 1880 lists him as a commoner. The issue of whether the modern banking system in Japan was built by samurai or by non-samurai engendered a lively scholarly debate in academic journals. Johannes Hirschmeier has argued that the modern banking system was built primarily not by merchants but by samurai. He states that, "the initiative for establishment, planning, and management of national banks came mainly from samurai." The reasons he cites is that merchants were retrained by tradition while the samurai were handicapped neither by tradition nor alternative livelihoods. On the other hand, Kozo Yamamura examined the class composition of 62 banks and extrapolated a figure of 24% (38 of 153 banks) were commoner [*J. heimin*] dominated. Based on the relative dominance of these commoner-dominated banks on the Japanese financial scene, as well as the importance of private banks, Yamamura concludes that samurai did not play a preponderant role in establishing the modern Japanese banking system.

capital by 1.5 million yen, closing branch offices, and persuading the government to withdraw its deposits over the span of two years.¹⁰

During the same period, Daiichi and the other national banks faced difficulties in maintaining their capital because of fluctuations in the value of their banknotes and world silver prices. By the end of 1873, Daiichi had issued 753,195 yen in banknotes and its total circulation peaked at a little over 1 million yen by the end of the first half of 1874. From that point, the amount in circulation decreased drastically until there was only 190,694 yen of banknotes in circulation by the end of the first half of 1875. Although the National Bank Decree had stated that banks could issue up to 60% of their capital through banknotes, Daiichi, as well as the other national banks, could not maintain their notes in circulation as their banknotes were constantly redeemed for hard currency, thus threatening their capital base.¹¹

The primary cause of the non-circulating banknotes problem lay with the decision of the central government to issue its own government notes [*J. dajōkansatsu*], in June 1868. The total amount of government notes issued was 48 million *ryō*, which was also joined by 7.5 million *ryō* issued by the Ministry of Civil Affairs in 1869, 6.8 million *ryō* issued by the Ministry of Finance between October 1871 and May 1872, and 2.5 million *ryō* issued by the Hokkaido Colonization

¹⁰ Hirschmeier, 218; Katō and Ōuchi, 36-37.

¹¹ Katō and Ōuchi, 34. Tamaki, 31; Yasuzō Horie, "Modern Entrepreneurship in Meiji Japan," in William W. Lockwood, ed., *The State and Economic Enterprise in Japan: Essays in the Political Economy of Growth* (Princeton: Princeton University Press, 1965), 193. According to the National Bank Decree, the national banks were required to follow a convoluted process in order to issue banknotes. First, they were required to deliver up to 60% of their total capitalization to the Ministry of Finance, using any of the government notes that were currently in circulation. Theoretically, this would remove the devalued government notes from circulation and replace them with fully-valued, convertible currency. Once the government notes were deposited, the banks would receive the equivalent amount in national bonds, which were again deposited with the Ministry of Finance. The Ministry would then issue the banknotes to the bank, with the name of each bank printed on the front, for circulation. At the end of all the exchanges of financial instruments, the bank was allowed to issue 60% of its capital in paper currency, which would be theoretically backed by specie reserves or the equivalent in government bonds. The requirement that two-thirds of the total note-issue be covered by gold was an extraordinarily high reserve ratio, which ultimately threatened the profitability of the banks.

Board. The circulation of so many inconvertible government notes led to rampant inflation, because the government notes were devalued as soon as they went into circulation. The notes issued by the Ministry of Finance and the Hokkaido Colonization Board were theoretically convertible and non-inflationary, but the shortage of gold rendered them virtually inconvertible and they contributed to the inflationary trend caused by the other notes. To add insult to the injury caused by government policy, the government notes were relatively easy to counterfeit, which caused an unknown amount of additional currency to flow into the Japanese economy and thus boost the inflationary spiral through the 1870's. Even though the national banks began to replace the government notes with their own banknotes, public fears of inflationary pressure led to continual redemption of the banknotes for hard currency.¹²

A secondary cause lay with the adoption of the gold standard in May 1871, when the basic value of the yen was established at 1.5 grams of pure gold and 901.66 grams of silver. At the same time, the “trade silver yen” was created as a special currency for trade in the open ports, having the same quality and weight as the Mexican silver dollar used in trade throughout East Asia. Although the outflow of gold was nowhere as severe as during the *bakumatsu* currency crisis, gold continued to flow out of the country. Part of the problem lay with a worldwide decline in silver prices as global production increased while demand decreased. Germany adopted the gold standard in 1873 after attaining a large indemnity with victory in the Franco-Prussian War. The United States, Latin American nations, and other countries adopted the gold

¹² Tamaki, 23-25; J. Laurence Laughlin, “The Gold Standard in Japan,” *The Journal of Political Economy* 5 (1897): 378-381; E. Sydney Crawcour, “Economic Change in the 19th Century,” in Marius Jansen, ed., *Cambridge History of Japan, vol. 5: The Nineteenth Century* (New York: Cambridge University Press, 1989), 594-595. The official title of the currency was changed from *ryō* to *yen* in 1869. The *ryō* was a standard of value equal to ten *momme* (one *momme* was 3.75 grams), and determined the weight of gold in dust or grains. One *ryō* was usually equivalent to twenty *kwan*, or twenty thousand *mon* of copper coin, or four *bu*, or sixteen *shu*. After promulgation of the currency law in 1871, the gold yen was worth 25.72 grains standard gold, nine-tenths fine (900 parts of pure gold to 100 parts of copper) and the silver yen was worth 416 grains standard weight (800 parts of pure silver to 200 parts of copper, or 374.4 grains of pure silver).

standard causing fewer silver coins to be minted, which decreased demand and depressed silver prices. As silver prices declined, the cost of purchasing gold with silver in Japan similarly decreased and speculators bought gold-convertible notes with silver, converted the notes to gold, and shipped the coins out of the country for their bullion value. Under these pressures, the gold-convertible bank notes issued by Daiichi and the other national banks could not remain in circulation as they were exchanged for gold currency and exported, thus depleting much of the remaining specie and capital within the banks. By May 1878, the Japanese government issued laws no. 12 and 13, which established the trade silver yen as legal tender for domestic circulation, paying taxes, and all public and private transactions, essentially placing Japan on a bimetallic currency footing.¹³

In 1876, the Japanese government simultaneously attempted to strengthen the national bank system, decrease government expenditures by divesting itself of the responsibility to pay samurai stipends, and move to the silver standard. After the feudal lords [J. *daimyō*] had returned their domains to the emperor, the central government assumed the responsibility of paying samurai stipends which accounted for a staggering 25-30% of the annual government budget. In August 1876, the government announced the commutation of the annual stipends into a one-time payment in bonds that would cost the government 174 million yen. At the same time, the government announced the revision of the National Bank Decree, which suspended the convertibility of banknotes into gold and raised the maximum ceiling of capital stock payment by national bonds from 60% to 80%. While national banks could now issue their own banknotes up to 80% of their capital, the revisions enabled the establishment of national banks using the

¹³ Peter Frost, *The Bakumatsu Currency Crisis*, (Cambridge: East Asian Research Center, Harvard University, 1970); Asada Keiichi, *Expenditures of the Sino-Japanese War* (New York: Oxford University Press, 1922), 159-160, 163; Tōhata Seiichi and Takahashi Taizo, eds., *Nihon kinyū shijo hattatsushi* [A history of the development of Japanese financial markets] (Tokyo: Tokyo keizai shinposha, 1965), 4; Katō and Ōuchi, 34.

commutation bonds as capital. Once the former samurai had invested their bonds as capital in new banks, the government hoped the new measure would solve the twin problems of establishing a strong banking system and helping the impoverished samurai find a new means of financial support. The most notable example of samurai investment was Fifteenth National Bank of Tokyo [J. *Tokyo Daijūgo kokuritsu ginkō*], which was capitalized at the enormous sum of 17.8 million yen, all contributed by former feudal lords, former court nobles, and the new nobility. However, the so-called reforms also contributed to the inflationary cycle by allowing the establishment of additional national banks with note-issuing capability. The inflationary cycle was not broken until the implementation of the deflationary policies under Finance Minister Matsukata Masayoshi in the early 1880's. The political, economic, and social aspects of the Matsukata Deflation have been examined in great detail in various scholarly works, and the key features of the Matsukata Deflation are well-known, such as retrenchment of government expenditures, transfer of government enterprises to private ownership, and increase of state revenue through additional taxation. The rural consequences of the deflation were severe as standards of living in the countryside stagnated or dropped sharply and increased indebtedness in the farming communities led to sharp spike in tenancy.¹⁴

One of the major financial reforms implemented during the Matsukata Deflation was the establishment of the Bank of Japan in 1882. After stripping the national banks of their right to issue banknotes in 1883, the government ensured that the Bank of Japan was the only bank with the right to issue convertible banknotes. As the national banks gave up their right of note issue, they were reorganized as private banks and many continued to use the same name, albeit without the “national” designation. Thus, Daiichi bank lost the *kokuritsu* name to simply become *Daiichi*

¹⁴ Tamaki, 37; Hirschmeier, 218-219.

ginkō. Although national bank banknotes and inconvertible government notes continued to circulate, they were gradually redeemed and removed from circulation thus freeing the money supply from its inflationary spiral. The institution of a European-style central bank system issuing convertible banknotes further demonstrated Japanese adherence to Western banking principles and its devotion to the international financial system, thus laying the groundwork for eventual adoption of the gold standard.¹⁵

As the Japanese government slashed its expenditures and economic activity slowed drastically during the Matsukata Deflation, banks and moneylenders called in outstanding loans, forcing entrepreneurs and businessmen to quickly pay back their loans or forfeit their collateral. Weak financial institutions that had overextended their capital but were unable to collect on their loans were forced to close their doors as depositors demanded their money back. The deflation punished under-capitalized, local and regional financial institutions and rewarded well-capitalized, national-level banks and organizations that were part of the newly developing centralized financial system overseen by the Bank of Japan.¹⁶

¹⁵ Tōhata, 4; Tamaki, 34-35, 74-75; Richard J. Smethurst, *From Foot Soldier to Finance Minister: Takahashi Korekiyo, Japan's Keynes* (Cambridge: Harvard University Asia Center, 2007); Mark Metzler, *Lever of Empire: The International Gold Standard and the Crisis of Liberalism in Prewar Japan* (Berkeley: University of California Press, 2006). The National Bank Decree was revised again in 1883 and Article 12 stated in reference to national banks that, "the bank's license will only be renewed if the bank gives up the privilege of note issue. The bank will then continue as a private bank." The most-cited demonstration of Japanese adoption of Western banking principles is the translation of various Western texts on banking and pamphlets written by Allan Shand, former manager of the Yokohama branch of Chartered Mercantile Bank; financial consultant to the Japanese Finance Ministry from 1872 to 1877, and an advisor for Japanese government officials living and working in London when he was manager of the London branch of Parr's Bank.

¹⁶ G.C. Allen, *A Short Economic History of Japan* (New York: St. Martin's Press, 1981); T.R.H. Havens, "Early Modern Farm Ideology and the Growth of Japanese Agriculture," in Peter Kornicki, ed., *Meiji Japan: Political, Economic and Social History, 1868-1912* (New York: Routledge, 1998); E.H. Norman, *Origins of the Modern Japanese State* (New York: Pantheon Books, 1975); Richard Smethurst, *Agricultural Development and Tenancy Disputes in Japan, 1870-1940* (Princeton: Princeton University Press, 1986); Conrad Totman, *A History of Japan* (Malden: Blackwell Publishers, 2005); Stephen Vlastos, "Opposition Movements in Early Meiji, 1868-1885," in Marius B. Jansen, ed., *The Cambridge History of Japan: vol. 5, The Nineteenth Century* (Cambridge: Cambridge University Press, 1989).

In the Ina valley of present-day Nagano prefecture, the 117th National Bank [J. *Daihyaku jūnana kokuritsu ginkō*] (hereafter, 117th Bank) in Iida became the predominant financial institution in the county as village elites and local-level financial institutions were bankrupted and were forced to close their doors permanently or merge with other larger and stronger institutions. From 1879 to 1897, the reserves of the 117th Bank grew by 400 percent and handily survived the deflationary period. By 1920, the 117th Bank was capitalized at four million yen and operated twelve branches throughout the Ina valley. Although 117th Bank was a regional bank rather than a bank with a national network, it could draw on greater capital resources and a wider correspondent network than local village or county financial institutions. The consolidation of financial institutions engendered by the deflation resulted in smaller and weaker institutions being absorbed by their larger counterparts. The Japanese financial system became more highly concentrated in a smaller number of large banks, usually anchored in major metropolitan areas and financial markets that had formerly operated on a regional basis were integrated into a single national market by the Bank of Japan.¹⁷

The Daiichi Bank weathered the bankruptcy of the Ōno family in 1875, the withdrawal of government funds in the same year, and the Matsukata Deflation due, in no small part, to its expansion into the Korean peninsula. With the signing of the Kanghwa Treaty in February 1876, three treaty ports were forced open to foreign trade. Pusan was opened in 1876 and Wōnsan and Chemulp'o (present-day Inch'ōn) followed in 1880 and 1883, respectively. Through these ports, foreign merchants began importing manufactured goods such as cotton textiles and

¹⁷ Kären Wigen, *The Making of a Japanese Periphery, 1750-1920* (Berkeley: University of California Press, 1995), 204; Mari Ohnuki, "Bank of Japan Network and Financial Market Integration: From the Establishment of the Bank of Japan Until the Early 20th Century," *Bank of Japan Institute for Monetary and Economic Studies Discussion Paper Series*, No. 2006-E-27 (2006). <http://www.imes.boj.or.jp/>. Ohnuki presents various arguments that show that interest rates began converging as regional, "private autonomous markets" were integrated into a single national market. The integration process was assisted by the establishment of Bank of Japan branches in various cities as well as the development of its correspondent network.

exporting agricultural products, notably rice. The opening of the ports also paved the way for the establishment of the first Daiichi bank branches, which catered first to the Japanese settlements in the port cities but began expanding their operations to include banking services to the Korean government.

Using the unequal treaty system, the Japanese forced open the Korean treaty ports to Japanese settlers and settlements, creating a trading periphery to the core Japanese islands. At the same time, Daiichi Bank expanded its branch network into the newly established Japanese settlements. As it dominated the local financial scene as the first and only Japanese bank in Korea, Daiichi laid the foundations for eventual expansion, primarily through its activities in channeling Japanese currency, handling government money, receiving customs revenue, acquiring gold, and finally overseeing currency reform.

In June 1878, Daiichi Bank opened its first branch at Pusan after the Japanese government lent the bank half of the 100,000 yen needed to open the branch. With the opening of the Pusan branch, Japanese currency made its official entry into the Korean peninsula and was initially used to buy Korean gold. Daiichi established a branch in Pusan in June 1878, a branch in Wŏnsan in 1880, Inch'ŏn in 1883, Seoul in 1888, Mokp'o in 1898, and Chinnamp'o and Kunsan in 1903. Wŏnsan was known as a gold collection point which is why Daiichi decided to establish its second branch there in May 1880. The Inch'ŏn branch was established in November 1882 and its primary function was the collection of the customs tariffs.¹⁸

Initially, Daiichi provided financial services for the Japanese engaged in trade by offering foreign exchange, deposit accounts, giving loans, and dealing in exchange bills. In addition, Daiichi also served as the local agent for the Tokyo Marine Insurance Company and offered

¹⁸ Daiichi ginkō, *Daiichi ginkō gojūnen shoshi* [A short fifty-year history of Daiichi bank] (Tokyo: Daiichi ginkō, 1926), 74; Duus, 252;

insurance contracts for the cargo passing through the port. As the only financial institution in Korea offering these services, Daiichi enjoyed a monopoly on financial services for about ten years. However, Daiichi was soon followed by other banks, such as 18th Bank [J. *Daijūhachi ginkō*] which established branches in Inch'ŏn (1890), Wŏnsan (1894), and Pusan (1897) and 58th Bank [J. *Daigojūhachi ginkō*], which opened branches in Inch'ŏn (1892), Pusan (1893), and Seoul (1894).¹⁹

In addition to merchants in Korea, Daiichi bank extended loans to Japan-based businessmen and entrepreneurs that were engaged in trade with Korea, such as the shipping operations run by merchants based in Marifumura, Kumagu-gun, Yamaguchi prefecture. After establishing a trading route between Pusan, Osaka, and ports in between after the opening of Pusan in 1876, the shipping families in Marifumura upgraded their fleet of ships to Western-style cargo ships, using capital provided by Daiichi bank. The expansion of shipping operations resulted in the emigration of nearly 20% of the population and 20% of the total households in Umajima, one of the hamlets of Marifumura, to the port of Pusan.²⁰

However, the biggest revenue streams for Daiichi were in handling government money, whether it was Japanese or Korean government funds. In September 1882, the Japanese government imposed a 550,000 yen indemnity in Korea in the Treaty of Chemulp'o to pay for

¹⁹ Yun Sŏk-bŏm, Hong Sŏng-ch'an, U Tae-hyŏng, Kim Tong-uk, *Han'guk kŭndae kŭmyungsa yŏn'gu* [A study of modern Korean financial history] (Seoul: Segyŏngsa, 1996), 40-41; James William Gilbart, *A Practical Treatise on Banking* (London: Bell and Daldy, 1865), 44. According to Gilbart, "a bill of exchange is a written order from one person to another, directing him to pay a sum of money either to the drawer [the person who draws (or writes) a bill] or to a third person at a future time. This is usually a certain number of days, weeks, or months, either after the date of the bill, or after sight; that is, after the person on whom it is drawn shall have *seen* it, and shall have written on the bill his willingness to pay it. The party expresses this willingness by writing on the bill the word "*accepted*," and his name. If the bill be drawn after sight, he also writes the date of the acceptance." Hereafter, bank names will be referred to without the *kokuritsu* designation for simplification purposes.

²⁰ Kimura Kenji, *Zaichō Nihonjin no shakaishi* (Tokyo: Miraisha, 1989), 41; Peter Duus, 318.

damages to the Japanese legation during the 1882 *Imo* Soldiers' Revolt.²¹ Soon thereafter, the Japanese government extended its first overseas loan to the Korean government in the amount of 170,000 yen through the Yokohama Species Bank. On a trip to Tokyo in October 1882, Pak Yŏng-hyo asked his Japanese hosts for the loan, apparently without official authorization from the Korean king or government. Less than a third of the loan, or 50,000 yen, was used to pay the indemnity from the Imo Soldiers' Revolt, thus passing out of Japanese hands back into Japanese hands. The remainder of the indemnity was later forgiven with the Japanese suggestion that the Koreans use the money to pursue modernization projects like establishing a postal service or reforming the military.²²

Due to the absence of any stipulations regarding tariffs in the original Treaty of Kanghwa, the Korean government demanded the negotiation of a specific agreement on tariffs, which the Japanese rebuffed repeatedly. In 1883, the Japanese finally relented and Paul Georg von Möllendorf, head of the Korean Maritime Customs Services, negotiated the Korean-Japanese Trade Regulations and Tariff Agreement of 1883 with Takezoe Shinichirō, the Japanese envoy to Chosŏn Korea. The final version stipulated an 8% rate on the import of general commodities and 10% on other items, with the tariff-free export of rice. However, the Korean government was allowed to restrict rice exports during times of famines and other emergencies with one-month advance notice to the Japanese authorities. In the same year, von Möllendorf negotiated a \$24,000 loan from the Daiichi Bank at 10% interest a year. The loan paid for customs service

²¹ "1882 Japan-Korea Agreement of 1882 (Indemnity for riots)," *Despatches from U.S. Ministers to Korea, 1882-1905* [hereafter *Despatches*], vol. 20 (Seoul: Institute of Asian Cultures Studies, Hallym University, 2001), 538-539. The \$50,000 was compensation for those wounded and killed while the \$500,000 was "to make good the losses and injuries sustained by Japan from the outbreak of miscreants and to defray the expenses to be incurred for the maintainance of a guard, naval and military, to protect the Minister". The \$500,000 indemnity was to be paid in annual amounts of \$100,000 for five years.

²² Duus, 56-57.

expenses such as purchasing office equipment and uniforms and making salary payments and was collateralized with customs revenue.²³

After implementation of the tariff agreement, imports from Japan through the three open ports increased from approximately \$1.38 million in 1885 to over \$2.5 million in 1892. Assuming taxation even at the lowest rate of 8%, the import tariffs would have garnered annual revenue for the Korean government in the range of \$110,000 in 1885 to \$204,000 in 1892. Since paying the customs revenue in Korean currency was cumbersome for Japanese merchants, the agreement allowed Japanese merchants living in the Pusan foreign settlement to pay the tariff in Japanese currency at the Pusan branch of Daiichi. In exchange, they received a bank-issued bill [*J. tegata*] denominated in Korean currency, which was likely submitted as proof that they had paid the tariff. As the circulation of Daiichi bank bills increased, Japanese merchants found it quite convenient to pay the customs tax in these bills.

In June 1883, Daiichi applied to the Japanese Foreign Ministry for permission to use its bills to pay the customs tariff in every open port, a request which the Japanese government approved. Consequently, the Japanese government opened negotiations with the Korean government regarding the collection of the maritime customs tariff. In February 1884, von Möllendorf reached agreement with the head of the Pusan branch of Daiichi, Ōhashi Hanshichirō, on an agreement whereby Daiichi would accept customs revenue for the Maritime Customs Service. The Daiichi branches in Inch'ŏn, Pusan, and Wŏnsan began to collect maritime customs charges and fines under the supervision of the Korean Maritime Customs Service and started to issue their own bills.²⁴

²³ Lee Yur-Bok, *West Goes East: Paul Georg von Möllendorf and Great Power Imperialism in Late Yi Korea* (Honolulu: University of Hawaii Press, 1988), 58-59.

One of the early and important functions of Daiichi in Chosŏn was the acquisition of gold in any form, whether it was bullion, dust, or ore. Since the Bank of Japan was preparing to issue convertible notes, it needed as much specie as could be attained. In January 1884, Daiichi applied to the Ministry of Finance for permission to purchase Korean gold dust and Shanghai *taels*. Daiichi was given a loan of 300,000 yen and for one year, it purchased gold dust at its Pusan, Inch'ŏn, and Wŏnsan branches as well as Shanghai *taels* at its exchange [J. *torihikijō*] in Shanghai. In May 1886, the Ministry of Finance ordered Daiichi to form an agreement with the Bank of Japan by which the Bank of Japan would provide the capital for Daiichi to acquire gold and silver ore. In September of the same year, the Ministry of Finance provided Daiichi with 100,000 yen to carry out its purchases over a three-year period. Consequently, Daiichi was perpetuating the core-periphery relationship but in terms of gold, that was purchased and funneled back to the home Japanese islands, specifically to the central financial institution of the Bank of Japan.²⁵

Korea-Japan trade was increasing and the Daiichi's exchange bills [J. *nikawase*] were being widely used. Although competition with Chinese merchants was increasing, the bank was still acquiring a great deal of precious metals. From May 1886 to August 1887, Daiichi purchased ore worth over 2.06 million yen on behalf of the Bank of Japan. Daiichi requested and received an extension of three years to repay the loan it received from the Bank of Japan, as well as a reduction in the interest charges and fees it had to pay on the loan. In its pursuit of gold

²⁴ *Daiichi ginkō gojūnen shoshi*, 74-75; Hilary Conroy, *The Japanese Seizure of Korea: 1868-1910, A Study of Realism and Idealism in International Relations* (Philadelphia: University of Pennsylvania Press, 1960), 160.

²⁵ *Daiichi ginkō gojūnen shoshi*, 76.

dust, Daiichi enlisted the aid of Japanese merchants in Chosŏn Korea to bring it as much as they could find.²⁶

After Japan adopted the gold standard in 1897, the Bank of Japan requested that Daiichi survey the supply of commercial money in Korea. The Bank of Japan required over 200 *kan* [750 kg] of gold to be purchased per year in order to maintain the gold standard.²⁷ In June 1899, Daiichi and the Bank of Japan negotiated a new agreement whereby the Bank of Japan provided Daiichi an interest-free loan of 200,000 yen for gold purchases, thus expanding Daiichi's purchases of the precious metal. In May 1900, Daiichi established an assay office in its Seoul branch and received permission to increase its purchases to 500,000 yen. In November 1900, Daiichi established regulations for its Seoul assay office where the assayers would not simply take the ore but would also evaluate the quality of the ore and pay accordingly. As Daiichi increased the speed and scale of its gold acquisitions, it purchased over 500 *kan* [1,875 kg] in one year (Table 2). Daiichi continued to expand its operations by opening its Pyŏngyang assay office in October 1904 and its Wŏnsan assay office in October 1906.

Table 2. Korean Gold Purchased by Daiichi Bank, 1900-1907

Year	Weight of gold acquired in <i>kan</i>	Equivalent weight in kg	Cost in yen	Cost per kg in yen
1900 (Nov.-Dec.)	2,450.60	9,189.75	9,378.62	1.0206
1901	640,998.45	2,403,744.19	2,764,033.51	1.1499
1902	824,859.10	3,093,221.63	3,519,267.70	1.1377
1903	855,995.41	3,209,982.79	3,791,867.67	1.1813
1904	821,171.21	3,079,392.04	3,664,581.25	1.1900
1905	954,072.12	3,577,770.45	4,231,694.96	1.1828
1906	800,350.29	3,001,313.59	3,555,707.42	1.1847
1907	860,601.94	3,227,257.28	3,784,767.54	1.1728

Source: *Daiichi ginkō gojūnen shoshi*, 77-78.

²⁶ *Daiichi ginkō gojūnen shoshi*, 76.

²⁷ *Kan* is a measure of weight or money. By weight, 1 *kan* is equivalent to 1,000 *monme* or 3.75 kilograms. In money, 1 *kan* was nominally equivalent to 1,000 *mon* but it depended on the period. During the Edo period, 1 *kan* was equal to 960 *mon*. During the Meiji period, 1 *kan* was equivalent to 10 *sen*.

Money Lent to the Korean Government

In terms of the money that Daiichi lent directly to the Korean government, there were seven distinct instances where loan negotiations occurred between 1884 and 1904 and those negotiations failed in only one case. The first loan was made in February 1884 when Daiichi loaned \$24,000 in Mexican silver dollars to the Korean government in order to establish a customs service in the three open ports. The collateral for the loan was the customs revenue. The loan was concluded concurrently with the agreement setting tariffs on trade conducted between Japan and Korea. The second loan occurred in January 1895 when the Korean government accepted a 250,000 yen loan from Daiichi and again put its customs revenue as collateral. The third loan was in March 1900. It was a 300,000 yen loan made directly to the Imperial Household [K. *Kungnaebu*], which offered government ginseng as collateral. Government ginseng was raw ginseng purchased by the government and dried to make red ginseng. Once the red ginseng was sold, profits from the transactions were typically used to defray the expenses of the imperial court.²⁸

Negotiations over the fourth loan took place between September 1900 and the spring of 1902 and dealt with the issue of using the maritime customs revenue as collateral. This issue of collateralization was connected to the issue of gaining access to loans from the United States and France, but ultimately the negotiations failed. In September 1900, an American company in Korea, Collbran and Bostwick, and Imperial Household advisor Sands colluded with Imperial Household officials on how to receive a 5.6 million yen loan using the maritime customs revenue as collateral in exchange for concessions such as a waterworks construction project for Seoul and

²⁸ *Daiichi ginkō gojūnen shoshi*, 84-85.

establishing a specially privileged bank. Fearing that the loan would be disadvantageous for the Korean government and hinder the prosecution of Korean-Japanese trade, the Japanese minister plenipotentiary, Hayashi Gonsuke, protested to the Korean emperor and stopped the loan process.

Customs Commissioner Brown heard about these loan negotiations and was alarmed. Using his authority, Brown negotiated with Daiichi Bank to gain a five million yen loan, collateralized with customs revenue, which would be used to undertake currency reform, build the Seoul waterworks, and coastal lighthouses. Daiichi Bank did not have the resources to make this loan by itself so it applied to the Finance Ministry on October 1 for two million yen of government funds, to be dispersed in cash rather than government bonds. In the afternoon of October 3, Daiichi management sent a telegram to the Inch'ŏn branch manager to conclude a preliminary contract with Brown.

On October 4, the Japanese government suddenly rejected Daiichi's application for two million yen because Yamagata Aritomo had resigned as prime minister. Although Itō Hirobumi was appointed as the new prime minister, the Japanese government was still unwilling to consider a new Korean loan in the midst of the domestic political chaos and rejected Daiichi's petition. Daiichi was confounded because it had already concluded a preliminary agreement with the Korean government based on previous approvals it had received from the Japanese government. The sudden reluctance of the Japanese government to extend the loan threatened the Korean government's faith in the bank, the credibility of the Japanese government, and the position of McLeavy Brown in negotiating the loan. Consequently, bank president Shibusawa Eiichi traveled directly to Korea to meet with Brown and find a solution, but internal opposition among the Koreans forced Brown to cancel the negotiation process.

However, the loan process was not completely dead because McLeavy Brown still believed in the need for the loan and Daiichi was still searching for a way to issue its own banknotes. In April 1901, reports surfaced that the French were suddenly willing to extend a loan to the Koreans. In the face of this alarming development, the Japanese government and Daiichi bank tried to block the French loan and restarted negotiations with Brown. At the same time, the American loan syndicate began making fresh overtures to the Koreans, which forced Daiichi to appeal to the Japanese government for diplomatic pressure on the Koreans. Due to the Japanese intervention and some internal conflicts within the Korean government, the loan negotiations with the Western loan syndicates were essentially killed by the spring of 1902.²⁹

The fifth loan was negotiated over seven occasions between September 1901 and April 1905 and totaled 1.22 million yen. The loan was made to Korea but paid to Japan in exchange for military weapons and other expenses. The loan was collateralized with taxes collected by the Korean government. The sixth loan was made to establish the *Pyŏngsikwŏn*, the government agency in the Imperial Household that would reform and oversee the system of weights and measures. The first loan was made in September 1902 for 150,000 yen. A supplementary loan of 100,000 yen was made in March 1908, for a total of 250,000 yen. The seventh and final loan made to the Korean government was concluded in January 1905 as the funding for the currency reform in the amount of 3 million yen.³⁰

Growth of Daiichi Bank in Korea

²⁹ *Daiichi ginkō gojūnen shoshi*, 85-87.

³⁰ *Daiichi ginkō gojūnen shoshi*, 87.

The opportunities for Daiichi Bank were vast as evinced by the steady increase in the amount of deposits, loans, and profit that originated from its operations in Chosŏn Korea. As a percentage of total deposits, operations in Chosŏn Korea yielded a miniscule 0.1% in 1878 but that number had increased to 22.7% by 1905. Loans increased at a slower but still respectable rate from 2% of total loans in 1879 to over 15% by 1905. Net profit increased at a spectacular rate from its Chosŏn operations from 372 yen in 1878 to over 399,000 yen in 1905, yielding 29% of total bank profit. In other words, almost a third of net profit for all of Daiichi bank came from its Chosŏn branches.³¹

In this respect, Daiichi Bank was replicating its operations following its establishment and development in Japan. Daiichi had relied on Japanese government deposits for the bulk of its capital in the period of national banking. Once those funds were withdrawn and the national banks had been transformed into private banks, Daiichi sought expansion and profit opportunities elsewhere when business conditions deteriorated in the domestic Japanese economy and it was forced to close its branches in the Tōhoku, Hokuriku, and the Kantō regions. Consequently, it parlayed its experience of managing Japanese government funds into new profit opportunities by establishing and expanding its operations on the Korean peninsula, without any discrimination between Japanese government deposits or Korean customs revenue. In that respect, Daiichi was operating as a profit-seeking, opportunistic financial institution that pursued expansion into the Korean peninsula as a rational business decision and closely followed upon the heels of the Japanese military and merchants who had forcibly opened Chosŏn Korea. Government officials like Inoue Kaoru had blatantly imperialistic tendencies when he stated his desire in 1894 to create pretexts for Japanese intervention by obtaining economic interests in

³¹ Murakami Katsuhiko, “*Shokuminchi*” [Colony] in Ōishi Kaichirō, ed., *Nihon sangyō kakumei no kenkyū* [A study of the Japanese industrial revolution] (Tokyo: Tōkyō daigaku shuppankai, 1975), 279.

Korea. Daiichi, on the other hand, was much more in favor in keeping other Japanese banks out of Korea to maintain its monopoly position, rather than allowing increased Japanese economic and political penetration to jeopardize its profits. The self-interested pursuit of profit was clear in its dealings with other Japanese banks with financial interests in Korea.³²

One such financial institution with important ties to Korea was 18th Bank [J. *Daijūhachi ginkō*]. 18th Bank was established in May 1877 in Nagasaki by a group of wealth merchants including Nagami Denzaburō, Matsuda Katsugorō, Nagami Tokujūrō, Nagami Kanzō, and Matsuda Gengorō. 18th Bank began transacting Korea-related business in 1882 when it began issuing exchange bills and making loans to Nagasaki merchants engaged in the import-export trade. The main goods exported from Nagasaki to Chosŏn Korea were calico and cheesecloth while the goods imported into Nagasaki were grains, primarily soybeans and rice; marine products, like sea cucumbers and dried fish; leather; gold ingots; and gold dust, but exports to Korea far outweighed imports from Korea. Since 18th Bank was financing imports and exports with exchange bills, much of its capital ended up in the Korean peninsula because of the trade imbalance.³³

³² Murakami, 278.

³³ Jūhachi ginkō kyūjūnenshi hensan iin, *Kyūjūnen no ayumi* [History of the last ninety years] (Nagasaki, Jūhachi ginkō, 1968), 1, 58. The bank was the eighteenth bank to receive approval for establishment from the Meiji government, hence its name. Despite the prosaic origins of its name, the bank was established at a particularly chaotic period in modern Japanese history, during the 1877 Satsuma Rebellion [*Seinan sensō*]. Jūhachi ginkō remains in operation today under the same name, based in Nagasaki, and operating 113 branches around Japan. A chronology of its history is available online at its website. <http://www.18bank.co.jp/aboutus/history/>.

In most cases, the exchange bill process would have begun with Japanese merchants exporting goods to the Korean peninsula. These merchants (the sellers) would write a bill of exchange which the merchants in Korea (the buyers) would pay on sight or at a future date. If the bills were endorsed by the buyers, then the sellers could sell the bill to the bank at a discount and receive their money immediately. The bank would keep the bill until it matured and collect the full amount, or it could rediscount the bill and sell it to another party. In the case of Daijūhachi, it was discounting bills for money owed to the Nagasaki merchants. The bank would also have been paying the exchange bills of Nagasaki merchants for Korean goods imported into Japan. If the trade amounts had been equal, then there would have been little net change as the money coming in for exports would have been balanced against the money going out for imports. Due to the large amount of Japanese exports to Korea however, Daijūhachi had to wait for the merchants doing business in Korea to pay their exchange bills in order to collect its money.

In 1885, the board of directors of 18th Bank decided to explore the possibility of establishing a branch office in Inch'ŏn to address the problem of recovering its capital faster. The bank dispatched Shimizu Reizō, former head of the Fukue branch, to Chosŏn to investigate the possibilities but 18th Bank decided against establishing a branch at the time. Instead, 18th Bank president Matsuda Gengorō wrote a letter to Shibusawa Eiichi, president of Daiichi bank, and his letter sheds light on the problems that 18th Bank had with Daiichi at the time.³⁴

In order to conduct trade between Nagasaki and Chosŏn, my bank signed a contract for exchange services with your Pusan branch [of Daiichi bank], but the agreement was revised this year. Similar to our domestic arrangements, the contract provided for a deposit limit of 20,000 yen with an interest rate of 3.6% and a borrowing and lending limit of 10,000 yen at 9%. However, actual business conditions resulted in many exchange bills going from our bank to Chosŏn and the money held by your Pusan branch exceeded 20,000 yen. At times, the amount exceeded 60,000 or 70,000 yen. We seldom requested payment, but when we did, we were refused. Furthermore, when we requested that the Pusan branch of your bank deliver remittance bills here, we were refused on the grounds that the deposits would overlap. Our bank has little capital and we depend on the earnings from the small premium on the exchange bills. If we are denied access to our capital, then we may have to stop dealing in exchange bills going to Chosŏn. However, our exchange bill business with Chosŏn is a large account for us and refusing that business is, both operationally and ethically, something we cannot do.

Sometimes, we requested “round-trip” exchange bills [*ōhuku nikawase*] rather than the settling of accounts, thinking that it was more convenient in order to recover our capital. Lately, we have repeatedly requested that your Pusan and Inch'ŏn branches use round-trip exchange bills but they did not comply. The round-trip exchange bills have been handled by the Nagasaki branch of the Koga ginkō of Saga and due to their low premium, they are a threat to our bank. For that reason, our vice-president Nagami Kanji was dispatched to Chosŏn to survey the situation. The branch managers of your Pusan and Inch'ŏn branches mistakenly believed that Nagami Kanji was sent to establish a Chosŏn branch of our bank and I heard that they demanded his expulsion. Our bank has no intention of dividing its capital and establishing a branch in foreign land. Because we have not forgotten the kindness [you have shown] since the time of the Rissei Co., we cannot commit that kind of perfidy. If we revise our arrangements according to the terms listed below, then we believe that our bank and the merchants will benefit and your bank will not be inconvenienced, so we ask for your assistance.

1. Deposited funds will have no limit and the interest rate charged will be the same as that for borrowing and lending.
2. Since each Chosŏn branch of your bank is already transferring exchange bills from Osaka and other locations [back to Osaka], we ask that funds held for our bank be sent to Osaka as well.

³⁴ Jūhachi ginkō kyūjūnenshi hensan iin, 58. Both branches in Inch'ŏn and Fukue were *shutchōjo* 出張所, rather than *shiten* 支店. Japanese banks distinguish between the *shiten* and the *shutchōjo*, and while both can be translated as “branch” or “branch office”, the *shiten* was considered to be a more important location than a *shutchōjo*.

3. We ask for reconsideration of the above-mentioned matter regarding the “round-trip” exchange bills.³⁵

On December 17, 1885, Shibusawa wrote the following reply.

I have received reports from both branches [Pusan and Inch'ŏn]. The Inch'ŏn branch, in particular, specializes in receiving exchange bills from Nagasaki, Osaka, and Kobe and sending them out again to different places. The largest volume of bills is from your bank and if your bank establishes a branch in Inch'ŏn, then it poses a serious problem for us. We have been discussing, with the two branches, the possibility of establishing a branch in your area to handle exchange bills. After careful consideration, this is the measure that we have decided to pursue. However, we also understand the meaning of your letter. I believe there may have been some misunderstandings due to the great distances involved [in settling the transactions], but I have instructed both branches to expedite the process.³⁶

The above exchange of letters illustrates several important points about the banks that were conducting banking transactions in or for the Korean peninsula. First, Daiichi had a virtual monopoly on clearing transactions, particularly those involving exchange bills, for more than a decade. Due to its monopoly position, Daiichi wielded a great deal of power and control simply because it could determine the speed and quantity of transactions that were processed for banks in the main Japanese islands. Since exchange bills for products shipped to Korea were paid to Daiichi and Daiichi remitted the money back to the other banks, it was in Daiichi's interest to hold on to that money as long as possible, perhaps even making loans to merchants in Korea. Even if Daiichi was required to pay a 3.6% interest charge to other banks like 18th Bank, then it could still make a substantial profit by lending out that money at 9%, or at an even higher interest rate. Consequently, Matsuda Gengorō complained that Daiichi was violating the terms of their agreement by holding onto 18th Bank's money, even when it far exceeded the mutually agreed-upon limit of 20,000 yen.

³⁵ Jūhachi ginkō kyūjūnenshi hensan iin, 59. The Rissei kaisha was the predecessor to the Daijūhachi kokuritsu ginkō and was also known as the Nagami Matsuda shōsha [永見松田商社] which, like the bank, was a collaboration between Nagami and Matsuda families of Nagasaki.

³⁶ Jūhachi ginkō kyūjūnenshi hensan iin, 60.

Second, the trade imbalance where imports into Korea far exceeded imports placed banks like 18th Bank in a precarious position because they were not being repaid for bills that they had already discounted.³⁷ Consequently, the bank had already paid the exporter for his goods, at a discounted price, and was hoping to quickly receive full payment from the importer. Any delay in receiving their money caused cash flow problems for the banks and squeezed their profit margins. The situation was stable but untenable for the other banks because Daiichi's monopoly was being protected by the Finance Ministry, the costs of establishing branches in Korea was high, and the trade imbalance prevented the other banks from receiving payment simply by financing imports into Japan. As seen from the letters above, the other banks had little recourse than to ask for their money and negotiate the best possible terms to ensure rapid repayment. To that end, 18th Bank proposed changes to their agreement that would allow Daiichi to hold onto an unlimited amount of its funds but would pay a higher interest rate, one that was ostensibly equal to that being received by Daiichi. In other words, 18th Bank sought to reduce the profits and hence the incentive for Daiichi to hold onto its money by essentially becoming a passive investor in Daiichi and receiving interest payments.

Third, Shibusawa's reply recognized Matsuda and 18th Bank's dissatisfaction and sought to placate them by promising to establish a Daiichi branch in Nagasaki, to expedite transfers. However, the proposed remedy was also a self-serving move by Daiichi because Nagasaki merchants could bypass 18th Bank altogether and simply discount their exchange bills at Daiichi,

³⁷ Gilbart, 43-44. In a treatise on British banking practices contemporary to this period, Gilbart has the following to say about bills that are not honored. "Every day the banker looks out the bills that fall due on the following day, and hands them to the chief clerk (or, in some cases, the chief clerk himself has the charge of the bills), who, after checking them against the books, distributes them among the clerks who are to collect them. If the bill be not paid, it is noted on the same evening, and on the following morning returned to the customer for whom it was discounted, and his account is debited for the amount. But if the party has not the sum to his credit, and the banker does not like to trust him, he merely receives notice of its dishonour; and notice is also given to every other party to the bill, with a demand for immediate repayment. The bill has now become that hated object, a 'past due bill;' and after a while, if the parties are supposed to be 'worth powder and shot,' it is handed to the bank's solicitor."

providing another direct revenue stream for Daiichi without having to deal with remitting payments to 18th Bank. Since Nagasaki was one of the main transshipment points for goods and an important steamship line stop, Daiichi could control the trade at both ends of that particular trade route. Daiichi certainly did not want 18th Bank or the other banks to establish its own branches in Korea because it did not want the competition and he made that point explicitly in his reply. In the end, Shibusawa simply ascribed the problems between the two banks to “misunderstandings” that would be remedied in the future.

After this exchange of letters, the two banks reached an understanding and 18th Bank postponed its plans to establish a branch in Inch’ŏn, while addressing the problem of recovering its capital. In June 1886, 18th Bank signed an agreement with the Wŏnsan, Inch’ŏn, and Pusan branches of Daiichi to use round-trip exchange bills. In November 1887, Daijūhachi revised its agreement with the Pusan branch of Daiichi to trade exchange bills, which was presumably easier than settling each exchange bill separately. However, 18th Bank was still contemplating establishing its own branches in Korea. On July 8, 1890, a proposal at an extraordinary shareholder’s meeting to establish two branches in Inch’ŏn and Wŏnsan elicited a discussion regarding the banks’ future. Matsuda Gengorō, bank chairman, said the following to the shareholders.³⁸

From year to year, the Chosŏn trade is becoming more prosperous but depending on the political situation and other factors, there have been doubts. These include whether or not the peace and security of the Japanese settlers have been sufficiently established, whether or not there are difficulties in conducting trade, and whether or not trust [in these measures] is strong. We cannot say that these doubts have been completely eliminated today, but according to the reports of people who have repeatedly inspected the situation, the Koreans have become skillful at commercial transactions and even native Korean capitalists [J. *shihonka*] are beginning to participate in business dealings. Certainly, unfamiliar practices were the cause of mistrust. In the beginning, both sides were inexperienced, which led to many instances of unexpected losses. As both sides grew more accustomed to conducting business [with each other], trust began to increase

³⁸ Jūhachi ginkō kyūjūnenshi hensan iin, 60.

somewhat, and there were fewer harmful effects. Therefore, establishing bank branches over there [in Korea] during that period was not unreasonable. Daiichi bank had the power of being the only bank in Korea but it was incapable of providing all the capital needed for commerce in Korea. That is why we were urged to establish our branches there.

Due to the situation I described above, there was a need to establish bank branches in the three ports of Inch'ŏn, Pusan, and Wŏnsan but since Inch'ŏn was located on the approach to Kyŏngsŏng [Seoul], the expectation of future prosperity prompted us to put our first branch in Inch'ŏn. As for Wŏnsan, we waited until the need to open a branch was quite urgent and the decision to enter Pusan was postponed until after seeing the results of opening the Inch'ŏn branch. Currently in Wŏnsan, a branch of Daiichi bank and a Hirata delivery store (Hirata is the president of the *Daihyakuni kokuritsu ginkō* [102nd National Bank] of Izuhara) are conducting transactions. Since the Hirata delivery store is performing the same function as one of our bank branches, there is no urgent need for us to establish a branch there. In Pusan, both 102nd Bank and Daiichi have branches there and there are no particular obstacles to conducting transactions there. In contrast, there is only the Daiichi branch in Inch'ŏn which has made our entry there a matter of great urgency. As for Inch'ŏn and Wŏnsan, we have asked to open branches there at the same time, but if our request is approved, then we will first open the Inch'ŏn branch and later enter into Wŏnsan.”³⁹

The shareholder's meeting approved the expansion plan and 18th Bank submitted its petition for approval to the Finance Ministry on July 16, 1890, for which approval arrived on the 26th. The Inch'ŏn branch was supervised by Adachi Ryūjirō and Kuroiwa Kunitarō, who were appointed the branch managers and the first bank employees to be employed at an overseas branch of 18th Bank. Nagami Kanji, the bank president, was also appointed branch director at Inch'ŏn and Adachi Ryūjirō offered his experience as assistant branch director. Adachi set sail from Nagasaki on September 25th, arranged to meet Kuroiwa Kunitarō in Pusan, and together arrived in Inch'ŏn on the morning of the 29th. On the following day, they immediately rented the store of Hori Kyūtarō and opened the first Korean branch of 18th Bank on October 1, 1890.⁴⁰

³⁹ Jūhachi ginkō kyūjūnenshi hensan iin, 61-62; W.G. Beasley, “Feudal Revenue in Japan at the Time of the Meiji Restoration,” *The Journal of Asian Studies* 19 (1960): 256. Izuhara is a port town located in the southern part of Tsushima, currently part of Nagasaki prefecture.

⁴⁰ Jūhachi ginkō kyūjūnenshi hensan iin, 62.

As winter that year was approaching, Inch'ŏn harbor was about to be frozen over and before all traffic was halted, grain exports increased noticeably while goods imported by the Japanese merchants sold more quickly. By January 1891, the harbor was frozen and the transport of grains was almost completely disrupted. Around the time of the new year, Korean merchants sharply decreased their trading activities with the Japanese settlement and merchant inventories accumulated as sales of calico and other products decreased while stockpiles increased. Exports out of Nagasaki bound for Korea increased over the previous year but imports from Korea were unexpectedly small and this trend continued over several years. As the 18th Bank's capital was largely staying in the Korean peninsula, the trade imbalance exacerbated the situation. In addition, the exports emanating from Korea were not passing through Nagasaki but an increasing number of goods were flowing directly to Osaka, thus making it more difficult for 18th Bank to repatriate its capital. From the perspective of the Inch'ŏn branch, the fact that imports into Korea greatly outnumbered the exports meant that the capital tied up in exchange bills was stuck in Korea and that capital in hand greatly increased, thus causing the discount rate of exchange bills to decrease.⁴¹

After the establishment of the Inch'ŏn branch, the Japanese authorities gave permission for the bank to open its Wŏnsan branch. In December 1887, 18th Bank and 102nd Bank signed an agreement that 102nd Bank would operate out of the Hirata delivery store, but would act as the agent of 18th Bank. The transactions included handling exchange bills for goods on the Nagasaki-Wŏnsan and Ōsaka-Wŏnsan routes; accepting various no-interest deposits; issuing remittance bills, discount bills, and payment bills; handling commodity exchange bills; and

⁴¹ Jūhachi ginkō kyūjūnenshi hensan iin, 62-63. If money was scarce, then banks could force merchants to accept higher discount rates thus squeezing the merchant's profits margins but enlarging the bank's. When capital was abundant as described above, then banks would be more eager to lend out their money and might compete with each other, thus causing the discount rate to fall.

purchasing gold. Since 18th Bank was employing the 102nd Bank branch within the Hirata delivery store as its agent in Wōnsan, the bank postponed opening a separate branch.⁴²

The 102nd Bank was established in December 1878 with an extremely small capital base of 50,000 yen from the commutation bonds offered to the former samurai on in the island of Tsushima. Tsushima was a small domain of 100,000 *koku* of rice (1 *koku* is about 5.12 bushels) and a population of around 30,000 people, but it enjoyed fairly regular trading access to Korea. Commercial trade flowed primarily through the port of Izuhara, which was located on the southeastern coast of Tsushima and faced the ports of Nagasaki, Shimonoseki, and Hakata. The balance of the island economy was overwhelmingly directed towards imports, which outweighed exports by a factor of ten. The primary imports were grains like rice, wheat, and barley, while the main exports were marine products, camphor, and shiitake mushrooms. Between 1885 and 1887, annual Tsushima-Korea trade through Izuhara accounted for 2.8% of total Japanese exports to Korea and 2.0% of imports. With the addition of Shishimi and Sasuna ports in the Korea trade from 1890, the Tsushima percentage of total Japanese exports to Korea decreased to 1.9% but imports doubled to 4.1%.⁴³

In regards to the Tsushima-Korea trade, 102nd Bank dealt in exchange bills [*J. nikawase*], but dealt almost exclusively with 18th Bank. That relationship consisted mainly of 18th Bank lending money to 102nd Bank, particularly between 1887 and 1897 and through 102nd Bank's branches in Pusan and Wōnsan (Table 3). According to the table, the Izuhara branch of 102nd Bank did a very small amount of business in documentary bills with 18th Bank. In contrast, the

⁴² Takashima Masaaki, "Daihyakuni kokuritsu ginkō to gaikoku bōeki kinyū," [The 102nd National Bank and the finance of foreign trade] *Shakai keizai shigaku* 37-2 (1971), 161; Jūhachi ginkō kyūjūnenshi hensan iin, 63.

⁴³ Takashima, 167. Shishimi and Sasuna were located on the opposite side of Tsushima from Izuhara and faced the Korean peninsula. Located near the northern tip of Tsushima, Sasuna is located approximately thirty miles from Pusan.

Pusan and Wönsan branches did a very large amount of business, particularly from the late 1880's into the early 1890's.

Table 3. 18th Bank Documentary Bill Transactions with 102nd Bank Branches, 1879-1894

Year	Izuhara Branch		Pusan Branch		Wonsan Branch		Total		Difference
	Loan	Collect	Loan	Collect	Loan	Collect	Loan	Collect	
1879 1st									
1879 2nd	0	3,675					0	3,675	3,675
1880 1st	0	2,897					0	2,897	2,897
1880 2nd	0	1,586					0	1,586	1,586
1881 1st	0	3,253	600	0			600	3,253	2,653
1881 2nd	--	--	--	--			--	--	--
1882 1st	280	7,417	3,570	126			3,850	7,543	3,693
1882 2nd	0	3,755	5,875	0			5,875	3,755	-2,120
1883 1st	0	923	2,300	1,290			2,300	2,212	-88
1883 2nd	0	2,905	16,103	1,960			16,103	4,865	-11,238
1884 1st	0	57	11,080	21,750			11,080	21,807	10,727
1884 2nd	0	0	2,240	19,800			2,240	19,800	17,560
1885 1st	0	250	31,010	80,770			31,010	81,020	50,010
1885 2nd	0	285	59,492	46,285			59,492	46,570	-12,922
1886 1st	180	148	28,700	27,575			28,880	27,723	-1,157
1886 2nd	200	30	41,843	20,816			42,043	20,846	-21,197
1887 1st	0	376	15,015	15,480			15,015	15,856	841
1887 2nd	0	6,541	78,156	40,104	29,200	5,750	107,356	52,395	-54,961
1888 1st	380	8,823	96,355	27,775	40,848	6,945	137,582	43,543	-94,039
1888 2nd	0	3,312	111,129	45,420	62,352	9,875	173,481	58,607	-114,874
1889 1st	0	8,515	47,627	15,100	54,864	6,565	102,491	30,180	-72,311
1889 2nd	0	1,526	150,506	17,060	47,027	3,470	197,533	22,056	-175,477
1890 1st	0	1,167	215,387	10,530	47,710	3,000	263,097	14,697	-248,400
1890 2nd	0	35	239,227	3,210	26,487	2,190	265,714	5,435	-260,279
1891 1st	464	446	96,373	3,932	22,635	2,650	119,472	7,028	-112,444
1891 2nd	834	530	195,366	5,190	27,471	600	223,671	6,320	-217,351
1892 1st	661	530	65,101	2,040	14,109	500	79,871	3,070	-76,801
1892 2nd	343	0	101,727	840	81	0	102,151	840	-101,311
1893 1st	155	425	26,918	1,699	0	810	27,073	2,934	-24,139
1893 2nd	770	1,025	5,497	5,893	5,000	0	11,267	6,918	-4,349
1894 1st	624	4,180	24,273	1,030	17,203	1,880	42,100	7,090	-35,010
Total									-1,546,826

Notes: The Pusan Branch of 102nd Bank began operations in the first half of 1881 and the Wönsan Branch began in the second half of 1887. Table adapted from Takashima 1971, 168.

In all likelihood, a Tsushima merchant in Pusan would draft a documentary bill on his account at 102nd Bank. The merchant, or the 102nd Bank itself, would discount the bill at the 18th Bank branch in Pusan, meaning the 18th Bank would give money to the merchant, minus a small discount, in exchange for the documentary bill. The merchant would use the money to buy

Korean goods in Pusan and ship it to Tsushima, where it would be sold and the money deposited in his account at 102nd Bank in Izuhara. That money would be used to pay the original documentary bill when it was presented for payment by 18th Bank or any subsequent holder of the bill. If any Nagasaki merchant was conducting trade in Nagasaki, then the process would function in reverse as the merchant would draw a bill on the 18th Bank and present it for discounting to the 102nd Bank, which was the easiest and most convenient way of circulating money and to clear documentary bills.

Several conclusions can be drawn from the data in the table. First, the Pusan branch of 102nd Bank, and the Wōnsan branch to a lesser extent, was engaged in a tremendous amount of trading in documentary bills. From late 1889 to late 1890, the Pusan branch essentially borrowed over half a million yen from 18th Bank in documentary bills, but only repaid less than 10% of that amount during the same period. Second, 102nd Bank thus owed a large sum of money to 18th Bank. From late 1879 to early 1894, 102nd Bank owed over 1.5 million yen to 18th Bank in repayments for the documentary bills drafted on its accounts, but the repayment rate was quite slow. Third, the amount of trade between Tsushima and Pusan far outweighed trading activity between Tsushima and Nagasaki. The fact that the Izuhara branch was paying more money to the 18th Bank than it was borrowing likely indicates that Tsushima was exporting more to Nagasaki than it imported. However, the balance owed by the Pusan and Wōnsan branches for Tsushima-Korea trade was significantly larger than the surplus generated by the Izuhara branch for Tsushima-Nagasaki trade. Lastly, 18th Bank was extending a vast amount of credit and faith to 102nd Bank, which had essentially tied up a large amount of its capital. Without a corresponding amount of Tsushima-Nagasaki trade, that money was accumulating in Izuhara without an easy

way of flowing back to Nagasaki or to Pusan, short of sending the currency directly. Consequently, 18th Bank had a significant stake in the operations and survival of 102nd Bank.

In August 1889, the magistrate of Hamgyōng province, Cho Pyōng-sik, issued the rice export prohibition order citing the poor harvest as the reason. The order prohibited the export and transportation of grain and for Japanese merchants who had purchased the grain using loans, the inability to collect their cargo resulted in large financial losses. Rumors circulated that the suggestion for the rice export prohibition order originated with the Chinese minister, Yuan Shih-kai. Regardless, the Japanese government lodged a protest with the Korean government for violating article 37 of the Korean-Japanese Trade Regulations which stipulated advance notice of one month before issuing any export prohibitions. In addition, the Japanese government demanded compensation for economic damages in the amount of 147,000 yen, which the Korean government refused to pay. In the following year, a similar incident occurred in Hwanghae province, which escalated into an international incident between Japan and China. Due to the rice export prohibition, the Wōnsan branch of 102nd Bank suffered severe economic losses contributing to the fall of 102nd Bank into bankruptcy, after which 18th Bank assumed control of its operations.⁴⁴

1894-1895 Russo-Japanese War

In July 1894, Japanese military forces occupied Seoul in response to the outbreak of the Tonghak peasants uprising. In October, Inoue Kaoru, the new Japanese minister to Korea, arrived in Seoul and attempted to seize financial and administrative control of the Korean government. As he stated, “I firmly believe that if we wish to solidify our position in Korea and

⁴⁴ Jūhachi ginkō kyūjūnenshi hensan iin, 63-64.

establish a pretext for intervention in its internal affairs, we must obtain real interests there, whether through railroads or through loans, and by financial means create pretexts for extending our intervention to other kinds of relationships.”⁴⁵ Inoue installed Japanese advisors throughout the Korean government and arranged Japanese loans to the Korean government. In addition, Japanese military scrip, denominated in yen, began to circulate with purchase by the Japanese military forces for Korean goods and services.⁴⁶

In October 1894, Inoue Kaoru, the Japanese minister to Korea, was seeking loans from multiple sources for the Korean government. He unsuccessfully appealed to two Japanese businessmen for a five million yen loan in specie. Inoue also sought a 300,000 yen loan from the Japanese government to pay the current expenditures of the Korean government and a 240,000 yen loan to pay off loans from foreign lenders. When the government of Prime Minister Itō Hirobumi refused, Inoue turned to the Daiichi Bank branches in Seoul and Inch’ōn. Although Daiichi headquarters in Tokyo refused to extend the 300,000 yen loan, it instructed the Inch’ōn branch to give the Korean government a 200,000 yen loan with a 10% interest rate. Inoue refused the loan because the interest rate was too high, but by January 1895, Daiichi Bank, sharing the loan with the NYK shipping line, extended a 130,000 yen with a 8% interest rate.

Since private businessmen and banks were not interested in assuming the risk of a loan to the Korean government, the Japanese government assembled a loan package in its supplementary budget of February 1895 that funneled a three million yen loan through the Bank of Japan at a 6% rate. The Bank of Japan stated the loan would not be made in valuable specie but in convertible Bank of Japan banknotes. Since the Japanese military was already circulating yen-

⁴⁵ Inoue Kaoru, quoted in Duus, 92.

⁴⁶ Duus, 92-93.

denominated military scrip, the addition of Bank of Japan banknotes would have basically established the yen as the main Korean currency. Due to the objections of Prime Minister Kim Hong-jip, the loan terms were modified so that half of the three million would be in specie. Furthermore, the loan would be repaid in two installments by 1899, the loan would be collateralized with national land tax revenues, and the Korean government would gain permission from the Bank of Japan before seeking loans secured by tax or customs revenue.⁴⁷

From 1876 to 1894, Chosŏn Korea had been forcibly integrated into a new East Asian order and regional economy predicated on the unequal treaty system and free trade relations. The rapidly increasing trade presented opportunities for merchants and traders, as well as the elite of Chosŏn society, that had access to both agricultural commodities and natural resources to satisfy foreign demand. Japanese foreign policy had not yet coalesced into a coherent stance toward Korea while the Korean state itself was groping towards a new understanding of the role of the state in establishing new controls over Chosŏn society and economy. Japanese banks like Daiichi were still interested primarily in their individual bottom line, rather than an overarching policy of imperialist expansion. However, the 1894-1895 Sino-Japanese War changed all that with the inauguration of hostilities that established significantly more antagonistic relations between Japan and Korea within the new East Asian order. In contrast to the cooperative spirit between China and Japan found in the 1885 Convention of Tientsin, the 1894 Treaty of Alliance between Korea and Japan struck a completely different note that clearly exhibited Japanese intentions to completely control Korea.⁴⁸

⁴⁷ Duus, 93-94.

⁴⁸ According to the 1894 treaty, “the Korean Government entrusted His Imperial Majesty’s Envoy Extraordinary and Minister Plenipotentiary at Seoul, Korea with the expulsion on their behalf, of Chinese soldiers from Korean territory, the Governments of Japan and Korea have been placed in a situation to give mutual assistance both offensive and defensive.” “1894.8.26 Treaty of Alliance Korea and Japan,” *Despatches* 20, 541.

The nature of Daiichi's operations began to shift with the imperialist shift of Japanese foreign policy toward Korea that manifested fully in the 1894-1895 Sino-Japanese War. While Daiichi had relentlessly pursued its own profit throughout the early years of its operations on the Korean peninsula, the combination of state pressure and the enticement of profits in service to Japanese military operations drew the bank's operations into closer cooperation with Japanese imperialist policies toward Korea and later, northeast China. Nowhere was that more apparent than in the area of currency reform.

Currency Reform

Daiichi Bank played a central role in the forced reform of Korean currency. In the late Chosŏn dynasty, Korea did not have a standardized currency but rather various types of brass and copper cash coins [K. *yŏpjŏn*, literally "leaf-coin"].⁴⁹ The Taewŏn'gun, father to King Kojong, ordered the minting and distribution of the 100-cash coin [K. *tangbaekjŏn*] during the time he was regent. After King Kojong had formally assumed rule, the Korean government began minting five-cash coin [K. *tangojŏn*] from around 1882. The 100-cash coin was a heavily adulterated coin whose nominal value far exceeded its intrinsic metallic value, but the five-cash coin also was minted from copper mixed first with lead and later with iron. Public trust in the five-cash coin fell, causing inflation in commodity prices which in turn affected foreign merchants as they attempted to conduct trade in Korea.⁵⁰

In 1891, the Korean government established the Royal Mint [K. *Chŏnhwanguk*] and began minting the one-*hwan* silver coin and the ten-*mun* and five-*mun* copper coins. In August

⁴⁹ The term *yŏpjŏn* or "leaf-coin" arose from the manufacturing process whereby multiple coins were cast in a single mold. The finished product resembled a tree with coins at the ends of the branches, hence the name of leaf-coin. As a final step, the coins were cut off and filed to smoothness.

⁵⁰ *Daiichi ginkō gojūnen shoshi*, 78.

1894, the Korean government issued the Regulations on the Issue of New Currency [K. *Sinsik hwapye palhaeng changjŏng*] after the outbreak of the 1894-1895 Sino-Japanese War. According to these regulations, currency was limited to these four metals: silver, nickel [*paekdonghwa*], copper [*chŏkdonghwa*], and brass [*hwangdonghwa*]. Silver coins were issued in five *yang* and one *yang* denominations with the five-*yang* silver coin being the standard currency and all other coins being subsidiary currency. An announcement in *The Independent* celebrated the minting of Korean silver dollars in 1896 as “the first great step toward the rehabilitation of Korean finances” and the newspaper further hoped that “the Chrysanthemum of the silver yen will go where the Eagle of the Mexican dollar went seven years go.”⁵¹ However, only about 19,000 *hwan* of the silver coins were minted and only the nickel coins were minted without any of the copper or brass coins. At the same time, a great number of counterfeit coins also circulated causing the value of the nickel coins to fall sharply relative to the value of the silver coins. However, Japanese coins were also subject to counterfeiting by enterprising individuals. In May 1896, police in Seoul arrested a silversmith named Kim Man Su who was counterfeiting ten *sen* pieces by overlaying copper cores with silver. He confessed to making coins for over six months and was caught with sixteen counterfeit coins and his manufacturing apparatus. His sentence was fifteen years in prison with hard labor.⁵²

Since public trust in Korean currency was low, the Regulations for the Issuance of New Currency stated in Article 7 that “until the minting of a sufficient amount of new currency, foreign currency will circulate alongside Korean currency. The circulation of foreign currency with the same quality, weight, and value as Korean currency is permitted.” Consequently, the

⁵¹ *The Independent* 1-3, April 11, 1896.

⁵² *Daiichi ginkō gojūnen shoshi*, 79; *The Independent* 1-14, May 7, 1896; May 23, 1896.

one-yen silver coin took the place of Korean currency and circulated widely, reaching a high of over 3.5 million yen in 1897. In October 1897, Japan adopted the gold standard and eliminated the circulation of the one-yen silver coin. The withdrawal of the one-yen coin from the Korean market resulted in the return of adulterated Korean money. However, Daiichi bank staff and the Japanese government were quick to turn the situation to their advantage.

According to the history of Daiichi, “Japanese merchants residing in Korea suffered inconvenience beyond description [J. *huben meijō*] and our bank was deeply concerned”.⁵³ In August 1898, Daiichi staff wrote a position paper entitled “Opinion on the Korean currency system” [J. *Chōsen kokukasei shigi*] and submitted it to the Bank of Japan. The paper argued for stamping a mark on one-yen silver coins and allowing them to circulate in the Korean markets conducting foreign trade. The Japanese government also favored this plan because the continued depreciation of silver on world markets necessitated the rapid disposal of the silver yen coins before the Japanese government would be hit with large losses.

Under the direction of Finance Minister Matsukata Masayoshi, the Finance Ministry withdrew 75 million silver yen coins, set aside approximately 27 million yen to mint subsidiary silver coins, and released the remaining 48 million yen into China, Korea, and their colony in Taiwan. The lion’s share of 41 million yen was funneled through the Yokohama Specie Bank into China, specifically Hong Kong and Shanghai. The Taiwanese colonial government received 6.2 million yen and the Korean branches of Daiichi bank received 330,000 yen. By releasing the silver coins through its financial and colonial institutions in Asia, the Japanese government received a sale price per 100 silver yen that was higher than if it had simply sold the silver as bullion in London. Korea was particularly profitable as the Japanese received 98.975 yen per

⁵³ *Daiichi ginkō gojūnen shoshi*, 80.

100 silver yen, which was very close to par value and six yen over the comparable price in London.⁵⁴

In order to release the restamped coins into Korea, the Japanese government negotiated with John McLeavy Brown, the British commissioner of the Korean Maritime Customs Service, who agreed to allow the Japanese coins to circulate from October 1898 and be used to pay the maritime customs tariff. Two shipments of specially stamped one-yen silver coins were shipped from Japan in October and November 1898. Needless to say, the introduction of the gold standard in Japan and the shipment of specially stamped silver coins to Korea were extremely beneficial both to the Japanese government and the Japanese merchants conducting business in Korea.⁵⁵

At the same time, Russia was turning its attention to the Asian nations, particularly Korea and Manchuria. In November 1897, the Russian government forced the Korean government to accept Kiril Alekseev as its financial advisor and in February 1898, established the Russian-Korean Bank in Seoul to undermine and replace the position of Daiichi in the financial economy. Although Alekseev was appointed customs commissioner, McLeavy Brown maintained his position and authority with the support of Britain and Japan. The Russians pressured the Korean government to refuse the stamped yen coins as payment for taxes and to forbid the use of the coins in everyday transactions. However, Customs Commissioner McLeavy Brown continued to allow the use of the coin in paying the maritime customs tax. England and Japan were both competing with Russia for influence in Korea and the anti-Russian forces in Korea were

⁵⁴ Matsukata Masayoshi, *Report on the Adoption of the Gold Standard in Japan* (Tokyo: Government Press, 1899), 327. As the Japanese government withdrew the silver yen coins from circulation, they stamped them with the character for silver [*gin*] to indicate that they were no longer legal tender in Japan.

⁵⁵ *Daiichi ginkō gojūnen shoshi*, 80.

gathering strength. Consequently, Alekseev was dismissed from his advisory position and recalled to Russia while the Russian-Korean Bank was closed in April 1898. Since the prohibition against the use of the stamped silver yen coins was still in effect, Shibusawa Eiichi traveled to Korea and negotiated with the Korean government to rescind the prohibition and allow circulation of the coin in July 1898.⁵⁶

Due to the boycott of silver yen, there was a shortage of currency which prompted the Royal Mint to mint about 150,700 *hwan* in nickel coins for the six months between January and July 1898. Following this decision, an inflationary flood of official and forged coins flooded the Korean market leading to sharp decline in public trust towards the nickel, a rise in prices, and the near complete corruption of the Korean currency system.

From around 1900-1901, the Korean economy faced an exchange crisis as it was flooded with various currencies, including paper money issued by Chinese merchants, bills of exchange denominated in Korean currency and issued by Japanese merchants, and official and forged nickel coins. Korean customs duties were being paid in silver yen, Mexican dollars, and Japanese currency and it was quite inconvenient for Daiichi to collect the customs fees in a variety of currencies. In order to remove obstacles to trade and to simplify the customs collection process, Daiichi began issuing a type of sight bill [J. *ichiran harai yakusoku tegata*] to smooth financial transactions. Daiichi's ultimate plan was to issue its own banknotes as a permanent solution to the issue of multiple currencies, for which the bank sought permission from the Japanese government.

⁵⁶ Alexander Lukin, "Russian Views of Korea, China, and the Regional Order in Northeast Asia," in Charles K. Armstrong, et al., eds., *Korea at the Center: Dynamics of Regionalism in Northeast Asia* (Armonk: M.E. Sharpe, 2006), 26; *Daiichi ginkō gojūnen shoshi*, 81.

In October 1901, Daiichi applied for permission from the Japanese Finance for its Korean branches to issue banknotes that functioned as sight drafts but without designating a specific bearer, or in other words, currency for any and all transactions. In May 1902, the Finance Ministry established regulations for Daiichi Bank banknotes, which were limited to the three denominations of ten yen, five yen, and one yen. The bearer of the banknotes could exchange the Daiichi banknotes for Japanese currency at any Korean bank branch or storefront. The amount issued was first limited to 1.3 million yen of the three note denominations.⁵⁷

The Korean government attempted to block the power of Daiichi and the Japanese in general through the establishment of an official central bank. In 1901, the government passed the Monetary Unit Ordinance, the Central Bank Ordinance, and the Convertible Notes Ordinance in 1903. These ordinances were intended to stop the circulation of silver-based yen, centralize the issue of currency to the government, and establish the gold standard. However, Japanese interference and the inability of the Korean government to attain a loan to establish a gold reserve frustrated the successful implementation of these ordinances.⁵⁸

Pro-Russian Korean officials attempted to block Daiichi from issuing banknotes and Cho Pyŏng-sik, a foreign affairs official, ordered port officials in September 1902 to not accept Daiichi banknotes. The Japanese charge d'affaires, Hagiwara Morikazu, protested this action and the prohibition order was canceled in January 1903. Cho Pyŏng-sik resigned his post in February 1903 and was replaced by Yi To-jae, who again issued an order prohibiting the acceptance of Daiichi banknotes. The official in charge of Seoul also posted notices that acceptance of the Daiichi banknotes by any Koreans would render them susceptible to

⁵⁷ *Daiichi ginkō gojūnen shoshi*, 88-89.

⁵⁸ Oh Doo-hwan, "The Currency System of Colonial Korea," *Seoul Journal of Korean Studies* 4 (1991), 103.

punishment. As the Daiichi banknotes were piling up unused in Seoul and Inch'ŏn, Japanese minister Hayashi rushed his return to Korea on board the Japanese warship *Takasago* and Hagiwara, the charge d'affaires, was pressuring the Korean government to rescind these orders. On the night of February 12, the prohibition orders were withdrawn. Although the Daiichi reported large losses due to the prohibition orders, it also took advantage of the reversal to firmly establish its banknotes as legal currency in Korea. In February 1903, the Japanese government issued its regulations on Daiichi banknotes in order to bolster public trust in the banknotes. As the bank saw it however, the government was imposing conditions to limit its actions in relation to the Korean economy, rather than allow the bank to freely conduct its business affairs.⁵⁹

- 1) Banknotes would be issued in the three denominations of one yen, five yen, and ten yen, but eventually the bank would be allowed to issue fifty yen and one hundred yen notes.
- 2) Banknotes would be issued through each branch and storefront but the maximum limit was five million yen. If it was necessary to issue more than the limit, then the bank had to receive government permission.
- 3) The amount of banknotes issued would be backed by an equal amount of exchange reserves [*J. hikikaeru junbi*] in Japanese currency or bonds that could be exchanged for the banknotes.
- 4) The exchange reserves would consist of hard currency reserves in gold or silver coin and Bank of Japan convertible notes while the guaranteed reserves (*hoshō junbi*) would consist of Japanese government bonds, commercial bills of exchange, and Korean government bonds. The Finance Ministry would approve the value of securities that served as collateral in the reserves.
- 5) The hard currency reserves would be located in each of the Korean branches and storefronts, while the guaranteed reserves would be placed in the Keijō [Seoul] branch.
- 6) The proportion of the exchange reserves would be established as follows:
 - a. If less than one million yen in banknotes were issued, then
 - i. 2/3 of the amount would be covered by hard currency reserves
 - ii. 1/3 of the amount would be covered by guaranteed reserves
 - b. If more than one million yen in banknotes were issued, then
 - i. 1/2 of the amount would be covered by hard currency reserves
 - ii. 1/2 of the amount would be covered by guaranteed reserves⁶⁰

⁵⁹ *Daiichi ginkō gojūnen shoshi*, 90-91.

⁶⁰ *Daiichi ginkō gojūnen shoshi*, 92.

The regulations were established to engender public trust in the currency. By the end of 1904, Daiichi had issued over 3.37 million yen. When Daiichi's Korean branches were taken over by the Bank of Korea [J. *Kankoku ginkō*], Daiichi had 11.8 million yen in banknotes outstanding.

In the midst of the financial uncertainty, the Russo-Japanese War erupted in February 1904 and Korea and Japan formed an official alliance. On August 22, 1904, Korea and Japan signed a protocol by which Korea promised to employ a Japanese to serve as advisor to the Korean Finance Department and to employ a foreigner recommended by the Japanese government to serve as advisor to the Korean Foreign Office. A final stipulation of the accord restricted Korea from making any international agreement, conducting diplomatic negotiations, or awarding concessions or contracts to any foreigner without consulting the Japanese government.⁶¹

In October 1904, Megata Tanetaro was appointed financial advisor to the Korean government. In financial matters, the Korean government was instructed to follow the lead of Megata, who ordered the closure of the Royal Mint as the source of the inflationary nickel coins.⁶² Megata ordered the minting of new currency from the Osaka Mint and began the process of establishing a central financial organization and treasury as part of his financial reforms. Of course, the responsibility for carrying out many of these reforms fell to the Daiichi Bank.⁶³

⁶¹ "1904.9.9 Official Gazette: Korean-Japanese Protocol," *Despatches* 20, 620-621.

⁶² "Agreement respecting the employment of a Financial Advisor, October 18, 1904," *Despatches* 20, 622-623. When hired as the financial advisor to the Korean government, Megata Tanetaro was entrusted with valuable powers regarding the finances of the government. Megata was allowed to attend all Council of State meetings pertaining to financial matters and he possessed veto power over all financial decisions. In addition, he was allowed personal audiences with the Korean monarch pertaining to his portfolio. In compensation, Megata received a monthly salary of 600 yen, official housing or a monthly 100 yen housing stipend, and transportation costs to and from Japan for leaves of absences.

The process of currency reform would essentially determine who would wield financial power on the peninsula. The Japanese government turned to Daiichi Bank, which had built a strong relationship of trust with the Koreans to undertake the “national mission” [*kokkateki shimei*] of reforming Korean finances. The Seoul branch of Daiichi Bank was the main Korean branch of the bank and was tasked with the responsibility of currency reform, but the right person had to be found to oversee the process. Daiichi Bank consulted with the Japanese Finance Ministry and the ministry recommended Mishima Tarō, the government official who was already involved in the reform project. Mishima resigned from the Finance Ministry and entered Daiichi Bank as the deputy manager of the Seoul branch and became essentially the second-in-command of the Korean branches, thus beginning a role that would continue into the colonial period through the Bank of Chōsen.⁶⁴

In January 1905, the Daiichi Bank and the Korean government concluded three agreements, pertaining to a loan from the bank to the government, currency reforms, and the handling of government revenues. According to currency reform agreement, Daiichi was to undertake the reforms under the supervision and control of the minister of the Finance Ministry [K. *Takchibu*, J. *Takushibu*]. The Korean government promised to furnish Daiichi with three million yen to undertake the currency reforms. In return, the government would accept Daiichi banknotes as legal currency for all public and private transactions and allow the unlimited circulation of the banknotes. In March 1905, the Japanese government issued Imperial ordinance

⁶³ *Daiichi ginkō gojūnen shoshi*, 82.

⁶⁴ Nakajima Tsukasa, *Mishima Tarō shi kinenshi* [A commemorative volume on Mishima Tarō] (Tokyo: Sawada Shintarō, 1923), 27-28. Mishima Tarō (1871-1919) was born in Kanazawa city as the oldest son of Mishima Motonaga, a samurai from Ishikawa prefecture. After graduating from the Fifth High School [*Dai go kōkō gakkō*] in Kumamoto, Mishima entered the Faculty of Law of Tokyo Imperial University, but later transferred to the Faculty of Political Science in 1893 at the age of twenty-three. Mishima graduated in July 1898 and entered government service. For the next seven years, Mishima was a civil servant until entering the employ of Daiichi Bank in April 1905 at the age of thirty-five.

no. 73, which enumerated the regulations under which Daiichi Bank would operate. In addition to recognizing Daiichi's special privilege of issuing banknotes, Daiichi was essentially designated the central bank of Korea (Table 4).⁶⁵

Table 4. Amount of Daiichi Banknotes Issued by Year, 1902-1909

Year	Amount (yen)
1902	703,358
1903	870,126
1904	3,371,817
1905	8,125,267
1906	9,224,400
1907	12,805,300
1908	10,385,900
1909	11,833,117

Source: *Daiichi ginkō gojūnen shoshi*, 92.

According to the second agreement, Daiichi lent the Korean government the three million yen it needed to cover the costs of the currency reform. In a financial feat of circular logic, the Korean government agreed to provide Daiichi Bank with three million yen in the first agreement, which it borrowed from Daiichi in the second agreement. The three million yen loan carried an annual interest rate of six percent, payable in June and December each year. The repayment schedule stipulated that 1.5 million yen would be repaid within six years from the date of the contract and the balance within four years after that. The collateral for the loan was customs revenue.⁶⁶

The final agreement addressed the government treasury services offered by Daiichi to the Korean government. The agreement reconfirmed the conditions under which Daiichi would

⁶⁵ “1905.1.27 Agreement between the Korean Govt. and the Dai-Ichi Ginko referring to the currency rearrangement,” *Despatches* 20, 630-631.

⁶⁶ “1905.1.27 Agreement between the Korean Govt. and the Dai-Ichi Ginko rearranging a loan for the currency system,” *Despatches* 20, 624-625. The signatories to the accord were Yi Chung Ok, chief of the Bureau of Miscellaneous Affairs of the Department of Finance; Megata Tanetaro, Financial advisor to the Korean government, and Shimizu Taikichi, manager of the Seoul branch of Daiichi bank.

function as the government treasury, namely that it would receive government revenue and pay government expenditures, Daiichi did not pay interest on government deposits, and Daiichi would bear all expenses associated with treasury business. The agreement further stipulated that the Korean government was permitted to overdraw against its accounts up to 300,000 yen without interest. Overdrafts in excess of the 300,000 yen limit were subject to a six percent annual interest rate, but the overdrafts were subject to an overall limit of one million yen. In essence, the bank was allowing the Korean government to take a 300,000 yen interest-free loan and a 700,000 yen loan at six percent in exchange for the treasury business.⁶⁷

In addition, Daiichi concluded an agreement with the Osaka Mint to mint new currency following the abolition of the Royal Mint. In this respect, the process of printing new Korean money had bypassed the Korean government entirely and was concluded between two Japanese institutions, the Daiichi Bank and the Osaka Mint. In June 1905, the Law on Conducting the Currency Reform [J. *Kahei seiri jimū shorihō*] was promulgated and transmitted to all the financial institutions in Korea. The Korean government determined that the corruption of the monetary system was primarily due to the indiscriminate minting of nickel coins and ordered the collection and exchange of the old nickel coins at a standardized rate of exchange. Currency exchange offices were established in Seoul, Pyōngyang, Inch'ōn, Kunsan, and Chinnanp'o and the currency swap was conducted under the supervision of Daiichi bank. The number of collected coins was approximately 205,546,000 pieces that were valued at about 4,971,000 yen.

⁶⁷ “1905.1.27 Agreement between the Korean Govt. and the Dai-Ichi Ginko referring to the receipt and payment of revenues and expenditures,” *Despatches* 20, 626-629. This agreement was not signed by Megata Tanetaro, but only by Yi Chung Ok and Shimizu Taikichi.

As for the old silver, copper, and leaf coins, there was no specific method of exchange and their collection was dependent on the policies of the various exchange offices.⁶⁸

The old currency was reminted into new currency. The new gold coins were denominated into twenty *wŏn*, ten *wŏn*, and five *wŏn* coins; silver coins were made into half *wŏn*, twenty *chŏn*, and ten *chŏn* coins; nickel coins were five *chŏn*; copper coins were one *chŏn* and five *li*. The coins were minted to correspond with the appropriate denominations of Japanese currency. In order to begin circulation of the new currency, Daiichi printed 20,000 copies of a small form entitled, “Questions and Answers about Korean Currency” [J. *Kankoku kahei mondō*] and distributed it throughout Korea. In areas that lacked subsidiary currency, the bank dispatched its employees to directly exchange the old currency and bank notes for the new currency. The bank sent the new currency to companies for them to pay their workers so that the new currency would gain wider acceptance. In various regions, the bank extended no-interest loans in the new currency to merchants conducting business and asked for repayment in bank notes or old currency. As a result of all these efforts, the new currency was distributed widely among all the provinces and the currency exchange was considered a success, at least by Japanese standards.⁶⁹

Conclusion

The Japanese forcibly opened the Korean treaty ports and established Japanese foreign settlements that became beachheads for further expansion into the Korean interior. The primary items of trade were cotton and rice, but the fundamental structure of trade was a developing core-periphery relationship between an industrializing Japan and an unindustrialized Korea. Daiichi

⁶⁸ *Daiichi ginkō gojūnen shoshi*, 82-83.

⁶⁹ *Daiichi ginkō gojūnen shoshi*, 83-84.

Bank was the first Japanese financial institution to establish a presence in the treaty ports but expansion was a question of business survival rather than rabid imperial expansionism.

In the mid-1870's, Daiichi Bank had been continually pummeled through various crises including the bankruptcy of one of its founding families, the Ōno clan; the withdrawal of Japanese government funds, and the depletion of its capital through banknote redemptions. By expanding into Korea in 1878, Daiichi Bank was able to save itself by finding profitable ventures through its activities in Korea. Growing from its initial business of serving the local Japanese settler communities, Daiichi was able to quickly establish itself by handling Korean government money, thus reprising its initial business plan in Japan.

However, Daiichi expanded its activities by collecting customs revenue, making loans to the Korean government, and acquiring Korean gold for the Bank of Japan. In these roles, Daiichi served the core-periphery relationship between Korea and Japan and facilitated the growth of a regional East Asian economy. By handling the customs revenue, Daiichi allowed the spread of Japanese currency into the Korean economy as a relatively safe and stable alternative to the panoply of domestic Korean and foreign currencies in circulation. In channeling loans to the Korean government, Daiichi fostered a dependency relationship between the Japanese and Korean governments and blocked the attempts of the Western powers to extend loans to the Koreans. Acting as a purchasing agent of the Bank of Japan, Daiichi Bank used its branches and assay offices to sweep up Korean gold for transmission back to Japan to support its adoption of the gold standard.

Daiichi was also engaged in fierce competition with other Japanese banks like 18th Bank and 102nd Bank that wanted to tap the Korean market, but were forced to use Daiichi as a conduit. By taking advantage of its prime position within Korea, Daiichi was able to delay or

deny repayment of funds to the other Japanese banks and thus hinder both their operations as well as financial health. Although the other Japanese banks were able to push back against Daiichi, they needed to develop their own branch network and operations within Korea in order to effectively fight against the bullying of Daiichi. However, their competition underlined the nature of Japanese-Korean trade in the excessive amount of imports into Korea versus the low amount of exports. The trade imbalance problem was a constant issue for the Japanese banks, but particularly Daiichi, and would not be solved until the development of Daiichi's Manchurian network.

Finally, the currency reform issue was perhaps the most significant activity undertaken by Daiichi Bank during the Korean open ports period. Although Japanese political aims in Korea were not clearly defined until the 1894-1895 Sino-Japanese War, the imperial expansionist project into Korea became a priority during and after the war, as enunciated by Inoue Kaoru. The issue of financial control was a central concern for the Japanese imperialists as they sought to firmly establish the Japanese yen as the main currency in Japan. Daiichi Bank was the primary agent of Japanese financial imperialism, particularly with the appointment of Megata Tanetarō and the transfer of government personnel like Mishima Tarō into Daiichi Bank to implement the currency reform project. Once the Japanese yen was firmly established through the Daiichi banknote as the main currency of Korea, Daiichi Bank was the *de facto* central bank of Korea and would assume a central role in the colonial period in its next incarnation as the Bank of Chōsen.

Chapter 3: The Bank of Chōsen in Colonial Korea

Introduction

In May 1907, Japanese Resident-General Itō Hirobumi pushed for the formation of a new Korean cabinet led by Yi Wan-yong. Once the Yi Wan-yong cabinet was in place, Itō forced the abdication of Emperor Kojong in July and engineered the ascension of Crown Prince Sunjong to the Korean throne. On July 24, the third Japanese-Korean Treaty was concluded, which disbanded the Korean military and forced the appointment of Japanese advisors to posts in the Korean government. While financial matters had previously been guided by Japanese financial advisors, the Japanese began to exert open and direct control over Korean finances with the appointment of Arai Kentarō, former director of the Accounting Bureau of the Japanese Ministry of Finance [J. *Ōkurashō shukeikyoku*], to the post of Vice-Minister of the Korean Ministry of Finance [K. *Takchibu ch'agwan*] in September 1907. From this point, the Residency-General began pushing for the establishment of a Korean central bank to replace Daiichi Bank, which was an issue also being closely examined by the Japanese Ministry of Finance.¹

As the colonial bank of issue, the Bank of Chōsen was at the front lines of expanding the financial reach of the Japanese empire and the “yen bloc,” an economic zone united by a common yen currency eventually stretching from the plains of Manchuria to the jungles of Thailand.² However, rather than circulate Bank of Japan [J. *Nihon ginkō*] banknotes, Bank of Chōsen banknotes were used in Manchuria, Siberia, and northern China. Since yen banknotes

¹ Chōsen ginkō kenkyūshi kenkyūkai [hereafter CGK], *Chōsen ginkōshi* [A history of the Bank of Chōsen] (Tokyo: Tōyō keizai shinposha, 1987), 33.

² William L. Swan, “Thai-Japan Monetary Relations at the Start of the Pacific War,” *Modern Asian Studies* 23-2 (1989), 334. Thailand received “special yen” from the Bank of Japan that compensated Thailand for the reserves that were frozen and confiscated by banks in the United States and England with the declaration of war.

were circulating in these areas, Japan established the Manchurian Central Bank [K. *Manju chungang ūnhaeng*] in 1935 and the Chinese Union Preliminary Bank [K. *Chungguk yōnhap chunbi ūnhaeng*] in 1938. However, the Bank of Chōsen was still the central financial institution in the expansion of the yen bloc since it was the issuing and regulatory authority of the imperial currency of expansion.

Some scholars argue that Japan performed better than other industrialized nations during the global depression of the 1930's because of fundamental reform undertaken in the 1920's. As Ben Bernanke and Harold James argue, Japan was one of several countries with significant problems in the 1920's, but undertook fundamental reforms to restructure its banks and place them on a sound footing. On the other hand, countries like Austria repeatedly “papered over” their problems by merging failing banks into solvent banks, resulting in the weakening and eventual failure of once-strong institutions.³ Other scholars argue that Japan's superior macroeconomic performance after 1929 was due to its early departure from the gold standard, as presented by the gold-standard theory.⁴ Some studies attribute the rapid recovery to the expansionary policy measures implemented by Finance Minister Takahashi Korekiyo after Japan was taken off the gold standard.⁵

However, the Bank of Chōsen was ill-equipped to address both the postwar economic crisis as well as the aftermath of the 1923 Kantō Earthquake. As a result of its troubles, the bank

³ Ben Bernanke and Harold James, “The Gold Standard, Deflation, and Financial Crisis in the Great Depression: An International Comparison,” in R. Glenn Hubbard, ed., *Financial Markets and Financial Crises* (Chicago: University of Chicago Press, 1991), 55-56.

⁴ Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919-1939* (Oxford: Oxford University Press, 1992); Peter Temin, *Lessons from the Great Depression* (Cambridge: MIT Press, 1989).

⁵ Richard Smethurst, *From Foot Soldier to Finance Minister: Takahashi Korekiyo, Japan's Keynes* (Cambridge: Harvard University Asia Center, 2007); Myung Soo Cha, “Did Takahashi Korekiyo Rescue Japan from the Great Depression?” *Journal of Economic History* 63-1 (2003), 136.

was forced to cut its capital in half, eliminate a significant portion of its staff, reduce salaries for the remainder, and most significantly, move its headquarters from Seoul to Tokyo. The position and status of the Chōsen Industrial Bank improved significantly at the expense of its sister financial institution, but the real losers were the small, low-income depositors whose funds were used to continually rescue the ailing colonial banks.

The Debate on a Korean Central Bank

After the establishment of the Protectorate over Korea in 1905, the issue of creating a central bank in Korea provoked intense debate among officials in colonial Korea and in Tokyo. In August 1907, Shibusawa Eiichi, the president of Daiichi Bank, asked Resident-General [J. *Tōkan*] Itō Hirobumi and Megata Tanetarō whether or not a new central bank would be established. Itō said to Shibusawa, “It is not proper to give the privilege of currency issue, which is a right of the state, to a private bank and make it the central institution of state finance. Since the central treasury of Korea should not be a branch of Daiichi, can you move your headquarters to Korea?” Shibusawa replied, “I have no objection if you create a special bank and transfer the central banking responsibilities [from my bank] to the new bank. [Japanese] Government opinion should be assessed and if positive, the transfer should be done gradually.”⁶

In asking the question, Itō Hirobumi was posing a Hobson’s choice for Shibusawa, where Daiichi could surrender its independence and relegate itself to becoming the central bank of colonial Korea or it could forfeit its operations to the Korean government. Despite the profitability of Korea for its overall operations, Shibusawa and Daiichi essentially had little choice but to acquiesce to Itō in his role as representative of both the Japanese and Korean

⁶ CGK, 33.

governments. In this manner, Itō solved the problem that had continually plagued the Daiichi-Korea relationship since Paul von Moellendorf had designated Daiichi Bank as recipient of maritime customs receipts, that of unaligned interests between a private bank headquartered in Japan and the national treasury needs of Korea. However, the dissolution of this relationship and resolution of the issue was not concluded in the interests of Korea, but rather in the interests of Japan as dictated by its Resident-General in Korea.

The Residency-General created two proposals titled “Necessary procedures to establish a Korean central bank” [J. *Kankoku chūō ginkō setsuritsu ni kan suru hōhō no kōyō*] and “Procedures for Korea Bank” [J. *Dai Kan ginkō hōan*]. Although both proposals are undated, it seems they were drafted at the same time and based on similar arguments regarding central banking. Both proposed the replacement of Daiichi Bank with a newly established Korean central bank. However, these proposals contain points not included in later proposals. First, they envisioned the establishment of the Korean central bank [J. *Dai Kan ginkō*] under Korean law, rather than Japanese law. Second, bank staff included one president, two vice-presidents, four or more directors, and three or more auditors. At least one person on each level of vice-president, director, and auditor would be a Korean person. Finally, the Korea Bank would limit its operations to central bank functions only.⁷

In the planning stages, the most difficult problem was redeeming banknotes issued by Daiichi Bank and the related issue of Daiichi’s currency reserve. Although the Korean government was attempting to build up its reserves of specie and securities to form a currency reserve, it still had significant debts, including the three million *yen* loan that it had taken from

⁷ CGK, 33-34. The Korean central bank, or literally Korea Bank [J. *Dai Kan ginkō*, K. *Taehan ūnhaeng*], as it appears in the preliminary proposals on the establishment of a central bank, is distinguished from the Bank of Korea [J. *Kankoku ginkō*, K. *Han’guk ūnhaeng*] that was actually established as the predecessor of the Bank of Chōsen.

Daiichi Bank to implement currency reform. Consequently, the Korean government lacked the resources to unilaterally assume the financial obligation posed by Daiichi banknotes. Despite Shibusawa Eiichi's above-mentioned acquiescence to Itō's thinly-veiled demands, Daiichi Bank was unwilling to hand over its currency reserve without just compensation. Consequently, the central bank proposals envisioned different solutions to address both the institutional and currency issues.⁸

In one proposal, Daiichi Bank would relinquish its own currency reserves to the Korean government without compensation, but then the Korean government would be wholly responsible for redeeming the Daiichi banknotes in circulation. In the other proposal, Daiichi Bank would hand over its currency reserves in exchange for stock in the new central bank. Daiichi would receive either 30% of the common stock issued by the Korean central bank or three million yen in preferred shares [*J. yūsen kabushiki*]. In the preferred shares option, Daiichi would postpone redeeming three million yen of its banknotes, allow them to circulate, and retain responsibility for their redemption. In return, Daiichi would receive a 6% dividend on its preferred shares for ten years. Presumably after ten years, the preferred shares would be cancelled, Daiichi would receive a three million yen payout, and it would use that money to take any remaining banknotes out of circulation. In this scenario, Daiichi was essentially loaning three million yen to the new Korean central bank.⁹

⁸ Oh Doo-hwan, "The Currency System of Colonial Korea," *Seoul Journal of Korean Studies* 4 (1991), 103-104.

⁹ CGK, 34. Preferred shares differ from common shares because they usually have a pre-determined dividend rate that is both higher than that for common shares and prioritized so that preferred shareholders are paid before common shareholders. While the interest rate of the *yūsen kabushiki* would have been set, the 6% rate does not seem particularly high when compared to the 9% annualized rate that Daiichi had previously offered to its own common stock shareholders. See Dai-Ichi Ginko, Limited, "Twelfth Semi-Annual Report," in Hallim Taehakkyo Asia Munhwa Yŏn'guso, *Despatches from U.S. Ministers to Korea, 1882-1905*, vol. 19 (1897-1905), (Ch'unch'ŏn, Hallim taehakkyo ch'ulp'anbu, 2001), 396-397.

In the midst of discussing a stand-alone Korean central bank, the possibility of establishing a branch of the Bank of Japan in Korea entered the debate. Arai Kentarō traveled to Tokyo and met with Katsuta, head of the Finance Bureau of the Japanese Ministry of Finance [J. *Ōkurashō rizaikyoku*] to discuss the proposal “Necessary methods of establishment of a Korean central bank.” However, they also drafted a second proposal, “Procedures to establish a branch of the Bank of Japan,” [J. *Nihon ginkō shiten setchi no hōhō*], which was submitted to Japanese Finance Minister Sakatani Yoshirō. In a memo from Japanese Finance Vice-Minister Mizumachi Kesaroku to Minister Sakatani, Mizumachi described how the financial future of Korea was being determined within the Ministry of Finance.

The proposals do not need to go through the Cabinet because they are only internal discussions between Vice-Minister Arai and Bureau Chief Katsuta. Arai will submit his opinion in one or two days. In regards to the central bank, there are extreme difficulties in implementing that proposal. Of course, the results of further research may indicate the need to maintain the status quo (with some changes) or in the case of extreme circumstances, to change course and establish a branch of the Bank of Japan.¹⁰

The three options being considered for Korea were establishing a new Korean central bank, creating a branch of the Bank of Japan to inherit the central banking functions of Daiichi Bank, or maintaining the status quo with Daiichi Bank. While the last option had generally been discarded, the Japanese Ministry of Finance was leaning toward the Bank of Japan option in its internal discussions. Within the proposal “Procedures to establish a branch of the Bank of Japan,” the Bank of Japan would establish a branch office in Keijō, the Japanese name for the capital of Seoul, that would be overseen by one permanently stationed bank director. Accordingly, other branches [J. *shiten*] and offices [J. *shutchōjō*] would be established in the peninsula and implement currency reform, treasury duties, and government debt management.

¹⁰ “Memorandum from Vice-Minister Mizumachi Kesaroku to Finance Minister Sakatani Yoshirō,” *Kankoku chūō ginkō ni kan suru ken* [In regards to the Korean central bank] (undated), in CGKK, 892.

Daiichi banknotes would gradually be replaced by Bank of Japan banknotes, while specie reserve, securities reserve, and loans to the Korean government would be transferred from Daiichi Bank to the Bank of Japan without direct monetary compensation. In return, Daiichi Bank would be allowed to count other securities reserves [J. *hoshō junbi hakkō bun*] that it had issued as a no-interest, five-year loan from the Bank of Japan to Daiichi Bank. Regarding the issue of new Bank of Japan banknotes in Korea, the proposal envisioned the establishment of an independent reserve fund that would be completely separate from the main species reserve in the Bank of Japan headquarters in Tokyo.

Korea should naturally absorb and accumulate gold produced in Chinese and Russian territories which should allow planning for an independent specie reserve. Banknotes issued by Bank of Japan headquarters would be regarded as legal tender and should be included within the currency maximum [*kin gin zaikō*], which would be established according to the amount of Daiichi banknotes in circulation, or ten million yen.¹¹

When the amount of currency in circulation exceeded the currency maximum of ten million yen, the proposal stated that that the excess amount would be transferred from the independent Korean currency reserve to the main Japanese reserve held by the headquarters of the Bank of Japan. Clearly, the Japanese Ministry of Finance had its own concerns that were entirely separate from those of Daiichi Bank and the Residency-General. First, the Finance Ministry was worried about potential negative repercussions from closely linking the Korean economy to the Japanese economy, hence the proposal to establish an independent reserve fund for Korea. Second, the Finance Ministry had no intention of continually writing blank checks on government funds to support the imperialist project in Korea. The Residency-General (and later the Government-General) needed to support itself through alternative revenue streams, such as taxes, gold and silver accumulation, and seignorage profits from currency minting. At the same time, the idea

¹¹ “*Nihon ginkō shiten setchi no hōhō*” [Procedures to establish a branch of the Bank of Japan] (1907) in CGKK, 891-892.

that Korea would be managed for Japanese interests was clearly enunciated in the ministry's proposal that excess currency reserves be transferred from Korea to Japan, which would limit currency availability in Korea and any potential for economic growth.

The Residency-General under Itō Hirobumi, however, was dissatisfied with the idea of establishing a Bank of Japan branch in Korea and pushed for the creation of a new stand-alone central bank. Before assuming his position as Resident-General, Itō had clearly stated his opposition to the idea of annexing Korea. As the establishment of branch of the Bank of Japan as the central bank in Korea would have been an overt gesture toward annexation, Itō would likely have opposed the move on those grounds alone. However, the Bank of Japan proposal would also have challenged the independence and authority of the Residency-General to determine financial policy in Korea since the branches in Korea would still nominally be subordinate to Bank of Japan headquarters in Tokyo. As a former prime minister, a Meiji oligarch [J. *genrō*], and a Resident-General that answered directly to the Japanese emperor, Itō Hirobumi might have considered the proposal a challenge to his personal prestige and authority as well.¹²

In response, the Japanese Ministry of Finance drafted a new proposal, "Procedures for establishing the Korean central bank," [J. *Kankoku chūō ginkō setsuritsu ni kan suru hōhō*], which modified and added to the "Necessary procedures to establish a Korean central bank" drafted by the Residency-General. The number of shares held by the Japanese and Korean governments for the proposed bank would decrease from 40,000 shares to 30,000 shares while

¹² *New York Times*, September 22, 1907. In this interview with the *New York Times*, Itō Hirobumi stated his overall opposition to annexation and argued for the necessity of domestic Korean reforms. At the same time however, his paternalistic and imperialist argument for Japanese dominance of Korea left open the possibility that annexation might be inevitable. "Some people in Japan believe it is a mistake not to annex Korea, but I am convinced that annexation is merely a crude and cruel means of securing the desired friendship and assistance of Korea in order to build up the two countries, whose interests are mutual. Annexation is no part of the Emperor's plan, unless it should prove quite unavoidable. Annexation would mean the loss of self-respect by the Koreans; it would be too violent a remedy...."

the number of shares available for public subscription would increase to 40,000. In terms of the profits that the bank would gain from issuing currency, this proposal stated that the bank would directly contribute a portion of those profits to the colonial government to offset its expenses, thus decreasing the financial burden on the Japanese government.¹³

Most importantly, the Korean central bank would not be established according to Korean law but on Japanese law, specifically the “Law on bank business in foreign countries” [*J. Gaikoku ni okeru ginkō jigyō ni kan suru hōritsu*] (1905 Law no. 47), thus implying the further extension of the Japanese legal system to the Korean peninsula. It was hardly a coincidence that the legal basis of a Korean central bank was being discussed during this time period. In late June 1907, three Korean emissaries had arrived at The Hague as Emperor Kojong’s personal representatives to the Second International Conference on Peace to protest the 1905 Protectorate Agreement. Within the international legal discourse of “enlightened exploitation,” they were summarily ignored as illegitimate representatives of a Korean nation that did not exist except through its connection with Japan. Emperor Kojong was forced to abdicate and Korean Prime Minister Yi Wan-yong transferred all judicial powers in Korea to Japan. Consequently, the discussion on establishing a Korean central bank under Japanese law was another step in the expansion of Japanese control over the Korean peninsula.¹⁴

Although the Bank of Japan branch proposal was a dead letter, the Japanese Finance Ministry attempted to push its interests by inserting the salient points from the old proposal into the “Procedures for establishing the Korean central bank.” For example, new proposal addressed the Daiichi banknote issue by continuing the push for an independent reserve fund. “Gold from

¹³ CGK, 35.

¹⁴ Alexis Dudden, *Japan’s Colonization of Korea: Discourse and Power* (Honolulu: University of Hawai’i Press, 2005), 9-11.

Korea, China, and Russia should be absorbed and accumulated to create an independent reserve that will serve as the basis for specie convertibility until the collection and redemption of Daiichi banknotes is accomplished.”¹⁵ The Japanese Ministry of Finance, specifically Vice-Minister Arai and Finance Chief Katsuta, knew that expenditures in Korea would place increasingly greater demands on the Japanese government treasury. At the same time, Japan was still making large interest payments on the wartime foreign loans that it had issued during the 1904-1905 Russo-Japanese War. Consequently, Arai and Katsuta proposed that Daiichi be stripped of its special privilege to issue currency since it was a private institution and that the profits from currency issue be redirected to the Korean government. The burden of direct outlays for Korea from the Japanese treasury would be diminished while Japan’s overall currency reserves and its economy would be protected by the establishment of a separate central bank reserve fund for Korea.¹⁶

The Korean Residency-General used the Finance Ministry proposal, “Procedures for establishing the Korean central bank,” as the basis for its plan to establish a new central bank. As the plan was being developed, Resident-General Itō Hirobumi sent the plan, ordinances, and orders to Daiichi Bank president Shibusawa Eiichi. Descriptions of these documents indicate that there were two major differences between them and the “Procedures for the Korea Bank,” one of the two original proposals first put forth by the Residency-General. First, the “Procedures” envisioned a joint Korean-Japanese bank established according to Korean law, but as mentioned above, later proposals were predicated upon Japanese law. Second and more importantly, the

¹⁵ “*Kankoku chūō setsuritsu ni kan suru hōhō*” [Procedures for establishing the Korean central bank] (1907) in CGK, 889-890.

¹⁶ CGK, 36.

new proposals stipulated that the new central bank would not be limited to central bank functions, but would combine the roles of a central bank and an ordinary bank.¹⁷

In this respect, the new Korean central bank would be modeled upon the Bank of Taiwan [J. *Taiwan ginkō*] established in 1898. In the “Ordinance for the Korea Bank,” the section on bank business was copied virtually verbatim from the “Bank of Taiwan Law” [J. *Taiwan ginkō hō*] but the other clauses of the ordinance were based on the central bank activities of Daiichi Bank and adapted to circumstances in Korea. For example, Bank of Japan banknotes were added as acceptable monetary instruments for the currency reserve and the authority of the Residency-General over the proposed Korean central bank was described in detail. These features had no functional equivalent in the original Bank of Taiwan Law. As stated above, the most important feature of the ordinance was allowing the central bank to perform ordinary banking functions.¹⁸

The reason why the Residency-General ultimately decided to replace Daiichi Bank with a newly established central bank was explained in the “Plan for the establishment of a Korean central financial institution.”¹⁹ However, under questioning in the Imperial Diet, Arai Kentarō

¹⁷ The documents forwarded from Itō to Shibusawa included the “Plan for the establishment of a Korean central financial institution” [*Kankoku chūō kinyū kikan setchi an*], “Ordinance for the Korea Bank” [*Dai Kan ginkō jōrei*], “Order regarding the takeover of business by the Korea Bank” [*Dai Kan ginkō e gyōmu hikitsugu ni kan suru meirei an*]. CGK, 36. These documents were supposedly held by Daiichi Kangyō Bank, successor institution to Daiichi Bank, in their historical records room. However, the merger of Daiichi Kangyō Bank, Fuji Bank, and the Industrial Bank of Japan [*Nippon kōgyō ginkō*] in 2000 resulted in the closure of the historical records room of Daiichi Kangyō to the public.

¹⁸ CGK, 36. In April 1898, the Bank of Taiwan Law established the Bank of Taiwan and its functions, which included providing financing for commerce and industry, expanding coverage to the southern regions of Qing China and the South Pacific islands, and maintaining the independence of the Taiwanese economy. For more on the establishment of the Bank of Taiwan, see Imada Haruya, *Taiwan ginkō no ichi danmen* [A profile of the Bank of Taiwan] in Tōhata Keiichi and Takahashi Taizo, eds., *Nihon kinyū shijo hattatsushi III: Waga kuni kinyū shijo no keisei* [A history of the development of Japanese financial markets, vol. 3: The formation of our country’s financial markets] (Tokyo: Toyō keizai shinposha, 1965), 275.

¹⁹ CGK, 36.

offered the following rationale for the eventual abandonment of the Bank of Japan branch proposal and establishing the Bank of Korea.

The Bank of Japan is the central organ of Japanese financial institutions and must publicly serve as the foundation of convertible notes. Until now, the Bank of Japan has adhered to the principle of avoiding any situation that would disturb the basis of the convertible notes. Economic conditions in Korea are not stable and since it borders on Manchuria, Korea also faces similar economic disturbances [from there] it cannot handle. If Bank of Japan convertible notes are circulated in Korea, then the stability of the Bank of Japan convertible notes may be shaken...From the perspective of the Bank of Japan, establishing a special bank in Korea and issuing separate convertible notes is safer for all. For this reason in particular, we established the Bank of Korea.²⁰

Although Finance Ministry officials had originally favored the Bank of Japan proposal, they were ultimately swayed by the Residency-General in Korea. The struggle for control over financial policy in Korea was ultimately decided in favor of a stand-alone central bank, but official concern over the potential negative impact of Korea upon the Japanese economy remained. The idea of a separate reserve fund under a branch of the Bank of Japan was transformed into a completely separate note issue that was denominated in yen but decoupled from the main Japanese currency reserve, thus protecting the economy of the home islands.

Establishment of the Bank of Korea

The “Bank of Korea Law” [J. *Kankoku ginkō hō*, K. *Han’guk ūnhaengbōp*] was promulgated in July 1909. In August 1909, the Japanese government appointed a thirty-three member committee that would oversee the establishment of the Bank of Korea [J. *Kankoku ginkō*, K. *Han’guk ūnhaeng*], which included the president of the Bank of Japan and the Korean Vice-Minister of Finance, Arai Kentarō. The bank had authorized capital of ten million yen, divided

²⁰ Nihon ginkō chosakyoku, ed., *Nihon kinyūshi shiryō: Meiji Taishō hen*, vol. 15 (1957), 1357-1358; Yun Sōk-pōm, et al., *Han’guk kūndae kūmyungsa yōn’gu* [A study of modern Korean financial history] (Seoul: Segyōngsa, 1996).

into 100,000 shares of 100 yen each, of which 30,000 shares were owned by the Korean and Japanese governments.

In August 1909, the remaining shares in the bank became available for public subscription and the stock issue proved to be extremely popular as it was oversubscribed 292 times. From the original 69,600 shares, 1,000 shares each were allotted to the Japanese and Korean imperial households and the remaining shares were distributed among the subscribers. The remaining preparations to open the Bank of Korea were completed in November 1909. The Korean Ministry of Finance [K. *Takchibu*, J. *Takushibu*] assumed authority over the Bank of Korea by issuing “Regulations on Supervision Duties and Affairs for the Bank of Korea” [J. *Kankoku ginkō kanrikan shomu kitei*] on November 8, 1909. Eight days later, the Ministry of Finance issued two additional directives, “Orders on handling the currency reform” [J. *kahei seiri jimū toriatsukai ni kan suru meireisho*] and “Orders on handling treasury money” [J. *Kokkokin toriatsukai ni kan suru meireisho*]. The former directive stated that the currency reform funds transferred from Daiichi Bank would have a separate account at the Bank of Korea. If these funds were insufficient for the reform, then additional funds could be advanced with an annual interest rate of 6%. The latter directive stated that the Bank of Korea would hold government treasury funds but would not give interest or charge a service fee. Those funds would be deposited at the bank headquarters, but could later be deposited in other banks with a special accounting procedure. If the Bank of Korea was short of deposits, then the bank was permitted to borrow one million yen from government treasury funds without paying interest.²¹

²¹ Bank of Chosen, *A Brief Review of the Work of the Bank of Chosen* (Seoul: Bank of Chosen, 1918), 2, 11; CGK 58-59. When shares became available to the public, applicants subscribed for a total of 20,352,374 shares, although only 69,600 shares were actually issued.

The first president of the Bank of Korea was Ichihara Morihiro (1858-1915) who served until his death in October 1915. Originally from Kumamoto prefecture, Ichihara graduated from Dōshisha University and worked as an instructor there. From 1889, he traveled to the United States to study economics at Yale University. He graduated with a doctorate degree in 1893 and returned to Japan, where he joined the Bank of Japan and served as acting manager of the Ōsaka branch and manager of the Nagoya branch. He resigned in March 1899 and entered Daiichi Bank to become assistant manager of the headquarters branch, but he traveled twice to Korea to study both the Korean economy and the issue of banknotes. In 1902, Ichihara was manager of the Yokohama branch of the bank but quit the bank to become mayor of Yokohama. However, he resigned from his mayoral position in May 1906 when offered the position of overall manager of Daiichi's Korean branches [J. *Daiichi ginkō Kankoku sōshiten shihainin*] and director [J. *torishimariyaku*] of the bank. With the planned establishment of the Bank of Korea, Ichihara needed only a small administrative maneuver to take the same branches, buildings, and staff that he was already overseeing for Daiichi Bank and repackage the whole under a new name. Consequently, the Bank of Korea was not a new colonial creation, but essentially a holdover exhibiting characteristics and personnel from Daiichi Bank's operations throughout the Korean Open Ports and Taehan Empire Periods.²²

The continuity was further evident in the appointment of the first directors [J. *riji*] of the Bank of Korea with Mishima Tarō (1871-1920), Mizukoshi Ryō, and Kimura Yūji (b. 1874). Mishima graduated from the Department of Political Science at Tokyo Imperial University in 1893 [J. *Tōkyō teikoku daigaku seijika*]. He immediately entered government service as a secretary in the House of Representatives [J. *shūgiin shoki*] of the Imperial Diet and worked

²² CGK, 55, 58.

concurrently as an official in the Ministry of Finance [J. *Ōkurashō sanjikan*]. In 1905, the Keijō branch of Daiichi Bank was instructed by Megata Tanetarō to undertake currency reform, but the bank needed a qualified individual to oversee the process. After consulting with Daiichi Bank, the Japanese Ministry of Finance recommended Mishima who was already involved in the reform project from the government side. Consequently, Mishima resigned from the government and entered Daiichi Bank in April 1905 as the assistant manager of the Keijō branch, specifically to oversee currency reform in Korea under Megata Tanetarō. In 1909, Mishima was promoted to a directorship at the newly established Bank of Korea. Similarly, Kimura Yūji graduated from the Faculty of Law at Tokyo Imperial University in 1899 and entered Daiichi Bank, working there for ten years until the handover of the Korea branches. In 1909, Kimura was named a director of the Bank of Korea.²³

The three directors, bank president Ichihara, and the bank auditors [J. *kanji*] Hamaguchi Kichiemon and Itō Chōjirō formed the board of directors that made all the important management decisions concerning the bank. At this stage of bank development however, the directors did not simply vote on the overall policies of the bank but were fully involved in the day-to-day management of bank affairs as department heads. Kimura Yūji was head of the Business Department [J. *eigyō kyokuchō*], Mishima was head of the Treasury Department [J. *kokko kyokuchō*], and Mizukoshi was head of General Affairs [J. *shomu kyokuchō*].²⁴

²³ Nakajima Tsukasa, *Mishima Tarō shi kinenshi* [A commemorative volume on Mishima Tarō] (Tokyo: Sawada Shintarō, 1923), 22-23; *Dai Nippon jitsugyōka meikan* [A directory of Japanese businessmen], vol. 2 (1919) in Haga Noburu, et al., eds., *Nihon jinbutsu jōhō taikai* [A collection of Japanese biographical information] (Tokyo: Kōseisha, 1999), vol. 33, 440; Ishiwada Hachirō, ed., *Dai Nippon jūyaku taikan* [A broad overview of Japanese executives] (Tokyo: Mainichi shinbunsha, 1918) in Haga 1999, vol. 34, 161; CGK, 677. Kimura Yūji later served as an auditor in the bank from August 1920 to July 19, 1922. CGK, 249.

²⁴ CGK, 60; CJK, 677. Denkichirō Matsushita, *Kindai Nihon keizaijin taikai* [Survey of modern Japanese economists] (Tokyo: Nihon tosho senta, 2003).

When established in 1909, the original structure of the Bank of Korea was a Secretariat [J. *hishoshitsu*] and Research Section [J. *chōsashitsu*] that reported directly to the bank president [J. *sōsai*] and the four departments of Business, General Affairs, Treasury, and Fiscal Affairs [J. *suitōkyoku*]. The organizational structure of the Bank of Korea, and later the Bank of Chōsen, reflected its dual purpose as both the central bank of colonial Korea as well as an ordinary bank conducting local business. The Business Department performed ordinary banking operations and consisted of a Business Section [J. *eigyōka*] and an Accounting Section [J. *keisanka*]. The remaining three departments fulfilled the functions of a central bank. The General Affairs Department issued banknotes through its Currency Issuance Section [J. *hakkōka*] and handled documents through its Documents Section [J. *bunshoka*]. The Treasury Department handled government money through the Treasury Section [J. *kōkōka*] and Japanese Treasury Section [J. *Nihon kinkōka*]. The Fiscal Affairs Department had a Fiscal Affairs Section [J. *suitōka*] and a Bullion Section [J. *chiganeka*] to handle bullion and securities [J. *yūka shōken*]. The Secretariat originally had one company secretary [J. *hishoyaku*] that reported directly to the bank president. The Research Section was composed of a few researchers [J. *chōsayaku*] and examiners [J. *kensayaku*] who monitored the general economy, market conditions, and internal bank operations. However, the internal structure of the bank underwent several changes as additional departments and sections were added and reorganized over time.²⁵

Since Daiichi Bank was keeping its Keijō and Pusan branches, the Bank of Korea inherited its remaining network of four branches [J. *shiten*] in Inch'ōn, Pyōngyang, Wōnsan, and Taegu; and nine offices [J. *shutchōjo*] in Chinnamp'ō, Mokp'ō, Gunsan, Masan, Kaesōng, Hamhŭng, Sōngjin, Kyōngsōng, and Andong (Table 5). Along with the branches, the Bank of

²⁵ CGK, 60.

Korea took 220 regular employees [J. *kōin*] and 121 support staff [J. *yōin*] from Daiichi Bank. The regular employees were further divided into two groups engaged in either staff work [J. *jimukei*] or technical work [J. *gijutsukei*]. The staff workers that came from Daiichi Bank were 2 managers [J. *shiji*], 18 assistant managers [J. *huku shiji*], 78 clerks [J. *shoki*], 61 assistant clerks [J. *shoki oginai*], and 53 apprentices [J. *minarai*], including apprentices from the technical workers. The technical workers were 1 engineer [J. *giji*], 6 assistant engineers [J. *gishu*], and apprentices. The support staff consisted of 11 support employees [J. *yatoi*], 46 errand boys [J. *kyūji*], 12 guards [J. *shuei*], and 52 custodians [J. *kozukai*]. From the senior executives to the cleaning staff, the Bank of Korea was a holdover of Daiichi Bank. Upon examination of the original reporting structure of the Korean operations of Daiichi Bank, the only person of importance who did not make the transition to the Bank of Korea essentially was Shibusawa Eiichi.²⁶

Table 5. Establishment Dates of Bank of Chōsen Branches and Offices in Korea, Japan, Manchuria, and China

Year	Day	Location
1909	Nov. 24 (transferred from Daiichi Bank)	Inch'ŏn [J. Jinsen 仁川] Pyŏngyang [J. Heijō 平壤] Wŏnsan [J. Gensan 元山] Taegu [J. Taikyū 大邱] Chinnamp'o [J. Chinnanho 鎮南浦] Mokp'o [J. Mokuho 木浦] Gunsan [J. Gunsan 群山] Masan [J. Masan 馬山] Kaesŏng [J. Kaijō 開城] Hamhŭng [J. Kankō 咸興] Sŏngjin [J. Jōtsu 城津] (present-day Kimch'aek) Kyŏngsŏng [J. Kyōjō 鏡城] Andong [J. Andō 安東]
1913	July 15	Mukden [K. Pongch'ŏn, J. Hōten 奉天]
	Aug. 20	Dalian [K. Daeryŏn, J. Dairen 大連]
	Sept. 5	Changchun [K. Changch'un, J. Chōshun 長春]
1914	Feb. 14	Siping (Szupingchieh) [K. Sap'yŏngga, J. Shihei 四平街]
1915	Sept. 15	Kaiyuan [K. Kaewŏn, J. Kaigen 開原]

²⁶ CGK, 59-60; Bank of Chosen, 1918, 2, 11.

1916	July 15	Harbin [K. Haölbin, J. Harubin 哈爾濱]
	Sept. 15	Yingkou [K. Yönggu, J. Eikō 營口] or Niuzhuang [K. Ujang, J. Kyūsō 牛莊] (present-day Haicheng)
	Dec. 1	Fujiadian [K. Pugajön, J. Fukaden 傅家甸]
1917	Mar. 22	Longjingzun [K. Yongjöng, J. Ryūsei 龍井村]
	June 1	Jilin (Kirin) [K. Killim, J. Kitsurin 吉林]
	Oct.	Qingdao [K. Chöngdo, J. Aoshima 青島]
	Nov. 1	Mukden [K. Pongch'ön, J. Hōten 奉天] (why repeat?)
1918	Jan. 1	Lushun (Port Arthur) [K. Yōsun, J. Ryōjun 旅順]
		Liaoyang [K. Yoyang, J. Ryōyō 遼陽]
		Tieling [K. Chölyöng, J. Tetsurei 鐵嶺]
	Mar. 1	Zhengjiatun [K. Chönggadun, J. Teikaton 鄭家屯]
	April	Shanghai [K. Sanghae, J. Shanhai 上海]
	Sept. 22	Manzouli [K. Manjuri, J. Manshūri 滿洲里]
	Nov. 15	Qiqihar [K. Ch'ich'ihaöl, J. Chichiharu 齊齊哈爾]

Source: Bank of Chōsen, *Economic History of Manchuria* (Seoul: Bank of Chōsen, 1920), 288; Bank of Chosen, *A Brief Review of the Work of the Bank of Chosen* (Seoul: Bank of Chōsen, 1918), 8; Chōsen ginkōshi kenkyūkai, *Chōsen ginkōshi* (Tokyo: Tōyō keizai shinposha, 1987), 60.

Since the Bank of Korea was originally established under Korean law, the annexation of Korea in 1910 eliminated both Korean sovereignty and the legal foundation for the Bank of Korea. Consequently, the new Government-General of Korea issued an ordinance that permitted the continued existence of the Bank of Korea until the promulgation of the “Bank of Chōsen Law” [J. *Chōsen ginkō hō*] in March 1911. The law retroactively set the establishment date of the Bank of Chōsen [J. *Chōsen ginkō*, K. *Chosŏn ūnhaeng*, hereafter BOC] as the same date as the Bank of Korea and the Bank of Chōsen assumed legal and financial responsibility for all previous actions of the Bank of Korea.²⁷

²⁷ Bank of Chosen 1918, 2-3; Bank of Chosen, *Economic History of Chosen* (Seoul: Bank of Chosen, 1920), 71. In order to gain shareholder approval for the legal changes, the Bank of Chōsen held an extraordinary general meeting of shareholders on August 1911 to revise the bylaws of the Bank of Korea. In the main text, Bank of Chōsen will be used for all actions of the Bank of Korea.

The Bank of Chōsen in the 1910's

Once established, the Bank of Chōsen purchased government bonds, from both the Korean and colonial governments, which provided cash to undertake public works, make loans to public bodies, and reward pro-Japanese collaborators. In 1910, the Korean government issued bonds for the Dosho Grant Loan, where the money raised was used to make monetary grants to land-agents of the Korean imperial family. Once lands formerly belonging to the imperial family and their associated palaces were taken over by the new colonial government, the land-agents were dismissed and given severance payments funded by government bonds. The total loan amount covered by the bonds was 116,825 yen and the Bank of Chōsen bought all the bonds. After annexation, the colonial government assumed responsibility for the bonds and they were later completely repaid in March 1913.²⁸

Upon establishment of the Chōsen Government-General, the Bank of Chōsen extended loans to the colonial government to undertake infrastructure projects, including railway construction, road improvements, and harbor development. In 1911, the colonial government established a goal of raising 56 million yen by either issuing a public loan or borrowing the money.²⁹ In the end, the colonial government took eight different loans from the Bank of Chōsen amounting to 28,094,677 yen and paid back the majority by 1918, leaving an outstanding balance of 7.5 million yen.³⁰ The issue of infrastructure projects as the Japanese contribution to

²⁸ Bank of Chosen 1918, 22.

²⁹ The Imperial Diet passed a law in March 1911 that stated, “for defrayment of expenditures required for enterprises in Chosen, the Government may issue Public loans for a term not exceeding five-five years or borrow for a term not exceeding three years...The amount raised by public loans or by borrowing shall not altogether exceed fifty-six million yen.” Bank of Chosen 1918, 21-22.

³⁰ Bank of Chosen 1918, 22.

Korean industrialization has been cited in several studies.³¹ Atul Kohli argued that the Japanese investment in infrastructure gave Korea the “finest” roads and railways inherited by a former colony. However, Bruce Cumings and other scholars argue that these supposed improvements were mainly intended for Japanese purposes and not for Korean benefit.³²

After annexation, the Government-General issued the Imperial Grant Loan where bonds were distributed to pro-Japanese Koreans, who had been awarded peerage appointments, as gifts from the Japanese emperor. Bonds were also given to public corporations to demonstrate the imperial benevolence. The total amount of the loan was thirty million yen and the bonds paid five percent interest to the awardees. Although the expectation was that bondholders would hold the bonds until maturity, the Bank of Chōsen was ordered by the colonial government to purchase the bonds at par value if requested by the recipients or their heirs, provided they had received government approval. Subsequently, many bondholders submitted requests for redemption and the total amount repurchased by the bank reached 5.95 million yen by 1914. The bonds held by the Bank of Chōsen were either redeemed by the government or sold to other investors so that the bank held 3.63 million yen by 1917. In essence, pro-Japanese Koreans were paid for their loyalty to the emperor, with money ultimately provided by the colonial government but funneled through the Bank of Chōsen.³³

In the debate between establishing a stand-alone central bank or a branch of the Bank of Japan, a major point of contention was the issue of Daiichi Bank’s banknotes and its currency

³¹ Bruce Cumings, “The Legacy of Japanese Colonialism in Korea” in *The Japanese Colonial Empire, 1895-1945*, edited by Ramon H. Myers and Mark R. Peattie (Princeton: Princeton University Press, 1984), 478-496; Chōng Chae-jōng, *Ilche ch'imnyak kwa Han'guk ch'ōldo, 1892-1945* [Japanese aggression and Korean railroads: 1892-1945] (Seoul: Seoul taehakkyo ch'ulp'anbu, 1999); Young-Iob Chung, *Korea Under Siege, 1876-1945: Capital Formation and Economic Transformation* (Oxford: Oxford University Press, 2006), 47-55.

³² Kohli, 1277; Haggard, Kang, and Moon 1997,

³³ Bank of Chosen 1918, 23.

reserve. With the handover of its branches, Daiichi Bank transferred the right of note issue to the Bank of Chōsen. The total amount of Daiichi banknotes in circulation were 11,833,127 yen, which were gradually withdrawn and replaced first by Bank of Korea banknotes and later by Bank of Chōsen banknotes. The Bank of Korea assumed responsibility for redeeming all of the outstanding Daiichi banknotes as well as taking control of the currency reserve from Daiichi. However, Daiichi had only 3,944,376 yen in gold and silver specie while the remainder of the currency was backed by other securities. Consequently, the Bank of Korea took control of the specie but did not take the other securities in Daiichi's currency reserve. The remaining balance of 7,888,751 that Daiichi owed to the Bank of Korea became a large no-interest loan that would be repaid in installments over twenty years.

The regulations on currency issue for the Bank of Chōsen were modeled on those for the Bank of Japan, with the crucial difference that the Bank of Chōsen was allowed to use Bank of Japan banknotes as currency reserve. The currency regulations stated that the Bank of Chōsen was required to have the same amount of currency reserve, which included gold coins, gold and silver bullion, Japanese government bonds, and Bank of Japan banknotes, as the amount of banknotes issued.³⁴ Initially, the bank was legally permitted to issue banknotes only up to a limit of thirty million yen, but the limit was increased to fifty million yen in 1918. However, the bank could issue additional banknotes as long as it possessed the necessary currency reserve and paid an annual issue tax of five percent on any amount over the currency limit. Both the limitations of the currency reserve and issue tax were designed to discourage the over-issuance of currency and prevent inflationary pressure from building in the colonial economy.

³⁴ Silver bullion was limited to one-fourths of the total reserve because of possible fluctuations in the market price of silver.

The amount of banknotes issued by the Bank of Chōsen increased from the Daiichi Bank amount of 11,833,127 yen to 67,364,949 yen by 1917, representing a six-fold increase in seven years. The increase in banknote circulation reflected the growth of commercial activity within the Korean peninsula as well as the expansion of the currency circulation zone into Manchuria. After BOC banknotes became legal tender in the Kwantung Leased Territory and the South Manchurian Railway Zone, it began spreading into Russian-controlled northern Manchuria and Mongolia. In 1918, the amount of banknotes circulating in Manchuria alone was roughly estimated at fifteen million yen with a small amount circulating in Tsingtao (Table 6).³⁵

Table 6. Amount of Bank of Chōsen Banknotes in Circulation, 1909-1917 (Yen)

Half-year	Highest Record		Lowest Record		At Period End	Index
	Date	Amount	Date	Amount		
1909 2nd half	Dec. 27	13,545,300	Nov. 20	11,833,127	13,439,700	100
1910 1st half	Mar. 7	13,882,061	Jan. 29	12,844,360	13,255,000	99
1910 2nd half	Dec. 31	20,163,900	July 15	13,107,500	20,163,900	150
1911 1st half	June 30	22,047,000	Mar. 4	18,228,000	22,047,000	164
1911 2nd half	Sep. 6	27,151,600	July 15	21,843,000	25,006,540	186
1912 1st half	April 1	28,609,330	Feb. 19	22,245,930	24,539,300	183
1912 2nd half	Dec. 1	27,595,010	July 2	24,609,300	25,550,400	190
1913 1st half	Jan. 1	25,550,400	June 10	19,129,600	19,587,790	146
1913 2nd half	Dec. 24	26,803,960	Aug. 19	19,107,090	25,693,260	191
1914 1st half	Jan. 1	25,693,260	June 17	18,206,550	19,470,050	145
1914 2nd half	Dec. 21	22,888,670	Aug. 14	17,750,020	21,850,370	163
1915 1st half	Mar. 31	23,508,640	Feb. 28	20,667,560	22,360,230	166
1915 2nd half	Dec. 31	34,387,520	July 14	21,534,430	34,387,520	256
1916 1st half	Jan. 1	34,387,520	Mar. 14	27,219,020	29,170,010	217
1916 2nd half	Dec. 25	46,846,680	July 13	28,008,590	46,627,080	347
1917 1st half	Jan. 1	46,627,080	May 12	36,125,680	39,893,780	297
1917 2nd half	Dec. 29	68,110,289	July 1	39,893,780	67,364,949	501

Source: Bank of Chosen, *A Brief Review of the Work of the Bank of Chosen* (Seoul: Bank of Chosen, 1918), 26.

Despite its role as the central bank of colonial Korea, the BOC was severely limited by its low level of capitalization. As stated above, the Bank of Korea had only a quarter of its capital

³⁵ Bank of Chosen 1918, 24-25.

was fully paid-in when it opened for business. The second and third quarters of capital were called in April 1911 and 1912 and the final quarter was called in August 1914. However, ten million yen was insufficient to fulfill the mandate that the BOC had been given of stabilizing and developing the colonial Korean economy.³⁶

In colonial Korea, the BOC was operating within an unstable external economic environment that was frequently plagued by depressions, tight money, speculation, and general financial crises. At the time of its annexation, Korea was still financially weak. The currency system had largely been unified by the Japanese-imposed currency reform of 1904, but there were still many old-style coins in circulation. Internally, the bank had persistent problems in maintaining its capital and adequate reserves against losses. The central issue during the 1910's was the trade imbalance that colonial Korea maintained with Japan and other countries, since imports were continually exceeding exports by enormous amounts. Daiichi Bank had faced the same problem in its Korean operations during the late nineteenth century and like Daiichi, the BOC could not maintain large amounts of hard currency abroad to pay for imports when it was being paid out as quickly as it was being accumulated.³⁷

The bank had several options in addressing the fundamental structural imbalance. The first and simplest option was to increase its capitalization. In February 1917, the bank proposed doubling its capital to twenty million yen at a general shareholders meeting. The additional ten million yen was again divided into 100,000 shares at 100 yen each. Since opening the new shares to general subscription would have diluted the holdings of existing shareholders, 70,000 shares were offered to existing shareholders for purchase on a one-to-one basis. The government

³⁶ Bank of Chosen 1918, 11.

³⁷ Bank of Chosen, *Economic History of Manchuria* (Seoul: Bank of Chosen, 1920), 281.

declined to double its holdings in the bank so the remaining 30,000 shares were offered for public subscription, which the bank was able to sell at a premium. The 918,156 yen received by the bank as premium payments above the nominal share prices were added to the reserve funds for losses and dividends.³⁸ The bank called on applicants to pay in the capital in May and November 1917 and March and June 1918 until all twenty million yen had been fully paid-in. In addition to doubling its capitalization, the Imperial Diet passed a law that increased the legal limit of note issue on its security reserve from thirty million yen to fifty million yen from March 30, 1918.³⁹

The second option was to increase the bank rate, or the interest rate that the bank charged on its loans, which would have discouraged imports but also would have curbed economic growth. Raising the bank rate would have partially remedied the trade imbalance, allowed the BOC to maintain its currency reserves, and created space for domestic Korean industry to grow. However, colonial Korea was an important market for Japanese manufactured products and the Tokyo government needed to support its export industries for economic and political reasons. Furthermore, the colonial government and the Tokyo government needed to maintain a high economic growth rate in order to justify the expense of colonization. Raising the bank rate would have served the interests of the colonial economy but not those of the metropolitan economy.⁴⁰

³⁸ The government portion of 30,000 shares were offered for public subscription and was oversubscribed three times. Only applications that offered a premium of 30 yen or greater to the 100 yen nominal price per share were fully accepted, while premiums of 29 yen or less were only partially accepted.

³⁹ Bank of Chosen 1918, 20. When the new shares were offered to the public, the issue was oversubscribed three times. Only applications that offered a premium of 30 yen or greater to the nominal share price of 100 yen were fully accepted. Applications offering a premium of 29 yen were partially accepted. From the 30,000 shares offered, the bank received 918,156 yen as premium payments over and above the ten million yen in capital. The premiums were added to the bank reserve fund.

⁴⁰ Bank of Chosen 1918, 4-5.

The third option was for the BOC to expand its operations abroad. The Bank of Korea had assumed control of Daiichi Bank's branch in Manchuria at Antung upon its establishment and passed that branch to the BOC. The bank became more involved in China as overall trade between China and colonial Korea increased and Bank of Chōsen banknotes circulated along the railway lines of the South Manchurian Railway Company deep into the Manchurian interior. More importantly, the rapid growth of Manchurian agricultural exports were bringing in large amounts of hard currency into China that the BOC intended to access in order to address its chronic trade imbalance in Korea. In December 1917, the Bank of Chōsen assumed the treasury business of the Japanese government in the Kwantung Leased Territory and the privilege of issuing gold-backed currency from the Yokohama Specie Bank. Furthermore, the Bank of Chōsen took control of the Specie Bank's branches in Port Arthur (Lüshun), Liaoyang, Tieling, and Antung, before expanding its own branch network throughout the Manchurian interior.⁴¹

The wartime economic boom eventually resolved the balance-of-payments issues within Korea and greatly increased the deposits held at the bank (Table 7). However, the fundamental structure of the banking system forced banks with poor deposit-raising capability to compete for corporate deposits by offering ever-higher interest rates. Eventually, the upward spiral of deposit rates drove Japan to the edge of a banking crisis as banks traded profitability for greater deposits. Finally, Finance Minister Takahashi Korekiyo orchestrated the formation of a deposit rate cartel in 1918 that set a maximum deposit rate, with penalties for violators. Since banks were offering the same maximum rate, their only competitive advantages were size, reputation, and connections. Smaller, weaker banks were denied equal access to deposits and were forced to rely

⁴¹ Bank of Chosen 1918, 7; Ben David Dorfman, "The Currencies of the North-Eastern Provinces, with a Supplement on the Central Bank of Manchukuo," Study No. 5 *Supplementary Documents to the Report of the Commission of Enquiry* (Geneva: League of Nations, 1932), 141; Bank of Chosen, *Economic History of Manchuria* (Seoul: Bank of Chosen, 1920), 280.

more heavily on the intercall money market. After the formation of the deposit rate cartel, domestic Korean deposits at the BOC began to grow much more slowly after 1919 thus limiting the possibilities for the bank to pursue internal growth.⁴²

Table 7. Deposits in the Bank of Chōsen
by Half-Year Increments, 1909-1917 (Yen)

Year	Balance at End of Period	Index
1909 2nd half	7,631,641.08	--
1910 1st half	4,983,214.28	100
1910 2nd half	5,960,650.56	120
1911 1st half	6,431,3784.25	129
1911 2nd half	6,978,281.27	140
1912 1st half	10,332,337.77	207
1912 2nd half	14,169,877.91	287
1913 1st half	22,627,150.06	454
1913 2nd half	20,801,924.94	417
1914 1st half	18,396,635.16	369
1914 2nd half	17,598,503.74	353
1915 1st half	20,917,190.54	420
1915 2nd half	18,588,600.86	375
1916 1st half	23,829,864.48	478
1916 2nd half	33,033,409.87	663
1917 1st half	47,533,198.30	954
1917 2nd half	88,413,372.38	1,774

Source: Bank of Chosen, *A Brief Review of the Work of the Bank of Chosen* (Seoul: Bank of Chosen, 1918), 28.

For the Bank of Chōsen however, the expansion to Manchuria began to provide rich profits, as will be addressed in the next chapter. The BOC had not addressed the issue of its inadequate reserve funds, despite the requirement of its bylaws that eight percent or more of net profit should be appropriated to the reserve fund to provide for losses and two percent or more of net profit was to pay dividends. By 1918, the two reserve funds only amounted to 1.9 million yen (Table 8). However, that amount was mainly due to the above-mentioned premiums received

⁴² Juro Teranishi, "Money Markets in Prewar Japan," in David C. Cole, et al., eds., *Asian Money Markets* (New York: Oxford University Press, 1995), 406. In 1919, Takahashi Korekiyo was finance minister within the government of Prime Minister Hara Kei.

from issuing new shares in 1917. The low level of reserve would prove to be a serious issue in maintaining the stability and credibility of the bank during the Shōwa Financial Crisis in the mid-1920's.⁴³

Table 8. Accumulation of Reserve Funds for Losses and Dividends

Year	1st Half	2nd Half	Total
1910	2,650	4,500	7,150
1911	9,000	18,500	27,500
1912	22,700	29,500	52,200
1913	47,150	48,000	95,150
1914	58,000	63,500	121,500
1915	75,000	59,500	134,500
1916	80,000	112,000	192,000
1917	1,053,000	220,000	1,273,000
Total	1,347,500	555,500	1,903,000

Source: Bank of Chosen 1918, 12.

As one of its primary duties, the BOC was dedicated to the acquisition of Korean gold for export back to Japan. The exploitation of Korean minerals, particularly gold, had long been one of the primary goals of Japanese traders and merchants since the opening of the ports in 1876. During the colonial period, the purchase, assay, and export of gold ore, nuggets, and bullion had become a regular operation performed by a dedicated department of the BOC. The bank had inherited three assaying offices from Daiichi at its Seoul, Pyōngyang, and Wōnsan branches, but it also opened a new office at its Changchun branch in 1915 with the specific purpose of purchasing Manchurian gold. In this respect, the BOC was beginning to reproduce the pattern of mineral exploitation activities pioneered by Daiichi bank in Korea through its expansion into Manchuria.⁴⁴

⁴³ Bank of Chosen 1918, 11-12.

⁴⁴ Bank of Chosen 1918, 36.

According to statistics from the BOC for 1910 to 1917, the amount of gold purchased by the BOC increased steadily through the decade from 183,105 ounces in 1910 to a peak of 290,233 ounces in 1916 (Table 9).

Table 9. Gold Purchases by the Bank of Chōsen, 1910-1917

Year	Weight (ounces)	Value (yen)	Index Number
1910	183,105	7,593,380	100
1911	188,288	7,808,285	103
1912	174,677	7,243,829	95
1913	209,819	8,700,953	115
1914	218,781	9,072,879	119
1915	255,125	10,580,073	139
1916	290,233	12,035,996	159
1917	190,215	7,888,233	104

Source: Bank of Chosen 1918, 37.

The sudden decline in 1917 was a reflection of the wartime economic demand for explosives, chemicals, and labor, which hindered the continued expansion of mining operations in Korea. However, the BOC remained the main official conduit for gold exported from Korea to Japan. Between 1910 and 1917, the bank's share of all recorded gold exports did not fall below seventy-seven percent and reached over ninety-three percent in 1914 and 1915 (Table 10). In this respect, the bank maintained a practical monopoly on official gold collection and export in Korea, which suited the Japanese government policy of collecting as much hard currency and precious metals as possible. As for the gold collected, it was shipped directly to the Japanese government mint in Osaka for conversion into coins and bullion. Consequently, the BOC was the largest supplier of gold to the Osaka mint, having collected between twenty-seven and fifty-seven percent of the total gold supply received by the mint between 1910 and 1917.⁴⁵

⁴⁵ Bank of Chosen 1918, 37.

Table 10. Amount of Total Gold Exports
Handled by the Bank of Chōsen, 1910-1917 (yen)

Year	Total Amount of Gold Exported	Amount Handled by Bank of Chōsen	Percentage
1910	8,831,709	7,593,380	85.9
1911	9,099,796	7,808,285	85.8
1912	9,141,297	7,243,829	79.3
1913	9,961,515	8,700,953	87.3
1914	9,664,267	9,072,879	93.8
1915	11,366,587	10,580,073	93.1
1916	15,623,797	12,035,996	77.0
1917	9,620,824	7,888,233	82.0

Source: Bank of Chosen 1918, 37.

However, the full story on Japanese exploitation of Korean gold remains unclear because the extent of unofficial trade, or outright smuggling, during the colonial period is difficult to trace from the obvious lack of documentation. Along with ginseng [K. *hongsam*], gold dust and nuggets were small, easily concealable but highly valuable items that could escape the notice of customs inspectors.⁴⁶ Several scholars agree that from the opening of Korea up to the colonial period, the amount of unrecorded exports was larger than the officially sanctioned trade, but disagree on the scale of smuggling. Young-Iob Chung discounts suggestions that the smuggled amount was equal to the officially declared amount, if not much larger, in the late nineteenth century. According to Chung, the total value of gold exports between 1887 and 1896 was a little less than \$11 million, which places the likely range of smuggling between two to three million yen.⁴⁷ On the other hand, Kirk Larsen relies on British consular reports to argue that the

⁴⁶ Before the importation of explosives, water pumps, and heavy mining equipment, much of the gold from Korea was extracted through small-scale mining and panning operations, usually from placer deposits, that yielded small quantities of gold dust. For more information on Korean mining, see Lee Bae-yong, "A Study on British Mining Concessions in the Late Chosŏn Dynasty," *Korea Journal* 24-4 (April 1984).

⁴⁷ Young-Iob Chung, *Korea Under Siege, 1876-1945: Capital Formation and Economic Transformation* (Oxford: Oxford University Press, 2006), 83-84. Chung discounts the possibility of large-scale smuggling by individual foreigners since such actions would have attracted the attention of customs inspectors. Furthermore, the absence of a

undeclared amount was equal to, if not greater than, the declared amount. Consequently, the smuggled gold partially explains the continuous Korean deficit in its balance of payments for its many imports.⁴⁸

Regardless of the debate on the extent of unrecorded and smuggled gold out of Korea which has yet to be comprehensively addressed for the colonial period, the role of the Bank of Chōsen in procuring gold for the imperial Japanese economy cannot be discounted. Individuals and criminals may have smuggled pouches of gold dust and nuggets, but the value gained was spent for personal and ultimately unaccountable reasons. The gold that transited through the Bank of Chōsen vaults was destined for the Osaka kilns and molds that shaped them into official imperial Japanese coins. The gold underwent melting, refinement, and casting and instead of being shipped back to Korea, the freshly minted gold coins were likely credited to the hard currency reserves for the Bank of Japan.

As a colonial bank, the Bank of Chōsen issued its banknotes against a currency reserve that needed neither gold nor any other hard currency. As stated above, the BOC could have used gold, silver, BOJ banknotes, Japanese government bonds, as well as other reliable bonds and commercial paper for its currency reserve. In reality, the BOC currency reserve carried no hard currency and relied entirely on Japanese government bonds and BOJ banknotes to support its currency issue, which reflected its subsidiary and colonial status in two respects. First, the proportional reserve system ensured that every yen in Bank of Japan banknotes and government bonds within the BOC currency reserve would benefit from the multiplier effect to create more

large existing stockpile of gold or gold dust within Korea precluded the possibility that a ready supply was even available for smuggling.

⁴⁸ Kirk W. Larsen, *Tradition, Treaties, and Trade: Qing Imperialism and Chosŏn Korea, 1850-1910* (Cambridge: Harvard University Asia Center, 2008), 217-221. While Larsen's argument is certainly intriguing, the difficulties in verifying clandestine activities like smuggling that were purposefully unrecorded make his argument difficult to definitively prove or disprove.

credit and currency in BOC banknotes for colonial investment. Second and more importantly, the BOC had no real reserves on which to rely in times of crisis. The absence of hard money within its currency reserves meant that the Korean colonial economy was ultimately dependent on the faith and credit of the Japanese central government. The subsidiary relationship between the BOC on the periphery and the Tokyo government at the center would be repeatedly exposed and tested in the economic crises during the 1920's.

Personnel Structure and Policies

With the re-establishment of the bank under colonial law as the Bank of Chōsen in 1911, the original management structure was one president, three or more directors, and two or more auditors. The position of vice-president was created later in 1917. The president and vice-president were both appointed by the colonial government and served five-year terms. As stated above, Ichihara Morihiro was the first president of the Bank of Korea and the Bank of Chōsen and he served until his death in 1915. Shōda Kazue (1869-1948) was a relatively short-term president from December 1915 until October 1916, after which he became Japanese Minister of Finance.⁴⁹ He was replaced by Minobe Shunkichi (b. 1869), who was president from 1916 until February 1924.⁵⁰

⁴⁹ National Diet Library, <http://rnavi.ndl.go.jp/kensei/entry/shoudakazue.php>. Shōda Kazue (1869-1948) was born in Ehime prefecture on the fifteenth day of the ninth month of Meiji 2 (1869). He graduated from the Faculty of Law at Tokyo Imperial University and entered the Ministry of Finance in July 1895 in his mid-twenties. He was president of the Bank of Chōsen for less than a year from December 1915 to October 1916, at which time he became Vice-Minister of Finance. He was Minister of Finance in the Terauchi Cabinet from December 1916 to September 1918. He again served as Minister of Finance in the Kiyoura Cabinet from January 1924 to June 1924 and became Minister of Education in the Tanaka Giichi Cabinet from May 1928 to July 1929. He died on October 13, 1948.

⁵⁰ Moskowitz, 132-133. The apprentice [*minarai*] method was common in many Japanese companies before the implementation of formal training programs. Apprentices learned by following, watching, and assisting more senior

The personnel practices and structure of the BOC indicate some of the particular institutional mechanisms of the bank in directing its human resources as well as the characteristics of both the people who worked at the bank. For example, the senior executives of the bank were largely representative of the elite educational and career courses taken by many of its workers. Minobe Shunkichi, the third bank president, was born in Hyōgo-ken in 1869. In 1893, he graduated from the political science department of Tokyo Imperial University and began his career in government service. He served in a variety of appointments, including positions as counselor in the Ministry of Agriculture and Commerce [J. *Nōshōmushō sanjikan*], secretary to the Minister of Agriculture and Commerce [J. *Nōshōmu daijin hishokan*], inspector in the Patent Office [J. *tokkyōkyoku shinsakan*] of the Ministry of Agriculture and Commerce, and secretary in the Ministry of Finance [J. *Ōkurashō shokikan*]. In 1900, he began a three-year trip as a government observer of Western practices before returning in 1903 to assume the position of head of the Hokkaidō Development Bank [J. *Hokkaidō takushoku ginkō*]. In November 1916, he was appointed president [J. *sōsai*] of the Bank of Chōsen at the age of 46.⁵¹

After the position of vice-president was established in 1917, the first person to hold the position was Kanō Tokusaburō (b. 1870). Kanō graduated from the Faculty of Law at Tokyo Imperial University and became a tax collector [J. *shizeikan*] but eventually rose to director of the Aomori Matsuyama Tax Supervision Agency [J. *Aomori Matsuyama zeimu kantoku*

employees in the course of the regular workday. Gradually, apprentices were entrusted with more duties and responsibilities until they were considered regular employees. During the wartime boom in the late 1910's, the apprentice system could not work with the rapid influx of new workers and large firms were forced to institute formal training programs that taught new hires the necessary business skills to survive in the company.

⁵¹ Bank of Chosen 1918, 13; Chōsen shinbunsha, *Chōsen jinji kōshinroku* [A directory of people in colonial Korea, hereafter CJK] (Keijō: Chōsen shinbunsha, 1922), 731. All ages are calculated according to the Western style of being born at the age of zero. Among his accomplishments, Minobe co-wrote a book with Iwatare Itaru and Nakamura Shigeo entitled *Shōgyō chōbo to sono seirihō* [Business accounting and bookkeeping] (Tokyo: Osaka yagō shoten, 1922). He was recognized by the Japanese government with Senior court rank six [*shōroku*] and the Fourth order of merit [*Kunyōtō*].

kyokuchō]. He later became a customs inspector [J. *zeikan kanshikan*] and was promoted to chief of the Customs Offices [J. *zeikanchō*] in Nagasaki and Yokohama. In January 1916, he was appointed director of the *Senbaikyoku*, the government monopoly of tobacco, salt, camphor, and alcohol. He quit that position in June 1918 and assumed the position of vice-president [J. *fuku sōsai*] of the Bank of Chōsen at the age of 48. As indicated by the career trajectories of Minobe and Kanō, the senior executives of the Bank of Chōsen attended the best schools, accumulated experience in a variety of government institutions, and worked as directors or presidents of other large organizations before assuming their leadership positions at the bank.⁵²

When the BOC was established, the colonial government appointed the first directors. Thereafter, directors were selected in a two-step process. Large shareholders, or those holding one hundred or more shares, were subjected to an election process at general shareholder meetings to become candidates for directorships. The candidates were then vetted by the Government-General, which made the final selection. Once appointed, directors served a three-year term. Although bank directors were ultimately political appointees, they did not simply rubber-stamp decisions made by the president and vice-president. As seen in the early history of the bank, directors directly oversaw bank operations but directors continued to have a significant management role in later years, particularly with international expansion. In most cases, the management of each bank branch was the sole responsibility of the branch manager, but special arrangements were established for the branches in Japan and Manchuria. In each country, one director served as a local superintendent overseeing all the branches in that country. One director

⁵² CJK, 246. After his tenure at the *Senbaikyoku*, Kanō Tokusaburō reached the status of *kinkei no mashikō* (“working among Golden Pheasants”), which was reserved for *chokuninkan*, the most senior government bureaucrats working at the level of vice-ministers and secretary-generals, who had worked for more than five years or officials at the third order of merit or higher.

was based in Tokyo to oversee the Japanese branches while another director was stationed in Dalian to supervise the Manchurian branches.⁵³

As seen in previous examples, directors had usually risen through the ranks at Daiichi Bank and the Bank of Chōsen and thus had extensive banking experience. Yoshida Setsutarō (1881-1922) entered Daiichi Bank after graduating from the Faculty of Law at Tokyo Imperial University in 1906 and continued with the BOC after its establishment. He was initially a secretary-researcher [J. *hishoyaku ken chōsayaku*] but rose to the positions of Pyōngyang branch manager [J. *Heijō shitenchō*] and Tokyo branch manager [J. *Tōkyō shitenchō*]. In 1916, he was sent to London for further training at the age of 35 before returning in 1918 to become manager of the General Affairs Department [J. *sōmu buchō*] at bank headquarters. In August 1920, he became a director of the bank at the age of 39 and remained in Keijō until his death in 1922.⁵⁴

Ōta Saburo (b. 1871) also graduated from the Faculty of Law at Tokyo Imperial University. However, he began work at Tokyo Trust Bank [J. *Tōkyō chozō ginkō*] and moved to 100th Bank [J. *Daihyaku ginkō*] before transitioning to Daiichi Bank and the Bank of Chōsen. He occupied several high-level positions include manager of the Inch'ŏn branch [J. *Jinsen shitenchō*], manager of the Currency Issuance Section [J. *hakkō kachō*], and manager of the Dalian branch [J. *Dairen shitenchō*]. In February 1917, he was elevated to a directorship at the age of 46 but continued to reside in Dalian as the Dalian-based director.⁵⁵

⁵³ CGK, 248-249; Bank of Chosen 1918, 17. In preparation for the general shareholders meeting to be held in Tokyo in August 1922, nearly all of the bank executives were in Tokyo to prepare the bank's response to the severe postwar financial crisis. Yoshida Setsutarō remained in Keijō as the resident executive to oversee operations, but died suddenly on July 18, 1922.

⁵⁴ CJK, 255.

⁵⁵ CJK, 163.

Katayama Shigeo (b. 1875) was the Tokyo-based director at the BOC but his career and interests diverged slightly from the others. Although Katayama graduated from Tokyo Imperial University in 1895, he became a teacher at the Second Higher School [J. *Daini kōtō gakkō*] in 1899 before moving into banking. He worked for Mitsui Bank and traveled through Europe and American before his appointment as a director of the BOC in February 1918. He subsequently wrote several books addressing economic issues in Japan and the West that demonstrated an acute awareness of currency problems and economic policy. In this respect, Katayama showed a predilection for the more academic aspects of banking as opposed to his fellow directors who were well-versed in the day-to-day operations of the Bank of Chōsen.⁵⁶

Like directors, candidates for auditor positions were first elected at general meetings from shareholders holding fifty or more shares and then hand-picked by the colonial government. The auditors served for two years but occasionally came from backgrounds that were less banking-oriented than directors. The above-mentioned Itō Chōjirō (b. 1873) became a member of the House of Peers [J. *kizokuin giin*] in the Imperial Diet in September 1904 at the age of 31. He was a member of the Kōbe Chamber of Commerce [J. *Kōbe shōgyō kaigisho*] and worked as a part-time researcher in the Ministry of Agriculture and Commerce in March 1910. He was one of the first auditors of the Bank of Korea when it was established in October 1909 at the age of 36. Although his employment record lacks detailed information, it is fairly certain that Itō also possessed elite social status since he had received the Fourth Order of Merit [J. *kunyontō*]. In

⁵⁶ CJK, 210; CGK, 248; Bank of Chosen 1918, 17. Katayama wrote several books, including *Kin oyobi tsukaron: En kachi hendō to antei* [A theory of gold and currency: fluctuations and stability in the price of yen] (Tokyo: Ritsumeikan shuppanbu, 1932) and *Sina zendo* (Tokyo: Katayama kenkyūjo, 1938). Katayama also translated Frank A. Vanderlip's *The American Commercial Invasion of Europe*, which was published in Japan as *Beikoku shōgyō no Yōroppa shinryaku* (Tokyo: Katayama Shigeo, c.1902). Frank Vanderlip was president of the National City Bank, the largest bank in the United States in the the early 1900's, and had written three articles for *Scribner's Magazine* that were later repackaged into a book discussing the need for American foreign trade. For more on Vanderlip, see Robert S. Mayer, *The Influence of Frank A. Vanderlip and the National City Bank on American Commerce and Foreign Policy, 1910-1920* (New York: Garland Publishing, 1987).

comparison, bank vice-president Kanō Tokusaburō was a recipient of the Third Order of Merit [J. *kunsantō*] while fellow auditor Kimura Yūji had received the Fifth Order of Merit [J. *kungotō*].⁵⁷

Hattori Kintarō (b. 1860) was somewhat unusual because he was a bank auditor who was experienced in the clock business [J. *tokeishō*] rather than the banking sector. In addition to being a member of the Tokyo Chamber of Commerce [J. *Tōkyō shōgyō kaigisho*], he was a member of the Clock Industry Observer Mission [J. *tokeigyō shinsatsu*] to Europe and America. In February 1916, he was selected as an auditor for the BOC at the relatively late age of 56. Like the other auditors mentioned above however, Hattori possessed high social status since he had been awarded Junior Court Rank Five [J. *jugoi*] which was even higher than the Senior Court Rank Six [J. *shōrokui*] of bank president Minobe Shunkichi.⁵⁸

As shown by the senior executives, many people who worked at the Bank of Chōsen graduated from the best Japanese educational institutions, like Tokyo Imperial University and Kyoto Imperial University. Henmi Susumu is representative of the many bank workers who graduated from the Faculty of Law at Tokyo Imperial University [J. *Tōkyō teikoku daigaku hōka daigaku*]. He graduated in 1909 at the age of 35 and worked in the Finance Department of the Ministry of Finance before moving to the BOC in 1917. He became a researcher [*chōsayaku*] in the Research Department [J. *chōsabu*]. Yokohama Morio was one of a smaller number of people who graduated from the Faculty of Law at Kyoto Imperial University [J. *Kyōto teikoku daigaku hōka daigaku*]. He graduated from university in 1915 at the age of 23 and spent several years in various branches in Dalian, Inch'ōn, and Ranam [J. *Ranan shutchōjo*] before becoming acting

⁵⁷ CJK, 10-11, 246, 677.

⁵⁸ CJK, 62, 731.

manager of the Pusan branch [J. *Pusan shiten shihainin dairi*] in 1920 at the relatively young age of 28.⁵⁹

However, the bank did not necessarily discriminate against workers who attended schools other than the imperial universities. Matsubara Junichi graduated from Kōbe Higher Commercial School [J. *Kōbe kōtō shōgyō gakkō*] in 1908 and began work at Daiichi Bank. After moving to the Bank of Korea upon its establishment, he rose through the ranks to become manager of the Changchun office [J. *Chōshun shutchōjochō*], manager of the Andong branch [J. *Andō shitenchō*], and eventually head of the Branch Department [J. *shiten buchō*]. Similarly, Abe Tsutomu graduated from Tokyo Higher Commercial School [J. *Tōkyō kōtō shōgyō gakkō*, later Hitotsubashi University] in 1905 and became chief of the Currency Issuance Section in 1919.⁶⁰

Although the bank attracted graduates of Tokyo and Kyoto Imperial Universities because of its status as an elite government institution, ability and experience were often given equal or greater weight. Mizuma Mitsugu graduated from Yamaguchi Higher Commercial School [J. *Yamaguchi kōtō shōgyō gakkō*, now Yamaguchi University] in 1910 and directly entered the Bank of Chōsen. He demonstrated enough promise to be sent to London for four years from 1916 to 1920. Within two years of his return, he was assistant manager of the Tokyo branch [J. *Tōkyō shiten joyaku*] and two years later he was Miscellaneous Affairs section chief [J. *sōmu kachō*]. Iguchi Tamejirō had a more unconventional educational path because he received his education at the Sapporo Agricultural School [J. *Sapporo nōgakkō*, now Hokkaidō University], graduating in 1901. He first worked as a teacher at the Tochigi Prefectural Agricultural School [J. *Tochigi kenritsu nōgakko*] before joining the Hokkaidō Development Bank in 1903. He joined

⁵⁹ CJK, 107, 267-278.

⁶⁰ CJK, 472, 634.

the Bank of Chōsen in 1918 and rose to acting manager of the Dalian branch [J. *Dairen shiten shihainin dairi*] and acting chief of the Management Department [J. *eigyōbu shihainin dairi*].⁶¹

In line with the international focus of the Meiji government, several BOC employees received their undergraduate education abroad in the West before joining the bank. For example, Iizuka Shigetarō (b. 1864) graduated from the University of Lyon in France in 1890 before teaching at Japan Law School [J. *Nihon hōritsu gakkō*], a private law school. In 1896, he began working in the civil government section of the Taiwan Government-General [J. *Taiwan sōtokufu minseikyoku*] and moved to the Ministry of Finance where he worked in the Finance Bureau and Bank Bureau [J. *ginkōkyoku*]. He entered the BOC in October 1920 at the relatively late age of 56 and became a researcher in the Research Department. Hoshino Tokuji (b. 1874) traveled in the other direction, both literally and figuratively, by enrolling in the San Francisco Business College [J. *Sōkō kashū bijinesu kareiji*] and graduating in 1901. He undertook a circuitous route through several businesses including the Hattori Clock Store [J. *shōkai Hattori tokeiten*] which might have been another connection to Hattori Kintarō, the Yokohama Dock Company [J. *Yokohama senkyo kabushiki kaisha*], and the American Bible Company [J. *Beikoku seisho kaisha*] before joining the BOC as a researcher in 1909 at the age of 35. He eventually rose to become head of a research office [J. *chōsakyoku kachō*] in 1917 and then became a company secretary in 1920.⁶²

Morihiro Masukazu (b. 1886) exhibited one of the most unusual career paths by an employee of the BOC. After graduating from Boston University [J. *Bosuton daigaku*] in 1914 and a Newton College [J. *Nyuton daigaku*] in 1917, he received additional education at an

⁶¹ CJK, 725, 3-4.

⁶² CJK, 40-41, 99-100.

American military-affiliated YMCA [J. *Beikoku rikukaigun kiristukyō seinenkai*]. In 1920, he returned to Japan at the age of 34 and worked as a teacher at a church [J. *Hōshidan shinkō kyōkai*] before entering the Bank of Chōsen in February 1921. Within the bank, he worked as a secretary-researcher.⁶³

For some BOC employees who were “old hands” in Korea, entering the BOC was simply another step in a long journey of Japanese influence on Korean politics and policy. For example, Fuwa Shigekane (b. 1872) began his career in the Ministry of Finance before studying at the Japan Law School. Although he became an official at the Tax Supervisory Agency [J. *zeimu kantokukyoku jimukan*] in 1905, he became a financial advisor to the Korean government [J. *zaisei komon*] later that year as well as an official in the Korean Ministry of Finance [J. *Takushibu jimukan*, K. *Takchibu samugwan*]. With the annexation of Korea in 1910, Fuwa became an official in the Government-General [J. *Chōsen sōtokufu jimukan*] and worked in the financial section of the Ministry of Finance [J. *Takushibu rizaika*]. In 1918, he quit his colonial government position and entered the Bank of Chōsen as a company secretary at the age of 46. Similarly, Shibuya Reiji (b. 1877) graduated from Waseda University [J. *Waseda daigaku*] in 1904 and went to Korea in 1907 to become a financial advisor to the Korean government. After annexation, he worked as a supervisor in the Ministry of Finance and as a provincial clerk for the Government-General [J. *Chōsen sotokufu gunshoki*]. In 1916, he moved to the Bank of Chōsen at the age of 39 and was promoted in 1920 to a researcher position.⁶⁴

⁶³ CJK, 791. There is some uncertainty regarding the name 森平正一 because of potential alternative pronunciations. The last name could be Morihira or Moridaira, and the first name could be Masukazu or Shōichi.

⁶⁴ CJK, 543, 749. Shibuya Reiji demonstrated his deep interest in the Japan-Korean relationship through his book, *Nissen kankei no kihonteki mondai* [Fundamental issues in the Japan-Korea relationship] (Keijō: Chōsen ginkō kaikoroku, republished 1956).

Some employees gathered experience at other colonial or development banks within the Japanese empire before transferring to Korea and the BOC. As mentioned above, bank president Minobe Shunkichi was head of the Hokkaidō Development Bank before becoming head of the BOC. Ikeda Gorō (b. 1881) entered the Bank of Taiwan in 1903 at the age of 21. He moved to Daiichi Bank three years later and then became part of the BOC, where he eventually rose to manager of the Longjingzun [J. Ryūseimura, K. Yongjōngch'on] branch in 1917. Matsuzaki Hikoichi graduated from the Faculty of Law at Kyoto Imperial University in 1907 at the age of 26 and began employment the Bank of Taiwan. In 1913, he moved to the Ministry of Railroads [J. *Tetsudōin*] and worked there for five years before quitting and entering the BOC. He eventually became manager of the Inch'ŏn branch and then a bank examiner. Inoue Shigehiro (b. 1877) was unusual because he was first employed by the Bank of Japan in 1900. He worked there for twenty years before moving to the Bank of Chōsen in November 1920. Once at the BOC, Inoue eventually became chief of the Treasury Section [J. *kokko kachō*].⁶⁵

Iizumi Kanta (b. 1873) spent much of his career working in private companies in colonial Korea before joining at the BOC. After graduating from the Faculty of Law at Tokyo Imperial University in 1901, he joined the Keifu, or Keijō-Fusan (Pusan), Railroad Company [J. *Keifu tetsudō kaisha*, K. *Kyōngbu chōlto hoesa*]. He quit the railroad company in 1905 and became manager of the Kanjō Cooperative Warehouse Company [J. *Kanjō kyōdō sōko kaisha*, K. *Hansōng kongdong chamko hoesa*] and then manager of the DaiKan Tenichi Bank [J. *DaiKan tenichi ginkō*, K. *Taehan ch'ōnil ūnhaeng*]. In 1909, he moved to the Bank of Chōsen and served in a variety of positions, including chief of the Accounting Section [J. *keisan kachō*], manager of the Taegu branch [J. *Taikyū shitenchō*], chief of the Treasury Section [J. *kokko kachō*], and

⁶⁵ CJK, 36, 484, 2. Inoue's first name could be an alternate pronunciation of 重禮, but the most common pronunciations are Shigehiro, Chōrei, and Shigeaya.

manager of the Changchun office [J. *Chōshun shutchōjochō*]. In 1920, he was appointed chief of the Personnel Bureau [J. *Jinji buchō*].⁶⁶

Despite its name and the extensive scope of its international operations, the Bank of Chōsen hired Koreans to work mainly within Korea although there were a few exceptions. The non-Korean offices were filled by Japanese and local staff in the Japanese and Manchurian branches. In regards to the Korean employees in Korea, Karl Moskowitz has shown that the BOC recruited from elite commercial schools and colleges in Korea and Japan, similar to the Japanese examples shown above. Faculty at schools such as Keijō Higher Commercial School [J. *Keijō kōtō shōgyō gakkō*] and Tokyo Higher Commercial School recommended students for recruitment and the banks subjected the candidates to interviews and written examinations.⁶⁷ Politics and family connections certainly played a distinct role in the selection process since so few Koreans were considered for employment. One prominent example was Min Pyōng-do who graduated from Keio University in 1938 and was the son of Min Tae-sik, president of Tongil Bank [J. *Tongil ūnhaeng*]. He was hired with the expectation that he would move from the BOC to Tongil Bank in a few years. However, Min was part of a relatively small native Korean workforce at the bank. In 1928, the BOC had a total of 342 employees in Korea and only 16%, or 55 people, were Korean. By comparison, the Chōsen Industrial Bank [J. *Chōsen shokusan ginkō*, K. *Chosŏn shiksan ūnhaeng*] had 794 employees and almost a third of them, or 254 people, were

⁶⁶ CJK, 40. Iizumi's first name could be an alternate pronunciation of 幹太, but the most common pronunciations are Kanta, Mikita, and Mikio.

⁶⁷ Hiroshi Abe, "Higher Learning in Korea under Japanese Rule," *The Developing Economies* 9-2 (1971), 180. Keijō Higher Commercial School was established in 1922 and underwent a name change to Keijō Professional School of Management in 1944.

Korean. By 1933, the number of Koreans at the BOC had increased only by two, while the Chōsen Industrial Bank had increased its employment of Koreans by 82 people.⁶⁸

Regardless of ethnicity, all new employees underwent a training program consisting of a two to four week orientation course on bank operations, including practical skills such as posting transactions and handling money. After the training period, new employees were sent to the largest office in their region to begin an apprenticeship lasting from six months to a year. Trainees in Korea were sent to the Keijō branch, which was located in the same building as bank headquarters but still considered organizationally distinct. Since each branch office was located in a major city or port, there were few significant differences between the bank offices in terms of operations and clientele. Unlike the Chōsen Industrial Bank, the BOC did not operate rural offices which eliminated the need to rotate employees between offices to expose them to different businesses. Once placed in an office, a BOC employee at the staff [J. *hirakōin*] level was likely to stay in the same office for a relatively long period of time, ranging from seven to ten years before being transferred to another location. At the managerial [J. *yakuseki*] level, personnel were shifted more frequently between branches as well as being promoted to a headquarters position. For example, Ōta Zenosuke (b. 1883) became manager of the Heoryōng office [J. *Kainei shutchōjochō*] in North Hamgyōng province in December 1917. Exactly one year later, he was assigned the manager position of the Ranam office [J. *Ranan shutchōjochō*]. In March 1920, he was promoted from managing an office to managing the Chōngjin branch [J. *Seishin shitenchō*] when it was established.⁶⁹

⁶⁸ Moskowitz, 374-375.

⁶⁹ CJK, 163-164; Moskowitz, 377.

Despite the numerical difference, there were few significant differences between the Korean and Japanese employees in terms of both the length and type of assignments they received. As a percentage of the total work force, there was almost an equal number of Korean stationed in Seoul as in the branch offices. In 1932, there were 26 Koreans in the Seoul main office and headquarters, 15 and 11 respectively, while there were 27 Koreans assigned to the branch offices. However, Korean employees assigned to the headquarters were barred from the audit and secretary departments, but were most prevalent in the treasury, operations, and general affairs departments. Koreans were generally not assigned to the offices outside of Korea, with the exception of a few Koreans assigned to the Manchurian branch offices close to the Korean border. Also, a few Koreans who graduated from Japanese colleges were hired by the Tokyo office.⁷⁰

The main differences between the Japanese and Korean employees of the BOC were found in compensation and career trajectories. Unlike the Chōsen Industrial Bank, the BOC did not have an equal treatment policy and the Koreans received a much smaller amount of overall compensation in comparison with their Japanese counterparts. Although the Koreans and Japanese received the same base salaries, the Japanese employees also received overseas allowances, a housing stipend, and other miscellaneous payments. Japanese and Korean employees with the same educational background, seniority, and position could have salaries that differed as much as 40%, which was not unusual for other business and government positions in the colony. In terms of career paths, Japanese employees received preferential treatment in promotions and assignments, particularly making the jump from the staff to managerial level. It was nearly impossible for Koreans to reach the higher managerial positions until 1938 and

⁷⁰ Moskowitz, 377-378.

Korean employees encountered the glass ceiling at the clerk [J. *shunin*] level. Naturally, the discriminatory policies engendered a feeling of alienation and dissatisfaction among the Korean employees, which was partially expressed by Korean resignations from the bank.⁷¹

Establishment of the Chōsen Industrial Bank

The history of the Chōsen Industrial Bank began in 1906 when Megata Tanetarō, the Japanese financial advisor to the Korean government, ordered the establishment of a network of Agricultural and Industrial Banks [J. *Nōkō ginkō*, hereafter AIB], which were intended to function as regional development banks. The problems of the AIB led the colonial government to merge the six remaining AIB into a single large development bank. In June 1918, the colonial government passed the Chōsen Industrial Bank Law [J. *Chōsen shokusan ginkōrei*], which merged the six AIB into the Chōsen Industrial Bank [J. *Chōsen shokusan ginkō*, K. Chosŏn siksān ūnhaeng, hereafter CIB], a colonial development bank that possessed the capital and capacity to plan and invest in development projects. After passage of the establishment law on June 7, 1918, stock ownership in the CIB was opened to subscription in July. The CIB was capitalized at ten million yen, by merging the existing capital of the AIB and issuing new shares in the CIB to the public. Oversubscription of bank stock at a ratio of 300 to 1, reflected Japanese wealth accumulated from the wartime boom and a colonial government guarantee of a 7% dividend for the first five years. The capital base of the CIB was expanded to thirty million yen at a February 1920 shareholders meeting, with 600,000 shares of fifty yen each. As of October 1924, 200,000 shares were fully paid-in and 400,000 shares were one-quarter paid-in, giving the bank a total capital of fifteen million yen from 8,180 shareholders. With this capital, the CIB was

⁷¹ Moskowitz, 378-379.

tasked with the same industrial development functions as the AIB, but was allowed to offer a wider range of loans with longer repayment periods, as well as underwriting and accepting securities. With a branch network of 47 offices and over 400 employees, the CIB became the largest bank in colonial Korea.⁷²

The first president of the CIB was the above-mentioned Mishima Tarō, a former director of the Bank of Chōsen and a former official in the Japanese Ministry of Finance. The first executive director was Ariga Mitsutoyo, who had originally come to Korea with Megata Tanetarō and had worked in the Korean Finance Department. One of the first acts of the CIB was to pursue an opportunity arising from the “rice riots” occurring in Japan in late 1918. The rapid increase in commodity prices in Japan had led to widespread popular discontent and even violence in the Tokyo streets. In response, the Tokyo government implemented an emergency program to increase food production in Japan. However, Mishima and Ariga successfully lobbied the Japanese government to redirect some funds to Korea, specifically to the CIB, for deployment in the Korean agricultural sector. Consequently, the CIB was able to obtain large amounts of low-cost, government-subsidized capital for investment in Korean agriculture.⁷³

In order to quickly staff the new bank, senior managers of Chōsen Industrial Bank raided the existing stock of qualified financial personnel in colonial Korea, mainly from the Finance Department of the Government-General and the Bank of Chōsen. For example, Watanabe Masuyuki (b. 1889) graduated from the Faculty of Law at Kyōto Imperial University in 1915 and entered the Bank of Chōsen. Three years later however, he made the jump to the Chōsen

⁷² Moskowitz, 36; Chosen Industrial Bank 1924, 3-4. According to Article Four of the Chōsen Industrial Bank Law, only Japanese subjects or legal persons recognized under Japanese law were allowed to own shares in the Chōsen Industrial Bank.

⁷³ Moskowitz, 38-39.

Industrial Bank when it was established and was appointed head of the Secretary Section [J. *hisho kachō*]. He continued to move up the ranks in the newly established bank and became chief of the critical Finance Section [J. *kinyū kachō*] in November 1921. Although the CIB was established later than the Bank of Chōsen, it soon outgrew the latter in size and importance, particularly through the troubles that the BOC faced in the 1920's.⁷⁴

The Bank of Chōsen in the 1920's

Although the conclusion of the First World War brought an end to the economic conditions underpinning the booming economy, many Japanese were unwilling to face the reality of falling prices and excess capacity. Prime Minister Hara stated that the “credit crunch is a temporary phenomenon and stability will return sooner or later.”⁷⁵ President Inoue of the Bank of Japan said “we aim to use our capacity built up during the war, at full capacity, and the excess goods not absorbed in the domestic market will be sold abroad.”⁷⁶ The economic optimism of the Japanese political and business leaders was partially fueled by the hangover of easy credit left from the war. Speculation fever gripped the investing public, which funneled cheap bank loans into the stock market and caused the average share prices on the Tokyo Stock Exchange to nearly double in the span of a year from 224 yen in January 1919 to 549 yen in March 1920. However, the stock market collapsed on March 15, 1920 and share prices plummeted between seventy to eighty percent. Commodity prices followed as the price of rice was halved and silk yarn prices fell by 75% in the span of a week. The general public panicked and there were 169

⁷⁴ CJK, 201. Watanabe's first name could be Masuyuki or Yasuki, depending on the pronunciation of 彌幸.

⁷⁵ Kamekichi Takahashi and Sunao Morigaki, *Shōwa kinyū kyōkōshi* [A history of the Shōwa financial crisis] (Tokyo: Kōdansha, 1993).

⁷⁶ Kozo Yamamura, “Then came the Great Depression,” in Peter Drysdale and Luke Gower, eds., *The Japanese Economy*, vol. 1 (New York: Routledge, 1998), 112.

bank runs between April and July 1920, with twenty-one banks forced to temporarily close their doors.⁷⁷

The Japanese government took action by injecting new capital of 109 million yen into thirty-five banks, while the Bank of Japan loaned 360 million yen to targeted industries like sugar, wool, cotton, steel, and paper, among others. However, the government did not require the rescued companies to fundamentally restructure by eliminating excess capacity or reducing their debt-to-equity ratios. Instead, political connections played a vital role in determining how rescue funds were directed. For example, Kuhara Trading Company required an emergency loan from Mitsui Bank that was initially denied because of insufficient collateral. However, Kuhara Mining Company, the parent company of the trading company, used its connections with the Prime Minister to arrange a guarantee of Mitsui's loan by the Yokohama Specie Bank and the Bank of Taiwan. The full development of the "organ bank" system – banks that became an "organ" of client-firms – can be traced to this period.⁷⁸

The Japanese economy began to revive in 1921 with the government rescue measures, an increase in exports to China, and the recovery of the American economy. However, the failure of Japanese companies to eliminate excess capacity and reduce their debt burden combined with the continuation of easy money policies resulted in another economic crisis in late 1922 with multiple bank runs and failures. Another sixteen banks closed their doors while the Bank of Japan made additional loans amounting to 102.5 million yen. The postwar economic crisis

⁷⁷ Yamamura, 112; Takahashi and Sunao,; Norio Tamaki, *Japanese Banking: A History, 1859-1959* (Cambridge: Cambridge University Press, 1995), 141.

⁷⁸ Yamamura, 113.

seemed to have largely passed by early 1923, but Japan and the entire imperial economy was literally and figuratively shaken by the 1923 Kantō Earthquake.⁷⁹

The 1923 Kantō Earthquake

The Kantō Earthquake [J. *Kantō daishinsai*] on September 1, 1923 was a 7.9 magnitude earthquake centered about forty miles southwest of Tokyo. The initial shock and subsequent aftershocks devastated the Kantō region of Tokyo, Yokohama and the surrounding area and resulted in the death of 140,000 people. Fires spread throughout the devastation zone while hundreds of thousands of survivors had little food, water, electricity, or shelter. Around 2.5 million people were left homeless and nearly half of the buildings in Tokyo and over nine-tenths of structures in Yokohama were destroyed by the initial earthquake, fires, or aftershocks.⁸⁰ In the ensuing panic, hundreds of Koreans were massacred by Japanese following widespread but unsubstantiated rumors of Korean atrocities. One newspaper claimed that some Japanese people were killed because they were mistaken for being Korean.⁸¹ Amidst the short-term physical destruction and public hysteria, the earthquake had long-term consequences in crippling the economic infrastructure in the capital region through the destruction of businesses, offices, and records through the earthquake, fire, and mob violence.

Norio Tamaki represents the mainstream view that the origins of the 1927 Shōwa financial crisis are found in the 1923 Kantō Earthquake, in line with the organ bank hypothesis.⁸²

⁷⁹ Yamamura, 114.

⁸⁰ J. Charles Schencking, "The Great Kanto Earthquake and the Culture of Catastrophe and Reconstruction in 1920s Japan," *The Journal of Japanese Studies* 34-2 (2008), 296.

⁸¹ J. Michael Allen, "The Price of Identity: The 1923 Kantō Earthquake and Its Aftermath," *Korean Studies* 20 (1996), 72.

The organ bank hypothesis argues that certain banks were tightly connected to particular financial groups [J. *zaibatsu*] and made easy loans to those industrial companies.⁸³ Those banks were “organs” of the financial groups and heavily dependent on interest payments from those companies for solvency. Once those companies defaulted on their debts however, the organ banks failed in turn and caused the Shōwa financial crisis.⁸⁴ However, scholars as early as 1928 have argued that the problems in 1927 were rooted in the unresolved issues of the 1920 Crisis.⁸⁵

Juro Teranishi argues that the fundamental issue was a lack of long-term capital in the Japanese financial system which resulted in highly volatile interest rates and frequent bank runs. Although money markets in general supply liquidity to the overall financial system, Japanese money markets were insufficiently developed to both implement monetary policy and provide the necessary liquidity to allow the normal functioning of the financial system in times of crisis. Particularly in the case of the colonial banks, short-term funds were channeled into long-term development and industrial loans concentrated in a few industrial firms. The end result was that banks were handcuffed by loans that locked up their capital for long periods and created mutually dependent relationships between the bank and its clients. In times of financial crisis, sharp increases in the number of nonperforming loans threatened the capital cushions of the banks and forced them to turn to the Japanese government for assistance.⁸⁶

⁸² Norio Tamaki, *Japanese Banking: A History, 1859-1959* (Cambridge: Cambridge University Press, 1995), 151.

⁸³ Morck and Nakamura define *zaibatsu* industrial groups as any large group of listed firms in a pyramidal structure. However, other definitions of *zaibatsu* include additional criteria such as origin, control, monopoly power, land rents, importance of bank financing, and role of general trading firms [*sōgō shōsha*] where a family holding company or partnership controls a set of directly owned subsidiaries, which controls other firms.

⁸⁴ Morck and Nakamura, 413.

⁸⁵ Trevor Johnes, “The Recent Banking Crisis and Industrial Conditions in Japan,” *The Economic Journal* 38-149 (1928), 76.

⁸⁶ Teranishi 1995, 388.

However, Kamekichi Takahashi and Sunao Morigaki take a different historical approach. While they agree with Tamaki that the Shōwa financial crisis [J. *Shōwa kinyū kyōkō*] had its short-term origins in the 1923 Kantō Earthquake, they argue that the long-term structural causes of the crisis were found in banking sector characteristics and government policy from the late nineteenth century. Takahashi and Sunao believe that one of the structural causes of the Shōwa financial crisis was the pre-modern nature of the Japanese banking system. They cited the many small banks that over-concentrated their loans in a few client businesses.⁸⁷

The Japanese government was certainly aware at the time that there were too many small, weak banks within were contributing to the 1920 crisis. In August 1920, the Finance Ministry changed its regulations to allow ordinary banks and savings banks to merge more easily. Consequently, ordinary banks could more easily take over savings banks and enter the savings business, while reducing the overall number of small stand-alone savings banks. A few months later, the Finance Ministry passed a new Savings Bank Act in 1921 to regulate abusive practices by ordinary banks of draining savings banks of funds or lending to them without adequate security. The new law increased minimum deposits at savings banks to ten yen from five yen and raised the minimum capital levels of savings banks from 30,000 yen to 500,000 yen. In light of government pressure and the new regulations, over 400 savings banks were absorbed or converted into ordinary banks. However, government policy failed in completely addressing the fundamental problem as many small, weak banks remained in the financial system.⁸⁸

Throughout much of the debate on the Shōwa financial crisis, attention has been squarely focused on the Bank of Taiwan as both the main cause and casualty of the crisis. However, the

⁸⁷ Kamekichi and Sunao, 7-8.

⁸⁸ Tamaki, 141-142.

crisis had important attendant effects on colonial Korea, particularly on the role and status of the Bank of Chōsen. The Bank of Chōsen did not share the same fate as the Bank of Taiwan but was targeted for closer supervision by the Japanese government by moving its headquarters to Tokyo.

Although the earthquake itself lasted only fourteen seconds, the repercussions lasted for years throughout the Japanese empire. As rescue and recovery began in the earthquake zone, the Japanese economy entered a new phase of crisis as businesses were unable to pay exchange bills and promissory notes issued before the quake. Businesses began to default on their loans and promissory bills and the Tokyo and Yokohama-area banks that had rediscounted the bills and notes faced a sudden loss of incoming cash and capital on top of the physical destruction of their operations. The Japanese government created a program for the Bank of Japan to rediscount bills which listed the disaster area for the payer or payee. These re-discounted “earthquake bills” [*J. shinsai tegata*] inserted the Bank of Japan as a financial intermediary within these transactions to ensure that banks and businesses remained solvent and the economy continued to function in the aftermath of the earthquake. The BOJ promised a two-year grace period before collecting on the bills it had accumulated as well as two extensions for an additional two years. In return, the Japanese government promised to compensate the BOJ for any losses incurred during the rediscounting program.⁸⁹

The Bank of Taiwan was one such institution requiring large amounts of government aid. In April 1923, the BOT received a special government loan of 50 million yen at 5%, with the provision that shareholder dividends would be reduced from 10% to 7% and that its loan portfolio would be restructured. However, the Bank of Taiwan held over 115 million yen in

⁸⁹ Randall K. Morck and Masao Nakamura, “A Frog in a Well Knows Nothing of the Ocean: A History of Corporate Ownership in Japan,” in Randall K. Morck, ed., *A History of Corporate Governance Around the World* (Chicago: University of Chicago Press, 2005), 409-411; CGK, 276-277.

earthquake bills, which was the largest amount held by any bank. The BOT's debt rendered it much more vulnerable than any other bank because it was heavily concentrated in two companies, Suzuki and Kuhara at 60% and 18% respectively. The total number of earthquake bills decreased by half from over 430 million yen in September 1923 to nearly 207 million yen in December 1926. However, the BOT still held over 100 million yen in earthquake bills while the BOC was still holding 21.6 million yen. The emperor died on December 24, 1926 bringing the Taishō era to close and inaugurating the Shōwa era.⁹⁰

On December 26, the Fifty-second session of the Imperial Diet opened to consider the fundamental restructuring of the banking system as well as the issue of the outstanding earthquake bills. The Constitutional Government Party [J. *Kenseikai*] government, led by Prime Minister Wakatsuki Reijiro, forced through two bills to issue national bonds that would be exchanged for earthquake bills held by the Bank of Japan and other creditors. In other words, the Japanese government would assume the losses from the Bank of Japan and support a rescue of the Bank of Taiwan. However, the Society of Political Friends [J. *Seiyūkai*] opposition party objected to any preferential treatment for particular firms that would benefit from the government bailout, namely the Bank of Taiwan and Suzuki. Unfortunately, Finance Minister Kataoka Naoharu prematurely stated in a committee meeting on March 14, 1927 that the Tokyo Watanabe Bank had collapsed. Although the bank was still solvent, the Finance Minister's comment triggered a run that forced the Watanabe Bank to close and subsequently led to another wave of bank closures.⁹¹

⁹⁰ Tamaki, 149.

⁹¹ Tamaki, 150-151.

After the bills were passed, the Bank of Taiwan announced the end of its relationship with Suzuki on March 24, 1927. Consequently, Suzuki defaulted on its payments to Mitsui and other banks and Suzuki eventually collapsed on April 2. However, other banks began calling in loans made to the Bank of Taiwan, again threatening the solvency of the bank. Despite the imperiled state of the Bank of Taiwan, the Bank of Japan decided on April 13 against mounting a second rescue of the Bank of Taiwan.⁹²

On April 14, 1927, Prime Minister Wakatsuki attempted a last-ditch effort to rescue the Bank of Taiwan by proposing to the young Meiji emperor and the Privy Council that the government extend an additional 200 million yen loan to the Bank of Taiwan. However, the council rejected the proposal on April 17, triggering the resignation of the Wakatsuki cabinet and the closure of the Bank of Taiwan in Japan on the following day. Between April 17 and 21, twelve banks were closed, including the enormous and prestigious Fifteenth Bank [J. *Jūgo ginkō*]. The crash was stopped by the Privy Council issuing a three-week bank moratorium from April 22, 1927.⁹³

Murai Bank and the Fifteenth Bank were particularly vulnerable due to their heavy exposure to earthquake bills. About 80% of the earthquake bills held by Murai Bank were issued by the Murai family business. Over 40% of the earthquake bills held by Fifteenth Bank were issued by International Shipping, which had faced serious problems since the 1920 financial crisis. The Fifteenth Bank failed because the largest shareholder in the bank was the Matsukata family, previously headed by Matsukata Masayoshi (1835-1924), while the bank concentrated half of its large loans and 30% of total lending to the Matsukata family businesses. In other

⁹² Morck and Nakamura, 409-412.

⁹³ Tamaki, 151-152. The Privy Council issued orders in the name of the emperor since there was technically no government following the resignation of the Wakatsuki cabinet.

words, the Matsukata family was another example of majority shareholders using financial institutions as their personal piggy banks, particularly without providing adequate collateral.⁹⁴

The Bank of Chōsen and the 1923 Kantō Earthquake

In the wartime boom, the Bank of Chōsen had greatly increased its business and its branch network, extending both through Manchuria, China, and even into Siberia. Flush with success in tapping the Manchurian export market as well as addressing the chronic trade imbalance in Korea, the Bank of Chōsen greatly increased its loans throughout its network. Total loans at the end of 1919 had a year-on-year increase of 66% to a peak of 3.24 million yen. As stated above, the stock market collapse in March 1920 quickly exposed the tenuous nature of the bank's success as its loan business began to quickly sour. The bank attempted to quickly collect on its loans but the rapidly deteriorating business situation as well as a sharp increase in the value of gold-backed banknotes forced many borrowers into arrears on their loans. The BOC found itself suddenly exposed to many non-performing loans in its previously successful Manchurian business as well as its newly-opened Japanese branches, which caused a sharp decline in profits and loss of capital.⁹⁵

Consequently, the BOC was forced to go hat in hand to the Japanese government and the Bank of Japan to ask for assistance. According to the application for financial assistance [J. *kashisage gansho*] submitted to the government, the difficult economic situation prompted the bank to present a business reorganization plan at its August 1922 shareholders meeting. The

⁹⁴ Tamaki, 149. For more on this phenomenon, see Naomi Lamoreaux, *Insider Lending: Banks, Personal Connections, and Economic Development in Industrial New England* (New York: Cambridge University Press, 1994).

⁹⁵ CGK, 247.

bank cut its stock dividend from 10% to 8% and reduced expenses by 500,000 yen, which together would create savings of one million yen. At the same time, the bank announced it would write off ten million yen in nonperforming loans over a period of five years.⁹⁶

Despite the reorganization plan, the bank had little choice but to turn to the Japanese government and the Bank of Japan for financial assistance. After a careful inspection of the bank's records, the Ministry of Finance issued its report in June 1923. Within a total of 227,100,000 yen in non-performing loans, the bank had 134,672,000 yen of loans in default requiring it to take an expected loss of about 96 million yen. In keeping with overall government sentiment at the time however, the Ministry of Finance report still held out hope that the adverse economic conditions might reverse and the economy would recover. Therefore, the report reserved judgment on some loans for another day and excluded them from the final assessment of losses. Consequently, the Ministry of Finance established losses at 44,170,000 yen and created a plan to replace those losses within ten years. The Japanese government and the Bank of Japan prepared ten-year loans to the Bank of Chōsen of 50 million yen and 15 million yen respectively, at a 5% interest rate. If the bank invested or lent out those funds at a rate of 9%, then the bank would accumulate profits of 46,843,000 yen over the life of the loans. This was similar to the rescue plan offered to the Bank of Taiwan for 50 million yen in April 1923 mentioned above.⁹⁷

In tandem with the in-house reorganization plan and the government rescue plan, the bank began adjusting its balance sheet even before the shareholders meeting or the release of the government report. The BOC wrote off 300,000 yen and 868,000 yen in the first and second

⁹⁶ CGK, 248.

⁹⁷ CGK, 249. The text of the Ministry of Finance report is quoted in the source and can be translated as follows, "Depending on the changes in the current period and financial world, there may perhaps be the perspective of some kind of revival. Therefore, judgment on the fate [of these loans] should await another day and they should be excluded temporarily from the assessed amount of loss."

halves of 1922. The bank took an additional write-down of 832,000 yen in the first half of 1923 for a total of two million yen and the bank was in the midst of implementing the government rescue plan when the Kantō Earthquake erupted on September 1, 1923.⁹⁸

When the earthquake struck, the Bank of Chōsen suffered physically from the physical destruction of its Tokyo branch by fire. Financially, the Bank of Chōsen faced the depletion of a significant portion of its asset base when its client businesses were unable to service their loans. Although the bank had already written off two million yen in losses from the postwar crash as stated above, the bank continued with its write-downs even after the earthquake by taking write-downs of 404,000 yen in the second half of 1923 and 220,000 yen in the first half of 1924.⁹⁹

In the midst of recovering from both the postwar crash and the earthquake, BOC president Minobe Shunkichi was replaced in early February 1924 by Nonaka Kiyoshi (1872-1963), a former Ministry of Finance official who had been head of the *Senbaikyoku*, the government monopoly on tobacco, salt, camphor, and alcohol. The timing of the appointment closely preceded the final application of the bank for the above-mentioned rescue funds from the Ministry of Finance and the Bank of Japan. In a series of installments between March and June, the bank received 50 million yen from the Deposit Bureau [J. *yokinbu*] of the Ministry of Finance and 15 million yen from the Bank of Japan. The majority of the funds came from the Deposit Bureau within the Ministry of Finance, which was the central repository for money deposited through the post office. Essentially, the rescue of the Bank of Chōsen, as well as that

⁹⁸ CGK, 248-249.

⁹⁹ CGK, 249.

of the Bank of Taiwan, was being financed by average, and usually low-income, Japanese and Korean depositors who had entrusted their money to the postal savings system.¹⁰⁰

On April 29, 1924, the organizational and operational regulations of the bank were revised under the instructions of the Ministry of Finance and with the approval of the Chōsen Government-General. From May 1924, the offices of the Bank of Chōsen president and vice-president were moved to Tokyo. The business territory of the bank was divided into three regions with bank directors stationed Tokyo, Keijō, and Dairen. The Tokyo director oversaw all of the Japanese branches and foreign branches with the exception of the Manchurian branches. The Keijō director supervised branches in Korea, while the Dairen director managed the Manchurian branches. The reason for the organizational shift is partly explained by the establishment of a restructuring department [*J. seiribu*] in each region to oversee the disposition of non-performing loans that had passed their repayment date. In other words, the Ministry of Finance had shifted the bank executives to Tokyo to exercise closer supervision over the troubled institution, while creating the institutional structure for more direct, regional resolution of bad loans.¹⁰¹

In terms of financial damage from the earthquake, the Bank of Chōsen was business partners with both Suzuki and Kuhara. Compared to the Bank of Taiwan however, the BOC had relatively little exposure to their debts and the BOC was third overall on the list of banks with earthquake bills at 36 million yen. Liability further declined by October 1926 to 21.6 million, of which 15.1 million, or approximately 70%, was deemed unrecoverable (Table 11). In almost half of the cases, the BOC held no collateral against the earthquake bills, which meant the bank had little recourse when certain companies went bankrupt like the Takada Company and the Japan-

¹⁰⁰ CGK, 250. Patricia Hagan Kuwayama, "Postal Banking in the United States and Japan: A Comparative Analysis," *Monetary and Economic Studies* (May 2000), 91-93.

¹⁰¹ CGK, 251.

Russia Business Company. In other cases like the South Manchurian Sugar Company, the BOC did hold collateral in the form of company property but could not collect so the bank was forced to accept a total loss. In the case of the Tōa Tobacco Company and the Sale and Fraser Co., the bank avoided any loss at all by working out a longer-term repayment plan stretching over five or six years. Of course, workout plans were only possible when companies were going concerns and able to promise eventual repayment.¹⁰²

Table 11. Earthquake Bills Held by the Bank of Chōsen in October 1926 (thousand yen)

Earthquake Bill Payee	Outstanding Amount	Expected Loss
Japan-America Raw Silk Company [<i>Nichibei kiito kaisha</i>]	5,410	4,530
Sale and Fraser Co.	3,926	0
Japan-Russian Business Company [<i>Nichiro jitsugyō kaisha</i>]	3,767	3,767
Takada Company [<i>Takada shōkai</i>]	3,438	3,438
Kuhara Company [<i>Kuhara honten</i>]	1,761	1,761
South Manchurian Sugar Company [<i>Nanman seitō kaisha</i>]	1,400	1,400
Tōa Tobacco Company [<i>Tōa tabako kaisha</i>]	1,041	0
Yalu River Paper Manufacturing [<i>Ōryokukō seishi</i>]	500	0
Stand Together Company [<i>Kyōritsu kigyō kaisha</i>]	194	194
Suzuki Company [<i>Suzuki shōten</i>]	125	0
Kumatoridani Shichishō	50	50
Total	21,612	15,140

Source: CGK, 256.

More importantly however, the earthquake and its aftermath provided an additional opportunity for the Ministry of Finance to exercise more direct control over the bank. According to the Bank of Chōsen Law [*J. Chōsen ginkō hō*], supervisory authority of the Bank of Chōsen originally rested with both the Chōsen Governor-General as well as the Minister of Finance. Joint supervision of the Bank of Chōsen was unusual since the other large colonial bank, the Bank of Taiwan, was under the sole jurisdiction of the Minister of Finance. Although there were

¹⁰² Tamaki, 149; CGK, 276.

several calls for the Bank of Chōsen to be placed directly within the purview of Ministry of Finance, these efforts bore little fruit until after the 1920 crisis.

In the midst of the postwar economic crisis across Asia, Chinese banks in Manchuria were increasingly dissatisfied with the central role of the Bank of Chōsen and its currency in the Manchurian economy. By April 1921, three of the largest government-controlled banks in Fengtian had merged into one large institution, a reorganized Official Bank of the Three Eastern Provinces (OBTEP).¹⁰³ As competition increased between the Chinese and the Japanese, many Chinese called for the establishment of their own central bank, citing the fact that the Bank of Chōsen was functioning as the Manchurian central bank while answering to the Korean colonial government. In some respects, the Chinese demands for financial independence were echoing similar calls made by Koreans against Daiichi Bank in Korea a quarter-century earlier.¹⁰⁴

Regardless of foreign protests against the Bank of Chōsen, the Finance Ministry was determined to bring the Bank of Chōsen under its direct supervision.¹⁰⁵ The opportunity came after the Kantō Earthquake when the Bank of Chōsen sought assistance from the Japanese government and the Bank of Japan. After garnering the agreement of the Chōsen Government-General and the Wakatsuki Cabinet in February 1924, the Japanese government passed a law in August handing sole supervisory control of the BOC to the Ministry of Finance.¹⁰⁶ In essence,

¹⁰³ Ronald Suleski, "The Rise and Fall of the Fengtien Dollar, 1917-1928: Currency Reform in Warlord China," *Modern Asian Studies* 13-4 (1979), 657-658. The three Manchurian banks were the Official Bank of the Three Eastern Provinces [Ch. *Dongsansheng guanyinhao*], the Bank of Manchuria [Ch. *Dongsansheng yinhang*], and the Fengtian Industrial Bank [Ch. *Fengtian xingye yinhang*].

¹⁰⁴ CGK, 252.

¹⁰⁵ While the *Chōsen ginkōshi* seems to suggest that Chōsen Governor-General control of the Bank of Chōsen was a factor in Chinese protests, switching bank supervision to the Japanese Ministry of Finance would hardly have mollified the protestors in Manchuria.

¹⁰⁶ CGK, 253.

the central bank of colonial Korea lost its independence, albeit temporarily, as the MOF exerted direct supervisory authority.

As Edward I-te Chen has argued, several regulatory changes were introduced between 1919 and 1942 to strengthen the supervisory capability of the central government while weakening the power of colonial governors. While Chen states that some changes were largely cosmetic in nature, loss of direct supervisory control over the Bank of Chōsen was certainly a strong indicator of greater central government control over the colonial Korean economy at the expense of the colonial government. However, the circumstances under which the Bank of Chōsen was driven to seek central government assistance, namely the postwar economic crisis, also highlights the limited ability of the colonial government to support its own central bank as well as the continued deep dependence of the colony upon the metropole. As the core-periphery relationship between Japan and Korea began to evolve through its structure of overlapping layers from the open ports period onward, the extension of greater central control over the BOC foreshadowed the eventually takeover of all Japanese industries by the central government. In this regard, the overlapping structure of multiple cores and peripheries that had evolved since the opening of Korea in 1876 and extended into Manchuria was being flattened into a single Tokyo core surrounded by multiple peripheries.¹⁰⁷

After obtaining supervisory control over the BOC, the Ministry of Finance demanded statistical data from the bank regarding its non-performing loans which were preserved in its archives. These figures indicate that at the end of 1924, non-performing loans were nearly 52.2%,

¹⁰⁷ Edward I-te Chen, "The Attempt to Integrate the Empire: Legal Perspectives," in Ramon H. Myers and Mark R. Peattie, *The Japanese Colonial Empire, 1895-1945* (Princeton: Princeton University Press, 1984), 264. Among the superficial changes to the power of the Korean governor-general was the added eligibility of civilians for the position as well as the elimination of the stipulation that the governor-general was under the direct supervision of the emperor [*Tennō ni chokurei*]. Chen states that in reality, military officials continued to occupy the post and the Korean governor-generals may have lost their direct legal relationship with the emperor but were never formally subordinated to the prime minister.

or 236 million yen, of the bank's total loan portfolio of a little over 452 million yen (Table 12). Japan was the region with the largest number of problem loans as nearly three-quarters (74.8%) of all loans made in Japan were non-performing and half of all loans were written off for a loss of almost 80 million yen. Manchuria was a close second with two-thirds (68%) of its loans as non-performing and a little more than a third (36.9%) was written off at a loss of over 46 million yen.¹⁰⁸

Table 12. Non-Performing Loans of the Bank of Chōsen
by Business Region in 1924 (thousand yen)

Business Region	Loans	Non-performing loans		Estimated Loss	
	Amount	Amount	% of Total Loans	Amount	% of Total Loans
Japan	175,303	131,047	74.8%	79,559	45.4%
Chōsen	81,021	14,589	18.0%	6,336	7.8%
Manchuria	125,368	84,618	67.5%	46,266	36.9%
Overseas	70,332	5,786	8.2%	2,702	3.8%
Total	452,123	236,040	52.2%	134,864	29.8%

Source: Ministry of Finance Bank Bureau [*Ōkurashō ginkōkyoku*], “*Chōsen ginkō seiri ni kan suru ken*” [Conditions regarding the remediation of the Bank of Chōsen] (1925.7.11) in *Shōwa zaiseishi shiryō* [Documents on Shōwa financial history]; CGK, 256.

Loan losses incurred in Japan reflected collateral damage from the earthquake and the inability of clients to pay back their loans in a timely fashion or not at all. Nearly a quarter of the estimated loss in Manchuria was attributable to a single client, the ill-fated venture of the Manchurian Bank [*J. Manshū ginkō*]. Manchurian Bank was the single largest client in the entire BOC loan portfolio at 21.2 million yen but suffered from a serious reversal of fortune. By the end of 1924, the BOC had classified the entire 21 million yen loan as non-performing and the bank expected to write off half of the loan, or 10 million yen. By early 1927, the loan amount

¹⁰⁸ Ministry of Finance Bank Bureau [*Ōkurashō ginkōkyoku*], “*Chōsen ginkō seiri ni kan suru ken*” [Conditions regarding the remediation of the Bank of Chōsen] (1925.7.11) in *Shōwa zaiseishi shiryō* [Documents on Shōwa financial history]; CGK, 257.

had increased to 21.5 million and the expected loss had similarly increased to 12.5 million yen.¹⁰⁹

Ultimately, the BOC suffered greatly during the Shōwa Financial Crisis because of losses in its commercial loan business and its foreign exchange operations in Manchuria and China. The bank was forced to reduce its capital by half, eliminate staff, cut salaries, and move its headquarters from Seoul to Tokyo, which placed it directly under the supervision of the Japanese Ministry of Finance. However, the fundamental problem with both the Bank of Chōsen and the Bank of Taiwan was their dual nature as colonial central banks and regular commercial banks. The relative underdevelopment of the capital markets meant that development funds had to be channeled through the banking system to provide colonial companies with the necessary capital to operate and expand their businesses. However, the state-directed mandate to provide low-interest, long-term loans from short-term deposits, coupled with organ bank relationships that concentrated loans in a relatively small number of client businesses, resulted in fundamental institutional weaknesses that became glaringly apparent in times of economic crisis. Since the banks were the ostensible lenders of last resort but could not be saved either by their colonial governments or their own efforts, the responsibility for the colonial banks ultimately fell on the coffers of the imperial center. While the financial cost was paid by the Tokyo government, the actual funds transferred from the Deposit Bureau of the Ministry of Finance was money entrusted to the postal savings system by a vast number of small, low-income depositors in Korea, Japan, and Manchuria.

The reputation of the BOC suffered immensely due to its forced rationalization measures and the removal of its headquarters from the peninsula. During the same period, the Chōsen

¹⁰⁹ Ministry of Finance Bank Bureau, 15; CGK, 259.

Industrial Bank was able to expand its operations due to the greater size of branch network and general operations. The BOC problems continued through the late 1920's when it was again forced to reduce staff and cut salaries. Although the BOC and the Chōsen Industrial Bank enjoyed nearly the same level of prestige as the preeminent financial institutions in the colony, the BOC had inherently greater status as the central bank of colonial Korea but a more tarnished reputation due to its business problems.¹¹⁰

1930's Depression

According to recent scholarship, the proximate cause of the 1930's global depression was self-initiated monetary tightening in the United States and France in 1928 and 1929. Monetary tightening in the United States was a result of Federal Reserve concern over continual gold transfers to France as well as the need to dampen feverish speculation in the stock market. While tighter monetary policy led to a 4% decrease in the price level over the course of 1929, the overheated stock market collapsed with the market crash in October 1929 that is commonly perceived as the start of the Great Depression in the .¹¹¹

However, the long-term origins of the 1930's global depression as well as the method of transmission from the self-inflicted crises in the United States and France to the wider global economy can be traced to legacies of the First World War and the gold standard. Peter Temin and other scholars argue that commitment to the gold standard by central banks in the major industrial economies caused a competitive deflationary cycle between countries to attract gold and protect themselves from speculative attacks.¹¹² Temin's argument contradicts the previous,

¹¹⁰ Moskowitz, 410-411.

¹¹¹ James Hamilton, "Monetary Factors in the Great Depression," *Journal of Monetary Economics* 19 (1987).

¹¹² Peter Temin, *Lessons from the Great Depression* (Cambridge: MIT Press, 1989); Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919-1939* (Oxford: Oxford University Press, 1992).

long-accepted assertions made by Milton Friedman and Anna Schwartz that the U.S. Federal Reserve failed to protect the American money supply because it lacked strong leadership or full comprehension of the problem.¹¹³ Instead, Temin argues that the policies of the Federal Reserve reflected its commitment to the gold standard as well as the similar policy-driven posture of all the other major central banks around the world.¹¹⁴ As Ben Bernanke states simply, the depression was caused by a monetary contraction that began in the United States and France but was spread throughout the world by the international monetary standard.¹¹⁵

The Japanese Empire and the Worldwide Depression

In December 1931, Takahashi Korekiyo was appointed Minister of Finance and implemented an inflationary policy that would later be recommended by Keynes. Takahashi reversed the deflationary policies of his predecessor, Inoue Junnosuke, and took Japan off the gold standard, devalued the yen, and began large-scale deficit financing to prime the Japanese pump. The result of drastically increased government spending was to create consumer demand, stimulate private investment, and create jobs. A large portion of the new deficit financing was directed toward the Japanese army and navy. Military outlays more than doubled from 455 million yen in 1931 to 1.08 billion yen in 1936, as total government expenditures increased from 1.5 billion yen in 1931 to 2.3 billion yen in 1936.¹¹⁶

¹¹³ Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States, 1867-1960* (Princeton: Princeton University Press, 1963).

¹¹⁴ Temin, 50.

¹¹⁵ Bernanke and James, 41.

¹¹⁶ Richard J. Smethurst, "Takahashi Korekiyo's Fiscal Policy and the Rise of Militarism in Japan During the Great Depression," in Bert Edström, ed., *Turning Points in Japanese History* (Richmond: Japan Library, 2002), 163.

Despite the large diversion of government funding to the military, Richard Smethurst argues that Takashi was not an enthusiastic militarist but rather an economic realist who needed to engineer an economic recovery through increased government spending. While his budgets enabled the military conquest of Manchuria and the buildup to the Pacific War, Takahashi “fought a desperate, courageous, and ultimately suicidal battle to keep the army under control.”¹¹⁷

One of the casualties of the global depression was the liberal policy regime of the 1920’s in Japan and the concomitant rise of state interventionism. The depression killed classical liberalism as well as Taishō democracy. Prime Minister Hamaguchi maintained a deflationary policy to keep Japan on the gold standard despite a sharp increase in unemployment. Popular discontent with the economy was transformed into opposition to party politics, resulting in a right-wing-inspired assassination attempt against Hamaguchi in November 1930 that led to his death in August 1931. Civilian control over the Japanese military was clearly weakened by the Manchurian Incident of September 1931 and the collapse of the *Minseitō* cabinet in December 1931. Takahashi Korekiyo was installed as the new finance minister within a *Seiyūkai* cabinet, but political killings continued with the assassinations of Inoue Junnosuke in February and Inukai Tsuyoshi in May. Within an atmosphere of politically-motivated terrorist acts, the Japanese military began to assume greater influence over Japanese politics.¹¹⁸

With the shift to military and state interventionism in politics and the economy, government policies were led by “new bureaucrats” [J. *shinkanryō*], members of the National

¹¹⁷ Smethurst 2002, 165. As evidence for his position, Smethurst cites continual confrontations between Takahashi and army generals, but the strongest proof is his assassination in 1936 as the price for his defiance of military demands.

¹¹⁸ Cha, 131-132. Inoue Junnosuke was Finance Minister in Hamaguchi’s cabinet and Inoue Tsuyoshi was the prime minister of the *Seiyūkai* cabinet.

Mainstay Society [J. *Kokuikai*]. Generally portrayed as reform-minded government technocrats, the new bureaucrats were characterized by a pragmatic nationalism that emphasized the economic role of the state, disillusionment with corrupt party politics, willingness to collaborate with other bureaucrats and military men, and dissatisfaction with the instability caused by *laissez-faire* economic policy¹¹⁹ One important legislative act that the new bureaucrats implemented was the Important Industries Control Law [J. *Jūyō sangyō tōseihō*] which encouraged “cooperation” in state-designated important industries through the formation of cartels. At the same time, the Ministry of Commerce and Industry under new bureaucrat leadership extended official government guidance to companies on their investment decisions as well as directly negotiating price-fixing and output agreements among companies in the same industries.¹²⁰

New bureaucrats also launched a “heavy and chemical industrialization” drive to promote specific industries through the Petroleum Industry Law of 1934 and the Automobile Manufacturing Law of 1936. Through these and other laws, the government limited the market share of foreign companies, such as Standard Oil, Ford, and General Motors, while encouraging domestic companies to expand their market share through import substitution by offering tax incentives. Needless to say, greater investment in the transportation, chemical, and electricity sectors was an important contribution to Japanese recovery from the global depression. At the

¹¹⁹ Robert M. Spaulding, Jr., “Japan’s ‘New Bureaucrats’ 1932-45,” in George M. Wilson, ed., *Crisis Politics in Prewar Japan: Institutional and Ideological Problems of the 1930s* (Tokyo: Sophia University Press, 1970). The *Kokuikai* was an outgrowth of the Golden Pheasant Academy [*Kinkei gakuin*] and named after a passage in the Confucian text *Kuantzu*, that cited four virtues as foundations for the nation; decorum, righteousness, integrity, and a sense of shame.

¹²⁰ Cha, 131; Roger H. Brown, “Shepherds of the People: Yasuoka Masahiro and the New Bureaucrats in Early Showa Japan,” *Journal of Japanese Studies* 35-2 (2009), 285; Although new bureaucrat efforts sometimes overlapped with the activities of the Army staff officers in the “control faction” [*tōsei ha*], Roger Brown states that Yasuoka Masahiro was wary of the military threat, particularly from the “Imperial Way faction” [*kōdō ha*], and consulted with government leaders on the need to head off a military coup or dictatorship. Spaulding states that the Imperial Way faction considered all civil servants to be enemies, including new bureaucrats. Spaulding, 56-57.

same time, the Japanese military was demanding greater budgetary appropriations for military expansion, increasing from 31% of the government budget in 1931 to 47% in 1936.¹²¹

The Bank of Chōsen in the 1930's

The gold standard had functioned generally without crisis for over thirty years throughout the prewar period, but the outbreak of the First World War led to the general suspension of the gold standard. With unsettled monetary and financial conditions in the immediate postwar period, the promise of stability through the gold standard attracted countries to readopt the standard throughout the 1920's. Under the interwar gold-exchange standard, countries held convertible foreign exchange reserves as a partial or full substitute for gold. These convertible reserves were only partially backed by actual gold, so shifting from gold to foreign exchange reserves allowed central banks to rapidly increase their money supply without relying on the physical metal. Furthermore, most central banks were not required to support their bank note supply through a one-to-one ratio between reserves and liabilities. The fractional reserve requirements generally set a fixed percentage, such as 40% in the case of the U.S. Federal Reserve, of gold or gold-exchange to back a note supply that could be 2.5 times larger than the reserve. Both mechanisms allowed the expansion of money and credit without relying on the limited physical supply of gold, but also greatly magnified the deflationary impact when central banks began transferring gold out to maintain adherence to the gold standard during the crisis in the late 1920's.¹²²

Ben Bernanke and Harold James have argued that “debt deflation” erodes the net worth position of borrowers by increasing the real value of nominal debt obligations. However, debt

¹²¹ Cha, 131.

¹²² Bernanke and James, 35-36.

deflation can induce depression through crisis in the financial system because deflation weakens the financial positions of borrowers, including nonfinancial agents and financial intermediaries. Banks are financial intermediaries with nominal liabilities, primarily in the form of deposits, and real assets, which are either debt instruments or combinations of debt and equity. If debt is held as an asset, then deflation can be neutral or even somewhat beneficial to a bank as deflation increases the real value of the asset. However, deflation can negatively affect a bank's capital position when borrowers exhaust their equity cushions and are forced to forfeit their real assets to the bank. The bank has essentially gained unwanted assets in exchange for its capital, which may impede its ability to make new loans or force it to call in old ones. If a bank's capital is sufficiently exhausted to cause a crisis of confidence among depositors, then a run on the bank might result in the bank's elimination entirely or a drastic curtailment of operations. As Bernanke and James state, the final result is usually a government takeover.¹²³

After the beginning of the Pacific War in 1937, the BOC quickly expanded into China and acted as the financial agent of the Imperial Army. The BOC initially trailed the Japanese advance and established offices in each of the major Chinese cities captured by Japanese troops. The bank was the handmaiden of the Japanese imperialist aggression into China and the paymaster of the Imperial Army. The continuous expansion of its branch network created more demand for personnel while military conscription began to siphon off its employees. The pressure of the war affected the personnel policies of the BOC as the bank addressed its manpower shortages by hiring more Koreans and promoting them to higher positions of responsibility and authority. In fact, the breakthrough of Koreans from the staff [*J. hirakōin*]

¹²³ Bernanke and James, 49.

level to the managerial [*J. yakuseki*] level was a direct result of wartime conscription and the growing shortage of able-bodied Japanese men.¹²⁴

The percentage of Koreans in the total bank workforce increased from 16% in 1928 to 22% by 1939. The bombing of Pearl Harbor and the entry of the United States into the Pacific War in 1941 accelerated military conscription and indirectly, the hiring of Korean employees at the BOC. By March 1945, 33% of the bank workforce or 455 people, were native Korean. However, these recent Korean hires were distinctly different from their predecessors because of their educational background in elite colleges and universities, their access to managerial positions, and generally broader opportunities for advancement within the bank.¹²⁵

In 1938, Ku Yong-sŏ, a graduate of Tokyo Commercial College hired by the Tokyo office, became the first Korean to break through the managerial ceiling when he was appointed assistant manager of the Sinŭiju office and later manager of the Yŏsu office. Also in 1938, Kim Yu-t'aek graduated from Kyūshū Imperial University and entered the BOC. In 1945, he was appointed assistant manager of the Haeju office, which was a meteoric rise through the ranks for a Korean and indicated the extent of the personnel pressures exerted by the war. By 1945, Paek Tu-jin became assistant manager of the Keijō branch, which was the most important branch through the BOC network.¹²⁶

The Bank of Chōsen and Korean Banks

¹²⁴ Moskowitz, 380-381.

¹²⁵ Moskowitz, 383.

¹²⁶ Moskowitz, 384-385.

Although Korean officials and merchants recognized the need to develop native-owned industry during the Taehan Empire period, Korean companies were often hampered by the limited availability of domestic capital, undeveloped management practices, foreign diplomatic pressure, and the fierce competition of foreign companies.¹²⁷ In the Protectorate and colonial periods, Korean businessmen pursued the establishment of native-owned financial institutions to compete with Japanese banks. However, Korean banks often faced the same issues of limited capital and inefficient management that had plagued Korean-owned companies during the Taehan Empire period. The problem of a small capital base meant that Korean banks were often forced to turn to the colonial government or the Bank of Chōsen for financial aid in times of crises to maintain their solvency and survival.

Dennis McNamara argues that the Korean banks were under-capitalized because many Korean landlords had difficulty transitioning from agrarian-style immovable capital to fluid, currency-based financial capital that could be invested in joint-stock companies. Korean landowners were long accustomed to collecting reliable and predictable returns from their agricultural investments, such as tenant farming. In the absence of a sufficient risk premium or assurances regarding the safety of their investment, Korean landlords were reluctant to become full-fledged capitalists and risk their money supporting large-scale industrial and commercial development. Consequently, Korean banks played only a minor role, if any, in financing large-scale commercial and industrial enterprises.¹²⁸

¹²⁷ Cho Jae-gon, "The Industrial Promotion Policy and Commercial Structure of the Taehan Empire," in Kim Dong-no, John B. Duncan, and Kim Do-hyung, eds., *Reform and Modernity in the Taehan Empire* (Seoul: Jimoondang, 2006),

¹²⁸ Dennis L. McNamara, *The Colonial Origins of Korean Enterprise, 1910-1945* (Cambridge: Cambridge University Press, 1990), 67.

In addition to their relatively small capital base, Korean banks were subject to both government regulation and the vagaries of the marketplace which forced them to turn to the colonial banks for capital and guidance. For example, the Tongil Bank [K. *Tongil ūnhaeng*] began its existence as Hanil Bank [K. *Hanil ūnhaeng*], established in 1906 by a group of Korean landowners, but underwent mergers and reorganizations under the aegis of the colonial government and the Bank of Chōsen. Ultimately, the top leadership positions went to Japanese officials who had formerly worked in the Bank of Chōsen and the bank itself was taken over by Hansōng Bank [K. *Hansōng ūnhaeng*, J. *Kanjō ginkō*] in July 1943.

The first executive director of Hanil Bank was Paek In-gi (1882-1942), a wealthy landowner from Chōnju in north Chōlla province. Paek was replaced by Min Yōng-hui (1852-1935), a former government official and landowner from Ch'ungch'ōng province. Min Yōng-hui tripled the paid-in capital of the bank to 750,000 yen by 1919 and increased it again the following year to 1.63 million yen. The Min family solidified their hold over Hanil Bank with the appointment of Min Tae-sik (b. 1882) and Min Kyu-sik, Min Yōng-hui's sons, to positions within the bank. In 1920, Min Tae-sik succeeded his father as president of Hanil Bank in 1920 and as mentioned above, began grooming his son Min Pyōng-do (1916-2006) by sending him to work in the Bank of Chōsen.¹²⁹

During the 1920's, government regulation and increased competition among banks forced smaller, weaker banks to consolidate for survival. In the wake of the Shōwa financial crisis, the colonial government passed an ordinance that directed commercial banks to increase their paid-in capital to two million yen, which forced smaller banks to raise new capital or merge with their competitors. Although Hanil Bank already had a capital base of two million yen, Min Tae-sik

¹²⁹ McNamara 1990, 73.

engineered a merger with Hosŏ Bank of south Ch'ungch'ŏng province in January 1931. The newly renamed Tongil Bank was capitalized at over three million yen, but merger costs, disgruntled shareholders from Hosŏ Bank, and the difficult economic conditions of the early 1930's forced Tongil to undertake retrenchment measures in March 1933. Min Tae-sik retained the presidency, but he was forced to accept aid and advice from the Bank of Chōsen for the bank reorganization. Consequently, Tongil Bank was eventually taken over by the Japanese as the Korean managers were forced out by the Bank of Chōsen.

The Bank of Chōsen in the 1940's

In contrast to the situation at the private banks in Korea, the fulltime Korean employees of the BOC were being fully integrated into the BOC hierarchy and the imperial Japanese social structure as they were assigned to bank offices in the newly conquered territories of China in the early 1940's. Like their Japanese colleagues, Korean employees in China were now eligible to receive the overseas, housing, and miscellaneous stipends that were previously denied them in their domestic Korean positions. This achievement represented recognition of their loyalty to the bank and to the empire as they were awarded the compensation, managerial positions, and social status in the bank and the larger community that they had long sought.¹³⁰

By the end of the war in August 1945, the BOC had a relatively large number of Korean employees that composed between 35 to 40% of its total workforce. These Korean bankers were experienced in the structure and operations of a commercial bank and a central bank, and a few had significant managerial experience. Ironically, the Pacific War had prepared the Korean BOC employees to take over the bank after Liberation and to run it without Japanese oversight. Before

¹³⁰ Moskowitz, 385.

the Koreans could prove their readiness to take full control, southern Korea and the BOC were occupied by American military troops.

As Korea entered the post-Liberation era and occupation under both American and Soviet forces, the Korean employees of the BOC faced serious issues such as a shortage of experienced personnel to take the place of the departing Japanese, high inflation from excessive printing of currency, and the unrelenting scrutiny of occupation authorities. However, the long-term influence of the Korean employees of the BOC can hardly be discounted as colonial period employees became an elite group of postwar business and government officials.¹³¹

¹³¹ Moskowitz, 386-387.

Chapter 4: The Bank of Chōsen in Manchuria

“After leaving the Korean frontier, a day’s journey by rail to the west brings the traveler to the south-eastern border of the Great Manchurian plain, and what a change greets his eyes!... in the towns, the drowsiness that so often characterizes a Korean town, gives place to lively markets and streets thronged with busy traders. In every respect he is now in a different land. No less a difference marks the course of the economic development of the two countries, and in this lies the reason for treating Manchuria in a manner different from that employed in speaking of Chosen.”¹

Introduction

In his 2003 inaugural address, President Roh Moo-hyun [No Mu-hyōn] of South Korea touted Korea as the “hub economy” for Northeast Asia, which would be a “big bridge linking China and Japan, the continent and the ocean.”² In Roh’s eyes, the three Northeast Asian countries of South Korea, Japan, and China would form an increasingly integrated regional economy. Roh stated that the geopolitical position of the Korean peninsula had been a historical source of pain, specifically the colonial occupation of Korea. However, it was a financial institution during the colonial period, the Bank of Chōsen, which had already played a critical role in creating an integrated regional economy in the early twentieth century that had linked together Japan, colonial Korea, and Manchuria.

Manchuria has traditionally occupied an important position in Chinese history and historiography both as the historical homeland of the Qing dynasty and the site of foreign territorial incursions, notably by the Russians and the Japanese. Existing scholarship on the economic history of Manchuria in the early twentieth century has generally focused on various aspects of colonialism and imperialism, particularly the role of the Japanese after the 1930’s.³ In

¹ Bank of Chōsen, *Economic History of Manchuria* (Seoul: Bank of Chōsen, 1920), 3-4.

² Roh Moo-hyun, “Inaugural Address: A New Takeoff Toward an Age of Peace and Prosperity,” <http://www.icasinc.org/2003/20031/20031rmh.html>; Charles K. Armstrong, *The Koreas* (New York: Routledge, 2006), 52-53.

these arguments, the Japanese invested heavily in the Manchurian economy to develop both primary resources as well as a manufacturing base. Other scholarship has adopted a structural perspective to analyze the interaction between hierarchical corporations and social networks in early twentieth century China.⁴ Previous presentations of Japanese investment seem to draw a direct relationship between the Japanese and Manchuria without fully explicating the complexity of either global economic conditions or the interconnections within the imperial Japanese empire that critically affected the politics and policy of the Japanese in Manchuria.⁵

The globalization of the world economy was already playing a critical role in the events in East Asia as the worldwide decline in the price of silver and the fluctuations associated with adopting the gold standard were an important factor in local government finance.⁶ Namely, Japanese imperialism was enjoying favorable conditions for expansion into Manchuria while Chinese efforts at political and economic self-strengthening were hindered by the same factors. Furthermore, the formative period of Japanese investment in its puppet state of Manchukuo

³ Ramon H. Myers, *The Japanese Economic Development of Manchuria: 1932 to 1945* (New York: Garland Publishing, 1982); Kungtu C. Sun, *The Economic Development of Manchuria in the First Half of the Twentieth Century* (Cambridge: Harvard University Press, 1969)

⁴ Sherman Cochran, *Encountering Chinese Networks: Western, Japanese, and Chinese Corporations in China, 1880-1937* (Berkeley: University of California Press, 2000).

⁵ Christopher Mills Isett, "State, Peasant and Agrarian Change on the Manchurian Frontier, 1644-1940," (Ph.D. dissertation, University of California Los Angeles, 1998); Gavan McCormack, *Chang Tso-lin in Northeast China, 1911-1928* (Stanford: Stanford University Press, 1977), 3-4. Manchuria has been alternately defined as the Three Eastern Provinces [*Dong-san-sheng*] of Liaoning (formerly Fengtian), Kirin, and Heilungkiang; or the Northeast (*Tung-pei*). Together, these three provinces cover an area roughly equal to the combined territory of France and Germany. However, McCormack argues that the term "Manchuria" itself was a creation of Westerners and Japanese that allowed the region to eventually be severed from China and reestablished as the Japanese puppet state of Manchukuo. Thus he prefers to use "Three Eastern Provinces" or the "Northeast" in reference to the northeast of the Great Wall.

⁶ This is not a new topic since the historical impact of East Asian, particularly Chinese, demand on global flows of monetary metals has been well-recognized. Indeed, much of the silver from Spain's colonies in America eventually ended up in China, contributing to the development of a global economy as early as the sixteenth century. Despite historical debate over the origins of the Kangxi depression, it is indisputable that Chinese demand radically reoriented flows of gold and silver not only from the New World but from Europe all the way to Japan. For more on the debate, see Richard von Glahn, "Myth and Reality of China's Seventeenth-Century Monetary Crisis," *Journal of Economic History* 56-2 (1996), 429, 433; William S. Atwell, "Some Observations on the 'Seventeenth-Century Crisis' in China and Japan," *Journal of Asian Studies* 45-2 (1986), 229.

coincided with the advent of the global depression that plagued industrialized economies and created extremely tight conditions for credit. Finally, Japanese expansion of the industrial infrastructure, particularly through basic industries such as cement, were highly dependent on firms that were already active in the Korean peninsula such as the Onoda cement factory. While Onoda was ostensibly a “Japanese” firm, the location of its factories in the Korean peninsula and its dependence on Korean labor, highlights the interconnected nature of the colonial and continental economies. Consequently, the importance of examining the complexity of conditions underlying Japanese investment and development in Manchuria cannot be ignored.⁷

Louise Young has argued that Japanese empire building in Manchuria produced two imperial systems. In Manchuria, the Japanese established political, economic, and social institutions of control while creating a parallel structure in the metropolis to mobilize resources to support the imperial project in Manchuria. For Young, the partnership of society and the state maintains an analytic focus on the state while also exposing the vertical dimensions in Manchurian society where the “bottom-up” support of millions of ordinary people enabled the state to pursue its imperialist aims. However, Young’s dichromatic distinction between Manchuria and the Japanese metropole reifies the common conception in Manchurian studies that there were only two main states worthy of interest, Japan and Manchuria. The reduction of Japan and its empire to a metropolitan position centered on Tokyo oversimplifies the imperial structure that Young seeks to analyze, and denies the potential of exploring the diverse and problematic relationships between colonies within the empire, namely Manchuria and Korea.⁸

⁷ Soon-Won Park, *Colonial Industrialization and Labor in Korea: The Onoda Cement Factory* (Cambridge: Harvard University Asia Center, 1999). Globalization as defined by David Held is “spatio-temporal processes of change which underpin a transformation in the organization of human affairs by linking together and expanding human activity across regions and continents.” Certainly, globalization is not a new phenomenon on world history but as Charles Armstrong indicates, has accelerated and intensified within the last hundred years. Armstrong, 4.

This chapter will attempt to trace the trajectory of Manchurian political and economic development to understand the interconnections between Japan, Manchuria, and Korea. The main network for linking the various economies was the financial institutions, particularly the Bank of Chōsen and its predecessors, that printed the currency and created the connections that linked the companies, governments, and economies of imperial Japan, Chinese provinces, and colonial Korea together.

In previous chapters, we have traced the establishment of the core-periphery relationship between Japan and colonial Korea, tracing the interconnected nature of ties between the Japanese metropole, particularly the major port cities of Ōsaka, Kobe, and Nagasaki with the Korean port cities of Inch'ŏn, Pusan, and Wōnsan along which trade and finance passed back and forth. Like Korea, the expansion of the Japanese presence through the acquisition of the Kwantung Leased Territory and the establishment of the South Manchurian Railway Company created new transportation and development networks that rewrote preexisting patterns of regional integration in Manchuria.⁹ However, Manchuria presents a different dimension as Japanese and Korean banks and companies began to expand their networks and operations into the continent.¹⁰ Korean-owned companies like Kyōngbang Spinning and Weaving were establishing factories in

⁸ Louise Young, *Japan's Total Empire: Manchuria and the Culture of Wartime Imperialism* (Berkeley: University of California Press, 1998), 5. A few scholars in Korean Studies have highlighted the connections between colonial Korea and Manchuria, but such considerations do not seem to have yet entered into mainstream Japanese or Chinese history. See Carter J. Eckert, *Offspring of Empire: The Koch'ang Kims and the Colonial Origins of Korean Capitalism, 1876-1945* (Seattle: University of Washington Press, 1991); Carter Eckert, "Total War, Industrialization, and Social Change in Late Colonial Korea," in Peter Duus, Ramon H. Myers, and Mark R. Peattie, *The Japanese Wartime Empire, 1931-1945* (Princeton: Princeton University Press, 1996); Yun Sōk-bōm, et al., *Han'guk kūndae kūmyungsa yōn'gu* (Seoul: Segyōngsa, 1996).

⁹ Y. Tak Matsusaka, "Japan's South Manchurian Railway Company in Northeast China, 1906-34," in Bruce A. Elleman and Stephen Kotkin, eds., *Manchurian Railways and the Opening of China: An International History* (Armonk: M.E. Sharpe, 2010), 43.

¹⁰ It is important to distinguish the use of words like "Korean" and "Japanese" since institutions like the Bank of Chōsen were primarily colonial institutions, managed by the Japanese for Japanese purposes, while companies like Kyōngbang were owned and operated by Koreans with deep ties to Japanese financial and political organizations.

Manchuria to take advantage of favorable economic conditions like access to credit, cheap Chinese labor, and a relatively captive Manchurian market for semi-processed goods.¹¹ This also highlights the interconnected nature of industry as high-quality Japanese goods were fed to the Korean market and the Manchurian upper-class while lower-quality Korean goods were introduced to the Manchurian mass-market and middle classes.

The tiered nature of the economies highlights their relative position within the imperial Japanese economy and the necessity of understanding the interrelated nature of these colonial economies. The establishment of Manchukuo as a Japanese puppet state placed it politically outside the formal Japanese empire but economically within the “yen bloc,” particularly after the currency reforms implemented from 1934 to 1935.¹² Manchukuo was clearly incorporated into the Japanese imperial economy, albeit at a lower level of industrialization than the colonial Taiwanese and Korean economies. Manchukuo initially functioned as a source of primary or semi-processed agricultural goods that were fed into the manufacturing processes of Korean or Japanese factories for final processing and distribution.

The Bank of Chōsen was not simply the central bank of colonial Korea, but a primary component of Japanese foreign expansionism. In the words of a history of the Bank of Chōsen, the bank was an “overseas bank” [*J. kaigai ginkō*] with operations in colonial Korea, Manchuria, Russia, and other foreign countries.¹³ Although the bank initially had no offices in Japan, it recognized the need for branches in Japanese cities and ports that conducted trade with Korea and Manchuria. Consequently, it opened branches in Osaka, Tokyo, Kobe, and Shimonoseki.

¹¹ Eckert 1991, 172-181.

¹² Takafusa Nakamura, “The Yen Bloc, 1931-1941,” in Peter Duus, et al., eds., *The Japanese Wartime Empire, 1931-1945* (Princeton: Princeton University Press, 1996), 171-172.

¹³ Bank of Chōsen, *Chōsen ginkō nijūgo nenshi* [Twenty-five year history of the Bank of Chōsen] (Keijō: Chōsen ginkō, 1934).

Korean and Manchurian trade increased with the outbreak of the First World War, increasing activity and profits for the Bank of Chōsen, but most of the trading activity was settled in Japan, particularly in the Tokyo branch of the Bank of Chōsen (Table 15).

Although the Bank of Chōsen is commonly understood within the context of both colonial Korea and the Japanese Empire, the history of its operations in Manchuria has drawn relatively little scholarly attention. It has perhaps been difficult to assign the Bank of Chōsen to a particular national history within the current framework of academia, precisely because it was a bank established in colonial Korea that penetrated northern China in the service of the Japanese Empire. The history of Manchuria itself defies easy categorization within a national history framework. Japanese history texts commonly address Manchuria only within the context of the 1931 Manchurian Incident and the establishment of Manchukuo,¹⁴ while Korean history texts locate Manchuria as the site of Korean resistance movements or the destination for dispossessed Korean peasants.¹⁵ In one of the few works on the Bank of Chōsen in Manchuria, Oh Doo-hwan [O Tu-hwan] argues that the role of the Bank of Chōsen in Manchuria can be examined from only two viewpoints. The first historical perspective is the financial development history of northeast China and the second perspective is the history of colonial banks.¹⁶

However, Rana Mitter reminds us that the idea of nationalism was an inherently foreign idea to the occupants of Manchuria, Chinese and Koreans alike. “The concept that there existed

¹⁴ Maris B. Jansen, *The Making of Modern Japan* (Cambridge: Harvard University Press, 2002), 577-590;

¹⁵ Kyung Moon Hwang, *A History of Korea* (New York: Palgrave Macmillan, 2010), 174; Kim Yong-sōp, “The Landlord System and the Agricultural Economy during the Japanese Occupation Period,” in Pang Kie-chung and Michael D. Shin, *Landlords, Peasants and Intellectuals in Modern Korea* (Ithaca: Cornell University East Asia Program, 2005), 151, 160; Bruce Cumings, *Korea’s Place in the Sun* (New York: W.W. Norton and Company, 2005), 160-162; Carter Eckert, et al., *Korea: Old and New* (Cambridge: Harvard University Press, 1990), 314.

¹⁶ O Tu-hwan, “*Manju e sō ūi Chosōn ūnhaeng ūi yōkhwal*” [The role of the Bank of Chōsen in Manchuria] *Kyōngje sahak* 25 (1998), 79.

a world system of nation state, national consciousness, and national identity that claimed to command overarching loyalty was imported, even though these ideas took root within the context of the preexisting Chinese concept of a wider cultural community.”¹⁷ Despite its foreignness, the concept of nationalism could be selectively utilized by the Chinese elite in the newly-established Manchukuo to agitate for their conception of the Chinese nation, in opposition to Japanese economic imperialism. On the reverse side, Koreans in Manchuria could assert their “Japanese-ness” in the pursuit of political or economic gains, or “Korean” resistance could be used by the Japanese as an excuse to assert police or territorial rights within Manchuria.¹⁸ Regardless of class or racial or national distinctions however, Japanese capitalism, as represented by institutions like the Bank of Chōsen, was powerful enough to entice all types of individuals, from warlords to peasants to businessmen, to participate directly or indirectly in the imperialist project through its currency, bank accounts, and loans.¹⁹

In the historiography of colonial Korea and Manchuria, the binary of exploitation and resistance maintains a powerful attraction to explain and signify responsibility or non-responsibility for occupation and collaboration. As Shin Gi-wook and Michael Robinson state, “the nationalist paradigm has dominated the historical presentation of modern Korea,”²⁰ but the

¹⁷ Rana Mitter, *The Manchurian Myth: Nationalism, Resistance, and Collaboration in Modern China* (Berkeley: University of California Press, 2000), 13.

¹⁸ Erik W. Esselstrom, “Rethinking the Colonial Conquest of Manchuria: The Japanese Consular Police in Jiandao, 1909-1937,” *Modern Asian Studies* 39-1 (2005); Barbara J. Brooks, “Japanese colonial citizenship in treaty port China: the location of Koreans and Taiwanese in the imperial order,” in Robert Bickers and Christian Henriot, eds., *New Frontiers: Imperialism’s New Communities in East Asia, 1842-1953* (Manchester: Manchester University Press, 2000); Barbara Brooks, “Peopling the Japanese Empire: The Koreans in Manchuria and the Rhetoric of Inclusion,” in Sharon Minichiello, ed., *Japan’s Competing Modernities: Issues in Culture and Democracy, 1900-1930* (Honolulu: University of Hawai’i Press, 1998).

¹⁹ Mitter, 13.

²⁰ Gi-Wook Shin and Michael Robinson, “Rethinking Colonial Korea,” in Gi-Wook Shin and Michael Robinson, eds., *Colonial Modernity in Korea* (Cambridge: Harvard University Asia Center, 1999), 3.

same could be said of modern Manchuria as well.²¹ The academic trends that critique Japanese imperialism, while simultaneously reifying the exploitation of a native people, is partially represented in Korean and Chinese scholarship on Manchuria.²² At the same time, other scholars have sought to move beyond a national history-centered perspective to “deconstruct” Manchuria and Manchukuo.

By looking beneath the binary of exploitation and resistance, Prasenjit Duara argues that it is possible to understand the process by which nations themselves are constituted through cultural representations, thus shifting the nation from the subject to the object position. As Duara states, Manchuria represents “a space of conversion and transformation of global discourses into discourses of national or civilizational authenticity.”²³ Although economic history as a field of discourse in national authenticity has been heretofore lightly addressed, the gold standard and its symbolic and practical functions serves as an example in three ways. First, the gold standard was literally and figuratively a totem of both financial and civilizational validation, particularly in Manchuria. Second, the gold standard was an example of an interactive practice that stretched across the three spatial areas identified by Duara of the global nation-state system, the East Asian

²¹ Mitter, 17.

²² O Tu-hwan, Kim T’ae-guk, “‘*Manjuguk*’ e sŏ Ilche ūi sikmin chibae nollŭ” [The logic of Japanese colonial rule in “Manchukuo”] *Han’guk kūnhyŏndaesa yŏn’gu* 35 (2005). It is somewhat ironic to critique the assignation of nationalist identities, regardless of whether it is externally or self-designated, to institutions and peoples in the colonial period and then to categorize scholars by the same nationalist labels without qualification. The inadequacy of nationalist labels is demonstrated by the professional biography of Professor Kim T’ae-guk of Yŏnbyŏn University who was born in 1964 in Longjing city, Yanbian Korean Autonomous Prefecture. He graduated from the History Department of Yanbian University in 1986. He entered Korean History Department of Kukmin University in 1996 and graduated with his doctorate in 2002. He was appointed to a professorship in the School of the Humanities and Social Sciences at Yanbian University in 2005. Consequently, he is an ethnically Korean Chinese scholar who researches Manchurian history and writes in the Korean language.
http://www.yanbianews.com/bbs/zboard.php?id=news02&page=11&sn1=&divpage=1&sn=off&ss=on&sc=on&select_arrange=headnum&desc=asc&no=482.

²³ Prasenjit Duara, *Sovereignty and Authenticity: Manchukuo and the East Asian Modern* (Lanham: Rowman and Littlefield Publishers, 2003), 4.

regional context, and the local area of Manchukuo. Finally, the supposed validity and inviolability of the gold system as a foundational economic principle, with its implied cultural value, was ultimately disproven as its constructed nature was clearly displayed in its selective adoption and rejection, depending on contextual need and circumstance.

Nineteenth-century Manchuria to the 1904-1905 Russo-Japanese War

As the traditional homeland of the ruling Qing dynasty, Manchuria occupied a special place in the history and imagination of the imperial family. Due to its special designation as territory reserved for the Manchu “banners,” Manchuria was sparsely populated which made it an attractive target for landless Han Chinese from the mid-eighteenth century. As increasing numbers of erstwhile Han settlers crossed the “poplar border,” alarmed Qing officials outlawed Han migration and their purchase of Manchu land from 1750 to 1861. However, fear of southward penetration by Russians in Siberia prompted the Qing dynasty to allow some internal migration beginning in 1862 and unrestricted movement from 1903.²⁴

In 1864, the port of Yingkou (also known as Newchwang [Ch. Niuzhuang]) in the northwestern part of the Liaodong peninsula was opened as a result of the 1858 Treaty of Tianjin during the Second Opium War. The establishment of a treaty port near the mouth of the Liao River shifted the center of Manchurian trade to Yingkou and created a new connection between farmers in the Manchurian interior with treaty port merchants for the export of Manchurian agricultural products. The primary export from Yingkou was soybeans and soybean-related products like bean cake and bean oil, which made up almost 90% of the export trade. Total

²⁴ Isett, 32-34; Sun, 19.

exports of soybeans and related products increased from a little less than 2.4 million piculs in 1867 to over 8 million piculs in 1902.²⁵

Qing China's defeat in the 1894-1895 Sino-Japanese War forced the dynasty to cede the Liaodong peninsula to Meiji Japan as a condition of the peace treaty, essentially placing the Japanese "barbarians" at the doorstep to the Manchu homeland. However, the Triple Intervention of 1895 by Russia, France, and Germany humiliated Japan by requiring it cede its claims to the Liaodong peninsula in exchange for twenty million taels. In return, China granted Germany territorial control of the Liaodong peninsula, while the Russians were awarded the rights to build the Chinese Eastern Railway (CER). As S.C.M. Paine argues, Russia had practical, geographic, and military reasons for building a railway connection that cut directly through northern Manchuria to link the Trans-Siberian Railway and Vladivostok. At the same time, Russia was expanding its influence in Korea after the flight of King Kojong to the Russian legation in February 1896.²⁶

In June 1896, China and Russia signed a secret treaty that stipulated a fifteen-year alliance and construction rights to the Chinese Eastern Railway. A separate railway contract signed in September 1896 stated that the railroad would not be owned or constructed by the Russian government but instead belonged to an ostensibly independent company, the Chinese

²⁵ Bill Sewell, "Railway Outpost and Puppet Capital: Urban expressions of Japanese imperialism in Changchun, 1905-1945," in Gregory Blue, Martin Bunton, and Ralph Crozier, eds., *Colonialism and the Modern World: Selected studies* (Armonk: M.E. Sharpe, 2002), 284; Sun, 14, 18. One *picul* of soybeans produced between twelve and thirteen pounds of oil and two sixty-pound bean cakes.

²⁶ S.C.M. Paine, "The Chinese Eastern Railway from the First Sino-Japanese War until the Russo-Japanese War," in Bruce A. Elleman and Stephen Kotkin, eds., *Manchurian Railways and the Opening of China: An International History* (Armonk: M.E. Sharpe, 2010), 16; Sun, 12; Oh Chin-sök, "Kwangmu kaehyökki kündae sanöp yuksöng chöngch'aek üi naeyong kwa sönggyök" [The nature of the Modern Industry Promotion Policy in Korea during the Kwangmu Reform Period] *Yöksa hakbo* 193 (2007), 42. The Russians sought an ice-free port as the eastern terminus of the Trans-Siberian Railway, a construction project that avoided the technically difficult area of the Amur River, a preemptive strategic challenge to Japanese ambitions, and a militarily defensible line that was shorter than the Manchurian border.

Eastern Railway. However, the Russian government manipulated the stock sale to gain majority control of the railroad and its eighty-year concession. In March 1898, Russia obtained a twenty-one year lease on the town of Dalniy [Ch. Dalian, J. Dairen], the naval base of Port Arthur [Ch. Lüshun, J. Ryojun], and the Liaodong Peninsula using the fictional threat of German encroachment and bribes to senior Chinese officials. In addition, the Russians demanded an additional concession from the Chinese for the construction of a south Manchurian branch railway connecting the CER and Port Arthur at Harbin. The combined 1,073 miles of track for the CER and the 709 miles of the Russian South Manchurian Railway represented the largest foreign concession appropriated from China until that time.²⁷

During the 1900 Boxer Rebellion, Russia deployed 100,000 troops to occupy Manchuria, including the treaty port of Yingkou, partly in response to Boxer-caused damage to the CER and South Manchurian Railways. Russia had spent over one billion rubles on the railways over a period of three years, but the Boxer uprising destroyed or damaged almost two-thirds of the railway network. In response, Russia demanded a large indemnity and additional concessions, in addition to its share of the foreign-sponsored Final Protocol on the rebellion that specified a total indemnity of 67.5 million pounds sterling. Russian actions in Manchuria during the uprising were a primary factor in the Anglo-Japanese Alliance of January 1902 and increased tensions in East Asia.²⁸

²⁷ Paine, 17-19. Russia physically isolated the CER from Chinese influence by constructing the track to Russian specifications, making it incompatible with the Chinese railway network. Furthermore, the Russians set preferential tariff rates that were a third lower than those of maritime trade, which directly affected the trade conducted by the Americans and Western Europeans.

²⁸ Paine, 23-24. Paine argues that Russian attempts to move into Korea, as signified by the development of Russian timber concessions along the Yalu and Tumen Rivers, was a primary factor leading to war. According to Paine, Japan made several attempts to defuse tensions by delimiting spheres of influence in Manchuria and Korea for Russia and Japan, respectively, but Russia was intent on taking the Korean peninsula. Consequently, Japan's surprise attack on the Russian fleet is portrayed as an act of self-defense.

During the 1904-1905 Russo-Japanese War, the Imperial Japanese Army inflicted severe damage to Russian forces as it advanced through southern Manchuria to Changchun before the war ended with the Treaty of Portsmouth in September 1905.²⁹ Under the terms of the treaty, Russia surrendered all rights and leases held in the Liaodong Peninsula to the Japanese while retaining its position and influence in northern Manchuria, essentially dividing Manchuria into Russian and Japanese spheres of influence.³⁰ Consequently, the Japanese received the lease on the Liaodong peninsula, including the port of Dalian and the naval base of Lüshun; the South Manchurian Railway running from Changchun to Dalian; and the so-called railroad zone, a land corridor extending away from both sides of the railway track and railway towns adjacent to significant train stations. The Japanese renamed their new territorial acquisition the Kwantung Leased Territory, which was a strategic zone of 3,400 square kilometers. The southern portion of the CER was renamed the South Manchurian Railway Company [J. *Minami Manshū tetsudō kabushiki kaisha* or *Mantetsu*, hereafter SMRC].³¹

The establishment of the SMRC was authorized by the Japanese government in June 1906 and the organizing committee was headed by General Kodama Gentarō, the Japanese army chief of staff during the Russo-Japanese War. However, Kodama passed away soon after his appointment and was replaced by General Terauchi Masatake, the War Minister and future Governor-General of Korea. Once the SMRC was formed under Gotō Shinpei, a civilian and a

²⁹ Paine, 25. Paine argues that the unfinished and unrepaired condition of the Trans-Siberian and Manchurian railways prevented Russian reinforcements from reaching the frontlines of the war and negated the overall numerical superiority of Russian ground forces vis-à-vis the Japanese military.

³⁰ Bruce A. Elleman, "Sino-Soviet Tensions and Soviet Administrative Control over the Chinese Eastern Railway, 1917-25," in Bruce A. Elleman and Stephen Kotkin, eds., *Manchurian Railways and the Opening of China: An International History* (Armonk: M.E. Sharpe, 2010), 59.

³¹ Young, 24-25; Alvin D. Coox, *Nomohan: Japan against Russia, 1939*, vol. 1 (Stanford: Stanford University Press, 1985), 1.

former colonial governor of Taiwan, it assumed control of the railroad from the Japanese military and began operations in April 1907. In 1911, the SMRC finished a new branch line that connected Mukden to Andong on the Yalu River, thus connecting the SMRC with the colonial Korean railway system and providing a Pusan-Andong-Mukden link between Japan and its newly acquired territory in Manchuria.³²

In 1907, the Chinese government abolished the traditional Manchu system of military governance of Manchuria and established a civil administrative system that resembled the system of provinces in the Chinese interior. Three civil governors were appointed for Fengtian, Kirin, and Heilongjiang, with a Chinese governor-general placed above them to coordinate. Immediately after the 1911 revolution, the main power brokers in the region remained in power but intense jockeying for influence in succeeding years resulted in Zhang Zuo-lin becoming the ruler of the Three Eastern Provinces.³³

From his origins as a modest bandit chief in Fengtian province, Zhang rose through the Chinese military ranks through judicious application of gifts and bribery. After the Revolution of 1911, Zhang rose to supreme power in Fengtian province by suppressing the efforts of republican revolutionaries to declare independence from Peking. Despite his desire to see the restoration of the throne, Zhang was reconciled to the establishment of the republic with money and an appointment as military and civil governor of Fengtian province. However, Zhang eventually extended his control over Kirin and Heilongjiang by late 1919, and expanded his power westward into inner Mongolia and south into the North China plains. By 1926, he had gained total control over Manchuria, the Peking-Tientsin region, and Shantung. He and his

³² Coox, 2; Matsusaka 2010, 38.

³³ Sun, 12; Mitter, 21.

regime in Peking were the main targets of the Northern Expedition launched by Chiang Kai-shek and the Kuomintang in 1926. Although he controlled much of north China, Zhang had his eyes set on controlling all of China and to that end, he initiated a series of military campaigns which were all ultimately unsuccessful.³⁴

Manchurian Agriculture

The three Eastern Provinces of Liaoning, Jilin, and Heilongjiang, commonly known as Manchuria, covered 380,000 square miles. Although there was no official census before 1931, the Research Bureau of the South Manchurian Railway Company estimated population at 34.4 million people in 1930, with 15.2 million in Liaoning, 9.1 million in Jilin, and 5.3 million in Heilongjiang. The region was primarily agricultural, with a fertile, alluvial plain stretching from the gulf of Liaodong up to Changchun, and additional areas conducive to cultivation near the Sungari and Nonni Rivers in northern Jilin and Heilongjiang.³⁵

With the advent of Chinese migration, both official and unofficial, into the Manchu homeland from the mid-eighteenth century, the agricultural economy of Manchuria reflected the nature of the region as essentially a frontier settlement colony. Typical migrant settlers were debtors living in collective farming settlements with kinship groups or groups with the same regional background. Farmers often marketed their agricultural product through local general-goods stores that served multiple functions. In addition to supplying general merchandise, these stores exchanged money, functioned as post offices, extended credit to farmers, and channeled

³⁴ McCormack, 9, 18-19, 27.

³⁵ Mitter 22-23.

agricultural products to affiliated merchants for transport south to other regions of China or for processing into cake or oil.³⁶

With foreign penetration into Manchuria in the late nineteenth and early twentieth century, a modern, foreign-dominated economy arose around the treaty ports and territories, like the Kwantung Leased Territory, attracting Chinese merchants and workers to these areas. The modern, trade-oriented economy was originally centered on the coastal regions but extended itself into the Manchurian interior with the establishment of rail lines that penetrated, literally and figuratively, into the traditional agricultural economy. The process of penetration forced the transformation of the traditional economy until it was gradually overtaken and subsumed within the modern economy. The linkage of Manchurian agriculture to world markets triggered explosive growth in export activities that ultimately resulted in overspecialization in bean production and underdevelopment of the traditional economy.³⁷

Soybeans and soybean-related products were Manchuria's most significant exports. In 1898, these products, in the form of unprocessed soybeans, bean cake, and bean oil, constituted 77% of the total value of all exports. As stated above, total exports of soybeans and its related products from the treaty port of Yingkou nearly tripled between 1867 and 1902. The increase in

³⁶ Herbert Bix, "Japanese Imperialism and the Manchurian Economy, 1900-31," *The China Quarterly* 51 (1972), 426. The general stores were the local financial institutions extending commercial and loan capital to Manchurian farmers. However, these stores were part of wider networks, called *lianhao*, which combined assets, engaged in profit-sharing, and were subordinated to powerful individuals or a "main stores" in north China.

³⁷ Bix, 427-434. While Bix persuasively argues for the distinction between a traditional agricultural economy and a modern export-oriented economy in late nineteenth and early twentieth century Manchuria, he seems to argue for the continued existence of the traditional economy up to the 1931 Manchurian Incident. However, the distinction gradually loses explanatory value with the increasing difficulty in distinguishing between the two economic structures. Furthermore, the increased penetration of rail lines into the Manchurian interior and the multidimensional expansion of "total empire" throughout the period presents a dynamic perspective of growing influence for the modern economy that may not completely supplant the traditional economy, but may have transformed it eventually to something that more closely reflects itself. Young, 10-14.

Manchurian exports of soybeans between 1867 and 1899 was due primarily to increased demand from Japan for bean cake as fertilizer and European demand for bean oil.³⁸

In early eighteenth century Japan, farmers in the Kinai plain and elsewhere had sought additional sources of fertilizer for agricultural production. The fisheries of Hokkaido responded by providing herring that had been boiled, pressed, and dried into meal [J. *nishin shimekasu*] for use as fertilizer. The use of herring meal replaced a previous reliance on dried sardines, which had become increasingly expensive in the face of excess demand. Despite the costs of transporting herring meal from Hokkaido to central Honshu, lower production costs vis-à-vis sardines still made Hokkaido herring meal the most widely used commercial fertilizer up to the late nineteenth century.

The 1868 Meiji Restoration however abolished the traditional rights of contract fisheries licensed by the Matsumae domain or the Tokugawa *bakufu* and led to open participation and greater competition in the fishing industry. The gradual depletion of the existing fish stock through a combination of over-fishing and continual improvements in fishing technology eventually eliminated the source of herring meal fertilizer. The historical conjuncture between the opening of the Yingkou treaty port in 1864 and the rise of unrestricted fishing in Hokkaido after 1868 allowed an increase in the supply of Manchurian bean cake as conditions began changing in Hokkaido that would restrict herring-meal production.³⁹

As bean cake was the residual component of the soybean after it was pressed for its valuable oil, Manchurian farmers generally had little regard for the leftover bean cake until its

³⁸ Sun, 18. Soybeans were an important historical (as well as current) component of the Japanese, Chinese, and Korean diet. Soybeans could be fermented, made into a paste, or pressed into bean-curd cakes [J. *tofu*, K. *tubu*].

³⁹ David L. Howell, *Capitalism from Within: Economy, Society, and the State in a Japanese Fishery* (Berkeley: University of California Press, 1995), 1-2, 38; Sun, 18.

usefulness as a fertilizer was discovered in the late nineteenth century. Although Chinese farmers did use bean cake fertilizer on Fujian and Gwangdong sugar plantations, its popularity in Japan was far greater than in China. According to the Japanese, bean cake was better than herring-meal as a fertilizer because the overabundance of oil in herring-meal encouraged the propagation of insects harmful to crops. Regardless, the abundant Manchurian supply of bean cake was able to meet rising Japanese demand for commercial fertilizer until the development of the domestic Japanese chemical fertilizer industry in the 1930's. Consequently, a number of bean cake and bean oil mills were established in the ports of Dalian and Niuzhuang to take shipment of beans from the interior and process them for export.⁴⁰

In the early twentieth century, Manchurian soybeans found a profitable new market in Europe when the Mitsui Trading Company sent a test shipment of soybeans to London in 1908. Oil mills in England were looking for new steady and cheap sources of oil seeds to meet rising demand. In that period, soybean oil had many uses, including cooking, axle and machinery lubrication, waterproofing, and the manufacture of varnish and printing ink. After the first successful test shipment to England, Japanese trading companies quickly expanded the scope of their exporting activities to continental Europe and sent Manchurian soybeans to Holland and Germany. The outbreak of the First World War sparked soaring demand for agricultural products, particularly the fats and vegetable oils found in Manchurian soybeans. Even after the end of the war, continued shortages of supply maintained high demand and prices for several years. The effect of European expansion, on top of existing demand in Japan, led to a average annual 5.6% growth rate in Manchurian soybean exports between 1908 and 1931.⁴¹

⁴⁰ Bank of Chosen 1920, 143-144; Toyokichi Iyenaga, "Japan in South Manchuria," *The Journal of Race Development* 2-4 (1912), 385-386.

Manchurian Railroads

As in Korea, the railroad system in Manchuria was a key element of the local infrastructure that allowed people and commodities to quickly and easily transit from the coastal areas into the Manchurian interior. After the cessation of the 1904-1905 Russo-Japanese War, the Japanese assumed control of the southern portion of the Russian-built Chinese Eastern Railway and renamed it the South Manchurian Railway Company. The railroad system was another example of infrastructure development by the Japanese that reduced transportation and transaction costs for nearly all parties in Manchuria, from Japanese merchants to Chinese and Korean farmers. Japanese claims of “development” in Manchuria can thus partly be attributed to the reduction of expenses, particularly time and money, in bringing goods to market rather than just increasing productivity. The Japanese did bear some costs in the construction and maintenance of the infrastructure, particularly the complete conversion of railroad gauge. During the war, the Japanese military had converted the railroad track from the Russian standard of five feet to the Japanese standard of three feet six inches to match rolling stock from Japan. After the war, the SMRC reconverted the track again to an international standard gauge of 4 feet 8.5 inches, and doubled the track from Dalian to Suchiatun.⁴²

The South Manchurian Railway Company, often known by its Japanese abbreviation of *Mantetsu*, was formed by an imperial Japanese ordinance on June 7, 1906. Originally established to oversee Manchurian railway traffic, the SMRC expanded its operations to include mining, water transportation, electrical enterprises, commission sales of goods, warehousing, and real estate within the railway zone. The Fushun colliery was a rich and productive coal mine that

⁴¹ Bank of Chosen 1920, 145-147; Sun, 28.

⁴² Toyokichi, 379.

provided fuel for SMRC locomotives, steamships, and electrical power plants, as well as an important export product. A vast, low-grade iron ore field near the SMRC's Anshan railway station became the Anshan Iron Works that eventually provided 20% of the iron for Japanese steel production in the 1920's.⁴³ The SMRC was capitalized at 200 million yen distributed in one million shares, half of which the Japanese government received in exchange for railway and mining properties. The remaining shares were sold to investors. The president and vice-president of the company were selected by the Japanese government, which also reserved the right to take control of the railway at its discretion. Consequently, the ownership, management, and operations of the railway clearly indicated the nature of the SMRC as a Japanese state-controlled enterprise.⁴⁴

The SMRC consisted of the Changchun-Dalian line, Mukden-Andong line, and four other connections for a total of 1,100 kilometers of track, with a 62 meter-wide zone of extraterritoriality encompassing land on both sides of the track. Although the zone of extraterritoriality totaled only 250 square kilometers, the railroad lines ran through twenty-five station towns where the zone expanded into the surrounding real estate thus allowing the SMRC to control various stores, warehouses, and electrical facilities around its railroad. Residents in the railway zone paid a local tax to the company, which provided basic municipal services such as gas, electricity, water, schools, hospitals, and hotels. Urban portions of the railway zone became Japanese "settlements" within which Japanese businesses, banks, and industries were concentrated. From the Russian CER, the SMRC inherited the right to station fifteen guards per

⁴³ Matsusaka 2010, 39-40.

⁴⁴ Sun, 63; McCormack, 7-8. The capitalization of the SMRC was raised from 200 million yen to 440 million yen in 1920. The SMRC easily constituted the largest single overseas investment of Japanese capital in this period.

railway mile, which translated into a permanent deployment of six battalions of so-called railway guards that was a significant Japanese military presence in the region.⁴⁵

The SMRC gradually increased its control of general commercial traffic in Manchuria, much of which had previously transited Yingkou, the only open treaty port in Manchuria. After the establishment of the SMRC, the Japanese established Dalian as the southern terminus of the railway and transformed it into a central shipping port. By 1912, Dalian surpassed Yingkou in volume of trade and Dalian was doing four times as much business as Yingkou by 1926. The SMRC controlled two of the five railway portals offering access to Manchuria, but more importantly, it controlled all rail access to northern Manchuria. Through the use of rate incentives and tariff reductions, the SMRC could alienate the Russian-controlled northern territory from China while fostering greater southern integration with colonial Korea. The continued build-out of SMRC lines created a railway network that reshaped older patterns of regional trade, commerce, and communication that had been previously determined by geography. All roads eventually led, figuratively and literally, to Dalian, the emerging political and economic center of southern Manchuria.⁴⁶

The SMRC was one of the most profitable railroads in the world (Table 13). The railway showed an immediate net surplus of almost 3.7 million yen in the first year of operations. The ratio of net surplus to revenue continued to increase until the mid-1910's, when net surplus was consistently larger than expenditures through 1931. The profits accruing from its operations placed the railway in the enviable position of having enough capital to explore and develop the

⁴⁵ Coox, 2; McCormack, 6; Matsusaka 2010, 40. The Changchun-Dalian line was approximately 700 kilometers, while the Mukden-Antung line was about 260 kilometers. The Japanese converted Russian broad-gauge (1524 mm or 60 inches) to standard gauge (1435 mm or 56.5 inches) to ensure compatibility with its existing rolling stock.

⁴⁶ Sun, 64; Matsusaka 2010, 43.

industrial potential of Manchuria.⁴⁷ For example, the Japanese assumed control of the Fushun coal mine from the Russians under the terms of the 1905 Treaty of Portsmouth and the Japanese government transferred ownership of the mine to the SMRC. Although the mine produced only three hundred tons of coal per day under the Russians, the Japanese increased production to several thousand tons a day. Production increased even further with the introduction of the open-cut method, which lowered costs and made Fushun one of the richest coal mines in Manchuria. From 1927 to 1931, overall SMRC mining operations earned average annual profits of ten million yen, with Fushun as the most important mine in the portfolio. In many ways, the SMRC wielded greater wealth, resources, and authority than any Chinese authority in the Northeast.⁴⁸

Table 13. Revenues and Expenditures of the South Manchurian Railway (in yen)

Year	Revenues	Expenditures	Net Surplus	Net Surplus as % of Revenue
1907	9,768,887	6,101,615	3,667,272	37.54%
1910	15,671,605	6,542,640	9,128,965	58.25%
1913	22,275,132	7,913,948	14,361,184	64.47%
1916	27,815,349	8,435,939	19,379,409	69.67%
1919	67,060,720	30,528,938	36,531,782	54.48%
1922	87,813,029	34,169,285	53,643,744	61.09%
1925	97,395,288	38,800,691	58,549,537	60.12%
1928	118,639,090	44,358,065	74,281,024	62.61%
1931	84,573,356	36,774,792	47,798,564	56.52%

Source: Adapted from Kungtu C. Sun, 67.

China and Japan agreed to construct a railway line from Manchuria into Mongolia, which would be owned by the Chinese but managed by the Japanese. The starting point of the Mongolian line was the town of Szupingchieh [Ch. Siping], located south of Changchun on the line to Mukden (present-day Shenyang).⁴⁹ In December 1917, the initial segment of the

⁴⁷ Sun, 67.

⁴⁸ Sun, 64; McCormack, 6.

Mongolian line was completed as far as Chengchiatun [Ch. Zhengjiatun], for a total distance of fifty-five miles, although the line was projected to extend to Taonan for a total distance of 230 miles. The Bank of Chōsen established branches in Siping, Zhengjiatun, and Kaiyuan, which was south of Siping and a major distribution point for Manchurian products. Additional branches were established at the treaty port of Yingkou, the provincial capital of Kirin (present-day Jilin), and the town of Lungchingsun [Ch. Longjingzun, K. Yongjǒngch'on] on the route between southern Manchuria and colonial Korea.⁵⁰

As part of its modern reconstruction project in southern Manchuria, the Japanese promoted tourism to its newly acquired territories by establishing regular steamship service, operating a system of luxury hotels, and building holiday resorts along the coast. Steamship service between Shanghai and Dalian began in August 1908 with two steamers making two circuits a week. The SMRC operated the Yamato Hotel chain throughout major Manchurian cities and touted their modern, luxurious features, such as central steam and heating, in-room telephones, Otis electric elevators, lounges, billiard rooms, banquet halls, and even attached theaters.⁵¹

Banking and Currency in Late Nineteenth and Early Twentieth-Century Manchuria

⁴⁹ Mukden refers to Fengtian city, the capital of Fengtian province (present-day Liaoning). Mukden is the “Manchu” name for the city and the name used in the West until the establishment of the People’s Republic of China in 1949. Alternately, the city was also known as Shenyang (from 1929). McCormack, 5.

⁵⁰ Bank of Chosen, *A Brief Review of the Work of the Bank of Chosen* (Seoul: Bank of Chōsen, 1918) [hereafter Bank of Chosen 1918a], 7; Bank of Chosen, *Economic Outlines of Chosen and Manchuria* (Seoul: Bank of Chōsen, 1918) [hereafter, Bank of Chosen 1918b], 7. Longjingzun (present-day Longjing) is located near the Tumen River across from the Korean city of Hoeryōng

⁵¹ Thomas Cook Ltd., *Peking, North China, South Manchuria and Korea* (London: T. Cook and Son, 1924), 105-112. Steamship service began with the *Sakaki Maru* and the *Saikio Maru* in August 1908. The Yamato Hotels in the SMRC portfolio were located at Dalian, Lüshun (Port Arthur), Hoshigaura, Mukden, and Changchun. The Cook guide mentions that the Hoshigaura Yamato Hotel, located five miles southwest of Dalian, was one of the finest seaside resorts in northern China. It boasted a seaside location and facilities including tennis courts, a golf course, long stretches of open beach, bungalows, and villas.

The history of modern finance and banking in Manchuria did not begin with the entry of the Japanese into southern Manchuria or the establishment of Manchukuo in 1931. Markets had already fully developed in late nineteenth-century Manchuria and northern China and people were using various coins, bullion, and banknotes as currency. In the late Qing dynasty, the Chinese monetary system was bimetallic with copper coins for small transactions and silver used for larger purchases. The exchange value of the two metals fluctuated according to market pressures of supply and demand. Silver took two forms, either specially shaped ingots, known as sycee, sycee silver, or monetary silver; or dollar coins, also known as “dollar silver.” Kirin and Fengtian provincial authorities were issuing sycee silver ingots and silver-backed *yingpiao* notes to increase the money supply while prominent private merchants had issued their own notes to conduct their business.⁵²

The opening of the port of Yingkou allowed the entry of Mexican and foreign silver dollars, in addition to the wide spectrum of domestic currencies circulating through the Qing economy. Canton-based Chinese merchants introduced their own version of *sycee* silver ingots that were denominated in terms of *tael*. Amounts due for maritime customs duties were expressed in maritime customs [Ch. *Haikwan*] *taels*, but payment was made in the specific monetary *tael* in circulation at that particular treaty port. Payment could also be made in the equivalent of Shanghai currency *taels*, at a rate of 111.4 Shanghai *taels* for 100 maritime customs *taels*. Payments to the Imperial Treasury were paid in Treasury [Ch. *Kuping*] *taels*, which were

⁵² Ben David Dorfman, “The Currencies of the North-Eastern Provinces, with a Supplement on the Central Bank of Manchukuo,” Study No. 5, *Supplementary Documents to the Report of the Commission of Enquiry* (Geneva, League of Nations, 1932), 139; Frank H. H. King, *History of the Hongkong and Shanghai Banking Corporation* (Cambridge: Cambridge University Press, 1987), 36. Sycee was the English pronunciation of the Chinese words for fine silver.

slightly less valuable than maritime customs taels so that 100 Treasury taels equaled 109.6 Shanghai taels.⁵³

Traditional copper coins, or copper cash [Ch. *chien*] were strung together by cords run through the holes in their center to make larger values. For example, ten copper coins could be tied together to make ten cents, or one *chiao*, and the *chiao* was one-tenth of the *yuan* dollar. Naturally, the awkwardness of carrying large strings of cash led provincial governments to encourage the use of paper currency in place of cash strings. Modern copper coins, with standardized weight and denomination, were minted in Fujian, Kwantung, and Kiangsu after the Boxer Rebellion, but these copper coins quickly depreciated due to the debased nature of the coinage. Traditional copper coins were nominally issued in Manchuria by each provincial treasury but did not circulate because many Chinese found *chiao* coins easier to handle. However, *chiao* were ultimately driven out of circulation by the over-issuance of “copper notes,” or copper-backed paper currency, in accordance with Gresham’s Law. In order to maintain a stable currency, Manchurian authorities began issuing silver-backed banknotes in 1894. However, these small-denomination banknotes succeeded only in pushing silver and copper coins out of circulation.⁵⁴

Russian construction of the Chinese Eastern Railway in 1897 opened the way for the Russian ruble to penetrate the Manchurian economy. The ruble became the most important foreign currency in Manchuria at the turn of the century and began circulating freely throughout

⁵³ Dorfman, 139; King, 37-38. The term tael was the foreigners’ version of the Chinese unit of weight [*liang*], which meant that payment was expressed by weight of the precious metal. However, the nominal weight and fineness of the tael was not standardized and thus fluctuated, varying from market to market.

⁵⁴ Ronald Suleski, “The Rise and Fall of the Fengtien Dollar, 1917-1928: Currency Reform in Warlord China,” *Modern Asian Studies* 13-4 (1979); Manshū chūō ginkōshi kenkyūkai, ed., *Manshū chūō ginkōshi* [A history of the Manchurian Central Bank] (Tokyo: Tōyō keizai sinposha, 1988), 24; Dorfman, 139. The copper coins were issued in denominations of one-half cent, one-cent, and two-cent coins. Single coppers (one-cent or ten-cash pieces) were one-hundredth of a nominal dollar.

the three provinces. After the Japanese victory in the 1904-1905 Russo-Japanese War, the yen replaced the ruble in the Kwantung Leased Territory and along the newly established South Manchurian Railway lines, but the ruble continued to circulate widely in northern Manchuria along the remaining segments of the Chinese Eastern Railway. By 1914, over sixty million rubles were circulating in Manchuria.⁵⁵

In 1905, the Fengtian government established the Fengtian Provincial Bank to create a single, common currency which would replace the myriad private notes in circulation at the time and to reclaim economic concessions. By 1907, 1.5 million dollars in big dollar notes [Ch. *tayang*] and 35 million dollars in small dollar notes [Ch. *xiaoyang*] had been issued. In the next two years, the Bank of China and the Bank of Communications opened branches in Mukden, Yingkou, and other cities. In the early 1910's, the Fengtian Provincial Bank was converted into a government institution and renamed the Official Bank of the Three Eastern Provinces [Ch. *Dongsansheng guanyinhao*]. While it was allowed to mint silver and copper coins and issue specie-backed bank notes, the Bank of the Three Eastern Provinces, as well as the provincial banks of Jilin and Heilongjiang, quickly over-issued paper money to the point where the bank notes became inconvertible.⁵⁶

Japanese Banks in Manchuria to the end of the First World War

During the 1894-1895 Sino-Japanese War, the Japanese Army issued military scrip that was ostensibly convertible to Chinese silver currency. Approximately 2.7 million yen was issued,

⁵⁵ Dorfman, 140. After the 1917 Russian Revolution and the continued issuance of rubles by succeeding regimes, all rubles depreciated until they gradually disappeared from circulation. However, the ruble still remained a nominal unit of currency due to its status as the fare basis for Chinese Eastern Railway tickets until as late as 1931.

⁵⁶ Dorfman, 142. For a description of the various currencies in circulation in Manchuria at the beginning of the twentieth century, see Tables 2-1 and 2-2 in *Manshū chūō ginkōshi kenkyūkai*, 24-25.

but the majority of the currency was redeemed unused at the conclusion of the war and the remainder was removed from circulation by 1896. In 1899, the Yokohama Specie Bank [*Yokohama shōkin ginkō*, hereafter YSB] began expanding its operations in China by upgrading its offices in Shanghai, Hong Kong, and Tientsin to branches. The YSB began the era of Japanese banking in Manchuria with the opening of a branch in the treaty port of Yingkou in 1902.⁵⁷

Although the YSB initially served the existing Japanese merchant population, Japanese yen currency began spreading into the Manchurian interior as the YSB opened branches in Dalian and Mukden and began circulating its own silver-backed bank notes. The major impetus for the penetration of Japanese currency was the 1904-1905 Russo-Japanese War when the Japanese military forces began spending large amounts of yen-denominated military scrip to pay for goods and services throughout the war. The total amount of military yen currency in circulation in Manchuria reached a peak of 150 million yen before the cessation of hostilities. Even after the end of the war, a large number of notes continued to circulate contributing to inflationary pressure. The Japanese government commissioned the YSB to redeem the military scrip in circulation in exchange for the sole right of Japanese note issue in Manchuria. The YSB issued one-yen, five-yen, and ten-yen notes from its Yingkou branch to absorb the remaining military scrip, which was not fully accomplished until 1911. Of course, the natural result of the redemption of military scrip was the full and unhindered circulation of Japanese currency in its place throughout the Manchurian economy.⁵⁸

⁵⁷ *Manshū chūō ginkōshi kenkyūkai*, 32.

⁵⁸ Bank of Chosen, *Economic History of Manchuria* (Seoul: Bank of Chōsen, 1920), 286 [hereafter Bank of Chosen 1920]; Dorfman, 141; *Manshū chūō ginkōshi kenkyūkai*, 33-34.

In 1908, the Kwantung government and the SMRC adopted the gold yen as its basis for accounting and large amounts of Bank of Japan gold yen notes and coins were circulating throughout Manchuria. By 1911, the YSB had issued over seven million yen in silver-denominated bank notes and was given permission in 1913 to circulate gold yen notes in addition to silver yen notes. Consequently, the amount of YSB silver yen notes decreased to about 2,257,000 yen by 1917.⁵⁹

In 1909, the Daiichi Bank had one branch in Manchuria which was located at Andong, on the Manchurian side of the Yalu River. However, this branch was mainly intended to service Chinese merchants who were conducting business in Korea, rather than the other way around. After the establishment of the Bank of Chōsen in colonial Korea with the branches and assets of Daiichi Bank, the Bank of Chōsen assumed control of Daiichi Bank's sole branch in Manchuria at Andong.

The Bank of Chōsen subsequently decided to expand its Manchurian presence for several reasons. First, overall trade between China and colonial Korea was increasing due to continued improvements in transportation as well as a general reduction in tariffs on overland trade. Second, banknotes issued by the Bank of Chōsen, as well as other types of Japanese currency, already found wide circulation within the Manchurian interior, particularly along the railway lines of the SMRC. In July 1913, the BOC established a branch in Mukden, the political center of southern Manchuria, and later added two branches in Dalian and Changchun (Table 5). Dalian was a major trading port in southern Manchuria and Changchun was the junction point between the Russian and Japanese railways, making both locations significant for economic and

⁵⁹ Dorfman, 141. The Kwantung government administration was established after the 1904-1905 Russo-Japanese War to administer the leased territories and police the railway lines of the South Manchurian Railway Company. The Kwantung government was headed initially by a Governor-General. McCormack, 5-6.

political reasons. Third and most importantly, the bank needed Manchuria, specifically Manchurian agricultural exports, to replenish its specie reserve and create capital for investment in colonial Korea. As detailed in previous chapters, imports into Korea were far exceeding exports, resulting in a perpetual imbalance that forced the bank to either transfer large amounts of specie reserve to other banks, or delay transferring its reserves and suffer strained relationships with other banks.

In December 1912, the Bank of Chōsen submitted a report to the Japanese government entitled “The Past and Future of the Bank of Chōsen” [*J. Chōsen ginkō no kako oyobi shōrai*], which detailed its plans to increase its branches in Manchuria and spread more of its currency throughout southern Manchuria. While the bank was tasked with creating financial resources for Chōsen and promoting industrial development, the demands of fully settling exchange bills left it with an annual deficit of approximately three million yen in its specie reserve. In addition, the bank had to increase its loans by three to four million yen per year in order to supply the necessary capital needs to support the expansion of Japanese commercial rights in colonial Korea as well as achieve the development of industries that would supply the Japanese home islands. Although the bank could issue bonds to raise the necessary investment capital for industrial development, it would still have to find the income to service its debt.⁶⁰ Since Manchuria was exporting large amounts of agricultural products and thus accumulating specie, the BOC intended to broaden the scale of its operations in Manchuria to tap into this flow of specie and protect its operations in Korea. An official history of the bank states, “to buy Manchurian export

⁶⁰ Chōsen ginkōshi kenkyūkai, *Chōsen ginkōshi* [A history of the Bank of Chōsen] (Tokyo: Tōyō keizai shinpōsha, 1987), 112-113.

bills and thereby create a balance abroad to meet the ever-increasing obligation of Chosen was the first object of its Manchurian expansion.”⁶¹

As Bank of Chōsen bank notes began circulating throughout the Kwantung Leased Territory and the South Manchurian Railway zone, the nature of the Bank of Chōsen evolved in tandem with its multiple roles as well as with increased Japanese political and economic penetration of Manchuria. Before 1917, the BOC functioned as an ordinary commercial bank with status equal to other foreign banks in the non-Japanese-controlled areas of Manchuria. However, the BOC enjoyed significant indirect influence due to the widespread circulation of its banknotes which were popular among the Manchurian populace. The circulation of Bank of Chōsen currency in Manchuria and its use in all financial transactions, including deposits, loans, and exchange, built a close economic relationship between Korea and Manchuria, mediated through the Bank of Chōsen.⁶²

In May 1913, Bank of Chōsen president Ichihara Morihiro gathered his branch chiefs at the bank headquarters in Keijō and spoke of plans to expand into Manchuria and Russia.

Beyond the geographic connection, it is natural that trade relations between Korea, Manchuria, and Siberia should grow gradually closer. Before people doubt the slow progress, there is no better way to promote relations than for our bank, as an institution supporting trade, to expand our branches in Manchuria and gradually into Russian territory. The northern advance of the business of the empire is necessary, as is the need to address the decline in our specie [reserve]. Fortunately, this plan has the eager assistance of His Excellency Governor-General Terauchi and depends on the approval of the relevant bureaus in the Finance and Foreign Ministries, so it is progressing toward fulfillment quite soon.⁶³

In December 1917, Imperial Decree No. 217 transferred the treasury business of the Kwantung government and the privilege of issuing gold-backed currency from the Yokohama

⁶¹ Bank of Chosen 1920, 285.

⁶² Katō Toshihiko, *Honpō ginkō shiron* [A history of Japanese banks] (Tokyo: Tokyo daigaku shuppankai, 1957), 370-371; Bank of Chosen 1918a, 6; Bank of Chosen 1920, 288.

⁶³ Chōsen ginkōshi kenkyūkai, 114-115.

Specie Bank to the Bank of Chōsen. The branches of the Specie Bank in Lüshun (Port Arthur), Liaoyang, Tiehling [Ch. Tieling], and Andong were likewise transferred to the Bank of Chōsen. The gold-convertible notes of the YSB, amounting to about 4,538,340 yen, were withdrawn from circulation and replaced by BOC notes throughout Kwantung province and the South Manchurian Railway zone. Thus in addition to serving as the central bank of colonial Korea, the BOC also became the central bank of the Japanese-controlled areas of Manchuria in 1917, when it assumed the treasury business and Manchurian branches of the Yokohama Specie Bank.⁶⁴

As the banknotes of the BOC replaced those of YSB as legal tender, the rationale stated was that,

Chosen and Manchuria are so closely related, both geographically and economically, that there could be no doubt that the same money circulating in both would prove to their mutual benefit...Moreover, the Bank of Chosen had always been a staunch believer in gold currency, and it was but natural that, if the monetary system of Japanese Manchuria was to be unified by gold, it should be done so by its notes.⁶⁵

As stated in previous chapters, Japanese adoption of the gold standard in the late nineteenth century had symbolic and economic power. Symbolically, the gold standard elevated Japan to the rank of “first-class” economic powers that had the financial resources to attain and maintain this status. Economically, the gold standard had opened the London financial markets to Japanese government bonds. Locally, the privilege of issuing gold-convertible notes was important because gold was becoming a more popular form of money among the Japanese and Chinese populations in Manchuria. Part of its popularity was due to simple economics as the price of silver was rising to abnormally high levels. However, the use of the gold standard for unifying the economy of “Japanese Manchuria,” as well as linking together the economies of

⁶⁴ Bank of Chosen 1918a, 7; Dorfman, 141.

⁶⁵ Bank of Chosen 1920, 289-290. The BOC also began issuing fractional notes to provide subsidiary currency for everyday transactions. The YSB continued to issue silver-convertible yen notes and the amount of these notes in circulation increased to about ten million yen by 1928.

colonial Korea and Manchuria, reflected several important trends occurring within Korea, Japan, and the world economy in the 1910's.⁶⁶

During the First World War, the United States was exporting large quantities of goods to the Allies in Europe and the surplus American trade balance sharply strengthened the dollar. The Allies attempted to maintain a stable sterling-dollar exchange rate through the formation of a "sterling-dollar area" that pegged the value of the sterling, and later the French franc, to the dollar. Consequently, gold was continually shipped from London and Ottawa to New York in order to maintain a balance of payments as mandated by the gold standard, but these transfers also symbolized the shift in financial preeminence from London to New York. Once the United States entered the war in April 1917, it replenished the empty coffers of its allies through massive loans and effectively embargoed gold exports from September 1917 to June 1919.⁶⁷

The First World War offered several economic benefits for Japan. Rising exports allowed Japan to eliminate its balance-of-payments deficits and increased its foreign exchange reserves from 516 million yen in 1915 to 2.18 billion yen by 1920. While the United States maintained a huge trade surplus with the Allies, it was also running significant trade deficits with several countries, including Japan. Japanese textile firms were making significant inroads in the American apparel market, while heavy industry firms were supplanting their European counterparts in various markets. Consequently, those dollar credits were being deposited in

⁶⁶ Bank of Chosen 1918a, 7; Dorfman, 141. One important event was the establishment of the Federal Reserve System in the United States in December 1913. The creation of an American central bank gave the United States an added ability to respond to economic fluctuations as well as intervene in the American economy. For more on the establishment of the Federal Reserve System, see Milton Friedman and Anna Jacobson Schwartz, *A Monetary History of the United States, 1867-1960* (Princeton: Princeton University Press, 1963), 189-195

⁶⁷ Eichengreen, 72-73; Leland Crabbe, "The International Gold Standard and U.S. Monetary Policy from World War I to the New Deal," *Federal Reserve Bulletin* 75 (1989), 426. From April 1917 to November 1920, the United States advanced \$4.2 billion to Britain, \$2.97 billion to France, and \$1.63 billion to Italy. Five months after the United States entered the war, President Woodrow Wilson issued a requirement that gold exporters would have to obtain permission from the Secretary of the Treasury and the Federal Reserve Board before exporting gold.

Japanese accounts in financial institutions in New York and the strong dollar bolstered Japanese foreign exchange holdings. At the same time, Japan continued to purchase foreign exchange reserves, which allowed Japan to continue expanding its money supply and also protected the yen from rapid appreciation.⁶⁸

Even as Japan and Korea were enjoying the benefits of the wartime export boom and the Bank of Chōsen was issuing gold-backed yen notes in Manchuria, the global gold standard was being undermined by the effects of the First World War and this had a direct impact on Japan. During the war, Britain had unofficially embargoed the export of gold which prevented Japan from accessing its currency reserves in London. The United States also implemented an unofficial suspension on the export of gold in September 1917 after it entered the war, thus forcing Japan to suspend its adherence to the gold standard. Ironically, the abeyance of the worldwide gold standard occurred within months of the Japanese push to implement the gold standard as the common currency basis across Japan, colonial Korea, and southern Manchuria.⁶⁹

Bank of Chōsen Operations in 1910's Manchuria

As previously stated, rapid industrialization in Japan following the Matsukata Deflation caused persistent shortages of capital. Consequently, domestic financial institutions were forced to convert short-term assets into long-term, low-interest industrial loans to satisfy the demands of both Japanese companies and the government for business capital. With the eventual depletion of readily available deposits, banks attempted to attract greater amounts of short-term money

⁶⁸ Juro Teranishi, "Money Markets in Prewar Japan," in David C. Cole, et al., eds., *Asian Money Markets* (New York: Oxford University Press, 1995), 391, 400; Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919-1939* (New York: Oxford University Press, 1992), 85, 89.

⁶⁹ Mark Metzler, "The Road to the Dollar Standard: Monetary Hegemony and Japan's Place in the International Order," *The Japanese Economy* 30-3 (2002), 59-60.

market funds by waging deposit interest-rate battles with other banks to entice depositors through their doors. In the absence of domestic Japanese funds for colonial investment, colonial banks were established as one type of credit-generating “special bank” to funnel capital toward state-directed projects for the purposes of rapid economic development, rather than ensuring the stability of colony and its peoples. Before 1918, colonial banks also engaged in the interest-rate battles with commercial banks and sought to increase their deposits by offering high interest rates on savings accounts. While the saving public benefited from higher interest rates, the government-directed special banks were weakening the profitability of their privately-owned brethren in order to pursue state-mandated development projects.⁷⁰

After 1918, the special banks, including the colonial banks, turned to the interbank call market in order to increase their deposit base. However, the Bank of Chōsen was able to pursue other options due to the success of its Manchurian and Japanese operations in garnering deposits and profits that could be redirected toward industrialization projects, first in colonial Korea and later in Manchuria. During the period of 1909 to 1919, the overall business of the bank continued to increase in terms of its total deposits, advances, and note issue (Table 14). Deposits increased from 7.6 million yen to over 194 million yen during these ten years. Taking 1909 as an index year of 100, deposits increased to 2,546 by 1919. Advances demonstrated a similar increase from over 19 million yen in 1909 to a little less than 400 million yen by 1919. Overall note issue increased at half that rate from over 13 million yen in 1909 to over 163 million yen by 1919.

Table 14. Total Deposits, Advances, and Note Issue of Bank of Chōsen from 1909 to 1919

Year	Deposits		Advances		Note Issue	
	Yen	Index	Yen	Index	Yen	Index
1909	7,631,641	100	19,624,627	100	13,439,700	100
1910	5,960,650	78	22,193,052	113	20,163,900	150

⁷⁰ Teranishi, 394, 399-400. The special banks included two development banks, the Japan Hypothec Bank and the Industrial Bank of Japan; a foreign exchange bank, the Yokohama Specie Bank; three colonial banks, the Bank of Taiwan, the Bank of Chōsen, and the Hokkaidō Takushoku Bank; and the prefectural agricultural banks.

1911	6,978,281	91	21,897,610	112	25,006,540	186
1912	14,169,878	166	32,506,391	166	25,550,400	190
1913	20,801,925	273	37,532,657	191	25,693,260	191
1914	17,598,504	231	37,076,012	189	21,850,370	163
1915	18,588,601	244	42,862,501	218	34,387,520	256
1916	33,033,410	433	59,487,286	303	46,627,080	347
1917	88,413,372	1,159	113,335,499	578	67,364,949	501
1918	218,960,149	2,869	254,290,517	1,295	115,523,670	860
1919	194,300,800	2,546	398,586,782	2,031	163,600,056	1,217

Source: Bank of Chōsen, *Economic History of Manchuria* (Seoul: Bank of Chōsen, 1920), 283

Taken by itself, deposits in the Manchurian branches of the Bank of Chōsen increased from 442,516 yen in 1910 to 12.8 million yen in 1917 (Table 15). As a percentage of the total deposits of the Bank of Chōsen, the Manchurian portion increased from 7.4% in 1910 to a high of 27.6% in 1916, before falling to 14.5% in 1917. Although the bank had entered Manchuria mainly to accumulate specie, the importance of the Manchurian branches was coming to rival Korean deposits and was overshadowed only by the spectacular growth of deposits coming from the branches in Japan in 1917.⁷¹

Table 15. Deposits in the Bank of Chōsen by Region of Origin, 1910-1917 (yen)

Year	Korea	%	Manchuria	%	Japan	%	Total	%
1910	5,470,415	91.8	442,516	7.4	47,720	0.8	5,960,651	100.0
1911	5,905,463	84.6	471,231	6.8	601,587	8.6	6,978,281	100.0
1912	13,245,671	93.5	796,974	5.6	127,233	0.9	14,169,878	100.0
1913	18,674,212	89.8	725,911	3.5	1,401,802	6.7	20,801,925	100.0
1914	16,055,199	91.2	1,063,626	6.0	479,679	2.7	17,598,504	100.0
1915	15,781,898	84.9	2,084,639	11.2	722,063	3.9	18,588,600	100.0
1916	17,288,089	52.3	9,107,316	27.6	6,638,003	20.1	33,033,408	100.0
1917	20,923,336	23.7	12,799,990	14.5	54,690,046	61.9	88,413,372	100.0

Source: Bank of Chosen, *A Brief Review of the Work of the Bank of Chosen* (Seoul: Bank of Chosen, 1918), 29.

Deposits in the Manchurian branches of the Bank of Chōsen showed an increase from a little over 311,000 yen in 1909 to well over 44 million yen by 1919 (Table 16). If December 31,

⁷¹ Bank of Chosen 1918a, 29.

1909 is taken as the index year of 100, then overall deposits increased rapidly to 14,311 only nine years later.

Table 16. Deposits of Manchurian Branches of the Bank of Chōsen, 1909-1919 (yen)

Date	Official Deposits	Fixed Deposits	Current Deposits	Other Deposits	Total	Index No.
1909.12.31	--	21,909	209,296	80,134	311,339	100
1910.6.30	36,139	20,236	201,948	135,474	393,797	126
1910.12.31	52,691	23,797	274,814	91,212	442,514	142
1911.6.30	68,414	24,184	192,084	100,918	385,600	124
1911.12.31	68,149	14,324	223,334	165,421	471,228	149
1912.6.30	79,591	217,811	273,848	97,202	668,452	214
1912.12.31	58,157	523,801	117,191	98,786	797,935	257
1913.6.30	72,508	380,072	439,283	82,875	994,738	319
1913.12.31	45,590	335,428	223,961	144,174	749,153	141
1914.6.30	70,689	307,015	363,138	249,846	990,638	318
1914.12.31	41,723	171,491	527,836	322,574	1,063,624	341
1915.6.30	45,275	486,290	1,217,177	306,398	2,055,140	660
1915.12.31	39,680	208,411	1,509,242	327,304	2,084,637	669
1916.6.30	26,157	249,172	3,437,441	731,673	4,444,443	1,428
1916.12.31	22,819	616,214	5,686,895	2,781,385	9,107,313	2,925
1917.6.30	33,209	979,874	6,653,826	5,598,717	13,265,626	4,268
1917.12.31	38,263	1,218,676	7,726,511	3,354,892	12,338,342	3,963
1918.6.30	47,094	5,327,731	12,435,312	4,844,966	22,655,103	7,274
1918.12.31	33,603	6,576,775	17,042,320	7,916,371	31,569,069	10,140
1919.6.30	49,017	8,950,375	18,363,911	23,310,138	51,173,441	16,437
1919.12.31	33,028	8,022,471	26,598,737	9,901,239	44,555,475	14,311

Source: Bank of Chōsen, *Economic History of Manchuria* (Seoul: Bank of Chōsen, 1920), 291-292.

Broken down by percentages, the same data indicates that official deposits peaked at almost 18% of total deposits in the middle of 1911 before declining thereafter to a miniscule 0.7% by 1919 (Table 17). In this regard, the Bank of Chōsen did not hold significant amounts of official government money from either the Japanese government in Kwantung Province and the South Manchurian Railway Zone or the Manchurian provincial governments during the 1910's. Consequently, the bank was continuing to move away from its dependence on government treasury funds to more closely resemble the operations a private bank, at least in its Manchurian operations. On the one hand, the bank was losing the stability and security offered by significant government deposits and was forced to compete more intensely for its survival. On the other

hand, the bank could undertake operations with less government oversight and expand its operations as necessary.

Table 17. Relative Percentages of Deposit Categories
for Manchurian Branches of the Bank of Chōsen, 1909-1919

Date	Official Deposits	Fixed Deposits	Current Deposits	Other Deposits
1909.12.31		7.04%	67.22%	25.74%
1910.6.30	9.18%	5.14%	51.28%	34.40%
1910.12.31	11.91%	5.38%	62.10%	20.61%
1911.6.30	17.74%	6.27%	49.81%	26.17%
1911.12.31	14.46%	3.04%	47.39%	35.10%
1912.6.30	11.91%	32.58%	40.97%	14.54%
1912.12.31	7.29%	65.64%	14.69%	12.38%
1913.6.30	7.29%	38.21%	44.16%	8.33%
1913.12.31	6.09%	44.77%	29.90%	19.24%
1914.6.30	7.14%	30.99%	36.66%	25.22%
1914.12.31	3.92%	16.12%	49.63%	30.33%
1915.6.30	2.20%	23.66%	59.23%	14.91%
1915.12.31	1.90%	10.00%	72.40%	15.70%
1916.6.30	0.59%	5.61%	77.34%	16.46%
1916.12.31	0.25%	6.77%	62.44%	30.54%
1917.6.30	0.25%	7.39%	50.16%	42.20%
1917.12.31	0.31%	9.88%	62.62%	27.19%
1918.6.30	0.21%	23.52%	54.89%	21.39%
1918.12.31	0.11%	20.83%	53.98%	25.08%
1919.6.30	0.10%	17.49%	35.89%	45.55%
1919.12.31	0.07%	18.01%	59.70%	22.22%

Source: Calculated from Table 16.

In terms of its deposit base, fixed deposits peaked at around 66% in 1912 and decreased to a low of 5.61% in 1916 before increasing modestly to around 20% by the end of the decade. Most importantly, current deposits showed a rapid rise in the nine years from 209,296 yen in 1909 to nearly 26.6 million yen in 1919, a 127-fold increase. The proportion of current deposits to total deposits began at 67% in 1909, decreasing to 14% at the end of 1912, and peaking at 77% in mid-1916. Current deposits continued to maintain a majority share of total deposits through the remainder of the decade. These figures are significant in light of the large amounts of money entering into Manchuria as a result of the wartime boom in commodities. The

percentages indicate that outside a short period from 1912 to 1913, depositors in the Bank of Chōsen wanted easy access to their money and preferred current deposits over fixed deposits.

Bank of Chōsen's success in attracting deposits was due partly to the overall increase in exports of agricultural products from Manchuria, specifically soybeans and related products (Table 20). Beans and bean-related products became the primary Manchurian export, following the first trial shipment of beans to England in November 1908. Bean exports rose from 394,707 American tons in 1907 to 928,400 tons in 1914 before dropping to 500,361 tons in 1917. However, the most significant export increases came from bean cake and bean oil, with the former going to Japan as fertilizer and the latter filling the shortage of oil in America and Europe due to the First World War. Bean cake exports doubled between 1907 and 1919 from 569,938 to 1,149,598 tons. However, bean oil increased fifteen-fold from a modest 13,193 tons in 1907 to 206,623 tons in 1917.⁷²

Table 18. Soybean Product Exports from Manchuria, 1907-1917 (American tons)

	Soybeans	Index	Bean Cakes	Index	Bean Oil	Index
1907	394,707	100	569,938	100	13,193	100
1908	917,890	233	623,237	109	20,650	157
1909	814,524	206	497,124	87	24,752	188
1910	804,538	204	804,566	141	42,098	319
1911	686,347	174	746,172	131	52,694	399
1912	588,364	149	820,423	144	50,536	383
1913	611,665	155	736,506	129	45,839	347
1914	928,400	235	1,020,304	179	83,453	633
1915	575,883	146	902,098	158	104,201	790
1916	558,353	141	1,090,492	191	111,614	846
1917	500,361	127	1,149,598	202	206,623	1,566

Source: Adapted from Bank of Chosen, *Economic History of Manchuria* (Seoul: Bank of Chosen, 1920), 294. These statistics refer to bean product exports from Dalian, Yingkou, and Vladivostok. Bean exports from other ports were less than 10,000 tons a year. Bean cakes from other ports were less than 5,000 tons a year. Bean oil from other ports was less than 800 tons a year. Original data was compiled by Mitsui & Company of Dalian.

⁷² Bank of Chosen 1920, 218.

The Bank of Chōsen benefited from the expanded trade in agricultural exports by financing an increasing share of the business in soybeans (Table 19). Almost from its establishment, the BOC was involved in soybean exports and quickly increased its involvement from 234,891 yen in 1912 to an impressive 72 million yen in 1919.

Table 19. Bank of Chōsen Financing of the Main Import and Export Items of Manchuria, 1912-1919 (*yen*)

Year	Soybeans	Bean Cake	Bean Oil	Cotton Fabrics	Cotton Yarns
1912	234,891	--	--	86,731	20,198
1913	1,807,849	--	--	280,950	15,280
1914	4,330,913	--	--	692,674	45,592
1915	8,437,574	--	--	201,206	70,319
1916	7,726,430	5,971,005	1,892,564	668,950	85,343
1917	12,33,080	6,924,074	1,061,352	5,192,587	566,572
1918	28,031,085	15,758,200	6,159,094	21,416,275	846,749
1919	72,086,575	41,850,536	24,997,649	45,993,417	6,882,568

Source: Bank of Chosen, *Economic History of Manchuria* (Seoul: Bank of Chōsen, 1920), 294. Soybeans and soybean-related products were the primary Manchurian exports while cotton fabrics and yarns were the primary imports.

The bank's activity in financing soybean exports was in line with its original purpose of creating credit abroad to address the trade imbalance of colonial Korea. However, the bank did not engage in financing bean cake and bean oil exports until 1916. Since bean cake was already a popular product primarily destined for Japanese farmers, it seems somewhat unusual that the BOC was a relative latecomer to this line of business. However, other banks situated in Japan may have initially dominated these types of transactions due to their proximity to the market itself and financing bean cake exports may not have accorded with the BOC's initial goals in Manchuria of accumulating specie abroad. Regardless of the exact reasons for its relatively late start, the Bank of Chōsen quickly made up ground by increasing its financing of bean cake from almost 6 million yen in 1916 to over 41 million yen by 1919. Bean oil showed an even larger jump from less than 2 million yen in 1916 to almost 25 million yen by 1919, a twelve-fold increase in the span of four years.

The shift in the Bank of Chōsen's priorities and activities can be directly linked to the export boom instigated by the outbreak of the First World War. The Bank of Chōsen originally expanded its operations in Manchuria to address the trade imbalance in colonial Korea by financing export bills from Manchuria. However, the outbreak of the war in Europe and the subsequent prosperity of the export trade corrected the overall trade imbalance of the Korean peninsula by itself and garnered greater profits for the bank from its operations in Manchuria. The BOC thus was able to shift its focus from only financing exports, which accumulated specie abroad, to also financing imports, which naturally had the opposite and previously undesirable effect of requiring the shipment of specie abroad. However, the export boom rendered those concerns moot as the Bank of Chōsen financed imports and exports, thus greatly increasing the amount of advances that it made.

In 1915, the Bank of Chōsen was financing imports of cotton fabrics and yarns, which were the chief imports into Manchuria, for 271,525 yen while it was financing the export of beans and related products to the tune of 8,437,575 yen (Table 19). By 1919, advances for cotton fabric and yarn imports had risen very quickly to 52,875,985 yen, which might have been a cause for concern among the Japanese if not for the fact that the bank was also financing 138,934,760 yen of beans and related products. By the end of the 1910's, exports from Manchuria were handily beating imports by a ratio of 3 to 1.⁷³

In terms of advances, there were different types made by the Bank of Chōsen such as time loans, overdrafts, and bills discounted (Table 20).⁷⁴ In the ten year span from 1909 to 1919,

⁷³ Bank of Chosen 1920, 292-293.

⁷⁴ Time loans were usually short-term, asset-based business loans payable on a pre-determined maturity date, that were used to finance inventory, or other revenue-generating assets, that provided the funds to pay back the loan. Time loans differed from demand loans, or an overdraft, because the borrower usually had to pay the full interest first when the loan was advanced and the lender could not demand repayment, or "call" the loan, before the maturity

overall advances increased by a large amount. If December 1909 is indexed at 100, then December 1919 was 90,543, a 900-fold increase.

Table 20. Advances Made by the Manchurian Branches of the Bank of Chōsen, 1909-1919

Date	Time Loans	Overdrafts	Bills discounted	Total	Index no.
1909.12.31	9,751	40,918	76,509	127,178	100
1910.6.30	28,331	23,887	129,064	181,282	143
1910.12.31	35,833	37,105	61,354	134,292	106
1911.6.30	33,522	28,871	117,086	179,479	141
1911.12.31	18,085	23,922	84,567	126,574	100
1912.6.30	46,042	7,222	164,018	217,282	171
1912.12.31	105,721	26,661	144,832	277,214	218
1913.6.30	61,163	58,224	451,332	570,719	449
1913.12.31	508,725	489,998	1,551,805	2,550,528	2,005
1914.6.30	433,657	434,011	951,439	1,819,107	1,430
1914.12.31	421,726	1,169,565	1,716,710	3,308,001	2,601
1915.6.30	394,008	980,714	1,810,819	3,185,541	2,505
1915.12.31	587,702	1,250,828	1,843,277	3,681,807	2,895
1916.6.30	201,687	699,090	2,801,221	3,701,998	2,911
1916.12.31	2,126,869	2,008,946	8,095,184	12,230,999	9,617
1917.6.30	726,273	2,152,198	8,556,306	11,434,777	8,991
1917.12.31	2,144,963	6,108,038	13,237,272	21,490,273	16,898
1918.6.30	2,932,450	7,547,801	17,789,174	28,269,425	22,228
1918.12.31	8,959,949	28,066,500	32,830,482	69,856,931	54,928
1919.6.30	3,931,662	19,380,945	62,852,007	86,164,614	67,751
1919.12.31	6,725,460	23,491,513	84,772,468	114,989,441	90,416

Source: Bank of Chōsen, *Economic History of Manchuria* (Seoul: Bank of Chōsen, 293)

The total amount of advances made some relatively small jumps up and down from a modest 127,178 yen in 1909 until mid-1913, when it made a sudden leap from 570,719 yen to 2,550,528 yen by the end of 1913. The large increase occurred well before the assassination of Archduke Franz Ferdinand on June 28, 1914, so it seems unlikely that the outbreak of the First World War was directly responsible for the surge of advances made by the Bank of Chōsen in late 1913. The record of overall soybean product exports from Manchuria indicate a modest increase in the total tonnage of exports of soybeans, bean cake, and bean oil from 1912 to 1913 (Table 18). However, Bank of Chōsen financing for soybean exports and cotton fabric imports

date. An overdraft was a type of revolving loan where a bank extended a certain amount of credit against which a current account client could draw funds. The bank could charge interest on the overdraft amount on a daily, or other pre-determined, basis, but the bank could also demand repayment at any time without warning or explanation like a demand loan.

demonstrated very significant increases from the same period. In fact, soybean export financing increased almost nine-fold to over 1.8 million yen while financing for cotton fabric imports more than tripled, which indicates that the Bank of Chōsen was able to significantly increase its market share in financing the import-export trade, even before the wartime boom in commodities (Table 19).

Once the First World War began, advances from the Bank of Chōsen continued to rise rapidly, jumping particularly in 1916 from 3.7 million yen at mid-year to 12.2 million by the end of the year, nearly a three-fold increase. By the end of 1919, advances soared to almost 115 million yen. In terms of relative percentages, bills discounted assumed primary importance as it accounted for more than half of all advances made between 1909 and 1919 (Table 21).

Table 21. Relative Percentages of Types of Advances
Made by Manchurian Branches of the Bank of Chōsen, 1909-1919

Date	Time Loans	Overdrafts	Bills discounted	Total
1909.12.31	7.67%	32.17%	60.16%	100.00%
1910.6.30	15.63%	13.18%	71.20%	100.00%
1910.12.31	26.68%	27.63%	45.69%	100.00%
1911.6.30	18.68%	16.09%	65.24%	100.00%
1911.12.31	14.29%	18.90%	66.81%	100.00%
1912.6.30	21.19%	3.32%	75.49%	100.00%
1912.12.31	38.14%	9.62%	52.25%	100.00%
1913.6.30	10.72%	10.20%	79.08%	100.00%
1913.12.31	19.95%	19.21%	60.84%	100.00%
1914.6.30	23.84%	23.86%	52.30%	100.00%
1914.12.31	12.75%	35.36%	51.90%	100.00%
1915.6.30	12.37%	30.79%	56.84%	100.00%
1915.12.31	15.96%	33.97%	50.06%	100.00%
1916.6.30	5.45%	18.88%	75.67%	100.00%
1916.12.31	17.39%	16.43%	66.19%	100.00%
1917.6.30	6.35%	18.82%	74.83%	100.00%
1917.12.31	9.98%	28.42%	61.60%	100.00%
1918.6.30	10.37%	26.70%	62.93%	100.00%
1918.12.31	12.83%	40.18%	47.00%	100.00%
1919.6.30	4.56%	22.49%	72.94%	100.00%
1919.12.31	5.85%	20.43%	73.72%	100.00%

Source: Adapted from Table 20.

Bills discounted fluctuated between a low of 45% in 1910 to a high of 79% in 1913, but was consistently high throughout the decade between two-thirds to three-fourths of all advances. As noted above, the increase in bills discounted reflected both the overall growth of Manchurian trade and the success of the Bank of Chōsen in gaining market share. Needless to say, the more export bills that the BOC discounted in Manchuria, the more specie that it was accumulating in its accounts abroad.

As for time loans and overdrafts, the numbers indicate that both increased significantly in terms of absolute numbers throughout the decade but their relative importance declined vis-à-vis bills discounted. Time loans increased from a miniscule 9,751 yen in 1909 to over 6.7 million yen in 1919. However, time loans were more prominent during the first half of the decade, peaking at 38% in 1912, but decreased to less than 6% by the end of 1919. Overdrafts started at a healthy 40,918 yen in 1909 before decreasing significantly to 7,222 yen in mid-1912 and then increasing again through the end of the decade. Overdrafts made a significant leap in 1918 from 7.5 million yen in mid-year to 28 million by year's end. Overdrafts were an important source of financing for businesses because they provided flexibility, depending on business conditions, and avoided the need to fill out paperwork for official loans. In some cases, overdrafts became unofficial and artificial long-term loans that were simply rolled over by the banks as an expedient means of providing financing to favored customers.⁷⁵

The total amount of advances increased slightly in 1916 but then increased at a greater rate from mid-1917 to mid-1918, when it began to rise even more sharply (Chart 2). Most of the growth was due to the increase in the amount of bills discounted, but there was also an increase in overdrafts until the end of 1918. At that point, overdrafts began an overall decline through the

⁷⁵ Norio Tamaki, *Japanese Banking: A History, 1859-1959* (Cambridge: Cambridge University Press, 1995).

end of 1919. As stated above, the increase in advances can be linked to the two factors of the establishment of a larger branch network and a boom in Manchurian import-export activity.

The Japanese Twenty-one Demands on the Chinese government of Yuan Shi-kai in 1915 evoked a strong Chinese nationalist response, notably a boycott begun in March 1915 through the end of the year.⁷⁶ Overall Japanese trade with China was severely affected during the most intense period of boycotting, as the boycott affected not only Japanese goods but also against those doing business with the Japanese. For example, a branch of the Bank of Taiwan in Kiukiang (present-day Jiujiang, Jiangxi province) suspended its business and sent its cash to Shanghai and Hankow in May 1915. In some instances, the tension led to violence as Japanese shops were looted. Among such violent incidents, a Japanese drug store in Fengtian was bombed on June 19, 1915.⁷⁷

In April 1915, a National Salvation Fund was initiated by a group of prominent Shanghai bankers and businessmen to strengthen the Chinese military and encourage industrial development. A groundswell of public support caused an initial flood of donations to flow into the fund and Zhitian Luo notes that fund-raising was particularly successful in Manchuria, despite the high concentration of Japanese settlers and businesses. Fengtian raised 90,000 yuan, Harbin 58,000 yuan, and Ch'angch'un 26,000 yuan. However, Lungkiang (Chichihar) raised about 105,000 yuan which was more than wealthy areas like Kiangsu and Chekiang.⁷⁸

⁷⁶ Elleman 2010, 60. The "Twenty-one Demands" were a long list of territorial and economic demands that the Japanese Cabinet of Okuma Shigenobu presented to the Republic of China under Yuan Shi-kai. The demands included the transfer of German rights in Shandong Province to Japan, railroad and other concessions, and an extension of the lease over the South Manchurian Railway Zone. For more on the inclusion of the Hanyehping Company in Group 3 of the Demands, see Marius B. Jansen, "Yawata, Hanyehping, and the Twenty-one Demands," *Pacific Historical Review* 23-1 (1954), 43-44.

⁷⁷ Zhitian Luo, "National Humiliation and National Assertion: The Chinese Response to the Twenty-one Demands," *Modern Asian Studies* 27-2 (1993), 302-305.

Despite the anti-Japanese sentiment engendered by the Twenty-one Demands and the nationalist mood sweeping through Manchuria, the Bank of Chōsen was barely affected in terms of its business. There was no discernible decrease in total deposits or advances throughout 1915. In fact, fixed deposits showed a large increase from the end of 1914 to the end of June 1915 from around 171,000 yen to 486,000 yen (Table 16). In terms of businesses associated with Japanese interests, soybeans and beancake exports from Manchuria did show significant decreases from 1914 to 1915, but the decline in soybean exports continued throughout 1917, while beancake exports quickly rebounded to pre-1915 levels in the following year (Table 20). Overall, the Bank of Chōsen seemed little-affected by the nationalist protests following the issuance of the Twenty-one Demands, which indicates the resilience of the Japanese financial position in Manchuria.

Consequently, the Bank of Chōsen benefited from favorable historical conditions during the 1910's. At nearly the moment that the Bank of Chōsen assumed control of the former Yokohama Specie Bank branches and expanded its presence in Manchuria, the Manchurian economy was also taking off. The BOC was able to benefit in two ways, first by financing an increasing portion of the import-export trade and second, by increasing its deposit base from its Manchurian clients.⁷⁹

As indicated by President Ichihara's comments, the Bank of Chōsen also looked northward to Russian-held territory and established a branch in Harbin and an office in Fuchiatien to tap the growing Russian-Manchurian trade. As business with Russian interests continued to grow, the BOC concluded a cooperation agreement with the Matsuda Bank of Vladivostok to handle its affairs in Russia since a foreign bank could not establish a branch in

⁷⁸ Luo, 308.

⁷⁹ Bank of Chosen 1920, 294.

Russia. In 1918, Japan dispatched troops into Siberia and the Bank of Chōsen quickly followed on the heels of Japanese aggression by establishing temporary offices in Qiqihar, Manzhouli, Habarovsk, Vladivostok, and wherever the Japanese army established outposts. These offices facilitated payments to the Japanese troops and undertook treasury operations for the army. After establishing an office in Vladivostok, the BOC took over the branch of the Matsuda Bank in Vladivostok that had previously been managed by 18th Bank [J. *Jūhachi ginkō*] of Nagasaki. In the same year, the bank opened permanent branches and offices in Lüshun, Liaoyang, Tieling, Zhengjiatun, Shanghai, Manzhouli, and Qiqihar (Table 5).⁸⁰

Success for the Bank of Chōsen in Manchuria came mainly at the expense of the Fengtian provincial government. Within the northern Chinese provinces, transactions were hampered by the diverse assortment of currencies issued by various banks and money shops. Consequently, local chambers of commerce and currency traders had to recalculate daily the relative values of the currencies traded in their area. Fengtian province made a concerted effort to cut through the “Gordian knot” of currencies by issuing a single unifying paper note, the Fengtian dollar [Ch. *Fengpiao*]. However, this placed the Fengtian dollar in direct competition with the Bank of Chōsen bank notes as both were used in all types of small and large transactions.⁸¹

During the First World War, the Fengtian provincial government suffered a financial crisis of currency redemption when many individuals began taking their Fengtian banknotes to banks and demanding gold or silver coins in exchange. The crisis was precipitated by several

⁸⁰ Katō, 371; Bank of Chosen 1918a, 7. In 1930, Soviet authorities ordered the Bank of Chōsen to close its Vladivostok branch, which it did in 1931.

⁸¹ Suleski, 643. Suleski based his analysis upon a yuan dollar unit, which could be broken down into *jiao*, equal to one dime of a ten-dime dollar. Ten *jiao* notes were equal to one silver yuan dollar but the majority of Chinese in Manchuria used traditional copper cash coins [*qian*] worth about one cent of a silver dollar. The Fengtian dollar was based on the silver yuan and issued by the Official Bank of the Three Eastern Provinces, under the auspices of the Fengtian provincial government. The dollars were issued to anyone who deposited silver or coins at the Official Bank, with the value of the hard currency calculated against the Shanghai tael.

factors. First, the Fengtian banknotes were backed by reserves of precious metals but supplies were limited because the war had forced Western governments to restrict their exports of gold and silver. Second, Chinese banks were unable to receive large-scale loans from foreign banking syndicates since capital exports were also subject to wartime restrictions. Finally and most importantly, Japanese businessmen were spreading rumors in Manchuria that Chinese provincial banknotes were worthless. In contrast, the Japanese liked to proclaim that Bank of Chōsen gold yen notes were stable and widely accepted by Chinese and Japanese alike. From 1913, Japanese colonial administrators and military authorities in Manchuria encouraged Japanese businessmen to take their provincial banknotes to Chinese banks and demand redemption in gold and silver coins. Japanese chambers of commerce [*J. shōgyō kaigijō*] added additional pressure by urging their members to change their banknotes when Chinese banks were rumored to be low on hard currency and possibly forcing these banks out of business. Regardless of the truth behind the rumors of bank instability, they became self-fulfilling prophecies as droves of Japanese and Chinese customers would descend on a particular bank and the hasty conversion of banknotes would cause the bank to deplete its reserves. During February 1916, an average of 700,000 yuan of notes was being converted daily into specie in Manchuria.⁸²

In the midst of the Fengtian financial crisis, the Bank of Chōsen benefited doubly from the provincial government's troubles through the comparative strength of its currency and by extending a loan to the Fengtian Bureau of Finance. By spring 1917, the value of small Fengtian notes had dropped steadily in comparison to Japanese gold yen. In 1913, one gold yen cost 1.23 yuan but its value rose to 1.36 yuan in 1914, 1.47 yuan in 1915, and upward through 1917. In June 1916, the Bank of Chōsen offered a total of two million yen in loans to the Fengtian Bureau

⁸² Suleski, 648.

of Finance, which partially arrested the slide in the value of the banknotes and was collateralized by provincial taxes and government property, such as the buildings of Shenyang Electric Power and the Telephone Administration. The Bank of Chōsen extended an additional emergency loan of three million yen in April 1918.⁸³

The Japanese benefited from these loans in various ways. First, Japanese businessmen gained from a stabilized Chinese currency, which removed an element of uncertainty in trading. Second, the Bank of Chōsen earned interest on their loans to the provincial government, thus receiving a valuable return on their capital. Third, Japanese authorities gained leverage over provincial officials as the Japanese provided financial support and economic stability to government finances and the Manchurian economy.⁸⁴ More significantly, a colonial financial institution like the Bank of Chōsen, headquartered in colonial Korea, was exerting significant influence outside the territorial borders of Korea and expanding the reach of the Japanese empire into the continent.

When Zhang Zuo-lin became the civil and military governor of Fengtian in April 1916, the province had an annual deficit of between two to three million yuan, and debt of over ten million yuan to foreign and Shanghai banks. In May 1917, Zhang appointed Wang Yong-jiang as Treasurer of the province and Wang immediately ordered a slew of reforms to rectify provincial finances. Administrative practices were revamped, misconduct in revenue collection was punished, currency standards were changed, and government-run enterprises underwent rationalization. In April 1918, Wang agreed to the above-mentioned three million yen

⁸³ Suleski, 649, 655.

⁸⁴ Suleski, 649.

emergency loan from the Bank of Chōsen. However, the provincial government was able to repay this loan by October 1919.⁸⁵

Under Wang's direction, the Fengtian government adopted the silver yuan standard, which was necessary for several reasons. First, yuan notes had previously been denominated in amounts too large for daily transactions but the continued growth of the Manchurian economy with the concomitant rise in prices increased the usefulness of yuan notes for everyday dealings. Second, the adoption of the silver yuan standard brought the provincial monetary system into line with the central government, which had adopted the silver yuan with the establishment of the Chinese Republic in 1911. Third, the replacement of copper by silver ensured that the provincial banknotes were backed by an internationally recognized precious metal, rather than copper which was losing its domestic and international value. Lastly, the value of the new silver yuan was set at parity with the Japanese gold yen, with the hope that the yuan would benefit from the recognition and acceptance already accorded to yen currency. In particular, Japanese merchants might be dissuaded from attacking the yuan if it was readily convertible to yen.⁸⁶

The accumulated debt of Fengtian was gradually repaid and by 1921, the province enjoyed a surplus of ten million yuan in government coffers. Due to these fiscal reforms, the silver-based Fengtian dollar [Ch. *Fengpiao*], which was nominally equivalent to the Japanese gold yen in 1917, actually surpassed parity to an exchange ratio of 54 to the Japanese 100 yen by January 13, 1920. The credit for the turnaround in provincial finances can be attributed both to

⁸⁵ McCormack, 32-33, 89. Wang Yung-chiang and other officials continually clashed with Zhang Zuo-lin and Wang eventually resigned in 1926.

⁸⁶ Suleski, 650-651.

the ability of talented provincial officials like Wang Yong-jiang, but also to the continued development of the natural resources of the province and expanded exports.⁸⁷

Although Fengtian's finances were being remedied, public finance in Kirin [modern Jilin] was facing its own crisis as a result of Northeast power politics. By September 1918, Zhang had firmly established control over Fengtian and Heilongjiang and was appointed Inspector-General of the Three Eastern Provinces [Ch. *Dongsansheng xunyueshi*]. However, the military governor of Kirin province was Meng En-yuan, former Defense Army Commissioner of all Kirin armies and a protégé of Yuan Shi-kai. Although Meng was forced from office following an armed clash between Kirin provincial troops and Japanese railway troops on July 19, 1919, he left the province in dire financial straits because he took most of the monetary reserve with him when he retired to Tientsin. Furthermore, Meng had financed his operations by printing money from the provincial bank, regardless of the state of the reserves. Consequently, the note issue in 1918 was quadruple that of 1917, while the value of the notes declined from 19 *tiao* per Japanese gold yen in 1918 to 33 *tiao* in 1919 and onward.⁸⁸

Bank of Chōsen in 1920's Manchuria

By 1918, the Bank of Chōsen had completed its branch network in Manchuria and had expanded southward into China proper with the establishment of branches in Tsingtao in October 1917 and Shanghai in April 1918 (Table 5, Map 1).⁸⁹ By 1919, the BOC had more branches in Manchuria (18) than it did in Korea (10). As stated above, the main reason why the BOC

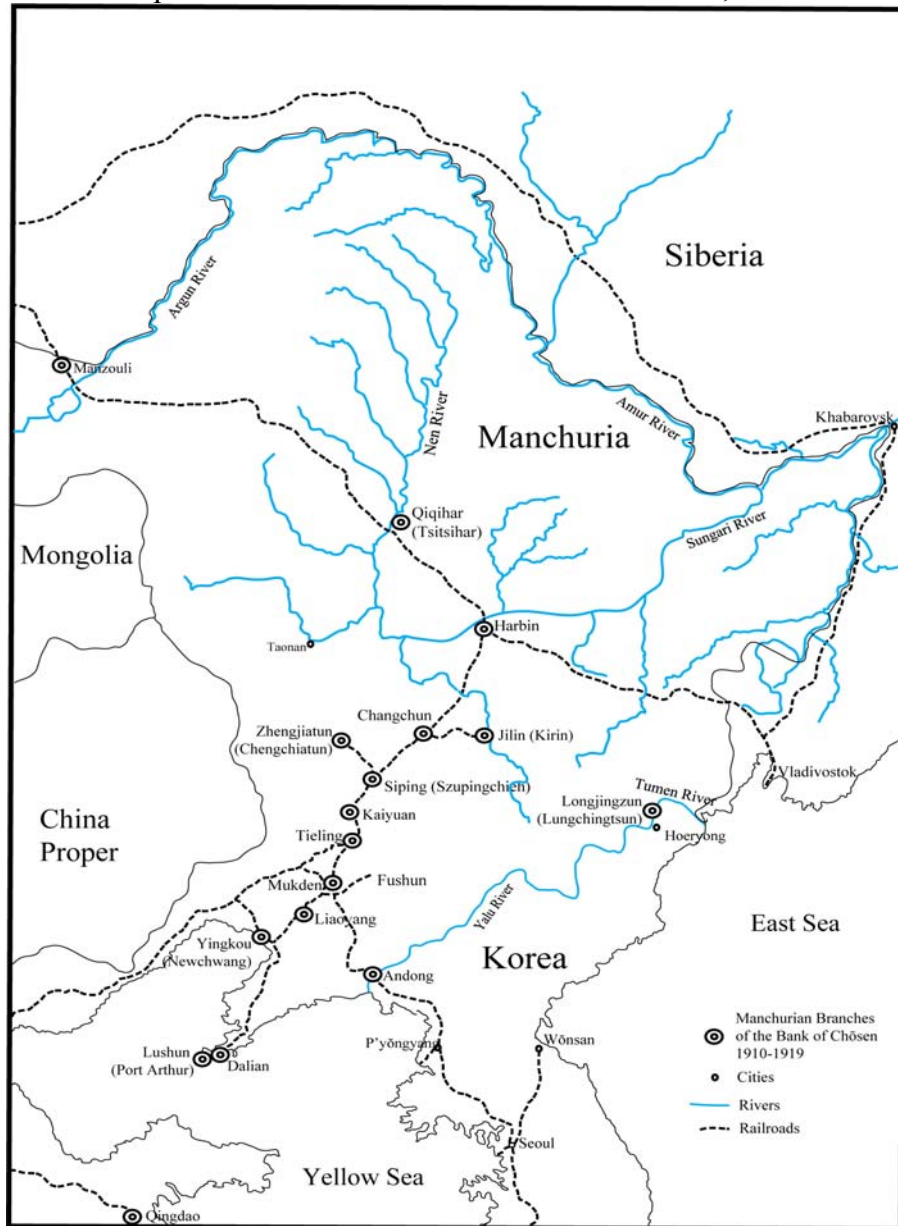
⁸⁷ McCormack, 32-33, 89.

⁸⁸ McCormack, 39.

⁸⁹ Bank of Chosen 1918a, 8.

entered Manchuria was to replenish its specie reserve. Although the bank rationalized its unbalanced branch distribution structure by citing the size of Manchuria and the relatively greater richness of its natural resources, Manchuria was simply a more profitable region for the BOC than colonial Korea.⁹⁰

Map 1. Bank of Chōsen Branches in Manchuria, 1919



*Branch locations of the Bank of Chōsen branch added with the exception of the branch at Fuchiatien which was located on the outskirts of Harbin and Shanghai.

⁹⁰ Bank of Chosen 1920, 285.

However, the Bank of Chōsen faced stiff competition from local Chinese banks as well. By April 1921, three of the largest government-controlled banks in Fengtian; the Official Bank of the Three Eastern Provinces [Ch. *Dongsansheng guanyinhao*], the Bank of Manchuria [Ch. *Dongsansheng yinhang*], and the Fengtian Industrial Bank [Ch. *Fengtian xingye yinhang*], were amalgamated into one large institution, a reorganized Official Bank of the Three Eastern Provinces (OBTEP). With authorized paid-up capital of twenty million yuan, the OBTEP expanded its branch network in Manchuria to one hundred offices, seventy-seven of which were full branches. By this time, the Fengtian government had repaid all of its outstanding loans to foreign banks and was carrying a surplus in its accounts. With the foundation provided by a stable Fengtian dollar and a strong financial institution like OBTEP, the Manchurian financial system achieved its high-water mark of unity under a single currency.⁹¹

After the end of the First World War, the Asian economies swooned with a decline in the global demand for exports. In the midst of the postwar economic crisis, Chinese banks and bankers in Manchuria were unhappy that the Bank of Chōsen essentially functioned as the central bank of Manchuria. After the establishment of the OBTEP, the movement to establish a Chinese central bank gathered widespread support in Manchuria. The fact that the Bank of Chōsen was functioning as the Manchurian central bank while answering to the Korean colonial government particularly rankled many Chinese. As stated earlier, the Chinese demands for their own central bank were similar to the protests made by Koreans against Daiichi Bank in Korea a quarter-century earlier.⁹²

⁹¹ Suleski, 657-658.

Due to its reliance on the Bank of Chōsen and other foreign banks, the Fengtian provincial government took steps beginning in 1918 to repay its loans. In that year, the Fengtian government issued provincial bonds denominated in five yuan, ten yuan, and one hundred yuan, with an annual interest rate of 7.2%. Using these funds as well as additional tax revenue, the provincial government repaid the Bank of Chōsen three million yuan in April 1920 and 1.5 million yuan in October 1920. In combination with a repayment of one million yuan made in 1913, these payments released the Fengtian provincial government from all of its obligations to the Bank of Chōsen and other foreign banks by April 1921. This date marked the high point of greatest financial stability for the Fengtian government.⁹³

Between 1922 and 1924, Zhang Zuo-lin took part in the Fengtian-Zhili Wars, which necessitated large amounts of military spending. With the finances of the Peking government in disarray, Zhang joined forces with Liang Shi-yi to take over the central government. As a result of these political machinations, Zhang gained control over central government finances, including the central Treasury, the Bank of China, and the Bank of Communications.⁹⁴

However, the First Fengtian-Zhili War in April-May 1922 ended in ignominious defeat for Zhang and his forces, and he was forced to retreat back to his home territory to reconstitute his forces. Despite various challenges to his authority in the aftermath of the defeat, Zhang was

⁹² Chōsen ginkō kenkyūshi kenkyūkai [hereafter CGK], *Chōsen ginkōshi* [A history of the Bank of Chōsen] (Tokyo: Tōyō keizai shinposha, 1987), 252.

⁹³ Suleski, 657-658.

⁹⁴ McCormack, 62. In November 1921, a run on both the Bank of China and the Bank of Communications was started by rumors of impending bankruptcy. Liang Shi-yi was the managing director of the Bank of Communications and he turned to Zhang Zuo-lin for a four million yuan loan and a political takeover. Consequently, Liang was installed as prime minister with a joint Mukden and Communications Clique cabinet. The “Communications Clique” was a group of officials around Liang with positions in the Ministry of Communications (established 1906), administrative interests in railways, shipping, postal, telegraph, and telephone services, and financial interests in the Bank of Communications (established 1907). The Communications Clique was originally allied with Yuan Shi-kai, but turned to the Anhwei clique after Yuan’s death. After the defeat of Anhwei in 1920, the Communications Clique allied with the Fengtian clique under Zhang Zuo-lin. McCormack, 54.

able to retain control over the Three Eastern Provinces and rebuild his strength. The economic basis of his home base in Fengtian province remained strength, due mostly the efforts of Wang Yong-jiang, as well as Zhang's appropriation of salt and customs revenue that had previously been sent to Peking.⁹⁵

As stated above, the silver-based Fengtian dollar had strengthened beyond parity with the Japanese gold yen to an exchange ratio of 54 to the Japanese 100 yen, due mainly to the policies of Wang Yong-jiang and the high price of silver in global markets. However, the value of the money of the province was directly related to the confidence level in the province and the world price of silver. Consequently, the weakening of silver prices on world bullion markets after 1920 and the run up to hostilities in the First Fengtian-Zhili War led to a precipitous decline in the Fengtian dollar. In January to mid-April 1922, the yuan fell from 116 per gold yen to 147, as large amounts of hard currency were withdrawn from provincial banks and spent on the military mobilization. Consequently, transactions on the Dalian Exchange were limited to 500,000 yuan per day and the exchange rate was fixed at 138, which did little to stem a decline in May to 156. The reconstitution of Zhang's military forces late in 1922 restored confidence in the Fengtian dollar to a level of 130, but rumors of another campaign caused the dollar to drop to 145. At that point, Zhang ordered the Exchange to limit transactions to 1 million yuan per day and to fix the exchange rate at 145. As the rumors subsided, the exchange ratio stabilized but never recovered to prewar levels.⁹⁶

⁹⁵ McCormack, 70-73. The salt revenue amounted to over nine million yuan annually while the customs revenue was 700,000 (Haikwan) taels, or 8.4 million taels, a year. The Haikwan tael was the unit of currency used to pay maritime customs and foreign exchange, as opposed to the Kuping or Treasury tael used to pay government taxes other than customs duties. In 1920, the Haikwan tael was worth just over 1.5 yuan, according to McCormack, 282.

⁹⁶ McCormack, 89-90.

Zhang's finance minister, Wang Yong-jiang, was able to fit military expenditures within the government budget, despite Zhang's outside demands that sent 50% of revenue to the military. However, large-scale fighting in central China in autumn 1924 drew in the military forces of Zhang Zuo-lin, which in turn increased the economic demands placed on his home base in Manchuria. The outbreak of fighting between forces in the Zhejiang and Jiangsu provinces in September 1924, sparked the second Fengtian-Zhili war. In the midst of the fighting, Feng Yu-xiang, a disenchanted military commander, turned against Wu Pei-fu on October 22, after receiving a large Japanese-provided bribe from Zhang.⁹⁷ His betrayal tipped the balance in Fengtian's favor. Although Feng Yu-xiang occupied Peking in the immediate aftermath of his coup, he was later appointed defense commissioner of the Northwest and retired to Hebei province. With the collapse of the Zhili forces and the retirement of Feng, Zhang controlled a wide swath of Northeast China stretching from the Amur River to the Yangtze River.⁹⁸

By 1925, military spending had risen to 51 million yuan, offset by income of only 21 million, which meant the military was spending 222% of its revenue. The funds required to first equip Zhang's forces for his campaigns and then to administer his new territories placed a terrible financial burden on Fengtian province. The army alone numbered 350,000 men in September 1925 and continued operation of the arsenal and air force required additional

⁹⁷ The decisive factor in Feng Yu-hsiang's betrayal of Wu P'ei-fu was a bribe paid by Zhang, estimated at somewhere between one million to 2.5 million Japanese yen. The money for the bribe was loaned to Zhang by the South Manchurian Railway Company and collateralized by a large parcel of personal property in Mongolia. The bribe itself traveled through Japanese channels from the Mukden branch of the Mitsui Bank to the Japanese Army garrison commander in Tientsin, Yoshioka Kensaku, and through various other hands before reaching Feng, in the form of a check drawn on the Yokohama Specie Bank. McCormack, 132-133.

⁹⁸ McCormack, 120-131; Suleski, 660; Dorfman, 143; Mitter, 35.

expenses. To meet the shortfall, Zhang ordered Fengtian's printing presses to make up the difference, which sent inflation skyrocketing.⁹⁹

As the man in charge of provincial finances, Wang Yong-jiang argued for the need to reduce military expenditures. The second Fengtian-Zhili war alone had cost 70 million yuan, while ordinary military expenses were between 17 and 18 million and the arsenal cost 22 to 23 million annually. Against the expenses, provincial income amounted to approximately 34 million yuan by 1925, which was a significant increase from 10 million yuan in May 1917, but still not nearly enough to cover the continuation of exorbitantly high military expenses. However, Wang was consistently overruled by the militarists, who privileged military priorities, such as expansion of the arsenal and unification of weapons systems, over economic development projects, like education expenditures and railway construction. Military demands for cash, which far outstripped the province's ability to generate revenues, resulted in the continued over-issuance of paper money unsupported by any specie.¹⁰⁰

Zhang ordered the Official Bank of the Three Eastern Provinces [Ch. *Dongsansheng kuanyihao*] to more than double its total issuance of Fengtian dollars from 60 million yuan in 1924 to 134 million yuan in 1925 so that the military could have more currency at its disposal. As a result of the sudden increase, the value of the Fengtian dollar began rapidly falling out of parity with the Japanese gold yen. On October 16, 1925, one Japanese gold yen was equivalent to 1.59 yuan but the price fell to 1.76 yuan three days later. By early December 1925, one gold yen was worth 2.15 yuan. On the first day of March 1927, one gold yen was worth 6.71

⁹⁹ Mitter, 35; McCormack 146-147. Fengtian's revenue was 26.8 million and its expenditures were 18.2 million yuan. From total expenditures, 13.9 million, or 76% of all expenditures and over 50% of all revenues, went to the military.

¹⁰⁰ McCormack, 148-149.

Fengtian dollars and the value of the Fengtian dollar continued to fall until one gold yen was worth twenty yuan by January 1928. By February 1928, one gold yen cost forty yuan and runaway inflation was taking hold. Prices for sorghum, millet, wheat, and beans rose an average of 2.23 times higher in 1928 from the previous year.¹⁰¹

The Bank of Chōsen was one of the foreign banks frequented by the Manchurian military elite and ruling group to safeguard their earnings against inflation and possible weakness in the indigenous banks. Zhang and other leading officials engaged in speculative ventures in Manchurian agriculture, particularly in the main export commodity of soybeans. The soybean crop was harvested in autumn, although many peasants concluded agreements in spring or early summer to sell their crops and gain money to buy daily necessities. Since large Japanese trading companies and banks controlled the back end of the process through a monopoly on the transportation and export of soybeans, Chinese profiteers focused on the initial production and processing of the beans into oil and cake.

One account described how the Official Bank of the Three Eastern Provinces and grain-dealing businesses manipulated currency exchange rates to reap additional profits. The value of the Fengtian dollar fluctuated throughout the year, but it was strongest during the months of November and December and weakest during the autumn harvest season of September and early October. Consequently, the Official Bank issued extra Fengtian dollars to its affiliated companies to purchase grain in November and December, sell the grain in Dalian, and deposit silver and gold notes in foreign banks. The silver and gold notes were converted to Fengtian notes at their

¹⁰¹ Suleski, 660; Dorfman, 143; Mitter, 35; McCormack, 155.

low point during the autumn harvest season and the cycle was repeated, allowing traders to benefit doubly from high prices and low exchange rates.¹⁰²

The Official Bank of the Three Eastern Provinces performed these services for the Fengtian elite, while the provincial banks of Kirin and Heilongjiang served the same role for their own ruling class. In this respect, Japanese financial interests could hardly have dominated Manchurian agriculture completely since Chinese “warlord capital” effectively excluded the Japanese from some aspects of the initial production process. While Japanese merchants were unhappy with their curtailed role and lost profits, the strategic demands of the 1920’s Japanese-warlord relationship overruled any merchant unhappiness. However, the Japanese banks certainly benefited from these arrangements, since warlord accounts at the banks served as a hedge against inflation and instability. In 1925, deposits in Japanese banks in the South Manchurian Railway Zone increased from 15.75 million yen in late October to 35.65 million by the end of December. Zhang Zuo-lin reportedly deposited two million yen in the Bank of Chōsen and five million in the Yokohama Specie Bank.¹⁰³

Despite the diversion of his personal assets to Japanese banks, Zhang Zuo-lin scolded his bankers for allowing the dollar to depreciate.

“Last year, I asked you to take steps to regulate the financial situation. To the present time, nevertheless, nothing has been done by you. The *Fengpiao* has, it seems, reached its very lowest point. Certain people say that the fall of the *Fengpiao* is due to terribly heavy military expenses. This is incorrect; the expenses for the last two wars were covered by reserves in the Treasury. We were forced to wage the last two wars, otherwise our enemies would have invaded us. Had we not fought, could we have kept our lives, our property? You must not forget that, as soon as I became the head of the Three Eastern Provinces, they were not afflicted by any ‘acts of God’; it is true that there was a drought, but this was not great. The Three Eastern Provinces were favored by God, but you are occupied in devaluing money which always stood high previously, you are causing injury to yourselves and others. Are you not preparing a poison which you must drink

¹⁰² McCormack, 199, 203. These currency-related profits were in addition to the profits gained from high-interest loans imposed on poor and middle-income peasants who needed the money to survive the summer months. In other cases, peasants pre-sold their harvest at between fifty to sixty percents of its actual worth.

¹⁰³ McCormack 200, 302.

yourselves? A few people say that I have deposited, and still deposit, large sums of money into banks, but I can tell you one thing: I will not regret (the loss of) money if you find it and confiscate it, but you will not find it, there is none; it is true that I have land, more than one million *mou* of land, from which I can obtain money, should this be necessary for the improvement of the exchange rate of *Fengpiao*. I will not, under any circumstances, permit the wreck of the *Fengpiao*. Keep this properly in mind.”¹⁰⁴

Despite his economic and political difficulties, Zhang Zuo-lin was able to maintain his hold on power partly due to assistance from Japan, which provided him with money and guidance. The fiscal demands of his military campaigns left him with a huge deficit and the populace under his control was unhappy with his tax and political policies.¹⁰⁵ In 1925, Guo Song-ling, one of Zhang’s senior commanders, rebelled, partly in opposition to Yang Yuting, another senior commander, but also with the support of the KMT and the Soviets.¹⁰⁶ According to the circular telegram demanding Zhang’s resignation, Guo accused Zhang of being a Japanese lackey and destroying the provincial economy.¹⁰⁷

“The Three Eastern Provinces, being long under the influence of a powerful neighbor who is based in a part of those territories...in the near future the Three Eastern Provinces seem likely to become part of that [neighbor’s] territory. Yet you take no steps to deal with the group of 28 or so wicked and crafty councilors who surround you. And further, as the currency, which is the basis of the economy, becomes a foreign currency, the native currency of the Three Eastern Provinces is no more than waste paper.”¹⁰⁸

¹⁰⁴ Quoted in Dorfman, 145.

¹⁰⁵ Mitter, 21.

¹⁰⁶ Mitter, 26-27. Guo Song-ling was deputy commander of the 3rd Route Army, a 70,000 person force that included some of the best trained and equipped units in the Northeastern armies. Guo took advantage of the absence of Zhang Xue-liang, who was recalled for consultations with his father, to seize control of the army and demand the resignation of Zhang Zuo-lin. Guo coordinated his betrayal beforehand with Feng Yu-xiang, the warlord who controlled the northwest and western territories.

¹⁰⁷ McCormack 150-151, 163. In return for mutinying against Zhang, Guo was promised control of the Three Eastern Provinces. However, McCormack argues that Guo’s resentment ran deeper than simple material rewards since he was largely excluded from both territorial power and policymaking decisions within the Fengtian clique.

¹⁰⁸ McCormack, 163.

Guo used the deteriorating economic situation as one justification for his mutiny and to prove the failure of Zhang's policies. Subsequently, Guo called on Zhang Zuo-lin to resign and to turn over power to this son, Zhang Xue-liang.

Guo quickly won several victories against the Fengtian Armies by early December 1925, forcing Zhang Zuo-lin to turn to the Japanese for assistance. Although the Tokyo government maintained its stance on a policy of nonintervention, the Japanese authorities in Manchuria clearly supported Zhang in the name of protecting Japanese interests. The Kwantung Army commander-in-chief General Shirakawa Yoshinori issued an ultimatum to Guo and his forces to forbid them entry into the city of Yingkou, to stay thirty kilometers away from the South Manchuria Railway line, and to not cross the Liao River. Yoshida Shigeru, consul general in Mukden, cabled the Foreign Ministry advocating assistance for Zhang. The president of the South Manchuria Railway Company, Yasuhiro Tomoichirō, cabled Foreign Minister Shidehara Kijūrō to ask for Japanese intervention in stopping Guo. If nothing else, Japanese business interests, particularly the South Manchurian Railway Company, stood to lose millions of yen if Zhang was defeated, since the railway held substantial amounts of currency and obligations denominated in Fengtian dollars.¹⁰⁹

The fall of Zhang was widely expected to lead to a collapse in the currency. The pre-rebellion exchange rate fluctuated between 160 to 170 yuan for every 100 yen, but after December 1925, the exchange rate fell to between 230 and 240 yuan immediately before the end of the war. Beyond the threat to its currency holdings, the South Manchurian Railway Company

¹⁰⁹ McCormack, 172-174, 179.

was keenly interested in preserving its existing businesses without disruption. In 1925, the railway operations alone of the SMRC brought in approximately 58.6 million yen.¹¹⁰

Although General Shirakawa had issued strict conditions on Guo's forces as the local Japanese commander, Army Minister Ugaki Kazushige significantly reduced the exclusion zone around the railway line from thirty kilometers to twelve kilometers and ordered that Guo's forces be allowed entry into Yingkou. The sequence of countermanding orders from Tokyo and the refusal of local commanders to enforce those orders illustrated the general lack of coordination and agreement between Japanese forces in Manchuria and the General Staff in Tokyo. However, the cabinet did authorize the mobilization of additional forces to protect Japanese interests. The Kwantung Army began mustering its troops at Mukden and along the South Manchurian Railway line in early December 1925, while 2,500 troops from the Kurume 12th Division of the Korean Army were ordered to Manchuria on December 15. With significant Japanese assistance, Zhang was able to organize his forces for an attack on December 21 that defeated Kuo and preserved both Zhang's power and Japanese interests in Manchuria.¹¹¹

Secure in his military power by January 1926, Zhang sought to bolster public support by calling for reforms in military expenditures and the promotion of business, industry, communications, and education. Wang Yong-jiang submitted a proposal to drastically slash military expenditures from 51 million yuan to meet provincial income of 23 million yuan. In fact, expenditures at the arsenal alone totaled 23 million yuan. Wang argued for a three-fifths reduction in arsenal expenses, reduction of the army from four divisions to three, and the

¹¹⁰ McCormack, 174.

¹¹¹ McCormack, 179-182.

elimination of Zhang's secret military budget of ten million yuan. Zhang disregarded Wang's proposal, which was followed by Wang's resignation and his death in 1927.¹¹²

Although Zhang Zuo-lin had been semi-supportive of the Nationalist Party (KMT) in the early 1920's, he became increasingly hostile to the KMT, especially after they offered support to Guo Songling's rebellion in 1925. Zhang became aware of KMT support for Guo through Japanese intelligence, which was one measure by which the Japanese continued to support Zhang. As Zhang was losing his campaigns to maintain control of the Peking area, he finally decided to withdraw completely to the northeast on June 3, 1928. On the following day, Zhang Zuo-lin was bound for Mukden on a special train, traveling with his coterie of senior officials when an explosion ended his life.¹¹³

The Japanese officers' decision to assassinate Zhang was directly related to their heavy political and economic investments in the fate of Manchuria. For example, the SMRC alone was reaping profits three times greater than the total revenues of the Fengtian government. However, the Japanese were fearful of Zhang's political ambitions. They believed that continuation of Zhang's military campaigns south of the Great Wall would lead to his eventual defeat and the potential installation of a regime hostile to Japanese interests. In late 1926, the Japanese pressured Zhang to retreat permanently to the north and enticed him with the promise of increased Japanese economic assistance to undertake much-needed internal financial and political reforms. However, Zhang dismissed Japanese concerns in the pursuit of his own goals.

¹¹² McCormack, 189-190.

¹¹³ Mitter, 21, 29; McCormack, 14, 18. One of the historical ironies that McCormack discovers is that Zhang Zuo-lin's fate was intricately connected with that of Tanaka Giichi. Tanaka was a Lieutenant Colonel and Chief of Operations in the Japanese Army during the 1904-1905 Sino-Japanese War who decided to spare the life of Zhang Zuo-lin, a Fengtian bandit chief suspected of being a Russian agent. When Tanaka was Prime Minister and pushing a "positive" policy toward China, Zhang Zuo-lin was assassinated by Japanese military officers who were deeply distrustful of their civilian leadership.

The Japanese were also unhappy that Zhang was increasingly reluctant to grant the Japanese additional rights in Manchuria, including the right to reside and do business in the interior as well as railroad construction rights. One railway line that the Japanese ardently desired was the Chi-Hui railway from Kirin to Huining [K. Hoiryǒng], which would directly connect Kirin with Japan through the colonial Korean rail network. Consequently, the railway line would have significant strategic implications, both economically and militarily.¹¹⁴

Even before Zhang Zuo-lin's assassination, the Manchurian economy was increasingly stressed by the economic demands of multiple military campaigns and the policies of the Zhang government. The land tax had increased from 8 yuan per *shang* in 1922 to 100 yuan per *shang* in 1928, which translated into an increase in taxes from 3-4% of total crops to 25-28% of all crops. The Fengtian dollar was backed by silver and was subsequently subject to fluctuations in the global silver market. Throughout the 1920's, the New York silver bullion market was on a long-term decline. The Manchurian currency was also influenced by conditions in Japan and Korea, since it was often exchanged for the gold-backed yen of the Bank of Chōsen or the silver-backed yen issued by the Yokohama Specie Bank. However, the currency was ultimately dependent on the military economy and policies of Zhang Zuo-lin.

Military defeat and wartime crises caused sharp declines in the currency, while victories and territorial gains stabilized the Fengtian dollar. However, the overall depletion of currency reserves and continuous issue of nonconvertible paper currency coupled with the refusal of Zhang to reform his military-first economic policies pushed the Manchurian economy to the edge of solvency. By January 1928, the Fengtian dollar was worth 2,000 yuan for 100 gold yen, but by the next month, it lost half its value to 4,000 yuan. The Fengtian dollar finally collapsed in

¹¹⁴ McCormack, 223-225.

the winter of 1928. Zhang Zuo-lin was succeeded by this son Zhang Xueliang, who had to address the political, social, and economic problems caused by the older Zhang's policies.¹¹⁵

In the midst of the freefall of the Fengtian dollar, businesses and consumers found ways to cope with the rapid decline of the currency. Chinese railways avoided currency risk by setting railway fare payment on a silver dollar schedule. The Siping-Taonan line only accepted Fengtian dollars according to a pre-determined exchange rate, such as 3.08 Fengtian dollars to one silver dollar in March 1926. The rate increased in April 1929 to 46 Fengtian dollars to one silver dollar. The Peking-Mukden line accepted Fengtian dollars at market price, but only for half of the fare. The remainder had to be paid in silver, thus illustrating the turn to foreign currencies that maintained their value vis-à-vis Fengtian dollars.¹¹⁶

In the midst of the political crisis in Manchuria, instability in world economic conditions actually favored the Chinese economy. Global prices for gold began to rise in September 1929 due to a decline in silver prices. The price of silver in London fell from 24 shillings 3 pence to 21 shillings 9 pence from August to December 1929. The fall in silver benefited silver standard economies like China. The value of the dollar, which was still based on the gold standard, fell precipitously in losing half of its value between 1928 and 1931. The net effect was a major devaluation of Chinese currency which stimulated Chinese exports, particularly cotton yarn. The volume of international trade through Shanghai increased 13% while other economies were coping with volatile exchange rates between 1929 and 1931.¹¹⁷

¹¹⁵ Sun, 20-21; Suleski, 660.

¹¹⁶ Dorfman, 148.

¹¹⁷ W.A. Thomas, *Western Capitalism in China: A History of the Shanghai Stock Exchange* (Aldershot: Ashgate, 2001), 209-210.

Despite the travails of the Fengtian dollar, the fact that Manchuria was on the silver standard afforded the Manchurian economy temporary protection from both international currency fluctuations as well as an ongoing worldwide decline in agricultural prices. The decline had begun in 1926 and had hit a crisis point in 1929. However, silver prices were falling faster than general commodity prices which supported the export sector and permitted the Manchurian economy to temporarily avoid the deflation that was afflicting the industrialized economies. This currency protection ended on September 21, 1931 when Great Britain abandoned the gold standard and per ounce silver prices in London rose from 12 shillings 9 pence in September 1931 to 21 shillings in mid-November 1931. With the devaluation of the British pound, India, Japan, and the United States quickly followed suit. The increase in the price of silver continued to accelerate with American purchases of silver. Under continued deflationary pressure from rising silver prices, China and Manchuria had no choice but to abandon the silver standard.¹¹⁸

Bank of Chōsen in 1930's Manchuria

The events leading up to and the immediate consequences of the Manchurian Incident of September 18, 1931 have been well-documented in various sources.¹¹⁹ The instigators of the Manchurian Incident were mostly field-grade officers that were deeply distrustful of Japanese civilian leadership. The Tokyo government, represented by Foreign Minister Shidehara Kijūrō, sought to implement deep military cuts while trading some of Japan's position in Manchuria for

¹¹⁸ Thomas, 210; Sun, 43.

¹¹⁹ S.C.M. Paine, "Japanese Puppet-State Building in Manchukuo," in S.C.M. Paine, ed., *Nation Building, State Building, and Economic Development: Case Studies and Comparisons* (Armonk: M.E. Sharpe, 2010); Jansen, 577-586; Rana Mitter, *The Manchurian Myth: Nationalism, Resistance, and Collaboration in Modern China* (Berkeley: University of California Press, 2000); James Weland, "Misguided Intelligence: Japanese Military Intelligence Officers in the Manchurian Incident, September 1931," *The Journal of Military History* 58-3 (1994)

increased trade with China.¹²⁰ The military officers in Manchuria viewed their government's actions as a betrayal of national security for the sake of commercial profits, while weakening Japan in an inevitable future conflict with the Soviet Union in northern Manchuria. Consequently, any compromise on access to the South Manchurian Railway or the Leased Territories was a threat to Japanese national security.¹²¹

The new state of Manchukuo was ostensibly created around the last Manchu emperor, Henry Puyi, in March 1932. Puyi proclaimed that the guiding ideology of his state was the "Princely Way of Enlightened Rule," which emphasized Confucian-style ethics and benevolence.¹²² In reality, Manchukuo was controlled by the Japanese military, in the form of the Kwantung Army. "For all intents and purposes, the Manchoukou [sic] Government is the personal organ of the Kwangtung Army officers...and has a set of economic interests which at times conflict with the commercial interests of capitalists in Japan."¹²³ The Japanese military was unquestionably in charge of the Manchukuo government and society, even to the extent of absorbing the police and maintaining public order. As it moved from military functions to full-fledged state-building, the Kwantung Army similarly grew from 10,000 men in 1931 to 80,000 in 1936 and 780,000 by 1945.¹²⁴

Consequently, economic policies were instituted that reflected the needs and vision of the Japanese military rather than commercial interests or even the Tokyo government. All

¹²⁰ Shidehara Kijūrō was Foreign Minister from 1924 to 1927. He was succeeded by Tanaka Giichi from 1927 to 1928. McCormack, 12.

¹²¹ Weland, 448, 453. The main conspirators included Kwantung Army staff officers Colonial Itagaki Seishirō, Lieutenant Colonel Ishiwara Kanji, Kanda Masatane, Capt. Wachi Takaji, Col. Doihara Kenji, Lt. Col. Shigetō Chiaki, Lt. Col. Hashimoto Kingorō, and Capt. Imada Shintarō among others.

¹²² Paine, 71-72.

¹²³ John R. Stewart, "Financing the New State of Manchukuo," *Far Eastern Survey*, 6-5 (March 3, 1937), 49.

¹²⁴ Paine, 72, 74.

considerations of economic structure and programs were subordinated to the needs of national security and conformed to meet the requirements of wartime mobilization. The Japanese military clearly envisaged an industrially developed Manchukuo that would primarily serve the economic needs of the military and the Japanese empire. Regardless of domestic opposition, the Japanese military envisioned a planned economy in Manchuria that remedied the perceived evils of an unfettered capitalist economy. Since the military was in charge, economic policy would serve the needs of the empire, as interpreted by the military, rather than encourage the exploitation of Manchurian resources by a single socio-economic class. In fact, the military guaranteed the Manchuria would be off-limit to the *zaibatsu*. It was a promise that garnered support from middle-class Japanese and small enterprise business owners, but it was ultimately a promise that was neither desirable nor even possible to maintain for the Kwantung Army economic planners.¹²⁵

In the newly established state of Manchukuo, the Japanese pursued a new style of “total empire” that encompassed all facets of life. The construction of a new capital at Changchun, later renamed Shinkyō, reflected both the origins of Japanese expansionism in Manchuria as well as the envisioned future of the region. After the 1904-1905 Russo-Japanese War, Changchun was positioned on the border between the Japanese and Russian spheres of influence, with a Japanese railway town rising between a Russian train station and the Chinese city. The new Japanese settlement was designed by the SMRC on a modern grid pattern criss-crossed with diagonal boulevards joining at large open plazas. The post office and police station, both built in 1910, were constructed in a modern European style, with “Tuscan columns, classically arched windows,

¹²⁵ Coox, 63; Wilson, 183-184.

neo-Baroque rooflines, and a neo-Gothic turret on the police station.”¹²⁶ Another example is the Yamato Hotel, constructed in 1909, which was built in the Art Nouveau style on a corner of the open plaza in front of the train station, and still exists today. The Bank of Chōsen building in Changchun was constructed in 1920 in an “explicitly modernist International Style that eliminated ornamentation.”¹²⁷

The invasion of Manchuria caused “euphoria” in Korea as the Korean business community welcomed the opportunity to access the Manchurian market. Carter Eckert has shown that business associations like the Chōsen Business Club and the Keijō Chamber of Commerce and Industry were eagerly anticipating the promotion of Korean-Manchurian trade. As Korea’s foreign trade increased by nearly eight times from 1929 to 1939, excluding Korea-Japan trade, most of the increase was attributed to Manchuria. As Eckert states, one year after the Manchurian Incident, Korean cotton cloth exports to countries other than Japan surged by more than 500 percent.¹²⁸

Finance in Manchukuo

By the time of the Manchurian Incident, there was little hard money in circulation. The Japanese estimated that there were only one million silver dollars in circulation in all three Manchurian provinces, while the Chinese estimated there were twelve million silver dollars and three to four million dollars in smaller silver coins. The overwhelming majority of Chinese currency was irredeemable bank notes that were nearly worthless. Merchants in Mukden

¹²⁶ Bill Sewell, “Railway Outpost and Puppet Capital: Urban Expressions of Japanese Imperialism in Changchun, 1905-1945,” in Gregory Blue, Martin Bunton, and Ralph Crozier, eds., *Colonialism and the Modern World: Selected Studies* (Armonk: M.E. Sharpe, 2002), 286.

¹²⁷ Sewell, 288.

¹²⁸ Eckert 1996, 8-9.

continued to settle transactions in Fengtian dollars, but the value of dollars was calculated daily according to market quotations against silver dollars or yen.¹²⁹

In the immediate aftermath of the Manchurian Incident, the Japanese Kwantung Army assumed control of all financial institutions and ordered the cessation of all financial activities until the installation of a new Japanese-controlled system could be accomplished. In order to control the Manchurian currency and banking system, the Japanese established the Manchurian Central Bank [*J. Manshū chūō ginkō*] on June 15, 1932 to issue new currency, control the money supply, conduct foreign exchange, and oversee the state treasury. Kyoroku Yamanari, former director of the Bank of Taiwan, was appointed manager of the new bank. The Manchukuo government implemented tighter control over other financial institutions including credit unions, industrial associations, and other general financial establishments. The government also sought to collect additional development capital from the Manchurian people by developing the postal savings system.¹³⁰

The new yuan currency was based on the silver standard at a rate of 23.91 grams of silver per one yuan, which was the same value as the Chinese dollar, but the Manchukuo yuan currency was non-convertible. Despite the official status of the yuan issued by the Manchurian Central Bank, Bank of Chōsen currency was still circulating widely and its currency outstanding in Manchuria even increased after the establishment of Manchukuo by 2.4 billion *wōn* in 1932 and 1933. Furthermore, the Bank of Chōsen maintained an important role in Manchuria by providing

¹²⁹ Dorfman, 148.

¹³⁰ Manchukuo Government, *Economic Construction Program of Manchukuo* (New York: South Manchuria Railway Company, 1933), 13; Takafusa Nakamura, "The Yen Bloc, 1931-1941," in Peter Duus, Ramon H. Myers, and Mark R. Peattie, eds., *The Japanese Wartime empire, 1931-1945* (Princeton: Princeton University Press, 1996), 173. Yamanari was accustomed to silver-backed currency from his time working in Shanghai and the MCB adopted silver as its standard unit of account.

capital for Japanese investment in Manchukuo as well as issuing payroll for the Japanese occupation troops.¹³¹

Ostensibly, the new Manchukuo government adopted the silver standard rather than the gold standard to protect existing economic relationships that had been established under the silver standard and to lessen the impact on Manchurian businesses. In practical terms however, Manchukuo did not possess the gold reserves necessary to institute and defend the gold standard. Consequently, the new yuan were based on the silver standard and used to replace the various old currencies circulating throughout Manchuria. As stated above, Chinese commodity prices had not declined when the world depression took hold in 1929 because of China's reliance on the silver standard. However, the price of silver began to rise after 1933 with increased global demand and more silver began flowing out of China into world currency exchange markets like New York and London. The result of the silver exports was a concomitant increase in Chinese commodity prices as silver became more expensive.¹³²

After a short period, the Manchurian Central Bank was forced to abandon the silver standard in April 1935 because of its inadequate specie reserves. In total, the bank possessed only seven million yuan in silver, twenty million yuan in Bank of Chōsen bank notes, and seven million yuan in old Chinese silver dollars. Manchukuo currency reserves were under further pressure as silver purchases by the United States in mid-1934 caused world silver prices to rise and speculators to ship silver coins and bullion abroad from Manchukuo. Despite currency controls implemented by the government, wholesale prices fell by 10% and the silver-based yuan passed parity and began trading at a premium to the gold-based yen. In April 1935, the

¹³¹ Suk-Jung Han, "Puppet Sovereignty: The State Effect of Manchukuo, From 1932 to 1936" (Ph.D. Dissertation, University of Chicago, 1995), 151.

¹³² Stewart, 52; Myers, 225; Sun, 78; Nakamura, 173.

Manchurian Central Bank attempted to stabilize domestic prices by abandoning silver and pegging the yuan to the Japanese yen at a set rate of 100 yuan to 108 or 109 yen. Eventually, the yuan reached parity with the yen on September 1, 1935, and from this point, the yen-yuan exchange rate was fixed by the simple expedient of the Manchukuo government forcing all currency dealers to close their doors and ordering the Mukden Exchange to suspend operations. By 1935, the Manchurian Central Bank officially changed its currency basis to the gold standard, which linked the Manchurian and Japanese economies and eliminated currency conversion issues. As Takafusa Nakamura states, the trajectory of the currency policy incorporated Manchukuo into the Japanese monetary empire and the “yen bloc,” under policies formulated by the Army Ministry and the Tokyo Ministry of Finance.¹³³

The Bank of Chōsen was instrumental in establishing and supporting the new Manchukuo state. The Bank of Chōsen gave the government an eighteen million yen loan in June 1932. In December 1935, the Bank of Chōsen reached agreement with the Manchurian Central Bank to help support currency unification, enforcement of the exchange control law, and the use of yuan in its loan activities in Manchukuo and the SMRC railway zone. Most importantly, the Bank of Chōsen agreed to limit its banking activities in Manchukuo.

After the stabilization of the yuan currency, the Bank of Chōsen agreed to withdraw all the gold-backed yen notes it had issued over the years in Manchukuo, the SMRC railway zone, and the Kwantung Leased Territory. An estimated 200 million yen of Bank of Chōsen banknotes were circulating throughout northern China. Thirty million yen were immediately redeemed and the remainder was targeted for redemption following the signing of the Japan-Manchukuo Treaty of July 1, 1936, which gradually eliminated Japanese extraterritoriality privileges in Manchuria

¹³³ Stewart, 52; Myers, 227; Nakamura, 173-174.

and transferred administrative rights in the SMRC railway zone to Manchukuo. However, currency redemption was superseded by the establishment of the Manchurian Industrial Bank [J. *Manshū kōgyō ginkō*], which assumed control of all Manchurian branches of the Bank of Chōsen.¹³⁴

The Manchurian Industrial Bank was capitalized at thirty million yuan, which was paid equally by the Manchukuo government and the Bank of Chōsen. All Bank of Chōsen banknotes were subsequently withdrawn and replaced by the new Manchukuo yuan, which would achieve currency unification across the region. On January 1, 1936, the Manchurian Industrial Bank took the bank branches of the Bank of Chōsen, the Manchurian Bank, and the Shoryu Bank, a total of sixty bank branches. The purpose of the Manchurian Industrial Bank was to encourage industrial development through the extension of long-term, low-interest loans. It was empowered to issue debentures up to fifteen times its paid-in capital and its debt was fully guaranteed by the Manchukuo government. Upon opening, the Manchurian Industrial Bank immediately garnered 180 million yen in deposits from the Deposits Bureau of the Japanese Ministry of Finance, the Bank of Chōsen, and Yasuda Bank, thus representing the amalgamation of interests in the periphery of Manchukuo from the metropolitan center, colonial finance, and private business.¹³⁵

Conclusion

The Manchurian operations of the Bank of Chōsen highlights the interdependent relationships between the Japanese metropole and the Korean periphery, between the Korean “metropole” and a Manchurian periphery, and between local and global economic conditions.

¹³⁴ Stewart 52.

¹³⁵ Stewart, 53.

Despite its original purpose as a central bank headquartered in colonial Korea, the Bank of Chōsen expanded into Manchuria as a defensive measure to protect its Korean operations, while participating fully within the imperialist expansion program envisioned by the Japanese military and political officials in Manchuria. At the same time, the local Manchurian economy was situated within a regional East Asian economy that was itself influenced by the larger global economic trends of the period. Consequently, the Bank of Chōsen serves as an excellent case study that both encompasses and moves beyond the exploitation-resistance binary to illustrate the economic dimensions of imperialism that engendered acceptance and participation through all classes and races, particularly through the actions of daily life like using currency, depositing money, and accepting loans.

Although the SMRC was a private, joint-stock corporation, it operated under a state charter that made the Japanese government the majority shareholder and final arbiter of management decisions. However, the SMRC operated as a profit-oriented business enterprise, which meant that business interests were usually placed ahead of political interests. In some cases, the SMRC was more aggressive than the Japanese Foreign Ministry. For example, the Foreign Ministry pursued a *status quo* policy stance in 1920's Manchuria while the SMRC began encroaching on the Soviet Union's railway sphere in northern Manchuria in the pursuit of additional railway traffic. On the other hand, the SMRC was less aggressive than the Japanese military when it refused to adhere to the Japanese military's demands for railway construction, which were formulated after 1907 in anticipation of a second war against Russia. The SMRC insisted on a construction schedule that matched carrying capacity with projected traffic volume to maintain its profits. For the same reason, the SMRC was slow in constructing the railway connection with the Korean network, which the military wanted for strategic and colonial

integration while the SMRC was more concerned with construction costs versus potential revenue. In these cases, the SMRC was more focused on its profit-loss statement rather than grand imperial schemes, but the size and power of the SMRC was sufficient to often deflect and distort official policy to match its business interests.¹³⁶

Although the Bank of Chōsen had retreated from Manchuria, it began operations in north China in May 1936. The Tanggu Agreement of June 1933 created a demilitarized zone between the Great Wall, the Gulf of Bohai, and the Hai River. In June 1935, the Tientsin Garrison, a Japanese military force based in Tientsin, penetrated into Hebei Province and demanded the removal of KMT representatives and army personnel. In the same month, the Kwantung Army demanded the withdrawal of Song Zhe-yuan's army from Chahar province. In November 1935, a new puppet government was established in the demilitarized zone called the Chi Tung Anti-Communist Autonomy Committee, or Chi Tung government. In May 1936, the Bank of Chōsen helped establish a new central bank for the Chi Tung government called the Chi Tung Bank, capitalized at five million yen. The new bank issued banknotes that were unconditionally inconvertible with Bank of Chōsen banknotes, but the Chi Tung Bank suspended operations at the beginning of the Second Sino-Japanese War in July 1937. However, the Bank of Chōsen had already resumed issuing its banknotes in the Chi Tung area after 1935 to meet the demands of Japanese smugglers who were circumventing Chinese tariff barriers by clandestinely shipping goods from Dalian into north China.¹³⁷

¹³⁶ Matsusaka 2010, 45, 51. After the establishment of Manchukuo, treaty agreements signed between Japan and Manchukuo preserved the special privileges of the SMRC, including extraterritoriality and control of the railway zone, and provided immunity from the new Manchukuo state. However, the Japanese army gradually prevailed over the SMRC through its increased political influence back in Japan.

¹³⁷ Nakamura, 174-176.

Chapter 5: Post-Liberation Bank Policy During the American Occupation

Introduction

In the last days of the Pacific War, the Bank of Chōsen continued to fulfill its role as the central bank of colonial Korea even as the Japanese empire was crumbling. By August 9, 1945, the United States had dropped its second atomic bomb on the Japanese city of Nagasaki and the Soviet Union had entered the war against Japan by attacking into Korea and Manchuria.

According to the *Chōsen ginkōshi*, the Bank of Chōsen received word on the morning of August 9 about the Soviet invasion into north Hamgyōng province and hastily convened a meeting of senior management and department heads. At two o'clock in the afternoon, the chief of staff of the Japanese 17th Area Army [J. *Dai 17 hōmengun*] informed Bank of Chōsen president Tanaka Tetsusaburō that Soviet forces were advancing in north Hamgyōng province as well as Wujiazi, Hulin, and Hutou in northwestern Manchuria. The bank was concerned about its branches and workers in Rajin and Ch'ōngjin, since there were more than forty employees in Ch'ōngjin alone. Soviet aircraft began bombing Wōnsan and other cities in Manchuria and Korea and the bank received a report that the Soviet bombing of Ch'ōngjin had hit a shipment of Bank of Chōsen currency from Niigata. As the boxes were being unloaded from a military ship in Ch'ōngjin harbor, 90 out of 172 boxes of currency were destroyed or damaged by fire.

On the morning of August 10, the streets in Rajin were largely deserted as both Koreans and Japanese had fled before the Soviet advance. Rajin branch manager Fujino Munemasa poured oil on three million yen of currency in the bank vault and set it on fire, but took six million yen in military currency and fled to Ch'ōngjin. In Seoul, bank president Tanaka called a meeting of the heads of the colonial financial institutions to discuss the Soviet entry into the war

and encouraged everyone to conduct business normally, including meeting customer demands for deposit withdrawals. After the meeting, Tanaka called BOC auditor Yoshitani Kichizō and sent him to Ch'ōngjin with instructions to take charge of the currency shipment and bring it south before the Soviets reached Ch'ōngjin. Tanaka also met with Governor-General Abe Nobuyuki and his chief of staff Ihara. Tanaka said that he ordered the branches in Rajin and Ch'ōngjin to pack up their currency holdings as well as the recent currency shipment and bring it south. However, Ihara said that Japanese military forces in Rajin and Ung'gi were already withdrawing down the coast. He suggested that the bank employees in Rajin and Ch'ōngjin destroy their money and escape before they were captured by the Soviets.

On August 13, six or seven Soviet warships in Ch'ōngjin harbor began bombarding the city while spewing out a defensive smoke screen. Bank auditor Yoshitani Kichizō, who had arrived the previous day, and Ch'ōngjin branch manager Iguchi Ryūhei loaded the Niigata currency shipment into a car and then set fire to the remaining money in the branch, including the six million yen that Fujino Munemasa had painstakingly brought from Rajin. Leaving Iguchi to bring the money separately, Yoshitani grabbed the Japanese emperor's portrait from the branch and hitched a truck ride to Ranam before catching the last available train down to Seoul. Yoshitani arrived back in Seoul on August 16 to the news that Emperor Hirohito had broadcast the Japanese surrender one day earlier and ended the Pacific War.¹

The end of the Pacific War and the Liberation of Korea shattered the regional East Asian economy constructed by the Japanese Empire. Soviet forces in Manchuria and northern Korea began confiscating economic assets for removal to the USSR. Japanese settlers in Manchuria and Korea began streaming to Pusan and other nearby ports to arrange evacuation and repatriation

¹ CGK, 722-723.

back to Japan. With the collapse of Japanese authority, trade between Japan and its outlying imperial possessions ground to a halt as immediate concerns of food, shelter, and safety took priority. Although the Japanese empire had come to an ignominious end, the financial institutions and system that it had created in Korea demonstrated great resilience through the immediate post-Liberation chaos and into the American occupation period.

The American occupation of Korea has often been overshadowed by the Korean War, both in terms of how it has been remembered as well as forgotten. Consequently, the history of the immediate post-Liberation period between 1945 and 1950 has been examined by numerous scholars within the context of the “origins of the Korean War.”² In addition, American understanding of Korea and the occupation period has been colored by popular perceptions and media images, such as those of the American soldiers who fought in the Korean War.³ On the other hand, John Halliday and David Halberstam reprise the popular notion of the Korean War as the “forgotten war,” sandwiched between the “victory culture” of World War II and the public skepticism of the Vietnam War.⁴ However, the critical framework of these books is centered on Cold War political conflicts, especially regarding trusteeship, between the United States and the Soviet Union and between Korean rightists and leftists. Whether considering the international aspects or the domestic origins of the war, both narratives follow a similar pattern.⁵ After an obligatory outline of the colonial period and its influence on the post-Liberation division, these

² Bruce Cumings, *The Origins of the Korean War: Liberation and the Emergence of Separate Regimes, 1945-1947* (Princeton: Princeton University Press, 1981); Peter Lowe, *The Origins of the Korean War* (London: Longman, 1986); Hyung-Kook Kim, *The Division of Korea and the Alliance Making Process: Internationalization of Internal Conflict and Internalization of International Struggle, 1945-1948* (Lanham: University Press of America, 1995).

³ Andrew J. Huebner, “Kilroy is Back: Images of American Soldiers in Korea, 1950-1953,” *American Studies* 45-1 (2004).

⁴ John Halliday and Bruce Cumings, *Korea: The Unknown War* (London: Viking, 1988); David Halberstam, *The Coldest Winter: America and the Korean War* (New York: Hyperion, 2007).

⁵ William Stueck, *The Korean War: An International History* (Princeton: Princeton University Press, 1995); Allan R. Millett, *The War for Korea, 1945-1950: A House Burning* (Lawrence: University Press of Kansas, 2005).

studies turn almost exclusively to political factors in understanding the American occupation period as the prelude to the Korean War.

On the other hand, there has been a long-standing argument for discontinuity between the colonial period and the later period of high-speed economic growth in South Korea. One of the tenets of this argument is that discriminatory Japanese policies against Koreans prevented them from rising to positions of responsibility within colonial companies. Few Koreans were understood to have reached positions of actual authority, which reinforced both the image of exploitation of a suppressed Korean labor force and the economic weakness of the newly independent Korean state. Those relatively few Koreans who did garner senior management experience were considered pro-Japanese collaborators. The theme of general Korean unpreparedness, both political and economic, underlay the Allied decision to implement trusteeship for Korea in the 1943 Cairo Declaration and the 1945 Moscow Agreement. After liberation, these points were further argued by the American military government in Korea to emphasize the necessity of implementing both the occupation government as well as trusteeship under foreign powers.⁶

The argument of unpreparedness has been perpetuated in more recent scholarship that deemphasizes the role of the colonial period in South Korean economic development.⁷ The debate between Atul Kohli and Stephen Haggard, Chung-in Moon, and David Kang has been well documented. Kohli argued that the South Korean economy fell back into the well-defined “grooves” of development that had been established during the colonial period. Haggard, Moon, and Kang, on the other hand, argue that macroeconomic factors and policymaking in the 1960’s

⁶ Bertram D. Sarafan, “Military Government: Korea,” *Far Eastern Survey* 15-23 (1946), 350; Stueck, 44.

⁷ Eun Mee Kim, *Big Business, Strong State: Collusion and Conflict in South Korean Development, 1960-1990* (Albany: State University of New York Press, 1997), 7, 40.

was more important to South Korean economic development than the colonial experience.⁸

Alice Amsden agrees with Haggard, Moon, and Kang in arguing that the most important factor in late industrialization was not the colonial legacy, but the role of a strong state and its willingness to intervene in markets to deliberately get prices “wrong,” particularly for big businesses. On the other hand, Amsden describes the colonial period as eliminating old blockages to industrialization but creating new ones as well.⁹ The starting point for South Korean economic development is thus shifted to a point following not only the colonial period, but the Syngman Rhee administration as well.

One of the key questions of developmental economists regarding the linkage between the colonial period and the period of high-speed economic growth in South Korea has been the fifteen year period between the end of the Pacific War and the economic “take-off” in the early 1960’s. The arguments for discontinuity emphasize the economic policies of the Syngman Rhee administration and the tragic effects of the Korean War, which include high numbers of civilian casualties, wholesale destruction of economic infrastructure, and massive migratory movements of military and refugee populations. These arguments however overshadow the elements of continuity, including the economic institutional structures of the colonial period that were maintained and only partially reformed through the American occupation period and into the Syngman Rhee administration. Two of the most important financial institutions that retained their identity, Korean employees, and expertise were the Bank of Chōsen and the Chōsen Industrial Bank. Little research has been done specifically on the continuity and importance of

⁸ Atul Kohli, “Where Do High Growth Political Economies Come From? The Japanese Lineage of Korea’s ‘Developmental State’,” *World Development* 22-9 (1994); Stephan Haggard, David Kang, and Chung-In Moon, “Japanese Colonialism and Korean Development: A Critique,” *World Development* 25-6 (1997).

⁹ Alice Amsden, *Asia’s Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989), 33, 139.

financial institutions into the American occupation period and beyond. Indeed, some of the scholarship that addresses the financial development of the South Korean state or the immediate post-Liberation period seems to downplay the economic aspects of the American occupation or the American occupation entirely.¹⁰

This chapter examines the existence and reformation of the Bank of Chōsen and the Chōsen Industrial Bank through the end of the Pacific War, the American military occupation, and the formation of the Syngman Rhee government as examples of institutional continuity. These banks demonstrate the historically contingent nature of the economic structure and policies of post-Liberation Korea under the American military government and highlight this period as one of potential transformations rather than a precursor period on a predetermined track toward the Korean War. Furthermore, the Korean personnel who had collaborated so closely with the Japanese in the colonial period were adopted and protected first by Yō Un-hyōng and the CPKI, and then by the American military and Syngman Rhee governments. Despite its privileged position however, the Bank of Chōsen became a site of intense struggle for political control over economic policy-making as the debate over the establishment of a new South Korean central bank engulfed bank employees, government officials, and American advisors. In the end however, many institutional features of the Bank of Chōsen were transferred into the Bank of Korea and some of the most critical bank personnel went on to play outsized roles in the formation and development of the South Korean state.

¹⁰ Jung-en Woo, *Race to the Swift: State and Finance in Korean Industrialization* (New York: Columbia University Press, 1991), 43. Woo skips over the second half of the 1940's and transitions directly from a discussion of the colonial period into the import-substitution policies of the 1950's under Syngman Rhee.

Post-Liberation Economic Conditions

Upon the emperor's announcement of surrender, Chōsen Governor-General Abe Nobuyuki was focused on protecting the Japanese population of soldiers and settlers in Korea from retribution. Abe had no choice but to transfer governmental authority and responsibility to a Korean with the necessary prestige and popularity to ensure there were no Korean reprisals against their former colonial masters. He turned to Yō Un-hyōng who formed a group, the Committee for the Preparation of Korean Independence [K. *Kōnguk chunbi wiwōnhoe*, a.k.a. CPKI], to maintain public order and security in the wake of the Japanese surrender. Consequently, the Koreans established their own representative government called the Korean People's Republic [K. *Chosŏn inmin konghwaguk*, a.k.a. KPR] under the leadership of Yō Un-hyōng, which was subsequently repudiated by the American military government.¹¹

The all-pervasive colonial system that had governed the lives of the Korean people crumbled immediately following the surrender. The colonial police system collapsed within days as Japanese and Korean policemen fled their posts fearing retaliation. Those policemen who remained were powerless as they had lost the authority and status bestowed by a now-discredited colonial government. The negotiations between the Japanese Governor-General and Yō Un-hyōng resulted in the release of political prisoners, who celebrated both their personal freedom and liberation from Japanese colonialism. Although the Korean economy was severely crippled in the upheaval, the Bank of Chōsen and the Chōsen Industrial Bank retained their status and authority as two of the most powerful and prestigious institutions in Korean society. More

¹¹ Bruce Cumings, "Colonial Formations and Deformations: Korea, Taiwan and Vietnam," in Prasenjit Duara, *Decolonization: Perspective from Now and Then* (New York: Routledge, 2004), 282; Bruce Cumings, "The Legacy of Japanese Colonialism in Korea," in Ramon H. Myers and Mark R. Peattie, eds., *The Japanese Colonial Empire, 1895-1945* (Princeton: Princeton University Press, 1984).

importantly, the banknotes of the Bank of Chōsen that formed the backbone of the newly independent Korean economy were still recognized as legal tender and used in daily transactions.

On August 16, Chōsen Industrial Bank employees in Iri (present-day Iksan) lined up to follow their normal morning procedure. Although a Korean employee, Na Ik-chin, had previously been tasked with calling for a moment of silent prayer for Japanese victory, he called for a moment of silent prayer for a strong and independent Korea. The Japanese branch manager at Samch'ōk in Kangwŏn province, Fukuo Tadahira, arrived at the office and stripped off propaganda placards supporting the Japanese war effort and raised a banner congratulating Korea on achieving independence. The situation in the Chōsen Industrial Bank differed depending on the branch, but all branches acknowledged the impending transfer of control to the Koreans. The largest branches in cities with large Japanese populations usually maintained the existing structure, with the cooperation and acquiescence of the Korean employees. At the smaller branches with a larger proportion of Korean employees, the Japanese branch manager informally turning over responsibility to the senior Korean employee, while awaiting official instructions on the disposition of the branch. In all cases, the trappings of the Japanese empire, including flags, placards, and banners, were removed from bank offices, along with all ceremonies and rituals referring to the empire, emperor, and Japan.¹²

In stark contrast to the conflicts and confrontations at other Japanese companies, the Chōsen Industrial Bank continued to operate in a relatively calm and professional manner for several reasons. First, the Koreans were handed real authority immediately following Liberation or at least consulted in major decisions. Second, both sides shared similar interests in ensuring the integrity of the bank. The Japanese needed the bank operating efficiently to facilitate the

¹² Karl Moskowitz, "Current Assets: The Employees of Japanese Banks in Colonial Korea," (Ph.D. dissertation, Harvard University, 1979), 333-334.

transfer of assets and money to the Japanese departing the peninsula. The Koreans knew that the CIB was an important financial institution that would play a critical role in a newly independent Korea. Finally, the Korean employees had benefited during the colonial period from a relatively equitable and non-discriminatory employment policy at the CIB. Consequently, the Korean employees had enjoyed the high social status, salary, and perquisites commensurate with the position of the CIB in the colonial economy. The Korean employees had also enjoyed new opportunities for upward promotion into the management ranks as Japanese employees were recruited into the war effort. Consequently, the relative percentage of Korean employees in the bank as well as their representation in upper management had increased as the war progressed.¹³

The operational situation was slightly different at the Bank of Chōsen because of its role as the central bank and the bank of issue which suddenly had to supply enough currency to meet the overwhelming popular demand for cash. As the panicked populace withdrew money from all financial institutions, there were virtually no new deposits to offset the withdrawals.

Consequently, staff from various banks began making frantic journeys to BOC headquarters to collect additional currency to meet customer demand. On August 19, branch manager Yamada Saichirō from the Wōnsan branch commandeered a training aircraft from the Wōnsan Aviation Corps [*J. Gensan kōkūtai*] to Seoul to airlift cash back to Wōnsan. On August 19, the Pyōngyang branch took a cash delivery of 60 million yen but that was insufficient to meet the growing demand of Pyōngyang residents as well as the large numbers of Japanese refugees coming from northern Korea and Manchuria. The need for cash was so great that the acting manager of the BOC Pyōngyang branch Haruguchi Eisuke, several bank employees, provincial finance officials, and paymasters from the Kwantung Army organized a special train run. On August 21, these

¹³ Moskowitz, 337.

officials organized a platoon of soldiers for security, hooked one boxcar to a military train, and hurried down to Seoul to get enough BOC banknotes to satisfy the civilian and military demands for cash in Pyöngyang.¹⁴

Demand in northern Korea was so great because of a flood of refugees that came south from Manchuria as well as internal migration from northern Korea. At Liberation, the Bank of Chösen had eight branches north of the 38th parallel, including those at Pyöngyang, Chinnamp’o, Haeju, Hamhüng, Wönsan, Sinüiju, Rajin, and Ch’öngjin. The Rajin and Ch’öngjin branch employees had already been ordered to destroy their money supplies and escape from the Soviets in the last days of the war. The remaining six branches were swamped as Japanese from northern Korea and Manchuria attempted to gather their money and return to Japan. By 1945, there were approximately 100,000 Japanese residents in Changchun, or the former Manchukuo capital of Changchun, or as the Japanese named it, Xinjing [J. Shinkyö or “new capital”], who were ordered by the Soviets to evacuate immediately following their entry into the war. Other Japanese fled from the other parts of Manchuria into Korea, including 20,000 members of military families and 17,000 family members of South Manchuria Railway Company (SMRC) workers. These Japanese refugees were often carrying six months to one year’s worth of salary in nearly worthless Manchurian currency that they were desperate to convert to Bank of Chösen or Bank of Japan currency.¹⁵

At the same time, the Japanese and Koreans throughout Korea were lining up at the banks to get money as well. Demobilizing Japanese troops sought their final paychecks, company owners were liquidating their businesses, retirees were withdrawing their retirement savings,

¹⁴ CGKK, 724.

¹⁵ CGKK, 724.

individuals were reclaiming their deposits, and all the Japanese settlers needed money to pay for various travel and relocation expenses back to Japan. In addition to BOC branches, people were forming long lines at credit unions [K. *kūmyung chohap*, J. *kinyū kumiai*] and post offices to withdraw from postal savings accounts. Fearing a run on the bank, BOC employees limited the amount of money that customers could withdraw and limited business hours to mornings only.¹⁶

The Japanese settlers in Korea were eager to quickly return to Japan because of a general fear of Korean retribution against their former colonial masters. Many local Korean communities organized peace preservation committees [J. *chiantai*, K. *ch'iandae*], but these organizations also engaged in large-scale acts of retribution against Japanese and pro-Japanese Korean collaborators. Other Koreans acted against the Japanese individually or in small groups. One Japanese letter stated, “There are many thieves in Pusan lately. The fine houses of Japanese are stripped.”¹⁷ Another letter dated October 6, 1945, said, “The hostility of Koreans toward Japanese is becoming more severe each day. Now we are not allowed to sell our real or personal property. Men are being killed and there is fighting in the streets of rural sections.”¹⁸

The Korean employees in the Bank of Chōsen and the Chōsen Industrial Bank could have been considered pro-Japanese collaborators who had benefited economically and socially from their employment at two of the most prestigious and powerful colonial institutions. How did they defend themselves against being tarred with the same brush as the colonial policemen or other despised representatives of colonial power? Within a week of the August 15 surrender, the Korean employees of both the BOC and the CIB rapidly allied themselves with Yō Un-hyōng

¹⁶ CGKK, 725.

¹⁷ Headquarters 40th Infantry Division, “G-2 Periodic Report #29: From 23 Oct 45 to 24 Oct 45,” in Kyōngnamdae kūkdong munje yōn’guso, *Chibang Migunjōng charyojip* [Records of the American military government in the provinces] (hereafter CMC) (Seoul: Kyōngin munhwasa, 1989), 587.

¹⁸ Headquarters 40th Infantry Division, “G-2 Periodic Report #33: From 27 Oct 45 to 28 Oct 45,” CMC, 601.

and the CPKI. Although these Koreans had been vital cogs in the colonial machinery, they formed committees of senior Korean employees to take over the banks from the Japanese upon news of the surrender. In the case of the CIB, the Korean management committee was composed of at least twenty members and had the backing of all the Korean employees in the headquarters and the branches they could contact.

At the Bank of Chōsen, Chang Ki-yōng (1916-1977) was an example of a Korean employee who took advantage of the wartime chaos to gain promotion and position himself for a postwar management position. Chang was born in May 1916 in Seoul and graduated from Söllin Commercial School [K. *Söllin sangŏp hakkyo*] in March 1934. The following month, he entered the Bank of Chōsen and worked in various positions. He was working at the Ch'ōngjin branch at the end of the war, when it was being evacuated in the face of the Soviet advance at the end of the war. Chang gathered important bank documents and carried them by bicycle cart and backpack back to Seoul, reportedly under difficult conditions. For his efforts, Chang was promoted to acting manager of the provisional Ch'ōngjin branch, which was reestablished within the Seoul bank headquarters. Once Chang had distinguished himself in the immediate postwar chaos through his dedication to the bank, he continued to climb the promotion ladder.¹⁹ The senior Korean employees in the BOC and CIB like Chang were either nationalistic enough or politically adept enough to ensure their status and survival by allying with Yō Un-hyōng and the CPKI. For his part, Yō was smart enough to realize that he needed both the BOC and the CIB as the financial cornerstones of a newly independent Korea. With the imprimatur of Yō Un-hyōng

¹⁹ CGKK, 723-724; http://news.hankooki.com/history/baeksang_sub1.htm; Glenn D. Paige, "1966: Korea Creates the Future," *Asian Survey* 7-1 (1967), 22; "Bonsa Chang Ki-yōng saju byōlse" [Death of company owner Chang Ki-yōng], *Han'guk ilbo*, April 12, 1977, 1. Moskowitz, 330.

and the CPKI, the BOC, CIB, and their employees were insulated against popular reprisals and charges of collaboration.

American Occupation of Korea

When the American sailed into Inch'ŏn harbor, the 24th Corps of the United States Army and its commander, Lt. Gen. John R. Hodge, had little conception of what they faced in southern Korea. With the arrival of the Americans in the southern occupation zone, the Japanese authorities turned against Yo Un-hyŏng and warned General Hodge that Yo and the KPR was left-leaning and inciting the Koreans toward immediate independence, thus biasing the Americans against the KPR from the outset.²⁰ General Hodge's Japanese counterpart was Lt. Gen. Kozuki Yoshio, commander of the Japanese Seventeenth Area Army in Seoul. Before Hodge and the XXIV Corps even began their journey to Korea, Kozuki urged the Americans to hurry their occupation because the Russians had crossed the 38th parallel and occupied Kaesong. After Hodge arrived at Inch'ŏn, he sent a regiment of the Seventh Infantry Division to Seoul and appointed the division commander, Maj. Gen. Archibald V. Arnold, the military governor of Seoul. However, Hodge's first mistake was to announce the retention of the Japanese colonial government as the administrative structure for the American occupation, which caused a popular backlash among the Korean population.²¹

In the same way that the Hodge dismissed the KPR as an invalid Korean government, the Americans disregarded the Korean management structure at the CIB and BOC and reinstated the Japanese directors who had willingly transferred authority to the Koreans. The Korean

²⁰ Bonnie B.C. Oh, "Introduction: The Setting," in Bonnie B.C. Oh, *Korea Under the American Military Government, 1945-1948* (Westport: Praeger, 2002), 3.

²¹ Allan R. Millett, 58; James I. Matray, "Hodge Podge: American Occupation Policy in Korea, 1945-1948," *Korean Studies* 19 (1995), 17-20.

committees were stripped of their power and authority as the Americans implemented their own plan to work through the Japanese management of the banks. After the public backlash against the American reinstatement of Japanese control, American military officers were appointed to key political and economic positions. Lt. Col. Charles Golden became chief of the Finance Bureau of USAMGIK and Major B.D. Smith was appointed president of the Bank of Chōsen. On September 27, 1945, Lt. Col. Golden, Major Smith, and Lt. H.J. Robinson visited the headquarters of the CIB and assumed control of the bank. Lt. Robinson became acting president of the CIB and was officially appointed on October 15, 1945.²²

Once Americans replaced the Japanese bank officials, they were allowed to return to Japan but the repatriation process itself was a fundamental component of the economic chaos that was engulfing Korea. As stated above, Japanese began streaming aboard any ships making the journey between Korea and Japan immediately following the Japanese surrender, in fear of the Koreans. In one example of intimidation, a Japanese civilian named Kumagai sold his home to a Korean on September 30, 1945, prior to returning to Japan. The Korean gave him 5,000 yen as a deposit and Kumagai gave him a receipt for the money. Two days later, the buyer returned with several other Koreans claiming to be from the “Independence Army,” and stated it was illegal for Japanese to sell their property. They attacked Kumagai, stole the deposit money, and refused to return the receipt. On October 10, the Koreans returned, forced him to sign over the home without payment, and then forcibly evicted him.²³ Regardless of whether the Koreans were exacting justice or revenge, incidents like this were widely shared among the Japanese in Korea and motivated them to return to Japan as quickly as possible.

²² Moskowitz, 340.

²³ Headquarters 40th Infantry Division, “G-2 Periodic Report #16: From 10 Oct 45 to 11 Oct 45,” CMC, 512-513.

Before the arrival of the Americans, the Japanese chartered private vessels or purchased space on any ships heading to Japan. In a letter from September 17, Yamamoto Shizuko wrote from Shimonoseki to Yamamoto Onokichi in South Kyōngsang province, “I reached Japan by the ship *Seisho-Marū*. The ship is about 40 tons and carried 100 men and a great deal of Japanese baggage. I payed [sic] 1100 yen for 9 pieces of baggage and myself.”²⁴ Once the Americans arrived in sufficient numbers to control the port of Pusan, the 40th Division was ordered on September 21 to supervise the disarmament, control, and repatriation of the Japanese. The main official site of embarkation and disembarkation was limited to Pier No. 1 in Pusan Harbor, where the minimum rate of evacuation for Japanese troops and civilian was set at 4,000 people per day. At the same time, the Americans oversaw the arrival of Koreans from Japan and other parts of the former Japanese empire through the same pier. For example, the first refugee ships, the *Konei Maru* and the *Koan Maru*, brought 7,031 Koreans from Japan while taking 3,675 Japanese troops and 5,341 civilians to Hakata on September 26. This cycle of repatriation was continuously repeated through the remaining months of 1945.²⁵

The Americans implemented strict regulations on baggage and currency for outgoing Japanese to ensure that they were not taking contraband or looted assets back to Japan. Each civilian was allowed to take 1,000 Japanese yen, or yen issued by the Bank of Japan. They were forbidden from taking Bank of Chōsen yen. Japanese military personnel were limited to 500 yen for officers and 250 yen for enlisted men. Any excess amounts were confiscated and deposited in a special account at the Bank of Chōsen. The confiscation orders were later amended to include looted jewelry, financial instruments, letters of credit, and other monetary certificates. All

²⁴ Headquarters 40th Infantry Division, “G-2 Periodic Report #32: From 26 Oct 45 to 27 Oct 45,” CMC 598.

²⁵ “History of Evacuation and Repatriation Through the Port of Pusan, Korea: 28 Sept 45-15 Nov 45,” CMC, 37-42.

weapons, including swords, pistols, binoculars, rifles, and carbines were confiscated and sent to storage in a central warehouse. The inventory of “war souvenirs” was periodically reported to the XXIV Corps headquarters, which made allocations to occupation units based on time in service or sent the items to be sold in American-run gift-shops on the military bases.²⁶

All Japanese soldiers were closely inspected by American military personnel according to a set procedure. Groups of Japanese soldiers were marched onto the pier in rows and instructed to open their packs for inspection. American soldiers searched the bags, confiscated contraband goods, and sent the goods to nearby warehouses. As one Japanese group finished inspection, another group took its place and Japanese soldiers were processed at a rate of 500 per hour, twenty-four hours a day. Initially, civilian inspections were much more cursory, until the Americans received reports that civilians were smuggling large amounts of contraband and cash out of the country. The Americans changed their procedures to implement rigorous screening of male civilians by American soldiers and Japanese women by Korean women. The increased scrutiny found money hidden inside thermos bottles and baby blankets, as well as money sewn into the lining of clothes. One sergeant found 80,000 yen hidden inside a walking stick carried by an old man.²⁷

Currency exchange for incoming Koreans and outgoing Japanese was conducted at two exchange booths, established on October 20. The unequal value between “Korean” yen issued by the Bank of Chōsen and “Japanese” yen issued by the Bank of Japan necessitated an official exchange rate and military supervision to enforce exchange policies. Ironically, the disparate systems of yen currency implemented by the Japanese to separate the Korean and Japanese

²⁶ Office of the AC of S, G-2, Headquarters 40th Infantry Division, “History of the Korean Occupation,” CMC, 149.

²⁷ “History of Evacuation and Repatriation Through the Port of Pusan, Korea: 28 Sept 45-15 Nov 45,” CMC, 47; Headquarters 40th Infantry Division, “G-2 Periodic Report #30: From 24 Oct 45 to 25 Oct 45,” CMC 591.

economies during the colonial period were reconfirmed and enforced by the American military occupations in both countries. According to the military records, the Japanese were not allowed to take Bank of Chōsen yen to Japan, but they were permitted to take Bank of Thailand or Bank of Chōsen yen, if Bank of Japan yen was not available for exchange. However, currency exchange were limited to the above-mentioned amounts so large amounts of Bank of Chōsen yen were not officially permitted to leave Korea. The Americans collected ¥300,949,105 of excess currency that was surrendered or confiscated from outgoing Japanese and deposited in its own special account, “Japanese Armed Forces Personal Fund,” in the Bank of Chōsen. At the other exchange booth, incoming Koreans exchanged their “Japanese” yen for Bank of Chōsen notes, for a total of ¥39,313,000 between October 21 and November 15.²⁸

The implementation of stricter controls initiated a constantly escalating series of enforcement measures and counter-measures between the Japanese repatriates and the American military authorities. Since the official checkpoint at Pusan was becoming more stringent, the Japanese began contracting with “secret ships” to transport them and their belongings to Japan. One Japanese letter dated October 18, 195, stated, “I intend to send many cargoes by secret ship from Moppo Harbor to Port Senzaki, Yamaguchi Province, Japan.”²⁹ However, repatriation through secret ships was far from safe, due to leftover mines and even pirate activity in the area. One letter from September 19 said that the secret ship following his to Shimonoseki hit a mine that killed half of the passengers.³⁰ On November 8, the passenger ship *Taiho Maru* arrived in Pusan with nine Korean repatriates and three corpses. Reportedly, three pirates boarded at

²⁸ “History of Evacuation and Repatriation Through the Port of Pusan, Korea: 28 Sept 45-15 Nov 45,” CMC, 46. For more on the development of the yen currency system in Thailand, see William L. Swan, “Thai-Japan Monetary Relations at the Start of the Pacific War,” *Modern Asian Studies* 23-2 (1989).

²⁹ Headquarters 40th Infantry Division, “G-2 Periodic Report #32: From 26 Oct 45 to 27 Oct 45,” CMC 598.

³⁰ Headquarters 40th Infantry Division, “G-2 Periodic Report #39: From 2 Nov 45 to 3 Nov 45,” CMC, 627.

Shimonoseki, pulled guns on the crew, and forced the captain to redirect the ship to nearby Iki island. The pirates robbed the passengers and killed fourteen of them, throwing eleven bodies overboard. The pirates escaped in an open rowboat toward a small unidentified island near the northwest coast of Kyushu.³¹ The problem of piracy was common enough that some Japanese advised future repatriates to avoid traveling on secret ships and return to Japan by official steamer instead.³²

Facing stringent inspections and increased piracy, many Japanese began pooling their possessions, entrusting it to secret ships, and then going through the official repatriation process at Pier 1 in Pusan. On October 24, the 40th Military Police Detachment in Pusan boarded a secret ship and found it loaded with a Japanese and contraband cargo. Upon being interviewed, the Japanese said the cargo was mostly luggage of Japanese who had submitted to processing at Pier 1 but planned to pick up their baggage upon arrival in Japan. Clearly, the Japanese were unwilling to forfeit the wealth and possessions they had accumulated during the colonial period.³³

Some Koreans were also willing to circumvent American regulations in order to dispose of worthless currency in their possession. As stated above, Koreans repatriated from abroad were permitted to exchange Japanese yen upon their arrival. However, Koreans in Pusan attempted to mix in with the returning Koreans to exchange their worthless military yen currency or occupation currency for Bank of Chōsen notes. Once the Americans became aware of the problem, they built a fence around the pier and instituted regular patrols to keep out the

³¹ 40th Infantry Division, "G-2 Periodic Report #45-46," CMC, 646, 648.

³² Headquarters 40th Infantry Division, "G-2 Periodic Report #53: From 16 Nov 45 to 17 Nov 45," CMC, 664.

³³ Headquarters 40th Infantry Division, "G-2 Periodic Report #31: From 25 Oct 45 to 26 Oct 45," CMC, 594; "History of Evacuation and Repatriation Through the Port of Pusan, Korea: 28 Sept 45-15 Nov 45," CMC, 63.

enterprising Koreans.³⁴ However, Korean repatriates were apparently not subjected to rigorous screening at the docks, unlike outgoing Japanese. If they brought large amounts of Japanese yen, they could exchange it at the American-run exchange booth on the pier at the official exchange rate or they could rely on local black-market moneychangers. One letter dated October 31 from an unofficial moneychanger in Pusan to a future repatriate in Japan offered to change Japanese yen into Korean yen at a 20% discount, up to one million yen. The one condition was that the currency had to be in 100 yen notes.³⁵

The discount rate seems to have been the standard rate on the black-market, since the Counter-Intelligence Corps (CIC) reported in early October that the unregulated exchange rate was 12 Japanese yen for 10 Korean yen. The uneven exchange rate was attributed to the fact that banks and post offices were not exchanging money, so Japanese yen was trading at a discount relative to Korean yen.³⁶ However, currency trading seemed worthwhile for Japanese yen, despite being outlawed in Korea, because it could be illicitly shipped to Japan through the secret ships. By late November however, a letter written in South Kyōngsang province to a recipient in Oita described a worsening rate of exchange. “Because the use of Japanese currency is prohibited here those who have returned from Japan are experiencing financial difficulties. In Pusan, however, Japanese currency is still in use at a 50% discount.”³⁷

In addition to its outlawed status in Korea, another explanation could be the inflationary trends that had taken hold of both Japan and Korea, whereby the value of the Japanese yen was dropping faster than that of the Korean yen. Anecdotal evidence suggests that consumer

³⁴ 160th Infantry, “History of Korean Occupation,” CMC, 305.

³⁵ Headquarters 40th Infantry Division, “G-2 Periodic Report #53: From 16 Nov 45 to 17 Nov 45,” CMC, 665.

³⁶ Headquarters 40th Infantry Division, “G-2 Periodic Report #7: From 1 Oct 45 to 2 Oct 45,” CMC, 465.

³⁷ Headquarters 40th Infantry Division, “G-2 Periodic Report #65: From 28 Nov 45 to 29 Nov 45,” CMC, 698.

commodities may have been more widely available in Korea than in Japan from the number of letters urging Japanese repatriates to stock up before returning. In a letter from October 8, Otsu Toshiko in Japan wrote to Otsu Iwao in Pusan, “Secret ships enter Sasun or Hidakatsu every day. When you come have Captain load the ship with soy beans, salt, lima beans and rice.”³⁸ Several letter-writers advised future repatriates to bring everyday household items, possibly for trading purposes. One letter-writer from December 1945 said, “You can easily bring ¥50,000 to Japan from Korea if you hide it in the lining of your rucksack. I will be happy if you are able to bring clothing, shoes, thread, and soap when you return to Japan.”³⁹

Regardless of its position vis-à-vis Japan, Korea was suffering from severe inflation itself as prices skyrocketed 24-fold within a few months of Liberation. Government revenues declined precipitously while banks were suffering from a lack of public confidence, as evinced by the continuous number of withdrawals. Government taxes provided little real revenue because of the near complete breakdown of Japanese colonial administration after the surrender. The main source of government revenue came from sale of government-controlled monopolies and USAMGIK derived additional income from the sale of aid goods from the United States. In addition to the large amounts of currency being withdrawn from the banks that were sloshing through the Korean economy, the American military government had little choice but to continue to take large loans from the Bank of Chōsen to fund government work. In essence, the government was funding its budget through the Bank of Chōsen printing presses which accelerated the inflationary trend.⁴⁰

³⁸ “Incl. #1: Secret Shipping,” Headquarters 40th Infantry Division, “G-2 Periodic Report #36: From 30 Oct 45 to 31 Oct 45,” CMC, 615.

³⁹ “Letter from Michiro, on board the Hasu Maru, Pusan, Korea, to Fukui Yasuzo,” Headquarters 40th Infantry Division, “G-2 Periodic Report #78: From 11 Dec 45 to 12 Dec 45,” CMC, 723.

Soviet occupation of northern Korea hindered the general economic situation in southern Korea but helped the personnel situation at the BOC and the CIB. North of the 38th parallel, the Soviets quickly eliminated the vestiges of colonial authority and removed Japanese officials, police, and soldiers from positions of authority. The people's committees [K. *inmin wiwŏnhoe*] were sympathetic to the Korean communists and were first organized in South Hamgyŏng province immediately following the surrender on August 16, 1945, quickly followed by more committees in the remaining four provinces in northern Korea.⁴¹

On September 20, 1945, Josef Stalin issued a directive to the Soviet occupation command in northern Korea to cooperate in the establishment of a bourgeois-democratic regime that was based on anti-Japanese democratic parties and organizations. He issued instructions not to create a Soviet order in Korea and the Red Army did not abolish the local self-government committees that had arisen. Instead, the Red Army created a Soviet Civil Administration to indirectly rule northern Korea through the apparatus of the local committees. In November 1945, popular Korean resentment against the Soviet occupation and Soviet support for trusteeship came together in a student uprising in Sinŭiju and other cities. The popular protests turned many nationalists against the Soviets, destroyed the fragile National Front policy between the right and the left, and eventually resulted in the arrest of Cho Man-sik.

Cold War tensions and nationalist and Christian Korean opposition to the Soviets solidified in late 1945 and early 1946. In addition, agents from southern Korea began instigating acts of right-wing violence in the north as US military intelligence and CIA agents made numerous incursions across the 38th parallel. The Soviets allowed the formation of a North

⁴⁰ Park Chan-Pyo, "The American Military Government and the Framework for Democracy in South Korea," in Bonnie B.C. Oh, *Korea Under the American Military Government, 1945-1948* (Westport: Praeger, 2002), 138.

⁴¹ Kang 2005, 181.

Korean Interim People's Committee on February 9, 1946, under the chairmanship of Kim Il Sung and the Soviets instituted a policy of suppression against all opposition to Soviet rule and to the Kim Il Sung regime. As the new ruling structure in the north, the NKIPC absorbed Civil Administration officials as advisors but its main purpose was to ensure the creation of a unified Korean regime that was sympathetic to the USSR.⁴²

In the economic realm, the Soviets issued occupation currency to replace the Bank of Chōsen notes in circulation. Some scholars have speculated that the Soviets took the now worthless Bank of Chōsen notes in the north and flooded the southern zone in hopes of gaining an advantage by destabilizing the American-controlled economy. However, a more prosaic explanation can also be found in the many Koreans who send their BOC notes across the still-porous 38th parallel to regain some value from their currency holdings. In addition, many Koreans were making their way south with their possessions and wealth. These Koreans included those who were discontent with the Soviets or no longer welcome in the north for various reasons, including being wealthy, Christian, formerly pro-Japanese, or anti-communist. Some of the northern refugees were CIB and BOC employees who fled the Soviet zone in successive waves. The first wave was immediately following the arrival of the Red Army. The second occurred in late 1945 with the implementation of Soviet policies in the north. The last wave occurred in mid-1946 with a major reorganization of the northern banking system. The arrival of the northern bank employees in the south concentrated the available Korean personnel and filled personnel gaps opened by the repatriation of the Japanese employees.⁴³

⁴² Jongsoo Lee, *The Partition of Korea After World War II: A Global History* (New York: Palgrave Macmillan, 2006), 133-138.

⁴³ Moskowitz, 339.

The Bank of Chōsen

Despite the organizational changes, the Bank of Chōsen continued its colonial roles of both central bank and commercial bank in southern Korea. Even after liberation, the finance-related laws imposed by the Japanese Government-General remained in force, including the Bank of Chōsen Law, the Chōsen Industrial Bank Law, the Bank Law, and the Savings Bank Law. The American military government, and later the South Korean Interim Government, depended on the Bank of Chōsen to issue money to fund government activities because tax collection did not provide sufficient income. While consumption in the southern economy increased sharply because of the large inflow of refugees from the north and abroad, the idling of factory production created shortages of commodities to meet consumer demand. As the currency supply increased and the commodity supply decreased, inflation continued unabated.

USAMGIK Ordinance No. 21 allowed the Bank of Chōsen to continue its operations in issuing banknotes, managing the national treasury, and providing loans as a commercial bank. However, the other remaining banks were also engaged in the regular commercial banking business because that was the only business available. All former colonial state-owned enterprises had been transferred to USAMGIK as vested properties and USAMGIK forced the banks to continue issuing low-interest loans below the prevailing rate of inflation and private lending rates, in order to keep the state-owned enterprises in business. Of course, the state-owned enterprises had a poor record of repayment, which included loans made during the war. The Chōsen Industrial Bank relied on long-term loans from the Bank of Chōsen to fulfill its original mandate of providing capital for development, but these loans simply added to the inflationary

pressure in the economy. Without fundamental economic reform, the southern Korean economy was headed to collapse.⁴⁴

One of the American occupation officials calling for reform was Arthur Bunce, an economic advisor to General Hodge. Arthur Bunce arrived in Korea in February 1946 and was chosen as a member of the US-USSR Joint Commission to plan the economic integration of the peninsula. He was one of the few Americans who was familiar with Korea, since he had worked in Korea during the 1920's for the YMCA and spoke Korean. Bunce was strongly in favor of a broad-based economic aid program for southern Korea, but the aid program became a political football between the State Department and the War Department as well as between the Truman administration and Congress.⁴⁵

In the first years of the American occupation, the State Department did not have long-term plans for Korea because its primary diplomatic focus was on the withdrawal of American military forces, holding elections, and turning a unified peninsula over to a Korean government. The War Department also felt there were no long-term military interests in Korea so both the State and War Departments tacitly agreed that America could eventually disengage from Korea. However, the State Department was focused on a longer-term occupation policy, the establishment of a unified Korean government, and the development of a liberal democracy, while the War Department consistently maintained the position that all American military forces should be withdrawn from Korea as quickly as possible. Both positions however shared the common point that the Korean government had to be friendly to American interests.⁴⁶

⁴⁴ David C. Cole and Yung Chul Park, *Financial Development in Korea, 1945-1978* (Cambridge: Harvard University Council on East Asian Studies, 1983), 49-50.

⁴⁵ James I. Matray, "Bunce and Jacobs: U.S. Occupation Advisors in Korea, 1946-1947," in Bonnie B.C. Oh, 62-63.

The State Department advisors in Korea pursued the implementation of an economic stabilization and rehabilitation program. While State insisted that the War Department had to finance the civilian supplies for economic rehabilitation, the War Department refused to provide the funding. The State Department considered requiring Japan to provide supplies for Korea as part of the reparations claims process, but this idea was abandoned after the implementation of the “reverse course” in Japan and the abandonment of reparations. After the failure of the 1946 and 1947 Joint Commission meetings, the Truman administration attempted to institute a broad-based economic aid program for Korea to pressure the Soviets to accept a Korean government that was sympathetic to the United States. However, Congress was unwilling to invest in large-scale, long-term aid to Korea and Congress indefinitely delayed the aid package in July 1947.⁴⁷

By 1947, the State Department succumbed to pressure from the newly-renamed Defense Department regarding troop withdrawal and the establishment of a separate South Korean government. However, the State Department was opposed to an ultra-right government under Syngman Rhee and demanded a broad-based South Korean government. The assassination of Yŏ Un-hyŏng on July 19, 1947, and the collapse of moderate political groups in southern Korea eliminated alternatives to Rhee and the State Department signed off on complete American withdrawal in late September 1947. With that step, the State Department essentially abandoned its position on implementing a long-term, reformist policy for southern Korea.⁴⁸

Although the State Department was more driven to implement reforms in southern Korea than the War Department, the major country of concern throughout the Truman administration

⁴⁶ “Oral History Interview with Niles W. Bond,” Harry S. Truman Library, Independence, Missouri. <http://www.trumanlibrary.org/oralhist/bond.htm>; Park Chan-Pyo, 31-32.

⁴⁷ Stueck, 53; Park Chan-Pyo, 133.

⁴⁸ Park Chan-Pyo, 138-139.

was not Korea but Japan. In a memorandum to Dean Acheson, George Kennan clearly enunciated the American basis for policy-making in Korea. “From the standpoint of our interest it is preferable that Japan should dominate Korean than that Russia should do so.”⁴⁹ The United States envisioned that Japan would reclaim influence over Korea and that a new regional East Asian political, economic, and security structure would be established with Japan at its core. Consequently, American foreign policy required Korea to support the Japanese economy through the export of Korean rice, tungsten, and other primary products in exchange for Japanese manufactured products. In other words, the United States envisioned a return to the core-periphery relationships that had been prevalent throughout the colonial period.⁵⁰

The Central Bank Debate

In addressing the post-Liberation inflation and future economic policy, an independent Korea required a new central bank that could manage the economy of a modern state. Before the establishment of the Syngman Rhee government, the Bank of Chōsen, the Chōsen Industrial Bank, and Chohŭng Bank [K. *Chohŭng unhaeng*] lobbied the American military government for the right to become the central bank.⁵¹

From the perspective of the Chōsen Industrial Bank, it had the most Korean employees and the most people with educational credentials from higher commercial schools and universities. The bank cited its control of a large percentage of deposits and loans during the colonial period as evidence that it possessed the internal stability required of a central bank. On

⁴⁹ George Kennan to the Secretary of State, August 21, 1950, U.S. Department of State, *Foreign Relations of the United States, 1950*, vol. 7, 623-628.

⁵⁰ Woo, 55.

⁵¹ Han Kyu-su, *Sillok Han 'guk ūnhaeng* [Chronicles of the Bank of Korea] (Maeil kyōngje sinmunsa, 1986), 85-86.

the other hand, the Bank of Chōsen was the bank of issue that had provided currency since the beginning of the colonial period as well as running rediscounting and treasury operations. Therefore, the bank presented itself as the most logical choice to be the next central bank. Chohŭng Bank argued that the Bank of Chōsen and the Chōsen Industrial Bank were institutions of colonial authority since they were special financial institutions established by the Japanese. In contrast, Chohŭng Bank emphasized that it had the most “national capital” [K. *minjok chabon*] and the highest number of Korean employees.⁵² The Bank of Chōsen was the best-prepared to assume the role of the new South Korean central bank, but it faced additional opposition from the nascent Syngman Rhee government which intended to aggregate economic policy-making power to itself.

In April 1947, the Bank of Chōsen researched possible reforms of the central banking system and presented its “General Principles for the Foundation of the Central Bank.” After the BOC presented its “General Principles,” the South Korean Interim Government created the Financial Law Research Committee at the Ministry of Finance (MOF) in March 1948 to examine the BOC proposal. The government also prepared a competing version of “General Principles of Financial Laws,” and the Ministry of Finance began preparation of a government bill. After the Republic of Korea was established in late 1948, the BOC wrote a draft Central Bank Law, which it submitted to the Syngman Rhee administration, the National Assembly, and the ECA.⁵³

The BOC and the MOF proposals had significant differences, centered on independence from the government. The bank proposed a Western-style central banking system with an independent central bank that maintained separation from the South Korean government. If the

⁵² Yun Sōk-pōm, et al., *Han 'guk kŭndae kŭmyungsa yōn 'gu* [A study of modern Korean financial history] (Seoul: Segyesa, 1996), 205.

⁵³ The Bank of Korea, *The Bank of Korea: A Sixty-Year History* (Seoul: Bank of Korea, 2010), 6.

central bank was subordinated to the government, then it lacked public credibility. Consequently, the bank suggested that the central bank ownership structure follow that of a joint-stock company whereby the government, financial institutions, and the private sector would own shares in the central bank. Central bank policy-making would be conducted by a monetary council within the central bank.

In contrast, the ministry wanted to directly control the central bank and implement a centrally planned economy to facilitate reconstruction. Since tax collection was still severely impaired from a lack of production and an incomplete public finance system, the government needed to borrow heavily from the central bank to fund its budgetary requirements. Consequently, the ministry ironically took imperial Japan as its model and formulated its Central Bank Law according to the 1942 Bank of Japan Law that permitted the Japanese government to print money freely for the war effort. As a result, the central bank would become a government-controlled institution, bank employees would be civil servants, and the Minister of Finance was empowered to appoint and dismiss bank executives.⁵⁴

The debate over the central bank represented a power struggle between the Bank of Chōsen and the Syngman Rhee government. The Rhee administration wanted to concentrate power within itself and eliminate the independence of the Bank of Chōsen. The Bank of Chōsen wanted independence and to formulate economic policies within itself. Both sides wanted control over the economy and the only question was whether that power would be invested in a government-controlled institution under the orders of an American-supported autocrat or within a non-governmental institution headed by bank officials trained under Japanese imperialism. In either case, policy-making would continue to function in a top-down, authoritarian manner.

⁵⁴ Bank of Korea 2010, 7.

In September 1949, the Bank of Chōsen and the Syngman Rhee administration invited international financial experts to examine the government's version of a central bank bill and the American Federal Reserve Board dispatched Arthur I. Bloomfield and John P. Jensen. Arthur Bloomfield was chief economist in the Balance of Payments Division and John Jensen was assistant chief of the Auditing Division. Bloomfield and Jensen studied the South Korean financial system for five months and prepared a recommendation with a draft Bank of Korea Law and Banking Law. Their "Recommendation Regarding Central Banking Reform in Korea" proposed reforming the Bank of Chōsen and establishing new monetary and credit policies for a new Bank of Korea.⁵⁵

First, the Bank of Chōsen would be given strong powers to control credit and thus tame inflation while also making credit policy. The bank would be prohibited from the commercial banking business which would prevent it from competing with the financial institutions that it would regulate. However, the bank would still engage in banking to facilitate foreign trade and foreign exchange. Second, they recommended that the Bank of Chōsen be liquidated and reestablished as a new legal entity to shield it from future possible claims from creditors in Japan, Manchuria, China, and North Korea. Essentially, the bank and its balance sheet would be given a fresh start. Third, the bank would be freed from political interference by the South Korean government through the formation of a seven-person group to oversee the bank and formulate policy.⁵⁶

⁵⁵ Bank of Korea, 2010, 8; Arthur I. Bloomfield and John P. Jensen, *Banking Reform in South Korea* (New York: Federal Reserve Bank of New York, 1951).

⁵⁶ Arthur I. Bloomfield, "Report and Recommendations on Banking in South Korea," (Seoul: The Bank of Korea, 1952), 22.

The draft Bank of Korea Law was approved by the State Council on March 14, 1950. Although there was some opposition from government ministers and National Assemblymen because of the perceived unconstitutionality of the bill, it was approved by the National Assembly and promulgated as Law No. 138 on May 5, 1950. However, the outbreak of the Korean War on June 25, 1950 created new wartime demands for finance. As the Ministry of Finance borrowed heavily from the newly established Bank of Korea, the Rhee government demanded strong control over monetary policy which it never relinquished.⁵⁷

The Bank of Korea has continually declared its 1950 establishment to be a new beginning in the financial history of South Korea and denied any link to the Bank of Chōsen. However, the institutional features, personnel, and even the physical building itself made the transition between the two institutions, despite the stated declarations of the Bank of Korea.⁵⁸ The most prominent example of the personnel carryover is Chang Ki-yōng who was the Bank of Chōsen employee that saved the Ch'ōngjin branch records from the advancing Soviets. In 1948, Chang was promoted to head of the Research Department at the Bank of Chōsen and was instrumental in helping Bloomfield and Jensen formulate their proposals for the new Bank of Korea Law.⁵⁹

Once the Bank of Korea was established in December 1950, Chang Ki-yōng was appointed the first vice-governor. After serving two more years at the bank, he became the tenth president of the *Chosŏn ilbo*. In June 1954, Chang established the *Han 'guk ilbo* and became publisher-president. In the same month, he was appointed to the Korean Olympic Committee [K. *Taehan ollimp'ik wiwŏnhoe*]. In May 1964 under the Park Chung Hee administration, he was

⁵⁷ Bank of Korea, *The Bank of Korea: A History of Fifty Years* (Seoul: Bank of Korea, 2000), 12.

⁵⁸ The attitude is apparent in the preceding histories of the Bank of Korea as well as sprinkled throughout the exhibits in the Bank of Korea Museum housed in the old Bank of Chōsen building in Seoul.

⁵⁹ Bloomfield and Jensen, 6.

appointed deputy prime minister and head of the Economic Planning Board [K. *bu ch'ongni kyŏm kyŏngje kihoekwŏn changgwan*]. During Chang's time in government, Park relied heavily on Chang, who became known as the "bulldozer man" in charge of economic development. In June 1966, he became chairman of the Korean Olympic Committee and lifetime chairman of the Asian Games Federation [K. *Asia kyŏnggi yŏnmaeng*]. In May 1967, he became a member of the International Olympic Committee and in October 1967, he was reappointed publisher-president of the *Han'guk ilbo*. In March 1973, he was elected a National Assemblyman. In December 1973, he was appointed acting chairman of the Seoul side of the Joint Committee of the North-South Coordinating Committee [K. *Nambuk chojŏl wiwŏnhoe Sŏulch'ŭk kongdong wiwonjang taeri*]. On April 11, 1977, he died of a heart attack in his *Han'guk ilbo* office at the age of 61.⁶⁰

Conclusion

Despite the end of the colonial period, the Bank of Chōsen maintained its status and authority into the post-Liberation period, mainly due to its position at the center of the financial system. Bank of Chōsen banknotes were still considered the main currency and their value was reaffirmed by the American military government. In the immediate post-Liberation chaos, the Korean personnel of the Bank of Chōsen assumed control of some of the smaller branches while in the larger branches, the Japanese managers maintained titular authority while conferring with their Korean colleagues thus ensuring a smooth transition of bank control from the Japanese to the Koreans in the immediate period following the surrender.

⁶⁰ CGKK, 723-724; http://news.hankooki.com/history/baeksang_sub1.htm; Glenn D. Paige, "1966: Korea Creates the Future," *Asian Survey* 7-1 (1967), 22; "Bonsa Chang Ki-yŏng saju byŏlse" [Death of company owner Chang Ki-yŏng] *Han'guk ilbo*, April 12, 1977.

At the same time, the Korean employees of the Bank of Chōsen, as well as those of the Chōsen Industrial Bank, could easily have been tarred with the same collaborationist label that was attached to the colonial policemen and other visible representatives of the colonial state. However, the rapid alliance of the Korean bank staff with Yō Un-hyōng and the CPKI ensured that they were protected by the nascent Korean state. Once the Americans arrived and quashed the KPR, the Americans extended their protection to the staff of the Bank of Chōsen. However, the Americans attempted to reinstate the Japanese administrators throughout the colonial government as well as in the Bank of Chōsen, which provoked a serious Korean backlash. The American military government was forced to appoint American officers as bank officials, until a new cadre of Korean bankers could be promoted to fill the management positions. The new leadership of the Bank of Chōsen were the old faces of the Korean employees who had been hired and trained under the Japanese during the colonial period. Former Bank of Chōsen employees like Chang Ki-yōng continued on to have extremely influential careers in South Korean politics and society.

Within the chaos of the first months of the occupation, hundreds of thousands of Koreans and Japanese were engaged in mass migration movements into and out of the peninsula. The repatriation process for Koreans and Japanese was accomplished through official and unofficial channels, but many Japanese attempted to skirt American regulations on asset repatriation through the use of secret ships plying the waters between Japan and Korea. Despite strict currency controls and prohibitions on the use of Bank of Japan banknotes in Korea and the export of Bank of Chōsen banknotes, a brisk trade in black market currency transactions arose in tandem with the smuggling of scarce commodities.

Although the Greater East Asian Co-Prosperity Sphere had fallen with the Japanese Empire, the unofficial trade between Japan and Korea underlined how the regional East Asian economy established after 1876 had staying power. Furthermore, the American authorities in Seoul and Washington had their own plans to reestablish the core-periphery relationships between Korea and Japan to strengthen the Japanese economy. In the midst of the rising tensions of the Cold War, the priorities of establishing a democratic Korea and decolonizing the Korean economy were subordinated to the geopolitical needs of the United States.

As the Americans supported the Syngman Rhee government as its anti-communist ally on the Korean peninsula, the Bank of Chōsen entered the final political battle of its existence as it fought to become the new central bank of the South Korean state. Supported by American advisors from the U.S. Federal Reserve, the Bank of Chōsen declared its political independence from the Syngman Rhee government and the supervision of the Ministry of Finance as a necessary step in ensuring its credibility as a central bank. As the Bank of Chōsen was reestablished as the Bank of Korea, the outbreak of the Korean War allowed the Syngman Rhee government to successfully subordinate the bank to government control and implement its own economic policies.

Conclusion

In the mid-nineteenth century, the East Asian nations were being fundamentally changed by domestic transformations and the influence of the West. King Kojong of Chosŏn Korea was determined to protect Korean sovereignty from foreign encroachment, but Meiji Japan forced Korea to open its ports and establish treaty relations under threat of military action. Once the first three treaty ports were opened, Chosŏn Korea was connected to the transportation, trade, and financial networks of Japan and then to the rest of the West and world after 1882. While Korean entry into the unequal treaty system bound Korea to the capitalist world economy, the new economic and political arrangements embodied in the treaties initiated an incremental but inexorable process of economic transformation that began in the treaty ports and spread into the Korean countryside.

The Korean king and his advisors adhered to traditional Confucian economic principles that linked the ruler and the wealth of the nation in a moral order governed by a rent-seeking posture and benevolence as opposed to the ideal of profit maximization. Once Chosŏn Korea was opened however, Korea was incorporated into a regional East Asian economy that replaced the highly regimented and ritualized exchanges of symbolic goods with an unequal treaty system based on Western concepts of capitalism, free trade, and international law. The new trading relationships and multilateral imperialism enforced by the imperialist powers challenged the Confucian principles of Chosŏn Korea while opening economic opportunities for foreign merchants to extract Korean resources, primarily agricultural and mineral products, for export. While the Westerners were focused on precious metals like gold, many Japanese merchants

sought cheap Korean rice and soybeans that could be sold profitably within the Japanese domestic market.

Consequently, the forced opening of Korea in 1876 and the development of trading relationships between Japan and Korea incorporated Korea into a newly developing East Asian economy predicated on a core-periphery relationship. The Korean treaty ports of Pusan, Wŏnsan, and Inch'ŏn formed a periphery to the marketplaces of the Japanese core through a price mechanism that linked Japanese demand to Korean supply. Japanese willingness to pay relatively higher prices for Korean products began distorting the local market of the Korean open ports and established the Korean open ports as local cores to a periphery consisting of the surrounding countryside and provincial ports. Japanese demand drove up Korean prices, decreased the available food supply, and increased social and class stratification by benefiting certain Koreans, such as landlords, brokers, and innkeepers, who facilitated trade with the Japanese.

The brokers and compradors were part of a comprador-style purchase and shipping system that serviced Japanese demand that first existed alongside the traditional grain purchase and transportation system, before transforming those economic relations to prioritize foreign trade. The Japanese relied on open ports brokers and local ports brokers to purchase rice from the Korean landlords and producers before shipping the grain to Japan from the foreign settlements. The new trade patterns were establishing an internal core-periphery relationship between the open ports and the surrounding countryside or local ports. The addition of Japanese demand with the purchasing power of higher domestic Japanese prices distorted internal Korean conditions of supply and demand and linking the Korean and Japanese rice markets.

Chosŏn Korea was incorporated into the regional transportation networks that developed through regular steamship service between the East Asian port cities that circulated commodities, people, and information. The transportation network established the physical connections that enabled the regional and local core-periphery relationships, as well as linking the eastern and western Korean coastal markets that had previously been divided. The development of the railroad network similarly transformed the existing internal trading and transportation networks and selectively integrated villages and regions into the regional and global economies.

Within two years of the forced opening of Korea, Daiichi Bank established a branch in Pusan in 1878 as a necessary step in ensuring the survival of the bank, but it was also the first step in the establishment of a financial core-periphery relationship between Japan and Korea. As the first modern bank in Japan established in 1872, Daiichi Bank survived the growing pains of Meiji Japan through the establishment of a new central government and a national economy. However, the trials were numerous and continuous, including the bankruptcy of the founding Ōno family in 1875, the withdrawal of Japanese government funds in the same year, the banknote redemption crisis, and the Matsukata deflation in the early 1880's. The survival of Daiichi Bank where many other banks were bankrupted or fell victim to the bank panics endemic during the period was due in no small part to its operations in Korea. Total net profit from the bank's business in Korea increased from a miniscule 372 yen in 1878 to over 399,000 yen in 1905, for a total of 29% of total bank profit.

After opening its first branch in Pusan in 1878, Daiichi Bank continued to open branches in Wŏnsan, Inch'ŏn, and other cities as Japan garnered additional concessions and privileges in lockstep with the Western imperialist powers that were pressuring the Korean government. The spread of Daiichi branches initially mirrored the establishment of Japanese settlements and

focused on providing services for the Japanese settlers through foreign exchange, deposit accounts, loans, exchange bills, and marine insurance. However, Daiichi began expanding its financial network, which functioned as Korean outposts feeding its Tokyo headquarters, by handling government funds, including loans to the Korean government and the acceptance of customs tariffs. Daiichi also stood at the forefront of garnering precious metals for the Japanese government and the Bank of Japan by purchasing Korean gold, which supported the Japanese adoption of the gold standard in 1897.

The Japanese banks that were operating in Korea were fighting each other for the profits from business in the new periphery. The difficulties between Daiichi Bank, 102nd Bank, and 18th Bank illustrate how Daiichi used its monopoly position in Korea to delay or deny requests from banks like 102nd and 18th Banks for repayment of their exchange bills. Due to their small capital cushions, small delays could become real threats to the banks' survival, as shown by 102nd Bank's bankruptcy after the imposition of the 1889 rice export prohibition order by the magistrate of Hamgyōng province. Although Daiichi and 18th Bank resolved their differences during the 1885-1886 exchange bill impasse, inter-bank competition in Korea only intensified when the 18th Bank and other Japanese banks established their own branches and operations in Korea.

The formation of multi-level and overlapping core-periphery relationships, aided by formation of local and regional trading, transportation, and circulation networks, underscores the importance of the Korean open ports period as a unique and distinct period, separate from the colonial period. The reconfiguration of the Korean economy was a direct result of the opening of the ports but developed in historically significant ways as it was incorporated within a nascent regional East Asian economy. The colonial period has been a main topic of research for scholars

of Korean and Japanese history, but the open ports period has been studied to a lesser degree. However, it is important to recognize how the two periods were distinct but linked to understand the Chosŏn Korea encounter with and responses to modernity. The elements of continuity and transition, which include the connection between Daiichi Bank and the Bank of Chōsen, provide a new framework for understanding the transition from the nineteenth to twentieth centuries in Korea as well as from the open ports period to the colonial period. In addition, greater scholarly focus on the interconnectedness of Korean and Japanese history undercuts the “Korean problem” in Japanese history identified by Andre Schmid and expands historical conceptions of East Asia to encompass a multinational dimension lost in mono-ethnic narratives of postwar Japan.

In the early twentieth century, the core-periphery relationship between Japan and Korea was transformed by the annexation in 1910 yet it also maintained some key elements. Korea continued to provide the raw materials and resources demanded by Japanese industrialization, particularly in terms of cheap rice and soybeans for the Japanese working class, but Japan was also determined to maintain a certain economic and financial distance from Korea. This process was apparent during the debate over the establishment of a Korean central bank.

The Japanese Ministry of Finance and the Bank of Japan first raised the possibility of establishing a branch of the Bank of Japan as the central bank of Korea but the Finance Ministry was worried about the possible negative repercussions of closely linking the Korean economy to the Japanese economy. Although the initial proposals envisioned that Korea would have a separate reserve fund within the Bank of Japan, the Residency-General under Itō Hirobumi eventually pushed through a plan for a stand-alone Korean central bank that would insulate the Japanese economy from unexpected shocks emanating from a possibly volatile Korean economy. The separate reserve fund was transformed into a completely separate note issue and while the

Korean currency would be denominated in yen, it would be decoupled from the central Japanese currency reserve.

Once established, the Bank of Chōsen was plagued by fundamental issues arising from its internal structure and external circumstances. First, the BOC maintained the dual focus of Daiichi in performing central bank operations while still conducting business as a commercial bank. As a result, the BOC sacrificed its position as the lender-of-last-resort in maintaining the stability of the colonial economy and currency for the long-term developmental needs as dictated by Japanese imperial policy. Second, the BOC had persistent problems in maintaining its capital and adequate reserves due to the trade imbalance that colonial Korea maintained with Japan and other countries. As imports were continually exceeding exports by a large margin, the BOC faced the same issues as Daiichi. However, the BOC had the option previously unavailable to Daiichi of expanding its business to Manchuria and tapping its strong trade in agricultural products for much-needed capital. Fortuitously for the BOC, the economic boom triggered by the First World War wiped out the trade imbalance and stimulated the bank's business throughout the wartime period.

In terms of personnel, there was significant carryover from Daiichi Bank to BOC, particularly in the senior management positions, including the first president Ichihara Morihiro and directors Mishima Tarō and Kimura Yūji. For new employees, BOC recruited its staff from the elite universities and schools in Korea and Japan, like the imperial universities in Tokyo and Kyoto and higher commercial schools, in order to select the most qualified personnel to work at the most important financial institution in colonial Korea. In comparison to the Chōsen Industrial Bank, the BOC hired far fewer Koreans and exercised greater discrimination in its staff management policies but the Koreans who were hired had either elite educational backgrounds

or important family pedigrees like Min Pyŏng-do. In terms of career paths, Japanese employees received preferential treatment in postings and promotions while Korean employees encountered the glass ceiling at the clerk level.

Although the end of the First World War brought the wartime economic boom to an end, optimistic policy prognostications by the leading political and economic figures of Japan delayed the implementation of much-needed rationalization and austerity measures. However, the Kantō Earthquake of 1923 and the Shōwa Financial Crisis of 1927 had severe repercussions for the BOC as well as the Korean and Japanese economies. The Bank of Taiwan is the most well-known victim of the earthquake and crisis but the BOC was also caught unawares through the expansion of its banking activities into Manchuria and China.

After tapping the Manchurian agricultural export market for needed capital before the First World War, the BOC pursued an aggressive expansion plan to increase the number of branches in Manchuria while spreading BOC banknotes throughout Kwantung Leased Territory and southern Manchuria. In this respect, the BOC was not simply the central bank of colonial Korea, but a primary component of Japanese foreign expansionism into Manchuria and China on par with the Southern Manchurian Railway Company. Manchuria formed a new periphery to a Korean core that provided fresh capital and business opportunities for the Bank of Chōsen. In 1917, the BOC was designated the central bank of the Japanese-controlled areas of Manchuria and assumed the treasury business and Manchurian branches of the Yokohama Specie Bank.

While the Fengtian government under Zhang Zuo-lin were attempting the strengthen provincial finances, the Japanese were using the BOC to undercut Chinese efforts by promoting the stability and safety of BOC yen currency. The panoply of currencies in circulation, disparaging rumors spread by Japanese merchants, and general distrust of Fengtian dollars

combined to drive down the value of the Chinese banknotes in favor of Japanese yen currency. Between 1917 and 1924 however, the Fengtian government and currency were buttressed by the implementation of much-needed economic reforms under Wang Yong-jiang, while the provincial government repaid its accumulated debt to an assortment of foreign lenders, including the BOC.

During the same period, the BOC built out its network until the number of Manchurian branches was nearly double the number of Korean branches. Although the Fengtian dollar had achieved a hard-won parity with the yen in terms of value, Zhang Zuo-lin inserted his military forces into both regional and national struggles for control of the Chinese government, causing the provincial government deficit to balloon and the currency to decline. In the face of the internecine Chinese conflicts and the backing of the local Japanese military forces in Manchuria, the BOC and its banknotes maintained a strong position in the local economy, leading local Chinese warlords to deposit some of their wealth in the BOC. After Zhang Zuo-lin was assassinated in 1928, the Fengtian dollar collapsed while Japanese Kwantung Army staff officers prepared their plans to take over Manchuria in 1931.

By the mid-1920's, the Bank of Chōsen had suffered the depletion of a significant portion of its asset base after the Kantō Earthquake and during the beginning of the Shōwa Crisis. The colonial Korean government was inadequately equipped to rescue the BOC, which was its erstwhile central bank, and the BOC turned to the imperial core in Tokyo to receive the necessary capital from the Ministry of Finance. Consequently, the Bank of Chōsen Law was revised to remove supervisory authority from the Chōsen Governor-General and to imbue it solely with the Minister of Finance. The bank was forced to reduce its capital by half, implement personnel cuts, reduce the salaries of remaining employees, and move its headquarters from Seoul to Tokyo to place it directly under the supervision of the Ministry of Finance. Much of the

loss in Manchuria was due to inopportune investments, such as the ill-fated venture of the Manchurian Bank, which cost the bank more than half of its 21 million yen loan.

During the period of wartime mobilization, many Japanese men, including employees of the Bank of Chōsen, were pulled from their workplaces and sent directly into the war effort, thus opening new opportunities for the Korean employees. The percentage of Korean employees in the total workforce of the BOC increased from 16% in 1928 to 22% by 1939. By March 1945, 33% of the workforce was native Korean. In 1938, Ku Yong-sō became the first Korean at the BOC to break through the glass ceiling when he was appointed assistant manager of the Sinūiju office. In 1945, Kim Yu-t'aek was appointed assistant manager of the Haeju office after entering the bank only seven years earlier. These two examples illustrate the personnel pressures that the bank was facing during the wartime period, which allowed the rapid hiring and promotion of Korean employees. On the other hand, the example of Chang Ki-yōng also shows how some Koreans took advantage of the chaos in the last days of the war to demonstrate their loyalty and dedication to the bank and advance, specifically by safeguarding bank records in the face of the Soviet advance. All these Korean employees rose quickly through the bank in the post-Liberation period and then went on to play particularly important roles in the economic and political worlds of South Korea.

To even qualify for employment at the Bank of Chōsen, future employees were hand-picked from the top educational institutions of colonial Korea and imperial Japan and vetted through rigorous screening process. For their training, new employees were subjected to a long period of apprenticeship in the bank, where they were expected to learn the practices and programs of the bank, as well as adopt the values and philosophies of being a central banker. Needless to say, their first loyalty may have been to the bank but as members of the colonial elite,

they were also representatives of the colonial state and the Japanese empire at large. By necessity, they were fluent in the language of their colonial masters and trained at the best universities and schools of the empire.

After the Japanese surrender, the Korean employees of the BOC demonstrated their political acumen by quickly allying with Yō Un-hyōng and his CPKI, which lessened the possibility of popular reprisals against the former central bankers of the colonial state. Once the American military arrived, the BOC formed a close association with USAMGIK because the military occupiers needed the BOC to fund the government through its printing presses, while the BOC needed the Americans for political protection. Although rising Cold War tensions between the two occupation authorities on the Korean peninsula ultimately precluded reunification, the BOC benefited from the exodus of its employees from the northern zone of Korea as well as Manchuria to staff its southern branches.

The economic chaos caused by the massive withdrawals of currency in the last days of the war and the first days of Liberation was nearly impossible to manage without both effective government control and the resurrection of commodity production to sop up the excess currency. However, economic activity was almost completely frozen due to the huge migratory flows of outbound Japanese civilians and soldiers and inbound Koreans repatriates, in addition to the vindictive retribution inflicted by the Koreans on the departing Japanese. However, the BOC maintained its authority and position due to both its reputation as the central financial institution in the southern zone and its connections with USAMGIK and the new South Korean government under Syngman Rhee.

The Bank of Chōsen continued as the central bank in southern Korea until it was replaced in 1950 by the Bank of Korea, but the institutional and personnel continuities between the two

institutions were significant. Chang Ki-yŏng was an example of a BOC employee who was promoted to head of the Research Department during the American occupation and then became the vice-governor of the new Bank of Korea. He later continued to have a very prominent career in media as president of the *Chosŏn ilbo* and later the publisher-owner of the *Han'guk ilbo*, before becoming deputy prime minister and head of the Economic Planning Board under Park Chung Hee.

The pedigree of the Bank of Korea can thus be traced all the way back to the first branch of Daiichi Bank, established in Pusan in 1878, through the Bank of Chōsen and its expansion in the Korean peninsula and into Manchuria, all the way to the present day. While much scholarly debate has thus been directed towards the influence of the colonial period on postwar South Korean economic development, the story is perhaps not complete without a complete understanding of both the colonial period and the open ports period. At the same time, the nation-centric histories of Japan and Korea that have been *de rigueur* to explain the historical trajectories of the nineteenth and twentieth centuries can be further expanded through the utilization of a regional perspective that encompasses the intertwined narratives that cross boundaries and borders. While the framework is not applicable to all institutions in all instances, the histories of Daiichi Bank and the Bank of Chōsen may provide a valuable example as a case study in charting possible new projects in East Asian history.

APPENDIX I.

LIST OF CHINESE CHARACTERS

- Abe Tsutomu 安部勉
Adachi Ryūjirō 足立龍二郎
An Kyōng-su 安駟壽
Andō shiten Andong branch 安東支店
Andong 安東
Aomori Matsuyama zeimu kantoku kyoku 青森松山稅務監督局 Aomori Matsuyama Tax
Supervision Agency
Arai Kentarō 荒井賢太郎
assistant manager 助役 *joyaku*
Beikoku rikukaigun kiristukyō seinenkai 米國陸海軍基督教青年會教育 American Army
YMCA
Beikoku seisho kaisha 米國聖書會社 American Bible Company
Bosuton daigaku ボストン大學 Boston University
buchō 部長 department manager
bunshoka 文書課 Documents Section
Changchun 長春
chiganeka 地金課 Bullion Section
Cho Pyōng-sik 趙秉式
Chohūng ūnhaeng 朝興銀行 Chohūng Bank
chōkdonghwa 赤銅貨 copper coins
chokuninkan senior government bureaucrats 勅任官
Chōnhwanguk 典園局 Royal Mint
chōsabu 調查部 Research Department
chōsakyoku kachō 調查局課長 research office head
chōsashitsu 調查室 Research Section Department
chōsayaku 調查役 researcher
Chōsen ginkō 朝鮮銀行 Bank of Chōsen
Chōsen ginkō no kako oyobi shōrai 朝鮮銀行ノ過去及ビ將來 The Past and Future of the BOC
Chōsen shokusan ginkō 朝鮮殖產銀行 Chōsen Industrial Bank
Chōsen shokusan ginkōrei 朝鮮殖產銀行令 Chōsen Industrial Bank Law
Chōsen sotokufu gunshoki 朝鮮總督府郡書記 Government-General provincial clerk
Chōsen sōtokufu jimukan 朝鮮總督府事務官 Government-General official
Chōshun shutchōjochō 長春出張所 Changchun office
Chosŏn siksān ūnhaeng 朝鮮殖產銀行 Chōsen Industrial Bank
Chosŏn ūnhaeng 朝鮮銀行 Bank of Chōsen
Chosŏn ūnhaeng 朝鮮銀行 Chosŏn Bank (1896)
DaiChōsenkoku kahei jōrei 大朝鮮國貨幣條例 Korean Currency Ordinance
Daihyaku ginkō 第百銀行 100th Bank

Daihyaku junana kokuritsu ginkō 第一百十七国立銀行 117th National Bank
Daiichi kokuritsu ginkō 第一国立銀行 First National Bank
Daijūgo kokuritsu ginkō 第十五国立銀行 Fifteenth National Bank
Daijūhachi kokuritsu ginkō 第十八国立銀行 Eighteenth National Bank
Dai Kan ginkō 大韓銀行 Korea Bank
Dai Kan ginkō e gyōmu hikitsugu ni kan suru meirei an 大韓銀行へ業務引継ニ関スル命令案
 Order regarding the takeover of business by the Korea Bank
Dai Kan ginkō hōan 大韓銀行法案 Procedures for Korea Bank
Dai Kan ginkō jōrei 大韓銀行条例 Ordinance for the Korea Bank
Dai Kan tenichi ginkō 大韓天一銀行 DaiKan Tenichi Bank
daimyō 大名 feudal lords
Dairen shiten 大連支店 Dalian branch
Dairen shitenchō 大連支店長 Dalian branch manager
dajōkansatsu 太政官札 government notes
 Dalian 大連
dangojōn 當五錢 5-cash coin
dayang “big dollar” banknotes
Dongsansheng guanyinhao 東三省官銀號 Official Bank of the Three Eastern Provinces
Dongsansheng xunyueshi 東三省巡閱使 Inspector-General of the Three Eastern Provinces
Dongsansheng yinhang 東三省銀行 Bank of Manchuria
eigyōbu 營業部 Business Department
eigyōka 營業課 Business Section
eigyōkyoku 營業局 Business Department
 Feng Yu-xiang 馮玉祥 (K. P’ung Ok-sang)
Fengpiao 奉票 Fengtian dollar (K. Pongp’yo)
 Fengtian 奉天 (K. Pongch’ōn)
Fengtian xingye yinhang 奉天興業銀行 Fengtian Industrial Bank
 Fujiadian (Fuchiatien) 傅家甸 area on the Liaoning Peninsula
fuku sōsai 副總裁 (bank) vice-president
 Fukue 福江
 Fuwa Shigekane 不破重兼
Gensan shiten 元山 Wōnsan branch
ginkōkyoku 銀行局 Bank Bureau
haikwan 海關 maritime customs
hakkōka 發行課 Currency Issuance Section
hakkō kachō 發行課長 Currency Issuance Section manager
 Hagiwara Morikazu 萩原守一
 Hamaguchi Kichiemon 浜口吉右衛門
Hamgyōngdo 咸鏡道 Hamgyōng province
Han’guk ūnhaeng 韓国銀行 Bank of Korea
Hanil ūnhaeng 韓一銀行 Hanil Bank

Hanki jissai kōkajō 半期實際考課狀 semi-annual report
Hansōng ūnhaeng 漢城銀行 Hansōng Bank
Hansōng kongdong chamko hoesa 漢城共同倉庫会社 Kanjō Cooperative Warehouse Company
Hansōng ūnhaeng 漢城銀行 Hansōng Bank
 Harbin 哈爾
 Hattori Kintarō 服部金太郎
hayabamai 早場米 early rice
Heijō shiten 平壤支店 Pyōngyang branch
Heijō shitenchō 平壤支店長 Pyōngyang branch manager
 Henmi Susumu 逸見晋
hikikaeru junbi 引換準備 exchange reserves
Hirata jikitatsuten 平田直達店 Hirata delivery store
hishokan 秘書官 secretary
hishoshitsu 秘書室 Secretariat
hishoyaku 秘書役 company secretary
hishoyaku ken chōsayaku 秘書役兼調査役 secretary-researcher
Hitotsubashi daigaku 一橋大学 Hitotsubashi University
 Hoeryōng 會寧 (Ch. Huining, J. Kainei)
hōka daigaku 法科大学 Faculty of Law
Hokkaidō daigaku 北海道大学 Hokkaidō University
Hokkaidō takushoku ginkō 北海道拓殖銀行 Hokkaidō Development Bank
Honam ūnhaeng 湖南銀行 Honam Bank
 Hori Kyūtarō 堀久太郎
Hōshidan shinkō kyōkai 奉仕團信交教会
 Hoshino Tokuji 星野徳治
hoshō junbi 保証準備 guaranteed reserves
Hosō ūnhaeng 湖西銀行 Hosō Bank
hwan 圓
hwangdonghwa 黃銅貨 brass coins
Hwanghaedo 黃海道 Hwanghae province
hwapye chōngni saōp 貨幣整理事業
 Ichihara Morihito 市原盛宏
ichiran harai yakusoku tegata 一覽払約束手形 a sight bill
 Iguchi Tamejirō 井口為二郎
 Iizuka Shigetarō 飯塚茂太郎
 Iizumi Kanta 飯泉幹太
 Ikeda Gorō 池田五郎
 Inch'ōn 仁川
 Inoue Shigehiro 井上重禮
 Ishida Shinichirō 石田信一郎
 Itō Chōjirō 伊藤長次郎

Izuhara 巖原 main port on southeastern coast of Tsushima island
 Jilin 吉林
Jinjibu 人事部 Personnel Bureau
Jinsen shiten 仁川支店 Inch'ŏn branch
Jinsen shitenchō 仁川支店長 Inch'ŏn branch manager
jugoi 従五位 Junior Court Rank Five
kachō section chief 課長
kaekchu 客主 innkeeper
kahei seiri jimu shorihō 貨幣整理事務処理法 Law on Conducting the Currency Reform
kahei seiri jimu toriatsukai ni kan suru meireisho 貨幣整理事務取扱ニ関スル命令書 Orders
 on handling the currency reform
kaigai ginkō 海外銀行 overseas bank
 Kaiyuan 開原
kan 貫
kanekin 金巾 calico
Kanjō ginkō 漢城銀行 Hansōng Bank
Kanjō kyōdō sōko kaisha 漢城共同倉庫会社 Kanjō Cooperative Warehouse Company
Kankoku chūō ginkō setsuritsu ni kan suru hōhō 韓国中央銀行設立ニ関スル方法 Procedures
 for establishing the Korean central bank
Kankoku chūō ginkō setsuritsu ni kan suru hōhō no kōyō 韓国中央銀行設立ニ関スル方法ノ綱
 要 Necessary procedures to establish a Korean central bank
Kankoku chūō ginkō ni kan suru ken 韓国中央銀行ニ関スル件 In regards to the Korean central
 bank
Kankoku chūō kinyū kikan setchi an 韓国中央金融機関設置案 Plan for the establishment of a
 Korean central financial institution
Kankoku ginkō 韓国銀行 Bank of Korea
Kankoku ginkō kanrikan shomu kitei 韓国銀行監理官処務規程 Regulations on Supervision
 Duties and Affairs for the Bank of Korea
 Kanō Tokusaburō 嘉納徳三郎
kanreisha 寒冷紗 cheesecloth
Kantō daishinsai 関東大震災 Kantō Earthquake
kashisage gansho 貸下願書 application for financial assistance
 Keibu (Keijō-Pusan) Railroad Company [J. *Keibu tetsudō kaisha*, K. *Kyōngbu chōldo hoesa*] 京
 釜鉄道会社
 Keijō 京城 Seoul
 Keio University 慶應義塾大学
keisanka 計算課 Accounting Section
kensabu 検査部 Inspection Department
kensayaku 検査役 bank examiner
 Kim Chong-han 金宗漢
 Kirin 吉林
kinkei no mashikō “working among Golden Pheasants” 錦鶏の間祇候

kinyū kumiai 金融組合 financial cooperative
Kōbe kōtō shōgyō gakkō 神戸高等商業学校 Kōbe Higher Commercial School
Koga ginkō 古賀銀行 Koga Bank
kokkateki shimei 国家的使命 national mission
kokkoka 国庫課 Treasury Section
Kokkokin toriatsukai ni kan suru meireisho 国庫金取扱ニ関スル命令書 Orders on handling
treasury money
kokkokyoku 国庫局 Treasury Department
kubon shinch'am 舊本新參 old principles, new participation
kūmyung chohap 金融組合 financial cooperative
Kunyontō 勲四等 Fourth order of merit
Kuroiwa Kunitarō 黒岩邦太郎
Kwangt'onggyo 廣通橋 Kwangt'ong Bridge
Kwantung Army 關東軍
Kwantung Leased Territory 關東州
Kwōn Chae-hyōng 權在衡
kyōl 結 six-grade measure of land productivity based on productivity rather than size
Kyōngniwōn 經理院 Finance Department of the Imperial Household
Kyōngsōng 京城 Seoul
Kyōto teikoku daigaku hōka daigaku 京都帝国大学法科大学 Faculty of Law at Kyōto Imperial
Longjingzun [J. Ryūseimura, K. Yongjōngch'on] 龍井村
Liang Shi-yi 梁士詒 (K. Yang Sa-i)
Liaoyang 遼陽 (K. Yoyang)
Longjingzun 龍井村
Lūshun (Port Arthur) 旅順 (K. Yōsun, J. Ryojun)
Manshū chūō ginkō 滿州中央銀行 Manchurian Central Bank
Manshū kōgyō ginkō 滿州興行銀行 Manchurian Industrial Bank
Mantetsu 滿鉄 South Manchurian Railway Company
Manzouli 滿洲里 (K. Manjuri)
Matsubara Junichi 松原純一
Matsuda Eizō 松田英三
Matsuda Gengorō 松田源五郎
Matsuda Katsugorō 松田勝五郎
Matsuda Shōzaburō 松田庄三郎
Matsuzaki Hikoichi 松崎彦一
Megata Tanetarō 目賀田種太郎
minjok ūnhaeng 民族銀行 national bank
Minobe Shunkichi 美濃部俊吉
Min Kyu-sik 閔圭植
Min Pyōng-do 閔丙燾
Min Tae-sik 閔大植

Min Yōng-hui 閔泳徽
 Min Yōng-hwan 閔永煥
 Minami Jirō 南次郎
Minami Manshū tetsudō kabushiki kaisha 南滿州鐵道株式会社 South Manchurian Railway
 Mishima Tarō 三島太郎
 Mizukoshi Ryō 水越理庸
 Mizuma Mitsugu 水間美繼
 Mizumachi Kesaroku 水町袈裟六
mon 文
monme 匁
 Morihira Masukazu 森平正一
 Mukden 奉天
 Nagami Denzaburō 永見伝三郎
 Nagami Kanji 永見寛二
 Nagami Kanzō 永見寛三
 Nagami Tokujūrō 永見得十郎
 Nagasaki 長崎
Nihon ginkō 日本銀行 Bank of Japan
Nihon ginkō shiten setchi no hōhō 日本銀行支店設置ノ方法 Procedures to establish a branch
 of the Bank of Japan
Nihon hōritsu gakkō 日本法律学校 Japan Law School
Nihon kinkoka 日本金庫課 Japanese Treasury Section
nikawase 荷為替 exchange bills
Nippon kōgyō ginkō 日本工業銀行 Industrial Bank of Japan
nishin shimekasu 鯁搾粕 herring meal
 Niuzhuang (Newchwang) 牛庄 (K. Ujang)
Nōkō ginkō 農工銀行 Agricultural and Industrial Banks
 Nonaka Kiyoshi 野中清
Nōshōmushō 農商務省 Ministry of Agriculture and Commerce
Nōshōmu daijin 農商務省大臣 Minister of Agriculture and Commerce
Nyuton daigaku ニュートン大学 Newton College
oehoek tax forwarding
ōhuku nikawase 往復荷為替“round-trip” exchange bills
Ōkurashō 大藏省 Japanese Ministry of Finance
Ōkurashō rizaikyoku 大藏省理財局 Finance Department of the Ministry of Finance
 Ōta Saburo 大田三郎
ōm personal contract note
paekdonghwa 白銅貨 nickel coins
 Paek In-gi 白寅基
Pao-ching an-min “safeguarding the territory and keeping the people in peace”
 Pusan 釜山
Pusan shiten 釜山支店 Pusan branch

P'yōngyang 平壤
Pyōngsikwōn 平式院 Korean government agency in charge of weights and measures
 Qingdao 青島 (K. Ch'ōngdo)
 Qiqihar 齊齊哈爾 (K. Chejehabi)
rizaikyoku 理財局 Finance Bureau
 Ranan [K. Ranam] 羅南
 Reform party 開化派
 Ryūseimura [Ch. Longjingzun, K. Yongjōngch'on] 龍井村
sangp'yōng t'ongbo 賞平通寶 Ever-Normal Circulating Treasure
sanjikan 参事官 counselor
Sapporo nōgakkō 札幌農学校 Sapporo Agricultural School
 Sasaki Yūnosuke 佐々木勇之助
 Sasuna 佐須奈 port near northern tip of Tsushima island
Senbaikyoku 專賣局 the government monopoly of tobacco, salt, camphor, and alcohol
Sengin 鮮銀 Bank of Chōsen (short form)
 Shanghai 上海
 Shenyang 沈阳 (K. Ch'imyang) Mukden
 Shibusawa Eiichi 渋沢栄一
 Shibuya Reiji 澁谷禮治
 Shidehara Kijūrō 幣原喜重郎
shihainin dairi 支配人代理 acting manager
shihonka 資本家 capitalist
shinsai tegata 震災手形 earthquake bills
shinsakan 審査官 inspector
 Shishimi 鹿見 port on northwestern coast of Tsushima island
shiten 支店 branch
shitenbu 支店部 Branch Department
shitenchō 支店長 branch manager
shiten shihaijin 支店支配人 branch manager
shiten tantōsha 支店担当者 branch manager
shizeikan 司税官 tax collector
 Shōda Kazue 勝田主計
shōkai Hattori tokeiten 商会服部時計店 Hattori Clock Store
shokikan 書記官 secretary
shomukyoku 庶務局 General Affairs Department
shōrokui 正六位 Senior court rank six
Shōwa kinyū kyōkō 昭和金融恐慌 Shōwa Financial Crisis
shutchōjo 出張所 office
Sinsik hwapye palhaeng paljōng 新式貨幣發行章程 Regulations on the Issue of New Currency
 Siping (Szuping) 四平
sōgō shōsha 総合商社 general trading firm

Sōkō kashū bijinesu karejji 桑港加州ビジネスカレッジ San Francisco Business College
sōmubu 総務部 General Affairs Department
sōmu buchō 総務部長 General Affairs Department manager
sōmuka 総務課 Miscellaneous Affairs section
 Song Zhe-yuan 宋哲元
sōsai 総裁 president
suitōka 出納課 Fiscal Affairs Section
suitōkyoku 出納局 Fiscal Affairs Department
 Taegu 大邱
Taehan ch'ōnil ūnhaeng 大韓天一銀行 DaiKan Tenichi Bank
Taehan ūnhaeng 大韓銀行 Korea Bank
Taikyū shitenchō 大邱支店長 Taegu branch
Taiwan ginkō 台湾銀行 Bank of Taiwan
Taiwan sōtokufu minseikyoku 台湾総督府民政局 Taiwan Government-General civil government section
 Takami Wahei 高見和平
T'akjibu 度支部 Korean Ministry of Finance
Takchibu samugwan 度支部事務官 Korean Ministry of Finance official
Takushibu rizaika 度支部 理財課 Finance Section in the Ministry of Finance
Takushibu jimukan 度支部事務官 Korean Ministry of Finance official
 Tanaka Giichi 田中儀一
 Tanaka Tetsusaburō 田中鉄三郎
 Taonan 洮南
tawaramono 俵物 straw bag goods
Tennō ni chokurei 天皇に勅令 direct supervision of the emperor
Tetsudōin 鉄道院 Ministry of Railroads
 Tieling 鐵嶺
Tochigi kenritsu nōgakko 栃木県立農学校 Tochigi Prefectural Agricultural School
Tōkan 統監 Resident-General
Tōkanfu 統監府 Residency-General
tokeigyō shinsatsu 時計業視察 Clock Industry Observer Mission
tokeishō 時計商 clock business
tokkyōkyoku 特許局 Patent Office
Tōkyō chōzō ginkō 東京貯蔵銀行 Tokyo Trust Bank
Tōkyō kōtō shōgyō gakkō 東京高等商業学校 Tokyo Higher Commercial School
Tōkyō teikoku daigaku 東京帝國大学 Tokyo Imperial University
Tōkyō shiten 東京支店 Tokyo branch
Tōkyō shitenchō 東京支店長 Tokyo branch manager
Tōkyō shōgyō kaigisho 東京商業会議所議員 Tokyo Chamber of Commerce
Tongil ūnhaeng 東一銀行 Tongil Bank
torihikijō 取引所 exchange

Tsuruno Shirō 鶴野四郎
Ugaki Kazushige 宇垣一成
Wang Yong-jiang 王永江
Waseda daigaku 早稻田大学 Waseda University
Wōnsan 元山
xiaoyang “small dollar” banknotes
Yamaguchi kōtō shōgyō gakkō 山口高等商業学校 Yamaguchi Higher Commercial School
Yamaguchi daigaku 山口大学 Yamaguchi University
Yi Ch’ae-yōn 李采淵
Yi Kūn-bae 李根培
Yi Sūng-ōp 李承業
Yi To-jae 李道宰
Yi Wan-yong 李完用
Yingkou (Yingkow) 營口
yōgak 旅閣
yokinbu 預金部 Deposit Bureau of the Ministry of Finance
Yokohama Morio 橫濱守雄
Yokohama senkyo kabushiki kaisha 橫濱船渠株式会社 Yokohama Dock Company
Yokohama shōkin ginkō 橫濱正金銀行 Yokohama Specie Bank
Yongjōngch’on (Longjingzun) 龍井村
Yoshida Setsutarō 吉田節太郎
Yoshida Shigeru 吉田茂
yūka shōken 有價証券 securities
Yun Kyu-sōp 尹奎燮
zaisei komon 財政顧問 financial advisor to the Korean government
zeikanchō 税関長 Customs Office chief
zeikan kanshikan 税関監視官 customs inspector
zeimu kantokukyoku jimukan 税務監督局事務官 Official in Tax Supervisory Agency
Zhang Xue-liang 張學良
Zhang Zuo-lin 張作霖
Zhengjiatun(Chengchiatun) 鄭家屯 (K. Chōnggadun)
Zhili (Chihli) 直隸 (K. Chingnye)

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