'As Close as Lips and Teeth' The Daiichi Ginkō and Megata Tanetarō in Korea

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I.

It is by now established knowledge that Japanese interventionist policies versus Korea cannot have been motivated by economic profits. Literature in this respect instead points to socio-political, perhaps military explanations of this instant of Japanese imperialism. Whereas this insight is certainly more satisfying, it does not pay attention to the role of a series of monetary and financial reforms both the Japanese government and the Government-General in Korea sought to implement immediately after the peninsula had been turned into a protectorate. If these reforms were insignificant, why were they pushed through with such vigour, intensity, and the allocation of so much resources? Why had financial and monetary matters figured so prominently in the agreement pertaining to the creation of the protectorate? And why did the monetary advisers painstakingly document the progress of reform and corollary surveys of the country's developmental potential?

In this chapter, we will turn to the pre-history of Korea's annexation, and we will reiterate the importance of considerations of Japan's national security. We will, however, also highlight a number of inconsistencies at the core of Japanese policies vis-à-vis Korea. These inconsistencies, or paradoxes, lead to the demonstration that Japan's aspirations to achieve the status of a Western power in its dealing with its immediate neighbor was ultimately self-defeating. Especially financial and economic considerations, indeed the very alliance between politicians and people of high finance, eroded the very strategy of establishing Korea as its 'line of interest'. In the immediate aftermath of the Russo-Japanese War (1904-05), the tide seems to reverse to the Japanese advantage. However, the enormous burden of foreign loans and the consequent tight monetary market pushes Korea to the forefront of the growing ideology of national mobilization, and the desire for economic autarky: an attempt to integrate political and economic objectives. Although this was impossible to be realized on the Japanese mainland (in view of the latter's social and

political diversity), Korea's thoroughly militarized government aggressively realized its agenda. Korea thus became an experiment with mass mobilization which would charaterize Japan only in the 1930s. Finance and monetary matters were a major instrument in facilitating Korea's societal transformation. We will demonstrate how the 'Megata reform', as it came to be called, factually turned Korea into a subsidiary of the Japanese economy. It was a tool aimed to relegate the position of Korea in the Japanese *Lebensraum* —to which later generations of politicians would refer as the Greater East-Asian Co-Prosperity Sphere (*dai tōa kyōeiken* 大東亜共栄圏). The Megata reform was thus not an economic answer to an economic problem in the conventional sense. Instead, it was developed in reaction to a strategic need.

II.

There exists a certain prehistory to Japanese encroachments on the peninsula. Around 1592-1598, or a few years before the establishment of nationwide bakufu rule, then *kanpaku*[1] 関白 or 'regent' Toyotomi Hideyoshi 豊臣秀吉 masterminded two invasions of Korea as part of his plan to conquer Ming China.[2] His vision proved shortlived. Both the distance from the theater of combat and overly ambitious war planning resulted in heavy casualties among Japanese forces. In the end, military operations on sea and on land were disastrous. Decisively defeated by Korean troops at the battle of the Noryang Strait (1598), the Japanese withdrew. Their withdrawal marked a shift from expansionism that would last for centuries. In 1600, two years after Hideyoshi's death, Tokugawa Ieyasu 徳川家康 gained control of Japan and established his *Pax Iaponica*; for more than two hundred years, almost all diplomatic and commercial relations between Korea and Japan were suspended.[3]

Japan's *kaikoku* put Korea once more on Japan's political agenda. First and foremost, Japan's reformers had decisively chosen to emulate the Western imperialist example very carefully. Only a few short years after it signed the so-called unequal treaties with the Western powers (1866), it

[1] *Kanpaku* was the name of the chief advisor to an emperor. It was distinguished from *sesshō* 摂政, which designated the role of assistant to a child emperor or empress. Together they were referred to as *sekkan* 摂関. In reality, however, there existed little if any difference between these titles, and several individuals merely changed titles as child emperors grew to adulthood.

[2] For a detailed account of events, see: Samuel Hawley, *The Imjin War* (Berkeley, 2005); Stephen Turnbull, *Samurai Invasion: Japan's Korean War 1592–98*. (London, 2002).

[3] Yamagata I., 'Japanese-Korean Relations after the Japanese Invasion of Korean in the XVIth Century', *Transactions of the Korean Branch of the Royal Asiatic Society*, 1913.

tapped into the discourse of the recently developed and Western led framework of 'international law'[4] and sought to apply its principles through the conclusion of a similar unequal treaty with China. China, in the person of Li Hongzhang 李鴻章, forcefully rejected Japanese demands, but the event marked a sharp break with the mores of Sinocentrist Asian order. Apparently, Japan was prepared to dismiss that constituency, dissociate from other Asian nations and treat them in the same way that the Western powers treated them.[5]

Geopolitical dynamics in the second half of the nineteenth century reinforced Japanese confidence in engaging Sinocentrism. Such tensions did not find their origins in the networks of intra-Asian relations, however; they were fueled by the incompatibility of these relations with the vocabulary of Western imperialist modernity. Attracted by its seemingly endless resources and its fabulous potential as a new market, the European powers had turned China into a battleground for territorial gain, mercantile concessions, mining rights, and investment opportunity. The Opium and Arrow Wars (resp. 1840-42 and 1856-58) had dealt severe blows to Chinese sovereignty and prestige. The treaties ending these wars shaped the institutions and imperialist protocols for decades to come. Especially after 1850, China's vast borderlands seemed like rapidly falling domino stones. Great-Britain received Hongkong in 1842; French advances into Saigon, Cambodia, and later Tongking triggered hostilities with China across China's border with the latter; the eastward movement of Russia's political authority precipitated a conflict over the Ili valley in 1871. In the north, Russia had been closing in as well. With China distracted by the challenges of the Arrow War, Russian negotiators established a claim to former Chinese territories north of the Amur river

[4] For a contemporary critical assessment of Western values, notions of international law and free trade, see: Kenneth Pyle, *Japan Rising: The Resurgence of Japanese Power And Purpose* (New York, 2007), pp.69ff. For a description of the mercantilist view that notion of free trade was no more than self-serving semantics of the imperialist victors, see Mark Metzler: 'The Cosmopolitanism of National Economics: Friedrich List in a Japanese Mirror,' pp. ??????-????? in A. G. Hopkins (ed.), *Global History: Interactions between the Universal and the Local* (Palgrave-Macmillan, 2006). Compare, for an assessment of international law from a Japanese perspective at the time, the diary of Kido Kōin (Kido Takahashi) 木戸孝允: 'One cannot depend on international law without having a well-prepared military force. Many countries use the cloak of international law to seek their own interest in dealing with weaker nations. This is one of the reasons that I call international law a mere tool for depriving a weak nation of its rights.' Sidney Devere Brown and Akiko Hirota.(transl.), *Diary of Kido Takayoshi 1868-1871* (Tokyo, 1983), p. 148 ('21 December 1868'); also quoted in Masao Miyoshi, *As We Saw Them: The First Japanese Embassy to the United States (1860)* (Berkeley, 1979), p. 143.

[5] With a clear hint to the anti-Asianist doctrines later spelled out by Fukuzawa Yukichi, see esp. Ch. ????, pp. ??????)?

黒竜江 and east of the Assuri ウスリ江, and secured navigation rights for both.[6]

One obvious consequence of these events was the contraction of Chinese borders. This in itself was worrying enough. But on a more profound level, the very fact that China would have to reckon with the notion of boundaries *at all* effectively erased the rationale of the whole China-centered East-Asian system. In order to understand this, it is sufficient to consider these developments against the background of China's age-old role of cultural and political attractor in East-Asia. From the very outset, its foreign relations had been defined not so much on the basis of territorial boundaries fixed by treaties and legal arrangements —as these came to be enforced on a global scale in the nineteenth century— but founded on the distinction between center and periphery,[7] defined in the broad terms of cultural unity (in terms of Confucian values, the use of the Chinese script...). The latter was incarnated in and regulated by tributary relationships with its immediate and less immediate neighbors. By means of tribute, the latter affirmed their subordinate status vis-à-vis the Chinese emperor; in exchange, the emperor conferred upon his vassals certain ranks and titles, and sent them gifts as signs of his benevolence. Better still, he gave them rights to trade, which were especially valuable. In short, rulers of neighboring states received various privileges and they even escaped interference in internal affairs ...on the condition of recognizing the emperor's authority.

Imperialism demanded the abrupt abolition of this irredentist politico-cultural institution. The maritime powers denounced Chinese attempts to impose elements of the tributary system upon their diplomats and merchants with profound indignation. Therefore, the treaties ending the wars with China typically included provisions of extraterritoriality (*ryōjisaibanken* 領事裁判権), guaranteeing that Western subjects would be treated according to their own countries' law as administered through their countries' consular offices.[8] And the same treaties stipulated equality, de facto the subordination of China to the superimposed structure and institutions of modernity and imperialism.

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[6] For references on China's encounter with Western imperialism: Douglas Hurd, *The Arrow War: An Anglo-Chinese Confusion*. John Selby, *The Paper Dragon: An Account of the China Wars, 1840-1900*; J. Y. Wong, *Deadly Dreams: Opium, Imperialism, and the Arrow War (1856-1860) in China*; Henri Cordier, *Histoire des Relations de la Chine avec les Puissances Occidentales*. I. (1860-1875), II. (1875-1887) (Paris, 1901/02).

[7] For a discussion of center-periphery as a principle of societal differentiation, see: Niklas Luhmann, *Die Gesellschaft der Gesellschaft* (Frankfurt am Main, 1997), pp. ?????-?????.

[8] Charles Denby, 'Extraterritoriality in China', *The American Journal of International Law*, Vol. 18, No. 4. (Oct., 1924), pp. 667-675.

III.

One country, however, was remarkably aloof from the voracious new imperialist world order: Korea. The 'Hermit Nation',[9] as it came to be called, remained firmly embedded in the pre-imperialist Sinocentric system, and continued to send tributary envoys even after gunboat diplomacy had drawn China forcefully into signing unequal treaties. Interestingly, it was not a Western country but Japan that would end this politico-cultural isolation and 'improve its conditions', as one British commentator phrased it at the time.[10] Japan did so, as said, as part of a remarkable effort to join the ranks of the 'Western barbarians' that had subdued them; and such required the emulation of Western practice, as there were the vocabulary and institutions of the nation state, industrialization, and, not unimportantly, the acquisition of (semi-)colonies.[11] As a matter of fact, the early disputes between Japan and Korea concerned the very question whether Korea would chose to stay with the old ways, or adopt the modern customs of the Western conquerors. The fall of the Tokugawa provided the litmus test. Japan's reformers had been consistent in announcing political changes that had taken place right after 1868, and employed a terminology that was void of references to China's role in the new order. Korea, for its part, rejected the Japanese announcement, for it would imply recognizing the Chinese and Japanese emperors equal; and this, in turn, would imply the marriage of the difficult and possibly irreconcilable positions of being the underdog in two different political systems.

Japan originally declared the latter's refusal to recognize the legitimacy of the Meiji emperor as head of state of the Japanese empire as *casus belli* (1873). The ensuing debate came known as the *seikanron* 征韓論 (literally: 'punish Korea-debate'), and centered around the question whether Korea should be penalized for its 'insulting behavior'.[12] In many ways, it could be regarded as a case study for those who perceive the origins of imperialism in domestic conflicts, and efforts to divert

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[9] After: Rev. Elliott Griffith, *Corea, the Hermit Nation* (New York, 1882); idem, 'Corea, the Hermit Nation,' pp. 125-132 in *Journal of the American Geographical Society of New York*, Vol. 13. (1881).

[10] Edwin Maxey. 'The Reconstruction of Korea.' *Political Science Quarterly*, *25*(4) (1910), pp. 673-687.

[11] For some very thorough Western accounts of Japanese efforts to bring Korea within its sphere of influence, see: Peter Duus, *The Abacus and the Sword: The Japanese Penetration of Korea, 1895-1910* (Berkeley, 1995); Hilary Conroy, *The Japanese Seizure of Korea, 1868-1910; a Study of Realism and Idealism in International Relations* (Philadelphia, 1960).

[12] For a good and detailed overview of domestic events during the time of the 1873 Korea crisis, see: Marlene J. Mayo, 'The Korean Crisis of 1873 and Early Meiji Foreign Policy'. *The Journal of Asian Studies*, Vol. 31, No. 4. (Aug., 1972), pp. 793-819.

attention from these by means of conquest of foreign territory.[13] Indeed, it is true that this debate exposed certain schisms among the Meiji modernizers; and, in effect, it even estranged several leading figures from the reform movement.[14] Yet, differences should not be overstated. There probably existed great of unanimity at the time about Korea's eventual position in the world of Japanese making. Tensions concerned the tactical question of *when* Japan was to intervene in Korean affairs —still in the process of reforming its own institutions, a foreign expedition would have compromised Japan's modernization, as also several Meiji leaders reckoned. In 1873, military action thus did thus not materialize;[15] yet, the debate set the parameters for diplomatic and military pressure to force Korea to move out of China's sphere of influence into its own.

As a first step, Japan resorted to some sort of gunboat diplomacy, in order to extort the Korean government and have it conclude the Kanghwa treaty 江華島条約 (1876).[16] This Japanese-Korean Friendship Treaty (日朝修好条規 *nicchō-shūkōjōki*), as it otherwise came known, officially recognized Korea's independence. Completely in line with the objectives of the unequal treaties forced upon Japan, however, it was designed to open up two Korean ports other than Pusan 釜山 for trade (Wonsan 元山 and Inchon 仁川);[17] it furthermore permitted the continuation of Japanese coastal surveys (which had been the source of hostilities in the first place); and it granted Japanese subjects the right of extraterritoriality and other rights that had been regarded as a defiance of 'national dignity' at home. From the Japanese perspective, its conclusion must have marked a radically new beginning for Japan-Korea relations. It ended the ceremonial exchanges through the

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[13] See, for instance: Hans-Ulrich Wehler, 'Industrial Growth and Early German Imperialism', in Roger Owen and R.B. Sutcliffe, *Studies in the Theory of Imperialism* (London, 1972), pp. 72-90.

[14] It caused, most prominently, the 'last samurai' Saigō Takamori 西郷隆盛 to turn away from the restoration movement and eventually launch a rebellion, which was forcefully repressed. See: Mark Ravina, *The Last Samurai: The Life and Battles of Saigo Takamori* (Hoboken, New Jersey, 2004)

[15] For a detailed overview of the debate, Hilary Conroy remains an important reference: Hilary Conroy, 'Chosen Mondai: The Korean Problem in Meiji Japan'. *Proceedings of the American Philosophical Society* 100, no. 5 (Oct 15, 1956), pp. 443-454; idem, *The Japanese Seizure of Korea, 1868-1910; a Study of Realism and Idealism in International Relations* (Philadelphia 1960); for a more recent discussion, see: Andre Schmid, 'Colonialism and the Korea Problem in the Historiography of Modern Japan —A Review Article'. *The Journal of Asian Studies* 59: 4 (2000), pp. 951-976.

[16] The Japanese military probably stage-managed an incident by sending a gunboat, the *Unyō* 雲揚, into Korean waters; Korean batteries at Kangwha island opened fire, but were silenced by the Unyo's responding cannons. Later, the military sent a fleet led by Special Envoy Kuroda Kiyotaka, demanding an apology from the Joseon government and an intercommerce treaty between the two nations.

[17] Martina Deuchler, *Confucian Gentlemen and Barbarian Envoys: The Opening of Korea, 1875-1885* (Seattle & London, 1977).

Sō 宗 family on Tsushima 対馬 and, instead, stipulated intercourses between the two nations on the basis of the 'law of nations'. Although the treaty did not mention tariffs or other trade regulations, it clearly was an unequal treaty nevertheless.

If Japan's intentions would not have been clear from this first agreement, the supplementary treaty 条規付録 and trade regulations 貿易規則 negotiated throughout the summer of 1876 left no room for doubt. In many ways, these were worse than what Japan had suffered when it fell victim to Western gunboat diplomacy.[18] First of all, Japanese nationals were exempted from all tariffs on imports and exports; second, Japan agreed not to impose levies on any products coming from or going to Korea. And most important for the discussion here, Korean merchants were from now on to accept Japanese currency in exchange for their products at face value; or, in other words, the exchange of Japanese yen and Korean copper coins was regulated on the basis of pure equality of type and weight (同種同量交換).[19] Without tariffs, however modest, and without even a premium for converting Japanese currency into Korean currency, Japanese merchants now had a considerable advantage over their foreign counterparts —a prime example of 'free market imperialism'. And especially after the establishment of a branch of Shibusawa Eiichi's *First National Bank* 第一国立銀行 in Pusan (1878), it gave Japan a powerful instrument for gaining more influence on the peninsula. It assisted policy makers among others in the in the establishment of a Korean pro-Japan faction, if only by making clear beyond ambiguity that Japan had some real interests on the peninsula. The yen had set its first footsteps on the Asian continent; now it was to be seen whether it could consolidate that position, and be powerful a tool enough to gain Japan political leverage.

As an almost natural consequence, such intervention in Korean affairs had to trigger conflicts of interest with Korea's larger neighbor. China set out on a series of efforts to neutralize Japanese influence by turning their tactics against themselves.[20] Korea concluded commercial treaties with other 'barbarian' nations: with the United States, Britain and Germany in 1882. Later, similar rights were extended to Italy, Russia and France. Sino-Japanese rivalry briefly reached a zenith in 1884, when a failed *coup d'état* by the Korean pro-Japan faction brought their armies face-

[18] Duus, *The Abacus and the Sword*, p. 48.

[19] The original text of this stipulation goes as follows: 日本國人民、日本國ノ諸貨幣ヲ以テ朝鮮國人民ノ所有物ト交換シ得ヘシ。又朝鮮國人民ハ交換シ買得タル日本國ノ諸貨幣ヲ以テ、日本國ノ諸貨物ヲ買入ル爲メ、 朝鮮國指定ノ諸港ニテハ人民相互ニ通用スルヲ得ヘシ。日本國人民ハ朝鮮國銅貨幣ヲ使用運輸スルヲ得ヘシ。兩國人民私ニ錢貨ヲ鑄造スル者アレハ各其國ノ法律ニ照シテ處斷スヘシ. See, for the original: www.jacar.go.jp, reference code: B06150027600.

[20] Mary C. Wright, 'The Adaptability of Ch'ing Diplomacy: The Case of Korea,' *The Journal of Asian Studies* 17:3 (May 1958), pp. 363-381.

to-face of each other. But again, fighting was warded off; in Tianjin, Li Hongzhang and Itō Hirobumi agreed to withdraw their troops and refrain from seeking further intervention in Korea, for instance through dispatching military advisors.[21]

IV.

Although much could be made of the impact and scale of these contentions, the reader must be aware of the profoundly pro-imperialist climate of the era. Nobody perceived any harm in meddling in Korean affairs. As a matter of fact, Charles LeGendre, an American adviser to the Ministry of Foreign Affairs had even encouraged the Japanese to move on to Korea, after they had withdrawn their troops from Taiwan in 1874 —a punitive expedition for the slaughtering of fifty-four Ryūkyū Islands fishermen by Taiwanese aboriginals in 1872.[22] Until the end of the Sino-Japanese War of 1894-95, Japanese actions can even hardly be said to carry the hallmarks of a proactive expansionism. For one, this had to do with the awe in which the Japanese (and Chinese) side held Western military might. Fearing that unrest on the Asian mainland would be used by the powers as a pretext for military intervention, both Japanese and Chinese leaders were extremely careful to contain the 'Korea problem' (*chōsen mondai* 朝鮮問題).

But there were other, deeper reasons for Japan's actions which were characterized by a remarkable mix self-constraint and expansionist nervousness. Drawing on research about what

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[21] This treaty should not be confused with the 1858 Treaty of Tianjin that ended the 1st Opium War. On Korea's difficult position in between China and Japan and, for that sake, between the discourses of tradition and modernity, see: Andre Schmid, *Korea Between Empires, 1895-1919* (New York, 2002).

[22] Wayne C. McWilliams, 'East Meets East. The Soejima Mission to China, 1873'. *Monumenta Nipponica* 30:3 (Autumn 1975), pp. 237-275; Edwin Pah-Wah Leung, 'The Quasi-War in East Asia: Japan's Expedition to Taiwan and the Ryūkyū Controversy'. *Modern Asian Studies* 17:2 (1983), pp. 257-281. Conroy, *The Japanese Seizure of Korea*, pp. 37ff.; see as well: Ernst L. Presseisen, 'Roots of Japanese Imperialism: A Memorandum of Charles LeGendre', *The Journal of Modern History* 29:2 (June 1957), pp. 108-111; LeGendre's memorandum was given attention by then German Minister in Tokyo, Theodor von Holleben. On Korea, LeGendre's views are as follows: 'If [Korea] cannot be annexed to Japan, it should be fortified against outside encroachments by the introduction of modern political organization and means of defense. In that superior state, while Corea [sic.] never be able to effect anything against Japan, it would cease to invite foreign intervention or, what would be worse, annexation, and could serve as a barrier to Japan against attacks from the outside'. Presseisen, 'Roots of Japanese Imperialism', p. 111. For a Japanese source, see: Yoshino Sakuzō 吉野作蔵, 日本外交の恩人将軍 Legendre *nihon gaikō no onjin shōgun LeGendre* (LeGendre, Benefactor of Japanese Diplomacy), 明治文化研究 *Meiji bunka kenkyū* (July, August 1972).

could be called the sociopsychology of imperialism in the late nineteenth century, Peter Duus has indicated that Japanese attitudes towards Korea were characterized by 'strategic anxiety'.[23] The Meiji elite showed itself on numerous occasions highly pessimistic about the course of world events, and extremely skeptical about the values of liberty assumedly embodied in free trade and international law. Such pessimism did not exist of gloomy fantasies. Having grown up with the experience of 'black ships' and unequal treaties, reformers were profoundly aware of the tightening grip of the Western powers on China, the latter's imminent break-up —something that had been inconceivable until ten years before that—and the threat that posed to Japanese security. They saw the world and time in which they lived as Hobbes's Leviathan, and understandably viewed the discourses of equality and liberty as contingent constructions covering up that grim reality. Their reactions were furthermore very similar to many impulses that underlay European policies at the time.[24] In more than one way, imperialism was a self-propelling force, fed by the prospect of zero-sum. If country A would enhance its strategic position in a world with ever scarcer possibilities for expansion, it would do so at the expense of countries B and C. It would thus be in the interest of B and C for preempting A's action and expand first, with the sole aim of keeping out rivals whose expansion would pose a threat to national security, even if such threat was speculative or even farfetched.

This calculus of expecting the worst explains, among others, why the lines of communication of several nineteenth century empires were so thinly stretched. But it also reveals that the frontiers of one's empire were as much frontiers of trade and power as 'frontiers of fear'.[25] It is in this context that one should see Jacob Meckel's description of Korea as a 'dagger thrust at the heart of Japan'.[26] In the eyes of many an observer at the time, Korea was the linchpin for Japan's security; it was the one country that made the difference between Japan's survival or peril. Yamagata Aritomo 山縣有朋 put it eloquently in his famous memorial on foreign policy, published in the 1890s. Although it has been widely referred to when explaining the motives behind

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[23] Peter Duus, *The Abacus and the Sword: The Japanese Penetration of Korea*, 1895-1910 (Berkeley / Los Angeles / London), pp. 15ff. Duus refers more particularly to an article by John Gallagher and Ronald Robinson about the frantic partition of Africa. John Gallagher & Ronald Robertson, 'The Partition of Africa' in J.P.T. Bury (ed.), *New Cambridge Modern History* 11, pp. 615-617.

[24] In this respect, Duus eloquently quotes Henry Kissinger's saying that even paranoiacs have enemies. Duus, *The Abacus and the Sword*, p. 16.

[25] After John Gallagher & Ronald Robertson, 'The Partition of Africa', p. 615.

[26] For a biography of Major Meckel, see: Georg Kerst: *Jacob Meckel: sein Leben, sein Wirken in Deutschland und Japan* (Göttingen, 1970); the citation is quoted in Ramon Hawley Myers & Mark R. Peattie (eds.), *The Japanese Colonial Empire, 1895-1945* (Princeton, NJ, 1984), p. 15.

Japan's expansionist drive, it merits reproduction in view of the clarity and conciseness of its argument:

> There are two ways to secure national independence and defense. The first is to protect the line of sovereignty [主権線]. The second is to protect the line of interest [利益線]. The line of sovereignty means the nation's border and the line of interest includes the area closely related to the safety of the line of sovereignty. There is no country that does not try to defend both lines. Under the present circumstance, to maintain our independence and stand against the Western powers, defending the line of sovereignty is not enough. We need to protect our line of interest as well.[27]

Korea, he said, was a country within the cordon of interest, but was experiencing several dangerous brushes with losing its independence. In the very soon future, the European Powers would be an even more powerful threat to reckon with, especially once the trans-Siberian railway would be completed; a Chinese military and navel build-up, possibly coupled with alliances with the Western powers would pose enormous challenges to the independence of the Korean peninsula as well. In the final analysis, Yamagata leaves no room for doubt: should Korea's fall occur, Japan's cordon of sovereignty too would come under enormous strain.

I am inclined to see strong connections between Japan's aforementioned strategic anxiety and its stress on Korea's independence. For the larger part, existing scholarship has badly defined the function and importance of the latter, more often than not viewing it as lip service, a calculated and instrumentalist matter. Especially Korean historians have stressed the cynicism of the Japanese government towards the rhetorics of a country's sovereignty, and have accused the Meiji leaders of indifference versus the needs of the Korean populace and its desire to achieve true independence and progress.[28] The memorandum of LeGendre (cf. Footnote 22 ???), however, tends to give more credibility to the intentions of the Meiji leaders. So does Peter Duus, probably following Hilary Conroy, when pointing out that the 'Japanese insistence on reform was too persistent, and in execution often too politically inept' to support other interpretations.[29] It is far from my intention to

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[27] The fulltext version can be found in: ?????????. For other documents pertaining to Yamagata, see: Shōyū Kurabu Yamagata Aritomo Kankei Bunsho Hensan Iinkai 尚友倶楽部山縣有朋関係文書編纂委員会, 山縣有朋関係文書 *Yamagata Aritomo kankei bunsho* (documents related to Yamagata Aritomo) (Tokyo, 2004-06).

[28] For a typical example, see: Lee, Ki-Baik. 1985. *A New History of Korea*. (Cambridge, MC, 1985); Seung, Kwon Synn. 1981. *The Russo-Japanese Rivalry Over Korea, 1876-1904*. (Seoul, 1981).

[29] Duus, *The Abacus and the Sword*, p. 71; compare pp. 51 ff. This account includes references to reports and memoranda written by key decision makers as Inoue Kaoru, Matsukata Masayoshi, and

applaud Japan's objectives, and I certainly do not assume idealism on the side of its leading individuals, but one cannot seriously deny a genuine concern with Korea's autonomy. This concern was, admittedly, not inspired by the ideals of internationalism, but *it also did not have to*. Indeed, Japanese imperialism was concerned with Korea's economic penetration, as we shall see in greater detail. But it also, to the same degree, addressed the question of strategic rivalry with the Western powers, and in dealing with them 'sovereignty', 'autonomy' and 'progress' were not devoid of meaning. They were the terminological framework by means of which the advanced nations positioned themselves versus the backward nations, and, what is more, they carried real strategic substance:

> 'what made Korea of strategic concern was not merely its proximity to Japan but its inability to defend itself against outsiders. If Korea were truly independent, it posed no strategic problem, but if Korea remained "backward" and "uncivilized", it would remain weak, and if it remained weak, it would be inviting prey for foreign predators.[30]

Concretely, Korea's independence did not refer simply to its relations and dealings with other countries. In the widest sense, it also meant the *ability to be independent*, through the spread of education, the nurturing of agriculture and commerce, the organization of military and police organizations, and the establishment of an objective judiciary force —in short, through the adoption of modernity and the embrace of civilization.[31] Hence, from the Japanese perspective, there was no necessary contradiction between independence and intervention. Instead, in view of its successful experiment with the Meiji restoration and its consequent political, financial and educational reform, it seemed particularly equipped to guide Korea towards independence. That would be a multiple victory. It would ward off foreign criticisms of intervention in Korea's domestic affairs, and rather gain appreciation for furthering Korean civilization and progress; it would enable Korea to resist foreign intrusion; it created a chance for Japan to sign the fate of the China-based constituency and as such take the lead in imposing the Western order in Asia; and, as a conduit of change, it would provide Japan with further political and economic influence on the peninsula.

Yamagata Aritomo. Matsukata called for a resolute hands-off approach: 'Since we have already recognized Korea as an independent country, let's stop interfering in its internal affairs as best as we can. If we rashly interfere in their internal affairs, this will damage the appearance of Korean independence'. Tokutomi Ichirō 徳富猪一郎, 公爵松方正義伝 *Kōshaku Matsukata Masayoshi den* Vol. II, pp. 499-500.

[30] Duus, *The Abacus and the Sword*, p. 49.

[31] After an editorial in Hōchi Shinbun (June 1894); also quoted in Duus, *The Abacus and the Sword*, p. 51.

V.

Unfortunately for the Meiji-leaders, there was much more at stake than political motives and means. From the very outset, commercial interests had involved themselves. As a matter of fact, they had been engraved in the treaties and their appendices prepared and negotiated by the very same politicians. Because the older merchant houses like Mitsui, Ono and Shimada took little interest in trade with the peninsula, the government decided to take the lead. It did so by turning to a new generation of successful Japanese businessmen: people like Iwasaki Yatarō 岩崎弥太郎, Ōkura Kihachirō 大蔵喜八郎 and Shibusawa Eiichi 渋沢栄一, all in their own right the doyens of Meiji entrepreneurialism. What distinguished them was their involvement in promoting foreign trade. They were especially favored by politicians as Ōkubo Toshimichi 大久保利通 and Ōkuma Shigenobu 大隈重信, who both had vested working relationships with the business world. Consecutive leaders would continue to endorse the rationale of Korea's economic penetration. In 1894, at the heat of the Sino-Japanese war, Matsukata Masayoshi spoke of 'obtaining real interests and real rights' (実利実権 *jitsuri jikken*) there, and thus enhancing the interest of the Japanese state, without officiously intervening politically.[32] It proposed furthering Japanese presence in other treaty ports, obtaining mining concessions, building a railroad between Seoul and Pusan, and obtaining the permission to lay telegraph lines. With or without knowing, he and others had thus had been creating a policy framework that would hamper, and in the end undermine, the widely shared political objective of Korean independence.[33] It is important to realize that this contradiction was bore out *by the early policy framework itself*. Assessing its preeminence over respectively subordination to exogenous factors is thereby a matter of detail. Yet, the point is that, when combined with the latter, these inconsistencies innate to Japanese policy triggered a dynamic that made an increased intervention in Korean affairs all the more likely.

The cradle of the problem was the aforementioned paragraph seven in the treaty appendix stipulating 1) that Korean merchants were to accept Japanese currency in change for their products at face value and 2) that Japanese nationals were allowed to use and ship Korean copper coins. This created a situation that was not unlike the currency crisis Japan itself had faced when being forced into internationalizing. With the exchange rate between yen and Korean copper *sen* (1 円= 660 銭;

[32] Tokutomi, *Kōshaku Matsukata Masayoshi den* Vol. II, pp. 499.

[33] This is an aspect I believe to be neglected in Peter Duus' otherwise excellent study.

the name of the copper *sen* at the time was *jōhei tsūhō* 常平通宝) been set at a rate dangerously close to the bullion price for copper, fluctuations in the supply of copper *sen* (i.e. when causing the bullion price for copper to be higher than the face value of the coins) made it attractive for Japanese merchants to melt Korean coins and ship them to Japan as bullion. Although they might have chosen to make a profit by selling the bullion and turn the acquired money into gold, they were most likely to use the obtained capital to repeat the process and close the exchange circle.[34] At least theoretically, this increased demand for the relatively depreciated coins would feed back onto their price, which would then eventually stabilize at a level that was close to the negotiated exchange ration (i.e. when the cost of melting the Korean copper *sen* is offset by its exchange value). In other words, and again theoretically, this would lead to a situation in which the exchange rate between the Japanese yen and the Korean *sen* was was pegged within an interval reflecting the costs associated with melting Korean *sen* and shipping them to Japan on the one hand, and maintaining its use as currency on the other.

As a most natural consequence, the possibility of such 'arbitrage' invited interests from Japanese bankers. As early as March 1878, Shibusawa Eiichi's *First National Bank* therefore opened an exchange office —in the parlance of the day: *kōkansho* 交換所— in the port of Pusan, with the self-proclaimed mission of 'smoothening and facilitating commerce between Korea and Japan'.[35] Its mandate unambiguously sought to provide all kinds of financial services to Japanese nationals —foreign exchange services, the acceptance of deposits, secured loans, handling bills of exchange, documentary bills (荷為替 *nigawase*), remittance bills ('money orders'; 並為替 *namigawase*), and the like. Being the only financial institution in town, it soon saw its business flourishing. The official history of the *First Bank* takes pride in mentioning that the Japanese consular office in Pusan used it for the disbursement of its funds, and that it acted as the agent for

[34] Takashima Masaaki 高嶋雅明, 朝鮮における植民地金融史の研究 *chōsen ni okeru shokuminchikinyūshi no kenkyū* (a study of colonial financial history: the case of Korea) (Tokyo, 1978), pp. ???ff. In bakufu times, the exchange rate used for trade between the daimyō of Sō and Korean merchants was much more favorable, i.e. 1 円 = 500 銭.

[35] The exchange office came otherwise been known as the *First National Bank Pusan Branch Office* 第一国立銀行釜山支店. Originally, Shibusawa had planned the establishment of an exchange office to be jointly owned with Ōkura; the office would operate with paid-in capital of 50,000 yen, half of which provided by Shibusawa, the other half by Ōkura; they also sought to obtain a government loan of 100,000 yen. However, the Japanese ministry of finance at the time did not allow banks to engage in commercial activities other than banking, and, due to high expenditures caused by the Seinan rebellion, were not keen on extending a loan. Compare: s.a., 第一銀行史 *daiichi ginkō shi* (the history of the First Bank) Vol. 1 (Tokyo, 1957), p. 414-416.

the *Tōkyō Marine Insurance Company*.[36] Its business records too speak of formidable progress. In the first half of 1979, only one year after opening its doors, its number of customers had risen to more than 700; its revenue too had doubled.[37] Shibusawa was too shrewd to let the advantages of this strongly politically supported opportunity slip through his hands, and dreamed of more profit. When two new treaty ports, Wonsan (1880) and Inchon (1883), were opened, he immediately set up new offices there. The branch in Inchon was to handle the finances of the consular office there, and the ones of Seoul's.

In 1882, the establishment of the *Bank of Japan* brought the era of national banks to a close and deprived them of the privilege to issue banknotes. The *First National Bank* had no chance but to adapt and be rebaptized as a private bank. It had to bring down the number of domestic branches drastically; within Japan, only its abbreviated name (*First Bank*) was reminiscent of its once illustrious origin. In Korea, however, the situation was very different. Coinciding with the closure of offices in Japan, it stepped up its presence on the peninsula to an unprecedented degree. Paul Georg von Möllendorf, the German born superintendant of the newly established Korean Maritime Customes Office, concluded with Inoue Kaoru the so-called *Tariff Agreement* (1883), stipulating that the *First Bank* could handle the custom revenues (*kaikanzei* 海関税), a very special privilege; the tariff rate set at 8 percent and a most-favored nation clause even made it a reasonably favorable deal for Japanese traders.[38] Its activities furthermore continued to receive direct and indirect support from the government in Tokyo. What is more, it factually operated as a semi-governmental institution. Buying up gold dust (*sakin* 砂金) in Korea and silver *tael* in Shangai to supply the newly established *Bank of Japan* with specie to back its convertible notes now became a main source of profit.[39] After concluding an agreement with the *Bank of Japan* in 1886, this activity occupied a large part of the *First Bank*'s portfolio. In the period between 1886 and 1889, the total of gold and silver bullion remitted to the *Bank of Japan* did amount to an amount of no less than ¥2,600,000.[40] Japanese economic presence in Korea now seemed to have entered a new stage in its development.

The impact on the Korean monetary system was immediate and enormous, and deserves our

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[36] s.a., *daiichi ginkō shi*, p. 415.

[37] Ibidem, p. 416.

[38] On von Möllendorf and the Tariff Agreement, see: Yur-Bok Lee, *West Goes East: Paul Georg von Möllendorf and Great Power Imperialism in Late Yi Korea* (Honolulu, 1988), esp. pp. 49-59; correspondence preceding the agreement is reproduced in: s.a., *daiichi ginkō shi*, p. 527 ff.

[39] As we have seen in chapter ???, the Bank of Japan did not print banknotes until 1884; for a short description of the business of buying bullion, see: s.a., *daiichi ginkō shi*, pp. 537-538.

[40] s.a., *daiichi ginkō shi*, p. 538.

due attention here. The dramatically accelerated, almost overnight, inflow of Japanese yen into Korea effectively shook the economy of a country that had for long insisted on going by its own traditional ways. Takashima Masaaki estimates that it effectually relegated Korean copper *sen* to some subsidiary role, whose value was entirely dependent on the actions of exchange offices and Japanese merchants.[41] This effectively drove the value of copper *sen* to fall even further, adding to the distress experienced by Korea's currency system (causing ever more copper coins to flow out of the country). In turn, monetary and financial issues would now end up as an issue on the negotiation table of Japanese and Korean officials. And more importantly, they would become a crucial factor in determining Japanese attitudes versus the peninsula.

[ill. 1.; Takashima Masaaki p. 38]

By the way, Shibusawa's ambitions were even bigger. With the prospect of such exchange bonanza, he envisioned a role for his *First National Bank* that may have seemed farfetched at the time, but that foreshadowed much of Japan's increasing interference in Korean affairs. In a letter to Ōhashi Hanshichirō 大橋半七郎 (who was to manage the Pusan branch) in 1883, he spoke of the issuance of bills of exchange that 'may eventually be used as banknotes'.[42] Banknotes! Apparently, he mused with the idea of his bank eventually becoming Korea's national bank. Needless to say, this aspiration was beyond everything feasible to any Japanese business, even the wealthy and respected *First Bank*. But it nicely underscores how political ambitions and economic interests were, in the end, incompatible.

VI.

Politically, on the other hand, Japan's position in Korea seemed bleak. The few reforms that were implemented —'gas lights for the palace, a postal system, the establishment of a national mint [the so-called *ten'enkyoku* 典圜局], and the like'[43]— did nothing to enhance Korean independence or national strength. Furthermore, China had been monitoring Japanese activity on the peninsula

[41] Takashima, *chōsen ni okeru shokuminchikinyūshi no kenkyū*, p. 39.

[42] Mentioned in Tatai Yoshio 多田井喜生, 朝鮮銀行・ある円通貨圏の興亡 *chōsen ginkō -aru en-tsūkaken no kōbō* (The Bank of Korea -the rise and demise of a yen based currency bloc) (Tokyo, 2002), p. 31.

[43] Duus, *The Abacus and the Sword*, p. 59 square brackets by M.S..

closely, and had therefore sought to have Korea conclude equal trade arrangements with several Western countries (cf. supra). It also resorted to tactics of informal empire to reassert its predominance over her former vassal state. It managed, for instance, to conclude a set of *Regulations of Sino-Korean Maritime and Continental Trade* (清韓水陸貿易章程, 1882), according to which Chinese merchants were allowed to settle and trade beyond the treaty ports in the Korean *Hinterland* —a provision that did not exist for their Japanese counterparts. There is considerable evidence that Japanese officials were aware of the fact that they were losing ground; their commitment to Korean independence, once believed to be a viable and noble objective, suddenly appeared hard to take any effect ever. Their reactions were, however, characterized by indeterminacy. Of all proposals to issue a loan to the Korean pro-Japan faction, the larger part came to naught. The loans that did materialize, however, were too small to have an impact on reform, and were mainly aimed at vesting the pro-Japan faction.[44] Why all this caution? For one, Japanese businessmen like Shibusawa and Gotō Shōjirō 後藤象二郎[45] were not eager to invest their capital in a venture whose outcome was not sure to bring them a safe and profitable return.[46] Statesmen on the other hand believed it unwise to offer massive financial support efforts, especially after a failed *coup d'état* (1884) appeared as being orchestrated by Tokyo.[47] Most probably, the latter also sealed the faith of the pro-Japan faction. Around 1884, the Japanese government seemed to realize that its future in Korea did not lay with the reform movement. And equally importantly: the young Meiji state was very probably unable to commit itself substantially to lending to Korea.[48]

But what was the impact of China's renewed assertiveness on Korea's monetary and financial constituency? Contrary to what one may surmise, the inflow of Mexican dollars (yōgin 洋銀 or *kokugin* 黒銀) into Korea was never critical enough to topple the newly established yen-led monetary constituency.[49] Monetary differentiation between port towns and the Korean *Hinterland* remained enormous. Especially around 1890, Japan even managed to fortify its position largely

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[44] Duus, *The Abacus and the Sword*, p. 55ff.

[45] About Gotō Shōjirō, see: Ōhashi Akio 大橋昭夫, 後藤象二郎と近代日本 *Gotō Shōjirō to kindai nihon* (Gotō Shōjirō and modern Japan) (Tokyo, 1993).

[46] The proposals of some businessmen in this respect did not reflect political sensibilities. Ōkura Kihachirō, for instance, proposed a loan secured against a certain part of the production of Korea's gold mines (1882). See, in this respect: s.a. *nihon gaikō bunsho* Vol. 15, pp. 156-157.

[47] For a full account in English, see: Harold Francis Cook, *Korea's 1884 Incident: Its Background and Kim Okkyun's Elusive Dream* (Seoul, 1972).

[48] Supporting this line of argument: Simon James Bytheway, ??????????

[49] On the demise of the Mexican dollar as a means of exchange, see: A. Piatt Andrew, 'The End of the Mexican Dollar'. *The Quarterly Journal of Economics* 18:3 (May 1904), pp. 321-356.

through the trustworthiness and soundness of the *First Bank*. Statistics on the circulation of Japanese yen and in Pusan in the period between 1889 and 1891 show leaps of 337 % (Japanese silver coins) respectively 239 % (silver denominated Japanese paper currency), amounting to ¥ 414,265 respectively ¥ 291,735.[50] The explanation therefore must largely be sought in the nature of the silver dollar itself. Often stamped or chopped by their endorsers beyond all possibility, these coins were famous for their low quality. The Japanese silver yen, in contrast, was not only of better quality; it had also gained credibility as a stable currency. As a matter of fact, its reputation was so good that Korean merchants in the port cities would often change their copper *sen* into Japanese silver *yen*, and save them ('Gresham's law'); Chinese merchants often shipped them to China.[51] This in turn enhanced the importance of paper currency and convertible notes of the *Bank of Japan* (*nichigin dakanken* 日銀兌換券). Thus in this sense, Japan's monetary takeover of Korea was already completed more than a decade before it established the latter as a protectorate. But monetary dominion did not necessarily mean price stability. Seasonal fluctuations in the trade volume produced sharp swings in the exchange rate of Korean copper,[52] the minting of which did rarely respond to relative increases or decreases in monetary demand. Apparently, Japanese merchants in Korea tried to restore the stability of Korean currency by issuing sen-convertible bills of exchange (*kansen tegata* 韓銭手形); the *First Bank* added to the effort by printing tax bills of exchange (*zeikan tegata* 税関手形). By 1891, the Korean economy thus found itself in an impossible situation. On the one hand, it faced strong political pressure from its large Chinese neighbor; the latter's merchants furthermore represented the lion's share of Korea's foreign trade. But on the other hand, Japanese monetary presence loomed larger than ever. Reform was called for.

It had first presented itself through heavy-handed Chinese pressure. Wary of Japan's ambitions on the peninsula, Li Hong Zhang had been lobbying strongly for the appointment of von Möllendorf, with the sole aim of 'spiting the Japanese' (1883).[53] Reportedly a dedicated and loyal individual,[54] von Möllendorf was truly committed to help its employer, and to restore Korea's

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[50] s.a., 日本外交文書 *nihon gaikō bunsho* (Japanese Diplomatic Records) Vol. 24, p. 176; this investigation was part of a larger project supervised by Matsukata Masayoshi, aimed at documenting the circulation of Japanese currency in a variety of Asian countries; as the reader understands, the investigation's aim was closely connected to the preparation of the adoption of the gold standard.

[51] Takashima, *chōsen ni okeru shokuminchikinyūshi no kenkyū*, p. 43-44.

[52] Statistics can be found in: Takashima, *chōsen ni okeru shokuminchikinyūshi no kenkyū*, p.51.

[53] After: Frederick Foo Chien, *The Opening of Korea: A Study of Chinese Diplomacy, 1876-1885* (Hamden (Conn.), 1967), pp. 42-44.

[54] Yur-Bok Lee, *West Goes East*, p. 45-49.

monetary independence once and for all. Yet, whereas his aspirations was sincere, the implementation and effect of his reform were disastrous. Under his direction, the *ten'enkyoku* would mint large quantities of low quality copper coins. Apparently, he had not given thought to the question of the standard to be adopted by Korea; Korean copper coins being *de facto* subsidiary currency to the Japanese yen, the mere minting of extra copper coins would not benefit Korea's monetary independence, let alone the country's wealth.[55] It was soon obvious that this ill-defined judgment had opened Pandora's box. Commodity prices soared; throughout the country, rebellious soldiers from Korea's traditional army units launched a mutiny against Japanese interventionism.

It would take approximately eight years before the Korean government would once more ponder the possibility of monetary reform. In 1891, it promulgated the *Regulations with regard to the Currency of Great Korea* (*dai chōsenkoku kahei jōrei* 大朝鮮国貨幣条例). Related to an earlier plan to solicit foreign loans in order to establish a banking system and build a railroad between Seoul and Inchon,[56] it approached two Japanese businessmen to assist the attempt of monetary reform. In a letter to members of the Korean pro-international faction, Ōmiwa Chōbei (大三輪長兵衛), the founder of the *Fifty-Eighth National Bank*, stressed that he and Masuda Nobuyuki (増田信之) of the Ōsaka Copper Company (大阪製銅会社) had a great interest in 'ameliorating and modernizing' Korean currency, and aspired to strive for the 'orderly organization of your country's finances'.[57] Their reform effort too ended in failure. Although there was considerable financial backing for the proposal, and although there may have been a chance of succeeding — it sought to regulate foreign exchange by establishing a silver standard after Japan's example— it was no match for strong nationalist sentiment within Korea, nor for Chinese maneuvering again any reform effort that involved Japanese consultants. Soon after several coinage proofs had been minted, the project was aborted. As a result, the state of Korea's currency system deteriorated even further. The *yen-sen* exchange rate of the copper sen dropped every day, until record lows in 1893 and 1894.[58]

VII.

[55] These criticisms were also voiced in the immediate aftermath of the incident.

[56] Takashima, *chōsen ni okeru shokuminchikinyūshi no kenkyū*, p.48-49.

[57] Mentioned in: ibidem, p. 49; this invitation of Japanese financiers also attracted attention in the *Tokyo Keizai Zasshi* at the time. Compare: Taguchi Ukichi 田口卯吉, 「朝鮮の新貨幣鋳造事業」 *chōsen no shin kahei chūzō jigyō* (the task of minting Korea's new coinage), *Tokyo Keizai Zasshi* 670 (April 1893).

[58] For statistics, see: s.a., 日韓通商協会報告 *nikkan tsūshō kyōkai hōkoku* (report of the organization for trade between Japan and Korea) Vol. 28 (December 1897).

The Sino-Japanese War (日清戦争 1894-1895) marked a sea change in the relationship between Tokyo and Seoul, and was the framework within which Japan sought to expand its monetary and financial grip.[59] Above we have seen that the desire to acquire commercial interests on the peninsula was factually incompatible with the original plan of establishing Korea's independence as a means of defending Japan's 'line of interest'. Sooner or later, Japanese statesmen would have to make different and difficult strategic choices. As a matter of fact, this happened in 1894, when the insurgence of the so-called Tonghak rebels (a religious sect promising fundamental social reform) made it clear to policy makers that Korean independence was a non-option, and that reform would have to be wrought upon from outside. As the chronology of events and the course of hostilities is well-documented and outside the scope of this chapter, we will omit them;[60] but we cannot forgo a discussion of monetary and financial experiment accompanying them.

First and foremost, we must be aware of Japan's shift from 'free trade imperialism' and a corollary 'hands-off' approach to a more interventionist policy, including 1) thorough institutional

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[59] W. G. Beasley perceives a change already after 1885:

> 'It was during these years that the character of Sino-Japanese rivalry changed, largely because Japanese modernization was beginning to show commercial results. Japan's imports from Korea, in which rice and gold were the principle items, were not much at issue, though fears that they might be cut off because of Korean hostility occasionally caused alarm in Tokyo. More critical was the question of exports to Korea. Before 1882 some 76 per cent of these had [...] consisted of Western textiles, bought in Shangai and transshipped in Japan for Korean destinations. As Japan own textile industry grew, however, re-exported Western goods were replaced by Japanese products, which amounted to 87 per cent of the total by 1892'.

Beasley however also mentions that this, too, should not be overestimated: 'Most scholars have concluded that economic interests on this limited scale did not constitute a sufficient reason for hostilities.' Beasley, *Japanese Imperialism*, p. 45. This is reinforced by the figures we have: exports to Korea in 1893 did not exceed 1.7 million yen. Compare in this respect: Hō Takushū 彭沢周 (Peng Zizhou), 明治初期日韓清関係の研究 *meiji shoki nichi-han shin kankei no kenkyū* (1969), 279-330. As pointed out in the above paragraphs, identifying economic interests as the source and motor of imperialism is, at least in the Japanese case, missing the point. What mattered over economic interests was the strategic objective of Japan's national security.

[60] There exist several comprehensive accounts: Nathan Chaïkin, *The Sino-Japanese War, 1894-1895: the Noted Basil Chamberlain Collection and a Private Collection* (Venthône, 1983); Trumbull White, *The War in the East: Japan, China and Corea* (Philadelphia, 1895); Shinobu Seizaburō 信夫清三郎, 日清戦争：その政治的・外交的観察 *nisshin sensō: sono seijiteki-gaikōteki kansatsu* (the Sino-Japanese War: a political and diplomatic observation) (Tokyo, 1934) (reprint 1970); Konishi Shirō 小西四郎, 日清戦争 *nisshin sensō* (Tokyo, 1977); Ichikawa Masaaki 市川正明, 日清戦争 *nisshin sensō* (Tokyo, 1979); Former Joint Chiefs of Staff 旧参謀本部編纂, 日清戦争：日本の戦史 *nisshin sensō: nihon no senshi* (the Sino-Japanese War: a military history of Japan).

reform and 2) the establishment of economic interests, most directly through railroad concessions.[61] For Itō Hirobumi, political reform had been a priority above all else. Matsukata Masayoshi was, as we have seen, the champion when it came to gaining Japan 'real rights and real interests' (cf. supra); he showed himself rather concerned about all too direct political assistance.[62] Inoue Kaoru 井上馨, [63] Japan's most experienced man in Korean affairs, maneuvered somewhat in between these visions. He realized that reform, especially of the financial mismanagement the Korean court, would very well fit in with Japanese interests. And he was right. Reform and Japanese interests did not necessarily cancel each other out. Let's consider, therefore, issues of trade and commerce.

By the outbreak of Sino-Japanese hostilities, it had come to the Korea-based Japanese merchants' attention that swings in the *yen-sen* exchange rate ran, in the last analysis, against Japanese commercial interests (there had been, as we have seen, several instants of speculation against copper *sen*, but its profits had been too temporary, and had done nothing to sustain an commercial relationship). And responsive to several cries for currency reform by Korean bureaucrats, and to their aspiration to establish a national bank, it now seemed quite reasonable to aid with the restructuring of the financial system and stabilize commodity prices. Japanese reform efforts would be directed at the establishment of sound national finance, buttressed by all the aspects that would later be central to the Megata reform: a balanced budget with clear accounting of revenues and expenditures, a reformed tax system, and the uniformization of currency. The means to those ends included several instrumental and profitable functions for Japanese financiers. They could assist in furthering the presence of *Bank of Japan* convertible notes, and thus relieve the longstanding problem of capital shortage; and, most forcefully, they may bind Korea's monetary and financial future to Japan's, for instance by extending loans. Nowhere is this so frankly and boldly expressed as in the following consideration by Inoue Kaoru:

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[61] There exists several informative studies work on the dynamics of Japanese 'railroad imperialism' in Korea: Janet Hunter, 'Japanese Government Policy, Business Opinion and the Seoul-Pusan Railway, 1894-1906'. *Modern Asian Studies* 11:4 (1977), pp. 573-599; Duus, *The Abacus and the Sword*, esp. pp. 103-168. There also exists an official history in Japanese: Chōsen Sōtokufu 朝鮮総督府, 朝鮮鉄道史 *Chōsen tetsudōshi* (a history of railways in Korea) (Seoul, 1915).

[62] Tokutomi, *Kōshaku Matsukata Masayoshi den* Vol. II, pp. 499.

[63] Inoue had accompanied Kuroda Kiyotaka to Seoul as vice-plenipotentiary for the negotiation of the Kangwha treaty (cf. supra); later, when Foreign Minister, he presided over the negotiations of the treaty of Chemulpo (1882); in 1885 he served as plenipotentiary in the negotiations of the Treaty of Seoul. For a firsthand description of his career, see: s.n., 世外井上公傳 *segai Inoue Kō den* (The Life of the Exalted Duke Inoue), 5 vols.. For his works in Korea, see esp. vol. 3, pp. ???; vol. 4, p. ????;

> How was it that the British had an excuse for intervening in Egypt? Was it not in the fact that England had obtained its position of interest by providing Egypt with capital? […] If we wish to solidify our position in Korea and to provide a basis for intervention in its internal affairs, it is most urgent that we strengthen our position in terms of real rights, whether railroads or financial loans, and prepare the way from financial interventions to other relations.[64]

Quite a few opportunities for financial intervention presented themselves as soon as the Sino-Japanese War broke out. There was the *First Bank* loan to the Korean pro-reform faction, amounting to ¥130,000, and at 8 percent. But there also was the failure of the giant ¥5 million loan in specie. Its story is a quite interesting one, as it again reveals contradictions in Japan's policy making constituency. It had actually been strongly supported by several elderly statesmen, because its magnitude offered a possibility of a genuine impact on the Korean reform process. As a matter of fact, the Japanese government had engaged in a careful preparations, with reports describing which conditions the Korean government had to meet.[65] This did not only include the provision that the loan would be secured against on Korean tax revenues. It also demanded the Korean government to employ a Japanese financial adviser who was to 'supervise the whole system of national finance, and send envoys to the provinces in order to monitor the collection of taxes'.[66] This, it was explained, did 'not diminish the profit of Korea, nor the profit of Japan; instead, it wishes to further the benefit and profit of both' —an interesting change in attitude for somebody who had once envisioned the Egyptianization of the country.[67] But then again —and understandably— business was only interested in a safe and profitable return on its investments.[68] Insecure of any success of the country's reform at all, the Mitsui Bank was only found willing to consider a loan at the expensive rate of 10 percent. Inoue recalls this event as at odds with Japan's political attitude: 'Just think how inconsistent it is to charge such high interest considering that this government is practically in our hands'.[69] Ultimately, Mitsui suggested to put up the loan, but under conditions that would have entailed total financial control over the peninsula. It would print gold backed paper

[64] Quoted in Cho 趙璣濬, 近代韓国経済史 *kindai kankoku keizaishi* [an economic history of modern Korea] (Tokyo, 1981), pp. 193-194, translation by Peter Duus 1995, pp.134–135; and importantly, Metzler, *Lever of Empire*, pp. ?????????; compare as well the letter to Ito Hirobumi explaining to Inoue Kaoru the need of a giant ¥1,000,000 loan: *Inoue Kaoru Den* Vol. 4: pp. 440-441. For a complete description of Inoue's activities in Korea, see, *Inoue Kaoru Den*, pp. 381-539.

[65] The full story can be found in: Inoue Kaoru, *Inoue Kaoru Den* Vol. 4, pp. 451ff.

[66] Inoue Kaoru, *Inoue Kaoru Den* Vol. 4, pp. 452.

[67] Inoue Kaoru, *Inoue Kaoru Den* Vol. 4, pp. 453.

[68] Duus has rightfully remarked that 'big capital was less prepared for the "Egyptianization" of Korea than Inoue was'. Duus, *The Abacus and the Sword*, p. 94.

[69] *Nihon Gaikō Bunsho* Vol. 28.1, p. 139.

currency for circulation, and tie it to the Japanese yen. If realized, it would have been a very early example of a gold exchange standard maintained by an East Asian country.

For that, however, time was not yet ripe. Inoue eventually had to settle with a ¥3 million loan of the Bank of Japan, only half of which was to be paid in silver coins (the other half was paper currency).[70] The BOJ's agenda was unambiguously different from Shibusawa's and other entrepreneurs': as a semi-governmental institution with the explicit mandate of strengthening Japan's commerce, it was prepared to finance Korea's financial penetration. Yet, in the end, even this modified loan plan did not realize.[71] Japanese domestic politics had grown bitter about what it perceived as a soft and inept approach of Korea. According to Duus, 'ebullient patriotism' in the wake of the victory over China dominated the debate; Diet members called for a proactive hawkish approach, and pondered an official protest against the Triple Intervention.[72] It were hard times for the proponents of the conciliatory and cooperative loan plan. In such circumstances, the newly formed Itō cabinet regarded a ¥3,000,000 'contribution' to political reform inopportune.

Whether or not this decision was justified is a matter of speculation, but the BOJ's perception of opportunity was, by the way, not at odds with the realities of the Korean market. Not only had the Japanese yen gained in importance as trade currency, the *Regulations With Regard to the Issuing of New Money* (新式貨幣発行章程), which the Korean government promulgated in August 1894, also declared the yen as legal tender. This situation was unprecedented. Transaction costs between the Japanese mainland and the Korean peninsula were now officially declared *nil*. Consider furthermore the economic aspects of the battlefield. Japanese military forces were already paying for provisions by means of paper money, and thus created a temporary yen bloc in a country that was already replete with Japanese money.[73] Although it is impossible to estimate the amount of

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[70] This came out as the result of painstaking rounds of negotiating. Inoue had first proposed to use 5 or 6 million yen from the Chinese indemnity to make a contribution to Korea; 3 million yen would be used for the repayment of Korean debt to Japan, 1 or 1.5 million would be a gift to the Korean court; an equivalent amount would be invested in profitable enterprises such as railways, telegraphs, and so on. His second proposal was basically a way of appeasing the Koreans for resentment caused by earlier loan negotiations. Inoue Kaoru, *Inoue Kaoru Den* Vol. 4, esp. pp.???????? ; Duus, *The Abacus and the Sword*, p.106.

[71] The event is well documented in Inoue's official biography: Inoue Kaoru, *Inoue Kaoru Den* Vol. 4, esp. pp. 484ff.

[72] Duus, *The Abacus and the Sword*, p. 107.

[73] Compare: Moriyama Shigenori 森山茂徳, 甲牛改革に於ける借款問題・井上馨の関与した第二次改革と朝鮮指導者層対応を中心として」 *Kōgo kaikaku ni okeru shakkan mondai: Inoue Kaoru no kanyo shita dainiji kaikaku to chōsen shidōshasō taiō wo chūshin to shite* (the loan problem in the *Kōgo* reforms —with a special focus on Inoue Kaoru's involvement in the second reform and the reactions of Korea's leaders). 東洋学報 *Tōyō gakuhō* 56:2-4, (March 1975), esp. pp. 119-126. As a matter of fact, the *First Bank* had already in 1891 taken up a scheme of issuing

military spending during this first China campaign, the *Tōkyō keizai zasshi* at the time argued that it increased the circulation of yen in Korea to somewhere in between ¥1,300,000 and ¥1,500,000 (from the pre-war ¥1,000,000).[74] Admittedly, the benefits hereof were spread unevenly: whereas Japanese merchants were now able to make great profits, the Korean commercial class saw itself confronted with ever more complicated exchange procedures (Japanese paper *yen* > Japanese silver *yen* > Korean copper *sen*) and consequent losses. It was another source of strong anti-Japanese sentiment, and certainly contributed to the rejection of reform efforts. But the promoters of Japanese economic presence in Korea must have seen their dream come true.

VIII.

Maybe we should correct the above sentence, and insist that they saw their dream come true *for a while*. As an unintended consequence of Japan's overwhelming economic leverage, its political position was weaker than ever. Although it had won the war, the European powers won the peace. It is historically well documented that the Triple Intervention (*sangoku kanshō* 三国干渉) by Russia, Germany and France on April 23 1895 (less than a week after the signing of the peace treaty with China) forced Japan to return the Liaodong peninsula and caused enormous damage to its international prestige.[75] Japanese leaders were aware that, from now on, they had to proceed with caution —after all, the Western powers now had discovered their 'real rights and real interests' in East-Asia too.[76] Although they framed their objections in the vocabulary of international law, they

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'*kansen* substitute securities' (*kansen daiyō shōken* 韓銭代用証券), which were in a way some kind of military scrip (*gunpyō* 軍票), as their objective (presumably) was to prevent Japanese currency to be further drawn into markets on the Asian mainland; as a reserve for this currency, it planned to use Japanese silver yen, bank notes, and Japanese subsidiary coinage. The plan was never approved of by Japanese government authorities. Takashima, *chōsen ni okeru shokuminchi kinyūshi no kenkyū*, p.56-57. Duus adds that, due to an unwillingness of the Korean populace in the *Hinterland* to accept 'foreign' currency, the Japanese army had to exchange their coins massively into Korean copper *sen*, thus creating a temporary inflation in the value of these coins. Duus, *The Abacus and the Sword*, p. 160.

[74] s.a., 「日韓貿易論補遺」*nikkan bōeki-ron hoi* (appendix to the theory of Japan-Korea trade), 東京経済雑誌 *Tōkyō keizai zasshi* 769 (March 1895), pp. 428.

[75] See, for some thorough accounts: Morinosuke Kajima, *The Diplomacy of Japan 1894-1922* Vol. 1: *Sino-Japanese War and Triple Intervention* (Tokyo, 1976); Frank W. Iklé, 'The Triple Intervention. Japan's Lesson in the Diplomacy of Imperialism'. *Monumenta Nipponica* 22: 1-2 (1967), pp. 122-130. Takashima considers it an instant of Western rejection of Japanese sovereignty. Takashima, *chōsen ni okeru shokuminchi kinyūshi no kenkyū*, p. 62.

[76] Apparently, Mutsu Munemitsu 陸奥宗光, plenipotentiary negotiator of the treaty, warned Inoue

were themselves involved in a scramble for concessions in the Far East, and sought to shortcut Japanese attempts at monopolizing its position on the peninsula.[77] This attitude was especially strong in Russia, which found itself contained at the Western border of its empire, and thus tried to project its influence in its less powerful southern and eastern neighbors.[78] It signaled a new phase in Korea's protracted monetary and socio-economic history.

Ironically, the shift was triggered not so much by external factors as by a change of course in Japan's policy-making versus Korea. The assassination of queen Min 閔 in October 1895, partly caused by the clumsy diplomacy of Miura Gorō 三浦梧楼, who succeeded Inoue as Minister to Korea, only 'cultivated enmity, not friendship'.[79] Although he was immediately replaced by Komura Jutarō 小村寿太郎, a young and ambitious bureaucrat with a great deal of foreign experience,[80] Tokyo found it increasingly difficult to find allies among Korean leaders, let alone to establish credibility vis-à-vis Western diplomats. The vision of losing not only Korea's independence but eventually Japanese sovereignty loomed larger than ever.

Anti-Japanese sentiment was especially strong in the early days of Russo-Korean *rapprochement*.[81] This is not to say that many members of the Korean elite preferred Russian influence over Japanese influence. However, Russian foreign Minister Lobanov-Rostovsky and especially Sergey Witte, the architect of much of Russia's East Asia policy, made use of the anti-Japanese momentum to quickly expand its grip on the political class and to haste the process of acquiring concessions.[82] He had become rather unsatisfied by similar efforts of obtaining interests in

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in the wake of the negotiations to use 'extreme caution' in his negotiations with the Koreans. See: Kim Chŏng Myŏng 金正明, 日韓外交資料集成 (1962-1967) Vol. 4, p. 365.

[77] On the scramble for concessions in Korea, see, convincingly: Duus, *The Abacus and the Sword*, p.143-168.

[78] For a general overview of events, see: Seung Kwon Synn. *The Russo-Japanese Rivalry Over Korea, 1876-1904* (Seoul, 1981), esp. pp. 153ff.

[79] Duus, *The Abacus and the Sword*, pp.108ff.

[80] On Komura, see: Nakayama, Takeo 中山武夫. 小村寿太郎伝 *Komura Jutarō Den* (Tokyo, 1940); Okamoto, Shumpei. 1979. 'A Phase of Meiji Japan's Attitude toward China: The Case of Komura Jutaro'. *Modern Asian Studies* 13:3 (1979), pp. 431-457; Okazaki, Hisahiko 岡崎久彦. 小村寿太郎とその時代 *Komura Jutarō to Sono Jidai* (Tōkyō, 1998).

[81] Background information can be found in: David S. Crist, 'Russia's Far Eastern Policy in the Making'. *The Journal of Modern History* 14:3 (September 1942), pp. 317-341; Andrew Malozamoff, *Russian Far Eastern Policy 1881-1904. With Special Emphasis on the Causes of the Russo-Japanese War* (Berkeley, 1958).

[82] An extensive account of events can be found in: Seung Kwon Synn. *The Russo-Japanese Rivalry Over Korea, 1876-1904* (Seoul, 1981), esp. pp. 224ff.; see as well, briefly: Conroy. *The Japanese Seizure of Korea, 1868-1910*, pp. 326-327; David S. Crist, 'Russia's Far Eastern Policy in the Making', The Journal of Modern History 14:3 (September 1942), pp. 317-341.

China through the *Russo-Chinese Bank*[83] (a heavily subsidized bank operating with French and Belgian money) and railroad concessions there; Korea was a less contested target for his expansionist plans. At the outset, the new Korean government was eager to help. Not only did it dismiss all Japanese advisers who had been appointed to the ministries in 1895; it also gave in to Russian pressure to appoint, among others, Dmitri Dimitrievich Pokotilov (head of the Russo-Chinese Bank) as a financial adviser.[84] Not much later, in 1897, he was replaced by Kiril A. Alexeev, an official of the Russian customs service, in turn placed under McLeavy Brown, who had refused to leave his post as customs director.[85] Russia also came up with the idea of a *Russo-Korean Bank*, which was to take over the deposit of custom duties from the *First Bank* (as a matter of fact, this never happened; when the bank opened its doors in 1898, Russian interest in Korea had largely faded away).[86] In the meanwhile, the Korean government moved to eradicate other symbols of Japanese influence in the center of Korean society. Most forcefully, it resorted to a scheme of issuing large amounts of nickel currency (*hakudōka* 白銅貨) of low denomination, partly in an attempt to drive Japanese currency out of the market. Nickel coins had been introduced by dint of the *Regulations With Regard to the Issuing of New Money*, and occupied their place in between the standard money (5 silver *ryō* 両) and the still circulating copper sen (alternatively called *yōsen* 葉銭); its exchange rate versus the latter was defined as 1:25. We will discuss the detrimental consequences of this ill-inspired measure for Korea's monetary constituency in later paragraphs.

For now, one must note that this move was at least in part endorsed by a sharp shift in Japan's own monetary geography: the decision to adopt the gold standard (cf. chapter ?????). Before that, conditions for the *yen* on the peninsula had actually been promising. Several reports mention that, with the exception of Pusan, the port cities treated it as a most stable currency.[87] As could be expected that quite a bit of silver coins would return to Japan for redemption, financial policy makers were to pay extraordinary attention to the circulation of silver-yen convertible paper money, and the challenges they could pose. For one, the fall of the silver price to be expected as a natural consequence of Japan's decision would make it harder to further acquire gold bullion for

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[83] On the Russo-Chinese Bank, see: Rosemary Quested, *The Russo-Chinese Bank. A Multi-National Fnancial Base of Tsarism in China* (Birmingham, 1977).

[84] Consequent Russian interventions in Korea's monetary and political affairs is extensively documented in: Seung, *The Russo-Japanese Rivalry Over Korea*, pp. 234ff.

[85] The story is told in: Duus, *The Abacus and the Sword*, p.123; for more details of opinions and personalities involved, see: Seung, *The Russo-Japanese Rivalry Over Korea*, pp. 250-253.

[86] Seung, *The Russo-Japanese Rivalry Over Korea*, pp.259-260.

[87] 「貨幣法制定及実施報告」(report on the legal framework of the currency law and its implementation), in 日本金融史資料 (明治・大正編) Vol. 17, pp. 159-161.

buttressing Japan's currency reserve —as we know, Germany had faced a similar dilemma in the early 1870s. For Japanese policy makers at least, it would be quite profitable to have silver coins circulate in Korea in one form or another. But then again, problems for the Korean economy remained. Commodity price instability thus brought Korea's monetary reform on the agenda once more.

How did Japanese policy makers proceed? In the years before 1897, Ministry of Finance officials and Shibusawa Eiichi seem to have been in contact on a regular basis, discussing the implications of the adoption of the gold standard. Their schemes were in many ways complementary. Whereas the Ministry of Finance (esp. Sakatani Yoshio 阪谷芳郎)[88] was concerned with accumulating Korean gold and silver bullion, Shibusawa's ambitions lie with the future of his bank. He expressed, among others, the desire to gradually promote the *First Bank* 'to the central bank of Korea, plan the unification of its currency, and put its monetary system in order'.[89] But how could this be done? The Japanese proposal was a prime example of concession imperialism. Whereas former policy makers had once preached a hands-off approach, they went by a stauncher approach now. The idea was revolutionary. Sakatani Yoshio (then head of the Tax bureau at the Ministry of Finance) and Shibusawa[90] envisioned a Japan-independent (yet Japan-sponsored) system. Silver coins would remain in circulation but would be hallmarked with the characters for 'Japan' (極印付銀貨). Foreshadowing the *First Bank*'s later role, Shibusawa furthermore suggested the issuance of 'bearer securities' (無記名式預かり証券) strictly for circulation in Korea —a realization not unlike Shibusawa's musing almost 20 years ago (cf. supra). In all of its aspects, it reflected characteristics of a full-fledged colonial reform effort.

It was one thing to have a plan; but it was another to have it realized. With regard to the chopped silver coins, McLeavy Brown left no doubt that they would continue to be accepted; the exchange rate between chopped and not-chopped silver coins would, in the period of transition be maintained at 1:1, in order not to destabilize the exchange markets. He furthermore agreed to invest for ¥300,000 worth of chopped silver coins, and simultaneously attempt to stop the outflow of old silver-yen to Japan. Not only would this drastically reduce costs for reminting, it again endorsed the

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[88] On Sakatani, see: Ko Sakatani shishaku kinen jigyōkai 故阪谷子爵記念事業会, 阪谷芳郎伝 *sakatani yoshio den* (Tokyo, 1951).

[89] See: 渋沢栄一伝記資料 Vol. 16, pp. 61-70.

[90] For Shibusawa's original proposal, see: 「朝鮮国幣制私議」in 渋沢栄一伝記資料 Vol. 16, pp. 61-70. Shibusawa presented this memorandum to then BOJ governor Iwasaki Yanosuke 岩崎弥之助; one also finds a reprint in Daiichi ginkō hachijūnenshi hensanshitsu 第一銀行８０年史編纂室, 第一銀行史 Vol. 1, pp. 644ff.

importance of the old Japanese yen as trade currency on the peninsula. Chopped coins were prohibited from circulation (doubtlessly under Russian pressure) in February 1898, only to be reallowed in July that year, after the successful conclusion of the Nishi-Rosen agreement (西・ローゼン協定).[91]

IX.

But what happened with Shibusawa's plan to issue bearer securities? In 1897, Japanese authorities had refused to discuss Shibusawa's scheme on the grounds that it was impractical, and that it would offend Korean (and Russian authorities). It turned out, however, to be a prolifically discussed topic very soon thereafter. As a matter of fact, Japanese authorities had not invested much efforts in putting up any new loan to the Korean government after Inoue's failed loan plan of 1895. But around 1898, they were solicited by the Koreans to do so, with the express aim of arranging Korea's ever chaotic currency system. Korea's lack of bullion made any autonomous attempt at reform impossible. Again, Japanese interests had turned against themselves: massive acquisitions of gold dust and silver bullion by the First Bank had effectively undermined a crucial pillar of any monetary sanitation.[92] Yet, change was pressing, even for the Japanese. The instability of transaction costs had, as said, always been a major concern for Japanese merchants. The prospect of the yen altogether disappearing from the peninsula as a result of the decision to adopt the gold standard looked even bleaker. Yet, Tokyo chose not to address the issue, given its tight budgetary situation in the aftermath of the war. This changed when it became aware of a joint American and British proposal to lend the Korean government ¥5 million, mortgaged against mining rights on

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[91] See: *Shibusawa Eiichi denki shiryō* Vol. 16, pp. 70-84; the Nishi-Rosen agreement, which Rosen himself once called 'a rather lame and pointless convention', marks the so-called 'exchange Korea for Manchuria'-policy (満韓交換 *mankan kōkan*), whereby Russia and Japan came to agreement about their strategic interests in their respective spheres. The consequent occupation of Port Arthur by Russia was, henceforth, not perceived as a threat, but rather as a sign of Russian willingness to abandon furthering her interests on the peninsula. Seung, *The Russo-Japanese Rivalry Over Korea*, pp.264-269.

[92] This point is made as well in: Takashima, *chōsen ni okeru shokuminchikinyūshi no kenkyū*, p.72ff. For an overview of Japanese bullion acquisitions in the colonies, see: Murakami Katsuhiko 村上勝彦, 「植民地金吸収と日本産業革命」 *shokuminchi kin kyūshū to nihon sangyō kakumei* (the absorption of gold in the colonies and Japan's industrial revolution), 東京大学経済学研究 16 (1973); 小島仁 Kojima Hitoshi, 日本の金本位制時代 (1897-1917) *nihon no kinhon'isei jidai (1897-1917)* (Tokyo, 1981), pp. ??????????-??????????

royal land. Its purpose allegedly was to permit the Korean government to issue a new silver currency. Hayashi Gonsuke 林権助, then minister to Korea, reacted furiously. Not only had the Koreans approached him in 1898 with a similar loan proposal; he also perceived the threat and political importance of such massive amount. From then on, he would relentlessly open and re-open negotiations with the aim of establishing firmer control over the government and the court. In all instants, however, it turned out that Japan's own precarious budgetary situation did not permit a firm commitment to Korea's currency stabilization. Nor was there sufficient political will: especially Itō Hirobumi showed himself increasingly sensitive about provoking the Russians.[93]

This situation was slightly different for Shibusawa's *First Bank*. Not a governmental institution, it would gladly undertake efforts at Korean monetary reform if such seemed profitable. This turned out to be the case. In 1900, Shibusawa therefore relentlessly pushed for negotiations with Brown; his proposals ranged from a loan in the form of a ¥1 million overdraft to a loan of ¥2 million (in return for which the *First Bank* was granted the right to issue custom notes).[94] For Brown, this was unsatisfactory. With a host of questions still unsolved, negotiations were broken off early. But a new opportunity presented itself as soon as 1901. The indefatigable Hayashi suggested that the *First Bank* issue banknotes, and that it lend them to the Korean government in case the latter would be in need of capital. This proved the right idea. Although the Ministry of Finance first objected on the grounds that note issuing was reserved for officially established banks, it later approved on the grounds that 1) *First Bank* notes would only circulate under approval of the Korean government, and 2) that they would circulate in Korea, and hence not contradict the legal provision that prohibited privately issued money on Japanese soil.[95] This would, moreover, not acquire approval of the Korean government.[96] *First Bank* notes went into circulation in 1902. In order not to compete with other currencies, notably BOJ convertible notes, their denominations were deliberately low. This also changed their character: less fit for international transactions, they were apparently designed for trade with and among the Korean populace; this made them also an

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[93] Duus again provides a fine account of negotiations. Duus, *The Abacus and the Sword*, pp.157-168; his discussion mainly relies on: Moriyama Shigenori 森山茂徳, 近代日韓関係史研究 *kindai nikkan kankeishi kenkyū* (studies in modern Korean-Japanese relations) (Tokyo, 1987).

[94] See as well: Takashima, *chōsen ni okeru shokuminchikinyūshi no kenkyū*, pp. 62ff.; these negotiations occur amidst a series of negotiations with several other countries about the very topic of currency reform. They are listed in: ibid., pp. 65-68.

[95] 「単に信用を以って任意に流通する一種の信用証券たるに過ぎざれば、韓国の国憲を侵略するの理由なし」. Cited in: Takashima, *chōsen ni okeru shokuminchikinyūshi no kenkyū*, p. 69. See as well: *Shibusawa Eiichi denki shiryō* Vol. 16, pp. 132ff.

[96] Hayashi explains his plan in his autobiography: Hayashi Gonsuke 林権助, わが七十年を語る *waga shichijūnen wo kataru* (telling seventy years of my life) (Tokyo, 1935), pp. 149-152.

ideal vehicle for expanding the use of Japanese currency beyond the port cities. It was an exercise in colonial financial policy. As BOJ convertible notes were counted as an integral part of the *First Bank*'s reserve, it effectively made Korea's currency system dependent on Japan's;[97] such was in clear contrast with the Taiwanese case. But, as Duus has rightly observed, it did not do anything to lift the pressure of the Korean currency system; instead, it 'added one more layer of complexity'.[98]

Even then the currency wars were not over. After early futile efforts to adopt the gold standard after the Japanese example,[99] the Korean government undertook another attempt at currency autonomy in 1903, this time coupled with the idea of establishing a national bank. The proposal, dubbed the *1903 Currency Ordinance* (otherwise: 光武五年貨幣条例, after the 5th year of Gwangmu rule) was clearly inspired by profound anti-Japanese sentiment. Drawing on the example of Japan's adoption of the gold standard in 1897, it stipulated that the right to issue coins lay solely with the Korean government; it prohibited the circulation of Japanese currency; stocks of the bank were to be held solely by Korean citizens. Aided by an imported German coin press, it ordered the *ten'enkyoku* to mint a half-*won* silver coin with the effigy of an eagle (鷲図式半圜銀貨), and subsidiary coinage with a similar effigy. It turned out to be another desperate reform effort; coinage appears to have been halted at a fairly early stage. Seen in hindsight, Korean officials did not grasp the cynical parameters within which reform was to be planned and implemented. Deplete of bullion and capital, reforms aimed at establishing an autonomous currency system had exactly the perverse effect of aggravating dependence on foreign countries. After all, they would have to agree to extend a loan making any reform possible at all —or in other words, such nationalist policies ran against the objective of autonomy *by their very nature*.[100]

As it turned out, by 1904, at the dawn of the Russo-Japanese war, the monetary geography of the peninsula was more shattered and complicated than ever before. As the *Report on the*

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97 This is also indicated by: Metzler, *Lever of Empire*, pp. 52-55.

98 Duus, *The Abacus and the Sword*, p. 167.

99 It had, among others, approached Masuda Nobuyuki 増田信之 of the *Ōsaka Copper Company* 大阪製銅会社 to participate in a project of minting an entirely new silver currency (1998). One year later, it proposed the adoption of existing silver coins as the new monetary standard, abolish the minting of subsidiary coinage, and print paper money instead. Immediately thereafter, it again turned to minting subsidiary nickel coinage and forbid the circulation of silver *yen*-coins. The hastily, almost franticly, drawn proposals are illustrative of the impossible position of Korean policy makers; all proposals came to naught because of the country's poor bullion holdings. Takashima, *chōsen ni okeru shokuminchikinyūshi no kenkyū*, p. 74.

100 This is also noted by: Takashima, *chōsen ni okeru shokuminchikinyūshi no kenkyū*, p. 77. It appears that the Korean government entered negotiations with Masuda and Yasuda Zenjirō for a loan to save the currency reform; these were broken off too, since Yasuda did not perceive sufficient profit in the operation.

Rearrangement of Korean Currency makes clear, the country was differentiated in several currency regions, with competing monies of different kinds and even different functions.[101]

[figure 2: map illustrating the circulation of copper and nickel coins -韓国貨幣整理報告書, p. 14-15]

Japanese currency, however partly sent back to Japan for redemption, remained particularly strong in the port cities, where it mainly filled the role of a strong and stable 'trade dollar'. Korean copper *sen*, once the main medium of exchange had stopped being minted after 1893, but remained in use in the more remote regions of the peninsula, especially in the southern provinces (the area around Pusan). Later, their importance would only decline, ironically due to the rising copper price. After 1902, a large amount of copper coins was melted down; the nominal amount of copper *sen* fell to 5 or 6 million *won* (from the previous level of 10 million *won*).[102] Segregation between currency regions was more or less complete. People in the copper *sen* sphere would not accept the newly minted nickel currency or *hakudōka*, which was prominent in Seoul and the central regions of the country, and which kept proliferating. Around 1905, it occupied more than 50 percent of all coinage circulating in Korea. As the profit of coinage was large, the government appeared to have no great interest in not checking its quantities; furthermore, private coinage (私造) and counterfeiting (偽造) thrived, and even included coins minted in Japan: it was said that around 600 different kind of *hakudōka* circulated at the same time. For a host of reasons,[103] but especially because of their being overcoined, *hakudōka* tended to be subject to a soaring inflation. Figures speak for themselves. The *Report on the Rearrangement of Korean Currency* estimates that, in 1905, the amount of *hakudōka* in circulation had reached ¥11,5 million.[104] It was a truly 'schizophrenic' currency; nominal value and real value (purchasing power) were sometimes far apart. Attempts to stabilize its exchange rate *vis-à-vis* copper sen by buying this currency of low denomination was only successful to a limited

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[101] *Daiichi ginkō* 第一銀行, 韓国貨幣整理報告書 *kankoku kahei seiri hōkokusho*, p. 14-15; the point about the non-unified nature of pre-national currencies is convincingly developed by: Eric Helleiner, *The Making of National Money: Territorial Currencies in Historical Perspective* (Ithaca & London, 2002), esp. pp. 19-41.

[102] Takashima, *chōsen ni okeru shokuminchikinyūshi no kenkyū*, p. 91.

[103] Takashima also mentions the appreciation of Japanese currency due to increased foreign trade as a reason for *hakudōka* inflation. Takashima, *chōsen ni okeru shokuminchikinyūshi no kenkyū*, p. 95ff. According to Helleiner, this complicated relationship between monies of large and low denomination is a quite typical characteristic of pre-national currency systems. Helleiner, *The Making of National Money*, pp. 66ff.

[104] *Report on the Rearrangement of Korean Currency*, pp. 13-19.

degree, and most probably explain the frantic ups and downs in the exchange rate of both currencies *vis-à-vis* the Japanese *yen*.[105] Japanese policy makers were profoundly aware that one day fundamental reform would be inevitable; they did not know that such opportunity would present itself sudden and early, and again in the aftermath of a military conflict.

X.

In all of its aspects, the Russo-Japanese war of 1904-05 was an extremely costly undertaking. As argued by Metzler, it confirmed Japan's peculiar financial status in the Darwinian world order of the early twentieth century.[106] Although on the gold standard and thus able to negotiate its war loans on more or less favorable terms, the country could barely carry the tremendous expense of ¥1,9 billion —almost six times the government's national spending in 1903![107] Forty percent thereof had to be paid through foreign borrowing. From the humanitarian viewpoint too, its legacy was disastrous. Extensive media coverage, including the new technologies of the telegraph and photography[108] brought home the image of the war as a cruel 'World War Zero'.[109] And last but not least, there was the humiliating aftermath. Although Japan had won the war, Russia won the peace. Russia's plenipotentiary representative to the Portsmouth talks, Count Sergei Witte, very shrewdly managed to silence the Japanese demand for an indemnity of ¥1,2 billion (= $ 600 million) by playing to subconscious American sentiment. Convinced that racial prejudice in the Western dominated world order had played an overarching role in the finalization

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[105] A table of fluctuations in the exchange rate of both copper sen and *hakudōka vis-à-vis* the Japanese *yen* is provided in: Takashima, *chōsen ni okeru shokuminchikinyūshi no kenkyū*, p. 94; Takashima draws for this information on an early *First Bank* report: 「株式会社第一銀行韓国各店出張所開業以来営業状況」, p. 20-28.

[106] Mark Metzler, *Lever of Empire: The International Gold Standard and the Crisis of Liberalism in Prewar Japan* (Berkeley, 2006), p. 45ff.

[107] Ono Giichi. 1922. *War and Armament Expenditures of Japan* (New York, 1922), p. 88. (also mentioned in Mark Metzler, *Lever of Empire: The International Gold Standard and the Crisis of Liberalism in Prewar Japan* (Berkeley, 2006), p. 45. An analysis of war costs can also be found in: Bank of Japan, 本邦主要経済統計・*Hundred-Year Statistics of the Japanese Economy* (Tokyo, 1966), pp. ???????-??????.

[108] Compare: s.n., *The Russo-Japanese War; a Photographic and Descriptive Review of the Great Conflict in the Far East, Gathered from the Reports, Records, Cable Despatches, Photographs, Etc., Etc., of Collier's War Correspondents* (New York, 1905); Peter Slattery. *Reporting The Russo-Japanese War, 1904-5: Lionel James's First Wireless Transmissions To The Times* (Kent, 2004).

[109] After: John W. Steinberg et al. (eds.). *The Russo-Japanese War in Global Perspective: World War Zero*. 2 vols (Leiden, 2005-2007).

of the settlement, Japanese representatives left the negotiators' table utterly frustrated. On September 5, 1905, crowds of enraged commoners rioted in the streets of Tokyo. It proved to no avail. In the end, Russia did not pay indemnity; Japan had to pay for the whole war effort itself, plus interest. If the war had not yet been cruel enough, the international political arena was. Japanese leaders learnt the bitter lesson that it had not been enough to win the war; being of Caucasian origin had been evenly if not more important.

What was even worse in hindsight, the financial predicament would continue to dominate Japanese politics and choices for decades to come. In 1904, Takahashi Korekiyo had hailed the war loans as 'divine providence'.[110] They saved, he reckoned, not only Japan's gold standard; but they would also be the key to unlock the door that stood between Japan and the Asian mainland. Now, former policies seemed in jeopardy. Two of the enormous 1905 loans with a combined value of £60 million, were to mature in 1925; only 6 years later, in 1931, the immediate £25 million loan was to mature. Inability to lay these loans off at that time would lead Japan straight into a new era of borrowing, this time in New York, which had emerged as the world's new financial hub. Then, a wholly new generation of policy makers would have to deal with a radically different geopolitical climate —a climate in which American financiers, European economists and Japanese liberalists alike chose to remember the first gold standard era quite nostalgically as an era of international collaboration, a symbol of a seamless world under the sway of the values of civilization and free market capitalism.

XI.

This image would have appeared rather cynical to Japan's leaders in the beginning of the century. Painfully aware of its lesser status in the international arena, they had to settle with a minor reward. After all, there were other spoils of war. First of all, Japan inherited rights and/or concessions Russia had secretly acquired after Japan had been forced to return the Liadong peninsula to China in 1895. But there also was Korea. Now turned into a protectorate, it was soon to take the guidance of a host of Japanese government-appointed advisers. It was also to become the opportunity for Japan's prime experiment with a full-fledged gold-exchange standard.

Megata Tanetarō's 目賀田種太郎 disembarking onto the peninsula marked the reiteration of a mantra that dominated Japanese attitudes versus Korea since the early days of the Meiji

[110] *Tenyū* 天祐. See: Takahashi Korekiyo 高橋是清, 高橋是清自伝 *takahashi korekiyo jiden* (Tokyo, 1936), pp. 205-206; also quoted in Metzler, *Lever of Empire*, p. 47

reformation. His official biography literally repeats the early claim that Korea and Japan were 'as close as lips and teeth' (唇歯),[111] and goes on to argue that Japanese intervention in Korea's domestic affairs was inevitable in view of the latter's ill-willed political class (a viewpoint that was also strongly present in Inoue's own perception of Korea's problems). Megata's credentials were, by the way, unblemished. Being the first Japanese national to graduate from Harvard University, he had been a successful bureaucrat in the Ministry of Finance, and especially his work of reforming the Japanese tax system when he was head of the Ministry's Tax Bureau made him ideally qualified for the job. In order to guarantee a similar success in Korea, his prerogatives were defined very broadly. Megata's contract, which one finds reproduced in its entirety in his biography,[112] gave him 1) the right to approve all cabinet decisions on finance, 2) the right to attend cabinet meetings concering finance-related matters, and 3) the right to make recommendations to the Korean government through the minister of finance (度支部大臣). This exceptional position makes the practices of Japanese advisers in Korea worthy a study in their own right. But more important to our discussion, the scientific style of his policies, particularly the interest in the statistical documentation of their implementation produced a wealth of information on Japanese dealing with the protectorate; unfortunately the five-volume *Report on the Reform of Korea's National Finance* (韓国財政整理報告) and the corollary *Report on the Arrangement of Korean Currency* (韓国貨幣整理報告書) have received scarce, if any, attention, even among Japanese scholars.[113] They are, nevertheless, an excellent example of Japanese 'scientific' colonialism as pioneered by Gotō Shinpei 後藤新平 in Taiwan and probably only surpassed by its German arch-example.[114] These and other reports[115] include land surveys, reports on the state of commercial banking, foreign trade,

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[111] Yoshimura Michio 吉村道男 (ed.), 男爵目賀田種太郎・上 *danshaku megata tanetarō – jō* (The Biography of Baron Megata Tanetarō) Vol. 1 (Tokyo, 1938) [I have used the 2002 facsimile version], p. 343. For references to the lips and teeth metaphor, see as well: Duus, *The Abacus and the Sword*, p. 35; p. 50; .

[112] Yoshimura, *danshaku megata tanetarō*, pp. 346-347.

[113] Their full reference: *Kankoku seifu zaisei komonbu* 韓国政府財政顧問部, 韓国財政整理報告 *kankoku zaisei seiri hōkoku* (Osaka, 1905-07); *Daiichi Ginkō*, 韓国貨幣整理報告書 *kankoku kahei seiri hōkokusho* (Yonsan, 1909)

[114] For discussions of German scientific colonialism, compare: Derek Jonathan Penslar, 'Zionism, Colonialism and Technocracy: Otto Warburg and the Commission for the Exploration of Palestine', *Journal of Contemporary History* 25 (1990), pp. 143-160; Jake W. Spidle Jr, 'Colonial Studies in Imperial Germany', *History of Education Quarterly* 13:3, pp. 231-247. On the role of statistics in German political economy after 1900, see, authoritatively: Adam Tooze, *Statistics and the German State, 1900-1945: The Making of Modern Economic Knowledge* (Cambridge, 2001).

[115] Compare, for instance: H.I.J.M. (His Imperial Japanese Majesty's) Residency General, *Annual Report for 1907 on Reforms and Progress in Korea* (Seoul, 1908); idem, *The Second Annual*

infrastructure, the cultivation of tobacco, standards of measure, so-called Japanese *mauvais subjets* and so on. Japanese bureaucratic control was total and grew more intense over the years: in order to provide an idea of the degree of control, Atul Kohli indicates that, in 1937, there were nearly fifteen Japanese officials in Korea for every French administrator in Vietnam (thereby noting that French control of Vietnam was considerably more intense than, say, British presence in Nigeria).[116] Japan adopted some sort of developmental colonialism, with a large centralist administration and an army of bureaucrats, economic mechanisms as administrative guidance for strategic and infant industries, carefully administered investment programs, and, above all, policies preceded by extensive research of Korea's society and its institutions. This streamlined, professional-managerial approach may have been as much a necessity as an example of a consciously selected paradigm. Thomas C. Smith once remarked about Japan's own industrialization that the Japanese state had to 'act as entrepreneur, financier, and manager'. The reason therefore lies exactly in what we have seen as Japan's status of a late developer, and the consequent problem of lack of capital generating capacity: 'capital was too weak, too timid, and too inexperienced to undertake development'.[117] For obvious reasons, we cannot discuss the nature nor the complete contents of the aforementioned reports and related activity in detail; we will, instead, look into their attention for monetary and financial matters.

As the Korean monetary system was in such extraordinary disarray, its restructuring ('modernization') was Megata's first and foremost task. It must however be stressed at the very outset that Megata's ambitions lay with a total takeover of control over all monetary and financial matters; in that sense, it is no more than a conscious prelude to the annexation of Korea in 1910.[118] Backed by several decisions by the *genrō* 元老 or 'senior statesmen' on the course of actions Japan should take versus Korea, Megata's task was to consider the the options of monetary dependence respectively monetary unification, no less no more —options that both clearly parted with the earlier 'hands-off' politics.[119] Whereas direct political influence had previously not been an objective but for a limited number of expansionist hawks, successes in the Sino-Japanese and Russo-Japanese

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Report on Reforms and Progress in Korea (1908-1909) (Seoul, 1909). Similar reports were published until the outbreak of the second war with China (1939).

[116] Atul Kohli, *State-Directed Development: Political Power and Industrialization in the Global Periphery* (Cambridge, 2004), p. 35.

[117] Thomas C. Smith, *Political Change and Industrial Development in Japan: Government Enterprise, 1868-1880* (Stanford, 1955), p. 102.

[118] This is also stressed by: Takashima, *chōsen ni okeru shokuminchikinyūshi no kenkyū*, p. 115ff.

[119] One finds references to both possibilities in: s.a., 明治大正財政史 Vol. 13, pp. 398ff.: e.g. 「日韓両国共通の貨幣制度を布く」 *nikkan ryōkoku kyōtsū no kahei seido wo shiku* (designing a common currency system for Japan and Korea).

wars had clearly set a different climate.

One of the most central and immediate concerns was the elimination of several institutions associated with the (mis)management of national finance in Yi Korea. There were several reasons for this. Megata —correctly!— noted the fundamental distortions of checks and balances in the Korean political constituency. Although it is probably an exaggeration to view the latter as no different from power structures in Heian Japan, as one observer suggests,[120] imbalances were prone to result in the enrichment of only a very small segment of Korean society, and a progressive impoverishment of society as a whole. This is especially obvious if considering the extraordinary position of the Korean court. Characterized by an ever growing appetite for spending in disregard of the nation's needs and capabilities, it drained the country from valuable resources to a degree that was beyond doubt disastrous. Megata reckons that at the time of his arrival in Korea, the total revenue of the government was around 15,000,000 *won*, of which 1,400,000 *won* was allocated to the imperial court. But this was not all: the court added to this the revenues of its monopoly on the ginseng trade (2,000,000 *won*), the profits of seigniorage (so-called 造幣益金; amount unknown), the income through the granting of rights to open certain businesses and rights extended to foreign merchants (amount unknown), the income of toll rights (620,000 *won*), mining (40,000 *won*) and forestation (amount unknown), the gold dust trade (600,000 *won*), and a variety of special taxes (amount unknown).[121] If aggregated benefits for the court amounted to at least 5,600,000 *won* per year, or equivalent to more than one third of the government revenue! To make matters worse, the court sometimes issued 'emergency orders' to the Ministry of Finance for various expenses. For an obvious reason, a very first policy was to separate the finances of the government and the court.[122] Almost simultaneously, Megata abolished the Korean Mint (典圜局, cf. supra), which he —again justifiably— identified as a major factor in the currency turmoil, and set up an independent Printing

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[120] Hagiwara Hikozō 萩原彦三, 韓国財政の整理改革 : 財政顧問目賀田種太郎の業績 *kankoku zaisei no seiri kaikaku -zaisei komon Megata Tanetarō no gyōseki* (Tokyo, 1966) , p. 6.

[121] *Kankoku seifu zaisei komonbu, kankoku zaisei seiri hōkoku* vol. I, chapter 4: 1-14 (the report does not contain page numbers in the conventional sense); the *yen/won* exchange rate at the time was set at roughly 1/2.

[122] For an explanation of how Megata proceeded, see: Yoshimura Michio 吉村道男 (ed.), 男爵目賀田種太郎・上 *danshaku megata tanetarō – jō* (The Biography of Baron Megata Tanetarō) Vol. 1 (Tokyo, 1938) [I have used the 2002 facsimile version], pp. 359

Office (labeled 印刷局); later, he established a treasury (金庫)[123], a budget office[124] (会計検査局) and an elaborate tax agency (徴税機関).[125] At the same time, the Japanese government promulgated 'Ordinance 73', by dint of which the *First Bank* was given the function of Korea's central bank (only in name short of being the *National Bank of Korea*).[126] Mainly Japan's own problems with specie shortage made it a schoolbook example of a colonial financial system. The First Bank notes were not backed by gold, but by Japanese *yen* (which was, as we have seen, in turn backed by British sterling through the London holdings of the Yokohama Specie Bank): BOJ notes and securities, the latter partly the new debts the Korean government owed the First Bank.

XII.

Other decisions did however much more than sanitizing Korean currency and its institutional environment. Especially the euphemistic 'currency reform' brought about a thorough transformation of the peninsula's immediate and long-term political economic destiny. The objectives seem fair enough: withdrawing the inflationary nickel coins and older copper coins from circulation, and install a nationwide and uniform legal tender.[127] This was to be carried out as the

[123] The treasury would be managed by the Korean National Bank, but as the latter had not yet been established, management of the treasury was the task of the *First Bank*. See furthermore: Yoshimura Michio, *danshaku megata tanetarō – jō*, pp. 353ff.; 370ff.; *Kankoku seifu zaisei komonbu, kankoku zaisei seiri hōkoku* vol. I, chapter 2.

[124] Yoshimura Michio, *danshaku megata tanetarō – jō*, pp. 408-412.

[125] Yoshimura Michio, *danshaku megata tanetarō – jō*, pp. 438ff.

[126] Compare in this respect: 渋沢栄一伝記資料 Vol. 16, p. 183-214; this ordinance stipulated, among others, that the *First Bank* was provided with an extra ¥5,000,000 (at 3 per cent interest), and that its number of branches was further expanded. Importantly, the contract with the *First Bank* also allowed the principally unlimited circulation (*mugai tsūyō* 無碍通用) of *First Bank* notes. Idem, p. 215-216. The first governor of this central bank was Ichihara Morihiro 市原盛宏, who had formerly been employed at the bank's Yokohama branch. See: Chōsen ginkōshi kenkyūkai 朝鮮銀行史研究会, 朝鮮銀行史 *Chōsen ginkōshi* (Tokyo, 1987), p. 25-30. This is not to say that Japanese policy makers were united in their choice for the *First Bank*. As a matter of fact, several proposals circulated, of which the proposal to establish Sino-Japanese Bank was the most prominent; differences concerned the degree and nature of currency unification. Compare: Takashima, *chōsen ni okeru shokuminchi kinyūshi no kenkyū*, p.119-125.

[127] Jung-en Woo contests this objective, claiming that the nickel and copper coins 'had been exceptionally stable, as large scale inflation was impossible with those metals'. As demonstrated above, this is not true. It also misses the point in that, after Korea's opening, both nickel and copper coins were never an alternative to Japanese currency: they could not be used in international trade, and were themselves confined to certain regions on the peninsula. See: Jung-en Woo, *Race to the Swift: State and Finance in Korean Industrialization* (New York, 1991), p. 26

main result of an earlier decision, taken on January 8, to implement a gold standard (in practice a gold exchange standard) —itself an offspring of the longstanding ambition to harmonize the Japanese and Korean currency systems. But at least in terms of procedure, its implementation left much to be questioned. First, there was the matter of the reform's institutional setting. The Korean Mint being obsolete, the choice for an institutional partner could have hardly been less surprising: currency reform would be carried in tandem with the branches of Shibusawa's *First Bank*[128] —Jung-en Woo refers to them as *agents provocateurs*.[129] In order to enable the government to pay for the bank's services and cost of the reform, it lent directly to the government ¥3,000,000 (secured against the custom receipts) at an interest rate of six per cent; the Korean government then immediately remitted it.[130]

An analysis of the process of redemption reveals furthermore the degree to which Megata's policies turned reform into a more than profitable affair for Japanese businesses in Korea. Let us first look at the redemption of the nickel coins. The process was drastic and spectacular: between July 1905 and November 1909, 381,051,954 pieces had been returned, amounting to no less than ¥9,355,230.895. Yet this mere observation obscures several of the problems and problem solutions that accompanied the exchange process. First of all, the Ordinance With Regard to the Exchange stipulated that only good quality coins would be qualified for exchange; the rate, set at 2,5 *sen* (2 銭 5 厘) resp. 1 *sen* (for low quality coins) of the new yen, was also rather adverse to nickel coin holders. But one should not lose sight of the fact that exchange of coins was only one way of redeeming the nickel currency. Seen over the years, it occupies only 47% of of the total process, and appears to have been substantial only in the process's earliest phase. From 1906, its share drops sharply, making place for other categories as 'paid into the treasury' (国庫収納) and, especially, 'bought up' (買収). About the currency paid into the treasury, we can be brief. It basically concerns nickel currency received through taxes of all sorts. But what explains the extraordinary share (37%) of exchange through buying up currency?

[insert: Takashima, *chōsen ni okeru shokuminchi kinyūshi no kenkyū*, p. 127; this is the gist of findings in *Daiichi Ginkō*, 韓国貨幣整理報告書 *kankoku kahei seiri hōkokusho*, pp. 51-110]

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[128] One finds the contracts pertaining to the reform reproduced in: *Daiichi Ginkō*, 韓国貨幣整理報告書 *kankoku kahei seiri hōkokusho*, pp. 37-42.

[129] Jung-en Woo, *Race to the Swift*, p. 25.

[130] This was not the first instant of aggressive colonial finance: in June 1905, the *First Bank* had issued ¥2,000,000 in treasury bonds in Tokyo; in spite of the tight financial situation in the war's aftermath, these were spectacularly overscribed by five times.

This sharp shift must be discussed as the outcome of a depression, triggered by the prospect of reform itself —that was especially true for uncertainties about which of the so many circulating kinds would be considered sound.[131] The first phase of redemption had brought about an exchange rate stabilized around 元 200 (old nickel coins) = 圜 100 (new coins), but consequent speculation by Japanese and Chinese merchants, who sought to make profits out of the exchange process exacerbated the depression of Korea's economic constituency, eventually leading to a protest movement directed against Megata.[132] The resulting difficulty of having the old nickel coins exchanged at all and the gloomy vision of parallel currencies was the main motivation for Megata and the *First Bank* to resort to the rather radical policy buying up currency (the First bank report refers to it as *tokushu no hōhō* 特種の方法). They would therefore turn to middlemen, i.e. 'trustworthy merchants' and 'banks and financial institutions', to whom the exchange rate of 2.5 *sen* would be upheld.[133] For both, receiving nickel currency through transactions with ordinary Koreans, this was a golden opportunity. Although there were some provisions about the possibility of halting exchange in the case of exceptionally low quality coins, the merchants must have made great profits. As we see in the above table, [...]. This scheme also fitted other interests of the government in Tokyo: indirectly, after all, it assisted in boosting the use of *First Bank* banknotes, because they were given in exchange of nickel coins thus collected.

By November 30 1909, when the circulation of *hakudōka* was officially prohibited, the process of redemption was more or less complete.[134] The Korean and Japanese currency systems were now de facto integrated. Yet, reform had come at a great cost. Faced by enormous losses, thousands went bankrupt or had to turn to massive lending with the newly established 'grassroots' financial institutions like the *tegata kumiai* 手形組合, *kyōdō sōko* 共同倉庫, *regional financial cooperatives* 地方金融組合, and the provincial agricultural and industrial banks 農工銀行.[135] The

[131] The *First Bank* report refers to extensive surveys into the regional varieties of nickel currency and their relative purity and quality. See: *Daiichi Ginkō, kankoku kahei seiri hōkokusho*, pp. 66-68.

[132] Idem, p. 70. It is important to realize that protest was not confined to the Korean populace, but included quite a few influential Japanese merchants as well. Particularly the role of Nishihara Kamezō 西原亀三, who is the main actor of the following chapter deserves attention. As Japanese immigrant to Korea, he had developed a wide network of pro-Japanese Korean acquaintances. In the position of adviser (*sōdanyaku* 相談役) to the Seoul Chamber of Commerce he lobbied against Megata from the viewpoint of Korean independence, and was an ardent antagonist of Japanese efforts to expropriate land to extend railways or build military bases.

[133] Idem, p. 89.

[134] *Daiichi Ginkō, kankoku kahei seiri hōkokusho*, p. 110.

[135] In order to be able to implement this policy, the banks were lent money at no interest.

reader understands that the cost was thus mainly born by small Korean merchants and the populace. And evenly important, *hakudōka* redemption had also *translated in a large-scale net transfer of Korean monetary assets to the Japanese merchant and banking classes*.[136]

XIII.

The exchange of the copper coins or *yōsen* is a very different story. With them, the problem was not so much inflation, but the continuously rising price of copper bullion after 1900. As we have seen earlier, this had already resulted in a dramatic fall in the amount of this currency of low denomination. Furthermore, Megata and his his personnel at the *National Finance Advisory Division* (財政顧問部) did not envisage their complete redemption, but rather the controlled limitation of their circulation. They would thus be employed as one kind of subsidiary coinage in the newly established gold exchange standard system.[137] Export of the *yōsen* remained an important mechanism in their redemption: at the end of 1907, almost 419,000,000 pieces had been exported, equivalent to an amount of ¥1,617,981 or 25% of the total of coins taken out of circulation.[138] In comparison with the *hakudōka*, buying up currency played a far lesser role, partly because of the credibility this currency held in the regions it circulated; instead, large amounts where collected through taxes. Even then, however, speculation posed its problems. When prefectural tax offices (郡主) perceived opportunities in the exchange rate of the copper coins, they would often exchange the collected *yōsen* into new currency before remitting them into the treasury. Much to the frustration of Megata, *yōsen* were thus once more brought into circulation.

It is in this context therefore that Megata chose to erect a centralized tax agency, and furthered Japanese grip on the peninsula's fiscal system by means of supervisory offices (*zeimukanbu* 税務監部), directly responsible to the Ministry of Finance.[139] But Megata must be credited for the positive side-effects of its implementation. Centralization was not only prerequisite to a sound system of taxation; it also functioned as a mobilizing force, including as a facilitator for

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[136] Compare as well: Takashima, *chōsen ni okeru shokuminchi kinyūshi no kenkyū*, p.130-132.

[137] *Daiichi Ginkō, kankoku kahei seiri hōkokusho*, p. 114.

[138] See: *Daiichi Ginkō, kankoku kahei seiri hōkokusho*, p. 111-146; a digest of these figures can be found as well in: Takashima, *chōsen ni okeru shokuminchi kinyūshi no kenkyū*, p. 134.

[139] See, in this respect: *Kankoku seifu zaisei komonbu, kankoku zaisei seiri hōkoku* Nr. 4 (第四回), pp. 39ff.

the creation of credit.[140] In the wake of tax reform, regional councils (地方委員会) and regional financial cooperatives (地方金融組合) discovered their *raison d'être*. Created in order to 'aid the intentions of bureaucrats with regard to finance, further understanding about related regulations, and report to the government questions and uncertainties'[141] respectively 'expand lending by the Agricultural and Industrial Banks and aid in the establishment of agricultural storage'[142], they also most certainly assisted in redemption of coinage after 1909. It appears, after all, that by 1910, only 40% of old currencies had been redeemed.[143] Although the Japanese economic takeover was to be considered complete, it was hard to change the habits of people in the *Hinterland*...

XIV.

Monetary reorganization and tax reform were however only the beginning of Korea's modernization. In the immediate aftermath of this 'most urgent of urgencies' (急務中の急務),[144] Korea was invaded by a panoply of financial institutions, each devoted to a different sector of the banking business, and some of them surprisingly advanced for the state of the Korean economy. This is somewhat surreal. Up to 1900 this country had had only a very rudimentary economy and financial system. Indeed, there had been pawnbrokers, moneylenders for whom their financial work was only a side line associated with other commercial activities,[145] and the *kye* (契; mutual financial institutions).[146] But typical of the underdeveloped state of this 'system' was their informal nature, the

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[140] Yoshimura Michio, *danshaku megata tanetarō – jō*, pp.430ff.; on the relationship between the tax reform and regional financial cooperatives, see *Kankoku seifu zaisei komonbu, kankoku zaisei seiri hōkoku* Nr. 4 (第四回), pp.301ff.

[141] *Kankoku seifu zaisei komonbu , kankoku zaisei seiri hōkoku* Nr. 4 (第四回), p. 59: 地方委員会規則　第二条.

[142] *Kankoku seifu zaisei komonbu, kankoku zaisei seiri hōkoku* Nr. 4 (第四回), p. 328.

[143] This is an estimate by: Kurumada Atsushi 車田篤, 朝鮮協同組合論 *chōsen kyōdō kumiai ron* (A theory of Korea's cooperative unions) (Tokyo, 1990 (1932), p. 16-17; idem, p. 242-263. Takashima follows this analysis; Takashima, *chōsen ni okeru shokuminchi kinyūshi no kenkyū*, p. 138.

[144] Yoshimura Michio, *danshaku megata tanetarō – jō*, p. 431.

[145] This is reminiscent of Japan's system of sake brewer-moneylenders who dominated the market in the Muromachi period. See: Susan Gay, *The Money Lenders of Late Medieval Kyoto* (Honolulu, 2001).

[146] See, for more information: Colin D. Campbell & Chung Shick Ahn, 'Kyes and Mujins — Financial Intermediaries in South Korea', *Economic Development and Cultural Change* 11:1 (October 1962), pp. 55-68.

insignificance of their size and transactions, and their operating locally.[147]

Almost overnight, the Megata reform parted with the decentralized, even fragmented structure of Korea's economy and society, and installed a modern financial system characterized by sound *correspondance* (コレスポンダンス).[148] From Megata' and others remaining reports and articles published at the time,[149] we understand that he envisaged a financial system firmly supervised by 3 quintessentially Japanese institutions: the *First Bank*, the *Japan Industrial Bank*, and the *Oriental Development Company*. At the central of the financial system was of course the Seoul branch office of the *First Bank*, which, as soon as currency reform was implemented was turned into the *Bank of Korea* (韓国銀行, 1909; in 1911, it would be renamed *Bank of Chosen* 朝鮮銀行).[150] It was a lender of last resort to a host of both Japanese and Korean led saving banks, which in turn catered to regional and/or small-scale credit institutions.[151] The money lenders, for instance, continued to operate largely locally, but depended on bank credit as an important source for their operations.

However, its mission was defined broader than just the ones of a central bank. Apart from discounting bills of exchange, it would also serve as a development bank, typically extending long-term credit secured against real estate (不動産担保). And curiously enough, its very early mission description also included the role of a so-called 'overseas bank' (海外銀行, after the German term of *Überseebank*). Although this appears as odd in view of Japan and certainly Korea's problems with capital shortage, it was actually directed at the balance-of-payments problem of Korea under colonial administration. Continuous trade deficits with the Japanese mainland drove it into the business of foreign exchange with countries with which it had a trade surplus. South-Manchuria in particular proved an attractive partner, especially after the Japanese victory over Russia. Colonial

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147 This translated, as is so often the case in premodern economies, in exorbitant interest rates, to be explained by the monopolistic character of financial institutions, the limited availability of funds due to low rates of savings, and the fact that lending was done for consumption rather than for investment in expanding productivity.

148 For an overview, see: Takashima, *chōsen ni okeru shokuminchi kinyūshi no kenkyū*, p.139ff.; 157ff.

149 See especially the records of Mizumachi Kesaroku 水町袈裟六 (records are referred to as 水町袈裟六関係文書 (microfilmed)) in the Modern Japanese Political History Materials reading room of the National Diet Library. It appears there were certain disagreements between Mizumachi and Shōda Kazue 勝田主計 when it came to the question of establishing an independent Korean central bank, or employing a branch office of the Bank of Japan.

150 This is all well documented: Chōsen ginkōshi kenkyūkai, *Chōsen ginkōshi*, pp. 38-88.

151 See, for an overview: Sung Jae Koh 高承済, 植民地金融政策の史的分析 *shokuminchi kinyū seisaku no shiteki bunseki* (a historical analysis of financial policies in the colony) (Tokyo, 1972).

dominion over Korea thus also provided, indeed almost necessitated, further advances into the Asian mainland. We will discuss the —important and dramatic— consequences of this arrangement in later chapters.

At the same time, Megata addressed the need for Korea's development. Convinced that Korea's central bank could not fulfill a monopoly role as long-term creditor (and indeed, long-term credit could well pose a risk to its business as a central bank, due to the immobilization of resources consequential to long-term lending), plans for the reform of the colony's financial system also projected the establishment of *Agricultural and Industrial Banks*. They would be provided credit through another Japanese institution: the *Japan Industrial Bank*. The latter was given the right to issue premium bonds (割増付債権 *warizō-tsuke saiken*), which could then be put to profitable use by investing in the development of (originally predominantly) the colony's agricultural sector.[152] The *Japan Industrial Bank* set up a branch office in Seoul in May 1906; it would play a role of formidable importance of molding the Korean economy to the Japanese policy objective of autarky, both for the empire as a whole and the colonies as bases for further power projection. These agricultural and industrial banks, in 1918 united into the *Korean Development Bank* (朝鮮殖産銀行 or 殖銀), were of formidable importance for the country's financial development. Their credit supply grew rapidly throughout the prewar period. Under the *Agricultural and Industrial Banks*, the financial cooperatives continued to function as providers for credit to the peasant population, and they too witnessed a remarkable growth in the amount of outstanding credit. Last, the *Oriental Development Company* (*Tōyō takushoku ginkō* 東洋拓殖銀行) mainly served as promotor of land settlements of Japanese immigrants to Korea. Put into the cold terms of quantitative abstraction, the rearrangement of Korea's financial institutions can only be judged in beneficial terms. Not only did they contribute greatly to the expansion of the money supply and income growth, the mobilization of credit also made it possible to drive down the formerly excessive rates of interest, create a growth-oriented economic model and establish foreigh trade relationships (mainly with Japan).[153]

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[152] Takashima, *chōsen ni okeru shokuminchi kinyūshi no kenkyū*, p.142.

[153] See, for a quantitative overview: Kimura, Mitsuhiko, 'Financial Aspects of Korea's Economic Growth under Japanese Rule', *Modern Asian Studies* 20, no. 4 (1986): 793-820. A broader analysis of the financial aspects of the period can be found in: Mizuta Naomasa 水田直昌, 総督府時代の財政・朝鮮近代財政の確立 *sōtokufu jidai no zaisei: chōsen kindai zaisei no kakuritsu* (national finance under the rule of the government-general: the consolidartion of modern Korean finance) (Tokyo, 1974).

XV.

With the Megata reforms in the back of our minds, one question seems unavoidable: what do we make of all this? How do we relate this early phase of monetary and financial interventionism with the period after 1910, marking the formal annexation of Korea? Put in broader terms, how are we to interpret the financial aspects of Japan's colonial experience on the Korean peninsula? And what does this imply for a discussion of Japanese imperialism?[154] According to earlier assumptions, Japanese industrialists and big business widely profited from Japanese presence on the Korean peninsula. Fortunately, quite some scholars have already addressed this problem, and corrected the often held view that Japan's colonial drive has it roots in economic expansion.[155] As their arguments have been quite intricate and detailed, we must not reiterate their reasoning. It is, however, instructive, to bring our above discussion in the perspective of the —surprising!— findings of existing literature.

Especially from Kimura Mitsuhiko's excellent quantitative analyses, we know that economic gain was *not* the main impetus behind Japanese encroachment in Korea.[156] If anything, Japanese imperialism in Korea *cannot* be explained by economic factors. Figures speak for themselves.[157] Japanese exports to Korea accounted for only between 1% to 3% of Japanese industrial output

[154] The reader may remark that we do not discuss the impact of the Megata reform on the Korean populace or on Korean society. This is deliberate: not only does it fall beyond the scope of the argument, this question has been taken up in several excellent analyses. See: Carter Eckert, Offspring of Empire: The Koch'ang Kims and the Colonial Origins of Korean Capitalism (Seattle, 1991); Hori Kazuo, 'East Asia Between the Two World Wars —Industrialization of Japan and Its Ex-Colonies'. Kyoto University Economic Review 137(1994), pp. 1-22; Atul Kohli, 'Where Do High Growth Political Economies Come From? The Japanese Lineage of Korea's 'Development State". *World Development* 22:9 (1994), pp. 1269-93; Dennis McNamara, *The Colonial Origins of Korean Enterprise, 1910-1945* (Cambridge,1990). On price evolution, see: Myung Soo Cha, Cha, Myung Soo, 'Imperial Policy or World Price Shocks? Explaining Interwar Korean Consumption Trend'. *The Journal of Economic History* 58:3 (Sep 1998), pp. 731-754.

[155] Peter Duus, 'Economic Dimensions of Meiji Imperialism: The Case of Korea', pp. 128-171 in Ramon Myers & Mark Peattie (eds.), *Japanese Colonial Empire* (Princeton, 1984); William Gerald Beasley, *Japanese Imperialism* 1894-1945, esp. pp. 1-13. The topic is also sensitively explored by Metzler, *Lever of Empire*, p. 35ff.

[156] Kimura, Mitsuhiko, 'Financial Aspects of Korea's Economic Growth under Japanese Rule', *Modern Asian Studies* 20, no. 4 (1986): 793-820; idem, 'Standards of Living in Colonial Korea: Did the Masses Become Worse Off or Better Off Under Japanese Rule?', *The Journal of Economic History* 53, no. 3 (Sept. 1993), pp. 629-652; idem, 'The Economics of Japanese Imperialism in Korea, 1910-1939', *The Economic History Review* 48, no. 3 (Aug. 1995), pp. 555-574.

[157] See Kimura, idem, 'The Economics of Japanese Imperialism in Korea' (various references); he bases his analyses on reports prepared at the time, e.g.: Government-General of Korea, 朝鮮総督府統計年報 *chōsen sōtokufu tōkei nenpō* (statistical yearbook of the government-general) (several issues).

during the whole colonial period. Exports of cotton textiles, Japan's main export commodity, were mainly for the markets in British-India, China, and Southeast Asia. Japanese military spending for the defense of Korea amounted to a mere 0.5% *per annum* of the total of products manufactured in Japan for the larger part of the colonial period; on the contrary, Japanese share in Korea's exports was substantial (eventually leading to so-called 'starvation exports'),[158] but did not translate in profits for industrialists... Neither was investment a defining factor. Corporate profits in Korea occupied only 3% of all non-agricultural property income generated in Japan. The *zaibatsu*, as said, did not show great interest in investment in Korea before the late 1930s, when the government sponsored large-scale arms build-up programs...

Yet, for all their truth, Kimura's analyses are not sufficiently conclusive. For if the motivation behind imperialism was not primarily economic or financial, what was it? I believe the answer is to be found in what we before identified as a national security interest in the peninsula. Economic and/or financial interests definitely existed, but they followed political objectives, and most certainly had to accommodate with political, mostly military rule. Japanese governance over Korea was thoroughly militarized, a constituency that did not have an equivalent in Tokyo —at home, military demands would at least have to take into account the interests of big business. This is also not the same as denying the importance of monetary and fiscal policies, but rightly putting them against the background of Japan's national security interests.

This renews the question for the role of currency reform and the attempts to establish a yen bloc. Put somewhat enigmatically, but nonetheless accurate, *the rationale for the yen bloc was the yen bloc itself*. Let us not forget, indeed, that this was not a currency bloc in the conventional sense of the word. Unlike, for instance, the Latin Monetary Union, which referred to an agreement among more or less independent nations to keep keep exchange rates coupled, members of the yen bloc did not have the power to remain outside if they would have desired so. In this case, 'Japan and the yen ha[d] an overpowering dominance, and arrangements [were] made with an eye to the needs of Japan and the yen, rather than in consideration of the other areas and their currencies'.[159] More than in any other case of a currency bloc, concern was with *macroeconomic influence* (rather than mere elimination of transaction costs, profits from seigniorage, or political identity).[160] This is the sole

[158] See, in this respect: Kimura, 'Standards of Living in Colonial Korea'.

[159] Warren S. Hunsberger, 'The Yen Bloc in Japan's Expansion Program', *Far Eastern Survey* VII: 22 (November 9 1938), pp. 251.

[160] For an analysis of reasons behind the establishment of colonial currency blocs, see: Eric Helleiner, 'The Monetary Dimensions of Colonialism: Why Did Imperial Powers Create Currency Blocs?' *Geopolitics* 7:1 (Summer 2002), pp. 5-30. Few Western studies have addressed the question of which administrative and managerial practices were used to achieve the objectives of macroeconomic influence. An important exception: Dennis McNamara, 'The Keisho and the Korean

explanation for attempts by Japanese authorities in Korea to attempt to steer the economy into the direction of a subsidiary of the mainland economy. From reports produced under the supervision of the Government General, we know that, initially, the main concern had been with the development of the agricultural sector.[161] Indeed, the aforementioned Oriental Development Company was established with the explicit aim of increasing the production and export of foodstuffs. In the 1930s, this changed. Formerly Japan's barn, Korea now became an entrepot. With Manchuria now being Japan's next line of defense, enormous funds from the Japanese money markets were diverted to Korea for the establishment of machine building factories, munition plants and heavy industries. In both phases, however, policy makers were driven by a concern of economic self-sufficiency. Under Ugaki Kazushige 宇垣一成, a staunch supporter of economic autarky and Korea's Governor-General between 1931 and 1936, Korean development was typically concentrated around import substitution industries. Very much like the German case, Japanese interest in Korea was thus a matter of *Lebensraum* (Japanese leadership since the Meiji-period frequently perceived Japan as overpopulated).[162] Finance immediately followed or went hand in hand with military conquest in order to fulfill that goal.

Business Elite'. *The Journal of Asian Studies* 48, no. 2 (May 1989): pp. 310-323.

[161] H.I.J.M. (His Imperial Japanese Majesty's) Residency General, *Annual Report for 1907 on Reforms and Progress in Korea* (Seoul, 1908); idem, *The Second Annual Report on Reforms and Progress in Korea (1908-1909)* (Seoul, 1909), etc. Academic discussions include: Chul Wong Kang, 'An Analysis of Japanese Policy and Economic Change in Korea', in Andrew Nahm (ed.), Korea Under Japanese Colonial Rule (Kalamazoo 1974) (conference proceedings), pp. ???????????.

[162] For an evaluation of implications of this ideology for German expansionism, see, brilliantly: Adam Tooze, *The Wages of Destruction —The Making and Breaking of the Nazi Economy* (New York, 2007). Germany too turned to the strategy of import substitution, through large subsidies to companies like IG Farben, ... ??????????????